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**Report and Accounts**

*Royal College of Music*

**31 July 2003**

# Royal College of Music

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## **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

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Mr Michael Gough Matthews FRCM	(Appointed 1997)
Mr David McKenna CBE FRCM	(Appointed 1975) (Deceased 2003)
Mr Leopold de Rothschild CBE FRCM	(Appointed 1986)
Mr Ian Stoutzker OBE FRCM	(Appointed 1999)
The Lord Wilberforce CMG MC FRCM	(Appointed 1982) (Deceased 2003)
Sir David Willcocks CBE MC FRCM	(Appointed 1982)

## **LIFE GOVERNORS**

Mr John Cruft FRCM

## **COUNCIL**

The President

Sir Anthony Cleaver (Chairman)

Lady Middleton FRCM (Deputy Chairman)

Mr Humphrey Norrington OBE FRCM (Honorary Treasurer)

Sir Thomas Allen CBE FRCM

Ms Jennifer Cramb

Mr Peter Ellwood CBE (Appointed December 2002)

Mrs Rosalind Gilmore CB

Mr John Hall

Mr James Joll

Dr John Lill OBE FRCM

Professor Timothy O'Shea

Ms Janis Susskind

Sir Richard Sykes

Professor Sir David Watson

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# Royal College of Music

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## **COUNCIL (continued)**

### **Ex-officio or elected**

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Dame Janet Ritterman DBE	(Director)
Mr Timothy Salter HonRCM, FRCM	(Professorial staff)
Mr William Mival	(Professorial staff)
Mrs Pamela Thompson HonRCM	(Administrative staff)
Mr Adrian Murphy	(President, Students' Association)

### **DIRECTOR**

Dame Janet Ritterman DBE

### **CLERK TO THE COUNCIL**

Mr Kevin Porter (Secretary & Registrar)

### **EXECUTIVE COMMITTEE**

Sir Anthony Cleaver  
Mr James Joll  
Lady Middleton FRCM (Retired July 2003)  
Mr Peter Ellwood CBE (Appointed July 2003)  
Mr Humphrey Norrington OBE FRCM  
Dame Janet Ritterman DBE (ex officio/Director)  
Mr Kevin Porter (Secretary, in attendance)

### **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

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TREASURER'S REPORT

**SCOPE AND FORMAT OF THE FINANCIAL STATEMENTS**

The accounts comprise the consolidated results of the College and its subsidiary, RCM Development Fund Limited ("RCMDF"), for the financial year 1 August 2002 to 31 July 2003. RCMDF activities include any commercial letting of College facilities and fundraising events. RCMDF covenants to the College the whole of any taxable profits. The College accounts include the specific endowments administered by the College. The College is a registered charity.

**MISSION & PRINCIPAL OBJECTIVES**

The Royal College of Music provides specialised musical education and professional training at the highest international level for performers and composers. This enables talented students to develop the musical skills, knowledge, understanding and resourcefulness which will equip them to contribute significantly to musical life in this country and internationally.

**CONSOLIDATED RESULTS**

	2003 £000	2002 £000
Income	12,113	11,537
Expenditure	12,398	12,257
Surplus/ (Deficit)	(285)	(720)
Surplus/(Deficit) as a percentage of income	(2.4%)	(6.2%)

The underlying increase in recurrent funding from HEFCE before research funding was 6.6% against 2002 funding. Staff costs increased by £836,139 and now represent 53% (2002 - 47%) of expenditure.

The Statement of Consolidated Total Recognised Gains and Losses shows that the total recognised gain for the year was £1,494,660 after an increase in value of endowment asset investments of £509,266.

The deficit of £285,078 shown on the Consolidated Income and Expenditure Account is calculated after a transfer in excess of current year income of £156,468 (2002 - £514,296) from specific endowment funds to match expenditure on scholarships and £193,542 (2002 - £751,063) from general endowment funds to offset current year expenditure.

**INVESTMENT PERFORMANCE**

The Investment Committee monitors the performance of the College's investment portfolios, managed on its behalf by Newton Investment Management Limited. The College's investments marginally increased in value, and performance was satisfactory in relation to the market indicator accepted by the Committee as comparable.

**SCHOLARSHIPS**

The College was able to award scholarships, exhibitions and study support grants totalling £1,144,692 in 2002/2003 to enable gifted and financially needy students to undertake their studies during the year. This level of support has been made possible by the generosity of benefactors over the years and scholarship funds are maintained separately by the College as specific endowment funds.

**ESTATE AND CAPITAL PROJECTS**

The College completed the first phase of a general fire protection upgrade including the towers and all floors of the Blomfield building. The first phase of works for achieving disabled access to all areas was completed with the installation of disabled toilet facilities on two floors of the Blomfield building in preparation for the new lift being installed in 2003/4. There were continued works for the removal of asbestos material from College premises.

## TREASURER'S REPORT

The piano lift in the 1965 building was refurbished for passenger and disabled use, and alterations and improvements were made to Registry, Welfare and Senior Management offices. All works were completed on budget at a cost of some £461,000.

The College also acquired various equipment and instruments at a cost of £117,000. This sum includes £28,000 paid towards the HEFCE funded project for a special build pianoforte, the total funds available from HEFCE being £95,000 for the project.

The College spent £49,000 on various information technology projects and £18,000 on computer equipment replacements.

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The College continues to consider the estate Masterplan development proposals and the future development of the student residence site.

### AUDITORS

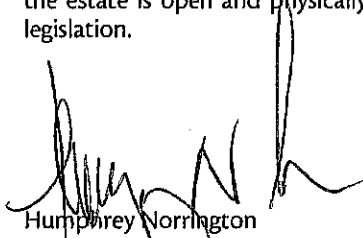
On 3rd May 2003, the auditors, RSM Robson Rhodes, transferred their entire business to RSM Robson Rhodes LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000, and ceased to act as external auditors to the College. The board appointed RSM Robson Rhodes LLP with effect from 3rd May 2003 to fill the casual vacancy. A resolution to re-appoint RSM Robson Rhodes LLP as external auditors will be proposed at the forthcoming Council meeting.

### DISABILITY STATEMENT

The College is committed to its Equal Opportunities policy for both staff and students and aims to ensure that no student, member of staff, visitor to performances and other events is subjected to unfair discrimination.

As a leading British conservatoire, the College's aim is to provide musical education and professional training at the highest international level to meet the aspirations of as many as possible of those who have the ability and motivation to benefit. The RCM seeks to meet the needs of all disabled students, most recently within the context of the *Disability Discrimination Act 1995*, and to provide equal opportunity to help them to achieve their highest aspirations.

In addition to the general student and employer support provided by the College, students and / or staff with disabilities have access to specialist financial and academic support, specialist equipment and other facilities, as appropriate. The College has continued with the capital programme of building improvements to ensure that the estate is open and physically accessible and complies with the requirements of the appropriate disability legislation.



Humphrey Norrington  
Honorary Treasurer

## CORPORATE GOVERNANCE

### **THE COLLEGE'S STRUCTURE OF CORPORATE GOVERNANCE**

The Governing Body of the College, the RCM Council, which meets three 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 nineteen 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 work of the Council is carried forward by the Executive Committee, which 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 three 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  
Development Committee  
Estates Committee

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 2002/2003 the Internal Auditors presented reports on Payroll, Estate Management, Asset Management, Health and Safety, Data Protection and Transparency Review.

### **PREPARATION OF FINANCIAL STATEMENTS FOR THE 2002/2003 FINANCIAL YEAR**

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 on 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 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.

## CORPORATE GOVERNANCE

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 2003 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.
- We have requested the executive committee to provide oversight of risk management and the audit committee to provide advice.
- 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, Imperial College London, who operate to standards defined in the HEFCE Audit Code of Practice. The



CORPORATE GOVERNANCE

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.

Imperial College London Internal Audit has provided internal audit services for the College for the last seven years. New internal auditors will be appointed for the 2003/04 year. The College was last reviewed for effectiveness by the HEFCE Audit Service in January 1999. The next review is scheduled for January 2004.

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.

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Sir Anthony Cleaver

Chairman

## INDEPENDENT REPORT OF THE AUDITORS TO THE COUNCIL OF THE OF MUSIC

ROYAL COLLEGE

We have audited the financial statements of the Royal College of Music for the year ended 31 July 2003, 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 statements 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 statements in accordance with applicable law and United Kingdom Accounting Standards.

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

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

### Opinion

In our opinion:

- the accounts give a true and fair view of the state of the affairs of the Royal College of Music and of the Group, comprising the Royal College of Music and its subsidiary RCM Development Fund Limited, as at 31 July 2003 and of the Group's income and expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and with the College's Royal Charter;
- funds from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the Royal College of Music have been applied for the purposes for which they were received; and
- in our opinion, in all material respects, funds provided by the Higher Education Funding Council for England were applied in accordance with the financial memorandum dated 1 August 2000 and any other terms and conditions attached to them for the year ended 31 July 2003

*RSM Robson Rhodes LLP*

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

*22 December 2003*

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 on Accounting for Further and Higher Education, published in August 2000, and guidance published by the Funding Council.

**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 2003.

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**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 transferred from the income and expenditure account to 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.

Income from specific endowments and other services rendered is included in the income and expenditure account to the extent of the expenditure incurred during the year. All income from general endowment investments is credited to the Income and Expenditure account on a receivable basis together with amounts transferred from endowment funds determined by the Council in accordance with the needs of the College.

**5. PENSION SCHEMES**

The two pension schemes for the College's staff are the Teachers' Pension Scheme (TPS) and the Royal College of Music Pension and Assurance Scheme (RCM Pension Scheme). The Royal College of Music scheme administered by the Legal and General Pension Trust (L&G) as of 1<sup>st</sup> October 2002, was transferred from the L&G scheme to a new pension scheme, the Royal College of Music Pension and Assurance Scheme (RCM Pension Scheme) administered by Wolanski & Co, offering similar benefits to the L&G 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 Royal College of Music Pension and Assurance Scheme (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 L&G scheme. A formal valuation of the Royal College of Music Pension and Assurance Scheme (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.

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STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

**6. TANGIBLE ASSETS**

a. Land and buildings

Land and buildings are stated at cost or, in the case of land and buildings for which cost cannot readily be ascertained, at valuation. The basis of valuation of buildings is depreciated replacement cost and the basis of valuation of land is estimated value in its existing use. 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.

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.

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. In accordance with the transitional provisions of FRS15, the College has decided not to revalue its musical instruments in future.

These assets are depreciated as follows:

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:

Recording and general equipment, furniture and fittings	–	5 years
Computer equipment	–	4 years

**7. LIBRARY AND MUSEUM**

The College holds a wealth of reference material in the RCM library (over 250,000 items ranging from 16<sup>th</sup> 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. The Annual Review of the College for the year to 31 July 2003 reports on the collections including gifts received.

**8. HERITABLE PROPERTY**

In addition to the museum's collection of instruments, the College holds a number of important instruments, which are 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. They are not depreciated and are maintained at high performance levels.

**9. INVESTMENTS**

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

**10. MAINTENANCE OF PREMISES**

The College has a five-year rolling maintenance plan which 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 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 (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.

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**12. FOREIGN CURRENCY TRANSLATION**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling 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.

# Royal College of Music

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT for the year ended 31 July 2003

	Notes	2003 £	2002 £
<b>INCOME</b>			
Funding Council grants	1	4,636,415	4,323,208
Academic fees and support grants	2	3,130,990	2,761,655
Other operating income	3	2,741,483	2,349,158
Endowment income and interest receivable	4	1,603,672	2,103,455
<b>Total Income</b>		<b>12,112,560</b>	<b>11,537,476</b>
<b>EXPENDITURE</b>			
Staff costs	7	6,624,921	5,788,782
Depreciation	8	790,457	726,881
Other operating expenses	9	4,627,276	5,372,334
Interest Payable	10	354,984	369,775
		<b>12,397,638</b>	<b>12,257,772</b>
Deficit on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax.	21	<b>(285,078)</b>	<b>(720,296)</b>

## CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS

	2003 £	2002 £
Reported deficit after depreciation and before tax	(285,078)	(720,296)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	298,387	298,387
Historical cost (deficit)/surplus before tax	<b>13,309</b>	<b>(421,909)</b>
Historical (deficit)/surplus after tax	<b>13,309</b>	<b>(421,909)</b>

## Royal College of Music

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### STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 July 2003

	2003 £	2002 £
Deficit after depreciation and tax	(285,078)	(720,296)
New endowments	1,620,482	1,624,676
Increase/(Diminution) in value of endowment asset investments	509,266	(3,395,126)
Transfer of Endowment funds to income	(350,010)	(1,265,359)
	<u>1,494,660</u>	<u>(3,756,105)</u>

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#### Reconciliation:

Opening reserves and endowments	26,677,672	30,433,777
Total recognised gains/(losses) relating to the year	1,494,660	(3,756,105)
	<u>28,172,332</u>	<u>26,677,672</u>

The income and expenditure account is in respect of continuing activities.

# Royal College of Music

## BALANCE SHEET at 31 July 2003

	No	2003 £	Consolidated 2002 £	2003 £	College 2002 £
<b>FIXED ASSETS</b>					
Tangible assets	11	15,476,264	15,749,344	15,476,264	15,749,344
Investments	12	1,334,000	1,334,000	1,334,100	1,334,100
		<u>16,810,264</u>	<u>17,083,344</u>	<u>16,810,364</u>	<u>17,083,444</u>
<b>ENDOWMENT ASSETS</b>					
Investments	13	17,547,047	16,209,488	17,547,047	16,209,488
Other endowment assets	14	2,669,623	2,227,444	2,669,623	2,227,444
		<u>20,216,670</u>	<u>18,436,932</u>	<u>20,216,670</u>	<u>18,436,932</u>
<b>CURRENT ASSETS</b>					
Debtors	15	308,464	241,829	321,966	346,175
Cash at bank and in hand		520,017	358,893	460,102	248,338
		<u>828,481</u>	<u>600,722</u>	<u>782,068</u>	<u>594,513</u>
<b>CREDITORS: amounts falling due within one year</b>	16	(1,952,318)	(1,639,625)	(1,911,699)	(1,639,209)
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(1,123,837)</u>	<u>(1,038,903)</u>	<u>(1,129,631)</u>	<u>(1,044,696)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		35,903,097	34,481,373	35,897,403	34,475,680
<b>CREDITORS: amounts falling due after more than one year</b>	17	(3,000,000)	(3,200,000)	(3,000,000)	(3,200,000)
<b>TOTAL NET ASSETS</b>		<u>32,903,097</u>	<u>31,281,373</u>	<u>32,897,403</u>	<u>31,275,680</u>



# Royal College of Music

## BALANCE SHEET at 31 July 2003

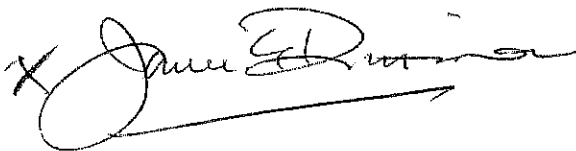
		Consolidated		College	
	Notes	2003 £	2002 £	2003 £	2002 £
<b>DEFERRED CAPITAL GRANTS</b>	18	4,730,765	4,603,701	4,730,765	4,603,701
<b>ENDOWMENTS</b>					
Specific	19	13,813,604	13,068,277	13,813,604	13,068,277
General	19	6,403,066	5,368,655	6,403,066	5,368,655
		<u>20,216,670</u>	<u>18,436,932</u>	<u>20,216,670</u>	<u>18,436,932</u>
<b>RESERVES</b>					
Revaluation Reserve	20	6,846,865	7,145,252	6,846,865	7,145,252
Accumulated Revenue Reserve	21	1,108,797	1,095,488	1,103,103	1,089,795
		<u>7,955,662</u>	<u>8,240,740</u>	<u>7,949,968</u>	<u>8,235,047</u>
<b>ENDOWMENTS AND RESERVES</b>		<u>28,172,332</u>	<u>26,677,672</u>	<u>28,166,638</u>	<u>26,671,979</u>
		<u><u>32,903,097</u></u>	<u><u>31,281,373</u></u>	<u><u>32,897,403</u></u>	<u><u>31,275,680</u></u>

Approved by Council on 3 December 2003 and signed on its behalf by:



Sir Anthony Cleaver

Chairman



Dame Janet Ritterman

Director

# Royal College of Music

## CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 July 2003

	Notes	2003 £	2002 £
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	22	(948,530)	(1,923,176)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Income from Endowments	19	1,219,390	797,685
Other interest received		34,272	40,411
Interest paid		(354,984)	(369,775)
		<u>898,678</u>	<u>468,321</u>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire endowment asset investments		(4,992,860)	(8,586,295)
Realisation of endowment asset investments		3,430,923	7,907,824
Payments to acquire tangible fixed assets		(523,507)	(2,216,233)
Receipts from sale of fixed assets		7,585	50,836
Capital grants received		598,129	936,814
Endowments received		1,620,482	1,624,676
		<u>140,752</u>	<u>(282,378)</u>
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Amounts released from/(placed on) deposit		-	1,650,000
<b>FINANCING</b>			
Repayments of amounts borrowed		(200,000)	(200,000)
<b>CASH MOVEMENT (Note 23)</b>		<u>(109,100)</u>	<u>(287,233)</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 1. FUNDING COUNCIL GRANTS

	2003 £	2002 £
<b>a) HEFCE</b>		
Recurrent grant	3,739,669	3,507,139
Research grant	388,021	433,906
Capital projects	-	28,806
HR Strategy	83,728	73,055
Inherited staff liabilities claim	73,630	35,862
Reach Out to Business & the Community grant	79,050	41,950
Access Funds	37,720	52,335
Good Management Practice	50,065	25,675
Summer School	26,950	25,726
Teaching Quality Enhancement Fund	17,671	16,296
Costing and pricing	-	15,000
SLDD	22,104	-
Teachers Pension Scheme	23,170	-
Information Technology	-	8,813
Active Community Fund	4,107	1,710
<b>b) Other</b>		
AHRB Creative Performing Arts	90,530	33,278
Library Ensemble Project	-	23,657
	<u>4,636,415</u>	<u>4,323,208</u>

### 2. ACADEMIC FEES AND SUPPORT GRANTS

	2003 £	2002 £
Full-time students	2,307,510	2,044,630
Junior Department fees	823,480	717,025
	<u>3,130,990</u>	<u>2,761,655</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 3. OTHER OPERATING INCOME

	2003	2002
	£	£
Other grant income	60,501	177,651
Residences and catering	677,601	728,551
Other services rendered	291,242	284,772
Released from deferred capital grants (note 18)	471,065	428,494
Other Income	1,241,074	729,690
	<u>2,741,483</u>	<u>2,349,158</u>

### 4. ENDOWMENT INCOME AND INTEREST RECEIVABLE

	2003	2002
	£	£
Income from specific endowments (note 19)	1,161,400	1,055,044
Income from general endowment asset investments (note 19)	408,000	1,008,000
Other interest receivable	34,272	40,411
	<u>1,603,672</u>	<u>2,103,455</u>

Income from endowments includes amounts transferred in excess of current year income:

Specific endowments	156,468	514,296
General endowments	193,542	751,063
	<u>350,010</u>	<u>1,265,359</u>

### 5. DIRECTOR'S EMOLUMENTS

	2003	2002
	£	£
Salary	116,179	110,131
Benefits in kind	1,661	
Pension contributions	10,471	7,658
	<u>128,312</u>	<u>117,789</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 6. REMUNERATION OF HIGHER PAID STAFF

	2003 No.	2002 No.
£70,001 - £80,000	3	-
£120,001 - £130,000	1	1
	<u>4</u>	<u>1</u>

### 7. STAFF COSTS

	2003 £	2002 £
Wages and salaries	5,703,866	5,189,786
Social security costs	383,597	351,943
Pension costs	537,458	247,053
	<u>6,624,921</u>	<u>5,788,782</u>

#### STAFF COSTS BY DEPARTMENT

	2003 No.	2002 No.	2003 £ '000	2002 £ '000
Teaching Departments	76	72	3,340	3,057
Teaching Support Services	35	39	1,248	1,140
Administration and Central Services	40	37	1,743	1,284
Premises	11	11	294	308
	<u>162</u>	<u>159</u>	<u>6,625</u>	<u>5,789</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.

### 8. DEPRECIATION

The depreciation charge has been funded by:

	2003 £	2002 £
Deferred capital grants released (note 18)	471,065	428,494
Released from revaluation reserve (note 20)	298,387	298,387
Financed Internally	21,005	-
	<u>790,457</u>	<u>726,881</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 9. OTHER OPERATING EXPENSES

	2003	2002
	£	£
Residences and catering operating expenses	405,735	631,474
Academic departments	462,716	408,058
Learning resources	204,621	155,563
Scholarships, prizes and grants	1,144,692	999,460
Heat, light, water and power	106,549	108,421
Repairs and general maintenance	374,864	479,981
Property maintenance	300,872	398,527
Grants to RCM Students' Association	25,598	22,541
Auditors' remuneration	39,614	19,772
Auditors' remuneration - internal audits	11,600	10,311
Other expenses	1,549,496	2,135,290
Bad Debts	2,374	9,170
Profit on sale of fixed assets	(1,455)	(6,234)
	<u>4,627,276</u>	<u>5,372,334</u>

### 10. INTEREST PAYABLE

	2003	2002
	£	£
Loans not wholly repayable within five years	354,984	369,775

**NOTES TO THE ACCOUNTS  
at 31 July 2003**

**11. TANGIBLE ASSETS**

Consolidated

	Land and buildings		Furniture & Equipment	Musical instruments	Total
	Freehold	Leasehold			
	£	£	£	£	£
Valuation/cost:					
At 1 August 2002					
Valuation	-	5,469,465	-	2,934,812	8,404,277
Cost	3,835,720	4,621,950	2,471,699	1,204,369	12,133,738
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 August 2002	3,835,720	10,091,415	2,471,699	4,139,181	20,538,015
Additions		305,053	92,995	125,459	523,507
Disposals				(12,500)	(12,500)
Scrapped			(596,421)		(596,421)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2003					
Valuation	-	5,469,465	-	2,934,812	8,404,277
Cost	3,835,720	4,927,003	1,968,273	1,317,328	12,048,324
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	3,835,720	10,396,468	1,968,273	4,252,140	20,452,601
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At 1 August 2002	252,244	1,162,630	2,020,101	1,353,696	4,788,671
Provided during the year	76,714	248,114	214,940	250,689	790,457
Disposals				(6,370)	(6,370)
Scrapped			(596,421)		(596,421)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2003	328,958	1,410,744	1,638,620	1,598,015	4,976,337
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:					
At 31 July 2003					
Valuation	-	4,727,288	-	1,865,845	6,593,133
Cost	3,506,762	4,258,436	329,653	788,281	8,883,131
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total at 31 July 2003	3,506,762	8,985,724	329,653	2,654,125	15,476,264
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 August 2002	3,583,476	8,928,785	451,598	2,785,485	15,749,344
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The 999 year lease on the Prince Consort Road site is unassignable. In the event that the College ceases to operate in accordance with the Royal Charter the property reverts to the landlord. The property is carried at its ascribed valuation at 31 July 1991 as detailed historic cost information is not available.

The musical instruments were valued at insurance values as at 31 July 1998, in the case of the Steinway and upright pianos by the College's piano consultant and in the case of the stringed musical instruments, by Charles Beare, an independent valuer.

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 12. FIXED ASSET INVESTMENTS

	Consolidated		College	
	2003 £	2002 £	2003 £	2002 £
Investment in subsidiary	-	-	100	100
Heritable property	1,334,000	1,334,000	1,334,000	1,334,000
	<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 £1 ordinary shares of RCM Development Fund Limited, a company registered in England and operating in the UK, whose principle activity is to raise funds for the College.

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.

### 13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College 2003 £
At 1 August	16,209,488
Additions	4,992,860
Disposals	(3,430,923)
Gains/(Losses) on disposals / revaluation	509,266
Movements on cash	(733,644)
	<u>17,547,047</u>

Investments held are analysed as follows:

	2003 £	2002 £
Fixed interest stocks (listed)	4,535,160	3,863,681
Equities including investment (listed) and unit trusts	12,442,884	11,043,160
Cash held by investment managers	569,003	1,302,647
	<u>17,547,047</u>	<u>16,209,488</u>



# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 14. OTHER ENDOWMENT ASSETS

	2003 £	2002 £
Other bank balances	2,756,525	2,293,105
Debtors	1,238	23,525
Creditors	(88,140)	(89,186)
	<u>2,669,623</u>	<u>2,227,444</u>

### 15. DEBTORS

	Consolidated		College	
	2003 £	2002 £	2003 £	2002 £
Amounts falling due within one year:				
Debtors	253,818	177,833	241,387	161,096
Due from subsidiary undertaking	-	-	25,933	121,183
Prepayments and accrued income	54,646	63,996	54,646	63,896
	<u>308,464</u>	<u>241,829</u>	<u>321,966</u>	<u>346,175</u>

### 16. CREDITORS: amounts falling due within one year

	Consolidated		College	
	2003 £	2002 £	2003 £	2002 £
Bank loans and overdrafts	200,000	200,000	200,000	200,000
Creditors	461,558	445,455	420,939	447,470
Social security and other taxation payable	216,563	218,339	216,563	218,339
Accruals and deferred income	1,074,197	775,831	1,074,197	773,400
	<u>1,952,318</u>	<u>1,639,625</u>	<u>1,911,699</u>	<u>1,639,209</u>

### 17. CREDITORS: amounts falling due after more than one year

Consolidated and College	2003 £	2002 £
Bank loan, secured on property repayable between 2001 and 2019	<u>3,000,000</u>	<u>3,200,000</u>

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.

**NOTES TO THE ACCOUNTS**  
at 31 July 2003

**18. DEFERRED CAPITAL GRANTS**

Consolidated and College

	HEFCE £	Private funding £	Total £
At 1 August 2002	753,062	3,850,639	4,603,701
Cash Received	88,381	509,748	598,129
Released to income and expenditure (note 3)	(100,888)	(370,177)	(471,065)
	<u>740,555</u>	<u>3,990,210</u>	<u>4,730,765</u>
At 31 July 2003	<u>740,555</u>	<u>3,990,210</u>	<u>4,730,765</u>

**19. ENDOWMENTS**

Consolidated and College

	Specific £	General £	Total £
At 1 August 2002	13,068,277	5,368,655	18,436,932
New Endowments	570,744	1,049,738	1,620,482
Gains/(losses) in market value of investments (note 13)	331,051	178,215	509,266
Income for year	1,004,932	214,458	1,219,390
Transferred to income and expenditure account (note 4)	(1,161,400)	(408,000)	(1,569,400)
	<u>13,813,604</u>	<u>6,403,066</u>	<u>20,216,670</u>
At 31 July 2003	<u>13,813,604</u>	<u>6,403,066</u>	<u>20,216,670</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 20. REVALUATION RESERVE

Consolidated and College

	Land and buildings £	Musical instruments £	Total £
Revaluation: At 1 August 2002	5,469,465	2,546,973	8,016,438
At 31 July 2003	<u>5,469,465</u>	<u>2,546,973</u>	<u>8,016,438</u>
Contributions to depreciation: At 1 August 2002	382,047	489,139	871,186
Released in year (note 8)	109,389	188,998	298,387
	<u>491,436</u>	<u>678,137</u>	<u>1,169,573</u>
Net revaluation amount: At 31 July 2003	<u>4,978,029</u>	<u>1,868,836</u>	<u>6,846,865</u>
At 1 August 2002	<u>5,087,418</u>	<u>2,057,834</u>	<u>7,145,252</u>

### 21. ACCUMULATED REVENUE RESERVE

	Consolidated		College	
	2003 £	2002 £	2003 £	2002 £
At 1 August 2002	1,095,488	1,517,397	1,089,795	1,511,705
(Deficit)/Surplus from income and expenditure account	(285,078)	(720,296)	(285,079)	(720,297)
Release from revaluation reserve (note 20)	298,387	298,387	298,387	298,387
At 31 July 2003	<u>1,108,797</u>	<u>1,095,488</u>	<u>1,103,103</u>	<u>1,089,795</u>

**NOTES TO THE ACCOUNTS**  
at 31 July 2003

**22. RECONCILIATION OF OPERATING SURPLUS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES**

	2003 £	2002 £
Surplus before tax	(285,078)	(720,296)
Depreciation	790,457	726,881
(Profit)/Loss on the sale of fixed assets (note 9)	(1,455)	(6,234)
Deferred capital grants released to income (note 18)	(471,065)	(428,494)
Investment income and interest receivable (note 4)	(1,603,672)	(2,103,455)
Interest payable	354,984	369,775
(Increase)/decrease in debtors	(44,348)	147,868
Increase/(decrease) in creditors	311,647	90,779
	<u>(948,530)</u>	<u>(1,923,176)</u>

**23. ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 August 2002	Cashflows	At 31 July 2003
<u>Cash</u>			
Endowment assets			
Balances at investment managers	1,302,647	(733,644)	569,003
Other balances	2,293,105	463,420	2,756,525
Cash at bank and in hand	358,893	161,124	520,017
	<u>3,954,645</u>	<u>(109,100)</u>	<u>3,845,545</u>
<u>Financing</u>			
Due within one year	(200,000)	-	(200,000)
Due after one year	(3,200,000)	200,000	(3,000,000)
	<u>554,645</u>	<u>90,900</u>	<u>645,545</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS

At 31 July 2003

### 24. 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).

The College had 68 employees participating in the Royal College of Music Pension and Assurance Scheme, 63 employees in TPS and one member of staff in USS at 31 July 2003.

#### THE TEACHERS' PENSION SCHEME (TPS)

The TPS is a notional, that is, an unfunded scheme. Contributions on a 'pay-as-you-go' basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments.

Under the definitions set out in the Financial Reporting Standard (FRS) 17 Retirement Benefits, the TPS is a multi-employer pension scheme. The College is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the College has used the exemption in FRS 17 and contributions to the scheme have been accounted for as if it were a defined contribution scheme. The College has set out below the information available on the deficit in the scheme and the implications for the College in terms of anticipated contribution rates.

The pensions cost is assessed every five years in accordance with the advice of the government actuary and the results of the assessment as at 31 March 2001 is awaited when the rates below will be reviewed. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuations	31 March 1996	
Actuarial method	Prospective Benefits	
Investment returns per annum		7.0%
Salary scale increases per annum		5.0%
Pensions increases per annum		5.0%
Market Value of Assets at Date of Last Valuation		£142.88M
Proportion of Member's Accrued Benefits Covered By the Actuarial Value of the Assets		100%

Following the implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000 the government actuary carried out a further review on the level of employers' contributions. For the period from 1 April 2002 to 31 March 2003 the employer contribution was 8.35%. This rate increased to 13.5% from 1 April 2003. An appropriate SSAP 24 provision in respect of unfunded pensioners' benefits is included in provisions.

# Royal College of Music

## NOTES TO THE ACCOUNTS

At 31 July 2003

### UNIVERSITIES SUPERANNUATION SCHEME (USS)

The USS is a defined benefits scheme, which is externally funded and contracted out of the State Earnings-Related Pension Scheme. There is only one employee that is a member of this scheme. During 2002, there were two members of the USS scheme. 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 in 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 deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme.

The pensions cost is assessed every three years. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuations Actuarial method	31 March 1999 Project-Unit Method	
	<i>Past Service Liabilities</i>	<i>Future Service Liabilities</i>
Investment returns per annum	4.5%	5.5%
Salary scale increases per annum	3.6%	3.5%
Pensions increases per annum	2.6%	2.5%
Market Value of Assets at Date of Last Valuation	£18,870m	
Proportion of Member's Accrued Benefits Covered By the Actuarial Value of the Assets	108%	

The College's contribution rate required for future service benefits at the date of the valuation was 16.3% of salaries but it was agreed that the institution contribution rate would be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681 million (including the Supplementary Section) to be carried forward.

Surplus or deficits which arise at future valuations may impact on the College's future contribution commitment. The outcome of the formal actuarial valuation at 31 March 2002 is still awaited when the above rates will be reviewed although it is not expected to increase the contribution level.

### 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%.

# Royal College of Music

## NOTES TO THE ACCOUNTS

At 31 July 2003

The total contribution made for the year ended 31 July 2003 was as follows:

	Total £	Employers £	Employees £
College	276,310	193,237	83,073

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

Year Ending	2003	2004	2005
College	11.5%	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%

### 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 2003	At 31 July 2002
Inflation	2.60%	2.50%
Rate of increase in salaries	3.50%	4.25%
Rate of increase for pensions	2.60%	2.50%
Discount rate for liabilities	5.70%	5.85%

# Royal College of Music

## NOTES TO THE ACCOUNTS

At 31 July 2003

The assets and the expected rates of return were:

	Long-term rate of return expected at 31 July 2003	Value at 31 July 2003	Long-term rate of return expected at 31 July 2002	Value at 31 July 2002
		£'000		£'000
Equities	8.0%	1,510	8.0%	1,679
Bonds	5.2%	784	4.9%	231
Cash	3.5%	64		0
<b>Total market value of assets</b>		<b>2,358</b>		<b>1,910</b>

	Year Ended 31 July 2003 £'000	Year Ende 31 July 200 £'00
Assets value	3,779	4,844
Present value of scheme liabilities	2,358	4,090
<b>Surplus / (Deficit) In The Scheme</b>	<b>(1,421)</b>	<b>(754)</b>

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 2003 £'000	Year Ende 31 July 200 £'00
Net assets excluding FRS 17 pension asset / (liability)	32,903	31,287
Net pension asset/ (liability)	(1,421)	(754)
<b>Net assets including FRS 17 pensions asset/ (liability)</b>	<b>31,482</b>	<b>30,525</b>



# Royal College of Music

## NOTES TO THE ACCOUNTS

At 31 July 2003

### Reserves Note

	Year Ended 31 July 2003 £'000	Year Ended 31 July 2002 £'000
Accumulated revenue reserve	1,109	1,095
FRS 17 pension asset (liability)		
Pension reserve	(1,421)	(754)
Accumulated revenue reserve including FRS 17 pension (liability) / asset	(312)	341

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 (comparatives are not required)

	Year Ended 31 July 2003 £'000
Service cost	186
Past service cost	152
	<hr/>
Total Operating Charge	338

### Analysis of net return on pension return

	Year Ended 31 July 2003 £'000
Expected return on pension scheme assets	156
Interest on pension liabilities	(156)
	<hr/>
Net return	0

# Royal College of Music

## NOTES TO THE ACCOUNTS

At 31 July 2003

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

	Year Ended 31 July 2003 £'000
Actual return less expected return on pension scheme assets	(120)
Experience gains and losses arising on the scheme liabilities	(151)
Changes in financial and demographic assumptions underlying the present value of liabilities	(405)
	<u>(676)</u>
Actuarial gain / (loss) to be recognised in STRGL	<u>(676)</u>

Movement In Surplus / (Deficit) During The Year

	Year Ended 31 July 2003 £'000
Surplus / (deficit) in scheme at 1 August	(754)
Movement in year:	
Current service charge	(186)
Contributions	347
Past service costs	(152)
Net interest / return on assets	0
Actuarial gain or loss	(676)
	<u>(1,421)</u>
Surplus / (Deficit) In Scheme At 31 July	<u>(1,421)</u>

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

Difference between the expected and actual return on assets	(120)
% Of scheme assets	(5.1%)
Experience gains and losses on scheme liabilities	(151)
% Of scheme liabilities	(4.0%)
Total amount recognised in STRGL	(676)
% of scheme liabilities	(17.9%)

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

*Employers and employees total contributions*

	Year Ended 31 July 2003 £	Year Ended 31 July 2002 £'000
Contributions to TPS	236,198	194,372
Contributions to RCM /(L&G)	276,310	218,216
Contributions to USS	6,069	11,588

## NOTES TO THE ACCOUNTS

At 31 July 2003

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.

There remained however some outstanding issues (including what amounts to a 'stable employment relationship') that were taken in the form of 'test cases' to an employment tribunal – these were heard in June/July 2002. It seems that the tribunal's judgement establishes a very strict interpretation of where a 'stable employment relationship' arises, which is likely to result in the disqualification of a large proportion of education cases. However, yet another appeal has been lodged which is not likely to be heard until late 2003. Cases in the education sector remain stayed.

As at the date of approval of these financial statements, it is still not practical to make an estimate of the likely liability for the college, which may arise since the vast majority of part-timers' claims continue to remain stayed pending the outcome of the final test case rulings. Eventually, actuarial valuations will be required to establish the total cost of providing the backdated pension benefits and the level of contribution to be made by the college to make good the under funding in previous years.

In total, to date, there have been 4 claims lodged against the College since 1994-95 (1 hourly paid lecturers and 3 part time administrative staff). A detailed analysis of these records will be carried out once the definitive tribunal rulings are known and their eligibility more easily defined. For now, tribunals are sifting through the 50,000 claims received and determining whether some can be eliminated; one higher education institution claim (an hourly paid lecturer) has been struck out. Thus, 1 of the college's cases is currently stayed pending the final outcome of the "test cases" of relevance to the public sector, notably education, schemes.

# Royal College of Music

## NOTES TO THE ACCOUNTS at 31 July 2003

### 25. ACCESS FUNDS

	2003 £	2002 £
Balance brought forward at 1 August	1,276	4,447
HEFCE Grants	37,720	52,335
	<hr/>	<hr/>
Disbursed to students	38,996 (37,684)	56,782 (55,506)
	<hr/>	<hr/>
Balance carried forward at 31 July	1,312	1,276

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

### 26. CAPITAL COMMITMENTS

As at 31 July 2003 the College had capital commitments of £375,000 building work, IT Projects £39,142 and £37,600 to purchase musical instruments.

### 27. FINANCIAL COMMITMENTS

At 31 July 2003, the College had annual commitments under non-cancellable operating leases as follows:

	2003 £ Annual	2002 £ Annual
<u>Other Operating Leases</u>		
Expiring within one year	-	20,377
Expiring between two and five years	20,980	20,980

### 28. RELATED PARTY TRANSACTIONS

The College received grants in the year totalling £ 1,252,000 (2002 - 1,479,512) from the Prince Consort Foundation, a registered charity. Of the nine trustees, four are members or ex-officio members of the College's Council. The grants were for bursaries for the Junior Department, development projects, student accommodation, major building works, musical instruments and facilities of the College.

At 31 July 2003 the amount due from the Prince Consort Foundation was £ 3,439