



Royal College of Music Annual Accounts 2005-6



Report and Accounts
Royal College of Music

31 July 2006

Royal College of Music

PATRON

Her Majesty The Queen

PRESIDENT

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

VICE-PRESIDENTS

The Most Revd and Rt Hon the Lord Archbishop of Canterbury

The Most Revd and Rt Hon the Lord Archbishop of York

The Rt Hon the Lord Mayor of London

Mr Michael Gough Matthews FRCM (Appointed 1997)

Lady Middleton FRCM (Appointed 2004)

Mr Humphrey Norrington OBE FRCM (Appointed 2004)

Dame Janet Ritterman DBE (Appointed 2005)

Mr Leopold de Rothschild CBE FRCM (Appointed 1986)

Mr Ian Stoutzker OBE FRCM (Appointed 1999)

Sir David Willcocks CBE MC FRCM (Appointed 1982)

LIFE GOVERNORS

Mr John Cruft FRCM

COUNCIL

The President

Sir Anthony Cleaver (Chairman)

Mr Peter Ellwood CBE (Deputy Chairman) (resigned Thursday 23 March 2006)

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

Sir Thomas Allen CBE FRCM

Mrs Sally Bott (appointed March 2006)

Ms Jennifer Cramb (retired July 2005)

Professor Geoffrey Crossick (appointed July 2005)

Mr Vernon Ellis

Mrs Rosalind Gilmore CB

Mr John Hall

Mr James Joll

Dr John Lill OBE FRCM

Mr Richard Price (Chairman of Audit Committee)

Ms Janis Susskind (retired July 2005)

Sir Richard Sykes

Professor Sir David Watson (retired July 2005)

Mr Nigel Woolner (Chairman of Estates Committee)

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COUNCIL (continued)

Ex-officio or elected

Dr Colin Lawson	(Director)
Mr Andrew Ball	(Professorial staff)
Mr William Mival	(Professorial staff)
Mrs Pamela Thompson HonRCM	(Administrative staff, retired July 2005)
Mr Matthew Burke	(President, Students' Association, retired July 2006)
Mr David Harpham	(Administrative staff, appointed July 2006)
Mr Glyn Rees	(President, Student's Association, appointed July 2006)
Sue Sturrock	(Administrative staff, appointed July 2005, resigned April 2006)

DIRECTOR

Dr Colin Lawson

CLERK TO THE COUNCIL

Mr Kevin Porter HonRCM (Secretary & Registrar)

EXECUTIVE COMMITTEE

Sir Anthony Cleaver
Mr James Joll
Mr Nicholas Ward
Dr Colin Lawson (ex officio)
Mr Nigel Woolner

REGISTERED OFFICE

Royal College of Music
Prince Consort Road
London SW7 2BS

AUDITORS

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

BANKERS

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

SOLICITORS

Boodle Hatfield
61 Brook Street
London W1Y 2BL

Royal College of Music

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CHAIRMANS STATEMENT

Colin Lawson's first year as Director of the Royal College of Music saw the College continue its outstanding record of musical achievement, as the list of competitive successes recorded in his report demonstrates.

It was also a very successful year internally, with more applications for entry, a higher standard than ever at audition and performances attracting capacity audiences and unparalleled critical acclaim.

One area of continuing concern is our need to ensure that the physical facilities of the College will meet the standards required of a world-class conservatoire in the twenty-first century. Some progress was made with redecoration of the entrance hall and the partial restoration of the Parry Rooms and the plans for more significant building work are now close to completion.

It was also a year of great change on the Council. Peter Ellwood, our Deputy Chairman, retired as did Jennifer Cramb, Janis Susskind and Professor Sir David Watson, to all of whom we owe our gratitude for many years of support. Council welcomed Mrs. Sally Bott and Professor Gregory Crossik whole on the staff side Lindsay Offer retired as Head of Finance to be replaced by Simon Powell, and Sue Sturrock became Head of Communications.

We look forward to another successful year in 2006/7.



Sir Anthony Cleaver
Chairman

REPORT OF THE DIRECTOR

The academic year 2005-06, my first as Director, was characterised by outstanding achievements academically and musically, both in the College and in the wider world.

For entry in September 2005, 1394 applications were received, a small rise on the previous year. Auditions held in London, New York, Boston, Singapore, Hong Kong, Taipei, Tokyo and Moscow proved that applicant standards were as high as ever and confirmed the RCM's position as the first-choice conservatoire for the majority of the world's most gifted musicians.

The student body for the year totalled 652, comprising 385 undergraduates, 244 in the Graduate School and 23 on other programmes. The RCM Graduate School has become internationally renowned for its philosophy of developing 'informed performers'. Since the inception of the Graduate School, numbers of students graduating with an MMus qualification have risen dramatically. A large number of these students have been on scholarships, including six students who were Arts and Humanities Research Council award holders. The innovative curriculum is becoming increasingly influential in the UK and European music scenes and is drawing attention in the USA and beyond. This has been exemplified in the successful validation in March 2006 of the new and innovative PGDip in Creative Leadership.

Particularly pleasing was the doctoral cohort of 19, an increase of nine on the previous year. Attracted by the unparalleled scholarly resources of the RCM, this group brought particular depth and diversity to the institution with each individual's chosen area of study.

Students came from 54 countries, as far flung as Guatemala and Iceland, as well as via well-trodden routes from Europe, the USA and the Far East. Exchanges were as popular as ever, with RCM musicians studying in Vienna, Paris, New York, Stuttgart, Prague and The Hague, the RCM in turn welcoming students from Brussels, Paris, Malmö, New York and Karlsruhe.

Those graduating in July 2006 totalled 90 BMus(Hons) students, 30 with first class honours and, from the Graduate School, 34 MMus students alongside over 100 Postgraduate Diploma students.

The RCM's busy performance programme during the year was typically challenging, with all orchestral concerts and opera performances selling out well in advance. Guest conductors included Bernard Haitink, Sir Roger Norrington, Andrew Litton, Gordan Nikolitch, John Wilson and Martin André, all of whom are part of the regular performance roster, with Kees Bakels and Marin Alsop making first visits. Opera productions collected their customary plaudits. Of *Die Fledermaus*, The Times' Neil Fisher said:

'Three cheers. A confident showpiece for its stars. It's rare enough to find a cast at Covent Garden or English National Opera without a weak link – this ensemble was practically flawless.'

Public success for RCM musicians has rarely been higher than in 2005-06. The RCM dominated the Kathleen Ferrier Competition: four of the five finalists were RCM singers, and first prize was won by soprano Elizabeth Watts. Similarly, three of the four nominations for the coveted Royal Philharmonic Society Young Artist Award were RCM musicians, the Award being captured by tenor Andrew Kennedy. The Sacconi Quartet won the Royal Over-Seas League Chamber Music Competition and Jacques Imbrailo won the ROSL Singers' Competition. Tenor Nathan Vale won the Handel Singing Competition, also taking the Audience Prize. Valeriy Sokolov took first prize in the George Enescu Competition in Bucharest, and Luis Parés won the Ricardo Viñes Piano Competition in Spain. Alumna Fanny Clamagirand was awarded first prize in the Kreisler International Violin Competition which includes a concerto performance with the Vienna Philharmonic.

Of a string of high-profile alumni successes in 2005-06, one of the most notable, and enjoyable, was ENO's production of Mozart's *The Magic Flute* which featured Elizabeth Watts, Sarah-Jane Davies and Andrew Kennedy. Sarah-Jane and Andrew played the lovers Pamina and Tamino, roles they had sung in the much-acclaimed RCM production two years earlier.

Access for all is high on the RCM's agenda. The annual Open Day held in April attracted more than 500 sixth form musicians who had the opportunity to see a conservatoire timetable in action, and to participate in a range of activities designed to encourage and support applications to higher education. Individual faculty open days throughout the year specifically helped applicants prepare for conservatoire audition. Two summer schools were held, one for 8-12 year olds, the second for 32 gifted and talented young musicians aged 15-16 who are considering higher education in music.

The first year of the five-year Musicians of the Future project, supported by British Gas and the Lucie Allsopp Trust was hailed a triumph, with RCM students working regularly in secondary schools throughout the local borough, RBKC, introducing the cello to pupils in year 7. The project culminated in a performance of specially created work in the Victoria & Albert Museum in July, to an audience of several hundred. The project continues until 2010, focusing on a different instrument each year. The cellists launched by the scheme in summer 2006 are continuing their lessons with their RCM tutors, funded by the schools. Prince Consort Percussion and Elastic Band continued to travel the country bringing interactive music to people of all ages, including those for whom access to live music is limited.

The RCM's Box Office enjoyed its first fully operational year, adding significantly to the professionalism of the visitor welcome. More than 1300 individuals, excluding students, staff, Friends and sponsors, attended events last year, allowing us to build a picture of our audience, and to develop it in future years.

RCM musicians gave over 837 performances outside the RCM, thanks to engagements secured by the Woodhouse Centre, the RCM's career development service for students and alumni. Performances were given in museums, galleries, churches, palaces, offices, private homes, hospitals, schools, prisons, residential homes, hospices and other community settings by a total of 480 musicians, 60% students and 40% alumni. This experience is a crucial part of the RCM's commitment to preparing its musicians for a working life. Students are trained, monitored and offered feedback, and at every stage encouraged to build their own network of contacts and opportunities in develop the necessary drive and autonomy to run a successful career in music. Students identify participation in the external engagements service as one of the key benefits offered by the RCM.

Mozart's 250th anniversary year was celebrated in a year-long festival, The Power of Mozart. A highlight was a ten-hour **Sonatathon** in March which 50 RCM musicians, aged 8 to 65+, played all the composer's sonatas, either in their entirety, or taking a movement each. Audience members were invited to come and go as they pleased, a formula that found great favour with the 1500 people who visited the RCM free of charge that day to experience at first-hand the power of Mozart.



Colin Lawson
Director

TREASURER'S REPORT

SCOPE AND FORMAT OF THE FINANCIAL ACCOUNTS

The accounts comprise the consolidated results of the Royal College of Music (College), the Prince Consort Foundation (PCF) and the College's dormant subsidiary, RCM Development Fund limited ("RCMDF"), for the financial year 1 August 2005 to 31 July 2006. The College is a registered charity.

PCF receives donations and investment income and makes grants mainly for furthering musical education in the United Kingdom. As the income that PCF receives arises from assets gifted by, or appeals made in the past on behalf of, the College, the majority of the grants are made to support the College's activities.

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

During the year the College recognised that the accounts of the Prince Consort Foundation should be consolidated with those of the College in accordance with FRS 2 and the accounts for the year ended 31 July 2005 have been restated accordingly.

During the year, the College has also fully adopted Accounting Standard FRS 17 'Retirement Benefits' which requires that the difference between the fair value of assets held by the RCM Pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method should be recognised in the College's balance Sheet. 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. The effect of this change is that there is an additional charge to the Income and Expenditure account of £53,000 (2005:£18,000) and the actuarial deficit at 31 July 2006 of £1,948,000 (2005:£1,975,000) has been taken on to the Balance Sheet.

MISSION & PRINCIPAL OBJECTIVES

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

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

RESERVE POLICY

The total reserves of the College comprise the specific and general endowments and general reserves of the College and Prince Consort Foundation

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

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

Royal College of Music

TREASURER'S REPORT (Continued)

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

The college has consolidated reserves of £10.7 million (2005: £10.3 million) and total endowments of £37.7 million (2005: 34.8 million).

CONSOLIDATED RESULTS

The College's consolidated income and expenditure for the year ended 31 July 2006 may be summarised as follows:

	2006	2005 (restated)
	£000	£000
Income	14,142	13,538
Expenditure	<u>(13,795)</u>	<u>(13,155)</u>
Operating surplus	347	383
Net transfers from endowments	<u>34</u>	<u>72</u>
Surplus for the year	<u>381</u>	<u>455</u>
Surplus as a percentage of income	2.7%	3.4%

Income was 4.5% higher in 2006 than the previous year with the basic HEFCE teaching grant increasing by 3.2% and endowment income and interest receivable rose by 14%. The 4.9% rise in expenditure was mainly due to an increase in staff costs.

The consolidated surplus for the year is arrived at after transferring the scholarship income which was not used in the year to specific endowments, for use in future years, and after transferring from general endowments funds which had been earmarked to cover the cost of preliminary building works which were expensed during the year.

The consolidated surplus for the year of £0.4 million (2005: £0.5 million) is retained in general reserves and provides funds for capital improvements or renewals to the College's facilities.

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 and PCF. During the year, the total of the consolidated investments increased in value by some £2.7 million (2005: 3.8 million). This investment performance exceeded the benchmarks which the Committee had adopted for the year. Asset allocation for the various funds reflects the investment strategy required to meet the College's needs while protecting the value of the capital.

The College accounts include the specific endowments administered by the College and new endowments of £0.2 million (2005: £0.6 million) were received during the year: these were used principally to increase the funds available for scholarships.

TREASURY ACTIVITIES

Cash balances increased satisfactorily by £0.3 million (2005: reduction of £0.7 million) during the year. The seasonal fluctuations in the College's cash flows are closely monitored and any surplus funds are invested to maximise interest income.

TREASURER'S REPORT (Continued)

After the yearend the long term loan was refinanced; this will significantly reduce the rate of interest payable and improve the cash flow for the College.

SCHOLARSHIPS

The College provided scholarships, prizes and study support grants totalling £0.9 million in 2006 (2005 :£ 0.9 million) to enable gifted students to undertake their studies during the year. This level of support has been made possible by the generosity of benefactors over the years. Scholarship funds are maintained separately by the College as specific endowment funds.

ESTATE WORKS

Capital expenditure for the year was £0.6 million (2005: £0.9 million) which was mainly spent on improving the facilities of the College.

Expenditure of £0.7 million was incurred during the year (2005: £0.6 million) on preliminary building works required in connection with the long term plan for the development of the College's buildings at Prince Consort Road. Work started in the year on the restoration of the Parry Rooms which will provide two additional recital venues with outstanding acoustic standards and a video conferencing facility. Costs to date have been met by donations and a grant from HEFCE for £0.7 million.

The long term plan is now being reassessed to ensure that it fully reflects the College's long term needs and priorities and changing student expectations, as well as allowing more time for fund raising.

AUDITORS

A resolution to re-appoint RSM Robson Rhodes LLP as external auditors was agreed at the Council meeting on 29 November 2006.



Nicholas Ward
Honorary Treasurer

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY

CUC GOVERNANCE CODE OF PRACTICE

The RCM Council 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 twenty are independent members and three are elected from among the staff of the College. The President of the College, HRH The Prince of Wales, the Director of the College and the President of the Students' Association are *ex officio* members. The Chairman, the Deputy Chairman and the Honorary Treasurer of the Council are drawn from the independent members.

The Executive Committee is responsible to the Council for the general management of the College. It meets six times a year. Among the responsibilities discharged by the Executive Committee is the monitoring of performance in relation to the approved budgets. The remuneration of senior staff is considered by the Executive Committee

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

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

The 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 assesses the risk management, control and governance arrangements, and advises the Council on the effectiveness and outcomes of these. 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.

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY (Continued)

In 2005/06 the Internal Auditors presented reports on:

- Corporate Governance
- Corporate Planning
- Risk Management
- Budgetary Control
- IT Maintenance and Support
- Software Licensing
- Finance Structure
- Maintenance
- Health and Safety
- Insurance
- Ordering receipts and payments
- Treasury management
- Fixed assets and inventories
- Training
- Expenses
- Quality assurance
- Student retention and withdrawals
- Students' Association
- Strategic Development Fund Grant Administration

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

Nominations for vacancies in the Council membership are considered by a Nominations Committee, which reports directly to Council.

THE RESPONSIBILITIES OF THE COUNCIL AS GOVERNING BODY OF THE COLLEGE

THE ACCOUNTING SYSTEMS AND THE ACCOUNTS OF THE COLLEGE

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

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

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent; and
- applicable accounting standards have been followed.

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY (Continued)

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

As the Council (governing body) of the Royal College of Music, we have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Charter & Statutes and the Financial Memorandum with the HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place during the year ended 31 July 2006 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

- We meet three times a year to consider the plans and strategic direction of the institution.
- We receive periodic reports from the Audit Committee concerning internal control, and we require regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- The Executive Committee is responsible for oversight of risk management and the Audit Committee for keeping under review the effectiveness of risk management, control and governance arrangements
- An organisation-wide risk register is now maintained.
- A system of key performance and risk indicators has been developed.
- A risk prioritisation methodology based on risk ranking and cost-benefit analysis has been established.
- There is regular review of the Risk Register, involving the senior members of staff with responsibility for the relevant areas, to identify and keep up to date the record of risks facing the organization.
- Training for managers with responsibility for areas involving high-level risk includes attendance at relevant courses, seminars and workshops arranged by external providers.
- An annual review conducted by the Senior Management Team, in consultation with the managers responsible for areas where high-level risks are identified, is presented in written form to the Executive Committee of RCM Council for detailed discussion, and reported to Council.

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

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY (Continued)

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

Our review of the effectiveness of the system of internal control is also informed by the work of the senior management team within the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

DISABILITY STATEMENT

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

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

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



Sir Anthony Cleaver
Chairman



Colin Lawson
Director

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

We have audited the consolidated financial statements of The Royal College of Music for the year ended 31 July 2006, which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

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

Respective Responsibilities of Members of Council and Auditors

As described in the statement of Corporate Governance, Council is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and United Kingdom Accounting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and if, in our opinion, the Treasurer's Report and Corporate Governance Statement is not consistent with the financial statements, if the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report to you whether, in our opinion monies expended out of funds from whatever source administered by the College for specific purposes were properly applied for those purposes and, where relevant, managed in accordance with appropriate legislation and whether monies expended out of funds provided by the Higher Education Funding Council were applied in accordance with the financial memorandum and any other terms and conditions attached to them.

We read the Treasurer's Report and Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

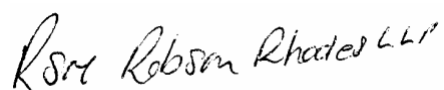
We conducted our audit in accordance with international standards on auditing (UK and Ireland) issued by the auditing practices board, and the audit code of practice issued by the higher education funding council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the college's circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF THE ROYAL COLLEGE OF MUSIC (Continued)

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

In our opinion:

- i. The financial statements give a true and fair view of the state of affairs of the Royal College of Music and the group at 31 July 2006, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the Royal College of Music and the group for the year then ended; and the statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and with the College's Royal Charter.
- ii. In all material respects, income from the Higher Education Funding Council for England and income for specific purposes and from other restricted funds administered by the Royal College of Music have been applied only for the purposes for which they were received.
- iii. In all material respects, income has been applied in accordance with the Royal College of Music's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England dated 1 October 2003.



RSM Robson Rhodes LLP
December 2006

Chartered Accountants and Registered Auditors
Hemel Hempstead, England

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. ACCOUNTING CONVENTION

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

2. BASIS OF CONSOLIDATION

The consolidated accounts consist of the accounts of the College, its subsidiary undertaking, RCM Development Fund Limited and the charity, Prince Consort Foundation (PCF), for the financial year to 31 July 2006. It is considered, in accordance with FRS 2, that Prince Consort Foundation is effectively controlled by the College and therefore the accounts of Prince Consort Foundation have been consolidated with the accounts of the College for the current year and the figures for 2004/5 restated.

3. STUDENTS' ASSOCIATION

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

4. RECOGNITION OF INCOME

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

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

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

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

5. PENSION SCHEMES

The three pension schemes for the College's staff are the Teachers' Pension Scheme (TPS), the Universities Superannuation Scheme Limited (USS) and the Royal College of Music Pension and Assurance Scheme (RCM Pension Scheme). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Earnings Related Pension Scheme.

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.

The College has fully adopted FRS17 'Retirement Benefits' for the RCM Pension Scheme during the year. The impact of this standard has been reflected throughout the financial accounts. Prior year comparatives have been restated where appropriate. 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.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

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 consolidated total recognised gains and losses in accordance with FRS 17 'Retirement Benefits'.

6. TANGIBLE 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 when a decision is taken to proceed with the project.

b. Musical Instruments

Musical instruments have been valued either at their estimated current cost for assets in their condition at 31 July 1998 or at cost for subsequent additions 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
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Computer and recording equipment	–	4 years
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A review for impairment of a tangible asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

7. LIBRARY AND MUSEUM

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

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

8 FIXED ASSET INVESTMENTS

(a) Heritable Property

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

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

The Foundation's interest in the ABRSM is carried at the trustees valuation which equates to the donations made by the RCM and retained by the ABRSM to 31 July 1995 to fund that charity. The Foundation's trustees consider that the carrying value of the interest in ABRSM is not overstated.

9. INVESTMENTS

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

10. MAINTENANCE OF PREMISES

The cost of maintenance is charged to the income and expenditure account as incurred.

11. TAXATION STATUS

The College is a registered charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. The College is 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. FOREIGN CURRENCY TRANSLATION

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

13. LEASED ASSETS

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

14 ENDOWMENT FUNDS

Endowment funds represent funds held by the College.

Specific endowment 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 or donated.

General endowments held by the College allow the use of the funds to be used, with the approval of the Council, for the benefit of the College provided that the expenditure is in keeping with the College's charitable status and constitution.

15 LIQUID RESOURCES

In the context of the consolidated statement of cash flows, liquid resources comprise cash held on deposit which, in normal circumstances, is not immediately available for use by the College.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT			
for the year ended 31 July 2006			
		Consolidated	
	Notes	2006 £	(restated) 2005 £
INCOME			
Funding council grants	1	4,608,157	4,596,466
Academic fees and support grants	2	4,035,586	3,882,567
Research grants	3	266,829	230,413
Other operating income	4	2,128,467	2,107,965
Endowment income and interest receivable	5	3,102,898	2,720,971
Total income		14,141,937	13,538,382
EXPENDITURE			
Staff costs	8	7,647,340	7,026,431
Exceptional restructuring costs	8	-	72,595
Depreciation	9	818,800	765,967
Other operating expenses	10	5,004,926	4,925,949
Interest payable	11	323,880	363,905
		13,794,946	13,154,847
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax.		346,991	383,535
Transfer to accumulated revenue within specific endowments	20	(382,098)	(355,243)
Transfer from accumulated revenue within general endowments	20	416,204	427,212
Surplus for year retained within general reserves	22	381,097	455,504
<p>The income and expenditure account is in respect of continuing activities. The figures brought forward at 1 August 2003 were restated in the 2004/5 accounts to reflect a prior year adjustment to correct the depreciation funded from Deferred Capital Grants. The figures brought forward at 1 August 2005 have been restated in the 2005/6 accounts to reflect the consolidation of the accounts of Prince Consort Foundation (as set out in note 30) and the inclusion of the RCM Pension Scheme costs and deficit as required by FRS 17 (as set out in note 25).</p>			
CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS			
for the year ended 31 July 2006			
		2006 £	(restated) 2005 £
Reported surplus after depreciation and tax		381,097	455,504
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	22	261,811	258,976
Historical cost surplus before tax		642,908	714,480
Historical cost surplus after tax		642,908	714,480

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES			
for the year ended 31 July 2006			
		Consolidated	
	Notes	2006	(restated) 2005
		£	£
Surplus after depreciation and tax		381,097	455,504
New endowments	20	177,936	651,207
Increase in value of endowment asset investments	20	2,696,759	4,534,322
Transfer of endowment funds to income	20	(34,106)	(71,969)
Actuarial gain/(loss) on RCM pension scheme	25	80,000	(333,000)
Revaluation reserve release on disposal of fixed assets	21	(32,300)	(27,000)
Total recognised gains relating to the year		3,269,386	5,209,064
Prior year adjustment re consolidation of Prince Consort Foundation	30	11,758,792	
Prior year adjustment re adoption of FRS17 concerning RCM pension scheme liabilities	25	(1,975,000)	-
Total gains and losses recognised since last annual report		13,053,178	
Reconciliation:			
Opening reserves and endowments		45,070,409	30,829,513
Total recognised gains relating to the year		3,269,386	5,209,064
Prior year adjustment re adoption of FRS17 concerning RCM pension scheme liabilities	25	-	(1,624,000)
Prior year adjustment re consolidation of Prince Consort Foundation	30	-	10,655,832
Closing reserves and endowments		48,339,795	45,070,409
<p>As discussed in the Treasurer's Report, the accounts of the Prince Consort Foundation are now consolidated with those of the College. The effect of the prior year adjustment is to increase the total gain for the financial year ended 31 July 2005 by £1,102,960, and the total reserves and endowments brought forward at 1 August 2004 by £10,655,832 (as set out in note 30).</p>			
<p>The total recognised gains for the financial year ended 31 July 2005 are also restated in the accounts for the financial year ended 31 July 2006 accounts due to a prior year adjustment resulting from the adoption of FRS17 for the College's own pension scheme (described further in note 25). The effect of the prior year adjustment is to reduce the total gain for 2005 by £351,000, and the total reserves and endowments brought forward at 1 August 2004 by £1,624,000.</p>			

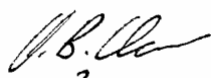
Royal College of Music

BALANCE SHEET						
as at 31 July 2006						
				Consolidated		College
	Notes	2006	(restated)	2006	(restated)	2005
		£	2005	£	2005	£
FIXED ASSETS						
Tangible assets	12	15,102,246	15,364,649	15,102,246	15,364,649	
Investments	13	1,334,000	1,334,000	1,334,100	1,334,100	
		16,436,246	16,698,649	16,436,346	16,698,749	
ENDOWMENT ASSETS						
Fixed asset investments	14	35,936,631	33,510,041	28,722,107	26,717,796	
Other endowment assets	15	1,721,936	1,307,937	1,102,452	672,455	
		37,658,567	34,817,978	29,824,559	27,390,251	
CURRENT ASSETS						
Debtors	16	673,169	695,138	644,028	688,922	
Cash at bank and in hand		291,089	300,747	291,089	300,747	
Cash on deposit		985,315	839,586	985,315	839,586	
		1,949,573	1,835,471	1,920,432	1,829,255	
CREDITORS: amounts falling due within one year	17	(2,300,947)	(2,599,228)	(2,384,359)	(2,615,433)	
NET CURRENT LIABILITIES		(351,374)	(763,757)	(463,927)	(786,178)	
TOTAL ASSETS LESS CURRENT LIABILITIES		53,743,439	50,752,870	45,796,978	43,302,822	
CREDITORS: amounts falling due after more than one year	18	(2,400,000)	(2,600,000)	(2,400,000)	(2,600,000)	
NET ASSETS EXCLUDING PENSION LIABILITY		51,343,439	48,152,870	43,396,978	40,702,822	
NET PENSION LIABILITY	25	(1,948,000)	(1,975,000)	(1,948,000)	(1,975,000)	
NET ASSETS INCLUDING PENSION LIABILITY		49,395,439	46,177,870	41,448,978	38,727,822	

Royal College of Music

BALANCE SHEET						
as at 31 July 2006						
				Consolidated		College
	Notes	2006	(restated)	2006	(restated)	2005
		£	2005	£	2005	£
DEFERRED CAPITAL GRANTS	19	1,055,644	1,107,461	5,648,357	5,432,308	
ENDOWMENTS						
Specific	20	19,066,907	17,129,151	19,066,907	17,129,151	
General	20	18,591,660	17,688,827	10,757,652	10,261,100	
		37,658,567	34,817,978	29,824,559	27,390,251	
RESERVES						
Revaluation reserve	21	7,302,391	7,596,502	7,302,391	7,596,502	
Accumulated revenue reserve	22	3,378,837	2,655,929	(1,326,329)	(1,691,239)	
		10,681,228	10,252,431	5,976,062	5,905,263	
ENDOWMENTS AND RESERVES		48,339,795	45,070,409	35,800,621	33,295,514	
TOTAL		49,395,439	46,177,870	41,448,978	38,727,822	

Approved by Council on 29 November 2006 and signed on its behalf by:



Sir Anthony Cleaver

Chairman



Dr Colin Lawson

Director

CONSOLIDATED STATEMENT OF CASH FLOWS			
for the year ended 31 July 2006			
		Consolidated	
	Notes	2006	(restated) 2005
		£	£
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	23	(1,948,941)	(1,527,096)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Income from endowments	5	3,022,137	2,660,415
Other interest received	5	80,761	60,556
Interest paid	11	(323,880)	(363,905)
		2,779,018	2,357,066
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire endowment asset investments	14	(11,589,903)	(8,871,500)
Realisation of endowment asset investments	14	11,728,596	7,222,947
Payments to acquire tangible fixed assets	12	(600,663)	(865,225)
Receipts from sale of fixed assets		26,357	17,502
Capital grants received	19	72,831	324,730
Endowments received	20	177,936	651,207
		(184,846)	(1,520,339)
MANAGEMENT OF LIQUID RESOURCES			
Amounts (placed on)/released from deposit		(145,729)	173,413
FINANCING			
Repayments of amounts borrowed		(200,000)	(200,000)
CASH MOVEMENT	24	299,502	(716,956)

NOTES TO THE ACCOUNTS			
for the year ended 31 July 2006			
1. FUNDING COUNCIL GRANTS			
The funding body, the Higher Education Funding Council for England (HEFCE), provided grants for the following purposes:			
		Consolidated and College	
		2006	2005
		£	£
Recurrent teaching grant		4,014,189	3,889,377
HR Strategy		122,071	156,145
Inherited staff liabilities		73,080	70,000
Reach Out to Business & the Community		190,073	165,788
Conservatoire UCAS Admission System for Music		91,914	201,012
Other specific grants		116,830	114,144
		4,608,157	4,596,466
2. ACADEMIC FEES AND SUPPORT GRANTS			
		Consolidated and College	
		2006	2005
		£	£
UK higher education students		732,933	686,959
Other EU students		421,044	351,675
Non-EU students		1,907,070	1,882,930
Other		74,613	77,099
Junior Department		899,926	883,904
		4,035,586	3,882,567
Academic fees include an amount of £721,880 (2005: £636,564) which has been met by scholarships awarded by the College. The cost of providing these scholarships is included in other operating expenses (see note 10)			

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
3. RESEARCH GRANTS					
				Consolidated and College	
				2006	2005
				£	£
HEFCE				266,829	211,463
Arts and Humanities Research Board				-	18,950
				<u>266,829</u>	<u>230,413</u>
4. OTHER OPERATING INCOME					
		Consolidated		College	
		2006	2005	2006	2005
	Notes	£	£	£	£
Other grant income		439,942	366,629	439,942	366,629
Catering and residences		767,745	754,107	767,745	754,107
Other services rendered		332,142	260,511	332,142	260,511
Profit on sale of fixed assets		14,391	13,857	14,391	13,857
Released from deferred capital grants	9,19	124,648	110,356	462,742	391,115
Other income		449,599	602,505	953,766	1,073,705
		<u>2,128,467</u>	<u>2,107,965</u>	<u>2,970,728</u>	<u>2,859,924</u>
5. ENDOWMENT INCOME AND INTEREST RECEIVABLE					
		Consolidated		College	
		2006	(restated) 2005	2006	2005
		£	£	£	£
Specific endowment income		1,361,651	1,100,579	1,361,651	1,100,579
General endowment income		1,660,486	1,559,836	422,343	410,264
Other interest receivable		80,761	60,556	80,761	60,556
		<u>3,102,898</u>	<u>2,720,971</u>	<u>1,864,755</u>	<u>1,571,399</u>
6. DIRECTOR'S EMOLUMENTS					
				Consolidated and College	
				2006	2005
				£	£
Salary				134,353	128,458
Benefits in kind				-	1,350
Pension contributions				18,658	15,427
Total emoluments				<u>153,011</u>	<u>145,235</u>
The Director's emoluments for 2006 include two months emoluments for the retiring Director as well as a full year's costs for the new Director. (2005: two months emoluments for the new Director as well as a full year's costs for the retiring Director)					

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
7. REMUNERATION OF HIGHER PAID STAFF					
The number of staff, including the Director, who received remuneration in the following ranges was:					
				Consolidated and College	
				2006	2005
				Number	Number
£70,001 - £80,000				3	2
£80,001 - £90,000				-	2
£130,001 - £140,000				1	-
£140,001 - £150,000				-	1
				4	5
				Consolidated and College	
				2006	2005
				£	£
Compensation for loss of office paid to a former higher paid employee				60,000	-
8. STAFF COSTS					
				Consolidated and College	
				2006	(restated) 2005
				£	£
Wages and salaries				6,682,092	6,232,281
Social security costs				446,815	426,767
Pension costs				518,433	439,978
				7,647,340	7,099,026
STAFF COSTS BY DEPARTMENT					
		Consolidated and College		Consolidated and College	
		2006	2005	2006	(restated) 2005
		Full time	Full time	£	£
		Equivalents	Equivalents		
Teaching departments		74	70	3,835,633	3,599,852
Teaching support services		36	37	1,164,957	1,092,152
Administration and central services		49	46	2,264,839	2,002,994
Premises		13	13	381,911	331,433
Exceptional staff restructuring		-	-	-	72,595
		172	166	7,647,340	7,099,026
The members of Council other than the Director and the staff members did not receive payment from the College other than the reimbursement of travel and subsistence expenses incurred in the course of their duties.					
9. DEPRECIATION					
		Consolidated		College	
The depreciation charge has been funded by:					
			(restated) 2005		2005
		2006	2005	2006	2005
	Notes	£	£	£	£
Deferred capital grants released	19	124,648	110,356	462,742	391,115
Released from revaluation reserve	21,22	261,811	258,976	261,811	258,976
Financed internally		432,341	396,635	94,247	115,876
		818,800	765,967	818,800	765,967

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
	Consolidated		College		
	2006 £	(restated) 2005 £	2006 £	(restated) 2005 £	
10. OTHER OPERATING EXPENSES					
Catering operating expenses	230,630	230,708	230,630	230,708	
Academic departments	840,599	901,513	840,599	901,513	
Learning resources	198,070	173,122	198,070	173,122	
Scholarships, prizes and grants	882,112	911,368	882,112	908,189	
Premises costs	584,955	546,620	584,955	546,620	
Construction project preparation phase (excludes staff costs)	659,381	489,507	659,381	489,507	
Grant to RCM Students' Association	22,100	22,770	22,100	22,770	
Other expenses	1,588,742	1,629,020	1,550,858	1,656,761	
Bad debts	(1,663)	21,321	(1,663)	21,321	
Total	5,004,926	4,925,949	4,967,042	4,950,511	
Other operating expenses include:					
Auditors' remuneration - external auditors	29,786	28,190	25,556	24,088	
Auditors' remuneration - internal audits	15,801	21,702	15,801	21,702	
Auditors' remuneration - non-audit related fees	16,004	-	16,004	-	
Hire of plant and machinery - operating leases	9,486	13,007	9,486	13,007	
Hire of other assets - operating leases	3,342	-	3,342	-	
11. INTEREST PAYABLE					
			Consolidated and College	(restated)	
			Notes	2005	
				£	
Bank loans not wholly repayable within five years			18	291,880	
Other finance costs arising from the pension scheme liabilities			25	32,000	
Total				323,880	
				363,905	

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
12. TANGIBLE ASSETS					
	Land and buildings		Furniture & Equipment	Musical Instruments	Consolidated and College
	Freehold	Leasehold			Total
Cost or Valuation	£	£	£	£	£
At 1 August 2005	4,122,097	10,881,130	1,126,109	4,352,912	20,482,248
Additions	67,389	135,808	248,632	148,834	600,663
Disposals	-	-	-	(66,076)	(66,076)
At 31 July 2006	4,189,486	11,016,938	1,374,741	4,435,670	21,016,835
Depreciation					
At 1 August 2005	493,637	1,939,804	623,643	2,060,515	5,117,599
Provided during the year	94,395	273,041	212,648	238,716	818,800
Disposals	-	-	-	(21,810)	(21,810)
At 31 July 2006	588,032	2,212,845	836,291	2,277,421	5,914,589
Net book value at 31 July 2006	3,601,454	8,804,093	538,450	2,158,249	15,102,246
Net book value at 1 August 2005	3,628,460	8,941,326	502,466	2,292,397	15,364,649
<p>The leasehold land and buildings relate to the College's main site in Prince Consort Road, London. The property is held on a 999 year lease which is non-assignable. In the event that the College ceases to operate in accordance with the Royal Charter the property reverts to the landlord.</p>					
<p>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.</p>					
<p>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.</p>					
<p>The leasehold land and buildings were valued at 31 July 1991 by Wilks, Head and Eve, Chartered Surveyors. Subsequent additions have been included at cost.</p>					
<p>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 and valuation for later donated instruments.</p>					

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
13. FIXED ASSET INVESTMENTS					
	Consolidated		College		
	2006	2005	2006	2005	
	£	£	£	£	
Investment in subsidiary company	-	-	100	100	
Heritable property	1,334,000	1,334,000	1,334,000	1,334,000	
Total	1,334,000	1,334,000	1,334,100	1,334,100	
<p>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.</p> <p>Heritable property represents significant musical instruments gifted to the College which are made available for dedicated use by musicians from the College and from the profession. They have been included in the accounts at an insurance valuation as at 31 July 1998 by an independent valuer, Charles Beare of J & A Beare Ltd, Dealers, Restorers and Makers of Stringed Instruments, or valuation for subsequent additions. There is no reason to believe that any impairment of the assets is necessary.</p>					
14. ENDOWMENT FUNDS - FIXED ASSET INVESTMENTS					
	Consolidated		College		
	2006	(restated) 2005	2006	2005	
	£	£	£	£	
Balance at 1 August 2005	33,510,041	27,136,949	26,717,796	21,042,448	
Additions	11,589,903	8,871,500	10,025,713	7,824,730	
Proceeds on disposals	(11,728,596)	(7,222,947)	(10,127,533)	(6,115,642)	
Net gains on revaluation	2,696,759	4,535,482	2,290,478	3,843,128	
Movements on cash	(131,476)	189,057	(184,347)	123,132	
Balance at 31 July 2006	35,936,631	33,510,041	28,722,107	26,717,796	
Investments held are analysed as follows:					
	Consolidated		College		
	2006	(restated) 2005	2006	2005	
	£	£	£	£	
Managed investments					
Fixed interest stocks (listed)	6,229,235	6,792,114	5,559,459	6,138,821	
Equities (listed) and unit trusts	25,836,146	22,774,344	21,894,850	19,185,973	
Cash held by investment managers	1,537,107	1,668,583	1,208,655	1,393,002	
	33,602,488	31,235,041	28,662,964	26,717,796	
Other investments					
Interest in the ABRSM	2,275,000	2,275,000	-	-	
Investment in a CAF fund	59,143	-	59,143	-	
Total	35,936,631	33,510,041	28,722,107	26,717,796	
<p>The interest in the ABRSM is carried at the valuation placed upon it by the trustees of the PCF. This valuation equates to the PCF donations retained by the ABRSM to 31 July 1995 to fund that charity. The trustees of the PCF consider that the carrying value of the investment is not overstated, and the College concurs with this view.</p>					

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
15. OTHER ENDOWMENT FUND ASSETS					
	Consolidated		College		
	2006	(restated) 2005	2006	2005	
	£	£	£	£	
Cash at bank	17,258	315,456	11,281	60,614	
Cash on deposit	1,977,834	1,239,000	1,268,834	837,000	
Debtors	55,795	49,625	55,795	49,625	
Creditors	(328,951)	(296,144)	(233,458)	(274,784)	
Total	1,721,936	1,307,937	1,102,452	672,455	
Endowment creditors include amounts owed to the College by College endowment funds of £228,302 (2005:£196,332)					
Consolidated endowment creditors include amounts owed to the College by the Prince Consort Foundation of £66,885 (2005: £10,490)					
16. DEBTORS					
	Consolidated		College		
	2006	(restated) 2005	2006	2005	
	£	£	£	£	
Amounts falling due within one year:					
Debtors	294,479	491,644	294,379	485,428	
Balances with related parties	-	-	66,885	10,490	
Prepayments and accrued income	378,690	203,494	282,764	193,004	
Total	673,169	695,138	644,028	688,922	
Consolidated prepayments and accrued income include amounts owed to the College by College endowment funds of £228,302 (2005:£196,332)					
Consolidated prepayments and accrued income include amounts owed to the College by the Prince Consort Foundation of £66,885 (2005: £10,490)					
The balances with related parties refer to amounts owed to the College by Prince Consort Foundation.					
17. CREDITORS: amounts falling due within one year					
	Consolidated		College		
	2006	(restated) 2005	2006	2005	
	£	£	£	£	
Bank loans and overdrafts	200,000	200,000	200,000	200,000	
Creditors	476,446	567,677	476,446	577,963	
Balances with related parties	-	-	5,692	5,692	
Social security and other taxation payable	201,131	206,058	201,131	206,058	
Accruals	748,257	1,192,545	748,257	1,158,599	
Deferred income	675,113	432,948	752,833	467,121	
Total	2,300,947	2,599,228	2,384,359	2,615,433	
The balances with related parties relate to RCM Development Limited.					

NOTES TO THE ACCOUNTS for the year ended 31 July 2006									
18. CREDITORS: amounts falling due after more than one year									
								Consolidated and College	
								2006	2005
								£	£
	Bank loan							2,400,000	2,600,000
	Due within 1-2 years							200,000	200,000
	due 2-5 years							600,000	600,000
	due after more than 5 years							1,600,000	1,800,000
								<u>2,400,000</u>	<u>2,600,000</u>
<p>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.</p>									
<p>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 will be repaid by quarterly instalments over 20 years. Security for the new loan continues as previously.</p>									

NOTES TO THE ACCOUNTS for the year ended 31 July 2006					
19. DEFERRED CAPITAL GRANTS					
					Consolidated
	Notes	HEFCE £	Private funding £		Total £
At 1 August 2005 (restated)		891,116	216,345		1,107,461
Cash received		27,782	45,049		72,831
Released to income and expenditure	4	(97,476)	(27,172)		(124,648)
Balance at 31 July 2006		821,422	234,222		1,055,644
					College
		HEFCE £	Private funding £		Total £
At 1 August 2005		891,116	4,541,192		5,432,308
Cash received		27,782	651,009		678,791
Released to income and expenditure	4	(97,476)	(365,266)		(462,742)
Balance at 31 July 2006		821,422	4,826,935		5,648,357
20. ENDOWMENTS					
					Consolidated
		Specific £	General £		Total £
Balance reported 1 August 2005 (restated)		17,129,151	17,688,827		34,817,978
New endowments		177,936	-		177,936
Gains in market value of investments	14	1,377,722	1,319,037		2,696,759
Capital Movements		1,555,658	1,319,037		2,874,695
Income for year		1,361,651	422,343		1,783,994
Transferred to income and expenditure account		(979,553)	(838,547)		(1,818,100)
Transfer from / (to) accumulated revenue		382,098	(416,204)		(34,106)
Balance at 31 July 2006		19,066,907	18,591,660		37,658,567
					College
		Specific £	General £		Total £
Balance reported 1 August 2005		17,129,151	10,261,100		27,390,251
New endowments		177,936	-		177,936
Gains in market value of investments	14	1,377,722	912,756		2,290,478
Capital Movements		1,555,658	912,756		2,468,414
Income for year		1,361,651	422,343		1,783,994
Transferred to income and expenditure account		(979,553)	(838,547)		(1,818,100)
Transfer from / (to) accumulated revenue		382,098	(416,204)		(34,106)
Balance at 31 July 2006		19,066,907	10,757,652		29,824,559
The Income and Expenditure Account includes income from specific endowments and the amounts paid out as scholarships; the amount not used for scholarships £382,098 (2005: £355,243) is shown as a transfer to specific endowments.					
The Income and Expenditure Account also includes income from general endowments and amounts paid out on general expenses and building projects. The latter included preparatory works on a possible major project which has now been shelved. A total of £416,204 (2005: £427,212) was transferred from general endowments to meet the portion of these specific costs not covered by income designated for this					

NOTES TO THE ACCOUNTS for the year ended 31 July 2006						
21. REVALUATION RESERVE						
					Consolidated and College	
	Notes		Land and buildings £	Musical instruments £	Total £	
Revaluation:						
At 1 August 2005			5,469,465	3,835,973	9,305,438	
Assets sold			-	(62,000)	(62,000)	
At 31 July 2006			5,469,465	3,783,973	9,253,438	
Contributions to depreciation:						
At 1 August 2005			742,828	966,108	1,708,936	
Released in year	9		110,208	151,603	261,811	
Disposals			-	(19,700)	(19,700)	
			853,036	1,098,011	1,951,047	
Net revaluation amount:						
At 31 July 2006			4,616,429	2,685,962	7,302,391	
At 1 August 2005			4,726,637	2,869,865	7,596,502	
22. ACCUMULATED REVENUE RESERVE						
	Notes		Consolidated		College	
				(restated) 2005	2006	2005
			2006	2005	£	£
			£	£	£	£
Balance reported 1 August 2005		2,655,929		(20,850)	(1,691,239)	(26,544)
Prior year adjustment re adoption of FRS17	25	-		(1,624,000)	-	(1,624,000)
Prior year adjustment re consolidation of PCF	30	-		3,919,299	-	-
Balance restated at 1 August 2005		2,655,929		2,274,449	(1,691,239)	(1,650,544)
Surplus from income and expenditure account		381,097		455,504	23,099	33,329
Actuarial gain/(loss) on RCM pension scheme		80,000		(333,000)	80,000	(333,000)
Release from revaluation reserve	21	261,811		258,976	261,811	258,976
At 31 July 2006		3,378,837		2,655,929	(1,326,329)	(1,691,239)
Analysis of accumulated revenue reserve carried forward:-						
Reserve before pension liability		5,326,837		4,630,929	621,671	283,761
RCM pension scheme liability	25	(1,948,000)		(1,975,000)	(1,948,000)	(1,975,000)
Reserve including pension liability		3,378,837		2,655,929	(1,326,329)	(1,691,239)

NOTES TO THE ACCOUNTS					
for the year ended 31 July 2006					
23. RECONCILIATION OF OPERATING SURPLUS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES					
					Consolidated
					(restated)
	Notes	2006	2005		
		£	£		
Surplus before net transfer from endowments		346,991	383,535		
Depreciation	9	818,800	765,967		
Profit on the sale of fixed assets	4	(14,391)	(13,857)		
Deferred capital grants released to income	4	(124,648)	(110,356)		
Investment income and interest receivable	5	(3,102,898)	(2,720,971)		
Interest payable	11	323,880	363,905		
Decrease/(Increase) in debtors	15,16	15,799	(84,897)		
Decrease in creditors	15,17	(265,474)	(128,422)		
Increase in pension liability	25	53,000	18,000		
Net cash outflow in the year from operating activities		(1,948,941)	(1,527,096)		
24. ANALYSIS OF CHANGES IN NET FUNDS					
					Consolidated
		At 1 August	Cashflows	Other Changes	At 31 July
	Notes	2005			2006
Cash					
Endowment assets					
Balances at investment managers	14	1,668,583	(131,476)	-	1,537,107
Other balances	15	1,554,456	440,636	-	1,995,092
Cash at bank and in hand		300,747	(9,658)	-	291,089
		<u>3,523,786</u>	<u>299,502</u>	<u>-</u>	<u>3,823,288</u>
Financing					
Debt due within one year	17	(200,000)	200,000	(200,000)	(200,000)
Debt due after one year	18	(2,600,000)	-	200,000	(2,400,000)
Current asset investments					
Cash on deposit		839,586	145,729	-	985,315
		<u>1,563,372</u>	<u>645,231</u>	<u>-</u>	<u>2,208,603</u>

NOTES TO THE ACCOUNTS For the year ended 31 July 2006

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

The Teachers' Pension Account

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

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

Valuation of the Teachers' Pension Scheme

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

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

The last valuation of the TPS was for the period 1 April 1996 - 31 March 2001. The GA's report of March 2003 revealed that the total liabilities of the Scheme (pensions currently in payment and the

NOTES TO THE ACCOUNTS

For the year ended 31 July 2006

25. PENSION SCHEMES

estimated cost of future benefits) amounted to £142,880 millions. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £142,880 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 7%.

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

UNIVERSITIES SUPERANNUATION SCHEME (USS)

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

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%.

The institution 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 institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a "last man standing"

NOTES TO THE ACCOUNTS

For the year ended 31 July 2006

25. PENSION SCHEMES

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 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 institution was 14% of pensionable salaries.

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

During the year the College has fully adopted accounting standard FRS17 'Retirement Benefits' for the RCM Pension Scheme. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate. 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 University's balance sheet as a pension scheme asset or liability as appropriate.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University are charged to the income & expenditure account or the statement of total recognised surpluses and deficits in accordance with FRS 17 'Retirement Benefits'.

A formal valuation of the RCM Pension Scheme has been performed and the shortfall is being recovered over a ten year period

The College's employer contributions have been 14.9% from 1 July 2003

The total contribution made for the year ended 31 July 2006 was as follows:

	Total £	Employers £	Employees £
College	394,504	283,613	110,891

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

Year Ending	2007	2006	2005
College	14.9%	14.9%	14.9%
Employees	6.0%	6.0%	6.0%

Royal College of Music

NOTES TO THE ACCOUNTS For the year ended 31 July 2006

25. PENSION SCHEMES

FRS 17

The following information is based upon a full actuarial valuation of the fund at 31 July 2006, by a qualified independent actuary.

	At 31 July 2006	At 31 July 2005	At 31 July 2004
Inflation	3.10%	2.70%	2.90%
Rate of increase in salaries	4.10%	3.50%	3.50%
Rate of increase for pensions	3.10%	2.70%	2.90%
Discount rate for liabilities	5.20%	5.10%	5.70%

The assets and the expected rates of return were:

	Long-term rate of return expected at 31 July 2006	Value at 31 July 2006	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005	Long-term rate of return expected at 31 July 2004	Value at 31 July 2004
		£'000		£'000		£'000
Equities	7.7%	2,922	8.0%	2,428	8.0%	1,757
Bonds	5.0%	1,544	4.7%	1,281	5.3%	960
Cash	4.75%	32	4.75%	68	4.75%	59
Total market value of assets		4,498		3,777		2,776

	Year Ended 31 July 2006	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000	£'000
Market value of assets	4,498	3,777	2,776
Present value of scheme liabilities	6,446	5,752	4,400
Deficit In The Scheme	(1,948)	(1,975)	(1,624)

The market value of assets is based on draft accounts as at 31 July 2006. The value of scheme liabilities is based on the results of the triennial actuarial valuation of the scheme as at 1 August 2005 adjusted to 31 July 2006 and further adjusted to take account of the FRS 17 assumptions above.

The value of liabilities and assets as at 31 July 2005 includes the liabilities in respect of pensioners, which have been secured by the purchase of annuities.

NOTES TO THE ACCOUNTS
For the year ended 31 July 2006

25. PENSION SCHEMES

Analysis of the amount charged to income and expenditure account

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Service cost	302	232
Past service cost	19	120
	<hr/>	<hr/>
Total Operating Charge	321	352
	<hr/>	<hr/>

Analysis of net return on pension return

	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Expected return on pension scheme assets	269	205
Interest on pension liabilities	(301)	(257)
	<hr/>	<hr/>
Net return	(32)	(52)
	<hr/>	<hr/>

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

	Year Ended 31 July 2005 £'000	Year Ended 31 July 2005 £'000
Actual return less expected return on pension scheme assets	105	395
Experience gains and losses arising on the scheme liabilities	327	46
Changes in financial and demographic assumptions underlying the present value of liabilities	(352)	(774)
	<hr/>	<hr/>
Actuarial loss to be recognised in STRGL	80	(333)
	<hr/>	<hr/>

Royal College of Music

NOTES TO THE ACCOUNTS For the year ended 31 July 2006

25. PENSION SCHEMES

Movement In Deficit During The Year	Year Ended 31 July 2006 £'000	Year Ended 31 July 2005 £'000
Deficit in scheme at 1 August	(1,975)	(1,624)
Movement in year:		
Current service charge	(302)	(232)
Contributions	300	386
Past service costs	(19)	(120)
Net interest / return on assets	(32)	(52)
Actuarial gain or loss	80	(333)
Deficit In Scheme At 31 July	<u>(1,948)</u>	<u>(1,975)</u>

History Of Experience Gains And Losses	2006	2005	2004	2003
Difference between the expected and actual return on assets	105	395	(126)	(120)
% Of scheme assets	2.3%	10.6%	(4.5%)	(5.1%)
Experience gains and losses on scheme liabilities	327	46	4	(151)
% Of scheme liabilities	5.1%	0.8%	0.1%	(4.0%)
Total amount recognised in STRGL	80	(333)	(243)	(676)
% of scheme liabilities	1.2%	(5.8%)	(5.5%)	(17.9%)

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

NOTES TO THE ACCOUNTS
For the year ended 31 July 2006

25. PENSION SCHEMES

Employers and employees total contributions

	Year Ended 31 July 2006 £	Year Ended 31 July 2005 £
Contributions to TPS	288,320	283,349
Contributions to RCM /(L&G)	408,461	390,105
Contributions to USS	27,220	3,250

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

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

? There was no time limit on compensation claims in pension cases subject to the cut off date of 8 April 1976;

? Claims must be, or must have been, registered with the tribunal within six months of the ending of the employment in question.

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

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

NOTES TO THE ACCOUNTS for the year ended 31 July 2006			
26. ACCESS FUNDS			
		2006	2005
		£	£
Balance brought forward at 1 August		4,000	2,794
HEFCE grants		14,084	29,466
		18,084	32,260
Disbursed to students		(15,770)	(28,260)
Administration charge		(869)	-
Balance carried forward at 31 July		1,445	4,000
HEFCE Access grants are available solely for students: the College acts only as a paying agent.			
The above balances are included in current creditors.			
27. CAPITAL COMMITMENTS			
As at 31 July 2006 the College had capital commitments of £992,000 (2005: £57,032), of which £679,061 will be funded by capital grants from HEFCE.			
28. FINANCIAL COMMITMENTS			
At 31 July 2006 the College had annual commitments under non-cancellable operating leases as follows:			
		Consolidated and College (restated)	
		2006	2005
		£	£
<u>Land and buildings</u>			
Expiring in over five years		6,000	-
		6,000	-
<u>Other Operating Leases</u>			
Expiring within one year		-	7,042
Expiring between one and five years		2,444	2,444
		2,444	9,486
29. RELATED PARTY TRANSACTIONS			
As far as the College is aware, there were no related party transactions during the year, other than normal transactions with Prince Consort Foundation.			

NOTES TO THE ACCOUNTS for the year ended 31 July 2006			
30. CONSOLIDATION OF PRINCE CONSORT FOUNDATION			
The results and assets of the Prince Consort Foundation (PCF) have been consolidated with those of the College, because the Foundation is effectively controlled by the College. The comparatives for the financial year ended 31 July 2005 have been similarly restated to reflect this change. The Foundation is a registered charity whose capital and income are to be held and applied by the trustees for the promotion and furtherance of musical education in the UK, or for the promotion of and encouragement of the cultivation and appreciation of music as an art anywhere in the world.			
The prior year adjustments are made up as follows:			
		Consolidated	
Transfers to consolidated reserves:-	Notes	2006	2005
		£	£
Net assets of the Prince Consort Foundation			
Balance reported 1 August 2005		7,433,944	6,736,533
Net movement in PCF assets for year		429,104	697,411
Balance reported 31 July 2006		7,863,048	7,433,944
Deferred capital grants funded by the Prince Consort Foundation			
Balance reported 1 August 2005	19	4,324,848	3,919,299
Net movement in deferred capital grants funded by PCF for year	19	267,865	405,549
Balance reported 31 July 2006	19	4,592,713	4,324,848
Cumulative total transfer to consolidated reserves		12,455,761	11,758,792
For each financial year:			
Amount relating to current financial year		696,969	1,102,960
Amount relating to adjustment of prior years		11,758,792	10,655,832
Cumulative total transfer to consolidated balance sheet		12,455,761	11,758,792
31. POST BALANCE SHEET EVENTS			
There are no post balance sheet events to report other than the change in long term loan arrangements covered in Note 18.			