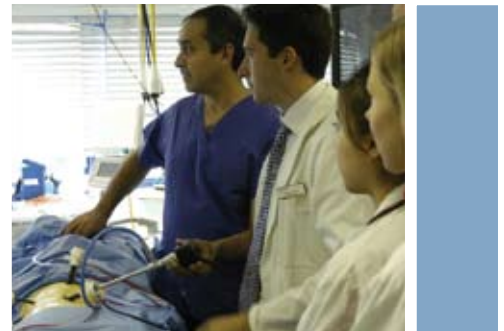


Report and Accounts 2005/06



Cover photographs

(Front cover clockwise from left) Imperial College's Exhibition Road frontage at South Kensington Campus; Professor Sir Ara Darzi, Division of Surgery, Oncology, Reproductive Biology and Anaesthetics, demonstrating minimal invasive surgery to medical students; the arrival of the Cassini/Huygens spacecraft at Saturn in July 2004 for the start of its four-year orbital tour—the spacecraft's magnetometer is controlled by the team led by Professor Michele Dougherty in the Space and Atmospheric Physics research group. In March 2006 her group discovered that the source of the planet's characteristic E-rings was Saturn's moon Enceladus emitting a plume of icy water vapour from its south pole; Civil and Environmental Engineering students taking part in the 2006 *Constructionarium*, during which they spent a week experiencing real risks and decision-making, while taking on all construction roles from chartered engineer to general labourer.

(Back cover) The Faculty Building on the South Kensington Campus at night.



Mission Statement

Imperial College embodies and delivers world class scholarship, education and research in science, engineering and medicine, with particular regard to their application in industry, commerce and healthcare. We foster interdisciplinary working internally within the College and collaborate widely externally.

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Introduction by the Rector



Welcome to the College's *Report and Accounts 2005/06*.

This year, our financial report includes a brief, enhanced introduction, to illustrate the achievements, developments and endeavours of the College. We can only acknowledge a tiny fraction in the pages that follow, but I hope they will illustrate to you both the reach and the impact of our enterprising staff and students, and the ways in which we strive to support them and to deliver our academic mission.

Though it appears nowhere on the balance sheet, our academic reputation is a critical asset. In October 2006, *The Times Higher Education Supplement*, in its annual ranking of world universities, named Imperial College London the ninth best university in the world, the first time the College has entered the top 10. In each of the College's individual areas of focus we are ranked as high or higher than our overall position: fourth in the world for technology, fourth in the world for biomedicine, and ninth in the world for science. The most significant component of the ranking is made up of recommendations from fellow academics and researchers around the world, evidence that the College's reputation, certainly among its peers, is in very good health.

We want to maintain this level of academic leadership and remain in this class of global institutions. Our strategy for achieving these goals is straightforward: to focus on attracting and retaining people of outstanding quality at Imperial, giving them the environment, the equipment and buildings that allow their ideas and scientific explorations to flourish, and for them to be able to teach our students so that they in turn are attracted, inspired and may develop to the best of their abilities.

In 2007, our Centenary year, we will celebrate 100 years of living science, and we will announce a significant philanthropic fundraising campaign. We will use the year as a springboard to talk to our supporters about the work we do at the College, the benefits we have given to society and which, with their help, we will continue to be able to give.

During the year, another significant moment in our history will occur. The College's withdrawal from the University of London is expected to be completed in time for our Centenary birthday on 8 July 2007. Thereafter all our students will receive Imperial College London degrees.

Along with gratitude to our partners, collaborators and sponsors, my thanks must go to all the dedicated staff of the College for their sustained efforts. Their curiosity and appetite to explore the natural world and solve problems within it yields a remarkable legacy of knowledge. As we stride into our second century, we enter in a positive and financially healthy state, possessing a sound resource base from which we can explore another 100 years of living science.

Sir Richard Sykes
Rector
November 2006

Management Board

Rector
Sir Richard Sykes (Chairman)



Deputy Rector
Professor Sir Leszek Borysiewicz

Principal, Faculty of Engineering
Professor Dame Julia Higgins

Principal, Faculty of Medicine
Professor Stephen Smith

Principal, Faculty of Natural Sciences
Professor Sir Peter Knight

Principal, Tanaka Business School
Professor David Begg



Chief Operations Officer
Dr Martin Knight

Pro Rector (Development and Corporate Affairs)
Dr Tidu Maini

Director of Strategy and Planning
Dr Rodney Eastwood

College Secretary
Mr Tony Mitcheson

Achievements spotlight



Gates Foundation Funding

Imperial is playing a leading role in the fight against life-threatening diseases in developing countries, thanks to funding from the Bill and Melinda Gates Foundation. The Foundation's award of £20 million in 2002 helped to establish the Schistosomiasis Control Initiative, which focuses on research and control activities in the six African countries most threatened by the parasitic disease. The College is also tackling HIV/AIDS thanks to a grant of £4.9 million from the Foundation in 2005 to develop a simple, affordable and rapid test to measure the health of the immune system in patients.



Prize winners at work

The College's commitment to teaching was underlined in September 2006 with the award of the title of Lecturer of the Year to Dr Lynda White, Department of Mathematics. Dr White, who received the accolade as part of the SET (Science, Engineering and Technology) Awards, has worked as a statistics lecturer at Imperial for 35 years. "I still really enjoy the challenge of working with some of the brightest young mathematicians in the country," she said.



Imperial Biolncubator

Imperial is a hotbed of new ideas and is committed to giving science entrepreneurs the support they need to take their work to market. As part of this, the College and Imperial Innovations have constructed the Biolncubator to promote and develop a new generation of spin-out companies. The recently opened facility offers a range of research resources as well as business and support services, and can host up to 15 companies at a time.

Cloaking device creates ‘invisibility’

The world’s first working ‘invisibility cloak’ was demonstrated in October 2006 thanks to research carried out by Professor Sir John Pendry, Department of Physics. The cloaking device is constructed from ‘metamaterials’, built from artificial atoms to cause microwaves to split and flow around the material rather than penetrating and bouncing off it to make it detectable. The team believes that this breakthrough could have a variety of applications for radar and communications technologies.



Achievements spotlight



Southside topping out

The creation of new state-of-the-art student accommodation was celebrated in October 2006 with the topping out of the new Southside halls of residences. The new halls, part of a scheme to enhance the environment of Prince's Gardens, will have an increased number of bed-spaces and each study-bedroom will have *en suite* facilities.



Sir Ara Darzi, Medicine

A champion of interdisciplinary research, Professor Sir Ara Darzi, Division of Surgery, Oncology, Reproductive Biology and Anaesthetics, and his team have been undertaking innovative research on the development of a robotically-enhanced operating theatre, which combines the use of minimal invasive, image-guided surgery and surgical robots. The minimally invasive approach leads to quicker recovery for patients from what is often major surgery, while robotic surgery was originally developed to eliminate the tremor of surgeons' hands. Professor Sir Ara Darzi is also chairman of THOTH, an NHS centre opened in 2006 for the training of healthcare staff in the new technologies.





Nigel Brandon, Engineering

The scientific and environmental challenges posed by the world's demand for energy are being tackled by Imperial's *Energy Futures Lab*, headed by Professor Nigel Brandon, Department of Earth Science and Engineering. Launched in November 2005, the Lab will develop new multidisciplinary, cross-faculty research programmes which will meet the broad energy challenges that the world faces and facilitate the transition to a future of sustainable energy.

£50 million private placement

Imperial's world class teaching and research has been boosted by a £50 million private placement taken out in 2006. The unsecured funding, borrowed on a 50-year term, will support the College's academic mission, as well as providing capital for new student facilities and other estate projects. The College was able to arrange the facility without undertaking a formal credit rating process, an indication of the College's strong perceived credit-worthiness.



Neil Ferguson, Medicine

Mathematical models to predict the effectiveness of public health and medical interventions in the event of a flu pandemic have been developed by Professor Neil Ferguson, Division of Epidemiology, Public Health and Primary Care. Using computer modelling to simulate the spread of a pandemic, Professor Ferguson found that a combination of interventions, including travel restrictions, school closures and anti-viral treatments, could be highly effective in reducing transmissions.

Achievements spotlight

Imperial Innovations Flotation

Imperial Innovations, established by Imperial in 1986 to realise the commercial potential of its research, admitted its shares to trading on AIM on 31 July 2006, raising £26 million at flotation. All proceeds will be invested by the company in Imperial's early stage spin-out companies.



Opening of *Ethos*

Access to high quality sports and leisure facilities is an important part of the student experience. *Ethos*, Imperial's new £17 million sports centre was officially opened in April 2006, providing students with a free fitness gym and swimming pool, plus squash and badminton courts, aerobics spaces, a climbing wall and sauna, steam rooms and spa.



Institute for Mathematical Sciences

The increasing importance of interdisciplinary collaboration means that the College's research environment must include spaces where researchers from all fields can interact. A prime example is the Institute for Mathematical Sciences, officially opened in July 2006, which applies mathematical understandings and techniques to global challenges including climate change and the control of infectious diseases.

GSK Clinical Imaging Centre

Imperial's commitment to research collaborations with industry is underlined by its GSK Clinical Imaging Centre at Hammersmith Campus, a 10-year agreement for medical imaging towards which GlaxoSmithKline has contributed funds for construction and equipment. Research at the Centre focuses on cancer, stroke and neurological diseases, using the latest technologies in magnetic resonance imaging (MRI) and positron emission tomography (PET).



Report of the Chief Operating Officer



Scope of the financial statements

The financial statements comprise the consolidated results of the College, its subsidiaries and the Students' Union. There have been no changes in the scope since the previous year. The subsidiaries undertake activities which for legal or commercial reasons are more appropriately channelled through limited companies or other vehicles. Such activities include the commercial exploitation of ideas and inventions, consultancy and scientific services, and renting of College space.

The financial statements have been prepared according to the Statement of Recommended Practice: Accounting in Further and Higher Education Institutions (SORP 2003) and other relevant accounting standards.

Results for the Year—Key Highlights

The College's consolidated income and expenditure for year to 31 July 2006 and the net cash/borrowing position at that date are summarised as follows:

	2005/06	2004/05	Change
	£m	£m	%
Income	503.6	458.6	10
Expenditure	503.4	458.3	10
Surplus from operating activities	0.2	0.3	
Exceptional Items	10.7	23.0	
Tax and minority interest	0.3	(4.3)	
Use of accumulated income within specific endowments	0.4	0.2	
Surplus for the year	11.6	19.2	
Grants from HEFCE	148.1	137.5	8
Academic fees and support grants			
Home and EU students (full-time)	13.9	14.1	-1
Overseas students	47.8	40.0	20
Other	10.3	9.0	14
	72.0	63.1	14
Research Income			
UK research councils	61.7	44.6	38
UK charities	62.5	56.6	10
UK industry	27.0	20.4	32
European Union and overseas	36.6	34.3	7
Other	17.0	20.8	-18
	204.8	176.7	16
Capital expenditure			
Externally funded	56.6	45.6	24
College funded	59.0	32.7	81
	115.6	78.3	48
Cash and borrowings			£m
Cash and short term investments	142.2	35.2	107.0
Long term borrowings	(123.2)	(50.0)	(73.2)
	19.0	(14.8)	33.8

The College's financial statements for the year ended 31 July 2006 can be relatively simply stated:

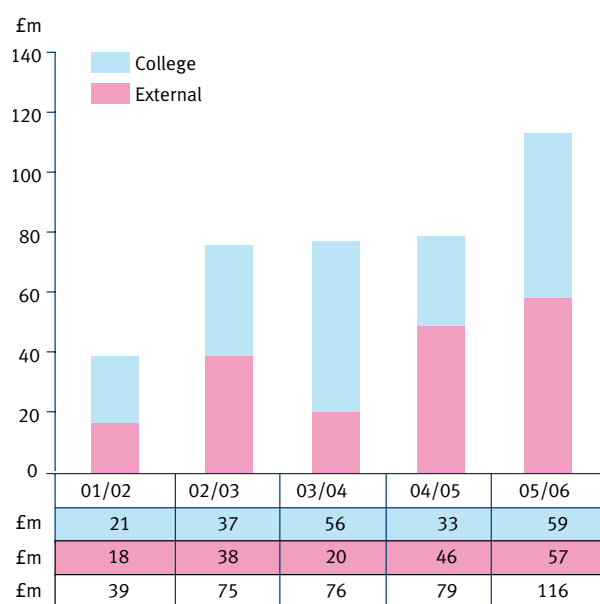
Turnover rose by 10 per cent to over £500 million; most pleasingly, research income rose by 16 per cent to over £200 million. But an operating surplus of only £198k reinforced the now conventional message that there is no room for complacency or relaxation. A strong operating cash inflow of £51 million was offset by a significant College-funded capital expenditure outflow of £40 million. The balance sheet retained a healthy look, with fixed assets rising by £77 million to £556 million, and with net cash of £19 million, i.e. after taking into account £123 million of long term borrowings. In the circumstances, the financial position of the College is satisfactory.

The interesting question, then, is what are these qualifying circumstances?

The first and most important point to make is that Imperial College is investing substantial funds in its academic future. It invests in building, facilities and people.

The chart in Fig. 1 illustrates the recent growth in the College's capital expenditure, which is shown principally in the balance sheet. It is no coincidence, I believe, that the quantum of funding from external sources has risen as the College has demonstrated its capacity and willingness to invest its own funds: £59 million in 2005/06 alone. Control of this expenditure remains crucial.

Fig. 1—Capital expenditure



Expenditure on facilities has been similarly extensive, from enhancements in laboratory equipment, to lecture theatre facilities, to IT systems improvements and to the ongoing maintenance of a complex estate. A significant amount of such costs are not allowed to be capitalised; they therefore hit the income statement.

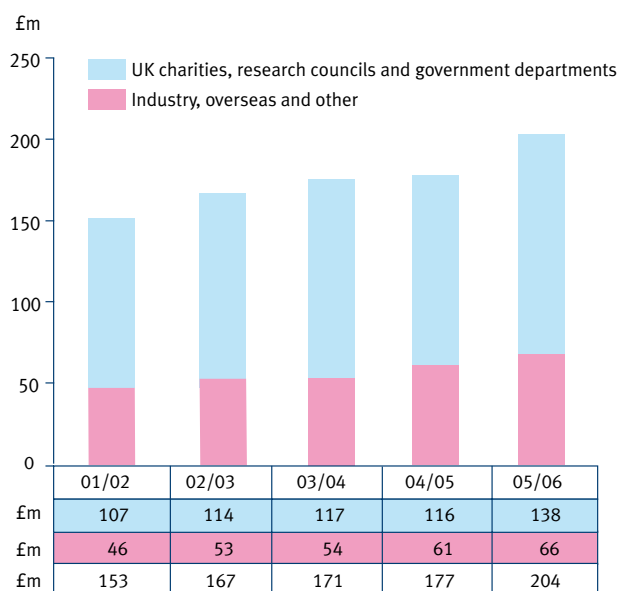
Investment in people is almost entirely borne at the operating cost level. This investment takes four principal forms: recruiting new staff: in 2005/06 24 professors were so appointed, for example; promoting staff within the College: 39 new professors were so promoted; raising remuneration levels as a whole to reflect the success of the College: wage levels rose by 4.7 per cent to £280

million in the year; and restructurings, which are clearly understood as part of a search for improved academic and administrative performance, cost £4.5 million. All these investments in people in the College were designed to benefit the College's future: but all were reported as part of the College's annual operating cost.

Secondly, two generally discussed topics are of particular concern to the College: inflation prospects and pensions. Inflation may be moving at 2–3 per cent per annum in the UK as a whole; but in the College, the cost base inflation is more like 6–8 per cent per annum. On pensions, total contributions were £25 million in 2005/06; but the College's control over this significant item of expenditure is loose indeed, given the core participation in two multi member schemes, USS and SAUL. The College's cost base is a challenging one to control.

The third point worth noting is that significant income growth came from sources that are not necessarily seen as part of the College's traditional financial heartland: firstly non-governmental, non-UK charity research grant income rose by 10 per cent to £66 million (see Fig. 2). Of particular note were two large international research programmes. The first one, a \$39 million programme in which the College is playing a leading role, is funded by the Bill and Melinda Gates Foundation for research into tuberculosis, malaria and HIV vaccine. The second notable programme in which the College is participating is a \$100 million programme funded by USAID to reduce the impact of neglected tropical diseases in developing nations. Such programmes, it is hoped, will become a regular and permanent feature of the College's research income.

Fig. 2—Research income



This is particularly important at a time when the traditional funding picture for the College is increasingly unpredictable: What will the introduction of Full Economic Costing mean for the overall quantum of research income? What might the outcome of the debate on the mechanics of the HEFCE Research Assessment Exercise 2007/08 mean for the future stability of funding for the College's core research activity? What will the introduction of top-up fees really mean for the College's fee income? Will government support for the scientific base of the UK continue, in the light of the 2007 Comprehensive Spending Review, at the welcome level of recent years?

Report of the Chief Operating Officer

Fig. 3—Borrowing facilities

	Date drawn	Term years	Amount £m	Rate
Drawn				
Private placement through RBS	Mar 2003	30	50.0	fixed at 5.39%
European Investment Bank Loan	Dec 2005	15	23.2	floating
Private placement through RBS	Jul 2006	50	50.0	fixed at 4.84%
			123.2	
Not drawn				
European Investment Bank Loan	—	15	50.0	—
Overdraft facility	—	1	10.0	—

So the fourth point worth making is that, faced with such a picture, the College has not stood inactive. Two developments illustrate the College's determination to position itself positively:

In July 2006, the College took out a £50 million fixed rate 50-year bond. The maturity of this bond and its below 5 per cent fixed cost made it particularly attractive in the quest for financial stability. This financing, when added to the other borrowing facilities already in place (see Fig. 3), means that the College's foreseeable funding needs are adequately catered for.

On 31 July 2006, Imperial Innovations Group plc floated on the London Stock Market with a market value of £180 million (see Fig. 4). The College owns nearly 60 per cent of this business. The development of Imperial Innovations is interesting in itself, being a pioneering step; but for the College its true importance lies in the fact that it represents a crucial part of the drive to optimise the value of the College's non-academic assets, physical and intellectual.

These two transactions represent the central planks of the College's financial strategy: to manage in an integrated way the College's assets and its liabilities; and to drive the exploitation of non-core assets to produce freely disposable capital to enhance the academic mission of the College.

The financial results of 2005/06 show the College satisfactorily on the way to implementing this strategy.

Dr M.P. Knight
Chief Operating Officer

Fig. 4—Imperial Innovations

Imperial Innovations was formed by the College in 1987, since when it has developed a strong track record in creating value by identifying and protecting intellectual property (IP) and then taking that IP to the market through licence agreements and the creation of spin-out companies. Its work with the College IP takes place through a Technology Pipeline Agreement, under which Imperial Innovations has the right to exploit College IP until 2020.

Imperial Innovations has entered into over 100 agreements which generate income from the licensing or transfer of IP and has 66 spin-out companies in its portfolio—four of which are currently listed on the London Stock Market. The company had a net asset value of £46 million as at 31 July 2006.

Positive coverage in the financial press demonstrates Imperial Innovations' status as a significant player in the technology transfer arena—and the College has been a keen participant in the accelerated development of the Company:

- In April 2005 £10 million was raised for the Company and £10 million for the College through a pre-IPO private placement of shares.
- The Company completed its IPO this year when it raised a further £26 million in gross proceeds and was admitted to trading on AIM on 31 July.
- £1 million of these funds were raised through a specific offer to College staff and associates

Imperial Innovations is a cornerstone of the College's financial strategy—it delivers a source of important unfettered income. Critically it is also a key asset. Following the IPO, the College holds c. 60 per cent of the Company—with a market value of £113 million as at 31 July 2006.

Corporate governance

The College is committed to exhibiting best practice in all aspects of corporate governance. This statement is provided to enable the reader of the financial statements to obtain a better understanding of the governance and legal structure of the College.

The College endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership), and with the guidance to universities from the Committee of University Chairmen in its *Guide for Members of Higher Education Governing Bodies in the UK*, the latest edition of which was published by the HEFCE in 2004.

The College is an independent corporation whose legal status derives from a Royal Charter granted under Letters Patent in 1907. Its objects, powers and framework of governance are set out in the Charter and Statutes, which were granted by Her Majesty The Queen in 1998. Further Orders in Council which have resulted in additions to, or amendments of, the Charter and Statutes of 1998 have been made on 8 May 2003 (which granted the College the power to award degrees in its own name), 16 July 2003 and 10 January 2005. In July 2006 the Council resolved that, by the time of its Centenary in July 2007, the College should withdraw from the University of London.

The Charter and Statutes require the College to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities as follows:

The Council is 'the governing and executive body of the College', and is responsible for the finance, property, investments and general business of the College, and for setting its general strategic direction. There are 19 members of the Council, the majority of whom are external members, including the Chairman and Deputy Chairman. Also included in its membership are representatives of the staff of the College and of the student body. None of the external members receive any payment, apart from the reimbursement of expenses, for the work they do for the College.

The Court is a large, mainly formal body. It offers a means whereby the wider interests served by the College can be associated with it, and provides a public forum where members of the Court can raise any matters about the College. The Court normally meets once a year to receive the College's Annual Report and audited financial statements. In addition, major changes to the College's constitution require the approval of the Court before they can be submitted to the Privy Council. The Court consists of some 160 members most of whom are from outside the College and appointed by appropriate bodies representing educational, research, international, regional and local interests. Its membership also includes representatives of the College's staff and students.

The Senate is the academic authority of the College and draws its membership entirely from the academic staff and the students of the College. Its role is to direct and regulate the teaching and research work of the College.

The principal academic and administrative officer of the College is the Rector who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the College. Under the terms of the formal Financial Memorandum between the College and the Higher Education Funding Council for England, the Rector is the Designated Officer of the College and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons. The financial management of the College is prescribed in the Financial Regulations approved by the Council and conducted in accordance with the Financial Memorandum with the Higher Education Funding Council for England.

As Chief Executive of the College, the Rector exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and the shaping

of the institutional ethos. He is supported by a Management Board comprising the Rector and Deputy Rector, the Principals of the Faculties and the Tanaka Business School, the Chief Operating Officer, the Director of Strategy and Planning, the Pro Rector for Development and Corporate Affairs and the College Secretary.

The Council is responsible for the College's system of internal control and for reviewing its effectiveness. Its approach is risk-based and includes an evaluation of the likelihood and impact of risks becoming a reality and also ensures that risk assessment and internal control procedures are embedded in the College's ongoing operations. The reviews included in the College's risk-based Strategic Audit Plan cover business, operational and compliance issues as well as financial risk. Such a system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks that has been in place for the year ended 31 July 2006 and up to the date of approval of the annual reports and accounts, that it is regularly reviewed by the Council and that it accords with the internal control guidance for directors in the Combined Code as deemed appropriate for higher education.

The Council meets at least four times a year and has two committees, the Audit Committee and the Remuneration and Nominations Committee. These are formally constituted as committees of the Council with written terms of reference and specified membership, including a significant proportion of external members. Both are chaired by external members of the Council. The decisions of both committees are formally reported to the Council.

The Audit Committee meets three times a year with the College's internal and external auditors in attendance. It considers detailed reports together with recommendations for the improvement of the College's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Funding Council as they affect the College's business and monitors adherence to regulatory requirements. The Committee reports directly to the Council and has the authority to call for any information from the College officers, from internal and external auditors and from others whom it considers necessary to consult in order to discharge its responsibilities effectively. Whilst senior officers attend meetings of the Committee, they are not members of it. Once a year the Committee meets the external auditors on their own for independent discussions. The Audit Committee also receives regular reports from Internal Audit and from the Management Board. Its role in this area is confined to a high level review of the arrangements for internal control, value for money and risk management. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

The Remuneration and Nominations Committee determines the remuneration of senior staff in the College including the Rector and also considers nominations for membership of the Court and Council, and of the latter's Committees.

The Management Board receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the operational units.

The College maintains a Register of Interests of members of the Council and of Senior Officers which may be consulted by arrangement with the Clerk to the Court and Council.

The College Secretary is the Clerk to the Court and Council. Any enquiries about the constitution and governance of the College should be addressed to him.

Responsibilities of the Council

The Council has agreed to adopt the Governance Code of Practice published by the Committee of University Chairmen, and accordingly has approved the following Statement of Primary Responsibilities:

1. To approve the mission and strategic objectives of the College, its long term business plans and key performance indicators, and to ensure that these take account of the interests of the College's stakeholders.
2. To safeguard the good name and values of the College.
3. To appoint the Rector, the College's Chief Executive, and to put in place suitable arrangements for monitoring his/her performance.
4. To delegate authority to the Rector, as Chief Executive, for the academic, corporate, financial, estate and personnel management of the College.
5. To ensure the establishment of systems of control and accountability, including financial and operational controls, risk assessment, and procedures for managing conflicts of interest; and monitor the effectiveness of these systems.
6. To ensure that processes are in place for regular monitoring and evaluation of the performance and effectiveness of the College against its approved plans and key performance indicators.
7. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
8. To be the principal financial and business authority of the College, to ensure that proper accounts are kept, to approve the annual budget and financial statements, and to have overall responsibility for the College's assets, property and estate.
9. To be the College's legal authority and, as such, to ensure that systems are in place to ensure that all its legal obligations, including those arising from contracts and other legal commitments made in its name, are properly met.
10. In accordance with the College's Charter and Statutes, to act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the College.
11. To ensure that the College's Charter and Statutes are adhered to at all times, with appropriate advice available as necessary.
12. To approve the College's human resources strategy.
13. To establish processes to monitor and evaluate the performance and effectiveness of the Council itself.
14. To appoint a Clerk to the Council and ensure that accountability for his/her performance in that capacity is properly separated from such managerial responsibilities as he/she may have in the College.

In accordance with the College's Charter and Statutes, the Council is responsible for the administration and management of the affairs of the College. It is required to present audited financial statements for each financial year. As such it is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the College and enable it to ensure that the financial statements are prepared in accordance with the Charter of Incorporation, the *Statement of Recommended Practice on Accounting in Higher Education Institutions* (SORP) and other relevant accounting standards. In addition, and in accordance with the formal Financial Memorandum between the College and the Higher Education Funding Council for England, the Council, through its Designated Officer, is required to prepare financial statements for each financial year which give a true and fair view of the state of

affairs of the College and of the surplus or deficit and cash flows for that year.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- the SORP and applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- the College has adequate resources to continue in operation for the foreseeable future and for this reason the financial statements are prepared on a going concern basis.

The Council has taken reasonable steps to:

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

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

- clear definitions of the authority delegated to Principals of Faculties and heads of academic and administrative departments as set out in the College's approved Levels of Authority;
- approval by Council each year of a College budget and a five-year rolling College plan which, whilst driven from the academic standpoint, are based on detailed financial projections of all College budget centres;
- a comprehensive monthly review of the financial performance of all budget centres and update of forecast outturns with a report to the Rector and senior College staff, to the Management Board and to governors at each Council meeting;
- 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 Audit Committee and the Council;
- an internal audit team, reporting to the Clerk to the Court and Council, whose risk-based Strategic Audit Plan of work (based upon the College's Risk Register) is approved by, and conclusions subsequently reviewed by, the Audit Committee.

The Audit Committee, on behalf of the Council, regularly reviews the effectiveness of the internal controls in the College and its subsidiaries. Any system of internal control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Council and Council committees

The Council

Chairman:

The Lord Kerr of Kinlochard

Court Nominees:

Mr G. Able (until 30 September 2006)

Mr A.D. Roche

Dr D.J. Wilbraham

Baroness Wilcox (from 1 October 2006)

Co-opted External Members:

Dr E. Buttle (until 24 March 2006)

Mrs P. Couttie (from 1 January 2006)

Sir Peter Gershon

Mr B. Gidoomal

Dr G.G. Gray

Mr D.P. Hearn (until 31 December 2005)

Mr J.H.M. Newsum

Ms K. Owen (from 25 March 2006)

Ex Officio:

Rector: Sir Richard Sykes

Deputy Rector: Professor Sir Leszek Borysiewicz

Senior Staff Representatives:

Professor D.K.H. Begg

Professor Dame Julia Higgins (from 1 October 2006)

Professor J.E. King (until 30 September 2006)

Dr M.P. Knight

Professor Sir Peter Knight

Professor S.K. Smith

Elected Staff Member:

Professor R.I. Kitney

President, Imperial College Union

Miss S. Misbahuddin (until 31 July 2006)

Mr J. Collins (from 1 August 2006)

Clerk to the Court and Council:

Mr K.A. Mitcheson

Audit Committee

Chairman:

Mr D.P. Hearn (until 31 December 2005)

Dr G.G. Gray (from 1 January 2006)

Membership:

Dr G.G. Gray (until 31 December 2005)

Mrs P. Couttie (from 1 January 2006)

Mr A.D. Roche

Dr D.J. Wilbraham

Ms K. Kantor (co-opted)

Secretary:

Mr J.B. Hancock

Remuneration and Nominations Committee

Chairman:

The Lord Kerr of Kinlochard

Membership

Dr E. Buttle (until 24 March 2006)

Sir Peter Gershon

Dr G.G. Gray

Baroness Wilcox (from 1 October 2006)

Secretaries

Mr C. Gosling

Mr K.A. Mitcheson

Auditors' report

Independent auditors' report to the Council of Imperial College London

We have audited the financial statements of Imperial College London for the year ended 31 July 2006 which comprise the consolidated income and expenditure account, the Group and College balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Council and auditors

The Council's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the *Statement of Recommended Practice – Accounting for Further and Higher Education* (SORP), applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of the College in accordance with the Charters and Statutes of the College. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the *Statement of Recommended Practice – Accounting for Further and Higher Education* (SORP). We report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the College's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, the College has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the *Report and Accounts 2005/06* and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the introduction by the Rector, the achievements spotlight, the Chief Operating Officer's report, the corporate governance statement and the responsibilities of the Council.

The maintenance and integrity of the Imperial 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.

We also review the statement of internal control and comment if the statement is inconsistent with our knowledge of the College and group. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the College and the group at 31 July 2006, and of the surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and have been properly prepared in accordance with the *Statement of Recommended Practice – Accounting for Further and Higher Education* (SORP), and United Kingdom Generally Accepted Accounting Practice (UK GAAP);
- ii. in all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the College have been applied only for the purposes for which they were received;
- iii. in all material respects, income has been applied in accordance with the College's statutes and where appropriate in accordance with the financial memorandum (2006/24) with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

32 London Bridge Street
London SE1 9SY

24 November 2006

Consolidated income and expenditure account

For the year ended 31 July 2006

	Note	2006 £000	2005 (restated) £000
Income			
Funding Council grants	1	148,143	137,498
Academic fees and support grants	2	72,020	63,104
Research grants and contracts	3	204,873	176,705
Other operating income	4	72,115	76,929
Endowment income and interest receivable	5	6,280	4,293
Share of associates' operating results		133	89
Total income		503,564	458,618
Expenditure			
Staff costs	6	280,499	267,793
Restructuring costs	6	4,533	3,893
Depreciation	11	36,678	26,684
Other operating expenses	7	178,780	160,020
Interest payable	8	2,876	2,659
Total expenditure	9	503,366	461,049
Surplus from operating activities before exceptional items		198	296
Exceptional items (operating)		—	(2,727)
Surplus/(Deficit) from operating activities		198	(2,431)
Exceptional income from sale of fixed asset investments	28	10,744	25,775
Surplus before tax and minority interest		10,942	23,344
Taxation	10	(19)	(15)
Minority interest	28	333	(4,341)
Surplus after tax and minority interest		11,256	18,988
Transfer from accumulated income within specific endowments	13	394	213
Surplus for the year retained within general reserves		11,650	19,201

No operations were discontinued during the year. All operations above are continuing.

Note of historical cost surpluses and deficits

For the year ended 31 July 2006

Surplus on ordinary activities before tax and minority interest	10,942	23,344
Realisation of revaluation gains of prior years on fixed asset investments sold in the year	147	—
Historical cost surplus before tax and minority interest	11,089	23,344
Historical cost surplus for the year after tax and minority interest	11,403	18,988

Balance sheets

as at 31 July 2006

	Note	Consolidated		College	
		2006 £000	2005 (restated) £000	2006 £000	2005 (restated) £000
Fixed Assets					
Tangible assets	11	556,381	479,318	498,969	456,618
Investments	12, 27	39,496	26,468	13,952	9,724
		595,877	505,786	512,921	466,342
Endowment Asset Investments	13	52,216	47,359	52,216	47,359
Current Assets					
Stocks		312	341	192	157
Debtors	14	87,516	102,565	119,246	116,151
Investments and short term deposits		1,594	19,106	1,586	19,106
Cash at bank and in hand	25	140,615	18,130	98,272	1,483
		230,037	140,142	219,296	136,897
Creditors: amounts falling due within one year	15	(161,013)	(133,653)	(176,131)	(132,503)
Net Current Assets		69,024	6,489	43,165	4,394
Total Assets Less Current Liabilities		717,117	559,634	608,302	518,095
Creditors: amounts falling due after more than one year	16	(157,013)	(66,293)	(123,974)	(51,012)
Provisions for liabilities and charges	17	(11,707)	(13,021)	(11,707)	(13,021)
Total Net Assets excluding Pension Asset		548,397	480,320	472,621	454,062
Pension Asset	32	124	111	124	111
Total Net Assets including Pension Asset		548,521	480,431	472,745	454,173

	Note	Consolidated		College	
		2006 £000	2005 (restated) £000	2006 £000	2005 (restated) £000
Represented by:					
Deferred Capital Grants	18	301,284	269,172	280,639	268,919
Endowments					
Specific	19	49,562	44,910	49,562	44,910
General	19	2,654	2,449	2,654	2,449
		52,216	47,359	52,216	47,359
Revaluation reserve	21	14,066	10,111	1,028	1,017
General reserves					
Income and expenditure account	20,21	161,947	148,075	138,738	136,767
Pension reserve	21,32	124	111	124	111
General reserves including pension reserve		162,071	148,186	138,862	136,878
Total College Funds		529,637	474,828	472,745	454,173
Minority Interest	28	18,884	5,603	—	—
Total Funds		548,521	480,431	472,745	454,173

The financial statements on pages 17 to 40 were approved by the Council on 24 November 2006, and signed on their behalf by:

The Lord Kerr of Kinlochard, Chairman

Sir Richard Sykes, Rector

Dr M.P. Knight, Chief Operating Officer

Consolidated cash flow statement

For the year ended 31 July 2006

	Note	2006 £000	2005 £000
Net Cash Inflow from Operating Activities	23	48,107	24,568
Returns on Investments and Servicing of Finance			
Income received from endowments		1,328	1,615
Income received from short term investments		3,308	1,104
Income received from fixed asset investments		1,373	148
Other interest received		303	267
Interest paid		(3,281)	(2,696)
		3,031	438
Tax paid		(57)	(3)
Capital Expenditure and Financial Investment			
Payments to acquire tangible assets other than leased equipment		(102,858)	(75,266)
Purchase of fixed asset investments		(5,118)	(6,348)
Capital payments on realisation of LLP investments		—	(763)
Total payments to acquire fixed and endowment asset investments		(107,976)	(82,377)
Receipts from disposal of tangible assets	28	23,324	22,179
Deferred capital grants and lease premiums in advance received		67,582	50,684
Endowments received		169	181
		(16,901)	(9,333)
Management of Liquid Resources		18,841	(7,135)
Financing			
Net mortgages and loans acquired		73,200	—
		73,200	—
Increase in Cash	25	126,221	8,535

Statement of consolidated total recognised gains and losses

For the year ended 31 July 2006

	Note	2006 £000	2005 (restated) £000
Surplus after tax and minority interest		11,256	18,988
Appreciation of endowment asset investments	13, 19	4,398	5,809
Net endowment additions/(disposals)	13, 19	853	250
Revaluation of investments within fixed assets	21	6,177	9,115
Actuarial gain on FPS pension scheme	32	13	18
Total recognised gains relating to the year		22,697	34,180
Prior year adjustment	31	111	
Total gains recognised since last annual report		22,808	
Opening reserves and endowments (restated)		205,656	
Total recognised gains relating to the year		22,697	
Closing reserves and endowments		228,353	

Statement of principal accounting policies

1. Accounting convention

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

FRS 17 *Retirement Benefits* has been adopted in full for the year ended 31 July 2006 and comparative periods have been restated accordingly.

2. Basis of consolidation

The consolidated financial statements consolidate the financial statements of the College, Imperial College Union and all subsidiary undertakings for the financial year to 31 July.

The consolidated income and expenditure account includes the College's share of the income, expenditure and tax of associated undertakings, while the consolidated balance sheet includes investment in associated undertakings at the College's share of their net tangible assets. Associated undertakings are those in which the College has a significant, but not dominant, influence over their commercial and financial policy decisions. A separate income and expenditure account for the parent organisation has not been presented because the College has taken advantage of the exemption allowed under s230 of the Companies Act 1985.

For those subsidiary and associated undertakings that have different accounting year-end dates, interim accounts to 31 July for these companies have been consolidated.

3. Recognition of income and expenditure

Income from donations, research grants and contracts, and other services rendered is included to the extent of the associated expenditure incurred during the year together with any related contributions towards overhead costs. All income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments. Income is deferred only when the College has to fulfil conditions before becoming entitled to it or where it has been specified by the donor that the money can be expended in a future period. Expenditure incurred relates to the receipt of goods and services. This includes patent costs which are written off in the year that they are incurred rather than being capitalised. A provision for bad debts is estimated on the basis that as debts become older, a higher percentage become irrecoverable.

Where the College disburses funds it has received as paying agent on behalf of the Funding Council or other body, and has no beneficial interest in the funds, the receipt and subsequent disbursement of the funds has been excluded from the income and expenditure account.

4. Pension schemes

The College participates in four principal pension schemes which are funded defined benefit schemes. The schemes are contracted-out of the State Second Pension (S2P). The SAUL, USS and FPS schemes are valued formally every three years by professionally qualified and independent actuaries using the Projected Unit method for USS and SAUL and Aggregate method for FPS. The NHS Pension scheme is valued every five years using the Aggregate method. The USS, SAUL and NHS are multi-employer schemes and it is not possible to identify the College's share of the underlying assets and liabilities of the schemes. Therefore, as required by

FRS 17 the contributions are charged directly to the income and expenditure account as if the schemes were defined contribution schemes.

The FPS pension scheme is accounted for on the basis of FRS 17. The scheme's assets are included at market value and the scheme's liabilities are measured on an actuarial basis using the projected unit method and discounted at an appropriate rate of return. The College's share of the surplus or deficit of the scheme is recognised as an asset or liability on the balance sheet, with surplus included only to the extent that it is recoverable through reduced contributions in the future or through refunds from the scheme. The current service cost and past service costs are included within staff costs and the expected return on the scheme's assets, net of the impact of the unwinding of the discount on scheme's liabilities, is included within endowment income. Actuarial gains and losses, including differences between the expected and actual return on the scheme's asset, are recognised in the statement of total recognised gains and losses.

Imperial Innovations Group plc, a subsidiary of the College, operates a defined contribution pension scheme for its employees, with contributions being charged to the income and expenditure account in the period to which they relate.

5. Foreign currencies

Transactions denominated in Euros and other foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are recognised as part of income and expenditure.

6. Finance leases

Assets held under finance leases together with the related lease obligations are recorded on the balance sheet with initial values equivalent to the purchase price of the asset. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

7. Land and buildings

Purchased land and purchased or constructed buildings are stated at cost. Freehold land is not depreciated while leasehold land is depreciated over the life of the lease. Buildings, including service plant, are depreciated over their expected useful lives or at the rate of 2 per cent per annum of their historical cost (no purchased buildings are held on leases of less than 50 years). Buildings which are still under construction are not depreciated. Where land and buildings are acquired with the aid of specific grants, the grants are treated as deferred capital grants and released to income at the same rate as depreciation is charged.

Buildings acquired on integration of previously independent institutions are brought into the balance sheet at fair value (market value where ascertainable, otherwise depreciated replacement cost) and depreciated over their remaining expected useful lives. An amount equivalent to the fair value of assets so acquired is credited to deferred capital grants and released in the same manner as other such grants.

Costs incurred in relation to buildings after their initial acquisition are capitalised only to the extent that they increase the expected future benefits beyond those originally assessed. The cost of such enhancements are depreciated at the rate of 2 per cent per annum, or life of asset if shorter. Finance costs which are directly

attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

Some accommodation within associated hospitals is occupied rent free by the College but this is approximately offset by College accommodation occupied rent free by them.

A review of impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

On adoption of FRS 15, the College followed the transitional provision to retain the book value of land and buildings but not to adopt a policy of revaluations of these properties in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

8. Equipment

Equipment, including computers and software, costing less than £50,000 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, once in service, depreciated over its expected useful life or at 20 per cent per annum, with the administrative computer system being depreciated over eight years; equipment acquired for specific research projects is depreciated over the remaining life of the project (generally three years). A full year's depreciation is charged in the year of acquisition and no depreciation is charged in the year of disposal.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income at the same rate as depreciation is charged.

9. Reserves

Discretionary reserves are earmarked for specific purposes by the management of the College whereas non-discretionary reserves are legally restricted.

10. Investments

Endowment asset investments and listed fixed asset investments are included in the balance sheet at market value less a provision, where appropriate, to reflect restrictions in their marketability. Fixed assets investments that are not listed on a recognised stock exchange are carried at cost less any provision for impairment in their value except where costs are revalued in compliance with accounting standards. Current asset investments are included at the lower of cost and net realisable value. Increases/decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve; a diminution in value is taken to the income and expenditure account to the extent it is not covered by a previous revaluation surplus. Investments in associated companies where the input from the College is represented only by the intellectual property rights are valued at zero historical cost.

11. Stocks

Only the value of stocks held in the refectories and central stores are included on the balance sheet. They are valued at the lower of cost and net realisable value.

12. Cash flows and liquid resources

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they can be withdrawn at any time without notice and without penalty or if a maturity or period of notice of not more than 24 hours has been agreed. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as readily disposable stores of value. They include term deposits, government securities and loan stock held as part of the College's treasury management activities. They exclude any such assets held as endowment asset investments.

13. Taxation status

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Income and Corporation Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gain Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The College receives no similar exemption in respect of Value Added Tax. The College's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Notes to the accounts

1. Funding Council Grants	Note	2006 £000	2005 £000
Recurrent—teaching		49,911	51,753
Recurrent—research		82,442	71,637
London Whole Institutions		1,659	1,659
Clinical Pay Award		1,741	2,026
Higher Education Innovation Fund (HEIF)		1,357	1,227
Laboratory refurbishment initiative and project capital allocations		2,312	3,109
Science Research Investment Fund (SRIF)		35,746	33,114
Other specific grants		1,115	773
		176,283	165,298
Grants from Higher Education Funding Council for England (HEFCE)			
Joint Information Systems Committee (JISC)		48	—
Transferred to deferred capital grants in the year			
Buildings		(31,394)	(28,655)
Equipment		(6,295)	(6,935)
Deferred capital grants released in the year			
Buildings	18	5,897	5,174
Equipment	18	3,604	2,616
		148,143	137,498

2. Academic Fees and Support Grants	Registered student numbers		2006 £000	2005 £000
	31 Dec 2005	31 Dec 2004		
Full-time home and European Union students	8,171	8,193	13,915	14,117
Full-time overseas students	3,319	2,959	47,831	39,975
Part-time students	807	904	3,208	3,023
Research training support grants (RTSG)			2,282	2,567
Short course fees			4,784	3,422
			72,020	63,104

Research training support grants include £1,647k (£1,191k in 2005) of tuition fees paid in respect of full-time home and European Union students.

Total numbers of full-time and part-time students are 12,297 in 2006 and 12,056 in 2005 (excluding RTSG and short courses).

3. Research Grants and Contracts	2006 £000	2005 £000
UK research councils	61,726	44,623
UK government departments, local and health authorities	14,217	14,834
UK industry, commerce and public corporations	27,018	20,428
UK charities	62,527	56,614
UK other	2,782	5,932
European Commission	9,368	8,140
Other European Union and overseas	27,235	26,134
	204,873	176,705
Research income relating to the direct expenditure incurred during the year	170,966	150,503
Contributions towards overhead costs	33,907	26,202
	204,873	176,705

Total research income excludes £11,283k (£7,813k in 2005) deferred capital grants received in 2006 but includes £11,434k (£4,538k in 2005) released from deferred capital grants.

4. Other Operating Income	2006 £000	2005 £000
Health and hospital authorities	22,533	24,413
Consultancies and scientific services	8,098	9,468
Donations	2,783	4,138
Residences, catering and conferences	18,510	17,762
Income from exploitation of intellectual property	1,804	1,789
Rents receivable	1,703	1,785
Commissions and fees	978	1,037
Other departmental income	6,025	7,065
Released from deferred capital grants on land and buildings	1,487	3,605
Released from deferred capital grants on equipment	2,311	185
Other income	5,883	5,682
	72,115	76,929

5. Endowment Income and Interest Receivable	Note	2006 £000	2005 (restated) £000
Income from specific endowment investments	19	1,464	1,244
Income from general endowment investments	19	75	69
Income from long term investments		520	1,476
Income from short term investments		3,801	1,141
Other interest receivable		303	267
Net return on pension scheme		117	96
		6,280	4,293

Income from long term investments includes income generated on the sale of investment companies owned by Imperial Innovations Group plc.

Notes to the accounts

6. Staff	Note	2006 £000	2005 (restated) £000
Staff costs:			
Wages and salaries		234,272	223,575
Social security costs		21,306	20,316
Other pension costs	32	24,921	23,902
		280,499	267,793
Restructuring costs		4,533	3,893
		285,032	271,686
Emoluments of the Rector :			
Remuneration		280	262
Social security costs		36	34
Other		10	9
		326	305

The Rector has elected not to join the pension scheme and therefore no employer's contributions have been paid.

Compensation for loss of office to members of staff earning in excess of £70,000 per annum (7 in 2006, 7 in 2005):

Payments in respect of loss of office	467	620
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	Full Time Equivalent		Headcount	
	2006 Number	2005 Number	2006 Number	2005 Number
Average staff numbers by major category:				
Research and education	2,983	2,898	3,115	3,026
Professional services	1,975	1,958	2,174	2,158
Technical services	548	557	566	574
Operational services	581	573	768	752
	6,087	5,986	6,623	6,510

The Full Time Equivalent (FTE) number is based on the headcount but adjusted to include only the pro rata element of part-time staff. The reported categories of staff reflect the new pay and grading structure in place at College where applicable.

Remuneration of higher paid staff (excluding the Rector) for College duties plus payments made on behalf of third parties	2006 Number	2005 Number
£70,000–£79,999	99	93
£80,000–£89,999	62	48
£90,000–£99,999	50	50
£100,000–£109,999	34	28
£110,000–£119,999	23	19
£120,000–£129,999	19	23
£130,000–£139,999	22	19
£140,000–£149,999	16	16
£150,000–£159,999	19	19
£160,000–£169,999	15	14
£170,000–£179,999	7	8
£180,000–£189,999	4	9
£190,000–£199,999	3	2
£200,000–£209,999	4	4
£210,000–£219,999	2	1
£220,000–£229,999	—	1
£240,000–£249,999	1	—
£250,000–£259,999	—	1
£270,000–£279,999	1	—

Remuneration of Higher Paid Staff excludes employer's pension contributions. Payments made on behalf of third parties include NHS Distinction Awards and payments to staff for consultancy services made through subsidiaries.

	2006 £000	2005 (restated) £000
7. Other Operating Expenses		
Research grants and contracts	68,934	62,482
Consultancies and scientific services	2,959	5,081
Short courses	1,287	1,051
General expenditure in academic departments	25,885	25,191
Residences, catering and conferences	11,720	9,744
Central support services	20,484	16,385
Fellowships, scholarships and prizes	2,773	2,101
Books, periodicals and other library expenditure	4,518	4,333
Maintenance of premises	22,056	14,515
Facilities costs	14,109	10,213
Auditors' remuneration	224	144
Auditors' fees in respect of non-audit services	599	120
Exceptional items	—	2,727
Other	3,232	5,933
	178,780	160,020

	2006 £000	2005 £000
8. Interest Payable		
Bank and other loans wholly repayable after more than one year	2,535	2,318
Other financing costs	341	341
	2,876	2,659

Notes to the accounts

	Staff Costs	Depreciation	Other operating expenses	Interest payable	2006 Total £000	2005 Total (restated) £000
9. Analysis of Expenditure by Activity	£000	£000	£000	£000	£000	£000
Academic departments	126,576	5,896	27,172	123	159,767	152,638
Academic services:						
Libraries and information services	4,171	—	4,518	—	8,689	8,304
Central computer and computer networks	6,811	2,321	6,061	—	15,193	11,716
Other	7,034	18	4,818	—	11,870	10,311
Total academic services	18,016	2,339	15,397	—	35,752	30,331
Research grants and contracts	90,598	11,434	68,934	—	170,966	150,503
Residences, catering and conferences	6,355	1,515	11,720	—	19,590	17,361
Premises	14,662	13,547	36,225	—	64,434	53,056
Administration and central services:						
Central administration	14,404	1,534	7,262	—	23,200	23,099
General educational expenditure	1,258	—	4,886	—	6,144	5,719
Staff and student facilities	3,184	408	2,500	—	6,092	5,799
Total administration and central services	18,846	1,942	14,648	—	35,436	34,617
Other expenditure:						
Consultancies and scientific services	3,921	5	2,995	—	6,921	8,392
Other, including restructuring costs	6,058	—	1,689	2,753	10,500	14,151
Total other expenditure	9,979	5	4,684	2,753	17,421	22,543
	285,032	36,678	178,780	2,876	503,366	461,049

The depreciation charge has been funded by:	Note	£000
Deferred capital grants released	18	24,739
General income		11,939
	11	36,678

	2006 £000	2005 £000
10. Taxation		
UK corporation tax payable on the profits of subsidiary and associated companies	19	15

11. Tangible Assets

	Consolidated					
	Land and buildings				Equipment	Total
	Freehold	Leasehold	Assets under construction	£000		
Cost	£000	£000	£000	£000	£000	
At 1 August 2005	236,398	257,339	46,559	118,571	658,867	
Additions	15,770	22,108	47,139	30,589	115,606	
Transfers	18,476	4,144	(22,620)	—	—	
Disposals	(2,930)	(1,413)	—	(9,642)	(13,985)	
At 31 July 2006	267,714	282,178	71,078	139,518	760,488	
Depreciation						
At 1 August 2005	46,209	61,210	—	72,130	179,549	
Charge for year	6,255	8,840	—	21,583	36,678	
Eliminated on disposals	(2,021)	(511)	—	(9,588)	(12,120)	
At 31 July 2006	50,443	69,539	—	84,125	204,107	
Net Book Value						
At 31 July 2006	217,271	212,639	71,078	55,393	556,381	
At 1 August 2005	190,189	196,129	46,559	46,441	479,318	
College						
	Land and buildings				Equipment	Total
	Freehold	Leasehold	Assets under construction	£000		
	Cost	£000	£000	£000	£000	£000
At 1 August 2005	234,667	257,339	26,101	115,184	633,291	
Additions	15,770	15,762	18,368	30,465	80,365	
Transfers	18,476	4,144	(22,620)	—	—	
Disposals	(2,930)	(1,413)	—	(9,568)	(13,911)	
At 31 July 2006	265,983	275,832	21,849	136,081	699,745	
Depreciation						
At 1 August 2005	46,181	61,210	—	69,282	176,673	
Charge for year	6,241	8,814	—	21,148	36,203	
Eliminated on disposals	(2,021)	(511)	—	(9,568)	(12,100)	
At 31 July 2006	50,401	69,513	—	80,862	200,776	
Net Book Value						
At 31 July 2006	215,582	206,319	21,849	55,219	498,969	
At 1 August 2005	188,486	196,129	26,101	45,902	456,618	

The transitional rules set out in FRS 15 'Tangible Fixed Assets' have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

An arrangement was entered into on 12 February 2004 regarding the construction of new research buildings. It involves a finance lease and sub-lease of land from the Special Trustees of the Hammersmith Hospitals Trust to the College (the 'Special Trustees') and from the College to Burlington Danes Construction Limited (BDCL), a wholly owned subsidiary of the College. The lease with the Special Trustees has been prepaid and no further payments are required, hence no finance lease creditor arises in the accounts. The land held under the finance lease at cost of £1,731k and cumulative depreciation of £42k have been included under Freehold. Transactions for the sub-lease to BDCL are reversed on consolidation.

Notes to the accounts

12. Investments	Note	Consolidated		College	
		2006 £000	2005 £000	2006 £000	2005 £000
Investment in subsidiary companies at cost		—	—	2,969	2,219
Investment in other associated undertakings		696	597	148	148
Other fixed asset investments	27	38,800	25,871	10,835	7,357
		39,496	26,468	13,952	9,724

As at 31 July 2006 the College's direct equity holdings in subsidiary and associated companies, all of which are wholly owned except as shown, were as follows:

Company	Activity	Holding %
Imperial Innovations Group plc	Commercialisation of ideas and inventions	59
IC Consultants Ltd	Consultancy and scientific services	100
Imperial Activities Ltd	Commercial property services	100
Imperial College (S) Pte Ltd	Supply of MBA courses in Singapore	100
Extracalm Co Ltd	Administrative services	100
Extracalm Cleaning LLP	Cleaning services	
Private Patient Healthcare Ltd	Private patient healthcare services	100
Burlington Danes Construction Ltd	Construction and property services	100
Imperial Bioincubator Ltd	Provision of facilities to spin-out companies	100
Natural Resources Intl Ltd	Environmental consultancy and scientific services	50
Imperial College Press Ltd	Publication and sale of scientific literature	49
Imperial College Company Maker Ltd	Dormant	100
Imperial College Ltd	Dormant	100
Imperial MBA Ltd	Dormant	100
Imperial College London Ltd	Dormant	100

All companies are registered in England, except for Imperial College (S) Pte Ltd, which is registered in Singapore.

On 17 August 2006, World Scientific Publishing Company Pte Limited (WSPC) acquired all of the shares held by the College in Imperial College Press Ltd (ICP) for £120k, thus making WSPC the sole shareholder. WSPC has also entered into a trademark licence agreement with the College in order to retain the use of the Imperial College name by ICP. The impact of these transactions will be reflected in the 2007 financial report.

13. Endowment Asset Investments	Consolidated and College						
	Balance 2005 £000	Disposals £000	Additions £000	Net expenditure from capital £000	Transfers between investments £000	Appreciation/ revaluation £000	Balance 2006 £000
UK fixed interest stocks	5,167	—	—	—	(5,119)	(36)	12
UK equities	23,745	—	—	—	2,005	3,332	29,082
International equities/fixed interest stocks	12,449	—	—	—	(2,279)	301	10,471
Absolute return investments	—	—	—	—	4,697	273	4,970
Property fund	4,219	—	—	—	(382)	469	4,306
Investment property	450	—	—	—	380	59	889
Cash balances with fund managers	—	—	—	—	745	—	745
Short term investments/cash	1,329	(114)	967	(394)	(47)	—	1,741
Total	47,359	(114)	967	(394)	—	4,398	52,216
Fixed interest and equities at cost	41,309						43,372

14. Debtors: amounts falling due within one year

	Consolidated		College	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts due on research grants and contracts:				
Debtors	29,229	26,947	29,229	26,947
Work in progress	32,575	34,214	32,575	34,214
Other debtors	8,717	17,915	5,591	12,797
Prepayments and accrued income	18,509	25,527	15,095	23,245
Amounts owed by group undertakings	—	—	38,229	20,954
Provision for bad debts	(1,514)	(2,038)	(1,473)	(2,006)
	87,516	102,565	119,246	116,151

15. Creditors: amounts falling due within one year

	Consolidated		College	
	2006	2005	2006	2005
	£000	£000	£000	£000
Bank balance (relates to uncleared cheques)	—	1,995	—	1,995
Research payments received on account	79,649	62,450	79,649	62,450
Creditors	9,444	12,500	6,901	6,266
Social security and other taxation payable	7,050	7,145	7,015	7,076
Accruals and deferred income	64,870	49,563	70,941	40,802
Amounts owed by group undertakings	—	—	11,625	13,914
	161,013	133,653	176,131	132,503

16. Creditors: amounts falling due after more than one year

	Consolidated		College	
	2006	2005	2006	2005
	£000	£000	£000	£000
Other taxation payable	774	1,012	774	1,012
Lease premium payments	31,546	13,704	—	—
Loans repayable after more than five years	123,200	50,000	123,200	50,000
University Challenge Fund grants	1,493	1,577	—	—
	157,013	66,293	123,974	51,012

The College has arranged four unsecured sterling borrowing facilities.

1. A 30-year £50 million private placement arranged through Royal Bank of Scotland with a small number of institutions. It takes the form of loan notes. The facility was drawn down in a single amount in March 2003 and is not repayable until 2033. Interest at a fixed rate of 5.39 per cent is payable annually in arrears.
2. A 15-year £23.2 million facility from the European Investment Bank. The facility was drawn in a single amount in December 2005 and repayments start in 2009. Interest at variable rates is payable quarterly in arrears.
3. A 50-year £50 million private placement arranged through Royal Bank of Scotland with a small number of institutions. It takes the form of loan notes. The facility was drawn in a single amount in July 2006 and is not repayable until 2056. Interest at a fixed rate of 4.84 per cent is payable annually in arrears.
4. A 15-year £50 million facility from the European Investment Bank. When drawn the facility will be repayable over the last 12 years of its term and interest will be payable over the whole 15-year term.

Notes to the accounts

17. Provisions for liabilities and charges	Restructuring provision £000	Decommissioning of engineering facility £000	Total £000
Consolidated and College			
At 1 August 2005	4,858	8,163	13,021
Provided in the year	3,096	—	3,096
Utilised in the year	(4,412)	(339)	(4,751)
Unwinding of the discount	—	341	341
At 31 July 2006	3,542	8,165	11,707

A number of restructuring programmes are currently underway within the College with the aim of reducing costs.

The decommissioning provision relates to a potential liability to remove a specialist engineering facility. It is expected that a substantial contribution towards decommissioning costs will be made by external sources.

18. Deferred Capital Grants	Consolidated			College
	HEFCE and JISC grants £000	Other grants and benefactions £000	Total £000	Total £000
Note				
At 1 August 2005				
Buildings	151,979	93,338	245,317	245,317
Equipment	17,569	6,286	23,855	23,602
Total	169,548	99,624	269,172	268,919
Cash receivable				
Buildings—specific funding (including transfers)	30,549	5,415	35,964	15,397
Equipment—specific funding	6,295	14,592	20,887	20,887
Total	36,844	20,007	56,851	36,284
Released to income and expenditure				
Buildings	(5,897)	(3,812)	(9,709)	(9,696)
Equipment	(3,604)	(11,426)	(15,030)	(14,868)
Total	(9,501)	(15,238)	(24,739)	(24,564)
At 31 July 2006				
Buildings	176,631	94,941	271,572	251,018
Equipment	20,260	9,452	29,712	29,621
Total	196,891	104,393	301,284	280,639

19. Endowments

	Note	Consolidated and College		
		Specific £000	General £000	Total £000
At 1 August 2005		44,910	2,449	47,359
Additions		954	13	967
Disposals		(114)	—	(114)
Appreciation of endowment asset investments		4,206	192	4,398
Income for year	5	1,464	75	1,539
Expenditure in the year		(1,858)	(75)	(1,933)
At 31 July 2006		49,562	2,654	52,216
Representing:				
Fellowships and scholarships funds		8,560	—	8,560
Prizes funds		1,708	—	1,708
Chairs and lectureships funds		26,447	—	26,447
Other funds		12,847	2,654	15,501
		49,562	2,654	52,216

20. Income and Expenditure Account

	Consolidated £000	College £000
Surplus after tax and minority interest	11,650	1,971
Transfer from revaluation reserve	2,222	—
Balance at 1 August 2005	148,075	136,767
Balance at 31 July 2006	161,947	138,738

21. Statement of Movements on Reserves

	Note	Consolidated			
		£000			
Total reserves at 31 July 2005 as previously reported					158,186
Prior year adjustment—adoption of FRS 17	31				111
Total reserves at 31 July 2005 as restated					158,297
	Opening balance (restated) £000	Surplus for the year £000	Transfer from revaluation reserve £000	Movement in year £000	Closing balance £000
Specific discretionary reserves					
Academic departments	9,025			(1,354)	7,671
Academic services	278			(278)	—
Administration and central services	135			(135)	—
Long term maintenance—residences	9,185			(9,185)	—
Specific non-discretionary reserves					
Harlington student fund	4,276			(2,265)	2,011
Imperial College Union's funds	1,744			216	1,960
Subsidiary and associate companies' reserves	(2,049)			(442)	(2,491)
	22,594			(13,443)	9,151
General reserve	125,481	11,650	2,222	13,443	152,796
Total income and expenditure reserves	148,075	11,650	2,222	—	161,947
Pension reserve	111			13	124
Revaluation reserve	10,111		(2,222)	6,177	14,066
Total reserves	158,297	11,650	—	6,190	176,137

Notes to the accounts

22. Related Party Transactions

For some years the College has maintained a Register of Interests of all Governors, Academic and Academic Related staff. Policies incorporated within the College's Financial Regulations require an individual to declare an interest and withdraw from any commercial discussions should a conflict of interest potentially arise. Written assurances have been obtained from all Governors and senior officers of the College in respect of themselves and their close family that for the year to 31 July 2006 they have not unduly influenced any transaction between the College and a related party, as defined by FRS 8.

Commercial relationships with companies or other organisations that might be regarded as related parties have been reviewed. During the year, the College purchased goods and services amounting to £6.8 million and received research grants and contracts amounting to £30.4 million from such parties. Research grants include £18.6 million from the Wellcome Trust where Professor Sir Leszek Borysiewicz, the Deputy Rector, is a member of the Monitoring Committee. The Wellcome Trust has detailed guidelines and controls which require that Governors withdraw from any discussion or decision making on the award of grants where there may be a conflict of interest. Purchased goods and services include £5.6 million from the Hammersmith Hospitals NHS Trust. Dr R. Eastwood, Director of Strategy and Planning, is a member of the Board of Hammersmith Hospitals NHS Trust. He had no involvement in transactions between the two institutions. In common with many universities, other senior members of the College sit on research councils and other grant awarding bodies which have their own internal procedures to avoid potential conflicts of interest. Sir Richard Sykes is a member of the HEFCE Board.

Dr M.P. Knight is the Chairman of College's subsidiary Imperial Innovations Group plc (Imperial Innovations) and fees of £50k were paid by Imperial Innovations to Merrycroft Ltd, in which Dr Knight has a beneficial interest, for the provision of the Chairman's services to Imperial Innovations. Dr T. Maini is a Non-Executive Director of Imperial Innovations and fees of £18k were paid to him by that company for the provision of his services to Imperial Innovations. Dr M.P. Knight was also awarded options over ordinary shares of Imperial Innovations and held ordinary shares in Imperial Innovations at 31 July 2006. Further details of Dr Knight's shares and options in the ordinary share capital of Imperial Innovations are given in the Directors Remuneration Report within the Imperial Innovation's Annual Report for the year ended 31 July 2006 which is publicly available.

The Rector, in his individual capacity and in common with a number of other College employees, purchased ordinary shares in Imperial Innovations Group plc, a subsidiary of the College, when that company issued ordinary shares to the public at the public offer price of 365 pence per share on 31 July 2006. In total approximately 220,000 shares are held by College employees and this represents less than half of one per cent of its issued share capital.

The College has close relationships with a number of West London NHS Trusts with whom the College shares a number of sites and facilities. College staff work closely with those Trusts particularly in the clinical service areas.

23. Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities

	2006 £000	2005 £000
Surplus before tax after exceptional items	10,942	23,344
Depreciation	36,678	26,684
Deferred capital grants released to income	(24,739)	(16,273)
Investment income	(6,280)	(4,197)
Goodwill written off	—	2,516
(Profit) on disposal of fixed assets	(10,083)	(25,848)
Share of (profits) of associated companies	(133)	(89)
Interest payable	2,535	2,318
Decrease in stocks	29	96
(Increase)/decrease in debtors	14,150	(5,081)
Increase in creditors	26,322	16,153
Increase/(decrease) in provisions	(1,314)	4,945
Net cash inflow from operating activities	48,107	24,568

24. Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	2006 £000	2005 £000
Increase in cash in the period		126,221	8,535
Increase/(decrease) in short term investments		(18,841)	7,135
New finance leases/loans		(73,200)	—
Change in net funds		34,180	15,670
Net funds at 1 August		(13,430)	(29,100)
Net funds at 31 July	25	20,750	(13,430)

25. Analysis of Changes in Net Funds

	Balance 1 Aug 2005 £000	Cash flow £000	Balance 31 Jul 2006 £000
Cash at bank and in hand	18,130	122,485	140,615
Endowment assets	—	1,741	1,741
Bank balance (relates to uncleared cheques)	(1,995)	1,995	—
	16,135	126,221	142,356
Short term investments			
Endowment assets	1,329	(1,329)	—
Others	19,106	(17,512)	1,594
Debt due within one year	—	—	—
Debt due after one year	(50,000)	(73,200)	(123,200)
	(13,430)	34,180	20,750

Notes to the accounts

26. Access Funds	2006	2005
	£000	£000
Balance at start of the year	33	43
Funding Council grants	329	380
Interest earned	6	7
	368	430
Disbursements	(286)	(397)
Balance unspent at end of the year	82	33

Funding Council grants are available solely for students and the College acts only as a paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

27. Fixed Asset Investments	Note	Balance 1 Aug 2005 £000	Additions/ (disposals) in year £000	Balance 31 Jul 2006 £000
Subsidiary undertakings' investments		18,514	9,451	27,965
Other investments		7,357	3,478	10,835
Other fixed asset investments	12	25,871	12,929	38,800
Investments in associated undertakings		597	99	696
Fixed asset investments	12	26,468	13,028	39,496

28. Exceptional Items	2006	2005
	£000	£000
Exceptional income from sale of fixed asset investments	10,744	25,775

During the year the College's subsidiary Imperial Innovations Limited was restructured and its name changed to Imperial Innovations Group plc following its re-registration as a public limited company prior to its listing on the London Stock Exchange. On 31 July 2006 it raised gross proceeds of £26 million (£23.3 million net of issue costs) through the issue of ordinary shares at the public offer price of 365 pence per share; this has been reflected in the consolidated cash flow statement and balance sheet. The College did not acquire any new shares in the public offer and consequently its holding was diluted from 71 per cent to 59 per cent. The £10,744k exceptional income reported by the College relates to the profit on the deemed disposal of the 12 per cent of its equity in Imperial Innovations Group plc. The minority interest of £0.3 million in the result for the year and of £18.9 million in the net assets as at 31 July 2006 relates entirely to Imperial Innovations Group plc.

29. Capital Commitments	Consolidated and College	
	2006	2005
	£000	£000
Capital commitments for major building projects contracted at 31 July	72,246	124,488

30. Contingent Liabilities

The College is a member of Universities Mutual Association (Special Risks) Ltd, a company limited by guarantee, formed to provide a mutual association for terrorism risks. If the association sustains a shortfall in any year, members are liable for their pro rata share by way of a supplementary contribution. The association's ability to pay claims is derived from the following sources:

1. The reserve fund of £10 million accumulated from members' contributions;
2. A £15 million internal loan facility from member institutions (Imperial College is not a participating institution);
3. Aggregate reinsurance layers totalling £550 million, with an inner limit of £275 million any one loss, obtained through the Bermudan and Lloyds insurance markets;
4. In any indemnity year before the year has been closed, the Board may call for a supplementary contribution of an amount that the Board thinks fit to be paid by each member entered for that indemnity year.

The College is involved in a number of legal cases. No material financial liabilities are anticipated.

31. Prior year adjustment

The adoption of FRS 17 'Retirement Benefits' has resulted in an increase in both staff costs and other finance income by £117k (£96k in 2005), and an increase in total recognised gains and losses by £111k (£18k in 2005). The pension asset of £111k has been introduced on the face of the balance sheet at 31 July 2005.

Analysis of restatement of prior periods	£000
Adjustment to opening College funds at 1 August 2004	93
Adjustment to statement of total recognised gains and losses for year ended 31 July 2005	18
Adjustment to opening College funds at 1 August 2005	111

32. Pension schemes

The College participates in four separate, independently managed, defined benefit, occupational pension schemes, which are contracted out of the State Second Pension (S2P); each is valued by professionally qualified and independent actuaries, triennially except the NHS Scheme which is quinquennially. The USS, SAUL and NHS pension schemes are multi-employer schemes and it is not possible to identify the College's share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and hence, as required by FRS 17, contributions to the schemes are accounted for as if they were defined contribution schemes. As a result, the amounts charged to the income and expenditure account represent the contributions payable to the schemes in respect of the accounting period.

Imperial Innovations Group plc, a subsidiary of the College, operates a defined contribution pension scheme for its employees, managed by Friends Provident, with contributions being charged to the income and expenditure account in the period to which they relate. The company contributes up to 10.5 per cent of pensionable salary to the scheme for existing employees and 8.5 per cent for new employees.

USS

Staff paid on academic and academic-related scales, who are otherwise eligible, can acquire pension rights through the Universities Superannuation Scheme (USS), which is a national scheme administered centrally for UK universities. The assets of the scheme are held in a separate trustee-administered fund.

At the latest valuation as at 31 March 2005, the market value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million leaving a deficit of assets of £6,568 million. The assets therefore were sufficient to cover 77 per cent of the benefits which had accrued to members after allowing for expected future increases in earnings. The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126 per cent funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110 per cent funded; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90 per cent.

The College contribution rate required for future service benefits alone at the date of valuation was 14.3 per cent of pensionable salaries but the trustee company, on the advice of actuary, decided to maintain the College contribution rate at 14 per cent of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the College's future contribution commitment.

SAUL

Other, non-academic staff, who are otherwise eligible, can acquire pension rights through the Superannuation Arrangements of the University of London (SAUL) which is a centrally administered scheme primarily for the University of London. The most recent formal actuarial valuation as at 31 March 2005 applies to the scheme as a whole and does not identify surpluses or deficits applicable to individual Employers. As a whole, the market value of the scheme's assets was £982 million representing 93 per cent of the liability for benefits after allowing for expected future increases in salaries. In relation to future service liabilities it was assumed that investment return above prices was 6.5 per cent per annum and nominal salary increases above prices of 1.5 per cent per annum. The contribution rate required for future service benefits alone at the date of the valuation was 19.7 per cent of salaries per annum.

Notes to the accounts

The ongoing contribution rate has increased from August 2006 from 10.5 per cent to 13 per cent of pensionable salaries per annum for existing employers. Member contributions have also increased to 6 per cent of salaries with effect from the same date. Employers who have recently joined SAUL ('New Employers') and certain employee groups (as agreed by the Trustee of SAUL), pay 19.2 per cent of salaries per annum until the second actuarial valuation after entry.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS 17 revealed the Scheme to be broadly balanced at the last formal valuation date.

NHS

Staff who have pension rights in the NHS Pension Scheme, on taking up a post within the College, may remain in membership of that scheme which is the nationally administered scheme for the National Health Service. This scheme is a statutory, unfunded, multi-employer, defined benefit scheme in which the College is unable to identify its share of the underlying assets and liabilities and is therefore accounted for on a contribution basis. The last valuation of the NHS Scheme was as at 31 March 1999 and the Government Actuaries' Report has recommended that the employer's contribution rate is 7 per cent from 1 April 2001 but the rate did not include the cost of pension indexation funded directly by the Treasury. In November 2002, Ministers announced the transfer of indexation costs to the Scheme costs and as a result employers have been charged 14 per cent from April 2004. The 2004 valuation of the Scheme is currently being prepared.

The main features of the most recent valuations of the three principal schemes, under a FRS 17 basis, are as follows:

	USS	SAUL	FPS 1634
Latest actuarial valuations:	31 Mar 2005	31 Mar 2005	31 Mar 2005
Assumptions			
Investment returns per annum—past service liabilities	4.5%	5.5%	5.0%
Investment returns per annum—future service liabilities	6.2%	6.5%	
Salary scale increases per annum	3.9%	4.15%	4.40%
Pension increases per annum	2.9%	2.65%	2.9%
Results			
Market value of assets at date of last valuation	£21,740m	£982m	£10.7m
Regular contribution rate	14.3%	19.7%	24.2%
Variation from regular cost	(0.3%)	(9.2%)	(24.2%)
Proportion of members' accrued benefits covered by the actuarial value of the assets	77%	93%	106%

FPS Defined Benefit Scheme

The Federated Pension Scheme 1634 (FPS) is the scheme St Mary's Hospital Medical School operated for non-academic staff prior to 1 August 1988, when it was closed to new entrants. Two thirds of the membership elected to transfer into SAUL at that time and the contributing membership is now 1.

A qualified independent actuary carried out a full actuarial valuation on 31 March 2005. The major assumptions used by the actuary and results of the scheme have been recorded above, under the projected unit (SSAP24) basis. For the purposes of reporting under FRS 17 a valuation was undertaken on 31 July 2006, and details are as follows:

Assumptions	2006	2005
Price inflation per annum	3.10%	2.70%
Salary inflation per annum	4.40%	4.00%
Rate of increase to pensions in payment	2.90%	2.70%
Rate of increase to pensions in deferment	3.10%	3.00%
Rate used to discount Scheme liabilities	5.10%	5.00%

The assets in the scheme and the expected rates of return

	Expected rate of return		Market value	
	2006	2005	£000	£000
Equities and property	6.60%	6.50%	3,901	3,827
Annuities	5.10%	5.00%	3,895	4,019
Bonds	5.10%	5.00%	2,749	2,703
Cash	4.75%	4.50%	190	178
Total			10,735	10,727

FRS 17 has been fully adopted and its effects are as follows:

	Year ended 31 Jul 2006	Year ended 31 Jul 2005
	£000	£000
Amounts included within operating profit		
Current service cost	117	96
Past service cost	—	—
Total operating charge	117	96

The amounts to be included as other finance income

Expected return on scheme assets	544	531
Interest on scheme liabilities	(427)	(435)
Net finance return	117	96

Amounts to be included in the statement of total recognised gains and losses (STRGL)

	% of scheme asset/ liabilities		£000	£000
	2006	2005		
Difference between expected and actual return on scheme assets	<1%	11%	89	1,282
Experience gains and losses arising on scheme liabilities	<1%	<1%	(69)	(74)
Changes in assumptions underlying the present value of scheme liabilities			(190)	(791)
Recognisable surplus adjustment			183	(399)
Total actual gains and losses recognised in the STRGL	-2%	4%	13	18

	Recognisable surplus		Scheme's surplus	
	£000	£000	£000	£000
Movements in scheme's surplus during the year				
Surplus in scheme at beginning of the year	111	93	2,194	1,777
Movement in year:				
Current service cost	(117)	(96)	(117)	(96)
Past service costs	—	—	(139)	—
Other finance income	117	96	149	145
Actuarial gain/(loss) in STRGL	13	18	(202)	368
Surplus in the scheme at end of the year	124	111	1,885	2,194

Value of the scheme's assets and liabilities

Fair value of scheme assets	10,735	10,727
Present value of scheme liabilities	8,850	8,533
Surplus/(Deficit)	1,885	2,194

Recognisable surplus at year end per FRS 17	124	111
Unrecognised surplus	1,761	2,083

The pension costs for the College and its subsidiaries under SSAP 24 were:

	Note	2006 £000	2005 £000
Contributions to USS		17,189	16,358
Contributions to SAUL		3,954	3,842
Contributions to NHS		3,509	3,606
Contributions to Friends Provident		152	—
FPS current and past service cost per FRS 17	31	117	96
		24,921	23,902

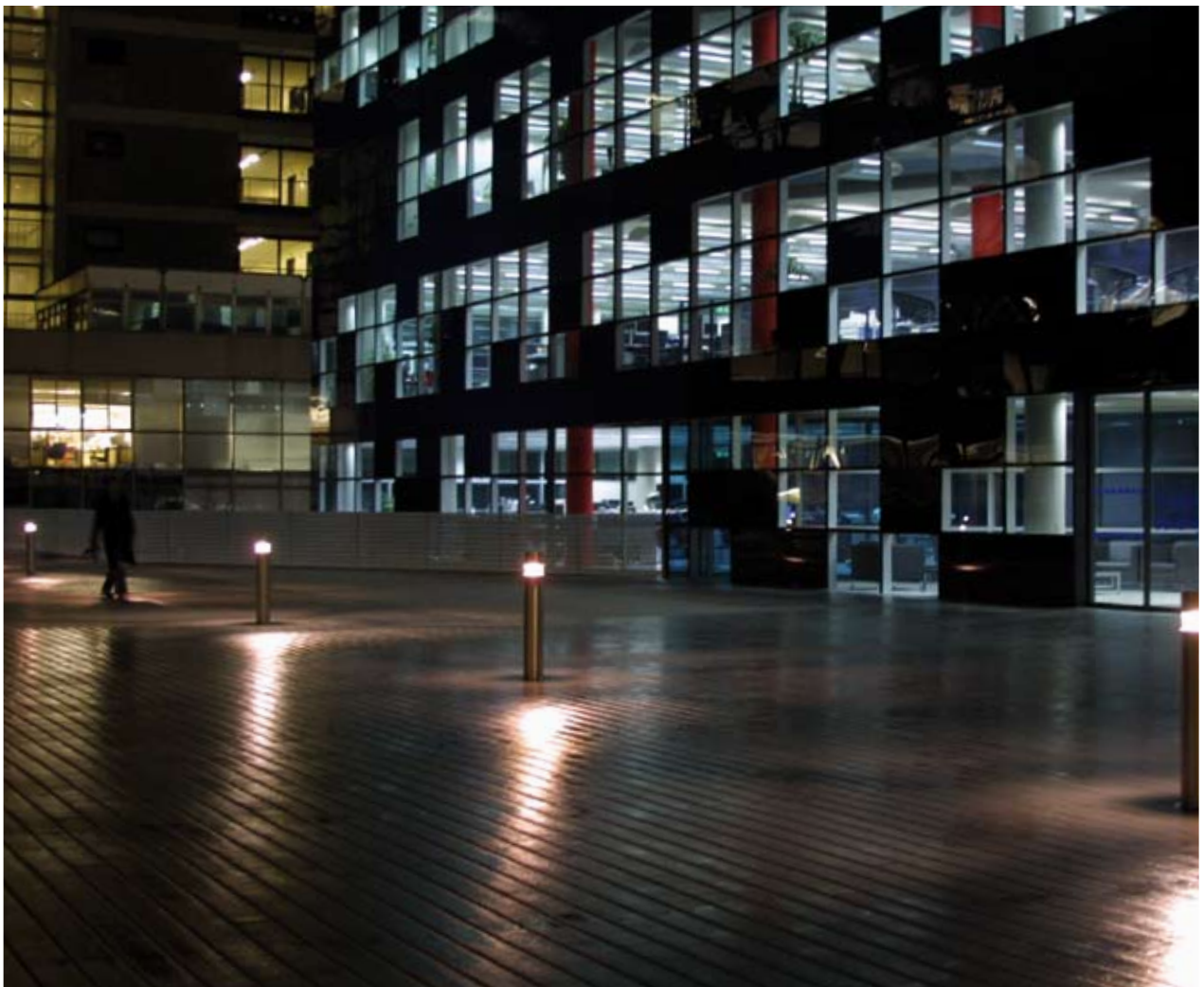
33. Funding of Fixed Assets (£000)

Land and buildings at cost	Balance 1 Aug 2005	Additions/(disposals) during the year				Balance 31 Jul 2006
		HEFCE grants	Other grants/ donations	College reserves	Transfers	
Land	13,010	—	—	—	(94)	12,916
Buildings						
Freehold						
South Kensington Campus	145,028	5,041	(1,410)	6,717	16,864	172,240
Charing Cross Campus	6,962	—	—	—	94	7,056
St Mary's Campus	34,436	212	20	250	—	34,918
Royal Brompton Campus	3,600	81	751	1,178	421	6,031
Silwood Park Campus and outstations	8,515	—	—	—	1,191	9,706
Wye Campus	13,801	—	—	—	—	13,801
Clayponds	11,046	—	—	—	—	11,046
	223,388	5,334	(639)	8,145	18,570	254,798
Leasehold						
South Kensington Campus	151,383	10,178	4,684	5,660	4,144	176,049
Charing Cross Campus	33,713	—	—	106	—	33,819
Hammersmith Campus	47,449	8	—	50	—	47,507
St Mary's Campus	8,242	—	—	9	—	8,251
Royal Brompton Campus	250	—	—	—	—	250
Evelyn Gardens	16,302	—	—	—	—	16,302
	257,339	10,186	4,684	5,825	4,144	282,178
Buildings under construction	46,559	12,899	101	34,139	(22,620)	71,078
Total land and buildings	540,296	28,419	4,146	48,109	—	620,970

Represented by:	Balance 1 Aug 2005	Additions during the year	Disposals during the year	Balance 31 Jul 2006
Grants from HEFCE	209,846	29,968	(1,549)	238,265
Other grants/donations	122,403	5,775	(1,629)	126,549
Capital expenditure met from reserves	208,047	49,274	(1,165)	256,156
	540,296	85,017	(4,343)	620,970

Equipment at cost	Balance 1 Aug 2005	Additions during the year	Disposals during the year	Balance 31 Jul 2006
Funded from HEFCE grants	32,906	6,295	(3,805)	35,396
Funded from research grants and contracts	38,116	11,189	(4,656)	44,649
Funded from other grants/donations	3,189	3,403	(403)	6,189
Funded from reserves	44,335	9,702	(778)	53,259
Donated assets	25	—	—	25
Total equipment	118,571	30,589	(9,642)	139,518

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