



Royal College of Music

Report and Accounts for the year ended
31 July 2008

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

Sir Anthony Cleaver FRCM (Appointed 2007)

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)

COUNCIL

The President

Lord Winston (Chairman)

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

Ms Jane Barker (Deputy Chairman)

Ms Sally Bott

Professor Geoffrey Crossick

Mr Vernon Ellis

Mr Richard Findlater

Sir Christopher Frayling (Appointed July 2008)

Mr John Hall

Dr John Lill OBE FRCM

Ms Gillian Moore MBE FRCM

Sir Michael Parkinson (Appointed July 2008)

Mr Richard Price (Chairman of Audit Committee)

Ms Victoria Sharp

Sir Richard Sykes

Mr Nigel Woolner (Chairman of Estates Committee)

Ex-officio or elected

Professor Colin Lawson FRCM (Director)

Mr Andrew Ball FRCM (Professor)

Ms Vanessa Latache (Professor)

Mr David Harpham HonRCM (Administrative staff)

Ms Gemma Johnson (President, Students' Association, appointed July 2007, retired July 2008)

Ms Mary Kelly (President, Students' Association, appointed July 2008)

CLERK TO THE COUNCIL

Mr Kevin Porter HonRCM (Director of Operations)

Royal College of Music

EXECUTIVE COMMITTEE

Lord Winston (Chairman)
Ms Jane Barker
Professor Colin Lawson (ex officio)
Mr Nicholas Ward
Mr Nigel Woolner

REGISTERED OFFICE

Royal College of Music
Prince Consort Road
London SW7 2BS

AUDITORS

Grant Thornton UK LLP
Melton Street
Euston Square
London
NW1 2EP

BANKERS

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

SOLICITORS

Boodle Hatfield
61 Brook Street
London W1Y 2BL

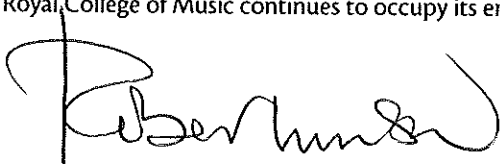
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CHAIRMAN'S STATEMENT

The 125th anniversary year of the Royal College of Music has been an opportunity not only for reflection and celebration, but also for planning and action. I wrote last year of the College's pressing need for more appropriate space to provide a 21st-century environment for its core business: nurturing highly gifted musicians to become artistic leaders worldwide. The College has made great strides this year, embarking on the first step of an ambitious 10-year estate development programme. In May, the historic Grade 2-listed Concert Hall was closed for a programme of transformation which aims to provide an appropriate space for showcasing the RCM's principal output, performance. When it reopens in spring 2009, there will be few major visible changes to the fabric. The elegant barrel-vaulted ceiling already provides a handsome natural acoustic, but the invasion of sound from other parts of the building has rendered the space inadequate for serious performance or recording. This is being addressed, along with lighting and air circulation, all of which will make for a more comfortable setting for performance and audiences. The installation of high-quality technology as part of infrastructure improvements should ensure that the Concert Hall is poised to host even more innovative and inspirational activity from which the whole community will benefit.

It has been a year of considerable financial challenge for higher education. Withdrawal of funding for those who were planning to study an equivalent or lower qualification (ELQ) and the still-awaited conclusions of the Review of Exceptional Funding for Institutions (REFI) have forced all Higher Education Institutions, the RCM among them, to look hard at their finances. I am confident that we are developing a robust and realistic approach to these challenges, and are putting in place plans to mitigate the negative impact of these measures.

Council members have continued to contribute effectively to the strategic direction of the RCM. Sir Christopher Frayling, Rector of the RCA, and renowned broadcaster Sir Michael Parkinson have joined the Council and I am delighted that Jane Barker has agreed to become Deputy Chairman. I look forward to working with Council, Directorate, staff, students and external supporters and volunteers to ensure that the Royal College of Music continues to occupy its envied position as one of the world's leading conservatoires.



Professor Lord Winston

Chairman RCM Council

26 November 2008

DIRECTOR'S REPORT

125 years of Inspiration

Almost exactly 125 years since his great-great-grandfather opened the Royal College of Music on 7 May 1883, His Royal Highness The Prince of Wales visited us on 30 April 2008 for his annual Presidential visit, setting the seal on a year of reflection and celebration. This special year was launched wonderfully in October with two concerts of British music by RCM composers. Supported by the Telegraph Media Group, the programme included Vaughan Williams' *Serenade to Music*, which featured 16 RCM singers, 13 alumni and three current students. It was a landmark occasion, encapsulating the greatness of the Royal College of Music's history and influence, celebrating its myriad current strengths, while at the same time signposting future direction and priorities. In July 2008, our President hosted a dinner at St James's Palace, supported most generously by Flemings, further indicating his active interest in and support of the College. This is enormously valued.

Musical Performance at the Royal College of Music

An undisputed strength of the RCM, musical performance this year, more than ever, has illustrated our outstanding record in this area. Already a magnet for great conductors, who enjoy working with its highly disciplined, focused, committed students, the College has this year attracted popular and critical acclaim for many of its orchestral and opera performances. Stravinsky's *The Rake's Progress* (autumn 2007) was characterised by some exceptionally strong double casting. *Opera Now* remarked, 'I've never heard the dancing, Donizetti-Verdian rhythms that power the opera on so well-sprung and dynamic; this was a less spiky reading than you often hear, the strings cradling the voices, the ... woodwind commentary more pungent and effective as a result'.

After more than a dozen major orchestral performances earlier in the year, the final large-scale concert before closure of the Concert Hall on the RCM's 125th anniversary featured Vladimir Ashkenazy conducting a programme of Liszt and Strauss. The closure of the Concert Hall in May prompted the need to perform off-site. This led to some useful ongoing connections with other venues, not least with Cadogan Hall which featured our musicians in its successful Rising Stars series in summer 2008. Individual RCM students and ensembles continued to achieve notable success in external competitions and performance platforms. Full details appear regularly on the RCM website www.rcm.ac.uk/news

Widening participation and improving access

RCM Sparks, the RCM's flagship education and outreach operation, continued with its outstanding work throughout the year. Generously sponsored by British Gas, this programme affords RCM students and selected alumni the chance to train and work with the community in creative music-making projects. RCM Sparks headline project is Musicians of the Future, now in its third year. Working with local state schools, it offers instrumental tuition to young people in years 6 and 7, on specific instruments. A concert in July 2008 at the Cadogan Hall, introduced by Lord Winston, brought together all the young people who have come through the first three years of the project, in a magnificent hour-long performance for cellos, trumpets, trombones, flutes and saxophones.

Weekend and vacation music courses have been well supported, with provision for families and adults now well established. New this year was a collaboration with Turtle Key Arts, English Touring Opera and the RCM which worked with elderly people with memory problems and their carers. An intensive ten-week project culminated in a moving performance of a song-cycle with dance, created entirely by the participants, on the stage of the Concert Hall. As part of the Government's Planning, Preparation and Assessment (PPA) time offered to school teachers, RCM Sparks has provided musical enrichment activity for 240 pupils in Brentfield Primary School. The Composition Project for local GCSE pupils in state schools continues to flourish in the

magnificently-appointed Music Department at St Paul's School. Both are examples of the RCM's many varied and fruitful partnerships.

Junior Department

The Junior Department continues to operate on a Saturday with over 300 students (age 8-18) and 110 teachers who make full use of the building and its facilities. The students receive 1-to-1 tuition on their instruments and take part in orchestras, choirs and chamber music relevant to their standard and age-group. There was a very full musical and educational programme throughout the year, both internally and externally. The performance programme concluded with the Junior Department Symphony Orchestra concert at St John's Smith Square and the participation of JD students in the *Excellent!* concert at Sadler's Wells in July. This concert was a celebration of the achievements of the government's Music and Dance Scheme which funds over 30 places for students in the Junior Department.

BBC Proms Plus Partnership

A partnership with BBC Promenade Concerts has provided the RCM with one of its most important strategic developments of the decade. Each day throughout the Proms season, one or more 'Proms Plus' events were held at the College, most in the delightful setting of the Britten Theatre. Many of these events were broadcast as interval talks on Radio 3. This initiative brought 1250 new visitors across our threshold, provided RCM students with performance and administration opportunities, and generally oxygenated our artistic imagination. We look forward to this partnership developing in coming years, as BBC and RCM explore shared beliefs, objectives and resources to find ways of maximising impact and mutual benefit.

Knowledge Transfer

The RCM and V & A have been awarded a major two-year £224,500 Knowledge Transfer grant starting in 2008/9 by the Arts and Humanities Research Council to connect objects in the V & A's collections with music that shares their rich and distinctive pasts. *The Listening Gallery* will offer visitors to the V & A a multi-sensory experience of popular and elite culture, spanning 700 years of European history. Music will be paired with specific objects in the Medieval, Renaissance and Baroque galleries and delivered through audio-points and touch-screen displays. The project is headed by RCM colleagues Aaron Williamon and Ashley Solomon.

International activity

Strengthening our international profile remains a key focus and during 2007-08 visits were made to Taipei, Seoul, Tokyo, New York, Boston, Singapore, Beijing, Shanghai, Auckland, Christchurch, Sydney, Brisbane and Melbourne for auditions, master-classes and meetings with strategic partners.



Professor Colin Lawson

Director

26 November 2008

OPERATING AND FINANCIAL REVIEW

Mission & principal objectives

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

Strategic Plan

In July 2007 the College adopted a strategic plan for the next ten years. The plan identified a vision for the College that it would become, by the end of the period, dynamic contemporary and international; balanced, confident and committed to excellence; offering access to an inspirational learning experience; delivering excellence in fitting surroundings and financially secure and sustainable.

The College is a world class conservatoire and it needs to continue to recruit the most talented students.

To deliver the vision, the College aimed to structure their study to ensure that they received an inspirational learning experience with participation in concerts within the College and outside. They should be enabled to realise their full potential through a supportive professional environment coupled with relevant research activity. The College should ensure that the students and staff are enabled to achieve their goals by ensuring that they had access to modern technology and that the facilities were fitting for their study. The College aimed to make financial surpluses in order to improve and maintain its assets and also actively sought donations to be able to increase the number of scholarships that it awards.

The College is in the process of determining a set of key performance indicators which will measure its achievement in these areas.

Implementation of the objectives for 2007/8

During 2007/8, the College has developed an Artistic Strategy, completed the RAE submission, increased the number of orchestral concerts held in outside venues, finalised the Pay Framework Agreement, completed a new ICT strategy, implemented an on-line booking system for events, launched an articulated programme with Princeton University, and started the Concert Hall transformation project. The College is pleased to be able to report that these main initiatives have been achieved.

Outlook for 2008/9

The overall outlook for Higher Education institutions is becoming less benign than it has been in the recent past with the cessation of funding for ELQs and the pressure on premium funding. The College is looking at strategies for mitigation of this loss by developing income generating initiatives. Applications to study at the College in 2008/9 have, as ever, been buoyant and the indications for 2009/10 are stronger still. The global financial situation has not yet had a visible effect and it is hoped that the weakness of sterling will make study at the College more affordable.

For 2008/9, the College has decided to concentrate upon developing an integrated access strategy, extending the performance programme using external venues building on the success in 2007/8, relocating the Centre for Performance History to a new facility, improving the IT support for Learning and Teaching activities, completing an internal brand and corporate identity review, finishing the refurbishment and transformation of the Concert Hall and creating 7 new practice rooms, moving some administrative and office based departments to newly rented space nearby. It is also planning to revise its Charter and Statutes and submit them to the Privy Council.

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Principal Risks and Uncertainties

A risk register is maintained by the College which is reviewed at least annually by the Executive Committee and more frequently if necessary. The risk register identifies the key risks, the likelihood of them occurring, their potential impact on the College and the actions being taken to reduce and mitigate the risks. The risks themselves are prioritised using a consistent scoring system.

The two principal risks to the College are as follows:

The first major risk is the ongoing level of funding by HEFCE. They have already notified the College of a reduction in funding for 2009/10 and subsequent years resulting from the ELQ rules. In addition, indications from the recent review of funding of specialist institutions (REFI) who receive exceptional funding are that, at best, the grant receivable by the College will remain constant in cash terms and will not increase with inflation. The College is considering how the real reduction in income over the next few years can be mitigated by the introduction of new courses and increases in student numbers.

The second major risk relates to the level of scholarships offered to students. The College believes that in order to remain a world class institution it must not only have excellent facilities but also be able to attract the best students globally and this requires resources from which scholarships can be awarded. The College has identified that fundraising is key to this strategy and that a failure to achieve it would be a risk to the College's reputation in the medium term.

Staff

The College's music teaching is mainly undertaken by hourly-paid professional musicians who provide a number of hours per week for their students. The administration of the College is undertaken in the main by permanent full time staff. The total number of FTE staff was 186 during the year compared with 177 for the previous year.

Estates Plans

The College was founded in 1883 and the main Blomfield building opened for the teaching of music in 1894; subsequent additions have included the building of the Concert Hall in 1901 and the Opera Theatre in 1986. There is very little scope for further building on the site.

With the general increase in ambient noise in London, performances in the Concert Hall were becoming prone to interruption and the College decided to refurbish the hall and install secondary glazing to eliminate outside sound interference. At the same time the opportunity was taken to replace the original ventilation with a modern air-handling system and modernise the electric wiring as well as improving the hall as a recording venue. The Hall should re-open in the Spring of 2009. Without the Concert Hall, the College has made use of outside venues such as the Cadogan Hall for its student performances.

By using off-site storage it has proved possible to find space to create 7 new practice rooms which hopefully will alleviate the current shortage of practice space at the Prince Consort Road site.

With space for all activities at a premium, the College has agreed a lease to provide some office space nearby which will in turn release rooms in the main building for teaching. This is essential if an increase in income generating musical activities is to be possible in the future.

The College owns a site in the Goldhawk Road, London which currently has accommodation for 170 students together with practice rooms. The condition of the accommodation needs to be brought up to date. The College is currently evaluating its options for the site.

Fundraising

There are three main strands to the College's fundraising strategy.

The first is to seek funding to provide scholarships to our students and it usually takes the form of donations, either restricted or expendable. The College received £0.7 million in the year from donations and also provided more scholarships from its existing restricted permanent fund income of £0.7 million making a

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total of £1.4 million. This is 35% of the total amount of fees paid by students in the Senior College: it is planned that this percentage will rise over the years and the objective is to achieve 60% by 2017.

The second strand concentrates on providing funds for capital projects and in this year, on providing funds for the refurbishment of the Concert Hall. The total cost of the work which includes the replacement of the existing transformer will be around £4.6 million. The College has received a capital framework grant from HEFCE of £0.9 million and the Development department is actively seeking support from trusts and individuals. Any such donations will be helped by a matched funding scheme introduced by HEFCE whereby any gifts of money received in the three years from August 2008 will be increased by 50% up to a maximum of £1.35 million over the period.

As a third strand, the College is seeking support for the continuing costs of certain of its activities as, for example, its outreach activities.

Financial Results for 2007/8

The College's income and expenditure for the year ended 31 July 2008 may be summarised as follows:

	2008	2007
		Restated
	£000	£000
Operating Income	16,261	16,134
Donation from Prince Consort Foundation	-	8,068
Total Income	16,261	24,202
Total Expenditure	15,758	15,512
Surplus income from scholarship funds transferred back to Endowments	171	734
Retained surplus for the year	332	7,956

The College has had a successful year financially with a full complement of students at all levels. The current year's surplus of £0.3 million compares to a loss for the previous year, excluding the donation from the Prince Consort Foundation, of £0.1 million for the previous year.

Staff costs in the year were affected by the 3.0% increase agreed in the nationally negotiated pay framework. The final increase in this framework, to be implemented in October 2008, had been agreed to be the higher of 2.5% and the RPI index for September 2008. The relevant index figure was 5.0% which will significantly increase costs in 2008/9.

Interest and other finance costs of £0.3 million are lower than the previous year, reflecting in part the benefit of lower interest payments following the renegotiation of the College's bank loan but the finance costs for 2006/7 also include the amount of £0.7 million paid to break the previous loan.

Reserves

The College has £14.8 million of unrestricted reserves which it can use for the benefit of the College. These reserves are maintained in part to support the College's long-term liabilities, pension liabilities and long-term bank loan and also to provide a cushion against exceptional financial events. The rest is earmarked to finance any capital expenditure for the strategic plan which has not been covered by donations.

The Specific endowment fund comprising individual donations with restrictions on the use of the capital and where the income was required to be spent to provide scholarships has now been reclassified as a Restricted Permanent fund.

The fund which was called the General Endowment fund in the 2007 accounts contained a variety of balances which are being analysed. A large proportion of the total has been identified as not having any

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constraints on its use and has therefore been transferred to the accumulated revenue reserve. The remaining balance of £2.7 million consists of old trust funds and more analysis is required to establish the terms under which the money was originally given. Meantime these balances will be classified under Unrestricted Permanent funds.

Last year's accounts contained a category of Restricted funds which included donations to the College where both the capital and income could be spent but it was to be used for a specific purpose. These have also been analysed and transferred to their correct revised categories.

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.

Investment performance

The Investment Committee monitors the performance of the College's investment portfolios.

During the year Newton Investment Management Limited continued as investment advisers to the College. The asset allocation for the various funds has been set by the Investment Committee to reflect the requirements of the College and to protect the value of the capital in the long term.

During the year, the total of the investments decreased in value by £3.8 million (2007: increase of £1.2million) although this included £1.0 million withdrawn to cover payments due on the refurbishment work on the Concert Hall. A further £0.5 million was withdrawn early in the new financial year.

Although the Investment Managers did not meet their benchmarks for the year, the Committee recognised the fact that over the past eight years, Newton had significantly exceeded their benchmarks.

Since the year end, the value of the investments has fallen further as a result of the global financial crisis. No recent changes have been made to the asset allocation as the market is still too volatile to allow long term decisions.

Treasury policy

Treasury management is the management of the College's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The College deposits surplus cash in the money market with approved banks.

As part of a refinancing exercise, the College received a loan in 2006/7 of £3,255,000 repayable over 20 years secured partly on the Goldhawk Road site and partly on the Fixed Assets of the College. It is not intending to enter into any further loans; projects will be met out of a mixture of reserves and fundraising.

The College has an overdraft facility of £1.0 million with the Royal Bank of Scotland at 1% over base rate which it has not yet used.

Net funds reduced by £0.8million to £1.2 million in the year as a result of payments for capital expenditure.

Funding of capital expenditure

The College had a capital commitment of £4.8 million at the year end. It will meet this liability from a variety of sources. HEFCE has given the College a grant of £1.1 million as the College's share of the Capital Investment Framework: £1.5 million has been withdrawn from investments: fundraising is expected to raise at least £1.2 million which will be increased to £1.8 million under the matched funding scheme and any balance will be met from normal cash-flow. It is hoped that no further withdrawals from investments will be necessary given the current low level of the stock market.

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY

CUC GOVERNANCE CODE OF PRACTICE

The RCM Council has adopted the *Committee of University Chairmen Governance Code of Practice*.

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.

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 up to twenty are independent members and three are elected from among the staff of the College. The Director of the College and the President of the Students' Association are *ex officio* members. The President of the College, HRH The Prince of Wales, who sits outside these numbers, nominally chairs meetings if present. The Chairman, the Deputy Chairman and the Honorary Treasurer of the Council are drawn from the independent members.

The Executive Committee is the Council's finance and general purposes committee. It meets six times a year. Among the responsibilities discharged by the Executive Committee are the monitoring of performance in relation to the approved budgets and oversight of the Directorate's risk management responsibilities. It also acts as remuneration committee in relation to the salaries and terms and conditions of the senior staff. A subcommittee of the Executive Committee, comprising the Honorary Treasurer and the Deputy Chairman, is delegated to scrutinise the annual accounts ahead of consideration by the Council.

The Investment Committee (2 meetings per year) and the Estates Committee (3 meetings per year) are further subcommittees of the Executive Committee. Each is chaired by an independent member of Council; each is formally constituted with terms of reference.

The Audit Committee, which reports directly to RCM Council, meets three times a year. The Audit Committee has a key role in the College's accountability framework. It advises the Council on the effectiveness of risk management, control and governance arrangements. 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 responses and plans for implementation.

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A Nominations Committee makes recommendations to Council for the appointment of new Council members and for honorary awards.

The Board of Professors, the College's Senate, reports to the Council and meets a minimum of three times per year. It deals with the College's academic policies and quality assurance. It has a system of committees to support its work.

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 the Financial Memorandum agreed between the Higher Education Funding Council for England (HEFCE) and the Council of the Royal College of Music, the Council, through the Director (its designated officer), 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

The Council (governing body) of the Royal College of Music, has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is 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 2008 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

- The Council meets four times a year and considers the plans and strategic direction of the institution.
- The Council receives periodic reports from the Audit Committee concerning internal control, and it requires regular reports from the Directorate on the steps it is 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 maintained.
- A system of key performance indicators has been developed.
- A risk prioritisation methodology based on risk ranking has been established.
- There is regular review of the Risk Register, involving the Directorate, to identify and keep up to date the record of risks facing the organisation.
- Training for managers with responsibility for areas involving high-level risk includes attendance at relevant workshops.
- An annual review conducted by the Directorate is presented in written form to the Executive Committee of RCM Council for detailed discussion, and reported to Council.

The review of the effectiveness of the system of internal control is informed by the reports of the internal auditors, Kingston City Group, who operate to the standards defined in the HEFCE Accountability and 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.

Kingston City Group were the Royal College of Music internal auditors during the year.

The Council's review of the effectiveness of the system of internal control is also informed by the work of the Directorate 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.

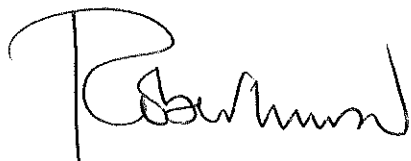
The College has a disability statement that is intended to provide information to prospective students, current students and staff of the College about its arrangements to support students and staff with disabilities.

Lord Winston

Professor Colin Lawson

Chairman
26 November 2008

Director
26 November 2008



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

We have audited the financial statements (the 'financial statements') of the Royal College of Music for the year ended 31 July 2008 which comprise the statement of principal accounting policies, the income and expenditure account, the statement of total recognised gains and losses, the statement of historical cost surpluses and deficits, the College balance sheet, the cash flow statement and the notes to the financial statements. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council, in accordance with Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice Accounting for Further and Higher Education, applicable United Kingdom law and accounting standards. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and College's Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and Auditors

The governing body's responsibilities for preparing the financial statements in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of the Responsibilities of the Governing Body.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respects, income has been applied in accordance with the statutes and, where appropriate, the financial memorandum with the Higher Education Funding Council for England.

We also report to you whether in our opinion the Chairman's Statement, the Director's Report, the Operating and Financial Review and the Corporate Governance Report are 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 other information contained in the financial statements and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Director's Report, the Operating and Financial Review and the Corporate Governance Statement. We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the College's corporate governance procedures or its risk and control procedures.

Basis of opinion

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

Royal College of Music

We planned and have performed our audit so as to obtain all the information and explanations we considered necessary 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the College as at 31 July 2008 and of the College's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the College's Royal Charter and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education.
- in all material respects, income from the Higher Education Funding Council for England, and grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2008 have been applied for the purposes for which they were received
- in all material respects, income during the year ended 31 July 2008 has been applied in accordance with the College's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

LONDON

28 November 2008

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. ACCOUNTING CONVENTION

The accounts have been prepared under the historical cost convention as modified by the revaluation of heritage assets, musical instruments and certain land and buildings for which a cost is not readily ascertainable, and in accordance with both the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education, and guidance published by the Higher Education Funding Council for England (HEFCE). On matters where these sources are silent, particularly aspects of the College which pertain to its registered charity status, guidance has been sought from the Statement of Recommended Practice: Charities published in 2005.

Consolidated accounts for the financial year to 31 July 2007 were prepared and consisted of the accounts of the College, its subsidiary undertaking, RCM Development Fund Limited, and the charity, Prince Consort Foundation (PCF) for the financial year to 31 July 2007 and the College's share of the results of its associate (ABRSM) for the financial year to 31 January 2007.

As PCF was wound up and its assets transferred to the College on 30 June 2007, consolidated accounts are not required for the financial year to 31 July 2008. The 2007 comparatives in the accounts therefore reflect the College's figures only. In the College's figures, the interest in ABRSM is carried at cost.

The College's figures for 2007 have been restated to reflect the adoption of the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education, which required the analysis and reclassification of restricted and endowment funds.

2. RECOGNITION OF INCOME

Grants received from HEFCE during the year have been included in income for the year unless designated for a specific purpose.

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

Grants applied to capital expenditure are included in Deferred Capital Grants.

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 endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to endowments.

Donations, bequests or gifts with no specific terms attached to their 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.

Income derived from tuition fees from students is recognised in the period in which it is earned and includes all the fees chargeable to them.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3. TANGIBLE FIXED ASSETS

a. Land and buildings

Land and buildings are stated at cost or valuation. 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.

Work on planned future construction projects is expensed during the preparatory phase but is capitalised in accordance with FRS 15 'Tangible Fixed Assets' from the point when the decision is taken to proceed with the project. Assets in the course of construction are valued at current cost and no depreciation is provided until the asset is brought into use.

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 or at valuation for donated instruments. 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.

4. FIXED ASSET INVESTMENTS

(a) Heritage Assets

Heritage Assets relate to certain displayed portraits and other works of art, which are of significant historical interest to musicians, and which are stated at valuation in the accounts and are not depreciated. There is no reason to believe that there has been any impairment in the value of these assets.

The College holds a wealth of reference material in the RCM library 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 Centre for Performance History (CPH). With the exception of the Heritage Assets, the above collections have not been valued in the accounts as the cost of analysis or the cost of valuations would be onerous in comparison with any benefit to be derived by users of the accounts.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Associated Board of the Royal Schools of Music (ABRSM)

In the accounts of the College, the interest in the ABRSM is carried at cost. The College does not believe that the carrying value is overstated.

5. MANAGED INVESTMENTS

Managed investments are included in the balance sheet at market value. Gains or losses on valuation are taken through the statement of recognised gains and losses.

6. RESTRICTED AND ENDOWMENT FUNDS

Restricted and endowment funds have been restated to reflect the adoption of the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education.

Restricted expendable funds represent the unspent balance of donations made to the College where the donor has specified the purpose of the donation. In the accounts for the financial year to 31 July 2007, an amount of £250,000 which was classified as restricted expendable funds has been transferred to deferred capital grants in line with the 2007 SORP.

Restricted permanent funds do not allow the capital to be used and require the income generated to be used for the purpose for which the money was originally given. Work to establish the nature and purpose for all funds within the total restricted permanent funds balance, and to verify the split between capital and accumulated income, is ongoing.

Under the new SORP general donations must be recognised as income unless the donor states that the funds are to be retained for the benefit of the institution. Unrestricted endowments have no accumulated income segment, since all income arising in the year is utilised in the College's general activities. Of the £11m balance in general endowments as at 31 July 2007, it has been established that £7.7m comprised unfettered donations with no requirement to retain the funds, and as such these donations have been moved to revenue reserves as a prior year adjustment. Further work will be undertaken on the remaining endowments in this category to ascertain whether further transfers can be made in future years.

New endowments are treated as capital introduced and are taken to the balance sheet through the statement of total recognised gains and losses. Investment income earned on endowments is recognised in the income and expenditure account when earned and unspent balances at the end of the financial year are transferred to the appropriate endowment fund. The gains/losses on the revaluation of endowment investments are recognised in the statement of total recognised gains and losses.

7. 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.

Under the definitions set out in FRS 17 'Retirement Benefits', the TPS and the USS are multi-employer pension Schemes. The College is unable to identify its share of the underlying assets and liabilities of the schemes. Accordingly, the College has accounted for its contributions as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. The College has fully adopted FRS17 'Retirement Benefits' for the RCM Pension Scheme.

8. 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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

9. LEASED ASSETS

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

10. LIQUID RESOURCES

In the context of the statement of cash flows, liquid resources comprise cash held on short-term deposit.

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 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.

12. STUDENTS' ASSOCIATION

In accordance with FRS2 'Accounting for Subsidiary Undertakings', 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.

13. ACCESS FUNDS

The College acts as a paying agent for HEFCE Access grants which are solely available for students.

INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2008

	Notes	2008 £	(restated) 2007 £
INCOME			
Funding council grants	1	4,723,438	4,427,187
Academic fees and support grants	2	4,963,260	4,779,342
Research grants	3	434,598	537,161
Other operating income	4	4,267,966	11,989,544
Endowment and restricted income and interest receivable	5	1,872,124	2,469,257
Total income		16,261,386	24,202,491
EXPENDITURE			
Staff costs	8	8,686,952	8,192,556
Depreciation	9	908,008	987,402
Other operating expenses	10	5,897,996	5,528,974
Interest and other finance costs	11	265,448	803,753
Total expenditure		15,758,404	15,512,685
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax	12	502,982	8,689,806
Surplus income from scholarship funds and donors transferred to endowment funds	21	(171,312)	(733,664)
Surplus for year retained within general reserves	23	331,670	7,956,142

The income and expenditure account is in respect of continuing activities. The accounts for the year ended 31 July 2007 has been restated to reflect the adoption of the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education under which general donations and their associated expenses must be taken to the Income and Expenditure Account (refer to Accounting Policy 6).

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS
for the year ended 31 July 2008

		2008 £	(restated) 2007 £
Surplus on continuing operations after depreciation of fixed assets at valuation and disposal of assets but before tax		502,982	8,689,806
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	22, 23	230,974	378,199
Historical cost surplus before tax		733,956	9,068,005
Historical cost surplus after tax		733,956	9,068,005

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2008

	Notes	2008 £	(restated) 2007 £
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and after tax.		502,982	8,689,806
New endowments	21	175,000	-
Other capital movements on endowment assets	21	4,254	-
(Decrease)/increase in value of endowment asset investments	21	(2,416,986)	718,518
(Decrease)/increase in value of fixed asset investments	14	(1,429,138)	131,456
Actuarial gain on RCM pension scheme	26	302,000	593,000
Net revaluation reserve release on disposal of fixed assets	22	-	(12,008)
Transfer of former RCM Society Bank Account to the College		3,896	-
		<u>(2,857,992)</u>	<u>10,120,772</u>
Total recognised gains relating to the year			
		<u>(2,857,992)</u>	<u>10,120,772</u>
Total gains and losses recognised since last annual report			
Reconciliation:			
Opening reserves and endowments		46,298,192	36,177,420
Total recognised gains relating to the year		(2,857,992)	10,120,772
		<u>43,440,200</u>	<u>46,298,192</u>
Closing reserves and endowments			

The total recognised gains for the financial year ended 31 July 2007 are restated in the accounts for the financial year ended 31 July 2008 to reflect the adoption of the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education. However the total reserves of the College remain unchanged and as such no prior year adjustment note has been presented.


Royal College of Music

BALANCE SHEET as at 31 July 2008

	Notes	2008 £	(restated) 2007 £
FIXED ASSETS			
Tangible assets	13	17,767,644	16,503,156
Investments	14	13,767,917	16,029,381
		<u>31,535,561</u>	<u>32,532,537</u>
RESTRICTED & ENDOWMENT ASSETS			
Fixed asset investments	15	21,013,516	22,863,223
Other endowment assets	16	584,225	800,938
		<u>21,597,741</u>	<u>23,664,161</u>
CURRENT ASSETS			
Debtors	17	319,341	357,745
Cash at bank and in hand		289,303	1,123,052
Cash on deposit		1,636,532	1,962,023
		<u>2,245,176</u>	<u>3,442,820</u>
CREDITORS: amounts falling due within one year	18	(1,530,561)	(2,098,597)
NET CURRENT (LIABILITIES)/ASSETS		<u>714,615</u>	<u>1,344,223</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>53,847,917</u>	<u>57,540,921</u>
CREDITORS: amounts falling due after more than one year	19	(2,807,437)	(2,970,187)
NET ASSETS EXCLUDING PENSION LIABILITY		<u>51,040,480</u>	<u>54,570,734</u>
NET PENSION LIABILITY	26	(965,000)	(1,352,000)
NET ASSETS INCLUDING PENSION LIABILITY		<u>50,075,480</u>	<u>53,218,734</u>
DEFERRED CAPITAL GRANTS			
	20	6,635,280	6,920,542
RESTRICTED & ENDOWMENT FUNDS			
Restricted Expendable Funds	21	116,081	281,999
Restricted Permanent Funds	21	18,765,092	20,182,616
Unrestricted Permanent Endowments	21	2,716,568	3,199,546
		<u>21,597,741</u>	<u>23,664,161</u>
RESERVES			
Revaluation reserve	22	7,058,010	7,288,984
Accumulated revenue reserve	23	14,784,449	15,345,047
		<u>21,842,459</u>	<u>22,634,031</u>
ENDOWMENTS AND RESERVES		<u>43,440,200</u>	<u>46,298,192</u>
TOTAL		<u>50,075,480</u>	<u>53,218,734</u>

Approved by Council and signed on its behalf on 26 November 2008 by:

Lord Winston



Prof. Colin Lawson



STATEMENT OF CASH FLOWS
for the year ended 31 July 2008

	Notes	2008 £	2007 £
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	24	(475,751)	8,646,848
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Income from endowments		1,044,295	1,369,776
Other interest received		108,174	69,677
Interest paid		(265,448)	(803,753)
		887,021	635,700
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire endowment asset investments	15	(4,837,939)	(5,495,438)
Realisation of endowment asset investments	15	4,042,447	4,925,242
Payments to acquire tangible fixed assets	13	(2,188,392)	(1,623,020)
Receipts from sale of fixed assets	13	25,000	30,000
Net released from/(placed in) fixed asset investments		1,436,421	26,431
Capital grants received	20	172,265	1,756,687
PCF assets transferred		-	(8,068,023)
Endowments received	21	175,000	-
		(1,175,198)	(8,448,121)
MANAGEMENT OF LIQUID RESOURCES			
Amounts released from/(placed on) deposit		325,491	(185,854)
FINANCING			
Increase in secured loan	19	-	655,000
Repayments of amounts borrowed	19	(162,750)	(122,063)
		(162,750)	532,937
CASH MOVEMENT	25	(601,187)	1,181,510

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

1. FUNDING COUNCIL GRANTS

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

	2008	2007
	£	£
Recurrent teaching grant	4,236,678	4,122,368
HR Strategy	173,093	110,129
Inherited staff liabilities	79,250	80,645
Reach Out to Business & the Community	-	6,725
Conservatoire UCAS Admission System for Music	113,663	28,962
Other specific grants	120,754	78,358
	<u>4,723,438</u>	<u>4,427,187</u>

2. ACADEMIC FEES AND SUPPORT GRANTS

	2008	2007
	£	£
UK higher education students	1,216,324	1,106,419
Other European Union students	509,046	538,006
Non European Union students	2,148,195	2,084,649
Other	98,249	93,084
Junior Department	991,446	957,184
	<u>4,963,260</u>	<u>4,779,342</u>

3. RESEARCH GRANTS

	2008	2007
	£	£
HEFCE	356,160	319,471
Grants from research councils	78,438	217,690
	<u>434,598</u>	<u>537,161</u>

The figures in Note 3 reflect Research Grants provided by HEFCE and research councils. Other research activity funded by charities continues to be included under Grant Income within Note 4.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

4. OTHER OPERATING INCOME

	Notes	2008 £	(restated) 2007 £
Grant income from charities		368,108	564,012
Catering and residences		905,572	845,883
Other services rendered		289,275	294,326
Profit on sale of fixed assets		12,561	21,000
Released from deferred capital grants	9, 20	457,527	484,502
Donations and other income		2,234,923	9,779,821
		<u>4,267,966</u>	<u>11,989,544</u>

In the 2007 accounts, donations and other income of the College included the unencumbered donation of assets from the Prince Consort Foundation of £8,068,023 (see note 12) and £300,000 from ABRSM. In the 2008 accounts, donations of £1,175,000 were received from ABRSM.

Donations and other income have been restated for the year ended 31 July 2007 to include investment income on assets held as fixed asset investments which were previously held as general endowment assets.

	Notes	2007 £
Donations and other income reported at 31 July 2007		9,263,416
Income for the year held on fixed asset investments previously held as general endowment assets	5	516,405
Donations and other income restated at 31 July 2007		<u>9,779,821</u>

5. RESTRICTED AND ENDOWMENT INCOME AND INTEREST RECEIVABLE

	Notes	2008 £	(restated) 2007 £
Restricted donations	21	719,655	1,279,804
Transfer from restricted donations to deferred capital grants	21	-	(250,000)
		<u>719,655</u>	<u>1,029,804</u>
Investment income on restricted endowments	21	902,769	1,148,460
Investment income on unrestricted endowments	21	141,526	221,316
Other interest receivable		108,174	69,677
		<u>1,872,124</u>	<u>2,469,257</u>

Restricted and endowment income has been restated for the year ended 31 July 2007 to reflect the revised classification of donations and endowments as specified in the SORP 2007.

	Notes	2007 £
Investment income on unrestricted endowments reported at 31 July 2007		737,721
Transfer of income to donations and other income in Other Operating Income	4	(516,405)
Investment income on unrestricted endowments restated at 31 July 2007		<u>221,316</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

6. DIRECTOR'S EMOLUMENTS

	2008 £	2007 £
Salary	124,537	119,416
Benefits in kind	1,212	1,212
Pension contributions	17,435	16,718
Total emoluments	<u>143,184</u>	<u>137,346</u>

From 1 September 2006, the Director is required as part of his contract to live in a residence owned by the College. The costs associated with this residence in the year were £1,212 (2007: £1,212).

7. REMUNERATION OF HIGHER PAID STAFF

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

	2008 Number	2007 Number
£60,001-£70,000	-	-
£70,001 - £80,000	-	-
£80,001 - £90,000	1	3
£90,001 - £100,000	3	2
£100,001-£110,000	1	-
£110,001-£120,000	-	-
£120,001-£130,000	-	-
£130,001-£140,000	-	1
£140,001 - £150,000	1	-
	<u>6</u>	<u>6</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

8. STAFF COSTS

	2008 £	2007 £
Wages and salaries	7,581,343	7,189,321
Social security costs	473,957	491,904
Pension costs	631,652	511,331
	<u>8,686,952</u>	<u>8,192,556</u>

STAFF COSTS BY DEPARTMENT

	2008 Full time Equivalents	2007 Full time Equivalents	2008 £	2007 £
Teaching departments	73	75	4,138,455	4,043,842
Teaching support services	42	38	1,359,824	1,244,045
Administration and central services	59	51	2,772,736	2,520,946
Premises	12	13	415,937	383,723
	<u>186</u>	<u>177</u>	<u>8,686,952</u>	<u>8,192,556</u>

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

9. DEPRECIATION

The depreciation charge has been funded by:

	Notes	2008 £	2007 £
Deferred capital grants released	20	457,527	484,502
Released from revaluation reserve	22, 23	230,974	378,199
Financed internally		219,507	124,701
		<u>908,008</u>	<u>987,402</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

10. OTHER OPERATING EXPENSES

	2008 £	2007 £
Catering operating expenses	267,091	274,000
Academic departments	688,931	744,126
Learning resources	218,712	190,531
Scholarships and bursaries	1,376,773	1,532,761
Premises costs	1,175,254	1,043,480
Grant to RCM Students' Association	24,898	24,542
Other expenses	2,135,023	1,714,157
Bad debts	11,314	5,377
Total	<u>5,897,996</u>	<u>5,528,974</u>

The increase in Other expenses relates to additional spending on staff recruitment and professional development, together with a full year's allocation of investment management fees on the investments transferred from PCF.

Other operating expenses include:

Auditors' remuneration - external auditors	35,838	39,375
Auditors' remuneration in respect of prior year - external auditors	28,586	-
Auditors' remuneration - internal audits	25,123	27,569
Auditors' remuneration - non-audit related fees	2,235	3,012
Hire of plant and machinery - operating leases	2,444	2,444
Hire of other assets - operating leases	1,005	1,005

11. INTEREST AND OTHER FINANCE COSTS

	Notes	2008 £	2007 £
Bank loans not wholly repayable within five years	19	261,397	115,753
Interest penalty incurred in breaking former fixed rate bank loan	19	-	655,000
Other finance costs arising from the pension scheme liabilities		4,051	33,000
Total		<u>265,448</u>	<u>803,753</u>

12. SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR

	2008 £	2007 £
College's surplus for the year	502,982	8,689,806
Net assets donated to the College by the PCF	-	(8,068,023)
Surplus on continuing operations for the period	<u>502,982</u>	<u>621,783</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

13. TANGIBLE ASSETS

Cost or Valuation	Notes	Land and buildings		Furniture & Equipment	Musical Instruments	Total
		Freehold £	Leasehold £			
Balance reported at 1 August 2007		4,265,681	12,191,598	1,586,040	5,862,036	23,905,355
Additions		-	1,752,546	277,427	158,419	2,188,392
Disposals		-	-	-	(35,000)	(35,000)
At 31 July 2008		4,265,681	13,944,144	1,863,467	5,985,455	26,058,747
Depreciation						
Balance reported at 1 August 2007		687,706	2,537,305	1,085,203	3,091,985	7,402,199
Provided during the year	9	98,212	333,423	257,828	218,545	908,008
Disposals		-	-	-	(19,104)	(19,104)
At 31 July 2008		785,918	2,870,728	1,343,031	3,291,426	8,291,103
Net book value at 31 July 2008		3,479,763	11,073,416	520,436	2,694,029	17,767,644
Net book value at 1 August 2007		3,577,975	9,654,293	500,837	2,770,051	16,503,156

The freehold land and buildings comprise the College's Hall of residence and a residential property in London. They are stated in the accounts at cost less depreciation.

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, expiring in the year 2890, 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 leasehold land and buildings were valued on the basis of depreciated replacement cost at 31 July 1991 by Wilks, Head and Eve, Chartered Surveyors. Subsequent additions have been included at cost.

The leasehold land and buildings additions include £873,859 of assets in the course of construction relating to work on the Concert Hall at the main site. These assets are included at current cost and no depreciation is provided until the asset is brought into use.

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 cost for subsequent additions, or valuation for later donated instruments.

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. There has been no indication that there has been any impairment in the value of these assets.

Tangible fixed assets are financed as follows:-

	Notes	2008 £	2007 £
Revaluation reserve	22	6,163,011	6,393,984
Deferred capital grants	20	6,635,280	6,920,542
Internal funds		4,969,353	3,188,630
Total		17,767,644	16,503,156

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

14. FIXED ASSET INVESTMENTS

	Notes	2008 £	(restated) 2007 £
Investment in subsidiary company		100	100
Heritage assets		933,500	933,500
Interest in the ABRSM at cost	31	2,275,000	2,275,000
		<u>3,208,600</u>	<u>3,208,600</u>
Managed investments transferred from PCF		4,442,258	5,393,647
Managed investments formerly held in general endowment funds		6,117,059	7,427,134
		<u>10,559,317</u>	<u>12,820,781</u>
Total		<u>13,767,917</u>	<u>16,029,381</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.

Since 2007 Heritage Assets has included a part of the College collection of art which is of significant historical interest to musicians. These artworks comprise items on display at 9 November 2005 which were valued for insurance purposes at £895,000 by Seymours, Art Advisers and Valuers and £38,500 for a subsequent addition at cost. There is no reason to believe that there has been any impairment in the value of these assets. In accordance with the transitional provisions of FRS 15, no value has been placed on the other Heritage Assets held by the College when this FRS was implemented.

The College has a 25% interest in the Associated Board of the Royal Schools of Music (ABRSM), which is carried at cost. The ABRSM is a registered charity, number 292182, and a company limited by guarantee, registered number 192639S, established by four Royal Schools of Music for the benefit of music education. The ABRSM has no share capital and the liability of the members in the event of winding up is limited to £1 per member. In the event of a winding up, the ABRSM's constitution requires its governing body to consider, in the first instance, the transfer of surplus assets to another body that is equipped to carry on the work of ABRSM. The ABRSM is an international examining body that offers a system of graded music examinations in 80 countries around the world. The company is also a provider of professional development for instrumental and singing teachers. A subsidiary of the ABRSM is engaged in the production and sale of music publications.

Managed investments reflect the stock market portfolio transferred as part of the unencumbered assets donated by the Prince Consort Foundation to the College on 30 June 2007. The figures for 2007 have been restated to reflect the transfer of general endowment reserves with no conditions attached to the use of the capital into revenue reserves in line with SORP 2007.

	2008 £	(restated) 2007 £
Balance reported 1 August 2006		5,393,647
Adjustment due to transfer of unrestricted reserves to revenue reserves		<u>7,612,580</u>
Balance as at 1 August 2007/restated at 1 August 2006	12,820,781	13,006,227
Additions		
Proceeds on disposals	2,138,360	1,453,613
Net (losses)/gains on revaluation	(3,620,655)	(1,624,313)
Movements on cash	(1,429,139)	131,456
	649,970	(146,202)
Balance at 31 July 2008	<u>10,559,317</u>	<u>12,820,781</u>

Investments held are analysed as follows:

	Notes	2008 £	(restated) 2007 £
Managed investments			
Fixed interest stocks (listed)		1,994,970	1,815,323
Equities (listed) and unit trusts		7,692,442	10,737,209
Cash held by investment managers	25	871,905	268,249
		<u>10,559,317</u>	<u>12,820,781</u>
	31	<u>10,559,317</u>	<u>12,820,781</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

15. RESTRICTED AND ENDOWMENT FUNDS - FIXED ASSET INVESTMENTS

	Notes	2008 £	(restated) 2007 £
Balance reported 1 August 2006			28,722,107
Adjustment due to transfer of unrestricted reserves to revenue reserves			<u>(7,612,580)</u>
Balance as at 1 August 2007/restated at 1 August 2006		22,863,223	21,109,527
Additions		4,837,939	5,495,438
Proceeds on disposals		(4,042,447)	(4,925,242)
Net (losses)/gains on revaluation	21	(2,416,986)	718,518
Movements on cash		(228,213)	464,982
Balance at 31 July 2008		<u>21,013,516</u>	<u>22,863,223</u>
Investments held are analysed as follows:			
		2008 £	2007 £
Managed investments			
Fixed interest stocks (listed)		5,418,302	4,459,762
Equities (listed) and unit trusts		14,659,038	17,271,605
Cash held by investment managers		890,813	1,072,713
		<u>20,968,153</u>	<u>22,804,080</u>
Other investments			
Investment in a CAF fund		45,363	59,143
Total		<u>21,013,516</u>	<u>22,863,223</u>

The figures for the year ended 2007 have been restated to reflect the SORP 2007. General endowments for which no conditions were attached to the use of the capital are now included in the Fixed Asset Investments of the College (see Note 14).

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

16. RESTRICTED AND ENDOWMENT FUNDS - OTHER ASSETS

	2008 £	(restated) 2007 £
Cash at bank	93,002	18,262
Cash on deposit	422,430	686,365
Debtors	75,251	101,770
Creditors	(6,458)	(5,459)
Total	584,225	800,938

The 2007 cash balances within restricted and endowment funds have been restated to match the transfer of general endowments reserves with no conditions attached to the use of the capital into revenue reserves in line with SORP 2007.

17. DEBTORS

	2008 £	(restated) 2007 £
Amounts falling due within one year:		
Debtors	172,962	142,093
Prepayments and accrued income	146,379	215,652
Total	319,341	357,745

18. CREDITORS: amounts falling due within one year

	Notes	2008 £	2007 £
Bank loans and overdrafts	19	162,750	162,750
Creditors		509,556	395,478
Balances with subsidiary undertaking		5,692	5,692
Social security and other taxation payable		(1,283)	219,374
Accruals		670,763	763,109
Deferred income		183,083	552,194
Total		1,530,561	2,098,597

The College balances with subsidiary undertaking relate to RCM Development Limited (see Note 14).

In the 2007 and 2008 accounts, there were no material balances between the College and ABRSM as at the balance sheet date.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

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

	2008 £	2007 £
Bank loan	<u>2,807,437</u>	<u>2,970,187</u>
Due within 1-2 years	162,750	162,750
due 2-5 years	488,250	488,250
due after more than 5 years	<u>2,156,437</u>	<u>2,319,187</u>
	<u>2,807,437</u>	<u>2,970,187</u>

The College took out a long term loan in 1994 for £4,000,000 at a fixed interest rate of 10.5% which was secured as £3,500,000 on the freehold of the College Hall residence and £500,000 on the College's general endowment fund. Repayment of the loan was effected by annual amounts of £200,000.

On 16 October 2006, agreement was reached with the College bankers to replace this loan with a new loan at a fixed interest rate of 5.3%. The cost of dissolving the original loan was £655,000 and this amount was added to the outstanding balance of £2,600,000, making a total for the new loan of £3,255,000 which is being repaid by quarterly instalments over 20 years. Security for the new loan continues as previously.

20. DEFERRED CAPITAL GRANTS

	Notes	HEFCE £	Private funding £	Total £
Reported at 1 August 2007	13	1,433,608	5,236,934	6,670,542
Transfer of deferred capital grant from restricted funds	21	-	250,000	250,000
Restated at 1 August 2007		<u>1,433,608</u>	<u>5,486,934</u>	<u>6,920,542</u>
Cash received		21,107	151,158	172,265
Released to income and expenditure	4	(105,281)	(352,246)	(457,527)
Balance at 31 July 2008	13	<u>1,349,434</u>	<u>5,285,846</u>	<u>6,635,280</u>

Under the 2007 Statement of Recommended Practice, donations towards the cost of purchase or construction of a tangible fixed asset other than land are to be classified as deferred capital grants. In the 2007 accounts, an amount of £250,000 was shown in restricted funds as it was given for the Concert Hall refurbishment. This has been reclassified to deferred capital grants in a prior year adjustment in the 2008 accounts - see note 21.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

21. RESTRICTED AND ENDOWMENT FUNDS

Notes	Restricted Expendable £	Restricted Permanent £	Unrestricted Permanent £	Total £
Balance reported 1 August 2006	-	19,066,907	10,757,652	29,824,559
Transfer of unrestricted reserves to revenue reserves	-	-	(7,612,580)	(7,612,580)
Balance restated at 1 August 2006	-	19,066,907	3,145,072	22,211,979
New endowments	-	-	-	-
Gains in market value of investments	15	662,180	56,338	718,518
Capital Movements	-	662,180	56,338	718,518
Income for year	5	1,148,460	221,316	2,649,580
Expenditure for year	(747,805)	(694,931)	(223,180)	(1,665,916)
Revenue Movements	531,999	453,529	(1,864)	983,664
Transfer to deferred capital grants	20	(250,000)	-	(250,000)
Balance restated at 31 July 2007	281,999	20,182,616	3,199,546	23,664,161
New endowments/capital income	-	175,000	2,754	177,754
Correction of instrument loan fund balance	-	1,500	-	1,500
Gains in market value of investments	15	(2,062,169)	(354,817)	(2,416,986)
Capital Movements	-	(1,885,669)	(352,063)	(2,237,732)
Income for year	5	719,655	141,526	1,763,950
Expenditure for year	(885,573)	(434,624)	(272,441)	(1,592,638)
Revenue Movements	(165,918)	468,145	(130,915)	171,312
Balance at 31 July 2008	116,081	18,765,092	2,716,568	21,597,741

Purpose of fund balances:-

	Restricted Expendable £	Restricted Permanent £	Unrestricted Permanent £	Total £
Scholarships, bursaries and prizes	116,081	18,593,111	-	18,709,192
Instrument loans	-	171,981	-	171,981
Unrestricted use of income	-	-	2,716,568	2,716,568
Balance at 31 July 2008	116,081	18,765,092	2,716,568	21,597,741

Under the 2007 Statement of Recommended Practice, donations towards the cost of purchase or construction of a tangible fixed asset other than land are to be classified as deferred capital grants. In the 2007 accounts, an amount of £250,000 was shown in restricted funds as it was given for the Concert Hall refurbishment. This has been reclassified to deferred capital grants in a prior year adjustment in the 2008 accounts - see note 20.

The SORP requires restricted permanent funds to be split into capital and accumulated income. Work to verify the split on the Restricted Permanent Funds is ongoing and as such this presentation has not been adopted for the 2008 accounts.

In the 2007 accounts, £10,757,652 was reported as the opening balance on 'general endowments'. The 2007 SORP requires unfettered donations to be recognised as income unless the donor states that the funds are to be retained for the benefit of the institution. A prior year adjustment has been made to transfer £7,612,580 to revenue reserves as it has been determined that no restrictions apply to the donations which comprise this balance. Further work will be undertaken on the remaining balance in this category to ascertain whether further transfers can be made in future years. The remaining balance is being treated as unrestricted permanent funds until this work is completed.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

22. REVALUATION RESERVE

	Notes	Land and buildings £	Heritage assets £	Musical instruments £	Total £
Balance reported at 1 August 2007		4,506,221	895,000	1,887,763	7,288,984
Released in year	9	110,208	-	120,766	230,974
Net Revaluation Amount at 31 July 2008		<u>4,396,013</u>	<u>895,000</u>	<u>1,766,997</u>	<u>7,058,010</u>

23. ACCUMULATED REVENUE RESERVE

	Notes	2008 £	2007 £
Balance reported 1 August 2006			(1,326,329)
Prior year adjustment re transfer from unrestricted reserves	21		7,612,580
Balance as at 1 August 2007/restated at 1 August 2006		15,345,047	6,286,251
Surplus/(deficit) from income and expenditure account		331,670	7,956,142
(Decrease)/increase in the value of fixed asset investments		(1,429,138)	131,456
Transfer of former RCM Society bank balance		3,896	-
Actuarial gain on RCM pension scheme	26	302,000	593,000
Release from revaluation reserve	22	230,974	378,198
At 31 July 2008		<u>14,784,449</u>	<u>15,345,047</u>
Analysis of accumulated revenue reserve carried forward:-			
Reserve before pension liability		15,749,449	16,697,047
RCM pension scheme liability	26	(965,000)	(1,352,000)
Reserve including pension liability		<u>14,784,449</u>	<u>15,345,047</u>

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

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

	Notes	2008 £	(restated) 2007 £
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax.		502,982	8,689,806
Depreciation	9	908,008	987,402
Profit on the sale of fixed assets	4	(12,561)	(21,000)
Deferred capital grants released to income	4	(457,527)	(145,879)
Investment income and interest receivable	5	(1,152,469)	(1,439,453)
Interest payable	11	265,448	803,753
Decrease in debtors	17	38,404	57,981
Decrease in creditors	18	(568,036)	(285,762)
Net cash outflow in the year from operating activities		(475,751)	8,646,848

25. ANALYSIS OF CHANGES IN NET FUNDS

	Notes	At 1 August 2007	Cashflows	At 31 July 2008
Cash				
Endowment assets				
Balances at investment managers	15, 31	1,063,926	(173,113)	890,813
Other balances	16, 31	704,627	(189,195)	515,432
College current assets				
Cash at bank and in hand	31	1,123,052	(833,749)	289,303
Balances at investment managers	14, 31	277,036	594,869	871,905
		3,168,641	(601,188)	2,567,453
Financing				
Loan: Due within one year	18	(162,750)	-	(162,750)
Loan: Due after one year	19	(2,970,187)	162,750	(2,807,437)
Current Assets Investments				
Cash on deposit		1,962,023	(325,491)	1,636,532
		1,997,727	(763,929)	1,233,798

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES

The College has employees participating in and contributing towards the Royal College of Music Pension and Assurance Scheme, the Teachers' Pension Scheme (TPS) and the Universities Superannuation Scheme Limited (USS).

THE TEACHERS' PENSION SCHEME (TPS)

Introduction

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit 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, to teachers in many independent and voluntary-aided schools, and to teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers and lecturers, and from 1 January 2007 automatic too for teachers and lecturers in part-time employment following appointment or a change of contract. Teachers and lecturers are able to opt out of the TPS.

Because of the mutual nature of the scheme, the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The Teachers' Pension Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension 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 unfunded TPS, 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). From 1 April 2001, the Account has been 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 four years the Government Actuary (GA), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rate (SCR) is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable 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 standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

The last valuation of the TPS related to the period 1st April 2001 to 31st March 2004. The GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. 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 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR has been assessed at 19.75%, and the supplementary contribution rate has been assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years); a total contribution rate of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement has also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

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). The assets of the scheme are held in a separate trustee-administered fund. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. 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), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and non-retired members

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males	19.8 years
Females	22.8 years

At the valuation date, the value of assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS17 basis, using a AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

The College contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the College's contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

USS is a "last man standing" scheme so that in the event of insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The contribution rate payable by the College was 14% of pensionable salaries.

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

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

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the College are charged to the income & expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS 17 'Retirement Benefits'. The difference between the fair value of the assets held in the RCM Pension Scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the College's balance sheet as a pension scheme asset or liability as appropriate.

A formal valuation of the RCM Pension Scheme was carried out as at 1st August 2005 and the shortfall is being recovered over a seven year period. The College's employer contributions have been 14.9% from 1 July 2003.

With effect from 1st August 2007, the College has decided that the liability for future service for members of the Scheme should be provided by the University Superannuation Scheme. The College will continue to fund the shortfall in the RCM pension scheme and will make a contribution of £120k in 2008/09.

FRS 17

The following information is based upon a full actuarial valuation of the fund at 31 July 2008, by a qualified independent actuary.

	At 31 July 2008	At 31 July 2007	At 31 July 2006
Inflation	3.90%	3.30%	3.10%
Rate of increase in salaries	4.90%	4.30%	4.10%
Rate of increase for pensions	3.90%	3.30%	3.10%
Discount rate for liabilities	6.60%	5.80%	5.20%

The assets and the expected rates of return were:

	Long-term rate of return expected at 31 July 2008	Value at 31 July 2008	Long-term rate of return expected at 31 July 2007	Value at 31 July 2007	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006
		£'000		£'000		£'000
Equities	8.00%	3,190	7.75%	3,337	7.5%	2,922
Bonds	5.90%	1,751	5.50%	1,780	5.0%	1,544
Cash	5.00%	16	5.75%	38	4.75%	32
Total market value of assets		4,957		5,155		4,498

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

	Years ended 31 July				
	2008	2007	2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Market value of assets	4,957	5,155	4,498	3,777	2,776
Present value of scheme liabilities	5,922	6,507	6,446	5,752	4,400
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Deficit in the scheme	(965)	(1,352)	(1,948)	(1,975)	(1,624)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The market value of assets is based on valuation statements as at 1 August 2008 provided by Legal and General, and the balance of the Trustees' bank account as at 31 July 2008 provided by Barclays. The value of scheme liabilities is based on the preliminary results of the actuarial valuation of the scheme as at 1 August 2007 adjusted to 31 July 2008.

Analysis of the amount charged to income and expenditure account

	31 July 2008	31 July 2007
	£'000	£'000
Service cost	-	278
Past service cost	18	17
	<u> </u>	<u> </u>
Total Operating Charge	18	295
	<u> </u>	<u> </u>

Analysis of net interest on pension liabilities

	Year Ended	Year Ended
	31 July 2008	31 July 2007
	£'000	£'000
Expected return on pension scheme assets	360	310
Interest on pension liabilities	(376)	(343)
	<u> </u>	<u> </u>
Net interest	(16)	(33)
	<u> </u>	<u> </u>

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

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

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 £'000
Actual return less expected return on pension scheme assets	(597)	(30)
Experience gains and losses arising on the scheme liabilities	1,126	67
Changes in financial and demographic assumptions underlying the present value of liabilities	(227)	556
	<hr/>	<hr/>
Actuarial gain/(loss) to be recognised in STRGL	302	593
	<hr/>	<hr/>

The cumulative actuarial gain taken to the STRGL since the formation of the scheme is £277k.

Movement In deficit during the year

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 £'000
Deficit in scheme at 1 August	(1,352)	(1,948)
Movement in year:		
Current service charge	-	(278)
Contributions	119	331
Past service costs	(18)	(17)
Net interest / return on assets	(16)	(33)
Actuarial gain or loss	302	593
	<hr/>	<hr/>
Deficit In Scheme At 31 July	(965)	(1,352)
	<hr/>	<hr/>

History of Experience Gains and Losses

	2008	Years ended 31 July		2005	2004
		2007	2006		
Difference between the expected and actual return on assets	(597)	(30)	105	395	(126)
% of scheme assets	10.1%	(0.6%)	2.3%	10.5%	(4.5%)
Experience gains and losses on scheme liabilities	1,126	67	327	46	4
% of scheme liabilities	19.1%	1.0%	5.1%	0.8%	0.1%
Total amount recognised in STRGL	302	593	80	(333)	(243)
% of scheme liabilities	5.1%	9.1%	1.2%	(5.8%)	(5.5%)

NOTES TO THE ACCOUNTS For the year ended 31 July 2008

26. PENSION SCHEMES (CONTINUED)

Employer's and employees' total contributions

	Year Ended 31 July 2008 £	Year Ended 31 July 2007 £
Contributions to TPS	383,730	338,056
Contributions to RCM Pension Scheme	131,104	398,433
Contributions to USS	511,626	31,953
Total	1,026,460	768,442

NOTES TO THE ACCOUNTS
for the year ended 31 July 2008

27. ACCESS FUNDS

	2008 £	2007 £
Balance brought forward at 1 August	1,455	1,445
HEFCE grants	15,876	13,448
	<hr/>	<hr/>
Disbursed to students	17,331	14,893
Administration charge	(14,920)	(12,890)
	(880)	(548)
	<hr/>	<hr/>
Balance carried forward at 31 July	1,531	1,455
	<hr/> <hr/>	<hr/> <hr/>

HEFCE Access grants are available solely for students: the College acts only as a paying agent.

The above balances are included in current creditors.

28. CAPITAL COMMITMENTS

As at 31 July 2008 the College had capital commitments of £4,884,402 (2007: £674,634). Of this total, an amount of £4,320,587 related to the Concert Hall refurbishment works, including the new electrical transformer and the air-handling system. The remaining capital commitments were in respect of the new practice rooms at the Prince Consort Road site and the creation of the Centre of Performance History at the Goldhawk Road site.

The College will meet these commitments from a variety of sources. HEFCE has given the College a grant of £1.1 million as the College's share of the Capital Investment Framework; £1.5 million has been withdrawn from investments; fundraising is expected to raise at least £1.2 million which will be increased to £1.8 million under the matched funding scheme and any balances will be met from the reserves of the College.

29. FINANCIAL COMMITMENTS

At 31 July 2008 the College had annual commitments under non-cancellable operating leases as follows:

	2008 £	2007 £
<u>Land and buildings</u>		
Expiring in over five years	1,005	1,005
	<hr/>	<hr/>
<u>Other Operating Leases</u>		
Expiring between one and five years	2,444	2,444
	<hr/> <hr/>	<hr/> <hr/>

30. RELATED PARTY TRANSACTIONS

As far as the College is aware, there were no related party transactions during the year, other than normal transactions with the Associated Board of the Royal Schools of Music and a payment for professional charges of £7,280 to Eversheds LLP, of which Council Member John Hall is a solicitor and partner.

**NOTES TO THE ACCOUNTS
for the year ended 31 July 2008**

31. SHARE OF NET LIABILITIES OF ASSOCIATE

The interest in the ABRSM is carried at cost (see Note 14).

The College's 25% share of the results of ABRSM for the year ended 31st January, which is not consolidated in the 2008 accounts, are set out below:-

	2008 £	2007 £
Total income	7,554,250	7,417,750
Net income, after deducting charitable donations	<u>32,250</u>	<u>131,250</u>
Fixed Assets	335,750	359,250
Current Assets	2,762,750	2,840,500
Liabilities due within one year	(2,264,500)	(2,435,000)
Liabilities due after more than one year	-	0
Net assets before pension liabilities	<u>834,000</u>	<u>764,750</u>
Net pension liability	(1,230,750)	(1,593,500)
Net liabilities after pension fund deficit	<u>(396,750)</u>	<u>(828,750)</u>

32. POST BALANCE SHEET EVENTS

There are no post balance sheet events to report.