



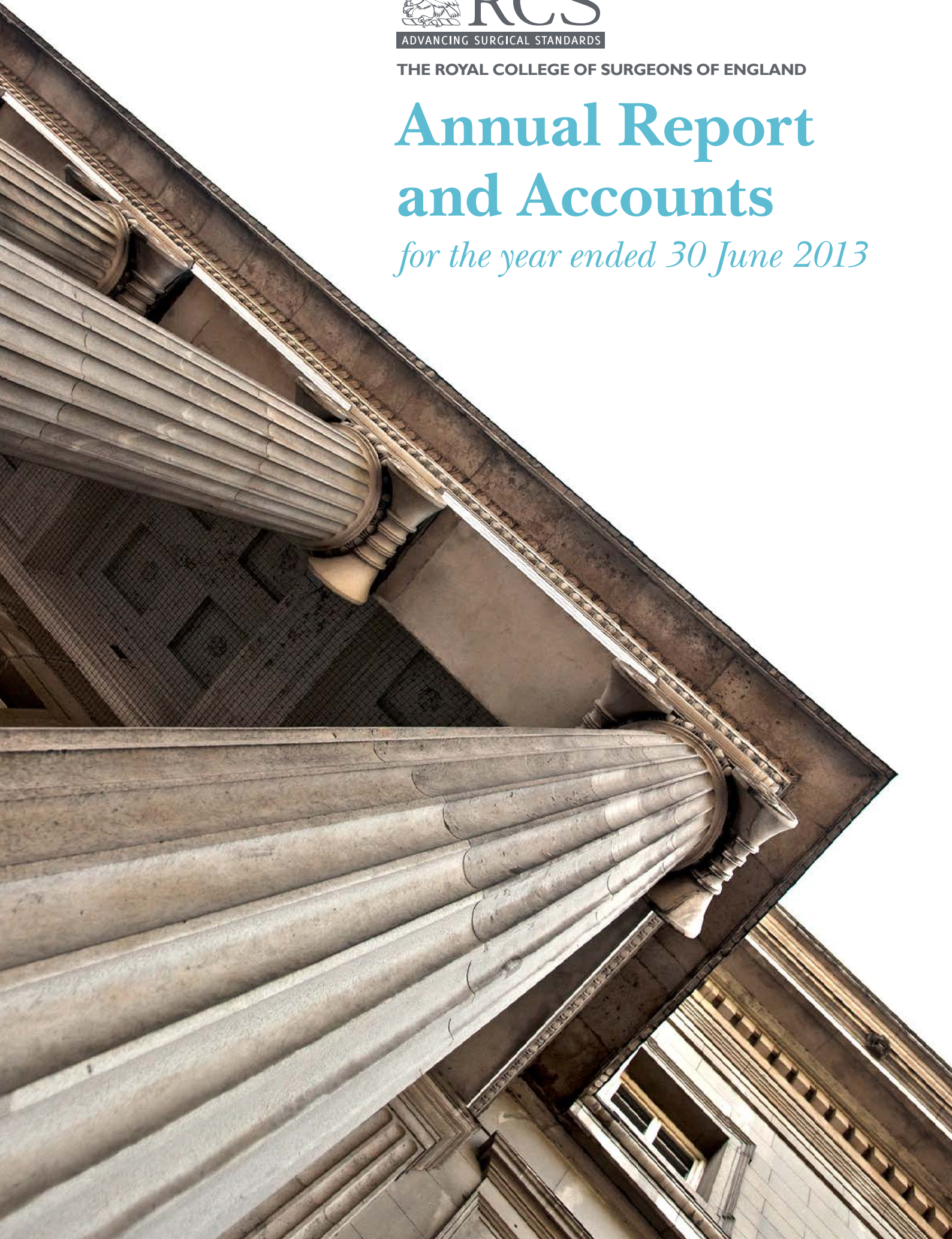
RCS

ADVANCING SURGICAL STANDARDS

THE ROYAL COLLEGE OF SURGEONS OF ENGLAND

# Annual Report and Accounts

*for the year ended 30 June 2013*



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The Royal College of Surgeons of England

35–43 Lincoln's Inn Fields

London WC2A 3PE

[www.rcseng.ac.uk](http://www.rcseng.ac.uk)

Registered Charity No. 212808

# President's foreword

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I am pleased to report on some of our important achievements of this year. The Royal College of Surgeons of England (RCS or the College) exists to serve its members and fellows and we represent their interests and the interests of patients by working with government, setting standards, training and assessing surgeons, supporting research and being vocal in the media and other public and professional forums.

The report of the trustees on page 14 highlights the wide range of activities we have undertaken in the past year. However, I would like to take this opportunity to highlight four areas where we have made real progress in delivering against our strategic aims.

Firstly, a great deal of time was spent preparing for the publication of individual surgeons' data. This was a watershed moment and the first time in the world that any healthcare system has achieved such a level of transparency and detail around surgical results. It was a huge challenge to analyse and present outcomes that are accurate and meaningful for patients. I was proud of the profession for taking this step and making this commitment to an open dialogue with both patients and the public.

Secondly, in May 2013, we launched the National Surgical Commissioning Centre, having secured accreditation from NICE for our guidelines. This online resource will be vital in helping commissioners and other healthcare professionals find clear, consistent and evidence-based guidelines for a variety of surgical procedures. This underlines our commitment to supporting the delivery of safe, efficient and cost-effective surgical care as well as helping to improve standards of patient care across England.

Thirdly, the Surgical Trials Initiative has established five surgical trials units to form a network across the UK. These units will enable surgeons to deliver clinical studies to assess new surgical techniques and deliver new and better care to thousands of patients. Alongside this, the appointment, together with the Surgical Specialty Associations and affiliated charities, of eleven national surgical specialty leads will allow the development and delivery of innovative trials.

Lastly, in February 2013, our library, museums and archives collections were awarded Designated Status by Arts Council England. This was a prestigious accolade, one which recognises the value of our unique and distinctive collections of national and international significance.

There remains a great deal to do in the coming year. The reforms to the NHS that came into effect in April 2013 are still to be fully implemented alongside continuing budgetary restraints. I know from my many conversations with surgeons and patients that the challenges posed by seven-day working and the constraints of European Working Time Regulations remain unaddressed. I am hopeful we will see change in the coming year.

Internally, I have recently initiated a comprehensive review of the College's strategy, activity and governance. The aim is to ensure that the RCS is in the best possible shape, both financially and in its organisation and deployment of resources. The review will report in the autumn of 2013 and will look at everything that the RCS does, with recommendations being made to Council by the end of the year.



## *President's foreword*

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I have also recently begun the process of recruiting for a new Chief Executive when Alan Bennett retires in early 2014. Alan has been with the College for the past five years and I wish to pay tribute to the many contributions he has made across the College during that time.

Finally, I would like to acknowledge the work of the trustees, staff and the many surgeons, members and non-members alike, who contribute so much to the many areas of work we undertake. I am pleased to recognise their role in delivering on our aims, all of which ultimately lead to better care for patients and better surgical practice.

**Professor Norman S Williams**  
**President**

# Chief Executive's introduction

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This report documents our activities and presents our financial statements for the year ended 30 June 2013. It combines what were previously separate annual and trustees' reports to provide in one place an account of what the RCS does and how it is organised.

During the year we continued to represent the professional interests of the majority of surgeons practising in the UK. Our surgical and dental surgical membership continued to grow so that we are now well past the important 20,000 member mark.

As this report outlines, the RCS continues to be an important source of independent and professional advice on current and emerging topical issues and developments. In the past year these have included the production of national commissioning guides across various surgical specialties to help the NHS deliver evidence-based care in England; taking a central role in regulations surrounding cosmetic surgery, and advising on implementing seven-day working. In addition, we also carried out an increased number of invited reviews for NHS trusts seeking advice on surgical issues - a core part of our role in maintaining and improving standards of care.

Managing our resources in response to the ever-increasing demands placed on the RCS has been a key focus for the year. We have sought value for money from all expenditure and maximised our income streams wherever possible, whether it be from hiring out our facilities or obtaining external funding. This has involved some difficult choices and, at times, challenges to how we have traditionally provided our services and carried out our activities. Throughout this process we have stayed focused on our strategic aims, our values and our membership.

Ever mindful of looking to the future, our trustees are actively considering the development of the RCS headquarters in London. The building contains a number of important resources for the surgical community, including our museum and library, and our state-of-the-art education and meeting facilities. Nevertheless, it is important that we look now to ensure that our premises remain relevant for the forthcoming decades.

After five years in post, I have decided it is now time for me to pursue other interests and will thus be stepping down early in 2014. I would like to thank all our trustees, fellows and members, volunteers, supporters and employed staff for their commitment, professionalism and expertise during my tenure as Chief Executive.

**Alan Bennett**  
**Chief Executive**

# Reference and administrative details

## Charter

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 College are regulated by its founding and subsequent charters and ordinances. The most recent of these was granted in March 1992. The College is a charity with registered number 212808.

## Constituent parts

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

## Council

The Council is the governing body of the College and the elected members of Council are its trustees. Council consists of 24 elected surgical fellows and 2 dental surgery fellows elected by the Board of the Faculty of Dental Surgery. In addition, two Co-opted Members and a number of invited members representing specific interests attend Council meetings. The elected members of Council were:

### President

Professor N Williams

### Vice-Presidents

- Professor J Stanley (*demitted 12 July 2012*)
- Professor M Horrocks (*appointed as Vice-President 12 July 2012*)
- Mr J Getty (*demitted 11 July 2013*)
- Mr D Ward (*appointed as Vice-President 11 July 2013*)

## Honorary Treasurer

Mr S Cannon (*appointed as Treasurer 11 July 2013*)

Professor A Narula (*demitted as Treasurer 11 July 2013*)

## Members

- Mr J Abercrombie (*appointed 11 July 2013*)
- Professor D Alderson
- Mr M Bircher
- Miss S Boddy
- Professor T Briggs (*appointed 11 July 2013*)
- Mr I Eardley
- Mr R Greatorex (*demitted 12 July 2012*)
- Miss K Harley
- Mr M Hawthorne
- Miss S Hill (*appointed 12 July 2012*)
- Professor N Hunt
- Mr P Kay (*appointed 12 July 2012*)
- Mr R Kerr (*appointed 11 July 2013*)
- Mr P Lamont
- Professor C Lavy
- Miss C Marx
- Professor D Neal (*demitted 12 July 2012*)
- Professor G McGrouther
- Mrs S McNally
- Mr C Milford
- Professor N Mortensen (*appointed 11 July 2013*)
- Mr P O'Flynn (*appointed 12 July 2012*)
- Mr D O'Riordan (*demitted 11 July 2013*)
- Professor M Parker
- Professor I Taylor (*demitted 11 July 2013*)
- Mr W Thomas (*demitted 11 July 2013*)

In July 2012, Dr T Ferguson and Mr L Mudford, President and Vice President of the Faculty of General Dental Practice (UK) respectively, were admitted as Co-opted Members. In July 2013, Mr Mudford was replaced by Professor A Santini. Essentially, Co-opted Members can

## *Reference and administrative details*

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vote on Council business but cannot take part in the vote for the election of College Officers (President, Vice Presidents and Honorary Treasurer).

### **Principal advisors**

#### **Bankers**

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

#### **Auditor**

Crowe Clark Whitehill LLP, St Bride's House, 10 Salisbury Square, London EC4Y 8EH

#### **Solicitors**

- Bircham Dyson Bell, 50 Broadway, London SW1H 0BL
- Memery Crystal LLP, 44 Southampton Buildings, London WC2A 1AP

#### **Investment managers**

- Newton Investment Management Ltd, 160 Queen Victoria Street, London EC4V 4LA
- Schroder & Co Ltd, 100 Wood Street, London EC2V 7ER

### **Registered office**

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

# Funding partnerships

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As a registered charity, the College relies upon charitable support to underpin its work in advancing surgical standards through education, research and training.

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

## **Foundations, charitable trusts, associations and individuals**

- Age UK
- Ashley Charitable Trust
- Association of Anaesthetists of Great Britain and Ireland
- Association of Coloproctology of Great Britain & Ireland
- Aylmer C Hunter
- Ballinger Charitable Trust
- Beit Trust
- Bedford Memorial Trust
- British Association of Plastic Reconstructive & Aesthetic Surgeons
- British Association of Endocrine & Thyroid Surgeons
- British Society for Surgery of the Hand
- Brock Webb Trust
- Dunhill Medical Trust
- EF & MG Hall Charitable Trust
- Enid Linder Foundation
- Ethel & Gwynne Morgan Charitable Trust
- Frances & Augustus Newman Foundation
- GD Herbert Charitable Trust
- GM Morrison Charitable Trust
- George Drexler Foundation
- Get a Head Charitable Trust
- Gilbert & Eileen Edgar Foundation
- Golden Bottle Trust
- Grand Lodge of Freemasons 250th Anniversary Fund
- H&S Charitable Trust
- Henry Lumley Charitable Trust
- Huggard Charitable Trust
- John Ellerman Foundation
- Joseph Strong Frazer Trust
- Josephine Lumley
- Leeds Surgical Research Trust
- Leon & Jane Grant
- Limbless Association
- Margaret E Andrew
- Needlemakers' Company
- Orthopaedic Research UK
- Philip King Charitable Settlement
- Rosetrees Charitable Trust
- Saving Faces
- Shears Foundation
- Society for Cardiothoracic Surgery in Great Britain & Ireland
- Sue R Street
- Swann-Morton Foundation
- TR Peacock
- Tanner Trust
- The Royal Arch Masons
- Wellcome Trust
- Worshipful Company of Barbers
- Wyndham Charitable Trust



*Funding partnerships***Corporate support**

- American Medical Systems UK
- AngioDynamics UK
- Ansell (UK)
- Astellas Pharma
- B Braun Medical
- Cardio Solutions (UK)
- Cipher Surgical
- Coloplast
- Cook Medical
- Covidien (UK) Commercial
- EIDO Healthcare
- Elekta Limited
- Eli Lilly & Company
- Ethicon UK
- HCL Doctors
- IC Net International
- Karl Storz Endoscopy (UK)
- KCI Medical (UK)
- Maquet
- Medtronic Limited
- Olympus Medical
- Otsuka Pharmaceuticals (UK)
- Promed Limited
- Pulse Surgical
- Shire Pharmaceuticals
- Simendo B.V.
- Smith & Nephew Endoscopy
- Smith & Nephew Healthcare
- Smith & Williamson
- Stryker UK
- Synbone AG
- Synthes
- Thomas Tunnock
- TiGenix
- W L Gore & Associates UK
- Wesleyan Assurance Society

**Endowed and restricted funds**

- Anderson Reid Fund
- Blond McIndoe Fund
- Doctor Shapurjui H Modi Memorial ENT Fund
- Edward Lumley Fund
- Fellows Fellowship Fund
- Guyatt Fund - Sir Alan Parks Research Fellowship
- Harold Bridges Bequest
- Harry S Morton Fund
- Laming Evans Research Fund
- Lea Thomas Fund
- Lillian May Coleman Fund
- Margaret Witt Scholarship Fund
- Osman Hill Collection and Research
- Parks Visitorship
- Philip and Lydia Cutner Fund
- Preiskel Family Fund
- Rex & Jean Lawrie Overseas Surgical Training Fund
- Vandervell Research Fund

**Legacies**

- The late Miss E L Anderson for general charitable purposes
- The late Mr F Ashton for research & education
- The late Mr P Ayres for general charitable purposes
- The late Mr R K Barter for general charitable purposes
- The late Ms M J Blunden for general charitable purposes
- The late Mr G R Bulgin for general charitable purposes
- The late Mr O Daniel for general charitable purposes
- The late Mr W H Derham for research into heart disease
- The late Mrs G M Elphick for general charitable purposes

## *Funding partnerships*

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- The late Ms A Galeski for the Stefan Galeski Fellowships
- The late Mr P A Greaves for general charitable purposes
- The late Mrs E P Heywood for general charitable purposes
- The late Mr S (S) J Lam for surgical research
- The late Mrs P M Lowery for general charitable purposes
- The late Mrs E Rashleigh for research into heart disease
- The late Dame K A Raven for education
- The late Ms C Rummey for surgical research
- The late Ms P J Seaton for general charitable purposes
- The late Mrs G Shrimpton for surgical research
- The late Mr N C Spiller for general charitable purposes
- The late Mrs D R Whittle for general charitable purposes

# Structure, governance and management

Council is responsible for the overall direction of the College and delegates the direction of specific functions to individual members of Council. Trustees, when elected by postal ballot by fellows and members of the College, are given an induction course on the College and on-going training on their responsibilities and other matters as required. The College management is organised on a directorate structure to suit the developing activities of the College. The Chief Executive is responsible for the overall management of the College and he delegates management of specific functions to Directors, each of whom is responsible for a directorate and works under the direction of a responsible member of Council. Directorates, divisions and Council members responsible at the date of signing were as follows:

Directorate	Division	Council member
Communications	Overall responsibility	Mr D Ward
	Annals editorial board	Professor N Mortensen
	Bulletin editor	Professor M Parker
	Patient liaison group	Miss S Boddy
Dental and Surgical Examinations	Overall responsibility	Professor M Parker
Development	Overall responsibility/fund-raising	Mr S Cannon
Education	Overall responsibility	Professor M Horrocks
Finance and Information Technology	Overall responsibility	Mr S Cannon
Internal Services	Overall responsibility	Ms S Boddy
	Health and safety	Mr M Bircher
	Staff policies and remuneration	Miss S Boddy
	Information governance	Mr M Hawthorne
	Library and surgical information	Professor C Lavy
	Museums and archives	Professor G McGrouther
	Headquarters development (Project 2100)	Mr S Cannon
Professional and Clinical Standards	Overall responsibility	Professor M Horrocks
	Clinical and training standards	Professor M Horrocks
	Professional standards	Miss C Marx
	Professional support (regional)	Mr D Ward
	Training strategy	Mr I Eardley
	Quality assurance	Mr P Lamont
	Opportunities in Surgery	Mrs S McNally
Research and International	Academic and research board	Professor D Alderson
	Clinical effectiveness unit	Professor N Mortensen
	International affairs board	Professor M Parker
Dental Faculties	Faculty of Dental Surgery	Miss K Harley
	Faculty of General Dental Practice (UK)	Dr T Ferguson

*Structure, governance and management*

The Faculty of Dental Surgery and the Faculty of General Dental Practice (UK) report to Council and have their own committee structures. Each Faculty has a Dean's committee concerned with day-to-day management. The Faculty of General Dental Practice (UK) has 21 regional divisions that manage their own affairs under the direction of the Faculty. The results of both dental faculties are included in the College's financial statements.

Council and the boards of the two dental faculties are elected by the subscribing fellows and members. As at 30 June, the numbers of fellows and members in each category were as follows:

	<b>2013</b>	<b>2012</b>
Commonalty of Surgeons		
UK	11,968	11,716
Overseas	4,372	4,187
<b>Total</b>	<b>16,340</b>	<b>15,903</b>
Faculty of Dental Surgery		
UK	2,815	2,898
Overseas	529	520
<b>Total</b>	<b>3,344</b>	<b>3,418</b>
Faculty of General Dental Practice (UK)		
UK	2,312	2,874
Joint Members of FDS and FGDP(UK) (MJDF)		
UK	1,700	1,412
Overseas	59	12
<b>Total</b>	<b>1,759</b>	<b>1,424</b>
Total Fellows and Members		
UK	18,795	18,900
Overseas	4,960	4,719
<b>Total</b>	<b>23,755</b>	<b>23,619</b>

## *Structure, governance and management*

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### **Management**

The principal managers currently employed by the College are:

**Chief Executive**

Mr A Bennett

**Director of Education**

Ms F Alexander

**Director of Research**

Mr M Coomer

**Director of the FGDP(UK)**

Ms F Erasmus

**Development Director**

Mr J Fountain

**Director of Dental and Surgical Examinations**

Mr S Hills

**Director of Strategic Communications**

Ms J Revill

**Director of Finance and Information Technology**

Mr R Scanlon

**Director of Professional and Clinical Standards**

Mrs K Smith

**Head of Executive Office**

Mr D Tambling

**Registrar of the Faculty of Dental Surgery**

Mr J Vandridge Ames

**Director of Internal Services**

Mrs J Weller



# Report of the trustees

The trustees of the RCS are pleased to present their report for the year ended 30 June 2013.

## Objects and aims

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

## Mission statement

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

## Core values

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 specialist associations and other organisations to achieve our mutual aims;
- foster and develop the College's employees;
- promote equality of opportunity and act against discrimination in all aspects of College life; and
- be fair, responsible, open and accountable for all we do.

## Strategic aims

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 College's position 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 College's structure and function to allow it to achieve its goals;
- promote, by consultation and collaboration with other royal colleges, the specialist associations and other interested parties, the development of an effective single voice for surgery on relevant professional issues.

## Public benefit

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 are committed to enabling surgeons to achieve and maintain the highest standards of surgical practice and patient care. 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 under 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

## Report of the trustees

or science. We engage directly with the public through the Hunterian Museum, the media and our publications and journals: the *Annals*, the *Bulletin* and the *FDJ* (*Faculty Dental Journal*). In addition to this, the RCS delivers public benefit indirectly by training and supporting surgeons, enabling them to provide high quality care to patients.

### Activities and achievements during 2012–13

#### Influencing policy to improve patient care

The College has seen a number of policy successes in 2012–2013 resulting from our political and media work. The College actively briefed parliamentarians on the Care and Support Bill that, alongside changes to the care and support system for adults, establishes Health Education England (HEE) and the Health Research Agency. Professor Williams was the only president of a medical royal college to appear before the Draft Care and Support Bill Committee, where he gave our views on how the legislation affected education and training. Following our comments, the government amended the Bill to require those with clinical expertise to sit on HEE boards and Local Education and Training Boards (LETBs). Changes were also made to reduce the likelihood of conflicts of interest on LETBs and to strengthen requirements for independent sector providers to work closely with LETBs.

Through direct engagement with government and the regulator, Monitor, we were successful in changing guidance on competition regulations. The guidance now makes clear to commissioners that they can discriminate against providers that do not support the education and training of surgeons.

During 2012–13, the College continued to engage and build strong relationships with government ministers,

parliamentarians and newly created organisations including NHS England and HEE. We have been quoted on a number of occasions in Parliament; most notably in a Public Accounts Committee report on NHS efficiency savings, which highlighted our concerns that the NHS was rationing surgical services. This was widely reported in the press.

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 making a complex project, the publication of surgeon-level outcomes data, accessible to the public and the PLG will continue to be involved in this important, on-going project.

#### Improving the quality and safety of surgery

During the past year the RCS has demonstrated its commitment to improve the safety and quality of patient care. In response to the findings of the public inquiry into the failings at Mid-Staffordshire Foundation Trust, we quickly set out ways we believed the health service could be improved as well as the actions we would take to improve patient care. We continued to offer trusts support in achieving service delivery standards and promoting patient safety. Use of the RCS Invited Review Mechanism continued to be high throughout the year. As part of this work, we continued to follow up on all our completed reviews to track the progress made with implementing our recommendations. We also continued our work with the General Medical Council (GMC) to support the launch of the revalidation process in December 2012. Following the launch, we introduced an advisory service for surgeons, appraisers and responsible officers that supports healthcare professionals with all aspects of revalidation.

## *Report of the trustees*

Working with surgical specialty associations (SSAs) we launched a comprehensive online resource to assist national and local commissioners of high volume surgical services. The resource brings together a variety of published evidence and advice on best practice in surgery to support commissioners in the delivery of safe, efficient and cost-effective surgical care. The RCS and SSAs were successful in obtaining accreditation from NICE for the process through which our commissioning guidance is produced. The accreditation ensures that commissioners will need to take the guidance into account when commissioning surgical services.

The RCS also worked with NHS England (formerly the NHS Commissioning Board), the Healthcare Quality Improvement Partnership (HQIP) and SSAs to publish information about the quality of care provided by individual doctors. We supported nine national clinical audits in surgery as well as the relevant SSAs to publish the clinical outcomes of individual surgeons which included activity levels and mortality data.

We continued to provide advice and guidance to surgeons and aspiring surgeons at all stages of their careers. We published a comprehensively revised and updated *Careers in Surgery*, a guide which provides aspiring surgeons and surgeons in training with information about career choices. We responded to hundreds of individual enquiries, providing tailored support and advice on all aspects of surgical careers.

### **Educating, training and assessing the next generation of surgeons**

The RCS continued developing the skills of surgeons in order to raise the standard of patient safety and clinical care. Courses were held either in our state-of-the-art education centre in London or in our

regional and international centres. During 2012–13 we delivered 672 courses to over 10,500 participants. We recognise and advocate the importance of anatomy training and procedural simulation to enhance the training experience and, following the opening of new mortuary and freezer facilities, all appropriate courses now use unembalmed freeze-preserved cadavers, which has greatly improved the fidelity of the simulation. An investment was made during the year to develop elearning and four courses are now fully 'blended', with elearning and face-to-face teaching complementing each other.

Over the past year, the Joint Committee on Surgical Training (JCST) finalised its strategy for 2013–18, setting out its core values and strategic aims. Consultation following the 2012 evaluation of the Intercollegiate Surgical Curriculum Programme (ISCP) called for improved reflection and feedback to support a 21st-century 'apprenticeship' model of training. During the year the GMC also approved the application to include simulation-based training in the curriculum to enhance patient safety and accelerate learning for trainees. A targeted survey of less-than-full-time (LTFT) trainees was completed and provided encouraging information about the quality of LTFT training.

Professional surgical and dental examinations were brought together during the year so that the RCS could offer a unified assessment service. Its focus is to deliver valid and reliable examinations that provide confidence that candidates have the required knowledge and skills to progress their training or perform in their professional role. During the year we delivered 76 examination diets to 8,021 candidates (3,366 dental candidates and 4,655 surgical candidates). The examinations are held both

## Report of the trustees

in the UK and internationally. Over 98% of candidates endorsed the quality of the examinations service.

### Supporting the best surgical research

Through its Surgical Trials Initiative the College has established five surgical trials units and appointed 11 surgical specialty leads over the past year and the momentum continues to build behind this dynamic and ambitious programme. The Clinical Effectiveness Unit at the RCS launched the National Prostate Cancer Audit, published the *National Oesophago Gastric Cancer Audit* work and began the Vascular Registry project. Research fellowships continue to nurture budding surgical academics with several new partners contributing to the scheme.

### Preserving our heritage

In February 2013 our combined Library, Museums and Archives collections were awarded Designated Status by Arts Council England. This prestigious accolade confirms that our unique and distinctive collections, containing historical items as well as extensive specialised clinical material supporting current biomedical and surgical research, is of national and international significance.

The Library and Surgical Information Services (LSIS) team have this year continued the current awareness service (CAS), supported by panels of clinical advisers, to alert members to the published evidence in their specialties. The ground-breaking CAS was expanded to provide monthly email bulletins in urology, vascular and plastic and reconstructive surgery, in addition to the cardiothoracic bulletin launched last year. The e-journal offer to our members was increased to 210 titles, more than half of which are also accessible to international members.

In 2013 the Hunterian Museum celebrated 200 years since its opening with an exhibition, event series and a book, *Medical Museums: Past, Present, Future*. The Museum continued to enjoy a high media profile, with a cover story in the *Financial Times Magazine* and 15th place in *The Times* list of the world's 50 best museums. The Wellcome Museum of Anatomy and Pathology continued to develop during the year to serve the needs of trainees and medical students as well as providing specimens for the collaborative Digitised Diseases project. The archives served a record number of researchers this year and the Odontological Collection is now fully catalogued and re-boxed.

### Moving forward with dentistry

In the year, the Faculty of Dental Surgery (FDS) began to lead on the Department of Health's programme for the development of 'dentists with enhanced skills' to work within the NHS primary care sector. The FDS, in cooperation with sister faculties in Edinburgh and Glasgow, has begun discussions to make the main membership examinations (MJDF and MFDS) intercollegiate. The eDen digital learning platform in dental surgery was expanded to over 19,000 registered users.

The Faculty of General Dental Practice (UK) (FGDP (UK)) has continued to focus on developing the knowledge and skills of primary care dentists in order to enhance patient care. Of particular note this year has been the launch of the new *Primary Dental Journal*, which replaced *Primary Dental Care* and *Team In Practice*, and which focuses on clinical professional development and research. In addition to the journal, FGDP(UK) has continued to support standards of education and patient care through our courses, examinations, publications and e-learning programme.

*Report of the trustees***Working internationally**

Internationally, we worked with partners and professional bodies in Brazil and Peru to organise a series of scientific meetings to improve professional links and knowledge transfer. The RCS also hosted the second Global Surgical Frontiers conference in January 2013, for which the College acted as a conduit between our membership and providers of international surgical opportunities.

**Future plans**

Over the next year we will continue to proactively engage with stakeholders and politicians on the continuing reforms to the NHS to maintain a high standard of care for patients.

Campaign priorities for the coming year include: greater collection and use of surgery results data; the implementation of the European Working Time Regulations; promoting the integration of surgical care pathways; and equality of access to treatment.

The College will:

- continue to deliver high-quality reviews of hospitals, providing them with expert, independent, objective and timely reports;
- establish the Cosmetic Surgery Interspecialty Committee (CSIC) in line with the recommendations of the Keogh Review on the regulation of cosmetic interventions. The remit of the CSIC will be to set standards for training and practice of cosmetic surgery and develop a system of certification;
- revise Good Surgical Practice and develop a 'professionalism hub' for surgeons to access current information on working practices via the RCS website;
- exploit opportunities to work with regulators in England, Wales and Northern Ireland on standards development and service accreditation/peer review;
- continue to develop and support regional roles and structures within the RCS to support our membership;
- expand our examinations in international locations to contribute to our aim of raising standards of surgical practice and patient care;
- continue to promote the unembalmed, freeze-preserved cadavers facility so more courses provide the most realistic tissue for simulating operations and procedures;
- continue to enable surgeons to carry out important research projects to the benefit of patients on any condition related to any branch of surgery through our research fellowship scheme;
- building on the award of Designated Status, continue to develop our collections, services, spaces and resources to enhance access (online and on-site) and improve support for all library users. This will include expanding the current awareness service (CAS) to include more surgical specialties, provide a patient safety bulletin, and catalogue, conserve and promote our historical collections;
- mark the centenary of the outbreak of the First World War with a major programme in the Hunterian Museum, 'War, Art and Surgery', with support from Arts Council England and other partners;
- continue, via the Patient Liaison Group (PLG), to prioritise patient safety, trying to ensure clarity and accessibility of information to the public, particularly with regard to medical titles;
- as the health service reforms of dental surgery continue to be implemented, seek via the FDS opportunities to proactively engage in the



*Report of the trustees*

commissioning process in order to improve access to specialist dentistry and reduce variations in care.

In September 2013 FGDP (UK) members, following consultation and board approval, approved changes to the way in which the FGDP (UK) is governed. These changes are intended to create a more effective and focused governance structure, where decision making will be easier and areas of responsibility are more clearly defined. In the coming year the FGDP (UK) will focus on implementing these changes and developing its new board. Other key areas of work for the FGPD (UK) are to review the structure and delivery of its educational activities and to evaluate the impact of the new NHS primary care contract.

### Financial review

Operationally, the College spent more during the year than it brought in as income, with a resulting unrestricted deficit of £1.1 million. However, investment gains of £3.3 million resulted in overall unrestricted funds increasing by £2.2 million during the year, to £31.8 million.

Total income in 2012-13 was £29.8 million, £3.5 million higher than the previous year. The main contributing factors were: success in growing voluntary income to £4.9 million (grants, donations and legacies), driven by the success of the Surgical Trials Initiative; £0.8 million growth in subscription income, which has enabled the College to expand the work it does on behalf of fellows and members, and the services it provides to them; and a 3% increase in income from other activities, including a strong performance from the College's residential and conference facilities.

Total expenditure was also higher than the previous year, by £2.8 million. This was primarily due to expanded activities and higher activity levels, particularly in the research and clinical effectiveness fields. There was also a one-off cost of £0.5 million to restructure the College's regional team.

Total capital expenditure in 2012-13 was £0.8 million, compared with £2.1 million in the previous year. In light of the trustees' decision to develop the College's headquarters in London within the next five years, capital expenditure proposals are being monitored closely and spend is being kept to a minimum.

The College's overall funds (unrestricted, restricted and endowed) grew by £3.4 million in 2012-13 to a total of £74.1 million. This was driven by investment gains of £4.1 million. The trustees consider that the overall financial position of the College remains strong, and unrestricted funds of £31.8 million are at a healthy level and within the target range (see reserves policy below). However, the trustees are developing plans and risk management processes to ensure that the College does not suffer persistent underlying unrestricted deficits on an on-going basis; this will reduce the reliance on investment gains to maintain unrestricted reserves within the target range.

The financial statements on pages 26–46 show further details of the College's income, expenditure and cashflow during the year and its position at the end of the financial year. As the trustees consider that the College will continue in operational existence for the foreseeable future, they continue to adopt the going concern basis in the preparation of the financial statements.

## Report of the trustees

### Subsidiary company

Hunter Trading Limited is a wholly owned subsidiary of the College that markets conference and residential facilities that are not required for the College's own use. The company delivered a surplus of £306,000 in 2012-13 compared with £251,000 the previous year. Its results for the year and its financial position at the end of the year are consolidated in the College's financial statements (see note 10).

### Investment Policy

The primary investment objective for each of the College's funds is to generate the budgeted income; this is set to enable the College to deliver its aims.

The secondary investment objective for each fund is to maximise the total real rate of return, in a risk controlled manner, through the use of a diversified portfolio invested across a range of different asset classes.

The College does not invest directly in tobacco stocks.

The investment powers of the College detailed in the ordinances attached to the 1992 charter have now been widened by the Trustee Act 2000.

### Investment performance

Income from the College's investment portfolios slightly exceeded the budgeted income of £825,000 for the unrestricted funds (managed by Schroders) and £1,161,000 for the restricted and endowed funds (managed by Newton via the Common Investment Fund – see note 1(j) to the financial statements).

In terms of total returns, the College's funds both produced real returns i.e. above inflation. Total return on the unrestricted funds during the year, net of fees, was

+17.4% and total return on the restricted and endowed funds, net of fees, was +6.3%. The main reason for the variation in performance was that the unrestricted funds were held in asset classes that benefitted significantly from the growth in world equity markets over the year, whereas the restricted and endowed funds were mainly held in an absolute return fund whose performance aim is to deliver a return of 'cash + 4% per annum over 5 years before fees'. The trustees consider that both of these approaches satisfactorily meet the secondary investment objective.

### Reserves policy

In accordance with Charity Commission guidance, the trustees have set a target range for the level of free reserves the College should maintain to ensure the financial security of the College and fund its business plan.

Free reserves form part of the College's unrestricted funds. They are held in addition to endowed and restricted funds (which result from gifts or other grants which can only be applied for a purpose specified by the donor or grantor; in the case of endowed funds only the income arising from the capital may be used for such purposes). Details of these endowed and restricted funds are set out in note 12 to the financial statements.

### Definition of free reserves

The College defines free reserves as its total unrestricted funds less its fixed assets fund and its designated funds (see below). Free reserves are also known as 'general funds'.

*Report of the trustees***Fixed assets fund**

The fixed assets fund represents the net book value of the College's unrestricted tangible fixed assets. These are all used operationally by the College and the trustees consider they are essential to the implementation of the College's operational strategy. Their disposal could adversely impact on the College's ability to deliver its aims. At 30 June 2013, the College held approximately £8.5 million in its fixed assets fund.

**Designated funds**

Designated funds are funds that the trustees have earmarked for particular purposes. At 30 June 2013, the trustees have set aside £5.0 million for the development of the RCS headquarters in London. The freehold building contains a number of important resources for the surgical community, including the museums and library, and state-of-the-art education and meeting facilities. The trustees consider it is important that these premises remain relevant for the forthcoming decades. It is intended to utilise this fund within the next five years. The fund is held as part of the College's fixed asset investments.

**Free reserves target**

The trustees have determined that a prudent target range for the College's free reserves is between 75% and 100% (ie between 9–12 months) of gross annual unrestricted expenditure. This equates to a target range of £17.2 million to £22.9 million.

This range has been set taking into account:

- the risk of fluctuating income and expenditure levels;
- the risk of an unexpected need for funds;
- the need to provide working capital for the College's current operational and future development activities; and

- the fact that the College's resources expended annually currently exceed its incoming resources.

The trustees are of the opinion that the College's income is relatively predictable, as it is spread across more than 23,000 members and fellows, and in addition the College has a variety of other income sources. Expenditure is more variable and uncertain in some respects, but budgets and business plans are put in place to minimise the risk of overspending, to avoid any unexpected emergency call on the College's funds and to move towards a position where resources expended annually at least match incoming resources.

When setting the target range, the current shortfalls in the USS and SAUL defined benefit pension schemes have been considered. Although these schemes are defined benefit schemes, they are multi-employer schemes and the College's share of the current shortfalls cannot be identified on a consistent and reasonable basis. As a result, they are accounted for by the College and other participating employers as defined contribution schemes. The College's share of the current shortfalls has therefore not been deducted when calculating the College's unrestricted funds. Accordingly, when setting an appropriate target level for free reserves, the trustees feel it is prudent to take into account a potential future increase in employer contributions to eliminate these shortfalls. The College's accounting treatment of these pension schemes and the current shortfalls in the schemes are set out in notes 1 and 13 to the financial statements.

## Report of the trustees

### Actual level of free reserves at 30 June 2013

At 30 June 2013, the College's free reserves were £18.2 million. This represents 79% of the gross annual unrestricted expenditure of the College and is therefore in line with the target level. The free reserves are held as part of the College's fixed asset investments.

The reserves policy is reviewed regularly to ensure that commitments can be met.

### Risk management

The trustees acknowledge their responsibility for ensuring adequate levels of risk management and internal control. This is supported by the strategic plan and a four-year College business plan. A risk register is in place and is regularly reviewed. Internal financial controls fulfil the Charity Commission guidelines in all material respects, and are enhanced by strong budgetary and management accounting procedures.

### Custodian trustee

The College acts as custodian trustee for the Sir Ratanji Dalal Research Scholarship Fund (that awards research scholarships in tropical surgery and medicine) and The Colledge Family Memorial Fellowship Trust (that awards travelling fellowships to surgeons). Their financial statements are audited by Crowe Clark Whitehill LLP. Both these funds hold investments in their own name and have their own bank accounts, entirely segregated from those of the College.

At 22 September 2013, the value of the Sir Ratanji Dalal Research Scholarship Fund endowed fund was £0.7 million (2012: £0.7 million) and its unrestricted fund was £0.04 million (2012: £0.06 million). The trustees of this Fund are the President of the Royal College of Surgeons of England and the President of the Royal

College of Physicians who are jointly responsible for the safeguarding of its assets. Annual financial statements are prepared and presented to the trustees of this Fund.

At 30 June 2013, the value of The Colledge Family Memorial Fellowship Trust endowed fund was £2.5 million (2012: £2.4 million) and its unrestricted fund was £0.1 million (2012: £0.1 million). The trustees of this Fund are Mr T George, Professor A Narula and the Royal College of Surgeons of England who are jointly responsible for the safeguarding of its assets. Annual financial statements are prepared and presented to the trustees of this Fund.

### Statement of trustees' responsibilities

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 judgments and estimates that are reasonable and prudent;

## *Report of the trustees*

- 
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
  - 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**

Crowe Clark Whitehill LLP has indicated its willingness to be reappointed as the company's auditor for the coming year.

Signed on behalf of the elected members of Council on  
14 November 2013.

**Professor N Williams**  
President

**Mr S Cannon**  
Treasurer



# Independent auditor's report

## To the trustees of the Royal College of Surgeons of England

We have audited the financial statements of the Royal College of Surgeons of England for the year ended 30 June 2013 set out on pages 26–46.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees, as a body, in accordance with section 154 of the Charities Act 2011. 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.

## Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 151 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with

the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the charity and the group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Trustees' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the affairs of the charity and the group as at 30 June 2013, 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.

## *Independent auditor's report*

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

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Report of Trustees is inconsistent in any material respect with the financial statements; 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.

#### **Crowe Clark Whitehill LLP**

Statutory Auditor

London

Crowe Clark Whitehill LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

# Consolidated statement of financial activities

## For the year ended 30 June 2013

	Notes	Unrestricted Funds	Restricted Funds	Endowed Funds	Total Funds	
		£000	£000	£000	2013 £000	2012 £000
<b>Incoming resources</b>						
<b>Voluntary</b>						
Donations and gifts		88	2,673	–	2,761	1,146
Legacies		165	605	–	770	747
Grants		–	1,364	–	1,364	872
<b>Charitable activities</b>						
Courses		4,519	1,027	–	5,546	5,439
Examinations		4,394	–	–	4,394	4,210
Subscriptions		5,580	–	–	5,580	4,753
Charges and sales		1,553	994	–	2,547	2,957
<b>Activities to generate funds</b>						
Residential, conference and other		4,454	–	–	4,454	4,116
Investment income		1,069	1,332	–	2,401	2,089
<b>Total incoming resources</b>		<b>21,822</b>	<b>7,995</b>	<b>–</b>	<b>29,817</b>	<b>26,329</b>
<b>Resources expended</b>						
<b>Cost of generating funds</b>						
Fundraising costs		288	–	–	288	360
Residential, conference and other		3,490	238	–	3,728	3,550
Investment management fees		–	99	180	279	239
		<b>3,778</b>	<b>337</b>	<b>180</b>	<b>4,295</b>	<b>4,149</b>
<b>Charitable expenditure</b>						
Education and courses		5,252	780	–	6,032	6,651
Standards, regulation and examinations		7,295	1,594	–	8,889	7,811
Research grants	3	53	2,804	–	2,857	1,123
Clinical Effectiveness Unit and other projects		24	1,011	–	1,035	930
Museums and library		1,777	524	–	2,301	2,172
Communications and publications		1,747	18	–	1,765	1,831
Other professional activities	12	2,384	51	263	2,698	2,430
		<b>18,532</b>	<b>6,782</b>	<b>263</b>	<b>25,577</b>	<b>22,948</b>
<b>Governance costs</b>		<b>607</b>	<b>–</b>	<b>–</b>	<b>607</b>	<b>580</b>
<b>Total resources expended</b>		<b>22,917</b>	<b>7,119</b>	<b>443</b>	<b>30,479</b>	<b>27,677</b>
<b>Net (outgoing)/incoming resources</b>		<b>(1,095)</b>	<b>876</b>	<b>(443)</b>	<b>(662)</b>	<b>(1,348)</b>
Transfers between funds	12	–	(115)	115	–	–
<b>Net (outgoing)/incoming resources after transfers</b>		<b>(1,095)</b>	<b>761</b>	<b>(328)</b>	<b>(662)</b>	<b>(1,348)</b>
Net gains/(losses) on investments	10	3,287	42	726	4,055	(1,909)
<b>Net movement in funds for the year</b>		<b>2,192</b>	<b>803</b>	<b>398</b>	<b>3,393</b>	<b>(3,257)</b>
Funds brought forward at 1 July		29,576	12,703	28,422	70,701	73,958
<b>Funds carried forward at 30 June</b>		<b>31,768</b>	<b>13,506</b>	<b>28,820</b>	<b>74,094</b>	<b>70,701</b>

All activities are continuing activities. The notes to the financial statements are on pages 29–46.

# Consolidated balance sheet

## As at 30 June 2013

	Notes	Unrestricted Funds £000	Restricted Funds £000	Endowed Funds £000	Total Funds	
					2013 £000	2012 £000
<b>Fixed assets</b>						
Tangible fixed assets	5	8,549	4,424	–	12,973	14,308
Investments	10	26,037	5,340	28,797	60,174	55,855
		<b>34,586</b>	<b>9,764</b>	<b>28,797</b>	<b>73,147</b>	<b>70,163</b>
<b>Current assets</b>						
Stock		260	–	–	260	172
Debtors	6	3,623	544	–	4,167	2,681
Cash and short-term deposits	7	3,142	3,203	115	6,460	6,256
		<b>7,025</b>	<b>3,747</b>	<b>115</b>	<b>10,887</b>	<b>9,109</b>
<b>Current liabilities</b>						
Amounts falling due within one year:						
Other creditors and accrued expenses	8	(5,118)	(5)	(92)	(5,215)	(3,859)
Income received in advance	9	(4,645)	–	–	(4,645)	(4,606)
		<b>(9,763)</b>	<b>(5)</b>	<b>(92)</b>	<b>(9,860)</b>	<b>(8,465)</b>
<b>Net current (liabilities)/assets</b>		<b>(2,738)</b>	<b>3,742</b>	<b>23</b>	<b>1,027</b>	<b>644</b>
<b>Long-term liabilities</b>						
Amounts falling due after more than one year:						
Other creditors	8	(80)	–	–	(80)	(106)
<b>Net assets</b>		<b>31,768</b>	<b>13,506</b>	<b>28,820</b>	<b>74,094</b>	<b>70,701</b>
Represented by:						
<b>Funds</b>						
Unrestricted funds:						
Fixed assets fund		8,549	–	–	8,549	8,908
Designated funds		5,000	–	–	5,000	–
General funds		18,219	–	–	18,219	20,668
<b>Total unrestricted funds</b>	11	<b>31,768</b>	<b>–</b>	<b>–</b>	<b>31,768</b>	<b>29,576</b>
<b>Restricted and endowed funds</b>	12	<b>–</b>	<b>13,506</b>	<b>28,820</b>	<b>42,326</b>	<b>41,125</b>
<b>Total funds</b>		<b>31,768</b>	<b>13,506</b>	<b>28,820</b>	<b>74,094</b>	<b>70,701</b>

The notes on pages 29–46 form part of these financial statements.

The balance sheet of the parent charity is identical to the consolidated balance sheet presented above except that debtors and creditors amounts falling due within one year, and subtotals for current assets and current liabilities, are higher by £306,000 (2012: £251,000).

Approved on behalf of the elected members of Council and authorised for issue on 14 November 2013.

**Professor N Williams**  
President

**Mr S Cannon**  
Treasurer

# Consolidated cashflow statement

## For the year ended 30 June 2013

	Notes	Unrestricted Funds	Restricted Funds	Endowed Funds	Total Funds	
		£000	£000	£000	2013 £000	2012 £000
Net cash (outflow)/inflow from operating activities	(a)	46	1,639	(436)	1,249	(722)
Net cash inflow/(outflow) from capital expenditure and financial investment	(b)	(104)	(1,492)	551	(1,045)	(178)
Management of liquid resources	(c)	102	(7)	–	95	1,181
<b>Increase in cash in the year</b>	(d)	<b>44</b>	<b>140</b>	<b>115</b>	<b>299</b>	<b>281</b>
<b>(a) Operating activities</b>						
Net (outgoing)/incoming resources for the year before revaluations		(1,095)	876	(443)	(662)	(1,348)
Depreciation		1,140	976	–	2,116	1,962
(Increase)/decrease in stocks		(88)	–	–	(88)	33
(Increase)/decrease in debtors		(1,273)	(213)	–	(1,486)	258
Increase/(decrease) in creditors		1,362	–	7	1,369	(1,627)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>46</b>	<b>1,639</b>	<b>(436)</b>	<b>1,249</b>	<b>(722)</b>
<b>(b) Capital expenditure and financial investment</b>						
Payments to acquire tangible fixed assets		(781)	–	–	(781)	(2,135)
Payments to acquire investments		(2,482)	(1,392)	(17,231)	(21,105)	(85,942)
Receipts from sales of investments		2,354	1,198	17,289	20,841	87,899
Transfers between funds		–	(115)	115	–	–
Changes in transfer of investments between funds		805	(1,183)	378	–	–
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>(104)</b>	<b>(1,492)</b>	<b>551</b>	<b>(1,045)</b>	<b>(178)</b>
<b>(c) Management of liquid resources</b>						
(Decrease)/increase in short term deposits		(102)	7	–	(95)	(1,181)
<b>(d) Reconciliation of net cash flow to movements in net funds</b>						
Increase in cash in the year		44	140	115	299	281
(Decrease)/increase in short term deposits		(102)	7	–	(95)	(1,181)
Movement in net funds during year		(58)	147	115	204	(900)
Net funds brought forward at 1 July		3,200	3,056	–	6,256	7,156
<b>Net funds carried forward at 30 June</b>		<b>3,142</b>	<b>3,203</b>	<b>115</b>	<b>6,460</b>	<b>6,256</b>



# Notes to the financial statements

## For the year ended 30 June 2013

### 1. Accounting policies

(a) **The financial statements** have been prepared under the historical cost convention with the exception of investments which are included at market value. The financial statements have been prepared in accordance with the Charities Act, applicable Accounting Standards and the principles of the Statement of Recommended Practice for Accounting and Reporting by Charities 2005 (SORP 2005). All activities derive from the continuing business of the College. As described in the Report of the trustees, the financial statements are prepared on the going concern basis as the trustees expect the College to continue in operation for the foreseeable future.

(b) **Incoming resources** are included in the financial statements as follows: donations, gifts and legacies when they are capable of measurement and become receivable; grants as they become receivable; courses, tuition and examination fees in the period to which they relate, less provisions for doubtful debts; subscriptions on an accruals basis; and investment income as it becomes receivable.

(c) **Grants payable** are charged to the financial statements, in full, in the period that they are notified to the recipients.

(d) **Donated services and gifts in kind** are included where material as income and expenditure at an amount representing the value to the College.

(e) **Resources expended** comprise expenditure, including staff costs, directly attributable to the activity. Where costs cannot be directly attributed they have been allocated to activities on a basis consistent with the use of the resources. Overheads relating to the

building and all its services are charged to departments and faculties based upon the area occupied. Those relating to finance, information technology and human resources costs are charged to departments on the basis of their financial activity, level of computer support and numbers of employees, respectively. These are detailed in note 2. All overheads in relation to grant-funded projects are charged, where appropriate, on the basis of their activity.

(f) **Fundraising costs** comprise the costs incurred in encouraging others to make voluntary contributions to the College and its various activities. **Governance costs** comprise those costs incurred in relation to the overall strategic management of the College, and the costs of compliance with statutory requirements.

(g) **Tangible fixed assets** are capitalised where the amount expended is equal to or greater than £1,000 and the College obtains long-term benefit from the expenditure. Freehold land and buildings are shown in the balance sheet at historic cost. Capital projects which are not complete at the year-end are shown as 'Work in progress'.

(h) **Depreciation** is charged from the date assets are acquired so as to write them off over their expected useful lives at the following annual rates:

Freehold land	nil
Freehold buildings	nil
Plant and refurbishment	10%
Furniture, fittings and vehicles	25%
Computer equipment	25%

Freehold buildings are not depreciated as the College has a policy of maintaining them in such a condition

*Notes to the financial statements*

that their value, taken as a whole, is not impaired by the passage of time. The Council is of the opinion that any provision for depreciation would not be material and that the buildings are worth at least their book value. No depreciation is charged on 'Work in progress'.

**(i) Heritage assets** mainly comprise the numerous specimens and artefacts collected by John Hunter in the 1700s and presented to the College in 1799. These are held in the Hunterian Museum. The College is by law the proprietor of these specimens and the Hunterian trustees have a duty to ensure that the College maintains the specimens and does not dispose of them. The College also owns historic books related to surgery and medicine which were bequests in the 19th century and are preserved and maintained in the library and not to be disposed of. The trustees consider that the cost of valuation of these artefacts would be disproportionate to the benefit of the resultant information. Therefore these assets are not recognised in the Balance Sheet. The College does not purchase heritage assets. Occasionally heritage assets may be donated to the College and if acquired before April 2010, these would not be valued in the Balance Sheet for the reasons already stated. Detailed electronic records of all heritage assets are maintained on the College's website.

**(j) Investments** are included at market value. Additions are recorded at cost. Disposals during the year are recorded at opening market value, or cost if purchased during the year. Gains or losses on disposal, as well as the change in investment values during the year on continued holdings are shown in the Statement of Financial Activities. The Common Investment Fund acts as an investment pool for most of the College's restricted and endowed Funds.

**(k) Stock** mainly represents manuals purchased or printed for future courses. It is stated at the lower of cost and realisable value.

**(l) Pensions.** The College participates in the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). Both of these are defined benefit pension schemes which are contracted out of the State Second Pension (S2P), and the assets of the schemes are held in separate trustee-administered funds. Because of the mutual nature of the schemes, the College is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis and therefore, as required by FRS 17, accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Statement of Financial Activities represents the contributions payable to the scheme in respect of the accounting period. The College also has two employees who are members of the NHS Pension Scheme, a statutory unfunded multi-employer defined benefit scheme.

**(m) Unrestricted funds** are available for use at the discretion of the trustees in furtherance of the general charitable objectives of the College.

**(n) Designated funds** arise from the policy of the trustees designating a number of unrestricted funds to be used for specific purposes in the future.

**(o) Endowed and restricted funds** are gifts or other grants which can only be applied for a purpose specified by the donor or grantor. All the endowed funds are permanent endowments where the donor has specified that the capital of the gift cannot be expended and that only the income arising from the capital may be used

*Notes to the financial statements*

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for the purpose named by the donor. None of these funds are available to meet the general costs of the College. Investment management charges are charged to the capital of the endowed funds.

**(p) Custodian trustee funds** are managed by the College on behalf of other charities and are not included in the financial statements.

**(q) The College is a registered charity** and as such is exempt from taxation on its income and gains to the extent that they are applied to its charitable purposes.

**(r) Hunter Trading Ltd.** The College's consolidated accounts include the activities, assets and liabilities of the College's fully owned subsidiary, Hunter Trading Ltd.

*Notes to the financial statements***2. Resources expended**

	Direct costs	Grants made	Allocated support costs	Total 2013	Total 2012
	£000	£000	£000	£000	£000
<b>Cost of generating funds</b>					
Fundraising costs	239	–	49	288	360
Investment management fees	279	–	–	279	239
Residential, conference & other trading costs	2,563	–	1,165	3,728	3,550
	<b>3,081</b>	<b>–</b>	<b>1,214</b>	<b>4,295</b>	<b>4,149</b>
<b>Charitable expenditure</b>					
Education and courses	5,278	–	754	6,032	6,651
Standards, regulation and examinations	7,947	–	942	8,889	7,811
Research grants	634	2,120	103	2,857	1,123
Clinical Effectiveness Unit and other projects	885	–	150	1,035	930
Museums and library	1,566	–	735	2,301	2,172
Communications and publications	1,554	–	211	1,765	1,831
Other professional activities	1,983	–	715	2,698	2,430
	<b>19,847</b>	<b>2,120</b>	<b>3,610</b>	<b>25,577</b>	<b>22,948</b>
<b>Governance</b>					
	<b>537</b>	<b>–</b>	<b>70</b>	<b>607</b>	<b>580</b>
<b>Total</b>	<b>23,465</b>	<b>2,120</b>	<b>4,894</b>	<b>30,479</b>	<b>27,677</b>

**Support costs and basis of allocation**

Support costs	Basis of allocation	Total 2013	Total 2012
		£000	£000
Premises and utilities	Floor area occupied	2,328	2,414
Human resources	Number of staff employed	427	478
Finance services	Budgeted expenditure	655	528
IT and systems support	Equipment and support provided	1,484	1,386
		<b>4,894</b>	<b>4,806</b>

*Notes to the financial statements***3. Research grants**

	Number awarded	2013 Total amount £000	Number awarded	2012 Total amount £000
<b>Purpose of grant</b>				
<b>Research fellowships</b>				
Liabilities at start of year		(293)		(661)
Paid in year		1,631		1,136
Liabilities at end of year		697		293
Charge for year	<b>57</b>	<b>2,035</b>	<b>44</b>	<b>768</b>
<b>Other research projects</b>				
Liabilities at start of year		(220)		(229)
Paid in year		143		101
Liabilities at end of year		133		220
Charge for year	<b>3</b>	<b>56</b>	<b>3</b>	<b>92</b>
Scholarships	3	3	6	6
Travel	7	26	14	22
	<b>70</b>	<b>2,120</b>	<b>67</b>	<b>888</b>
Surgical Trials Units		360		-
Administration		377		235
<b>Total research grants</b>		<b>2,857</b>		<b>1,123</b>

The College's grant making policy is that surgical research fellowships awarded by the College are only eligible to surgical trainees who are Members of the College (MRCS) and who have entered their period of specialty training (specialist registrars). The overriding objective of the surgical research projects is to improve care of surgical patients and the projects are based upon the principles of translational research i.e. research examining a specific clinical problem.

Further details of the research fellowships awarded and other research projects are available in the research report, published annually. Financial details of the individual grants made are available from the Finance Department of The Royal College of Surgeons of England.

During the year, grants of £1,193,000 (2012: £416,000) 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.

*Notes to the financial statements***4. Staff and other expenditure**

The number of staff employed by the College at 30 June was:

	<b>2013</b>	<b>2012</b>
	<b>No.</b>	<b>No.</b>
Dental and Surgical Examinations	17	16
Education	39	40
Executive Office	5	5
External Services	21	20
Faculty of Dental Surgery	16	16
Faculty of General Dental Practice (UK)	25	33
Finance	11	12
Internal Services	82	87
Professional and Clinical Standards	61	61
Research and Clinical Effectiveness Unit	14	13
<b>Total</b>	<b>291</b>	<b>303</b>

The total remuneration of the staff employed by the College during the year was:

	<b>2013</b>	<b>2012</b>
	<b>£000</b>	<b>£000</b>
Salaries and wages	9,354	9,090
Social security costs	830	813
Pension costs	1,075	1,076
<b>Total</b>	<b>11,259</b>	<b>10,979</b>

At 30 June the number of employees whose emoluments exceeded £60,000 was:

	<b>2013</b>	<b>2012</b>
	<b>No.</b>	<b>No.</b>
£60,000 – £70,000	5	2
£70,001 – £80,000	3	4
£80,001 – £90,000	4	3
£90,001 – £100,000	2	1
£100,001 – £110,000	–	1
£110,001 – £120,000	–	–
£120,001 – £130,000	–	–
£130,001 – £140,000	1	1

## Notes to the financial statements

At 30 June 2013, 12 of these employees were members of the USS pension scheme (2012: 11); 1 was a member of the NHS pension scheme (2012: 1) and 2 were not members of either scheme (2012: 0).

Auditor's remuneration is included within governance costs as follows:

	2013 £000	2012 £000
Audit fees – the charity	43	42
Audit fees – the charity (under-accrual in 2011)	–	17
Audit fees – Hunter Trading Ltd	3	3
Other services	2	–

### 5. Tangible fixed assets

	Freehold properties £000	Furniture, fittings and vehicles £000	Plant and refurbishment £000	Computer equipment £000	Work in progress £000	Total £000
<b>Cost</b>						
At 1 July 2012	3,352	994	24,526	3,010	114	31,996
Additions during the year	–	112	441	134	94	781
At 30 June 2013	3,352	1,106	24,967	3,144	208	32,777
<b>Depreciation</b>						
At 1 July 2012	–	827	14,525	2,336	–	17,688
Charge for the year	–	104	1,700	312	–	2,116
At 30 June 2013	–	931	16,225	2,648	–	19,804
<b>Net book values</b>						
At 30 June 2013	3,352	175	8,742	496	208	12,973
At 30 June 2012	3,352	167	10,001	674	114	14,308

### 6. Debtors

	Unrestricted Funds £000	Restricted Funds £000	Endowed Funds £000	Total 2013 £000	Total 2012 £000
Taxation recoverable	11	4	–	15	–
Other debtors	3,410	540	–	3,950	2,527
Prepayments	202	–	–	202	154
	3,623	544	–	4,167	2,681



*Notes to the financial statements***7. Cash and short-term deposits**

	Unrestricted Funds	Restricted Funds	Endowed Funds	Total 2013	Total 2012
	£000	£000	£000	£000	£000
Cash in hand	21	–	–	21	28
Current and instant access accounts	3,058	3,181	115	6,354	6,048
Short-term deposit accounts	63	22	–	85	180
	<b>3,142</b>	<b>3,203</b>	<b>115</b>	<b>6,460</b>	<b>6,256</b>

**8. Creditors and accrued expenses**

	Unrestricted Funds	Restricted Funds	Endowed Funds	Total 2013	Total 2012
	£000	£000	£000	£000	£000
Amounts falling due within one year:					
Other creditors	4,851	5	92	4,948	3,606
Taxation and social security	267	–	–	267	253
	<b>5,118</b>	<b>5</b>	<b>92</b>	<b>5,215</b>	<b>3,859</b>
Amounts falling due after more than one year:					
Other creditors	80	–	–	80	106
	<b>80</b>	<b>–</b>	<b>–</b>	<b>80</b>	<b>106</b>

**9. Income received in advance**

	Unrestricted Funds	Restricted Funds	Endowed Funds	Total 2013	Total 2012
	£000	£000	£000	£000	£000
Brought forward at 1 July	4,606	–	–	4,606	4,630
Received during the year	21,861	8,228	–	30,089	26,305
Taken as income during the year	(21,822)	(8,228)	–	(30,050)	(26,329)
Carried forward at 30 June	<b>4,645</b>	<b>–</b>	<b>–</b>	<b>4,645</b>	<b>4,606</b>

*Notes to the financial statements***10. Investments**

	Unrestricted Funds	Restricted Funds	Endowed Funds	Total 2013	Total 2012
	£000	£000	£000	£000	£000
Quoted securities at market value	25,866	1,934	28,697	56,497	53,694
Deposits with Investment Managers	1,569	25	363	1,957	341
Investment properties at market value	1,720	–	–	1,720	1,820
Transfers between funds	(3,118)	3,381	(263)	–	–
<b>Market value at 30 June</b>	<b>26,037</b>	<b>5,340</b>	<b>28,797</b>	<b>60,174</b>	<b>55,855</b>
<b>Movements in the year</b>					
<b>Market value at 1 July</b>	23,427	3,921	28,507	55,855	59,721
Additions	2,482	1,392	17,231	21,105	85,942
Disposals	(2,354)	(1,198)	(17,289)	(20,841)	(87,899)
Change in transfers between funds	(805)	1,183	(378)	–	–
Net gain/(loss) during the year	3,287	42	726	4,055	(1,909)
<b>Market value at 30 June</b>	<b>26,037</b>	<b>5,340</b>	<b>28,797</b>	<b>60,174</b>	<b>55,855</b>
Cost at 30 June	20,855	5,293	28,102	54,250	53,626
Unrealised gain at 30 June	5,182	47	695	5,924	2,229
<b>Realised gains on historic cost in year</b>	<b>249</b>	<b>32</b>	<b>720</b>	<b>1,001</b>	<b>8,750</b>

At 30 June 2013, the market value of UK investments was £39,110,000 (2012: £39,705,000) and the market value of overseas investments was £21,064,000 (2012: £16,150,000).

As detailed in note 1(j), the Common Investment Fund acts as an investment pool for most of the College's restricted and endowed Funds.

**Valuation of investment properties**

The last full valuation of the College's investment properties was carried out as at 24 June 2010 by the College's property managers, BNP Paribas. At 30 June 2012, BNP Paribas provided an updated market valuation on the properties in Earl's Court, London; this showed that the properties had a combined value of £450,000 as at that date. Since the valuation date, the condition of the properties has deteriorated and the carrying value in the accounts has therefore been reduced to £350,000 as at 30 June 2013. The £100,000 impairment charge has been charged against the gain on investments in the year.

The other investment properties are due to be valued in 2015. The trustees do not consider there has been any material changes in the values of these properties since they were last valued in 2010.

*Notes to the financial statements***Investment in subsidiary**

The College holds the entire issued £1 share capital of Hunter Trading Limited, which markets those conference and residential facilities that the College does not require for its own use.

The results and financial position of Hunter Trading Limited have been consolidated in these financial statements on a line-by-line basis. Its income for the year was £3,017,000 (2012: £2,832,000), its expenditure was £2,711,000 (2012: £2,581,000). Its profit before tax of 306,000 (2012: £251,000) has been transferred to the College under gift aid. The net assets of Hunter Trading Limited at 30 June 2013 were £1 (2012: £1).

**11. Unrestricted funds**

	2013	2012
	£000	£000
Fixed assets fund	8,549	8,908
Designated funds	5,000	–
General funds	18,219	20,668
<b>Total unrestricted funds</b>	<b>31,768</b>	<b>29,576</b>

The fixed assets fund represents the net book value of the College's unrestricted tangible fixed assets which are all used operationally by the College and the trustees consider to be essential to the implementation of the College's operational strategy. Their disposal could adversely impact on the College's ability to deliver its aims.

Designated funds are funds that have been earmarked for particular purposes by the trustees. In the year ended 30 June 2013, the trustees have set aside £5.0 million to meet the planned redevelopment of the College's headquarters in London. It is intended to utilise these funds within the next five years.

General funds represent the College's free reserves that are maintained to ensure the financial security of the College and fund its business plan.

*Notes to the financial statements***12. Endowed and restricted funds**

	Endowed Fund Balances				Restricted Fund Balances			
	2012 £000	Inc. £000	Dec. £000	2013 £000	2012 £000	Inc. £000	Dec. £000	2013 £000
<b>Trust funds</b>								
Dental Science Research Fund	2,090	54	(14)	2,130	223	100	(75)	248
Rank Chair Physics in Surgery*	1,988	51	(13)	2,026	(159)	82	(3)	(80)
RCSE Cancer Research Fund	3,657	94	(24)	3,727	1	150	(34)	117
RCSE Biochemical Research Fund	778	20	(5)	793	38	32	(6)	64
Darlow Fellowship Fund	100	3	(1)	102	9	4	(3)	10
RCSE Research Fund	7,602	195	(313)	7,484	540	322	(447)	415
RCSE Education Fund	5,065	161	(29)	5,197	190	259	(168)	281
RCSE Museum Fund	14	–	–	14	77	6	(4)	79
Groves Bequest for Museum	433	11	(2)	442	18	18	(17)	19
MacRae–Webb–Johnson Fund	844	45	(5)	884	240	48	(74)	214
George Qvist for Hunterian	434	11	(2)	443	–	17	(17)	–
Shrimpton Fund	–	–	–	–	63	–	(37)	26
RCSE Library Fund	1,705	44	(11)	1,738	7	70	(61)	16
RCSE Prize Fund	121	3	(1)	123	141	10	(1)	150
Preiskel Fund	–	–	–	–	20	1	(1)	20
HS Morton Travelling Fellowship	416	11	(3)	424	123	17	(91)	49
Sims Commonwealth Travelling Fell.	131	3	(1)	133	75	7	(6)	76
Ethicon Travelling Fellowship	–	–	–	–	167	11	(5)	173
RCSE Scholarship Fund	106	3	(1)	108	31	6	(5)	32
Witt Fund	181	5	(1)	185	14	8	(1)	21
Modi Fund	–	–	–	–	540	24	(100)	464
Rishworth Fund for Annals	104	3	(1)	106	4	4	–	8
John Kinross Fund	170	5	(1)	174	128	7	–	135
President's Finch Fund	1,883	103	(12)	1,974	20	132	(61)	91
Blond McIndoe	–	–	–	–	443	26	(22)	447
JW Mclean Fund	105	3	–	108	7	4	(1)	10
Surgical Research Fund	–	–	–	–	144	160	(83)	221
Rex & Jean Lawrie O/s Fund	–	–	–	–	4	66	(3)	67
The Arthritis Research Trust	–	–	–	–	–	319	–	319
Cutner Legacy	–	–	–	–	136	–	(106)	30
Guyatt Legacy	–	–	–	–	97	–	(45)	52
Starritt Legacy	–	–	–	–	35	–	–	35
Clarke Legacy	–	–	–	–	83	–	(79)	4
Fletcher Legacy	–	–	–	–	98	–	(65)	33

*Notes to the financial statements*

	Endowed Fund Balances				Restricted Fund Balances			
	2012	Inc.	Dec.	2013	2012	Inc.	Dec.	2013
	£000	£000	£000	£000	£000	£000	£000	£000
Miss Carol Rummey Legacy	–	–	–	–	201	23	(67)	157
Ethicon Research Fund	–	–	–	–	1	–	–	1
Dunhill Medical Trust	–	–	–	–	279	–	(197)	82
Far East HK Masonic Association	–	–	–	–	58	–	(50)	8
Curry Legacy Damage/Pain	–	–	–	–	123	–	(102)	21
Denker Legacy	–	–	–	–	8	–	(4)	4
Mr Sorab J Lam Legacy	–	–	–	–	–	529	–	529
Commemoration Fund (FDS)	138	4	(1)	141	11	6	(1)	16
Moser-Trust (FDS)	357	9	(2)	364	58	15	(24)	49
Research Fund (FGDP (UK))	–	–	–	–	3	–	–	3
<b>Grants and donations</b>								
PCCT Transplant Fellowships	–	–	–	–	476	5	(9)	472
Hunterian Museum Project	–	–	–	–	636	–	(249)	387
Eagle Project	–	–	–	–	4,586	–	(628)	3,958
FDS – ORE Contract Activity	–	–	–	–	–	100	–	100
eDEN (e-learning for dentistry)	–	–	–	–	86	64	(35)	115
Galeski Travel Fellowship	–	–	–	–	35	143	(18)	160
H&S Charitable Trust	–	–	–	–	–	750	(161)	589
Leeds Surgical Research Trust	–	–	–	–	–	177	(28)	149
National Vascular Registry	–	–	–	–	–	179	(57)	122
Other balances < £100,000	–	–	–	–	2,585	4,136	(3,983)	2,738
<b>Total</b>	<b>28,422</b>	<b>841</b>	<b>(443)</b>	<b>28,820</b>	<b>12,703</b>	<b>8,037</b>	<b>(7,234)</b>	<b>13,506</b>

\* The negative balance on the Rank Chair Physics in Surgery fund is caused by the College providing in full for notified future expenditure. This will be funded from future streams of investment income.

The funds are for the purposes described in their titles. The increases on the endowed funds represent gains made on investments. In addition, a total of £115,000 was transferred from restricted funds to endowed funds as follows:

### 1. MacRae–Webb–Johnson Fund

In 2003–04, £600,000 was transferred from the MacRae–Webb–Johnson's endowed fund to its restricted fund to support the Hunterian Museum Project. This sum is to be replaced by income arising on the MacRae–Webb–Johnson's restricted fund at the rate of £24,000 a year for 25 years. The ninth transfer of £24,000 was made in 2012–13.

## *Notes to the financial statements*

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### **2. President's Finch Fund**

In 2006–07, £1,100,000 was transferred from the President's Finch's endowed fund to its restricted fund to support the Eagle Project. This sum is to be replaced by income arising on the President's Finch's restricted fund at the rate of £55,000 a year for 20 years. The sixth transfer of £55,000 was made during 2012–13.

### **3. RCSE Education Fund**

In 2008–09, £400,000 was transferred from the Education endowed fund to its restricted fund to support the Eagle Project. This sum is to be replaced by income arising on the Education restricted fund at the rate of £20,000 a year for 20 years. The fifth transfer of £20,000 was made during 2012–13.

In 2009–10, an additional £400,000 was transferred from the Educational Fund to further support the Eagle Project. This sum is to be replaced by income arising on the Education restricted fund at the rate of £16,000 a year for 25 years. The third payment was made during 2012–13.

These transfers were all authorised under Charity Commission Schemes.

The decreases on the endowed funds represent investment management charges. In addition, during the year £263,512 has been charged against the RCSE Research Fund for environmental clean-up costs relating to the Buckston Browne Farm. The trustees consider this is appropriate as the gain on sale of the Buckston Browne Farm was originally credited to the RCSE Research Fund.

## **13. Pension schemes**

The College participates in the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). Both of these are defined benefit pension schemes which are contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. The College also has two employees who are members of the NHS Pension Scheme, a statutory unfunded multi-employer defined benefit scheme.

Of the College's 291 employees at 30 June 2013 (2012: 303), 144 were members of USS (2012: 157), 36 were members of SAUL (2012: 38) and 2 were members of the NHS Pension Scheme (2012: 1).

### **(a) Universities Superannuation Scheme (USS)**

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

## *Notes to the financial statements*

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The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

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

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

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts), the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

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

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the on-going cost of newly accruing benefits. The cost of future accrual was calculated using the same

## *Notes to the financial statements*

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assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

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

Since the valuation effective date there has been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

### **New entrants**

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

### **Normal pension age**

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

### **Flexible Retirement**

Flexible retirement options were introduced.

### **Member contributions increased**

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

### **Cost sharing**

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

### **Pension increase cap**

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



*Notes to the financial statements*

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

On the FRS 17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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

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

At 31 March 2013, USS had over 148,000 active members. The total USS pension cost for the College for the year ended 30 June 2013 was £944,362 (2012: £943,337). No contributions were outstanding at the balance sheet date. The contribution rate payable by the College was 1.6% of pensionable salaries.

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

SAUL is subject to triennial valuations by professionally qualified and independent actuaries, and informal reviews of SAUL's position are carried out between formal valuations. The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The main assumptions used to assess the technical provisions were:

	<b>31 March 2011</b>
Discount rate:	
– pre-retirement	6.80% pa
– post-retirement	4.70% pa
General* Salary Increases	3.75% pa until 31 March 2014, 4.50% pa thereafter
Retail Prices Index inflation ('RPI')	3.50% pa
Consumer Price Index Inflation ('CPI')	2.80% pa
Pension Increases in payment (excess over GMP)	2.80% pa

*Notes to the financial statements*


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Mortality – base table	SAPS Normal (year of birth) tables with an age rating of +0.5 years for males and -0.4 years for females.
Mortality – future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% pa

\* an additional allowance is made for promotional Salary increases

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,506 million representing 95% of the liability for benefits after allowing for expected future increases in salaries. Based on the strength of the employer covenant and the trustee's long-term investment strategy, the trustees and the employers agreed to maintain employer and member contributions at 13% of salaries and 6% of salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

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

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

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

The total SAUL pension cost for the College for the year ended 30 June 2013 was £115,763 (2012: £120,825). No contributions were outstanding at the balance sheet date. The contribution rate payable by the College was 13% of pensionable salaries.

### **(c) NHS Pension Scheme**

The total NHS Pension Scheme cost for the College for the year ended 30 June 2013 was £14,752 (2012: £11,451). No contributions were outstanding at the balance sheet date. The contribution rate payable by the College was 14% of pensionable salaries.

*Notes to the financial statements***14. Transactions with trustees**

No trustees receive any fees or honoraria.

Council members claim travelling, subsistence and accommodation costs in respect of Council and committee meetings and for attending other meetings on behalf of the College. The total of all such expenses reimbursed to the 26 trustee members of Council in the year was £56,000 (2012: £64,000).

**15. Legacy income**

The major legacies or gifts which have been notified to the College but not included in the financial statements, as they do not meet the income recognition criteria of entitlement, measurement and certainty at the balance sheet date are:

	Estimated amount £000
<b>Notified on or before 30 June 2013</b>	
For the main appeal of the College	245

**16. Operating leases**

The minimum payments that the College is committed to make in 2013-2014 under operating leases are as follows:

	Furniture, fittings and vehicles	
	2013 £000	2012 £000
<b>Leases which expire:</b>		
Within two to five years	15	30