



Royal College  
of Surgeons

ADVANCING SURGICAL CARE



# Annual report and accounts

for the year ended 30 June 2018



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# President's Foreword

I am pleased to present this annual report for my first year as President. The report outlines our achievements in advancing surgical care for the benefit of patients. I am pleased to reflect in this report the effort from everyone involved with the RCS in delivering our ambitions.

The RCS has achieved much on a number of new fronts during the year as well as continuing to deliver the wide range of activities that allow us to support our core activities of setting standards, training and assessing surgeons, supporting research and representing the profession with government and the media.

This year saw the launch of the new global surgical research programme. Working in partnership with the National Institute for Health Research Global Health Research Unit, sustainable international research hubs will be established across a range of low and middle-income countries over the next four years.

During the year, we concluded our flagship quality improvement project, the Cholecystectomy Quality Improvement Collaborative. Across 13 pilot hospitals, we were able to help reduce time to urgent cholecystectomy by giving clinicians the ability to drive change within their own organisations. Such an approach shows not only the benefit to patient care but also how the model could be used successfully in other areas of surgical care.

We continued to highlight the impact on planned surgery of the increasing financial pressures on the NHS. We successfully put pressure on clinical commissioning groups to reverse policies ignoring clinical guidance to ration surgery that patients require. With a number of stakeholders in the health sector, our calls for more NHS funding were heeded by the government.

The challenge of delivering the building programme and shaping the RCS for the future remains our key priority.

I extend my personal thanks to the very many surgeons and staff everywhere who give their time and energy to the work of the RCS.

**Professor Derek Alderson**

**President**

The Royal College of Surgeons of England

# Chief Executive's Introduction

This report documents the activities of the RCS and presents our financial statements for the year ended 30 June 2018.

Our most visible activity in 2017–18 was the commencement of the major redevelopment of our Lincoln's Inn Fields base, having completed the leasehold sale of the Nuffield building to the London School of Economics and contract agreements with our building partner, Wates Construction. While the concurrent development of the neighbouring former Cancer Research UK building has provided practical challenges, the programme of demolition behind the Barry building frontage has progressed well and construction will start in earnest in autumn 2018. The rebuild is on track to be completed in the 2020–21 financial year.

Our capital campaign in support of the redevelopment of the College has reached almost £4 million and I am enormously grateful to those who have given so generously towards it as well as those who have provided funds to support research, education and other RCS activities.

During a time of major disruption, it is pleasing to note that our membership and exam candidate numbers continued to rise, reflecting our continuing focus on membership events and benefits, and the success of our educational and examinations activities in the UK and globally. For the first time, we have opened membership to members of the wider surgical team, and we have entered into exciting partnerships with the University of Manchester and St George's Medical School in London for the provision of educational facilities during our transition. We have also reshaped our regional support, with a new Northern and Midlands hub opened by Andy Burnham, Mayor of Greater Manchester, in June 2018, and a London and South hub based in Lincoln's Inn Fields.

In dentistry, the Faculty of Dental Surgery maintained its strong professional presence, particularly with its campaign to improve children's oral health. The Faculty of General Dental Practice (FGDP(UK)) held a prestigious conference on holistic dentistry as part of its 25<sup>th</sup> anniversary celebrations and published guidance on dementia-friendly dentistry. Progress continues into this year to enable the separation of the FGDP(UK) from the RCS.

I remain ever grateful to members, staff, donors and supporters for their commitment to the RCS, particularly during a challenging period of transition.

**Mr Andrew Reed**

**Chief Executive**

The Royal College of Surgeons of England

# Reference and Administrative Details

## Charter

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The Royal College of Surgeons of England was established by Royal Charter in 1800 to promote and encourage the study and practice of the art and science of surgery. Its earlier history lies in the records of the City Companies of Surgeons and Barber Surgeons. The affairs of the RCS are regulated by its founding and subsequent charters and ordinances. The most recent of these charters was granted in April 2015 and the one prior to that in March 1992. The RCS is a charity with the registered number 212808.

## Constituent parts

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For administrative purposes, the RCS comprises the Commonalty of Surgeons, the Faculty of Dental Surgery (FDS) and the Faculty of General Dental Practice (UK) (FGDP(UK)).

## Trustees

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The RCS Board of Trustees, which came into effect with our new charter in April 2015, comprises the College Officers, the Deans of the Dental Faculties, three Elected Trustees (elected by and from Council) and four Lay Trustees appointed by the Board.

### *Officers*

President:	Professor D Alderson Dame C Marx (until 13 July 2017)
Vice-Presidents:	I Eardley (until 12 July 2018) S Hill Professor N Mortensen Professor C Shearman (appointed 12 July 2018)

### *Deans of the Faculties*

FDS Dean:	Professor M Escudier
FGDP Dean:	I Mills (appointed 15 June 2018) M Horton (until 15 June 2018)

### *Elected Trustees*

Mr J Abercrombie  
Mr P Kay  
Miss F Myint

### *Lay Trustees*

M Hussey  
Sir A Morse  
J Robinson  
D Whitney

## Members of Council

Council consists of 24 elected surgical fellows, 10 appointed surgical specialty association members and 2 dental surgery fellows elected by the Board of the Faculty of Dental Surgery. Surgical Council members are elected by postal ballot by fellows and members of the RCS. Specialty association members are appointed by a transparent and democratic procedure that has been determined by their appointing surgical specialty association and approved by Council. In addition, during the year, a number of invited members representing specific interests attended Council meetings.

As well as the officers listed above, the elected surgical and dental surgery fellows were:

Mr J Abercrombie	Mr R Kerr	<b>Appointed surgical specialty association members:</b>
Mr S Ahmed	Mr P Lamont	Mr G Cooper (until 12 July 2018)
Mr W Allum	Miss V Lees	Mr T Goodacre
Professor F Bhatti (appointed 12 July 2018)	Mrs S McNally	Mr D Jones
Mr M Bircher	Professor N Mortensen	Mr N Markham
Professor T Briggs	Mr T Mitchell	Mr I Martin
Mr S Chadwick	Miss F Myint	Mr A Nanu
Professor M Escudier	Mr P O'Flynn	Mr E Nicholls (appointed 12 July 2018)
Miss H Fernandes	Professor T Rockall	Mr R Page (appointed 12 July 2018)
Professor P Friend (appointed 12 July 2018)	Professor N Standfield	Mr N Phillips
Miss S Hill	Mr T Terry	Professor C Shearman
Mr P Kay	Miss S Vig	Mr R Stewart (until 12 July 2018)
		Mr A Swift

## Principal advisors

### Bankers

C Hoare & Co	37 Fleet Street, London EC4P 4DQ
HSBC Bank PLC	60 Queen Victoria Street, London EC4N 4TR

### External Auditor

Crowe UK LLP	St Bride's House, 10 Salisbury Square, London EC4Y 8EH
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### Internal Auditor

Grant Thornton UK LLP	30 Finsbury Square, London EC2P 2YU
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### Solicitors

Bircham Dyson Bell LLP	50 Broadway, London SW1H 0BL
Farrer & Co LLP	66 Lincoln's Inn Fields, London WC2A 3LH

### Investment Managers

Cazenove Capital Management (a trading name of Schroder & Co Ltd)	31 Gresham Street, London EC2V 7QA
Sarasin & Partners LLP	Juxon House, 100 St Pauls Churchyard, London EC4M 8BU

### Property Development Advisors

Lendlease Consulting Ltd	20 Triton Street, Regent's Place, London NW1 3BF
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## Registered office

The Charity's registered office is at 35–43 Lincoln's Inn Fields, London WC2A 3PE.

# Funding Partnerships

As a registered charity (charity number: 212808), the RCS relies on charitable support to underpin its work in advancing surgical standards through education, research and training.

The RCS is grateful to its many supporters, whose donations and encouragement are crucial as the demands on the limited resources of the RCS become ever greater. We would like, in particular, to acknowledge the following charitable trusts, foundations, companies and individuals.

## Foundations, charitable trusts, associations and individuals

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Arts Council England	Global Clubfoot Initiative
Association of Breast Surgery	GM Morrison Charitable Trust
Association of Coloproctology of Great Britain and Ireland	Golden Bottle Trust
Association of Surgeons of Great Britain and Ireland	Huggard Charitable Trust
Ballinger Charitable Trust	Knights of the Round Table Benevolent Fund
Beit Trust	Lifebox Foundation
Blond McIndoe Research Foundation	Lord Leonard and Lady Estelle Wolfson Foundation
Bowel Disease Research Foundation	Mary Kinross Charitable Trust
Breast Cancer Now	Miss Leela Kapila OBE
British Association of Plastic, Reconstructive and Aesthetic Surgeons	Mr Leon J Grant
British Association of Urological Surgeons	Orthopaedic Research UK
British Society for Surgery of the Hand	Reuben Foundation
Brock Webb Trust	Roger Vere Foundation
Bryan Guinness Charitable Trust	Rosetrees Trust
Cadogan Charity	Royal College of Anaesthetists
Crohn's and Colitis UK	Shears Foundation
Dunhill Medical Trust	Society for Cardiothoracic Surgery in Great Britain and Ireland
Edwin George Robinson Charitable Trust	SURG-Africa
Enid Linder Foundation	Swann-Morton Foundation
ENT UK	UK-Med
Frances and Augustus Newman Foundation	Vascular Society for Great Britain and Ireland
Freemasons' Fund for Surgical Research	Wellington Hospital
George Drexler Foundation	World Orthopaedic Concern UK
GD Herbert Charitable Trust	Worshipful Company of Barbers
Gilbert and Eileen Edgar Foundation	Worshipful Company of Needle-makers
	Wyndham Charitable Trust

## Corporate support

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B Braun Medical	Limbs & Things
Chase de Vere	Medtronic
Cure International (UK)	Mölnlycke Health Care
Edwards Lifesciences	Smith & Nephew
EIDO Healthcare	Stryker
Ethicon	Synergy Health
Guardian	Thomas Tunnock
Karl Storz Endoscopy (UK)	Toshiba
LFD Group	Zimmer Biomet



## Endowed and restricted funds

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Alban Barros D'Sa Scholarship Fund  
Blond McIndoe Fund  
Doctor Shapurji H Modi Memorial ENT Fund  
Fellows Fellowship Fund  
Geoffrey GT Fletcher Fund  
Harold Bridges Bequest  
Henry Lumley Charitable Trust  
Margaret Witt Scholarship Fund  
Philip and Lydia Cutner Fund  
Philip King Research Fund  
Preiskel Family Fund  
Rex and Jean Lawrie Overseas Surgical Training Fund  
Sorab (Soli) Jamshed Lam Research Fund  
Speight Discretionary Fund  
Vandervell Research Fund

## Legacies

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The late Mr CC Boot for the Arthritis Research Trust  
The late Mr CC Darwent for general charitable purposes  
The late Ms JE Greenaway for conservation of library books and records  
The late Miss DB Hardman for use in medical science and research  
The late Ms EA Harper for general charitable purposes  
The late Ms WH Johnston for general charitable purposes  
The late Mr RJ Jones for general charitable purposes  
The late Miss BM MacKenzie for general charitable purposes  
The late Mr IP Murray for general charitable purposes  
The late Ms J Norris for general charitable purposes  
The late Miss SM Salmon for general charitable purposes  
The late Mr G Stokes for general charitable purposes

# Structure, Governance and Management

The RCS Board of Trustees has responsibility for the overall direction of the RCS but delegates all substantive matters relating to professional and public policy to the Council and allows the Council to further delegate its powers.

All trustees and Council members are given an induction course on the RCS and ongoing training on their responsibilities and other matters as required.

The trustees are aware of the Charity Governance Code published in 2017, which sets out the principles and recommended practice for good governance within the sector. The trustees are committed to maintaining high standards of governance and are satisfied that the RCS applies the principles of the code within its current governance arrangements. The RCS' compliance with the Code will be reviewed on an annual basis.

The committees of the RCS Board, as of 30 June 2018, were:

Committee	Chair
<b>Audit and Risk Committee</b>	Mr C Graham
<b>Finance and Investment Committee</b>	Sir A Morse
<b>Remuneration and Nominations Committee</b>	Mr J Robinson
<b>Project 2020 Steering Committee</b>	Professor C Shearman (from 12 July 2018) Mr I Eardley (until 12 July 2018)

Council members directly responsible to Council for the following areas, as of 30 June 2018, were:

Committee	Responsible area	Council member
Learning and Assessment Committee	Overall responsibility Improving Surgical Training Dental and Surgical Examinations Library, Museums and Archives	Mr I Eardley Mr W Allum Miss F Myint Mr I Eardley
Research and Quality Committee	Overall responsibility Quality Assurance Quality Improvement Research Fellowships and Lectureships	Professor N Mortensen Professor P O'Flynn Mr J Abercrombie Professor C Shearman
International Committee	Overall responsibility International Development	Ms S Hill Professor V Lees
Membership Engagement Committee	Overall responsibility <i>Annals</i> and <i>Bulletin</i> Editorial Commission on the Future of Surgery Regional and Devolved Nations	Professor M Escudier Professor N Mortensen Mr R Kerr Ms S Hill

The Faculty of Dental Surgery reports to Council and forms part of the business of the RCS Board of Trustees. The Faculty of General Dental Practice (UK) reports to the RCS Board of Trustees. Each faculty has its own committee structure and a Dean to chair the boards of each of their respective faculties. The results of both dental faculties are included in the financial statements of the RCS.

The RCS Board delegates to the Chief Executive responsibility for the day-to-day management of the RCS and the Chief Executive delegates management of specific functions to executive directors, each of whom is responsible for a portfolio of directorates.

Subscribing fellows and members elect the Council and the boards of the two dental faculties.

As at 30 June 2018, the numbers of fellows and members in each category were as follows:

		<b>2018</b>	<b>2017</b>
Commonalty of Surgeons	UK	13,385	13,392
	Overseas	4,894	4,911
	Affiliates	1,537	1,040
	<b>Total</b>	<b>19,816</b>	<b>19,343</b>
Faculty of Dental Surgery	UK	2,807	2,731
	Overseas	669	642
	<b>Total</b>	<b>3,476</b>	<b>3,373</b>
Faculty of General Dental Practice (UK)	UK	2,287	2,115
	Overseas	39	23
	Affiliates	173	191
	<b>Total</b>	<b>2,499</b>	<b>2,329</b>
Joint members of FDS and FGDP(UK)	UK	548	315
	Overseas	25	5
	<b>Total</b>	<b>573</b>	<b>320</b>
Joint members of FDS and FGDP (UK) (MJDF)	UK	1,113	1,644
	Overseas	63	112
	<b>Total</b>	<b>1,176</b>	<b>1,756</b>
Total fellows and members	UK	21,850	21,428
	Overseas	5,690	5,693
	<b>Total</b>	<b>27,540</b>	<b>27,121</b>

## Management

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The principal managers employed by the RCS during the year were:

Chief Executive	A Reed
Deputy Chief Executive	J Weller
Executive Director (Resources)	J Porritt (from 4 September 2017)
Executive Director (Learning and Quality)	S Hills
Executive Director (External Affairs)	S Edwards (until 31 July 2018)
Director of Finance	C Hibbs
Director of Education	F Alexander (until 31 March 2018)
Director of Engagement	L Davies
Director of International Affairs	D Jackman (until 31 December 2017)
Director of Learning	L Goldring (from 14 May 2018)
Director of Library and Archives	T Knight
Director of Museums	D Kemp
Director of Professional and Clinical Standards	K Smith
Head of Exams	A Landau
Head of Research	M Coomer
Registrar of the Faculty of Dental Surgery	J Vandridge Ames
Director of the Faculty of General Dental Practice (UK)	S Thornton-Wood

# Trustees' Report

The trustees of the RCS are pleased to present their report for the year ended 30 June 2018.

## Objects and aims

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The RCS was established for the study and promotion of the art and science of surgery.

## Mission statement

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The RCS is committed to enabling surgeons to achieve and maintain the highest standards of surgical practice and patient care.

## Core values

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We will:

- » put the interests of patients at the heart of all we do;
- » provide leadership and support for surgeons of all specialties;
- » develop the potential of surgeons through education, training and research;
- » work closely with the specialty associations and other organisations to achieve our mutual aims;
- » foster and develop the employees of the RCS;
- » promote equality of opportunity and act against discrimination in all aspects of RCS life; and
- » be fair, responsible, open and accountable for all we do.

## Strategic aims

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We will:

- » provide strong leadership and support for surgeons in all matters relating to their surgical practice throughout their surgical careers;
- » work with patients, the general public and government to improve surgical services;
- » consolidate the position of the RCS as a leading national and international centre for surgical education, training, assessment, examination and research;
- » lead the whole multi-professional surgical team in all matters relating to the care of the surgical patient (including the surgical treatment of children) and further develop its role in setting and maintaining standards of practice for all the members of that team throughout their careers;
- » develop the structure and function of the RCS to allow it to achieve its goals; and
- » promote (through consultation and collaboration with other royal colleges, the specialty associations and other interested parties) the development of an effective single voice for surgery on relevant professional issues.

## Public benefit

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The RCS delivers public benefit through a wide range of activities that influence and support the professional development of surgeons and the delivery of surgical services for the benefit of patients, surgeons and trainee surgeons. We provide strong leadership and support for surgeons in all matters relating to their surgical practice throughout their careers. Our activities and achievements, which all lead to public benefit, reinforce our strategic aims and demonstrate our commitment to maintain the highest standards of surgical practice and patient care.

The trustees confirm that they have paid due regard to the guidance issued by the Charity Commission on public benefit, and further confirm that the activities of the RCS are carried out for public benefit. Our work is based on a number of the charitable purposes defined in the Charities Act 2006 (chiefly the advancement of education, the advancement of health or the saving of lives and the advancement of the arts, culture, heritage or science). We engage directly with the public through the Hunterian Museum, the media, our publications and our journals (the *Annals*, the *Bulletin* and the *FDJ*).

## Activities and achievements during 2017–18

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In July 2015, we published our three new strategic priorities for the period 2015 to 2019, which underpin the RCS vision of advancing surgical care. During this period, we will be focusing our activities and resources on delivering these priorities. The following summarises our progress over the past year.

### **Quality and standards: Advance standards and reduce the variability of patient outcomes**

The RCS continues to focus on improving the standard, quality and safety of patient care. In January 2018, we concluded the Cholecystectomy Quality Improvement Collaborative (Chole-QulC), our flagship quality improvement project. Working with 13 hospitals across the UK, we aimed to reduce time to urgent cholecystectomy by using quality improvement methodology to empower clinicians to drive change within their own organisations. Each participating site has benefited from individual coaching sessions with our expert quality improvement team as well as ‘whole collaborative’ national meetings to share best practice in quality improvement. Data from all 13 hospitals is being evaluated to demonstrate the impact that being part of Chole-QulC has had on patient care and how a quality improvement collaborative model could be used to benefit other areas of surgical care.

Outpatient clinics are a fundamental part of surgical practice and the main area of interaction between surgeons and patients. The effective management of clinics has become increasingly challenging in recent years owing to pressures on time and resources. Our guide *Outpatient Clinics: A Guide to Good Practice* aims to provide practical advice and recommendations for the effective running of outpatient clinics to maximise efficiencies in resource allocation and improve quality of service for patients. Key areas addressed in this guide include measuring the demand for your service, measuring capacity, and understanding and removing ‘bottlenecks’. Advice is provided on managing bookings, reducing patient cancellations and ‘did not attends’ (DNAs). The guide also makes suggestions on new models for outpatient clinics, such as virtual clinics.

Our good practice guide on *Using Data to Support Change in Clinical Practice* was published during the year to provide practical advice to surgeons on how information about surgical performance and outcomes can be used to improve care. Topics covered include how to choose the right data to measure performance, the different ways to collect data, and the importance of feedback and reflective practice.

Through the invited review service, we undertook important work to assure and improve the quality and safety of patient care, completing 28 individual, service and clinical record reviews in 2017–18. Our accreditation team accredited 93 continuing professional development events, 9 senior clinical fellowships, 8 surgical education centres, 7 surgical courses, 4 higher education institutions and 2 surgical care practitioner courses. Our certification team certified 18 cosmetic surgeons as having provided evidence (including professional behaviours, clinical skills, knowledge and experience) of their competence.

We awarded 40 one-year research fellowships including 2 joint fellowships with the Circulation Foundation, 1 joint British Association of Paediatric Surgeons fellowship, 1 Fulbright fellowship, 1 McKinsey fellowship and a new joint fellowship with the UK Stem Cell Foundation. We also awarded a two-year joint fellowship with the National Joint Registry and a two-year joint Dunhill Medical Trust fellowship. A generous donation resulted in the establishment of the Saven Research and Development Programme, through which we awarded a further one-year fellowship and seven grants. In addition, we awarded nine pump priming grants to newly appointed consultants and post-doctoral trainees to undertake pilot work in preparation for applying for a programme grant (two of which were supported through our new partnership with the Blond McIndoe Research Foundation) and sixteen intercalated BSc grants for medical students whose subject relates to surgery.

Thirteen surgical specialty leads are currently in post and two further posts are being recruited: one for oesophageal cancer in partnership with the Association of Upper Gastrointestinal Surgeons and Heartburn Cancer UK, and the other for pancreatic cancer with Pancreatic Cancer UK and Pancreatic Cancer Research Fund. The seven RCS surgical trials centres are currently working on a portfolio of 128 surgical trials, 49 of which are open and recruiting patients. Studies run by the surgical trials centres have recruited just over 50,000 patients since the launch of the initiative in 2013. The first RCS Chair, Professor David Jayne, has been appointed at the University of Leeds in partnership with Bowel Cancer UK. The focus for the next phase is the recruitment

to five further chairs, which are being developed in conjunction with the university partners and a number of generous trusts and charities who are supporting this initiative.

### **Career and professional development: Attract, educate, develop and support high-quality surgeons**

We completed the third year of the Lady Estelle Wolfson Emerging Leaders Programme, which provides women with opportunities to be involved in RCS activities across a one-year fellowship. This initiative has received positive feedback from participants, who have gained the knowledge and confidence to apply for leadership roles in the RCS and in the profession more widely. This year seven female consultants and one senior trainee completed the programme, and we have recruited for the next cohort of thirteen.

We partnered with the Faculty of Medical Leadership and Management to offer two programmes, *Introduction to Surgical Leadership* and *Tomorrow's Strategic Leader Development Programme*, which together supported over 70 trainees and surgeons. These are in addition to and complement our successful *Educational Leadership Programme for Surgeons* course.

The RCS and Health Education England launched the Improving Surgical Training project pilot, making 88 training places available across nine schools of surgery and training boards in the UK. The pilot will commence in August 2018 and implement a new surgical training programme for general surgery. It will trial improvements in the quality of training, creating a better balance between service and training for trainees, professionalising the role of trainers and developing members of the extended surgical team to work alongside surgical trainees to improve patient care. It also provides the ideal opportunity to develop the concept of the 'modern firm', where multi-disciplinary teams provide junior doctors with the support they require in a positive and collaborative environment. The project has also attracted interest from vascular surgery and urology, and Health Education England has agreed to extend the pilot into these two specialties from August 2019.

Improvements to patient care through the extended surgical team remain a core focus of our work. In April 2018, the RCS launched a new associate membership category for surgical care practitioners, surgical first assistants, physician associates, advanced nurse practitioners and advanced clinical practitioners to welcome these key roles to our growing professional community. We have also launched a new surgical care team guidance framework and supporting online resources to assist hospitals in maximising the benefits offered by the wider surgical team to improve surgical care.

The RCS continued developing the skills of surgeons in order to raise the standard of patient safety and clinical care. With the redevelopment of our London buildings, we launched partner centres in London and Manchester, and we ran 79 courses with them during the year. We also ran 470 courses in regional or international centres. In order to support surgeons with remote learning, we re-designed and upgraded our learning platform. New editions of key courses (*Basic Surgical Skills*, *Training the Trainers* and *Advanced Trauma Life Support*<sup>®</sup>) were piloted and are due for launch in the coming year alongside changes to our evaluation system.

Following a review of the current awareness service, the library team relaunched bi-monthly current awareness *Updates* for members in May 2017. The goal of coverage for all ten surgical specialties was achieved in April 2018, when the final three areas were covered: oral and maxillofacial surgery, neurosurgery and otolaryngology. Overseen by a panel of specialist advisors, the updates are designed to help surgeons keep up to date with the professional literature and aid their continuing professional development. Each update includes articles, guidance and policy documents, which form the evidence base for clinical practice. Open and click-through rates for the relaunched service have been consistently excellent, along with positive feedback from users.

The literature search service (where information specialists carry out searches) is highly valued by its users as it is more efficient and effective for information specialists to carry out searches, saving time for busy surgeons. During 2017–18, the literature search service carried out 87 searches for 55 users. Based on direct feedback from members, we know the service has a tangible impact in patient care, resulting in improvements for patients and knowledge-sharing across the wider surgical environment.

RCS members made good use of the electronic resources to which the library subscribes on their behalf. Members downloaded 67,837 full-text articles from our e-journal subscriptions and 14,884 e-book chapters via Elsevier's ClinicalKey® platform (figures for the period July 2017 to May 2018).

### ***Influence and engagement: Influence and shape future health policy and practice to advance standards of surgical care nationally and internationally***

During the year, financial pressures on the NHS continued to mount alongside unprecedented demands on clinical services resulting in longer waiting times for non-urgent surgery. The RCS put pressure on clinical commissioning groups that ignore clinical guidance and impose policies to ration surgery by highlighting them to parliament and in the media. We worked with NHS England throughout the year to discuss what further we can do to prevent clinically unjustified rationing in the NHS. We have successfully reversed a number of policies, ensuring that surgical patients are able to access the treatment they require. Working with other stakeholders, our calls for more NHS funding have also been heeded by the government.

In December 2017, we formally launched our independent commission to explore the future of surgical care in the next 20 years. The Commission on the Future of Surgery will identify and explore the innovations that will most likely affect surgical treatment. The Commission is made up of renowned experts from the fields of medicine, science and digital technology as well as lay representation, with RCS Council Member Mr Richard Kerr as Chair of the Commission. In conjunction with its launch, the Commission opened a call for written contributions, receiving more than 70 formal submissions from a wide variety of contributors. In the spring, the Commission held four days of oral evidence sessions to hear from experts and innovators about different areas of innovation and change, which were live-streamed on YouTube™. The final report will be published in autumn 2018.

Following in the wake of the conviction of the disgraced surgeon Ian Paterson, the RCS led action across the health service to look at how we can prevent this from happening again. We hosted a roundtable event with key stakeholders from the private, regulatory and NHS sectors at the end of January. At this event, we discussed: the collection and publication of patient safety and clinical audit data in the independent sector; good clinical practice around multi-disciplinary teams and consent; and independent sector governance systems (including how consultants' performance is shared between the NHS and private sectors). We agreed a number of principles to shape our work that we have been taking forwards during the rest of the year.

In Wales, a major review of the health and social care system was published, calling for a seamless health and social care structure. In response, the Welsh government published its vision for the future of health and social care, emphasising the need to bring care closer to people's homes and reducing reliance on hospitals. The RCS continues to highlight problems with access and long waiting times in Wales, particularly for some surgical specialties.

The International Affairs Office continued the delivery of our international strategy during the year. International development work focussed on our projects with low and lower-middle income countries (LMICs). In Ethiopia, we delivered with our collaborators, two pilots of the *Safe Operating Room (SAFE OR)* course. The multi-disciplinary short course addresses best practice in theatre management and aims to train a team at a central hospital who can then offer the course to surgeons, anaesthetists and nurses more widely in future. In India, we conducted two pilots of our provider's course for children's surgical care in secondary care in collaboration with Christian Medical College; a training course for critical paediatric surgical conditions for district hospitals. In Sri Lanka, a workshop was delivered to increase surgical capacity in burns and hand surgery.

In April, we launched our new International Project Grant Scheme with a theme of improving the delivery of trauma care in LMICs. The call was for proposals to assist with the development of capacity-building projects, that are needs driven, led by local requirements and lead to sustainable improvements in the delivery of surgical care in resource-poor countries. Projects will begin in 2018–19. In June, we held another successful Global Surgical Frontiers conference also on the theme of challenges for trauma care in LMICs.

During the year, the International Surgical Training Programme continued to expand, with another significant increase in the number of placements undertaken in the year. We facilitated posts for 80 international medical graduates into UK hospitals. We now have 50 international partner institutions who we work closely with in selecting trainees for the programme. The partner



institutions give access to a wide selection of candidates for fixed-term placements, and maintain assurance for the high level of training received. The mutual benefits of the scheme extend beyond the NHS, as the skills acquired allow these surgeons to improve clinical management and surgical practice globally, and the international surgical community gains new networks across the UK's NHS trusts.

This year, we progressed our 'five-point commitment to members', which was developed as a result of the 2016 membership survey. Our activity to support our commitments included the launch of our Outreach Hub North and Midlands and our Outreach Hub South to provide a fully staffed resource for members alongside extending the reach of our membership events and networking evenings. We also expanded our digital profile with a programme of webinars and Facebook® Live videos as well as increasing our online learning and digital resources, and launching our journals app. We started the process of reviewing our careers support services and invested resource into promoting them.

The Patient Liaison Group (PLG) has continued to work collaboratively with the RCS on many issues and policies, ensuring that surgical patients have a prominent voice in RCS campaigns, policy consultations and on our Council. The PLG played a key role in our surgical team work and our engagement with patient organisations across the health service.

#### *Training and assessing surgeons*

Over the past year, the Joint Committee on Surgical Training (JCST) has recommended 554 UK and Irish trainees for certification, and evaluated 193 Certificate of Eligibility for Specialist Registration applications and reviews on behalf of the General Medical Council. The JCST has a new major trauma Training Interface Group (TIG), with advanced training fellowships due to start in July 2018, and is in the process of forming a new spinal surgery TIG. It released the Intercollegiate Surgical Curriculum Programme (ISCP) trainers' area, which is a joint venture with the sister surgical royal colleges, and it is working on improving the links between the ISCP and the eLogbook.

The JCST YouTube™ channel went live during the year with videos showing guidance on how to use the trainers' area as well as our cultural awareness e-modules. A number of specialties were working on their curricula to ensure they meet the General Medical Council's new standards for postgraduate curricula and incorporate its new generic professional capabilities framework, which represents a considerable change in the approach to training and assessment. The JCST delivered a development day in June for those specialties currently working on their curricula. A number of different stakeholders were in attendance and the feedback received will form part of the curricula submissions. The new JCST Chair, Gareth Griffiths, has been in post since January 2018 and the next iteration was completed of the JCST's five-year strategy, which will run from 2018 to 2023.

Professional surgical and dental examinations consolidated the position of the RCS as a leading national and international centre for surgical assessment. During the year, we delivered 7,586 individual examinations (4,947 surgical and 2,639 dental entries). The examinations are held both in the UK and internationally.

#### *Promoting public and professional engagement*

Working with partners (London Metropolitan Archives, the King's College London Museum of Life Sciences, and the London Museums of Health and Medicine group), RCS museums staff developed and delivered an extensive outreach programme of public talks and events, and schools and family workshops. In addition, tutored weekend revision workshops for MRCS examination candidates were resumed in May and these were fully subscribed within a few hours of online notification.

The archives services for researchers resumed at London Metropolitan Archives in October 2017, where RCS archives staff dealt with more than 700 enquiries and over 80 personal visits involving the retrieval of over 270 archival units. Access to the RCS museums collections at the Nuffield building, the Natural History Museum and Constantine's fine art specialists was established by December 2017, and external research included study of the RCS odontological and Hunterian anatomy collections, the Mellanby microscope slide collection and the collection of Henry Tonks' pastels.

Loans of objects, specimens and paintings were made from RCS museums collections for exhibitions to: the National Portrait Gallery for its new 18th century galleries; the British Library for *James Cook: The Voyages*; the Wellcome Collection for *Teeth*; Tate Britain for *Aftermath: Art in the Wake of World War One*; the Science Museum for *Wounded: Conflict, Casualties and Care*; Compton Verney Art Gallery for *Created in Conflict: British Soldier Art from the Crimean War to Today*; and the Royal College of Physicians for *Ceaseless Motion: William Harvey's Experiments in Circulation*.

Arts Council England awarded the Hunterian Museum Provisional Accreditation, subject to annual review, until the re-opening of the museum.

During 2015–16, a total of 21,496 items from the RCS library's 19th century tracts and pamphlets collection were digitised as part of the UK Medical Heritage Library (UKMHL) project, making most of the collection freely accessible online to international research (<https://archive.org/details/rcseng>). In June 2018, the UKMHL was integrated into the main Historical Texts service provided to UK higher education and further education institutions. This service is freely accessible online (<https://ukmhl.historicaltexts.jisc.ac.uk>) and via the British Library's reading rooms in London. The RCS pamphlets are the second largest collection in the UKMHL and this move opens the collection further to research. From the point when the first items became available in 2015 until January 2018, the RCS pamphlets collection received well over a million views. Work is also currently taking place to integrate copies of the digitised pamphlets into the RCS online collections catalogue, SurgiCat+.

The annual RCS Conserve our Collections event held in June 2018 at the London Metropolitan Archives included a lecture by Druin Burch, entitled *The Beauty of Bodysnatching and the Life of Sir Astley Cooper*, followed by an opportunity for guests to view items in need of conservation.

The decant of all RCS library, museums and archives collections into temporary storage as part of the Transforming the Building Project has been a major focus for the library, museums and archives staff this year.

### *Developing the RCS*

Work formally commenced on the new building in September 2017 following the granting of planning permission by Westminster City Council in January 2017. The building project, which involves the redevelopment of the Barry-designed grade II\* listed building, will allow the transformation of our London base into a modern, light and flexible facility that provides the best facilities for the profession and our visitors while at the same time embracing our prestigious heritage. The project will refurbish and maintain the historic facade and library. The redeveloped landmark building has been designed by Hawkins\Brown Architects and will be constructed by UK contractor Wates Construction. The RCS will be based in the Nuffield building (adjacent to the Barry building) for the duration of the works. At the end of June 2018, demolition of the post-war parts of the Barry building was near completion.

In order to support the redevelopment, we completed the sale of a long leasehold on the Nuffield building in November 2017. The Nuffield building will be transferred to the lessee following the completion of the redevelopment of the Barry building in 2020–21.

Prior to the building work commencing on the new building, work was concluded over the summer of 2017 to prepare the Nuffield building for use as temporary accommodation. This involved the movement of almost the entire organisation into new accommodation for the period of the building programme.

The decant of the Library, Museums and Archives (LMA) collections was a major challenge for the redevelopment project this year. This involved the moving of the 250,000+ items that make up the LMA collections by the early September building deadline. The items included approximately 65,000 museum objects, 115,000 books and journals and 3,086 boxes of manuscripts and archives which form a collection that has been Designated by Arts Council England for its national and international significance.

We were pleased to be able to agree collections storage and service provision partnerships with the British Library, London Metropolitan Archives (owned and managed by the City of London Corporation), the National Archives and the Natural History Museum. Important artworks were placed in secure commercial storage and additional storage was fitted out in the remaining parts of the RCS building.

The move was a result of two years of careful planning by staff, which involved specialist consultants who provided targeted advice to aid planning from both practical and more strategic viewpoints in order to allow the safe movement and ongoing storage of the collections. The collections had not faced a challenge on this scale since the outbreak of the Second World War. The library and art collections had only been moved once before, at the outbreak of the war to protect them from aerial bombing.

There have been a number of positive outcomes following the decant work. The RCS collections are better documented, have improved packaging and are stored in excellent, secure conditions. We have a deeper understanding of the collections' conservation needs and new methods of tracking (using barcodes) have been implemented for the archives. Curators and collections staff have continued access to the collections, and can share knowledge and skills with colleagues across sectors, fostering enhanced and new professional networks. Most importantly, we have been able to sustain access for research and have delivered unbroken online services to RCS members throughout the disruption.

The summer of 2017 saw the launch of the £10 million fundraising campaign for the building programme. The campaign has had a strong start, with a total of £3.6 million pledged to date. We are particularly grateful to this first cohort of donors, who have set an example for others to follow. This success has been alongside another strong year raising funds for surgical research, education, and the library, museums and archives, with these funds totalling £1.966 million. We extend our thanks to those who have remembered us in their wills as those gifts this year totalled £420,413.

During the year, we made further progress in delivering our ambitious programme of RCS-wide change to ensure that we remain relevant to our current and future members, and that we are able to advance surgical care. The internal programme, *Doing Things Differently*, moved into its second year and concentrated on delivering the themes of efficiencies, discretionary spend, procurement, scope of services, IT and income generation opportunities. The programme has led to bringing together and restructuring a number of areas of the organisation to improve resilience and outcomes. The focus was maintained on business processes and efficiencies, implementing IT-based solutions for a number of support services around the RCS and allowing our staff to deliver a first-class service to our fellows and members.

### *Moving forward with dentistry*

The Faculty of Dental Surgery (FDS) continued to develop as the professional home for dental specialists in the UK. It was at the forefront of educating and training dental surgeons, setting professional standards and being an influential voice in the media, with government and other key stakeholders. In 2017–18, the FDS continued its campaign to improve children's oral health, working with parliamentarians and stakeholders to secure a parliamentary debate on child tooth decay in October 2017. This was attended by MPs from across the political spectrum, including three Conservative members of the House of Commons health select committee as well as the health leads from the Scottish National Party and the Democratic Unionist Party, demonstrating strong cross-party support for addressing the issue.

In addition, the Faculty's media activity has provided opportunities to highlight a number of its policy priorities, such as restricting junk food advertising and supermarket price promotions in order to reduce children's sugar consumption. These measures were included in Chapter 2 of the government's Child Obesity Plan, which was published in June 2018. Furthermore, the FDS has also collaborated with the Centre for Pharmacy Postgraduate Education at the University of Manchester to help them create a suite of online resources to enable pharmacists to develop their understanding of children's oral health.

Separately, the FDS published a report in August 2017 about the need to improve older people's oral health, including in care homes. This has been an important focus of the Faculty's stakeholder engagement activity over the past 12 months and will remain a key part of its communications work in the year ahead.

Engagement of the FDS membership base became a key priority for the Faculty in 2017–18. Work began to review and refine membership benefits, to promote the important work of the FDS, and to offer more opportunities for members to meet and engage with their colleagues at a number of events throughout the year. The FDS looks forward to building on this work in 2018–19 by focusing on engagement with members across the regions in the UK.

The Faculty of General Dental Practice (UK) (FGDP(UK)), the professional home for primary care dentistry, continued to celebrate its 25th anniversary during 2017. Celebrations culminated in November, when members of the FDGP(UK) joined an impressive line-up of internationally-renowned speakers for a conference on holistic dentistry at the National Motorcycle Museum in Solihull. During the year, the Faculty continued to deliver its programme of world-class education courses in professional development run by FGDP(UK) divisions around the country.

The FGDP(UK) published important new guidance on dementia-friendly dentistry, with early copies made available to all members; it is also available to anyone free of charge online. A consultation was started on a major update to the FGDP(UK) flagship publication, *Standards in Dentistry*, which acts as a compendium of guidance and standards for primary dental care. The updated document will adopt the Faculty's ABC (Aspirational, Basic, Conditional) structure, which has been used successfully in a number of other Faculty guidance documents. The FGDP(UK) also continued its campaign for the vaccination of both girls and boys against human papillomavirus, which is a leading cause of oral cancers.

During the year, the FDGP(UK) continued the process of forming a new organisation that will serve the general dental community, independent of the RCS. The foundations of the new organisation have started to be laid with the appointment of a transition board. Mr Ian Mills was elected as the next Dean of the FGDP(UK) by the Faculty Board in February and took up office on 15 June 2018, taking over from Mick Horton.

## Future plans

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During the next year, the RCS will continue to deliver our vision to advance surgical care through our strategic priorities for 2015 to 2019.

The priorities are:

### **Quality and standards: Advance standards and reduce the variability of patient outcomes**

We aim to improve the use and quality of existing and possible future sources of clinical data. This information will inform and drive improvements in the care delivered by surgeons. We will take a leading role in delivering quality improvement plans and sharing best practice specific to surgery.

### **Career and professional development: Attract, educate, develop and support high-quality surgeons**

We will encourage and inspire students and doctors to become surgeons. We will play a central role in educating, developing and supporting surgeons throughout the whole of their careers.

### **Influence and engagement: Influence and shape future health policy and practice to advance standards of surgical care**

We will develop a proactive and planned approach to stakeholder engagement, nationally and internationally. We will involve all those working in the delivery of healthcare, including clinicians, patients, managers, politicians and commissioning organisations.

### **Transforming the way we support our membership and advance surgical care**

We will continue with our ambitious programme of transforming the way we support our membership and advance surgical care. This will include the continued redevelopment of our Lincoln's Inn Fields buildings to create world-class training and examination facilities, improved member space and a more flexible, efficient working environment. We will also continue our programme of organisational improvement in order to ensure that the organisation achieves its efficiency objectives.

## Financial Review

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2017–18 has been an unparalleled year in respect of events and activities for the RCS, with the work to redevelop its London headquarters commencing in earnest in September 2017, its employees and day-to-day operations re-accommodated within the Nuffield building prior to this, and the sale of a long lease over the Nuffield property successfully completed in October 2017. The exceptional nature of these events is reflected in the results presented this year.

The RCS has reported an overall increase in its funds of £51.54m or 60% this year, taking total funds managed from £85m to almost £137m. This compares with a 9% increase of £6.7m reported in 2016–17. The results include a substantial profit arising from the sale of the long lease. The sale triggered a disposal of land and building assets in respect of the Nuffield property, and the event has contributed a net £47.25m overall.

The underlying operating position, excluding exceptional activities, has delivered a surplus of £1.72m, with £1.58m arising under unrestricted activity. This is a positive result given that the RCS conference trading activity, which contributed a net gain of £1.3m in the previous year, has now ceased for the duration of the redevelopment. The positive performance reflects the financial benefit of the actions the RCS has taken since early 2017 to deliver efficiency improvements to its operations. Net gains on investments amount to £2.57m this year, down £4.2m on 2016–17.

The underlying operating surplus on unrestricted activities of £1.58m represents a return of 7% on unrestricted income of £24.1m. Unrestricted funds now stand at £94.16m, representing 69% of total funds (2017: £42.5m and 50%).

The RCS continues its substantial programme of professional activity as outlined in the trustees' report, much of which is supported by its restricted and endowed funds. Expenditure of £8.2m was incurred this year, up nearly 6% on the previous year. Restricted income increased by 8% this year largely owing to new funding of over £0.5m from Health Education England for improving surgical training, a strategic priority for the RCS. The RCS restricted funds stand at just below £7m, representing a 4% reduction overall. The endowed funds have grown by less than 1% to £35.6m as the weaker investment performance this year has only marginally covered expenditure for the year. The consolidated results for the 2017–18 financial year are summarised on the following page:

Results for the year ended 30 June 2018	2018	2017	Change from 2017	
	£000	£000	£000	%
Donations and legacies	6,143	5,287		
Charitable activities	22,521	21,858		
Other trading activities	418	3,838		
Investment income	2,335	2,378		
<b>Total income before exceptional items</b>	<b>31,417</b>	<b>33,361</b>	<b>(1,944)</b>	<b>(6%)</b>
Raising funds	982	3,167		
Charitable activities	28,712	30,216		
<b>Total expenditure before exceptional items</b>	<b>29,694</b>	<b>33,383</b>	<b>(3,689)</b>	<b>(11%)</b>
<b>Net income/(expenditure) before exceptional items</b>	<b>1,723</b>	<b>(22)</b>		
Profit on disposal of lease (note 8)	51,824	0	51,824	
Lease costs and loss on disposal of fixed assets (notes 8 and 9)	(4,577)	0	(4,577)	
<b>Net income/(expenditure) before net investment gains/losses</b>	<b>48,970</b>	<b>(22)</b>	<b>47,247</b>	
Net gains/(losses) on investments	2,567	6,731	(4,164)	
<b>Net income/(expenditure)</b>	<b>51,537</b>	<b>6,709</b>		
<b>Funds carried forward</b>	<b>136,761</b>	<b>85,224</b>	<b>51,537</b>	<b>60%</b>
Unrestricted funds	94,156	42,505	51,651	122%
Restricted funds	6,997	7,300	(303)	(4%)
Endowed funds	35,608	35,419	189	1%
Unrestricted funds	69%	50%		
Restricted funds	5%	9%		
Endowed funds	26%	41%		

### Income

Overall income, before accounting for the profit on sale of a long lease, has declined 6% to £31.4m for the year, a decrease of £1.9m on the previous year, with a £2.5m or 9% reduction reported in respect of the unrestricted activities of the RCS. The reduction in income reflects primarily the impact of the cessation of conference trading activity, which raised income of £3.8m in the previous year.

Two substantial legacies received in the year and further donations in support of the RCS capital fundraising campaign have helped donation and legacies income to improve by £0.9m. Donations and legacies represent 20% of income (2017: 16%). Income from charitable activities is 3% up on the previous year. Examination fees have grown by 10% but course fees are down 8% compared with last year although this reflects the decision to re-shape the education offer and reduce the range of courses. Membership fees have reported a modest increase, reflecting in part the decision to freeze MRCS fees for 2017–18. Charitable activities represent 72% of income this year (2017: 66%). The investment income contribution has remained relatively constant at £2.34m compared with £2.38m last year.

### Expenditure

Expenditure, before exceptional items, has fallen to £29.7m this year, a decrease of 11% or £3.7m on the previous year, with a 12% reduction to £22.5m under unrestricted activities. Again, this improvement is in part attributed to the cessation of conference trading activity, which incurred £2.3m of cost last year. However, reductions in expenditure are also reported across a number of activities.

The changes and reductions reported reflect the success of the RCS programme to transform and re-shape its operations in order to deliver cost improvement and operational efficiency. Museums and library expenditure has also decreased this year, reflecting the changes to operations following their closure to visitors at the end of 2016–17. Support costs have decreased by 4% to £5.7m.

The programme of research and clinical effectiveness projects delivered once more just over £5m of activity this year (2017: £5m). A total of 92 research awards were made, up from 84 in the previous year, and 40 research fellowships were awarded.

### Net assets

Net assets have increased by £51.54m from £85.2m to £136.7m. This included net unrealised gains on the externally managed investment portfolios of £1.9m and a £453k increase in the value of investment property. Capital additions totalled £15m (see note 9), compared with £6.2m in the previous year. Demolition works commenced in September 2017 and are expected to complete in October 2018. The sale of the long lease led to the disposal of capital assets, including land, totalling £25.8m, with a loss on disposal arising of £5m, and cash and short-term deposits rose to £54.4m, reflecting the sale proceeds. The RCS' overall current ratio stands at 5.14 for 2017–18, up from 1.57 in 2016–17.

### Hunter Trading Ltd

The RCS financial statements consolidate the results and financial position of its wholly owned subsidiary, Hunter Trading Ltd (see note 21). The company ceased marketing of conference and residential facilities at the end of the previous financial year to allow the RCS to prepare its Nuffield property for accommodation of the RCS' operations. The company is continuing to trade but at a significantly reduced level, mainly online museum sales, delivering a surplus of just £2k for the year (2017: £271k).

### Financial outlook

The RCS has seen its financial position improve substantially this year but is now entering a period of significant financial commitment. The sale of a long lease has provided the initial financing for the capital works and the RCS is now halfway through its organisational transformation programme with financial targets having been satisfactorily met.

The transformation programme will continue across a broad range of change activity, including operational efficiency improvement, re-assessment of organisational structures, reviews of revenue margins and business development opportunities, with the aim of increasing cash reserves and reducing the amount of debt finance that may be required to support the construction project. The success of the transformation programme is critical in providing initial finance to sustain RCS operations during this unprecedented period of development and exceptional financial demands but it is also vital for the future sustainability of the organisation and the delivery of its vision to be the home of surgery, to support its membership and to be at the forefront of advancing surgical care through considered investment of its available resources.

While the financial position of the RCS is now underpinned by a substantial influx of funds and its general reserves have also been sufficiently replenished, it is important to note the uncertainty currently surrounding the 2017 USS pension scheme valuation and the adverse impact this may have on the general reserves of the RCS. The 2017 valuation has not been completed by the expected date of 30 June 2018. The results of the valuation reveal that the scheme is facing significant and increasing financial challenges that may now require significant increases in employer contributions to be put into effect. With consultations on a deficit recovery plan not expected to be concluded before the end of 2018, significant uncertainty remains regarding the impact that the final deficit recovery plan will therefore have on the current pension liability provided for in the RCS accounts.

Details of RCS income, expenditure and financial position are provided in the financial statements from pages 34–58.

## Reserves policy

RCS reserves comprise unrestricted, restricted and endowed funds. The restricted and endowed funds result from grants, donations and legacies that can only be applied for a purpose specified by the donor or grantor and are not available for general purposes. The RCS aims to carry out the activities and projects supported by these funds on a timely basis in accordance with the purposes and conditions specified. Restricted and endowed funds totalled £42.6m at 30 June 2018 (see notes 19 and 20).

The unrestricted funds represent the accumulated surpluses generated from the general business activities of the RCS and are funds that are available for use at the discretion of the trustees. They comprise fixed asset funds, designated funds and general funds.

### Fixed assets fund

The fixed assets fund comprises the funds invested in fixed assets that the trustees consider essential in enabling the RCS to implement effectively its operational strategy. The fund represents the net book value of RCS unrestricted tangible fixed assets. The RCS held £25.34m in its fixed assets fund at 30 June 2018 (2016: £17.3m). The fund now includes £19.23m of assets in the course of construction in respect of the RCS' new London headquarters.

### Designated funds

Designated funds are funds that the trustees have earmarked for specific purposes. Since 2014 and prior to this year, a total of £19.5m of general funds had been designated to be held for specific purposes, with £17.25m of funds set aside for the redevelopment of the RCS London headquarters, £1.4m of funds earmarked to support the digital transformation agenda and £0.9m for the IT transformation agenda. £53.5m of funds raised from property-related transactions in the year have been designated to finance the capital development, increasing the total designated in this four-year period to £73m. As at 30 June 2018, £25.5m of these funds has been expended. A total of £47.25m of designated funds remains at 30 June 2018 with £46.8m relating to the capital development project and £0.45m in respect of the digital transformation programme. The IT transformation project was completed in the year and remaining funds were transferred back to general reserves.

### General funds

In accordance with Charity Commission guidance, the trustees set a target range for the level of free reserves, or general funds, that the RCS should maintain to ensure its financial security and funding of its business plan. Free reserves or general funds are defined as total unrestricted funds less fixed assets and designated funds. The trustees determine that a prudent target range for RCS free reserves is between 75% and 100% (i.e. between nine months and twelve months) of gross annual unrestricted operational expenditure. This equates to a target range of £17.65m to £23.5m for 2017–18.

This range is set taking into account the following:

- » the risk of fluctuating income and expenditure levels;
- » the risk of an unexpected need for funds;
- » the need to provide working capital for the current operational and future development activities;
- » the fact that RCS resources expended had regularly exceeded its incoming resources prior to the 2013–14 financial year; and
- » the funding shortfalls in the USS and SAUL defined benefit pension schemes, and the future increases in employer contributions to eliminate these shortfalls.

RCS general funds stood at £20.35m at 30 June 2018, 10% up on the previous year (2017: £18.5m). This represents 86% (2016: 72%) of the 2017–18 underlying unrestricted operating expenditure and is once more within the target range.

A full review of the reserve policy will take place next year.

## Fundraising

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The RCS receives significant charitable funds every year from its donors and supporters. These funds support year on year an impressive range of projects and activities in pursuit of the charitable objects of the RCS and, in 2017, the RCS embarked on a major new fundraising campaign in support of its Barry building redevelopment taking place over the next few years.

The RCS aims to raise funds in accordance with best practice and in an open, legal and fair manner; it has effective systems in place to monitor and maintain these standards, and to ensure communications with supporters are undertaken in a considered and balanced manner.

The RCS is registered with the Fundraising Regulator and undertakes its fundraising activities with reference to the Code of Fundraising Practice. This year it reviewed and updated its data protection processes to ensure full compliance with the General



Data Processing Regulation (which became enforceable in May 2018). The RCS does not engage commercial partners or volunteers to raise funds on its behalf. Complaints and concerns raised are taken seriously; they are responded to promptly and handled in accordance with the complaints procedures, which are available on the RCS website.

## Investment policy

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The RCS adopts a long-term investment horizon, which is reflected in its focus on total return, diversification, risk control and capital preservation, and in its investment manager selection. Sarasin & Partners manage the restricted and endowed investments. Cazenove Capital Management manages the unrestricted investment portfolio. All the funds are invested in a way that gives the RCS access to capital within a short period of time, should this be necessary, and subject to the endowed status of the fund where applicable.

The investment managers are required to generate the RCS' annual income requirements for each fund and to maximise the total real rate of return for each fund in a risk-controlled manner through the use of a diversified portfolio invested across a range of different asset classes. Each fund manager is set strategic asset allocation target ranges for different asset classes and property should not ordinarily make up more than 12% of any portfolio. No direct or indirect investments in tobacco stocks are permitted.

The unrestricted portfolio aims to deliver a long-term total return in line with market indices with a target yield of 4% for 2017–18. The restricted and endowed portfolio aims to deliver a long-term total return of CPI plus 4% with a target yield of 3% this year.

Short-term cash not required to support general operations is placed on short-term fixed-term deposits with approved investment managers.

## Investment performance

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The RCS Finance and Investment Committee oversees all matters pertaining to financial planning and performance, including investment management, and advises and reports on a regular basis to the Board of Trustees on the performance of the RCS investment portfolios and the appointed fund managers.

Overall, both portfolios have not performed as strongly as in the previous year. They both met the target income yield with £0.9m generated from the unrestricted investment portfolio (2017: £1.06m), and £1.095m from the endowed and restricted portfolio (2017: £1.2m). The unrestricted investment portfolio delivered a stronger return of 5.7% net of fees compared with the 1.7% delivered on the restricted and endowed funds but this was well below the performance returned by both portfolios in the previous year.

## Total return accounting

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The RCS adopted total return accounting for its permanently endowed funds in 2014–15. A base date of 24 June 1992 was approved for determining the permanent capital value of the endowed funds, based on the market value of the permanent endowments at that date, plus the original value of any subsequent additions. The value of these investments was frozen and classified as frozen permanent capital, and the remaining value of the investments was classified as unapplied total return.

The RCS seeks to preserve the value of its endowments in real terms over the medium to long term. A target spending rate of between 3.5% and 4.5% of the value of the endowments is considered achievable without diminishing the value of the portfolio in real terms and represents the RCS' best estimate of the long-term real rate of return on the endowments. This target range is kept under review to ensure that it remains appropriate.

A total of £1.38m was applied in the year and together with investment management fees of £163k, the total applied from the endowed funds was £1.6m. This represents an application of 4.3% in the year, which is within the target rate range, and the cumulative total applied since the adoption of total return accounting remains therefore below the cumulative maximum target level for this same period.

## Key management personnel

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Key management personnel are defined as members of the executive team and directors as set out on page 8.

The RCS Remuneration and Nominations Committee has responsibility for approving salaries and conditions of service at director level and above. It receives recommendations from the Head of Human Resources based on a detailed market review benchmarked to similar organisations carried out bi-annually as well as through the annual performance appraisal process. Based on this advice, the Committee makes recommendations to the RCS Board of Trustees on the remuneration and benefits of the Chief Executive and other senior post-holders.

Details of remuneration for the year ended 30 June 2018 are set out in note 7 (*Employee information*) of the financial statements.

## Risk management

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The Board of Trustees has overall responsibility for determining risk appetite and tolerance, and for ensuring that the RCS has appropriate and adequate risk management processes in place to support the delivery of its strategic plans. The Audit and Risk Committee is responsible for advising the Board on the statutory financial reporting of the RCS, and for overseeing and reviewing the systems of financial governance and risk management. These systems are designed to manage rather than eliminate risk and provide reasonable assurance that mitigating actions are adequate.

Key areas of risk are identified in line with the strategic plans of the RCS. Risks and the controls in place to manage them are assessed in terms of financial and reputational impact, and their status is assessed both before and after mitigating actions. Risks are recorded on the RCS risk register. The management and monitoring of these risks is assigned to key management personnel and related business areas. Key areas of risk are reviewed by the Audit and Risk Committee as well as by executive management on a regular basis. The RCS works with its internal audit provider, Grant Thornton, as part of its objective to ensure that risk management and internal control systems remain effective and adequate.

The RCS has established a robust governance and assurance framework to monitor and mitigate risk and build effective resilience to respond to a changing internal and external environment. The key areas of risk and uncertainty for the RCS are linked fundamentally to the delivery of organisational transformation and improvement, to the redevelopment of its estate and to the development of its new long-term strategy.

The RCS is alert to the strategic and operational risks that transformation creates; it is putting appropriate measures in place to manage the demands of change on the organisation and to ensure that its objectives of creating an operationally efficient, technologically smart and financially sustainable organisation are met successfully. The plan to redevelop its estate forms a central plank of the transformation programme and brings with it strategic and financial risks that require prudent oversight, robust planning and effective professional support to ensure that optimum value is delivered for the RCS, its membership and its external stakeholders.

Organisational transformation is underpinned by the development of a new long-term strategy, which aims to position the RCS as the leading voice of surgery in the UK and overseas. The strategy will be developed through extensive consultation of its membership and engagement with policy-makers in the healthcare sector and other stakeholders to ensure that it is relevant and forward-looking, and that it provides the basis for an effective and innovative programme of investment of the charitable resources of the RCS.

Throughout this period of development, the RCS must remain attentive to external risks (particularly in relation to reputation) that may have an adverse impact on the delivery of its objectives, for example, changing priorities of the NHS or changing regulatory and data security requirements. The RCS' communications and engagement strategies and its governance framework ensure that it can respond appropriately.

## Going concern

The trustees have reviewed the financial position, and the level of cash and reserves, together with the long-term projections and the systems of financial control and risk management in place. Having reviewed the long-term projections, the trustees have determined that the RCS should secure affordable loan finance in order to ensure that the redevelopment plans are completed in accordance with the planned timescale. However, they remain focused on supporting RCS management in its continuing endeavours to deliver operational efficiencies and raise funds in support of the project with the aim of minimising the need for recourse to debt finance. They are satisfied that the RCS is in a position to manage successfully its operational and financial risks. The trustees consider that it is reasonable to expect that the RCS has adequate resources to continue in operational existence for the foreseeable future and therefore support the going concern basis in preparing the annual accounts.

## Corporate trustee responsibilities

The RCS is a corporate trustee of the Colledge Family Memorial Fellowship Trust and the EAJ Gray Will Trust. Both these trusts hold investments and assets in their own name, and their activities are entirely separate from those of the RCS. The RCS had previously reported its intention to become a corporate trustee of the Blond McIndoe Research Foundation. It was subsequently agreed with the Foundation to pursue an alternative partnership arrangement. Restricted funds at 30 June 2018 included £146k in respect of the Foundation.

### *Colledge Family Memorial Fellowship Trust*

The RCS is one of three trustees of the Colledge Family Memorial Fellowship Trust, which was set up to award travelling fellowships to surgeons. The other trustees of this fund are Mr T George and Professor A Narula. The RCS provides a number of services to the trust, namely the preparation of annual accounts, the submission of these and the annual return to the Charity Commission, and liaison with the investment fund managers, Cazenove Capital Management, to ensure that the funds are invested in accordance with the wishes of the trustees and that they are invested on the same basis as the unrestricted funds of the RCS. The trust's financial statements are audited by Crowe UK LLP.

The value of the Colledge Family Memorial Fellowship Trust endowed fund at 30 June 2018 was £2.95m (2017: £2.79m) and its restricted fund was £113k (2017: £114k).

### *EAJ Gray Will Trust*

This is a non-charitable life interest trust and income arising on the assets is transferred to the life tenant each year. The RCS, as sole trustee of the EAJ Gray Will Trust, commenced proceedings at the end of May 2018 to wind up the trust following notification of the death of the life tenant in May. The value of the trust's funds, represented by investments, has been estimated to be £183k net of costs and the RCS, as the residuary beneficiary of the trust, has included this sum in the 2017–18 accounts.

The value of the trust's fund at 30 June 2017 was £0.17m. There is no requirement for the financial statements of the trust to be audited.

## Other trustee responsibilities

### *Sir Ratanji Dalal Research Scholarship Fund*

The President of the RCS is one of two trustees of the Sir Ratanji Dalal Research Scholarship Fund, the other being the President of the Royal College of Physicians. The RCS provides administrative and accounting services to the fund and its trustees, preparing the annual accounts and annual return for submission to the Charity Commission.

The value of the Sir Ratanji Dalal Research Scholarship endowed fund was £0.8m at 30 June 2018 (2017: £0.76m) and its restricted fund was £49k (2017: £23k). The financial statements are audited by Crowe UK LLP.

## Statement of Trustees' Responsibilities

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The trustees are responsible for preparing the report of trustees and the financial statements in accordance with applicable law and regulations.

Charity law requires the trustees to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards) and applicable law.

Under charity law, the trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the charity and the group, and of their net incoming/outgoing resources for that period. In preparing these financial statements, the trustees are required to:

- » select suitable accounting policies and then apply them consistently;
- » observe the methods and principles in the Charities Statement of Recommended Practice;
- » make judgements and estimates that are reasonable and prudent;
- » state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- » prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity and the group will continue to operate.

The trustees are responsible for keeping proper accounting records that are sufficient to show and explain the charity's transactions, and disclose with reasonable accuracy at any time the financial position of the charity and the group, and enable them to ensure that the financial statements comply with the Charities Act 2011. They are also responsible for safeguarding the assets of the charity, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditor

On 25 June 2018, Crowe Clark Whitehill LLP changed its name to Crowe UK LLP. Crowe UK LLP has indicated its willingness to be reappointed as the company's auditor for the coming year.

Signed on behalf of the members of the Board of Trustees on 11 October 2018.



**Professor D Alderson**  
President of Council  
Chair of the Board of Trustees



**Ms S Hill**  
Vice-President of Council  
Member of the Board of Trustees

# Independent Auditor's Report

## to the Members of The Royal College of Surgeons of England

### Opinion

We have audited the financial statements of The Royal College of Surgeons of England for the year ended 30 June 2018, which comprise the consolidated statement of financial activities, the parent and consolidated balance sheets, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the financial reporting standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees, as a body, in accordance with part 4 of the Charities (Accounts and Reports) Regulations 2008. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report or for the opinions we have formed.

In our opinion the financial statements:

- » give a true and fair view of the state of the group's and of the parent charity's affairs as at 30 June 2018, and of the group's incoming resources and application of resources, for the year then ended;
- » have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- » have been prepared in accordance with the requirements of the Charities Act 2011.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- » the trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- » the trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent charity's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

### Other information

The trustees are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

We have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 require us to report to you if, in our opinion:

- » the information given in the financial statements is inconsistent in any material respect with the trustees' report; or
- » sufficient accounting records have not been kept by the parent charity; or
- » the financial statements are not in agreement with the accounting records and returns; or
- » we have not received all the information and explanations we require for our audit.

### **Responsibilities of trustees**

As explained more fully in the trustees' responsibilities statement set out on page 28, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees intend either to liquidate the charity or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

We have been appointed as auditor under section 151 of the Charities Act 2011, and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

Crowe U.K. LLP

**Crowe UK LLP**  
**Statutory Auditor, London**  
**Date:** 18 October 2018

Crowe UK LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

# Consolidated Statement of Financial Activities

## for the year ended 30 June 2018

	Notes	Unrestricted Funds £000	Restricted Funds £000	Endowed Funds £000	Totals £000	2016–17 £000
<b>Income from:</b>						
<b>Donations and legacies</b>						
Grants, donations and gifts		53	5,244	14	5,311	5,164
Legacies		662	170	–	832	123
<b>Charitable Activities</b>						
Courses		3,993	–	–	3,993	4,838
Examinations		5,573	–	–	5,573	5,056
Subscriptions		8,941	11	–	8,952	8,835
Sales and other income		3,227	776	–	4,003	3,129
<b>Other trading activities</b>						
Residential, conference and other		418	–	–	418	3,838
Investment income		1,240	127	968	2,335	2,378
Profit on disposal of long lease	8	51,824	–	–	51,824	–
<b>Total income</b>		<b>75,931</b>	<b>6,328</b>	<b>982</b>	<b>83,241</b>	<b>33,361</b>
<b>Expenditure on:</b>						
<b>Raising funds</b>						
Fundraising costs	5	164	80	–	244	281
Residential, conference and other		464	–	–	464	2,523
Investment management fees		106	5	163	274	363
Total		734	85	163	982	3,167
<b>Charitable activities</b>						
Education and courses		4,028	612	–	4,640	6,461
Standards, regulation and examinations		7,243	653	–	7,896	9,085
Research grants	6	–	2,989	–	2,989	2,830
Clinical Effectiveness Unit and other projects		–	2,135	–	2,135	2,231
Museums and library		2,302	291	–	2,593	3,160
Communications and publications		3,029	–	–	3,029	2,755
Other professional activities	5	8,740	1,267	–	10,007	3,694
Total		25,342	7,947	–	33,289	30,216
<b>Total expenditure</b>		<b>26,076</b>	<b>8,032</b>	<b>163</b>	<b>34,271</b>	<b>33,383</b>
<b>Net income/(expenditure) before gains</b>		<b>49,855</b>	<b>(1,704)</b>	<b>819</b>	<b>48,970</b>	<b>(22)</b>
Net gains/(losses) on investments	11	1,796	25	746	2,567	6,731
<b>Net income/(expenditure)</b>		<b>51,651</b>	<b>(1,679)</b>	<b>1,565</b>	<b>51,537</b>	<b>6,709</b>
Application of total return	20	–	1,376	(1,376)	–	–
<b>Net movement in funds for the year</b>		<b>51,651</b>	<b>(303)</b>	<b>189</b>	<b>51,537</b>	<b>6,709</b>
Balances brought forward at 1 July	17	42,505	7,300	35,419	85,224	78,515
<b>Balances carried forward at 30 June</b>	17	<b>94,156</b>	<b>6,997</b>	<b>35,608</b>	<b>136,761</b>	<b>85,224</b>

The notes to the financial statements are on pages 34 to 58.

# Consolidated Balance Sheet

## as at 30 June 2018

	Notes	2018		2017	
		Group £000s	RCS £000s	Group £000s	RCS £000s
<b>Fixed assets</b>					
Tangible fixed assets	9	25,339	25,339	17,123	17,123
Intangible fixed assets	9	1,418	1,418	1,396	1,396
Investments	11	63,278	63,278	60,962	60,962
<b>Total fixed assets</b>		<b>90,035</b>	<b>90,035</b>	<b>79,481</b>	<b>79,481</b>
<b>Current assets</b>					
Stock		98	98	120	120
Debtors	12	5,194	5,194	5,309	5,580
Cash and short-term deposits	13	54,244	54,244	15,218	15,218
<b>Total current assets</b>		<b>59,536</b>	<b>59,536</b>	<b>20,647</b>	<b>20,918</b>
<b>Current liabilities</b>					
Creditors and accruals	14	(6,397)	(6,399)	(8,028)	(8,299)
Deferred income	15	(5,177)	(5,177)	(5,393)	(5,393)
<b>Total current liabilities</b>		<b>(11,574)</b>	<b>(11,576)</b>	<b>(13,421)</b>	<b>(13,692)</b>
<b>Net current assets</b>		<b>47,962</b>	<b>47,960</b>	<b>7,226</b>	<b>7,226</b>
<b>Long-term liabilities</b>					
Other creditors and accruals	14	(78)	(78)	(115)	(115)
Defined benefit pension liability	22	(1,158)	(1,158)	(1,368)	(1,368)
<b>Total long-term liabilities</b>		<b>(1,236)</b>	<b>(1,236)</b>	<b>(1,483)</b>	<b>(1,483)</b>
<b>Net Assets</b>		<b>136,761</b>	<b>136,759</b>	<b>85,224</b>	<b>85,224</b>
<b>Funds</b>					
<b>Unrestricted funds:</b>					
Fixed asset funds		25,339	25,339	17,374	17,374
Capital development fund		46,785	46,785	4,012	4,012
Other designated funds		453	453	1,158	1,158
Pension reserve		1,228	1,228	1,504	1,504
General funds		20,351	20,349	18,457	18,457
<b>Total unrestricted funds</b>	18	<b>94,156</b>	<b>94,154</b>	<b>42,505</b>	<b>42,505</b>
Restricted Funds	19	6,997	6,997	7,300	7,300
Endowed funds	20	35,608	35,608	35,419	35,419
<b>Total Funds</b>		<b>136,761</b>	<b>136,759</b>	<b>85,224</b>	<b>85,224</b>

The notes on pages 34 to 58 form part of these financial statements.

The balance sheet of the parent charity is identical to the consolidated balance sheet presented above except that creditor amounts falling due within one year are higher by £2k. The parent charity surplus for the year is £51.537m (2017: £6.438m).

Approved on behalf of the members of the Board of Trustees and authorised for issue on 11 October 2018.



**Professor D Alderson**  
President of Council  
Chair of the Board of Trustees



**Miss Sue Hill**  
Vice-President of Council  
Member of the Board of Trustees



# Consolidated Cash Flow Statement

## for the year ended 30 June 2018

	Notes	Total Funds	
		2018	2017
		£000	£000
<b>Net cash provided by/(used in) operating activities</b>	A	<b>(386)</b>	<b>(121)</b>
<b>Cash flows from investing activities:</b>			
Dividends, interest and rents from investments		2,335	2,378
Proceeds from the sale of property		51,824	–
Purchase of property, plant and equipment		(14,998)	(6,240)
Proceeds from sale of investments		10,725	25,144
Purchase of investments		(10,474)	(14,969)
Net cash provided by/(used in) investing activities		39,412	6,313
Change in cash and cash equivalents in the reporting period		39,026	6,192
Cash and cash equivalents at the beginning of the reporting period	B	15,218	9,026
Change in cash and cash equivalents due to exchange rate movements		–	–
<b>Cash and cash equivalents at the end of the reporting period</b>	B	<b>54,244</b>	<b>15,218</b>

### Notes to consolidated statement of cash flow for the year ended 30 June 2018

#### A. Reconciliation of cash flows from operating activities

<b>Net income for the reporting period (as per statement of financial activities)</b>	<b>51,537</b>	<b>6,709</b>
Adjust for: Profit on disposal of long lease	(51,824)	–
<b>Net expenditure from operating activities</b>	<b>(287)</b>	<b>6,709</b>
Adjustments for:		
Depreciation charges	1,784	1,847
(Gains)/losses on investments	(2,567)	(6,731)
Dividends, interest and rents from investments	(2,335)	(2,378)
Loss/(profit) on sale of fixed assets	4,976	29
(Increase)/decrease in stocks	22	59
(Increase)/decrease in debtors	115	(703)
Increase/(decrease) in creditors	(2,094)	1,047
<b>Net cash provided by/(used in) operating activities</b>	<b>(386)</b>	<b>(121)</b>

#### B. Analysis of cash and cash equivalents

Current and short term deposits	54,244	15,218
<b>Total cash and cash equivalents</b>	<b>54,244</b>	<b>15,218</b>

The notes on pages 34 to 58 form part of these financial statements.

# Notes to the Financial Statements

## for the year ended 30 June 2018

### 1. Charity Information

The Royal College of Surgeons of England was established by Royal Charter in 1800 and is a registered charity in England and Wales (charity number: 212808).

### 2. Basis of preparation

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of listed investments, and in accordance with the Statement of Recommended Practice (*Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)*), effective from 1 January 2015, and the Charities Act 2011. The RCS constitutes a public benefit entity as defined by FRS 102.

The financial statements consolidate on a line-by-line basis the financial statements of The Royal College of Surgeons of England and of its subsidiary undertaking, Hunter Trading Ltd (company number: 3110552), for the financial year ended 30 June 2018. Inter-group transactions are eliminated on consolidation.

The financial statements have been prepared on a going concern basis as the trustees consider that the RCS has sufficient resources to continue in operational existence for the foreseeable future and that there are no material uncertainties that call into doubt the ability of the RCS to continue as a going concern.

### 3. Critical accounting judgements and key sources of estimation uncertainty

Preparation of the financial statements requires management to make judgements and estimations in the process of applying the accounting policies of the RCS that may have a significant effect on the carrying amounts of assets and liabilities in the accounts. The nature of estimation and judgement means that actual outcomes may differ from expectation, and may cause a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

The accounting for the disposal of a long lease over the Nuffield property and the treatment of pensions are considered key areas of critical accounting judgement and estimation uncertainty in respect of the financial statements to 30 June 2018. A critical assumption has been made this year to base the pension liability calculation on the current schedule of contributions pending the delayed resolution of the 2017 valuation process and that uncertainty remains around the size of the liability once the process is completed. These judgements and estimations are disclosed in more detail under note 8 (*Disposal of long lease*) and under accounting policy 4.10 (*Post-employment benefits*), note 22 (*Pension liabilities and charges*) and note 23 (*Contingent liability in respect of the USS pension scheme*).

### 4. Principle accounting policies

#### 4.1 Income

Income is recognised when the entitlement is established, there is probability of receipt and the amount can be reliably measured. Income received relating to future accounting periods is deferred and shown as a creditor on the balance sheet.

- i. Course and examination fees are recognised in the financial statements in the period in which the relevant course and examination takes place.
- ii. Membership subscription fees are included on an accruals basis.
- iii. Grant income (revenue and capital) is included on a receivables basis.
- iv. General and specific donations are credited in full in the year of receipt.

- v. Legacy income is recognised when notified, providing the amount is measurable and receipt is probable.
- vi. Investment income is credited on a receivables basis.
- vii. Other income is accounted for on an accruals basis and recognised in the financial statements to the extent that the contract or service is completed.

#### 4.2 Expenditure

All expenditure is accounted for on an accruals basis, and, with the exception of support costs, is attributed directly to each activity undertaken.

- i. Employee costs include the net movement in year on the provision for annual leave accrued by employees in respect of services rendered as required by FRS 102.
- ii. Support costs are allocated to activities on a basis consistent with the use of these resources: building services costs are charged to departments and faculties based on area occupied; portering and cleaning services, finance, IT and human resources costs are allocated based on the number of full-time equivalent staff.
- iii. Governance costs comprise those costs incurred in relation to the overall strategic management of the RCS and the costs of compliance with statutory requirements, and under FRS 102 these are disclosed as part of support costs and allocated to other professional activities.
- iv. Overheads in relation to grant-funded projects are charged, where appropriate, on the basis of their activity.
- v. Grants payable are charged in full in the period in which the recipients are notified of their award.
- vi. Fundraising costs comprise the costs incurred in encouraging others to make voluntary contributions to the RCS and its activities.

#### 4.3 Taxation

The RCS is a registered charity incorporated by Royal Charter, and as such, it is exempt from taxation on its income and gains to the extent that they are applied for its charitable purposes.

The RCS' wholly owned subsidiary, Hunter Trading Ltd, is liable to corporation tax but all profits earned on its trading operations are gifted each year to the RCS.

The RCS is partially exempt for the purposes of VAT and is only able to reclaim a percentage element of VAT charged on goods and services purchased.

#### 4.4 Tangible and intangible fixed assets

##### i) Tangible fixed assets

Freehold land and buildings are stated in the balance sheet at historic cost and are not depreciated. The RCS has a policy of maintaining them in such a condition that their value, taken as a whole, is not impaired by the passage of time, that any provision for depreciation would not be material and that the buildings are worth at least their book value. Capital projects that are not completed at the year-end are shown as 'assets in the course of construction' and are not depreciated. All other fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Fixed assets are reviewed for impairment on an annual basis.

- i. Refurbishments and plant are capitalised and depreciated over 10 years.
- ii. Leasehold improvement costs carried out in respect of the Nuffield property in order to provide suitable accommodation for RCS staff during its capital development project are capitalised and depreciated over the term of the operating lease.
- iii. Expenditure on equipment, furniture, and fixtures and fittings less than £1,000 is written off to the income and expenditure account in full in the year of acquisition.
- iv. Expenditure on equipment, furniture, and fixtures and fittings greater than £1,000 is capitalised and depreciated from the date of acquisition of the asset over an expected useful life of 4 years.

##### ii) Intangible fixed assets

Intangible fixed assets are measured at cost less accumulated amortisation and any impairment losses. Software development costs are recognised as an intangible fixed asset where these create an identifiable software asset from which future economic benefit will be derived. Any enhancements to existing software assets that result in additional functionality and therefore enhance

the value of the asset to the business are also capitalised. Amortisation is charged so as to allocate the cost of the assets over their estimated useful lives using the straight-line method. The amortisation rate used is 25% per annum.

#### 4.5 Fixed asset investments

Fixed asset investments are stated at market value at the balance sheet date. These investments include cash held by the investment managers intended for investment or held as part of the portfolio. The statement of financial activities includes the net unrealised gains and losses arising on revaluation, and the realised gains and losses arising from disposals in the year. Investment property is stated at market value and valuations are carried out in accordance with *Valuation – Global Standards 2017* of the Royal Institution of Chartered Surveyors. Market value represents the estimated amount for which the property should exchange at the valuation date between a willing buyer and seller in an arm's length transaction.

Endowments are accounted for under the total return approach using a base date of 24 June 1992 to determine the permanent capital of each endowment.

#### 4.6 Heritage Assets

Heritage assets are books, manuscripts, specimens, objects or other assets that have historic, scientific, artistic, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

The heritage assets of the RCS comprise mainly the numerous specimens and artefacts collected by John Hunter in the 1700s and presented to the RCS in 1799, leading to the establishment of the Hunterian Museum. The RCS is by law the proprietor of these specimens and the Hunterian trustees have a duty to ensure that the RCS maintains the specimens and does not dispose of them. The RCS also owns historic books related to surgery and medicine that were bequests in the 19th century; these are preserved and maintained in the library and are not to be disposed.

The Hunterian Museum and library closed in June 2017, ahead of the redevelopment of the estate, and the collections were stored in appropriate secure facilities.

No value has been attributed to the heritage assets of the RCS in the balance sheet on the grounds that the trustees consider there is no reliable method of establishing historic cost information for these artefacts and that the costs of valuation would be disproportionate to the benefit of the resultant information. No heritage assets have been purchased or disposed of by the RCS in the last five years. The RCS received some donated heritage assets in this accounting period but none are deemed to have an individual value greater than £1,000.

#### 4.7 Stock

Stock comprises goods produced for re-sale, including course manuals purchased or printed, and is stated at the lower of cost and net realisable value.

#### 4.8 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, and cash held on readily realisable short-term deposit with Cazenove Capital Management.

#### 4.9 Financial instruments

A financial instrument is broadly defined as a contract that gives rise to a financial asset in one entity and a financial liability in another entity. These financial assets and liabilities are recognised when the RCS becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are classified according to the substance of the contractual arrangements entered into. The RCS has financial instruments that fall into the category of basic financial instruments as defined under section 11 of FRS 102. FRS 102 requires disclosure of the measurement bases of these instruments.

The financial assets measured at amortised cost include cash, trade debtors, other debtors and accrued income. Financial assets measured at fair value include investments. The financial liabilities measured at amortised cost include trade creditors, other creditors and accruals.

#### 4.10 Post-employment benefits

The RCS contributes to four pension schemes on behalf of its employees: the Universities Superannuation Scheme (USS), a multi-employer externally funded hybrid scheme providing defined benefits and defined contribution benefits; the Superannuation Arrangements of the University of London (SAUL), a multi-employer externally funded defined benefit scheme; the NHS Pension Scheme, a statutory unfunded multi-employer defined benefit public sector scheme; and Standard Life, a defined contribution scheme set up for employees in 2014. The USS pension scheme changed from a defined benefit only scheme to a hybrid pension scheme with effect from 1 October 2016, providing defined benefits (for all members) as well as defined contribution benefits.

The trustees are satisfied that the schemes provided by USS and SAUL meet the definition of a multi-employer scheme whereby the participating entities are not under common control and the schemes represent industry-wide schemes. Where the employer has entered into an agreement with a multi-employer scheme that determines how the employer will fund a scheme's deficit, FRS 102 requires that the employer recognises the liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in the income and expenditure account.

The assets of the USS and SAUL multi-employer schemes are held in separate trustee-administered funds. Given the mutual nature of these schemes, the schemes' assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The RCS is therefore exposed to actuarial risks associated with other entities' employees and is unable to identify the RCS' share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis. The RCS is thus required under section 28 of FRS 102 (*Employee benefits*) to account for these schemes as if they were defined contribution schemes. The amount charged to the income and expenditure account represents the contributions payable to the schemes in respect of the accounting period.

Formal valuations of USS and SAUL are undertaken every three years by professional qualified and independent actuaries using the Projected Unit method, in which the actuarial liability for benefits makes allowance for projected increases in earnings. The Pensions Act 2004 introduced a new scheme-specific funding regime, requiring schemes to adopt a statutory funding objective and ensure that the schemes' assets are sufficient and appropriate to cover their technical provisions.

Both the USS and SAUL pension schemes reported funding shortfalls at the 2014 actuarial valuations, and participating employers entered into a funding agreement to make additional contributions in order to recover the deficits. In accordance with section 28 of FRS 102, the RCS recognises the discounted fair value of the contributions payable under the deficit recovery agreements in existence at the date of approving the financial statements and the resulting expense in the income and expenditure account. The USS valuation as at 31 March 2017 has not been formally completed at the report date and the position disclosed in the financial statements remains based on the 31 March 2014 valuation. The SAUL valuation as at 31 March 2017 was completed and agreed with employers in June 2018. There was a technical provisions surplus at 31 March 2017 and therefore there is no defined liability in respect of the scheme to be recognised at 30 June 2018.

The RCS accounts for the NHS Pension Scheme as a defined contribution scheme, and the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. The RCS contributes also to a defined contribution scheme with Standard Life, and the pension costs charged to the income and expenditure account represent the contributions payable for the accounting period.

#### 4.11 Other provisions for liabilities

Provisions are recognised when the RCS has a present obligation (legal or constructive) as a result of a past event, it is probable that the RCS will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle this obligation at the end of the reporting period.

#### 4.12 Operating leases

Rentals payable under operating leases are charged to the statement of financial activities on a straight-line basis over the lease term.

#### 4.13 Funds

Unrestricted funds are available for use at the discretion of the trustees in furtherance of the general charitable objectives of the RCS.

Designated funds are unrestricted funds that have been designated by the trustees to be applied for specific purposes in the future.

Fixed assets funds represent the net book value of RCS unrestricted tangible fixed assets that the trustees consider are essential to the implementation of the RCS operational strategy and that their disposal could adversely impact on the ability of the RCS to deliver its aims.

Restricted funds represent donations, legacies or other grants given to the RCS for specific purposes to be expended in accordance with the terms of the donation, legacy or grant.

Endowed funds represent donations or legacies given to the RCS, the terms of which stipulate that the original capital cannot be spent. The funds are invested to generate an income and capital growth, which can then be expended in accordance with the purposes stated by the donor.

## 5. Expenditure

	Direct costs	Grants made	Allocated support costs	Total 2018	Total 2017
	£000	£000	£000	£000	£000
<b>Expenditure on:</b>					
<b>Raising Funds</b>					
Fundraising costs	192	-	52	244	281
Residential, conference and other trading costs	114	-	350	464	2,523
Investment management fees	274	-	-	274	363
<b>Total</b>	<b>580</b>	<b>-</b>	<b>842</b>	<b>982</b>	<b>3,167</b>
<b>Charitable activities</b>					
Education and courses	3,671	-	969	4,640	6,461
Standards, regulation and examinations	6,483	-	1,413	7,896	9,085
Research grants	469	2,407	113	2,989	2,830
Clinical Effectiveness Unit and other projects	1,902		233	2,135	2,231
Museums and library	1,769		824	2,593	3,160
Communications and publications	2,728		301	3,029	2,755
Other professional activities	8,526		1,481	10,007	3,694
<b>Total</b>	<b>25,548</b>	<b>2,407</b>	<b>5,334</b>	<b>33,289</b>	<b>30,216</b>
<b>Total expenditure</b>	<b>26,128</b>	<b>2,407</b>	<b>5,736</b>	<b>34,271</b>	<b>33,383</b>

Other professional activities include £1.008m of rental charges in respect of Nuffield operating lease costs (see note 8) and a £3.57m loss on disposal of fixed assets (see note 9). These costs have been excluded from the support cost allocation calculation set out below owing to their exceptional nature.

## Allocated support costs

Support costs total £5.74m for 2017–18 (2017: £5.96m) and comprise building services, facilities services including portering and cleaning, human resources, finance and IT services, and governance costs. These costs are allocated to activities on a basis consistent with the use of these resources. The allocation method and cost of each support service is summarised below:

Support services	Allocation basis	2018 £000	2017 £000
Building services	Space occupied	1,184	1,590
Facilities services, incl portering and cleaning	Full-time equivalent staff	1,056	1,128
Human resources	Full-time equivalent staff	350	421
Finance services	Full-time equivalent staff	927	862
IT services	Full-time equivalent staff	1,755	1,543
Governance costs	Other professional activities	464	413
<b>Total support costs</b>		<b>5,736</b>	<b>5,957</b>

Governance costs include fees payable to the auditors of the RCS in respect of audit and non-audit services as set out below:

Auditors' remuneration	2018 £000	2017 £000
Auditor fees – parent charity	42	41
Auditor fees – Hunter Trading Ltd	4	4
Auditors non-audit fees	32	57
Internal audit fees	53	57
<b>Total</b>	<b>131</b>	<b>159</b>

## 6. Research Grants

### Research fellowships

	2018 £000	2017 £000
Liabilities at the start of the year	(2,011)	(1,931)
Paid in the year	2,346	2,059
Liabilities at the end of the year	2,025	2,011
<b>Charge for the year</b>	<b>2,360</b>	<b>2,139</b>

### Research grant expenditure

	2018 £000	2017 £000
Research fellowships	2,360	2,139
Travelling fellowships and other projects	47	50
Surgical trials centres	187	278
Administration	395	363
<b>Total expenditure</b>	<b>2,989</b>	<b>2,830</b>

The total number of research awards in 2018 was 92 (2017: 84) and 14 travel awards were made (2017: 24). Among these awards, there were 40 one-year research fellowships, 2 two-year fellowships, 1 three-year fellowship and 6 dental fellowships. During the year, grants of £557k (2017: £239k) were awarded for individuals at institutions with which members of Council are connected. These members of Council did not participate in the decisions to award the respective grants.

Surgical research fellowships awarded by the RCS are only eligible to surgical trainees who are members (MRCS) and who have entered their period of specialty training (specialty registrars). The overriding objective of the surgical research projects is to improve care of surgical patients and the projects are based on the principles of translational research (i.e. research examining a specific clinical problem). Details of the research fellowships awarded and other research projects undertaken are available in the annual research report published by the RCS research directorate.

## 7. Employee Information

Staff costs	Re-stated	
	2018	2017
	£000	£000
Salaries and wages	10,322	11,111
Social security costs	1,084	1,184
Pension costs	1,365	1,555
<b>Total</b>	<b>12,771</b>	<b>13,850</b>

Salaries and wages include redundancy and termination payments totalling £491k (2017: £544k) arising from restructuring activities during the year.

The number of staff employed at 30 June were:

At 30 June the number of employees whose emoluments exceeded £60k was:

	2018	2017		2018	2017
	Centre for Evidence in Transplantation	2		2	£60,000 – £70,000
Clinical Effectiveness Unit	14	16	£70,001 – £80,000	6	6
Communications	41	45	£80,001 – £90,000	2	4
Dental and Surgical Examinations	15	17	£90,001 – £100,000	2	2
Development	3	3	£100,001 – £110,000	3	2
Education	22	31	£110,001 – £120,000	–	–
Executive Office	7	6	£120,001 – £130,000	–	–
Faculty of Dental Surgery	11	13	£130,001 – £140,000	–	–
Faculty of General Dental Practice (UK)	21	22	£140,001 – £150,000	–	–
International Affairs	1	3	£150,001 – £160,000	1	1
Joint Committee on Surgical Training	18	18			
Library, Museums and Archives	22	36			
Professional and Clinical Standards	18	19			
Project Transform	4	5			
Research	5	5			
Support Services	47	53			
<b>Total</b>	<b>251</b>	<b>294</b>			

The key management personnel of the RCS are set out on page 8. The total employee benefits received in the year by the RCS key management personnel amounted to £1.531m (2017: £1.446m).

No trustees received any remuneration for services as members of the Board of Trustees in the current and preceding years.



## 8. Disposal of long lease

In October 2017, the RCS granted a 155-year lease over its Nuffield property. The lease agreement gives the RCS the right to remain in the Nuffield accommodation until 30 June 2021. The agreement provides for a lease to the RCS at a peppercorn rent up to 31 May 2020, with rental charges becoming payable totalling £3m for extended occupation to 30 June 2021.

The granting of the long lease represents a disposal of land and building. The net sale consideration is shown separately under income in the statement of financial activities due to its exceptional nature. No value has been attached to the reversionary interest in the lease as management considers a valuation to be problematic given the length of the lease and unlikely to be of material value. The leaseback to the RCS represents a rent-free period asset that has been valued using an average market rent for similar space and location. It is considered prudent at this time to assume that the RCS may occupy the property for the full term of the lease agreement and the rent-free period asset will therefore be unwound over this period, representing 45 months in total.

The accounting entries in respect of the above are summarised below:

	SOFA £000		Notes	Balance sheet £000
<b>Income</b>				
<b>Total consideration</b>	<b>51,500</b>	Cash at bank	13	51,500
Fair value of rent-free period	2,039	Prepayments	12	2,039
<b>Adjusted consideration</b>	<b>53,539</b>			
Disposal of freehold property	(1,407)	Tangible fixed assets	9	(1,407)
Other costs of disposal	(308)	Cash at bank	13	(308)
<b>Profit on disposal of long lease</b>	<b>51,824</b>			
<b>Expenditure</b>				
<b>Other professional activities</b>				
Lease payments for the year	1,008	Prepayments	12	(1,008)
<b>Total costs</b>	<b>1,008</b>			
<b>Net impact</b>	<b>50,816</b>			<b>50,816</b>

## 9. Fixed assets (group and charity)

Tangible fixed assets	Freehold properties	Furniture, fittings and vehicles	Refurbishment and plant	Leasehold improvements	Computer equipment	Assets in course of construction	Total 2018
	£000	£000	£000		£000	£000	£000
<b>Cost at 1 July 2017</b>	3,352	808	23,575		897	9,601	38,233
Additions during the year			31		266	14,273	14,570
Disposals during the year	(1,407)	(483)	(23,620)		(301)		(25,811)
Transfers		12	14	4,661	(91)	(4,596)	–
<b>At 30 June 2018</b>	<b>1,945</b>	<b>337</b>	<b>–</b>	<b>4,661</b>	<b>771</b>	<b>19,278</b>	<b>26,992</b>
Depreciation at 1 July 2017		(778)	(19,835)		(497)		(21,110)
Charge for the year		(56)	(225)	(932)	(165)		(1,378)
Disposals during the year		492	20,099		244		20,835
Transfers		15	(39)		24		–
<b>At 30 June 2018</b>	<b>–</b>	<b>(327)</b>	<b>–</b>	<b>(932)</b>	<b>(394)</b>	<b>–</b>	<b>(1,653)</b>
Net book value 2017	3,352	30	3,740	–	400	9,601	17,123
<b>Net book value 2018</b>	<b>1,945</b>	<b>10</b>	<b>–</b>	<b>3,729</b>	<b>377</b>	<b>19,278</b>	<b>25,339</b>

Assets in the course of construction represent £19.3m of expenditure incurred in respect of the planned redevelopment of the London headquarters.

In September 2017, demolition commenced in respect of the part of the RCS estate, the Barry building, that is to be redeveloped. Refurbishment, plant, fixtures and fittings costs in respect of the Barry building totalling £20.7m and related accumulated depreciation of £18.04m were disposed at the effective date of 31 August 2017. Demolition is expected to be completed by October 2018.

The sale of a long lease in October 2017 over the Nuffield property gave rise to a disposal of land and building. The freehold property of £3.3m at 30 June 2017 represented the land value of the total RCS estate. The disposal of land in respect of the Nuffield property amounted to £1.41m based on its proportion of the total square footage of the estate. A further £3.69m of refurbishment and plant costs in respect of the Nuffield property and accumulated depreciation of £2.79m were also disposed at the effective date of 30 September 2017 on the sale of the long lease. The remaining refurbishment costs of £4.66m represent the costs incurred to provide suitable accommodation for RCS staff within the leased Nuffield property during the period of redevelopment.

<b>Intangible Fixed Assets</b>	<b>Computer software</b>	<b>Assets in course of construction</b>	<b>2018 Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost at 1 July 2017</b>	2,504	403	2,907
Additions during the year	14	414	428
Disposals during the year	(937)		(937)
Transfers	759	(759)	–
<b>At 30 June 2018</b>	<b>2,340</b>	<b>58</b>	<b>2,398</b>
<b>Depreciation at 1 July 2017</b>	(1,511)		(1,511)
Charge for the year	(406)		(406)
Disposals during the year	937		937
Transfers	–		–
<b>At 30 June 2018</b>	<b>(980)</b>	<b>–</b>	<b>(980)</b>
Net book value 2017	993	403	1,396
Net book value 2018	<b>1,360</b>	<b>58</b>	<b>1,418</b>

Assets in the course of construction represent expenditure in respect of the digital transformation agenda.

## 10. Heritage assets

Heritage assets can be acquired by gift, bequest, exchange or purchase on the open market.

RCS heritage assets comprise the Designated collections held by the library, museums and archives. The Hunterian Museum and library closed in June 2017, ahead of the redevelopment of the estate, and the collections are now stored in appropriate secure facilities and with partner organisations across a number of locations for the period of the redevelopment. Most archives and library material can be accessed via a research service based at the London Metropolitan Archives, and research access to the museum collections is available on request. All enquiry and online services continue to be available and are detailed on the RCS website. Preservation and conservation costs continue to be incurred. No heritage assets were capitalised during the year as none exceeded the capitalisation threshold of £1,000.

The Hunterian Museum represents a world-class surgical heritage resource that seeks to tell the story of surgeons and surgery over the last three centuries. The main collection is the Hunterian collection, which comprises approximately 3,700 anatomical specimens and artefacts. These were collected by John Hunter in the 1700s and presented to the RCS in 1799.

The RCS museums collection holds approximately 3,500 objects associated with surgical and dental research and training since 1800, including anatomy and pathology specimens that are over 100 years old. The historical surgical instruments collection comprises approximately 9,000 surgical instruments.

The special collections include fine and decorative art including portraits and furniture, with over 5,300 objects in this collection.

The library collections became a Designated collection under the Designation Scheme of the Arts Council England in 2013. They comprise an estimated 115,000 books and pamphlets dating from the 15th century as well as an important collection of rare journals dating from the 17th century onwards.

The 20th century collections focus on surgery, dentistry, anatomy, physiology and pathology while the subjects in the earlier collections reflect the evolution of medicine and surgery. Natural history and other scientific subjects are represented in the library collections, reflecting the work of 19th century RCS museum curators responsible for the Hunterian Museum. Further information on all of these collections is available on the RCS website.

## 11. Investments (group and charity)

	<b>Total 2018</b>	<b>Total 2017</b>
	<b>£000</b>	<b>£000</b>
Investments		
Quoted securities at market value	59,658	56,273
Deposits with investment managers	405	1,927
Investment properties at market value	3,215	2,762
<b>Market value at 30 June</b>	<b>63,278</b>	<b>60,962</b>
<b>Movements in the year:</b>		
Market value at 1 July	60,962	64,406
Additions	10,474	14,969
Disposals	(10,725)	(25,144)
Net gains/(losses) during the year	2,567	6,731
<b>Market value at 30 June</b>	<b>63,278</b>	<b>60,962</b>
<b>Cost at 30 June</b>	<b>52,025</b>	<b>51,558</b>

At 30 June 2018, the total market value investments held with the RCS investment managers was £60.1m (2017: £58.2m), comprising UK investments of £37.98m (2017: £41m) and overseas investments of £22.08m (2017: £17.2m).

As part of the overall management of funds, the investment managers of the restricted and endowed investment portfolio have entered into commitments to purchase various currencies under forward rate contracts at 30 June 2018. Maturity dates were 20 September 2018. These forward contracts are included within total investments at a negative market value of £54,463 at 30 June 2018 (2017: £66,317).

A full valuation of the RCS' investment properties at 50 Lincoln's Inn Fields as at 30 June 2018 was carried out by Gerald Eve. These were last revalued in 2015. The carrying value of these assets at 30 June 2017 was £2.762m. The properties were valued at £3.215m, giving rise to an unrealised gain of £453k.

	2018		2017	
	Group	RCS	Group	RCS
	£000	£000	£000	£000
<b>12. Debtors</b>				
Trade debtors	1,214	1,214	1,968	1,968
Prepayments	1,889	1,889	712	712
Accrued income	1,192	1,192	1,415	1,415
Other debtors including taxation	899	899	1,214	1,485
<b>Total debtors</b>	<b>5,194</b>	<b>5,194</b>	<b>5,309</b>	<b>5,580</b>

### 13. Cash and short-term deposits

Current accounts and short-term deposits	54,244	54,244	15,218	15,218
<b>Total cash and short-term deposits</b>	<b>54,244</b>	<b>54,244</b>	<b>15,218</b>	<b>15,218</b>

### 14. Creditors and accruals

#### Amounts falling due within 1 year:

Trade creditors	899	899	1,096	1,096
Taxation	232	232	272	272
Other creditors and accruals	5,196	5,198	6,524	6,795
Defined benefit pension liability	70	70	136	136
<b>Total amounts falling due within 1 year</b>	<b>6,397</b>	<b>6,399</b>	<b>8,028</b>	<b>8,299</b>

#### Amounts falling due after more than 1 year:

Other creditors and accruals	78	78	115	115
Defined benefit pension liability	1,158	1,158	1,368	1,368
<b>Total amounts falling due after more than 1 year</b>	<b>1,236</b>	<b>1,236</b>	<b>1,483</b>	<b>1,483</b>

### 15. Deferred income

Brought forward at 1 July	5,392	5,392	5,678	5,678
Received during the year	31,282	31,282	33,076	33,076
Released as income during the year	(31,497)	(31,497)	(33,361)	(33,361)
<b>Carried forward at 30 June</b>	<b>5,177</b>	<b>5,177</b>	<b>5,393</b>	<b>5,393</b>

Deferred income comprises membership subscriptions, education course fees and examination fees.

### 16. Financial instruments

	2018	2017
	£000	£000
Financial assets measured at amortised cost	57,522	19,690
Financial assets measured at fair value	63,278	60,962
Financial liabilities measured at amortised cost	(9,172)	(7,729)

## 17. Analysis of net assets between funds at 30 June 2018

	Unrestricted Funds	Restricted Funds	Endowed Funds	Total 2017
	£000	£000	£000	£000
Tangible fixed assets	25,339	–	–	25,339
Intangible fixed assets	1,418	–	–	1,418
Investments	26,535	1,500	35,243	63,278
Current assets	51,457	7,674	405	59,536
Current liabilities	(9,435)	(2,099)	(40)	(11,574)
Liabilities after 1 year	(1,158)	(78)	–	(1,236)
<b>Total funds</b>	<b>94,156</b>	<b>6,997</b>	<b>35,608</b>	<b>136,761</b>

### Analysis of net assets between funds at 30 June 2017 for comparison

	Unrestricted Funds	Restricted Funds	Endowed Funds	Total 2017
	£000	£000	£000	£000
Tangible fixed assets	15,978	1,145	–	17,123
Intangible fixed assets	1,396	–	–	1,396
Investments	24,820	1,216	34,926	60,962
Current assets	14,790	5,225	632	20,647
Current liabilities	(12,996)	(286)	(139)	(13,421)
Liabilities after 1 year	(1,483)	–	–	(1,483)
<b>Total funds</b>	<b>42,505</b>	<b>7,300</b>	<b>35,419</b>	<b>85,224</b>

## 18. Unrestricted funds

	2018	2017
	£000	£000
Fixed assets fund	25,339	17,374
Capital development fund	46,785	4,012
Other designated funds	453	1,158
Pension reserve	1,228	1,504
General funds	20,351	18,457
<b>Total unrestricted funds</b>	<b>94,156</b>	<b>42,505</b>

Unrestricted reserves have risen by £51.65m in the year. This is primarily attributable to the sale of a long lease over the Nuffield property in October 2017. A total of £53.5m in respect of the sale and other income raised this year in relation to the property development and £3.6m from general reserves has been designated to the capital development fund. A further £14.3m has been drawn down this year, leaving £46.8m in the fund as at 30 June 2018.

The trustees designated £1.4m in 2015 to support the digital transformation agenda, of which £0.95m has been utilised to date.

The associated costs have been capitalised and disclosed as assets in the course of construction under tangible fixed assets. The designated fund is reduced to reflect the expenditure to date and the costs are matched by the fixed assets fund.

RCS reserves include a pension reserve of £1.228m to fund the FRS 102 pension deficit liability (see notes 22 and 23).

## 19. Restricted Funds

	2017 £000	Increase £000	Decrease £000	2018 £000
Trust funds	2,406	285	(746)	1,945
Grants and donations	4,894	6,068	(5,910)	5,052
<b>Total restricted funds</b>	<b>7,300</b>	<b>6,353</b>	<b>(6,656)</b>	<b>6,997</b>

RCS has 28 trust funds and their position is set out below by fund:

### Research trust funds:

Surgical Research Fund	368	37	(81)	324
Mr Sorab J Lam Legacy	340	14	(83)	271
Ethicon Travelling Fellowship	183	9	(15)	177
Modi Fund	340	12	(185)	167
Arthritis Research Trust	40	170	(45)	165
Blond McIndoe Fund	146	–	(57)	89
Dunhill Medical Trust	80	5	(2)	83
Miss Carol Rummey Legacy	133	–	(52)	81
Fellows Fellowship Fund	144	10	(84)	70
Preiskel Fund	57	4	(4)	57
Sir RE Kelly Fellowship Fund Legacy	50	–	–	50
Fletcher Legacy	74	–	(42)	32
Cutner Legacy	32	–	(7)	25
H Speight Discretionary Trust	92	–	(71)	21
Rex and Jean Lawrie Overseas Fund	21	–	(7)	14
Curry Legacy Damage/Pain	10	–	–	10
DBP Surgical Trust Fund	10	–	(3)	7
Clarke Legacy	4	–	–	4
Ethicon Research Fund	1	–	–	1
Shrimpton Fund	3	–	(2)	1
Denker Legacy	1	–	(1)	–
Black Legacy	2	–	(2)	–

### Education and training trust funds:

E&T Haddock Legacy	125	17	(1)	141
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### Faculty of Dental Surgery funds:

JW McLean Fund	147	7	(2)	152
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### Faculty of General Dental Practice (UK) funds:

Research Fund (FGDP(UK))	3	–	–	3
<b>Total trust funds</b>	<b>2,406</b>	<b>285</b>	<b>(746)</b>	<b>1,945</b>

	2017 £000	Increase £000	Decrease £000	2018 £000
<b>Grants and donations are summarised as follows:</b>				
<b>Grants and donations:</b>				
Project 2020 Fundraising	1,036	1,713	–	2,749
PCCT Transplant Fellowships	292	–	(87)	205
National Vascular Registry	59	407	(263)	203
FDS-NAC	152	49	(28)	173
Improving Surgical Training	–	567	(423)	144
e-Learning for Healthcare	137	25	(41)	121
Other balances <£100,000	3,218	3,307	(5,068)	1,457
<b>Total grants and donations</b>	<b>4,894</b>	<b>6,068</b>	<b>(5,910)</b>	<b>5,052</b>
<b>Total restricted funds</b>	<b>7,300</b>	<b>6,353</b>	<b>(6,656)</b>	<b>6,997</b>

## 20. Endowed Funds

	Unapplied total return £000	Permanent capital £000	Total endowment £000
<b>Endowed funds at 1 July 2017</b>	<b>20,468</b>	<b>14,951</b>	<b>35,419</b>
Investment income	982		982
Investment gains	746	–	746
<b>Total income and gains</b>	<b>1,728</b>	<b>–</b>	<b>1,728</b>
		–	
Application of total return	(1,376)	–	(1,376)
Investment management fees	(163)	–	(163)
<b>Total application and fees</b>	<b>(1,539)</b>	<b>–</b>	<b>(1,539)</b>
<b>Net movement in year</b>	<b>189</b>	<b>–</b>	<b>189</b>
<b>Total endowed funds</b>	<b>20,657</b>	<b>14,951</b>	<b>35,608</b>

## RCS has 22 endowed funds and the 2017–18 position is set out below by fund:

Endowed fund	Unapplied Total Return 2017 £000	Income and Gains £000	Applied Total Return 2018 £000	Investment Fees £000	Unapplied Total Return 2018 £000	Permanent Capital £000	2018 Total £000
RCSE Research Fund	4,998	427	(426)	(40)	4,959	3,784	8,743
RCSE Education Fund	4,150	310	(346)	(29)	4,085	2,262	6,347
RCSE Cancer Research Fund	2,738	216	(175)	(21)	2,758	1,756	4,514
President's Finch Fund	621	132	(3)	(13)	737	2,108	2,845
Dental Science Research Fund	1,341	117	(36)	(11)	1,411	1,016	2,427
Rank Chair of Physics in Surgery	1,332	112	(128)	(12)	1,304	955	2,259
RCSE Library Fund	1,159	97	(88)	(9)	1,159	833	1,992
MacRae Webb-Johnson Fund for Hunterian	808	61	(70)	(6)	793	425	1,218
RCSE Biochemical Research Fund	613	61	(3)	(4)	667	374	1,041
Moser Trust (FDS)	364	25	(1)	(2)	386	173	559
HS Morton Travelling Fellowship	367	27	(44)	(3)	347	200	547
Groves Bequest for Hunterian	356	25	(21)	(2)	358	161	519
George Qvist Fund for Hunterian	293	24	(21)	(2)	294	209	503
John Kinross Fund	289	18	(1)	(2)	304	104	408
RCSE Prize Fund	264	15	(1)	(1)	277	61	338
Sims Commonwealth Travelling Fellowship	162	12	(1)	(1)	172	106	278
Witt Fund	72	12	(1)	(1)	82	182	264
Commemoration Fund (FDS)	136	10	(1)	(1)	144	66	210
RCSE Scholarship Fund	131	8	(1)	(1)	137	51	188
Darlow Fellowship Fund	80	7	(2)	(1)	84	67	151
Rishworth Fund for the <i>Annals</i>	96	7	(1)	(1)	101	50	151
RCSE Museum Fund	98	5	(5)	–	98	8	106
<b>Total endowed funds</b>	<b>20,468</b>	<b>1,728</b>	<b>(1,376)</b>	<b>(163)</b>	<b>20,657</b>	<b>14,951</b>	<b>35,608</b>

9 of the 22 funds have closing balances greater than £1m, amounting to £31.3m of the £35.5m of funds at 30 June 2018.

A brief description of the purposes of each fund is provided below:

- 1. RCSE Research Fund:** to promote, carry on, and fund study and research into surgery and related subjects, and to publish useful results of such study and research
- 2. RCSE Education Fund:** to educate surgeons, medical practitioners and the general public in the art, science and practice of surgery and related subjects, and to further instruction and training in surgery
- 3. RCSE Cancer Research Fund:** to promote, carry on, and fund study and research into cancer and its preventative treatment and care, and to publish useful results of such study and research
- 4. Dental Science Research Fund:** to promote research into improving dental treatment and dental health
- 5. President's Finch Fund:** income to be applied for charitable purposes which will be of service for the welfare and advancement of the science and art of surgery
- 6. Rank Chair of Physics in Surgery:** to support research work
- 7. RCSE Library Fund:** to promote, carry on, maintain and fund the establishment of libraries of the RCS for the furtherance of study and research into surgery and related objects
- 8. MacRae Webb-Johnson Fund for Hunterian:** to support museum projects



The remaining 13 funds with balances of less than £1m, and amounting to £4.2m, are summarised under the following categories:

#### Research funds

RCSE Biochemical Research Fund

Darlow Fellowship Fund

#### Scholarship and prize funds

RCSE Prize Fund

Witt Fund

RCSE Scholarship Fund

#### Travelling fellowship funds

HS Morton Travelling Fellowship

SIMS Commonwealth Travelling Fellowship

#### Museum funds

RCSE Museum Fund

Groves Bequest for Museum

George Qvist for Hunterian

#### Faculty of Dental Surgery Funds

Moser Trust

Commemoration Fund

#### Other Funds

John Kinross Fund

Rishworth Fund for the *Annals*

## 21. Hunter Trading Ltd

The RCS holds the entire issued £1 share capital of Hunter Trading Ltd.

Residential and conference trading activity ceased in the previous financial year ahead of the start of the capital redevelopment programme but a small level of trading activity remains. The results and financial position of the company for the year are summarised as follows:

	2018	2017
	£000	£000
<b>Profit and loss account</b>		
Income	22	2,612
Expenditure	20	2,341
Profit before tax	2	271
Profits gifted to RCS	–	(271)
<b>Result for the year</b>	<b>2</b>	<b>–</b>
<b>Balance sheet</b>		
Debtors	2	271
Creditors: amounts falling due within 1 year		(271)
<b>Net assets</b>	<b>2</b>	<b>–</b>

The net assets at 30 June 2018 are £2k (2017: £1), represented by £1 of called up share capital and the profit arising on trading activities in 2017–18.

Inter-company activity in 2017–18 comprised the settlement of the profit of 2016–17 of £271k gifted to the RCS and the parent debtor amount in respect of the profit for 2017–18 of £2k.

## 22. Pension liabilities and charges

The RCS participates in two multi-employer defined benefit pension schemes: USS and SAUL. Both schemes reported funding shortfalls at the previous triennial valuations at 31 March 2014. In accordance with section 28 of the FRS 102 reporting standard, the RCS is required to recognise its share of the liability for the contributions payable under a deficit recovery agreement. The liabilities and charges are allocated fully to unrestricted funds on the basis that the conditions pertaining to the use of the restricted funds of the RCS preclude charges of this nature.

<b>Defined Benefit Pension Liability</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
USS	1,228	1,446
SAUL	–	58
<b>Total Liability</b>	<b>1,228</b>	<b>1,504</b>
Liability less than 1 year	70	136
Liability more than 1 year	1,158	1,368

### *Universities Superannuation Scheme (USS)*

Of the 251 RCS employees at 30 June 2018 (2017: 294), 92 were members of USS (2017: 124).

The RCS calculated share of the USS defined benefit pension liability amounts to £1.23m (2017: £1.45m) and the total cost charged to the Statement of Financial Activities in respect of USS amounts to £663k (2017: £1,045k).

The liability has been re-calculated using the USS model provided with reference to the remaining deficit recovery period of 13 years from 2018 to 2031.

The following assumptions were used to calculate the RCS share of the USS liability:

	<b>2018</b>	<b>2017</b>
Discount Rate	2.72%	2.57%
Projected Salary inflation	2.5% in 2019 and 2% to 2031	1.1% in 2018 and 2% to 2031

The discount rate is based on the iBoxx Sterling AA corporate bond rate over 15 years prevailing at 30 June of each relevant year. Salary inflation assumptions take into account the level of annual pay increases set in the April before the relevant year-end, prevailing CPI rates and the Bank of England long-term inflation target of 2%. The calculation reflects an assumption that there would be some reduction in member numbers in the forward years. The assumptions underpinning the calculation reflect a prudent assessment of the available information and options but represent a key area of estimation uncertainty in the financial statements.

Analysis of the charge to the income and expenditure statement is set out below:

<b>Statement of Financial Activities</b>	<b>2018</b>	<b>2017</b>
	<b>Total</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>
Employer contributions	881	1,068
Contributions allocated to deficit provision	(103)	(132)
Change in contributions from past expectations	(154)	71
<b>Contribution costs total</b>	<b>624</b>	<b>1,007</b>
Interest payable	39	38
<b>Pension costs total</b>	<b>663</b>	<b>1,045</b>

Note 23 (*Contingent liability in respect of the USS pension scheme*) provides an additional statement on the current uncertainty surrounding the outcome of the 2017 valuation and the deficit recovery plan that will be put in place, and the potential adverse impact that may result with respect to the liability to be provided.

#### *Superannuation Arrangements of the University of London (SAUL)*

Of the 251 RCS employees at 30 June 2018 (2017: 294), 89 were members of SAUL (2017: 102).

The scheme trustee and employers agreed that the technical provisions deficit at the valuation date of 31 March 2014 would be recovered by a 3% increase in employer contributions from 13% to 16% with effect from 1 April 2016 and over a deficit recovery period to 31 March 2018. In accordance with the guidance issued by SAUL, the RCS share of the liability as at 30 June 2017 was based on the value of the future 3% deficit funding contributions payable under this agreement effective from 1 April 2016.

The 2017 actuarial valuation with an effective date of 31 March 2017 has been completed and the funding principles were agreed by the scheme trustee and employers in June 2018. These will now be reviewed at the next formal valuation in 2020. The 2017 valuation confirmed that the scheme was fully funded on its technical provisions basis at 31 March 2017 and that the deficit at the 2014 valuation has therefore been eliminated. The RCS' calculated share of the SAUL defined benefit pension scheme liability at 30 June 2017 was £58k and this has been released in full to the statement of financial activities in 2017–18.

The total cost charged to the Statement of Financial Activities in respect of the SAUL pension scheme amounts to £394k as follows:

<b>SAUL pension scheme</b>	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Employer contributions payable	452	407
Pension liability provision	(58)	58
<b>Total pension charges</b>	<b>394</b>	<b>465</b>

#### *Supplementary scheme disclosures*

Since the RCS cannot identify its share of the assets and liabilities of the USS and SAUL schemes, the following disclosures have been provided by the respective pension schemes to reflect those relevant for the schemes as a whole.

#### *USS*

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

At the valuation date, the value of the assets of the scheme was £41.6bn and the value of the scheme's technical provisions was £46.9bn, indicating a shortfall of £5.3bn. The assets were therefore sufficient to cover 89% of the benefits that had accrued to members after allowing for expected future increases in earnings. These figures will be revised once the 2017 scheme valuation is complete.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	<b>2018</b>	<b>2017</b>
Discount rate	2.64%	2.57%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.02%	2.41%

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 position, based on updated analysis of the scheme's experience carried out as part of the 2017 actuarial valuation.

The mortality assumptions are based on the following mortality tables:

	<b>Pre-retirement</b>	<b>Post-retirement</b>
<b>2018</b>		
Male members' mortality	71% of AMC00 (duration 0)	96.5% of SAPS S1NMA 'light'
Female members' mortality	112% of AFC00 (duration 0)	101.3% of RFV00
<b>2017</b>		
Male members' mortality	98% of S1NA ['light'] YoB tables – no age rating	
Female members' mortality	99% of S1NA ['light'] YoB tables – rated down 1 year	

Future improvements to mortality are based on the Continuous Mortality Investigation's 2016 projections with a long-term improvement rate of 1.8% for males and 1.6% for females.

The current life expectancies on retirement at age 65 are:

	<b>2018</b>	<b>2017</b>
Males currently aged 65 years	24.5	24.4
Females currently aged 65 years	26.0	26.6
Males currently aged 45 years	26.5	26.5
Females currently aged 45 years	27.8	29.0

A summary of the scheme position as at 31 March is set out below:

	<b>2018</b>	<b>2017</b>
Scheme assets	£63.6bn	£60.0bn
Total scheme liabilities	£72.0bn	£77.5bn
FRS 102 total scheme deficit	£8.4bn	£17.5bn
FRS 102 total funding level	88%	77%

## SAUL

SAUL is a centralised defined benefit scheme within the UK for the non-academic staff of over 50 colleges and institutions with links to higher education.

The SAUL Final Salary section closed at 31 March 2016 and from 1 April 2016 all members now build up pension benefits on a Career Average Revalued Earnings (CARE) basis.

The RCS is not expected to be liable to SAUL for any other current participating employer's obligations under the Rules of SAUL, but in the event of insolvency of any participating employer within SAUL, an amount of any pension shortfall (that cannot otherwise be recovered) in respect of that employer may be spread across the remaining participating employers and reflected in the next actuarial valuation.

SAUL's statutory funding objective is to have sufficient and appropriate assets to meet the costs incurred by the scheme trustee in paying SAUL's benefits as they fall due (the Technical Provisions). The scheme trustee adopts assumptions that, taken as a whole, are intended to be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and for the commitments that arise from members' accrued pension rights to be met. The funding method and assumptions do not completely remove the risk that the Technical Provisions could be insufficient to provide benefits in the future.

The 2017 actuarial valuation shows that the market value of SAUL's assets was £3,205m, representing 102% of the liabilities for benefits accrued up to 31 March 2017, and that the scheme therefore reported a surplus of £56m. This compares with assets valued at £1,927m, a funding level of 97% and a scheme deficit of £59m at the 31 March 2014 valuation. The contribution strain has increased from 2.6% to 6.7% between valuations. The scheme trustee and the employers have agreed that no changes are required to benefits or contributions and that the employers' contribution rate remains at 16% of CARE salaries. The scheme trustee considers that the scheme surplus is sufficient to meet the contribution strain over the next period.

### *Other pension schemes*

Of the 251 RCS employees at 30 June 2018 (2017: 294), 31 were members of Standard Life (2017: 39) and 6 were members of the NHS Pension Scheme (2017: 7).

The RCS pays a contribution rate of 9% into the Standard Life defined contribution scheme at a total cost of £85,347 in 2018 (2017: £101,517) and a contribution rate of 14% into the NHS Pension Scheme at a total cost of £38,801 in 2018 (2017: £54,945). No contributions in respect of these schemes were outstanding at the balance sheet date.

## 23. Contingent liability in respect of the USS pension scheme

In accordance with the requirements of the Statement of Recommended Practice, the RCS currently recognises a provision for its obligation to fund past deficits arising within the USS pension scheme. The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 13 years remain. Details of this provision, which has been discounted at a rate of 2.72% as at 31 July 2018, are set out in note 22 (*Pension liabilities and charges*). The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges.

In the judgement of the RCS, as the 2017 valuation has not been formally completed, and there remain various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period, it remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

However, there is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a significant amount depending on what is finally agreed as regards future deficit contributions and their duration. The RCS expects to have greater clarity in this respect during the next financial year.

## 24. Transactions with trustees

No trustees receive any fees or honoraria for services. Trustees claim travelling, subsistence and accommodation costs in carrying out their RCS responsibilities and attending relevant meetings. The total expenses reimbursed to the trustees holding office during 2017–18 amounted to £78k (2017: £78k). This represented reimbursement to 7 trustees (2017: 13) and includes sessional payments made totalling £52k (2017: £56k).

No donations were received from trustees during the current period (2017: £91k).

One of the RCS trustees is chief executive of a company that provided professional services to the RCS to the value of £36k in the current year in respect of the capital development programme (2017: £86k). There were no other related party transactions in the period.

## 25. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £52.64m in respect of the design and build contract entered into in September 2017 to redevelop the estate (2017: nil).

## 26. Operating leases

The future minimum payments that the RCS is committed to make under operating leases are as follows:

			2018		2017	
	Nuffield lease	Furniture, fittings and vehicles	Total	Nuffield lease	Furniture, fittings and vehicles	Total
	£000	£000	£000	£000	£000	£000
<b>Payments due:</b>						
Within 1 year	–	2	2	–	15	15
Between 1 and 2 years	1,000	–	1,000	–	4	4
Between 2 and 5 years	2,000	–	2,000	–	–	–
<b>Total</b>	<b>3,000</b>	<b>2</b>	<b>3,002</b>		<b>19</b>	

The Nuffield lease agreement is explained in note 8 (*Disposal of long lease*).

## 27. Legacy income

Major legacies or gifts notified but not included in the financial statements as they do not meet the income recognition criteria of entitlement, probability of receipt and measurement at the balance sheet date amount to £200k (2017: £300k).

## 28. Restricted funds 2017 for comparison

	2016 £000	Increase £000	Decrease £000	2017 £000
Trust funds	2,610	678	(882)	2,406
Grants and donations	5,116	5,047	(5,269)	4,894
<b>Total restricted funds</b>	<b>7,726</b>	<b>5,725</b>	<b>(6,151)</b>	<b>7,300</b>

The RCS has 27 trust funds and their position is set out below by fund:

### Research trust funds:

Surgical Research Fund	296	86	(14)	368
Modi Fund	377	22	(59)	340
Mr Sorab J Lam Legacy	354	21	(35)	340
Ethicon Travelling Fellowship	171	25	(13)	183
Blond McIndoe Fund	186	–	(40)	146
Fellows Fellowship Fund	108	128	(92)	144
Miss Carol Rummey Legacy	145	–	(12)	133
H Speight Discretionary Trust	145	–	(53)	92
Dunhill Medical Trust	114	275	(309)	80
Fletcher Legacy	74	–	–	74
Preiskel Fund	43	17	(3)	57
Sir RE Kelly Fellowship Fund Legacy	–	50	–	50
Arthritis Research Trust	6	35	(1)	40
Cutner Legacy	34	–	(2)	32
Rex and Jean Lawrie Overseas Fund	31	–	(10)	21
DBP Surgical Trust Fund	97	–	(87)	10
Curry Legacy Damage/Pain	10	–	–	10
Clarke Legacy	3	1	–	4
Shrimpton Fund	20	–	(17)	3
Black Legacy	18	–	(16)	2
Denker Legacy	3	–	(2)	1
Ethicon Research Fund	1	–	–	1
Far East HK Masonic Association	8	–	(8)	–
Guyatt Legacy	4	–	(4)	–

### Education and training trust funds:

E&T Haddock Legacy	229	–	(104)	125
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### Faculty of Dental Surgery Funds:

JW McLean Fund	130	18	(1)	147
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### Faculty of General Dental Practice (UK) Funds:

Research Fund	3	–	–	3
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<b>Total trust funds</b>	<b>2,610</b>	<b>678</b>	<b>(882)</b>	<b>2,406</b>
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	2016 £000	Increase £000	Decrease £000	2017 £000
<b>Grants and donations are summarised as follows:</b>				
<b>Grants and Donations:</b>				
Education centre refurbishment	1,837	–	(696)	1,141
Project 2020 Fundraising	–	1,062	(26)	1,036
PCCT Transplant Fellowships	390	–	(98)	292
Surgical trials centres	192	246	(245)	193
National Prostate Cancer Audit	212	370	(413)	169
FDS-NAC	165	17	(30)	152
e-Learning for Healthcare	150	6	(19)	137
Other balances <£100,000	2,170	3,346	(3,742)	1,774
<b>Total grants and donations</b>	<b>5,116</b>	<b>5,047</b>	<b>(5,269)</b>	<b>4,894</b>
<b>Total restricted funds</b>	<b>7,726</b>	<b>5,725</b>	<b>(6,151)</b>	<b>7,300</b>

## 29. Endowed funds 2017 for comparison

	Unapplied total return £000	Permanent Capital £000	Total Endowment £000
<b>Endowed funds at 1 July 2016</b>	<b>17,374</b>	<b>14,951</b>	<b>32,325</b>
Investment income	1,102	–	1,102
Investment gains	3,586	–	3,586
Total income and gains	4,688	–	4,688
Application of total return	(1,419)	–	(1,419)
Investment management fees	(175)	–	(175)
<b>Total application and fees</b>	<b>(1,594)</b>	<b>–</b>	<b>(1,594)</b>
<b>Net movement in year</b>	<b>3,094</b>	<b>–</b>	<b>3,094</b>
<b>Total endowed funds</b>	<b>20,468</b>	<b>14,951</b>	<b>35,419</b>



The RCS has 22 endowed funds and the 2016–17 position is set out below by fund:

	Unapplied total return 2016	Income and gains	Applied total return 2017	Investment fees	Unapplied total return 2017	Permanent capital	Total 2017
	£000	£000	£000	£000	£000	£000	£000
<b>RCSE Research Fund</b>	<b>4,263</b>	1,168	(389)	(44)	4,998	3,784	<b>8,782</b>
RCSE Education Fund	<b>3,576</b>	847	(242)	(31)	4,150	2,262	<b>6,412</b>
RCSE Cancer Research Fund	<b>2,266</b>	584	(90)	(22)	2,738	1,756	<b>4,494</b>
President's Finch Fund	<b>300</b>	349	(15)	(13)	621	2,108	<b>2,729</b>
Dental Science Research Fund	<b>1,363</b>	346	(355)	(13)	1,341	1,016	<b>2,357</b>
Rank Chair of Physics in Surgery	<b>1,147</b>	305	(109)	(11)	1,332	955	<b>2,287</b>
RCSE Library Fund	<b>987</b>	265	(83)	(10)	1,159	833	<b>1,992</b>
MacRae Webb-Johnson Fund for Hunterian	<b>715</b>	165	(66)	(6)	808	425	<b>1,233</b>
RCSE Biochemical Research Fund	<b>500</b>	127	(9)	(5)	613	374	<b>987</b>
HS Morton Travelling Fellowship	<b>303</b>	73	(7)	(2)	367	200	<b>567</b>
Moser Trust (FDS)	<b>299</b>	69	(1)	(3)	364	173	<b>537</b>
Groves Bequest for Hunterian	<b>311</b>	69	(21)	(3)	356	161	<b>517</b>
George Qvist Fund for Hunterian	<b>250</b>	66	(21)	(2)	293	209	<b>502</b>
John Kinross Fund	<b>242</b>	49	–	(2)	289	104	<b>393</b>
RCSE Prize Fund	<b>225</b>	41	(1)	(1)	264	61	<b>325</b>
Sims Commonwealth Travelling Fellowship	<b>130</b>	34	(1)	(1)	162	106	<b>268</b>
Witt Fund	<b>42</b>	32	(1)	(1)	72	182	<b>254</b>
Commemoration Fund (FDS)	<b>112</b>	25	–	(1)	136	66	<b>202</b>
RCSE Scholarship Fund	<b>109</b>	23	–	(1)	131	51	<b>182</b>
Darlow Fellowship Fund	<b>66</b>	19	(4)	(1)	80	67	<b>147</b>
Rishworth Fund for the <i>Annals</i>	<b>79</b>	18	–	(1)	96	50	<b>146</b>
RCSE Museum Fund	<b>89</b>	14	(4)	(1)	98	8	<b>106</b>
<b>Total endowed funds</b>	<b>17,374</b>	<b>4,688</b>	<b>(1,419)</b>	<b>(175)</b>	<b>20,468</b>	<b>14,951</b>	<b>35,419</b>

### 30. Comparative statement of financial activities for the year ended 30 June 2017 showing performance of the separate classes of funds

	Notes	Unrestricted funds	Restricted funds	Endowed funds	Totals	2015–2016
		£000	£000	£000	£000	£000
<b>Incoming resources:</b>						
<b>Voluntary</b>						
Grants, donations and gifts		135	5,029	–	5,164	3,850
Legacies		42	81	–	123	474
<b>Charitable activities</b>						
Courses		4,819	19	–	4,838	4,892
Examinations		5,056	–	–	5,056	4,769
Subscriptions		8,835	–	–	8,835	8,544
Charges and sales		2,680	449	–	3,129	2,594
<b>Other trading activities</b>						
Residential, conference and other		3,838	–	–	3,838	4,771
Income from Investments		1,199	77	1,102	2,378	2,627
<b>Total incoming resources</b>		<b>26,604</b>	<b>5,655</b>	<b>1,102</b>	<b>33,361</b>	<b>32,521</b>
<b>Resources expended:</b>						
<b>Cost of generating funds</b>						
Fundraising costs	5	255	26	–	281	343
Residential, conference and other		2,291	232	–	2,523	3,456
Investment management fees		87	101	175	363	363
<b>Total</b>		<b>3,663</b>	<b>331</b>	<b>168</b>	<b>3,167</b>	<b>4,162</b>
<b>Charitable expenditure</b>						
Education and courses		5,377	1,084	–	6,461	6,255
Standards, regulation and examinations		8,492	593	–	9,085	8,749
Research grants	6	–	2,830	–	2,830	2,951
Clinical Effectiveness Unit and other projects		–	2,231	–	2,231	2,117
Museums and library		2,822	338	–	3,160	2,473
Communications and publications		2,755	–	–	2,755	2,517
Other professional activities		3,559	135	–	3,694	3,819
<b>Total</b>		<b>23,005</b>	<b>7,211</b>	<b>–</b>	<b>30,216</b>	<b>28,881</b>
<b>Total expenditure</b>		<b>25,638</b>	<b>7,570</b>	<b>175</b>	<b>33,383</b>	<b>33,043</b>
<b>Net income/(expenditure) before gains</b>		<b>966</b>	<b>(1,915)</b>	<b>927</b>	<b>(22)</b>	<b>(522)</b>
Net gains/(losses) on investments	10	3,075	70	3,586	6,731	(626)
<b>Net income/(expenditure)</b>		<b>4,041</b>	<b>(1,845)</b>	<b>4,513</b>	<b>6,709</b>	<b>(1,148)</b>
Application of total return	19	–	1,419	(1,419)	–	–
<b>Net movement in funds for the year</b>		<b>4,041</b>	<b>(426)</b>	<b>3,094</b>	<b>6,709</b>	<b>(1,148)</b>
Balances brought forward at 1 July	16	38,464	7,726	32,325	78,515	79,663
<b>Balances carried forward at 30 June</b>	<b>16</b>	<b>42,505</b>	<b>7,300</b>	<b>35,419</b>	<b>85,224</b>	<b>78,515</b>

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