

**Report and Accounts**

*Royal College of Music*

**31 July 2002**

# Royal College of Music

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## **PATRON**

Her Majesty The Queen

## **PRESIDENT**

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

## **VICE-PRESIDENTS**

The Most Revd and Rt Hon the Lord Archbishop of Canterbury

The Most Revd and Rt Hon the Lord Archbishop of York

The Rt Hon the Lord Mayor of London

Mr Michael Gough Matthews FRCM (Appointed 1997)

Mr David McKenna CBE FRCM (Appointed 1975)

Mr Leopold de Rothschild CBE FRCM (Appointed 1986)

Mr Ian Stoutzker OBE FRCM (Appointed 1999)

The Lord Wilberforce CMG MC FRCM (Appointed 1982)

Sir David Willcocks CBE MC FRCM (Appointed 1982)

## **LIFE GOVERNORS**

Mr John Cruft FRCM

## **COUNCIL**

The President

Sir Anthony Cleaver (Chairman)

Lady Middleton FRCM (Deputy Chairman)

Mr Humphrey Norrington OBE FRCM (Honorary Treasurer)

Sir Thomas Allen CBE FRCM

Ms Jennifer Cramb

Mr Patrick Deuchar (Retired 31 July 2002)

Mrs Rosalind Gilmore CB

Mr John Hall

Mr James Joll

Dr John Lill OBE FRCM

The Hon Sir Humphrey J H Maud KCMG (Retired 31 July 2002)

Professor Timothy O'Shea

Mr Richard Steele (Resigned 31 July 2002)

Ms Janis Susskind

Sir Richard Sykes

Professor Sir David Watson

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# Royal College of Music

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## **COUNCIL (continued)**

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

Dame Janet Ritterman DBE	(Director)
Mr Timothy Salter HonRCM	(Professorial staff)
Miss Margaret Cable FRCM	(Professorial staff – retired December 2001)
Mr William Mival	(Professorial staff – from March 2002)
Mrs Pamela Thompson HonRCM	(Administrative staff)
Mr Nicholas Fielding	(President, Students' Association)

## **DIRECTOR**

Dame Janet Ritterman DBE

## **CLERK TO THE COUNCIL**

Mr Kevin Porter (Secretary & Registrar)

## **EXECUTIVE COMMITTEE**

Sir Anthony Cleaver	
Mr Patrick Deuchar	(Retired 31 July 2002)
Mr James Joll	
The Hon Sir Humphrey J H Maud KCMG	(Retired 31 July 2002)
Lady Middleton FRCM	
Mr Humphrey Norrington OBE FRCM	
Dame Janet Ritterman DBE (ex officio/Director)	
Mr Kevin Porter (Secretary, in attendance)	

## **REGISTERED OFFICE**

Royal College of Music  
Prince Consort Road  
London SW7 2BS

## **AUDITORS**

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

## **BANKERS**

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

## **SOLICITORS**

Boodle Hatfield  
61 Brook Street  
London W1Y 2BL

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# Royal College of Music

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TREASURER'S REPORT

**SCOPE AND FORMAT OF THE FINANCIAL STATEMENTS**

The accounts comprise the consolidated results of the College and its subsidiary, RCM Development Fund Limited ("RCMDF"). RCMDF activities include any commercial letting of College facilities and fundraising events. RCMDF covenants to the College the whole of any taxable profits. The College accounts include the specific endowments administered by the College.

**CONSOLIDATED RESULTS**

	2002 £000	2001 £000
Income	11,537	10,353
Surplus/ (Deficit)	(720)	42
Surplus/(Deficit) as a percentage of income	(6.2%)	0.4%

The underlying increase in recurrent funding from HEFCE before research funding was 8.8% against 2001 funding. Staff costs increased by £186,594 and now represent 47% (2001 – 55%) of expenditure.

The Statement of Consolidated Total Recognised Gains and Losses shows that the total recognised losses for the year were £3,756,105 after diminution in value of endowment asset investments of £3,395,126.

The deficit of £720,296 shown on the Consolidated Income and Expenditure Account is calculated after a transfer in excess of current year income of £514,296 from specific endowment funds to match expenditure on scholarships and £751,063 from general endowment funds to offset exceptional current year expenditure including major repairs and one off expenses (see notes 4,19).

**INVESTMENT PERFORMANCE**

The Investment Committee monitors the performance of the College's investment portfolios, managed on its behalf by Newton Investment Management Limited. The College's investments suffered from adverse market conditions, but performance was reasonably satisfactory in relation to the market indicator accepted by the Committee as comparable. A positive feature in this performance came from being overweight in Fixed Interest stock.

**SCHOLARSHIPS**

The College was able to award scholarships, exhibitions and study support grants totalling £999,460 in 2001/2002 to enable gifted and financially needy students to undertake their studies during the year. This level of support has been made possible by the generosity of benefactors over the years and scholarship funds are maintained separately by the College as specific endowment funds.

**ESTATE AND CAPITAL PROJECTS**

The College completed the repair to the roof and facades of the 108 year old Blomfield Building in July 2002 at a cost of some £1.6 million, which was within budget and was treated as capital expenditure.

Category 1 asbestos material identified during works to the Concert Hall platform was removed, and following a survey of the College, a planned programme to remove Category 2 material was started.

The College also started the first phase of internal building upgrade works at the Prince Consort Road site and at the College's student residence, College Hall, to ensure compliance with the Fire Regulations and the Disability Discrimination Act requirements. The College also acquired various equipment and instruments at a cost of £429,132.

The College produced an Interim Estate Review in March 2002, pending a review of the Estate Strategy 1994/5 – 2004/5, to provide a current development and operational context for estate planning including the Masterplan proposals for the long-term development of the Prince Consort Road buildings,

TREASURER'S REPORT

maintenance arrangements and the completion of asbestos removal and compliance works. Additionally the future ownership, management and operation of College Hall is the subject of continued consideration.

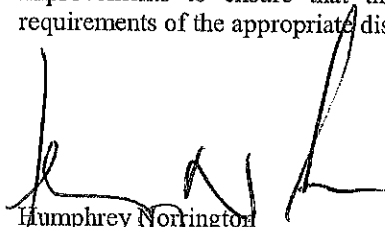
Recent major capital works have employed the £1.7 million cash on deposit reported at previous year end.

**DISABILITY STATEMENT**

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

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

In addition to the general student and employer support provided by the College, students and / or staff with disabilities have access to specialist financial and academic support, specialist equipment and other facilities, as appropriate. Also the College has started upon a 3 year capital programme of building improvements to ensure that the estate is open and physically accessible and complies with the requirements of the appropriate disability legislation.

  
Humphrey Norington  
Honorary Treasurer

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## CORPORATE GOVERNANCE

### THE COLLEGE'S STRUCTURE OF CORPORATE GOVERNANCE

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

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

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

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

Investment Committee  
Development Committee  
Estates Committee (est. 2001)

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

The Audit Committee, which reports directly to RCM Council, meets three times a year. Discussions are held with the External Auditors to discuss audit findings, and with the Internal Auditors to consider internal audit reports and recommendations for the improvement of the College's system of internal controls, together with management's response and plans for implementation. In 2001/2002 the Internal Auditors presented reports on Debtors, Creditors, Financial Awards and Cleaning.

### PREPARATION OF FINANCIAL STATEMENTS FOR THE 2001/2002 FINANCIAL YEAR

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

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

## CORPORATE GOVERNANCE

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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 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 in accordance with the responsibilities assigned 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 therefore provides reasonable but not absolute assurance of effectiveness. This system is based on an ongoing process designed to identify the principal 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. Preparations undertaken in 2001 / 2002 mean that from August 2002, procedures will be put in place to provide a full statement on internal control for the whole of the financial year 2002-03. This takes account of the time needed to fully embed the processes, which the governing body and management have agreed should be established and to improve their robustness.

This has involved various actions to initiate the risk management strategy in 2001/2002 including:

- drafting and adoption of a risk management policy and strategy,
- drafting and approval of an initial Risk Register;
- agreement on where the principal management responsibility rests for risk management;
- identification of the institution's objectives and risks, and determination of a control strategy for each of the significant risks;
- agreement that the Executive Committee would oversee risk management and that the audit committee would provide advice;
- adapting audit planning arrangements and the methodology and approach of the auditors, incorporating risk management more fully into the corporate planning and decision-making processes of the institution;
- agreement that an annual Review conducted by the Senior Management Team, in consultation with the managers responsible for areas where high level risks are identified, be presented in written form to the Executive Committee of RCM Council for detailed discussion, and reported to Council.

Sir Anthony Cleaver

Chairman



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

We have audited the financial statements on pages 7 to 26 of the Royal College of Music for the year ended 31 July 2002, which comprise the income and expenditure account, the balance sheet, the cashflow statement, the statement of total recognised gains and losses and the related notes.

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

### Respective responsibilities of Council and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards. We have been appointed as auditors under Section 43 of the Charities Act 1993 and report in accordance with regulations made under Section 44 of that Act.

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 Charities Act 1993. We also report to you whether, in our opinion monies expended out of funds from whatever source administered by the College for specific purposes were properly applied for those purposes and where relevant managed in accordance with appropriate legislation and whether monies expended out of funds provided by the Higher Education Funding Council were applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

We also report to you if, in our opinion, the Treasurer's Report is not consistent with the financial statements, if the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

### Basis of audit opinion

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

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

### Opinion

In our opinion:

- the accounts give a true and fair view of the state of the affairs of the Royal College of Music and of the Group, comprising the Royal College of Music and its subsidiary RCM Development Fund Limited, as at 31 July 2002 and of the Group's income and expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and with the College's Royal Charter;
- funds from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the Royal College of Music have been applied for the purposes for which they were received; and
- income has been applied in accordance with the Royal Charter governing the Royal College of Music and, where appropriate, with the Financial Memoranda dated August 1995 and March 1996 (revised July 1997) with the Higher Education Funding Council for England.

*RSM Robson Rhodes*  
RSM Robson Rhodes

Chartered Accountants and Registered Auditors, Hemel Hempstead, England

*25 December 2002*

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

**1. ACCOUNTING CONVENTION**

The accounts have been prepared under the historical cost convention as modified by the revaluation of endowment asset investments, musical instruments and certain land and buildings for which a cost is not readily ascertainable, and in accordance with both the Statement of Recommended Practice on Accounting for Further and Higher Education, published in August 2000, and guidance published by the Funding Council.

**2. BASIS OF CONSOLIDATION**

The consolidated accounts consist of the accounts of the College and its subsidiary undertaking, RCM Development Fund Limited, for the financial year to 31 July 2002.

**3. STUDENTS' ASSOCIATION**

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

**4. RECOGNITION OF INCOME**

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

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

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

**5. PENSION SCHEMES**

The two principal pension schemes for the College's staff are the Teachers' Pension Scheme (TPS) and the Royal College of Music scheme administered by the Legal and General Pension Trust (L&G). As of 1<sup>st</sup> October 2002, a transfer was effected from the L&G scheme to a new pension scheme, the Royal College of Music Pension and Assurance Scheme (RCM Pension Scheme), offering similar benefits to the L&G scheme. The schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme. Pension costs for the L&G scheme are assessed on the latest actuarial valuation and are accounted for on the basis of charging the cost of providing pensions over the period during which the College benefits from employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of members of the L&G scheme. A formal valuation of the RCM Pension Scheme is in progress. The Government Actuary reviews the pension costs of the TPS at regular intervals.

**6. LAND AND BUILDINGS**

Land and buildings are stated at cost or, in the case of land and buildings for which cost cannot readily be ascertained, at valuation. The basis of valuation of buildings is depreciated replacement cost and the basis of valuation of land is estimated value in its existing use. Freehold buildings are depreciated over their expected useful lives of 50 years and leasehold land and buildings are amortised over 50 years, or, if shorter, the period of the lease. Building improvements are depreciated over their expected useful lives of 20 years.

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

**7. LIBRARY AND MUSEUM**

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

As the College holds these collections inalienably and many items are irreplaceable, no valuation is placed on these collections in the accounts. The Annual Review of the College for the year to 31 July 2002 reports on the collections including gifts received.

**8. HERITABLE PROPERTY AND MUSICAL INSTRUMENTS**

In addition to the museum's collection of instruments, the College holds a number of important instruments which are made available to musicians within the College and the profession. These instruments, have been classified as "heritable property" within Investments, and have been included at their insurance valuation (the nearest approximation to open market value) of £1,334,000. They are not depreciated and are maintained at high performance levels.

Musical instruments have been valued either at their estimated current cost for assets in their condition at 31 July 1998 or at cost for subsequent additions. The differences on valuation have been credited to a revaluation reserve to be released over the estimated remaining life of the instruments. In accordance with the transitional provisions of FRS15, the College has decided not to revalue its musical instruments in future.

Other equipment is stated at cost, and depreciated over its remaining useful life.

These assets are depreciated as follows:

Musical instruments other than heritable property	–	10 to 20 years
Recording and general equipment, furniture and fittings	–	5 years
Computer equipment	–	4 years

**9. INVESTMENTS**

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

**10. MAINTENANCE OF PREMISES**

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

**11. TAXATION STATUS**

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. The College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Charitable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value Added Tax.

**12. FOREIGN CURRENCY TRANSLATION**

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

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STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

**13. LEASED ASSETS**

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

# Royal College of Music

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 July 2002

	Notes	2002 £	2001 £
<b>INCOME</b>			
Funding Council grants	1	4,323,208	4,130,070
Academic fees and support grants	2	2,761,655	2,843,681
Other operating income	3	2,349,158	2,507,950
Endowment income and interest receivable	4	2,103,455	871,414
<b>Total Income</b>		<b>11,537,476</b>	<b>10,353,115</b>
<b>EXPENDITURE</b>			
Staff costs	7	5,788,782	5,602,188
Depreciation	8	726,881	732,780
Other operating expenses	9	5,372,334	3,580,937
Interest Payable	10	369,775	395,289
		<b>12,257,772</b>	<b>10,311,194</b>
(Deficit)/Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax.	21	<b>(720,296)</b>	<b>41,921</b>

## CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS

	2002 £	2001 £
Reported (deficit)/surplus after depreciation and before tax	(720,296)	41,921
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	298,387	298,387
<b>Historical cost (deficit)/surplus before tax</b>	<b>(421,909)</b>	<b>340,308</b>
<b>Historical (deficit)/surplus after tax</b>	<b>(421,909)</b>	<b>340,308</b>

Royal College of Music

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES  
for the year ended 31 July 2002

	2002 £	2001 £
(Deficit)/Surplus after depreciation and tax	(720,296)	41,921
New endowments	1,624,676	1,185,608
(Diminution) in value of endowment asset investments	(3,395,126)	(1,669,521)
Transfer of Endowment funds to income	(1,265,359)	-
	<u>(3,756,105)</u>	<u>(441,992)</u>
Reconciliation:		
Opening reserves and endowments	30,433,777	30,875,769
Total recognised gains/(losses) relating to the year	(3,756,105)	(441,992)
Closing reserves and endowments	<u>26,677,672</u>	<u>30,433,777</u>

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

# Royal College of Music

## BALANCE SHEET

at 31 July 2002

	Notes	2002 £	Consolidated 2001 £	2002 £	College 2001 £
<b>FIXED ASSETS</b>					
Tangible assets	11	15,749,344	14,304,592	15,749,344	14,304,592
Investments	12	1,334,000	1,334,000	1,334,100	1,334,100
		<u>17,083,344</u>	<u>15,638,592</u>	<u>17,083,444</u>	<u>15,638,692</u>
<b>ENDOWMENT ASSETS</b>					
Investments	13	16,209,488	18,413,942	16,209,488	18,413,942
Other endowment assets	14	2,227,444	3,058,799	2,227,444	3,058,799
		<u>18,436,932</u>	<u>21,472,741</u>	<u>18,436,932</u>	<u>21,472,741</u>
<b>CURRENT ASSETS</b>					
Debtors	15	241,829	260,330	346,175	325,029
Cash at bank and in hand		358,893	536,495	248,338	427,983
Cash on Deposit		-	1,650,000	-	1,650,000
		<u>600,722</u>	<u>2,446,825</u>	<u>594,513</u>	<u>2,403,012</u>
<b>CREDITORS: amounts falling due within one year</b>	16	<u>(1,639,625)</u>	<u>(1,629,000)</u>	<u>(1,639,209)</u>	<u>(1,590,979)</u>
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(1,038,903)</u>	<u>817,825</u>	<u>(1,044,696)</u>	<u>812,033</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>34,481,373</u>	<u>37,929,158</u>	<u>34,475,680</u>	<u>37,923,466</u>
<b>CREDITORS: amounts falling due after more than one year</b>	17	<u>(3,200,000)</u>	<u>(3,400,000)</u>	<u>(3,200,000)</u>	<u>(3,400,000)</u>
<b>TOTAL NET ASSETS</b>		<u><u>31,281,373</u></u>	<u><u>34,529,158</u></u>	<u><u>31,275,680</u></u>	<u><u>34,523,466</u></u>

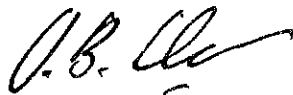
Royal College of Music

BALANCE SHEET

at 31 July 2002

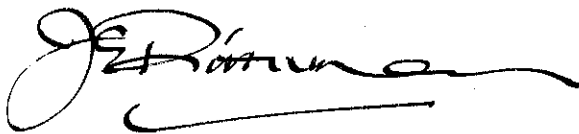
	Notes	Consolidated		College
		2002 £	2001 £	2001 £
<b>DEFERRED CAPITAL GRANTS</b>	18	4,603,701	4,095,381	4,095,381
<b>ENDOWMENTS</b>				
Specific	19	13,068,277	13,978,865	13,978,865
General	19	5,368,655	7,493,876	7,493,876
		<u>18,436,932</u>	<u>21,472,741</u>	<u>21,472,741</u>
<b>RESERVES</b>				
Revaluation Reserve	20	7,145,252	7,443,639	7,443,639
Accumulated Revenue Reserve	21	1,095,488	1,517,397	1,511,705
		<u>8,240,740</u>	<u>8,961,036</u>	<u>8,955,344</u>
<b>ENDOWMENTS AND RESERVES</b>		<u>26,677,672</u>	<u>30,433,777</u>	<u>30,428,085</u>
		<u><u>31,281,373</u></u>	<u><u>34,529,158</u></u>	<u><u>34,523,466</u></u>

Approved by Council on 28 November 2002 and signed on its behalf by:



Sir Anthony Cleaver

Chairman



Dame Janet E Ritterman

Director



Royal College of Music

CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended 31 July 2002

	Notes	2002 £	2001 £
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	22	(1,923,176)	336,473
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Income from Endowments	19	797,685	703,641
Other interest received		40,411	167,773
Interest paid		(369,775)	(395,289)
		468,321	476,125
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire endowment asset investments		(8,586,295)	(3,492,408)
Realisation of endowment asset investments		7,907,824	2,987,414
Payments to acquire tangible fixed assets		(2,216,233)	(264,727)
Receipts from sale of fixed assets		50,836	-
Capital grants received		936,814	438,000
Endowments received		1,624,676	1,185,608
		(282,378)	853,887
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
Amounts released from/(placed on) deposit		1,650,000	350,000
<b>FINANCING</b>			
Repayments of amounts borrowed		(200,000)	(200,000)
<b>CASH MOVEMENT (Note 23)</b>		(287,233)	1,816,485

NOTES TO THE ACCOUNTS

at 31 July 2002

1. FUNDING COUNCIL GRANTS

	2002	2001
	£	£
<b>a) HEFCE</b>		
Recurrent grant	3,507,139	3,223,320
Research grant	433,906	437,361
Capital projects	28,806	74,340
HR Strategy	73,055	-
Inherited staff liabilities claim	35,862	112,434
Reach Out to Business & the Community grant	41,950	50,000
Access Funds	52,335	46,679
TLTP Phase 3 grant	-	20,000
Good Management Practice	25,675	55,160
Fund for Development of teaching & learning	-	23,454
Mature Students Bursaries	-	2,000
Summer School	25,726	11,760
Teaching Quality Enhancement Fund	16,296	15,393
Costing and pricing	15,000	-
Information Technology	8,813	-
Active Community Fund	1,710	-
<b>b) Other</b>		
AHRB Creative Performing Arts	33,278	58,169
Library Ensemble Project	23,657	-
	<u>4,323,208</u>	<u>4,130,070</u>

2. ACADEMIC FEES AND SUPPORT GRANTS

	2002	2001
	£	£
Full-time students	2,044,630	2,168,536
Junior Department fees	717,025	675,145
	<u>2,761,655</u>	<u>2,843,681</u>

3. OTHER OPERATING INCOME

	2002	2001
	£	£
Other grant income	177,651	24,494
Residences and catering	728,551	678,963
Other services rendered	284,772	375,666
Released from deferred capital grants (note 18)	428,494	434,393
Other Income	729,690	994,434
	<u>2,349,158</u>	<u>2,507,950</u>

4. ENDOWMENT INCOME AND INTEREST RECEIVABLE

	2002	2001
	£	£
Income from specific endowments (note 19)	1,055,044	448,339
Income from general endowment asset investments (note 19)	1,008,000	255,302
Other interest receivable	40,411	167,773
	<u>2,103,455</u>	<u>871,414</u>

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

Specific endowments	£514,296
General endowments	£751,063
	<u>1,265,359</u>

# Royal College of Music

## NOTES TO THE ACCOUNTS

at 31 July 2002

### 5. DIRECTOR'S EMOLUMENTS

	2002 £	2001 £
Salary	110,131	96,000
Pension contributions	7,658	7,206
	<u>117,789</u>	<u>103,206</u>

### 6. REMUNERATION OF HIGHER PAID STAFF

	2002 No.	2001 No.
£50,001 - £55,000	-	1
£55,001 - £60,000	2	1
\$100,001 - £105,000	-	1
£115,001 - £120,000	1	-
	<u>3</u>	<u>3</u>

### 7. STAFF COSTS

	2002 £	2001 £
Wages and salaries	5,189,786	4,988,071
Social security costs	351,943	338,604
Pension costs	247,053	275,513
	<u>5,788,782</u>	<u>5,602,188</u>

#### STAFF COSTS BY DEPARTMENT

	2002 No.	2001 No.	2002 £ '000	2001 £ '000
Teaching Departments	288	283	2,791	2,582
Teaching Support Services	44	42	1,627	1,355
Administration and Central Services	42	44	1,071	1,344
Premises	12	12	300	321
	<u>386</u>	<u>381</u>	<u>5,789</u>	<u>5,602</u>

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

### 8. DEPRECIATION

The depreciation charge has been funded by:

	2002 £	2001 £
Deferred capital grants released (note 18)	428,494	434,393
Released from revaluation reserve (note 20)	298,387	298,387
	<u>726,881</u>	<u>732,780</u>

NOTES TO THE ACCOUNTS  
at 31 July 2002

9. OTHER OPERATING EXPENSES

	2002 £	2001 £
Residences and catering operating expenses	631,474	634,072
Academic departments	408,058	499,382
Learning resources	155,563	167,694
Scholarships, prizes and grants	999,460	628,151
Heat, light, water and power	108,421	103,990
Repairs and general maintenance	479,981	330,113
Property maintenance	398,527	368,846
Grants to RCM Students' Association	22,541	22,698
Auditors' remuneration	19,772	20,296
Auditors' remuneration - internal audits	10,311	7,271
Other expenses	2,135,290	798,424
Bad Debts	9,170	
Profit on sale of fixed assets	(6,234)	
	<u>5,372,334</u>	<u>3,580,937</u>

10. INTEREST PAYABLE

	2002 £	2001 £
Loans not wholly repayable within five years	<u>369,775</u>	<u>395,289</u>

NOTES TO THE ACCOUNTS  
at 31 July 2002

11. TANGIBLE ASSETS

Consolidated

	Land and buildings		Furniture & Equipment	Musical instruments	Total
	Freehold £	Leasehold £			
Valuation/cost: At 1 August 2001					
Valuation	-	5,469,465	-	2,934,812	8,404,277
Cost	3,835,720	2,834,849	2,249,218	1,071,138	9,990,925
At 1 August 2001	3,835,720	8,304,314	2,249,218	4,005,950	18,395,202
Additions	-	1,787,101	222,481	206,651	2,216,233
Disposals	-	-	-	(73,420)	(73,420)
At 31 July 2002					
Valuation	-	5,469,465	-	2,934,812	8,404,277
Cost	3,835,720	4,621,950	2,471,699	1,204,369	12,133,738
	3,835,720	10,091,415	2,471,699	4,139,181	20,538,015
Depreciation					
At 1 August 2001	175,530	961,998	1,817,432	1,135,650	4,090,610
Provided during the year	76,714	200,632	202,669	246,866	726,881
Disposals	-	-	-	(28,820)	(28,820)
At 31 July 2002	252,244	1,162,630	2,020,101	1,353,696	4,788,671
Net book value: At 31 July 2002					
Valuation	-	5,102,643	-	740,901	5,843,544
Cost	3,583,476	3,826,142	451,598	2,044,584	9,905,800
Total at 31 July 2002	3,583,476	8,928,785	451,598	2,785,485	15,749,344
At 1 August 2001	3,660,190	7,342,316	431,786	2,870,300	14,304,592

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

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

NOTES TO THE ACCOUNTS

at 31 July 2002

12. FIXED ASSET INVESTMENTS

	Consolidated		College	
	2002 £	2001 £	2002 £	2001 £
Investment in subsidiary	-	-	100	100
Heritable property	1,334,000	1,334,000	1,334,000	1,334,000
	<u>1,334,000</u>	<u>1,334,000</u>	<u>1,334,100</u>	<u>1,334,100</u>

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

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

13. ENDOWMENT ASSET INVESTMENTS

	Consolidated and College 2002 £
At 1 August	18,413,942
Additions	8,635,175
Disposals	(7,907,824)
Gains/(Losses) on disposals / revaluation	(3,395,126)
Movements on cash	463,321
	<u>16,209,488</u>

Investments held are analysed as follows:

	2002 £	2001 £
Fixed interest stocks (listed)	3,863,681	3,555,179
Equities including investment (listed) and unit trusts	11,043,160	14,068,518
Cash held by investment managers	1,302,647	790,245
	<u>16,209,488</u>	<u>18,413,942</u>

NOTES TO THE ACCOUNTS  
at 31 July 2002

14. OTHER ENDOWMENT ASSETS

	2002 £	2001 £
Other bank balances	2,293,105	2,915,138
Debtors	23,525	152,693
Creditors	(89,186)	(9,032)
	<u>2,227,444</u>	<u>3,058,799</u>

15. DEBTORS

	Consolidated		College	
	2002 £	2001 £	2002 £	2001 £
Amounts falling due within one year:				
Debtors	177,833	189,235	161,096	195,073
Due from subsidiary undertaking	-	-	121,183	58,861
Prepayments and accrued income	63,996	71,095	63,896	71,095
	<u>241,829</u>	<u>260,330</u>	<u>346,175</u>	<u>325,029</u>

16. CREDITORS: amounts falling due within one year

	Consolidated		College	
	2002 £	2001 £	2002 £	2001 £
Bank loans and overdrafts	200,000	200,000	200,000	200,000
Creditors	445,455	683,581	447,470	645,560
Social security and other taxation payable	218,339	215,468	218,339	215,468
Accruals and deferred income	775,831	529,951	773,400	529,951
	<u>1,639,625</u>	<u>1,629,000</u>	<u>1,639,209</u>	<u>1,590,979</u>

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

Consolidated and College	2002 £	2001 £
Bank loan, secured on property repayable between 2001 and 2019	<u>3,200,000</u>	<u>3,400,000</u>

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

NOTES TO THE ACCOUNTS

at 31 July 2002

18. DEFERRED CAPITAL GRANTS

Consolidated and College

	HEFCE £	Private funding £	Total £
At August 2001	759,165	3,336,216	4,095,381
Cash Received	69,814	867,000	936,814
Released to income and expenditure (note 3)	(75,917)	(352,577)	(428,494)
At 31 July 2002	<u>753,062</u>	<u>3,850,639</u>	<u>4,603,701</u>

19. ENDOWMENTS

Consolidated and College

	Specific £	General £	Total £
At 1 August 2001	13,978,865	7,493,876	21,472,741
New Endowments	1,624,676		1,624,676
Gains/(losses) in market value of investments (note 13)	(2,020,968)	(1,374,158)	(3,395,126)
Income for year	540,748	256,937	797,685
Transferred to income and expenditure account (note 4)	(1,055,044)	(1,008,000)	(2,063,044)
At 31 July 2002	<u>13,068,277</u>	<u>5,368,655</u>	<u>18,436,932</u>



NOTES TO THE ACCOUNTS

at 31 July 2002

20. REVALUATION RESERVE  
Consolidated and College

	Land and buildings £	Musical instruments £	Total £
Revaluation:			
At 1 August 2001	5,469,465	2,546,973	8,016,438
At 31 July 2002	5,469,465	2,546,973	8,016,438
Contributions to depreciation:			
At 1 August 2001	272,658	300,141	572,799
Released in year (note 8)	109,389	188,998	298,387
	382,047	489,139	871,186
Net revaluation amount:			
At 31 July 2002	5,087,418	2,057,834	7,145,252
At 1 August 2001	5,196,807	2,246,832	7,443,639

21. ACCUMULATED REVENUE RESERVE

	Consolidated		College	
	2002 £	2001 £	2002 £	2001 £
At 1 August 2001	1,517,397	1,177,089	1,511,705	1,171,498
(Deficit)/Surplus from income and expenditure account	(720,296)	41,921	(720,297)	41,820
Release from revaluation reserve (note 20)	298,387	298,387	298,387	298,387
At 31 July 2002	1,095,488	1,517,397	1,089,795	1,511,705

NOTES TO THE ACCOUNTS

at 31 July 2002

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

	2002 £	2001 £
Surplus before tax	(720,296)	41,921
Depreciation	726,881	732,780
(Profit)/Loss on the sale of fixed assets (note 9)	(6,234)	-
Deferred capital grants released to income (note 18)	(428,494)	(434,393)
Investment income and interest receivable (note 4)	(2,103,455)	(871,414)
Interest payable	369,775	395,289
(Increase)/decrease in debtors	147,868	806,674
Increase/(decrease) in creditors	90,779	(334,384)
	<u>(1,923,176)</u>	<u>336,473</u>

23. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2001	Cashflows	At 31 July 2002
<u>Cash</u>			
Endowment assets			
Balances at investment managers	790,245	512,402	1,302,647
Other balances	2,915,138	(622,033)	2,293,105
Cash at bank and in hand	536,495	(177,602)	358,893
	<u>4,241,878</u>	<u>(287,233)</u>	<u>3,954,645</u>
<u>Financing</u>			
Due within one year	(200,000)	-	(200,000)
Due after one year	(3,400,000)	200,000	(3,200,000)
<u>Liquid Resources</u>			
Cash on deposit	1,650,000	(1,650,000)	-
	<u>2,291,878</u>	<u>(1,737,233)</u>	<u>554,645</u>

24. PENSIONS

THE LEGAL AND GENERAL (L&G) SCHEME

The L&G scheme was last valued by a qualified actuary on 9 September 2002. At that date, the market value of the assets of the scheme amounted to £4,090,000 and the scheme liabilities were valued at £4,844,000. This resulted in a deficit of £754,000. The actuarial value of the assets was less than the value of the benefits that have accrued to members by 16%. The assets and liabilities of the L&G scheme at 9 September 2002 included the present value of pensions currently in payment, which have been received by the purchase of annuities from Legal & General. Pensions bought at retirement by the purchase of annuities from a life office other than Legal & General were not included.

The main assumptions used in costing the accrued retirement benefits of the L&G scheme are: the retail price index will increase at the rate of 2.5% per annum; the part of the pensions in course of payment which escalate in line with increases in the Limited Price index will increase at the rate of 2.5% per annum; the accrued pensions for leavers in excess of their Guaranteed Minimum Pension, which increase in line with statutory revaluation will increase at the rate of 2.5% per annum; pensionable salaries will increase at the rate of 4.25% per annum; liabilities have been discounted at a rate of 5.85% per annum, demographic assumptions are the same as those used in the last actuarial valuation and investments; expected return on managed funds is 4.9% for bonds and 8.0% for equities.

In February 2001, Legal & General gave formal notice of their intention to wind up the Legal & General Pension Trust by December 2001. The formal transfer from the L&G scheme to a new pension scheme, the Royal College of Music Pension and Assurance Scheme, took place on 1st October 2002. The Scheme Actuary is Hyman Wolanski, the Scheme Administrator is Wolanski & Co, and the Fund Manager is Legal & General. Pending a formal actuarial valuation, the Scheme Actuary has recommended that the employer's contribution to the scheme be increased by 2.4% to 11.5% as from 1 October 2002. Currently, the employee's contribution to the scheme is 6% of salary.

THE TEACHERS' PENSION SCHEME (TPS)

The TPS covers teachers in full-time employment, (other than those who have elected to opt out of the scheme), or part-time employment and provides guaranteed benefits, which are index linked. The TPS is a statutory, contributory final salary scheme regulated under the Teachers' Pensions Regulations 1997, as amended. The benefits consist of an annual pension and a tax-free lump sum. There is provision for early retirement and ill-health benefits together with death and family benefits. The benefits of the scheme are based on the final salary at retirement. Currently, the employee's contribution to the scheme is 6% of salary whilst the College contributes 8.35% of salary.

The last valuation of the TPS by the Government Actuary (GA) was at 31 March 1996. The GA conducts an actuarial review of the TPS not less than every five years. On 31 March 1996, the TPS was 94% funded. The deficit is being eliminated by the College via supplementary contributions of 0.4% of gross pay from 1 April 2000 to 31 March 2002, and of 1.35% from 1 April 2002 to 31 March 2040. The financial assumptions in the GA report were that prices would increase by 5% and salaries by 6.5%, and the rate of return on investments would be 8.5%.

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

NOTES TO THE ACCOUNTS

at 31 July 2002

24. PENSIONS (Continued)

UNIVERSITIES SUPERANNUATION SCHEME (USS)

A member of staff participates in the Universities Superannuation Scheme. An actuarial valuation of USS was carried out as at 31 March 1999 by the actuary, Mr M B Reid of William M Mercer Limited. On 31 March 1999 the scheme had a surplus of 8%. The institution contribution rate required for the future service benefits is 16.3% of salaries. The College's contribution rate is maintained at 14.0% of staff salaries. The scheme's surplus will finance the contribution shortfall of 2.3% for a period of 11 years from 1 April 1999. The surplus will also be used to increase the pensions of non-active members by 1%, increase lump sum death benefit from 2.5 to 3 times salary, and remove reductions to spouses' benefits on account of age disparity between husband and wife.

STATUTORY DISCLOSURE

None of the above pension scheme surpluses (or deficits) have been accounted for in the balance sheet or profit and loss account of these financial statements. Every effort has been made by the management to obtain the relevant information to enable full disclosure of the pension schemes in accordance with the requirements of FRS 17. Any such information not disclosed is due to the absence of data by the date of these financial statements. The actuarial information provided by TPS and USS did not specify the value of the assets and liabilities held by the College.

25. ACCESS FUNDS

	2002 £	2001 £
Balance brought forward at 1 August	4,447	1,752
HEFCE Grants	52,335	44,293
	<hr/>	<hr/>
Disbursed to students	56,782 (55,506)	46,045 (41,598)
	<hr/>	<hr/>
Balance carried forward at 31 July	1,276	4,447
	<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

26. CAPITAL COMMITMENTS

As at 31 July 2002, the College had capital commitments of £ 334,129 for building and restoration work, and £ 89,600 to purchase musical instruments.

NOTES TO THE ACCOUNTS

at 31 July 2002

27. FINANCIAL COMMITMENTS

At 31 July 2002, the College had annual commitments under non-cancellable operating leases as follows:

	2002	2001
	£	£
<u>Other Operating Leases</u>	Annual	Annual
Expiring within one year	12,513	-
Expiring between two and five years	-	50,062

28. RELATED PARTY TRANSACTIONS

The College received grants in the year totalling £ 1,479, 512 (2001 - 1,017,455) from the Prince Consort Foundation, a registered charity. Of the nine trustees, four are members or ex-officio members of the College's Council. The grants were for bursaries for the Junior Department, development projects, student accommodation, major building works, musical instruments and facilities of the College.

At 31 July 2002 the amount due to the Prince Consort Foundation was £ 817.00