



Royal College of Music



**Report and Accounts
31st July 2007**

Report and Accounts
Royal College of Music

31 July 2007

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

Lord Winston (Chairman) (Appointed August 2007)

Sir Anthony Cleaver (Chairman) (Retired July 2007)

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

Ms Jane Barker (Appointed February 2007)

Sir Thomas Allen CBE FRCM (Retired July 2007)

Mrs Sally Bott

Professor Geoffrey Crossick

Mr Richard Findlater (Appointed February 2007)

Mr Vernon Ellis

Mrs Rosalind Gilmore CB (Retired July 2007)

Mr John Hall

Mr James Joll (Retired November 2006)

Dr John Lill OBE FRCM

Ms Gillian Moore MBE FRCM (Appointed February 2007)

Ms Victoria Sharp (Appointed February 2007)

Mr Richard Price (Chairman of Audit Committee)

Sir Richard Sykes

Mr Nigel Woolner (Chairman of Estates Committee)

Ex-officio or elected

Professor Colin Lawson FRCM (Director)

Mr Andrew Ball (Professorial staff)

Mr William Mival (Professorial staff, retired July 2007)

Ms Vanessa Latache (Professorial staff, appointed July 2007)

Mr David Harpham HonRCM (Administrative staff, appointed July 2006)

Mr Rhys Smith (President, Students' Association, appointed 2006, retired July 2007)

Miss Gemma Johnson (President, Student's Association, appointed July 2007)

CLERK TO THE COUNCIL

Mr Kevin Porter HonRCM

Royal College of Music

EXECUTIVE COMMITTEE

Lord Winston (Appointed August 2007)
Sir Anthony Cleaver (Retired July 2007)
Mr James Joll (Retired November 2006)
Mr Nicholas Ward
Prof. Colin Lawson (ex officio)
Mr Nigel Woolner
Ms Jane Barker (appointed February 2007)

REGISTERED OFFICE

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London SW7 2BS

AUDITORS

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Melton Street
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BANKERS

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62-63 Threadneedle Street
London
EC2R 8LA

SOLICITORS

Boodle Hatfield
61 Brook Street
London W1Y 2BL

Royal College of Music

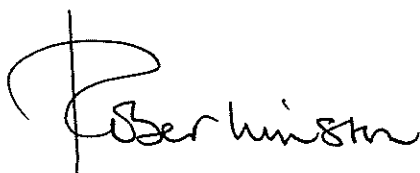
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CHAIRMAN'S STATEMENT

The Royal College of Music's international profile in music education was greatly strengthened in 2006-07, a year of outstanding artistic and educational achievement. Acting as a counterpoint to the business-as-usual teaching and learning activities of a leading conservatoire, there was a roster of public performances that stands comparison with those of the very best professional ensembles. International guest artists included Vladimir Ashkenazy, Bernard Haitink, Andrew Litton, Sir Charles Mackerras Sir Roger Norrington and Pierre-André Valade conducting RCM students in repertoire as varied as Monteverdi, Handel, Mozart, Bruckner and Lachenmann.

As well as a year of remarkable development on the artistic front, it was also a year of great change on the Council. I have succeeded Sir Anthony Cleaver as Chairman and would want to record formally the thanks of the College and of the Council for his significant service. From my perspective, he has bequeathed to me a thriving Council and a College that is going from strength to strength. Also retired this year are Rosalind Gilmore and James Joll, among the independent members, together with elected member William Mival. To all of them we owe our gratitude for many years of support. Council welcomed Jane Barker, Richard Findlater, Gillian Moore and Victoria Sharp as independent members and Vanessa Latache as an elected member within the year - all have already started to contribute to the work of the Council.

The challenges of 2006-07 revolved around space. Our students, the most talented musicians of their generation, come from all over the world. They come with high expectations, attracted by the RCM's reputation for developing individual potential. These expectations are met, and often exceeded, musically and educationally. We are in danger of letting them down on the apparently simple matter of space, so the planning to address this was already well underway by summer 2007. Improving the estate, and the fundraising that supports that development, will be top priorities for the next few years. I am delighted to begin my association with the Royal College of Music in its 125th anniversary year, a moment of unrivalled opportunity for the College that we intend to grasp with all our might.



Professor Lord Winston

Chairman RCM Council

DIRECTOR'S REPORT 2006-07

The focus of the year 2006-07, my second as Director, was strategic planning, to ensure that the Royal College of Music has the resources to deliver its ambitious goals of training world-class musicians for international careers. Working with colleagues, I have thoroughly reviewed the RCM's objectives and priorities for the next ten years. In short, we shall be building on the best of the past ten years, and taking forward a new agenda to develop those areas in which we believe we can truly excel in the global marketplace.

The quality of our one-to-one teaching, the heart of the curriculum in a conservatoire, remains as high as ever, with glowing affirmation from students themselves, praise from visiting professionals and external examiners, high levels of audience satisfaction demonstrated in repeat bookings and sell-out concerts, and gratifying critical acclaim.

Recent RCM research activity has focused upon the institutional submission for the Research Assessment Exercise 2008 for which the deadline is 30 November 2007. An internal RAE coordinating team has comprised the Director, Dean, Head of the Graduate School and Deputy Head of the Graduate School, with Professor Trevor Herbert (Open University) as external advisor. The process has been supported by members of the Research Committee, notably the Heads of Research Centres.

The RCM's exposition of its Research Environment sets out a strategic vision for research that is enshrined within a number of research principles:

- Encouraging creativity and innovation
- Widening repertoire boundaries and exploring new perspectives
- Deepening understanding of the process of music-making
- Learning from the past

The RAE submission indicates the breadth as well as the depth of the research culture within the institution. The RCM research team has worked hard to achieve the best possible results. They will be known at the end of 2008 and will thus inflect the HEFCE research funding (currently c£350,000 pa) from the academic year 2009-10.

A focal point of the year was the UK's first ever festival of the music of Helmut Lachenmann, the celebrated German composer too little known in the UK. This was a remarkable synthesis of the RCM's key priorities for the year, providing an enriching musical experience for all students, audience development opportunities, partnerships and collaborations, and media recognition. It resulted in a startlingly successful week of packed-house concerts, meet-the-composer opportunities, interviews, lectures, pre-concert events, an education project with the London Sinfonietta, a short animated film, BBC Radio 3 broadcasts, coverage in all the major broadsheets and journals, and an all-important final party. This was the Royal College of Music on top form, where theory, practice, planning, presentation, imagination and hard work combine to produce an event that significantly exceeds the sum of its parts, reaching new audiences and igniting in many the inquisitive spirit that is excited rather than deterred by the new.

"Recent years have brought some excellent productions to the Britten Theatre but few have met the educational remit as comprehensively as Paul Curran's production of *Poppea*. Attractively designed, and alert to the organic flow from scene to scene that Monteverdi's score demands, it was an encyclopaedia of the skills an aspiring opera singer should master. This sharp, thoughtful production revealed a rich seam of dramatic and musical talent." [The Independent on Sunday](#)

"The evening of pure joy offered by the brilliant young musicians of the Royal College of Music...even the Philharmonia on form would have been hard pressed to better the enthusiasm and virtuosity of the RCM Symphony Orchestra." [The Mail on Sunday](#) of Bernard Haitink and the RCM Symphony Orchestra performing Bruckner's Symphony no 7

DIRECTOR'S REPORT 2006-07 (Continued)

"A stunning performance...the singing and acting were on the highest level...one of the most complete realisations of a Handel opera I've seen" The Spectator of Poro Re dell' Indie

"An invigorating start to the London Handel Festival." The Times

"All credit to the Royal College of Music for mounting an eight-day Lachenmannfest... and especially to the RCM Symphony Orchestra, expertly conducted by Pierre-André Valade, for [a] stupendous programme" Richard Morrison, The Times, November 2006.

Our modular course structure at both undergraduate and postgraduate level offers students choice within an ordered framework; it allows them to develop areas of interest around their core studies. Research continues apace as we move towards the 2008 Research Assessment Exercise, with an encouraging number of staff working on innovative topics, including projects with a significant scientific dimension that complements our global leadership in practice-based research. The consolidation of the research community, and an ever-stronger Graduate School, have resulted in increased applications for graduate study from candidates of the highest calibre. This year, for example, there were 18 Doctoral students, with applications for 2007-08 looking set to increase significantly.

With general satisfaction about the quality of our core business, our attention is turning, in strategic terms, to the estate. Our much-loved home in Prince Consort Road is showing its age, and plans were launched to transform the Concert Hall into a 21st-century space. Alongside that, and equally urgent, is our need for more space, especially for student practice and rehearsal. We are also conscious of the great potential of our collections items, some of which are currently inaccessible and, indeed, stored in imperfect environments. Aided by several devoted committee members, by the end of the academic year, we had a number of exciting possibilities simmering through which we can start to address the challenges of space and estate. We look forward to confirming our plans and beginning work on the first phase, the Concert Hall Transformation, in the next academic year.

We are very proud of our scholarship scheme, an ever-growing fund which allows us never to turn away talented musicians for financial reasons. Our overseas scholarship scheme this year focused on Russia, allowing two pianists and two violinists from the Moscow Conservatory to study at the RCM. The link with Moscow is one of many international partnerships that the RCM now has. During 2006-07 an articulated Bachelors/Masters programme was developed with Princeton and there are plans to develop a further partnership in Singapore. Our international recruitment visits to the USA and the Far East are bearing fruit. It is extremely satisfying to see students from 48 nations inspiring, and being inspired by, each other. Indeed, one of the most important gifts a conservatoire can bestow on its graduates is the sense of moving forward into professional life, already part of a strong international network, continually linked, physically or virtually, with their conservatoire. Through the RCM's Woodhouse Centre, and in particular the work of the Graduate Services Officer, our alumni can, and do, feel truly connected for life to their alma mater.

I would like to record my personal thanks to Sir Anthony Cleaver who chaired the RCM Council so ably for nine years, stepping down in July 2007. He will be awarded an FRCM in 2008. His support, experience and wisdom were invaluable to a new Director and I trust that we shall continue to remain in close contact with both Sir Anthony and Lady Cleaver in years to come.



Professor Colin Lawson

Director

TREASURER'S REPORT

MISSION & PRINCIPAL OBJECTIVES

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

STRATEGY

During the year the College formulated its Strategic Plan for the next decade and established the following priority areas of activity.

The College will work collaboratively to provide **access to an inspirational learning experience** for the widest possible range of students. The programme of curricular innovation is to be continued making links between theory and practice: the Junior Department is to be integrated with the RCM's access and outreach initiatives and access to the research collections must be made simpler mainly through developments of the estate.

The **artistic vision** will be developed through the creation of a robust forward artistic planning process that includes concerts and operatic performances in concert halls and opera houses within and beyond London as a regular feature. The College will establish a distinctive focus on the music of the present and it will widen students' opportunities to enrich their performances by reference to earlier practice and practitioners.

The College will build on its existing strengths in **research and innovation** to establish leadership in practice based research. It will make greater use of technology as an aid to performance based research and review its research centres to ensure that they interact effectively with one another and contribute fully to the College's teaching and performing activities.

The College will improve its **communications** externally with government, the music profession, the media and potential donors and internally with students and staff.

The College will provide a supportive professional environment for **students and staff** that enables them to realise their full potential. It will offer an innovative programme of professional development and training and ensure that new professorial appointments enhance the RCM's reputation for quality teaching.

The College will use **technology** to support innovation in e-learning, research and audience development. It will create a vigorous environment for e-learning in all its forms, utilising portal technology, and will use web based distribution mechanisms to distribute its own recordings of RCM performances. It will also exploit digital technologies to bring the College's research collections to a wider public.

The realisation of the vision for learning, teaching and research will need changes in the use of the **estate**. A concert venue which reflects contemporary standards of sound insulation and lighting is essential for the institution and this is being planned for completion in early 2009. The Blomfield building was built for teaching music and it is intended to use the current site in Prince Consort Road for performance, teaching, exhibitions, public access, while establishing more modern, 'edgy' facilities elsewhere. The College will increase the number of practice rooms available to students.

The College will manage its **finances** to support the realisation of the strategic plan. The College will generate the cash necessary to maintain properly its existing estate. It will also develop further its fund raising programme to improve the scholarship and bursaries available for students and to provide funds for the building programme.

TREASURER'S REPORT (Continued)

ESTATE

Work is already under way to realise the estates objectives of the strategic plan. In 2006/7 the Parry Rooms at the top of the Blomfield Building were restored to give two additional recital venues with outstanding acoustic standards and a video conferencing facility, mainly funded by a grant from HEFCE. The entrance halls to the College were also renovated to improve the initial impression given to visitors.

The next major project will be the restoration of the Concert Hall which is planned to start in May 2008 and will last for about 9 months. The work will improve the acoustic security and technological capability of the hall and provide a first class concert performance venue for students and outside performers. Fundraising is now underway to raise the resources necessary for the project.

The College needs to provide fitting surroundings for its staff and students in the 21st century. Plans are being developed to improve the facilities at the Prince Consort Road site over the coming years and to house some non core activities elsewhere.

The College has a superb collection of musical instruments, portraits and scores which should be displayed for public interest. It is in the College's longer term plan to provide a modern interactive space for its collections to be displayed to the public.

The College has commissioned a conditions survey of the College's buildings which will be completed in the near future. This will be used to manage the complex process of maintaining the fabric of the College's historic buildings to a proper standard.

SCHOLARSHIPS

The College provides scholarships, prizes and study support grants to enable gifted students to undertake their studies at the College. The amount awarded has increased significantly in the last 3 years and now represents around a third of the fees charged for the senior members of the College. A major priority is to increase the funding for scholarships over the next ten years so that they will represent 60% of fees. This will benefit talented students who would not otherwise be able to benefit from the skills and culture of the College.

FINANCIAL RESULTS FOR THE YEAR

The College's consolidated income and expenditure for the year ended 31 July 2007 may be summarised as follows:

	2007	2006 restated
	£000	£000
Income	16,583	14,142
Surplus before the one-off break costs of a loan	863	(49)
Surplus for the year	208	(49)

Total income was £2.4 million higher than in the previous year. This growth derived mainly from an increase of £0.7 million in tuition fees, principally because of the introduction of higher fees for UK and EU students and higher student numbers, and from an increase of £1.2 million in donations and dividends.

Expenditure increased by £1.7 million. Staff costs were some £0.5 million higher, partly because of the costs of implementing a new unified pay structure, using a methodology which is being applied throughout the higher education sector. Expenditure on scholarships increased by £0.5 million. Finance costs included a one-off payment of £0.7 million on re-negotiating a long term loan (see also below).

Royal College of Music

TREASURER'S REPORT (Continued)

The College's net operating surplus of £0.2 million (2005/06: loss of £0.05 million) is arrived at after deducting £1.0 million of unspent donations and scholarship income which is being retained for use in future years.

PRINCE CONSORT FOUNDATION

The Trustees of the Prince Consort Foundation (PCF) charity decided that the assets of their charity should be amalgamated with those of the College, and on 30th June 2007, donated all the assets of the charity to the College. It is the Trustees' intention that the charity should be wound up when the final set of accounts has been approved.

THE ASSOCIATED BOARD OF THE ROYAL SCHOOLS OF MUSIC (ABRSM)

PCF held a 25% interest in ABRSM and this was transferred to the College together with all its other assets. ABRSM has been treated as an associate in the consolidated accounts which now reflect the College's 25% interest in the net income, assets and liabilities of ABRSM.

LOAN

The College had a long term loan from the Royal Bank of Scotland at a fixed rate of 10.5% of which £2.6 million was still outstanding at 31 July 2006. During the year the College cancelled the loan and replaced it with a new 20 year loan at a fixed rate of 5.3%. The cost of breaking the old loan was added to the principal of the new loan and has been written off as an expense in the 2006/07 accounts. This refinancing will save interest costs over the life of the loan and improve the College's cash flow.

PENSION SCHEME

The College reviewed the pension arrangements for non teaching staff during the year. It was decided that it would be in the best long term interests of past and future pensioners and for the College for members to join the Universities Superannuation Scheme in respect of their future service. The liability for past service will remain in the RCM Pension Scheme.

RESERVES POLICY

The total reserves of the College comprise the specific and general endowments, restricted funds and general reserves of the College.

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 RCM 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.

Restricted funds are those donations given to the College where the capital and income is to be used for a specific purpose.

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 total consolidated reserves and endowments of £48.5 million (2006 £45.2million).

TREASURER'S REPORT (Continued)

INVESTMENT PERFORMANCE

The Investment Committee monitors the performance of the College's investment portfolios, which were managed by Newton Investment Management Limited. During the year, the endowment investments increased in value by some £1.2million (2006: £2.7million). 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.

TREASURY ACTIVITIES

Net funds, being cash balances less borrowings, reduced by £0.2 million to £2.0 million after paying the £0.7 million to break the loan to the bank and net capital expenditure, after HEFCE grants, of £0.9 million. The seasonal fluctuations in the College's cash flows are closely monitored and any surplus funds are invested to maximise interest income.



Nicholas Ward
Honorary Treasurer

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY

CUC GOVERNANCE CODE OF PRACTICE

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

STATEMENT OF PRIMARY RESPONSIBILITIES

The RCM 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 RCM Council are laid down in the College's Royal Charter and Statutes. The maximum number of members of RCM Council is twenty-five, of whom up to twenty are independent members and three are elected from among the staff of the College. The Director of the College and the President of the Students' Association are *ex officio* members. The President of the College, HRH The Prince of Wales, who sits outside these numbers, nominally chairs meetings if present. The Chairman, the Deputy Chairman and the Honorary Treasurer of the RCM Council are drawn from the independent members.

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

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

The Audit Committee, which reports directly to RCM Council, meets three times a year. The Audit Committee has a key role in the College's accountability framework. It advises the RCM Council on the effectiveness of risk management, control and governance arrangements. Discussions are held with the external auditors to discuss audit findings, and with the internal auditors to consider internal audit reports and recommendations for the improvement of the College's system of internal controls, together with management's responses and plans for implementation.

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY (Continued)

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

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

THE RESPONSIBILITIES OF THE RCM COUNCIL AS GOVERNING BODY OF THE COLLEGE

THE ACCOUNTING SYSTEMS AND THE ACCOUNTS OF THE COLLEGE

The RCM 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 RCM 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 Royal College of Music, the RCM 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 RCM 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 RCM 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 RCM Council, as 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 for which it is responsible, in accordance with the responsibilities assigned to the governing body in the Charter & Statutes and the Financial Memorandum with the HEFCE.

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

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY (Continued)

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 2007 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

- The RCM Council meets four times a year to consider the plans and strategic direction of the institution.
- The RCM Council receives periodic reports from the Audit Committee concerning internal control, and it requires regular reports from senior management (Directorate) 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 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 Directorate, 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 workshops.
- An annual review conducted by the Directorate is presented in written form to the Executive Committee for detailed discussion, and reported to RCM Council.

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

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

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

CORPORATE GOVERNANCE & RESPONSIBILITIES OF THE GOVERNING BODY (Continued)

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.



Lord Winston
Chairman



Professor Colin Lawson
Director

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

We have audited the financial statements of the Royal College of Music for the year ended 31 July 2007 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated statement of historical costs surpluses and deficits, the consolidated and College balance sheet, the consolidated cash flow statement and the notes to the financial statements. These financial statements have been prepared under the accounting policies set out herein.

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

Respective Responsibilities of the Council and Auditors

The Council's responsibility for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice Accounting for Further and Higher Education, applicable United Kingdom law and accounting standards is set out in the Statement of the Responsibilities of the Governing Body.

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

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

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

We read the other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Report of the Director, the Treasurer's Report and the Corporate Governance Statement. Our responsibilities do not extend to any other information.

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

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 RCM Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group and 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 financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of affairs of the College and the group as at 31 July 2007, and of the group's surplus of income over expenditure for the year then ended and 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.
- In all material respects, income from the Higher Education Funding Council for England, and grants and income for specific purposes and from other restricted funds administered by the College during the year ended 31 July 2007 have been applied only for the purposes for which they were received.
- In all material respects, income during the year ended 31 July 2007 has been applied in accordance with the College's statutes and where appropriate in accordance with the Financial Memorandum with the Higher Education Funding Council for England.

Grant Thornton UK LLP

GRANT THORNTON UK LLP

REGISTERED AUDITORS

CHARTERED ACCOUNTANTS

13 December 2007

London

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. ACCOUNTING CONVENTION

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

Prior year adjustments have been made to reflect the valuation in 2005 of part of the College's historic collection and also to recognise that the musical instruments, previously classed as heritage assets, are used by musicians to the same extent as the College's working collection which is included under tangible fixed assets. A prior year adjustment has also been made to account for the College associate.

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 2007 and the College's share of the results of its associate (ABRSM) for the financial year to 31st January 2007.

In accordance with FRS 9 'Associates and Joint Ventures', the Associated Board of the Royal Schools of Music (ABRSM) is treated as an associate on consolidation as the College holds a 25% participating interest in the ABRSM and exercises significant influence over its affairs.

In the restated figures for the year ended 31st July 2006, the ABRSM is treated as an associate and accounted for within long term creditors and Endowment Reserves. In the year ended 31st July 2007, ownership of the interest in the ABRSM was donated to the College by PCF. Consequently in the 2007 accounts, the ABRSM is accounted for within Fixed Asset Investments, long term creditors and the Accumulated Revenue Reserve.

In consolidating the College's share of its interest in the ABRSM, FRS 9 expects the College to use the results of an accounting period of the ABRSM which is coterminous or within 3 months with that of the College. The ABRSM financial year ends on 31st January and its trade is seasonal with the majority of its examining activity taking place in the six months to 31 July. Therefore the College has departed from FRS 9 by consolidating at each year end, the results of the ABRSM for the previous year ended 31st January. In the view of the RCM Council, the departure from FRS 9 is not material.

3. RECOGNITION OF INCOME

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

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

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

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

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

3. RECOGNITION OF INCOME (CONTINUED)

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

4. TANGIBLE FIXED ASSETS

a. Land and buildings

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

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

Work on planned future construction projects is expensed during the preparatory phase but is capitalised in accordance with FRS 15 'Tangible Fixed Assets' from the point when the decision is taken to proceed with the project.

b. Musical Instruments

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

c. Furniture & Equipment

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

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

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

5. FIXED ASSET INVESTMENTS

(a) Heritage Assets

Assets previously described as heritable property are now classed as heritage assets.

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

The College holds a wealth of reference material in the RCM library and the Museum of Instruments consists of an internationally renowned collection of musical instruments and associated documentation. Portraits and performance archives are held in the Centre for Performance History (CPH). With the exception of a valuation of displayed CPH items, the above collections have not been valued in the accounts as significant cost would be involved in the analysis of past accounting records or in valuations which would be onerous compared with the additional benefit derived by users of the accounts.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

In the consolidated accounts, The ABRSM is treated as an associate of the College and is accounted for on the equity method in accordance with FRS 9 'Associates and Joint Ventures'.

6. MANAGED INVESTMENTS

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

7. RESTRICTED AND ENDOWMENT FUNDS

Restricted funds represent the unspent balance of donations made to the College where the donor has specified the purpose of the donation.

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 funds to be used, with the approval of the RCM Council, for the benefit of the College provided that the expenditure is in keeping with the College's charitable status and constitution.

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

Restricted fund income is recognised in the income and expenditure account on receipt and unspent balances at the end of the financial year are transferred to the restricted income fund reserve.

8. 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.

9. FOREIGN CURRENCY TRANSLATION

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (Continued)

10. LEASED ASSETS

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

11. 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.

12. 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.

13. STUDENTS' ASSOCIATION

In accordance with FRS2 'Accounting for Subsidiary Undertakings', the accounts do not include those of the Royal College of Music Students' Association as it is a separate legal entity in which the College has no financial interest and no control or significant influence over policy decisions.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2007

		Consolidated	
	Notes	2007 £	(restated) 2006 £
INCOME			
Funding council grants	1	4,427,187	4,608,157
Academic fees and support grants	2	4,779,342	4,035,586
Research grants	3	537,161	434,208
Other operating income	4	2,515,553	1,961,088
Endowment and restricted income and interest receivable	5	4,323,928	3,102,898
Total income		16,583,171	14,141,937
EXPENDITURE			
Staff costs	8	8,192,556	7,647,340
Depreciation	9	987,402	883,575
Other operating expenses	10	5,537,306	5,004,926
Interest and other finance costs	11	803,753	323,880
Total expenditure		15,521,017	13,859,721
Surplus after depreciation of tangible fixed assets at valuation, disposal of assets and before and after tax.		1,062,154	282,216
Share of surplus on continuing operations of associate	32	131,250	50,750
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and after tax.	12	1,193,404	332,966
Surplus income from scholarship funds and donors transferred to specific endowments or restricted funds	21	(985,528)	(382,098)
Surplus/(deficit) for year retained within general reserves	23	207,876	(49,132)

The consolidated income and expenditure account is in respect of continuing activities. The account for the year ended 31 July 2006 is restated to reflect the charge for depreciation on Musical Instruments transferred from Heritage Assets to Tangible Fixed Assets (see Note 13 - Tangible Fixed Assets). The account for the year ended 31 July 2006 is also restated to reflect the inclusion of the College's share of the operating surplus of its associate (see Note 32 - Share of Net Liabilities of Associate).

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS
for the year ended 31 July 2007

		2007 £	(restated) 2006 £
Surplus on continuing operations after depreciation of fixed assets at valuation and disposal of assets but before tax.		1,193,404	332,966
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	22, 23	378,199	326,586
Historical cost surplus before tax		1,571,603	659,552
Historical cost surplus after tax		1,571,603	659,552

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2007

	Notes	Consolidated	
		2007 £	(restated) 2006 £
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and after tax.		1,193,404	332,966
New endowments	21	-	177,936
Increase in value of endowment asset investments	21	1,223,840	2,696,759
Share in increase in value of fixed asset investments at associate	23	14,500	24,000
Actuarial gain on RCM pension scheme	26	593,000	80,000
Share of actuarial gain/(loss) on pension scheme of associate	23	214,500	(227,500)
Net revaluation reserve release on disposal of fixed assets	22	(12,008)	(32,300)
Total recognised gains relating to the year		3,227,236	3,051,861
Prior year adjustment re valuation of displayed historical collection	14, 22	895,000	
Prior year adjustment re release from revaluation reserve to match depreciation on assets transferred from Heritage Assets to Tangible Fixed Assets	13, 22	(518,200)	
Prior year adjustment re inclusion of the PCF's share of the net liabilities of the Associated Board of the Royal Schools of Music	32	(1,189,000)	
Prior year adjustment re elimination of the cost of the group's interest in the Associated Board of the Royal Schools of Music	15	(2,275,000)	
Total gains and losses recognised since last annual report		140,036	
Reconciliation:			
Opening reserves and endowments		45,252,595	45,070,409
Total recognised gains relating to the year		3,227,236	3,051,861
Prior year adjustment re valuation of displayed historical collection	14, 22	-	895,000
Prior year adjustment re release from revaluation reserve to match depreciation on assets transferred from Heritage Assets to Tangible Fixed Assets	13, 22	-	(453,425)
Prior year adjustment re inclusion of the PCF's share of the net liabilities of the Associated Board of the Royal Schools of Music		-	(1,036,250)
Prior year adjustment re elimination of the previous valuation at cost of the group's interest in the Associated Board of the Royal Schools of Music	15	-	(2,275,000)
Closing reserves and endowments		48,479,831	45,252,595

The total recognised gains for the financial year ended 31 July 2006 are restated in the accounts for the financial year ended 31 July 2007 to reflect the capitalisation of part of the College's historical collection. The effect of the prior year adjustment is to increase the total gain for the financial year ended 31 July 2006 by £895,000. There is no impact on the total reserves and endowments brought forward at 1 August 2005. For further details, see note 14.

The total recognised gains for the financial year ended 31 July 2006 are restated in the accounts for the financial year ended 31 July 2007 to reflect the accumulated depreciation on the Musical Instruments transferred from Heritage Assets to Tangible Fixed assets. The effect of the prior year adjustment is to reduce the total gain for the financial year ended 31 July 2006 by £64,775, and the total reserves and endowments brought forward at 1 August 2005 by £453,425. For further details, see Note 13.

The total recognised gains for the financial year ended 31 July 2006 are restated in the accounts for the financial year ended 31 July 2007 to reflect the College's share of net liabilities of the Associated Board of the Royal Schools of Music. The effect of the prior year adjustment is to reduce the total gain for the financial year ended 31 July 2006 by £152,750, and the total reserves and endowments brought forward at 1 August 2005 by £1,036,250. For further details, see Note 32.

The total recognised gains for the financial year ended 31 July 2006 are restated in the accounts for the financial year ended 31 July 2007 to reflect the elimination of the cost of the group's interest in the Associated Board of the Royal Schools of Music. The effect of the prior year adjustment is to reduce the total reserves and endowments brought forward at 1 August 2005 by £2,275,000. For further details, see Note 15.

Royal College of Music

BALANCE SHEET as at 31 July 2007

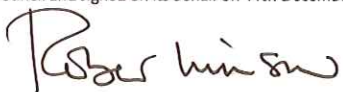
		Consolidated		College	
	Notes	2007 £	(restated) 2006 £	2007 £	(restated) 2006 £
FIXED ASSETS					
Tangible assets	13	16,503,156	15,879,546	16,503,156	15,879,546
Investments	14	6,327,147	933,500	8,602,247	933,600
		<u>22,830,303</u>	<u>16,813,046</u>	<u>25,105,403</u>	<u>16,813,146</u>
ENDOWMENT & RESTRICTED ASSETS					
Fixed asset investments	15	30,290,358	33,661,631	30,290,358	28,722,107
Restricted and other endowment assets	16	1,363,490	1,721,936	1,363,490	1,102,452
		<u>31,653,848</u>	<u>35,383,567</u>	<u>31,653,848</u>	<u>29,824,559</u>
CURRENT ASSETS					
Debtors	17	357,845	444,867	357,745	415,726
Cash at bank and in hand		1,123,052	291,089	1,123,052	291,089
Cash on deposit		1,399,471	1,213,617	1,399,471	1,213,617
		<u>2,880,368</u>	<u>1,949,573</u>	<u>2,880,268</u>	<u>1,920,432</u>
CREDITORS: amounts falling due within one year	18	<u>(2,082,637)</u>	<u>(2,300,947)</u>	<u>(2,098,597)</u>	<u>(2,384,359)</u>
NET CURRENT ASSETS / (LIABILITIES)		<u>797,731</u>	<u>(351,374)</u>	<u>781,671</u>	<u>(463,927)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>55,281,882</u>	<u>51,845,239</u>	<u>57,540,922</u>	<u>46,173,778</u>
CREDITORS: amounts falling due after more than one year	19	<u>(2,970,187)</u>	<u>(2,400,000)</u>	<u>(2,970,187)</u>	<u>(2,400,000)</u>
SHARE OF NET LIABILITIES OF ASSOCIATE	32	<u>(828,750)</u>	<u>(1,189,000)</u>	<u>-</u>	<u>-</u>
NET ASSETS EXCLUDING PENSION LIABILITY		<u>51,482,945</u>	<u>48,256,239</u>	<u>54,570,735</u>	<u>43,773,778</u>
NET PENSION LIABILITY	26	<u>(1,352,000)</u>	<u>(1,948,000)</u>	<u>(1,352,000)</u>	<u>(1,948,000)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u><u>50,130,945</u></u>	<u><u>46,308,239</u></u>	<u><u>53,218,735</u></u>	<u><u>41,825,778</u></u>

Royal College of Music

BALANCE SHEET as at 31 July 2007

	Notes	Consolidated		College	
		2007 £	(restated) 2006 £	2007 £	(restated) 2006 £
DEFERRED CAPITAL GRANTS	20	1,651,114	1,055,644	6,670,542	5,648,357
ENDOWMENT & RESTRICTED FUNDS					
Restricted	21	531,999	-	531,999	-
Specific Endowment	21	20,182,616	19,066,907	20,182,616	19,066,907
General Endowment	21	10,939,233	15,127,660	10,939,233	10,757,652
		<u>31,653,848</u>	<u>34,194,567</u>	<u>31,653,848</u>	<u>29,824,559</u>
RESERVES					
Revaluation reserve	22	7,288,984	7,679,191	7,288,984	7,679,191
Accumulated revenue reserve	23	9,536,999	3,378,837	7,605,361	(1,326,329)
		<u>16,825,983</u>	<u>11,058,028</u>	<u>14,894,345</u>	<u>6,352,862</u>
ENDOWMENTS AND RESERVES		<u>48,479,831</u>	<u>45,252,595</u>	<u>46,548,193</u>	<u>36,177,421</u>
TOTAL		<u><u>50,130,945</u></u>	<u><u>46,308,239</u></u>	<u><u>53,218,735</u></u>	<u><u>41,825,778</u></u>

Approved by Council and signed on its behalf on 11th December 2007 by:

Lord Winston  Chairman

Prof. Colin Lawson  Director

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 July 2007

	Notes	Consolidated	
		2007 £	2006 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	24	(1,747,896)	(2,998,941)
DONATIONS RECEIVED FROM ASSOCIATE			
Donations received from ABRSM	4, 5	1,150,000	1,050,000
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Income from endowments	5	2,974,447	3,022,137
Other interest received	5	69,677	80,761
Interest paid	11	(803,753)	(323,880)
		2,240,371	2,779,018
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire endowment asset investments	15	(9,109,723)	(11,589,903)
Realisation of endowment asset investments	15	8,117,044	11,728,596
Payments to acquire tangible fixed assets	13	(1,623,020)	(600,663)
Receipts from sale of fixed assets		21,000	26,357
Capital grants received	20	741,349	72,831
Endowments received	21	-	177,936
		(1,853,350)	(184,846)
MANAGEMENT OF LIQUID RESOURCES			
Amounts released from/(placed on) deposit	25	(185,854)	(374,031)
FINANCING			
Increase in secured loan	19	655,000	-
Repayments of amounts borrowed	25	(122,063)	(200,000)
		532,937	(200,000)
CASH MOVEMENT	25	136,208	71,200

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

1. FUNDING COUNCIL GRANTS

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

	Consolidated and College	
	2007	2006
	£	£
Recurrent teaching grant	4,122,368	4,014,189
HR Strategy	110,129	122,071
Inherited staff liabilities	80,645	73,080
Reach Out to Business & the Community	6,725	190,073
Conservatoire UCAS Admission System for Music	28,962	91,914
Other specific grants	78,358	116,830
	<u>4,427,187</u>	<u>4,608,157</u>

2. ACADEMIC FEES AND SUPPORT GRANTS

	Consolidated and College	
	2007	2006
	£	£
UK higher education students	1,106,419	732,933
Other European Union students	538,006	421,044
Non European Union students	2,084,649	1,907,070
Other	93,084	74,613
Junior Department	957,184	899,926
	<u>4,779,342</u>	<u>4,035,586</u>

3. RESEARCH GRANTS

	Consolidated and College		
	2007	(restated)	2006
	£		£
HEFCE	319,471		266,829
Grants from research councils	217,690		167,379
	<u>537,161</u>		<u>434,208</u>

The figures for the year ended 31 July 2006 are restated to reflect Research Grants provided by research councils which were previously included under Other Grant Income in Note 4. Other research activity funded by charities continues to be included under Other Grant Income within Note 4.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

4. OTHER OPERATING INCOME

	Notes	Consolidated		College	
		2007 £	(restated) 2006 £	2007 £	(restated) 2006 £
Other grant income		564,012	272,563	564,012	272,563
Catering and residences		845,883	767,745	845,883	767,745
Other services rendered		294,326	332,142	294,326	332,142
Profit on sale of fixed assets		21,000	14,391	21,000	14,391
Released from deferred capital grants	9, 20	145,879	124,648	484,502	462,742
Donations and other income		644,453	449,599	9,263,416	953,766
		<u>2,515,553</u>	<u>1,961,088</u>	<u>11,473,139</u>	<u>2,803,349</u>

The figures for the year ended 31 July 2006 are restated following the transfer to Note 3 of research grants provided by research councils which were previously included under Other Grant Income.

Consolidated donations and other income include £300,000 (2006: £Nil) received from the ABRSM.

Donations and other income of the College includes the unencumbered donation of assets from the Prince Consort Foundation (see note 31) and £300,000 (2006:£Nil) from ABRSM

5. ENDOWMENT AND RESTRICTED INCOME AND INTEREST RECEIVABLE

	Notes	Consolidated		College	
		2007 £	2006 £	2007 £	2006 £
Specific endowment income	21	1,148,460	1,361,651	1,148,460	1,361,651
General endowment income	21	1,825,987	1,660,486	737,721	422,343
Restricted income	21	1,279,804	-	1,279,804	-
Other interest receivable		69,677	80,761	69,677	80,761
		<u>4,323,928</u>	<u>3,102,898</u>	<u>3,235,662</u>	<u>1,864,755</u>

Consolidated general endowment income includes £850,000 (2006: £1,050,000) received from the ABRSM.

6. DIRECTOR'S EMOLUMENTS

	Consolidated and College	
	2007 £	2006 £
Salary	119,416	134,353
Benefits in kind	1,212	-
Pension contributions	16,718	18,658
Total emoluments	<u>137,346</u>	<u>153,011</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.

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

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

7. REMUNERATION OF HIGHER PAID STAFF

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

	Consolidated and College	
	2007 Number	2006 Number
£70,001 - £80,000	-	3
£80,001 - £90,000	3	-
£90,001 - £100,000	2	1
£130,001 - £140,000	-	1
£140,001 - £150,000	1	-
	<u>6</u>	<u>5</u>

	Consolidated and College	
	2007 £	2006 £
Compensation for loss of office paid to a former higher paid employee	-	60,000
	<u>-</u>	<u>60,000</u>

8. STAFF COSTS

	Consolidated and College	
	2007 £	2006 £
Wages and salaries	7,189,321	6,682,092
Social security costs	491,904	446,815
Pension costs	511,331	518,433
	<u>8,192,556</u>	<u>7,647,340</u>

STAFF COSTS BY DEPARTMENT

	Consolidated and College		Consolidated and College	
	2007 Full time Equivalents	2006 Full time Equivalents	2007 £	2006 £
Teaching departments	75	74	4,043,842	3,835,633
Teaching support services	38	36	1,244,045	1,164,957
Administration and central services	51	49	2,520,946	2,264,839
Premises	13	13	383,723	381,911
	<u>177</u>	<u>172</u>	<u>8,192,556</u>	<u>7,647,340</u>

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

9. DEPRECIATION

The depreciation charge has been funded by:

	Notes	Consolidated			College		
		2007 £	(restated) 2006 £	2006 £	2007 £	(restated) 2006 £	
Deferred capital grants released	20	145,879	124,648		484,502	462,742	
Released from revaluation reserve	22, 23	378,199	326,586		378,199	326,586	
Financed internally		463,324	432,341		124,701	94,247	
		<u>987,402</u>	<u>883,575</u>		<u>987,402</u>	<u>883,575</u>	

The figures for the year ended 31 July 2006 are restated to reflect the charge for depreciation on Musical Instruments transferred from Heritage Assets to Tangible Fixed Assets (see Note 13 - Tangible Fixed Assets).

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

10. OTHER OPERATING EXPENSES

	Consolidated			College		
	2007 £	(restated) 2006 £	2006 £	2007 £	(restated) 2006 £	2006 £
Catering operating expenses	274,000	230,630		274,000	230,630	
Academic departments	744,126	840,599		744,126	840,599	
Learning resources	190,531	198,070		190,531	198,070	
Scholarships and bursaries	1,532,761	1,031,373		1,532,761	1,031,373	
Premises costs	1,043,480	1,142,723		1,043,480	1,142,723	
Grant to RCM Students' Association	24,542	22,100		24,542	22,100	
Other expenses	1,722,489	1,541,094		1,714,157	1,503,210	
Bad debts	5,377	(1,663)		5,377	(1,663)	
Total	5,537,306	5,004,926		5,528,974	4,967,042	

The figures for the year ended 31 July 2006 are restated to reflect a more appropriate split of expenses between Scholarships and bursaries, Premises costs and Other expenses.

Other operating expenses include:

Auditors' remuneration - external auditors	39,375	29,786	39,375	25,556
Auditors' remuneration - internal audits	27,569	15,801	27,569	15,801
Auditors' remuneration - non-audit related fees	3,012	16,004	3,012	16,004
Hire of plant and machinery - operating leases	2,444	9,486	2,444	9,486
Hire of other assets - operating leases	1,005	3,342	1,005	3,342

11. INTEREST AND OTHER FINANCE COSTS

	Notes	Consolidated and College	
		2007 £	2006 £
Bank loans not wholly repayable within five years	19	115,753	291,880
Interest penalty incurred in breaking out of former fixed rate bank loan	19	655,000	-
Other finance costs arising from the pension scheme liabilities	26	33,000	32,000
Total		803,753	323,880

12 SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR

	Notes	Consolidated	
		2007 £	2006 £
College's surplus / (deficit) for the year		8,939,806	(75,782)
Income of the Prince Consort Foundation net of non-group expenses		1,090,734	1,240,688
The following transactions in the College accounts are eliminated on consolidation with the Prince Consort Foundation (PCF):-			
Donation of assets by the PCF	31	(8,068,023)	-
Revenue grants received from the PCF		(537,941)	(507,612)
Release to the income & expenditure account of PCF deferred capital grants	20	(338,623)	(338,094)
Other consolidation adjustments		(23,799)	(36,984)
College (2006: PCF) share of surplus on continuing operations of associate	32	131,250	50,750
Consolidated surplus for the period		1,193,404	332,966

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

13. TANGIBLE ASSETS

	Notes	Land and buildings		Furniture & Equipment £	Consolidated and College	
		Freehold £	Leasehold £		Musical Instruments £	Total £
Cost or Valuation						
Balance reported 1 August 2006		4,189,486	11,016,938	1,374,741	4,435,670	21,016,835
Transfer from Heritage Assets	14	-	-	-	1,295,500	1,295,500
Balance restated at 1 August 2006		4,189,486	11,016,938	1,374,741	5,731,170	22,312,335
Additions		76,195	1,174,660	211,299	160,866	1,623,020
Disposals	22	-	-	-	(30,000)	(30,000)
At 31 July 2007		4,265,681	12,191,598	1,586,040	5,862,036	23,905,355
Depreciation						
Balance reported 1 August 2006		588,032	2,212,845	836,291	2,277,421	5,914,589
Prior year depreciation on assets transferred from Heritage Assets		-	-	-	518,200	518,200
Balance restated at 1 August 2006		588,032	2,212,845	836,291	2,795,621	6,432,789
Provided during the year	9	99,674	324,460	248,912	314,356	987,402
Disposals	22	-	-	-	(17,992)	(17,992)
At 31 July 2007		687,706	2,537,305	1,085,203	3,091,985	7,402,199
Net book value at 31 July 2007		3,577,975	9,654,293	500,837	2,770,051	16,503,156
Net book value at 1 August 2006 (as restated)		3,601,454	8,804,093	538,450	2,935,549	15,879,546

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

The leasehold land and buildings relate to the College's main site in Prince Consort Road, London. The property is held on a 999 year lease which is non-assignable. In the event that the College ceases to operate in accordance with the Royal Charter, the property reverts to the landlord. The leasehold land and buildings were valued on the basis of depreciated replacement cost at 31 July 1991 by Wilks, Head and Eve, Chartered Surveyors. Subsequent additions have been included at cost.

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

In previous years, significant musical instruments gifted to the College which are made available for dedicated use by musicians from the College and from the profession were included in the accounts as Heritage Assets (and were not depreciated). Following a review of the use of these instruments, little distinction could be found from those carried as fixed assets. Those previously carried in Heritage Assets have therefore been transferred to Tangible Fixed Assets. They continue to be 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. However they are now subject to depreciation at the same rates as other instruments, and depreciation has been back-dated to the date of their last valuation.

In accordance with the transitional rules set out in FRS15 "Tangible Fixed Assets", the book values of the leasehold property and the musical instruments were retained on implementation. There has been no indication that there has been any impairment in the value of these assets.

The figures for the year ended 31 July 2006 are restated to reflect the valuation and accumulated depreciation on Musical Instruments transferred from Heritage Assets to Tangible Fixed Assets.

Tangible fixed assets are financed as follows:-

	Notes	Consolidated			College		
		2007 £	(restated) 2006 £	2006 £	2007 £	(restated) 2006 £	
Revaluation reserve	22	6,393,984	6,784,191		6,393,984	6,784,191	
Deferred capital grants	20	1,651,114	1,055,644		6,670,542	5,648,357	
Internal funds		8,458,058	8,039,711		3,438,630	3,446,998	
Total		16,503,156	15,879,546		16,503,156	15,879,546	

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

14. FIXED ASSET INVESTMENTS

	Notes	Consolidated		College		
		2007 £	(restated) 2006 £	2007 £	(restated) 2006 £	2006 £
Investment in subsidiary company		-	-	100	-	100
Heritage assets		933,500	933,500	933,500	-	933,500
Interest in the ABRSM at cost	31	-	-	2,275,000	-	-
Managed investments transferred from PCF	31	5,393,647	-	5,393,647	-	-
		<u>6,327,147</u>	<u>933,500</u>	<u>8,602,247</u>	<u>-</u>	<u>933,600</u>
Total		<u>6,327,147</u>	<u>933,500</u>	<u>8,602,247</u>	<u>-</u>	<u>933,600</u>

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

For the first time, Heritage Assets include a part of the College collection of art which is of significant historical interest to musicians. These artworks comprise items on display at 9 November 2005 which were valued for insurance purposes at £895,000 by Seymours, Art Advisers and Valuers and £38,500 for a subsequent addition at cost. There is no reason to believe that there has been any impairment in the value of these assets. In accordance with the transitional provisions of FRS 15, no value has been placed on the other Heritage Assets held by the College when this FRS was implemented. The musical instruments previously held under this category can now be found under Note 13 - Tangible Fixed Assets.

The College (2006:PCF) has a 25% interest in the Associated Board of the Royal Schools of Music (ABRSM). The ABRSM is a registered charity, number 292182, and a company limited by guarantee, registered number 192639S, established by four Royal Schools of Music for the benefit of music education. The ABRSM has no share capital and the liability of the members in the event of winding up is limited to £1 per member. In the event of a winding up, the ABRSM's constitution requires its board to consider, in the first instance, the transfer of surplus assets to another body that is equipped to carry on the work of ABRSM. The ABRSM is an international examining body that offers a system of graded music examinations in 80 countries around the world. The company is also a provider of professional development for instrumental and singing teachers. A subsidiary of the ABRSM is engaged in the production and sale of music publications.

In the College figures, the interest in the Associated Board of the Royal Schools of Music (ABRSM) is carried at cost. In the consolidated figures, the interest in the ABRSM is represented by the College's share of the net liabilities of the Associated Board as at 31 January 2007 (see Note 32).

Managed investments reflect the stock market portfolio transferred as part of the unencumbered assets donated by the Prince Consort Foundation to the College on 30 June 2007. For further details, see Note 31.

Investments held are analysed as follows:

	Notes	Consolidated		College	
		2007 £	2006 £	2007 £	2006 £
Managed investments					
Fixed interest stocks (listed)		691,794	-	691,794	-
Equities (listed) and unit trusts		4,454,107	-	4,454,107	-
Cash held by investment managers	25	247,746	-	247,746	-
	31	<u>5,393,647</u>	<u>-</u>	<u>5,393,647</u>	<u>-</u>

The figures for the year ended 31 July 2006 are restated to reflect the transfer of Musical Instruments from Heritage Assets to Tangible Fixed Assets (see Note 13 - Tangible Fixed Assets).

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

15. ENDOWMENT FUNDS - FIXED ASSET INVESTMENTS

	Notes	Consolidated		College	
		2007 £	2006 £	2007 £	2006 £
Balance reported 1 August 2006		33,661,631	33,510,041	28,722,107	26,717,796
Prior year adjustment re elimination of the cost of the group's interest in the ABRSM	32	-	(2,275,000)	-	-
Balance restated at 1 August 2006		33,661,631	31,235,041	28,722,107	26,717,796
Additions		9,109,723	11,589,903	7,928,858	10,025,713
Proceeds on disposals		(8,117,044)	(11,728,596)	(7,097,142)	(10,127,533)
Net gains on revaluation	21	1,223,840	2,696,759	849,974	2,290,478
Movements on cash		(194,145)	(131,476)	(113,439)	(184,347)
PCF asset transfer to Fixed Asset Investments	14, 31	(5,393,647)	-	-	-
Balance at 31 July 2007		30,290,358	33,661,631	30,290,358	28,722,107

Investments held are analysed as follows:

	Consolidated			College	
	2007 £	(restated) 2006 £		2007 £	2006 £
Managed investments					
Fixed interest stocks (listed)	5,806,553	6,229,235		5,806,553	5,559,459
Equities (listed) and unit trusts	23,331,445	25,836,146		23,331,445	21,894,850
Cash held by investment managers	1,093,217	1,537,107		1,093,217	1,208,655
	30,231,215	33,602,488		30,231,215	28,662,964
Other investments					
Investment in a CAF fund	59,143	59,143		59,143	59,143
Total	30,290,358	33,661,631		30,290,358	28,722,107

The consolidated figures for the year ended 31 July 2006 are restated to eliminate the cost of the group's interest in the net liabilities of its associate: the Associated Board of the Royal Schools of Music (ABRSM), where the PCF (which was treated for the purposes of the 2006 accounts as a general endowment fund) had a 25% interest.

In the year ended 31 July 2007, the PCF transferred its interest in the ABRSM to the College and therefore this now appears in Fixed Asset Investments of the College (see Note 14).

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

16. RESTRICTED AND OTHER ENDOWMENT FUND ASSETS

	Consolidated			College		
	2007 £	(restated) 2006 £		2007 £	(restated) 2006 £	
Cash at bank	18,262	17,258		18,262	11,281	
Cash on deposit	1,248,917	1,749,532		1,248,917	1,040,532	
Debtors	101,770	55,795		101,770	55,795	
Creditors	(5,459)	(100,649)		(5,459)	(5,156)	
Total	1,363,490	1,721,936		1,363,490	1,102,452	

The figures for the year ended 31 July 2006 are restated because amounts owed to the College by the Endowment Funds have been netted off against the corresponding debts in Debtors, and a similar amount of cash transferred between Endowment Cash on Deposit and College Cash on Deposit.

In the 2006 accounts, consolidated endowment creditors included amounts owed to the College by the Prince Consort Foundation of £66,885.

17. DEBTORS

	Consolidated			College		
	2007 £	(restated) 2006 £		2007 £	(restated) 2006 £	
Amounts falling due within one year:						
Debtors	142,193	66,177		142,093	66,077	
Balances with related parties	-	-		-	66,885	
Prepayments and accrued income	215,652	378,690		215,652	282,764	
Total	357,845	444,867		357,745	415,726	

The figures for the year ended 31 July 2006 are restated because the debtor balances owed to the College by the Endowment Funds have been netted off against the corresponding amounts in Endowment Creditors, and a similar amount of cash transferred between Endowment Cash on Deposit and College Cash on Deposit.

In the 2006 accounts, consolidated prepayments and accrued income included amounts owed to the College by the Prince Consort Foundation of £66,885.

In the 2007 accounts, there were no balances between the College and its associate as at the balance sheet date.

18. CREDITORS: amounts falling due within one year

	Notes	Consolidated		College	
		2007 £	2006 £	2007 £	2006 £
Bank loans and overdrafts	19	162,750	200,000	162,750	200,000
Creditors		385,210	476,446	395,478	476,446
Balances with related parties		-	-	5,692	5,692
Social security and other taxation payable		219,374	201,131	219,374	201,131
Accruals		763,109	748,257	763,109	748,257
Deferred income		552,194	675,113	552,194	752,833
Total		2,082,637	2,300,947	2,098,597	2,384,359

The College balances with related parties relate to RCM Development Limited (see Note 14).

In the 2007 accounts, there were no balances between the College and its associate as at the balance sheet date.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

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

	Consolidated and College	
	2007	2006
	£	£
Bank loan	2,970,187	2,400,000
Due within 1-2 years	162,750	200,000
due 2-5 years	488,250	600,000
due after more than 5 years	2,319,187	1,600,000
	<u>2,970,187</u>	<u>2,400,000</u>

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

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

20. DEFERRED CAPITAL GRANTS

	Notes	HEFCE £	Private funding £	Consolidated Total £
At 1 August 2006	13	821,422	234,222	1,055,644
Cash received		735,175	6,174	741,349
Released to income and expenditure	4	(122,989)	(22,890)	(145,879)
Balance at 31 July 2007	13	<u>1,433,608</u>	<u>217,506</u>	<u>1,651,114</u>

		HEFCE £	Private funding £	College Total £
At 1 August 2006	13	821,422	4,826,935	5,648,357
Cash received		735,175	771,512	1,506,687
Released to income and expenditure	4	(122,989)	(361,513)	(484,502)
Balance at 31 July 2007	13	<u>1,433,608</u>	<u>5,236,934</u>	<u>6,670,542</u>

The College's privately funded deferred capital grants include the deferred capital grants provided by the Prince Consort Foundation. On consolidation, the value of these deferred capital grants are transferred to consolidated accumulated revenue reserves.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

21. RESTRICTED AND ENDOWMENT FUNDS

	Notes	Restricted £	Specific £	General £	Consolidated Total £
Balance reported 1 August 2006		-	19,066,907	18,591,660	37,658,567
Prior year adjustment re inclusion of the PCF's share of the ABRSM's net liabilities		-	-	(1,189,000)	(1,189,000)
Prior year adjustment re elimination of the cost of the group's interest in the ABRSM		-	-	(2,275,000)	(2,275,000)
Balance restated at 1 August 2006		-	19,066,907	15,127,660	34,194,567
Transfer of PCF assets to the College	31	-	-	(4,604,023)	(4,604,023)
Gains in market value of investments	15	-	662,180	561,660	1,223,840
Capital Movements		-	662,180	(4,042,363)	(3,380,183)
Income for year	5	1,279,804	1,148,460	1,825,987	4,254,251
Expenditure for year		(747,805)	(694,931)	(1,972,051)	(3,414,787)
Revenue Movements		531,999	453,529	(146,064)	839,464
Balance at 31 July 2007		531,999	20,182,616	10,939,233	31,653,848

The consolidated balances brought forward at 1st August 2006 are restated to reflect the consolidation of the PCF's interest in the ABRSM, by the elimination of the £2,275,000 cost of PCF's interest and the inclusion of £1,189,000, being the PCF's share of the net liabilities of the ABRSM as at 31st January 2006. As FR9 requires separate disclosure of the net liabilities of the ABRSM, these must be taken into account when comparing the prior year endowment and restricted fund assets and equity as follows:-

	Notes	Consolidated 2006 £
Endowment funds - fixed asset investments	15	33,661,631
Restricted and other endowment fund assets	16	1,721,936
Share of net liabilities of associate	32	(1,189,000)
Net endowment and restricted assets as at 31 July 2006		34,194,567
Endowment and restricted funds as at 31 July 2006		34,194,567

	Notes	Restricted £	Specific £	General £	College Total £
Balance reported 1 August 2006		-	19,066,907	10,757,652	29,824,559
Gains in market value of investments	15	-	662,180	187,794	849,974
Capital Movements		-	662,180	187,794	849,974
Income for year	5	1,279,804	1,148,460	737,721	3,165,985
Expenditure for year		(747,805)	(694,931)	(743,934)	(2,186,670)
Revenue Movements		531,999	453,529	(6,213)	979,315
Balance at 31 July 2007		531,999	20,182,616	10,939,233	31,653,848

The consolidated and College Income and Expenditure Account includes the following restricted and endowment fund activity:-

(a) income that has been given to the College for purposes agreed with the donor; the amount not used for its intended purpose during the year £531,999 (2006: £Nil) is shown as a transfer to restricted funds;

(b) income from specific endowments and the amounts paid out as scholarships; the amount not used for scholarships £453,529 (2006: £382,098) is shown as a transfer to specific endowments.

(c) income from general endowments and amounts paid out on general expenses. The consolidated figures include the income and expenses incurred by PCF in the eleven months to 30 June 2007. The College is currently reviewing the funds held within general endowments to ascertain whether any can be properly transferred to accumulative revenue reserves.

Purpose of fund balances:-	Restricted £	Specific £	General £	Consolidated and College Total £
Concert Hall refurbishment	250,000	-	-	250,000
Scholarships & bursaries	281,999	20,011,833	-	20,293,832
Instrument loans	-	170,783	-	170,783
College general	-	-	10,939,233	10,939,233
Balance at 31 July 2007	531,999	20,182,616	10,939,233	31,653,848

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

22. REVALUATION RESERVE

	Notes	Consolidated and College			
		Land and buildings £	Heritage assets £	Musical instruments £	Total £
Revaluation:					
Balance reported 1 August 2006		5,469,465	-	3,783,973	9,253,438
Prior year adjustment re valuation of displayed historical collection	14	-	895,000	-	895,000
Balance restated at 1 August 2006		5,469,465	895,000	3,783,973	10,148,438
Assets sold	13	-	-	(30,000)	(30,000)
At 31 July 2007		5,469,465	895,000	3,753,973	10,118,438
Contributions to depreciation:					
Balance reported 1 August 2006		853,036	-	1,098,011	1,951,047
Prior year adjustment re transfer from Heritage Assets to Tangible Fixed Assets	13, 14	-	-	518,200	518,200
Balance restated at 1 August 2006		853,036	-	1,616,211	2,469,247
Released in year	9	110,208	-	267,991	378,199
Disposals	13	-	-	(17,992)	(17,992)
		963,244	-	1,866,210	2,829,454
Net revaluation amount:					
At 31 July 2007	13, 14	4,506,221	895,000	1,887,763	7,288,984
At 1 August 2006 (as restated)	13, 14	4,616,429	895,000	2,167,762	7,679,191

The figures for the year ended 31 July 2006 are restated to reflect the reserve released to match the accumulated depreciation on Musical Instruments transferred from Heritage Assets to Tangible Fixed Assets (see Note 13 - Tangible Fixed Assets). They have also been restated to reflect the capitalisation of the Heritage Asset valuation (see Note 14 - Fixed Asset Investments).

23. ACCUMULATED REVENUE RESERVE

	Notes	Consolidated		College	
		2007 £	2006 £	2007 £	2006 £
Balance reported 1 August 2006		3,378,837	2,655,929	(1,326,329)	(1,691,239)
Surplus/(deficit) from income and expenditure account		207,876	(49,132)	7,954,278	(457,880)
Transfer deficit on general endowment funds to general endowment reserves	21	146,064	365,454	6,213	416,204
Share in gains in market value of investments at associate		14,500	-	-	-
Transfer of PCF reserves to the College (previously held as general endowment equity)	31	4,604,023	-	-	-
Actuarial gain on RCM pension scheme	26	593,000	80,000	593,000	80,000
Share of actuarial gain on pension scheme at associate		214,500	-	-	-
Release from revaluation reserve	22	378,199	326,586	378,199	326,586
At 31 July 2007		9,536,999	3,378,837	7,605,361	(1,326,329)
Analysis of accumulated revenue reserve carried forward:-					
Reserve before pension liability		10,888,999	5,326,837	8,957,361	621,671
RCM pension scheme liability	26	(1,352,000)	(1,948,000)	(1,352,000)	(1,948,000)
Reserve including pension liability		9,536,999	3,378,837	7,605,361	(1,326,329)

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

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

	Notes	Consolidated	
		2007 £	2006 £
Surplus on continuing operations after depreciation of fixed assets at valuation, disposal of assets and before and after tax.		1,062,154	282,216
Donations received from associate	4, 5	(1,150,000)	(1,050,000)
Depreciation	9	987,402	883,575
Profit on the sale of fixed assets	4	(21,000)	(14,391)
Deferred capital grants released to income	4	(145,879)	(124,648)
Investment income and interest receivable	5	(3,044,124)	(3,102,898)
Interest payable	11	803,753	323,880
Decrease in debtors	16, 17	41,047	244,101
Decrease in creditors	16, 18	(278,249)	(493,776)
Increase/(decrease) in pension liability		(3,000)	53,000
Net cash outflow in the year from operating activities		<u>(1,747,896)</u>	<u>(2,998,941)</u>

25. ANALYSIS OF CHANGES IN NET FUNDS

	Notes	Consolidated			
		(restated) At 1 August 2006	Cashflows	Other Changes	At 31 July 2007
Cash					
Endowment assets					
Balances at investment managers	15, 31	1,537,107	(196,144)	(247,746)	1,093,217
Other balances	16, 31	1,766,790	(100,235)	(399,376)	1,267,179
College current assets					
Cash at bank and in hand	31	291,089	432,587	399,376	1,123,052
Balances at investment managers	14, 31	-	-	247,746	247,746
		<u>3,594,986</u>	<u>136,208</u>	<u>-</u>	<u>3,731,194</u>
Financing					
Old loan: Due within one year	18	(200,000)	-	200,000	-
Old loan: Due after one year	19	(2,400,000)	-	2,400,000	-
New loan: Due within one year	18	-	122,063	(284,813)	(162,750)
New loan: Due after one year	19	-	(655,000)	(2,315,187)	(2,970,187)
Current Assets Investments					
Cash on deposit		1,213,617	185,854	-	1,399,471
		<u>2,208,603</u>	<u>(210,875)</u>	<u>-</u>	<u>1,997,728</u>

NOTES TO THE ACCOUNTS For the year ended 31 July 2007

26. PENSION SCHEMES

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

THE TEACHERS' PENSION SCHEME (TPS)

Introduction

The Teachers' Pension Scheme (TPS) is a statutory, contributory, 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

The Government Actuary (GA) performs a valuation of the scheme not less than every five years. The last valuation covered the period from 1st April 2001 to 31st March 2004.

The GA's report of October 2006 revealed that the total liabilities of the scheme (pensions in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

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. Employers currently pay 13.5% of salary to the scheme.

NOTES TO THE ACCOUNTS For the year ended 31 July 2007

26. PENSION SCHEMES (CONTINUED)

UNIVERSITIES SUPERANNUATION SCHEME (USS)

The College participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The 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 College contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the College's contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment. 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" 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 College was 14% of pensionable salaries.

NOTES TO THE ACCOUNTS For the year ended 31 July 2007

26. PENSION SCHEMES (CONTINUED)

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

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

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

With effect from 1st August 2007, the College has decided that the liability for future service for members of the Scheme should be provided by the University Superannuation Scheme. The employer contributions for this scheme are expected to be 14%. The College will continue to fund the shortfall in the RCM pension scheme

The total contribution made for the year ended 31 July 2007 was as follows:

	Total £	Employers £	Employees £
College	398,433	286,257	112,176

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

Year Ending 31 July	2007	2006	2005
College	14.9%	14.9%	14.9%
Employees	6.0%	6.0%	6.0%

NOTES TO THE ACCOUNTS For the year ended 31 July 2007

26. PENSION SCHEMES (CONTINUED)

Analysis of the amount charged to income and expenditure account

	31 July 2007 £'000	31 July 2006 £'000
Service cost	278	302
Past service cost	17	19
	<hr/>	<hr/>
Total Operating Charge	295	321
	<hr/>	<hr/>

Analysis of net interest on pension liabilities

	Year Ended 31 July 2007 £'000	Year Ended 31 July 2006 £'000
Expected return on pension scheme assets	310	269
Interest on pension liabilities	(343)	(301)
	<hr/>	<hr/>
Net interest	(33)	(32)
	<hr/>	<hr/>

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

	Year Ended 31 July 2007 £'000	Year Ended 31 July 2006 £'000
Actual return less expected return on pension scheme assets	(30)	105
Experience gains and losses arising on the scheme liabilities	67	327
Changes in financial and demographic assumptions underlying the present value of liabilities	556	(352)
	<hr/>	<hr/>
Actuarial gain/(loss) to be recognised in STRGL	593	80
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS For the year ended 31 July 2007

26. PENSION SCHEMES (CONTINUED)

Movement In deficit during the year	Year Ended 31 July 2007 £'000	Year Ended 31 July 2006 £'000
Deficit in scheme at 1 August 2006	(1,948)	(1,975)
Movement in year:		
Current service charge	(278)	(302)
Contributions	331	300
Past service costs	(17)	(19)
Net interest / return on assets	(33)	(32)
Actuarial gain or loss	593	80
Deficit In Scheme At 31 July 2007	<u>(1,352)</u>	<u>(1,948)</u>

History of Experience Gains and Losses

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

Employers and employees total contributions

	Year Ended 31 July 2007 £	Year Ended 31 July 2006 £
Contributions to TPS	338,056	288,320
Contributions to RCM Pension Scheme	398,433	413,306
Contributions to USS	31,953	27,220

NOTES TO THE ACCOUNTS For the year ended 31 July 2007

26. PENSION SCHEMES (CONTINUED)

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 2007

27. ACCESS FUNDS

	2007 £	2006 £
Balance brought forward at 1 August 2006	1,445	4,000
HEFCE grants	13,448	14,084
	<u>14,893</u>	<u>18,084</u>
Disbursed to students	(12,890)	(15,770)
Administration charge	(548)	(869)
	<u>1,455</u>	<u>1,445</u>

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

The above balances are included in current creditors.

28. CAPITAL COMMITMENTS

As at 31 July 2007 the College had capital commitments of £ 674,634 on its Summer Works programme (2006: £992,000).

29. FINANCIAL COMMITMENTS

At 31 July 2007 the College had annual commitments under non-cancellable operating leases as follows:

	Consolidated and College	
	2007 £	2006 £
Land and buildings		
Expiring in over five years	<u>1,005</u>	<u>6,000</u>
Other Operating Leases		
Expiring between one and five years	<u>2,444</u>	<u>2,444</u>

30. RELATED PARTY TRANSACTIONS

As far as the College is aware, there were no related party transactions during the year, other than normal transactions with the Prince Consort Foundation and the Associated Board of the Royal Schools of Music.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

31. PRINCE CONSORT FOUNDATION (PCF)

The PCF 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

On 24th April 2007, the PCF's Board of Trustees resolved to wind up the charity and approved the transfer of PCF assets to the Royal College of Music to be made as at 30th June 2007. These assets comprise:-

	Note	Consolidated £	College £
Managed investments (at market value)		5,145,901	5,145,901
Cash held by investment managers		247,746	247,746
Assets held by investment managers	14, 15	<u>5,393,647</u>	<u>5,393,647</u>
Interest in the ABRSM at cost	14	-	2,275,000
Assets transferred to fixed asset investments		<u>5,393,647</u>	<u>7,668,647</u>
Cash at bank		399,376	399,376
Total assets transferred from PCF		<u>5,793,023</u>	<u>8,068,023</u>
Share of the net liabilities of the ABRSM	32	<u>(1,189,000)</u>	-
Net assets donated to the Royal College of Music by the PCF		<u><u>4,604,023</u></u>	<u><u>8,068,023</u></u>

The transfer of assets was unencumbered subject to their use by the College in accordance with its own charitable objects.

In accepting the transfer, the College agreed to meet any subsequent PCF liability that might arise (such as any fees connected with the winding up of the charity).

For the purposes of the College accounts, the interest in the ABRSM was transferred at cost. For the purposes of the consolidated accounts, the interest in the ABRSM was transferred at the group share's of the net liabilities of the ABRSM as at 31 January 2006.

It is anticipated that the PCF will be formally wound up when its final accounts are submitted to the Charity Commission.

NOTES TO THE ACCOUNTS
for the year ended 31 July 2007

32. SHARE OF NET LIABILITIES OF ASSOCIATE

In the consolidated figures, the interest in the ABRSM is represented by the College's share of the net liabilities of the ABRSM as at 31 January 2007. In the College figures, the interest in the ABRSM is carried at cost (see Note 14).

The group's share of the results of its associate for the year ended 31st January are set out below:-

	Consolidated 2007 £	2006 £
Total income	7,417,750	6,966,750
Net income, after deducting charitable donations	<u>131,250</u>	<u>50,750</u>
Fixed Assets	359,250	320,250
Current Assets	2,840,500	2,515,500
Liabilities due within one year	(2,435,000)	(2,211,500)
Liabilities due after more than one year	-	(21,750)
Net assets before pension liabilities	<u>764,750</u>	<u>602,500</u>
Net pension liability	(1,593,500)	(1,791,500)
Net liabilities after pension fund deficit	<u>(828,750)</u>	<u>(1,189,000)</u>

33. POST BALANCE SHEET EVENTS

There are no post balance sheet events to report.

