

Financial Statements
For the year ended 31 July 2012

Royal Holloway
University of London



Contents

	Page
Financial Highlights	2
Operating and Financial Review	3 – 7
Public Benefit Statement	8 – 9
Responsibilities and Membership of the Council	10 – 13
Corporate Governance	14
Independent Auditor’s Report to the College Council	15
Consolidated Income and Expenditure Account	16
Consolidated Statement of Historical Cost Surpluses and Deficits	17
Consolidated Statement of Total Recognised Gains and Losses	17
Consolidated and College Balance Sheets	18 – 19
Consolidated Cash Flow Statement	20
Notes to the Financial Statements	21 – 40

Financial Highlights

	Year Ended 31 July 2012 £000	Year Ended 31 July 2011 £000
RESULTS, CASHFLOWS AND RESERVES		
TOTAL INCOME	136,759	132,204
TOTAL EXPENDITURE	129,173	125,568
SURPLUS FOR THE YEAR BEFORE TAXATION	7,586	6,636
Cash flow from operating activities (after taxation)	17,194	10,607
Net returns on investments and servicing of finance	(90)	(659)
NET CASH FLOW BEFORE INVESTING ACTIVITIES	17,104	9,948
Fixed assets	138,060	140,973
Net current assets	33,026	27,522
TOTAL ASSETS LESS CURRENT LIABILITIES	240,831	239,330
TOTAL RESERVES	90,958	83,345
OTHER KEY STATISTICS		
Number of full-time equivalent students	9,135	8,571

Operating and Financial Review

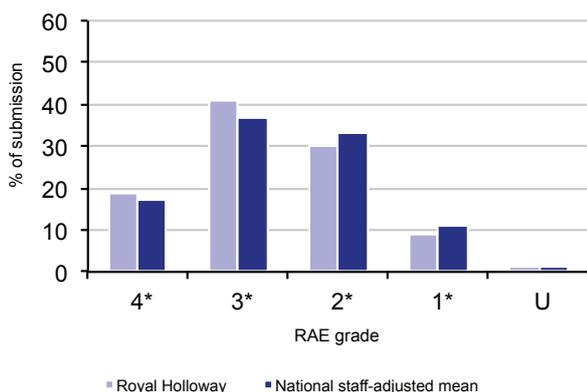
This Operating and Financial Review has been prepared in accordance with the requirements of the Higher Education Statement of Recommended Practice: Accounting for Further and Higher Education ("SORP") issued in July 2007, and follows best practice as set out in the Reporting Statement "Operating and Financial Review" issued by the Accounting Standards Board in January 2006.

Operating Review

The College's strategic vision, set out in its Strategic Plan 2009-13, is to be in the top tier of UK universities, renowned for world class research and excellent student experience. Three key measures are used to evaluate this:

1 The RAE or REF outcome – relative sector position in the funding council's Research Assessment Exercise (RAE) or future Research Excellence Framework (REF).

Figure 1: Royal Holloway RAE profile and national comparison in 2008



In the 2008 RAE, 90% of the College's research was judged as grades 2* to 4*, with 60% judged to be world-leading or internationally excellent (grades 3* to 4*) placing the College 18th in the sector national ranking for this second measure. The College made 21 departmental submissions to units of assessment. 10 departments across all 3 faculties were ranked in the top 10 in the country when measured by proportion of 3* and 4* activity, with Music coming top nationally for its unit.

The REF is the successor to the RAE and submissions are due in 2013. Research publications will continue to be of fundamental importance. There is an ongoing project led by a Vice-Principal to manage and monitor progress. Reviews in each academic department have been supported by external experts to evaluate their progress in achieving outputs at the required level, and in some cases additional appointments have been made to strengthen their position.

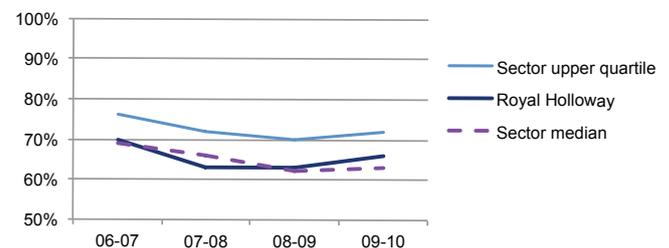
2 Annual National Student Survey (NSS)

For the 2012 NSS the College improved its overall satisfaction score from 87% to 88%. The College increased or maintained its score in all of the 7 categories of survey questions for which there were comparative scores for 2011, including significant improvements for Assessment and Feedback, Academic Support and Learning Resources. The College was ranked joint 42nd out of 152 UK institutions, compared to 35th in 2011. Although there was an overall improvement, it did not keep pace with other HEIs and increasing the rate of progress remains a top priority. The results are very concentrated and a score of 90% would have placed the College 17th.

3 Graduate Employment

The annual Destination of Leavers (DLHE) survey carried out by the Higher Education Statistics Agency measures the proportion of graduates in graduate level jobs or undertaking further study. The most recently available benchmarked data are for students graduating in 2009-10.

Figure 2: Proportion of graduates in graduate jobs or further study (source Times Good University Guide)



As with the rest of the sector, the proportion of the College's graduates in graduate jobs or further study has declined since 2006-07, probably due in large part to the recession. However, for 2009-10, the proportion of College graduates in graduate jobs or further study was up by 3 points (from 63% to 66%) which was a higher increase than that shown by the sector as a whole. Work is being undertaken to increase the provision of placement opportunities during study and to ensure that workplace skills are developed and identified in the curriculum. A Royal Holloway Passport was introduced in 2011-12 to encourage students to participate in co-curricular activities which support the development of transferable skills and to provide a formal record of these.

Student Numbers

Student numbers increased from 8,571 full-time equivalent (FTEs) in 2010-11 to 9,135 FTEs in 2011-12. In 2011-12 postgraduate student FTEs were 24% of the total, including research postgraduates at 7%. (figure 3).

Operating and Financial Review

(continued)

Figure 3: Student FTEs by category of undergraduate and postgraduate teaching and research

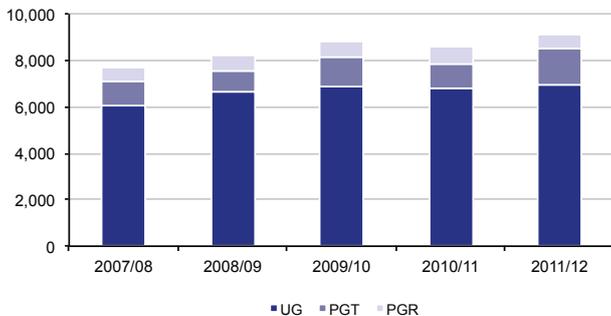
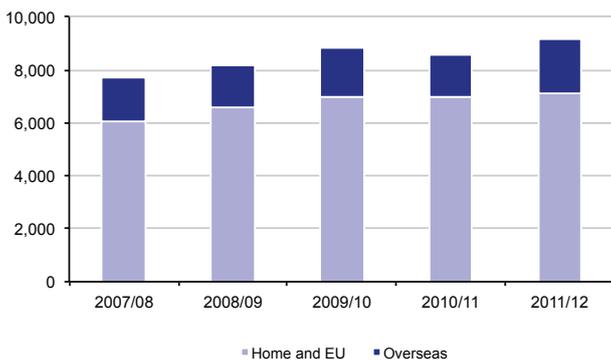


Figure 4: Student FTEs by domicile

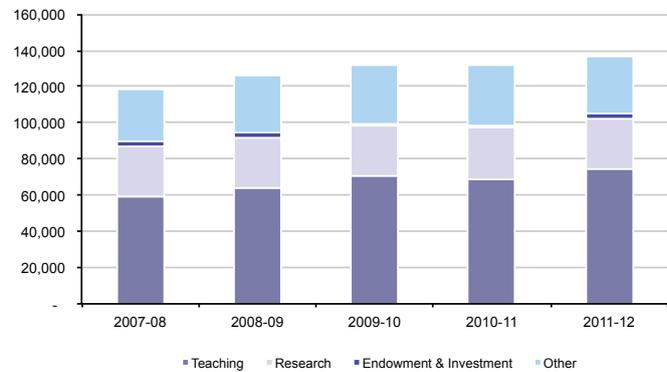


Between 2010-11 and 2011-12 Home and EU student numbers increased from 6,973 FTEs to 7,131 FTEs, while overseas student numbers increased by 25% from 1,598 FTEs to 2,004 FTEs (figure 4). The increase in overseas student numbers was at postgraduate level, predominantly in Management, where targets were exceeded substantially. A lower level of intake is planned for 2012-13, and the higher level of deposit now required to secure a place should increase the predictability of numbers.

Income and Operating Surplus

Total income increased from £132.2m in 2010-11 to £136.8m in 2011-12, primarily as a result of extra fee income. In 2011-12 teaching contributed 54% to total income and research income was 20% of the total (figure 5).

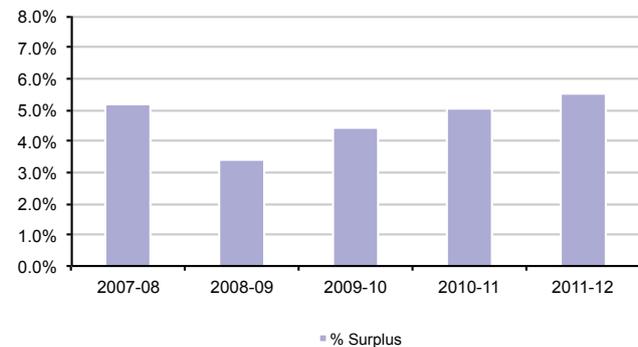
Figure 5: Annual income by major category (£'000)



Where "teaching" is defined as HEFCE teaching grant plus tuition fees and contracts and "research" is HEFCE research grant and research grants and contracts

In figure 6, the operating surplus as a proportion of income is set out for the last five years. In each year it has exceeded 3% of income, and was 5.5% in 2011-12, compared to 5.0% in the previous year. The surpluses provide funds for investment in the College estate and infrastructure.

Figure 6: Annual operating surplus as a proportion of income (£'000)



Future Prospects

Major changes to government funding, fees and student number controls for new Home and EU undergraduate students are being introduced from 2012-13. The College is charging fees of £9,000 for all subjects and its arrangements for providing support to students and for widening access have been approved by OFFA (the Office for Fair Access).

Operating and Financial Review

(continued)

For 2012-13 entry, it is expected that undergraduate student numbers will be about 210 (9%) below the overall target. Overseas student numbers are in excess of target and the controlled number for Home and EU (HEU) students has been met, almost exactly. The shortfall is for HEU students with A-levels or equivalents of AAB+. Over half of this is against a higher target rather than an absolute fall in the number of these students. Postgraduate Taught student numbers are about 250 below the overall target, with the shortfall being mainly for HEU students. Postgraduate Research student numbers are broadly in line with expectations.

For 2012-13 a budgeted surplus was set of £7.6m, assuming that student targets would be met, noting the risks affecting these. The overall student recruitment shortfall will have a negative impact on the budget of £3.0 to £3.5m. This is manageable within the budget, but clearly it is important that core numbers are maintained. A task force has been established to improve student recruitment and marketing activities with additional resources allocated to support this. The shortfall in undergraduate numbers experienced by the College should be seen in the context of 54,000 fewer new entrants into university undergraduate programmes, about 14% lower than in 2011-12.

Work has commenced on a new College Strategic Plan. The underlying academic priorities will be approved by the Academic Board in November 2012 and the College Strategic Plan which will deliver these priorities will be approved by Council in June 2013. The academic priorities will seek to build on current strengths and identify opportunities to achieve greater academic excellence in future years.

A number of changes have been made to the academic portfolio in Modern Languages, Classics and Computer Science to address issues of student demand and sustainability. Within professional services, steps have been taken to improve admissions processes including communications to students, and changes are being made to improve student-facing support provided on campus.

In 2011-12 Study Group International launched a Foundation Programme for international students located at the College. The Programme is intended to increase the intake of overseas students, who will progress from the foundation programme to undergraduate study, and to diversify the markets from which they are recruited and the subjects they study. The College has concluded an agreement with Pearson Education, part of the Pearson Group, to validate a degree in business which will receive its first intake in 2012-13. Agreement has also been reached to provide teaching to undergraduate programmes in Management in collaboration with Kaplan Asia Pacific in Singapore.

Within the HE sector the College is engaged in a number of institutional and academic collaborations. The South West London Academic Network (SWan) has been restructured to focus specifically on the development of 'added value' research collaborations between the three partners (Royal Holloway, St George's and Kingston University). The College is a member of the South East Physics Network (SEPNet), which has received funding support from the Funding Council (HEFCE). This has flourished as a network supporting research and teaching collaborations amongst the partner institutions as well as playing a crucial role in communicating the value of Physics to potential university students and employers. HEFCE funding ends on 31 July 2013 and discussions are ongoing on how to continue to maintain the network. The College is also working with the Veterinary Laboratory Agency and the National Physics Laboratory to develop research and teaching links.

Capital Programme, Sustainability and Risk Management

An extension to the School of Management which provides additional postgraduate teaching space opened at the start of the 2011-12 session together with a refurbishment of the Students' Union building. A new Drama theatre, to be named the Caryl Churchill Theatre, is in the course of construction following a planning delay and is programmed to open in February 2013. Design options are being considered for a major addition to student library and learning resource space, with the objective of opening this for 2014-15. Options to provide more student residence places are also under review. The Capital Programme will be further developed as part of the strategy review, and a new master development plan will be created in dialogue with Runnymede Borough Council.

The College is committed to the principles and practices of sustainable development and this is demonstrated by the achievement of ISO 14001 certification of the College's Environmental Management System in June 2012. Unaudited figures show a reduction in the Carbon Footprint from Gas and Electricity consumption from 13,716 tonnes of CO₂ in 2010-11 to 12,792 tonnes in 2011-12. Water consumption fell from 186,000m³ in 2010-11 to 178,000 in 2011-12. There was a small reduction in waste sent to landfill from 494 tonnes to 491 tonnes.

The College assesses risk, and both strategic and operational risk registers are maintained. Risk mitigation plans are developed and results are monitored.

Operating and Financial Review

(continued)

Financial Review

Scope of the Financial Statements

The financial statements comprise the consolidated results of the College (including funds for which the College is a trustee) and its subsidiary company Royal Holloway Enterprise Limited. The results of Royal Holloway Students' Union (RHSU) have been consolidated up to 13 April 2011. On this date RHSU registered as a separate charity with new constitutional arrangements and an independent trustee board, and it was assessed that from this point RHSU no longer satisfied the conditions for its financial results to be consolidated through the exercise of dominant influence over RHSU. This change in treatment was shown as a deemed disposal in the financial statements in 2010-11.

Results for the Year

The consolidated results for the year ended 31 July 2012 are presented in these Financial Statements. In summary, the consolidated results were:

	2011-12 £m	2010-11 £m
Income	136.8	132.2
Expenditure	129.2	125.6
Surplus	7.6	6.6

After tax and adjusting for income transferred to accumulated income within endowments, the surplus retained within general reserves was £7.6m compared to £5.7m for 2010-11. In 2010-11 there was a transfer out of reserves of £0.9m due to the deemed disposal of RHSU.

HEFCE Grants

Income from HEFCE decreased by £2.5m (6.1%) to £38.6m. The recurrent teaching grant was reduced by £0.7m and there was a fall in Specific Grant income of £1.6m, arising from the reduced funding from the Higher Education Innovation Fund (HEIF) (£0.9m), the end of matched funding of donations after 2010-11 (£0.3m) and lower (non-deferred) capital grant income (£0.4m). Research Grant and Deferred Capital Grant income were slightly lower.

Tuition Fees

Income from tuition fees and education contracts increased by £6.4m (14%) to £53.7m from £47.3m in 2010-11. There was a 25% increase in overseas student FTEs to 2,004 FTEs, and an increase in overseas fee income of £5.1m. This followed a £2.1m fall in the previous year, and reflects volatility in postgraduate numbers in Management. There was an increase in Home/EU student FTEs of 2% from 6,973 to 7,131, although fee income increased by 9% due to the effect of an above inflation increase in postgraduate taught fees and the inflationary increase in undergraduate fees. Short Course and Other Fees fell £0.4m due to the effect of replacing the direct recruitment of Foundation Programme students with the Study Group contract.

Other Income

Income from research grants and contracts fell from £15.2m in 2010-11 to £14.5m in 2011-12. Research Council funding fell by £1.0m, reflecting the reduction in funding available, while income from other sources increased by £0.3m. Other Operating Income was slightly lower at £26.8m compared to £27.0m in 2010-11. Excluding Students' Union income, which was included in 2010-11 up to 13 April 2011, there was an increase of £1.0m, mainly within Residences, Catering and Conferences. This included summer letting income as a result of being an Olympic village for rowers and canoeists. Endowment and investment income increased by £1.5m from £1.6m to £3.1m. During the year, the Trustees agreed to charge investment management fees against the capital of the endowment funds. This resulted in a one-off adjustment of £1.0m to release income that had been held against management fees under Endowment Cash. In 2011-12 £0.1m of management fees were charged against capital, which were treated as a deduction from income in 2010-11. After these adjustments there was an increase in income from endowment investments of £0.3m due to a higher income return, and £0.1m in other interest receivable, arising from higher cash balances.

Expenditure

Overall, expenditure increased by £3.6m to £129.2m from £125.6m in 2010-11. Excluding the Students' Union, which was included for part of 2010-11, there was an increase of £4.8m.

Staff costs increased by £1.8m to £73.3m. Excluding the Students' Union, Staff FTEs were stable at 1,294 compared to 1,297 in 2010-11. There was a nationally-agreed pay increase from August 2011 of £150 for all staff (pro rata) and additional costs as a result of pay increments and promotions. Employer's national insurance rates increased by 1% from April 2011. Staff costs include £0.9m for staff restructuring costs compared to £0.3m in 2010-11, mainly from the voluntary severance scheme.

Other operating expenses increased by £2.5m to £42.8m from £40.3m in 2010-11. Key areas of increase were under student awards and facilities (£0.5m); heat light and power (£0.5m); premises costs (£1.8m), due to higher expenditure on fabric repairs to Founder's and other original parts of the campus, a number of roof repair projects and additional expenditure on redecorations; and £0.9m on non-capitalised equipment, including audio-visual equipment in teaching rooms. The largest decreases were £0.5m under teaching and research costs due to the change in arrangements for delivering the Foundation Programme and £0.7m under administrative costs in relation to legal and consultancy fees.

Depreciation costs decreased by £0.7m to £10.8m, including a £0.3m reduction under equipment, where expenditure has fallen following the large reduction in HEFCE capital funding, £0.1m related to the Students' Union and the expiry of depreciation on minor works projects.

Operating and Financial Review

(continued)

Interest costs, which are calculated using LIBOR, were marginally lower at £2.2m. The debt of £56.7m is hedged by £40m of fixed rate interest swaps and a £10m interest cap at 6% LIBOR. There is therefore some exposure to LIBOR interest rate movements, but rates were fairly stable during the year.

Capital Investment

Net capital investment in the year was £7.9m, financed by capital grants of £1.6m and £6.3m cash. Projects included the completion of the extension to the School of Management and the construction of the new Caryl Churchill Theatre. There was significant refurbishment and improvement expenditure aimed at improving student experience including the completion of the Student's Union refurbishment, reconfiguration in the Bedford Library to create 100 additional study spaces, teaching space refurbishments, toilet refurbishments and the commencement of a major project to refurbish Founder's student accommodation.

Cash Flow and Liquid Assets

The net cash flow generated from operating activities was £17.2m and this, together with capital grants of £1.6m, financed capital expenditure of £7.9m and net loan repayments of £2.5m. During the year there was an increase in the proportion of cash deposited in on-demand Money Market Funds compared to term deposits, resulting in a reduction of current asset investments of £7.0m.

The total of current asset investments and cash increased by £9.4m to £59.2m.

Investment Performance

The balance sheet value of the College's endowment assets investments at the year-end reduced by £1.1m to £69.7m from £70.8m in 2010-11. This was due to the release of £1.0m from cash held against management fees within the investments to income and a £0.1m reduction in the underlying value of investments. A full revaluation of the Picture Collection was carried out in July 2011 and there was no change to the balance sheet value in 2011-12.

The investments (excluding the Picture Collection) are managed by two fund managers, Aberdeen Asset Management (AAM) and Newton Investment Managers (NIM). Investment performance is monitored by the Investment Committee advised by WM Performance Services. For the year to 30 June 2012, the main portfolios achieved a combined total return of 0.1%, which was well below the relative benchmark return for the year of 2.5%.

Professor P Layzell
Principal

Stephen Cox
Chairman of Council

Public Benefit Statement

The College is required to make a report on how it has delivered its charitable purposes for the public benefit. In making this statement, the Trustees have had regard to the Charity Commission's guidance on public benefit.

Charitable status

The College is an exempt charity and, as such, is exempt from registration with the Charity Commission. The College is monitored by the Higher Education Funding Council for England as its Principal Regulator, in accordance with the Charities Act 2011.

The College was incorporated by the Royal Holloway and Bedford New College Act 1985. This defined the College's charitable objectives to be "to promote for the public benefit education and scholarship and...for that purpose to provide instruction leading to degrees of the University [of London], to superintend postgraduate studies and to promote research."

The public benefit mission of the College is summarised in the Strategic Plan:

"Our agenda-setting research, which is addressing some of the world's biggest cultural, social, scientific and economic challenges in innovative and impactful ways and distinctive range of programmes that are relevant to lifelong employment needs combine to provide real value for students, both while they are studying and in the opportunities that their Royal Holloway degree will bring them now and throughout their lives."

Education, access and widening participation

The College provides education at undergraduate and postgraduate level across its three faculties of Science, Arts and Social Sciences, and Management and Economics. Students are selected based on their ability successfully to complete their programme of study to the required standards.

Fees to Home and EU (HEU) students are charged at the rates permitted by the regulations, and overseas student fees and other discretionary fees take account of the competitive market and the requirement for activities to cover their full costs. A wide range of support for fees and living costs is provided in order to give opportunities to study at the College to those who cannot afford the fees. Under the arrangements for charging Variable Fees to full-time undergraduate HEU students, overseen by the Office for Fair Access, awards to students totalled £2,111k in 2011/12 (2010/11 £2,281k). Other awards from the College's resources and endowment income, mainly to support postgraduates, were £3,097k in 2011/12 (2010/11 £2,623k). £208k (2010/11 £246k) was specifically allocated as assistance to overseas fee paying students.

The College is actively engaged in activities to widen participation in higher education. Targeted outreach activities include our 'Ladder of Learning' aspiration-raising events and residential Summer Schools for Year 9 and 10 students from under-

represented groups. In addition, we have a programme for primary school pupils involving one-day 'Experience University' workshops. We also seek to provide opportunities to students with non-traditional qualifications to study at the College. For example, a Science Foundation Year programme provides students, without the normal A-level entry requirements, the opportunity to undertake a study programme at a local sixth form college to gain entry for a science degree. As part of the College's undergraduate bursary programme, Access Bursaries are offered to provide additional financial support to selected students with non-traditional educational backgrounds.

For overseas students, the College's Language Centre provides English language teaching in pre-sessional programmes to improve English language skills and to prepare students to undertake a degree programme. English Language support is also provided on an in-sessional basis.

The College provides counselling support and an educational support office assists students with disabilities and learning difficulties. Hardship funding is provided through the Access for Learning grant, and endowment fund income is used to provide additional support, including temporary loans.

Research

Research takes place across all the College's principal academic activities, and the provision of a curriculum and learning experiences that are informed by research is an important element of what the College offers to students.

The contribution of the College's research to the advancement of knowledge and understanding is reflected in the outcome of the RAE 2008 in which 60% of the research submitted was rated as world-leading or internationally excellent. The following examples give an indication of the variety of the public benefits that are produced by the College's research activities:

- Researchers from the School of Biological Sciences are working to further understand and treat Bipolar disorder while developing methods to reduce the number of animals used in research.
- Professor Helen Nicholson in Drama is evaluating a pioneering creative arts and reminiscence project which enables advanced dementia sufferers to take part in art, drama and dance projects with the hope that the project can be rolled out to care providers across the UK.
- Researchers from the Information Security Group are analysing a new security system called Transport Layer Security (TLS), which is designed to help protect our details, to identify any weaknesses in it and ensure it is doing its job properly to give us greater confidence online.

Public Benefit Statement

(continued)

The dissemination of research is a vital aspect of the College's academic purpose, and this has been improved by the implementation of an Open Access Repository. When entering into research contracts with private organisations, the ability to disseminate the results of research is an important consideration, and research which cannot be disseminated is not eligible for inclusion in the RAE or REF.

Business and community engagement

Consultancy and technical services activity, which primarily provides advice and services to a specific customer, are carried out through the College's trading company Royal Holloway Enterprise Limited, as these are non-charitable activities. However, this commercial engagement with business is an important aspect of the College's activities, as it builds relationships and creates potential opportunities for further engagement involving research and teaching.

Universities have important roles within their local communities. The College employs about 1,500 staff, over half of whom live within a ten-miles radius of the College. The College offers an annual programme of lectures and musical events which are open to the public; it participates in the annual heritage day, has an annual garden party for the local community and provides other opportunities to visit the Grade 1 listed Founder's building and the campus; and it supports cultural and social events in the local area such as the Egham Royal Show, the Windsor Arts Festival and the Runnymede Literary Festival.

Of particular importance to community engagement are the volunteering opportunities provided to students organized through a Volunteering Manager and the Students' Union. More than 1,000 students are currently registered with the College's Community Action Volunteering Scheme and take part in a range of activities including working with charities, supporting youth and sports clubs, visiting residential homes, tutoring young refugees and undertaking projects for the local community.

Enriching the student experience and employment

The College and the Students' Union provide opportunities for students to engage in a broad range of social, sporting, volunteering and intellectual activities. The value of co-curricular activities is recognised by the Royal Holloway Passport. Students earn points through participation in co-curricular activities (currently 20 streams in 2012-13) and attend a compulsory coaching session to equip them to present themselves well to employers. At August 2012, 825 students were registered on the Passport.

We provide structured institutional support for student entrepreneurship, in the spirit of our founder entrepreneur, Thomas Holloway. We fund and mentor the student society, Royal Holloway Entrepreneurs, which has won national awards for its activities. We run our own Apprentice competition and Dragon's Den supported by local entrepreneurs. We provide an entrepreneurship lab for the students and have provided a launch pad for a range of student and graduate businesses.

In 2011, six months after graduation 90% of our first degree students were in work or further study. 135 employers visited the campus last year, often represented by enthusiastic alumni. We are extending our range of placement schemes linked to the curriculum, in particular the establishment of 2-4 week micro-placement schemes in Media Arts and English which offered 25 placements in the creative industries in 2011-12.

Acting responsibly

The College carries out its activities with the intention of avoiding detriment or harm. The College's Health and Safety Office ensures that there is best practice in health and safety standards.

Research proposals involving human participants must be approved by an Ethics Committee before they can proceed. Progress is being made in a number of areas to reduce the environmental impact of the College, including the reduction of emissions and of waste sent to landfill.

Responsibilities and Membership of the Council

Statement of Primary Responsibilities

In accordance with the Royal Holloway and Bedford New College Act 1985, the Council is the governing and executive body of the College. It has agreed the following Statement of Primary Responsibilities.

General Principles

- 1 The Royal Holloway and Bedford New College Act 1985 (RHBNCA '85) established the College as a body corporate with perpetual succession and a common seal. The College is a Statutory Corporation, i.e. a legal body that has the power to sue or be sued, own property and enter into contractual obligations. The Council is its governing body, with responsibility for the oversight of the business of the College and for ensuring that it is done consistently with the Act and statutes and with the statutes, regulations and ordinances of the University of London.

Status of members

- 2 All members of the Council shall have equal status, rights, powers and duties and shall share collective responsibility for all the acts and decisions of the Council but subject to the limitation on the participation of student members specified in Statute 27 (exclusion from Reserved Area Business). All members shall speak and act in their own right contributing to the deliberations of the Council whatever special knowledge and advice they can, and exercising their own judgement to the best of their ability in the interests of and for the good of the College as a whole. (RHBNCA '85 S8)

Duties of Council Members

- 3 The Council must meet at least four times a year and members have a duty to attend regularly, both Council meetings and the meetings of any committees to which they have been appointed and to take full part in the discussions. They are expected to take an interest in and keep themselves up to date on issues affecting the business of the College, locally, nationally and internationally.
- 4 They have a general duty to avoid conflicts of interest between their own private, public and professional life and that of the College and to this end must notify the Secretary of any interests which could present or be perceived as presenting a conflict. An annual register of interests is taken.
- 5 Council members are expected to comply with the seven principles of Standards in Public Life, namely Selflessness; Integrity; Objectivity; Accountability; Openness; Honesty and Leadership. Although the Council aims to conduct its business so far as possible in an open manner, where particular items of business preclude this, members must respect the confidentiality of College business.

Stewardship

- 6 Members of Council have an overriding duty to act in the best interests of the College by ensuring that funds and property are used only in accordance with the College Act and Regulations, the Financial Memorandum between the College and the HEFCE and the College's charitable status. There is an obligation to act reasonably and this includes taking into account any guidance issued by such bodies as HEFCE, CUC, the National Audit Office, the Public Accounts Committee et al.

Responsibilities of Council Strategy

- 7 Subject to consultation with the Academic Board on all matters with implications for academic policy or the terms and conditions of academic staff, to approve the mission and strategic vision of the College, long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of the stakeholders and are compliant with the RHBNCA and the charitable objectives of the College.

Management

- 8 To delegate authority to the Principal, as Chief Executive, for the academic, corporate, financial, estate and personnel management of the College. To establish and keep under regular review the policies and procedures and limits within such management functions as shall be undertaken by and under the authority of the Principal.

Audit

- 9 To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.

Monitoring and Evaluation

- 10 To ensure processes are in place to monitor and evaluate the performance and effectiveness of the College against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.

Self Evaluation

- 11 To establish processes to monitor and evaluate the performance and effectiveness of the Council itself.

Best Practice

- 12 To conduct its business in accordance with best practice in higher education corporate governance and the principles of public life drawn up from the Committee on Standards in Public Life.

Responsibilities and Membership of the Council

(continued)

Reputation

13 To safeguard the good name and value of the College.

Chief Executive

14 To appoint the Principal as chief executive, and to put in place suitable arrangements for monitoring his/her performance.

Secretary

15 To appoint a secretary to the Council and to ensure that, if the person appointed has managerial responsibilities in the College, there is an appropriate separation in the lines of accountability.

Employer

16 To be the employing authority of the College and to be responsible for establishing a personnel strategy and overall superannuation policy.

Health & Safety

17 To have ultimate responsibility for the health and safety of all staff, students and visitors (including the general public) on campus and its immediate environs).

Equal Opportunities

18 To ensure that all the business of the College is conducted without discriminating against any member of staff, student or visitor on grounds of race, ethnicity, religion, sex, sexual orientation, marital or parental status, national origin, age or disability.

Finance

19 To be the principal financial and business authority of the College, to ensure that proper books of accounts are kept, to approve the annual budget and financial statements and to have overall responsibility for the College's assets, property and estate and investment policy.

Legal

20 To be the College's legal authority and, as such, to ensure that systems are in place for meeting all the College's legal obligations, including those arising from contracts and other legal commitments made in the College's name.

Students

21 To make such provision as it thinks fit for the general welfare of students, in consultation with the Academic Board.

22 To review and approve the constitution of the Students' Union at least every five years and to monitor its financial position.

23 Under Section 20 of the RHBNCA, to terminate the registration of students on non-academic grounds or to take disciplinary action, where appropriate, against students for severe breaches of disciplinary regulations. The power to terminate a registration on academic grounds rests with the Academic Board.

Trustees

24 To act as trustee for any property, legal endowment, bequest or gift, such as the Picture Collection, the Founder's Endowment Fund, the Bedford Entrance Scholarships and a number of other small charitable funds, in support of the work and welfare of the College.

Governance

25 To ensure that the College's constitution is followed at all times and that appropriate advice is available to enable this to happen. Financial Statements and Accounting Records

Responsibilities and Membership of the Council

(continued)

Financial Statements and Accounting Records

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the College's Statutes, the Statement of Recommended Practice on Accounting in Higher Education Institutions and UK Generally Accepted Accounting Practice (UK GAAP). In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England, "the Funding Council" and the Council of the College, the Council through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the College and of the surplus or deficit and cash flows for that year.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable UK accounting standards have been followed; and
- financial statements are prepared on the going concern basis. The Council is satisfied that the College has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the College and to prevent and detect fraud and other irregularities;
- secure the economical, efficient and effective management of the College's resources and expenditure.

The key elements of the College system of internal financial control, which are designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;

- a comprehensive medium and short-term planning process, supplemented by income and expenditure, capital and cash flow budgets;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for the approval and control of expenditure, with major investment decisions being subject to detailed appraisal and review;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee and the Council; and
- a professional Internal Auditor whose annual programme of work is approved by the Audit and Compliance Committee.

Membership

During the period from 1 August 2011 and up to the date of the signing of the Financial Statements, the Council had the following membership:

Lay Members

Mr Paul Blagbrough
Sir Andrew Burns (Chair of Council to 21 November 2011, lay member of Council until 31 December 2011)
Mr Stephen Cooksey
Mr Stephen Cox (from 1 August 2011, Chair of Council from 22 November 2011)
Mr Gurpreet Dehal
Mr Majid Hawa (from 5 October 2011)
Mrs Esther Horwood (until 31 July 2012)
Dr Jackie Hunter
Mrs Margaret Jack
Mr Jeremy McIlroy (Chair of Finance Committee from 6 October 2011)
Cllr Hugh Meares (until 31 July 2012)
Mr Mark Newlands
Mr Bob Potts (to 5 October 2011)
Mr Iain Ross (Vice Chair of Council from 5 October 2011)
Mr David Spence
Mrs Sarah Tyacke
Ms Colette Wilson (from 8 March 2012)

Elected Staff Members

Mr Andy Alway
Professor Clare Bradley
Mr John Brannan (from 1 November 2011)
Professor Mary Fowler (until 13 November 2011)
Professor Anne Sheppard (from 14 November 2011)
Miss Hollie White (from 1 November 2011 to 30 September 2012)
Mr Richard Mallett (from 1 October 2012)
Professor Johannes Zanker

Responsibilities and Membership of the Council

(continued)

Elected Student Members

Mr Joseph Rayment (from 1 August 2011)

Ex Officio Members

Professor Paul Layzell, Principal

Mr Daniel Lemberger-Cooper, President Students' Union (2011/2012 academic year)

Mr Doug German, President Students' Union (2012/2013 academic year)

Membership of Committees

Audit and Compliance Committee

Chair

Mr David Spence

Other Members

Mr Stephen Cooksey

Mrs Esther Horwood (to 31 July 2012)

Mr Mark Newlands

Ms Colette Wilson (from 1 August 2012)

Council Executive

Chair

Sir Andrew Burns (to 21 November 2011)

Mr Stephen Cox (from 22 November 2011)

Ex Officio

Mr Iain Ross (from 6 October 2011)

Mr Bob Potts (to 5 October 2011)

Mr Jeremy McIlroy (from 6 October 2011)

Mr David Spence (from 3 November 2011)

Professor Paul Layzell

Other Members

Mrs Margaret Jack (from 3 November 2011)

Mrs Sarah Tyacke (from 3 November 2011)

Equality & Diversity Committee

Chair

Dr Jackie Hunter

Members

Mr Majid Hawa

Professor Geoff Ward

Mr Simon Higman

Miss Katie Kerr (as Acting Director of HR from 23 January 2012)

Finance Committee

Chair

Mr Bob Potts (to 5 October 2011)

Mr Jeremy McIlroy (from 6 October 2011)

Ex Officio

Mr Iain Ross (from 5 October 2011)

Professor Paul Layzell

Professor Rob Kemp (from 1 August 2011)

Mr Simon Higman

Mr Graeme Robinson

Other Members

Mr Paul Blagbrough

Mr Gurpreet Dehal

Dr Jackie Hunter

Mrs Margaret Jack (from 6 March 2012)

Nominations Committee

Chair

Sir Andrew Burns (to 21 November 2011)

Mr Stephen Cox (from 22 November 2012)

Ex Officio

Professor Paul Layzell

Mr Iain Ross

(as Vice Chair from 5 October 2011, previous as a lay member)

Miss Katie Kerr (to 22 January 2012)

Mr Simon Higman (from 23 January 2012)

One Faculty Dean

Other Members

Mrs Sarah Tyacke

Mr Paul Blagbrough (from 6 March 2012)

Remuneration Committee

Chair

Sir Andrew Burns (to 21 November 2011)

Mr Stephen Cox (from 22 November 2011)

Ex Officio

Mr Bob Potts (to 5 October 2011)

Mr Iain Ross

(from 6 October 2011 as lay member to 5 October 2011)

Professor Paul Layzell

Mr Simon Higman

Other Members

Mrs Margaret Jack

Mrs Sarah Tyacke (from 6 March 2012)

Corporate Governance

The governing body of the College is the Council. The Council has a Chairman and Vice-Chairman, who are not members of staff or students. The Principal, who is the chief academic and administrative officer of the College, is appointed by the Council.

The Council ensures that the College is governed in accordance with the Royal Holloway & Bedford New College Act 1985, its Statutes and Regulations, and under the terms of the Financial Memorandum with the Higher Education Funding Council for England 'HEFCE'. The Council's role is to set the strategic direction of the College and, through the receipt of reports from its committees and officers, to be assured that its day to day operation is proceeding satisfactorily.

The Council has responsibility for maintaining and reviewing an effective system of internal control and for supporting the achievement of the College's policies, aims and objectives, while safeguarding the public funds and other assets for which it is responsible. The system of internal control is designed to manage rather than eliminate the risk of not achieving policies, aims and objectives; it can, therefore, only provide a reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2012 and up to the date of approval of the financial statements, and accords with HEFCE guidelines. The process is reviewed by the College Executive Committee and the Audit and Compliance Committee, which reports directly to the Council.

The College's strategy for the management of major business risks has been approved by the Council. A group of senior officers has analysed the risks facing the College, and has developed a system of key risk indicators. The principal risks are examined in more detail and reviewed three times a year by the College Executive Committee and regular reports are made to the Audit and Compliance Committee. Risk management is considered within the corporate planning and decision-making processes of the College. A departmental risk assessment procedure and a major incident management plan have been developed, and an organisation-wide risk register is maintained.

The Council meets four times a year. Its major committees are now the Council Executive Committee, the Finance Committee, the Equality and Diversity Committee, the Audit and Compliance Committee, the Nominations and Honorary Awards Committee and the Remuneration Committee. All of these committees are formally constituted, with terms of reference, and include lay members of Council. The constitution of the Finance Committee is determined by Statute, and stipulates that the Committee has a majority of lay members. Lay members chair all these committees.

The Finance Committee, *inter alia*, recommends to Council the annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Council Executive Committee is responsible for strategic development, it appoints the members of the principal committees, and oversees the Council's effectiveness. It also makes nominations to Council for the conferral of honorary degrees and fellowships.

The Remuneration Committee determines the remuneration, terms and conditions of employment of the Principal and College Secretary. It is responsible for recommending the College's pay strategy to Council and for oversight of the College's various pay related policies.

The Equality and Diversity Committee provides assurance to Council on all issues relating to equality excluding pay.

The Nominations and Honorary Awards Committee puts forward recommendations to the Council for appointed members of the Council, and recommends to Council the appointment of the Chairman and Vice-Chairman of the Council.

The Audit and Compliance Committee normally meets three times each year, including a meeting with the External Auditors to discuss audit findings, and with the Internal Auditor to consider detailed internal audit reports and recommendations for the improvement of systems of internal control, together with management's response and implementation plans. It also receives and considers reports from HEFCE as they affect the College's business and monitors adherence with the regulatory requirements. It reviews the annual financial statements together with the accounting policies.

Whilst senior officers attend meetings of the Audit and Compliance Committee as necessary, they are not members of the Committee, and the Committee has the opportunity to meet with the External Auditors on their own for separate discussions.

The College has an Internal Audit Unit, which operates to standards defined in the HEFCE Code of Practice, and which was last reviewed for effectiveness by the HEFCE Audit Service in June 2010. The Internal Auditor submits regular reports to the Audit and Compliance Committee. These reports include the Internal Auditor's opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The Council's view of the effectiveness of the system of internal control is informed by the work of the Internal Auditor and the managers within the College 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 in other reports.

The Council has welcomed advice from the Committee on Standards in Public Life (the Neill Committee) and the Committee of University Chairmen on Corporate Governance, and has implemented the good practice recommendations of both bodies.

Independent Auditors' Report to the Council of Royal Holloway and Bedford New College

We have audited the financial statements of Royal Holloway and Bedford New College for the year ended 31 July 2012 which comprise the Consolidated Income and Expenditure Account, Consolidated Statement of Total Recognised Gains and Losses, the Balance Sheets for the Group and the College, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, as a body, in accordance with the Charter and Statutes of the College. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the College and the Council as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Council and Auditors

As explained more fully in the statement of responsibilities of the Council, the members of the Council are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, regulatory requirements and International Standards on Auditing (UK and Ireland) and the Audit Code of Practice issued by the Higher Education Funding Council for England. Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at

www.frc.org.uk/apb/scope/private.cfm.

In addition, we also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2012 and of the Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: "Accounting for Further and Higher Education Institutions";
- income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the College have been applied only for the purposes for which they were received; and
- income has been applied in accordance with the College's statutes and where appropriate with the applicable Financial Memorandum with the Higher Education Funding Council for England.

BDO LLP
Statutory Auditor
Gatwick
United Kingdom

Date: 26 November 2012

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income and Expenditure Account

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
Income			
Funding body grants	2	38,637	41,130
Tuition fees and education contracts	3	53,740	47,266
Research grants and contracts	4	14,451	15,246
Other income	5	26,826	27,000
Endowment and investment income	6	3,105	1,562
Total Income	7	136,759	132,204
Expenditure			
Staff costs	8	73,346	71,532
Other operating expenses	9	42,826	40,275
Depreciation	13	10,819	11,540
Interest and other finance costs	10	2,182	2,221
Total expenditure	11	129,173	125,568
Surplus on continuing operations after depreciation of tangible fixed assets at valuation before taxation	24	7,586	6,636
Taxation	12	(3)	(3)
Surplus on continuing operations after depreciation of assets at valuation and taxation		7,583	6,633
Transfer out of accumulated reserves of Royal Holloway Students' Union		–	(860)
Surplus on continuing operations after depreciation of assets at valuation and deemed disposal of Royal Holloway Students' Union	30	7,583	5,773
Transfer to accumulated income within endowment funds	19	30	(97)
Surplus for the year retained within general reserves	21	7,613	5,676

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

Consolidated Statement of Historical Cost Surpluses and Deficits

For the Year Ended 31 July 2012

		2011/12	2010/11
		£000	£000
Surplus on operations before taxation		7,586	6,636
Taxation	12	(3)	(3)
Surplus on operations after taxation		7,583	6,633
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	20	319	319
Historical cost surplus for the period after taxation		7,902	6,952

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and deemed disposal of Royal Holloway Students' Union		7,583	5,773
(Impairment)/appreciation of endowment asset investments	19	(90)	3,613
Appreciation of endowment asset investments – The Picture Collection	19	-	1,945
New endowments	19	169	77
Capital withdrawn	19	-	(10)
Management fees - current year	19	(126)	-
Management fees - correction of previous fund allocation	19	(1,013)	-
Total recognised gains in the year		6,523	11,398
Reconciliation to the Movement of Reserves and Endowments			
Opening reserves and endowments		154,180	142,782
Total recognised gains for the year		6,523	11,398
Closing reserves and endowments		160,703	154,180

Consolidated and College Balance Sheets

At 31 July 2012

	Note	Consolidated		College	
		2012	2011	2012	2011
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	13	138,060	140,973	138,060	140,973
Endowment Assets	14	69,745	70,835	69,745	70,835
Current Assets					
Stocks and stores		250	281	250	281
Debtors:					
- due within one year	15	7,109	8,773	7,193	8,902
Investments	23	14,000	21,000	14,000	21,000
Cash at bank and in hand	27	45,178	28,773	45,017	28,553
		66,537	58,827	66,460	58,736
Creditors: Amounts Falling Due Within One Year	16	(33,511)	(31,305)	(33,494)	(31,263)
Net Current Assets		33,026	27,522	32,966	27,473
Total Assets less Current Liabilities		240,831	239,330	240,771	239,281
Creditors: Amounts Falling after more than One Year	17	(53,914)	(56,659)	(53,914)	(56,659)
Net Assets		186,917	182,671	186,857	182,622

Consolidated and College Balance Sheets

(continued)

	Note	Consolidated		College	
		2012	2011	2012	2011
		£000	£000	£000	£000
Deferred Capital Grants	18	26,214	28,491	26,214	28,491
Endowments					
Permanent	19	69,526	70,719	69,526	70,719
Expendable	19	219	116	219	116
		69,745	70,835	69,745	70,835
Reserves					
Revaluation reserve	20	25,251	25,570	25,251	25,570
General reserve	21	65,707	57,775	65,647	57,726
		90,958	83,345	90,898	83,296
Total		186,917	182,671	186,857	182,622

The financial statements on pages 16 to 40 were approved by Council on 23 November 2012 and signed by:

Mr Stephen Cox
Chairman of Council

Professor P Layzell
Principal

Consolidated Cash Flow Statement

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
Cash Flow from Continuing Operating Activities	24	17,194	10,607
Returns on investments and servicing of finance	25	(90)	(659)
Taxation	12	(3)	(3)
Capital expenditure and financial investment	26	(6,189)	(8,518)
Cash inflow before financing and management of liquid resources		10,912	1,427
Financing:			
Capital repayments	27	(2,735)	(2,010)
Bank loan drawn down in year	27	272	-
Management of liquid resources:			
Movement on placing of investment deposits	27	7,000	13,500
Increase in cash in the period	27	15,449	12,917
Reconciliation of Net Cash Flow to Movement in Net Debt			
Increase in cash in the period		15,449	12,917
Cash outflow from movement in debt financing		2,463	2,010
Cash inflow from management of liquid resources		(7,000)	(13,500)
Decrease in net debt in period	27	10,912	1,427
Net debt at 1 August 2011	27	(4,801)	(6,228)
Net debt at 31 July 2012	27	6,111	(4,801)

Notes to the Financial Statements

1 STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1 Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and land and buildings, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions July 2007 (SORP) and applicable United Kingdom accounting standards.

2 Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the College, its subsidiary undertaking Royal Holloway Enterprise Ltd for the financial year to 31 July 2012. The financial statements of the Royal Holloway Students' Union were consolidated for the period to 13 April 2011 when a deemed disposal occurred.

3 Recognition of Income

Income from specific donations, research grants, contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs.

All income from short-term deposits of unrestricted funds, the Founder's Endowment Fund and other endowment asset investments is credited to the income and expenditure account on a receivable basis.

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

General donations are credited to the income and expenditure account on a receivable basis and are held in a designated income and expenditure account reserve until they are spent.

4 Pension Schemes

The two principal pension schemes for the College's staff are the Universities' Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London Scheme (SAUL). USS and SAUL are multi-employer schemes for which there is an inability to separately identify the College's share of the underlying assets and liabilities. Therefore, as required by FRS 17 'Retirement Benefits', the employer contributions are charged directly to the Statement of Financial Activities as if the schemes were defined contribution schemes.

5 Foreign Currencies

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

6 Land and Buildings

Land and Buildings were revalued on 31 July 1995 and are stated at valuation in the accounts, except for work in progress and buildings completed after that date which are stated at cost. The basis of valuation is open market value for the existing use and the valuation, on 31 July 1995, was carried out by Hillier Parker, Chartered Surveyors. The College has adopted the provisions of FRS15 not to update the valuation of land and buildings carried forward at the date of implementation of FRS15.

With the exception of land at Huntersdale which is held on a lease which expires in 2041, land is held freehold and is not depreciated as it is considered to have an indefinite useful life.

Buildings are depreciated over their expected useful lives and leasehold land over the life of the lease, usually fifty years.

For student residences where a cyclical refurbishment programme is in place, the original costs of the components are depreciated over their useful lives of five to twelve years, as appropriate, and the refurbishment spend is capitalised and depreciated in the same way. Services are depreciated over twenty years and temporary buildings or minor works over ten years.

Works on the estate costing £10,000 or more are capitalised if the work creates or enhances an existing asset, or improves or substantially overhauls an asset in accordance with FRS15. The costs are depreciated over the appropriate period as described elsewhere within the Accounting Policies except those relating to painting and roof replacement which are depreciated over five and twenty five years respectively.

Interest costs incurred during the construction period of new buildings are included in the capitalised cost of the asset to which they relate.

Specific grants received for the acquisition of buildings are treated as deferred capital grants and released to income over the expected useful lives of the buildings.

Notes to the Financial Statements

(continued)

7 Depreciation of Equipment, Furniture and Fittings

Equipment, including microcomputers and software, costing less than £10,000 per separable item or group of related items is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over its expected useful life of five years.

Furniture and fittings are written off in the year of acquisition, except the costs of furniture and fittings for a new building or major refurbishment which are capitalised and depreciated over the expected lifetime of the asset, usually ten years.

Where equipment or furniture and fittings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grant is treated as a deferred capital grant and is released to income over the expected useful life of the asset (this is the period of the grant for specific research projects).

8 Interest Cap and Interest Rate Swaps

The prepayment for an interest rate cap is amortised evenly over the period of the cap. The College, in the course of its business, enters into interest rate swap contracts to reduce its exposure to fluctuations in interest rates on borrowings. The amounts receivable and payable on these swaps are included in the income and expenditure account so as to match the interest payable on the borrowing.

9 Picture Collection

The College houses a collection of paintings gifted by Thomas Holloway, the founder of Royal Holloway College.

The pictures are included in the balance sheet with the other endowment assets. A full valuation was carried out by a professional valuer in 2011. A professional valuation will continue to be carried out at least once every five years in accordance with FRS15, with an update in year three, also performed by a qualified valuer. The valuation is assessed on the basis of high auction value.

Three pictures from the collection were sold between 1993 and 1995, and the proceeds used to create the Founder's Endowment Fund under a scheme approved by the Charity Commission. The endowment fund, which is held in a separate trust, is included within 'Permanent Endowments' in the balance sheet. The use of these assets other than as provided in the scheme is subject to the prior approval of the Charity Commission.

Income from the Fund is credited to the Income and Expenditure Account on a receivable basis. Income is applied in accordance with the purposes of the Scheme; any unapplied income is disclosed as a restricted reserve.

10 Investments

Endowment asset investments are included in the balance sheet at market value. Cash balances on deposit, which cannot be withdrawn without notice, are shown as current asset investments, if the maturity date is within one year, and as fixed asset investments for maturity dates greater than one year.

11 Stocks

Stocks are stores of catering supplies, bar supplies and other items held by Residence and Catering Services, stores and oil held by the Estate's department and central stores of stationery and computer supplies. They are valued at the lower of cost and net realisable value.

12 Taxation Status

Royal Holloway is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 467 of the Corporation Tax Act 2010. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by parts two and three of part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable 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.

Royal Holloway Enterprise Limited gift aids the majority of its profits to the College, and any profits that are retained are subject to UK Corporation Tax which is provided at the amount expected to be paid using the tax rates and laws that have been enacted at the balance sheet date.

Notes to the Financial Statements

(continued)

	2011/12	2010/11
	£000	£000
2 FUNDING BODY GRANTS		
Recurrent grant		
Teaching	20,540	21,196
Research	13,510	13,569
	34,050	34,765
Specific grants	953	2,537
Deferred capital grants released in year:		
Buildings (note 18)	2,257	2,384
Equipment (note 18)	1,377	1,444
	38,637	41,130
Royal Holloway is funded by the Higher Education Funding Council for England.		
3 TUITION FEES AND EDUCATION CONTRACTS		
Full-time students charged home and EU fees	24,536	22,487
Full-time students charged overseas fees	25,069	19,971
Part-time students	1,006	957
Research training support grants	228	508
Short course and other fees	2,901	3,343
	53,740	47,266
4 RESEARCH GRANTS AND CONTRACTS		
Research Council grants	8,255	8,887
Other grants and contracts	6,196	6,359
	14,451	15,246
The income includes deferred capital grants released of £199k (note 18) (2010/11 £231k)		
5 OTHER INCOME		
Residences, catering and conferences	22,120	21,760
Other services rendered	809	1,021
Released from deferred capital grants (note 18)	74	77
Other income	3,823	4,142
	26,826	27,000

Notes to the Financial Statements

(continued)

	2011/12	2010/11
	£000	£000
6	ENDOWMENT AND INVESTMENT INCOME	
Income from permanent endowment asset investments	1,439	959
Income from expendable endowment asset investments	3	12
Total income from endowments (note 19)	1,442	971
Management fees - correction of previous fund allocation	1,013	-
	2,455	971
Other interest receivable (note 25)	650	591
	3,105	1,562
7	ANALYSIS OF INCOME BY ACTIVITY	
Academic and general income	114,639	109,955
Residences, catering and conferences (excluding Students' Union)	22,120	21,055
Students' Union to 13 April 2011	-	1,194
	136,759	132,204

Notes to the Financial Statements

(continued)

	2011/12	2010/11
	£000	£000
8 STAFF COSTS		
Staff costs		
Wages and salaries	57,041	55,893
Social security costs	4,902	4,749
Other pension costs (note 28)	11,403	10,890
	73,346	71,532
Emoluments of the Principal from 16 August 2010		
Including benefits in kind		
Remuneration	230	221
College pension contributions	27	51
Total emoluments	257	272
Emoluments of the Acting Principal to 16 August 2010		
Including benefits in kind		
Remuneration		8
College pension contributions		2
Total emoluments		10
	No.	No.
Remuneration of other Higher Paid Staff, excluding employer's pension contributions:		
£100,000 - £109,999	5	5
£110,000 - £119,999	2	2
£120,000 - £129,999	3	3
£130,000 - £139,999	1	1
£220,000 - £229,999	-	1
Employees are able to opt for a reduced contractual salary, with the College then making the pension contribution, formerly paid by the employee, as additional employer's contributions. The disclosures in this note reflect the reduced contractual salary and increased employer contribution of £3,365k (2010/11 £2,988k) in total, as applicable.		
	No.	No.
Average staff numbers by major category		
Academic, research and other related grades	629	632
Technical	61	61
Administrative and other	492	488
Manual and ancillary	112	116
College	1,294	1,297
Students' Union to 13 April 2011	-	15
	1,294	1,312

The analysis of staff numbers is in full time equivalents, and is analysed by reference to pay groups. Casual and visiting teaching staff are excluded.

Compensation Payments for loss of office

Staff Costs include staff restructuring costs based upon an early retirement and severance pay scheme totalled £882k (2010/11 £261k). The cost is financed from general College resources. Payments made within the scheme are defined as compensation payments for loss of office.

Notes to the Financial Statements

(continued)

	2011/12	2010/11
	£000	£000
9 OTHER OPERATING EXPENSES		
Staff related expenditure	5,295	5,126
Teaching and research consumables and related costs	2,767	3,240
Books, periodicals and other library costs	1,832	1,670
Student maintenance, awards and facilities	9,733	9,260
Computer operating	1,423	1,515
General educational	1,625	1,445
Administrative	4,692	5,352
Federal costs	767	795
Heat, light, power and water	2,687	2,192
Other premises related costs	5,656	3,848
Non-capitalised equipment	2,124	1,141
Auditors' remuneration - audit fees	54	57
Auditors' remuneration in respect of other services	3	6
Residence and catering direct costs of sale and related costs	2,563	2,663
Other expenses	1,605	1,965
Total other operating expenses before taxation	42,826	40,275

Payments to Trustees

Council members (the trustees) received no payment for acting as trustees in 2011/12 and no such payment was made in prior years. In 2011/12 expenses of £4k (2010/11 £4k) were paid to 8 (2010/11 7) non-staff trustees for travel, subsistence and business entertaining.

10 INTEREST AND OTHER FINANCE COSTS

Loans wholly repayable within five years	23	–
Loans not wholly repayable within five years	2,159	2,221
	2,182	2,221

Interest payable includes £1,571k paid on interest rate swaps (2010/11 £1,653k).

Notes to the Financial Statements

(continued)

11 ANALYSIS OF 2011/12 EXPENDITURE BY ACTIVITY

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	2011/12 Total	2010/11 Total
	£000	£000	£000	£000	£000	£000
Academic departments	42,512	1,045	4,986	-	48,543	48,041
Academic services	4,079	575	4,468	-	9,122	9,020
Research grants and contracts	5,548	198	5,392	-	11,138	11,500
Other contracts	200	-	379	-	579	800
Residences, catering and conferences	5,490	3,383	8,066	2,040	18,979	17,921
Premises (see footnote)	2,240	5,606	6,463	142	14,451	13,241
Administration	9,124	3	3,859	-	12,986	12,422
Students' Union to 13 April 2011	-	-	-	-	-	1,686
Other expenses	3,271	9	9,213	-	12,493	10,676
Staff restructuring	882	-	-	-	882	261
Expenditure	<u>73,346</u>	<u>10,819</u>	<u>42,826</u>	<u>2,182</u>	<u>129,173</u>	<u>125,568</u>

Premises costs exclude costs relating to residences and catering which are included in that section.

Expenditure for the Students' Union in the year 2010/11 includes £442k of grant from the College in the period to 13 April 2011.

12 TAXATION

UK Corporation Tax

3

3

Royal Holloway Enterprise Ltd gift aids taxable profits to the College. The tax charge is a provision for Corporation Tax on the retained taxable profits of the subsidiary.

As explained in the accounting policies, the College is potentially exempt from taxation because of its charitable status and no taxation on income or capital gains is payable for 2011/12 or 2010/11.

Notes to the Financial Statements

(continued)

13 TANGIBLE ASSETS

Consolidated and College

	Land and Buildings		Furniture and		Total
	Freehold	Short Lease	Fittings	Equipment	
	£000	£000	£000	£000	
At 1 August 2011					
Valuation	60,170	1,800	795	-	62,765
Cost	116,112	2,927	14,911	23,749	157,699
	<u>176,282</u>	<u>4,727</u>	<u>15,706</u>	<u>23,749</u>	<u>220,464</u>
Additions at cost	5,625	-	933	1,348	7,906
Disposals	-	-	-	(54)	(54)
At 31 July 2012					
Valuation	60,170	1,800	795	-	62,765
Cost	121,737	2,927	15,844	25,043	165,551
	<u>181,907</u>	<u>4,727</u>	<u>16,639</u>	<u>25,043</u>	<u>228,316</u>
Depreciation					
At 1 August 2011	52,003	1,223	8,030	18,235	79,491
Charge for year (see note below)	6,875	257	1,368	2,319	10,819
Eliminated on disposals	-	-	-	(54)	(54)
At 31 July 2012	<u>58,878</u>	<u>1,480</u>	<u>9,398</u>	<u>20,500</u>	<u>90,256</u>
Net Book Value					
At 31 July 2012	<u>123,029</u>	<u>3,247</u>	<u>7,241</u>	<u>4,543</u>	<u>138,060</u>
At 1 August 2011	<u>124,279</u>	<u>3,504</u>	<u>7,676</u>	<u>5,514</u>	<u>140,973</u>
Historical Net Book Value					
At 31 July 2012	<u>98,836</u>	<u>2,189</u>	<u>9,241</u>	<u>4,543</u>	<u>114,809</u>
At 1 August 2011	<u>99,803</u>	<u>2,410</u>	<u>7,676</u>	<u>5,514</u>	<u>115,403</u>
The depreciation charge has been funded by:					
Deferred capital grants released (note 18)					3,907
Revaluation reserve released (note 20)					319
General income					6,593
					<u>10,819</u>

At 31 July 2012 freehold land and buildings at cost included £2,124k (2011 £2,879k) in respect of assets in the course of construction, primarily the Sutherland House Theatre and refurbishment of Founder's bedrooms.

At 31 July 2012 freehold land and buildings at cost included £1,320k of capitalised finance costs (2011 £1,320k).

Heritage Assets

The College does not have any material heritage assets to disclose as tangible assets.

The College's Picture Collection which is displayed in the Picture Gallery contributes to the appeal of the venue for functions and tours. The Collection was left to the College by its Founder, Thomas Holloway, and is disclosed as an endowment asset (note 14).

Notes to the Financial Statements

(continued)

14 ENDOWMENT ASSETS

	Consolidated and College	
	2012	2011
	£000	£000
Balance at 1 August 2011	70,835	65,113
Additions and income	6,109	28,304
Disposals and expenditure	(7,109)	(28,140)
(Impairment)/appreciation of investments (note 19)	(90)	3,613
Gain on revaluation of Picture Collection (see note below and note 19)	-	1,945
Balance at 31 July 2012	69,745	70,835
Represented by:		
Fixed interest at valuation	12,416	12,487
Equities at valuation	24,463	24,526
Fixed interest and equities	36,879	37,013
Cash and Bank balances	3,611	4,567
Total Investments (note 19)	40,490	41,580
Picture Collection (see note below and note 19)	29,255	29,255
Balance at 31 July 2012	69,745	70,835
Fixed interest and equities at cost	34,836	34,930

A revaluation of the Picture Gallery Collection was provided on a high auction basis (excluding costs) by Christie's in July 2011.

15 DEBTORS

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	1,679	2,016	1,636	1,962
Amounts owed by subsidiary undertaking	-	2	127	188
Other debtors- interest cap	111	158	111	158
Prepayments and accrued income	5,319	6,594	5,319	6,594
VAT	-	3	-	-
	7,109	8,773	7,193	8,902

Notes to the Financial Statements

(continued)

16 CREDITORS: Amounts Falling Due Within One Year

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Secured and unsecured loans	3,404	3,162	3,404	3,162
Payments received on account	3,710	3,391	3,710	3,389
Other creditors	8,972	7,779	8,972	7,765
Social security, other taxation and pension contributions payable	2,972	2,666	2,969	2,663
Accruals	1,412	1,962	1,398	1,939
Deferred income	13,041	12,345	13,041	12,345
	33,511	31,305	33,494	31,263

Unsecured loans include interest-free repayable grants totalling £427k from the Higher Education Council for England repayable within one year (2011 £1,117k)

17 CREDITORS: Amounts Falling Due After More than One Year

Unsecured loans repayable after one year and within five years	6,242	5,832	6,242	5,832
Unsecured loans repayable after five years	24,088	25,377	24,088	25,377
Secured loans repayable after one year and within five years	7,697	7,537	7,697	7,537
Secured loans repayable after five years	15,247	17,233	15,247	17,233
	53,274	55,979	53,274	55,979
Deferred income	640	680	640	680
	53,914	56,659	53,914	56,659

Secured loans are secured by a first charge upon Highfield, Kingswood, Runnymede and Wedderburn and Gowar student residences.

Secured and unsecured loans over one year are repayable as follows:

After one year and within two years	3,423	2,977	3,423	2,977
After two years and within five years	10,516	10,392	10,516	10,392
After five years and within ten years	15,029	15,732	15,029	15,732
After ten years	24,306	26,878	24,306	26,878
	53,274	55,979	53,274	55,979

Notes to the Financial Statements

(continued)

17 CREDITORS: Amounts Falling Due After More than One Year (continued)

At the balance sheet date the College had committed to loan facilities totaling £56,720k of which £56,678k had been drawn down. The College had interest rate swaps and an interest rate cap to reduce its variable interest rate exposure on these loans to the following extent:

Terms:	Amount	Rate	Expiry
	£000	%	
Effective at the balance sheet date:			
Swaps:	10,000	5.49	3 December 2012
	5,000	4.48	1 September 2026 (option for bank to terminate in 2016)
	5,000	4.815	1 September 2017
	5,000	4.8175	1 September 2019
	5,000	4.65	1 September 2022
	5,000	4.55	1 September 2027
	5,000	4.88	1 September 2029
Cap:	10,000	6.00	1 December 2014
	<u>50,000</u>		
Effective after the balance sheet date:			
Swaps:	10,000	4.82	1 December 2024 (effective 3 December 2012)

18 DEFERRED CAPITAL GRANTS

	Consolidated and College		Total
	Funding Council	Other Grants and Benefactions	
	£000	£000	£000
At 1 August 2011			
Buildings	23,160	871	24,031
Equipment	4,416	44	4,460
Total	<u>27,576</u>	<u>915</u>	<u>28,491</u>
Grants receivable			
Buildings	1,318	-	1,318
Equipment	35	277	312
Total	<u>1,353</u>	<u>277</u>	<u>1,630</u>
Release to income and expenditure for year			
Buildings (notes 2 and 5)	(2,257)	(56)	(2,313)
Equipment (notes 2, 4 and 5)	(1,377)	(217)	(1,594)
Total	<u>(3,634)</u>	<u>(273)</u>	<u>(3,907)</u>
At 31 July 2012			
Buildings	22,221	815	23,036
Equipment	3,074	104	3,178
Total	<u>25,295</u>	<u>919</u>	<u>26,214</u>

The release of Other Grants and Benefactions for the year was £199k to Research Grants and Contracts (note 4) and £74k to Other Income (note 5).

Notes to the Financial Statements

(continued)

19 ENDOWMENTS

	Consolidated and College				2012	2011
	Unrestricted Permanent	Restricted Permanent	Total Permanent	Restricted Expendable	Total	Total
	£000	£000	£000	£000	£000	£000
At 1 August 2011						
Capital	2,416	66,917	69,333	104	69,437	63,812
Accumulated income	6	1,380	1,386	12	1,398	1,301
	<u>2,422</u>	<u>68,297</u>	<u>70,719</u>	<u>116</u>	70,835	65,113
Restatement of capital at 1 August 2011	6	320	326	-	326	-
Restatement of accumulated income at 1 August 2011	(6)	(320)	(326)	-	(326)	-
New endowments	-	69	69	100	169	77
Capital withdrawn	-	-	-	-	-	(10)
Income for year (note 6)	68	1,371	1,439	3	1,442	971
Expenditure for year	(68)	(1,400)	(1,468)	(4)	(1,472)	(874)
	<u>-</u>	<u>(29)</u>	<u>(29)</u>	<u>(1)</u>	(30)	97
Appreciation/(impairment) of investments (note 14)	34	(128)	(94)	4	(90)	3,613
Appreciation of Picture Collection (note 14)	-	-	-	-	-	1,945
Management fees - current year	-	(126)	(126)	-	(126)	-
Management fees - correction of previous fund allocation	(2)	(1,011)	(1,013)	-	(1,013)	-
At 31 July 2012	<u>2,454</u>	<u>67,072</u>	<u>69,526</u>	<u>219</u>	69,745	70,835
Represented by:						
Capital	2,454	66,041	68,495	207	68,702	69,437
Accumulated income	-	1,031	1,031	12	1,043	1,398
	<u>2,454</u>	<u>67,072</u>	<u>69,526</u>	<u>219</u>	69,745	70,835
Hilda Martindale Educational Trust	-	889	889	-	889	860
Other scholarship, prize and fellowship funds	-	5,774	5,774	219	5,993	5,765
Founder's Endowment Fund	-	31,154	31,154	-	31,154	32,533
Other funds	2,454	-	2,454	-	2,454	2,422
Total endowment asset investments (note 14)	<u>2,454</u>	<u>37,817</u>	<u>40,271</u>	<u>219</u>	40,490	41,580
Founder's Picture Collection (note 14)	-	29,255	29,255	-	29,255	29,255
	<u>2,454</u>	<u>67,072</u>	<u>69,526</u>	<u>219</u>	69,745	70,835

The income of £1,442k received in respect of restricted endowments was credited in full to the income and expenditure account; £1,472k was spent in the year (2010/11 £874k) and the excess expenditure of £30k (2010/11 unspent income £97k) was transferred from the funds.

Notes to the Financial Statements

(continued)

19 ENDOWMENTS (continued)

Founders Endowment Fund

In May 1992 the Charity Commissioners authorised the sale of certain pictures, the proceeds of which were to be administered and managed as a separate charity as the Founder's Endowment Fund (FEF). The income of the Fund is applied by College in the following order of priority:

a – maintenance, security and upkeep of the pictures and picture gallery of the College

b – in the maintenance and improvement of the original buildings and grounds of the College

c – in any other way which will further the general charitable purposes of the College for which provision is not made out of government funds or by other usual university funding sources.

	£000
Balance brought forward	32,533
Income	1,124
Expenditure	(1,124)
Appreciation of investments	(243)
Management fees - current year	(125)
Management fees - correction previous fund allocation	(1,011)
Balance carried forward	<u>31,154</u>

20 REVALUATION RESERVE

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Revaluations				
At 1 August and 31 July	34,198	34,198	34,198	34,198
Contributions to depreciation				
At 1 August	8,628	8,309	8,628	8,309
Released in year (note 13a and 21)	319	319	319	319
Net revaluation amount				
At 1 August and 31 July	25,251	25,570	25,251	25,570

21 MOVEMENT ON GENERAL RESERVES

Income and Expenditure Account Reserve

At 1 August	57,775	51,780	57,726	50,833
Surplus for the year transferred to general reserves	7,613	5,676	7,602	6,574
Transfer from revaluation reserve (note 20)	319	319	319	319
Balance at 31 July	65,707	57,775	65,647	57,726

Notes to the Financial Statements

(continued)

22 CAPITAL COMMITMENTS

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Commitments contracted at 31 July	3,100	2,165	3,100	2,165
Authorised but not contracted at 31 July	576	2	576	2
	3,676	2,167	3,676	2,167

The amounts contracted include £1,316k for the Sutherland House Theatre 'and £1,278k for the refurbishment of Founder's bedrooms and kitchen.

23 INVESTMENTS

(i) Fixed Asset Investments

Name	Country of Incorporation	Principal Activity	% of shares held by	
			College	Group
Subsidiary Undertakings				
Royal Holloway Enterprise Ltd	Great Britain	Consultancy	100	100
Associates and Joint ventures				
Reelives Limited (see below)	Great Britain	Internet	40	40
Holloway Immunology Limited	Great Britain	Immunology	51	51

Reelives Limited is a spin-out and Royal Holloway's shareholding will be diluted if it receives investor funding. In the year to 31 July 2012 income was £1k.

Holloway Immunology Limited was incorporated on 22 March 2012 and is a spin-out company.

There was no income in the period to 31 July 2012.

The cost and net book value of Fixed Asset Investments are less than £1k.

(ii) Current Asset Investments

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Cash deposits maturing within one year (note 27)	14,000	21,000	14,000	21,000

Notes to the Financial Statements

(continued)

24 RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CONSOLIDATED CASH INFLOW FROM OPERATING ACTIVITIES

	2011/12	2010/11
	£000	£000
Surplus before tax on continuing activities	7,586	6,636
Depreciation (note 13)	10,819	11,540
Deferred capital grants released to income (note 18)	(3,907)	(4,136)
Loss on disposal of fixed assets (note 13)	-	531
Endowment and Investment income (note 6)	(3,105)	(1,562)
Interest payable (note 10)	2,182	2,221
Decrease in stocks	31	31
Decrease/(increase) in debtors	1,664	(1,906)
Increase/(decrease) in creditors (excluding loans)	1,924	(1,888)
Elimination of general reserves on deemed disposal (note 30)	-	(860)
	17,194	10,607

25 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

Income from endowments (note 19)	1,442	971
Other interest received (note 6)	650	591
Interest paid (note 10)	(2,182)	(2,221)
	(90)	(659)

No interest paid has been capitalised in the year (20010/11 nil).

26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

Payments to acquire tangible assets (note 13)	(7,906)	(10,172)
Payments to acquire endowment asset investments:		
- Additions and income (note 14)	(6,109)	(28,304)
- Cash outflow (note 14)	(956)	(1,864)
Total payments to acquire fixed and endowment asset investments	(14,971)	(40,340)
Receipts from sales of endowment asset investments (note 14)	7,109	28,140
Deferred capital grants received (note 18)	1,630	3,615
Endowments received (note 19)	169	77
Capital withdrawn (note 19)	-	(10)
Management fees current year (note 19)	(126)	-
	(6,189)	(8,518)

Notes to the Financial Statements

(continued)

27 ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2011	Cash Flows	Other non cash changes	At 31 July 2012
	£000	£000	£000	£000
Endowment assets (note 14)	4,567	(956)	-	3,611
Cash at bank and in hand	28,773	16,405	-	45,178
	<u>33,340</u>	<u>15,449</u>	<u>-</u>	<u>48,789</u>
Debt due within one year (note 16)	(3,162)	2,735	(2,977)	(3,404)
Debt due after one year (note 17)	(55,979)	(272)	2,977	(53,274)
	<u>(59,141)</u>	<u>2,463</u>	<u>-</u>	<u>(56,678)</u>
Current asset investments (note 23)	21,000	(7,000)	-	14,000
	<u>(4,801)</u>	<u>10,912</u>	<u>-</u>	<u>6,111</u>

Balances at the bank, not relating to endowment assets, are held on a set-off arrangement against loans advanced by the College's bankers so that nominal loan interest is charged if these are matched by a current account balance. Balances in excess of this set-off are placed on deposit overnight or for longer periods to earn interest.

Current asset investments are interest-earning short-term cash deposits maturing with one year.

Notes to the Financial Statements

(continued)

28 PENSION SCHEMES

The total pension cost for Royal Holloway and its subsidiary was:

	2011/12	2010/11
	£000	£000
Contributions to USS	9,972	9,357
Contributions to SAUL	1,395	1,487
Other pension contributions and costs	36	46
Total Pension Cost (note 8)	11,403	10,890

The College participates in the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL), and has adopted FRS17 for accounting for pension costs. USS provides benefits based on final pensionable salary for academic and related employees of UK universities and some other employees. SAUL provides similar benefits principally for other staff of the University of London.

The College offers a pension salary sacrifice arrangement. Employees are able to opt for a reduced contractual salary, with the College then making the pension contribution, otherwise payable by the employee, as additional employer's contributions. The amount relating to salary sacrifice in 2011/12 was £3,365k (2010/11 £2,988k).

The schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. Because of the mutual nature of the scheme, the schemes' assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and 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 schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The schemes are valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution being determined by the trustee on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme.

USS

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Notes to the Financial Statements

(continued)

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% 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 as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% 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, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants

Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age

The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement

Flexible retirement options were introduced.

Member contributions increased

Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost sharing

If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap

For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

Notes to the Financial Statements

(continued)

USS is a “last man standing” scheme so that in the event of the 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.

At 31 March 2012, USS had over 145,000 active members and the College had 931 active members participating in the scheme.

The total USS pension cost for the College was £9,972k (2010/11 £9,357k). The contribution rate payable by the College was 16% of pensionable salaries.

SAUL

The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings.

The main assumptions used to assess the technical provisions were:

Discount rate	
pre -retirement	6.80% pa
post-retirement	6.80% pa
General Salary Increases	3.75% pa until 31 March 2014,
(an additional allowance is made for promotional Salary Increases)	4.50% pa thereafter
Retail Prices Index inflation (“RPI”)	3.50% pa
Consumer Price Index Inflation (“CPI”)	2.80% pa
Pension Increases in payment (excess over GMP)	2.80% p.a.
Mortality – base table	SAPS Normal (year of birth) tables with an age rating of + 0.5 years for males and – 0.4 years for females
Mortality – future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% p.a.

The actuarial valuation applies to the scheme as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of the scheme’s assets was £1,506 million representing 95% of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee’s long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13% of Salaries and 6% of Salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

A comparison of SAUL’s assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in deficit at the last formal valuation date (31 March 2011). As part of this valuation, the Trustee and Employer have agreed that no additional contributions will be required to eliminate the current shortfall.

The more material changes (the introduction of a Career Revalued Earnings, or ‘CARE’ benefit structure) to SAUL’s benefit structure will apply from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members are replaced by new members joining the CARE structure. This will allow an increasing proportion of the expected asset return to be used to eliminate the funding shortfall. Based on conditions as at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021, which is 10 years from the valuation date.

Notes to the Financial Statements

(continued)

29 ACCESS FUNDS

	Consolidated and College	
	2011/12	2010/11
	£000	£000
Balance unspent at 1 August 2011	22	23
Funding Council grants	103	97
Interest earned	-	-
	125	120
Disbursed to students	(107)	(98)
	18	22
Balance unspent at 31 July 2012		

Access Funds are available solely for students, Royal Holloway acts only as the paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

30 DEEMED DISPOSAL OF ROYAL HOLLOWAY STUDENTS' UNION AND RELATED PARTY TRANSACTIONS

The College consolidated the results of Royal Holloway Students' Union up to 13 April 2011. The Royal Holloway Students' Union adopted a new Constitution with an independent trustee board, and a new Memorandum of Understanding and Operating Agreements with the College were adopted. As a result of these changes the College considered that it was no longer able to demonstrate dominant influence over the Royal Holloway Students' Union and a deemed disposal therefore occurred on 13 April 2011.

The consolidated results of the Royal Holloway Students' Union in the year to 31 July 2011 were:

	£000
Income	1,194
Expenditure	(1,244)
Deficit for the Period	(50)

Royal Holloway paid grants of £658k (£221k in the period from 13 April 2011 to 31 July 2011) to Royal Holloway Students' Union.

