Financial Statements

for the year ended 31 July 2012

Queen Mary, University of London

Contents

PRINCIPAL'S REPORT

The year 11/12 has seen Queen Mary make further progress with regard to the ambitions set out in the Strategic Plan 2010-2015. As a headline statement on progress, QM's placement within the 100-150 group of the Times Higher Education ranking of world universities was retained, with the institution being ranked in 145th position globally, and 21st in the UK.

A significant milestone during the year was our entry into the Russell Group, a testament to our highly respected research and teaching reputation. We expect that this achievement will support our aspirations in terms of student recruitment and further enhancing the quality of our knowledge creation and knowledge dissemination activities.

With regard to knowledge creation, our primary focus is on ensuring that our preparations for the next UK-wide assessment of research (the Research Excellence Framework, REF, in 2013) are as thorough as possible. To this end we completed our second 'dry-run' cycle during 11/12, which importantly allows us to get a good perspective on how we are currently placed in all our subject areas and as a corollary the actions we need to prioritise in order to maximise our performance. This issue is and will continue to be the subject of the closest scrutiny and the next dry-run cycle has already been initiated.

In this area it is also pleasing to report in these financial statements that income from research grants and contracts increased by 9% to £80.7m, following an 8% increase during the previous year. We look to accelerate this pace of increase as well as continuing to diversify our sources of income through both internal and external activities. The latter includes QM's Strategic Alliance with Warwick, which is based on a shared sense of priorities and a complementarity in strengths and which will help respond to an increasing desire by funders to see collaboration between institutions. Our target of doubling the number of students registered for PhD degrees by 2015 remains one of our most challenging and additional initiatives are likely to be required, in spite of a 9% increase in the size of this cohort from last year.

Performance against targets for knowledge dissemination was generally encouraging. There has been good progress in raising student satisfaction levels to meet appropriately challenging targets and we are focused on maintaining improvements in this area as student expectations rise under the new fee regime. Overall taught postgraduate numbers have increased by 31% compared to 2008/9, to 2,047 full-time equivalent students, but there was a small drop between 10/11 and 11/12. New measures have been implemented to ensure that turnaround times for PGT applications are much faster than previously experienced, which should enhance overall recruitment efforts. Recruitment of overseas students in 11/12 was not at target level and anecdotal evidence would suggest that changes by the UKBA to visa regulations, such as the removal of the option to work in the UK for two years after study, has had a noticeable effect in this area. Partly in response to this, QM has focused on developing its transnational educational activities and increases in the number of UG students being taught outside London have already reached 18% since 2008/9, against a target over the Strategic Plan 2010-15 period of 30%. Work on expanding our Joint Programme activities, primarily in China, will make a significant contribution to the achievement of this target.

These financial statements include £29 million of capital investment into the Estate and Information Technology, and a further £6.3 million of additional revenue costs into these areas. These investments are in support of the improvement of both staff and student experience that is so vital to the continued attraction of the best staff and students and ensuring that staff are retained. We also continued to invest directly in academic posts (nearly £3 million in 2011) in preparation for the REF submission.

The general trend of progress as outlined above has been achieved during a period that has been characterised by a marked degree of uncertainty and a rapid pace of change in the sector, to a degree that has not been witnessed for many years. The headline change has been the shift in the balance of funding for teaching from the Higher Education Funding Council for England (HEFCE) to the student via loans that are initially provided by the Treasury. The phasing of these changes is such that the reduction in HEFCE funding has preceded the inflow of increased tuition fees from students, creating a funding gap that was particularly apparent during 11/12. QM and its Senior Executive recognised this when updating the budget for the year and decided to accept a deficit for the financial period, which the financial statements show to be £9.6m. This was not a position that was adopted lightly but it was felt that progress and investment needed to be maintained at this crucial stage in the institution's development to ensure that QM remained on track to achieve its headline objective of being a top-ten UK HEI by 2015. QM's Council considered, challenged and endorsed this approach. Considerable energies are being directed towards identifying and removing duplication of activity and cost throughout the institution, and this process will continue into 12/13 as further savings are identified in order to allow for continued and crucial investment in our estate and infrastructure.

Overall this approach leaves QM well placed to face the challenges of the next few years. Academically the institution is in good health, with over 60 high quality academics having joined at the start of the 12/13 Academic Year, who will continue to enhance our teaching provision and research activity. We will also look to build on key initiatives such as the Strategic Alliance with Warwick and our membership of the UCL Partners Academic Health Sciences Centre. We continue planning for the exciting development of a new Graduate Centre on our Mile End campus.

Recruitment for 2012 entry has been very complex and challenging, with uncertainty arising from (*inter alia*) the new fees/loans regime and the abolition of number limits for the admission of students with grades of AAB (or equivalent) and higher. These uncertainties were compounded by there being (according to UCAS) approximately 50,000 fewer acceptances by UK and EU students compared to last year. Although QM was below target on the recruitment of students from the UK and EU (categorised as 'home' students), our performance was relatively robust when set against the wider context for the sector. In addition, the shortfall in home undergraduate enrolments is partially offset by an increase in the number of overseas undergraduate students. In postgraduate recruitment we are also doing significantly better than last year, supporting our efforts to achieve intentionally demanding targets. We are now focused on recruitment at all levels for 2013 entry and on ensuring that our marketing activity is at the required level and quality, led by the new Director of Marketing and Communications. We also begin this cycle for the first time as a member of the Russell Group.

There are considerable challenges ahead for the sector as a whole, but QM is able to face these with quiet confidence. We are an institution on an upward trajectory, with a distinctiveness to our institution that is reflected in our commitment both to our local communities and to widening access to higher education and also to high aspirations and achievements in teaching and research. QM remains – with good reason – a highly ambitious institution.

Simon Gaskell, Principal
November 2012

CHARITABLE STATUS AND PUBLIC BENEFIT

As an exempt charity regulated by HEFCE, the College has regard to the Charity Commission's guidance on public benefit and satisfies the 'public interest' test, as summarised and demonstrated below.

Charitable Status of the College

Queen Mary and Westfield College was established by Act of Parliament and granting of a Royal Charter in 1989 following the merger of Queen Mary College (incorporated by charter in 1934) and Westfield College (incorporated in 1933). The Charter has been revised on a number of occasions: 1995 to reflect the merger of the College with the Barts and the London School of Medicine and Dentistry; 2008, following the College's successful application to the Privy Council for Degree Awarding Powers; July 2010, following a governance review which led to the deletion of the Statutes in their entirety. The College operates under the name, 'Queen Mary, University of London'.

The College is an 'exempt charity' under the Charities Act 1993. This status means that the College is not required to register directly with the Charity Commission, and in turn is not subject to its direct supervision. However, following the Charities Act 2006, from 1 June 2010 HEFCE became 'principal regulator' of the vast majority of higher education institutions in England, including Queen Mary.

Statement of compliance with Charity Commission guidance and the 'public interest' test

The public interest underpins all aspects of the College's mission and activities as a Higher Education Institution. As stated in the Charter:

"The Objects of the College shall be to promote, for the public benefit, education, research and scholarship, to provide courses and instruction leading to degrees and other academic awards of the University of London and/or the College and to promote and undertake research, and to disseminate the results of such research."

The 'advancement of education', identified as a key charitable criterion in the Charities Act 2006, underpins the College's mission as a higher education institution delivering research-led teaching to 16,000 students across a full range of disciplines at undergraduate, taught postgraduate and doctoral level through its three academic faculties. Examples of the College's pioneering contribution to education outreach and partnership include:

- its housing and continuing support for the Centre of the Cell in Whitechapel, an educational charity dedicated to inspiring curiosity and learning by connecting science to everyday life. Centre of the Cell is an online resource, a science education centre and outreach project aimed at young people, teachers, families and community groups;
- its co-sponsorship of the Drapers' Academy with the Drapers' Company, a leading City Livery Company with which the College has a long-standing partnership and from which it has received significant support. The Academy is located on Harold Hill in the London Borough of Havering and forms a key part of the Harold Hill Learning Village, a major educational initiative by Havering to regenerate an area of the Borough that has experienced high levels of unemployment and poor progression to further and higher education;
- its involvement as lead partner in a National Challenge Trust School in Tower Hamlets; St Paul's Way Trust School.
- the Queen Mary Legal Advice Centre provides free legal advice to members of the public, students and College staff. The Centre operates for the mutual benefit of clients and students and is committed to enabling students to learn from practical experience.

Ground breaking research at the College has a real-world impact supporting a range of charitable criteria. Below are a few examples of the role played by the College's research in charitable advancement:

Advancement of health

The EXHALE project in the School of Medicine and Dentistry's Institute for Health Sciences Education is aimed at understanding and improving children's respiratory health through assessment of 8 year old children in Tower Hamlets and Hackney Schools.

The Cancer Research UK Centre at Barts & The London School of Medicine & Dentistry which brings together top-ranked scientists in the medical school with expert clinical teams in the brand new cancer hospital to push forward laboratory discoveries into benefits for patients.

The new Heart Centre, also at Barts & The London School of Medicine & Dentistry, will speed up research from the scientist's bench to the patient's bedside to improve the diagnosis and treatment of cardiovascular disease.

Advancement of equality and diversity

The Centre for Equality and Diversity in the School of Business and Management conducts research underpinned by a commitment to social justice and inclusion in areas including employment relations policies and practices, discrimination, income inequality, labour market migration, professional and low paid work and trade unions.

Advancement of environmental protection or improvement

The College's Centre for Aquatic and Terrestrial Environments (CATE) is an interdisciplinary collaboration between the School of Geography and the School of Biological and Chemical Sciences. CATE builds on existing research strengths in areas of environmental research such as hydrology, hydrochemistry, environmental geochemistry, freshwater and marine ecology, terrestrial ecology and conservation.

The work of the ecology and behavioural biology research group in the School of Biological and Chemical Sciences is a major contributor to our understanding of modern eco-systems and animal and insect conservation.

Partnership with London Citizens

As well as work which directly meets the public benefit needs, the College also works with London Citizens to develop a community organizing culture and capacity. The School of geography offers a unique MA in Community Organising which is designed to provide an advanced understanding of the theory, history and practice of community organising in the wider context of contemporary academic debate about social, political and economic change. It provides the intellectual and practical training that postgraduate students require to work as a community organiser, or in a related field. At a broader level it is also designed to strengthen the cadre of community organisers being developed in the UK, through a partnership with Citizens UK.

FINANCIAL AND OPERATING REVIEW

Scope of the Financial Statements

These are the consolidated statutory accounts of Queen Mary, University of London and its subsidiaries, (the College), for the year ended 31 July 2012. Details of the group's subsidiaries and investments are listed in the financial statements.

Financial highlights and outlook

2011-12 was a year in which the College's total income exceeded £300m for the first time, with significant growth in tuition fees and research grants and awards. This was despite a 5% reduction in government grants announced during the year.

The College has continued to invest significantly in its estate and infrastructure. Key projects completed during the year included the creation of a new student centre, refurbishment of the People's Palace and further investment in our core IT infrastructure.

	Year to 31 July 2012	Year to 31 July 2011
	£000	£000
Total Income	**307,284**	297,098
(Deficit)/surplus for the year	**(9,632)**	2,307
Capital expenditure	**28,954**	42,525
Net cash inflow from operating activities	**14,549**	5,854
Net cash balances and short term deposits	**17,167**	29,362
Net assets	**286,944**	300,791

Student Numbers

The number of full time equivalent students enrolled during the year was stable at around 16,500, of which 13,250 are undergraduates, and 3,250 are post graduate – taught and research.
Of the undergraduates, 2,000 are based in China studying on joint degree programmes run in collaboration with the Beijing University of Post and Telecommunications.

Outlook

The outlook for 2012-13 remains difficult, with further reductions in government funding ahead of compensating increases in student fees.

In common with many HE institutions, the number of Undergraduate students joining the College in 12-13 is not expected to show a significant increase, although the prospects for our Post graduate student intake are promising.

We are facing significant cost pressures, as we engage academic staff to build on our research successes and to support the increase in Post graduate numbers. There is a continued imperative to invest in our estate and IT developments, although this will be balanced with a cautious approach to spend, given the uncertain financial climate.

Income & Expenditure

Total Income was £307.3m in 2011-12, a 3% increase from last year

Income received from tuition fees and education contracts increased by 6%, mainly due to increases in student intake. Recruitment to our post graduate taught programmes, in particular, grew significantly.

Following the continued cuts in HEFCE funding for all universities during the year, grant income for the College reduced by a further 5%, down £4.8m.

Income from research grants has increased by 9% this year to £80.7m. This significant improvement is a reflection of increases in research awards which will continue into 12-13 and supports our ambitions for research excellence in the College's 2010-15 strategic plan.

Total expenditure was £317m for the year, an increase of 7%.

Staff costs have increased by 4% to £189.9m.

Other operational expenditure increased by 14%, mainly due to spend to support the higher research and teaching activity, investing in the repair and maintenance of our existing estate and market increases in utility prices.

Capital Investment

Total capital expenditure of £29.0m (£42.5m in 10-11) was funded by £6.8m from external capital grants and the balance from internal resources. The majority of expenditure represented investment in the College's estates infrastructure and in further improving our core IT infrastructure. We are adopting a cautious approach in 12-13 to further capital investment in our Estate and IT core infrastructure, given the current financial climate. However we have already made further investments to improve our IT and Estates operational effectiveness and will continue to do so on a prudent basis.

Cash and Debt

Cash inflow from operating activities was £14.5m (£5.9m in 10-11). This reflects the improved research income and an increase in creditors due to higher costs close to the year end, offset by the year's operating deficit.

Cash balances and short-term deposits ended the year at £17.2m (£29.4m for 10-11). This reduction, despite the stronger operating cash flow, reflects the significant investment in capital spend noted above.

Total long term borrowing for the College and its subsidiaries stood at £104m at 31 July 2012, broadly unchanged from last year.

£75m of this borrowing is in bank loans, of which £48m is hedged by interest rate swaps to protect against adverse movements on interest rates. These loans are long term, with unexpired terms exceeding 20 years, so there is no near term refinancing risk.

A further £29m is in the form of finance leases for equipment to support research and teaching. This includes further improvements in the IT infrastructure financed through finance leases with a capital value of £2m, shortly before the year-end.

The College has agreed a £15m revolving credit facility with Barclays, which will enable us to more effectively manage our variable cash flows during the year, and further improve our liquidity.

Current liabilities

Current liabilities increased by £17.2m since last year due to a £6.9m increase in research grant accrued expenditure, a consequence of our improvement in grant awards and income during the year. There was also an increase of £6.7m in other creditors reflecting higher committed spend towards the year end.

Investments and Treasury Management

Endowment investments stood at £30.8m compared with £33.6m last year. During the year the College changed its investment managers and appointed Ruffer LLP in October 2011.

The investment strategy is a single investment approach – an absolute return. This seeks capital preservation, not to lose money on a rolling annual basis and consistent positive returns, significantly greater than the return from cash.

The College's short term investment of working cash balances is with an approved list of organisations, all of which are required to have strong, externally rated, credit worthiness and was updated during the year.

Staff

Queen Mary Senior Leadership keeps in regular contact with staff through publicised open meetings with the Principal, newsletters and through local meetings. We have increased our meetings both formal and informal with Recognised Trades Unions to develop better relationships and communications in particularly difficult times.

We provide excellent terms and conditions of employment, career progression, and also development and learning opportunities through a wide range of programmes in the Learning Institute, for both academic and support staff. We have recently become recognised as the first University to receive accreditation from the Living Wage Foundation for our commitment to paying the London Living Wage.

Pension Funds

The College staff are mostly members of the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) scheme or the NHS Pension Scheme. All of these are pooled schemes so it is not possible to identify the share of assets and liabilities that relate to the College. Therefore, the College's share of financial assets and liabilities of these schemes are not shown in the balance sheet. Changes to limit the increase in liabilities and consequent escalation of costs to the College have been implemented by USS and SAUL.

Innovation Centre

During the year, there was a steady take up of occupancy in the Queen Mary Bioenterprises Innovation Centre at Whitechapel. After the year end a lease agreement was signed for a significant amount of space in the building which further improves the occupancy by innovation start-up businesses. It is the College's intention, based on current performance, to acquire the commercial space for its own educational purposes by 2019-20.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the College is to be proposed at the Council Meeting.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

The College endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life.

Constitution and Governing Body

The College, legally known in its Charter as Queen Mary and Westfield College, University of London is formed by a Charter of Incorporation. The Charter and Ordinances constitute the instruments of The College's incorporation, the principles and provisions of which are amplified in the Ordinances. The College, as with any other chartered institution requires Privy Council approval to revise the Charter and Ordinances.

The Charter and Ordinances establish the College's Council and Senate, each with clearly defined functions and responsibilities, to oversee and manage its activities.

The Council is the College's governing body and is responsible for the strategic oversight of the institution and to determine the educational character and mission. Its specific responsibility includes approval of its financial strategy and securing its assets. The Council comprises a majority of external members whose principal role is to bring independent expertise to the College from a range of sectors and professional spheres and to hold, collectively, the Executive to account. A Governance Committee exists, with a majority of external members, to recommend nomination to the Committees of Council.

The Chairman of Council is required to be elected from among the external members of Council. There is also provision for the election of members of the academic staff, and representatives of other staff groups, to Council and for one sabbatical Student Union representative. No members of the Council receive remuneration for their role, apart from staff members and sabbaticals solely in the context of their employment. Details of membership of Council and its committees are set out as the final page of these financial statements.

Subject to the overall responsibility of the Council, the Senate has oversight of the academic affairs of the College and draws its membership entirely from the staff and students of the College, with a majority of academic staff representatives. It is particularly concerned with issues relating to academic policy, quality assurance and enhancement and teaching and research matters.

The Role of the Principal

The Principal, as chief executive officer, is the head of the College. He has a general responsibility to the Council for the organisation, direction and management of the College. Under the terms of the formal Financial Memorandum between the College and the Higher Education Funding Council for England (HEFCE), the Principal is the designated officer of the College and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

As chief executive, the Principal exercises considerable influence upon the development of College strategy, the identification and planning of new developments and the shaping of the College ethos. The Principal is assisted in this by the Senior Executive comprising the Senior Vice-Principal, Vice Principal & Executive Dean (Health), Vice Principal & Executive Dean (Humanities and Social Sciences), Vice Principal & Executive Dean (Science and Engineering), Vice Principal (Teaching and Learning), Vice Principal (Research & International Affairs) and Vice Principal (External Partnerships and Public Engagement).

College Committees

Although the Council meets six times in each academic year, much of its detailed work is handled initially by committees, in particular Finance and Investment Committee and Audit and Risk Committee. The decisions of all of these committees are reported formally to the Council.

The Finance and Investment Committee focuses on oversight of the Senior Executive's planning and management of finance, investments and assets of the College. It has particular remit in relation to providing advice and recommendations to Council, or reviewing/monitoring and approving on behalf of Council, in respect of the following:

- Recommend to Council a Finance strategy
- Recommend to Council the annual budgets and financial forecasts

- Monitor the financial situation of the College, both capital and revenue
- Advise Council on plan and budgets produced by the College's Senior Executive for large capital projects
- Consider proposals affecting major Council assets, in particular the estate.
- Approve the College's value for money strategy
- Approve a strategy for borrowing, investment of funds and raising of monies

The Audit and Risk Committee oversees the College's procedures for external audit, internal audit, financial control and risk management, and provides assurances in these key areas through its annual report to Council which is copied to HEFCE. More specifically, the Committee will:

- Oversee external and internal audit services, including receiving reports and recommendations from both on the results of their work
- Review the effectiveness of the College's systems for submission of regulatory returns, financial control, value for money and alleged financial irregularities
- Review the effectiveness of mechanisms operated by the Senior Executive for identifying, assessing and mitigating risks

The categories of membership of the Finance and Investment and Audit and Risk Committees are laid down by Ordinance.

The Financial Statements are adopted by Council following review by Finance & Investment Committee and on the recommendation of the Audit and Risk Committee after it has received a report from the External Auditors.

Responsibilities of the Council

The College maintains a Register of Interests of members of the Council and of members of the senior executive which is published on the Council and Governance web pages.(www.qmul.ac.uk)

In accordance with the Charter and Ordinances of the College, the Secretary to Council provides independent advice on matters of governance to all Council members.

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 Charter of Incorporation, the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between HEFCE and the Council of the College, the Council, through its designated office holder, the Principal, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the College and of the surplus or deficit and cash flows for that year.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation. The Council is satisfied that it 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.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

So far as the Council is aware, there is no relevant audit information of which the College auditors are unaware. Relevant information is defined as information needed by the College's auditors in connection with preparing their report.

The Council, through its designated officer, the Principal, has taken reasonable steps to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which HEFCE may from time to time prescribe;

- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;

- safeguard the assets of the College and prevent and detect fraud; and

- secure the economical, efficient and effective management of the College's resources and expenditure.

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

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

- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;

- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance and Investment Committee under delegated authority from Council;

- internal audit carried out by an external firm of auditors. The programme is approved by the Audit and Risk Committee; and

- regular reviews of financial performance involving variance reporting, sensitivity analysis and updates of forecast out-turn.

Internal Controls

The Council has established processes to comply with the revised direction from HEFCE for the identification, evaluation and management of risks the College faces. These processes have been in place throughout the year under review and to the date of approval of the annual report and financial statements. The following is a statement of the College's internal control and risk management policy:

- The Council has responsibility for maintaining an effective system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which the Council is responsible, in accordance with the responsibilities assigned to the Council in the Charter and the Financial Memorandum with HEFCE.

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

- The system of internal control is based on a continuing 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.

- The Council receives periodic reports from the Chairman of the Audit and Risk Committee concerning internal control. The appropriate committees of the Council receive reports from the Senior Executive on the steps the College is taking to manage risks in their areas of responsibility, including progress reports on key projects.

STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

- During the year under review the College has:

  a. ensured that the risk monitoring and diagnostic mechanisms are properly integrated, with the review of a Major Risks Register;

  b. extended the programme of risk awareness training;

  c. introduced regular reporting on how improvements are being made to internal audit review processes

- The College procures its internal audit service from KPMG, which operates to standards defined in the revised HEFCE Audit Code of Practice. The work of the internal audit service is informed by an analysis of risks to which the College is exposed, and annual internal audit plans are based on this analysis. The Council endorses the analysis of risks and the internal audit plans on the recommendations of the Audit and Risk Committee. At least annually the head of internal audit provides the Audit and Risk Committee with a report on internal audit activity in the College. The report includes the head of internal audit's independent opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

- The Council's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive 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 other reports.

- The Audit and Risk Committee followed a programme reviewing compliance risks by way of receiving reports from those responsible for those risks.

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF QUEEN MARY AND WESTFIELD COLLEGE

We have audited the group and college financial statements (the "financial statements") of Queen Mary and Westfield College for the year ended 31 July 2012 which comprise the Consolidated Income and Expenditure Account, the Consolidated and College Balance Sheets, the Statement of Group Total Recognised Gains and Losses, 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).

Respective responsibilities of the Council and auditors
As explained more fully in the Responsibilities of the Council Statement set out on page 10 the Council is 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 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with the Charters and Statutes of the college and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the group's and college's affairs as at 31 July 2012 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

- the statement of internal control included as part of the Statement of Corporate Governance Statement and Internal Control is inconsistent with our knowledge of the college and group.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 November 2012

Notes:

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

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2012

	Note	2012 £000	2011 £000
Income			
Funding body grants	2	**95,265**	100,020
Tuition fees and education contracts	3	**88,104**	82,798
Research grants and contracts	4	**80,654**	73,657
Other operating income	5	**42,182**	39,457
Endowment and investment income	6	**1,079**	1,166
Total income		**307,284**	297,098
Expenditure			
Staff costs	7	**189,896**	183,019
Other operating expenses	8	**108,765**	95,163
Depreciation	11	**15,411**	14,166
Interest and other finance cost		**2,968**	3,003
Total expenditure	9	**317,040**	295,351
(Deficit)/Surplus for the year after depreciation of assets at valuation and before tax		**(9,756)**	1,747
Share of operating profit/(loss) in a joint venture	13	**6**	(1)
Share of operating (loss) in associates	14	**(142)**	(154)
Taxation	10	**14**	29
(Deficit)/Surplus for the year after depreciation of assets at valuation, disposal of assets and taxation		**(9,878)**	1,621
Surplus for the year transferred to accumulated income in endowment funds	21	**246**	686
(Deficit)/Surplus for the year retained within general reserves	32	**(9,632)**	2,307

Results for the year and the previous year, as set out above, are derived entirely from continuing operations

STATEMENT OF GROUP HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 31 JULY 2012

	Note	2012 £000	2011 £000
(Deficit)/Surplus on continuing operations before taxation		**(9,892)**	1,592
Difference between historical cost depreciation and actual depreciation charge for the year calculated on re-valued fixed assets	22	**166**	170
Historical cost (deficit)/surplus for the year before taxation		**(9,726)**	1,762
Retained historical cost (deficit)/surplus after taxation		**(9,712)**	1,791

The notes on pages 19 to 38 form part of these financial statements.

BALANCE SHEETS AT 31 JULY 2012

	Note	Consolidated 2012 £000	Consolidated 2011 £000	College 2012 £000	College 2011 £000
Fixed assets					
Tangible assets	11	**392,937**	379,764	**385,088**	370,261
Investments	12	**3,270**	1,823	**6,786**	5,339
Investments in associates	14	**117**	127	**1**	1
		396,324	381,714	**391,875**	375,601
Endowment asset investments	15	**30,829**	33,585	**30,696**	33,355
Current assets					
Stocks		**349**	414	**349**	414
Debtors	16	**35,549**	32,444	**38,556**	43,389
Investments (short term deposits)		**1,880**	18,701	**1,880**	18,701
Cash at bank and in hand		**13,346**	6,740	**11,734**	5,824
		51,124	58,299	**52,519**	68,328
Creditors: amounts falling due within one year	17	**(85,522)**	(68,264)	**(87,633)**	(77,654)
Share of net liabilities in joint venture	13	**0**	(6)	**0**	0
Share of net liabilities in associates	14	**(508)**	(435)	**0**	0
Net current liabilities		**(34,906)**	(10,406)	**(35,114)**	(9,326)
Total assets less current liabilities		**392,247**	404,893	**387,457**	399,630
Creditors: amounts falling due after more than one year	18	**(104,794)**	(103,679)	**(87,813)**	(86,698)
Net assets excluding pension liability		**287,453**	301,214	**299,644**	312,932
Pension liability	29	**(509)**	(423)	**(509)**	(423)
Net assets including pension liability		**286,944**	300,791	**299,135**	312,509
Deferred capital grants	20	**189,004**	190,424	**183,672**	184,199
Endowment funds					
Expendable	21	**10,022**	11,113	**9,889**	10,883
Permanent	21	**20,807**	22,472	**20,807**	22,472
		30,829	33,585	**30,696**	33,355
Reserves					
Income and expenditure account excluding pension liability		**54,882**	64,345	**72,659**	82,595
Pension reserve	29	**(509)**	(423)	**(509)**	(423)
Income and expenditure account including pension liability		**54,373**	63,922	**72,150**	82,172
Revaluation reserve	22	**12,617**	12,783	**12,617**	12,783
Other reserves		**121**	77	**0**	0
Total Reserves		**67,111**	76,782	**84,767**	94,955
Total Funds		**286,944**	300,791	**299,135**	312,509

The notes on pages 19 to 38 form part of these financial statements.

The financial statements on pages ~~xx~~ 15 to ~~xx~~ 38 were approved by Council on 27 November 2012 and signed on its behalf by:

SIR N MONTAGU
Chairman

PROFESSOR S GASKELL
Principal

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2012

	Note	2012	2011
		£000	£000
(Deficit)/Surplus on continuing operations after depreciation of fixed assets at valuation and tax		**(9,878)**	1,621
Add			
Currency translation on net foreign investment		**3**	(5)
Revaluation of investments		**41**	204
New endowments	21	**233**	2,662
Revaluation of endowment investments	21	**(2,570)**	2,146
Capital spend from endowment funds	21	**0**	(300)
Management fee charged to endowment funds	21	**(235)**	(185)
Repayments of student benevolence loans	21	**62**	0
Actuarial adjustment on defined benefit pension scheme	29	**(83)**	73
Total recognised (losses)/gains relating to the year		**(12,427)**	6,216
Reconciliation			
Opening reserves and endowments		**110,367**	104,151
Total recognised gains and losses relating to the year		**(12,427)**	6,216
Closing reserves and endowments		**97,940**	110,367

The notes on pages 19 to 38 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2012

	Note	2012	2011
		£000	£000
Net cash inflow from operating activities	24	**14,549**	5,854
Returns on investments and servicing of finance	25	**(1,886)**	(1,842)
Capital expenditure and financial investment	26	**(24,335)**	(29,166)
Management of liquid resources	28	**16,821**	(4,240)
Financing	27	**(523)**	25,000
Increase/(decrease) in cash	28	**4,626**	(4,394)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Note	2012	2011
Increase/(Decrease) in cash for the year	28	**4,626**	(4,394)
Change in short term deposits	28	**(16,821)**	4,240
Change in debt	28	**(1,973)**	(25,000)
Change in net debt		**(14,168)**	(25,154)
Net debt at 1 August		**(74,340)**	(49,187)
Net Debt at 31 July	28	**(88,508)**	(74,341)

The notes on pages 19 to 38 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The following accounting policies have been applied consistently by both college and subsidiaries in dealing with items which are considered material in relation to the College's financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain tangible assets and investments and in accordance with both the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions 2007 (SORP), and applicable Accounting Standards.

Basis of consolidation

The financial statements consolidate the financial statements of the College and its subsidiary, joint venture and associated undertakings for the financial year ended 31 July 2012.
The consolidated income and expenditure account includes the results of the College subsidiaries and the share of profits, losses and taxation of joint venture and associated undertakings. Intragroup transactions are eliminated on consolidation.
Details of the investments made in these companies are presented in notes 12 to 14.
The consolidated financial statements do not include those of the Queen Mary and Westfield College Students Union because it is an independent association with separate control. The grant to the Students Union is disclosed in note 8.

Recognition of income

i. Funding body block grants are accounted for in the year to which they relate.
ii. Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment income received is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.
iii. Income from sponsored research grants and contracts is accounted for on an accruals basis and included to the extent that direct expenditure and recoverable overheads were incurred during the year. Any payments received in advance of performance are recognised in the balance sheet as liabilities. Funds the College receives and disburses as paying agent for the grant giving body are excluded from income and expenditure where there is minimal exposure to risk or minimal economic benefit received.
iv. Other operating income is recorded in income when it has been earned.
v. Investment income is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not required to cover expenditure in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowments in the balance sheet and are reported in the statement of total recognised gains and losses.
vi. Grants or donations received in respect of expenditure on fixed assets are treated as deferred capital grants and released to the income and expenditure account in line with depreciation over the life of the asset.
vii Charitable donations are recognised when received or when there is sufficient evidence to provide the necessary certainty that the donation will be received and the amount can be measured with sufficient reliability. Donations which are to be retained for the benefit of the College are recognised in the statement of total recognised gains and losses and in endowments: other donations are recognised by inclusion as other income in the income and expenditure account.
viii. Increases or decreases in value arising on the revaluation or disposal of fixed asset investments are added to or subtracted from the fund concerned and are reported in the statement of total recognised gains and losses.

Accrued or deferred income arising from the policies at i-vi above are recognised respectively in current assets or current liabilities in the balance sheet.

Tangible fixed assets

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

i. Freehold land and buildings and long leasehold buildings are stated at cost or valuation. The College has applied the transitional rules, contained in Financial Reporting Standard 15, Tangible Fixed Assets, to retain the previous valuations of these properties but not to adopt a policy of revaluation in the future. Since 1 August 2001 all additions to fixed assets have been at cost.
ii. Depreciation on buildings is calculated at 2% per annum using the reducing balance method. Depreciation on leased buildings is calculated at 2% per annum or over the life of the lease if the lease is less than 50 years. No provision for depreciation is made against the value of land.
iii. Assets in the course of construction are stated at cost and are not depreciated until they are transferred to the completed asset class when ready for use.
iv. Plant and Machinery is depreciated over 10 to 15 years.
v. Equipment costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.
vi. Capitalised equipment is depreciated over 3 to 8 years in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS continued

1 ACCOUNTING POLICIES continued

Tangible fixed assets continued

vii. Expenditure on an asset after it is purchased is capitalised when the expected future benefits from that asset as a result of the expenditure are greater than those previously assessed.
viii. Where assets are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income in line with the depreciation charge.
ix. Assets held under finance leases are depreciated over the period of the finance lease or their useful economic life whichever is shorter.
x. Where it is considered that there has been any impairment in the value of an asset, the difference between the carrying value and the higher of its net realisable value or value in use is expensed in the income and expenditure account. Circumstances which could give rise to an impairment are reviewed annually.
xi. The College owns heritage assets, none of which either individually or collectively are material to these Financial Statements, which have not been capitalised.
xii. Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the year it is incurred. The College has a planned maintenance programme which is reviewed annually.

Investments

i. Listed investments held as fixed assets or endowment assets are shown at market value.
ii. Investments in subsidiary, joint venture and associate undertakings are shown at the lower of cost or net realisable value in the College's balance sheet. Joint venture and associate undertakings are shown at the College's attributable share of net assets in the consolidated balance sheet.
iii. Unquoted investments are held at cost.
iv. Current asset investments are held at the lower of cost and net realisable value.

Stocks

Stock is valued on a first in first out basis and stated at the lower of cost and net realisable value. Included in the valuation are stocks in the refectories and central and departmental stores.

Liabilities

Liabilities are recognised where legal or constructive obligations mean that it is more likely than not that a transfer of economic benefits will be made.

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, cash at bank, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty. No investments, however liquid, are included as cash.
Liquid resources comprise assets held as a readily disposable store of value. They include term deposits held as part of the College's treasury management activities, but exclude any such assets held as fixed asset investments.

Leases

Finance leases which transfer substantially all the benefits and risks of ownership of an asset to the College, are treated as if the asset was purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to provide the outstanding obligation at the next option date and the interest element is charged to the Income and Expenditure Account so as to give a constant periodic rate of charge of the remaining balance outstanding at the end of each accounting year.
Rental costs under operating leases are charged to expenditure in equal annual amounts over the period of the lease.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the Balance Sheet date. Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Exchange differences arising have been included in the Income and Expenditure Account for the year.

NOTES TO THE FINANCIAL STATEMENTS continued

1 ACCOUNTING POLICIES continued

Financial Instruments

The College uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual liabilities or probable commitments, changing the nature of the interest rate by converting a variable rate to a fixed rate. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. If the derivative financial instrument ceases to be a hedge for an actual liability, it is marked to market and any resulting profit or loss recognised at that time.
A financial asset and liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Joint venture entities and associates

The College's share of income and expenditure in joint venture entities is recognised in the consolidated income and expenditure account in accordance with FRS 9. Similarly the College's share of assets and liabilities in associate entities is recognised in the consolidated balance sheet in accordance with FRS 9.
The gross equity method is used when consolidating joint venture entities and associate entities are consolidated using the equity method in accordance with FRS 9.

Pension Schemes

As described in note 29, the College is a member of three defined benefit pension schemes: the Superannuation Arrangements of the University of London, the Universities Superannuation Scheme, and the NHS Public Service Scheme which are multi-employer schemes where it is not possible to identify the share of assets and liabilities attributable to each employer on a consistent and reasonable basis. The College therefore accounts for its pension costs on a defined contribution basis as permitted by FRS 17. Differences between amounts charged to the Income and Expenditure Account and amounts funded are shown as either provisions or prepayments in the Balance Sheet. The College also operates a closed defined benefit pension scheme for the non teaching staff of the London Hospital and St Bartholomew's Hospital medical colleges as described in Note 29. The College is not a member of any defined contribution schemes which incur costs or liabilities other than the defined contributions themselves.

Endowment funds

Endowments are charitable donations to be retained for the benefit of the institution as specified by the donors. There are three main types:

i. Unrestricted Permanent Endowments which the donor has specified are to be permanently invested to generate an income stream for the general benefit of the College.
ii. Restricted expendable endowments which the donor has specified are to be used for a specific purpose other than purchase or construction of tangible fixed assets.
iii. Restricted permanent endowments which the donor has specified are to be permanently invested to generate an income stream for a particular purpose.

Taxation status

The College is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore meets the definition of a charity for corporation tax purposes. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 of CTA 2009 and sections 471 and 478-488 CTA 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 is registered for Value Added Tax (VAT) but is unable to recover input tax incurred on the majority of its expenditure, most education and research being exempt activities under VAT legislation. Irrecoverable VAT is included in the cost of the goods or service.
In the subsidiary companies deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for tax and accounting purposes which have arisen but not reversed by the Balance Sheet date, except as otherwise required by FRS 19.

NOTES TO THE FINANCIAL STATEMENTS continued

2 FUNDING BODY GRANTS

	Note	2012 £000	2011 £000
Recurrent grant		**86,072**	89,399
Specific grants			
Higher education innovation fund		**2,062**	2,517
Teacher quality enhancement fund		**419**	392
Other		**671**	1,862
		3,152	4,771
Deferred capital grants released in year			
Buildings	20	**3,014**	2,603
Plant	20	**1,000**	982
Equipment	20	**2,027**	2,265
		6,041	5,850
Total		**95,265**	100,020

3 TUITION FEES AND EDUCATION CONTRACTS

	Note	2012 £000	2011 £000
Full-time students charged home/EU fees		**39,051**	37,414
Full-time students charged overseas fees		**42,049**	39,946
Part-time students		**2,647**	1,760
Research training support grants		**52**	582
Short course fees		**1,014**	1,161
Other fees and support grants		**2,676**	1,615
Education Contracts		**615**	320
		88,104	82,798

4 RESEARCH GRANTS AND CONTRACTS

	Note	2012 £000	2011 £000
Research councils		**24,447**	24,323
UK central government bodies		**14,308**	11,110
UK industry and commerce		**5,054**	4,908
UK-based charitable and health bodies		**23,199**	21,286
European Community		**8,187**	6,439
Other overseas countries		**2,984**	2,399
Other		**1,388**	1,949
Deferred capital grants released in year	20	**1,087**	1,243
		80,654	73,657

5 OTHER OPERATING INCOME

	Note	2012 £000	2011 £000
Residences, catering and conferences		**15,386**	12,966
Other services rendered		**5,922**	6,892
Health authorities		**14,274**	15,639
Other income		**5,514**	3,669
Deferred capital grants released in year: depreciation	20	**1,086**	291
		42,182	39,457

6 ENDOWMENT AND INVESTMENT INCOME

	Note	2012 £000	2011 £000
Income from expendable endowments	21	**263**	773
Income from permanent endowments	21	**501**	198
Income from college investments		**0**	38
Income from investments and cash		**315**	157
		1,079	1,166

NOTES TO THE FINANCIAL STATEMENTS continued

7 STAFF

	Note	2012 £000	2011 £000
(i) Staff costs:			
Wages and salaries		**153,871**	148,689
Social security costs		**13,406**	12,790
Pension costs		**19,532**	18,861
Compensation for loss of office		**3,087**	2,679
		189,896	183,019

Severance pay was in accordance with the policies approved by the Remuneration Committee.

The prior year has been reclassified so that £3,047,000 is included in staff costs not other operating expenditure.

	2012	2011
(ii) Emoluments of the Principal		
Basic salary	**203**	202
Benefits in kind	**5**	45

The emoluments of the Principal are shown on the same basis as for higher paid staff. The College's pension contributions to USS for the Principal are paid at the same rate as for other academic staff and amounted to £32,031 (2011 £32,289).

There are no other senior post-holders for which disclosure is required.

(iii) Remuneration of other higher–paid staff

Excluding employer's pension contributions, but including payments made on behalf of the NHS in respect of its contractual obligations to College Staff, in bands of £10,000 from a starting point of £100,000.

	2012 Number of staff	2011 Number of staff
£100,000 — £110,000	**29**	32
£110,001 — £120,000	**19**	20
£120,001 — £130,000	**11**	9
£130,001 — £140,000	**12**	9
£140,001 — £150,000	**10**	12
£150,001 — £160,000	**7**	6
£160,001 — £170,000	**4**	6
£170,001 — £180,000	**2**	3
£180,001 — £190,000	**2**	3
£190,001 — £200,000	**2**	5
£200,001 — £210,000	**5**	3
£210,001 — £220,000	**0**	1
£220,001 — £230,000	**1**	0
£230,001 — £240,000	**1**	1
£240,001 — £250,000	**0**	2
£250,001 — £260,000	**1**	0
	106	112

£0 in compensation for loss of office was made to any higher-paid member of staff in the year to 31 July 2012 (2011 £187,056, 1).

(iv) Average number of employees by category

	2012	2011
Academic and education	**1,540**	1,600
Professional services	**1,361**	1,443
Technical services	**209**	214
Operational services	**275**	251
	3,385	3,508

(v) Trustees (members of Council)

The Trustees neither received nor waived any emoluments during the year (2011 £nil) in respect of their position as trustees. All Trustees are entitled to be reimbursed for reasonable travel and subsistence expenses incurred in the performance of their duties. In 2012, 4 Trustees (2011 6) were reimbursed a total of £1,366 (2011 £839).

NOTES TO THE FINANCIAL STATEMENTS continued

8 OTHER OPERATING EXPENSES

	2012	2011
	£000	£000
Other operating expenses include:		
Residences, catering and conferences	4,407	3,609
Consumables and laboratory expenditure	23,506	21,180
Funds payable to other colleges	654	940
Equipment	5,481	6,205
Books and periodicals	3,042	2,362
Fellowships, scholarships, prizes and studentships	19,847	20,918
Heat, light, water and power	4,534	3,491
Repairs and general maintenance	4,345	2,699
Rent, rates and insurance	3,917	3,233
Other premises costs	1,002	1,234
Provision for doubtful debts	(158)	(181)
Grant to Students Union	2,006	861
Auditors' remuneration for audit of the College	98	98
Auditors' remuneration for audit of the subsidiaries	86	49
Auditors' remuneration in respect of non-audit services	122	110
Unfunded pension costs	38	52
University of London central charges	1,160	1,168
Professional and other fees	10,037	7,571
Conferences, travel and training	8,334	7,622
Contract and Agency Staff	9,382	6,774
Miscellaneous expenditure*	6,925	5,168
	108,765	95,163

* Includes £113,400 in respect of Internal Audit fees (2011 £74,029).

The prior year has been reclassified by a total of £3,047,000 so that £97,000 of Professional and Other fees, £2,556,000 of Contract & Agency Staff and £394,000 of miscellaneous expenditure is included in staff costs not other operating expenditure.

9 ANALYSIS OF EXPENDITURE BY ACTIVITY

	Staff Costs	Depreciation	Other costs	Interest Payable	2012 Total	2011 Total
	£000	£000	£000	£000	£000	£000
Academic departments	108,896	1,925	30,849	0	141,670	140,066
Academic services	8,204	409	6,985	0	15,598	15,257
Research grants and contracts	38,174	800	33,343	0	72,317	66,979
Residences, catering and conferences	3,895	60	4,407	0	8,362	7,817
Premises	7,066	9,407	13,622	2,961	33,056	27,481
Administration	21,723	2,674	16,741	7	41,145	33,129
Other	1,938	136	2,818	0	4,892	4,622
Total per income and expenditure account	189,896	15,411	108,765	2,968	317,040	295,351
Total for year ended 31 July 2011	179,972	14,166	98,210	3,003		295,351

The depreciation charge has been funded by:	Note	2012	2011
Deferred capital grants released	20	8,214	7,384
Revaluation reserve released	22	166	170
General income		7,031	6,612
		15,411	14,166

Other operating expenses include:	2012	2011
External auditors remuneration in respect of audit services	184	147
External auditors remuneration in respect of non-audit services	122	110

The prior year has been reclassified by a total of £3,047,000 so that £97,000 of Professional and Other fees, £2,556,000 of Contract & Agency Staff and £394,000 of miscellaneous expenditure is included in staff costs not other operating expenditure.

NOTES TO THE FINANCIAL STATEMENTS continued

10 TAXATION

	2012	2011
	£000	£000
Macau complementary (corporation) tax at 12% on the profits of Queen Mary Research Laboratories (Macau) Limited	**(5)**	0
Research and development tax credits for Associate Companies	**19**	29
Tax Credit	**14**	29

Council does not believe that the College is liable for any UK corporation tax arising out of its activities during the year.

11 TANGIBLE ASSETS

	Freehold land and buildings	Long leasehold	Assets in course of construction	Plant & machinery	Equipment	Total
	£000	£000	£000	£000	£000	£000
Consolidated						
Cost						
At 1 August 2011	357,361	26,516	9,440	37,504	72,451	**503,272**
Transfers	17,023	0	(17,670)	195	452	**0**
Additions at cost	0	0	23,324	790	4,840	**28,954**
Disposal	(467)	0	0	0	0	**(467)**
At 31 July 2012	**373,917**	**26,516**	**15,094**	**38,489**	**77,743**	**531,759**
Accumulated Depreciation						
At 1 August 2011	(50,610)	(8,077)	0	(13,685)	(51,136)	**(123,508)**
Charge for the year	(6,146)	(369)	0	(3,173)	(5,723)	**(15,411)**
Disposal	97	0	0	0	0	**97**
At 31 July 2012	**(56,659)**	**(8,446)**	**0**	**(16,858)**	**(56,859)**	**(138,822)**
Net book value						
At 31 July 2012	**317,258**	**18,070**	**15,094**	**21,631**	**20,884**	**392,937**
Net book value						
At 1 August 2011	306,751	18,439	9,440	23,819	21,315	**379,764**
College						
Cost						
At 1 August 2011	352,891	26,516	9,440	28,680	67,678	**485,205**
Transfers	17,023	0	(17,670)	195	452	**0**
Additions at cost	0	0	23,324	756	4,766	**28,846**
Disposal	(467)	0	0	0	0	**(467)**
At 31 July 2012	**369,447**	**26,516**	**15,094**	**29,631**	**72,896**	**513,584**
Accumulated Depreciation						
At 1 August 2011	(46,516)	(8,077)	0	(10,376)	(49,975)	**(114,944)**
Charge for the year	(5,891)	(369)	0	(2,457)	(4,932)	**(13,649)**
Disposal	97	0	0	0	0	**97**
At 31 July 2012	**(52,310)**	**(8,446)**	**0**	**(12,833)**	**(54,907)**	**(128,496)**
Net book value						
At 31 July 2012	**317,137**	**18,070**	**15,094**	**16,798**	**17,989**	**385,088**
Net book value						
At 31 July 2011	306,375	18,439	9,440	18,304	17,703	370,261

Land and buildings – Freehold includes land with a cost of £8,854k (College £21,160k) which is not depreciated.

The freehold of the Medical College site at Charterhouse Square is vested in the Trustees of the Medical College of St Bartholomew's Hospital Trust. The site is leased to the College for a term of 25 years from 25 November 2008. The rent reserved is one peppercorn per annum plus an annual rent equal to the rents received from the sub-tenancies. In addition the College holds an underlease on premises at Goswell Road also for a term of 25 years from 25 November 2008, on similar terms.

NOTES TO THE FINANCIAL STATEMENTS continued

11 TANGIBLE ASSETS continued

Plant and machinery includes plant at a cost of £24,763,355 with a net book value of £12,565,293 in respect of assets under finance leases. The depreciation charge in respect of these assets is £2,148,981. Equipment includes assets at a cost of £1,849,784 with a net book value of £0 in respect of assets under finance leases. The depreciation charge in respect of these assets is £305,128. Assets in the course of construction includes equipment at a cost and net book value of £2,495,922.

The College holds two main classes of heritage assets: one comprises portraits of former Principals of the College and institutions with which it merged; and the other is silverware. The value of neither class is material to these financial statements.

12 INVESTMENTS

Subsidiary companies and other investments	**Consolidated**		**College**	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Investment in subsidiary companies at cost	**0**	0	**3,516**	3,516
Other investments	**203**	203	**203**	203
Investment in property	**3,067**	1,620	**3,067**	1,620
	3,270	1,823	**6,786**	5,339

Subsidiary companies

The College holds directly the following shares in subsidiary companies:

	Country of registration	Equity holding	Proportion held	Principal activity
People's Palace Projects Limited	England	Limited by guarantee	100.0%	Participatory arts charity
Queen Mary Innovation Limited	England	Ordinary	100.0%	Holding Company
Queen Mary Innovation Limited	England	Preference	100.0%	Holding Company
Varydose Limited	England	Ordinary	100.0%	Pharmaceutical dispensing technology
Queen Mary Research Laboratories (Macau) Limited	Macau	Ordinary	48.0%	Smart antennas for wireless networks

Whilst the College does not have an equity holding in Queen Mary, University of London Foundation, it is treated as a subsidiary in the consolidated financial statements as all of its assets are held for the benefit of the College.

Queen Mary Innovation Limited holds directly the following shares in subsidiary companies:

Nanoforce Technology Limited	England	Ordinary	100.0%	Micro and nanotechnology facility
Q.M.W. Developments Limited	England	Ordinary	100.0%	Property development
Queen Mary Bioenterprises Limited	England	Ordinary	100.0%	Developing Innovation Centre
Queen Mary Research Laboratories (Macau) Limited	Macau	Ordinary	52.0%	Smart antennas for wireless networks

Other Investments

The College holds 3480 shares in Actual Experience Limited.
The College holds 36,028 shares in CVCP Properties plc.
The College holds 1,000,000 ordinary shares in Hybrid Pharma Limited.
The College holds 1 ordinary A share in Combined London Colleges (General Partner) Limited.
The College holds 1,840,480 ordinary shares in Retroscreen Virology Group PLC, representing 4.5% of the share capital.

The College is a limited partner in Kinetique Biomedical Seed Fund LP and Combined London Colleges University Challenge LP. Both of these partnerships have an independent general partner that fully controls the partnership.

The College is a member of London Genetics Limited, Association for University Research and Industry Links, London University Purchasing Consortium and UCL Partners Limited, all of which are limited by guarantee companies.

Queen Mary Innovation Limited holds 2,000 ordinary shares in Neurotex Limited, representing 20.0% of the share capital.
Queen Mary Innovation Limited holds 24,500 ordinary shares in Phosphonics Limited, representing 0.6% of the share capital.
Queen Mary Innovation Limited holds 223,500 ordinary shares in Retroscreen Virology Group, representing 0.5% of the share capital

NOTES TO THE FINANCIAL STATEMENTS continued

13 INVESTMENT IN JOINT VENTURE

Queen Mary Innovation Limited holds directly the following shares in a joint venture company:

	Country of registration	Equity holding	Proportion held	Principal activity
Apriorie Limited	England	Ordinary	50.0%	Awaiting dissolution

14 INVESTMENT IN ASSOCIATES

The College holds directly the following shares in associate companies:

	Country of registration	Equity holding	Proportion held	Principal activity
Activiomics Limited	England	Ordinary	24.3%	Pharmacological Analysis
Chatterbox Analytics Limited	England	Ordinary	48.0%	Social Media Analysis
Degrasense Limited	England	Ordinary	47.7%	Industrial biosensors
Emdot Limited	England	Ordinary	27.6%	Inkjet printing technology
Stealthyx Therapeutics Limited	England	Ordinary	42.0%	Drug delivery
Vision Semantics Limited	England	Ordinary	30.3%	CCTV analytics
William Harvey Research Limited	England	Ordinary	40.0%	Research

Queen Mary Innovation Limited holds directly the following shares in associate companies:

Abonetics 2000 Limited	England	Ordinary	50.0%	Intellectual property
Abonetics 2000 Limited	England	Preference	100.0%	Intellectual property
Vaxome Limited	England	Ordinary	33.4%	Vaccine technology
Vision Semantics Limited	England	Ordinary	8.7%	CCTV analytics

15 ENDOWMENT ASSET INVESTMENTS

	Consolidated		College	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Balance at 1 August 2011 (2010)	**33,585**	29,948	**33,355**	28,278
New endowments invested	**0**	1,763	**0**	1,763
Decrease/increase in market value of investments	**(2,570)**	2,146	**(2,570)**	2,146
Capital expenditure	**(235)**	(185)	**(235)**	(185)
Income due from fund manager	**82**	0	**82**	0
Increase in cash balance held by College for endowment funds	**64**	1,353	**64**	1,353
Decrease in cash balance held by subsidiary charities	**(97)**	(1,440)	**0**	0
Balance at 31 July 2012 (2011)	**30,829**	33,585	**30,696**	33,355
Represented by:				
Fixed interest stocks	**12,110**	2,765	**12,110**	2,765
Equities	**15,284**	26,468	**15,284**	26,468
Property investment trusts and shares	**1,477**	0	**1,477**	0
Hedge funds	**17**	431	**17**	431
Cash balance with fund manager	**206**	2,153	**206**	2,153
Cash held by college for endowment funds	**1,602**	1,538	**1,602**	1,538
Cash held by subsidiary charities	**133**	230	**0**	0
	30,829	33,585	**30,696**	33,355

NOTES TO THE FINANCIAL STATEMENTS continued

16 DEBTORS

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Research grants/contracts	19,996	15,166	19,561	15,069
Other debtors	12,415	14,507	12,256	13,434
Amounts owed by subsidiaries	0	0	3,482	12,187
Prepayments and accrued income	3,138	2,771	3,257	2,699
	35,549	32,444	38,556	43,389

Other debtors includes amounts held in Escrow against the warranties provided by the collective sellers in relation to the sale of Apatech Limited to the value of £17,946 (2011, £707,340). Subject to no claims being made by the buyer, this amount will be released in October 2013.

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank loans and overdrafts	2,016	826	2,016	826
Finance Leases	473	0	473	0
Social security and other taxation payable	4,215	4,135	4,207	4,128
Research grants/contracts in advance	44,166	37,220	43,892	37,025
Other creditors and credit balances	18,352	11,632	17,977	11,490
Deferred grants	1,915	1,670	1,915	1,670
Accruals and deferred income	14,385	12,781	14,120	19,418
Amounts owed to subsidiaries	0	0	3,033	3,097
	85,522	68,264	87,633	77,654

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Bank loan	74,905	76,566	57,924	59,585
Finance leases	28,636	26,613	28,636	26,613
Other creditors	1,253	500	1,253	500
	104,794	103,679	87,813	86,698

Analysis of bank loans and finance leases

Within one year	2,134	523	2,134	523
Within two and five years	35,310	16,849	35,310	16,849
In five years or more	68,231	86,331	51,250	69,349
Total	105,675	103,703	88,694	86,721

Included within bank loans are the following:

Lender	Amount £000	Term years	Interest rate %	Borrower
Lloyds TSB PLC (unsecured)	60,000	35	0.18 above base or LIBOR	College
Barclays PLC (secured)	16,981	27	5.27	Queen Mary Bioenterprises Limited
	76,981			

The College entered into a 35 year loan facility for £60m with Lloyds TSB on 6 March 2007 to refinance £25m of loans with the Royal Bank of Scotland (RBS) and to fund current and future capital projects. The principal is being repaid by quarterly instalments with a bullet repayment of £9.3m due in 2042.

With regard to the £60m Lloyds TSB loan facility, the following fixed interest swaps (over 3 month LIBOR) are in place:

	Amount £000	Rate %	Cost of Funds %	Term years	Termination date
Lloyds swap 1 (includes costs from previous RBS swaps)	15,000	4.7400%	4.9200%	35	07/09/2042
Lloyds swap 2	15,000	4.7125%	4.8925%	25	07/09/2032
Lloyds swap 3	12,000	4.5925%	4.7725%	21	07/09/2028
Lloyds swap 4	6,000	4.7700%	4.9500%	12	01/09/2022

NOTES TO THE FINANCIAL STATEMENTS continued

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR continued

Queen Mary Bioenterprises Limited entered into a loan facility for £16.5m with Barclays Bank PLC on 15 February 2007 to fund the building of an innovation centre. The loan facility is for 27 years to 2034 and £16.475m of the loan facility has been drawn down. Interest is fixed at a rate of 5.27% p.a. Interest is accrued and added to the drawn down loan principal for the period to September 2008. From December 2008, and until the end of the loan facility, interest is paid quarterly in arrears. The loan principal and accrued interest to September 2008 is repaid by quarterly instalments from March 2019 and until the end of the loan facility. The loan facility is guaranteed by the College until such time as Queen Mary Bioenterprises Limited meets defined finance covenants for three consecutive years. The loan is secured on the QMB Innovation Centre.

The College entered into a loan facility agreement with Queen Mary Bioenterprises Limited for £15.5m in 2009/10. The loan is not secured over any assets and incurs interest at 5.27% p.a. As at the end of the year £11.7m of this facility was drawn down (2011 £10.8m).

19. FINANCIAL COMMITMENTS

At 31 July 2012 College had annual commitments under operating leases as follows:

	Consolidated and College	
	Equipment	Equipment
	2012	2011
Lease which expires in the second to fifth year	**280**	0

20 DEFERRED CAPITAL GRANTS

	Note	HEFCE 2012 £000	Research grants 2012 £000	Other gifts 2012 £000	Total 2012 £000	Total 2011 £000
Consolidated						
At 1 August 2011 (2010)						
Buildings		146,864	14,649	6,700	**168,213**	142,369
Assets in the course of construction		0	0	590	**590**	28,447
Plant		9,048	5	1,765	**10,818**	7,700
Equipment		6,849	2,687	1,267	**10,803**	8,713
Total		**162,761**	**17,341**	**10,322**	**190,424**	187,229
Cash received/receivable						
Buildings		159	0	1,572	**1,731**	0
Assets in the course of construction		3,695	0	0	**3,695**	8,840
Plant		0	0	0	**0**	52
Equipment		0	1,368	0	**1,368**	1,687
Total		**3,854**	**1,368**	**1,572**	**6,794**	10,579
Released to Income and Expenditure						
Buildings	**2,4,5**	(3,014)	(293)	(393)	**(3,700)**	(2,972)
Plant	**2,4,5**	(1,000)	(1)	(392)	**(1,393)**	(1,070)
Equipment	**2,4,5**	(2,027)	(793)	(301)	**(3,121)**	(3,342)
Total		**(6,041)**	**(1,087)**	**(1,086)**	**(8,214)**	(7,384)
Transfers						
Buildings		0	0	748	**748**	32,488
Assets in the course of construction		0	0	(590)	**(590)**	(36,697)
Plant		0	0	110	**110**	464
Equipment		0	0	(268)	**(268)**	3,745
Total		**0**	**0**	**0**	**0**	0
At 31 July 2012 (2011)						
Buildings		**144,009**	**14,356**	**8,627**	**166,992**	171,885
Assets in the course of construction		**3,695**	**0**	**0**	**3,695**	590
Plant		**8,048**	**4**	**1,483**	**9,535**	7,146
Equipment		**4,822**	**3,262**	**698**	**8,782**	10,803
Total		**160,574**	**17,622**	**10,808**	**189,004**	190,424

NOTES TO THE FINANCIAL STATEMENTS continued

20 DEFERRED CAPITAL GRANTS continued

	Note	HEFCE 2012 £000	Research grants 2012 £000	Other gifts 2012 £000	Total 2012 £000	Total 2011 £000
College						
At 1 August 2011 (2010)						
Buildings		146,864	14,649	3,511	**165,024**	139,309
Assets in the course of construction		0	0	590	**590**	27,075
Plant		9,048	0	0	**9,048**	5,820
Equipment		6,849	2,688	0	**9,537**	8,582
Total		**162,761**	**17,337**	**4,101**	**184,199**	180,786
Cash received						
Buildings		159	0	1,572	**1,731**	0
Assets in the course of construction		3,695	0	0	**3,695**	8,840
Plant		0	0	0	**0**	52
Equipment		0	1,367	0	**1,367**	1,687
Total		**3,854**	**1,367**	**1,572**	**6,793**	10,579
Released to Income and Expenditure						
Buildings	2	(3,014)	(293)	(118)	**(3,425)**	(2,967)
Plant	2	(1,000)	0	0	**(1,000)**	(982)
Equipment	2	(2,027)	(792)	(76)	**(2,895)**	(3,217)
Total		**(6,041)**	**(1,085)**	**(194)**	**(7,320)**	(7,166)
Transfers						
Buildings		0	0	514	**514**	32,354
Assets in the course of construction		0	0	(590)	**(590)**	(35,325)
Plant		0	0	0	**0**	486
Equipment		0	0	76	**76**	2,485
Total		**0**	**0**	**0**	**0**	0
At 31 July 2012 (2011)						
Buildings		**144,009**	**14,356**	**5,479**	**163,844**	168,696
Assets in the course of construction		**3,695**	**0**	**0**	**3,695**	590
Plant		**8,048**	**0**	**0**	**8,048**	5,376
Equipment		**4,822**	**3,263**	**0**	**8,085**	9,537
Total		**160,574**	**17,619**	**5,479**	**183,672**	184,199

NOTES TO THE FINANCIAL STATEMENTS continued

21 ENDOWMENTS

	Total restricted permanent	Total restricted expendable	Total endowment	Total endowment
	2012	2012	2012	2011
	£000	£000	£000	£000
Consolidated				
Balances at 1 August 2011 (2010)				
Capital	21,384	11,113	**32,497**	28,911
Accumulated income	1,088	0	**1,088**	1,037
	22,472	**11,113**	**33,585**	29,948
New endowments	11	222	**233**	2,662
Investment income	501	263	**764**	971
Expenditure	(464)	(546)	**(1,010)**	(1,657)
Repayments of benevolence loans made to students	62	0	**62**	0
(Decrease)/increase in market value of investments	(1,611)	(959)	**(2,570)**	2,146
Capital expenditure	0	0	**0**	(300)
Management fee	(157)	(78)	**(235)**	(185)
Transfer of funds	(7)	7	**0**	0
Balances at 31 July 2012 (2011)	**20,807**	**10,022**	**30,829**	33,585
Represented by:				
Capital	19,620	10,022	**29,642**	32,497
Accumulated income	1,187	0	**1,187**	1,088
	20,807	**10,022**	**30,829**	33,585
College				
Balances at 1 August 2011 (2010)				
Capital	21,384	10,883	**32,267**	27,241
Accumulated income	1,088		**1,088**	1,037
	22,472	**10,883**	**33,355**	28,278
New endowments	11	308	**319**	4,092
Investment income	501	262	**763**	970
Expenditure	(464)	(534)	**(998)**	(1,646)
Repayments of benevolence loans made to students	62	0	**62**	0
(Decrease)/increase in market value of investments	(1,611)	(959)	**(2,570)**	2,146
Capital expenditure	0	0	**0**	(300)
Management fee	(157)	(78)	**(235)**	(185)
Transfer of funds	(7)	7	**0**	0
Balances at 31 July 2012 (2011)	**20,807**	**9,889**	**30,696**	33,355
Represented by:				
Capital	19,620	9,889	**29,509**	32,267
Accumulated income	1,187	0	**1,187**	1,088
	20,807	**9,889**	**30,696**	33,355

NOTES TO THE FINANCIAL STATEMENTS continued

22 REVALUATION RESERVE

	Consolidated and College	
	2012	2011
	£000	£000
Balance at 1 August 2011 (2010)	12,783	12,953
Released in year	(166)	(170)
Balance at 31 July 2012 (2011)	12,617	12,783

23 CAPITAL COMMITMENTS

	Consolidated		College	
	2012	2011	2012	2011
	£000	£000	£000	£000
Capital expenditure contracted but not provided for in financial statements	6,038	3,554	6,038	3,554

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

	Note	Consolidated 2012	2011
		£000	£000
Deficit/(surplus) for the year after depreciation of assets at valuation and before tax		(9,756)	1,747
Depreciation	11	15,411	14,166
Macau taxation	10	(5)	0
Net return on pension asset		22	26
Cash payment to reduce pension deficit		(19)	(19)
Deferred capital grants released to income	20	(8,214)	(7,384)
Profit on sale of land and buildings		(635)	0
Investment income	6	(1,079)	(1,166)
Interest payable		2,968	3,003
Decrease/(Increase) in stocks		65	(96)
Increase in debtors	16	(3,105)	(2,494)
Increase/(decrease) in creditors	17	17,781	(1,388)
Increase/(decrease) in creditors due after one year	18	1,115	(541)
Net cash inflow from operating activities		14,549	5,854

25 RETURNS ON INVESTMENT AND SERVICING OF FINANCE

	Note	2012	2011
Income from investments	6	764	1,009
Interest received	6	315	157
Interest paid		(2,968)	(3,003)
Exchange rate gain/(loss) on opening net assets of foreign subsidiary		3	(5)
Net cash outflow from returns on investment and servicing of finance		(1,886)	(1,842)

26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	Note	2012	2011
Purchase of tangible assets	11	(28,954)	(42,525)
Purchase of investments		(31,116)	(22,136)
Total payments to acquire fixed and endowment asset investments		(60,070)	(64,661)
Sale of investments		27,641	22,554
Sale of land and buildings		1,005	0
Deferred capital grants received	20	6,794	10,279
Endowments received	21	295	2,662
		35,735	35,495
Net cash outflow from investing activities		(24,335)	(29,166)

NOTES TO THE FINANCIAL STATEMENTS continued

27 FINANCING

		Consolidated 2012	2011
		£000	£000
New secured loans	18	**0**	25,000
Repayment of amounts borrowed		**(523)**	0
Net cash inflow from financing		**(523)**	25,000

28 ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2011	Cash Flows	At 31 July 2012
	£000	**£000**	£000
Cash at bank and in hand:			
Endowment assets	3,921	**(1,980)**	**1,941**
Others	6,740	**6,606**	**13,346**
Total cash at bank and in hand	10,661	**4,626**	**15,287**
Short term deposits	18,701	**(16,821)**	**1,880**
Debts due within one year	(523)	**(1,611)**	**(2,134)**
Debts due after one year	(103,179)	**(362)**	**(103,541)**
Total net debt	(74,340)	**(14,168)**	**(88,508)**

29 PENSION COSTS

The three principal pension schemes for the College's staff are the Superannuation Arrangements for the University of London (SAUL), the Universities Superannuation Scheme (USS) and the Public Service Scheme (NHS). The College also operates a closed scheme for the non teaching staff of the London Hospital and St Bartholomew's Hospital medical college prior to their merger with the College.

The College's contributions to the schemes, as at 31 July 2012, are shown below.

	USS	SAUL	NHS
	%	%	%
Employees' contributions - final salary scheme	7.50	6.00	6.00
Employees' contributions - career revalued benefits scheme	6.50	6.00	N/A
Employer's contributions	16.00	13.00	14.00

	2012	2011
	£000	£000
Contribution to USS	**15,098**	13,505
Contribution to SAUL	**2,251**	3,119
NHS Public Service scheme	**2,178**	2,163
Contribution paid to other pension schemes (note 29(v))	**5**	10
Net charge to Income and Expenditure Account	**19,532**	18,797

(i) USS

The College participates in USS, a defined benefit scheme which is contracted out of the State Second pension. The assets of the scheme are held in a separate Trust administered by the trustee, Universities Superannuation Scheme Limited. USS is a multi employer scheme and the College is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The College therefore accounts for its pension costs on a defined contribution basis, as permitted by Financial Reporting Standard 17 Accounting for Pension Costs. As a result, the amounts charged to the income and expenditure account represent the contributions payable to the schemes in respect of the accounting year.

The last available actuarial valuation of the scheme was at 31 March 2011 using the projected unit method. The assumptions which have the most significant effect on the result of the valuation and the valuation results have been given below. Following UK government legislation, from 2011 statutory pension increases are based on the Consumer Prices Index not the Retail Price Index as previously.

The College contribution rate required for future service benefits alone at the date of valuation was 16% of pensionable salaries.

As part of this valuation the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall of £2,910m by 31 March 2021.The next triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for the current valuation and contributions paid at the determined rates, the shortfall at 31 March 2014 is estimated to be £2,200m, equivalent to a funding level of 95%.

NOTES TO THE FINANCIAL STATEMENTS continued

29 PENSION COSTS continued

In October 2011, a number of changes to the benefits provided by the scheme were introduced: other than in specific circumstances the pensions provided to new entrants are on a career revalued benefits basis, the normal pension age was increased for future service and new entrants to 65; flexible retirement options were introduced; member contributions were increased to 7.5% and 6.5% for final salary and career revalued benefit members respectively; any future increases in the total contribution level will be funded 65% by the employer and 35% by the employee and for service accruing after 30 September 2011, pensions in payment will be increased by matching an increase in official pensions up to 5% and then half of the difference up to a maximum of 10%.

(ii) SAUL

The College participates in SAUL which is a centralised defined benefit scheme for all qualifying employees and is contracted out of the State Second Pension. The assets are held in separate Trust-administered funds. SAUL is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The College therefore accounts for its pension costs on a defined contribution basis, as permitted by Financial Reporting Standard 17 Accounting for Pension Costs. As a result, the amounts charged to the income and expenditure account represent the contributions payable to the schemes in respect of the accounting year.

The last available actuarial valuation of the scheme was at 31 March 2011 using the projected unit method. The assumptions which have the most significant effect on the result of the valuation and the valuation results have been given below. Following UK government legislation, from 2011 statutory pension increases are based on the Consumer Prices Index not the Retail Price Index as previously.

In July 2012 the career average revalued earnings (CARE) benefit structure was introduced for new members joining the scheme. As a consequence, the cost of benefit accrual is expected to fall as existing final salary scheme members are replaced by 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 at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021.

The main feature of the most recent valuations of the USS and SAUL schemes, under a FRS 17 basis, are as follows:

Latest Actuarial Valuations	USS 31/03/2011	SAUL 31/03/2011
Assumptions		
Investment returns per annum – past service liabilities	4.4%	6.8%
Investment returns per annum – future service liabilities	6.1%	6.8%
Salary scale increases per annum	4.4%	N/A
Salary scale increases per annum until 31 March 2014	N/A	3.75%
Salary scale increases per annum after 31 March 2014	N/A	4.5%
Pension increases per annum	N/A	2.8%
Pension increases per annum for the three years 2011-2014	3.4%	N/A
Pension increases per annum after 2014	2.6%	N/A
Results		
Market value of assets at date of last valuation	£32,433.5m	£1,506m
Regular contribution rate	16.0%	13.0%
Proportion of members' accrued benefits covered by the actuarial valuation of the assets	92%	95%

(iii) NHS Public Service Scheme

The Public Service scheme is an unfunded defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the College to identify its share of the underlying scheme assets and liabilities. The College therefore accounts for its pension costs on a defined contribution basis as permitted by Financial Reporting Standard 17.

Membership of this scheme is restricted to existing staff who are members and new staff who were already members by virtue of their previous National Health Service employment. The NHS scheme is funded centrally by the Treasury on a current cost basis.

(iv) London Hospital and St Bartholomew's Hospital non teaching staff scheme.

The College operates a defined benefit scheme in the UK, which provided both pensions in retirement and death benefits to non teaching staff of the London Hospital and St Bartholomew's Hospital medical colleges. Pension benefits are related to member's final salary at retirement and their length of service. Following the merger of the two medical colleges with the College, the members were offered membership of SAUL and ceased to accrue benefits in the scheme on 1 August 1996. There are no active members in the scheme. The last triennial valuation of the scheme was at 31 July 2009. At that date the value of the assets was lower than the actuarial valuation by £159,000, a funding level of 87%. The college has agreed a plan to reduce the actuarial deficit by annual payments of £19,000 over an eleven year period. The first payment of £19,000 was made to the scheme for the year ending 31 July 2010. The College meets the ongoing running expenses of the scheme together with any PPF levies.

NOTES TO THE FINANCIAL STATEMENTS continued

29 PENSION COSTS continued

The Government's announcement of a change for statutory increases for pensions from the Retail Prices Index to the Consumer Prices Index has affected the scheme as follows:

Non Guaranteed Minimum Pension benefits for both the London Hospital and St Bartholomew's section increase in deferment in line with the statutory minimum of CPI from 2011.

Discretionary pension increases in the London Hospital section are set with reference to CPI subject to a maximum of 5% per annum. Pension increases for the Barts section are unaffected and remain fixed at 3% per annum.

At 31 July 2012 the market value of assets in the scheme, the expected long term rate of return from them and the present value of the scheme liabilities, as defined in accordance with Financial Reporting Standard 17 and valued by the group's actuary were as follows:

		31.07.2012	31.07.2011	31.07.2010	31.07.2009	31.07.2008
Rate of increase in salaries		**N/A**	N/A	N/A	N/A	N/A
Discount rate		**4.00%**	5.20%	5.40%	6.30%	6.50%
Inflation RPI assumption		**N/A**	N/A	3.40%	3.70%	3.80%
Inflation CPI assumption		**2.00%**	3.00%	N/A	N/A	N/A
Rate of increases in pensions in payment:						
RPI up to a maximum of 5% pa (LHMC members)		**N/A**	N/A	3.20%	3.40%	3.50%
CPI up to a maximum of 5% pa (LHMC members)		**2.00%**	3.00%	N/A	N/A	N/A
Fixed increases of 3% pa (Barts members)		**3.00%**	3.00%	3.00%	3.00%	3.00%
		2012	2011	2010	2009	2008
Assumed life expectancies on retirement at age 60 are:						
Retiring today	Males	**25.5**	25.4	25.3	25.6	25.5
	Females	**28.0**	28.0	27.9	28.4	28.3
Retiring in 20 years time	Males	**26.9**	26.8	26.8	27.8	27.7
	Females	**29.3**	29.3	29.2	30.5	30.4

The assumptions used in determining the overall expected return of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

The expected rate of return of the assets in the scheme were:

	Long-term rate of return expected at 31.07.2012	Long-term rate of return expected at 31.07.2011	Long-term rate of return expected at 31.07.2010	Long-term rate of return expected at 31.07.2009	Long-term rate of return expected at 31.07.2008
	%	%	%	%	%
Equities	**5.78%**	6.99%	7.28%	7.50%	7.60%
Bonds and gilts	**3.41%**	4.60%	4.84%	5.40%	5.60%
Cash/Net current assets	**0.50%**	0.50%	0.50%	0.50%	5.00%

The value of the assets in the scheme were:

	Value at 31.07.2012	Value at 31.07.2011	Value at 31.07.2010	Value at 31.07.2009	Value at 31.07.2008
	£000	£000	£000	£000	£000
Equities	**348**	301	277	271	277
Bonds	**525**	959	810	810	822
Index linked gilts	**528**	0	0	0	0
Cash	**20**	2	20	1	1
Net current liabilities	**(14)**	0	0	0	0
Total market value of assets	**1,407**	1,262	1,107	1,082	1,100
Present value of scheme liabilities	**(1,916)**	(1,685)	(1,596)	(1,465)	(1,465)
Deficit in scheme	**(509)**	(423)	(489)	(383)	(365)

The scheme has been closed since 1 August 1996. £19,000 was charged to operating profit in the year (2011 £19,000).

NOTES TO THE FINANCIAL STATEMENTS continued

29 PENSION COSTS continued

Analysis of the amount credited to other finance income:

	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Expected return on scheme assets	**65**	60	61	67	65
Interest cost	**(87)**	(86)	(88)	(88)	(80)
Net Return	**(22)**	(26)	(27)	(21)	(15)

Analysis of amount recognised in statement of total recognised gains and losses:

	2012	2011	2010	2009	2008
Actual return less expected return on pension scheme assets	**82**	79	75	(85)	(52)
Experience gains and losses arising on the scheme liabilities	**(165)**	(6)	(173)	0	8
Changes in assumptions underlying the present value of the scheme liabilities	**0**	0	0	(28)	48
Actuarial (loss)/gain recognised in STRGL	**(83)**	73	(98)	(113)	4

History of scheme assets, obligations and experience adjustments

	2012	2011	2010	2009	2008
Experience adjustments arising on scheme liabilities	**0**	0	(173)	0	8
Experience item as a percentage of scheme liabilities	**0.0%**	0.0%	(10.8%)	0.0%	0.6%
Actual return less expected return on pension scheme assets	**82**	79	75	(85)	(52)
Percentage of scheme assets	**5.80%**	6.30%	6.80%	(7.9%)	(4.7%)

A cumulative loss of £217,000 has been recognised in the Statement of Recognised Gains and Losses (2011 loss of £134,000).

The movement in the deficit in the year was:

	2012	2011	2010	2009	2008
Deficit in scheme at 1 August	**(423)**	(489)	(383)	(249)	(238)
Contribution by Employer	**19**	19	19	0	0
Current service cost	**0**	0	0	0	0
Other finance income	**(22)**	(26)	(27)	(21)	(15)
Actuarial (loss)/gain	**(83)**	73	(98)	(113)	4
Deficit in scheme at 31 July	**(509)**	(423)	(489)	(383)	(249)

(v) Defined contribution scheme

One of the College subsidiaries offers a defined contribution pension scheme to its staff. The cost for the year was £5,000 (2011 £10,000). There were no outstanding or prepaid contributions at the balance sheet date.

30 ACCESS FUNDS

	2012	2011
	£000	£000
Balance brought forward	**5**	18
Grant received	**192**	191
Interest	**0**	0
Expenditure	**(194)**	(199)
Outstanding loans	**(3)**	(5)
Balance carried forward	**0**	5

Funding body access grants are available solely for students; the College acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

NOTES TO THE FINANCIAL STATEMENTS continued

31 RELATED PARTY DISCLOSURES

Transactions between the College and its subsidiary undertakings have been eliminated on consolidation and therefore do not need to be disclosed in this note.

Due to the nature of the College's operations and the composition of the Council (being drawn from public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of Council will have an interest. All such transactions are conducted at arms length and in accordance with the College's financial regulations and normal procedures.

Name	Related Party	Income £000	Expenditure £000	Debtor Balance £000	Creditor Balance £000
Ms Mary Elford, Non Executive Director	East London NHS Foundation Trust	1,354	177	151	22
Ms Mary Elford, Non Executive Director Professor Sir Nicholas Wright, Non Executive Director Professor Richard Trembath, Non Executive Director	Barts and the London NHS trust	12,260	2,846	2,231	192
Professor Simon Gaskell, Director Professor Richard Trembath, Director	UCL Partners	38	564	0	0
Professor Richard Trembath, Trustee Professor Sir Nicholas Wright, Trustee	William Harvey Research Foundation	153	0	14	0
Professor Nick Lemoine, Director	National Institute for Health Research Comprehensive Local Research Network for Central and East London	9	0	1	0
Professor Nick Lemoine, Chairman, Scientific Advisory Board	Diabetes UK	122	0	13	0
Professor Mark Caulfield, Clinical Director	London Genetics	5	0	0	0
Professor Mark Caulfield, Trustee	British Hypertension Society	16	0	8	0
Professor Phillip Ogden, Trustee Professor Morag Schiach, Trustee	St Barts Hospital Medical College Trust	447	0	0	0
Professor Phillip Ogden, Trustee	St Paul's Way Trust	3	1	0	0
Ms Deborah James, Partnership Governor	Homerton University Hospital	331	199	44	6
Ms Sophie Richardson, Chair Ms Elizabeth Hall, Trustee	Queen Mary Students' Union	117	1,071	948	89
Mr Anthony Walker, Chair Ms Sophie Richardson	QMSU Services Ltd	77	1,141	121	20
Mr Anthony Walker, Member of Court of Assistants	Draper's Company	0	26	0	0
Mr Anthony Walker, Member of Court of Assistants	Draper's Charitable Fund	64	0	0	0
Dr Veronique Bouchet, Trustee	Breast Cancer Campaign	494	0	176	0
Ms Kathryn Barrow, Partner	Ernst & Young	3	0	0	0

32 DEFICIT/(SURPLUS) ON CONTINUING OPERATIONS FOR THE YEAR

The (deficit)/surplus on continuing operations for the year is made up as follows:

	2012 £000	2011 £000
College's deficit for the year before Gift Aid and gain on sales of fixed assets	**(10,105)**	(1,666)
Deficit retained by subsidiary undertakings	**(2,610)**	(3,166)
Elimination of losses on intra-group transactions on consolidation	**3,083**	7,139
Total	**(9,632)**	2,307

NOTES TO THE FINANCIAL STATEMENTS continued

33 CONTINGENT LIABILITY

The College has entered into a guarantee with Barclays Bank PLC to meet the liabilities arising from a £16,500,000 loan to Queen Mary Bioenterprises Limited for the purpose of constructing a technology innovation centre at Whitechapel. As at 31 July 2012 the value of the draw downs including bank interest stood at £16,981,157 (2011 £16,981,157). The College's liability under the guarantee is contingent upon Queen Mary Bioenterprises Limited being unable to meet the schedule of loan repayments. At present it is expected that Queen Mary Bioenterprises Limited should be able to meet the repayments.

Queen Mary Bioenterprises Limited has received funding through a government grant to build the QMB Innovation Centre. This grant would become a liability in the event of the company being unable to meet the terms of the grant agreement. As at 31 July 2012 the value of the government grant received stood at £7,000,000, of which a cumulative of £2,224,453 has been taken to the profit and loss. College has agreed that should certain conditions be met, it would acquire the QMB Innovation Centre on 31 July 2020 for educational use.

Nanoforce Technology Limited received £1,800,000 and £1,300,000 in grant funding from the London Development Agency and the Department for Trade and Industry/Technology Strategy Board respectively that was subject to certain deliverables. The main deliverables have been met and it remains for the company to keep trading until the end of 2015 to complete the conditions of grant.

COUNCIL MEMBERSHIP 2011-12

		Tenure ends
Chairman	Sir Nicholas Montagu	
Treasurer	Mr Simon Linnett	
Vice-Chairman	Mr Jocelin M St J Harris (resigned 31 August 2012)	
Ex Officio Members		
The Principal	Professor Simon Gaskell	
The President of the Students' Union 2011-12	Ms Sophie Richardson (resigned 31 July 2012)	
Nominees of the Principal		
Senior Vice-Principal	Professor Philip Ogden (resigned 31 December 2011)	
Vice Principal and Executive Dean (Humanities and Social Sciences).	Professor Morag Shiach (appointed 23 January 2011)	23/01/2016
The Warden of St Bartholomew's and The Royal London School of Medicine and Dentistry	Professor Sir Nicholas Wright (resigned 31.8.2011)	
Vice Principal, School of Medicine and Dentistry	Professor Richard Trembath (appointed 31 August 2011)	31/08/2015

Elected Members [Staff]

Professor Nick Lemoine	31/09/2013
Professor Raymond Kuhn	31/09/2013
Professor Mike Watkinson	31/09/2014
Professor Mark Caulfield	31/09/2014
Ms Deborah James (resigned 30 June 2012)	

External Members

Mr Jocelin M St J Harris	31/08/2012
Mr Vernon McClure	31/08/2013
Sir Nicholas Montagu	18/01/2014
Mr Simon Linnett	19/10/2014
Mr Anthony Walker	31/08/2014
Mr John Yard	31/08/2014
Ms Mary Elford	12/12/2015
Ms Elizabeth Hall	12/12/2015
Mr David Thomas	12/12/2015
Ms Veronique Bouchet (appointed 1 January 2012)	31/12/2015

Audit and Risk Committee Membership 2011-12

Chairman [an external member of Council]
Mr David Thomas

Up to four other external members of Council
Ms Elizabeth Hall
Mr Vernon McClure
Ms Kathryn Barrow (co-opted)