Royal College of Art Annual Review

Financial Statements

2009/10

Royal College of Art
Postgraduate Art and Design

Financial Statements

For the Year Ended 31 July 2010

Rector's Review

The College was successful in both raising fee income and containing operational costs, and achieved a surplus on its income and expenditure account for 2009/10. We remain financially sustainable in the face of the major changes to the funding of higher education currently being made by the UK Government.

During 2009/10 HEFCE announced several small reductions in the level of funding to the College, and the new Government announced significant public expenditure reductions. Coupled with the changes to HE funding foreshadowed in the Browne review, and a forecast substantial reduction in HEFCE grants phased over 2011–15, these changes will have a major impact on the College. The College is committed to the preservation of the quality of our student experience and will absorb these reductions through expenditure savings in support areas and an expansion in student numbers, minimising any impact on its academic work. Demand for places remains high – more than 3,000 applications for some 490 places in 2010 – allowing some confidence that the College's financial sustainability will withstand the higher fees that will result from the withdrawal of Government funding. With the Battersea campus expansions – the Sackler Building was completed in 2010 and the Dyson Building is due to open in 2012 – the College will be able to accommodate additional students without making major reductions in space or facilities available.

We thank alumna Lady Hamlyn and the trustees of the Helen Hamlyn Foundation for their remarkable and ongoing support of the Helen Hamlyn Centre for Design. We thank the Provost, Sir Terence Conran, and The Conran Foundation for supporting the annual Show 2010; this is the Foundation's fifth consecutive year of support for which we are most grateful. Alumnus Sir James Dyson and the Dyson Foundation generously pledged to support the vital work of patent protection with student projects entering InnovationRCA and Design London's incubators for a three-year period, commencing 2010/11. We also note with gratitude the five-year commitment of The Rumi Foundation to the Royal College of Art's Innovation Night lecture series, and the Man Group plc Charitable Trust continued its support of ReachOutRCA, the College's outreach programme, for the fifth consecutive year since its inception in 2006.

This financial year the College's pension scheme merged with the Superannuation Arrangements of the University of London (SAUL) placing both the employee and employer of the College on a more secure and advantageous financial footing. Last year the College scheme had a deficit of more than £21m. A payment of £11.7m was made to bring the funding level of the scheme up to that of SAUL, and the result of these arrangements was in improvement of almost £10m in the College's general reserves position. The payment was financed through a loan that was secured on very favourable terms – interest accrues at 1.1% over LIBOR, so the rate currently payable is less than 2%. To protect the College against the possibility of large interest rate rises, we have capped the rate at 5%.

I am very grateful to those who have been responsible for the College's financial wellbeing during the year. In particular I would like to thank – our Treasurer Eric Hagman and our Audit Committee Chairman Caragh Merrick, and Finance & Estates Director Nick Cattermole. I commend the accounts to the Court.

Paul Thompson.

Dr Paul Thompson

Treasurer's Report for the Year ended 31 July 2010

The College is an exempt charity which operates under the terms of a Royal Charter. The current Charter was granted in 1967, although the College was originally founded in 1837 – at that time it was known as the Government School of Design. The College has governance arrangements which are similar to those of pre-1992 English universities. It is funded by the Higher Education Funding Council for England (HEFCE), which also acts as the College's regulator under the terms of the Charities Act 2006, which came into effect earlier this year. The College's accounts are required to follow the format laid down in the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP).

In early October 2010 the Government published a report on 'Securing a Sustainable Future for Higher Education', which was prepared by a panel chaired by Lord Browne. Shortly thereafter the Government announced details of significant reductions in public expenditure. These events foreshadow the most far-reaching change in the funding of higher education in England in living memory. It is clear that the cost of teaching in HE institutions will in future be borne primarily by students and not by the state. As the College formulates its response to these challenges we will be guided by the need to maintain our unrivalled reputation for excellence and also by the need to do everything possible to ensure that our doors remain open to those of limited financial means. However, it is inevitable that fees charged to students from EU countries, whose studies are currently subsidised by HEFCE, will be significantly increased.

The College and its Subsidiaries

During the year the College wound up the former RCA Development Fund, a separate charitable subsidiary, and transferred its assets into the books of the College. A previously dormant subsidiary – RCA Design Group Ltd – was revived and the College entered into an agreement with it which provides for RCA Design Group Ltd to act as the developer of the Dyson Building on the Howie Street North site. This arrangement has been made necessary in order to safeguard the College's position in respect of the recovery of input VAT on the project. If a legal case that is currently being brought by Deloittes LLP on behalf of a number of institutions is successful a substantial amount (though not all) of the input VAT incurred would be deemed recoverable. However the outcome of this case will not be known for several years – long after the development will have been completed. If the case is successful, the developer – RCA Design Group Ltd – would be in a position to reclaim the relevant amount of input VAT from HMRC. The accounts of RCA Design Group Ltd have been consolidated into those of the College.

The College also has a dormant subsidiary company – Lion & Unicorn Press Ltd. An exempt charity, the RCA Foundation, was set up to deal with fundraising activities in 2000. No transactions have been recorded by the Foundation as yet. In 2006 the College set up a limited liability partnership, Future Acoustic LLP, with two other partners. Future Acoustic LLP was formed to develop an invention by a former student of the College. Its accounts have not been consolidated into those of the College as its turnover is too small to have any material impact on the College's financial position.

Major Developments in the Year

a) Pensions

On 1 January 2010, the RCA Retirement Benefits Scheme merged with the Superannuation Arrangements of the University of London (SAUL). Under the terms of the merger agreement SAUL took on all the assets and liabilities of the former RCA scheme. Benefits accrued for past service in the RCA scheme will remain unaltered and future benefits for College staff will be accrued on the basis of SAUL's standard arrangements, which are very similar to those of the former RCA scheme. The College made a payment of £11.7m to SAUL at the time of the merger to bring the funding level in the former RCA scheme up to that of SAUL.

Before the merger the RCA Retirement Benefits Scheme seemed likely to have a deficit of well over £20m and a large increase in employer's contributions was expected. The merger with SAUL has led to a substantial drop in employer's contributions (from 25.6% to 13%) and has also resulted in the removal of a significant managerial burden that the RCA scheme represented.

Unlike the former RCA scheme, SAUL is a group pension scheme that cannot disaggregate its assets between member institutions, therefore pension costs are shown in the accounts on the basis of contributions payable. The entries on the Balance Sheet showing pension assets and liabilities have therefore been removed this year. The effect of this is a credit of £9,777,000 to general reserves, which has been shown in the Statement of Recognised Gains and Losses.

b) Loan Finance

SAUL offered to accept the £11.7m payment over a period but the rate of interest charged (7.3%) was unattractive, and so the Finance Committee agreed that the full amount should be paid immediately and that a loan should be raised to finance it. The College therefore sought proposals from the five major banks. RBS offered the most competitive arrangement, and accordingly the College entered into an agreement to borrow £12m over 10 years at an interest rate of 1.1% over three-month LIBOR. In order to provide security against possible future increases in interest rates we have made an arrangement with RBS to cap the rate payable on our loan at 5%. The loan was drawn down on 15 April 2010 and it is repayable in 40 quarterly instalments, the first of which fell on 15 July 2010.

c) Reductions in Public Expenditure

During the year HEFCE announced several small reductions in the level of funding to the College, and following the General Election held in May the new Government announced much more significant reductions in public expenditure. Coupled with the changes to HE funding foreshadowed in the Browne review (see above) these changes will have a major impact on the College. At the time of writing the precise figures are not known but substantial reductions in HEFCE grants seem very likely. These reductions will be phased in over the four academic years 2011–15. The College has already begun work on expenditure reductions and also on an expansion in student numbers to help us absorb these reductions. We are committed to the preservation of the quality of our student experience, and we will concentrate expenditure reductions in support areas that do not impact directly on the academic work of the College. It is fortunate that the Dyson Building is due to open in Battersea in 2012 – this will provide much needed extra space and enable us to accommodate additional students without making major reductions in space or facilities available.

Demand for places at the College is currently at record levels – in 2010 we had more than 3,000 applications for some 490 places. We can therefore have a degree of confidence that the higher fees that will result from the withdrawal of Government funding will not threaten the College's financial sustainability.

Results for the Year

The consolidated income and expenditure results for the year to 31 July 2010 (page 14) show a historic cost surplus of just over £1m. This figure includes £527,000 of 'matched funding' due from HEFCE under a scheme whereby it matches private donations that the College has received during the year in a ratio of 1:3. The surplus that arose on the College's operations was £479,000.

This is a creditable result in the circumstances. The College has achieved significant reductions in both staff and non-staff expenditure during the year and this, along with an increase in fee income, has enabled us to maintain an operational surplus despite reductions in the level of HEFCE grants and income from sources other than fees. However, looked at in the context of the forthcoming reductions in public expenditure, an operational surplus of £479,000 represents less than 2% of the College's turnover and does not offer us much of a cushion against financial adversity.

The College's Balance Sheet strengthened during the year. This is due to the effect of removing the pension deficit on the former RCA pension scheme following its merger with SAUL.

Battersea Project and Fundraising

During the year we completed work on Phase 1 of the Battersea North site – the Sackler Building – which was occupied by the Painting Department in the spring term. The final cost of this project was £196,000 below the agreed budget of £4,416,000.

Work on Phase 2 of the project – the Dyson Building – has now started and is scheduled for completion in late 2011. The main contract, in the sum of £13.3m, was awarded to Wates Construction Ltd following an OJEU tender process in February 2010. Wates took possession of the site in March and work is scheduled to last for 94 weeks. At the time of writing construction is proceeding according to plan and there have been no significant difficulties or delays. The construction cost of the building has already been raised – there will be some increase in these costs due to the rise in VAT to 20% in January 2011 but this can be covered from within the contingency already provided for the project.

Work on Phase 3 of the North Site development has not proceeded this year as funding is not yet available. This project has reached RIBA stage D, and it has been agreed that no further work will be done until the costs of its construction (estimated at £12m) have been raised. A fundraising auction of works of art donated by various alumni and friends of the College took place at Christie's in October 2010. The proceeds – amounting to £225k – will be put towards Phase 3.

The College has been approached on the possible lease of a further site in Battersea adjacent to the Sculpture Building in Howie Street. This site is owned by the same landlord as the College's other Battersea properties. The site comprises several industrial units and a petrol station. The College currently has a short lease on one of the industrial units. Discussions on this are at an early stage.

Investments

The College's portfolio is split between Ruffer Investment Management LLP and a portfolio of iShares, which are traded funds which track various stock market indices. The Finance Committee receives reports on investment performance at all of its meetings. The College proposes to set up a separate Investment Committee in 2010–11 to relieve the workload of the Finance Committee in this area and to formulate an investment strategy that will include policy objectives.

Cash Flow

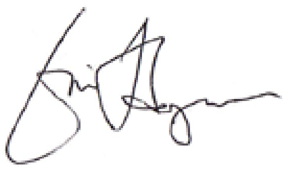
The College's net funds shown on the cashflow statement (page 16) increased by £2.3m during the year. Operational cashflow outflow was just over £10m; however this includes the £11.7m payment to SAUL (see above). Leaving aside this one-off payment the College's operational cash inflow was about £1.7m. The College's cash reserves will show a steady decline over the next two years as the bulk of them will be used for the construction of the Dyson Building.

Payment of Creditors

The College is fully committed to the prompt payment of its suppliers' invoices, and aims to pay in accordance with contractual conditions, or where no such conditions exist, within 30 days of receipt of invoice or of the goods or services concerned.

Conclusion

The HE sector in the UK is entering a period of unprecedented financial pressure. The College is well placed to tackle the substantial reductions in Government expenditure that are expected, but we are under no illusions about how difficult and challenging the next few years will be for both students and staff.



Eric Hagman
Treasurer

Public Benefit Statement

The Royal College of Art is an exempt charity under the terms of the Charities Act 2006. As such the College has charitable status for taxation purposes but it is regulated by the Higher Education Funding Council for England (HEFCE). HEFCE requires exempt charities that it regulates to publish an annual public benefit statement having regard to the Charity Commission guidance on public benefit.

The College is incorporated by Royal Charter – it has no shareholders and it does not distribute profits. Any surpluses that arise on its income and expenditure are reinvested in the College's teaching and research activities.

Education

The College provides postgraduate courses in art and design on a non profit-making basis. Fees charged to EU-domiciled students are well below the cost of teaching those students, as their costs are subsidised by HEFCE grants. Fees charged to non-EU domiciled students are set at a level that covers the costs of their courses but does not include any element of profit. The College provides bursaries and hardship grants to some of its students, partly from HEFCE resources and partly from other resources. These bursaries and hardship payments help students of limited means to study at the College.

Research

The College undertakes research in art and design. A particular emphasis is placed on design for an ageing population – the Helen Hamlyn Centre is particularly strong in this area. Much of the research carried out at the College is funded by charities and UK research councils and is undertaken in order to advance knowledge and understanding. This research activity is not carried on a profit-making basis. In some cases research is carried out on behalf of commercial sponsors – any profits arising on such research are reinvested in the College's teaching and research activities, where permissible.

Other Activities

The College organises public exhibitions, seminars, lectures and conferences that enable students to show their work and also enable the public to engage with the work of the College. All College exhibitions and lectures are free of charge to members of the public and any charge which might be made for conferences or seminars is designed to cover costs only.

Policies and Operations

The College has adopted policies on environmental and ethical issues and makes every effort to operate in a sustainable and responsible way. These policies are available on the College's website.

Corporate Governance Statement

The College is a corporation formed by Royal Charter with charitable status, so it does not fall within the regulation of the London Stock Exchange, but nevertheless the Council is satisfied that the College has, throughout the year ended 31 July 2010, been in compliance with all the Code provisions set out in Section 1 of the Combined Code on Corporate Governance insofar as they relate to Colleges.

The College also complies with the Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland that was issued by the Committee of University Chairmen in November 2004.

Summary of the Structure of Corporate Governance

The Council comprises lay and academic persons appointed under the College's Statutes, the majority of whom are non-executive. The roles of Chairman and Vice-Chairman of Council are separated from the role of the College's Chief Executive, the Rector. The matters specifically reserved to the Council for decision are set out in the College's Statutes. By custom and under the HEFCE Financial Memorandum, the Council is responsible for the College's ongoing strategic direction, approval of major developments and receiving regular reports from Executive Officers on day-to-day operations. The Council meets four times a year and has several Committees, including a Finance Committee, a Buildings & Estates Committee, an Audit Committee and a Remuneration Committee. All these Committees are formally constituted with terms of reference and comprise mainly lay members of Council.

The Planning & Resources Committee recommends to the Finance Committee the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The Senior Management Team advises Council on the College's overall objectives and priorities and the strategies and policies to achieve them. The Nominations Committee considers nominations for vacancies on Council and Committee membership under the relevant Statute. The Remuneration Committee determines the remuneration of the most senior staff.

The Audit Committee meets three times annually, with the Internal and External Auditors, to discuss audit findings and 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. The Audit Committee also receives and considers assurance and internal control reports from HEFCE and monitors adherence to the regulatory requirements. The Audit Committee reports annually to Council and to HEFCE on the operation of the College's internal control procedures, risk management, value for money and other relevant matters. Whilst senior management team members attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee meets with the External and Internal Auditors on their own for independent discussions.

The Buildings & Estates Committee is responsible for estates planning and maintenance issues.

Risk Management

On behalf of Council, the Audit Committee has appointed Deloitte & Touche Public Sector Internal Audit Ltd as the College's internal auditors. The internal auditors review the effectiveness of the College's systems of internal control. The results were considered by management and reviewed by the Audit Committee. The Audit Committee is also responsible for the oversight of the College's policies and procedures for risk management, in accordance with guidelines issued by HEFCE. A risk management policy for the College has been approved by Council, and a risk framework has been presented to the Council by the Audit Committee. The risk management policy sets out the College's underlying approach to risk management and documents the roles and responsibilities of senior managers, Council and other key parties. During the year heads of school and other senior officers attended the Committee to discuss their perceptions of the key risks facing the College and the Audit Committee has updated the risk register accordingly.

A number of other key plans and strategies have been drawn up, including a disaster recovery plan and an IT security policy. These address areas of risk identified by the risk framework. The disaster recovery plan includes a telephone cascade system under which all College staff could be contacted in an emergency. Records of the cascade system, and duplicate copies of all systems and data on the College network, are kept off-site.

The College maintains a Register of Interests completed by Council members and senior managers and these declared interests are updated annually. Additionally all Council and Committee agendas have 'declaration of interests' as the first substantive item on the agenda. Members and officers are invited to declare any interest in business to be considered by the meeting at that time.

Responsibilities of the Council

The Council is responsible for the administration and management of the affairs of the College and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper records that disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the accounts are prepared in accordance with the Royal Charter and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between HEFCE and the Council of the College, the Council, through its designated office holder, is required to prepare accounts for each financial year that give a true and fair view of the state of affairs of the College and of the surplus or deficit for that year.

In causing the accounts to be prepared, the Council has to ensure 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, subject to any material departures disclosed and explained in the financial statements

— the College has adequate resources to continue in operation for the foreseeable future and for this reason the financial statements are prepared on the going concern basis.

The Council has taken reasonable steps to:

— ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe

— 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 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 and Council

— a professional Internal Audit team whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of the Council, has reviewed the effectiveness of the College's system of internal control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The maintenance and integrity of the Royal College of Art 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 since they were initially presented on the website.

Council and Committee Members

The following served as members of Council during the year:

Ex Officio

The Provost Sir Terence Conran
The Chairman and Pro-Provost
Sir Neil Cossons
The Rector and Vice-Provost
Professor Sir Christopher Frayling
(retired 31 August 2009)
Dr Paul Thompson
(from 1 September 2009)
The Treasurer Mr Eric Hagman
The Pro-Rector Professor
Alan Cummings
The President of the Students' Union
Mr Jack Tan

Members Appointed by the Court

Mr Charles Allen-Jones (Vice-Chairman)
Professor Richard Burdett
Sir James Dyson
Ms Betty Jackson
Mrs Joanna Kennedy
Mr David Kester
Mr Robin Levien
Ms Caragh Merrick
Ms Sarah Miller
Mr Sandy Nairne
Sir Idris Pearce
Ms Cathy Turner

Members Appointed by the Senate

Professor Wendy Dagworthy
Professor Jeremy Aynsley
Professor Dan Fern
Mr Peter Hassell
Ms Hilary French
Professor David Rayson
Professor Hans Stofer

One Student Elected by the Students

Ms Ekua McMorris

Co-opted Members

Professor Sir Roy Anderson
Mr Tony Brierley
Dr David Good
Sir Mark Jones
Mr Paul Priestman
Dame Gail Rebuck
Mr John Studzinski
Mr Matthew Freud (from 18 March 2010)

The following served as members of the other Committees directly concerned with financial matters:

Finance Committee

Mr Eric Hagman, Chairman
Mr Charles Allen-Jones
Mr Paul Priestman
Dr Paul Thompson
Mr Tony Brierley (from 1 January 2010)

Audit Committee

Ms Caragh Merrick (Chairman)
Ms Sarah Miller
Dr David Good
Mr Tony Brierley
Mr David Thompson

Planning & Resources Committee

Dr Paul Thompson, Chairman
Professor Alan Cummings
Mr Garry Philpott
(to 31 December 2009)
Mr Alan Selby
Mr Nick Cattermole
Professor Jeremy Aynsley
Professor Wendy Dagworthy
Professor Dan Fern
Ms Hilary French
Mr Peter Hassell
Professor Jeremy Myerson
Professor Martin Smith
Professor David Rayson
Professor Dale Harrow
Mr Jack Tan

Remuneration Committee

Sir Neil Cossons, Chairman
Mr Charles Allen-Jones
Mr Eric Hagman
Ms Cathy Turner
Dr Paul Thompson

Buildings & Estates Committee

Sir Idris Pearce, Chairman
Professor Peter Bearman
Mr Robert Evans
Ms Joanna Kennedy
Dr Paul Thompson
Professor Jo Stockham
Mr Garry Philpott
Professor Alan Cummings
Mr Charles Allen-Jones
Professor Derek Walker

Senior Officers and Advisers

Rector and Vice Provost:
Dr Paul Thompson

Pro-Rector and Director of Academic Development:
Professor Alan Cummings

Director of Administration:
Garry Philpott
(to 31 December 2009)

Registrar:
Alan Selby

Director of Finance:
Nick Cattermole

Director of Research:
Professor Jeremy Aynsley

Head of Information & Learning Services:
Peter Hassell

Director of the Helen Hamlyn Centre:
Professor Jeremy Myerson

Bankers

National Westminster Bank plc,
180 Brompton Square, SW3 1XJ

Coutts & Co, 40 Strand, WC2R 0QS

Solicitors

Stephenson Harwood, One St Paul's Churchyard, EC4M 8SH

Insurers

UM Association Ltd, Hasilwood House,
60 Bishopsgate, EC2N 4AW

External Auditors

KPMG LLP, 15 Canada Square, E14 5GL

Internal Auditors

Deloitte & Touche Public Sector Ltd,
3 Victoria Square, St Albans, AL1 3TF

Investment Managers

Ruffer LLP, 80 Victoria Street, SW1E 5JL

Independent Auditors' Report to the Council of the Royal College of Art

We have audited the Group and College financial statements (the 'financial statements') of The Royal College of Art for the year ended 31 July 2010, which comprise Group Income and Expenditure Account, the Group and College Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

This report is made solely to the Council, as a body, 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 that 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 Governors and Auditors

The College Council's responsibilities for preparing the Treasurer's Report and the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the 'Statement of Recommended Practice: Accounting for Further and Higher Education', applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 9.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education'. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England dated June 2008. We also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements.

In addition we report to you if, in our opinion, the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report, other information contained in the Annual Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent mis-statements within them or material inconsistencies with the financial statements.

Basis of Opinion

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

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

Opinion

In our opinion:

– the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group and the College's affairs as at 31 July 2010 and of the Group's deficit of income over expenditure for the year then ended;

– the financial statements have been properly prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education';

– in all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2010 have been applied for the purposes for which they were received; and

– in all material respects, income during the year ended 31 July 2010 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, dated June 2008.

Neil Thomas (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
18 November 2010

Consolidated Income and Expenditure Account for the Year Ended 31 July 2010

Income	**Note**	**2009/10**	**2008/9**
		£'000	£'000
Funding Council Grants	1	15,431	18,145
Tuition Fees and Education Contracts	2	7,500	6,613
Research Grants and Contracts	3	1,494	2,230
Other Operating Income	4	4,041	4,090
Endowment and Investment Income	5	360	1,568
Total Income		**28,826**	**32,646**
Expenditure			
Staff Costs	6	13,256	14,355
Other Operating Expenses	7	14,005	14,802
Depreciation	11	1,840	1,800
Interest and Other Finance Costs	8	61	0
Total Expenditure	**10**	**29,162**	**30,957**
(Deficit)/Surplus on Continuing Operations after Depreciation of Tangible Fixed Assets at Valuation Before Exceptional Items		(336)	1,689
Exceptional Items: Continuing Operations			
Payment on Joining New Pension Scheme	9	(11,700)	0
Credit Arising on Removal of Pensions Liability	9	11,700	0
(Deficit)/Surplus on Continuing Operations after Depreciation of Assets at Valuation and Disposal of Assets		(336)	1,689
Surplus Transferred to Accumulated Income in Endowment Funds	19	283	183
(Deficit)/Surplus for the Year Retained within General Reserves		**(53)**	**1,872**

The Income and Expenditure Account has been prepared in respect of continuing operations.

Statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2010	Note	2009/10	2008/9
		£'000	£'000
(Deficit)/Surplus after Depreciation of Assets at Valuation		(336)	1,689
Difference between the Historical Cost Depreciation Charge and the Actual Depreciation Charge for the Year Calculated on the Revalued Amount	20	1,342	1,342
Historical Cost Surplus		**1,006**	**3,031**

Statement of Consolidated Total Recognised Gains and Losses for the Year Ended 31 July 2010	Note	2009/10	2008/9
		£'000	£'000
(Deficit)/Surplus on Continuing Operations after Depreciation of Assets at Valuation and Disposal of Assets		(336)	1,689
Credit on Elimination of Pensions Liability		9,777	0
Actuarial Loss	21	0	(17,182)
Appreciation of Endowment Asset Investments	19	1,054	168
Endowment Additions	19	808	1,008
Total Recognised Gains/(Loss) Relating to the Year		**11,303**	**(14,317)**

Balance Sheets as at 31 July 2010

	Note	Consolidated 2010 £'000	Consolidated 2009 £'000	College 2010 £'000	College 2009 £'000
Fixed Assets					
Tangible Assets	11	59,240	59,201	59,240	59,201
Other Fixed Asset Investments	12	404	332	404	0
Endowment Asset Investments	13	12,758	11,179	12,758	7,821
Current Assets					
Stock		52	54	52	54
Debtors	14	3,100	3,881	3,100	3,881
Investments	15	17,721	15,447	17,721	15,447
Cash at Bank and in Hand		134	672	134	672
Total Current Assets		**21,007**	**20,054**	**21,007**	**20,054**
Creditors: Amounts Falling Due within One Year	16	5,037	4,053	5,037	4,053
Net Current Assets		15,970	16,001	15,970	16,001
Total Assets Less Current Liabilities		88,372	86,713	88,372	83,023
Creditors: Amounts Falling Due after more tha One Year	17	10,825	0	10,825	0
Net Assets Excluding Pension Liability		77,547	86,713	77,547	83,023
Pension Liability	24	0	(21,477)	0	(21,477)
Net Assets Including Pension Liability		**77,547**	**65,236**	**77,547**	**61,546**
Represented by:					
Deferred Capital Grants	18	15,324	14,316	15,324	14,316
Endowments	19				
Expendable		3,615	1,783	3,615	1,783
Permanent		9,143	9,396	9,143	6,038
Total Endowments		**12,758**	**11,179**	**12,758**	**7,821**
General Reserves					
Revaluation Reserve	20	44,703	46,045	44,703	46,045
General Reserves Excluding Pension Reserve		4,762	15,173	4,762	14,841
Pension Reserve	24	0	(21,477)	0	(21,477)
Total General Reserves	21	**4,762**	**(6,304)**	**4,762**	**(6,636)**
Total		**77,547**	**65,236**	**77,547**	**61,546**

The Financial Statements on pages 13 to 33 were approved by the Council on 18 November 2010 and signed on its behalf by:

Dr Paul Thompson
Rector

Eric Hagman
Treasurer

Consolidated Cash Flow Statement for the Year Ended 31 July 2010

	Note	2010	2009
		£'000	£'000
Net Cash outflow from Operating Activities	25	(10,031)	(1,095)
Returns on Investments and Servicing of Finance	26	380	1,099
Capital expenditure and Financial Investment	27	165	2,366
Cash (Outflow)/ Inflow Before Use of Liquid Resources and Financing		(9,486)	2,370
Management of Liquid Resources	28	(2,274)	(1,552)
Financing			
New Loans	17, 28	12,000	0
Loans repaid		(221)	0
Increase in cash		**19**	**818**

Reconciliation of Net Cash Flow to Movement in Net Funds

(Decrease)/Increase in Cash in the period	28	19	818
Cash inflow from Liquid Resources	28	2,274	1,552
Movement in Net Funds in Period		2,293	2,370
Net funds at 1 August		17,047	14,677
Net funds at 31 July		**19,340**	**17,047**

Statement of Principal Accounting Policies

A Accounting Convention

The Accounts have been drawn up in accordance with the 2007 'Statement of Recommended Practice: Accounting for Further and Higher Education' (SORP) and applicable accounting standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and of buildings for which a cost is not readily ascertainable.

B Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the College, and the RCA Design Group Ltd (subsidiary). The RCA Design Group has been dormant for a number of years but during 2009–10 it was revived in order to provide development services for Phase 2 of the College's Battersea North site development. The accounts of the other subsidiaries Lion & Unicorn Press Ltd and the RCA Foundation have not been consolidated, as these organisations were dormant during the period. The consolidated financial statements do not include those of the Students' Union because the College does not control those activities. The College is a partner in Future Acoustic, an LLP. The partnership has produced accounts as at 28 February 2010 and it has not been included in the College's accounts as the figures are not material.

C Income Recognition

Funding council grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent income from grants, contracts and other services rendered are accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the Balance Sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. Donations that are to be retained for the benefit of the institution are recognised in the statement of Total Recognised Gains and Losses and in Endowments; other donations are recognised by inclusion as other income in the income and expenditure account. Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the Balance Sheet.

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of Total Recognised Gains and Losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets, i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the Balance Sheet by debiting or crediting the endowment asset, crediting or debiting the endowment fund and is reported in the statement of Total Recognised Gains and Losses.

D Agency Arrangements

Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

E Land and Buildings

Land and buildings are stated at cost or at valuation. Chartered Quantity Surveyors carried out a revaluation in December 1998. Under FRS 15 the College has opted to use the 1998 valuation as the Balance Sheet value, and not to make regular revaluations. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful life of 50 years. A review for impairment is conducted if events or changes in market conditions indicate that the carrying amount of any fixed asset may not be recoverable.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

F Equipment

Equipment, including PCs and software, costing less than £10,000 per individual item or group of related items is expensed in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computing Equipment	3 years
Other Equipment	5 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grants are treated as deferred capital grant received in advance and released to income over the expected useful life of the equipment (the period of the grant in respect of specific research projects).

G Leased Assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

H Heritage Assets

The College Art Collection consists mainly of works of art acquired free of charge from former students and artists associated with the College. Most items in the collection had nil or little value at the date of acquisition as the artists were not well known. These works of art are not therefore included in the Balance Sheet.

I Investments

Endowment Asset Investments are included in the Balance Sheet at market value. Short-term investments consist of cash balances, which are invested in interest bearing deposit accounts.

J Stocks

Stocks are stated at the lower of cost or net realisable value. Where necessary, provision is made for slow-moving and defective stocks.

K Maintenance of Premises

The College has a rolling maintenance plan, which is reviewed on an annual basis. The cost of routine and corrective maintenance is charged to the income and expenditure account as incurred.

L Accounting for Charitable Donations

Unrestricted 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.

Endowment funds:

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

— Restricted permanent endowment – the capital of the fund is to be maintained and the income thereon applied to the purposes specified by the donor;

— Unrestricted permanent endowments – the capital of the fund is to be maintained but the income can be applied to the general purposes of the College;

— Restricted expendable endowments – the capital of the fund can be spent for purposes specified by the donor.

Donations for fixed assets:

Donations received to be applied to the cost of a tangible fixed asset are shown on the Balance Sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the estimated useful life of the asset in question.

M 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 Income and Corporation Taxes Act 1988 (ICTA 1988). Accordingly, the College is exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 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.

N Pension Scheme

The Royal College of Art participates in the Superannuation Arrangements of the University of London (SAUL), which is a centralised defined benefit scheme and is contracted-out of the Second State Pension. SAUL is a group pension scheme which does not disaggregate its assets or liabilities into items which relate to individual member institutions, therefore pension costs shown in the income and expenditure account are the cash contributions payable for the year and there are no pension assets or liabilities shown in the Balance Sheet. SAUL is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in SAUL, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations. The next formal valuation will be made at 31 March 2011.

O 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 converted into sterling at year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

P Gifts in Kind, Including Donated Tangible Fixed Assets

Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

Q Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised in the financial statements when the College has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than present, asset arising from a past event.

R Financial Instruments

The College uses derivative financial instruments called interest rate caps to reduce exposure to interest rate movements.

S Intra-group Transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated. Balances between the College and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity, the part relating to the College's share is eliminated.

1. Funding Council Grants	2009/10	2008/9
	£'000	£'000
Recurrent Grant	13,752	14,361
Specific Grants	973	1,414
HEFCE Matched Grants	527	2,185
Deferred Capital Grants Released in Year		
Buildings (note 18)	86	86
Equipment (note 18)	93	99
Total	**15,431**	**18,145**

2. Tuition Fees and Education Contracts	2009/10	2008/9
	£'000	£'000
Full-time Home Fees	3,876	3,346
Overseas Fees	3,389	3,031
Part-time Home Fees	166	125
Other Short Course Fees	69	111
Total	**7,500**	**6,613**

3. Research Grants and Contracts	2009/10	2008/9
	£'000	£'000
Research Councils Grants	816	1,126
UK Based Charities	394	378
UK Industries & Commerce	284	726
Total	**1,494**	**2,230**

4. Other Operating Income	2009/10	2008/9
	£'000	£'000
Lettings	156	200
Catering Services	609	643
Other Services Rendered	1,710	1,537
Degree Shows Income	299	306
Other Deferred Grants Released (note 18)	161	150
Other Income	1,106	1,254
Total	**4,041**	**4,090**

5. Endowment and Investment Income	2009/10	2008/9
	£'000	£'000
Income from Expendable Endowments	107	98
Income from Permanent Endowments	146	309
Pension Scheme	0	469
Other Interest Receivable	107	692
Total	**360**	**1,568**

6. Staff Costs	2009/10	2008/9
	£'000	£'000
Contracted Staff	10,188	10,700
Projects and Other Staff	720	836
Social Security Costs	918	978
Pension Costs	1,398	1,525
Restructuring Costs*	32	316
Total	**13,256**	**14,355**

*Restructuring relates to costs in respect of redundancies following a restructuring exercise.

	2009/10	2008/9
	£'000	£'000
Emoluments of the Rector	175	175
Total	**175**	**175**

Professor Sir Christopher Frayling retired as Rector on 31 August 2009 and Dr Paul Thompson became Rector from 1 September 2009. Pension contributions paid on behalf of the current Rector were £24,306. He received no other benefits. No pension contributions were paid on behalf of the former Rector. He received no other benefits. No redundancy payments were payable to senior staff in 2009/10 (£73,875 in 2008/9) under the terms of the College's voluntary redundancy scheme.

Remuneration of Other Higher Paid Staff, Excluding Employer's Pension Contributions

No other member of staff, apart from the Rector, received emoluments of more than £100,000.

	Number 2009/10	Number 2008/9
Average Full-time Equivalent Staff Numbers by Major Category:		
Academic Courses and Services	163	169
Premises	33	34
Catering	12	14
Research	28	30
Administrative and Other	46	49
Total	**282**	**296**

Average FTE staff numbers in 2009/10 calculated by taking an average of actual staff numbers at 31 July 2009 and 31 July 2010.

7. Other Operating Expenses

	2009/10	2008/9
	£'000	£'000
Academic Courses	2,235	2,423
Central Library & Learning Resources	126	191
Computing & Information Services	117	139
Administrative Services	882	877
Rents and Rates	638	655
Heat, Light, Water and Power	443	573
Minor Works	218	520
Other Premises Costs	1,273	1,127
Degree Shows	381	395
Grants to Students' Union	94	81
Scholarships, Prizes and Awards	694	570
Catering	411	455
Research Projects Expenditure	928	1,035
Sponsored Projects/Exhibitions, etc.	562	436
HEFCE Student Bursaries	2,898	2,929
HEFCE Earmarked Expenditure	1,051	1,322
Other Educational Expenses	895	923
Other Expenses	159	151
Total	**14,005**	**14,802**

Other Operating Expenses Include:	**2009/10**	**2008/9**
	£'000	£'000
Auditors' Remuneration:		
External Auditors in Respect of Audit Services*	46	42
External Auditors in Respect of Non-audit Services	34	0
Internal Audit	23	23
Hire of Machinery - Operating Leases	0	4

* Includes £42,000 (2008/9 - £39,000) in respect of the College.

8. Interest and Other Finance Costs

	2009/10	2008/9
	£'000	£'000
Bank Loans not Wholly Repayable within 5 Years	61	0

This is the interest paid on the College's £12m bank loan drawn in April 2010 (note 17 refers).

9. Exceptional Items

The College's own pension scheme merged on 1 January 2010 with the Superannuation Arrangements of the University of London (SAUL) scheme. On 29 January 2010, the College made an exceptional deficit payment of £11.7m to SAUL in order to bring the funding level of the College's former scheme up to that of SAUL's scheme.

As a result of the merger of the schemes and the deficit payment, the College's pensions liability, which was £21.477m at 31 July 2009 as measured on an FRS 17 basis, has been eliminated. This gave rise to an exceptional credit of £11.7m in the income and expenditure account and a credit of £9.777m in the statement of recognised gains and losses.

The College funded the exceptional payment through a £12m bank loan (see note 17).

10. Analysis of Expenditure by Activity

	2009/10				2008/9
	Staff Costs	**Depreciation**	**Operating Expenditure**	**Total Expenditure**	**Total Expenditure**
	£'000	£'000	£'000	£'000	£'000
Academic Departments	6,579	350	2,235	9,164	10,122
Academic Services	905	0	866	1,771	1,657
Administration Services	1,966	0	882	2,848	2,932
General Educational	21	0	475	496	509
HEFCE Bursaries	0	0	2,898	2,898	2,929
Student Awards and Support	0	0	694	694	570
Other Services	607	0	1,054	1,661	1,611
Premises	1,190	1,490	2,572	5,252	5,545
Catering	417	0	411	828	906
Research Grants and Contracts	942	0	928	1,870	2,527
Earmarked Expenditure	629	0	1,051	1,680	1,649
Total Per Income and Expenditure Account	**13,256**	**1,840**	**14,066**	**29,162**	**30,957**

The Depreciation Charge has been funded by.		
Deferred Capital Grants Released (note 18)		340
Revaluation Reserve Released (note 20)		1,342
General Income		158
Total		**1,840**

11. Tangible fixed assets	Land & Buildings	Equipment	Assets in the Course of Construction	Total
(Consolidated and College)	£'000	£'000	£'000	£'000
Cost/Valuation				
At 1 August 2009	66,149	1,322	4,621	72,092
Transfer to Land & Buildings	3,471	0	(3,471)	0
Additions at Cost	434	0	1,445	1,879
Disposals at Cost	0	0	0	0
At 31 July 2010	70,054	1,322	2,595	73,971
Depreciation				
At 1 August 2009	11,969	922	0	12,891
Charge for Year	1,604	236	0	1,840
Disposals at Cost	0	0	0	0
At 31 July 2010	13,573	1,158	0	14,731
Net Book Value				
At 31 July 2010	**56,481**	**164**	**2,595**	**59,240**
At 1 August 2009	**54,180**	**400**	**4,621**	**59,201**

The College's land and buildings include those held on long leases from the 1851 Commission, which were revalued in 1998, the refurbished Sculpture Building and the Sackler Building. The Sackler Building was completed during 2009/10 and the capital cost (£3,471,000) has been transferred from assets in the course of construction to land and buildings. The remainder of the costs in assets in the course of construction relate to Phase 2 of the College's Battersea project.

Heritage assets

The College has an art collection that consists mainly of works of art acquired free of charge from former students and artists associated with the College. Most items in the collection had nil or little value at the date of acquisition as the artists were not well known. Over time some items in the collection have appreciated in value. At 31 July 2010 there were over 1,100 items in the collection.

The College has opted to apply a policy of non-revaluation to its heritage assets and so these are still assumed to have a nil value and are not disclosed in the balance sheet. There have been no significantly valuable pieces acquired in recent years.

12. Other fixed assets

Consolidated and College	Other Fixed Asset Investments £'000
At 1 August 2009	332
Additions	72
Disposals	0
At 31 July 2010	**404**

Other fixed asset investments consists of unused income generated from the Development Fund, an unrestricted permanent endowment (see note 19).

13. Endowment Asset Investments

	Consolidated **2009/10** £'000	Consolidated **2008/9** £'000	College **2009/10** £'000	College **2008/9** £'000
Balance at 1 August	11,179	10,186	11,179	6,890
Additions	5,823	6,455	5,823	4,933
Disposals	(5,711)	(6,038)	(5,711)	(4,587)
Unrealised Appreciation (note 19)	1,054	168	1,054	109
Increase/(Decrease) in Cash Balance	413	408	413	476
Balance at 31 July	12,758	11,179	12,758	7,821
Represented by:				
Fixed Interest Stocks (listed)	5,226	5,266	5,226	3,862
Equities (listed)	6,047	4,985	6,047	3,256
Cash Balances	1,485	928	1,485	703
Total	**12,758**	**11,179**	**12,758**	**7,821**

14. Debtors

	Consolidated & College **2009/10** £'000	Consolidated & College **2008/9** £'000
Amounts Falling Due within One Year		
Debtors	322	371
Sackler Foundation Donation	250	500
HEFCE Matched Funding	0	251
Pre-payments	295	277
Accrued Income	92	48
	959	**1,447**
Amounts Falling Due after One Year		
HEFCE Matched Funding	1,891	1,934
Sackler Foundation Donation	250	500
	2,141	**2,434**
Total	**3,100**	**3,881**

15. Investments	Consolidated & College	Consolidated & College
	2009/10	**2008/9**
	£'000	£'000
Deposits Maturing:		
In One Year or Less	16,721	15,447
Between One and Two Years	1,000	0
Total	**17,721**	**15,447**

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority.

16. Creditors: Amounts Falling Due within One Year:	Consolidated & College	Consolidated & College
	2009/10	**2008/9**
	£'000	£'000
Sundry Creditors	872	1,021
Social Security and Other Taxation Payable	379	364
Accrued Expenditure	336	141
Deferred Income - Projects and Sponsorships	1,860	1,808
Other Deferred Income	675	558
Bank Loan	915	0
Provisions*	0	161
Total	**5,037**	**4,053**

*Provisions	
	£'000
At 1 August 2009	161
Used in Year	(161)
New Provision	0
At 31 July 2010	**0**

The College made a provision in 2009 in respect of redundancies following a restructuring exercise. The full provision was used during 2009/10.

17. Creditors: Amounts Falling Due after more than One Year:	Consolidated & College	Consolidated & College
	2009/10	**2008/9**
	£'000	£'000
Bank Loan	**10,825**	**0**
Due within One to Two Years	972	0
Due within Two to Five Years	3,302	0
Due after more than Five Years	6,551	0
	10,825	**0**

The College took out a loan from Royal Bank of Scotland in April 2010 of £12m to fund a deficit payment That was required when the College's own pension scheme merged with the SAUL scheme. The loan is being repaid in quarterly instalments over 10 years at a rate of 1.1% over LIBOR. The College has entered into a hedging arrangement, an interest rate cap, to cap the interest rate payable on the loan at 5% to reduce exposure to increases in interest rates.

18. Deferred Capital Grants

	Consolidated & College 2009/10 HEFCE £'000	Consolidated & College 2009/10 Non-HEFCE £'000	2009/10 Total £'000	2008/9 Total £'000
At 1 August				
Buildings	5,702	8,288	13,990	6,566
Equipment	93	233	326	551
Total	**5,795**	**8,521**	**14,316**	**7,117**
Grants Received During the Year				
Buildings	1,317	31	1,348	7,534
Equipment	0	0	0	0
Total	**1,317**	**31**	**1,348**	**7,534**
Released to Income and Expenditure				
Buildings	(86)	(44)	(130)	(110)
Equipment	(93)	(117)	(210)	(225)
Total	**(179)**	**(161)**	**(340)**	**(335)**
At 31 July				
Buildings	6,933	8,275	15,208	13,990
Equipment	0	116	116	326
Total	**6,933**	**8,391**	**15,324**	**14,316**

Grants received for projects that have not yet been completed have been deferred and will be released to the income and expenditure account over the life of the projects concerned.

19. Consolidated Endowment Investments

	Unrestricted Permanent £'000	Restricted Permanent £'000	Total Permanent £'000	Restricted Expendable £'000	2009/10 Total £'000	2008/9 Total £'000
Balances at 1 August 2009						
Capital	3,358	5,530	8,888	1,707	**10,595**	9,657
Accumulated Income	-	508	508	76	**584**	529
	3,358	6,038	9,396	1,783	**11,179**	10,186
Transfers	0	(1,416)	(1,416)	1,416		
Additions	0	284	284	524	**808**	1,008
Investment Income	20	126	146	107	**253**	321
Expenditure	(20)	(117)	(137)	(399)	**(536)**	(504)
Increase in Market Value of Investments	375	495	870	184	**1,054**	168
At 31 July 2010	**3,733**	**5,410**	**9,143**	**3,615**	**12,758**	**11,179**

Represented by:

	Closing Capital Value	Closing Accumulated Income	Total
Scholarships, Awards & & Prize funds	5,762	949	6,711
Development Fund	3,733	0	3,733
Helen Hamlyn Endowment	993	0	993
Helen Hamlyn Chair of Design	1,321	0	1,321
	11,809	**949**	**12,758**

Scholarships, Awards & Prize Funds
Consists of numerous restricted permanent and expendable endowments to fund prizes or awards to students.

Development Fund
Up until 2010 this was a separate charity that was consolidated into the College's accounts, as well as being an unrestricted permanent endowment. In June 2010, the Charity was formally dissolved and is now an unrestricted permanent endowment.

Helen Hamlyn Endowment
This restricted expendable endowment funds the activities of the Helen Hamlyn Centre.

Helen Hamlyn Chair of Design
This restricted expendible endowment funds the Helen Hamlyn Chair of Design.

20. Revaluation Reserve Valuation	Land & Buildings
	£'000
At 1 August 2009	46,045
Contributions to Depreciation	
At 1 August 2009	(10,749)
Released in Year	(1,342)
At 31 July 2010	(12,091)
Net Revaluation Amount	
At 31 July 2010	44,703
At 1 August 2009	46,045

21. Movement on Reserves	2009/10	2008/9
	£'000	£'000
(Deficit)/Surplus after Depreciation of Assets at Valuation	(336)	1,689
Released from Revaluation Reserve	1,342	1,342
Historical Cost Surplus	1,006	3,031
Balance Brought Forward at 1 August	(6,304)	7,664
Historic Cost Surplus for the Year	1,006	3,031
Transfer to Specific Endowments	283	183
Actuarial Loss	0	(17,182)
Credit Arising from Removal of Pensions Liability	9,777	0
General Reserves at 31 July	**4,762**	**(6,304)**

22. Lease Obligations	Consolidated & College	Consolidated & College
	2009/10	**2008/9**
	£'000	£'000
Operating Lease Commitments in Respect of Buildings and Equipment		
On Leases Expiring:		
Between One and Five Years	3	4
Over Five Years	554	554
Total	557	558

23. Capital Commitments

Now that funds have been raised, the College has started the Construction of Phase 2 of the Battersea North site development and building work commenced in early 2010. The total construction contract value is £15m (inclusive of VAT). The total cost of the project is expected to be around £21m, of which just under £5m had been spent by 31 July 2010.

24. Pension Scheme

The College's own pension scheme merged on 1 January 2010 with the Superannuation Arrangements of the University of London (SAUL) scheme. On 29 January 2010, the College made an exceptional deficit payment of £11.7m to SAUL in order to bring the funding level the College's former scheme up to that of SAUL's scheme.

As a result of the merger of the schemes and the deficit payment, the College's pensions liability, which was £21.477m at 31 July 2009 as measured on an FRS 17 basis, has been eliminated.

This gave rise to an exceptional credit of £11.7m in the income and expenditure account and a credit of £9.777m in the statement of recognised gains and losses. The College funded the exceptional payment through a £12m bank loan (see note 17).

The Royal College of Art participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. It is not possible to identify the Royal College of Art's share of underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8-12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified independent actuaries. The last available valuation was carried out as at 31 March 2008 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:

Valuation Method:	Projected Unit	
	Past Service	Future Service
Investment Return on Liabilities:		
- Before Retirement	6.9% p.a.	7.0% p.a.
- After Retirement	4.8% p.a.	5.0% p.a.
Salary Growth *	4.85% p.a.	4.85% p.a.
Pension increases	3.35% p.a.	3.35% p.a.

* excluding an allowance for promotional increases.

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,266m representing 100% of the liability for benefits after allowing for expected future increases in salaries.

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% of Salaries and 6% of Salaries respectively following the valuation.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS 17 revealed SAUL to be in surplus at the last formal valuation date (31 March 2008).

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

25. Reconciliation of Operating Activities

	Consolidated	Consolidated
	2009/10	**2008/9**
	£'000	£'000
(Deficit)/Surplus Before Tax	(336)	1,689
Depreciation (note 11)	1,840	1,800
Deferred Capital Grants Released to Income (note 18)	(340)	(335)
Investment, Endowment & Pension Interest (note 5)	(360)	(1,568)
Decrease/(Increase) in Stocks	2	33
Decrease/(Increase) in Debtors	781	(3,173)
(Decrease)/Increase in Creditors	21	366
Pension Costs	0	(70)
Profit on Sale of Investments Development Fund	0	163
Interest Payable	61	0
Payment on Joining New Pension Scheme	(11,700)	0
Net Cash Inflow/(Outflow) from Operating Activities	(10,031)	(1,095)

Change in Net Funds

	At 01-Aug-09	Cashflows	At 31-Jul-10
	£'000	£'000	£'000
Cash at Bank and in Hand	672	(538)	134
Endowment Cash	928	557	1,485
	1,600	19	1,619

26. Returns on Investments and Servicing of Finance

	2009/10	2008/9
	£'000	£'000
Income from Endowment Investments	253	321
Other Interest Received	107	692
Income from Unrestricted Endowment Fund	72	86
Interest Paid	(52)	0
Net Cash Inflow from Returns on Investments and Servicing of Finance	380	1,099

27. Capital Expenditure and Financial Investment

	2009/10	2008/9
	£'000	£'000
Tangible Assets Acquired	(1,879)	(5,759)
Endowment Assets Acquired	(5,823)	(6,455)
Receipts from Sale of Endowment Assets	5,711	6,038
Deferred Capital Grants Received (note 18)	1,348	7,534
Endowments Additions	808	1,008
Net Cash (Outflow)/Inflow from Capital Expenditure and Financial Investment	165	2,366

28. Analysis of Changes in Net Funds

	At 01-Aug-09	Cashflows	Non cash changes	At 31-Jul-10
	£'000	£'000		£'000
Endowment Asset Investments (note 13)	928	557	0	1,485
Cash at Bank and in Hand	672	(538)	0	134
Total	**1,600**	**19**	**0**	**1,619**
			0	
Current Asset Investments	15,447	2,274	0	17,721
			0	
Changes in Net Funds	17,047	2,293	0	19,340
Financing				
Loan: Due within One Year	0	0	0	915
Loan: Due after more than One Year	0	0	0	10,825
	17,047	0	0	31,080

29. Cash flows Relating to Exceptional Items

Operating cash flows include an outflow of £11.7m in respect of a deficit payment to SAUL, the College's new pension scheme. This brought the funding level of the College's former pension scheme up to that of the SAUL scheme (note 9 refers).

30. Financial Instruments

The College has unquoted equity investments of £475,000 which are held at cost. These consist of investments in eight start-up companies supported by the Design London Business Incubator. One of these companies has been wound up during the year.

The objective is to create new firms that can attract further funding, create intellectual assets that can be licensed, or sold to other firms.

The Design London Business Incubator aims to create new design entrepreneurs and business innovators.

These investments have been recognised as equity investments in the Balance Sheet and they have subsequently been impaired to nil.

The College has entered into a hedging arrangement, an interest rate cap, which caps the interest rate payable on the £12m loan at 5% to reduce exposure to interest rate increases (see note 17).

31. Related Party Transactions

Due to the nature of the College's operations and the make-up of its Council and staff, it is inevitable that transactions will take place with external bodies, trusts and organisations with which Council members and/or staff may be associated. The College maintains a Register of Interests in which all such interests are declared, and all transactions are conducted at arms' length and in accordance with the College's financial regulations. Payments of £110.60 in respect of incidental expenses were made to Council members during the year.

32. Access Funds

Access Funds have not been included in the Income and Expenditure Account:

	2009/10	**2008/9**
	£'000	£'000
Balance Brought Forward as at 1 August	13	8
Received from HEFCE	20	30
Payments Made to Students	(29)	(25)
Balance Carried Forward as at 31 July	**4**	**13**

Grants totalling £311,471 were received from HEFCE during the year for work undertaken by the National Film & Television School. These grants were passed on to the NTFS, and have not been included in the College's Accounts. The College receives an administration charge for this that is shown in other income.

33. Changes in Group Structure

The 2009 consolidated figures on the Balance Sheet include the RCA's former charitable subsidiary the RCA Development Fund. In 2009/10 the RCA wound up the Development Fund as a separate charity but retained the funds as an unrestricted endowment (note 19 refers).

In 2009/10 a previously dormant subsiduary, the RCA Design Group Ltd (registered in England) was revived and the College entered into an agreement with it which provides for RCA Design Group Ltd to act as the developer of the Dyson Building at Battersea. The 2010 consolidated figures on the balance sheet include the RCA Design Group Ltd.

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Postgraduate Art and Design