RCA
ANNUAL ACCOUNTS
2010/11

DIEU ET MON DROIT

Royal College of Art

Postgraduate Art and Design

Royal College of Art

Financial Statements
For the Year Ended 31 July 2011

Rector's Introduction

The College's financial performance improved during 2010/11 and a surplus of £1.4m was recorded on the income and expenditure account during the year. This was an improvement on the result for 2009/10.The surplus was achieved despite a reduction of £1m in the amount of HEFCE grants received. In 2010/11 HEFCE grants represented less than 50 per cent of the College's total income – the first time that they have fallen below this level since the College came under the auspices of HEFCE in 1992. The reduction in HEFCE income was more than made up through increases in revenue from fees and other sources. Fee income rose by 25 per cent and income from the College's non-teaching activities rose by 15 per cent. Costs remained well controlled – staff costs fell slightly and non-staff costs rose by a modest 3.5 per cent – below the rate of inflation. The College remains financially stable in the face of the major changes to the funding of higher education currently being made by the UK Government, and I am confident that our business model will remain sustainable in the future.

Further reductions in HEFCE grants are expected over the next few years. The College is committed to the preservation of the quality of our student experience and will endeavor to absorb these reductions through increased fee income and an expansion in student numbers. Demand for places remains high – 3,000 applications for some 520 places in 2011 – allowing some confidence that the College's financial sustainability will withstand the higher fees that will result from the reductions in Government funding. With the Battersea campus expansion – the Dyson Building is nearing completion and will open in 2012 – the College will be able to accommodate additional students without making major reductions in space or facilities available.

We thank alumna Lady Hamlyn and the trustees of the Helen Hamlyn Foundation for their remarkable and ongoing support of the Helen Hamlyn Centre for Design. We thank the former Provost, Sir Terence Conran, and The Conran Foundation for supporting Show RCA 2011; this was the Foundation's sixth consecutive year of support, for which we are most grateful. Our new Provost, Sir James Dyson, and the James Dyson Foundation generously pledged to support the vital work of patent protection with student projects entering the Innovation-RCA incubator for a three-year period, commencing 2010/11. Thanks are also due to the Sir Po-Shing and Lady Helen Woo for their generous gift toward Phase 3 of the Battersea campus project, in recognition of which the building will be named the Sir Po-Shing and Lady Woo Department of Applied Art. We also note with gratitude the five-year commitment of The Rumi Foundation to support the College's Innovation Night and Stewarts Law's three-year sponsorship of RCA Secret 2010–12. We are grateful to The Julian Trevelyan Foundation for their continued support of ReachOutRCA, the College's outreach programme, and to the Burberry Foundation for their two-year commitment to support Show RCA's outreach programme in 2011 and 2012.

During the year the College completed its new Estates Masterplan, which maps out an accommodation strategy up to the early 2020s. The Masterplan calls for significant investment in the estate to improve the quality of our existing buildings at Kensington and to create additional purpose-built space at Battersea. This will not only lead to a major improvement in the College's facilities but also create additional space that will allow student numbers to rise in accordance with the Strategic Plan, which was approved last year.

I am very grateful to those who have been responsible for the College's financial well-being during the year. In particular I would like to thank Treasurer Eric Hagman, Audit Committee Chairman Caragh Merrick, and Finance & Estates Director Nick Cattermole. I commend the accounts to the Court.

Paul Thompson.

Dr Paul Thompson

Treasurer's Report for the Year Ended 31 July 2011

The College is an exempt charity which operates under the terms of a Royal Charter. The current Charter was granted in 1967, although the College was originally founded in 1837 — at that time it was known as the Government School of Design. The College has governance arrangements that are similar to those of pre-1992 English universities. It is funded by the Higher Education Funding Council for England (HEFCE), which also acts as the College's regulator under the terms of the Charities Act 2006. The College's accounts are required to follow the format laid down in the *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP).

During 2010/11 the College has done a considerable amount of work on formulating a strategy to address the issues that arise following the major changes to HE funding announced by the Government in late 2010. These announcements foreshadowed the most far-reaching change in the funding of higher education in England in living memory. In formulating its response, the College has been guided by the need to maintain its unrivalled reputation for excellence and by the need to do everything possible to ensure that its doors remain open to those of limited financial means.

However the loss of the HEFCE grant for teaching means that fees charged to students from EU countries will be significantly increased over the next few years. Fees charged to EU-resident students will rise to £7,500 for 2011/12 and £9,000 for 2012/13. But mid-course increases in fees will not be made (so students enrolling in 2011 will pay the new rate of £7,500 for both years of study). This will give students more certainty in planning their finances. The College has also committed itself to continue to provide a significant level of bursary funding to facilitate the recruitment of students whose financial circumstances might otherwise prevent them from taking up a place.

The College and its Subsidiaries

During the year the College continued to use a subsidiary — RCA Design Group Ltd — to act as the developer of the Dyson Building on the Battersea North site. This arrangement has been made necessary in order to safeguard the College's position in respect of the recovery of input VAT on the project. The College also has a dormant subsidiary company — Lion & Unicorn Press Ltd.

In 2006 the College set up a limited liability partnership, Future Acoustic LLP, with two other partners. Future Acoustic LLP was formed to develop an invention by a former student of the College. This development was funded by a loan from a venture capital provider; however by the end of 2010 it became clear that the product had not been marketed successfully and so the LLP ceased to trade and was formally wound up. Its accounts have not been consolidated into those of the College as its turnover is too small to have any material impact on the College's financial position.

Major Developments in the Year

HEFCE Funding

During the year HEFCE announced reductions in the level of funding to the College, and began work on new funding arrangements for the HE sector, which will be put in place following the increase in undergraduate fees that will take place for those entering HE in 2012 and beyond. Further reductions in grants are anticipated. At the very least the College will lose almost all its core teaching grant (£1.7m) over the next two years. Reductions in other grants also seem likely, although at the time of writing the expectation is that these will remain roughly constant in cash term in 2012/13 and will then be adjusted following a HEFCE review of the funding system, the results of which will come into effect in 2013/14. The College is working hard with other institutions to ensure that HEFCE funding continues to recognise the role of small specialist HE bodies, and there are encouraging signs that this role is recognised by both HEFCE and the Government. The task over the next year is to ensure that this is reflected in the new funding system that HEFCE will devise.

Strategic Planning

In November 2010 Council approved a new strategic plan that has been developed under the direction of the Rector, Dr Paul Thompson, who joined the College in September 2009. The plan foreshadows an expansion in the number of students studying at the College and an increase in the proportion of students from non-EU countries. It also envisages an increase in income from non-core activities and a greater emphasis on fundraising from alumni and other supporters of the College's work. By these means the College intends to reduce its dependence on public funding, while also maintaining financial sustainability and investing in the College's infrastructure.

Alongside the strategic plan the College is developing an estates Masterplan with architects Haworth Tompkins, which will provide a guide to re-organising the space in our Kensington buildings following the opening of the Dyson Building at Battersea in 2012, and in finding accommodation for the additional students that will be enrolled in future years.

Demand for places at the College remains very strong — in 2011 there were nearly 3,000 applications for some 520 places. There is therefore a degree of confidence that the College will be able to achieve the expansion in student numbers called for in the strategic plan. However, future funding arrangements for postgraduate teaching remain unclear, and there remains a serious risk that higher fees at undergraduate level will lead to significant reductions in the demand for postgraduate courses.

Results for the Year

The consolidated income and expenditure results for the year to 31 July 2011 show a surplus of £1.4m.

This is a significant improvement on the previous year. Income from all sources apart from HEFCE grants rose during the year with fee income — which rose by 25 per cent — making the largest contribution to the increase. This is due partly to a rise in fee rates but mainly to an increase in the number of students, particularly overseas students, studying at the College. Payroll costs fell slightly, reflecting the full-year effect of the transfer of pension arrangements to SAUL, and other costs showed only a small rise. The costs of the loan finance that was obtained to cover the deficit payment to SAUL when it took over the former RCA pension scheme continue to be much lower than expected due to the enduring low level of interest rates. As a result of these factors overall costs rose by much less than the rise in income and thus the overall result showed a significant improvement on the previous year. However in the context of the major uncertainties surrounding the future financing of HE, and the need for significant investment in the College's estate at Kensington, this result does not offer much of a cushion against financial adversity.

Battersea Project & Fundraising
Work on Phase 2 of the Battersea North project — the Dyson Building — has progressed more or less on schedule during the year and is expected to be completed by February 2012. The main contract, in the sum of £13.3m, was awarded to Wates Construction Ltd following an OJEU tender process in February 2010. There has been some increase in costs due to the rise in VAT to 20 per cent in January 2011, but this can be covered from within the contingency already provided for the project.

Work on Phase 3 of the Battersea North site development has not proceeded this year as funding is not yet available, although the College has received a substantial donation from Sir Po-Shing and Lady Woo, in recognition of which the building will be named the Sir Po-Shing and Lady Woo Department of Applied Art. This project has reached RIBA stage D. A limited amount of design work will need to be restarted later this year if construction is to start in 2012. A decision on this will be taken shortly. A fundraising auction of works of art donated by various alumni and friends of the College took place at Christie's in October 2010. The proceeds — amounting to £225,000 — will be put towards Phase 3.

Refurbishment of Existing Buildings
Plans are being drawn up to refurbish the space at Kensington that will be vacated when Printmaking and Photography move to the Dyson Building next summer. The Masterplan will set out how these spaces are to be used and also options as to how they might be refurbished to accommodate additional students as part of the College's expansion strategy.

Investments
The College's portfolio is split between Ruffer Investment Management LLP and a portfolio of iShares, which are traded funds which track various stock market indices. During the year a separate Investment Sub-Committee was set up, chaired by John Studzinski CBE, to formulate an investment strategy that will include policy objectives.

Cash Flow
The College's net funds shown on the cashflow statement reduced by £2.8m during the year. This reflects the cash expended on the Dyson Building development. Operational cashflow inflow was £4m. The College's cash reserves will show a steady decline over the next year as the bulk of them will be used for the construction of the Dyson Building.

Payment of Creditors
The College is fully committed to the prompt payment of its suppliers' invoices, and aims to pay in accordance with contractual conditions, or where no such conditions exist, within 30 days of receipt of invoice or of the goods or services concerned.

Risks
The College has a well-developed risk register which is reviewed by the Audit Committee at each meeting. The most significant risk on the register at the end of the 2010/11 financial year is the possible need to delay construction of Battersea Phase 3 (the Sir Po-Shing and Lady Woo Department of Applied Art) if funding is not available. This would threaten the College's ability to accommodate the additional students that are planned for the next few years. Other important risks are the threat to student recruitment represented by demographic trends in Europe, and increasing costs and continued uncertainty about the size and timing of reductions in public funding for the College. Action is being taken to mitigate these risks in as much as it is in the College's power to do so.

Conclusion
The HE sector in the UK is entering a period of unprecedented change and financial pressure. The College has an agreed strategy to tackle the substantial reductions in government expenditure that are expected, but we are under no illusions about how difficult and challenging the next few years will be for both students and staff.

Eric Hagman CBE
Treasurer

Public Benefit Statement

The Royal College of Art is an exempt charity under the terms of the Charities Act 2006. As such the College has charitable status for taxation purposes but it is regulated by the Higher Education Funding Council for England (HEFCE). HEFCE requires exempt charities which it regulates to publish an annual public benefit statement having regard to the Charity Commission guidance on public benefit.

The College is incorporated by Royal Charter — it has no shareholders and it does not distribute profits. Any surpluses which arise on its income and expenditure are reinvested in the College's teaching and research activities.

Education
The College provides postgraduate courses in art and design on a non profit-making basis. Fees charged to EU-domiciled students are well below the cost of teaching those students as their costs are subsidised by HEFCE grants. Fees charged to non-EU domiciled students are set at a level which covers the costs of their courses but does not include any element of profit. The College provides bursaries and hardship grants to some of its students, partly from HEFCE resources and partly from other resources. These bursaries and hardship payments help students of limited means to study at the College.

Research
The College undertakes research in art and design. A particular emphasis is placed on design for an ageing population — the Helen Hamlyn Centre for Design is particularly strong in this area. Much of the research carried out at the College is funded by charities and UK research councils and is undertaken in order to advance knowledge and understanding. This research activity is not carried on a profit-making basis. In some cases research is carried out on behalf of commercial sponsors — any profits arising on such research are reinvested in the College's teaching and research activities, where permissible.

Other Activities
The College organises public exhibitions, seminars, lectures and conferences which enable students to show their work and also enable the public to engage with the work of the College. All College exhibitions and lectures are free of charge to members of the public and any charge which might be made for conferences or seminars is designed to cover costs only.

Policies and Operations
The College has adopted policies on environmental and ethical issues and makes every effort to operate in a sustainable and responsible way. These policies are available on the College's website.

Corporate Governance Statement

The College is a corporation formed by Royal Charter with charitable status, so it does not fall within the regulation of the London Stock Exchange, but nevertheless the Council is satisfied that the College has, throughout the year ended 31 July 2011 been in compliance with all the Code provisions set out in Section 1 of the Combined Code on Corporate Governance insofar as they relate to Colleges.

The College also complies with the Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland that was issued by the Committee of University Chairmen in November 2004.

Summary of the Structure of Corporate Governance
The Council comprises lay and academic persons appointed under the College's Statutes, the majority of whom are non-executive. The roles of Chairman and Vice-Chairman of Council are separated from the role of the College's Chief Executive, the Rector. The matters specifically reserved to the Council for decision are set out in the College's Statutes. By custom and under the HEFCE Financial Memorandum, the Council is responsible for the College's ongoing strategic direction, approval of major developments and receiving regular reports from Executive Officers on day-to-day operations. The Council meets four times a year and has several Committees, including a Finance Committee, a Buildings & Estates Committee, an Audit Committee and a Remuneration Committee. All these Committees are formally constituted with terms of reference and comprise mainly lay members of Council.

The Senior Management Team recommends to the Finance Committee the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The Senior Management Team advises Council on the College's overall objectives and priorities and the strategies and policies to achieve them. The Nominations Committee considers nominations for vacancies on Council and Committee membership under the relevant Statute. The Remuneration Committee determines the remuneration of the most senior staff.

The Audit Committee meets three times annually, with the Internal and External Auditors to discuss audit findings and to consider detailed internal audit reports and recommendations for the improvement of the College's systems of internal control, together with management's response and implementation plans. The Audit Committee also receives and considers assurance and internal control reports from HEFCE and monitors adherence to the regulatory requirements. The Audit Committee reports annually to Council and to HEFCE on the operation of the College's internal control procedures, risk management, value for money and other relevant matters. Whilst senior management team members attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee offers the External and Internal Auditors the opportunity of private meetings without officers present.

The Buildings & Estates Committee is responsible for estates planning and maintenance issues.

Risk Management
On behalf of Council, the Audit Committee has appointed Deloitte and Touche Public Sector Internal Audit Ltd as the College's internal auditors. The internal auditors review the effectiveness of the College's systems of internal control. The results were considered by management and reviewed by the Audit Committee. The Audit Committee is also responsible for the oversight of the College's policies and procedures for Risk Management, in accordance with guidelines issued by HEFCE. A risk management policy for the College has been approved by Council, and a Risk Framework has been presented to the Council by the Audit Committee. The risk management policy sets out the College's underlying approach to risk management and documents the roles and responsibilities of senior managers, Council and other key parties. During the year heads of school and other senior officers attended the Committee to discuss their perceptions of the key risks facing the College and the Audit Committee has updated the risk register accordingly.

A number of other key plans and strategies have been drawn up, including a disaster recovery plan and an IT security policy. These address areas of risk identified by the risk framework. The disaster recovery plan includes a telephone cascade system under which all College staff could be contacted in an emergency. Records of the cascade system, and duplicate copies of all systems and data on the College network, are kept off-site.

Register of Interests
The College maintains a Register of Interests completed by Council members and senior managers and these declared interests are updated annually. Additionally all Council and Committee agendas have "declaration of interests" as the first substantive item on the agenda. Members and officers are invited to declare any interest in business to be considered by the meeting at that time.

Responsibilities of the Council
The Council is responsible for the administration and management of the affairs of the College and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the accounts are prepared in accordance with the Royal Charter and the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between HEFCE and the Council of the College, the Council, through its designated office holder, is required to prepare accounts for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit for that year.

In causing the accounts to be prepared, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently
- judgements and estimates are made that are reasonable and prudent
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

- the College had adequate resources to continue in operation for the foreseeable future and for this reason the financial statements are prepared on the going concern basis.

The Council has taken reasonable steps to:

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

The key elements of the College's system of internal financial control, which is 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 programmes and administrative departments
- a comprehensive medium and short-term planning process, supplemented by detailed variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee and Council
- a professional Internal Audit team whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of the Council, has reviewed the effectiveness of the College's system of internal control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The maintenance and integrity of the Royal College of Art website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Council and Committee Members

The following served as members of Council during the year:

Ex Officio

The Provost
Sir Terence Conran
(retired 31 July 2011)
Sir James Dyson
(from 1 August 2011)
The Chairman and Pro-Provost
Sir Neil Cossons
The Rector and Vice-Provost-
Dr Paul Thompson
The Treasurer
Mr Eric Hagman
The Pro-Rector (Academic)
Professor Alan Cummings
(retired 31 July 2011)
Professor Naren Barfield
(from 1 August 2011)
The Pro-Rector (Operations)
Jane Alexander
(from 1 August 2011)
The President of the Students Union
Ms Ekua McMorris

Members Appointed by the Court
Mr Charles Allen-Jones
(Vice-Chairman)
Professor Richard Burdett
Sir James Dyson
Ms Betty Jackson
Mrs Joanna Kennedy
Mr David Kester
(to 30 June 2011)
Mr Robin Levien
Ms Caragh Merrick
Ms Sarah Miller
Mr Sandy Nairne
(to 31 December 2010)
Sir Idris Pearce
Ms Cathy Turner
Lady Ritblat
(from 1 March 2011)

Members Appointed by the Senate
Professor Joan Ashworth
Professor Jeremy Aynsley
Professor Dale Harrow
Professor Jeremy Myerson
Ms Hilary French
Professor David Rayson
Professor Hans Stofer

One Student elected by the Students
Ms Cordelia Cembrowicz

Co-opted Members
Professor Sir Roy Anderson
Mr Tony Brierley
Dr David Good
Sir Mark Jones
Mr Paul Priestman
Dame Gail Rebuck
Mr John Studzinski
Mr Matthew Freud

The following served as members of the other Committees directly concerned with financial matters:

Finance Committee
Mr Eric Hagman,
Chairman
Mr Charles Allen-Jones
Mr Paul Priestman
Dr Paul Thompson
Mr Tony Brierley
Professor Sir Roy Anderson
(from 1 November 2010)

Audit Committee
Ms Caragh Merrick, Chairman
Ms Sarah Miller
Dr David Good
(to 30 September 2011)
Mr Tony Brierley
Mr David Thompson

Planning & Resources Committee
Dr Paul Thompson, Chairman
Professor Alan Cummings
(to 31 July 2011)
Mr Alan Selby
(to 31 July 2011)
Mr Nick Cattermole
Professor Jeremy Aynsley
Professor Wendy Dagworthy
Professor Joan Ashworth
Ms Hilary French
Mr Peter Hassell
Professor Jeremy Myerson
Professor Martin Smith
Professor David Rayson
Professor Dale Harrow
Ms Ekua McMorris

Remuneration Committee
Sir Neil Cossons, Chairman
Mr Charles Allen Jones
Mr Eric Hagman
Ms Cathy Turner
Dr Paul Thompson

Buildings and Estates Committee
Sir Idris Pearce, Chairman
Professor Peter Bearman
Mr Robert Evans
Mrs Joanna Kennedy
Dr Paul Thompson
Professor Jo Stockham
Mr Garry Philpott
Professor Alan Cummings
(to 31 July 2011)
Mr Charles Allen Jones
Professor Derek Walker

Investment Committee
Mr John Studzinski, Chairman
Mr Eric Hagman
Mr Tony Brierley

Institutional Advancement Committee
Mr John Studzinski, Chairman
Mr Matthew Freud
Dame Gail Rebuck
Mr Rumi Verjee

Senior Officers and Advisers

Rector and Vice Provost
Dr Paul Thompson
Pro-Rector(Academic)
Professor Alan Cummings (retired 31 July 2011)
Professor Naren Barfield (from 1 August 2011)
Pro-Rector (Operations)
Jane Alexander (from 1 August 2011)
Registrar
Alan Selby (retired 31 July 2011)
Director of Finance & Estates
Nick Cattermole
Director of Research
Professor Jeremy Aynsley
Head of Information & Learning Services
Peter Hassell
Director of the Helen Hamlyn Research Centre
Professor Jeremy Myerson
Academic Registrar
Corinne Smith (from 1 August 2011)

Bankers
National Westminster Bank plc
180 Brompton Square
SW3 1XJ

Coutts & Co
40 Strand
WC2R 0QS

Solicitors
Stephenson Harwood
1 Finsbury Circus
EC2M 7SH

Insurers
UM Association Ltd
Hasilwood House
60 Bishopsgate
EC2N 4AW

External Auditors
KPMG LLP
15 Canada Square
E14 5GL

Internal Auditors
Deloitte & Touche Public Sector Ltd
3 Victoria Square
St Albans
AL1 3TF

Investment Managers
Ruffer LLP
80 Victoria Street
SW1E 5JL

Independent Auditors' Report to the Council of the Royal College of Art

We have audited the group and College financial statements (the "financial statements") of The Royal College of Art for the year ended 31 July 2011 which comprise the Consolidated Income and Expenditure Account, the Consolidated and College Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies 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, in accordance with the Charters 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 it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Council and Auditor
As explained more fully in the Responsibilities of the Council set outon page 9 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and College's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and College as at 31 July 2011 and of the consolidated income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on Other Matters Prescribed in the HEFCE Audit Code of Practice Issued Under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the College for specific purposes have been properly applied to those purposes
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which We Are Required to Report by Exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control is inconsistent with our knowledge of the College and Group.

Neil Thomas

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
17 November 2011

Consolidated Income & Expenditure Account for the Year Ended 31 July 2011

Income	Note	2010/11 £'000	2009/10 £'000
Funding Council Grants	1	14,496	15,431
Tuition Fees and Education Contracts	2	9,379	7,500
Research Grants and Contracts	3	1,577	1,494
Other Operating Income	4	4,662	4,041
Endowment and Investment Income	5	525	360
Total Income		**30,639**	**28,826**

Expenditure			
Staff Costs	6	13,111	13,256
Other Operating Expenses	7	14,497	14,005
Depreciation	11	1,754	1,840
Interest and Other Finance Costs	8	213	61
Total Expenditure	10	**29,575**	**29,162**

Surplus/(Deficit) on Continuing Operations after Depreciation of Tangible Fixed Assets at Valuation before Exceptional Items		1,064	(336)
Exceptional Items: Continuing Operations			
Payment on Joining New Pension Scheme	9	0	(11,700)
Credit Arising on Removal of Pensions Liability	9	0	11,700
Surplus/(Deficit) on Continuing Operations after Depreciation of Assets at Valuation and Disposal of Assets		1,064	(336)
Surplus Transferred to Accumulated Income in Endowment Funds	19	363	283
Surplus/(Deficit) for the Year Retained within General Reserves		**1,427**	**(53)**

The Income and Expenditure account has been prepared in respect of continuing operations.

Statement of Historical Cost Surpluses and Deficits for the Year Ended 31 July 2011

	Note	2010/11 £'000	2009/10 £'000
Surplus/(Deficit) after Depreciation of Assets at Valuation		1,064	(336)
Difference between the Historical Cost Depreciation Charge and the Actual Depreciation Charge for the Year Calculated on the Revalued Amount	20	1,342	1,342
Historical Cost Surplus		**2,406**	**1,006**

Statement of Consolidated Total Recognised Gains and Losses for the Year Ended 31 July 2011

	Note	2010/11 £'000	2009/10 £'000
Surplus/(Deficit) on Continuing Operations after Depreciation of Assets at Valuation and Disposal of Assets		1,064	(336)
Credit on Elimination of Pensions Liability		0	9,777
Appreciation of Endowment Asset Investments	19	1,056	1,054
Endowment Additions	19	526	808
Total Recognised Gains/ (Loss) Relating to the Year		**2,646**	**11,303**

Prior Year Adjustment	11	11,008	0
Total Gains/ (Losses) Recognised since the Last Financial Statements		**13,654**	**11,303**

Reconciliation			
Opening Reserves and Endowments		73,231	50,920
Prior Year Adjustment	11	0	11,008
Total Recognised Gains/ (Losses) for the Year		2,646	11,303
Closing Reserves and Endowments		**75,877**	**73,231**

Balance Sheets as at 31 July 2011

Balance Sheet as at 31 July 2011	Note	Consolidated 2011 £'000	(Re-stated) Consolidated 2010 £'000	College 2011 £'000	(Re-stated) College 2010 £'000
Fixed Assets					
Tangible Assets	11	77,528	70,248	77,528	70,248
Other Fixed Asset Investments	12	479	404	479	404
Endowment Asset Investments	13	13,977	12,758	13,977	12,758
Current Assets					
Stock		83	52	83	52
Debtors	14	2,729	3,100	2,729	3,100
Investments	15	15,240	17,721	15,240	17,721
Cash at Bank and in Hand		22	134	22	134
Total Current Assets		**18,074**	**21,007**	**18,074**	**21,007**
Creditors: Amounts Falling Due Within One Year	16	6,658	5,037	6,658	5,037
Net Current Assets		11,416	15,970	11,416	15,970
Total assets less current liabilities		103,400	99,380	103,400	99,380
Creditors: Amounts Falling Due After More Than One Year	17	9,856	10,825	9,856	10,825
Net Assets		**93,544**	**88,555**	**93,544**	**88,555**
Represented by:					
Deferred Capital Grants	18	17,667	15,324	17,667	15,324
Endowments					
Expendable	19	4,237	3,615	4,237	3,615
Permanent		9,740	9,143	9,740	9,143
Total Endowments		**13,977**	**12,758**	**13,977**	**12,758**
General Reserves					
Revaluation Reserve	20	54,369	55,711	54,369	55,711
General Reserves Excluding Pension Reserve		7,531	4,762	7,531	4,762
Total General Reserves	21	**7,531**	**4,762**	**7,531**	**4,762**
Total		**93,544**	**88,555**	**93,544**	**88,555**

The financial statements on pages 12 to 33 were approved by the Council on 17 November 2011 and signed on its behalf by:

Dr Paul Thompson
Rector

Eric Hagman
Treasurer

Cash Flow Statement

Consolidated Cash Flow Statement for the Year Ended 31 July 2011	Note	2011 £'000	2010 £'000
Net Cash Inflow/(Outflow) from Operating Activities	25	4,165	(10,031)
Returns on Investments and Servicing of Finance	26	387	380
Capital Expenditure and Financial Investment	27	(6,496)	165
Cash (Outflow)/Inflow Before Use of Liquid Resources and Financing		(1,944)	(9,486)
Management of Liquid Resources	28	2,481	(2,274)
Financing			
New Loans			12,000
Loans Repaid		(914)	(221)
Decrease in Cash		(377)	19

Reconciliation of Net Cash Flow to Movement in Net Funds			
(Decrease)/Increase in Cash in the Period	28	(377)	19
Cash Inflow from Liquid Resources	28	(2,481)	2,274
Movement in Net Funds in Period		(2,858)	2,293
Net Funds at 1 August		19,340	17,047
Net Funds at 31 July		**16,482**	**19,340**

Statement of Principal Accounting Policies

A Accounting Convention
The Accounts have been drawn up in accordance with the 2007 *Statement of Recommended Practice: Accounting for Further and Higher Education* (SORP) and applicable accounting standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments and of buildings for which a cost is not readily ascertainable. The accounts have been prepared on the basis that the College is a going concern as there is no indication that this will change in the foreseeable future.

B Basis of Consolidation
The consolidated financial statements consolidate the financial statements of the College and the RCA Design Group Ltd (subsidiary). The RCA Design Group has been dormant for a number of years but during 2009/10 it was revived in order to provide development services for Phase 2 of the College's Battersea North Site development. The accounts of the other subsidiary, Lion & Unicorn Press Ltd, have not been consolidated, as it was dormant during the period. The consolidated financial statements do not include those of the Students' Union because the College does not control those activities.

C Income Recognition
Funding council grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent income from grants, contracts and other services rendered are accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not spent during the period in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset, crediting or debiting the endowment fund, and is reported in the statement of total recognised gains and losses.

D Agency Arrangements
Funds the College receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the College where the College is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

E Land and Buildings
Land and buildings are stated at cost or at valuation. Chartered Quantity Surveyors carried out a revaluation in December 1998. Under FRS 15 the College has opted to use the 1998 valuation as the balance sheet value, and not to make regular revaluations. Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful life of 50 years.

A review for impairment is conducted if events or changes in market conditions indicate that the carrying amount of any fixed asset may not be recoverable.

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

F Equipment
Equipment, including PCs and software, costing less than £10,000 per individual item or group of related items is expensed in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computing Equipment	3 years
Other Equipment	5 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grants are treated as deferred capital grant received in advance and released to income over the expected useful life of the equipment (the period of the grant in respect of specific esearch projects).

G Leased Assets
Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the College substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

H Heritage Assets
The College Art Collection consists mainly of works of art acquired free of charge from former students and artists associated with the College. Most items in the collection had nil or little value at the date of acquisition as the artists were not well known. An internal valuation of the collection was carried out during 2009/10. This provided an estimate of the value of the collection, which has been used to bring the collection on to the balance sheet in line with FRS 30 (heritage assets). Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

I Investments
Endowment Asset Investments are included in the balance sheet at market value. Short term investments consist of cash balances, which are invested in interest bearing deposit accounts.

J Stocks
Stocks are stated at the lower of cost or net realisable value. Where necessary, provision is made for slow-moving and defective stocks.

K Maintenance of Premises
The College has a rolling maintenance plan, which is reviewed on an annual basis. The cost of routine and corrective maintenance is charged to the income and expenditure account as incurred.

L Accounting for Charitable Donations

Unrestricted Donations:
Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Endowment Funds:
Where charitable donations are restricted to a particular objective specified by the donor these are accounted for as an endowment. There are three main types:

- Restricted permanent endowment – the capital of the fund is to be maintained and the income thereon applied to the purposes specified by the donor;
- Unrestricted permanent endowments – the capital of the fund is to be maintained but the income can be applied to the general purposes of the College;
- Restricted expendable endowments – the capital of the fund can be spent for purposes specified by the donor.

Donations for Fixed Assets:
Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the estimated useful life of the asset in question.

M Taxation Status
The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 2006 and as such is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act 1988 (ICTA 1988). Accordingly, the College is exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 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.

N Pension Scheme
The Royal College of Art participates in the Superannuation Arrangements of the University of London ('SAUL'), which is a centralised defined benefit scheme and is contracted-out of the Second State Pension. SAUL is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in SAUL, 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. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations.

O Foreign Currencies
Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions.

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

P Gifts in Kind, Including Donated Tangible Fixed Assets
Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

Q Provisions, Contingent Liabilities and Contingent Assets
Provisions are recognised in the financial statements when the College has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than present, asset arising from a past event.

R Financial Instruments
The College uses derivative financial instruments called interest rate caps to reduce exposure to interest rate movements.

S Intra-group Transactions
Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the College and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity the part relating to the College's share is eliminated.

Notes to the Accounts for the Year Ended 31 July 2011

1. Funding Council Grants	**2010/11 £'000**	**2009/10 £'000**
Recurrent Grant	13,155	13,752
Specific Grants	1,217	973
HEFCE Matched Grants	38	527
Deferred Capital Grants Released in Year		
Buildings (note 18)	86	86
Equipment (note 18)	0	93
Total	**14,496**	**15,431**

2. Tuition Fees and Education Contracts	**2010/11 £'000**	**2009/10 £'000**
Full-time Home Fees	4,380	3,876
Overseas Fees	4,687	3,389
Part-time Home Fees	211	166
Other Short Course Fees	101	69
Total	**9,379**	**7,500**

3. Research Grants and Contracts	**2010/11 £'000**	**2009/10 £'000**
Research Councils Grants	648	816
UK Based Charities	487	394
UK Industries & Commerce	436	284
Other EU	6	0
Total	**1,577**	**1,494**

4. Other Operating Income	**2010/11 £'000**	**2009/10 £'000**
Lettings	167	156
Catering Services	590	609
Other Services Rendered	2,290	1,710
Degree Shows Income	317	299
Other Deferred Grants Released (note 18)	161	161
Other Income *	1,137	1,106
Total	**4,662**	**4,041**

* Includes £100,000 for the sale of the College's unquoted equity investments in a start-up company (see note 30).

5. Endowment and Investment Income	**2010/11 £'000**	**2009/10 £'000**
Income from Expendable Endowments	87	107
Income from Permanent Endowments	141	146
Other Interest Receivable	297	107
Total	**525**	**360**

6. Staff Costs	**2010/11 £'000**	**2009/10 £'000**
Contracted Staff	9,969	10,188
Projects and Other Staff	838	720
	10,807	10,908
Social Security Costs	886	918
Pension Costs (note 24)	1,094	1,398
	12,787	13,224
Restructuring Costs*	324	32
Total	**13,111**	**13,256**

* Restructuring relates to costs in respect of redundancies following a restructuring exercise.

£167,560 was payable to senior staff in respect of redundancy (£0 in 2009/10) under the terms of the College's voluntary redundancy scheme.

	2010/11 £'000	**2009/10 £'000**
Emoluments of the Rector	175	175
Total	**175**	**175**

Employer's pension contributions paid on behalf of the Rector amounted in total to £49,526. This consisted of £37,339 of contributions due for the year ended 31st July 2011 and £12,187 in respect of contributions payable for the previous year. Payment of these backdated contributions due for 2009/10 was delayed until 2010/11 because the tax implications of them did not become clear until the new government announced its policies on the taxation of pension contributions. The Rector receives the same pension benefits as those applicable to all staff at the College.

Remuneration of Other Higher paid Staff, Excluding Employer's Pension Contributions

No other member of staff, apart from the Rector, received emoluments of more than £100,000.

Average Full-time Equivalent Staff:	**Number 2010/11**	**Number 2009/10**
Academic Courses and Services	150	163
Premises	27	33
Catering	8	12
Research	22	28
Administrative and Other	50	46
Total	**257**	**282**

Average FTE staff numbers in 2010/11 were calculated by taking an average of actual staff numbers at 31 July 2010 and 31 July 2011.

7. Other Operating Expenses	**2010/11 £'000**	**2009/10 £'000**
Academic Courses	2,495	2,235
Central Library & Learning Resources	132	126
Computing & Information Services	120	117
Administrative Services	821	882
Rents and Rates	647	638
Heat, Light, Water and Power	455	443
Minor Works	162	218
Other Premises Costs	1,405	1,273
Degree Shows	538	381
Grants to Students' Union	86	94
Scholarships, Prizes and Awards	930	694
Catering	449	411
Research Projects Expenditure	1,038	928
Sponsored Projects/ Exhibitions etc	575	562
HEFCE Student Bursaries	2,915	2,898
HEFCE Earmarked Expenditure	920	1,051
Other Educational Expenses	686	895
Other Expenses	123	159
Total	**14,497**	**14,005**

Other Operating Expenses include:	2010/11 £'000	2009/10 £'000	* Includes £45,000 (2009–10 – £42,000) in respect of the College.
Auditors' Remuneration: External Auditors in Respect of Audit Services *	49	46	
External Auditors in Respect of Non-audit Services	0	34	
Internal Audit	23	23	
Hire of Machinery – Operating Leases	0	0	

8. Interest and Other Finance Costs	2010/11 £'000	2009/10 £'000	This is the interest paid on the College's £12m bank loan drawn in April 2010 (note 17 refers).
Bank Loans not Wholly Repayable within 5 Years	213	61	

9. Exceptional Items

During the 2009/10 financial year, the College's own pension scheme merged on 1 January 2010 with the Superannuation Arrangements of the University of London (SAUL) scheme. On 29 January 2010, the College made an exceptional deficit payment of £11.7m to SAUL in order to bring the funding level of the College's former scheme up to that of SAUL's scheme.

As a result of the merger of the schemes and the deficit payment, the College's pensions liability, which was £21.477m at 31 July 2009 as measured on an FRS 17 basis, has been eliminated. This gave rise to an exceptional credit of £11.7m in the income and expenditure account and a credit of £9.777m in the statement of recognised gains and losses.

The College funded the exceptional payment through a £12m bank loan (see note 17).

10. Analysis of Expenditure by Activity	**2010/11 Staff Costs**	**Depreciation**	**Operating Expenditure**	**Total Expenditure**	**2009/10 Total Expenditure**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Academic Departments	6,145	333	2,495	8,973	9,164
Academic Services	882	0	1,040	1,922	1,771
Administration Services	2,229	0	821	3,050	2,848
General Educational	62	0	624	686	496
HEFCE Bursaries	0	0	2,915	2,915	2,898
Student Awards and Support	0	0	930	930	694
Other Services	820	0	809	1,629	1,661
Premises	1,109	1,421	2,669	5,199	5,252
Catering	355	0	449	804	828
Research Grants and Contracts	967	0	1,038	2,005	1,870
Earmarked Expenditure	542	0	920	1,462	1,680
Total per Income and Expenditure Account	**13,111**	**1,754**	**14,710**	**29,575**	**29,162**

The Depreciation Charge has been funded by:					
Deferred Capital Grants Released (note 18)		247			
Revaluation Reserve Released (note 20)		1,342			
General Income		165			
Total		**1,754**			

11. Tangible Fixed Assets (Consolidated and College)	**Land & Buildings**	**Equipment**	**Assets in the Course of Construction**	**(Re-stated) Heritage Assets**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost/Valuation					
At 1 August 2010	70,054	1,322	2,595	11,008	84,979
Additions at Cost	0	51	8,983	0	9,034
Disposals at Cost	0	0	0	0	0
At 31 July 2011	70,054	1,373	11,578	11,008	94,013
Depreciation					
At 1 August 2010	13,573	1,158	0	0	14,731
Charge for Year	1,604	150	0	0	1,754
Disposals at Cost	0	0	0	0	0
At 31 July 2011	15,177	1,308	0	0	16,485
Net Book Value					
At 31 July 2011	54,877	65	11,578	11,008	77,528
At 1 August 2010	56,481	164	2,595	11,008	70,248

The College's land and buildings include those held on long leases from the 1851 Commission, which were revalued in 1998, the refurbished Sculpture Building and the Sackler Building. Assets in the course of construction related to the Dyson Building, phase 2 of the College's Battersea project.

Heritage assets

The College has an art collection which consists mainly of works of art acquired free of charge from former students and artists associated with the College. Most items in the collection had nil or little value at the date of acquisition as the artists were not well known. Over time some items in the collection have appreciated in value. At 31 July 2011 there were over 1,100 items in the collection. An RCA internal valuation of the collection took place over the 2009/10 financial year. This estimate was used to capitalise the collection and recognise it on the balance sheet at 1 August 2010 in line with FRS 30 (Heritage assets). There were no significantly valuable pieces acquired during 2010/11.

The 2009/10 figures have therefore been re-stated due to the adoption of FRS 30. The re-stated value of heritage assets at 1 August 2010 and the value at 31 July 2011 was £11.008 million.

12. Other Fixed Assets

Consolidated and College	Other Fixed Asset Investments £'000
At 1 August 2010	404
Additions	75
Disposals	0
At 31 July 2011	479

Other fixed asset investments consists of unused income generated from the Development Fund, an unrestricted permanent endowment (see note 19).

13. Endowment Asset Investments

	Consolidated 2010/11 £'000	Consolidated 2009/10 £'000	College 2010/11 £'000	College 2009/10 £'000
Balance at 1 August	12,758	11,179	12,758	11,179
Additions	2,518	5,823	2,518	5,823
Disposals	(1,940)	(5,711)	(1,940)	(5,711)
Unrealised Appreciation (note 19)	1,056	1,054	1,056	1,054
Increase/(Decrease) in Cash Balance	(415)	413	(415)	(413)
Balance at 31 July	**13,977**	**12,758**	**13,977**	**12,758**
Represented by:				
Fixed Interest Stocks (Listed)	5,891	5,226	5,891	5,226
Equities (Listed)	6,866	6,047	6,866	6,047
Cash Balances	1,220	1,485	1,220	1,485
Total	**13,977**	**12,758**	**13,977**	**12,758**

14. Debtors

	Consolidated & College 2010/11 £'000	Consolidated & College 2009/10 £'000
Amounts Falling Due within One Year		
Debtors	632	322
Donors*	550	250
Prepayments	309	295
Accrued Income	107	92
Amounts Falling Due after One Year	**1,598**	**959**
HEFCE Matched Funding	531	1,891
Donors*	600	250
	1,131	**2,141**
Total	**2,729**	**3,100**

* relate to significant pledges to RCA's Battersea campus.

15. Investments

	Consolidated & College 2010/11 £'000	Consolidated & College 2009/10 £'000
Deposits Maturing:		
In 1 Year or Less	15,240	16,721
Between 1 and 2 Years	0	1,000
Total	**15,240**	**17,721**

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority.

16. Creditors: Amounts Falling Due within One Year:	Consolidatedn & College 2010/11 £'000	Consolidated & College 2009/10 £'000
Sundry Creditors	2,441	872
Social Security and Other Taxation Payable	413	379
Accrued Expenditure	637	336
Deferred Income — Projects and Sponsorships	1,294	1,860
Other Deferred Income	470	675
Student Fee Deposits for 2011/12	433	0
Bank Loan	970	915
Total	**6,658**	**5,037**

17. Creditors: Amounts Falling Due after more than One Year:	Consolidated & College 2010/11 £'000	Consolidated & College 2009/10 £'000
Bank Loan	**9,856**	**10,825**
Due within One to Two Years	1,038	972
Due within Two to Five Years	3,505	3,302
Due after more than Five Years	5,313	6,551
Total	**9,856**	**10,825**

The College took out a loan from Royal Bank of Scotland in April 2010 of £12m to fund a deficit payment which was required when the College's own pension scheme merged with the SAUL scheme. The loan is being repaid in quarterly instalments over 10 years at a rate of 1.1% over LIBOR. The College has entered into a hedging arrangement, an interest rate cap, to cap the interest rate payable on the loan at 5% to reduce exposure to increases in interest rates.

18. Deferred Capital Grants	Consolidated & College 2010/11 HEFCE £'000	Consolidated & College 2010/11 Non-HEFCE £'000	2010/11 Total £'000	2009/10 Total £'000
At 1 August				
Buildings	6,933	8,275	15,208	13,990
Equipment	0	116	116	326
Total	**6,933**	**8,391**	**15,324**	**14,316**
Grants Received during the Year				
Buildings	855	1,735	2,590	1,348
Equipment	0	0	0	0
Total	**855**	**1,735**	**2,590**	**1,348**
Released to Income and Expenditure				
Buildings	(86)	(44)	(130)	(130)
Equipment	0	(117)	(117)	(210)
Total	**(86)**	**(161)**	**(247)**	**(340)**
At 31 July				
Buildings	7,702	9,966	17,668	15,208
Equipment	0	(1)	(1)	116
Total	**7,702**	**9,965**	**17,667**	**15,324**

Grants received for projects which have not yet been completed have been deferred and will be released to the income and expenditure account over the life of the projects concerned.

19. Consolidated Endowment Investments	Unrestricted Permanent £'000	Restricted Permanent £'000	Total Permanent £'000	Restricted Expendable £'000	2010/11 Total £'000	2009/10 Total £'000
Balances at 1 August 2010						
Capital	3,733	4,562	8,295	3,514	11,809	10,595
Accumulated Income	-	848	848	101	949	584
	3,733	**5,410**	**9,143**	**3,615**	**12,758**	**11,179**
Transfers	0	(139)	(139)	139		
Additions	0	1	1	525	526	808
Investment Income	19	122	141	87	228	253
Expenditure	(19)	(171)	(190)	(401)	(591)	**(536)**
Increase in Market Value of Investments	356	428	784	272	1,056	1,054
At 31 July 2010	**4,089**	**5,651**	**9,740**	**4,237**	**13,977**	**12,758**

Represented by:	Closing Capital Value £'000	Closing Accumulated Income £'000	Total £'000
Scholarships, Awards & Prize Funds	6,517	959	7,476
Development Fund	4,089	0	4,089
Helen Hamlyn Endowment	756	0	756
Helen Hamlyn Chair of Design	1,656	0	1,656
Total	**13,018**	**959**	**13,977**

Scholarships, Awards & Prize Funds
Consists of numerous restricted permanent and expendable endowments to fund prizes or awards to students.

Development Fund
Up until 2010 this was a separate charity which was consolidated into the College's accounts, as well as being an unrestricted permanent endowment. In June 2010, the Charity was formally dissolved and is now an unrestricted permanent endowment.

Helen Hamlyn Endowment
This restricted expendable endowment funds the activities of the Helen Hamlyn Centre for Design.

Helen Hamlyn Chair of Design
This restricted expendible endowment funds the Helen Hamlyn Chair of Design.

20. Revaluation Reserve	**Land & Buildings £'000**	**(Re-stated) Heritage Assets * £'000**	**Total £'000**
Valuation			
At 1 August 2010	**44,703**	**11,008**	**55,711**
Contributions to Depreciation			
At 1 August 2010	(12,091)	0	(12,091)
Released in Year	(1,342)	0	(1,342)
At 31 July 2011	**(13,433)**	**0**	**(13,433)**
Net Revaluation Amount			
At 31 July 2011	**43,361**	**11,008**	**54,369**
At 1 August 2010	**44,703**	**11,008**	**55,711**

* Heritage assets refers to the College collection. See note 11.

21. Movement on Reserves	**2010/11 £'000**	**2009/10 £'000**
Surplus/(Deficit) after Depreciation of Assets at Valuation	1,064	(336)
Released from Revaluation Reserve	1,342	1,342
Historical Cost Surplus	2,406	1,006
Balance Brought Forward at 1 August	4,762	(6,304)
Historic Cost Surplus for the Year	2,406	1,006
Transfer to Specific Endowments	363	283
Credit Arising from Removal of Pensions Liability	0	9,777
General Reserves at 31 July	**7,531**	**4,762**

22. Lease Obligations	**Consolidated & College 2010/11 £'000**	**Consolidated & College 2009/10 £'000**
Operating Lease Commitments in Respect of Buildings and Equipment on Leases Expiring :		
Between One and Five Years	4	3
Over Five Years	554	554
Total	**558**	**557**

23. Capital Commitments

Construction of the Dyson Building, phase 2 of the Battersea North Site Development is now well underway and is expected to be handed over to the College in early 2012

The total cost of the project is expected to be £21m of which £15m (including VAT) is related to the construction contract. Just under £12m had been spent at 31 July 2011.

24. Pension Scheme

The Royal College of Art participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds.

It is not possible to identify the Royal College of Art's share of underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8 to 12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified independent actuaries. The last available valuation was carried out as at 31 March 2008 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:

Valuation Method:	**Projected Unit**	
Investment Return on Liabilities:	**Past Service**	**Future Service**
— Before Retirement	**6.9% p.a.**	**7.0% p.a.**
— After Retirement	**4.8% p.a.**	**5.0% p.a.**
Salary Growth *	**4.85% p.a.**	**4.85% p.a.**
Pension Increases	**3.35% p.a.**	**3.35% p.a.**

* excluding an allowance for promotional increases.

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,266 million representing 100% 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.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS 17 revealed SAUL to be in surplus at the last formal valuation date (31 March 2008).

The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2011) are known.

25. Reconciliation of Operating Activities	Consolidated 2010/11 £'000	Consolidated 2009/10 £'000
Surplus/(Deficit) Before Tax and Exceptional Items	1,064	(336)
Depreciation (note 11)	1,754	1,840
Deferred Capital Grants Released to Income (note 18)	(247)	(340)
Investment and Endowment returns (note 5)	(525)	(360)
Decrease (Increase) in Stocks	(31)	2
Decrease (Increase) in Debtors	371	781
(Decrease) Increase in Creditors	1,566	21
Interest Payable	213	61
Payment on Joining New Pension Scheme	0	(11,700)
Net Cash Inflow/(Outflow) from Operating Activities	**4,165**	**(10,031)**

Change in Net Funds	At 01-Aug-10 £'000	Cashflows £'000	At 31-Jul-11 £'000
Cash at Bank and in Hand	134	(112)	22
Endowment Cash	1,485	(265)	1,220
	1,619	**(377)**	**1,242**

26. Returns on Investments and Servicing of Finance	2010/11 £'000	2009/10 £'000
Income from Endowment Investments	228	253
Other Interest Received	297	107
Income from Unrestricted Endowment Fund	75	72
Interest Paid	(213)	(52)
Net Cash Inflow from Returns on Investments and Servicing of Finance	387	380

27. Capital Expenditure and Financial Investment	**2010/11 £'000**	**2009/10 £'000**
Tangible Assets Acquired	(9,034)	(1,879)
Endowment Assets Acquired	(2,518)	(5,823)
Receipts from Sale of Endowment Assets	1,940	5,711
Deferred Capital Grants Received (note 18)	2,590	1,348
Endowments Additions	526	808
Net Cash (Outflow)/Inflow from Capital Expenditure and Financial Investment	**(6,496)**	**165**

28. Analysis of Changes in Net Funds	**At 01-Aug-10 £'000**	**Cashflows £'000**	**Non-cash Changes £'000**	**At 31-Jul-11 £'000**
Endowment Asset Investments (note 13)	1,485	(265)	0	1,220
Cash at Bank and in Hand	134	(112)	0	22
Total	**1,619**	**(377)**	**0**	**1,242**
Current Asset Investments	17,721	(2,481)	0	15,240
Changes in Net Funds	19,340	(2,858)	0	16,482
Financing				
Loan: Due within One Year	(915)	(55)	0	(970)
Loan: Due after more than One Year	(10,825)	969	0	(9,856)
	7,600	**(1,944)**	**0**	**5,656**

29. Cash Flows Relating to Exceptional Items
Operating cash flows in 2009/10 include an outflow of £11.7m in respect of a deficit payment to SAUL, the College's new pension scheme. This brought the funding level of the College's former pension scheme up to that of the SAUL scheme (note 9 refers).

30. Financial Instruments
Unquoted Investments
At 31 July 2011, the College had unquoted equity investments of £505,000 which were held at cost. These consist of investments in eight start-up companies supported by the Design London/ InnovationRCA Business Incubator.

During the year, the College accepted £100,000 for its investment in one such company. This was included in other income (see note 9).

The Design London/InnovationRCA Business Incubator aims to create new design entrepreneurs and business innovators. The objective is to create new firms that can attract further funding, create intellectual assets that can be licensed, or sold to other firms.

These investments have been recognised as equity investments and they have subsequently been impaired to nil so there is no carrying value in the balance sheet.

Hedging
The College has entered into a hedging arrangement, an interest rate cap, which caps the interest rate payable on the £12m loan at 5% to reduce exposure to interest rate increases (see note 17).

31. Related Party Transactions
Due to the nature of the College's operations and the make-up of its Council and staff it is inevitable that transactions will take place with external bodies, trusts and organisations with which Council members and/or staff may be associated. The College maintains a Register of Interests in which all such interests are declared, and all transactions are conducted at arm's length and in accordance with the College's financial regulations. Payments of £1,227 (2009/10 £110.60) in respect of incidental expenses were made to Council members during the year.

32. Access Funds **Access Funds have not been included in the Income and Expenditure Account:**	**2010/11** **£'000**	**2009/10** **£'000**
Balance Brought Forward as at 1 August	4	13
Received from HEFCE	29	20
Payments Made to Students	(28)	(29)
Balance Carried Forward as at 31 July	5	4

33. Changes in Group Structure
In 2009/10 a previously dormant subsidiary, the RCA Design Group Ltd (registered in England) was revived and the College entered into an agreement with it which provides for RCA Design Group Ltd to act as the developer of the Dyson Building at Battersea. The 2010 consolidated figures on the balance sheet include the RCA Design Group Ltd.

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