

# Financial Statements

For the year ended 31 July 2013



ROYAL  
HOLLOWAY  
UNIVERSITY  
OF LONDON



## Contents

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

## Financial Highlights

	Year Ended 31 July 2013	Year Ended 31 July 2012
	£000	£000
<b>Results, Cash Flows and Reserves</b>		
Total income	<b>141,980</b>	136,759
Total expenditure	<b>136,016</b>	129,173
Operating surplus before taxation	<b>5,964</b>	7,586
as % of income	<b>4.2</b>	5.5
Historical cost surplus after taxation	<b>6,279</b>	7,902
as % of income	<b>4.4</b>	5.8
Net liquidity (cash plus current asset investments)	<b>57,736</b>	59,178
Net liquidity / (total expenditure - depreciation) days	<b>169</b>	183
External borrowing (including repayable within one year)	<b>53,905</b>	56,678
as % of income	<b>38.0</b>	41.4
General reserve	<b>71,955</b>	65,707
as % of income	<b>50.7</b>	48.0
Net cash flow from operating activities	<b>11,188</b>	17,194
as % of income	<b>7.9</b>	12.6
Payments to acquire tangible fixed assets	<b>10,952</b>	7,906
as % of income	<b>7.7</b>	5.8
<b>Other Key Statistics</b>		
	<b>Number</b>	Number
Number of full-time equivalent students	<b>8,655</b>	9,135
Average number of full-time equivalent staff	<b>1,335</b>	1,275

# Operating and Financial Review

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

## Operating Review

### Vision and Strategy

The College’s strategy is set out in its new Strategic Plan 2013-20. The vision for 2020 is:

- Our strengths and achievements are known worldwide
- Our students are independently-minded and socially responsible leaders
- We are placed amongst the top research universities
- We take full advantage of our size and flexible structures
- We work collaboratively with key partners to achieve greater mutual benefit
- Our campus environment stimulates, inspires and refreshes

Moderate student growth to 10,500 is envisaged, with an emphasis on maintaining a strong sense of community, coupled with a growth of collaborations and academic partnerships. The goal is to hold the current ranking amongst the world’s top 200 universities and to be consistently recognised as a top 20 UK university in major league tables. Research excellence will inform high-quality taught courses. Major improvements to facilities are planned starting with a major new library building.

Four *strategic themes* have been identified to realise the vision. Objectives and key performance indicators (summarised below) have been identified for each of the themes:

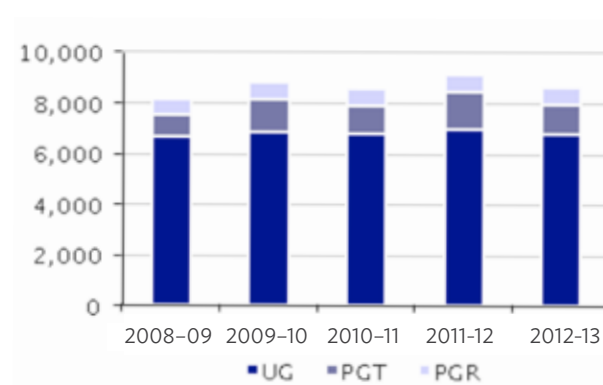
- *Reputation, impact and engagement:* raising the profile of the College, increasing the number of undergraduate entrants making Royal Holloway their first choice, and developing a range of high impact partnerships
- *Our Education:* improving satisfaction levels for taught courses in undergraduate and postgraduate surveys, and increasing the proportion of graduates in graduate level employment
- *Our Student Experience:* raising the overall satisfaction level in the National Student Survey and the Student Barometer for living experience and the level of participation in the Passport scheme which recognises non-academic achievements
- *Our Research:* maintaining research excellence as measured in the Research Excellence Framework (REF) and growth in research income and research students.

## Operating Results

### Student Numbers

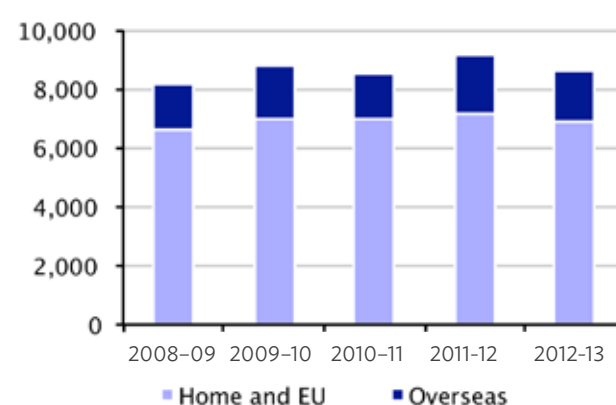
Student numbers were 8,655 full-time equivalents (FTEs) in 2012-13 compared to 9,135 FTEs in 2011-12. In 2012-13 postgraduate student FTEs were 21% of the total, including research postgraduates at 8%. (figure 1).

Figure 1: Student FTEs by category of undergraduate and postgraduate teaching and research



There was a decrease of 212 Home and EU (HEU) FTEs due to a reduction in the regulated numbers and the opening up of greater competition. Overseas student numbers decreased by 268, in line with the target following an overshoot in 2011-12. (figure 2)

Figure 2: Student FTEs by domicile



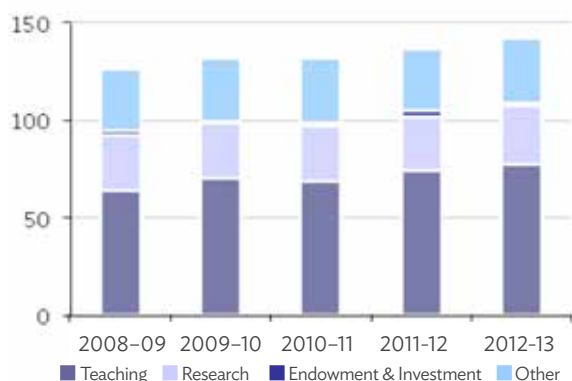
### Income and Operating Surplus

Total income increased by 4% from £136.8m in 2011-12 to £142.0m in 2012-13, with increases in both teaching and research income. In 2012-13 teaching contributed 55% to total income and research income was 21% of the total (figure 3).

# Operating and Financial Review

## (continued)

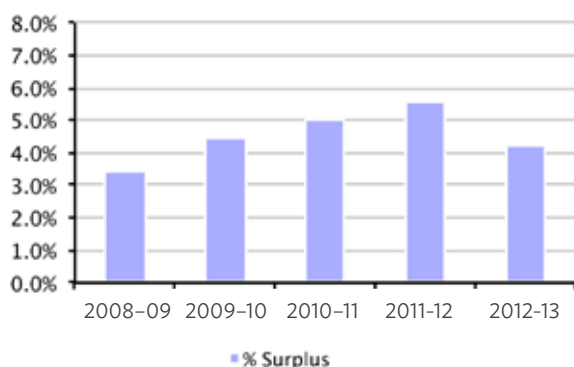
Figure 3: Annual income by major category (£m)



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

The operating surplus in 2012-13 was £6.0m compared to £7.6m in 2011-12. In figure 4, the operating surplus as a proportion of income is set out for the last five years. In each year it has exceeded 3% of income, and was 4.2 % in 2012-13, compared to 5.5% in the previous year. The surpluses provide funds for investment in the College estate and infrastructure.

Figure 4: Annual operating surplus as a proportion of income



### Capital Programme and Sustainable Development

A new Drama theatre, the Caryl Churchill Theatre, opened in April 2013, providing a 200-seat theatre, with up-to-date technical facilities, rehearsal spaces and a large workshop. A second major phase of the project to repurpose the Victorian Boiler House building has been undertaken to provide a large multi-purpose hall and 250-seat lecture space using retractable seating. This work was carried out after the financial year end and the hall opened in October 2013. Its seating capacity removes a constraint to the expansion of departments able to increase their intake of uncapped undergraduate students meeting the ABB+ and equivalent threshold.

The final phases of a major £5m refurbishment and upgrade of the residences in the Founder’s building are due to be completed for the start of the 2013-14 session. The project includes new furniture, pantries and bathroom facilities.

A design team has been appointed for the construction of a new library, careers, retail, café and student support space. This will be a major new building located opposite Founder’s with an estimated cost of £35m planned to open for the 2016-17 session.

The College is developing a new site master plan for the main campus, with the aim of submitting a plan to Runnymede Borough Council by the end of the calendar year. This will provide a framework for the long-term development of the estate. It includes a range of new academic buildings and additional residences and the improvement of the campus environment for pedestrians.

The College is committed to the principles and practices of sustainable development and has set demanding targets in its strategy for a reduction of its carbon footprint.

### Principal Risks and Future Prospects

The strategic plan identifies the top five risks as: lack of awareness of Royal Holloway; failing to achieve student number targets; a decline in research ranking through the REF; changes to funding which threaten research income; and facilities not matching our needs.

A number of measures are in place and are being planned to address these risks. These include substantial investments in and attention to communications, the College’s identity and brand, and the student recruitment and admissions strategies and processes. There have been intensive preparations for the REF including the recruitment and retention of high-calibre staff, and strategic research partnerships and alliances are being developed. A long-term estates development plan is being put in place and investments are being made to deal with immediate needs.

The indications for student recruitment in 2013-14 are that HEU undergraduate and postgraduate intake numbers will be at or a little below the level of admissions in 2012-13, while overseas intakes will increase moderately at undergraduate and postgraduate level.

The opening up of competition for domestic undergraduates is creating challenges and the College needs to achieve higher undergraduate intakes in order to support the capital investments that are needed. Within the College there are a number of highly-rated departments in areas of demand for ABB+ students, while others are experiencing a shortfall in demand. It will be important to be able respond to these changes in a flexible way and ensure that programmes reflect demand, as well as seeking opportunities to diversify teaching income. In Management, a programme taught in Singapore has been launched in collaboration with Kaplan Asia Pacific and its first intake was above target.

# Operating and Financial Review

(continued)

The 2013 National Student Survey outcome was an improvement in the overall satisfaction rating of 89% compared to 88% in 2012, the fourth consecutive year of improvement.

The quality of the College's research is demonstrated through a growth in its research income in a constrained funding environment, and the award in the year of one of only two national doctoral training centres in Cyber Security, together with Oxford University.

The multi-employer pension schemes, USS and SAUL, will be subject to a triennial valuation in March 2014. Both schemes have reported substantial interim deficits since their last valuation, due to the increase in the value of their liabilities arising from low gilt rates. If this position persists additional contributions may be required. The outcome of the valuation exercises is expected during 2015 with any changes likely to be effective in 2015-16.

## Financial Review

### Scope of the Financial Statements

The financial statements comprise the consolidated results of the College (including funds for which the College is a trustee) and its subsidiary company Royal Holloway Enterprise Limited, for the year ended 31 July 2013.

### Results for the Year

In summary, the consolidated results were:

£m	2012-13	2011-12	Change
Income	<b>142.0</b>	136.8	5.2
Expenditure	<b>136.0</b>	129.2	6.8
Surplus	<b>6.0</b>	7.6	(1.6)

After tax and adjusting for income transferred to accumulated income within endowments, the surplus retained within general reserves was £5.9m compared with £7.6m for 2011-12.

### HEFCE Grants

Income from the Higher Education Funding Council for England (HEFCE) decreased by £5.6m (14%) to £33.1m. The main movements were a reduction in Teaching Grant of £5.1m and a fall in Deferred Capital Grants released of £0.3m. These reflect the ongoing transfer of teaching income to tuition fees and reduction in the level of HEFCE capital grants.

### Tuition Fees

Income from tuition fees and education contracts increased by £8.5m (16%) to £62.2m from £53.7m in 2011-12. There was a decrease in Home/EU student FTEs of 3% from 7,131 to 6,919, although fee income increased by 40% as a result of the introduction of fees of £9k for HEU undergraduates and higher charges for postgraduate programmes. Overseas student FTEs

decreased by 13% to 1,736 FTEs, and overseas fee income fell by £1.3m. This followed a £5.1m increase in the previous year, when numbers overshot the target. Short Course and Other Fees were £3.0m compared with £2.9m the previous year.

### Other Income

Income from research grants and contracts increased from £14.5m in 2011-12 to £16.2m in 2012-13. Research Council funding was £0.5m lower at £7.8m, reflecting tighter funding, while income from other sources increased by £2.2m, including £1.0m from EC grants and £0.7m from commercial sources.

Other Operating Income was £1.9m higher at £28.7m compared with £26.8m in 2011-12. This included an increase of £0.8m in income from residences, catering and conferences, attributable to an inflationary increase in student residence fees and improved catering sales income. Summer letting income included income from the 2012 Olympic and Paralympic village located at the College for rowing and canoeing and strong 2013 summer trading, with important customers returning. Other Income included £0.8m from a general purposes bequest which has been allocated to the programme to improve sports facilities.

Endowment and investment income decreased by £1.3m from £3.1m to £1.8m. The income in 2011-12 was increased by a one-off adjustment of £1.0m to release income that had been held against management fees under Endowment Cash. Underlying investment income was £1.3m in 2012-13 compared with £1.4m in 2011-12. Interest income was down £0.1m with market interest rates continuing to run at low levels.

### Expenditure

Overall, expenditure increased by £6.8m to £136.0m from £129.2m in 2011-12.

Staff costs increased by £3.6m (5.0%) to £77.0m. Average staff FTEs were 4.7% higher at 1,335 compared with 1,275 in 2011-12, including 26 more academic and research staff. There was a nationally-agreed pay increase from August 2012 of 1% for all staff and additional costs as a result of pay increments and promotions. Staff costs included £0.6m for staff restructuring costs compared with £0.9m in 2011-12.

Other operating expenses increased by £3.1m (7%) to £45.9m from £42.8m in 2011-12. Key areas of increase were under student awards and facilities (£2.2m), mainly from increased support under the OFFA arrangements and for postgraduate support, and general educational costs (£0.8m), for student recruitment and fees waived; heat light and power (£0.4m); and premises costs (£0.8m), due to higher expenditure on contract cleaning in place of an agency staffing arrangement (shown in staff related expenditure in 2011-12, which therefore fell in 2012-13). Non-capitalised equipment expenditure was £1.1m lower following an audio-visual upgrade programme in 2011-12, but there was an increase in major laboratory equipment expenditure (included in fixed assets) in academic departments following the last planning round review.

# Operating and Financial Review

## (continued)

Depreciation costs increased by £0.2m (2%) to £11.0m. Interest costs were marginally lower at £2.2m, due to the repayment of loans during the year. Exposure to variable interest rates for £40m of the loans is hedged by fixed rate interest swaps. There is some exposure to LIBOR interest rate movements on the remaining borrowing, but rates were stable during the year.

### Capital Investment

Capital investment in the year was £11.0m, financed by capital grants of £1.5m and £9.5m cash. Building projects included the completion of the Drama theatre, continuation of teaching space and toilet refurbishments and further phases of a major project to refurbish Founder's student accommodation. Equipment related expenditure included £0.8m on academic equipment, £1.0m on a new Finance system and £1.1m on other IT projects.

### Cash Flow and Liquid Assets

The net cash flow generated from operating activities was £11.2m. Capital expenditure was £11.0m, for which there were capital grants of £1.5m, and loan repayments were £2.8m. The total of current asset cash and current asset investments (cash held on deposit) decreased by £1.5m to £57.7m.

### Investment Performance

The balance sheet value of the College's endowment assets investments at the year-end increased by £3.9m to £73.6m from £69.7m in 2011-12. This was due to the appreciation of market values during the year. A full revaluation of the Picture Collection was carried out in July 2011 and there was no change to the balance sheet value in 2012-13.

The endowment investments (excluding the Picture Collection) are managed by two fund managers, Aberdeen Asset Management (AAM) and Newton Investment Managers (NIM). Investment performance is monitored by the Investment Committee advised by WM Performance Services. For the year to 30 June 2013, AAM achieved a total return of 10.7% and NIM produced a return of 14.0%. These were above the target for a total return of 8.5% per annum over a five-year period, but below the WM Charity Universe return for the year of 15.2%.

Professor P Layzell  
Principal

Stephen Cox  
Chairman of Council



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

## Charitable status

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

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

## Education, access and widening participation

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

Fees to Home and EU (HEU) students are charged at the rates permitted by the regulations, and overseas student fees and other discretionary fees take account of the competitive market and the requirement for activities to cover their full costs. A wide range of support for fees and living costs is provided in order to give opportunities to study at the College to those who cannot afford the fees. Under the arrangements for charging fees of £9,000 to full-time undergraduate HEU students, overseen by the Office for Fair Access, awards to students totalled £2,748k in 2012/13 (2011/12 £2,111k). Other awards from the College's resources and endowment income, mainly to support postgraduates, increased substantially to £4,159k in 2012/13 (2011/12 £3,097k). £309k (2011/12 £208k) was specifically allocated as assistance to overseas fee paying students.

The College is actively engaged in activities to widen participation in higher education. Targeted outreach activities include our 'Ladder of Learning' aspiration-raising events and residential Summer Schools for Year 9 and 10 students from low-participation neighbourhoods, under-represented groups and parents with no previous experience of Higher Education. In addition, we have a programme for primary school pupils involving one-day 'Experience University' workshops. We also seek to provide opportunities to students with non-traditional qualifications to study at the College. For example, a Science Foundation Year programme provides students, without the normal A-level entry requirements, the opportunity to undertake a study programme at a local sixth form college to gain entry for a science degree. As part of the College's undergraduate bursary programme, Access Bursaries are offered to provide additional financial support to selected students with non-traditional educational backgrounds.

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

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

## Research

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

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

- Professor George Dickson from the School of Biological Sciences has been leading a team of scientists looking into pioneering treatments of Duchenne muscular dystrophy, including exon skipping. It is thought that by skipping one or two exons, it may be possible to treat around 83% of the genetic errors causing Duchenne muscular dystrophy.
- Professor John Ellis from the department of Media Arts is working on initiatives to make archival TV material more available: EUscreen is an EU funded project to make 40,000 items from the archives of Europe's broadcasters universally available through streaming, and involving the creation of an online journal: VIEW. He received AHRC funding to develop an innovative search facility for BUFVC's millions of items of data on archival moving image and sound.
- A major focus for the new Centre for Public History, Heritage and Engagement with the Past in the next two years, will be the forthcoming 800th anniversary in 2015 of the sealing of the Magna Carta at Runnymede. Professor Nigel Saul will lead the development of local, national and international links with a range of partners and the public.

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

# Public Benefit Statement

(continued)

## **Business and community engagement**

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

Universities have important roles within their local communities. The College employs about 1,500 staff, over half of whom live within a ten-mile radius of the College. A varied programme of events and activities are offered for the community including lectures and musical events and an annual garden party; the College participates in the annual heritage day, and provides other opportunities to visit the Grade 1 listed Founder's building and the campus; and it supports cultural and social events in the local area such as the Egham Royal Show, and the Runnymede Literary Festival. It is working closely with the borough and county councils to plan the Magna Carta celebrations in 2015.

Of particular importance to community engagement are the volunteering opportunities provided to students organized through a Volunteering Manager and the Students' Union. More than 1,900 students are currently registered with the College's Community Action Volunteering Scheme and take part in a range of activities including working with charities, supporting youth and sports clubs, visiting residential homes, tutoring young refugees and undertaking projects for the local community.

## **Enriching the student experience and employment**

The College and the Students' Union provide opportunities for students to engage in a broad range of social, sporting, volunteering and intellectual activities. These enrich the student experience and are an important aspect of preparing students for their lives after graduation. The value of co-curricular activities is recognised by the Royal Holloway Passport. Students earn points through participation in co-curricular activities (40 streams in 2013-14 from 20 streams in 2012-13) and attend a compulsory coaching session to equip them to present themselves well to employers. In 2012-13 around 2,000 students (2011-12 825 students) were registered on the Passport.

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

In 2012, six months after graduation 89% (90% 2011) of our first degree students were in work or further study. 200 employers visited the campus last year, often represented by enthusiastic alumni. We are extending our range of placement schemes linked to the curriculum, in particular the establishment of 2-4 week micro-placement schemes in Media Arts and English which offered 55 placements in the creative industries in 2012-13 (25 placements in 2011-12).

## **Acting responsibly**

The College carries out its activities with the intention of avoiding detriment or harm. A Health and Safety Office is employed to ensure that there is best practice in health and safety standards including sound risk assessment practices. Research proposals involving human participants must be approved by an Ethics Committee before they can proceed. Progress is being made in a number of areas to reduce the environmental impact of the College, including the reduction of emissions and of waste sent to landfill.

# Responsibilities and Membership of Council

## Statement of Primary Responsibilities

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

## General Principles

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

## Status of members

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

## Duties of Council Members

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

## Stewardship

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

## Responsibilities of Council

### Strategy

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

### Management

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

### Audit

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

### Monitoring and Evaluation

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

### Self Evaluation

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

### Best Practice

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

# Responsibilities and Membership of Council

(continued)

## Reputation

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

## Chief Executive

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

## Secretary

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

## Employer

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

## Health & Safety

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

## Equal Opportunities

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

## Finance

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

## Legal

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

## Students

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

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

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

## Trustees

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

## Governance

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

## Financial Statements and Accounting Records

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

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

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

## Responsibilities and Membership of Council

(continued)

The Council has taken reasonable steps to:-

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

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

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

All of the current council members have taken all the steps that they ought to have taken to make themselves aware of any information needed by the College's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The council members are not aware of any relevant audit information of which the auditors are unaware.

# Responsibilities and Membership of Council

(continued)

## Membership

During the period from 1 August 2012 and up to the date of the signing of the Financial Statements, the Council had the following membership:

### Lay Members

Mr Paul Blagbrough  
Mr Stephen Cooksey (to 30 June 2013)  
Mr Stephen Cox (Chair of Council)  
Mr Gurpreet Dehal  
Mrs Christine Goodyear (from 12 October 2012)  
Mr Majid Hawa  
Dr Jackie Hunter (to 30 June 2013)  
Mrs Margaret Jack  
Mr Jeremy McIlroy (Chair of Finance Committee)  
Mr Mark Newlands  
Mr Iain Ross (Vice Chair of Council)  
Ms Chris Shoukry (from 12 October 2012)  
Mr David Spence (Chair of Audit and Compliance Committee)  
Mrs Sarah Tyacke  
Ms Colette Wilson

### Elected staff members

Mr Andy Always (to 30 September 2013)  
Professor Clare Bradley  
Mr John Brannan  
Professor David Gilbert (from 1 October 2013)  
Mr Richard Mallett (from 1 October 2012 to 30 June 2013)  
Ms Sarah Moffat (from 1 October 2013)  
Professor Anne Sheppard  
Dr Emmett Sullivan (from 1 October 2013)  
Miss Hollie White (to 30 September 2012)  
Professor Johannes Zanker (to 30 September 2013)

### Elected student members

Mr Joseph Rayment (2012/13 academic year)  
Mr Alex Cadier (2013/14 academic year)

### Ex officio members

Professor Paul Layzell, Principal  
Mr Doug German, President Students' Union (2012/2013 academic year)  
Mr Amrbeer Singh-Gill, President Students' Union (2013/2014 academic year)

## Membership of Committees

### Audit and Compliance Committee

#### Chair

Mr David Spence

#### Other Members

Mr Stephen Cooksey (to 30 June 2013)  
Mr Mark Newlands  
Ms Colette Wilson

## Council Executive

### Chair

Mr Stephen Cox

### Ex officio

Mr Iain Ross  
Mr Jeremy McIlroy  
Mr David Spence  
Professor Paul Layzell

### Other members

Mrs Margaret Jack  
Mrs Sarah Tyacke

### From 2 October 2013

#### (subsequent to merger with Nominations Committee)

Faculty Dean in attendance for business relating to Lay Membership and Honorary Awards

## Equality & Diversity Committee

### Chair

Dr Jackie Hunter (to 30 June 2013)

### Members

Mr Majid Hawa  
Professor Geoff Ward (to 16 October 2012)  
Professor Katie Normington (from 14 February 2013)  
Mr Simon Higman  
Miss Katie Kerr (as Acting Director of HR from 23 January 2012 to 31 December 2012)  
Mrs Gemma Bailey (from 1 January 2013 to 30 June 2013)  
Mrs Cheryl Newsome (from 1 July 2013)

## Finance Committee

### Chair

Mr Jeremy McIlroy

### Ex Officio

Mr Iain Ross  
Professor Paul Layzell  
Professor Rob Kemp  
Mr Simon Higman  
Mr Graeme Robinson

### Other Members

Mr Paul Blagbrough  
Mr Gurpreet Dehal  
Dr Jackie Hunter (to 30 June 2013)  
Mrs Margaret Jack

### Nominations Committee to 2 October 2013

#### (Merged with Council Executive from that date)

### Chair

Mr Stephen Cox

### Ex Officio

Professor Paul Layzell  
Mr Iain Ross  
Mr Simon Higman  
One Faculty Dean

### Other Members

Mrs Sarah Tyacke  
Mr Paul Blagbrough

## Remuneration Committee

### Chair

Mr Stephen Cox

### Ex Officio

Mr Iain Ross  
Professor Paul Layzell  
Mr Simon Higman

### Other Members

Mrs Margaret Jack  
Mrs Sarah Tyacke

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

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2013 and up to the date of approval of the financial statements, and accords with HEFCE guidelines. The process is reviewed by the College Executive Committee and the Audit and Compliance Committee, which reports directly to the Council.

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

The Council meets four times a year. Its major committees are now the Council Executive Committee, the Finance Committee, the Equality and Diversity Committee, the Audit and Compliance Committee, the Nominations and Honorary Awards Committee and the Remuneration Committee. All of these committees

are formally constituted, with terms of reference, and include lay members of Council. The constitution of the Finance Committee is determined by Statute, and stipulates that the Committee has a majority of lay members. Lay members chair all these committees.

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

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

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

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

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

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

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

The College has an Internal Audit service, which operates to standards defined in the HEFCE Code of Practice. The Internal Auditor submits regular reports to the Audit and Compliance Committee and makes an annual report to HEFCE. The reports to the Audit and Compliance Committee include the Internal Auditor's opinion on the adequacy and effectiveness of the

## Corporate Governance

system of internal control, together with recommendations for improvement. In 2012-13 the existing in-house Internal Audit service was reorganised and Grant Thornton UK LLP was appointed as Internal Auditor on an interim basis for the reporting year 2012-13. From 2013-14 Deloitte & Touche Public Sector Internal Audit Limited has been appointed as Internal Auditor, following a full tender process.

The Council's view of the effectiveness of the system of internal control is informed by the work of the Internal Auditor and the managers within the College who have responsibility for the development and maintenance of the internal control framework, and by comments made by the External Auditors in their management letter and in other reports.

During the year, a review of governance and the effectiveness of Council has been underway. A number of recommendations to improve the effectiveness of Council have been agreed and work is continuing to review governance arrangements.

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

Stephen Cox  
Chair of Council  
28 November 2013



# Independent Auditor's Report to the Council of Royal Holloway and Bedford New College

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

We have audited the financial statements of Royal Holloway and Bedford New College for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Historical Cost Surpluses, the Consolidated Statement of Total Recognised Gains and Losses, the Balance Sheets for the Group and the University, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective Responsibilities of the Council and Auditors

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, regulatory requirements and International Standards on Auditing (UK and Ireland) and the Audit Code of Practice issued by the Higher Education Funding Council for England.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

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

## Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and the College's affairs as at 31 July 2013 and of the Group's surplus of income over expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Statement of Recommended Practice: "Accounting for Further and Higher Education Institutions"

## Opinion on other matters required by the Higher Education Funding Council for England Audit Code of Practice

In our opinion, in all material respects:

- income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the College have been applied only for the purposes for which they were received; and
- income has been applied in accordance with the University's statutes and where appropriate with the applicable Financial Memorandum with the Higher Education Funding Council for England.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the Higher Education Funding Council for England Audit Code of Practice 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 Group and the College.

BDO LLP

Statutory Auditor  
Gatwick, West Sussex  
United Kingdom

Date: 29 November 2013

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

# Consolidated Income and Expenditure Account

For the year ended 31 July 2013

	Note	2012/13	2011/12
		£000	£000
<b>Income</b>			
Funding body grants	2	33,052	38,637
Tuition fees and education contracts	3	62,220	53,740
Research grants and contracts	4	16,175	14,451
Other income	5	28,716	26,826
Endowment and investment income	6	1,817	3,105
<b>Total income</b>		<b>141,980</b>	<b>136,759</b>
<b>Expenditure</b>			
Staff costs	7	76,989	73,346
Other operating expenses	8	45,866	42,826
Depreciation	11	10,996	10,819
Interest and other finance costs	9	2,165	2,182
<b>Total expenditure</b>		<b>136,016</b>	<b>129,173</b>
Surplus on continuing operations after depreciation of tangible fixed assets at valuation before taxation	22	5,964	7,586
Taxation	10	(4)	(3)
Surplus on continuing operations after depreciation of assets at valuation and taxation		5,960	7,583
Transfer (to)/from accumulated income within endowment funds	17	(31)	30
<b>Surplus for the year retained within general reserves</b>	19	<b>5,929</b>	<b>7,613</b>

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

The notes on pages 21–40 form part of the financial statements

# Consolidated Statement of Historical Cost Surpluses and Deficits

For the Year Ended 31 July 2013

		2012/13	2011/12
		£000	£000
Surplus on continuing operations before taxation		5,964	7,586
Difference between historical cost depreciation and the actual charge for the period calculated on the revalued amount	18	319	319
Historical cost surplus before taxation		6,283	7,905
Taxation	10	(4)	(3)
<b>Historical cost surplus for the period after taxation</b>		<b>6,279</b>	<b>7,902</b>

# Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2013

	Note	2012/13	2011/12
		£000	£000
Surplus on continuing operations after depreciation of tangible fixed assets at valuation		5,960	7,583
Appreciation/(impairment) of endowment asset investments	17	3,937	(90)
New endowments	17	29	169
Management fees - current year	17	(112)	(126)
Management fees - correction of previous fund allocation	17	-	(1,013)
<b>Total Recognised Gains Related to the Year</b>		<b>9,814</b>	<b>6,523</b>
<b>Reconciliation to the Movement of Reserves and Endowments</b>			
Opening reserves and endowments		160,703	154,180
Total recognised gains for the year		9,814	6,523
Closing reserves and endowments		170,517	160,703

The notes on pages 21–40 form part of the financial statements

# Consolidated and College Balance Sheets

As at 31 July 2013

	Note	Consolidated		College	
		2013	2012	2013	2012
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Tangible assets	11	<b>138,016</b>	138,060	<b>138,016</b>	138,060
<b>Endowment Assets</b>	12	<b>73,630</b>	69,745	<b>73,630</b>	69,745
<b>Current Assets</b>					
Stocks and stores		<b>282</b>	250	<b>282</b>	250
Debtors	13	<b>9,426</b>	7,109	<b>9,515</b>	7,193
Investments	21	<b>31,000</b>	14,000	<b>31,000</b>	14,000
Cash at bank and in hand	25	<b>26,736</b>	45,178	<b>26,516</b>	45,017
		<b>67,444</b>	66,537	<b>67,313</b>	66,460
<b>Creditors: Amounts Falling Due within One Year</b>	14	<b>(33,831)</b>	(33,511)	<b>(33,774)</b>	(33,494)
<b>Net Current Assets</b>		<b>33,613</b>	33,026	<b>33,539</b>	32,966
<b>Total Assets less Current Liabilities</b>		<b>245,259</b>	240,831	<b>245,185</b>	240,771
<b>Creditors: Amounts Falling Due after more than One Year</b>	15	<b>(50,556)</b>	(53,914)	<b>(50,556)</b>	(53,914)
<b>Net Assets</b>		<b>194,703</b>	186,917	<b>194,629</b>	186,857

The notes on pages 21–40 form part of the financial statements

# Consolidated and College Balance Sheets

(continued)

	Note	Consolidated		College	
		2013	2012	2013	2012
		£000	£000	£000	£000
Deferred Capital Grants	16	<b>24,186</b>	26,214	<b>24,186</b>	26,214
<b>Endowments</b>					
Permanent	17	<b>73,377</b>	69,526	<b>73,377</b>	69,526
Expendable	17	<b>253</b>	219	<b>253</b>	219
		<b>73,630</b>	69,745	<b>73,630</b>	69,745
<b>Reserves</b>					
Revaluation reserve	18	<b>24,932</b>	25,251	<b>24,932</b>	25,251
General reserve	19	<b>71,955</b>	65,707	<b>71,881</b>	65,647
		<b>96,887</b>	90,958	<b>96,813</b>	90,898
<b>Total</b>		<b>194,703</b>	186,917	<b>194,629</b>	186,857

The financial statements on pages 16 to 40 were approved and authorised for issue by Council on 28 November 2013 and signed by

Mr Stephen Cox  
Chairman of Council

Professor P Layzell  
Principal

# Consolidated Cash Flow Statement

For the year ended 31 July 2013

	Note	<u>2012/13</u>	<u>2011/12</u>
		<b>£000</b>	£000
<b>Cash Flow from Continuing Operating Activities</b>	22	<b>11,188</b>	17,194
Returns on investments and servicing of finance	23	<b>(348)</b>	(90)
Taxation	10	<b>(4)</b>	(3)
Capital expenditure and financial investment	24	<b>(10,941)</b>	(6,189)
Cash (outflow)/ inflow before financing and management of liquid resources		<b>(105)</b>	10,912
Financing:			
Capital repayments	25	<b>(2,773)</b>	(2,735)
Bank loan drawn down in year		-	272
Management of liquid resources:			
Movement on placing of investment deposits	25	<b>(17,000)</b>	7,000
<b>(Decrease)/increase in cash in the period</b>		<b>(19,878)</b>	15,449
<b>Reconciliation of Net Cash Flow to Movement in Net Debt</b>			
Increase in cash in the period		<b>(19,878)</b>	15,449
Cash outflow from movement in debt financing		<b>2,773</b>	2,463
Cash outflow/(inflow) from management of liquid resources		<b>17,000</b>	(7,000)
<b>(Decrease)/increase in net debt in period</b>	25	<b>(105)</b>	10,912
Net debt at 1 August	25	<b>6,111</b>	(4,801)
<b>Net debt at 31 July</b>	25	<b>6,006</b>	6,111

The notes on pages 21–40 form part of the financial statements

# Notes to the Financial Statements

## 1 Statement Of Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

### 1 Accounting Convention

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

### 2 Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the College, its subsidiary undertaking Royal Holloway Enterprise Ltd for the financial year to 31 July 2013.

### 3 Recognition of Income

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

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

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

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

### 4 Pension Schemes

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

## 5 Foreign Currencies

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

## 6 Land and Buildings

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

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

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

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

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

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

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

# Notes to the Financial Statements

(continued)

## 7 Depreciation of Equipment, Furniture and Fittings

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

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

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

## 8 Interest Cap and Interest Rate Swaps

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

## 9 Picture Collection

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

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

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

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

## 10 Investments

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

## 11 Stocks

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

## 12 Taxation Status

Royal Holloway is an exempt charity within the meaning of Schedule 2 of the Charities Act 2011 and as such is a charity within the meaning of Section 467 of the Corporation Tax Act 2010. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by parts two and three of part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value Added Tax.

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



# Notes to the Financial Statements

(continued)

	2012/13	2011/12
	£000	£000
<b>2 Funding Body Grants</b>		
Recurrent grant		
Teaching	15,400	20,540
Research	13,392	13,510
	28,792	34,050
Specific grants	936	953
Deferred capital grants released in year:		
Buildings (note 16)	2,251	2,257
Equipment (note 16)	1,073	1,377
	33,052	38,637

Royal Holloway is funded by the Higher Education Funding Council for England.

<b>3 Tuition Fees and Education Contracts</b>		
Full-time students charged home and EU fees	34,231	24,536
Full-time students charged overseas fees	23,796	25,069
Part-time students	937	1,006
Research training support grants	239	228
Short course and other fees	3,017	2,901
	62,220	53,740
<b>4 Research Grants and Contracts</b>		
Research Council grants	7,794	8,255
Other grants and contracts	8,381	6,196
	16,175	14,451

The income includes deferred capital grants released of £126k (note 16) (2011/12 £199k).

<b>5 Other Income</b>		
Residences, catering and conferences	22,906	22,120
Other services rendered	926	809
Released from deferred capital grants (note 16)	56	74
Other income	4,828	3,823
	28,716	26,826

## Notes to the Financial Statements

(continued)

	<u>2012/13</u>	<u>2011/12</u>
	£000	£000
<b>6 Endowment and Investment Income</b>		
Income from permanent endowment asset investments	1,274	1,439
Income from expendable endowment asset investments	8	3
Total income from endowments (note 17)	<u>1,282</u>	<u>1,442</u>
Management fees - correction of previous fund allocation	-	1,013
	<u>1,282</u>	<u>2,455</u>
Other interest receivable	535	650
	<u>1,817</u>	<u>3,105</u>

# Notes to the Financial Statements

(continued)

	<u>2012/13</u>	<u>2011/12</u>
	£000	£000
<b>7 Staff Costs</b>		
<b>Staff costs</b>		
Wages and salaries	59,647	57,041
Social security costs	5,238	4,902
Other pension costs (note 26)	12,104	11,403
	<u>76,989</u>	<u>73,346</u>

## Emoluments of the Principal

Including benefits in kind

Remuneration

College pension contributions

Total emoluments

	<u>Number</u>	<u>Number</u>
Remuneration of other Higher Paid Staff, excluding employer's pension contributions:		
£100,000 - £109,999	11	5
£110,000 - £119,999	4	2
£120,000 - £129,999	2	3
£130,000 - £139,999	2	1
£140,000 - £149,999	1	-

Employees are able to opt for a reduced contractual salary, with the College then making the pension contribution, formerly paid by the employee, as additional employer's contributions. The disclosures in this note reflect the reduced contractual salary and increased employer contribution of £3,631k (2011/12 £3,365k) in total, as applicable.

	<u>Number</u>	<u>Number</u>
Average staff numbers by major category		
Academic, research and other related grades	653	627
Technical	62	62
Administrative and other	509	476
Manual and ancillary	111	110
College	<u>1,335</u>	<u>1,275</u>

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

## Compensation Payments for loss of office

Staff Costs include staff restructuring costs of £559k (2011/12 £882k) paid or accrued as compensation for loss of office, of which £137k (2011/12 £nil) relates to a higher paid employee. The cost is financed from general College resources.

# Notes to the Financial Statements

(continued)

	<u>2012/13</u>	<u>2011/12</u>
	£000	£000
<b>8 Other Operating Expenses</b>		
Staff related expenditure	4,382	5,295
Teaching and research consumables and related costs	3,182	2,767
Books, periodicals and other library costs	1,903	1,832
Student maintenance, awards and facilities	11,905	9,733
Computer operating	1,476	1,423
General educational	2,381	1,625
Administrative	4,872	4,692
Federal costs	837	767
Heat, light, power and water	3,132	2,687
Other premises related costs	6,471	5,656
Non-capitalised equipment	1,073	2,124
Auditors' remuneration - audit fees	56	54
Auditors' remuneration in respect of other services	3	3
Residence and catering direct costs of sale and related costs	2,689	2,563
Other expenses	1,504	1,605
Total other operating expenses before taxation	<u>45,866</u>	<u>42,826</u>

## Payments to Trustees

Council members (the trustees) received no payment for acting as trustees in 2011/12 and no such payment was made in prior years. In 2012/13 expenses of £2k (2011/12 £4k) were paid to 4 (2011/12 - 7) non-staff trustees for travel, subsistence and business entertaining.

## 9 Interest and Other Finance Costs

Loans wholly repayable within five years	17	23
Loans not wholly repayable within five years	2,148	2,159
	<u>2,165</u>	<u>2,182</u>

Interest payable includes £1,675k paid on interest rate swaps (2011/12 £1,653k).

## 10 Taxation

UK Corporation Tax	<u>4</u>	<u>3</u>
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Royal Holloway Enterprise Ltd gift aids taxable profits to the College. The tax charge is a provision for Corporation Tax on the retained taxable profits of the subsidiary. As explained in the accounting policies, the College is potentially exempt from taxation because of its charitable status and no taxation on income or capital gains is payable for 2012/13 or 2011/12.

# Notes to the Financial Statements

(continued)

## 11 Tangible Assets

	Consolidated and College				Total
	Freehold	Short Leases	Furniture & Fittings	Equipment	
	£000	£000	£000	£000	£000
<b>At 1 August 2012</b>					
Valuation	60,170	1,800	795	–	62,765
Cost	121,737	2,927	15,844	25,043	165,551
	181,907	4,727	16,639	25,043	228,316
Additions at cost	4,915	2,634	–	3,403	10,952
Disposals	–	–	–	(4,588)	(4,588)
<b>At 31 July 2013</b>					
Valuation	60,170	1,800	795	–	62,765
Cost	126,652	2,927	18,478	23,858	171,915
	186,822	4,727	19,273	23,858	234,680
<b>Depreciation</b>					
At 1 August 2012	58,878	1,480	9,398	20,500	90,256
Charge for year (see note below)	7,178	257	1,385	2,176	10,996
Eliminated on disposals	–	–	–	(4,588)	(4,588)
	66,056	1,737	10,783	18,088	96,664
<b>Net Book Value</b>					
<b>At 31 July 2013</b>	<b>120,766</b>	<b>2,990</b>	<b>8,490</b>	<b>5,770</b>	<b>138,016</b>
At 1 August 2012	123,029	3,247	7,241	4,543	138,060
<b>Historical Net Book Value</b>					
<b>At 31 July 2013</b>	<b>96,856</b>	<b>1,968</b>	<b>8,490</b>	<b>5,770</b>	<b>113,084</b>
At 1 August 2012	98,836	2,189	7,241	4,543	112,809

The depreciation charge has been funded by

Deferred capital grants released (note 16)	3,506
Revaluation reserve released (note 18)	319
General income	7,171
	10,996

At 31 July 2013 freehold land and buildings at cost included £1,996k (2012 £2,124k) in respect of assets in the course of construction, primarily the refurbishment of Founder's bedrooms and the Boiler House.

At 31 July 2013 freehold land and buildings at cost included £1,320k of capitalised finance costs (2012 £1,320k).

### Heritage Assets

The College does not have any material heritage assets to disclose as tangible assets. The College's Picture Collection which is displayed in the Picture Gallery contributes to the appeal of the venue for functions and tours. The Collection was left to the College by its Founder, Thomas Holloway, and is disclosed as an endowment asset (note 12).

# Notes to the Financial Statements

(continued)

## 12 Endowment Assets

	Consolidated and College	
	2013	2012
	£000	£000
Balance at 1 August 2012	69,745	70,835
Additions and income	8,931	6,109
Disposals and expenditure	(8,983)	(7,109)
Appreciation/(impairment) of investments (note 17)	3,937	(90)
Balance at 31 July 2013	73,630	69,745
Represented by:		
Fixed interest at valuation	13,605	12,416
Equities at valuation	28,595	24,463
Fixed interest and equities	42,200	36,879
Cash and Bank balances	2,175	3,611
Total Investments (note 17)	44,375	40,490
Picture Collection (see note below and note 17)	29,255	29,255
Balance at 31 July 2013	73,630	69,745
Fixed interest and equities at cost	36,668	34,836

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

# Notes to the Financial Statements

(continued)

	Consolidated		College	
	2013	2012	2013	2012
	£000	£000	£000	£000
<b>13 Debtors</b>				
Trade debtors	<b>2,488</b>	1,679	<b>2,392</b>	1,636
Amounts owed by subsidiary undertaking	-	-	<b>185</b>	127
Other debtors- interest cap	<b>63</b>	111	<b>63</b>	111
Prepayments and accrued income	<b>6,875</b>	5,319	<b>6,875</b>	5,319
	<b>9,426</b>	7,109	<b>9,515</b>	7,193
<b>14 Creditors: Amounts Falling Due Within One Year</b>				
Secured and unsecured loans	<b>3,949</b>	3,404	<b>3,949</b>	3,404
Payments received on account	<b>3,828</b>	3,710	<b>3,828</b>	3,710
Other creditors	<b>8,641</b>	8,972	<b>8,641</b>	8,972
Social security, other taxation and pension contributions payable	<b>3,088</b>	2,972	<b>3,077</b>	2,969
Accruals	<b>792</b>	1,412	<b>746</b>	1,398
Deferred income	<b>13,533</b>	13,041	<b>13,533</b>	13,041
	<b>33,831</b>	33,511	<b>33,774</b>	33,494

Unsecured loans include interest-free repayable grants totalling £427k from the Higher Education Council for England repayable within one year (2012 £427k)

# Notes to the Financial Statements

(continued)

## 15 Creditors: Amounts Falling Due After More than One Year

	Consolidated		College	
	2013	2012	2013	2012
Unsecured loans repayable after one year and within five years	<b>6,933</b>	6,242	<b>6,933</b>	6,242
Unsecured loans repayable after five years	<b>21,941</b>	24,088	<b>21,941</b>	24,088
Secured loans repayable after one year and within five years	<b>7,350</b>	7,697	<b>7,350</b>	7,697
Secured loans repayable after five years	<b>13,732</b>	15,247	<b>13,732</b>	15,247
	<b>49,956</b>	53,274	<b>49,956</b>	53,274
Deferred income	<b>600</b>	640	<b>600</b>	640
	<b>50,556</b>	53,914	<b>50,556</b>	53,914

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

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

After one year and within two years	<b>3,635</b>	3,423	<b>3,635</b>	3,423
After two years and within five years	<b>10,648</b>	10,516	<b>10,648</b>	10,516
After five years and within ten years	<b>15,661</b>	15,029	<b>15,661</b>	15,029
After ten years	<b>20,012</b>	24,306	<b>20,012</b>	24,306
	<b>49,956</b>	53,274	<b>49,956</b>	53,274

At the balance sheet date the College had committed to loan facilities totalling £53,905k which have been fully drawn down. The College had interest rate swaps and an interest rate cap to reduce its variable interest rate exposure on these loans to the following extent:

Terms:	Amount	Rate	Expiry
	£000	%	
Effective at the balance sheet date:			
Swaps:	5,000	4.48	1 September 2026 (option for bank to terminate in 2016)
	5,000	4.82	1 September 2017
	5,000	4.818	1 September 2019
	5,000	4.65	1 September 2022
	10,000	4.82	1 December 2024
	5,000	4.55	1 September 2027
	5,000	4.88	1 September 2029
Cap:	10,000	6.00	1 December 2014
	<b>50,000</b>		



# Notes to the Financial Statements

(continued)

## 16 Deferred Capital Grants

	Consolidated and College		
	Funding Council	Other Grants and Benefactions	Total
	£000	£000	£000
At 1 August 2012			
Buildings	22,221	815	<b>23,036</b>
Equipment	3,074	104	<b>3,178</b>
Total	<u>25,295</u>	<u>919</u>	<u><b>26,214</b></u>
Grants receivable			
Buildings	1,176	-	<b>1,176</b>
Equipment	76	226	<b>302</b>
Total	<u>1,252</u>	<u>226</u>	<u><b>1,478</b></u>
Release to income and expenditure for year			
Buildings (notes 2 and 5)	(2,251)	(58)	<b>(2,309)</b>
Equipment (notes 2, 4 and 5)	(1,073)	(124)	<b>(1,197)</b>
Total	<u>(3,324)</u>	<u>(182)</u>	<u><b>(3,506)</b></u>
At 31 July 2013			
Buildings	21,146	757	<b>21,903</b>
Equipment	2,077	206	<b>2,283</b>
Total	<u>23,223</u>	<u>963</u>	<u><b>24,186</b></u>

The release of Other Grants and Benefactions for the year was £126k to Research Grants and Contracts (note 4) and £56k to Other Income (note 5).

# Notes to the Financial Statements

(continued)

## 17 Endowments

	Consolidated and College				2013	2012
	Unrestricted Permanent	Restricted Permanent	Total Permanent	Restricted Expendable	Total	Total
	£000	£000	£000	£000	£000	£000
At 1 August 2012						
Capital	2,454	66,041	68,495	207	<b>68,702</b>	69,437
Accumulated income	-	1,031	1,031	12	<b>1,043</b>	1,398
	<u>2,454</u>	<u>67,072</u>	<u>69,526</u>	<u>219</u>	<b>69,745</b>	<u>70,835</u>
New endowments	-	29	29	-	<b>29</b>	169
Income for year (note 6)	86	1,188	1,274	8	<b>1,282</b>	1,442
Expenditure for year	(86)	(1,144)	(1,230)	(21)	<b>(1,251)</b>	(1,472)
	-	44	44	(13)	<b>31</b>	(30)
Appreciation/(impairment) of investments (note 12)	202	3,688	3,890	47	<b>3,937</b>	(90)
Management fees - current year	-	(112)	(112)	-	<b>(112)</b>	(126)
Management fees - correction of previous fund allocation	-	-	-	-	-	(1,013)
At 31 July 2013	<u>2,656</u>	<u>70,721</u>	<u>73,377</u>	<u>253</u>	<b>73,630</b>	<u>69,745</u>
Represented by:						
Capital	2,656	69,646	72,302	254	<b>72,556</b>	68,702
Accumulated income	-	1,075	1,075	(1)	<b>1,074</b>	1,043
	<u>2,656</u>	<u>70,721</u>	<u>73,377</u>	<u>253</u>	<b>73,630</b>	<u>69,745</u>
Hilda Martindale Educational Trust	-	963	963	-	<b>963</b>	889
Other scholarship, prize and fellowship funds	-	6,194	6,194	253	<b>6,447</b>	5,993
Founder's Endowment Fund	-	34,309	34,309	-	<b>34,309</b>	31,154
Other funds	2,656	-	2,656	-	<b>2,656</b>	2,454
Total endowment asset investments (note 12)	<u>2,656</u>	<u>41,466</u>	<u>44,122</u>	<u>253</u>	<b>44,375</b>	<u>40,490</u>
Founder's Picture Collection (note 12)	-	29,255	29,255	-	<b>29,255</b>	29,255
	<u>2,656</u>	<u>70,721</u>	<u>73,377</u>	<u>253</u>	<b>73,630</b>	<u>69,745</u>

The income of £1,282k received in respect of restricted endowments was credited in full to the income and expenditure account; £1,251k was spent in the year (2011/12 £1,472k) and the unspent income of £31k (2011/12 excess expenditure £30k) was transferred to the funds.

# Notes to the Financial Statements

(continued)

## 17 Endowments (continued)

### Founders Endowment Fund

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

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

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

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

	£000
Balance brought forward	31,154
Income	967
Expenditure	(967)
Appreciation of investments	3,264
Management fees - current year	(109)
Balance carried forward	34,309

## 18 Revaluation Reserve

	Consolidated		College	
	2013	2012	2013	2012
	£000	£000	£000	£000
Revaluations				
At 1 August and 31 July	<b>34,198</b>	34,198	<b>34,198</b>	34,198
Contributions to depreciation				
At 1 August	<b>(8,947)</b>	(8,628)	<b>(8,947)</b>	(8,628)
Released in year (note 11 and 19)	<b>(319)</b>	(319)	<b>(319)</b>	(319)
Net revaluation amount				
At 1 August and 31 July	<b>24,932</b>	25,251	<b>24,932</b>	25,251

## 19 Movement on General Reserves

### Income and Expenditure Account Reserve

At 1 August	65,707	57,775	65,647	57,726
Surplus for the year transferred to general reserves	5,929	7,613	5,915	7,602
Transfer from revaluation reserve (note 18)	319	319	319	319
Balance at 31 July	<b>71,955</b>	65,707	<b>71,881</b>	65,647

# Notes to the Financial Statements

(continued)

## 20 Capital Commitments

	Consolidated		College	
	2013	2012	2013	2012
	£000	£000	£000	£000
Commitments contracted at 31 July	1,639	3,100	1,639	3,100
Authorised but not contracted at 31 July	-	576	-	576
	<b>1,639</b>	<b>3,676</b>	<b>1,639</b>	<b>3,676</b>

The amounts contracted consist of £1,245k for the refurbishment of Founder's bedrooms and £394k for the development of the Boiler House.

## 21 Investments

### (i) Fixed Asset Investments

Name	Country of Incorporation	Principal Activity	% of shares held by Group & College
<b>Subsidiary Undertakings</b>			
Royal Holloway Enterprise Ltd	Great Britain	Consultancy	100
<b>Associates and Joint ventures</b>			
Holloway Immunology Limited	Great Britain	Immunology	51
Reelives Limited	Great Britain	Internet	19

Holloway Immunology Limited has not traded since incorporation and is exempt from audit. During the year Royal Holloway's shareholding in Reelives Limited reduced from 40% to less than 20%

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

### (ii) Current Asset Investments

	Consolidated		College	
	2013	2012	2013	2012
	£000	£000	£000	£000
Cash deposits maturing within one year (note 25)	31,000	14,000	31,000	14,000

# Notes to the Financial Statements

(continued)

## 22 Reconciliation of Consolidated Operating Surplus to Net Consolidated Cash Inflow from Operating Activities

	<u>2012/13</u>	<u>2011/12</u>
	£000	£000
Surplus before tax on continuing activities	5,964	7,586
Depreciation (note 11)	10,996	10,819
Deferred capital grants released to income (note 16)	(3,506)	(3,907)
Endowment and Investment income (note 6)	(1,817)	(3,105)
Interest payable (note 9)	2,165	2,182
(Increase)/decrease in stocks	(32)	31
(Increase)/decrease in debtors	(2,317)	1,664
(Decrease)/Increase in creditors (excluding loans)	(265)	1,924
	<u>11,188</u>	<u>17,194</u>

## 23 Returns on Investments and Servicing of Finance

Income from endowments (note 17)	1,282	1,442
Other interest received (note 6)	535	650
Interest paid (note 9)	(2,165)	(2,182)
	<u>(348)</u>	<u>(90)</u>

No interest paid has been capitalised in the year (2011/12 nil).

## 24 Capital Expenditure and Financial Investment

Payments to acquire tangible assets (note 11)	(10,952)	(7,906)
Payments to acquire endowment asset investments:		
- Additions and income (note 12)	(8,931)	(6,109)
- Cash outflow (note 12)	(1,436)	(956)
Total payments to acquire fixed and endowment asset investments	(21,319)	(14,971)
Receipts from sales of endowment asset investments (note 12)	8,983	7,109
Deferred capital grants received (note 16)	1,478	1,630
Endowments received (note 17)	29	169
Management fees (note 17)	(112)	(126)
	<u>(10,941)</u>	<u>(6,189)</u>

# Notes to the Financial Statements

(continued)

## 25 Analysis of Changes in Net Debt

	At 1 August 2012	Cash Flows	Other non cash changes	At 31 July 2013
	£000	£000	£000	£000
Endowment assets (note 12)	3,611	(1,436)	-	<b>2,175</b>
Cash at bank and in hand	45,178	(18,442)	-	<b>26,736</b>
	48,789	(19,878)	-	<b>28,911</b>
Debt due within one year (note 14)	(3,404)	2,773	(3,318)	<b>(3,949)</b>
Debt due after one year (note 15)	(53,274)	-	3,318	<b>(49,956)</b>
	(56,678)	2,773	-	<b>(53,905)</b>
Current asset investments (note 21)	14,000	17,000	-	<b>31,000</b>
	6,111	(105)	-	<b>6,006</b>

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

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

## 26 Pension Schemes

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

	2012/13 £000	2011/12 £000
Contributions to USS	<b>10,674</b>	9,972
Contributions to SAUL	<b>1,392</b>	1,395
Other pension contributions and costs	<b>38</b>	36
Total Pension Cost (note 8)	<b>12,104</b>	11,403

# Notes to the Financial Statements

(continued)

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

The College offers a pension salary sacrifice arrangement. Employees are able to opt for a reduced contractual salary, with the College then making the pension contribution, otherwise payable by the employee, as additional employer's contributions. The amount relating to salary sacrifice in 2012/13 was £3,631k (2011/12 £3,365k).

The schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. Because of the mutual nature of the scheme, the schemes' assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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

## USS

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from

market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

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

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS were a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

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

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has

# Notes to the Financial Statements

(continued)

shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

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

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

## **New Entrants**

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

## **Normal pension age**

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

## **Flexible Retirement**

Flexible retirement options were introduced.

## **Member contributions increased**

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

## **Cost sharing**

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

## **Pension increase cap**

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

The actuary has estimated that the funding level as at 31 March

2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

At 31 March 2013, USS had over 148,000 active members and the College had 990 active members participating in the scheme.

The total USS pension cost for the College was £10,674k (2011/12 £9,972k). The contribution rate payable by the College was 16% of pensionable salaries.



# Notes to the Financial Statements

(continued)

## SAUL

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

The main assumptions used to assess the technical provisions were:

Discount rate	
pre-retirement	6.80% pa
post-retirement	4.70% pa
General Salary Increases	3.75% pa until 31 March 2014,
(an additional allowance is made for promotional Salary Increases)	4.50% pa thereafter
Retail Prices Index inflation ("RPI")	3.50% pa
Consumer Price Index Inflation ("CPI")	2.80% pa
Pension Increases in payment (excess over GMP)	2.80% p.a.
Mortality – base table	SAPS Normal (year of birth) tables with an age rating of + 0.5 years for males and – 0.4 years for females
Mortality – future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% p.a.

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

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

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

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

# Notes to the Financial Statements

(continued)

## 27 Access Funds

	<u>2012/13</u>	<u>2011/12</u>
	£000	£000
Balance unspent at 1 August 2011	18	22
Funding Council grants	91	103
	<u>109</u>	<u>125</u>
Disbursed to students	(88)	(107)
	<u>21</u>	<u>18</u>

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

## 28 Related Party Transactions

Royal Holloway paid grants of £770k (2011/12 £658k) to Royal Holloway Students' Union.



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