

Financial Statements

for the Year Ended 31 July 2014



Royal College of Art
Postgraduate Art & Design



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Postgraduate Art & Design

2013/14

Financial Statements
for the Year Ended 31 July 14

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Treasurer's Report for the year ended 31 July 2014

The College is an exempt charity which operates under the terms of a Royal Charter. The trustees of the charity are the current Council members (see page 8). 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 which 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 2011. 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).

The objectives of the College are to advance learning, knowledge and professional competence particularly in the field of fine art, in the principles and practice of art and design in their relation to industrial and commercial processes and social developments and other subjects relating thereto through teaching, research and collaboration with industry and commerce. The Annual Review reports on activities undertaken and performance against these objects.

The financial statements comprise the results of The Royal College of Art and RCA Design Group Ltd.

The Royal College of Art is the world's most influential wholly postgraduate university for the study of art and design. The RCA has a strong track record of preparing its postgraduate students for careers in art, design and the creative sector – indeed the College is widely viewed as a crucible of the creative industries. In 2013/14 it had 1,358 students enrolled, approximately 33% of whom came from countries outside the EU. Over 59 different nationalities are represented by our student body providing a diverse cultural mix of ideas and creativity.

2013/14 saw the launch of the Global Innovation Design programme, in collaboration with Imperial College London, providing

opportunity for students to study in Tokyo, New York and London. The year also witnessed the first graduation from our three new Master's programmes launched in 2012.

The College successfully bid for £2.8m Catalyst funding in support of HELIX (Healthcare Innovation Exchange), a collaborative venture with Imperial College London based inside St Mary's Hospital. This provides an opportunity for the RCA to bring design thinking to the heart of healthcare innovation.

The College hosted over 36 art and design exhibitions and events in its galleries with more than half the year displaying student and department works.

In support of widening participation the College provides over 100 scholarships, awards and prizes.

The College's current Estates Masterplan is well underway with the Woo Building forming the third and final phase of the Battersea North development. The contract is on target financially with expected completion before the required 2015/16 enrolment. During the year the RCA signed a 25-year lease for property in Hester Road, Battersea campus, in anticipation of relinquishing two leases at the end of 2015 at other locations.

Treasurer's Report for the year ended 31st July 2014

Results for the Year

The consolidated income and expenditure results for the year to 31st July 2014 (page 11) show a surplus of £933k (£217k 2012/13). Total income for the year is £40.3m (£35.3m 2012/13) with expenditure of £39.6m (£35.5m 2012/13). The College received additional £800K of endowments to support scholarships and capital programmes.

The College's balance sheet remains strong – general reserves have increased to £13.7m (£11.4 2012/13) with cash of £8m. During the year a loan of £4m was drawn down to fund the £13m Woo Building development, a further £4.8m will be provided from the Development Fund endowment in 2014/15. In addition to buildings the RCA invested £380k in a new finance and HR system and the new RCA website was launched which has enabled the students to showcase their work in a variety of media formats.

Income

The College continues to develop its student offering, both home and overseas, and enrolled 1,358 (full time equivalent) students, an increase of 173, with 33% overseas contingent. 2013/14 also included the second year at the increased £9,000 fee for home and EU students. These things combined to generate a £4.4m overall improvement of student fee income £20.4m (£16m 2012/13). The College retained its HEFCE funding for a further year although reductions are anticipated during 2015/16 and onwards to 2020. Research and other income continue to develop generating £6.2m (£5.7m 2012/13).

Investments

The College's investments are overseen by an Investment Sub-committee chaired by John Studzinski and charged with setting investment policies for the College's endowments and cash

reserves and monitoring their implementation. Funds are split between the Baring Dynamic Asset Allocation fund £5.8m and £10.7m under the management of Ruffer Investment Management LLP. Total funds under management at year end, was £16.5m with 54% in equities. Current returns are tracking 5.6% above Libor. Since the year end Council have approved the release of £4.8m to fund the final stage of the Woo building development. The College continues to receive new donations.

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 2013/14 financial year is the possible effect of increased costs at undergraduate level impacting on the willingness of students to apply for postgraduate study. Other important risks are the threat to student recruitment represented by the economic difficulties in Europe, the difficulty of obtaining visas for non-EU students. Increasing costs and continued uncertainty about the size and timing of reductions in public funding for the College are also major risks. Action is being taken to mitigate these risks in as much as it is in the College's power to do so.

Subsidiaries

During the year the College continued to use a subsidiary – RCA Design Group Ltd – to act as the developer of the Woo Building on the Howie Street 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 projects. RCA Design Group is incorporated in Great Britain and registered in England and Wales. The subsidiary is included in the consolidated accounts. The College also has a dormant subsidiary company – Lion & Unicorn Press Ltd.

Conclusion

The HE sector in the UK is undergoing unprecedented change and financial pressure. However the College remains in a strong market position and has an agreed strategy to take it forward over the next few years.

Caragh Merrick
Treasurer

Public Benefit Statement

The Royal College of Art is an exempt charity under the terms of the Charities Act 2011. 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 full cost level. 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. Many College graduates hold prominent positions in the arts and creative industries.

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 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 out 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. The College also operates a schools liaison programme, known as ReachoutRCA. 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

Summary of the Structure of Corporate Governance

The Council comprises lay, staff and student 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 referred 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 and 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 Buildings and Estates Committee is responsible for estates planning and maintenance issues.

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 at each meeting the Committee offers the Internal and External Auditors the opportunity of private meetings with the Committee members without officers present.

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 senior officers of the College attended the Committee to discuss their perceptions of the key risks facing the College and the risk register has been updated accordingly.

Corporate Governance Statement

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 agendas at all meetings of Council and its Committees have “declaration of interests” as the first substantive item. 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 Deans, Heads of Programme and Heads of 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.

Compliance with the Committee of University Chairs Governance Code of Practice, 2009

The Code states that 'It is recommended that institutions should report in the corporate governance statement of their annual audited financial statements that they have had regard to the Code, and where an institution's practices are not consistent with particular provisions of the Code an explanation should be published in that statement'.

The College complies with the Code except for the requirement in relation to the appointment of new Council members that 'when vacancies arise they should be fully publicized within and outside the institution'. The Nominations Committee has considered this requirement and has decided that it wishes to seek nominations from existing lay members of Council in the first instance but that, if necessary, a search will be employed to identify potential candidates with specific skills.

Council and Committee Members

The following served as members of Council during the year:

Ex-officio Members

The Provost Sir James Dyson
The Chairman and Pro-Provost Sir Neil Cossons
The Rector and Vice-Provost Dr Paul Thompson
The Treasurer Mr Eric Hagman
(to 31 December 2013)
The Pro-Rector (Academic) Professor
Naren Barfield
The Pro-Rector (Operations) Jane Alexander
The President of the Students Union
Ms Ritika Karnani

Members appointed by the Court

Mr Charles Allen-Jones (Vice-Chairman)
Professor Richard Burdett
Mr Rupert Hambro
Ms Betty Jackson
Dr Joanna Kennedy
Ms Caragh Merrick (Treasurer from
1 January 2014)
Ms Sarah Miller
Dame Marjorie Scardino
Ms Cathy Turner
Professor Martin Roth
Lady Ritblat
Mr Yinka Shonibare
Magdalene Odundo (from 1 March 2014)

Members appointed by the Senate

Professor Neville Brody
Professor Dale Harrow
Professor Clare Johnston
Professor Jeremy Myerson
Professor Alex de Rijke
Professor Jo Stockham
Professor Victoria Walsh

One Student elected by the Students

Mr Thomas Gottelier

Co-opted Members

Mr Tony Brierley
Ms Hemione Hudson
Professor Sir Keith O'Nions
Sir Peter Michael
Mr Paul Priestman
Dame Gail Rebuck
Mr John Studzinski

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

Finance Committee

Mr Eric Hagman, Chairman (to 31 Dec 2013)
Ms Caragh Merrick (from 1 Jan 2014)
Mr Charles Allen-Jones
Dr Paul Thompson
Mr Tony Brierley (to 31 Dec 2013)
Ms Hemione Hudson

Audit Committee

Ms Caragh Merrick, Chairman (to 31 Dec 2013)
Mr Tony Brierley (from 1 Jan 2014)
Mr Roger Miles
Ms Sarah Miller
Mr David Thompson
Ms Catherine Brock
Ms Cathy Turner

Remuneration Committee

Sir Neil Cossons, Chairman
Mr Charles Allen Jones
Mr Eric Hagman (until 31 Dec 2013)
Ms Caragh Merrick (from 1 Jan 2014)
Ms Cathy Turner
Dr Paul Thompson

Buildings and Estates Committee

Dr Joanna Kennedy, Chairman
Mr Robert Evans
Dr Paul Thompson
Professor Martin Smith
Mr Garry Philpott (until 28 Feb 2014)
Ms Jane Alexander
Mr Charles Allen Jones
Mr Alan Leibowitz
Professor Derek Walker
Mr Mike Foster (from 1 July 2014)
Mr Simon Ward (from 1 July 2014)

Investment Sub Committee

Mr John Studzinski, Chairman
Mr Eric Hagman (to 31 Dec 2013)
Ms Caragh Merrick (from 1 Jan 2014)
Mr Tony Brierley (to 31 July 2014)
Dr Paul Thompson

Institutional Advancement Committee

Mr John Studzinski, Chairman
Mr Rupert Hambro
Dame Gail Rebuck
Dame Marjorie Scardino

Senior Officers and Advisers

Rector and Vice Provost – Dr Paul Thompson
Pro-Rector (Academic) – Professor Naren Barfield
Pro-Rector (Operations) – Jane Alexander
Director of Finance & Planning – Nick Cattermole
(to 30 Jun 2014)
Interim Director of Finance – Louise Parr-Morley
(from 27 May 2014)
Academic Registrar – Corinne Smith
Director of Research – Professor Jeremy Aynsley
(to 13 Jan 2014)
**Director of Information, Learning & Technical
Services** – Dr Amanda Spencer (from 5 May 2014)
Director of the Helen Hamlyn Centre for Design –
Professor Jeremy Myerson

Bankers

National Westminster Bank plc
180 Brompton Square, SW3 1XJ

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

Baring Asset Management
155 Bishopsgate, EC2M 3XY

Independent Auditor's Report to the Council of the Royal College of Art

We have audited the Group and Colleges financial statements (the “financial statements”) of the Royal College of Art for the year ended July 2014 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 by 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.

Neil Thomas

For and on behalf of

KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
27 November 2014

Respective Responsibilities of the Council and Auditor

As explained more fully in the Responsibilities of the Council set out on page 7 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 Review 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 2014 and of the Group's 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 University for specific purposes have been properly applied to those purposes;
- income has been applied in accordance with the College's Statutes; and
- 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 included as part of the Corporate Governance Statement is inconsistent with our knowledge of the College and group

Consolidated Income and Expenditure Account for the Year Ended 31 July 2014

Income	Note	2013/14	2012/13
		£'000s	£'000s
Funding Council Grants	1	13,324	13,175
Tuition Fees and Education Contracts	2	20,418	16,068
Research Grants and Contracts	3	2,070	1,875
Other Operating Income	4	4,193	3,881
Endowment and Investment Income	5	314	356
Total Income		40,319	35,355
Expenditure	Note	2013/14	2012/13
		£'000s	£'000s
Staff Costs	6	17,005	15,036
Other Operating Expenses	7	19,979	18,086
Depreciation and Amortisation	10, 11	2,351	2,215
Interest and Other Finance Costs	8	244	160
Total Expenditure	9	39,579	35,497
Surplus/(deficit) on Continuing Operations after Depreciation of Tangible Fixed Assets at Valuation Before Exceptional Items		740	(142)
Surplus/(deficit) on Continuing Operations After Depreciation of Assets at Valuation and Disposal of Assets		740	(142)
Surplus Transferred to Accumulated Income in Endowment Funds	19	193	359
Surplus for the Year Retained Within General Reserves		933	217

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 2014

	Note	2013/14	2012/13
		£'000s	£'000s
Surplus/(deficit) After Depreciation of Assets at Valuation		740	(142)
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		2,082	1,200

Consolidated Income and Expenditure Account for the Year Ended 31 July 2014

Statement of Consolidated Total Recognised Gains and Losses for the Year Ended 31 July 2013

	Note	2013/14	2012/13
		£'000s	£'000s
Surplus/(deficit) on Continuing Operations after Depreciation of Assets at Valuation and Disposal of Assets		740	(142)
Appreciation of Endowment Asset Investments	19	0	1,354
Endowment Additions	19	800	473
Total Recognised Gains Relating to the Year		1,540	1,685

Balance Sheets at 31 July 2014

	Note	Consolidated 2014	Consolidated 2013	College 2014	College 2013
		£'000s	£'000s	£'000s	£'000s
Fixed Assets					
Intangible Assets	10	140	123	140	123
Tangible Assets	11	89,809	84,826	89,809	84,826
Other Fixed Asset Investments	12	589	571	589	571
Endowment Asset Investments	13	15,946	15,372	15,946	15,372
Current Assets					
Stock		53	52	53	52
Debtors	14	2,646	1,512	2,646	1,512
Investments	15	8,222	9,324	8,222	9,324
Cash at Bank and in Hand		85	46	85	46
Total Current Assets		11,006	10,934	11,006	10,934
Creditors: Amounts Falling Due Within 1 Year	16	8,431	6,756	8,431	6,756
Net Current Assets		2,575	4,178	2,575	4,178
Total assets less current liabilities		109,059	105,070	109,059	105,070
Creditors: Amounts Falling Due After More Than 1 Year	17	9,517	7,719	9,517	7,719
Net Assets		99,542	97,351	99,542	97,351
Represented by:					
Deferred Capital Grants	18	19,565	18,881	19,565	18,881
Endowments	19				
Expendable		5,707	5,023	5,707	5,023
Permanent		10,239	10,349	10,239	10,349
Total endowments		15,946	15,372	15,946	15,372
Reserves					
Revaluation Reserve	20	50,343	51,685	50,343	51,685
Income and Expenditure Account	21	13,688	11,413	13,688	11,413
Total Reserves		64,031	63,098	64,031	63,098
Total		99,542	97,351	99,542	97,351

The Financial Statements on pages 11 to 34 were approved by the Council signed on its behalf by:


Dr Paul Thompson
Rector


Caragh Merrick
Treasurer

Consolidated Cash Flow Statement for the Year Ended 31 July 2014

Income	Note	2013/14	2012/13
		£'000s	£'000s
Net Cash inflow from Operating Activities	25	2,623	1,905
Returns on Investments and Servicing of Finance	26	88	216
Capital Expenditure and Financial Investment	27	(6,342)	(3,277)
Cash outflow Before Use of Liquid Resources and Financing		(3,631)	(1,156)
Management of Liquid Resources	28	1,102	1,731
Financing			
New Loans	28	4,000	0
Loans repaid		(1,606)	(1,033)
Increase/(Decrease) in cash		(135)	(458)

Reconciliation of Net Cash Flow to Movement in Net Funds	Note	2013/14	2012/13
		£'000s	£'000s
(Decrease)/Increase in Cash in the period	28	(135)	(458)
Cash inflow from Liquid Resources	28	(1,102)	(1,731)
Movement in Net Funds in Period		(1,237)	(2,189)
Net funds at 1 August		10,090	12,279
Net funds at 31 July		8,853	10,090

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 College considers that it has sufficient financial resources and is confident that its future income streams will maintain these resources. The governors believe that the College is well placed to effectively manage its business risks, despite the current uncertain economic situation. The governors have a reasonable expectation that the College has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

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

Statement of Principal Accounting Policies

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 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 research projects).

G Intangible Assets

Software and consultancy costs of implementation costing less than £10,000 per individual item or group of related items are expensed in the year of acquisition. All other software and related consultancy costs are capitalised. Intangible assets are stated at cost and amortised over their expected useful life of 5 years.

H 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.

I 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.

J 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.

K Stocks

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

L 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.

M 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.

Statement of Principal Accounting Policies

N **Taxation Status**

The College is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993), and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA2009 and sections 471, and 478–488 CTA 2010 (formally s505 of 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. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

O **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.

P **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.

Q **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.

R **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.

S **Financial Instruments**

The College uses derivative financial instruments called interest rate caps and swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting to a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, then it is marked to market and any resulting profit or loss recognised at that time.

T **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 2014

1. Funding Council Grants

	2013/14	2012/13
	£'000s	£'000s
Recurrent Grant	12,679	12,710
Specific Grants	481	301
Deferred Capital Grants Released in Year Buildings (Note 18)	164	164
Total	13,324	13,175

2. Tuition Fees and Education Contracts

	2013/14	2012/13
	£'000s	£'000s
Full Time Home/EU Fees	8,251	6,489
Overseas Fees	11,659	9,030
Part-time/EU Home Fees	194	311
Other Short Course Fees	314	238
Total	20,418	16,068

3. Research Grants and Contracts

	2013/14	2012/13
	£'000s	£'000s
Research Councils Grants	1,153	616
UK Based Charities	292	480
UK Industries & Commerce	305	642
Other EU	320	137
Total	2,070	1,875

4. Other Operating Income

	2013/14	2012/13
	£'000s	£'000s
Lettings	296	289
Catering Services	510	543
Other Services Rendered	944	1,295
Degree Shows Income	68	110
Other Deferred Grants Released (Note 18)	178	168
Other Income	2,197	1,476
Total	4,193	3,881

Notes to the Accounts for the Year Ended 31 July 2014

5. Endowment and Investment Income

	2013/14	2012/13
	£'000s	£'000s
Income from Expendable Endowments	51	55
Income from Permanent Endowments	95	92
Other Interest Receivable	168	209
Total	314	356

6. Staff Costs

	2013/14	2012/13
	£'000s	£'000s
Contracted Staff	13,400	12,110
Projects and Other Staff	633	465
Sub Total	14,033	12,575
Social Security Costs	1,146	1,058
Pension Costs (Note 24)	1,610	1,377
Sub Total	16,789	15,010
Restructuring Costs (Restructuring Related Redundancy Costs.)	216	26
Total	17,005	15,036

	2013/14	2012/13
	£'000s	£'000s
Emoluments of the Rector	205	200
Pension Scheme Contributions	43	42
Total Emoluments of the Rector	248	242

Notes to the Accounts for the Year Ended 31 July 2014

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

	2013/14	2012/13
	Number	Number
£100,001 – £110,000	2	1
£110,001 – £120,000	0	1
£160,001 – £170,000 (includes severance payment)	1	0

No member of the Council receives remuneration in respect of his or her duties.

	2013/14	2012/13
	Number	Number
Average Full-time Equivalent Staff Numbers by Major Category:		
Academic Courses and Services	171	160
Premises	19	20
Research	25	23
Administrative and Other	84	74
Total	299	277

Average FTE staff numbers in 2013/14 were calculated by taking an average of actual staff numbers at 31 July 2014 and 31 July 2013.

7. Other Operating Expenses

	2013/14	2012/13
	£'000s	£'000s
Academic Courses	3,515	2,945
Central Library & Learning Resources	179	131
Computing & Information Services	369	481
Technical Services	783	538
Administrative Services	1,983	1,390
Rents and Rates	1,037	885
Heat, Light, Water and Power	611	594
Minor Works	281	1,188
Other Premises Costs	2,557	1,943
Degree Shows	689	597
Grants to Students' Union	135	111
Scholarships, Prizes and Awards	941	733
Catering	662	753
Research Projects Expenditure	1,422	1,170
Research Students' Fee Waivers	125	87
Sponsored Projects/Exhibitions, etc.	709	1,076
HEFCE Student Bursaries	3,166	2,510
HEFCE Earmarked Expenditure	111	179
Other Educational Expenses	552	651
Other Expenses	152	124
Total	19,979	18,086

Notes to the Accounts for the Year Ended 31 July 2014

Other Operating Expenses Include:

	2013/14	2012/13
	£'000s	£'000s
Auditors' Remuneration:		
External Auditors in respect of audit services*	43	44
External Auditors in respect of non-audit services	8	9
Internal Audit	25	25

*Includes £39,980 (2012/13 – £40,980) in respect of the College.

8. Interest and Other Finance Costs

	2013/14	2012/13
	£'000s	£'000s
Bank loans not wholly repayable within 5 years	244	160

9. Analysis of Expenditure by Activity

	2013/14			2012/13	
	Staff Costs	Depreciation	Operating Expenditure	Total Expenditure	Total Expenditure
	£'000s	£'000s	£'000s	£'000s	£'000s
Academic Departments	8,593	447	3,515	12,555	10,351
Academic Services	1,308	0	2,040	3,348	4,162
Administration Services	3,869	0	2,227	6,096	4,193
General Educational	0	0	824	824	718
HEFCE Bursaries	0	0	3,166	3,166	2,510
Student Awards and Support	0	0	941	941	733
Other Services	347	0	704	1,051	1,571
Premises	1,578	1,904	4,486	7,968	7,669
Catering	0	0	662	662	759
Research Grants and Contracts	1,239	0	1,547	2,786	2,536
Earmarked Expenditure	70	0	111	181	295
Total per Income and Expenditure Account	17,004	2,351	20,223	39,578	35,497

The Depreciation Charge has been funded by:

Deferred Capital Grants Released (Note 18)	342
Revaluation Reserve Released (Note 20)	1,342
General Income	667
Total	2,351

Notes to the Accounts for the Year Ended 31 July 2014

10. Intangible Fixed Assets

		£'000s
(Consolidated and College)		
Cost/Valuation		
At 1 August 2013		123
Additions		52
Amortisation		35
Net Book Value		
At 31 July 2014		140

The addition for the year relates to the purchase and implementation of a new finance software, which was brought into use on 1 August 2013.

The intangible asset is valued at cost.

The amortisation period is 5 years.

Notes to the Accounts for the Year Ended 31 July 2014

11. Tangible Fixed Assets	Land & Buildings	Equipment	Assets in the course of construction	Heritage assets	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
(Consolidated and College)					
Cost/Valuation					
At 1 August 2013	90,120	2,385	2,082	11,008	105,595
Additions at Cost	1,311	358	5,630	0	7,299
Disposals at Cost	0	0	0	0	0
At 31 July 2014	91,431	2,743	7,712	11,008	112,894
Depreciation					
At 1 August 2013	19,163	1,606	0	0	20,769
Charge for Year	2,032	284	0	0	2,316
Disposals at Cost	0	0	0	0	0
At 31 July 2014	21,195	1,890	0	0	23,085
Net Book Value					
At 31 July 2014	70,236	853	7,712	11,008	89,809
At 1 August 2013	70,957	779	2,082	11,008	84,826

The College's land and buildings include those held on long leases from the 1851 Commission, which were revalued in 1998, and Sculpture, Sackler and Dyson Buildings at Battersea. The asset in the course of construction is the Woo Building in Battersea. The building is expected to be completed in early 2015.

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 2014 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 2013/14.

Notes to the Accounts for the Year Ended 31 July 2014

12. Other Fixed Assets

Other Fixed Asset Investments

(Consolidated and College)		£'000s
At 1 August 2013		571
Additions		18
Disposals		0
At 31 July 2014		589

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 2013/14	Consolidated 2012/13	College 2013/14	College 2012/13
	£'000s	£'000s	£'000s	£'000s
Balance at 1 August	15,372	14,140	15,372	14,140
Additions	2,078	1,172	2,078	1,172
Disposals	(1,261)	(985)	(1,261)	(985)
Unrealised Appreciation (Note 19)	0	1,354	0	1,354
Increase/(Decrease) in Cash Balance	(243)	(309)	(243)	(309)
Balance at 31 July	15,946	15,372	15,946	15,372
Represented by:				
Fixed Interest Stocks (listed)	3,328	3,234	3,328	3,234
Equities (listed)	12,072	11,418	12,072	11,418
Cash Balances	546	720	546	720
Total	15,946	15,372	15,946	15,372

Notes to the Accounts for the Year Ended 31 July 2014

14. Debtors

	Consolidated & College	Consolidated & College
	2013/14	2012/13
	£'000s	£'000s
Amounts Falling Due Within One Year		
Debtors	1,759	702
Donors*	300	300
Prepayments	433	403
Accrued Income	154	107
Total	2,646	1,512
Amounts Falling Due After One Year		
Donors*	0	0
Total	0	0
Total	2,646	1,512

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

15. Investments

	Consolidated & College	Consolidated & College
	2013/14	2012/13
	£'000s	£'000s
Deposits maturing:		
In 1 Year or Less	8,222	9,324
Between 1 and 2 Years	0	0
Total	8,222	9,324

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

Notes to the Accounts for the Year Ended 31 July 2014

16. Creditors: Amounts Falling Due Within One Year:

	Consolidated & College	Consolidated & College
	2013/14	2012/13
	£'000s	£'000s
Sundry Creditors	789	1,946
Social Security and Other Taxation Payable	443	426
Accrued Expenditure	1,092	260
Deferred Income – Projects and Sponsorships	2,336	1,605
Other Deferred Income	729	699
Student Fee Deposits for Following Academic Year	1,347	721
Bank Loans	1,695	1,099
Total	8,431	6,756

17. Creditors: Amounts Falling Due After More Than One Year:

	Consolidated & College	Consolidated & College
	2013/14	2012/13
	£'000s	£'000s
Bank Loans	9,517	7,719
Due Within 1–2 Years	1,786	1,168
Due Within 2–5 Years	5,985	3,954
Due After More than 5 Years	1,746	2,597
Total	9,517	7,719

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. There is no charge over the College's assets.

The College took out a loan from Royal Bank of Scotland in August 2013 of £4m to help fund the construction of the Woo Building. The loan is being repaid in 28 quarterly instalments at a fixed rate of 3.7%

Notes to the Accounts for the Year Ended 31 July 2014

18. Deferred Capital Grants

	Consolidated & College			
	2013/14 HEFCE	2013/14 Non-HEFCE	2013/14 Total	2012/13 Total
	£'000s	£'000s	£'000s	£'000s
At 1 August				
Buildings	7,783	11,098	18,881	18,944
Equipment	0	0	0	0
Total	7,783	11,098	18,881	18,944
Grants Received During the Year				
Buildings	208	818	1,026	269
Equipment	0	0	0	0
Total	208	818	1,026	269
Released to Income and Expenditure				
Buildings	(164)	(178)	(342)	(332)
Equipment	0	0	0	0
Total	(164)	(178)	(342)	(332)
At 31 July				
Buildings	7,827	11,738	19,565	18,881
Equipment	0	0	0	0
Total	7,827	11,738	19,565	18,881

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.

Notes to the Accounts for the Year Ended 31 July 2014

19. Consolidated Endowment Investments	Unrestricted Permanent	Restricted Permanent	Total Permanent	Restricted Expendable	2013/14 Total	2012/13 Total
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Balances at 1 August 2013						
Capital	4,570	5,265	9,835	4,899	14,734	13,232
Accumulated Income	0	514	514	124	638	908
Total	4,570	5,779	10,349	5,023	15,372	14,140
Additions	0	3	3	797	800	473
Transfers	0	-9	-9	9	0	(236)
Investment Income	30	65	95	51	146	147
Expenditure	(30)	(196)	(226)	(146)	(372)	(506)
Increase in Market Value of Investments	10	17	27	(27)	0	1,354
At 31 July 2014	4,580	5,659	10,239	5,707	15,946	15,372

Closing Capital Value	Closing Accumulated Income	Total
£'000s	£'000s	£'000s

Represented by:

Scholarships, Awards & Prize Funds	8,246	494	8,740
Development Fund	4,580	0	4,580
Helen Hamlyn Endowment	337	9	346
Helen Hamlyn Chair of Design	2,280	0	2,280
Total	15,443	503	15,946

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. Since 31 July 2014, Council have approved the release of £4.8 million of the endowment to fund the final stages of the Woo Building development (also see note 12).

Helen Hamlyn Endowment

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

Helen Hamlyn Chair of Design

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

Notes to the Accounts for the Year Ended 31 July 2014

20. Revaluation Reserve Valuation	Land & Buildings	Heritage Assets *	Total
	£'000s	£'000s	£'000s
At 1 August 2013	40,677	11,008	51,685
Contributions to Depreciation			
At 1 August 2013	(16,117)	0	(16,117)
Released in Year	(1,342)	0	(1,342)
At 31 July 2014	(17,459)	0	(17,459)
Net Revaluation Amount			
At 31 July 2014	39,335	11,008	50,343
At 1 August 2013	40,677	11,008	51,685

*Heritage assets refers to the College Collection. See Note 11.

21. Movement on Reserves	2013/14	2012/13
	£'000s	£'000s
Surplus/(Deficit) after Depreciation of Assets at Valuation	740	(142)
Released from Revaluation Reserve	1,342	1,342
Historical Cost Surplus	2,082	1,200
Balance b/f at 1 August	11,413	9,854
Historic Cost Surplus for the Year	2,082	1,200
Transfer to Specific Endowments	193	359
Income and Expenditure Account at 31 July	13,688	11,413

Notes to the Accounts for the Year Ended 31 July 2014

22. Lease Obligations

	Consolidated & College	Consolidated & College
	2013/14	2012/13
	£'000s	£'000s
Operating Lease Commitments in Respect of Buildings and Equipment on Leases Expiring:		
Between 1 and 5 Years	312	312
Over 5 Years	864	683
Total	1,176	995

23. Capital Commitments

During 2012/13 the College signed a contract for £10m (including VAT) for the construction of the Woo Building at the College's campus in Battersea. The building is expected to be completed in early 2015 and occupied in 2015. At 31 July 2014, the College had a remaining commitment of £4.5m (including VAT) relating to the construction of the Woo Building. Contracts for £0.49m (including VAT) had been signed for the fit out of the Woo Building.

Notes to the Accounts for the Year Ended 31 July 2014

24. Pension Scheme

The Royal College of Art participates in a centralised defined benefit scheme for all qualified employees with assets held in separate Trustee-administered funds. The Royal College of Art has now adopted FRS17 for accounting for pension costs. It is not possible to identify the College's share of the 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 8–12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified independent actuaries. The last available valuation was carried out as at 31 March 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:

	31 March 2011
Discount Rate	6.80% p.a.
- Pre-retirement	4.70% p.a.
- Post-retirement	3.75% p.a. until 31 March 2014, 4.50% p.a. thereafter
General* Salary Increases	3.5% p.a.
Retail Prices Index Inflation (RPI)	2.8% p.a.
Consumer Price Index Inflation (CPI)	2.8% p.a.
Pension Increases in Payment (Excess Over GMP)	SAPS Normal (year of birth) tables with an age rating of +0.5
Mortality – Base Table	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.

*an additional allowance is made for promotional Salary 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 £1,506 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 FRS 17 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 Average Revalued Earnings, or 'CARE', benefit structure) to SAUL's benefit structure apply from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members as 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 Accounts for the Year Ended 31 July 2014

25. Reconciliation of Operating Activities

	Consolidated	Consolidated
	2013/14	2012/13
	£'000s	£'000s
Surplus/(Deficit) Before Tax and Exceptional Items	740	(142)
Depreciation & Amortisation (Note 10, 11)	2,351	2,215
Deferred Capital Grants Released to Income (Note 18)	(342)	(332)
Investment and Endowment Returns (Note 5)	(314)	(356)
Decrease (Increase) in Stocks	(1)	14
Decrease (Increase) in Debtors	(1,134)	59
(Decrease) Increase in Creditors	1,079	758
Interest Payable	244	160
Transfer of Endowments	0	(471)
Net Cash Inflow/(Outflow) from Operating Activities	2,623	1,905

Change in Net Funds

	At 1 Aug 13	Cashflows	At 31 Jul 14
	£'000s	£'000s	£'000s
Cash at Bank and in Hand	46	39	85
Endowment Cash (Note 13)	720	(174)	546
Total	766	(135)	631

26. Returns on Investments and Servicing of Finance

	2013/14	2012/13
	£'000s	£'000s
Investments (Note 19)	146	147
Other Interest Received (Note 5)	168	209
Income from Unrestricted Endowment Fund	18	20
Interest Paid	(244)	(160)
Net Cash Inflow from Returns on Investments and Servicing of Finance	88	216

Notes to the Accounts for the Year Ended 31 July 2014

27. Capital Expenditure and Financial Investment

	2013/14	2012/13
	£'000s	£'000s
Tangible Assets Acquired	(7,299)	(3,709)
Intangible Assets Acquired	(52)	(123)
Endowment Assets Acquired	(2,078)	(1,172)
Receipts from Sale of Endowment Assets	1,261	985
Deferred Capital Grants Received (Note 18)	1,026	269
Endowments Additions	800	473
Net Cash (Outflow)/Inflow from Capital Expenditure and Financial Investment	(6,342)	(3,277)

28. Analysis of Changes in Net Funds	At 1 Aug 13	Cashflows	Non Cash Changes	At 31 Jul 14
	£'000s	£'000s	£'000s	£'000s
Endowment Asset Investments (Note 13)	720	(174)	0	546
Cash at Bank and in Hand	46	39	0	85
Total	766	(135)	0	631
			0	
Current Asset Investments	9,324	(1,102)	0	8,222
			0	
Changes in Net Funds	10,090	(1,237)	0	8,853
Financing				
Loan: Due Within 1 Year	-1,099	(596)	0	(1,695)
Loan: Due After More than 1 Year	-7,719	(1,798)	0	(9,517)
Total	1,272	(3,631)	0	(2,359)

Notes to the Accounts for the Year Ended 31 July 2014

29. Financial Instruments

Unquoted Investments

At 31 July 2014, the College had unquoted equity investments of £821,639 which were held at cost. These consist of investments in 16 start up companies supported by the InnovationRCA Incubator.

The IncubatorRCA 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 entered into two hedging arrangements. An interest rate cap, which caps the interest rate payable on its long term loan at 5% to reduce exposure to interest rate increases. Also, in relation to the £4m loan the College entered into an interest rate swap at a fixed rate of 1.58% and matches the value of the loan balance outstanding as it reduces (see Notes 16 and 17 for details of the loans).

30. 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. No payments (2012/13 £430.30) in respect of incidental expenses were made to Council members during the year.

During the year, the College awarded design work to Research Studios, a firm owned by Professor Neville Brody, who is also Dean of the School of Communication at the College. Overall, the amount payable to Research Studios for the work is £58,092 (2012/13 £61,740).

31. Access Funds

	2013/14	2012/13
	£'000s	£'000s
Access Funds have not been included in the Income and Expenditure Account:		
Balance B/F as at 1 August	5	7
Received from HEFCE	29	14
Payments made to Students	(24)	(16)
Balance C/F as at 31 July	10	5

Grants totalling £156,228 were received from HEFCE during the year for work undertaken by the National Film & Television School. These grants were passed on to the NTFS, and have not been included in the College's Accounts. The College receives an administration charge for this which is shown in other income.



Royal College of Art
Postgraduate Art & Design

2013/14

Financial Statements
For the Year Ended 31 July 14

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