

Report and Accounts

Royal College of Music

31 July 2005

Royal College of Music

PATRON

Her Majesty The Queen

PRESIDENT

His Royal Highness The Prince of Wales KG KT GCB QSO ADC

VICE-PRESIDENTS

The Most Revd and Rt Hon the Lord Archbishop of Canterbury

The Most Revd and Rt Hon the Lord Archbishop of York

The Rt Hon the Lord Mayor of London

Mr Michael Gough Matthews FRCM (Appointed 1997)

Lady Middleton FRCM (Appointed 2004)

Mr Humphrey Norrington OBE FRCM (Appointed 2004)

Dame Janet Ritterman DBE (Appointed 2005)

Mr Leopold de Rothschild CBE FRCM (Appointed 1986)

Mr Ian Stoutzker OBE FRCM (Appointed 1999)

Sir David Willcocks CBE MC FRCM (Appointed 1982)

LIFE GOVERNORS

Mr John Cruft FRCM

COUNCIL

The President

Sir Anthony Cleaver (Chairman)

Mr Peter Ellwood CBE (Deputy Chairman)

Mr Nicholas Ward (Honorary Treasurer & Chairman of Investment Committee)

Sir Thomas Allen CBE FRCM

Ms Jennifer Cramb

Mr Vernon Ellis

Mrs Rosalind Gilmore CB

Mr John Hall

Dr John Lill OBE FRCM

Mr Richard Price (Chairman of Audit Committee)

Ms Janis Susskind

Sir Richard Sykes

Professor Sir David Watson

Mr Nigel Woolner (Chairman of Estates Committee)

Royal College of Music

COUNCIL (continued)

Ex-officio or elected

Dr Colin Lawson	(Director from 11 th July 2005)
Dame Janet Ritterman	(Director until 8 th July 2005)
Mr Andrew Ball	(Professorial staff)
Mr William Mival	(Professorial staff)
Mrs Pamela Thompson HonRCM	(Administrative staff)
Mr Michael Poyser	(President, Students' Association)

DIRECTOR

Dr Colin Lawson	(From 11 th July 2005)
Dame Janet Ritterman	(Until 8 th July 2005)

CLERK TO THE COUNCIL

Mr Kevin Porter HonRCM (Secretary & Registrar)

EXECUTIVE COMMITTEE

Sir Anthony Cleaver
Mr James Joll
Mr Peter Ellwood CBE
Mr Nicholas Ward
Dr Colin Lawson (ex officio/Director from 11th July 2005)
Dame Janet Ritterman (ex officio/Director until 8th July 2005)
Mr Nigel Woolner

REGISTERED OFFICE

Royal College of Music
Prince Consort Road
London SW7 2BS

AUDITORS

RSM Robson Rhodes LLP
Bryanston Court
Selden Hill
Hemel Hempstead
HP2 4TN

BANKERS

Royal Bank of Scotland plc
62-63 Threadneedle Street
London
EC2R 8LA

SOLICITORS

Boodle Hatfield
61 Brook Street
London W1Y 2BL

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Royal College of Music

TREASURER'S REPORT

SCOPE AND FORMAT OF THE FINANCIAL ACCOUNTS

The accounts comprise the consolidated results of the college and its subsidiary, RCM Development Fund limited ("RCMDF"), for the financial year 1 August 2004 to 31 July 2005. RCMDF was dormant throughout the year.

The College accounts include the specific endowments administered by the College. The College is a registered charity.

The financial accounts have been prepared according to the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP 2003) and other relevant Accounting Standards.

MISSION & PRINCIPAL OBJECTIVES

The Royal College of Music is committed to being a world leader in practical education and research by and for musicians working primarily in the field of Western art music. It seeks to ensure the continuing dynamism of this tradition through innovation, the expansion of cultural boundaries and widening the relevance of this music to all groups of society.

The College strives to offer fair access for talented performers and composers from all backgrounds to an environment which encourages musicians to realise their potential, not only as artists with high executant's skills but also as individuals with the vision, intelligence and resourcefulness needed to contribute significantly to musical life in this country and internationally.

CONSOLIDATED RESULTS

The College's consolidated income and expenditure for the year ended 31 July 2005 is summarised as follows:

	2005	(restated) 2004
	£000	£000
Income	13,140	11,948
Expenditure	13,161	12,357
Net transfers from/ (to) endowments	72	(211)
Surplus / (deficit)	51	(620)
Surplus / (deficit) as a percentage of income	0.39 %	(5.2) %

A prior year adjustment, to correct the allocation of depreciation between internally funded depreciation and deferred capital grants, has increased the deficit previously reported for 2003/04 by £0.2million and reduced accumulated revenue reserves brought forward at 1 August 2004 by £0.8 million, while increasing deferred capital grants by £1.0 million. This amount will be released in future years to offset the charge in the income and expenditure account for depreciation on tangible assets.

During the year ended 31 July 2004, the College implemented a staff restructuring plan which was designed to reduce the College's costs and to safeguard its financial position in future. The exceptional costs associated with this restructuring amounted to £0.1 million - in 2004/05 (£0.4 million in 2003/04) and these are included in staff costs. As a result of this restructuring and continuing strict control over expenditure, the College recorded a small surplus of £ 51,329 in 2004/05, after a net transfer from endowments of £71,970 (deficit of £ 620,267 in 2003/04).

The College received new endowments of £0.6 million in 2004/05 (£1.8 million in 2003/04) which were used principally to increase the funds available for scholarships. The College's investments increased by some £3.8 million in value during the year to 31 July 2005, as compared with an increase of £0.8 million in 2003/04.

The RCM Pension Scheme shortfall is being rectified by an increase to the College's contribution over a ten year period commenced in 2003.

TREASURER'S REPORT

RESERVE POLICY

The reserves of the College comprise the endowments of the College and the College's general reserves.

Within the College's endowments, the specific endowments relate to the funds which were given to the College on the condition that the capital should be maintained as permanent endowment while the returns made on this capital should be used to pay scholarships and prizes for the students of the College.

The general endowments derive from legacies and other gifts to the College. The real returns generated from the College's general endowments are used each year to support the operations of the College. The capital of the general endowments is invested in marketable securities and is held principally as part of the College's risk management strategy, to cover known pension liabilities and as protection against the various risks which have been identified. Its purpose therefore is to secure the future work of the College. The College Council may at its discretion allocate part of the capital of the general endowments to meet the cost of the building works which form part of the College's building Masterplan or to contribute to the cost of other projects to improve the facilities of the College.

Within the general reserves the revaluation reserve relates wholly to the land and buildings and musical instruments which are held by the College for the purposes of its activities as a conservatoire and was created when these assets were revalued for accounts purposes or where gifts were brought into the accounts at valuation. The accumulated revenue reserve is the accumulated surplus from the college's activities.

The College has consolidated reserves of £289,456 ((£20,849) - 2004) and expendable endowments, (general endowments), of £ 10.3 million (£ 8.3 million - 2004). The expendable endowments include an amount of £ 1.2 million (£ 1.4 million - 2004) which is designated for the Masterplan.

INVESTMENT PERFORMANCE

The Investment Committee monitors the performance of the College's investment portfolios. During the year the College's investment advisers, Newton Investment Management Limited, were re-appointed as investment advisers to the College, following a rigorous review of their performance. The Investment Committee also adopted new statements of investment policy for the College's endowment funds for future years and set new benchmarks which reflect the College's requirements. During the year to 31 July 2005, the College's investments increased in value, and the investment performance was satisfactory in relation to the benchmarks which the Committee had adopted for the year.

SCHOLARSHIPS

The College provided scholarships, prizes and study support grants totalling £ 908,189 in 2005 (£ 906,172 - 2004) to enable gifted students to undertake their studies during the year. This level of support has been made possible by the generosity of benefactors over the years. Scholarship funds are maintained separately by the College as specific endowment funds.

BUILDING WORKS & FIXED ASSETS

In 2005 the College completed £ 168,855 worth of work on the leasehold buildings and £ 286,377 worth of work on the freehold buildings.

The College acquired musical equipment and instruments at a cost of £47,287.

The College spent £ 283,595 on computer equipment replacements (including an insurance claim).

The College continues to consider the estate Masterplan development proposals and the future development of the student residence site. Planning permission has been sought for a potential £ 30 million development at the Prince Consort Road site.

AUDITORS

A resolution to re-appoint RSM Robson Rhodes LLP as external auditors was agreed at the Council meeting on 30 November 2005.



Nicholas Ward

HONORARY TREASURER

THE COLLEGE'S STRUCTURE OF CORPORATE GOVERNANCE

The Governing Body of the College, the RCM Council, which meets four times a year, is responsible for the strategic direction of the College and for all major developments. In fulfilling its responsibilities for the administration and management of the affairs of the College, the RCM Council approves the annual revenue and capital budgets and presents audited financial statements for each financial year prepared in accordance with relevant accounting standards.

The membership and powers of the Council are laid down in the College's Royal Charter and Statutes. The maximum number of members of Council is twenty-five, of whom twenty are independent members and three are elected from among the staff of the College. The President of the College, HRH The Prince of Wales, the Director of the College and the President of the Students' Association are *ex officio* members. The Chairman, the Deputy Chairman and the Honorary Treasurer of the Council are drawn from the independent members.

The Executive Committee is responsible to the Council for the general management of the College. It meets six times a year. Among the responsibilities discharged by the Executive Committee are the scrutiny of the College's annual revenue and capital budgets and accounts and their recommendation to Council, and the monitoring of performance in relation to the approved budgets.

The following two standing subordinate committees report to the Executive Committee. Each is chaired by an independent member of Council; each is formally constituted with terms of reference.

Investment Committee	2 meetings per year
Estates Committee	3 meetings per year

The Board of Professors reports to the Council and meets a minimum of three times per year. It deals with the College's academic policies and quality assurance.

Nominations for vacancies in the Council membership are considered by a Nominations Committee, which reports directly to Council. The remuneration of senior staff is considered by the Executive Committee.

The Audit Committee, which reports directly to RCM Council, meets three times a year. Discussions are held with the External Auditors to discuss audit findings, and with the Internal Auditors to consider internal audit reports and recommendations for the improvement of the College's system of internal controls, together with management's response and plans for implementation. In 2004/2005 the Internal Auditors presented reports on:

- Corporate Governance
- Corporate Planning
- Scholarships, Access and Hardship Funds/Bursaries
- Risk Management
- Budgetary Control
- Catering
- Data Protection
- Security
- Enrolment

THE RESPONSIBILITIES OF THE COUNCIL AS GOVERNING BODY OF THE COLLEGE

THE ACCOUNTING SYSTEMS AND THE ACCOUNTS OF THE COLLEGE

The Council is satisfied that the College has adequate resources to continue in operation for the foreseeable future; for this reason the 'going concern' basis continues to be adopted in the preparation of the financial statements.

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

Through the work undertaken on its behalf by the Executive Committee and the Audit Committee, the Council believes that it has taken reasonable steps to:

- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given, in accordance with conditions laid down by the Funding Council;
- secure the economical, efficient and effective management of the College's resources and expenditure; and
- safeguard the assets of the College and prevent fraud.

INTERNAL CONTROL AND RISK MANAGEMENT

As the Council (governing body) of the Royal College of Music, we have 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 we are responsible, in accordance with the responsibilities assigned to the governing body in the Charter & Statutes and the Financial Memorandum with the 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 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. This process has been in place during the year ended 31 July 2005 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

- We meet three times a year to consider the plans and strategic direction of the institution.
- We receive periodic reports from the Audit Committee concerning internal control, and we require 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 Executive Committee is responsible for oversight of risk management and the Audit Committee for keeping under review the effectiveness of risk management, control and governance arrangements
- An organisation-wide risk register is now maintained.

- A system of key performance and risk indicators has been developed.
- A risk prioritisation methodology based on risk ranking and cost-benefit analysis has been established.
- There is regular review of the Risk Register, involving the senior members of staff with responsibility for the relevant areas, to identify and keep up to date the record of risks facing the organization.
- Training for managers with responsibility for areas involving high-level risk includes attendance at relevant courses, seminars and workshops arranged by external providers.
- An annual review conducted by the Senior Management Team, in consultation with the managers responsible for areas where high-level risks are identified, is presented in written form to the Executive Committee of RCM Council for detailed discussion, and reported to Council.

Our review of the effectiveness of the system of internal control is informed by the reports of the internal auditors, Pritchard Wood, who operate to standards defined in the HEFCE Audit Code of Practice. The internal auditors submit regular reports, which include their opinion on the adequacy and effectiveness of the institution's system of internal control, with recommendations for improvement.

Pritchard Wood are the Royal College of Music Internal Auditors. The HEFCE Assurance Service last carried out a review of the College's corporate governance arrangements in January 2004 and concluded that they provided a 'high level of assurance'.

Our review of the effectiveness of the system of internal control is also informed by the work of the senior management team 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.

DISABILITY STATEMENT

The College is committed to its equal opportunities policy. As a leading British conservatoire, it aims to provide musical education and professional training at the highest international level to meet the aspirations of as many as possible of those who it deems to have the ability and motivation to benefit. Students are recruited on the basis of their musical merits, abilities and potential.

The Royal College of Music aims to ensure that no student, member of staff or visitor to performances and other events is subjected to unfair discrimination.

The College has a disability statement that is intended to provide information to prospective students, current students and staff of the College about its arrangements to support students with disabilities. It is hoped it will also prove of use to external agencies.

CUC GOVERNANCE CODE OF PRACTICE

The RCM Council agreed to adopt the *Committee of University Chairmen Governance Code of Practice* within the next twelve months at its meeting on 13 July 2005. Council discussed the Code further at its annual Residential meeting on 6/7 October 2005. At that meeting it adopted a *Statement of Primary Responsibilities*. In almost all respects, existing RCM governance practice is already consistent with the Code and remaining areas of compliance will be addressed positively during 2005/06. Areas of non-compliance are in areas where most higher education institutions (HEIs) are currently non-compliant, ie:

- External publicity of Council vacancies
- Need for a written job specification for the Chairman of Council
- Need for regular reviews of authority delegated to the Director and management
- Need for effectiveness reviews of the academic board (Board of Professors) and its committees
- Development of key performance indicators (KPIs)
- External publication of the results of effectiveness reviews and of annual performance against KPIs

STATEMENT OF PRIMARY RESPONSIBILITIES

The Council is responsible for:

- Approving the mission and strategic vision of the College, long-term business plans, key performance indicators (KPIs) and annual budgets, and ensuring that these meet the interests of stakeholders
- Appointing the Director and putting in place suitable arrangements for monitoring his/her performance
- Ensuring the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, clear procedures for handling internal grievances and for managing conflicts of interest
- Monitoring institutional performance against plans and approved KPIs, which are, where possible and appropriate, benchmarked against other institutions.

Sir Anthony Cleaver

Chairman



Colin Lawson

Director



INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF THE ROYAL COLLEGE OF MUSIC

We have audited the financial accounts of the Royal College of Music for the year ended 31 July 2005, which comprise the income and expenditure account, the balance sheet, the cashflow statement, the statement of total recognised gains and losses and the related notes.

These financial accounts were prepared under the historic cost convention, as modified by the revaluation of certain fixed assets, and the accounting policies set out therein.

This report is made solely to the Council members, as a body. Our audit work has been undertaken so that we might state to the Council members those matters we are required to state to them 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 Royal College of Music and the Council members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Council and auditors

As described in the statement of Corporate Governance, Council is responsible for the preparation of the financial accounts in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial accounts give a true and fair view. We also report to you whether, in our opinion monies expended out of funds from whatever source administered by the College for specific purposes were properly applied for those purposes and where relevant managed in accordance with appropriate legislation and whether monies expended out of funds provided by the Higher Education Funding Council were applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

We also report to you if, in our opinion, the Treasurer's Report is not consistent with the financial accounts, if 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 and Corporate Governance Statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it the financial statements. Our responsibilities do not extend to any information outside the Treasurer's Report and Corporate Governance Statement.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 accounts, 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 which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial accounts 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 accounts.

Opinion

In our opinion:

- The financial accounts give a true and fair view of the state of affairs of the Royal College of Music and the group at 31 July 2005, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the Royal College of Music and the group for the year then ended; and the accounts have been properly prepared in accordance with the Statement of Recommended Practice on Accounting in Higher Education Institutions and with the College's Royal Charter.
- In all material respects, income from the Higher Education Funding Council for England and income for specific purposes and from other restricted funds administered by the Royal College of Music have been applied only for the purposes for which they were received.
- In all material respects, income has been applied in accordance with the Royal College of Music's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England dated 1 October 2003.

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors, Hemel Hempstead, England

21st December 2005

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention as modified by the revaluation of endowment asset investments, musical instruments and certain land and buildings for which a cost is not readily ascertainable, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education, published in July 2003, and guidance published by the Higher Education Funding Council for England (HEFCE).

2. BASIS OF CONSOLIDATION

The consolidated accounts consist of the accounts of the College and its subsidiary undertaking, RCM Development Fund Limited, for the financial year to 31 July 2005.

3. STUDENTS' ASSOCIATION

In accordance with FRS 2, the accounts do not include those of the Royal College of Music Students' Association as it is a separate legal entity in which the College has no financial interest and no control or significant influence over policy decisions.

4. RECOGNITION OF INCOME

Grants received from HEFCE during the year have been included in income for the year unless specifically designated. Amounts applied to capital expenditure are included in a separate capital reserve.

Grants received for specific purposes are released to income as the related expenditure is incurred. Unspent grants are treated as deferred income.

All income from short term deposits and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Donations, bequests or gifts with no specific terms attached to its use, are recorded as income in the income and expenditure account. The expenditure incurred using these donations, bequests or gifts is accounted for in the period when it is incurred as either capital or revenue expenditure depending on the nature of the expenditure.

5. PENSION SCHEMES

The three pension schemes for the College's staff are the Teachers' Pension Scheme (TPS), the Universities Superannuation Scheme Limited (USS) and the Royal College of Music Pension and Assurance Scheme (RCM Pension Scheme). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Earnings Related Pension Scheme. Pension costs for the RCM Pension Scheme are assessed on the latest actuarial valuation and are accounted for on the basis of charging the cost of providing pensions over the period during which the College benefits from employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of members of the RCM Pension Scheme. A formal valuation of the RCM Pension Scheme has been performed. The shortfall will be spread over a ten-year period. The Government Actuary reviews the pension costs of the TPS at regular intervals. Further details relating to the Pension Schemes, including analysis relating to FRS 17, are held within Note 25.

6. TANGIBLE ASSETS

a. Land and buildings

Land and buildings are stated at cost. Freehold buildings are depreciated over their expected useful lives of 50 years and leasehold land and buildings are amortised over 50 years, or, if shorter, the period of the lease. Building improvements are depreciated over their expected useful lives of 20 years. Land is not depreciated.

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 are released to income over the expected useful life of the buildings.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Work on planned future construction projects is expensed during the preparatory phase but is capitalised in accordance with FRS 15 when a decision is taken to proceed with the project.

b. Musical Instruments

Musical instruments have been valued either at their estimated current cost for assets in their condition at 31 July 1998 or at cost for subsequent additions. The differences on valuation have been credited to a revaluation reserve to be released over the estimated remaining life of the instruments. These assets are depreciated over periods ranging from 10 to 20 years.

c. Furniture & Equipment

Equipment costing less than £500 per individual item is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its useful economic life as follows:

General equipment, furniture and fittings	–	5 years
Computer and recording equipment	–	4 years

A review for impairment of a tangible asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

7. LIBRARY AND MUSEUM

The College holds a wealth of reference material in the RCM library (over 250,000 items ranging from 16th Century printed music to CD-ROMs) and the Museum of Instruments consists of an internationally renowned collection of musical instruments and associated documentation. Portraits and performance archives are held in the Department of Portraits & Performance History.

As the College holds these collections inalienably and many items are irreplaceable, no valuation is placed on these collections in the accounts.

8. HERITABLE PROPERTY

In addition to the museum's collection of instruments, the College has a number of instruments that may be made available to musicians within the College and the profession. These instruments have been classified as "heritable property" within Investments, and have been included at their insurance valuation (the nearest approximation to open market value) of £1,334,000. The transitional rules set out in FRS15 Tangible Fixed Assets have been applied on implementing FRS15. Accordingly, the book values at implementation have been retained. They are not depreciated and are in general maintained in their original condition.

9. INVESTMENTS

Endowment asset investments are included in the balance sheet at market value.

10. MAINTENANCE OF PREMISES

The College has a three-year rolling maintenance plan that is reviewed on an annual basis. The cost of maintenance is charged to the income and expenditure account as incurred.

11. TAXATION STATUS

The College is a registered 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 (ICTA) 1988. 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 Charitable 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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

12. FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

13. LEASED ASSETS

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

14. LIQUID RESOURCES

Cash held on deposit.

Royal College of Music

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT for the year ended 31 July 2005

	Notes	Consolidated and College	
		2005	(restated) 2004
		£	£
INCOME			
Funding council grants	1	4,596,466	4,241,124
Academic fees and support grants	2	3,882,567	3,510,107
Research grants	3	230,413	350,905
Other operating income	4	2,859,924	2,352,109
Endowment income and interest receivable	5	1,571,399	1,494,219
Total income		13,140,769	11,948,464
EXPENDITURE			
Staff costs	8	7,060,431	6,854,069
Exceptional restructuring costs	8	72,595	403,286
Depreciation	9	765,967	797,710
Other operating expenses	10	4,950,511	3,964,989
Interest payable	11	311,905	337,389
		13,161,409	12,357,443
Deficit on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax.		(20,640)	(408,979)
Transfer from accumulated revenue within specific endowments	20	(355,243)	(211,288)
Transfer to accumulated revenue within general endowments	20	427,212	-
Surplus/(deficit) for year retained within general reserves	22	51,329	(620,267)

The income and expenditure account is in respect of continuing activities. The comparative figures for the year ended 2004 have been restated to reflect a prior year adjustment: details of the adjustment are shown in note 22.

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS for the year ended 31 July 2005

		2005	(restated) 2004
		£	£
Reported surplus/(deficit) after depreciation and tax		51,329	(620,267)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	22	258,976	298,387
Historical cost surplus/(deficit) before tax		310,305	(321,880)
Historical cost surplus/(deficit) after tax		310,305	(321,880)

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2005

	Consolidated	
	2005 £	(restated) 2004 £
Surplus/(deficit) after depreciation and tax	51,329	(620,267)
New endowments	651,208	1,777,254
Increase in value of endowment asset investments	3,843,128	762,673
Transfer of endowment funds to income	(71,969)	211,285
Revaluation reserve release on disposal	(27,000)	-
Total recognised gains relating to the year	4,446,696	2,130,945
Prior year adjustment (as noted in note 22)	(212,943)	
Prior year adjustment to amortisation of deferred capital grants	(807,766)	
Transfer from Deferred capital to revaluation reserve	1,334,000	
Total gains and losses recognised since last annual report	4,759,987	
Reconciliation:		
Opening reserves and endowments	30,829,513	28,172,334
Total recognised gains relating to the year	4,446,696	2,130,945
Prior year adjustment to amortisation of deferred capital grants	-	(807,766)
Transfer from deferred capital to revaluation reserve	-	1,334,000
Closing reserves and endowments	35,276,208	30,829,513

The total recognised gains for 2004 have been restated as a result of a prior year adjustment which is described in note 22. The effect of the prior year adjustment is to reduce the total gain for the year by £212,943.

Royal College of Music

BALANCE SHEET as at 31 July 2005

	Notes	2005 £	Consolidated (restated) 2004 £	2005 £	College (restated) 2004 £
FIXED ASSETS					
Tangible assets	12	15,364,649	15,296,036	15,364,649	15,296,036
Investments	13	1,334,000	1,334,000	1,334,100	1,334,100
		<u>16,698,649</u>	<u>16,630,036</u>	<u>16,698,749</u>	<u>16,630,136</u>
ENDOWMENT ASSETS					
Investments	14	26,717,796	21,042,448	26,717,796	21,042,448
Other endowment assets	15	672,455	1,925,437	672,455	1,925,437
		<u>27,390,251</u>	<u>22,967,885</u>	<u>27,390,251</u>	<u>22,967,885</u>
CURRENT ASSETS					
Debtors	16	688,922	659,040	688,922	653,248
Cash at bank and in hand		300,747	82,712	300,747	82,712
Cash on deposit		839,586	1,012,999	839,586	1,012,999
		<u>1,829,255</u>	<u>1,754,751</u>	<u>1,829,255</u>	<u>1,748,959</u>
CREDITORS: amounts falling due within one year	17	<u>(2,609,639)</u>	<u>(2,950,984)</u>	<u>(2,615,433)</u>	<u>(2,950,986)</u>
NET CURRENT LIABILITIES		<u>(780,384)</u>	<u>(1,196,233)</u>	<u>(786,178)</u>	<u>(1,202,027)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>43,308,516</u>	<u>38,401,688</u>	<u>43,302,822</u>	<u>38,395,994</u>
CREDITORS: amounts falling due after more than one year	18	<u>(2,600,000)</u>	<u>(2,800,000)</u>	<u>(2,600,000)</u>	<u>(2,800,000)</u>
TOTAL NET ASSETS		<u><u>40,708,516</u></u>	<u><u>35,601,688</u></u>	<u><u>40,702,822</u></u>	<u><u>35,595,994</u></u>

Royal College of Music

BALANCE SHEET as at 31 July 2005

	Notes	2005 £	Consolidated (restated) 2004 £	2005 £	College (restated) 2004 £
DEFERRED CAPITAL GRANTS	19	5,432,308	4,772,175	5,432,308	4,772,175
ENDOWMENTS					
Specific	20	17,129,151	14,623,968	17,129,151	14,623,968
General	20	10,261,100	8,343,917	10,261,100	8,343,917
		<u>27,390,251</u>	<u>22,967,885</u>	<u>27,390,251</u>	<u>22,967,885</u>
RESERVES					
Revaluation reserve	21	7,596,502	7,882,478	7,596,502	7,882,478
Accumulated revenue reserve	22	289,455	(20,850)	283,761	(26,544)
		<u>7,885,957</u>	<u>7,861,628</u>	<u>7,880,263</u>	<u>7,855,934</u>
ENDOWMENTS AND RESERVES		<u>35,276,208</u>	<u>30,829,513</u>	<u>35,270,514</u>	<u>30,823,819</u>
TOTAL		<u><u>40,708,516</u></u>	<u><u>35,601,688</u></u>	<u><u>40,702,822</u></u>	<u><u>35,595,994</u></u>

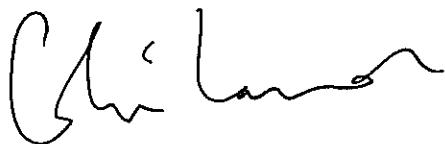
Approved by Council on 30 November 2005 and signed on its behalf by:

Sir Anthony Cleaver



Chairman

Dr Colin Lawson



Director

Royal College of Music

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 July 2005

	Notes	2005 £	(restated) 2004 £
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	23	(1,115,292)	(388,192)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Income from endowments	5	1,510,843	1,447,311
Other interest received	5	60,556	46,908
Interest paid	11	(311,905)	(337,389)
		<u>1,259,494</u>	<u>1,156,830</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire endowment asset investments	14	(7,824,730)	(8,410,612)
Realisation of endowment asset investments	14	6,115,642	6,378,750
Payments to acquire tangible fixed assets	12	(865,225)	(617,482)
Receipts from sale of fixed assets		17,502	-
Capital grants received		1,051,248	799,010
Endowments received		651,207	1,777,254
		<u>(854,356)</u>	<u>(73,080)</u>
MANAGEMENT OF LIQUID RESOURCES			
Amounts released from/(placed on) deposit		173,413	(1,012,999)
FINANCING			
Repayments of amounts borrowed		(200,000)	(200,000)
CASH MOVEMENT	24	<u>(736,741)</u>	<u>(517,441)</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

1. FUNDING COUNCIL GRANTS

The funding body, the Higher Education Funding Council for England (HEFCE), provided grants for the following purposes:

	Consolidated and College	
	2005	2004
	£	£
Recurrent grant	3,889,377	3,740,369
HR Strategy	156,145	141,863
Inherited staff liabilities claim	70,000	72,213
Reach Out to Business & the Community	165,788	104,000
Conservatoire UCAS Admission System for Music	201,012	33,052
Good Management Practice	26,198	1,876
Summer school	21,000	28,350
Teaching Quality Enhancement Fund	35,598	18,775
Improving Provision for Disabled Students (SLDD)	25,611	22,601
Teachers Pension Scheme	-	70,365
Active Community Fund	5,737	7,660
	<u>4,596,466</u>	<u>4,241,124</u>

2. ACADEMIC FEES AND SUPPORT GRANTS

	Consolidated and College	
	2005	2004
	£	£
Full-time students	686,959	714,993
UK higher education students	351,675	260,929
European Union (EU) (excluding UK) students	1,882,930	1,581,846
Non-EU students	77,099	103,436
Other	883,904	848,903
Junior Department fees (all UK)		
	<u>3,882,567</u>	<u>3,510,107</u>

Academic fees include an amount of £636,564 (2004: £606,564) which has been met by scholarships awarded by the College. The cost of providing these scholarships is included in other operating expenses (see note 10)

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

3. RESEARCH GRANTS	Notes	Consolidated and College	
		2005	2004
		£	£
HEFCE		211,463	325,725
Arts and Humanities Research Board		18,950	25,180
		230,413	350,905

4. OTHER OPERATING INCOME		Consolidated and College	
		2005	(restated) 2004
		£	£
Other grant income		366,629	184,898
Catering and residences		754,107	689,421
Other services rendered		260,511	275,154
Profit on sale of fixed assets		13,857	-
Released from deferred capital grants	19,22	391,115	231,365
Other income		1,073,705	971,271
		2,859,924	2,352,109

5. ENDOWMENT INCOME AND INTEREST RECEIVABLE		Consolidated and College	
		2005	(restated) 2004
		£	£
Income from specific endowments		1,100,579	1,117,460
Income from general endowment		410,264	329,851
Other interest receivable		60,556	46,908
		1,571,399	1,494,219

The endowment income for the year to 31 July 2004 has been re-stated to show the full amount of endowment income arising in the year. In 2003/04 accounts, income from endowments reflected only the income released in the year and the balance of this income was included in endowments.

6. DIRECTOR'S EMOLUMENTS		Consolidated and College	
		2005	2004
		£	£
Salary		128,458	117,199
Benefits in kind		1,350	1,142
Pension contributions		15,427	14,107
Total emoluments		145,235	132,448

The previous Director received a pay increase which included the increase for 2004. This consisted of a basic pay award of 3% with effect from 1 October 2004 and an award for 2004 of 3.5% with effect from 3 November 2003. Included within Director's emoluments are two months salary for the current Director.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

7. REMUNERATION OF HIGHER PAID STAFF

The number of staff, including the Director, who received remuneration in the following ranges was:

	Consolidated and College	
	2005 Number	2004 Number
£70,001 - £80,000	2	3
£80,001 - £90,000	2	1
£130,001 - £140,000	-	1
£140,001 - £150,000	1	-
	<u>5</u>	<u>5</u>

8. STAFF COSTS

	Consolidated and College	
	2005 £	2004 £
Wages and salaries	6,232,281	6,279,970
Social security costs	426,767	396,599
Pension costs	473,978	580,786
	<u>7,133,026</u>	<u>7,257,355</u>

STAFF COSTS BY DEPARTMENT

	2005 FTE Number	2004 FTE Number	2005 £	2004 £
Teaching departments	70	74	3,599,852	3,531,069
Teaching support services	37	33	1,092,152	1,130,000
Administration and central services	46	42	2,036,994	1,902,000
Premises	13	11	331,433	291,000
Exceptional staff restructuring	-	-	72,595	403,286
	<u>166</u>	<u>160</u>	<u>7,133,026</u>	<u>7,257,355</u>

The members of Council other than the Director and the staff members did not receive payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.

A general pay award of 3 % on pay scales and 3.5 % on London Weighting was made with effect from 1 August 2004, approved by the Council.

9. DEPRECIATION

The depreciation charge has been funded by:

		Consolidated and College	
		2005 £	(restated) 2004 £
Deferred capital grants released (note 19)	22	391,115	231,365
Released from revaluation reserve (note 21)		258,976	298,387
Financed internally	22	115,876	267,958
		<u>765,967</u>	<u>797,710</u>

The analysis of the depreciation charge for the year ended 31 July 2004 has been re-stated to show the correct allocation of the charge in that year between deferred capital grants, the revaluation reserve and depreciation financed internally.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

10. OTHER OPERATING EXPENSES

	Consolidated and College	
	2005	2004
	£	£
Catering operating expenses	230,708	262,887
Academic departments	901,513	521,044
Learning resources	173,122	160,244
Scholarships, prizes and grants	908,189	906,172
Heat, light, water and power	136,859	128,689
Repairs and general maintenance	409,761	438,965
Construction project preparation phase (excludes staff costs)	489,507	-
Grant to RCM Students' Association	22,770	22,270
Auditors' remuneration - external auditors	24,088	31,114
Auditors' remuneration - internal audits	21,702	22,430
Auditors' remuneration - non-audit related fees	-	20,000
Other expenses	1,610,971	1,416,615
Bad debts	21,321	34,559
	<hr/>	<hr/>
Total	4,950,511	3,964,989
	<hr/>	<hr/>

11. INTEREST PAYABLE

	Consolidated and College	
	2005	2004
	£	£
Loans not wholly repayable within five years	311,905	337,389
	<hr/>	<hr/>

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

12. TANGIBLE ASSETS

	Land and buildings		Furniture & Equipment £	Consolidated and College	
	Freehold £	Leasehold £		Musical Instruments £	Total £
At 1 August 2004	3,835,720	10,712,275	769,283	4,350,625	19,667,903
Additions	286,377	168,855	362,706	47,287	865,225
Disposals	-	-	(5,880)	(45,000)	(50,880)
At 31 July 2005	4,122,097	10,881,130	1,126,109	4,352,912	20,482,248
Depreciation					
At 1 August 2004	405,672	1,674,648	455,334	1,836,213	4,371,867
Provided during the year	87,965	265,156	170,544	242,302	765,967
Disposals	-	-	(2,235)	(18,000)	(20,235)
At 31 July 2005	493,637	1,939,804	623,643	2,060,515	5,117,599
Net book value at 31 July 2005	3,628,460	8,941,326	502,466	2,292,397	15,364,649
Net book value at 1 August 2004	3,430,048	9,037,627	313,949	2,514,412	15,296,036

The leasehold land and buildings relate to the College's main site in Prince Consort Road, London. The property is held on a 999 year lease which is non-assignable. In the event that the College ceases to operate in accordance with the Royal Charter the property reverts to the landlord. The freehold land and buildings comprise the College's Halls of residence and a residential property in London. They are stated in the accounts at cost less depreciation.

In accordance with the transitional rules set out in FRS15 "Tangible Fixed Assets", the book values of the leasehold property and the musical instruments were retained on implementation.

The leasehold land and buildings were valued at 31 July 1991 by Wilks, Head and Eve, Chartered Surveyors. Subsequent additions have been included at cost.

Musical instruments have been included in the accounts at an insurance valuation as at 31 July 1998 by an independent valuer, Charles Beare of J & A Beare Ltd, Dealers, Restorers and Makers of Stringed Instruments, or valuation for subsequent additions.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

13. FIXED ASSET INVESTMENTS

	Consolidated		College	
	2005 £	2004 £	2005 £	2004 £
Investment in subsidiary company	-	-	100	100
Heritable property	1,334,000	1,334,000	1,334,000	1,334,000
Total	<u>1,334,000</u>	<u>1,334,000</u>	<u>1,334,100</u>	<u>1,334,100</u>

The College owns 100% of the issued share capital of 100 ordinary £ 1 shares of RCM Development Fund Limited, a company registered in England and operating in the UK, whose principal activity was to raise funds for the College and which is now a dormant company.

Heritable property represents significant musical instruments gifted to the College which are made available for dedicated use by musicians from the College and from the profession. They have been included in the accounts at an insurance valuation as at 31 July 1998 by an independent valuer, Charles Beare of J & A Beare Ltd, Dealers, Restorers and Makers of Stringed Instruments, or valuation for subsequent additions.

14. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College	
	2005 £	2004 £
Balance at 1 August 2004	21,042,448	17,547,047
Additions	7,824,730	8,410,612
Proceeds on disposals	(6,115,642)	(6,378,750)
Net gains on revaluation	3,843,128	762,672
Movements on cash	123,132	700,867
Balance at 31 July 2005	<u>26,717,796</u>	<u>21,042,448</u>

Investments held are analysed as follows:

	Consolidated and College	
	2005 £	2004 £
Fixed interest stocks (listed)	6,138,821	4,246,456
Equities (listed) and unit trusts	19,185,973	15,526,122
Cash held by investment managers	1,393,002	1,269,870
Total	<u>26,717,796</u>	<u>21,042,448</u>

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

15. OTHER ENDOWMENT ASSETS

	Consolidated		College	
	2005 £	2004 £	2005 £	2004 £
Other bank balances	897,614	1,975,522	897,614	1,975,522
Debtors	49,625	-	49,625	-
Creditors	(274,784)	(50,085)	(274,784)	(50,085)
Total	672,455	1,925,437	672,455	1,925,437

16. DEBTORS

	Consolidated (restated)		College (restated)	
	2005 £	2004 £	2005 £	2004 £
Amounts falling due within one year:				
Debtors	512,542	450,804	512,542	471,080
Prepayments and accrued income	176,380	208,236	176,380	182,168
Total	688,922	659,040	688,922	653,248

17. CREDITORS: amounts falling due within one year

	Consolidated		College	
	2005 £	2004 £	2005 £	2004 £
Bank loans and overdrafts	200,000	200,000	200,000	200,000
Creditors	606,766	726,575	612,560	726,577
Social security and other taxation payable	177,153	160,352	177,153	160,352
Accruals	1,158,599	1,347,067	1,158,599	1,347,067
Deferred income	467,121	516,990	467,121	516,990
Total	2,609,639	2,950,984	2,615,433	2,950,986

18. CREDITORS: amounts falling due after more than one year

	Consolidated and College	
	2005 £	2004 £
Bank loan	2,600,000	2,800,000
Due within 1-2 years	200,000	200,000
due 2-5 years	600,000	600,000
due after more than 5 years	1,800,000	2,000,000
	2,600,000	2,800,000

The bank loan is repayable in annual instalments of £200,000 from June 2000 to June 2019. Interest on the bank loan is charged at a fixed rate of 10.5% per annum. Secured on freehold property..

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

19. DEFERRED CAPITAL GRANTS

		HEFCE £	College and Consolidated Private funding £	Total £
At 1 August 2004		893,086	4,192,382	5,085,468
Prior year adjustment	22	-	807,766	807,766
Prior year adjustment	9	-	212,941	212,941
Prior year adjustment	21	-	(1,334,000)	(1,334,000)
Adjusted balance 1 August 2004		893,086	3,879,089	4,772,175
Cash received		92,590	958,658	1,051,248
Released to income and expenditure	4	(94,560)	(296,555)	(391,115)
Balance at 31 July 2005		891,116	4,541,192	5,432,308

20. ENDOWMENTS

		Specific £	College and Consolidated General £	Total £
Balance reported 1 August 2004		14,623,968	8,369,988	22,993,956
Accounting policy change		-	(26,071)	(26,071)
Adjusted balance 1 August 2004		14,623,968	8,343,917	22,967,885
Transfer Professors' Gratuity and Director's Trust Fund from specific to general funds		(833,506)	833,506	-
New endowments		636,296	14,911	651,207
Gains/(losses) in market value of investments	14	2,347,150	1,495,978	3,843,128
Capital Movements		2,149,940	2,344,395	4,494,335
Income for year		1,250,954	410,264	1,661,218
Transferred to income and expenditure account		(895,711)	(837,476)	(1,733,187)
Transfer from / (to) accumulated revenue		355,243	(427,212)	(71,969)
Balance at 31 July 2005		17,129,151	10,261,100	27,390,251

The Income and Expenditure Account includes income from specific endowments and the amounts paid out as scholarships; the amount not used for scholarships (£355,243) is shown as a transfer to specific endowments.

The Income and Expenditure Account also includes income for general endowments and the amounts paid out in the year for preparatory works for a possible major building project. £427,212 was transferred from general endowments to meet the portion of these specific costs not covered by income designated for this purpose.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

21. REVALUATION RESERVE

	Notes	Land and buildings £	Consolidated and College Musical instruments £	Total £
Revaluation:				
Balance reported 1 August 2004		5,469,465	2,546,973	8,016,438
Prior year adjustment	19		1,334,000	1,334,000
Adjusted balance 1 August 2004		5,469,465	3,880,973	9,350,438
Assets sold		-	(45,000)	(45,000)
At 31 July 2005		5,469,465	3,835,973	9,305,438
Contributions to depreciation:				
At 1 August 2004		600,825	867,135	1,467,960
Released in year	9	142,003	116,973	258,976
Disposals		-	(18,000)	(18,000)
		742,828	966,108	1,708,936
Net revaluation amount:				
At 31 July 2005		4,726,637	2,869,865	7,596,502
At 1 August 2004		4,868,640	1,679,838	6,548,478
Adjusted balance 1 August 2004		4,868,640	3,013,838	7,882,478

A prior year adjustment has been made to transfer the carrying value of musical instruments held as fixed asset investments from deferred capital grants to revaluation reserve. The transfer is required because instruments are not depreciated.

22. ACCUMULATED REVENUE RESERVE

	Consolidated		College	
	2005 £	2004 £	2005 £	2004 £
Balance reported 1 August 2004	(20,850)	1,108,796	(26,544)	1,103,102
Prior year adjustment		(807,766)		(807,766)
Adjusted balance 1 August 2004	(20,850)	301,030	(26,544)	295,336
Surplus/(deficit) from income and expenditure account	51,329	(620,267)	51,329	(620,267)
Release from revaluation reserve (note 21)	258,976	298,387	258,976	298,387
At 31 July 2005	289,455	(20,850)	283,761	(26,544)

The balance on the accumulated revenue reserve at 1 August 2004 has been restated as a result of a prior year adjustment. The adjustment is necessary because in prior years depreciation which should have been funded from revenue reserves has been funded from the deferred capital grant account (note 19). The impact of the adjustment is to increase the deficit previously reported for 2003/04 by £212,943 and reduce accumulated revenue reserves brought forward at 1 August 2004 by £807,766. A corresponding increase of £1,020,709 has been made to the balance on the deferred capital grant account and this will be available to offset the depreciation charge in future years.

Additionally an accounting policy change, has reduced the deficit previously reported for 2003/04 by £26,071 and reduced general endowments (note 20) as at 1 August 2004 by £26,071.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

23. RECONCILIATION OF OPERATING DEFICIT TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Notes	2005 £	(restated) 2004 £
Deficit before net transfer from endowments		(20,639)	(408,979)
Depreciation		765,967	797,710
(Profit)/loss on the sale of fixed assets	4	(13,857)	-
Deferred capital grants released to income	4	(391,115)	(231,365)
Investment income and interest receivable	5	(1,571,399)	(1,494,219)
Interest payable	11	311,905	337,389
(Increase)/decrease in debtors		(79,509)	(349,338)
Increase/(decrease) in creditors		(116,645)	960,610
		<u>(1,115,292)</u>	<u>(388,192)</u>
Net cash outflow in the year from operating activities			

24. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2004	Cashflows	Other Changes	At 31 July 2005
<u>Cash</u>				
Endowment assets				
Balances at investment managers	1,269,870	123,132	-	1,393,002
Other balances	1,975,522	(1,077,908)	-	897,614
Cash at bank and in hand	82,712	218,035	-	300,747
	<u>3,328,104</u>	<u>(736,741)</u>	<u>-</u>	<u>2,591,363</u>
<u>Financing</u>				
Due within one year	(200,000)	200,000	(200,000)	(200,000)
Due after one year	(2,800,000)	-	200,000	(2,600,000)
Current Assets Investments	1,012,999	(173,413)	-	839,586
	<u>1,341,103</u>	<u>(710,154)</u>	<u>-</u>	<u>630,949</u>

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

25. PENSION SCHEMES

The College contributes towards Royal College of Music Pension and Assurance Scheme formerly The Royal College of Music Scheme managed by Legal and General (L&G), the Teachers' Pension Scheme (TPS) and the Universities Superannuation Scheme Limited (USS).

As at 31 July 2005, the College had employees participating in the Royal College of Music Pension and Assurance Scheme, employees in TPS and one member of staff in USS.

THE TEACHERS' PENSION SCHEME (TPS)

Introduction

The Teachers' Pension Scheme (TPS) is a statutory, contributory, final salary scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 1997, as amended. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local education authorities and also to teachers in many independent and voluntary-aided schools and establishments of further and higher education. Teachers are able to opt out of the TPS.

The Teachers' Pension Account

Although teachers are employed by LEAs and various other bodies, their retirement and other superannuation benefits, including annual increases payable under the Pensions (Increase) Acts, are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the TPS, which is an unfunded scheme, teachers' contributions, on a 'pay-as-you-go' basis, and employers' contributions are credited to the Exchequer under arrangements governed by the above Act.

The Teachers' Pensions Regulations require an annual account, the Teachers' Pension Account, to be kept of receipts and expenditure (including the cost of pensions increases). With effect from 1 April 2001, the Account will be credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Valuation of the Teachers' Pension Scheme

Not less than every five years, the Government Actuary (GA), using normal actuarial principles, conducts an actuarial review of the TPS. The aim of the review is to specify the level of future contributions. The actuarial review as at 31 March 2001 made the following assumptions. The balance in the Account as at 31 March 2001 shall be such that, in the current review, the value of the scheme assets equals the value of the scheme liabilities. The scheme assets consist of the notional investments and the future contributions in respect of existing members. Thus, the balance in the Account as at 31 March 2001 will be determined as the difference between the value of the scheme liabilities and the value of future contributions.

Contributions are assessed in two parts. First, a normal contribution is determined. This is the contribution, expressed as a percentage of the salary of a teacher newly entering service, which would defray the cost of benefits payable in respect of that service. Currently, teachers pay 6% of salary whilst their employers pay the balance of the normal contribution. Secondly, a supplementary contribution is payable by employers if, as a result of the actuarial investigation, it is found that the accumulated liabilities of the Account for benefits to past and present teachers are not fully covered by normal contributions to be paid in future and by the fund built up from past contributions. Because the liabilities were put into balance for the 2001 valuation there is no supplementary contribution. From 1 April 2003, employers pay 13.5% of salary.

The last valuation of the TPS was for the period 1 April 1996 - 31 March 2001. The GA's report of March 2003 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £142,880 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £142,880 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 7%.

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NOTES TO THE ACCOUNTS for the year ended 31 July 2005

A copy of the report can be found on the Department for Education and Skills' website at www.dfes.gov.uk/insidedfes/report.shtml

UNIVERSITIES SUPERANNUATION SCHEME (USS)

The College participates in the Universities Superannuation Scheme (USS), a defined benefit scheme, which is externally funded and contracted out of the State Second Pension (S2P). During 2004/05 there was only one employee who was a member of this scheme who commenced his employment at the College in June 2005.

The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify the College's share of the underlying assets and liabilities of the scheme and hence, using the exemption under FRS 17, contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. The valuation was carried out using the projected unit method.

Latest actuarial valuations Actuarial method	31 March 2002 Projected-Unit Method	
	<i>Past Service Liabilities</i>	<i>Future Service Liabilities</i>
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		£19,938m
Value of past service liabilities		£19,776m
Surplus of assets		£162m
Proportion of Member's Accrued Benefits Covered By the Actuarial Value of the Assets		101%

The College's contribution rate required for future service benefits at the date of the valuation was 14.25% of salaries but it was agreed that the College's 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 the 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.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed but the results are not yet available.

The total pension cost for the College was £3,250 (£3,180 – 2004). The contribution rate payable by the College was 14% of pensionable salaries.

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

ROYAL COLLEGE OF MUSIC PENSION AND ASSURANCE SCHEME, formerly The Legal and General (L&G) Scheme

The disclosures given as at 31 July 2002 refer to the former Legal & General Scheme. On 1 October 2002, assets and liabilities were transferred to the Royal College of Music Pension and Assurance Scheme in respect of employees (and former employees) of the Royal College of Music. The figures and disclosures have been produced in accordance with Guidance Note 36: Accounting for Retirement Benefits under Financial Reporting Standard 17 issued by the Institute and Faculty of Actuaries. The information given does not relate to any other retirement benefits provided by the College.

The College's employer contributions were 9.1% as at 1 August 2002. These increased to 11.5% from 1 October 2002 and again increased from 1 July 2003 to 14.9%.

The total contribution made for the year ended 31 July 2005 was as follows:

	Total £	Employers £	Employees £
College	390,105	279,770	110,335

Employers' contributions are affected by a surplus or deficit in the scheme. The agreed contribution rates for future years are:

Year Ending	2004	2005	2006
College	14.9%	14.9%	14.9%
Employees	6.0%	6.0%	6.0%

SSAP 24

The pensions cost is assessed every three years in accordance with the advice of a qualified independent actuary.

A valuation by Legal and General Scheme's actuary was carried out at 1 October 2002 and the assumptions and other data that have the most significant effect on the determination of contribution levels for the Group are as follows:

Latest actuarial valuations	1 October 2002
Actuarial method	Projected Unit
Investment returns per annum	6.5%
Salary scale increases per annum	3.5%
Price inflation / pensions increases per annum	2.5%
Market value of schemes assets	
At date of last valuation	£1.7m
Proportion of member's accrued benefits covered	
By the actuarial value of the assets	67%

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NOTES TO THE ACCOUNTS for the year ended 31 July 2005

FRS 17

The following information is based upon a full actuarial valuation of the fund at 1 October 2002, updated to 31 July 2003 by a qualified independent actuary.

	At 31 July 2005	At 31 July 2004	At 31 July 2003
Inflation	2.70%	2.90%	2.60%
Rate of increase in salaries	3.50%	3.50%	3.50%
Rate of increase for pensions	2.70%	2.90%	2.60%
Discount rate for liabilities	5.10%	5.70%	5.70%

The assets and the expected rates of return were:

	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005	Long-term rate of return expected at 31 July 2004	Value at 31 July 2004	Long-term rate of return expected at 31 July 2003	Value at 31 July 2003
		£'000		£'000		£'000
Equities	8.0%	2,428	8.0%	1,757	8.0%	1,510
Bonds	4.7%	1,281	5.3%	960	5.2%	784
Cash	4.75%	68	4.75%	59	3.5%	64
Total market value of assets		3,777		2,776		2,358

	Year Ended 31 July 2005	Year Ended 31 July 2004	Year Ended 31 July 2003
	£'000	£'000	£'000
Market value of assets	3,777	2,776	2,358
Present value of scheme liabilities	5,752	4,400	3,779
Deficit In The Scheme	(1,975)	(1,624)	(1,421)

The market value of assets is based on draft accounts as at 31 July 2005. The value of scheme liabilities is based on the results of the triennial actuarial valuation of the scheme as at 1 October 2002 adjusted to 31 July 2005 and further adjusted to take account of the FRS 17 assumptions above.

The value of liabilities and assets as at 31 July 2002 includes the liabilities in respect of pensioners, which have been secured by the purchase of annuities. These are not included in the assets and liabilities as at 31 July 2003.

Under the transitional arrangements of FRS 17, no provision has been made by the College for the deficit of the scheme. If provision were made, the following entries would be made:

Balance Sheet Presentation	Year Ended 31 July 2005	Year Ended 31 July 2004	Year Ended 31 July 2003
	£'000	£'000	£'000
Net assets excluding FRS 17 pension asset / (liability)	40,709	35,602	32,903
Net pension asset/ (liability)	(1,975)	(1,624)	(1,421)

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

Net assets including FRS 17 pensions asset/ (liability)	38,734	33,978	31,482
	<hr/>	<hr/>	<hr/>
Reserves Note			
	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000	Year Ended 31 July 2003 £'000
Accumulated revenue reserve	289	(21)	1,109
FRS 17 pension asset (liability)			
Pension reserve	(1,975)	(1,624)	(1,421)
	<hr/>	<hr/>	<hr/>
Accumulated revenue reserve including FRS 17 pension asset / (liability)	(1,686)	(1,645)	(312)
	<hr/>	<hr/>	<hr/>

Under the transitional arrangements of FRS 17, the College pension charge for the year calculated under FRS 17 assumptions is not included in the financial statements (as this is currently calculated on a SSAP 24 basis). If the charge had been included on an FRS 17 basis, the following entries would be made.

Analysis of the amount charged to income and expenditure account

	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Service cost	232	216
Past service cost	120	0
	<hr/>	<hr/>
Total Operating Charge	352	216
	<hr/>	<hr/>

Analysis of net return on pension return

	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Expected return on pension scheme assets	205	171
Interest on pension liabilities	(257)	(222)
	<hr/>	<hr/>
Net return	(52)	(51)
	<hr/>	<hr/>

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

Amount recognised in the statement of total recognised gains and losses (STRGL)

	Year Ended	Year Ended
	31 July 2005	31 July 2004
	£'000	£'000
Actual return less expected return on pension scheme assets	395	(126)
Experience gains and losses arising on the scheme liabilities	46	4
Changes in financial and demographic assumptions underlying the present value of liabilities	(774)	(121)
	<u> </u>	<u> </u>
Actuarial loss to be recognised in STRGL	(333)	(243)
	<u> </u>	<u> </u>

Movement In Deficit During The Year

	Year Ended	Year Ended
	31 July 2005	31 July 2004
	£'000	£'000
Deficit in scheme at 1 August	(1,624)	(1,421)
Movement in year:		
Current service charge	(232)	(216)
Contributions	386	307
Past service costs	(120)	(0)
Net interest / return on assets	(52)	(51)
Actuarial gain or loss	(333)	(243)
	<u> </u>	<u> </u>
Deficit In Scheme At 31 July	(1,975)	(1,624)
	<u> </u>	<u> </u>

History Of Experience Gains And Losses (In Practice, From 2006, 5 Years Must Be Shown)

	2005	2004	2003
Difference between the expected and actual return on assets	395	(126)	(120)
% Of scheme assets	10.6%	(4.5%)	(5.1%)
Experience gains and losses on scheme liabilities	46	4	(151)
% Of scheme liabilities	0.8%	0.1%	(4.0%)
Total amount recognised in STRGL	(333)	(243)	(676)
% of scheme liabilities	(5.8%)	(5.5%)	(17.9%)

As this scheme was established in 2002/3, comparatives for the 2001/2 financial year are unavailable.

Royal College of Music

NOTES TO THE ACCOUNTS for the year ended 31 July 2005

Employers and employees total contributions

	Year Ended 31 July 2005 £	Year Ended 31 July 2004 £
Contributions to TPS	283,349	303,937
Contributions to RCM /(L&G)	390,105	407,260
Contributions to USS	3,250	3,180

Following judgements of the European Court of Justice (ECJ) that excluding part-timers from pension schemes amounted to sexual discrimination, most part-timers being women, the DFES and the department of environment, transport and the regions (DETR) removed restrictions on the eligibility of part-time lecturers to join the teachers' pension scheme and part-time staff to join the local government pension scheme in May 1995.

As a result of those announcements, the judgements of the ECJ and resulting changes in United Kingdom legislation, a liability in respect of providing backdated pension benefits for those part-time staff who have or may elect for retrospective membership of the two occupational pension schemes may arise in the College. Some 50,000 claims nationally to date have been lodged. A series of test cases have been taken through the various courts, and following appeals lodged by a group of Trade Unions subsequently referred to the House of Lords and then on points of law referred again to the ECJ. The ECJ ruled in May 2000 that a two-year restriction on granting arrears of service is incompatible with European law. It also ruled that provided there was a stable employment relationship resulting from a succession of short term contracts the time limit for bringing a claim should not begin until that stable relationship is "interrupted". The time limit is currently six months. The ECJ also ruled that six months will be a lawful period for a claim under EU law only if this is no less favourable than the limitation period for a similar claim based on domestic law. This issue was referred to the House of Lords. In February 2001, a definitive ruling on some key points was made:

- There was no time limit on compensation claims in pension cases subject to the cut off date of 8 April 1976;
- Claims must be, or must have been, registered with the tribunal within six months of the ending of the employment in question.

The TPS has accepted the part played by the rules of the scheme in excluding part-timers in the past and has agreed to absorb the employers' costs of backdating pensionable service in successful cases.

The College has now settled one case and made provision for 2 administrative staff.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2005

26. ACCESS FUNDS

	2005 £	2004 £
Balance brought forward at 1 August	2,794	1,312
HEFCE grants	29,466	32,032
	<u>32,260</u>	<u>33,344</u>
Disbursed to students	(28,260)	(30,550)
Balance carried forward at 31 July	<u>4,000</u>	<u>2,794</u>

HEFCE Access grants are available solely for students: the College acts only as a paying agent.
The above balances are included in current creditors.

27. CAPITAL COMMITMENTS

As at 31 July 2005 the College had capital commitments of £57,032(2004: £355,410).

28. FINANCIAL COMMITMENTS

At 31 July 2005 the College had annual commitments under non-cancellable operating leases as follows:

	Consolidated and College	
	2005 £	2004 £
<u>Other Operating Leases</u>		
Expiring within one year	9,486	15,850
Expiring between one and five years	6,517	13,007
	<u>16,003</u>	<u>28,857</u>

29. RELATED PARTY TRANSACTIONS

There was a related party transaction with a company, a director of which is also a member of the Council. This contract was negotiated completely independently through the London Universities Purchasing Consortium (LUPC). LUPC selected the company by tender, utilising an independent broker to manage the tender process.

The balance due from PCF in 2005 includes £206 for RCM Friends paid in error to PCF, £4,869 for investment management fees paid by the RCM and £5,415 for the Investment Review report paid by the RCM.

