

Financial Statements

for the year to 31 July 2018

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Chair's foreword

The Report and Accounts presented here show a financial surplus of some £22m with cash reserves of £181m. The lower cash reserves largely reflect the progress made on our major capital developments. The magnificent buildings at Bush House, now largely complete, reflect much of that investment. They house many of our academic departments while also providing state-of-the-art learning and social spaces, including a new home for our student union.

This past year has not been without difficulties. In spring the University & College Union rejected proposals for reforms to the Universities Superannuation Scheme pension scheme, giving rise to a series of strikes. The King's community worked hard to ensure there was as little disruption as possible to students' education.

King's is and will remain a global university. Against the backdrop of continuing Brexit negotiations, we are committed to ensuring that all our staff and students feel welcome here in London and the United Kingdom. I am therefore pleased to report that, for the 2017–18 academic year, there was a 2% increase in the number of applications from EU students.

Last October, the Prime Minister commissioned the Review of Higher Education and Student Finance, which is likely to report in spring 2019. There is uncertainty about the outcome, which may recommend some reduction in university funding and create a stiffer challenge to maintain financial sustainability. The review will consider value for money of the present regime of tuition fees as well as the true costs of delivering subjects. It is hoped that the review will take a whole-system approach to university finances, balancing the funding for students with the research and civic mission of the sector.

'In the service of society' describes the commitment of King's to society beyond the traditional roles of education and research. In 2018 we launched our service strategy, which enumerates more than 40 initiatives that will be delivered over the next three years. These will include: a service impact fund to provide small amounts of seed funding to help transform local communities; a civic leadership academy for our students; and Service Time, an initiative that will allow staff a day of leave to undertake voluntary work.

I am glad to commend this Report and Accounts to all those with an interest in our university. I also wish to congratulate all those bearing responsibility for the continuing success of King's, especially its students, staff and alumni.

The Right Honourable the Lord Geidt GCB GCVO OBE
QSO FKC
Chair of Council

Council and Council committee membership 1 August 2017– 31 July 2018

Council

The Right Honourable the Lord Geidt GCB GCVO OBE
QSO FKC *[Chair since August 2016]*
Professor Edward Byrne AC *[President & Principal since
September 2014]*
Dr Angela Dean *[since 2012]*
Mr Michael D'Souza *[Honorary Treasurer since August 2016]*
The Hon Sir David Foksett FKC *[since June 2010]*
Mr Paul Goswell *[since 2015]*
Professor Brian Holden Reid FKC *[since June 2010]*
Ms Ros King *[since 2012]*
Professor Sir Robert Lechler KBE FKC *[since 2009]*
Baroness Morgan of Huyton *[Vice-Chair since August 2016,
member since 29 June 2016]*
Mr Chris Mottershead *[since 2009]*
The Right Reverend and Right Honourable Dame Sarah
Mullaly *[since November 2015]*
Mr Momin Saqib *[ex officio, August 2017–July 2018]*
Sir Nigel Sheinwald GCMG *[since 2014]*
Mr Andrew Summers CMG *[since June 2010]*
Dr Ian Tebbett *[since 2016]*
Ms Nhuoc Lan Tu *[since April 2016]*
Professor Evelyn Welch MBE FKC *[since 2013]*
Professor the Baroness Wolf of Dulwich CBE *[since June 2010]*

Chair's Committee

The Right Honourable the Lord Geidt GCB GCVO OBE
QSO FKC *[Chair since August 2016]*
Professor Edward Byrne AC *[President & Principal since
September 2014]*
Dr Angela Dean *[ex officio, since 2014]*
Mr Michael D'Souza *[Honorary Treasurer since August 2016]*
Mr Paul Goswell *[ex officio, since 2015]*
Professor Sir Robert Lechler KBE FKC *[since 2009]*
Baroness Morgan of Huyton *[Vice-Chair since August 2016]*
Mr Chris Mottershead *[since 2009]*
Sir Nigel Sheinwald GCMG *[since 2014]*
Mr Andrew Summers CMG *[ex officio, since 2010]*
Professor Evelyn Welch MBE FKC *[since 2013]*

Finance Committee

Mr Michael D'Souza *[Chair and Honorary Treasurer since
August 2016]*
Professor Edward Byrne AC *[President & Principal since
September 2014]*
Mr Peter Clarke *[since 2015]*
Mr Tony Collyer *[since March 2010]*
Dr Angela Dean *[since December 2012]*
Mr Stephen Large *[ex officio, since 2000]*
Mr Richard North *[since 2010]*
Mr Andrew Scott *[since 2015]*
Dr Ian Tebbett *[ex officio, since October 2016]*
Mr Michael Urmston *[since 2010]*
Professor the Baroness Wolf of Dulwich CBE *[since 2011]*

Audit, Risk & Compliance Committee

Mr Andrew Summers CMG *[Chair since 2010]*
Professor Susan Brain *[since 2011]*
Ms Julianne Daglish *[since June 2017]*
Professor Brian Holden Reid FKC *[since 2011]*
Mrs Sarah Hopwood *[since 2011]*
Ms Ros King *[since December 2012]*
Ms Nhuoc Lan Tu *[since February 2017]*
Mr George Warren *[since February 2017]*
Ms Sarah Wilkinson *[since June 2017]*

Investment Subcommittee

Mr David Morgan AO *[Chair since September 2015]*
Professor Edward Byrne AC *[President & Principal since
September 2014]*
Dr Angela Dean *[since 2012]*
Mr Rob Gambi *[since April 2015]*
Mr John Harrison *[ex officio, 2016–April 2018]*
Mr Stephen Large *[ex officio, since 2000]*
Mr Mark Laurence *[April 2008–July 2018]*
Mr Steve Law *[ex officio, since April 2018]*
Mr David Potter FKC *[April 2008–July 2018]*
Mr Simon Pryke *[since April 2015]*
Mr Joseph van Zanten Gallagher *[since March 2018]*

Estates Strategy Committee

Mr Paul Goswell *[Chair since 2015]*
Professor Edward Byrne AC *[President & Principal since
September 2014]*
Mr David Cripps *[Vice-Chair since 2010]*
Mr Stephen Large *[ex officio, since 2000]*
Professor Sir Robert Lechler KBE FKC *[ex officio, since 2009]*
Baroness Morgan of Huyton *[since 24 November 2015]*
Mr Nick O'Donnell *[ex officio, since 2017]*
Mr Daniel Peltz FKC *[since December 2012]*
Dr Ian Tebbett *[ex officio, since October 2016]*
Professor Evelyn Welch MBE FKC *[ex officio, since 2013]*

Operating and financial review for the year ended 31 July 2018

Key facts

	2017–18	2016–17
Total comprehensive income for the year	£22.0m	£24.0m
Total income	£841.0m	£778.2m
Net cash inflow from operating activities as a % of total income	7.9%	6.2%
Unrestricted reserves as a % of total income	84.0%	89.5%
External borrowings as a % of total income	36.5%	39.7%
Net liquidity days	83 days	124 days
Staff numbers, average headcount	6,918	6,590
Student numbers, full-time equivalent (July return to the Higher Education Statistics Agency, HESA)	27,464	25,978
Research: new and renewed awards (forward order book)	£224.7m	£182.0m
Fund-raising: new cash and pledges for the university and partners ¹	£27.3m	£24.7m

¹ Excludes directed research, pending development of the new campaign.

Operating highlights

This has been another year of demonstrable progress towards delivering our long-term strategic vision.

We continue to attract high numbers of outstanding students to study with us. Our focus in education has for a number of years been both on targeted growth and improving

student experience and educational outcomes. This year we made real progress following the launch of our new Education Strategy in September 2017 and the appointment of Professor Nicola Phillips as Vice-President & Vice-Principal (Education). This has laid the foundations for a really ambitious level of change over the next five years.

Our strategic vision around research is simple: to be home to the most able and innovative researchers delivering valuable insight and ground-breaking discoveries. We set ourselves a significant level of ambition around raising the level of research excellence across King's and increasing the number of areas where we are performing at the highest level.

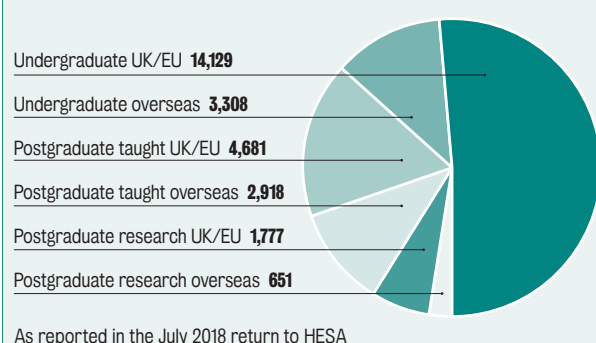
'Service' is the term we use in Vision 2029 to describe our commitment to society beyond the traditional roles of education and research. This has grown out of the strong commitment across the community to the notion of King's being 'in the service of society'. At King's we wish to serve the needs and aspirations of society both in our individual capacities and as the community of King's.

King's history and future is interwoven with that of London, and we recognise that by affirming our ambition to be London's leading civic university, and through our appointment of Deborah Bull as Vice-President & Vice-Principal (London). We are seeking to develop a portfolio of strategic partnerships across London, and to join up, celebrate and build on existing activity. This is important because we know that making a difference in London is often intrinsically linked with making a difference globally.

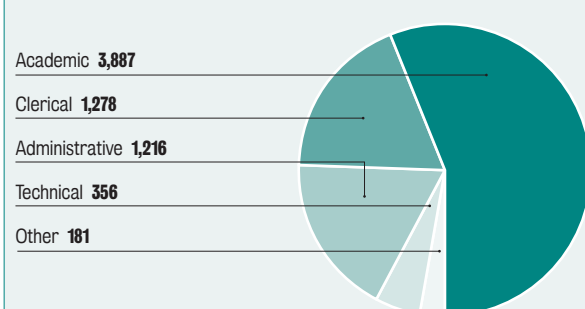
A key focus for us is to ensure we are an institution that attracts the best international minds to work and study at King's. Our applications from the EU have remained very strong, and our overseas recruitment exceeded our targets this year.

Whilst operating margins are under pressure from rising costs, we are pleased to report £22m Total Comprehensive Income for the year. Against a background of uncertainty about future government policy on fees and funding, we continue to model the impact of differing assumptions about both costs and income.

Students by category, July 2018



Staff numbers by category, 2017–18 average



On a like-for-like basis our research income for 2017–18 was flat at £193m compared to the prior year, but the level of new awards (the forward order book) shows a pleasing 23%/£43m increase year on year, which will flow into operating performance as the grants go live over the next year or so.

Looking forward to the 2018–19 recruitment cycle, it is pleasing to report an increase in applications of approximately 9% from the previous year, including a 2% increase in applications from mainland EU students. Applications for the newly established King's Business School performed particularly well, with a 17% increase. For the second year running there were decreases in applications to the nursing, midwifery and physiotherapy undergraduate programmes and in applications to the postgraduate diplomas in nursing and midwifery, related to government changes in the fee structure.

Sustainability

King's monitors a wide range of academic, environmental and financial sustainability metrics.

Credit rating	2017–18	2016–17
Standard & Poor's	AA-	AA-

Standard and Poor's affirmed its long-term issuer credit rating of AA- with a stable outlook. This reflects its view that King's will maintain its strong position in the sector, with high levels of applications and a strong research standing.

Diversity and inclusion	2016–17	2015–16
Senior female academic staff %	45.3	42.2
Senior female professional services staff %	35.7	35.0
Senior black and minority ethnicity (BME) staff %	18.9	18.7
Senior BME professional services staff %	20.0	17.2

King's is committed to embedding good diversity and inclusion practice into all of its activities so that it becomes a richer and more diverse place to work and study. The university has a dedicated Disability Advisory Service which provides information and support to disabled students and advises staff about engaging with disabled students.

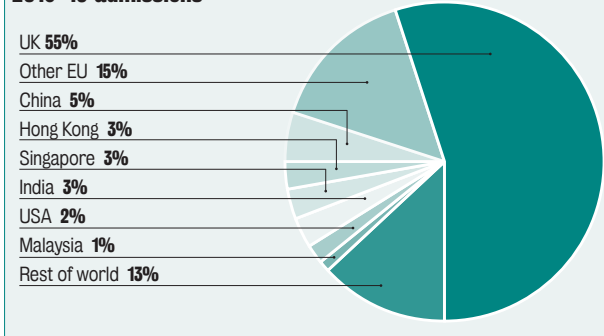
Global university rankings	Latest year	Prior year
Quacquarelli Symonds (QS) World Rankings	31st	23rd = (2018)
Times Higher Education (THE) World Rankings	38th	36th (2018)
Shanghai Academic Ranking of World Universities (ARWU)	56th	46th (2017)

Research and innovation	2017–18	2016–17
% research grants and contracts income from Research Councils	22.5	21.8
% postgraduate research completion rate	85.7%	85.9%
Number of new patents filed (Higher Education Business and Community Interaction Survey return)	35	41

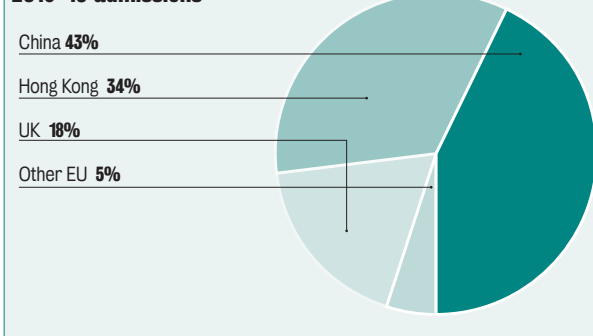
King's regularly monitors its performance against a range of environmental objectives and sustainable development targets. These include policies for energy and carbon management, waste management and green transport. Performance against a range of environmental objectives is made available online across the university.

King's has been an active participant in debates concerning ethical investment. The Investment Subcommittee of the university considers socially responsible investment as part of its asset allocation and investment manager selection process. The King's endowment is invested in funds that are reviewed to ensure they operate within both the letter and spirit of its ethical investment policy, which aims to divest from all fossil fuel investments by 2022 and to increase the proportion of investments with

Domicile of undergraduate student applicants, 2018–19 admissions



Domicile of postgraduate student applicants, 2018–19 admissions



socially responsible benefits from 15% to 40% by 2025, subject to there being no significant impact on the financial returns necessary to support the university's education and research mission.

The university is an 'exempt' charity under Schedule 3 of the Charities Act 2011. This means King's is not registered with the Charity Commission and has no charity registration number. Under the Charities Act 2006, King's and other universities that are exempt charities are regulated by the Office for Students (OfS) as 'principal regulator' on behalf of the commission.

As the university's trustee, the Council is responsible for defining the strategic aims of King's and directing the activities of its executive in the furtherance of these objects. When setting objectives and planning activities, the Council and the executive give careful consideration to the Charity Commission's general guidance and to its supplementary guidance on public benefit. Attention is also paid to guidance issued by the OfS in its role as principal regulator on behalf of the commission.

The beneficiaries of the university's charitable activities during the year included:

- the university's undergraduate, postgraduate taught and postgraduate research students, who benefitted from the education provided by King's in their development as individuals and in their employment prospects
- the beneficiaries from the advancement of research by King's on its own and in conjunction with strategic partners
- society at large, reflected in the university's commitment to service as a strategic priority, and illustrated by the examples given above and many others.

Educate to inspire and improve

Our education strategy builds squarely on the improvements we have been making over a number of years. We are focusing on four key priorities: Curriculum 2029, Assessment and Feedback, Academic Support and the Learning Environment. Within each of these areas we will target significant improvement over the next five years.

A critical area of focus in our education strategy is improving the levels of support we offer our students. Student wellbeing and mental health is a major issue for all higher education institutions. We are bringing our research expertise to bear here. This year we launched a joint initiative between the Institute of Psychiatry, Psychology & Neuroscience and our practitioner-based team in the Student Support & Wellbeing Services division to leverage our research insights into student mental health for the benefit of students at King's and across the higher education sector.

Another focus this year has been on improving the learning environment. The opening of Bush House gives us

access to learning and teaching spaces which are second to none, together with outstanding new student facilities in the South East Wing, which opened in summer 2018.

One of the most fundamental areas we will be working on over the next few years is our curriculum, and linked to that our approach to assessment and feedback. This has been a focus for improvement at King's over a number of years, and we have made progress on upgrading the quality and timeliness of feedback and student communications. Curriculum 2029 will be a university-wide programme of curriculum change to deliver a structure that builds on our disciplinary strengths. Part of this will be making curriculum structures simpler and more flexible. On assessment, we will be making our processes more student-focused and more supportive of key academic skills and learning outcomes.

Student numbers (full-time equivalent)	July 2018	July 2017	Change
Undergraduate	17,437	16,690	747
Postgraduate taught	7,599	6,927	672
Postgraduate research	2,428	2,361	67
Total	27,464	25,978	1,486

The student boycott of the National Student Survey (NSS) in 2017 resulted in participation rates that were too low to qualify for publication for King's (and five other Russell Group universities), meaning that prior year comparatives are not available. The Russell Group overall saw a 2.5% decline in satisfaction year on year. King's NSS results for 2018 were mixed. There has been a drop in overall satisfaction, by 2 percentage points to 78.8%, placing it 4.7% below the sector average. However, its overall satisfaction scores are now slightly above the average of the London Russell Group.

All students on postgraduate taught programmes are invited to take part in the Postgraduate Taught Experience Survey (PTES), a survey voluntarily undertaken by British universities each year. With a response rate of 38.9%, the PTES results showed a drop in satisfaction from 85.2% in 2017 to 80.3% in 2018. The overall drop in satisfaction among postgraduate taught students has been observed nationally, with scores for all comparator groups falling (London -3.3%, Russell Group -3.3% and sector -1.8%); however, the larger decline seen in King's results is disappointing.

King's is continuing to prepare for Teaching Excellence and Student Outcomes Framework (TEF) 2020, which will include subject-level TEF. Whilst the link with home undergraduate fees is now broken, it remains an important exercise. TEF rankings can have an impact on students' decisions on where to apply to university. The evidence is limited, but research suggests that students are less likely to

apply to a university with a ranking of Bronze than one that is Silver or Gold. King's continues to be an active participant in discussions around the development of the framework.

In March 2018 King's reported progress against its Access and Participation plans for the year 2016–17 to the OfS. The report showed investment of £9.4m, equivalent to just under 28% of its additional fee income in widening access; this is expected to rise to around 30% over the next two years. The focus is on multi-stage interventions, attainment raising, parental engagement and work with specific groups such as care leavers. King's flagship K+ scheme targets the brightest 16+ students in Greater London, and in 2017 we received over 1,800 applications from 224 schools (2016: 161 schools). 98% were first-generation university applicants. In the same year 165 former K+ students received offers to study at King's with an entry tariff some two A-level grades below the standard offer.

Research to inform and innovate

King's launched its research strategy in 2017 in support of the overall King's Strategic Vision 2029 and it has been making progress in a number of areas.

Investing in researchers: the Centres for Research Staff Development and Doctoral Studies have been launched to support the development of postgraduate researchers and research staff. A wide suite of training programmes, both online and face-to-face, has been launched under the King's Leading Researchers programme.

To increase its PhD talent, King's launched a programme with the China Scholarship Council to provide 100 students per year with financial support.

Other initiatives included:

- driving interdisciplinary research through the King's Together programme, a scheme to provide seed funding for collaboration
- creation of a Research Development team to co-ordinate strategic applications and support research funding across

the university (example impact: co-ordination of £10m Dementia Research Institute application)

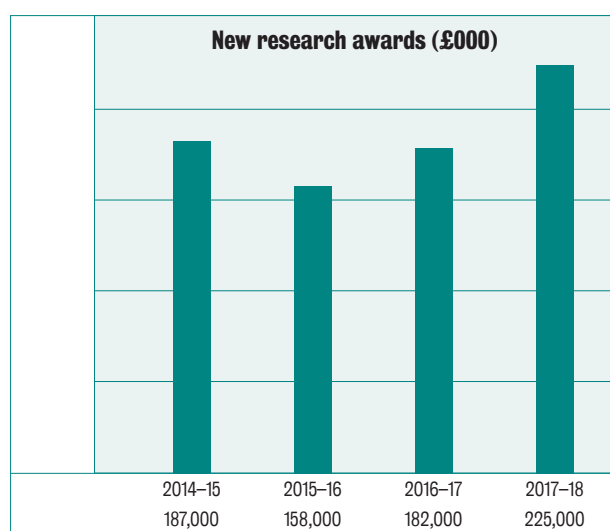
- investment in core facilities (example impact: imaging infrastructure essential for £12m Wellcome Trust/ Engineering and Physical Sciences Research Council [EPSRC] Centre)
- development of partnerships (example impact: £7m cross-London centre awarded under Health Data Research UK initiative; £5m Research England award for Advanced Therapies).

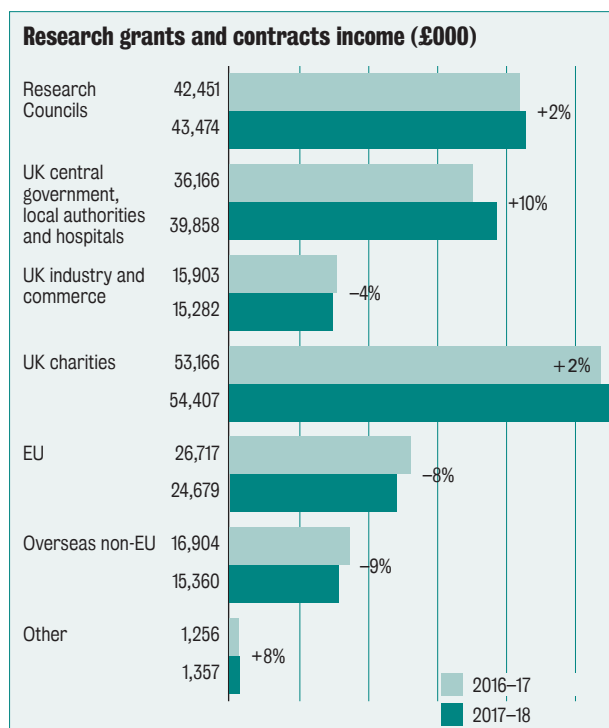
During the year King's attracted over £50m of industry investment into its research facilities and successfully secured external funding for a number of new centres including a new Medical Engineering Centre, Global Health Hubs, a test-bed for 5G mobile technology and a Dementia Research Institute. The university also secured over £30m to launch a world-class Advanced Therapies Centre at Guy's & St Thomas' NHS Foundation Trust.

King's received £225m of new research awards in 2017–18, an increase of 23% on 2016–17, and the awards will flow through to income as the grants go live over the next year or so. This represents a compound growth of 41% over the past two years, and shows a recovery from the 2015–16 'dip'. Overheads on new awards for 2017–18 were £38m, up from £23m in the previous year.

Research awards and renewals	2017–18 £000	2016–17 £000	Increase £000
Arts and Sciences faculties	44,449	39,513	4,936
Health faculties	180,236	142,222	38,014
Other	3	272	(269)
Total King's	224,688	182,007	42,681

A significant proportion of the new awards total is driven by a small number of high-value, strategic projects and by high-value Principal Investigator awards. There is a shift towards funding larger, strategic initiatives typically involving multiple partners from both the higher education and industry sectors. A continuing drive towards requiring matched investment in either operating costs or research equipment puts pressure on financial margins.





Financial highlights

The financial results comprise the consolidated results of King's and its wholly owned subsidiary undertakings. The principal subsidiary, College Facilities Ltd, undertakes major building and related works on behalf of King's. King's College London Business Ltd, based in Cornwall, operates an IT support function. King's Talent Bank Ltd is a subsidiary created to employ casual staff including student workers, temporary staff, alumni, visiting lecturers and contractors. The university has a number of overseas subsidiaries: King's College London USA, Inc., a subsidiary incorporated in Virginia, through which it conducts marketing and alumni relations, and a charitable company in India. Additionally, King's conducts activities in Sierra Leone through King's Sierra Leone Partnership, an international non-governmental organisation.

Results

	2017-18 £000	2016-17 £000
Total income	841,030	778,150
Expenditure	842,425	764,108
(Deficit)/surplus before other gains and losses	(1,395)	14,042
Gain on investments	25,392	14,309
Surplus for the year	23,997	28,351
Actuarial loss in respect of pension schemes	(2,029)	(4,301)
Total comprehensive income for the year	21,968	24,050

The deficit before other gains and losses for the year was £1.4m (2016-17 surplus £14m). This largely reflects the combination of increased depreciation following major capital investment, for example in Bush House and increased investment in information technology, and that the university is in the investment phase of its current growth plans, the benefits of which will flow through in future years. Increasing operating cash surpluses is a crucial component of the forward financial strategy, both for risk management and for investment in King's ambitious academic plans to advance Vision 2029. This is especially important to create financial headroom in the current environment of uncertainty around government policy and rising costs.

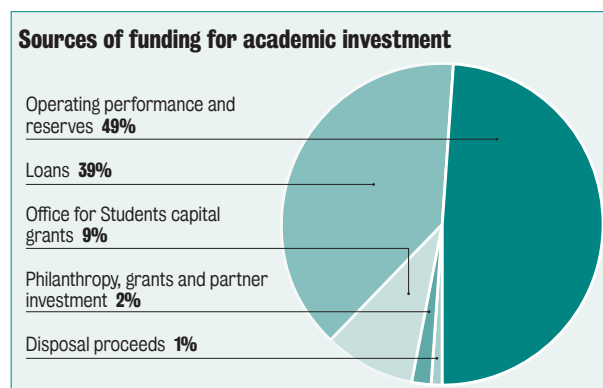
Capital investment

The King's estate is an important and valuable asset which enables high-quality teaching and research to take place. Continuing investment in the estate is necessary to maintain and improve educational and research infrastructure and ensure the university has the built environment to enable all staff and students to flourish.

The university has also increased investment in its information technology infrastructure, which is equally important to support its education and research mission, including online learning, lecture capture, data storage and analytics, and high-performance computing, as well as improvements in the enterprise systems, network security and student experience.

The forward capital plan identifies the academic investment needs of the next few years and makes assumptions about the availability of funding to finance this expenditure, including philanthropy, property disposals, capital grants, external finance and partnering arrangements as well as future operating surpluses. No project proceeds unless full funding is in place.

The sources of funding are expected to be:



King's invested £133.7m during the year:

	2017-18 Investments £m	2016-17 Investments £m
Student facilities	50.8	54.4
Infrastructure	44.7	36.6
Research	38.2	25.7
	133.7	116.7

The largest investments during the year were:

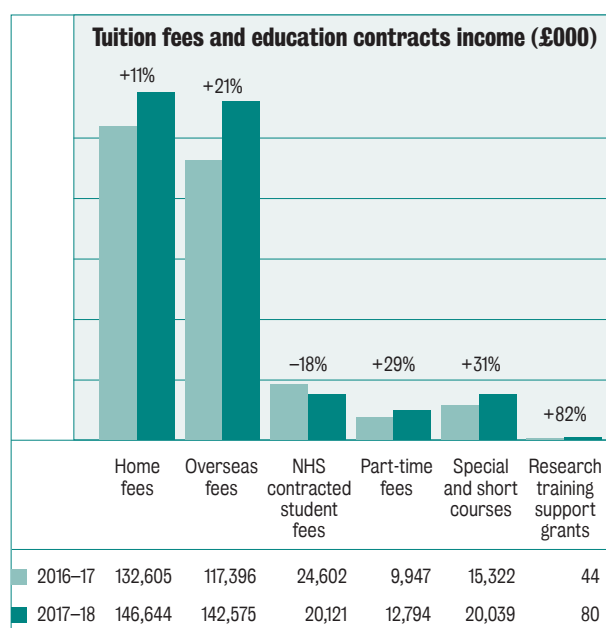
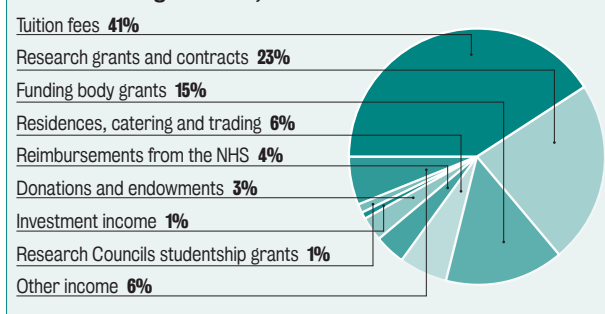
Bush House	£36m
Technology – Next Generation Finance, Payroll and HR systems	£14m
Science Gallery – part of a larger public engagement scheme	£14m
Positron emission tomography imaging centre	£9m
Research equipment seed funding	£7m
Rolling programme of learning and teaching infrastructure improvements	£7m
Britannia House research equipment and infrastructure	£4m

The Bush House Centre Block and the phased moves for King's Business School and Informatics were completed and ready in time for the start of the 2017-18 academic year. Facilities include a 400-seat auditorium, two Harvard-style lecture theatres and comprehensive computing facilities, including a trading laboratory.

Income

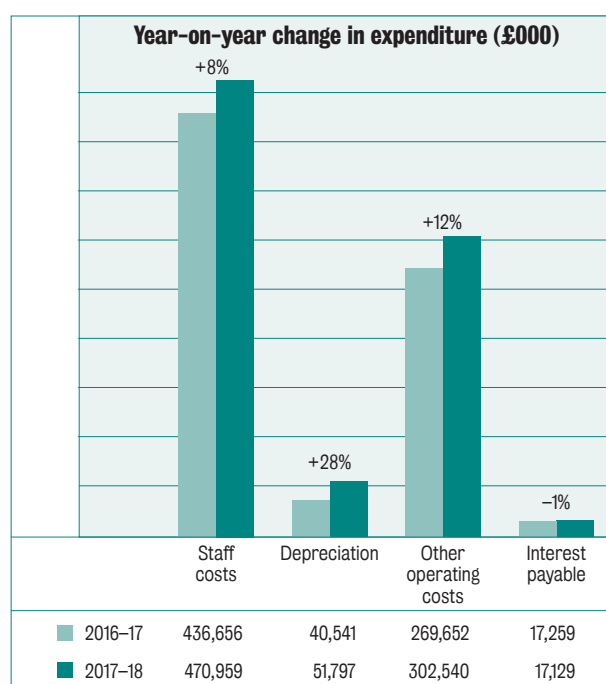
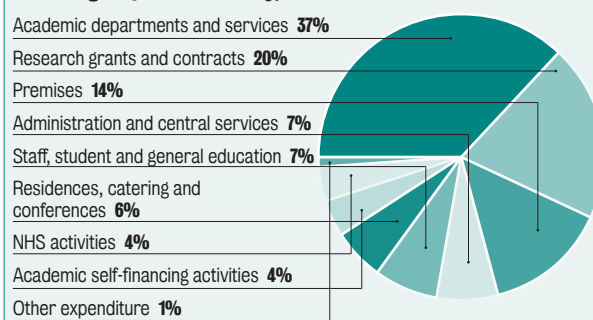
Tuition fees are the largest source of income and comprised 41% of total university income for the year. This reflects strategic decisions by the university to grow both home and international student numbers in subjects where there is strong demand from suitably qualified students.

Sources of King's income, 2017-18



Expenditure

How King's spent its money, 2017-18



Staff costs rose by 8%/£34.3m year on year. About £22m of this reflects staff recruitment. The underlying pay bill increased by about 3%/£12m, including the impact of sector-level agreements on annual pay settlement and London weighting, together with a full year of the new apprenticeship levy. The increase also included performance recognition and reward.

Endowment asset investments

The endowment investments increased during the year from £213.5m to £233.5m. The £20m increase reflects the receipt of £1.7m of new endowments, investment income of £3.7m, expenditure of £5.2m and £19.8m capital growth over the year. Total investment income on endowments was £3.7m. Performance measured by total return over the year was ahead of the composite benchmark.

Performance for the year to 31 July 2018

Actual performance	+11.2%
Policy benchmark	+10.2%
Value added	+1%

The endowment has adopted the following asset allocation policy targets:

Asset allocation	%
Global equity	64
Emerging markets equity	8
Private investments	8
Property	10
Inflation-linked bonds	5
UK gilts and cash	5

The Charity Commission has issued an order to enable King's to adopt a total return approach without the need for an amendment to the King's College London Act 1978. We have agreed a target spending rate of 4% using the trailing market value rule to moderate the amount of cash we take out each year to maintain the real-terms value of the endowment over time. King's switched to a total return from 1 August 2017.

Treasury management

The university manages day-to-day cash flow through its principal bankers, National Westminster Bank plc. Surplus cash is swept overnight from the current account to an interest-bearing deposit account. Cash in excess of day-to-day liquidity needs is placed in two money market funds run by Royal London Asset Management (RLAM). Up to £50m is placed in the RLAM Cash Plus Fund, and an unlimited amount may be placed in the RLAM Short-Term Money Market Fund.

Long-term loans

External borrowings

	Total £000	< 1 year £000	> 1 year £000
Finance leases	14,750	1,642	13,108
Loans	292,404	4,686	287,718
Total borrowings 2017–18	307,154	6,328	300,826
Total borrowings 2016–17	308,870	6,087	302,783

	31 July 2018	31 July 2017	Limit
External borrowings as a % of income	36.5%	39.7%	50%
External borrowings to total reserves	32.5%	33.4%	100%

The university's financial strategy sets internal borrowing limits based on percentage of income and gearing, and the current position is within target.

The ratio of liquid assets to annual expenditure (excluding depreciation) was 83 days (2016–17 124 days) compared with a target of 90 days; the ratio is lower than the previous year largely due to timing, as the planned capital investment programme – particularly in respect of Bush House – was completed during the year. We are reviewing our liquidity targets, having regard to the financial strategy and our investment needs.

Net cash	31 July 2018 £000	31 July 2017 £000	Change £000
Cash and cash equivalents	180,768	246,258	(65,490)
Borrowings less term deposits for loan repayment	(298,446)	(301,387)	2,941
(Borrowings)/net cash	(117,678)	(55,129)	(62,549)

Pensions

The two main pension schemes in which King's participates are the Universities Superannuation Scheme (USS) and the Superannuation Arrangements for the University of London (SAUL). They are multi-employer, defined-benefit pension schemes.

The next formal valuation of the USS pension scheme was due at 31 March 2017. There has been some controversy regarding the March 2017 valuation and its consequences for the funding, contributions and benefit design. This culminated in a series of strikes in response to proposals to change the scheme design from hybrid defined benefit/defined contribution to an entirely defined contribution

scheme. To resolve the dispute the employers and member representatives agreed to establish a Joint Expert Panel to review the valuation methodology. The Joint Expert Panel reported in September 2018 and made a number of recommendations, which would require employers to increase contributions from 18% to 20.1% and take more risk that contributions might increase further in future, and for employees to agree to some benefit reform and increase member contributions from 8.1% to 9.1%.

In the meantime, and in the absence of any agreement on the March 2017 valuation, the USS Trustee is consulting on the default cost sharing proposals, which would increase employer contributions from 18% to 24.9% and member contributions from 8% to 11.7% to maintain existing benefits and fund the estimated £7.5bn deficit. It is hoped that the report of the Joint Expert Panel will provide a pragmatic way forward to maintain broadly comparable benefits at a cost that is more affordable for both employers and members, based on an updated scheme deficit of £4bn at 31 March 2018.

As the March 2017 valuation is not yet complete these accounts are based on the latest available full triennial actuarial valuation of the scheme as at 31 March 2014.

The next formal valuation of the SAUL pension scheme was also at 31 March 2017. The SAUL valuation is complete and reported a surplus of £56m on technical provisions at that date. The SAUL pension provision is no longer required, although the employers have maintained the 3% deficit recovery contributions that they had agreed to pay until at least 31 March 2020 to help fund the cost of future accrual.

Prospects and planning outlook

The broader economic, funding and regulatory outlook for the next few years looks increasingly uncertain and may present challenging headwinds that necessitate adaptation to our planning. The outcome of the Review of Higher Education is expected in spring 2019 and it is hoped that it will take a whole-system approach to university finances, balancing the funding for students with the research and civic mission of the sector. Proposed changes in the way the government accounts for the student loan book may affect the outcome of the Funding Review.

Negotiations in relation to the UK's withdrawal from the EU continue and will have an important bearing on the future performance of the sector and the university. King's is an international university and seeks to attract the best staff and students globally. At best, the negotiations will adversely affect the perception of the UK as being welcoming to both staff and students. At worst, changes to work and study visas will limit the ability to recruit and retain the best staff and students, irrespective of their country of origin. There is also uncertainty about whether EU students will continue to have access to home fee levels and student loans.

The economic outlook for the next few years is looking unsettled although a generally weaker sterling makes the prospect of living and studying in London more affordable for international students funded by local currency. It is also worth noting that periods of economic slowdown have been linked to increases in the number of applications for postgraduate study, as individuals seek to improve their employability prospects by investing in further education.

For the higher education sector there is additional pressure on employment costs against a background of a number of years of modest pay increases and extra pay pressure related to pension funding.

The funding of nursing and midwifery programmes changed in 2017–18, with students moving to a full-fee basis, supported by access to student loans. This has had a significant impact on the number of applications, even for programmes such as postgraduate diplomas, where the fee regime remains unaltered, for now. Together with potential changes to the status of students from the EU, these new arrangements could have a significant impact on the availability of suitably qualified healthcare professionals across the UK in future years.

King's is in a position of relative strength to meet these challenges. In response to potential Brexit issues, the university is already looking at long-term student growth targets and developing options for re-profiling the mix between home, EU and international; however, so far no drop-off in the number of EU-domiciled students has been seen.

King's programmes are in high demand: for the 2017–18 academic year there were some 88,000 applications for around 16,000 places. There is particular demand for a suite of new programmes launched by King's Business School, with further offerings in the pipeline in business, science, technology and engineering. King's Online, which delivers distance- and blended-learning courses, continues to grow in line with plan.

King's benefits from its multidisciplinaryity; it is able to offer unique combinations of study across health, sciences, arts and social sciences. Similarly, research funding is increasingly targeted towards interdisciplinary and translational research.

The university benefits from and leverages its prestigious central London location, which remains attractive to both international students and staff. King's London Engagement Framework continues to capitalise and further develop its 'service to society' track record, with a particular emphasis on the university's home boroughs. It connects the global to the local, supporting academics in local generation of knowledge that has transnational impact, developing capacity within local communities and strengthening King's relationships with its neighbours.

To support its many academic developments, King's will continue to invest in a number of initiatives to strengthen its professional services functions. These include major investments in technology, process redesign and people.

Finally, in terms of planning, King's regularly monitors and models its financial sustainability against a range of variables, and there are suitable mitigation plans developed for implementation should the need arise. Increasing operating cash surpluses is crucial for both risk management and for the university's forward investment plans.

Conclusions

It has been another year of positive academic achievement reflecting, among other things, strong student demand for King's programmes and, in particular, new programme offerings. In the year ahead we are focusing on developing greater financial flexibility and headroom to deliver our academic strategy against a background of uncertain government policy.

Mr Michael D'Souza
Treasurer

Mr Stephen Large
Vice-President (Finance)

Corporate governance

The following statement is provided to enable readers of the financial statements of the university to obtain a better understanding of the governance and legal structure of King's.

The university endeavours to conduct its business:

(a) in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness; integrity; objectivity; accountability; openness; honesty; leadership) and

(b) in the light of the guidance to universities that has been provided by the Committee of University Chairs in its Guide for Members of Governing Bodies of Universities in the UK.

King's is an independent corporation whose legal status derives from a Royal Charter originally granted in 1829. Its objects, powers and framework of governance are set out in the Charter and supporting Statutes.

The Charter and Statutes require the university to have two bodies, the Council and the Academic Board, each with clearly defined functions and responsibilities, to oversee and manage its activities.

The Council is the supreme governing body responsible for the finance, property, investment and conduct of all affairs of the university including the strategic direction of the institution. The Council has independent members, from whom its Chair and Vice-Chair must be drawn, but also included in its membership are university staff members and the president of the student body. None of the independent members receives any payment, apart from the reimbursement of expenses, for the work that they do for the university.

The Academic Board is the academic authority of the university and draws its membership mainly from the academic staff and the students of the institution. It is the body responsible under delegated authority from the Council for the academic work of the university in teaching, examining and research. The Academic Board recommends major policy changes to the Council.

Although the Council meets at least five times each academic year, most of its detailed business is handled by committees, in particular a Finance Committee; an Audit, Risk & Compliance Committee; a Remuneration Committee; an Estates Strategy Committee; and a Governance & Nominations Committee. The Council also has a Chairs' Committee, comprised primarily of the Chairs of the key standing committees, to take urgent decisions between

ordinary meetings when convening a special meeting of Council is not possible. Each of these committees is formally constituted with written terms of reference and specified membership, including a significant proportion of independent members, from whom the Chairs are drawn. Each reports regularly to the Council.

The Finance Committee *inter alia* recommends to Council the university's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It also approves comprehensive Financial Regulations for the conduct of the financial affairs of the university.

The Audit, Risk & Compliance Committee is responsible for meeting at least once annually with the external auditor to discuss audit findings, and with the internal auditors to consider detailed internal audit reports and recommendations for the improvement of the university's systems of internal control, together with management's response and implementation plans. It receives and considers reports from the Office for Students (OfS) as they affect the university's business and receives reports from other statutory, regulatory or funding agencies concerning the university's compliance with relevant legislation and standards. It also reviews accounting policies and any major changes to the university's accounting principles and practice that are brought to its attention by the external auditor, internal audit or management.

The Remuneration Committee determines the annual remuneration of the President & Principal, Senior Vice-Presidents and Provosts, Vice-Principals and the College Secretary. The university follows the guidelines laid out in the Committee of University Chairs higher education remuneration code.

The principal academic and executive officer of King's is the President & Principal, who has a general responsibility to the Council for ensuring that the objects of the university are fulfilled and for maintaining and promoting the efficiency, discipline and good order of the university. The President & Principal is also, under the OfS Terms and Conditions of Funding, the designated Accountable Officer of the university and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

The Ordinances of the university specify that the College Secretary should act as Secretary of the Council. Any enquiries about the constitution and governance of the university should be addressed to the College Secretary.

Statement of internal control

The Council, as the governing body of the university, has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which the Council is responsible, in accordance with the responsibilities assigned to the governing body in the Charter and Statutes and the OfS Terms and Conditions of Funding for Higher Education Institutions.

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

The system of internal control is based on an ongoing process designed to identify the principal risks; to evaluate the nature and extent of those risks; and to manage them efficiently and effectively. This process was in place for the year ended 31 July 2018 and up to the date of the approval of the financial statements, and accords with OfS guidance.

The Council has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- The Council considers the plans and strategic direction of the university on an annual basis.
- The Audit, Risk & Compliance Committee independently reviews the effectiveness of internal control systems and the risk-management process.
- The Council receives periodic reports from the Chair of the Audit, Risk & Compliance Committee concerning issues of risk, internal controls and their effectiveness, which are informed by regular reports from Vice-Presidents and other senior managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- An Enterprise Risk Management Committee, comprising the whole of the Senior Management Team and chaired by the Senior Vice-President (Operations), meets once a term to provide executive management oversight of the control of risk at the university. The annual programme of work for this committee includes consideration of reports from faculties, functions and the key risk owners in the university.
- The Audit, Risk & Compliance Committee reports to Council its findings in respect of the effectiveness of the risk-management process. This is informed by a termly report from the Enterprise Risk Management Committee

which contains updates to the corporate risk register and risk-appetite statements, along with any other relevant developments in the control of risk at the university.

- The Audit, Risk & Compliance Committee receives regular reports from the Department of Business Assurance on the effectiveness of internal controls based on work undertaken in accordance with its approved audit plan.
- The business planning process requires heads of faculties and functional leads to identify and keep up-to-date the record of risks facing the university. They are required to report on their internal control activities to the Enterprise Risk Management Committee.
- A programme of risk-awareness training is carried out and is linked to the business planning process.
- The university has developed a suite of key performance indicators (KPIs), allowing the Council to monitor progress towards the achievement of strategic objectives. The corporate risk register makes clear links to relevant KPIs.
- The university has an Internal Audit Unit, as part of the Department of Business Assurance, which sits within the College Secretariat. The Internal Audit Unit operates to standards defined in the OfS Audit Code of Practice, which is contained within the OfS Terms and Conditions of Funding for Higher Education Institutions. It was introduced in March 2018, in succession to the Higher Education Funding Council for England (HEFCE) Memorandum of Assurance and Accountability, for the transition period to July 2019.
- The Internal Audit Unit submits regular reports to the Audit, Risk & Compliance Committee that include an independent opinion on the adequacy and effectiveness of the university's system of internal control, together with recommendations for improvement.

The Council's full review of the effectiveness of the system of internal control for the year ended 31 July 2018 was informed by the Audit, Risk & Compliance Committee, and the work of the Department of Business Assurance, and by reports of the executive managers within the university who have responsibility for the development and maintenance of the internal control framework. It was also informed by comments made by the external auditor in its management letter and other reports.

Statement of Council responsibilities in respect of the financial statements

In accordance with the Royal Charter, the Council of King's College London is responsible for the administration and management of the affairs of the university; it requires audited financial statements to be presented for each financial year.

The Council is responsible for preparing the financial statements in accordance with the requirements of the Office for Students' Terms and conditions of funding for higher education institutions and Research England's Terms and conditions of Research England grant and applicable law and regulations.

It is required to prepare group and parent university financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. The terms and conditions of funding further require the financial statements to be prepared in accordance with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education, in accordance with the requirements of the Accounts Direction issued by the Office for Students. The Council is required to prepare financial statements that give a true and fair view of the state of affairs of the group and parent university and of their income and expenditure, gains and losses and changes in reserves for that period.

In preparing each of the group and parent university financial statements, the Council is required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- assess the group and parent university's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and
- use the going concern basis of accounting unless it either intends to liquidate the group or the parent university or to cease operations, or has no realistic alternative but to do so.

The Council is responsible for keeping proper accounts and proper records in relation to the accounts. It is responsible

for such internal control as it determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the group and to prevent and detect fraud and other irregularities. The Council is also responsible for ensuring that:

- funds from whatever source administered by the group or the university for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation
- funds provided by the Office for Students and Research England have been applied in accordance with the terms and conditions attached to them
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them
- there are appropriate financial and management controls in place to safeguard public funds and funds from other sources, and
- the economical, efficient and effective management of the university's resources and expenditure are secured.

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the university's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments
- a comprehensive medium- and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of academic and non-academic performance and quarterly reviews of financial results involving variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee under delegated authority from the Council
- a professional independent internal audit team whose annual programme is approved by the Audit, Risk & Compliance Committee and endorsed by the Council

and whose head provides the Council with a report on internal audit activity within the university and an opinion on the adequacy and effectiveness of the university's system of internal control, including internal financial control. Any system of internal financial control can, however, only provide reasonable, not absolute, assurance against material misstatement or loss.

Independent auditor's report to the Council of King's College London

Report on the audit of the financial statements

Opinion

We have audited the financial statements of King's College London ('the University') for the year ended 31 July 2018 which comprise the Consolidated Statement of Comprehensive Income and Expenditure, Consolidated and University Statement of Changes in Reserves, Consolidated and University Balance Sheet, Consolidated Statement of Cash Flows and related notes, and the Statement of Principal Accounting Policies.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2018, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS102, *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*; and
- meet the requirements of the Accounts Direction dated 19 June 2018 issued by the Office for Students.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for

a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Council is responsible for the other information, which comprises the Operating and Financial Review, Corporate Governance Statement and Statement of Internal Control. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Council responsibilities

As explained more fully in their statement set out on page 15, the Council is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the Group or the parent University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Report on other legal and regulatory requirements

We are required to report on the following matters under the Office for Students and Research England Audit Codes

of Practice issued under the Further and Higher Education Act 1992.

In our opinion, in all material respects:

- funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- income has been applied in accordance with the University's Statutes;
- funds provided by the Office for Students and Research England have been applied in accordance with the terms and conditions attached to them; and
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them.

The purpose of our audit work and to whom we owe our responsibilities

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

Fleur Nieboer
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

30 November 2018

Notes:

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

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

Statement of principal accounting policies

1. Accounting convention

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP) – Accounting for Further and Higher Education (2015) and applicable accounting standards. The university is a public-benefit entity and has therefore applied the relevant public-benefit requirement of the applicable accounting standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of endowment asset investments.

2. Basis of consolidation

The consolidated financial statements consolidate the financial statements of King's and all its subsidiary undertakings for the financial year to 31 July.

The consolidated financial statements do not include those of the King's College London Students' Union, in which the university has no financial interest and no control or significant influence over policy decisions.

3. Recognition of income

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Student-fee income is stated gross of any expenditure that is not a discount and credited to the Consolidated Statement of Comprehensive Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Funds the university receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the university where the university is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Government grants including funding council block grant, research grants from government sources, and other grants and donations from non-government sources (including research grants) are recognised within the Consolidated

Statement of Comprehensive Income and Expenditure when the university is entitled to the income and performance-related conditions have been met.

Income received in advance of performance-related conditions is deferred on the balance sheet and released to the Consolidated Statement of Comprehensive Income and Expenditure in line with such conditions being met.

Non-exchange transactions without performance-related conditions are donations and endowments. Donations and endowments with donor-imposed restrictions are recognised within the Consolidated Statement of Comprehensive Income and Expenditure when the university is entitled to the income. Income is retained within the restricted reserve until such time as it is used in line with the restrictions, at which point the income is released to general reserves through a reserve transfer.

Endowment investment income and appreciation is recorded in income in the year in which it arises, as either restricted or unrestricted income according to the terms of the individual endowment fund.

The university operates a total return endowment investment management policy for permanent endowments. This allows the spending of permanent endowment investment gains regardless of whether they are realised or unrealised capital gains or dividend and interest income. The Investment Subcommittee has adopted a total return spending rate of 4% applied to the average ending portfolio valuation over the previous 12 quarters.

Donations with no restrictions are recorded in the Consolidated Statement of Comprehensive Income and Expenditure when the university is entitled to the income.

Donations and endowments with restrictions are classified as restricted reserves with additional disclosure provided in the notes to the accounts.

There are four main types of donations and endowments with restrictions, which are:

- restricted donations – the donor has specified that the donation must be used for a particular objective
- unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate income for the general benefit of the university
- restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the university can convert the donated sum into income
- restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate income to be applied to a particular objective.

Capital grants are recorded in income when the university is entitled to the income subject to any performance-related conditions being met.

Investment income from short-term deposits is included in the Consolidated Statement of Comprehensive Income and Expenditure on a receivable basis.

4. Accounting for retirement benefits

The two principal pension schemes in which the university participates are the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). The schemes are defined-benefit schemes that are externally funded and contracted out of the Second State Pension. The schemes are valued every three years by professionally qualified and independent actuaries.

5. Employment benefits

Short-term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the university. Any unused benefits are accrued and measured as the additional amount the university expects to pay as a result of the unused entitlement.

6. Finance leases

Leases in which the university assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

7. Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

8. Foreign currencies

Transactions denominated in foreign currencies are translated to sterling at the foreign-exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to sterling at the foreign-exchange rate ruling at that date. Foreign-exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income and Expenditure. The resulting exchange differences

are dealt with in the determination of income and expenditure for the financial year.

9. Fixed assets

Fixed assets are stated at cost less accumulated depreciation.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Costs incurred in relation to land and buildings after initial purchase or construction are capitalised to the extent that they increase the expected future benefits to the university.

Freehold land is not depreciated, as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight-line basis over their expected useful lives of 50 years, and 100 years in respect of new-build property.

Leasehold land is depreciated over the life of the lease.

No depreciation is charged on assets in the course of construction.

Equipment, including computers and software, costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life of 5 years, and 15 years in respect of plant. Capitalised leased equipment is stated at cost and depreciated over its expected useful life of 15 years.

Depreciation methods, useful lives and residual values are reviewed during the preparation of each balance sheet.

Borrowing costs are recognised as an expense in the Consolidated Statement of Comprehensive Income and Expenditure in the period in which they are incurred.

10. Heritage assets

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

In so far as heritage assets are used as operational assets, as in the case of historic buildings, they are capitalised in accordance with the policies set out in point 9 above. Other heritage assets – principally printed materials, pictures and objects of scientific interest – are, for individual items exceeding £25,000, capitalised at cost or valuation on acquisition, but only where a reliable valuation is available. Valuations reflect any impairment or restrictions on use of the assets by the university. No assets acquired prior to 1 August 2000 have been capitalised, as reliable information concerning their cost or value on acquisition is not available.

Descriptions of the principal heritage assets held are set out in note 13 to the accounts.

11. Investment properties

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services.

Investment properties are measured initially at cost and subsequently at fair value, with movements recognised in the Consolidated Statement of Comprehensive Income and Expenditure. Properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July.

12. Investments

Endowment asset investments are included in the balance sheet at market value.

Current asset investments are included at the lower of cost or net realisable value.

Unquoted investments are held at cost or impaired value.

13. Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. They include term deposits, government securities and loan stock held as part of the university's treasury management activities. They exclude any such assets held as endowment asset investments.

14. Taxation status

The university is an exempt charity within the meaning of Part 3 of the Charities Act 2011 and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. Accordingly, the university is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478–488 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The university receives no similar exemption in respect of Value Added Tax but is unable to recover input tax incurred on the majority of its expenditure, most education and research being VAT-exempt activity. Irrecoverable VAT is included in the cost of the goods or services.

The university's subsidiary companies are subject to corporation tax and VAT in the same way as any other commercial organisation. However, no provision has been made for deferred tax on the grounds that the taxable profits of the subsidiary companies are gift-aided back to King's.

15. Provisions

Provisions are recognised when the university has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

King's regularly reviews the risks inherent in its educational and research activities and makes financial provision where appropriate.

In addition, the university operates its halls of residence on a self-financing basis and provides annually for the cost of long-term maintenance and regular refurbishment.

Consolidated Statement of Comprehensive Income and Expenditure

For the year ended 31 July 2018

		Consolidated		University	
	Note	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Income					
Tuition fees and education contracts	1	342,253	299,916	342,253	299,916
Funding body grants	2	123,889	122,996	123,889	122,996
Research grants and contracts	3	194,417	192,563	194,417	192,563
Other income	4	148,768	133,251	148,796	133,329
Investment income	5	6,190	6,330	6,189	6,314
Total income before donations and endowments		815,517	755,056	815,544	755,118
Donations and endowments	6	25,513	23,094	25,570	23,127
Total income		841,030	778,150	841,114	778,245
Expenditure					
Staff costs	7	470,959	436,656	466,934	434,227
Other operating expenses		302,540	269,652	306,750	272,232
Depreciation	12	51,797	40,541	51,696	40,462
Interest and other finance costs	9	17,129	17,259	17,129	17,259
Total expenditure	10	842,425	764,108	842,509	764,180
Surplus before other gains and losses		(1,395)	14,042	(1,395)	14,065
Gain on endowment investments	23	19,811	14,309	19,811	14,309
Gain on property investment	14	5,581	—	5,581	—
Surplus before tax		23,997	28,351	23,997	28,374
Taxation	11	—	—	—	—
Surplus for the year		23,997	28,351	23,997	28,374
Actuarial loss in respect of pension schemes	20	(2,029)	(4,301)	(2,029)	(4,301)
Total comprehensive income for the year		21,968	24,050	21,968	24,073
Represented by:					
Endowment comprehensive income for the year	23	19,968	19,410	19,968	19,410
Restricted comprehensive income for the year	22	(3,945)	(1,978)	(3,945)	(1,978)
Unrestricted comprehensive income for the year	24	5,945	6,618	5,945	6,641
		21,968	24,050	21,968	24,073

The consolidated income and expenditure of the university and its subsidiaries relates wholly to continuing operations. There is no difference between the surplus stated above and the historical cost equivalent.

The notes on pages 26 to 42 form part of the financial statements.

Consolidated and University Statement of Changes in Reserves

For the year ended 31 July 2018

Consolidated

	Income and expenditure account			
	Endowment £000	Restricted £000	Unrestricted £000	Total £000
Balance at 1 August 2016	194,084	10,617	695,137	899,838
Surplus for the year	19,410	17,509	(8,568)	28,351
Other comprehensive income	–	–	(4,301)	(4,301)
Release of restricted capital funds spent in year	–	(19,487)	19,487	–
Total comprehensive income for the year	19,410	(1,978)	6,618	24,050
Balance at 1 August 2017	213,494	8,639	701,755	923,888
Surplus for the year	19,968	13,241	(9,212)	23,997
Other comprehensive income	–	–	(2,029)	(2,029)
Release of restricted capital funds spent in year	–	(17,186)	17,186	–
Total comprehensive income for the year	19,968	(3,945)	5,945	21,968
Balance at 31 July 2018	<u>233,462</u>	<u>4,694</u>	<u>707,700</u>	<u>945,856</u>

University

	Income and expenditure account			
	Endowment £000	Restricted £000	Unrestricted £000	Total £000
Balance at 1 August 2016	194,084	10,617	697,446	902,147
Surplus for the year	19,410	17,509	(8,545)	28,374
Other comprehensive income	–	–	(4,301)	(4,301)
Release of restricted capital funds spent in year	–	(19,487)	19,487	–
Total comprehensive income for the year	19,410	(1,978)	6,641	24,073
Balance at 1 August 2017	213,494	8,639	704,087	926,220
Surplus for the year	19,968	13,241	(9,212)	23,997
Other comprehensive income	–	–	(2,029)	(2,029)
Release of restricted capital funds spent in year	–	(17,186)	17,186	–
Total comprehensive income for the year	19,968	(3,945)	5,945	21,968
Balance at 31 July 2018	<u>233,462</u>	<u>4,694</u>	<u>710,032</u>	<u>948,188</u>

The notes on pages 26 to 42 form part of the financial statements.

Consolidated and University Balance Sheet

As at 31 July 2018

		Consolidated		University	
	Note	2018 £000	2017 £000	2018 £000	2017 £000
Non-current assets					
Tangible assets	12	1,029,939	972,137	1,031,920	974,179
Investments	14	68,764	40,136	68,764	40,136
Endowment investments	15	233,462	213,494	233,462	213,494
		<u>1,332,165</u>	<u>1,225,767</u>	<u>1,334,146</u>	<u>1,227,809</u>
Current assets					
Trade and other debtors	16	100,908	104,825	101,063	105,513
Cash and cash equivalents		<u>180,768</u>	<u>246,258</u>	<u>179,462</u>	<u>244,745</u>
		<u>281,676</u>	<u>351,083</u>	<u>280,525</u>	<u>350,258</u>
Less: Creditors: amounts falling due within one year	17	(276,982)	(256,200)	(275,480)	(255,085)
Net current assets		<u>4,694</u>	<u>94,883</u>	<u>5,045</u>	<u>95,173</u>
Total assets less current liabilities		<u>1,336,859</u>	<u>1,320,650</u>	<u>1,339,191</u>	<u>1,322,982</u>
Creditors: amounts falling due after more than one year	18	(312,549)	(316,860)	(312,549)	(316,860)
Provisions					
Pension provisions	20	(73,801)	(75,249)	(73,801)	(75,249)
Other provisions	21	(4,653)	(4,653)	(4,653)	(4,653)
Total net assets		<u>945,856</u>	<u>923,888</u>	<u>948,188</u>	<u>926,220</u>
Restricted reserves					
Income and expenditure reserve – endowment reserve	23	233,462	213,494	233,462	213,494
Income and expenditure reserve – restricted reserve	22	4,694	8,639	4,694	8,639
Unrestricted reserves					
Income and expenditure reserve – unrestricted	24	707,700	701,755	710,032	704,087
Total reserves		<u>945,856</u>	<u>923,888</u>	<u>948,188</u>	<u>926,220</u>

The financial statements on pages 19 to 42 were approved by the Council on 27 November 2018 and signed on its behalf by:

The Right Honourable the Lord Geidt
Chairman of Council

Professor Edward Byrne
President & Principal

Mr Michael D'Souza
Treasurer

Consolidated Statement of Cash Flows

For the year ended 31 July 2018

	Note	2017-18 £000	2016-17 £000
Cash flow from operating activities			
Surplus for the year		23,997	28,351
Adjustment for non-cash items			
Depreciation	12	51,797	40,541
Gain on property investment	14	(5,581)	–
Gain on endowment investments	15	(19,811)	(14,309)
Decrease/(increase) in debtors		3,917	(17,833)
Increase in creditors		20,552	28,033
Decrease in lease premium on development property		(880)	(440)
Write down in value of investments	14	800	800
Decrease in pension provisions	20	(4,822)	(6,034)
Adjustment for investing or financing activities			
Investment income	5	(6,190)	(6,330)
Interest payable	9	17,129	17,259
Endowment income	6	(1,666)	(4,347)
Capital grant income		(13,241)	(17,509)
Net cash inflow from operating activities		<u>66,001</u>	<u>48,182</u>
Cash flows from investing activities			
Proceeds from sale of endowment asset investments		54,270	75,708
Capital grants receipts		13,241	17,509
Investment income	5	6,190	6,330
Payments made to acquire fixed assets	12	(133,747)	(116,688)
New non-current asset investments	14	301	(343)
New non-current endowment asset investments	15	(68,533)	(65,008)
Endowment asset investments decrease/(increase) in cash balances	15	<u>14,106</u>	<u>(15,801)</u>
		<u>(114,172)</u>	<u>(98,293)</u>
Cash flows from financing activities			
Interest paid		(11,429)	(11,550)
Lease premium repayment		(249)	–
Interest element of finance lease payments		(1,637)	(1,643)
Endowment cash received	6	1,666	4,347
Repayments of amounts borrowed		(4,445)	(4,219)
Capital element of finance lease payments		<u>(1,225)</u>	<u>(1,078)</u>
		<u>(17,319)</u>	<u>(14,143)</u>
Decrease in cash and cash equivalents in the year		<u>(65,490)</u>	<u>(64,254)</u>
Cash and cash equivalents at beginning of the year	26	246,258	310,512
Cash and cash equivalents at end of the year	26	<u>180,768</u>	<u>246,258</u>
Decrease in cash and cash equivalents in the year	26	<u>(65,490)</u>	<u>(64,254)</u>

The notes on pages 26 to 42 form part of the financial statements.

Notes to the accounts

For the year ended 31 July 2018

1. TUITION FEES AND EDUCATION CONTRACTS

	Consolidated and University	
	2017-18 £000	2016-17 £000
Full-time students charged home fees	146,644	132,605
Full-time students charged overseas fees	142,575	117,396
NHS contracted student fees	20,121	24,602
Part-time fees	12,794	9,947
Special and short course fees	20,039	15,322
Research training support grants	80	44
	<u>342,253</u>	<u>299,916</u>

2. FUNDING BODY GRANTS

	Consolidated and University	
	2017-18 £000	2016-17 £000
Funding body recurrent grant	107,711	104,301
Funding body specific grants	6,597	3,696
Funding body capital grants	9,581	14,999
Total funding body grants	<u>123,889</u>	<u>122,996</u>

3. RESEARCH GRANTS AND CONTRACTS

	Consolidated and University	
	2017-18 £000	2016-17 £000
Research Councils	43,474	42,451
Research & Development Expenditure Credit Scheme	159	–
UK central government, local authorities, health and hospital authorities	39,858	36,166
UK industry, commerce and public corporations	15,282	15,903
UK charitable bodies	54,407	53,166
EU government and other bodies	24,679	26,717
Overseas non EU	15,360	16,904
Other	1,198	1,256
	<u>194,417</u>	<u>192,563</u>

4. OTHER INCOME

	Consolidated		University	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Academic departments costs reimbursed by NHS	14,727	14,178	14,727	14,178
Clinical excellence awards reimbursed by NHS	7,173	7,204	7,173	7,204
Residences, catering and conferences	52,048	49,976	52,048	49,976
Services rendered to NHS and related bodies	14,136	8,787	14,136	8,787
Self-financing activities	24,701	20,445	24,701	20,445
Research Councils studentship grants	8,588	8,504	8,588	8,504
Other income	27,395	24,157	27,423	24,235
	<u>148,768</u>	<u>133,251</u>	<u>148,796</u>	<u>133,329</u>

Notes to the accounts *continued*

For the year ended 31 July 2018

5. INVESTMENT INCOME

	Consolidated		University	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Income on restricted permanent endowments (<i>note 23</i>)	3,003	4,050	3,003	4,050
Income on restricted expendable endowments (<i>note 23</i>)	703	780	703	780
Other investment income	972	–	972	–
Other interest receivable	1,512	1,500	1,511	1,484
	<u>6,190</u>	<u>6,330</u>	<u>6,189</u>	<u>6,314</u>

6. DONATIONS AND ENDOWMENTS

	Consolidated		University	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Capital grants	3,660	2,510	3,660	2,510
New endowments (<i>note 23</i>)	1,666	4,347	1,666	4,347
Donations with restrictions	7,622	8,172	7,622	8,172
Unrestricted donations	12,565	8,065	12,622	8,098
	<u>25,513</u>	<u>23,094</u>	<u>25,570</u>	<u>23,127</u>

7. STAFF

	Consolidated		University	
	2017-18 £000	2016-17 £000	2017-18 £000	2016-17 £000
Staff costs:				
Wages and salaries	359,054	330,520	356,093	328,421
Redundancy payments	1,967	1,662	1,967	1,662
Social security costs	36,850	33,508	36,513	33,315
Other pensions costs (<i>note 27</i>)	49,475	44,212	49,280	44,096
Permanently employed	<u>447,346</u>	<u>409,902</u>	<u>443,853</u>	<u>407,494</u>
Agency and contract staff costs	23,613	26,754	23,081	26,733
Total staff costs	<u>470,959</u>	<u>436,656</u>	<u>466,934</u>	<u>434,227</u>

Agency and contract staff costs include amounts charged by third parties, including NHS Trusts, for contractors and job holders who are not directly employed by the university.

	2017-18 Number	2016-17 Number
Average staff numbers, expressed as full-time equivalents:		
Academic/clinical, including research contract staff	3,887	3,736
Administrative and related staff	1,216	1,114
Technical	356	340
Clerical	1,278	1,243
Other	181	157
	<u>6,918</u>	<u>6,590</u>

Notes to the accounts *continued**For the year ended 31 July 2018*7. STAFF (*continued*)

Remuneration of higher-paid staff, excluding employer's pension contributions and salary reimbursed by the NHS:

	2017-18 Total number	2016-17 Total number
£100,001-£105,000	41	31
£105,001-£110,000	33	30
£110,001-£115,000	27	20
£115,001-£120,000	17	14
£120,001-£125,000	17	15
£125,001-£130,000	7	11
£130,001-£135,000	12	9
£135,001-£140,000	10	4
£140,001-£145,000	12	7
£145,001-£150,000	6	7
£150,001-£155,000	7	1
£155,001-£160,000	5	6
£160,001-£165,000	5	5
£165,001-£170,000	3	1
£170,001-£175,000	2	2
£175,001-£180,000	1	–
£180,001-£185,000	1	1
£185,001-£190,000	3	2
£190,001-£195,000	–	1
£195,001-£200,000	1	1
£200,001-£205,000	–	2
£205,001-£210,000	3	–
£210,001-£215,000	1	–
£215,001-£220,000	2	1
£220,001-£225,000	–	–
£225,001-£230,000	2	–
£230,001-£235,000	1	–
£235,001-£240,000	–	–
£240,001-£245,000	–	–
£245,001-£250,000	–	–
£250,001-£255,000	–	–
£255,001-£260,000	1	1
£260,001-£265,000	–	–
£265,001-£270,000	–	–
£270,001-£275,000	–	–
£275,001-£280,000	1	–
	<u>221</u>	<u>172</u>

The accounts include no severance payments for higher-paid employees (including the cost of additional pension benefits purchased by the university) for 2018 (2017 – one, £80,000).

Notes to the accounts *continued**For the year ended 31 July 2018***7. STAFF (continued)**

	2017-18 Number	2017-18 £000	2016-17 Number	2016-17 £000
Key management personnel staff costs	<u>11</u>	<u>2,110</u>	<u>9</u>	<u>1,782</u>

The composition of key management personnel changes from time to time to reflect the strategic priorities of Vision 2029. Included in key management personnel for 2017–2018 are the management leads for the London and Service elements of our strategy. They are existing personnel with additional responsibility for these portfolios which, on a like-for-like basis, does not represent any increase in management personnel.

President & Principal's pay statement

Context: King's is a world-class institution which aspires to the very highest standards of education and research. The university is a member of the Russell Group and is one of the world's leading research-intensive universities, with a global reputation for excellence. The university's Remuneration Policy for Senior Post Holders recognises that King's recruits from a global talent pool in selecting its President & Principal and that different pay models operate across universities in countries from which King's may seek to recruit. Indeed, the current President & Principal was recruited from a high-ranking institution in Australia.

Value: President & Principal Professor Edward Byrne has provided outstanding leadership to King's since his arrival in 2014. He is a leader in higher education in the UK: he is Deputy Vice-Chancellor of the University of London and is frequently called upon by government to provide input into key HE issues.

At Professor Byrne's request his salary has been frozen since 2014 and he has declined any bonus payment.

Performance review process: Professor Byrne's performance is reviewed on an annual basis by the Council's Remuneration Committee, which is a standing committee of Council, chaired by the Vice-Chair of the Council and including in its membership the Chair of Council and three additional independent members of Council. As this report is written, King's is pursuing the appointment of an outside, independent expert to serve on the committee in accordance with the guidance published by the Committee of University Chairs (CUC). The annual performance review is based on progress towards a set of key performance indicators mutually agreed at the beginning of each academic year. The Council's Remuneration Policy is compliant with CUC guidance.

	2017-18 £000	2016-17 £000
Emoluments of the President & Principal:		
Salary	350	350
Benefits-in-kind	8	12
Accommodation	<u>40</u>	<u>40</u>
	398	402
Pension scheme contributions	<u>63</u>	<u>63</u>
Total emoluments of the President & Principal	<u>461</u>	<u>465</u>

The pension contributions for the President & Principal paid in respect of employer's contributions to the Universities Superannuation Scheme are paid at the same rate as for other employees. In accordance with his contract of employment, the President & Principal is required to live in university-provided accommodation for the better performance of his duties. The Principal makes a personal contribution towards running costs.

We have estimated the cost of the Principal's accommodation based on a review of the open market value of similar properties, discounted to reflect restrictions on use.

The relationship between the President & Principal's remuneration and that for all other employees expressed as a pay multiple are:

Base pay is 8.6 times the median base pay for King's employees.

Total pay is 9.8 times the median total pay for King's employees.

Methodology: Full time equivalent (FTE) pay is calculated by summing relevant pay types and the percentage of FTE worked over the year (August 2017 to July 2018) and pro-rating up to 100% to give everyone an FTE salary. Data includes staff based in Cornwall but excludes those on hourly contracts and those undertaking casual work.

Notes to the accounts *continued**For the year ended 31 July 2018***8. TRUSTEES**

The trustees are the members of Council, which is the supreme governing body of the university established under the Charter and Statutes. Membership of Council comprises a mixture of independent (lay) members, staff members, and the President of the King's College London Students' Union.

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

Total expenses were paid of £8,000 to or on behalf of six members (2017 – four, £1,000) in respect of their Council duties.

9. INTEREST AND OTHER FINANCE COSTS

	Consolidated		University	
	2017-18	2016-17	2017-18	2016-17
	£000	£000	£000	£000
Bank and other loans wholly repayable within five years	845	938	845	938
Loans not wholly repayable within five years	13,486	13,514	13,486	13,514
Finance leases	1,453	1,476	1,453	1,476
Net charge on pension schemes	1,345	1,331	1,345	1,331
	17,129	17,259	17,129	17,259

10. ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	Consolidated		University	
	2017-18	2016-17	2017-18	2016-17
	£000	£000	£000	£000
Academic departments	258,891	233,762	258,891	233,762
Academic departments costs reimbursed by NHS	14,967	14,297	14,967	14,297
Clinical excellence awards reimbursed by NHS	7,173	7,205	7,173	7,205
Academic services	56,254	49,387	56,153	49,308
Research grants and contracts	164,563	163,909	164,563	163,909
Residences, catering and conferences	53,489	52,534	53,489	52,534
Premises	120,723	95,771	120,723	95,785
Administration and central services	59,004	53,962	59,027	53,961
Staff and student facilities	17,692	16,618	17,692	16,618
General education expenditure	38,649	35,823	38,649	35,823
Services rendered to NHS and related bodies	13,349	8,310	13,349	8,310
Self-financing activities	31,336	25,320	31,336	25,320
Pensions costs	(3,477)	(4,702)	(3,477)	(4,702)
Other	9,812	11,912	9,974	12,050
Total per Income and Expenditure Account	842,425	764,108	842,509	764,180
	2017-18	2016-17		
	£000	£000		
Other operating expenses include:				
External auditors' remuneration in respect of audit services:				
University financial statements	69	74		
Subsidiary financial statements	9	8		
United States Department of Education	–	27		
United States Department of Education fee rebate for prior year	(20)	–		
External auditors' remuneration in respect of non-audit services:				
Consultancy	52	16		
Certifications	8	8		
Operating lease rentals				
Land and buildings	49,288	42,741		
Other	273	207		

Notes to the accounts *continued*

For the year ended 31 July 2018

11. TAXATION

	Consolidated and University	
	2017-18 £000	2016-17 £000
UK corporation tax payable on the profits of subsidiary companies	–	–

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

12. FIXED ASSETS

Consolidated	Land and buildings		Plant	Furniture and equipment	Leased equipment	Assets in the course of construction	Investment property	Total
	Freehold £000	Leasehold £000						
Cost								
At 1 August 2017	404,054	444,299	118,312	135,778	21,733	149,901	24,782	1,298,859
Additions	–	–	102	13,981	–	119,664	–	133,747
Transfers	6,469	105,688	2,101	28,559	–	(142,817)	(24,782)	(24,782)
Disposals	–	(4,850)	(402)	(5,657)	–	–	–	(10,909)
At 31 July 2018	410,523	545,137	120,113	172,661	21,733	126,748	–	1,396,915
Depreciation								
At 1 August 2017	81,919	101,871	34,686	91,674	15,938	–	634	326,722
Transfers	–	–	–	–	–	–	(634)	(634)
Charge for year	6,329	12,780	8,227	23,013	1,448	–	–	51,797
Eliminated on disposals	–	(4,850)	(402)	(5,657)	–	–	–	(10,909)
At 31 July 2018	88,248	109,801	42,511	109,030	17,386	–	–	366,976
Net book value								
At 31 July 2018	322,275	435,336	77,602	63,631	4,347	126,748	–	1,029,939
At 1 August 2017	322,135	342,428	83,626	44,104	5,795	149,901	24,148	972,137

University	Land and buildings		Plant	Furniture and equipment	Leased equipment	Assets in the course of construction	Investment property	Total
	Freehold £000	Leasehold £000						
Cost								
At 1 August 2017	405,127	445,269	118,267	135,549	21,733	149,984	24,782	1,300,711
Additions	–	–	–	13,921	–	119,664	–	133,585
Transfers	6,507	105,685	2,101	28,562	–	(142,855)	(24,782)	(24,782)
Disposals	–	(4,850)	(402)	(5,657)	–	–	–	(10,909)
At 31 July 2018	411,634	546,104	119,966	172,375	21,733	126,793	–	1,398,605
Depreciation								
At 1 August 2017	81,919	101,871	34,619	91,551	15,938	–	634	326,532
Transfers	–	–	–	–	–	–	(634)	(634)
Charge for year	6,329	12,780	8,194	22,945	1,448	–	–	51,696
Eliminated on disposals	–	(4,850)	(402)	(5,657)	–	–	–	(10,909)
At 31 July 2018	88,248	109,801	42,411	108,839	17,386	–	–	366,685
Net book value								
At 31 July 2018	323,386	436,303	77,555	63,536	4,347	126,793	–	1,031,920
At 1 August 2017	323,208	343,398	83,648	43,998	5,795	149,984	24,148	974,179

Notes to the accounts *continued*

For the year ended 31 July 2018

12. FIXED ASSETS (*continued*)

The total amount of interest included in assets above amounted to £1,740,000 (2017 – £1,740,000). Included within leasehold land and buildings are a number of properties that are shared with third parties where title documentation may not exist at the present time. The net book value of these is £60,638,000.

13. HERITAGE ASSETS

Heritage assets include a unique, internationally significant and continually expanding range of archival and printed sources, exhibits and pictures. These resources are available for use by the staff and students of King's, the wider academic community and any member of the public who has an interest in the university's holdings. Items may be acquired by gift, bequest, exchange or purchase on the open market.

King's aims to preserve all material in perpetuity in its original format. Surrogate copies may be created for dissemination, or where items are of exceptional rarity or delicacy. All preservation and conservation costs are charged to the Consolidated Statement of Comprehensive Income and Expenditure Account.

The principal collections are:

Archives

These comprise not only the archives of the university, but also those of organisations that it has founded or with which it has merged. Additionally, they contain the research papers of former staff and students, including Maurice Wilkins, Eric Mottram and Sir Charles Wheatstone.

The Liddell Hart Centre for Military Archives is a leading repository for research into modern defence policy in Britain. Private papers of over 700 senior defence personnel who held office from 1900 onwards form the core of this collection.

The archives consist of some 5 million documents.

Special collections

The Foyle Special Collections Library houses maps, slides, sound recordings and manuscripts as well as over 150,000 printed works. Ranging in date from the fifteenth century to the present day and covering all subject areas, the collections are particularly strong in medicine, science, voyages and travels, the history of Greece and the Eastern Mediterranean, European military and diplomatic history, the history of the British Empire, twentieth-century Germany and Jewish and Christian theology.

The largest section, the FCO Historical Collection, comprises material from the former library of the Foreign & Commonwealth Office, transferred to King's in 2007, and contains over 60,000 items. Topics it covers in depth include: exploration, discovery and travel; war and cold war; diplomacy and peace-keeping; the growth, rule and decline of empires; colonial emigration and settlement; the growth and abolition of the Atlantic slave trade; trade, transport and communication; and anthropology and natural history. Although held by the university, this collection is owned by a separate company, King's College Foreign & Commonwealth Office Library Ltd, which is independent of the university.

Gordon Museum

The Gordon Museum has a large and growing teaching collection of approximately 8,000 pathological specimens with specialised sub-areas on such subjects as Forensic Medicine and HIV/AIDS. It also houses a number of important historic collections: the Joseph Towne anatomical and dermatological wax models, the Lam Qua paintings, and specimens and artefacts acquired by Thomas Hodgkin, Thomas Addison, Richard Bright and Sir Astley Cooper.

King George III Collection

This collection of eighteenth-century scientific apparatus is on loan to the Science Museum. It consists of equipment assembled during the 1750s by the natural scientist and astronomer Stephen Demainbray for use in public lectures and apparatus commissioned in 1761 by King George III from the instrument maker George Adams for the entertainment and instruction of the royal family.

Further information on all of these collections is available on the university website, kcl.ac.uk

No heritage assets were capitalised during the year as none exceeded the capitalisation threshold of £25,000. Earlier acquisitions are not capitalised because cost or acquisition values are unavailable for the majority of the assets and the benefit of a professional valuation would be outweighed by the related costs. Any valuation would necessarily be imprecise and prey to changing fashions and fluctuating market trends due to the unique nature of the assets.

Notes to the accounts *continued**For the year ended 31 July 2018*

14. INVESTMENTS

	Investment property £000	Francis Crick Institute £000	Other investments £000	Consolidated and University	
				Total 2018 £000	Total 2017 £000
At 1 August 2017	–	39,200	936	40,136	40,593
Additions	(548)	–	247	(301)	343
Transfers from fixed assets	24,148	–	–	24,148	–
Gain/(impairment)	5,581	(800)	–	4,781	(800)
At 31 July 2018	<u>29,181</u>	<u>38,400</u>	<u>1,183</u>	<u>68,764</u>	<u>40,136</u>

The university owns 100% of the issued ordinary share capital of College Facilities Limited (for construction services), King's College London Business Limited (for information technology support) and King's Talent Bank Limited (for the provision of temporary staff). These companies are registered in England and their operating activities are in the United Kingdom.

The Francis Crick Institute is a partnership between five scientific institutions and the university. Established as a charity, it is a research centre in biomedical science.

15. ENDOWMENT INVESTMENTS

	Consolidated and University	
	2017–18 £000	2016–17 £000
Balance at 1 August	213,494	194,084
Additions	68,533	65,008
Disposals	(54,270)	(75,708)
Appreciation	19,811	14,309
Increase in cash balances	(14,106)	15,801
Balance at 31 July	<u>233,462</u>	<u>213,494</u>
Fixed interest stocks	8,234	8,343
Equities	198,515	164,332
Bank balances	26,713	40,819
Total endowment investments	<u>233,462</u>	<u>213,494</u>
Fixed interest and equities at cost	<u>165,088</u>	<u>141,249</u>

16. TRADE AND OTHER DEBTORS

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade debtors	29,403	27,053	29,403	27,053
Other debtors	4,842	3,811	4,842	3,803
Research grant debtors	26,086	37,475	26,086	37,475
Research grant work in progress	30,780	24,734	30,780	24,734
Prepayments and accrued income	9,797	11,752	9,354	11,303
Amounts owed by group undertakings	–	–	598	1,145
	<u>100,908</u>	<u>104,825</u>	<u>101,063</u>	<u>105,513</u>

Notes to the accounts *continued**For the year ended 31 July 2018*

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Trade creditors	31,013	41,380	30,856	41,196
Deferred income	127,130	107,178	126,687	106,745
Other creditors and accruals	90,438	81,496	90,335	81,446
Holiday pay accrual	9,154	8,268	8,536	7,836
Social security and other taxation payable	12,919	11,791	12,633	11,584
Amounts owed to group undertakings	–	–	105	191
Obligations under finance leases less term deposits for repayment (<i>note 19</i>)	1,642	1,642	1,642	1,642
Current element of long-term liabilities (<i>note 19</i>)	4,686	4,445	4,686	4,445
	<u>276,982</u>	<u>256,200</u>	<u>275,480</u>	<u>255,085</u>

Deferred income includes the following items of income which have been deferred until specific performance related-conditions have been met.

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Research grants received on account	78,123	70,363	78,123	70,363
Other income	39,967	23,958	39,524	23,525
Donations	4,651	8,279	4,651	8,279
Other deposits	4,389	4,578	4,389	4,578
	<u>127,130</u>	<u>107,178</u>	<u>126,687</u>	<u>106,745</u>

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

	Consolidated		University	
	2018 £000	2017 £000	2018 £000	2017 £000
Obligations under finance leases (<i>note 19</i>)	13,108	13,292	13,108	13,292
Term deposits for loan repayments	(8,708)	(7,483)	(8,708)	(7,483)
	<u>4,400</u>	<u>5,809</u>	<u>4,400</u>	<u>5,809</u>
Loans (<i>note 19</i>)	287,718	289,491	287,718	289,491
Total long-term borrowings	<u>292,118</u>	<u>295,300</u>	<u>292,118</u>	<u>295,300</u>
Lease premium on investment property	20,431	21,560	20,431	21,560
Total long-term creditors	<u>312,549</u>	<u>316,860</u>	<u>312,549</u>	<u>316,860</u>

Loans are secured on a portion of the freehold land and buildings of the university.

Term deposits for loan repayments are investments held specifically for the future repayment of loans.

The lease premium on investment property arises from the granting of a lease for a term of 99 years with a yearly peppercorn rent.

The lease has a break clause after 25 years, over which period the lease premium is being released to income.

Notes to the accounts *continued*

For the year ended 31 July 2018

19. BORROWINGS

	Consolidated and University			
	Finance leases		Loans	
	2018 £000	2017 £000	2018 £000	2017 £000
Obligations under finance leases fall due and loans are repayable as follows:				
Between one and two years	1,642	1,642	4,941	4,686
Between two and five years	11,466	3,696	17,595	15,658
Total between one and five years	13,108	5,338	22,536	20,344
Over five years	–	7,954	265,182	269,147
Total over one year (<i>note 18</i>)	13,108	13,292	287,718	289,491
Within one year (<i>note 17</i>)	1,642	1,642	4,686	4,445
	14,750	14,934	292,404	293,936

Loans with interest rates between 7.80% and 9.58% amounting to £33,189,000 are repayable by instalments falling due between 1 August 2019 and 17 September 2027.

On 27 April 2001, the university issued £60m Senior Notes (Notes) with a fixed interest rate of 6.22%. The principal amount is repayable on 27 April 2031. Interest payments are semi-annual, on 27 April and 27 October. The university, at its option, may prepay at any time all or part of the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding, at 100% of the principal amount so prepaid, plus the discounted value of the remaining scheduled payments with respect to the principal amount. As at the year end, it is the university's intention to hold the Notes until its final maturity date.

On 16 May 2008, the university received a £60m secured loan with an integral swap agreement to provide a fixed interest rate of 4.855%, repayable on 16 May 2048.

On 21 May 2015, the university issued £55m of senior unsecured notes with a fixed interest rate of 2.85%, due 21 May 2035.

On 21 May 2015, the university issued £60m of senior unsecured notes with a fixed interest rate of 3.03%, due 21 May 2040.

On 21 May 2015, the university issued £20m of senior unsecured notes with a fixed interest rate of 3.08%, due 21 May 2050.

20. PENSION PROVISIONS

	Consolidated and University		
	Obligation to fund deficit on pension		
	USS £000	SAUL £000	Total £000
At 1 August 2017	72,739	2,510	75,249
Deficit contributions paid during the year	(4,822)	–	(4,822)
Additional discount rate interest charge for the year	1,345	–	1,345
Additional actuarial loss	4,539	(2,510)	2,029
At 31 July 2018	73,801	–	73,801

The obligation to fund the past deficits on the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL) arise from the contractual obligation with the pension schemes for the total payments relating to benefits arising from past performance. Management have assessed future employees within the schemes and salary payments over the period of the contracted obligation in assessing the value of these provisions.

Notes to the accounts *continued**For the year ended 31 July 2018*

21. OTHER PROVISIONS

	Consolidated and University Leasehold dilapidations £000
At 1 August 2017	4,653
Utilised in year	–
Transferred from Income and Expenditure Account during the year	–
At 31 July 2018	<u>4,653</u>

As explained in the Statement of Principal Accounting Policies, note 14, no provision has been made for the deferred tax on the grounds that the subsidiary companies transfer their taxable profits by gift aid to the university and therefore no deferred tax assets or liability will be realised.

22. RESTRICTED RESERVES

	Consolidated and University				
	Capital grants	Studentships	General	2018 Total	2017 Total
	£000	£000	£000	£000	£000
At 1 August	8,639	–	–	8,639	10,617
Cash received	13,241	10,784	5,426	29,451	34,185
Capital grants utilised	(17,186)	–	–	(17,186)	(19,487)
Expenditure	–	(10,784)	(5,426)	(16,210)	(16,676)
	<u>(17,186)</u>	<u>(10,784)</u>	<u>(5,426)</u>	<u>(33,396)</u>	<u>(36,163)</u>
At 31 July	<u>4,694</u>	<u>–</u>	<u>–</u>	<u>4,694</u>	<u>8,639</u>

23. ENDOWMENT RESERVES

	Consolidated and University					
	Restricted permanent Original gift	Unapplied total return	Restricted permanent Total	Restricted expendable Total	2018 Total	2017 Total
	£000	£000	£000	£000	£000	£000
Capital at 1 August	74,815	108,677	183,492	30,002	213,494	194,084
New donations and endowments	1,656	–	1,656	10	1,666	4,347
Change in market value of endowment investments	–	17,396	17,396	2,415	19,811	14,309
Investment income	–	3,003	3,003	703	3,706	4,830
Expenditure	–	(3,708)	(3,708)	(1,507)	(5,215)	(4,076)
At 31 July	76,471	125,368	201,839	31,623	233,462	213,494
Represented by:						
Capital	68,196	125,368	193,564	26,640	220,204	201,625
Accumulated income	8,275	–	8,275	4,983	13,258	11,869
	76,471	125,368	201,839	31,623	233,462	213,494

From 1 August 2017 the university adopted a total return endowment investment management policy for permanent endowments following receipt of an order from the Charity Commission under section 105 of the Charities Act 2011.

Following advice from its investment consultants, Cambridge Associates, the university's Investment Subcommittee has adopted a total return spending rate of 4% using the trailing market value rule applied to the average ending portfolio value over the previous 12 quarters. There is a proviso that this spending rate will be reviewed annually in the case of abnormal market conditions such as high levels of inflation or if there was a fundamental change to the portfolio composition.

Notes to the accounts *continued**For the year ended 31 July 2018*23. ENDOWMENT RESERVES (*continued*)

	At 1 August 2017 £000	Additions and transfers £000	Change in market value £000	Total return income £000	Expenditure £000	At 31 July 2018 £000
Funds with income under £100,000						
Scholarships (161 funds)	25,178	49	1,965	780	(446)	27,526
Prize funds (258 funds)	9,172	3	722	279	(42)	10,134
Chairs and lectureships (169 funds)	78,527	614	6,015	2,762	(2,601)	85,317
Other funds (68 funds)	14,607	–	1,152	724	(168)	16,315
Funds with income over £100,000						
Newland-Pedley General Fund	17,691	–	1,399	541	(181)	19,450
Dimbleby Endowment Fund	9,121	–	739	285	(224)	9,921
Van Geest Foundation Fund	7,730	–	337	145	(486)	7,726
Lau China Institute Donation	6,903	–	545	211	(176)	7,483
Richard Dickinson USA Fund	5,737	–	426	164	(106)	6,221
Yeoh Tiong Lay Centre Donation	5,023	1,000	408	158	(158)	6,431
Sackler Chair Endowment Fund	4,229	–	325	125	(34)	4,645
Herbert Dunhill Chair of Rehabilitation	4,022	–	320	124	(92)	4,374
Avantha Chair	3,885	–	316	122	(52)	4,271
Paediatric Research Unit Lectureship Fund	3,881	–	315	122	(122)	4,196
Mary Dunhill Chair of Cutaneous Medicine	3,829	–	311	120	(96)	4,164
Sackler Foundation Endowment Fund	3,658	–	297	115	(78)	3,992
Lacey Travelling Bursaries	3,521	–	286	110	(3)	3,914
Richard Dickinson Trust General Fund	3,388	–	275	106	(70)	3,699
Arcadia Endowment	3,392	–	268	103	(80)	3,683
Total return from capital gains	–	–	3,390	(3,390)	–	–
	<u>213,494</u>	<u>1,666</u>	<u>19,811</u>	<u>3,706</u>	<u>(5,215)</u>	<u>233,462</u>

The Newland-Pedley General Fund is used to support the Dental Institute.

The Dimbleby Endowment Fund is used for cancer research.

The Van Geest Foundation Fund is used to support Alzheimer's and dementia research.

The Lau China Institute Donation supports academic posts in the Lau China Institute.

The Richard Dickinson USA Fund is used for research and training fellowships in dentistry.

The Yeoh Tiong Lay Centre Donation supports academic posts in the Yeoh Tiong Lay Centre for Politics, Philosophy & Law.

The Sackler Chair Endowment Fund supports a post in translational neurodevelopment.

The Herbert Dunhill Chair of Rehabilitation supports a post in rehabilitation.

The Avantha Chair supports a post within the India Institute.

The Paediatric Research Unit Lectureship Fund supports senior research posts in the Medical School.

The Mary Dunhill Chair of Cutaneous Medicine supports a post in cutaneous medicine.

The Sackler Foundation Endowment Fund supports posts in pharmaceutical sciences.

The Lacey Travelling Bursaries support students undertaking cultural and educational visits to France.

The Richard Dickinson Trust General Fund is used to support the Dental Institute.

The Arcadia Endowment is used to support the Centre for the History of Science, Technology & Medicine.

Notes to the accounts *continued**For the year ended 31 July 2018*

24. UNRESTRICTED RESERVES

	Consolidated £000	University £000
Balance at 1 August 2017	701,755	704,087
Surplus after depreciation of assets at cost and tax	(11,241)	(11,241)
Release of restricted capital funds spent in year	17,186	17,186
Balance at 31 July 2018	<u>707,700</u>	<u>710,032</u>
The reserves are:		
Income and expenditure reserve, which is nominally allocated to:		
Capital reserve	717,390	719,371
Departmental reserves	78,217	78,217
Revenue reserve	(87,907)	(87,556)
General reserves	(9,690)	(9,339)
Total income and expenditure reserve	<u>707,700</u>	<u>710,032</u>

The capital reserve is equivalent to the amount by which the value of tangible fixed assets in the Balance Sheet exceeds long-term borrowings. The reserve is set aside to fund depreciation charges on assets that are not being funded by future cash flows.

25. CAPITAL COMMITMENTS

	Consolidated and University 2018 £000	2017 £000
Commitments contracted at 31 July	13,458	27,105
Commitments authorised but not contracted at 31 July	<u>56,054</u>	<u>379,168</u>
	<u>69,512</u>	<u>406,273</u>

26. RECONCILIATION OF CASH FLOW TO STATEMENT OF FINANCIAL POSITION

	At 1 August 2017 £000	Cash flows £000	Other changes £000	At 31 July 2018 £000
Cash at bank and in hand	<u>246,258</u>	<u>(65,490)</u>	<u>–</u>	<u>180,768</u>

27. PENSIONS

The three principal pension schemes in which the university participates are the Universities Superannuation Scheme (USS), the Superannuation Arrangements of the University of London (SAUL) and the National Health Service Pension Scheme (NHSPS).

Total pensions costs for the university and its subsidiaries

	Consolidated 2017–18 £000	2016–17 £000	University 2017–18 £000	2016–17 £000
Contributions to USS	36,513	33,676	36,513	33,676
Contributions to SAUL	8,440	6,175	8,440	6,175
Contributions to NHSPS	4,250	4,149	4,250	4,149
Contributions to other pension schemes	<u>272</u>	<u>212</u>	<u>77</u>	<u>96</u>
Total pensions costs (<i>note 7</i>)	<u>49,475</u>	<u>44,212</u>	<u>49,280</u>	<u>44,096</u>

Notes to the accounts *continued**For the year ended 31 July 2018***27. PENSIONS** *(continued)***Universities Superannuation Scheme (USS)**

The university participates in USS, which provides benefits for academic and related employees of all UK universities and some other employers. With effect from 1 October 2016, the scheme changed from a defined benefit only pension scheme to a hybrid pension scheme, providing defined benefits (for all members) as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The university is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. Thus, as required by Section 28 of FRS102, 'Employee benefits', it accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the Consolidated Statement of Comprehensive Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period. Since the university has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the university recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit), and therefore an expense is recognised.

The latest available full triennial actuarial valuation of the scheme was as at 31 March 2014; it was carried out using the projected unit method. The valuation as at 31 March 2017 is underway.

Since the university cannot identify its share of the scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion, indicating a shortfall of £5.3 billion. The assets were therefore sufficient to cover 89% of the benefits that had accrued to members after allowing for expected future increases in earnings.

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

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

The main demographic assumptions used relate to mortality. These assumptions are based on updated analysis of the scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used are as follows:

	2018	2017
Mortality base table		
Pre-retirement	71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females	98% of SAPS S1NA 'light' YOB unadjusted for males
Post-retirement	96.5% of SAPS S1NMA 'light' for males and 101.3% of RFV00 for females	99% of SAPS S1NA 'light' YOB with a -1 year adjustment for females
Future improvements to mortality	CMI_2016 with a smoothing parameter of 8.5 and a long-term improvement rate of 1.8% p.a. for males and 1.6% for females	CMI_2014 with a long term rate of 1.5% p.a.

The current life expectations on retirement at age 65 are:	2018	2017
Males (females) currently aged 65	24.5 (26.0) years	24.4 (26.6) years
Males (females) currently aged 45	26.5 (27.8) years	26.5 (29.0) years

	2018	2017
Scheme assets	£63,600m	£60,000m
Total scheme liabilities	£72,000m	£77,500m
FRS102 total scheme deficit	£8,400m	£17,500m
FRS102 total funding level	88%	77%

Notes to the accounts *continued*

For the year ended 31 July 2018

27. PENSIONS (*continued*)

The Trustee and employers have agreed that the technical provisions deficit at the 31 March 2014 valuation will be addressed by:

- For the period up to 1 April 2016, the employers' deficit contributions will amount to 16% p.a. of salaries less the employer future service cost of accrual and the expenses of administering the scheme, including Pension Protection Fund (PPF) levies. On the assumptions made, this gives rise to a deficit contribution of 0.7% p.a. of salaries over this period.
- For the period from 1 April 2016 to March 2031, the employers' deficit contributions will amount to 18% p.a. of salaries less the employers' share of the cost of accrual in the defined benefit section together with the employer contribution to the defined contribution section and the expenses of administering the scheme, including PPF levies. On the assumptions made and once salary threshold and defined contribution section are introduced, this gives rise to deficit contributions of at least 2.1% p.a. of salaries over the period to 31 March 2031. From 1 April 2016 until the salary threshold and defined contribution section are introduced, the deficit contributions amount to 2.5% p.a. of salaries.

The defined benefit liability recognised by the university in respect of the deficit contributions due to USS is £73,801,000 as at 31 July 2018.

The members' benefits were amended from 1 April 2016 as follows:

- For final salary section members, accrued entitlement up to 31 March 2016 will be calculated using pensionable salary and pensionable service immediately prior to this date. In future these accrued benefits will revalue in line with increases in official pensions.
- Future defined benefit accrual after 1 April 2016 will be on a career revalued benefits basis for all members, with a pension accrual of 1/75th and a cash lump sum of 3/75ths of salary for each year of service in respect of salary up to a salary threshold of £55,000 p.a.
- Member contributions will increase to 8% of salary.
- A new defined contribution benefit for salary in excess of the salary threshold at a total level of 20% of salary in excess of the salary threshold (including member contributions of 8% of salary in excess of the salary threshold).
- Optional additional contributions payable into a defined contribution section, of which the first 1% of salary is to be matched by the employer.

In accordance with the requirements of the Statement of Recommended Practice, the university currently recognises a provision for its obligation to fund past deficits arising within USS. The recovery plan in the 2014 actuarial valuation requires employers to contribute 2.1% of salaries towards repairing the deficit over a period of 17 years, of which 14 years remain. Details of this provision, which has been discounted at a rate of 2.21% as at 31 July 2018, are included in note 20.

The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. The 2017 valuation has set out the challenges currently facing the scheme and the likelihood of significant increases in contributions being required to address these challenges.

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

However, there is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a very significant amount depending upon what is finally agreed as regards future deficit contributions and their duration. The university expects to have greater clarity in this respect during the next financial year. Based on the inputs to the model, the following sensitivity analysis outlines the potential impact on the existing liability of £73.8 million (assuming the same discount rate of 2.21%):

Deficit contribution rate	3.1%	6.0%
Increase in liability	£29,410m	£99,509m
Revised deficit liability	£103,211m	£173,710m

Superannuation Arrangements of the University of London (SAUL)

The university participates in SAUL, which provides benefits for non-academic employees. The scheme is a centralised defined benefit scheme and was contracted out of the Second State Pension until April 2016. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The university is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. Thus, as required by Section 28 of FRS102, 'Employee benefits', it accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The latest available triennial actuarial valuation of the scheme was as at 31 March 2017; it was carried out by a professionally qualified and independent actuary using the projected unit method. Informal reviews of the scheme's position, reflecting changes in market conditions, cash flow information and new accrual of benefits, are carried out between formal valuations.

Notes to the accounts *continued*

For the year ended 31 July 2018

27. PENSIONS (*continued*)

The 2017 valuation was the fourth valuation for SAUL under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £3,205 million and the value of the scheme's technical provisions was £3,249 million, indicating a surplus of £56 million. The assets were therefore sufficient to cover 102% of the benefits that had accrued to members after allowing for expected future increases in earnings.

In order to eliminate the funding shortfall at the last valuation, the employers agreed to increase their contributions from 1 April 2016. The overall level of the university's contributions therefore increased by 3%, from 13% of salaries to 16% with effect from 1 April 2016. The employers also agreed that this contribution rate would be maintained until at least 31 March 2020, irrespective of SAUL's funding rate. The previous defined benefit liability recognised by the university in respect of the deficit contributions due to SAUL has been eliminated as at 31 July 2018.

The members' benefits were amended from 1 April 2016 as follows:

- The final salary section was closed to future accrual, and the salary link to past service for active members was broken.
- Active final salary members at 31 March 2016 received a one-off pensionable service enhancement of up to 5% (depending on age) in lieu of the salary link.
- All members will accrue benefits in the Career Average Revalued Earnings (CARE) section from 1 April 2016.
- The accrual rate for the CARE section increased to 1/75th (from 1/80th) from 1 April 2016.
- For pensions accrued after 1 April 2016, increases in payment will be in line with CPI, capped at 2.5% p.a.

National Health Service Pension Scheme (NHSPS)

The university also operates the NHSPS, which is available to staff who were members of that scheme immediately prior to appointment at the university. This is a statutory, unfunded, multi-employer, defined benefit scheme in which the university is unable to identify its share of the underlying liabilities and assets, and it is therefore accounted for on a contribution basis.

28. RELATED PARTY TRANSACTIONS

The university maintains a register of the interests of the members of Council and of its standing committees. The register is available for inspection under the Freedom of Information Act 2000.

Due to the nature of the university's operations and the composition of its Council and committees, it is possible that there will be transactions from time to time between the university and organisations with which members of Council and its committees have relationships. If such transactions do occur, they are conducted on an arm's-length basis and in compliance with the university's Financial Regulations and procurement policies.

In particular, the university enjoys a close working relationship with Guy's & St Thomas', King's College Hospital and South London & Maudsley NHS Foundation Trusts under the name of King's Health Partners – a collaboration that aims to combine the best of basic and translational research, clinical excellence and world-class teaching to deliver groundbreaking advances in physical and mental healthcare – which is accredited as an Academic Health Science Centre. As a consequence there are recharges between these institutions, as disclosed in these accounts, and senior staff of the university may also hold senior positions in these organisations.

King's College London Students' Union (Union) is an independent charity registered with the Charity Commission, of which the President is also a member of Council. The university makes an annual grant to the Union.

29. TRAINING SALARIES

	Consolidated and University	
	2017-18 £000	2016-17 £000
Balance underspent at 1 August	220	366
Funding Council and Department for Education grants	3,474	3,253
Disbursed to students	(3,439)	(3,399)
Balance underspent at 31 July	<u>255</u>	<u>220</u>

Funding Council and Department for Education grants are available solely for students. The university acts only as paying agent. The grants and related disbursements are therefore excluded from the Consolidated Statement of Comprehensive Income and Expenditure Account.

Notes to the accounts *continued**For the year ended 31 July 2018***30. LEASE OBLIGATIONS**

Total rentals payable under operating leases:

	Consolidated and University			
	Land and buildings	Other leases	2018 Total	2017 Total
	£000	£000	£000	£000
Payable during the year ended 31 July	49,288	273	49,561	44,298
Future minimum lease payments due:				
Not later than one year	54,711	274	54,985	47,850
Later than one year and not later than five years	183,779	326	184,105	129,742
Later than five years	457,496	163	457,659	750,704
Total lease payments due	695,986	763	696,749	928,296