

Company Registration No. 04464432

**COURTAULD INSTITUTE OF ART**

**Report and Financial Statements 31 July 2012**

( - 20/11/2012)

# COURTAULD INSTITUTE OF ART

## Report and Financial Statements 31 July 2012

<b>Contents</b>	<b>Page</b>
Directors' Report	1
Statement of Corporate governance and internal control	13
Statement of Primary Responsibilities of the Governing Board	18
Independent auditors' report to the Board of Directors	20
Consolidated income and expenditure account	22
Statement of consolidated total recognised gains and losses	23
Institute balance sheet	24
Consolidated balance sheet	25
Consolidated cash flow statement	26
Notes to the financial statements	27

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 July 2012.

### ACTIVITIES

The principal activities of the Institute are to carry out teaching, curating and research in the areas of art history and the conservation of wall and easel paintings, to operate an art gallery and to provide and maintain facilities and services in support of the principal activities. The Institute is a company limited by guarantee (company no. 4464432) and an exempt charity for the purposes of the Charities Act 1993 under the Exempt Charities Order 2002 No.1626.

### Vision and Mission Statement

The vision of the Courtauld Institute of Art ("The Courtauld" or "the institute") is to be a global centre for the understanding of art as essential to society. The Courtauld exists to offer leadership in the fields of art history and conservation and, as a global centre of expertise, its purpose is to open minds to the ideas and experiences inherent in art.

The scope of The Courtauld Institute of Art is unique in bringing together exceptional teaching and research in the history and conservation of art and an outstanding art collection. It has an unmatched concentration of specialisms from antiquity to the present.

The Courtauld benefits individuals and society by informing their responses to art. It stimulates the cultural sector locally and globally by developing new ideas and expertise, and through its graduates it generates an evolving community of specialists who shape the art world.

We combine this character with a commitment to extend access to the important ideas and unique experiences offered by the visual arts and with a passionate belief in their importance for society.

We care for a superb art collection in the heart of London, and have library and image resources of exceptional significance. The Gallery encapsulates The Courtauld's mission to illuminate art for all.

### Strategic Aims

The Strategic Plan for the years to July 2015 was approved by the Governing Board in July 2011. The plan reflects our commitments to excellence and to nurturing and opening minds.

Our primary aims are:

- To carry out, promote and shape research at the highest level and as part of this role to act as a leading facilitator of national and international scholarship and expertise in our field.
- To offer, in the context of higher education, teaching programmes of exceptional quality and effectiveness.
- To recruit to art history and conservation students with the highest academic, intellectual and technical potential; to support them at every level from registration to employment, providing opportunities to make the best contribution to society.
- To engage with the wider public through The Courtauld Gallery's outstanding collection and special exhibitions, through diverse and innovative public programmes and through the dissemination of excellent research.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

The following supporting aims are critical to our successful achievement of these primary aims:

- To care for and develop the Gallery and library collections as a central resource for The Courtauld and as a key part of the national and the international infrastructure for teaching and research in our field;
- To secure The Courtauld's long-term sustainability by:
  - Maintaining financial viability and building a strong funding structure;
  - Achieving the highest standards in governance and management;
  - Developing an estate which is fit for purpose and which has a physical infrastructure capable of meeting the needs of our current students, staff and visitors, and capable of providing for the needs of the future; and
  - Delivering excellence and efficiency in the organisation, through the enhancement of systems and staff development.
- To enhance and broaden the reputation of The Courtauld, and to develop effective marketing to underpin all of our activities.

## RESOURCES, RISKS AND RELATIONSHIPS

### Introduction

In 2001 the then Advisory Board of the Courtauld, chaired by Sir Nicholas Goodison, made the decision to become an independent, self-governing college of the University of London, responsible for its own long-term sustainability. Nicholas Ferguson was appointed as Governor and, having worked closely with Sir Nicholas Goodison, Lord Rothschild and Dr David Landau to raise an initial endowment fund, was invited to become the first Chairman of the independent Courtauld, a role which he undertook with steadfast commitment. In the intervening decade The Courtauld has undergone a transformation in terms of its financial independence and strategic outlook. Throughout the period, Nicholas Ferguson has been an inspirational Chairman, devoting a significant amount of time and effort to oversee this transformation. In keeping with our policy of directors serving two five-year terms in office, Nicholas Ferguson stepped down as Chairman and as a director at the end of the financial year. The Courtauld wishes formally to record its thanks to Nicholas Ferguson for everything he has done for us as Chairman.

At the same time, James Hughes-Hallett, who became a Director of The Courtauld in July 2009, was appointed as Chairman to lead The Courtauld through the next phase of its development. James Hughes-Hallett is Chairman of John Swire & Sons Ltd, as well as a director of Cathay Pacific Airways Ltd, Swire Pacific Ltd and HSBC Holdings Limited. His experience in Asia supplements the recent establishment of The Courtauld's two new faculty teaching and research posts in Asian art history, a first major step in the expansion of its curriculum beyond the Western tradition which will begin at the start of the 2012 academic year.

Academic staff and their students have continued to achieve notable successes with highly regarded publications, prestigious awards, 'visiting' appointments and exhibitions at other world renowned galleries. Courtauld alumni continue to be recruited for top and senior positions in museums, galleries and other institutions throughout the world.

The Courtauld continues to receive excellent reviews for its own exhibitions, complementing the permanent collection, which is seen as one of the most important in Britain. Most of the collection cared for by The Courtauld Gallery is vested in the Samuel Courtauld Trust, an independent trust.

### Public Benefit

The Charities Act 2011 places an obligation on charities to demonstrate explicitly how they provide public benefit, whereas previously it was automatically presumed that charities advancing education provided such benefits.

In setting our objectives and planning our activities our Governors have given careful consideration to the Charity Commission's general guidance on public benefit and in particular to its supplementary public benefit guidance on advancing education and on fee-charging. For the 2011-12 academic year, a total of 127 scholarships were awarded to 91 students in support of tuition fees and/or maintenance costs. In addition, the Courtauld continues to spend 25% of the additional fee income it has received from

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

undergraduate students since the introduction of top up fees in 2006 on student bursaries and activities to encourage widening access to, and participation in, higher education by students from less advantaged backgrounds.

In order to ensure that no one is discouraged from coming to The Courtauld Gallery as a result of the admission charge, The Courtauld offers a number of concessionary tickets as well as offering free admission for visitors under the age of 18, full-time UK students, staff of UK universities, registered unwaged and Friends of The Courtauld. Disabled visitors may bring in a helper without charge. Admission is free for all visitors on Mondays between 10.00 am and 2:00 pm except on public holidays. In the year to 31 July 2012, 184,000 of the 242,000 visitors to the Gallery received free or concessionary admission.

The distinctive character of The Courtauld, and its special position at the hub of a creative network, enable it to contribute in important ways to the strength of museum and galleries in the UK and globally, to conservation of art worldwide, to the commercial and public art worlds with which it is able to forge powerful partnerships, and to the profession of art history itself and the public engagement with it. In so doing, The Courtauld plays a highly significant role in building and maintaining the success of the creative and cultural industries which are such an important component of the UK's economic and social strengths.

The Courtauld's greatest impact can be seen in the extraordinary track record of alumni employment and the value of its alumni in terms of their collective contribution to education, the arts, creative industries and the knowledge economy. Courtauld alumni continue to be leaders across all sectors of the art world, making major contributions to the UK's creative economy as well as finding success in other fields. The Courtauld also adds direct public value to the wider community through its gallery and collection, its lifelong learning programmes and publicly accessible research events.

Courtauld graduates are extraordinarily prominent at the top levels of this world. In the UK they include Directors of the British Museum, Tate and Tate Britain, National Gallery, National Galleries of Scotland, Scottish National Portrait Gallery, Ashmolean, Sainsbury Centre, Birmingham Museums Trust, Sir John Soane Museum, Holburne Museum, Henry Moore Foundation, the Courtauld Gallery and English Heritage. Overseas they include Directors of the Metropolitan Museum of Art, the Morgan Library, Cleveland Museum of Art, Art Gallery of Ontario, Detroit Institute of Arts, the Minneapolis Museum of Art, Musée Beaux Arts de Montreal, Museo del Prado, Statens Museum für Kunst, Kunsthalle Bremen, Bibliotheca Hertziana Rome, Museum of Design and Applied Art, Iceland, LD Museum, Ahmedabad, and Christchurch Art Gallery, New Zealand.

Courtauld alumni play transformative roles in the theoretical development of art history outside The Courtauld, holding positions in over 50 UK universities and many more overseas, including Cambridge, East Anglia, Edinburgh, Leeds, Manchester, Oxford, University of the Arts, UCL, York, Paris, Harvard, Berkeley and the IFA, New York.

The programmes in conservation and curating provide the cultural heritage industry with professionals whose research and practice set standards and shape the field. Of some 150 conservators who graduated in the last 20 years, 95% remain active in the profession, holding influential posts in virtually every major national museum and cultural heritage body, including the National Trust and English Heritage and more abroad.

Courtauld alumni thus bring to the museum, art history and conservation worlds nationally and internationally, a benefit that is disproportionate to its size and special because of its distinctive character.

The Courtauld's character and position in the art and museum world mean that it has been able to build a powerful network of beneficial collaborative partnerships that provide value to the outside bodies as much as they do to The Courtauld itself, whether with the J. Paul Getty Trust, its Museum, Research and Conservation Institutes, or national and regional UK museums, galleries, and cultural centres, universities, research institutes, charitable arts foundations, and public and membership bodies. The Courtauld's distinctive integration of teaching, research, Gallery and collections provides a particularly strong context for collaboration with national and international museum and gallery exhibition projects. Both academic and Gallery staff and PhD students frequently act as curators, consultants and advisors, for example recently at the National Gallery, Royal Academy, Tate, Whitechapel, Frick, Metropolitan Museum of Art, Morgan and international biennales in both Europe and Asia.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

Through its special expertise and practice The Courtauld enhances the quality of public conservation bodies and conservation in the private sector. It provides significant educational and research support to all leading UK heritage organisations and to governments and heritage institutions internationally, including China, India, Bhutan, Italy, Cyprus, Malta, Georgia, Jordan and the USA.

As the leading institution for the discipline in the UK, and as one uniquely able to span and integrate all dimensions of the subject, The Courtauld has developed a specific and distinctive leadership role in addressing the poor record of widening participation in art history, a subject rarely taught in state schools. We bridge the gap between museums and higher education, raising awareness of the subject as a valuable humanities discipline, with innovative and collaborative projects and, resources for young people currently excluded from the subject. Recently we have engaged with 8,800 students, with 760 participants in specific projects, and enabled significant university entry successes.

In addition to these contributions to public value, The Courtauld also communicates and shares its distinctive qualities directly with the wider audience through the Gallery and public programmes - particularly by means of interpreted displays, temporary exhibitions, publications, events, lectures, short courses, talks and tours.

### Research

The Courtauld's reputation in the university and museum worlds is secured ultimately by the quality of its research contribution. At the same time, our work with students is research-led at every level, something which is highly valued by undergraduates as well as postgraduates.

Among key faculty developments, Dr Katie Scott was promoted from Reader to Professor. We were also delighted to appoint Dr Tom Nickson as Lecturer in Medieval Art and Architecture on 1 September 2012. The faculty was further enhanced during the year by the appointment of Professor Juliet Mitchell as the Andrew W. Mellon MA Visiting Fellow for 2011-12 and by Professor Angela Miller as the 2011-12 Research Forum/Terra Foundation Visiting Professor. Dr Neville Agnew (Principal Project Specialist, Getty Conservation Institute) was the year's Research Forum Visiting Conservator. The Courtauld also welcomed Emeritus Professor T J Clark to teach an MA course in the Modern section for the year and Dr Cathie Draycott, as Temporary Lecturer in the Classical, Byzantine and Medieval section. Dr Klara Kemp-Welch was appointed as Lecturer in the Modern section on a fixed-term contract.

Our research community was enhanced by the appointment of Dr Jim Harris and Professor Nanda Bilinda as the Caroline Villers Research Fellows in the field of Technical Art History, by Dr Monia Abdallah as the Research Forum/Andrew W Mellon Foundation M.A. Postdoctoral Fellow, Dr Ayla Lepine as the Research Forum/Andrew W Mellon Postdoctoral Fellow and Activities Co-ordinator, Dr Elisa Schaar as the Research Forum/Terra Postdoctoral Fellow and Dr Sarah Guerin who held a Canadian Social Sciences and Humanities Research Council Postdoctoral Fellowship.

Dr Shulamith Behr and Professor Paul Hills retired at the end of the academic year, and now join our distinguished group of Emeritus faculty.

In the Courtauld Gallery, Dr Caroline Campbell left us to take up the post of Curator of pre-1600 paintings at the National Gallery, and Dr Karen Serres, curator at the Yale University Art Gallery was appointed to replace her. Dr Rachel Sloan was appointed to the post of Assistant Curator of works on paper, following the retirement of Dr Joanna Selborne.

### Major faculty appointments in Asian art history

The Courtauld's Asia initiative was launched during the year 2011-12 with a series of major developments.

With substantial support from the Andrew W. Mellon Foundation and Manuela and Iwan Wirth respectively, The Courtauld was able to make two new faculty appointments in Asian art history. Dr Sussan Babaie was appointed as Lecturer in the arts of Asia from 1000-1750 and Dr Wenny Teo as Lecturer in modern and contemporary Asian art. Dr Teo took up her post on 1 April 2012; and Dr Babaie will join the faculty in September 2013.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

### Endowment Benefaction for Buddhist art and conservation

The Wall Painting Conservation department's significant research and active conservation across the Buddhist world under the direction of Professor David Park and Sharon Cather led to a major research event – the Buddhist Art Forum - held at The Courtauld in spring 2012. Sponsored by the Robert H. N. Ho Family Foundation, the Forum brought together monks, art historians and conservators to address philosophical issues concerning Buddhism and the arts. On the same occasion, The Courtauld was delighted to announce a £2.5m endowment most generously given by the Robert H. N. Ho Foundation to allow The Courtauld to develop both a Centre for the Conservation of Buddhist Art and a new programme in Buddhist Art, History and Conservation.

### Research successes

The high regard in which the Institute is held as a research community is underlined by the success of our staff and students in achieving external appointments and winning research awards. During the year:

- *Dr Joanna Cannon* was awarded and held a four month Fellowship at the J.Paul Getty Museum, Los Angeles in the spring term 2012.
- *Dr Georgia Clarke* (as co-Investigator) and *Dr Fabrizio Nevola*, University of Bath (as Principal Investigator), continued their AHRC-funded 'Beyond Text' 'Street life and street culture: Between Early Modern Europe and the present' network with AHRC follow-on funding for the year 2011-12.
- *Dr Antony Eastmond* was awarded a two year Leverhulme Major Fellowship for 2012-14 for research relating to his forthcoming monograph: *Women and art as diplomatic agents from the Mediterranean to Mongolia*.
- *Professor John Lowden* continued to lead the project *A Survey of Medieval Ivories*, which has now moved into a second stage, and secured further funding in order to bring it to completion.
- *Professor John Lowden* continued as co-investigator with *Dr Scott McKendrick* (principal investigator) in the final stages of the AHRC funded Beyond Text project on the Royal Manuscripts of the British Library (see also under exhibitions below).
- *Professor John Lowden* secured an AHRC Collaborative Doctoral award to fund a PhD student working on medieval ivories in collaboration with the British Museum.
- *Dr Sheila McTighe* secured an AHRC Collaborative doctoral award to fund a PhD student working on 17<sup>th</sup> century images of card play in collaboration with the British Museum.
- *Professor Mignon Nixon* continues to co-edit the MIT Press art criticism and theory journal *October*, New York.
- *Professor Julian Stallabrass* was awarded a four-month Fellowship by the Paul Mellon Centre for Studies in British Art, London for 2011-12.
- *Dr Christine Stevenson* acted as a member of the Advisory Council of the Paul Mellon Centre for Studies in British Art.
- *Professor Lisa Tickner* acted as a Trustee of the Art Fund and continued to sit on the Blue Plaques Panel, English Heritage. She also sat on the editorial board of *The Journal of the Wyndham Lewis Society*, the Section 11 Standing Committee of the British Academy and the Steering Committee for Tate's Leverhulme research project: *'Art School Educated: Curriculum Change in UK Art Schools 1960-2010'*.
- *Professor Sarah Wilson* was awarded a two-year 'Patarima' Chaire d'Excellence at the Université de Versailles-St Quentin for the calendar years 2012-13.
- *Dr Christina Young* secured a grant of \$220,000 from the Getty Foundation for a collaborative conservation research and training project focusing on The Courtauld's panel painting collection.

Research by faculty, curatorial staff and our research students and post-doctoral fellows reaches beyond the professional to much wider publics through The Courtauld's own exhibitions and through faculty involvement in other major exhibitions, conferences and lecture programmes, often international in their impact. This year's exhibition activity included:

- *Toulouse-Lautrec and Jane Avril: Beyond the Moulin Rouge* (Curated by *Dr Nancy Ireson* with edited catalogue) The Courtauld Gallery, 16 June to 18 September 2011.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

- *The Spanish Line: Drawings from Ribera to Picasso*  
(Curated by Stephanie Buck) The Courtauld Gallery, 13 October 2011– 15 January 2012
- *Mondrian || Nicholson: In Parallel*  
(Curated by Barnaby Wright) The Courtauld Gallery, 16 February – 20 May 2012
- *Mantegna to Matisse: Master Drawings from The Courtauld Gallery*  
(curated by Stephanie Buck) The Courtauld Gallery, 14 June – 9 September 2012
- *Devotion by Design: Italian Altarpieces before 1500*  
(Co-curated by Scott Nethersole with Jenny Sliwka) and catalogue by Dr Scott Nethersole, The National Gallery, 6 July – 2 October 2011.
- *Modern Antiquity: Picasso, de Chirico, Léger, and Picabia in the Presence of the Antique* (Co-curated by Professor Emeritus Christopher Green and Dr Jens Daehner, Curator of antiquity collections, The J. Paul Getty Museum) The Getty Villa, Malibu, California, November 2, 2011–January 16, and then at the Picasso Museum, Antibes, February to May 2012.
- *One of a Thousand Ways to Defeat Entropy*  
(Co-curated by Alexander Ponomarev and Nadim Sammam) 54th Venice Biennale of Contemporary Art, the Arsenale Novissimo, 3 June to 27 November 2011.
- *Royal Manuscripts: the Genius of Illumination*  
(Co-curated by Professor John Lowden with colleagues at the British Library - Dr Scot McKendrick, Head of History and Classical Studies and Dr Kathleen Doyle, Curator of Illuminated Manuscripts) The British Library, from 11 November 2011 to 13 March 2012. This was the culmination of a major AHRC Collaborative Research Project between the British Library and The Courtauld.

Additionally three exhibitions were the outcome of student activity and public programme work with young people:

- *Portrait of the Artist As.....*  
(Curated by students of the MA Curating Programme 2011-12) The Courtauld Gallery, 26 June - 22 July 2012.
- *East Wing Collection X: Material Matters*  
(Curated and managed by the East Wing X team, chaired by Nadine Loach) East Wing Courtauld Institute of Art, 20 January 2012 to July 2013.
- *Look Again... Stories of the World*  
(Project Leader: Henrietta Hine) following its 2011 showing in The Courtauld Gallery, this became part of the Cultural Olympiad and was shown at the Hub Community Centre in Newham and Rich Mix in Bethnal Green during the Olympics season, summer 2012.

### Alumni successes

Courtauld doctoral graduates, post-doctoral fellows, and visiting lecturers achieved significant successes and were appointed to the following academic positions:

- *Dr Monia Abdallah* (Andrew W Mellon Research Forum Mellon MA post-doctoral Fellow 2011-12) was appointed to a lectureship at the University of Montreal.
- *Dr Benedict Burbridge* (PhD 2011) was appointed as Lecturer in Art History at the University of Sussex
- *Dr Anthony Gardner*: (post-doctoral fellow 2010-11) was appointed to the role of lecturer and Director of Research at Ruskin College, Oxford.
- *Dr Noah Horowitz* (MA 2003, PhD 2008) has been appointed as Managing Director of The Armory Show in New York.
- *Dr Klara Kemp-Welch* won a Leverhulme early career fellowship for her project : Networking the 'Bloc': International Relations in East European Unofficial Art.
- *Dr Elisa Schaar* (Terra Foundation for American Art Postdoctoral Fellow 2011-12) won a Leverhulme (Early Career Fellowship) to be held at the University of Oxford, and will work on sound and the durational experience in art since the 1960s.

### The Research Forum

The Research Forum sits at the heart of the Courtauld Institute and has developed activities with members of the academic staff in Art History, Conservation Departments, Courtauld Gallery,



# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

Development, Libraries and Public Programmes. It provides an exceptionally productive, lively research environment for The Courtauld's students and offers unrivalled opportunities for conference convening, research group participation and publishing for the Institute's doctoral and postdoctoral community. It also forms a bridge into the wider academic community, drawing in participants from the art history world locally, nationally and internationally.

Full details of visiting scholars, curators and conservators, and the rich programme of conferences, seminars, symposia, workshops and lectures that made the Research Forum such a success in 2011-12 can be found in the Annual Review of the Research Forum on the Courtauld's website at <http://www.courtauld.ac.uk/researchforum/index.shtml>.

We are extremely grateful to the Andrew W. Mellon Foundation, without whose support the Forum could not operate at its current high level of activity, for its continued funding of the Research Forum, and to the Terra Foundation for making possible the visits of our Terra Professor and Terra Postdoctoral Fellow.

### Students and teaching

During the 2010-2011 academic year UK higher education underwent a profound change in funding structure. The Coalition Government removed almost all teaching grants and put in place new mechanisms to make the sector more competitive, while at the same time seeking to ensure that access to higher education was available to all those who wished to benefit from it. For The Courtauld, such changes bring major challenges, not only in terms of how best to make up the loss in government funding, but also to ensure we continue to recruit the best students from all sectors of society.

Therefore, after much deliberation, The Courtauld determined that it would charge the maximum permitted undergraduate fee (£9,000) from 2012 onwards, at the same time making a commitment to widen access even further through the development of new outreach activity and increased bursary support for students who need it most. The Institute's new access agreement with the Office for Fair Access (OFFA) details the Institute's range of undergraduate bursaries designed to make university study possible for those otherwise unable to attend due to financial constraints.

In February 2011, The Courtauld underwent an Institutional Audit conducted by the Quality Assurance Agency. With each higher education institution responsible for ensuring that appropriate standards are being achieved and a good quality education offered, it is the Quality Assurance Agency's responsibility to safeguard the public interest in sound standards of higher education qualifications, and to encourage continuous improvement in the management of the quality of higher education. The audit team confirmed that confidence could be placed in the soundness of the institution's management of both the academic standards of its awards and the quality of the learning opportunities available to students.

Student numbers in 2011-12 were as follows: There were 325 home and EU students (2010-11: 361) and 83 overseas students (2010-11: 96) on undergraduate or postgraduate courses. A further 12 (2010-11: 9) overseas students enrolled on the Study Abroad programme. The balance between the different programmes continued to favour postgraduate programmes, with 148 (2010-11: 150) students being registered for the BA in the History of Art, 186 (2010-11: 195) for taught postgraduate programmes, and 74 (2010-11: 74) for research degrees.

Examination results continued to reflect the high quality of our student body, and external examiners were full of praise for the teaching on all programmes: a total of 52 students entered and passed the BA in the History of Art first-year examinations (2010-11: 53 entered and passed), 52 students entered and 50 passed the BA second-year, with two required to re-sit examinations (2010-11: 47 entered and passed) and 43 students entered and passed the BA third-year (2010-11: 53 entered and 51 passed); 22 students entered and passed the Courtauld Graduate Diploma in the History of Art (2010-11: 19 entered and 18 passed as 1 student retook the exam for 1 element of assessment in September); 130 (2010-11: 139) entered the MA in the History of Art Programme, of whom 129 (2010-11: 135) completed with 3 dissertations delayed until September due to special circumstances; all 13 (2010-11: 9) students who entered the MA in Curating the Art Museum Programme were awarded their degrees, with one dissertation deferred from the previous year also completed; all 5 students on each year of the 3 year Postgraduate Diploma in the Conservation of Easel Paintings course progressed or completed, and all 7 candidates completed the 2nd year of the three-year MA in the Conservation of Wall Paintings. A total of

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

7 candidates (2010-11: 9) were awarded BA degrees with first-class honours, 55 (2010-11: 37) achieved a Distinction in the MA History of Art, and 10 candidates (2010-11: 22) were awarded a PhD during the year.

As noted in the 2010-11 report, the 2011-12 academic year saw the realisation of a long-held ambition, enshrined in our Strategic Plan, to expand beyond the boundaries of the Western art tradition by making the first two permanent teaching appointments in the field of Asian art. In addition, the introduction of a methodology course and virtual exhibition component to the MA History of Art sought to expand the range of transferable skills to help prepare students for continued postgraduate study or to enter employment.

The monitoring of programme quality continued, with both the MA in the Conservation of Wall Paintings and the Graduate Diploma subjected to external review.

The teaching staff away day on May 16 2012 was devoted to two main issues: student support (especially the role of the personal tutor) and the need to enhance the employability skills of The Courtauld's undergraduates. A range of important recommendations arose from this discussion, and these will be acted upon in the 2012-13 academic year.

### Duchy House

Student life and student needs extend beyond purely academic concerns. During 2008-09, the Institute entered into a long lease with the Duchy of Lancaster for the provision of student accommodation for 64 students. We have just completed our second very successful year in Duchy House, situated within a very short walk of Somerset House. In addition, the Courtauld is able to offer a number of rooms in University of London Intercollegiate Halls. The ability to offer such accommodation is of strategic importance, because the lack of such facilities can impact negatively on recruitment and might detract from the student experience.

### Public Programmes

The Courtauld Institute of Art's Public Programmes Department continues to develop the scope of courses, events, resources and learning opportunities for the general public, and maintains an international reputation for innovation and excellence. The expansion of the short courses to include a wider range of subjects such as non-Western art history and contemporary art attracts an increasingly international and professional audience. The highly popular Introduction to Art History course is repeated several times each year and offers a challenging but accessible starting point for those new to the discipline.

Courtauld students at both undergraduate and postgraduate levels are involved in the programme through the regular Gallery Talks and Late Events, the Student Ambassador Scheme, the Tour Leaders training and the production of resources, all of which offer invaluable professional experience. Likewise, research students regularly contribute essays and other material to the learning resources that are available free to schools in the Gallery and on the website. Visiting Lecturers and members of the academic faculty work closely with the Public Programmes team to devise and deliver art history projects for secondary schools and sixth form colleges as part of the Institute's widening participation efforts. A new week-long Summer University and three outreach study days were offered to sixth form students from comprehensive schools in low attainment areas. These proved to be highly successful and will be followed up with study support sessions and other initiatives in the coming year.

### The Courtauld Gallery

Following an increase of 15% in 2010-11, visitor numbers rose by a further 21% to 242,000 in 2011-12. This figure has only been exceeded once (in 1990). Three exhibitions were organised during the year. *Toulouse-Lautrec and Jane Avril: Beyond the Moulin Rouge* assembled major international loans to examine the creative relationship between the artist Henri de Toulouse-Lautrec and the star dancer Jane Avril. The exhibition set new records for attendance at The Courtauld. *The Spanish Line: Drawings from Ribera to Picasso* (13 October 2011 – 15 January 2012) presented new research on The Courtauld's collection of Spanish drawings, one of the most important outside Spain. *Mantegna to Matisse: Master Drawings from The Courtauld Gallery* (14 June – 9 September 2012) highlighted a selection of The Courtauld's very finest works on paper. Organised with the Frick Collection in New York and featuring a catalogue with contributions by no fewer than twenty specialist authors, this project marked the transformation of the stewardship of the collection of drawings and was intended to stimulate its further use and enjoyment. Additionally, the Gallery also collaborated with the students of the MA in Curating the Art Museum on the presentation of their temporary exhibition, entitled *Portrait of the Artist as...* (26 June

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

– 22 July). The Gallery worked closely with the Public Programmes department to ensure that these exhibitions and the research which underpinned them engaged a wide audience through a variety of means, from public talks and teachers materials to study days and symposia.

2011-12 also saw the publication of the first full scholarly catalogue of a national school in The Courtauld's drawings collection. *Spanish Drawings in The Courtauld Gallery. A complete catalogue* by Zahira Veliz was the culmination of a four-year research project and is a major addition to the literature on Spanish drawings. Other research activities saw distinguished scholars come to the Gallery under its visiting curator scheme, as well as the return of regular events such as the Drawings Week Conversation. Important work continued to be undertaken in the care and conservation of the collection. This included steady progress with the aim of remounting the many drawings in the Robert Witt bequest which are still housed in acidic mounts.

Various additions to the collection were made during the year. These included William Henry Hunt's watercolour *The Head Gardener*, which was acquired in memory of William Clarke. In March 2012 Frank Auerbach presented the Gallery with a group of nine prints by Lucian Freud – personal gifts to Auerbach from the artist. In celebration of this gift the Garcia Family Foundation presented a portrait etching of Freud by Auerbach.

Throughout the year the Gallery continued to support important exhibitions in other museums and galleries nationally and internationally. During the period 36 loans were made to 26 institutions, with loaned items ranging across the collection and including major paintings, drawings, prints and decorative arts.

### Fundraising

Despite the tough economic conditions in which the Courtauld, in common with other HEIs has operated during the past year, annual fundraising continues to make an important contribution to the institution's financial health. However, following the significant pressure put on all our supporters during the Matched Funding campaign that ended in July 2011 and the continuing difficult climate, the Development Department was hard pressed to meet its revenue goals this year. Individual giving donor programmes such as the Annual Fund, membership (Friends and Samuel Courtauld Society) and the scholarship programme continued to do well, but major gifts from all sectors were a challenge to achieve. The continuing broad base of regular support that has built up over the years is a critical spring board from which the Courtauld will be developing its future fundraising plans and relationships.

### Financial position

The Courtauld Institute of Art is a small, specialist arts institution operating in a higher education sector undergoing significant changes to public funding. While these changes will result in substantial reductions to the level of public funding received by The Courtauld, the steps we have taken to diversify our income streams and reduce expenditure will allow us to continue to move forward from strength to strength.

The group results for 2011-12 as contained in these financial statements show a surplus of £161,000 (2010-11: surplus of £1,257,000). Included in this result is the outcome for the Institute itself, a surplus of £168,000 (2010-11: surplus of £1,259,000). In operational terms, the group result is in fact a deficit of £646,000 (2010-11: a surplus of £1,639,000) of which £639,000 relates to the Institute. The difference between the operational deficit and the surplus recorded in these financial statements is the result of the treatment of transfers to and from fixed asset investments as required by the Statement of Recommended Practice: accounting for further and higher education ("SORP").

### Longer term prospects

As in all HE institutions we are acutely aware of the impact of the impending changes to teaching funding and tuition fees on the sector as a whole and the potential impact on the Institute's finances. The Courtauld has an Access Agreement with the Office for Fair Access (OFFA) enabling it to charge fees in excess of £6,000 per annum to new Undergraduates from 2012-13 and fees for new-regime Undergraduates have been set at £9,000.

The Senior Management Team has rigidly maintained its focus on the development and implementation of strategy while ensuring that all system, process and other management issues are dealt with in a way that continues to deliver improvements in operational and financial effectiveness.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

Plans to broaden the range of Postgraduate provision have been successful and the Institute has introduced an MA in contemporary Asian art for the 2012-13 Academic year, with a further MA in Asian Art and another in Buddhist Art commencing in 2013-14.

In addition, senior management are continuing to maximise the potential of existing activities and to explore further complementary areas of income generation, and have identified a number of areas over and above those included in the medium term financial projections for further investigation. Updates on progress towards achieving targets in these areas are presented to the Finance Committee and Governing Board at each meeting, and the results incorporated into future forecasts as and when the ability to deliver on them becomes more certain. The Governing Board remains satisfied as to both the short and long term financial sustainability of the Institute.

### *Investment policy and performance*

The Courtauld Institute Investment Committee is responsible for oversight of the Endowment (including the Institute's Fixed Asset Investments). The Committee establishes investment objectives, asset allocation policy, and investment strategies for each asset class within the portfolio. Overall investment objectives and goals are achieved by use of a diversified portfolio consistent with The Courtauld's return goals and risk tolerance. The Committee has developed an asset allocation strategy which sets minimum and maximum allocations for each asset class, a target asset allocation, and specifies benchmarks against which the performance of each asset category can be judged. While the investment horizon of The Courtauld is long-term, asset allocation is discussed at every meeting of the Committee and formally reviewed at least every year or as a significant change in The Courtauld's operations or financial condition may require.

The primary function of the Endowment is to provide enduring support for the academic mission of The Courtauld by releasing a substantial and reliable flow of funds to the operating budget, unless such a flow is not temporarily required. Maintaining the purchasing power of the Endowment to provide sustained programme support requires a disciplined spending policy to balance the demands of the present against the claims of the future. The Courtauld's spending rule uses a long-term spending rate combined with a smoothing rule that adjusts gradually to changes in Endowment market value.

The Courtauld retains external investment managers who have demonstrated skill in a particular asset class. Investment discretion is delegated to each manager, subject to this investment policy and any other written investment guidelines that the Committee may establish for a manager. A variety of management styles and investment vehicles are utilised as appropriate. In addition to active management, passive management may be used in asset classes where market efficiency is sufficiently high, such that active management is unlikely to result in added value. No more than 5% of the fund is invested in any one company, nor is more than 20% assigned to any one manager. The Courtauld retains the services of an advisor, Cambridge Associates, who have vast experience in the handling of Universities' and foundations' portfolios.

The Courtauld investments increased in value by a little under 2% during the year ended 31 July 2012, after adjusting for new endowments and releases. Between the Balance Sheet date and 30 September 2012 the fund increased in value by £344k, or a little over 1% after adjusting for new endowments and releases.

### *Property*

The Courtauld occupies the north block of Somerset House which includes extensive basements, extending under the north terrace of the Courtyard. The buildings date from around 1780 and are Grade 1 listed. The accommodation is held on long lease from Somerset House Trust which manages the whole of Somerset House. A rent review covering the period from 1 July 2012 is currently underway. Independent advice we have received as part of the rent review process suggests that it is reasonable to assume that there will be no increase in the annual rent payable as a result of the review and therefore no provision has been made for an increase within the financial statements.

Improvements continue to be made to the use of space in The Courtauld, and further improvements have been made in the year. Major works included a refresh of the lighting in the Gallery entrance hall, as well as work on the fine rooms. During the summer and autumn of 2011 new lifts were installed and the programme of refurbishing The Courtauld's toilets continued. Further works to improve the environmental controls in The Gallery are planned for 2013.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

Nevertheless, there remains scope for further improvement and in October 2011 the Institute appointed external consultants to undertake a detailed space planning exercise looking at how it could enhance and develop the spaces it currently occupies in the North Wing of Somerset House in order to meet its priorities for future development. The study has identified a number of improvements that would help to further increase the usable net internal area and a review is currently underway to further explore the best use of the space that could be created.

The Estates Committee, chaired by Sir Angus Stirling, met three times during the course of this year.

### **Governance**

#### **Governors departing**

##### **Nicholas Ferguson:**

Our thanks go to Nicholas Ferguson for his outstanding service to The Courtauld, firstly as Member of the Advisory Board of the Courtauld before 2002, his Chairmanship of the Governing Board for the first ten years of its life as an independent college of the University of London (2002-2012) and his many other Board committee roles, for his work to create a coherent and effective governance and management structure, and for ensuring the financial and institutional sustainability of the Courtauld as a whole, both through its financial management and through his work leading its fundraising campaigns. In addition our huge thanks go to Nick and Jane Ferguson for their personal support and contributions as donors and their commitment to The Courtauld and its staff and students past and present.

##### **David Landau:**

Our thanks go to David Landau for his invaluable service and commitment to the Courtauld as a founding Member of the Governing Board (2002-2012), as an active, generous and engaged participant in its many activities, but in particular for his superb work as Chairman of the Investment Committee 2002-2012 – with its huge success in raising its initial investment from £12m to today's £32m.

##### **Neil Rudenstine**

Our thanks also go to Neil Rudenstine, founding member of the Governing Board (2002-2012), initiator of much creative thinking about the future direction that the independent Courtauld should take, essential supporter in approaches to major foundations which have been of critical value to The Courtauld's intellectual and financial health throughout this decade, and on-going Chairman of the Courtauld's US Advisory Board.

#### **New Board member**

##### **James Cuno**

We are delighted to welcome former Courtauld Director, Professor James Cuno, back to the Board in his capacity as President and CEO of the J. Paul Getty Trust & Getty Foundation.

# COURTAULD INSTITUTE OF ART

## DIRECTORS' REPORT (continued)

The Directors who served during the year and up to the date of signing these financial statements were:

Nicholas Ferguson (Chairman) (to July 2012)  
James Hughes-Hallett (Chairman from July 2012)  
Janine Catalano (from November 2011)  
Sharon Cather  
Professor Geoffrey Crossick  
James Cuno (from November 2011)  
Dr Martin Halusa  
Antony Hopkins (to November 2011)  
Dr David Landau (to July 2012)  
Daniella Luxembourg  
Aicha Mehrez (to July 2012)  
Dr Nicholas Penny  
Kate Roberts (from July 2012)  
Dr Neil Rudenstine (to July 2012)  
Charles Sinclair  
Anna Somers-Cox  
Professor Julian Stallabrass  
Dr Christine Stevenson  
Sir Angus Stirling  
Professor Deborah Swallow (The Director)  
Joff Whitten (to November 2011)  
Barnaby Wright (from November 2011)

### POLITICAL AND CHARITABLE CONTRIBUTIONS

There were no political or charitable contributions in the year (2010-11 - nil).

### Serious Incidents

The Institute is aware of guidance and the need to report serious incidents arising since 1 June 2010 to HEFCE. There have been no such reportable incidents since that date.

### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors:

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

This report has been prepared in accordance with the Accounting Standards Board's 'Reporting Statement: Operating and Financial Review' (January 2006).

Approved by the Board of Directors  
and signed on behalf of the Board



Terry Hefford

Company Secretary

# COURTAULD INSTITUTE OF ART

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL

### The Courtauld's Principles of Governance

The Governing Board formally reviewed the CUC Governance Code of Practice, November 2004, at its meeting in July 2009 and confirmed its commitment to the Code, subject to a number of departures from the Guide, which are fully justifiable. The major ones are identified below, with the reasons –

- The Governing Board meets formally three times a year (CUC guidance is four). The Institute finds that one Board meeting a term continues to work particularly well because of the committee system in place and because individual Governors have frequent interaction and dialogue with Institute officers between Board and Committee meetings. In addition to the three formal meetings each year, the Board have an annual away day which considers a single issue in much greater detail than would otherwise be possible at a general meeting.
- The normal maximum terms of office are two terms of five years (CUC guidance is three terms of three years). The longer terms of office are helpful to the Institute, given the specialist nature of its work and the need to source and retain Governors with specific expertise.
- Board vacancies are not currently widely publicised (as recommended by CUC guidance). Advertising will be considered where and when appropriate but, at this stage in the Institute's evolution, potential new Governors are identified from current contacts, existing Courtauld supporters or by personal knowledge. Preliminary recommendations are then considered by the Nominations Committee before being submitted to the Board for formal approval. Staff Governors are selected from staff nominations by staff votes.
- The Institute's Memorandum and Articles of Association are its equivalent to Standing Orders. The Memorandum is currently being reviewed and changed; once this process is complete, a summary will be made available on the website.
- The Governing Board does not consider 'terms of appointment' and 'undertakings that Governors will act responsibly' to be appropriate. The expectation that all Governors will act responsibly is inherent in the Statement of Primary Responsibilities.

A Statement of Primary Responsibilities was adopted at the Governing Board meeting on 18 November 2009 and is produced on page 18.

# COURTAULD INSTITUTE OF ART

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The following information is given to assist readers of the financial statements in obtaining an understanding of the governance procedures applied by the Board.

The Courtauld is committed to following best practice in all aspects of corporate governance. This summary describes the manner in which The Courtauld has applied the principles set out in the HEFCE Audit Code of Practice. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The Courtauld's Governing Board is ultimately responsible for The Courtauld's system of internal control and for reviewing its effectiveness.

The system of internal control is based on a developing process designed:

- to identify the principal risks to the achievement of policies, aims and objectives;
- to evaluate the nature and extent of those risks; and
- to manage them effectively, efficiently and economically.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. This process has been in place for the year ended 31 July 2012 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

The Governing Board meets three times a year and has several sub-committees which are as follows: Academic Board, Academic Promotions Committee, Audit Committee, Development & Alumni Committee, Estates Committee, Finance Committee, Galleries and Academic Committee, Honorary Degrees Committee, Honorary Fellows Committee, Investments Committee, Marketing & Communications Committee, Nominations Committee, and Remuneration Committee. All of these Committees are formally constituted with terms of reference. In all cases, the majority of the membership is lay and each of the Committees has a lay chair.

The Academic Board is the institute body set up in accordance with Article 19 of the Articles of Association of the Courtauld Institute of Art. Subject to the responsibilities of the Governing Board and of the Director, the Academic Board shall be responsible for the following matters, having regard at all times to the educational character and objectives of the Courtauld as determined by the Governing Board:

- those relating to the teaching, courses, scholarship and research of the Courtauld; and
- those relating to the development of the academic activities of the Courtauld and the resources needed for them and advising the Director and the Governing Board thereon.

The Academic Promotions Committee meets twice a year and is responsible for the consideration of applications for promotion by Academic staff and recommendation to the Governing Board for the approval of any such promotions they consider to be appropriate.

The Audit Committee meets twice a year and is responsible for advising the Governing Board on the appointment or dismissal of the internal and external auditors; to review the effectiveness of internal controls; to receive reports from the National Audit Office or HEFCE; to consider audit reports from the internal and external auditors and management's response to those reports; to review the arrangements for the identification and management of risk; to advise the Governing Board on accounting policies and to review the Institute's annual report and accounts before their submission to the Governing Board. The internal auditors and the external auditors attend every meeting and following the meeting which considers the annual accounts the external auditors hold a private discussion with the members of the Committee, all of whom are lay, in the absence of the officers.

The Development & Alumni Committee meets three times a year and is primarily concerned with fundraising and maintaining relationships with Alumni.

The Estates Committee meets three times a year and is responsible for oversight of the existing buildings, the creation of an Estates Strategy and evaluation of opportunities to develop or reconfigure the estate.



# COURTAULD INSTITUTE OF ART

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

The Finance Committee meets three times a year and is responsible to the Governing Board for the financial management of The Courtauld. It advises the Board of Governors on all financial matters, in particular the annual estimates and accounts, matters regarding the strategic plan and the financial forecasts; on risks to the strategic plan; and other general issues.

The Gallery and Academic Committee meets three times a year and deals on the Governing Board's behalf with matters referred to the Board from the academic activities of the Institute and with the Gallery and the relationship with the Samuel Courtauld Trust.

The Honorary Degrees Committee meets annually to request, collect and consider nominations for the award of an Honorary Doctorate of the University of London by the Courtauld Institute of Art in accordance with Regulation 2 of the University of London and in accordance with procedures approved by the Governing Board, and to send recommendations for such awards to the Governing Board for approval.

The Honorary Fellows Committee meets annually to request, collect and consider nominations for Honorary Fellows and Emeritus Professorships and to send suitable recommendations for all such awards to the Governing Board for approval.

The Investments Committee meets three times a year and is responsible for the general strategy and policy on investments held or made by or on behalf of The Courtauld and deals with all matters relating to the implementation of such strategy and policy. It reviews the investment strategy, policy and performance at least annually, and it appoints any investment advisers and managers on such terms as the Committee shall think fit.

The Marketing & Communications Committee meets twice a year and is expected to provide expert guidance to the Institute on marketing and communications issues from an external perspective; to advise the executive on the development and implementation of its marketing and communications strategy; to advise on an appropriate and effective structure for the operational delivery of marketing and communications; to advise on the on-going development of the Courtauld brand; to advise, review and assess all marketing communications for the different programmes and activities of The Courtauld (The Courtauld Gallery, the Research Forum, Degree courses/Student recruitment, Public programmes, Extension learning and Fundraising) in relation to its various audience sectors; to challenge and stimulate new ideas and innovative approaches to marketing and communication; and to report each term to the Governing Board.

The Nominations Committee meets at least annually. Its role is to recommend criteria to the Governing Board, for selection and de-selection to the full range of lay and honorific appointments within The Courtauld on the conditions under which such appointments might be held; and to search for those whom the Board might wish to appoint to: lay governorship, lay chairmanships and lay membership of Courtauld committees and other bodies; and such other grades of lay or honorific appointment as the Board may wish from time to time to establish (except those appointed via the Academic Board or Students' Union).

The Remuneration Committee meets at least once a year and considers and recommends the salaries of all existing professorial staff and other staff on equivalent grades; and receives reports on salaries of members of staff newly-appointed or promoted to this level. It considers and determines the honoraria of senior academic office holders. It reports to the Governing Board on policy matters relating to senior salaries and it keeps under review policies for severance payments for professorial and equivalent staff. It recommends the salary of the Director and the Director of Resources (Company Secretary).

### **Risk**

The Governing Board has a responsibility to ensure that The Courtauld's risk management strategy is effective throughout the Institute and that it is fully compliant with HEFCE's requirements relating to risk.

Through its Senior Management Team (SMT), The Courtauld Governing Board has taken the following actions in relation to this:

## COURTAULD INSTITUTE OF ART

### STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

- maintained a risk management policy for the Institute, setting out principles, processes, responsibilities and key risk areas;
- reviewed the strategic risk register, setting out key risks and how they are to be managed;
- received reports from the Audit Committee on the processes governing the identification and management of risk;
- given executive responsibility for managing risk to the Director and the SMT;
- considered the actions taken to manage the most serious physical risks identified; and
- ensured consistency in the level of risk assessed, among risks having the same probability/impact assessment.

The risk policy sets out a clear framework for:

- identifying and assessing risks, as part of the corporate planning process;
- monitoring the management of risks; and
- reviewing the process.

The Board has confirmed the Audit Committee's role regarding the management of risk, clearly establishing the committee's responsibilities regarding risk and ensuring clarity between -

- the suitability of the processes in place (an Audit Committee responsibility); and
- the effectiveness of the identification and management of risk per se (ultimately a Board responsibility).

The revised process for reporting the identification, assessment and management of key risks to the Board was introduced during 2011/12 and is being conducted through the committee best placed to consider and agree appropriate action by management.

The Audit Committee will continue to review the processes related to risk management and has reviewed and agreed these changes at its meeting on 26 April 2012 following a review by the internal auditors.

The detailed process will be as follows:

- Annually at the committee meeting immediately prior to the July Board meeting, committee members will be presented with a risk report for each risk relative to that committee. This report will be provided by the SMT member for that committee so that members can draw conclusions about the effective management of each risk. It will also give members the opportunity to comment on any aspect of the risks noted and any other aspect of risk management.
- The result of each committee's discussion on risk will be reported to the Board through the normal committee minutes, with the committee chairman raising any specific issues.
- A 'risk management' paper will be prepared by the Director of Resources for the July Board meeting in a similar format to that currently produced, bringing together the individual risk reports from each committee meeting.
- Chairs of committees will be able to identify any issues raised at the annual review committee meeting during discussion at the Board of the compilation paper.
- The Board will then be in a position to draw its conclusions on the appropriateness of the way risk is managed, for inclusion as appropriate in the Financial Statements and HEFCE returns.

In preparation for the other committee meetings each year, the SMT member will give full consideration to any changes in the pattern or the management of each risk and also whether any new risks have been identified and bring these to the members' notice by way of a written paper when necessary.

The three key risks currently facing the institute are as follows:

# COURTAULD INSTITUTE OF ART

## STATEMENT OF CORPORATE GOVERNANCE AND INTERNAL CONTROL (continued)

### **1. Failure to maintain top REF position**

Arrangements for Research assessment have changed, and the Research Excellence Framework (REF) 2014 has introduced a new category of assessment (Impact). The panel and subpanel structures have changed and Art History (our only submission) is now part of a larger panel including both Art History and Art and Design. Other aspects of the process are also new.

As a result there is a risk that The Courtauld will receive a smaller share of Quality Related (QR) research funding. To combat and reduce this risk, a Deputy Head of Research will be appointed in Autumn 2012 to work alongside the Head of Research and additional resources are being applied as required.

### **2. Failure to meet fundraising targets**

The Courtauld relies on philanthropic donations (including both annual revenue gifts and endowments) from companies, trusts and individuals to provide in excess of 25% of its income.

Donors are attracted to the Institute for a wide variety of reasons including our size and reputation for excellence. The Courtauld continually monitors trends within the sector and the economy at large, through such vehicles as the Ross Case survey and national donor statistics to ensure that it is able to face any potential issues as and when they arise. By maintaining the quality of the development team The Courtauld is able to ensure that targeted, effective campaigns provide the right message to the right donors thus maintaining philanthropic giving at a level that is both sustainable and provides The Courtauld with the resources that it needs to operate effectively in the current economic climate.

### **3. Significant & rapid further reduction in HEFCE funding**

The changes to teaching funding, which will start coming into force in 2012/13 will see a significant reduction in the level of funding the Institute received from HEFCE. The review of exceptional funding for teaching in autumn 2012 and an impending review of Museums, Galleries and Collections funding could lead to yet further reductions.

To address this, the Institute is continuing to build its relationship with HEFCE at all levels, taking every opportunity to remind HEFCE of the special nature of the institute and the substantial amount of public benefit provided by the Institute in return for HEFCE's support. Nonetheless, the Institute will continue also to seek new revenue streams thus reducing reliance on core funding from HEFCE and make good any cuts that may arise in the future.

# COURTAULD INSTITUTE OF ART

## STATEMENT OF PRIMARY RESPONSIBILITIES OF THE GOVERNING BOARD

The primary responsibilities of the Governing Board are derived from the Financial Memorandum with HEFCE dated July 2011 and Memorandum and Articles of Association of The Courtauld Institute of Art. They are:

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Institute will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In accordance with the Companies Act 2006 the Board, as directors of The Courtauld Institute of Art, are responsible for the administration and management of the Institute and are required to present audited financial statements for each financial year.

In addition, the terms and conditions of a Financial Memorandum between the Higher Education Funding Council for England and the Board of The Courtauld, through its designated officer, require the Institute to prepare financial statements for each financial year, which give a true and fair view of the financial position of the Institute and of the surplus or deficit and cash flows for that year. The designated officer for this purpose is the Director.

The directors are responsible for ensuring that income from the Higher Education Funding Council for England and grants and income for specific purposes and from other restricted funds administered by the Institute are applied for the purposes for which they were received to ensure that income has been applied, where appropriate, in accordance with the Financial Memorandum with the Higher Education Funding Council for England.

The directors are also responsible for:

1. approving and measuring progress on achieving the mission and strategy of The Courtauld Institute of Art, its long-term academic and business plans and establishing and reviewing high-level key performance indicators (KPIs).
2. delegating authority to the Director of the Institute for the academic, corporate, financial, estate and human resources management of the Institute; and for establishing and keeping under regular review the policies and procedures for, including any limits to be applied to, the exercise of such management functions as shall be undertaken by and under the authority of the Director.

## **COURTAULD INSTITUTE OF ART**

### **STATEMENT OF PRIMARY RESPONSIBILITIES OF THE GOVERNING BOARD (continued)**

3. ensuring the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment and management, and procedures for handling internal grievances and for managing conflicts of interest.
4. ensuring that processes are in place to monitor and evaluate the performance and effectiveness of the Institute against plans and KPIs.
5. establishing processes to monitor and evaluate the performance and effectiveness of the Board of Governors itself.
6. conducting 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.
7. safeguarding the good name and values of the Institute.
8. appointing the Chairman of the Governing Board and its sub-committees in accordance with the terms of office established in the Memorandum.
9. appointing the Director of The Courtauld Institute of Art.
10. making such provision as it sees fit for the general welfare of the Institute's students, in consultation as appropriate with the Academic Board.
11. ensuring the institute's Memorandum and Articles of Association are followed at all times and that appropriate advice is available to enable this to happen.

## **INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF COURTAULD INSTITUTE OF ART**

We have audited the group and Institute financial statements (the "financial statements") of Courtauld Institute of Art for the year ended 31 July 2012 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Institute Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Board of Directors, in accordance with the Statutes of the Institute and to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Board of Directors and to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors, the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Board of Directors and auditor**

As explained more fully in the Statement of Responsibilities set out on page 19, the Board of Directors is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those auditing standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and Institute as at 31 July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and the Companies Act 2006.
- have been prepared in accordance with the Companies Act 2006.

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

In our opinion, in all material respects:

- funds from whatever source administered by the Group and the Institute for specific purposes have been applied to those purposes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

# INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF COURTAULD INSTITUTE OF ART

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

- the statement of internal control (included as part of the Director's Report) is inconsistent with our knowledge of the Group and the Institute.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Courtauld, or returns adequate for our audit have not been received from branches not visited by us; or
- the Courtauld Institute of Art's financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit.

*W Southwood*

*20 November 2012*

**W Southwood (Senior Statutory Auditor)  
for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
15 Canada Square

Canary Wharf

London

E14 5GL

COURTAULD INSTITUTE OF ART

CONSOLIDATED INCOME & EXPENDITURE ACCOUNT

Year ended 31 July 2012

	Note	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
<b>INCOME</b>			
Funding Council grants	2	3,289	4,561
Tuition fees and education contracts	3	2,590	2,627
Research grants and contracts	4	1,098	945
Other income	5	4,546	4,059
Endowment and investment income	6	518	1,291
<b>TOTAL INCOME</b>		<b>12,041</b>	<b>13,483</b>
<b>EXPENDITURE</b>			
Staff costs	7	5,970	5,977
Other operating expenses	9	6,120	5,326
Depreciation	12	596	539
Interest payable	10	1	2
<b>TOTAL EXPENDITURE</b>		<b>12,687</b>	<b>11,844</b>
<b>(DEFICIT)/ SURPLUS ON CONTINUING OPERATIONS</b>		<b>(646)</b>	<b>1,639</b>
Transfer from/ (to) accumulated income within endowments	24	807	(382)
<b>SURPLUS FOR THE YEAR RETAINED IN RESERVES</b>		<b>161</b>	<b>1,257</b>

The income and expenditure account is in respect of continuing operations  
The notes on pages 27 to 43 form part of the financial statements



COURTAULD INSTITUTE OF ART

STATEMENT OF THE CONSOLIDATED TOTAL RECOGNISED GAINS/ (LOSSES)

Year ended 31 July 2012

	Note	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
(Deficit)/ Surplus on continuing operations after depreciation on fixed assets		(646)	1,639
Total Returns on fixed asset investments	14	36	1,185
Total Returns on fixed asset investments released in the year	14	(432)	(223)
Total Returns on endowment asset investments	15	80	2,930
Total Returns on endowments released in the year	15	(80)	(1,064)
New endowments	23	353	958
<b>TOTAL RECOGNISED (LOSSES) / GAINS</b>		<b>(689)</b>	<b>5,425</b>
<b>Reconciliation</b>			
Opening reserves and endowments		30,397	24,972
Total recognised (losses) / gains		(689)	5,425
<b>Closing reserves and endowments</b>		<b>29,708</b>	<b>30,397</b>

COURTAULD INSTITUTE OF ART

INSTITUTE BALANCE SHEET

As at 31 July 2012

	Note	2012 £'000	2011 £'000
<b>FIXED ASSETS</b>			
Intangible assets	11	-	(51)
Tangible assets	12	3,679	3,632
Investments	14	10,005	9,087
		<hr/>	<hr/>
		13,684	12,668
<b>ENDOWMENT ASSETS</b>			
	15	<hr/>	<hr/>
		21,037	21,491
<b>CURRENT ASSETS</b>			
Stocks	16	3	1
Debtors	17	813	1,950
Cash at bank and in hand		996	2,759
		<hr/>	<hr/>
<b>TOTAL CURRENT ASSETS</b>		1,812	4,710
<b>CREDITORS: amounts falling due within one year</b>	18	(4,000)	(5,377)
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(2,188)	(667)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<hr/>	<hr/>
		32,533	33,492
<b>CREDITORS: amounts falling due after more than one year</b>	19	(32)	(62)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
	21	(1,307)	(1,316)
<b>NET ASSETS</b>		<hr/>	<hr/>
		31,194	32,114
<b>DEFERRED CAPITAL GRANTS</b>			
	22	1,502	1,739
<b>ENDOWMENTS</b>			
Permanent Restricted	23	5,468	5,227
Permanent Unrestricted	23	11,117	11,518
Expendable Restricted	23	4,452	4,746
		<hr/>	<hr/>
<b>TOTAL ENDOWMENTS</b>		21,037	21,491
<b>RESERVES</b>			
General reserve	24	7,199	7,153
Restricted reserves	24a	324	203
Revaluation reserve	24b	1,132	1,528
<b>TOTAL</b>		<hr/>	<hr/>
		31,194	32,114

The financial statements of the Courtauld Institute of Art, registered number 04464432, were approved by the governing body on 23 November 2012 and were signed on its behalf by:

James Hughes-Hallett, Chairman

COURTAULD INSTITUTE OF ART

CONSOLIDATED BALANCE SHEET

As at 31 July 2012

	Note	2012 £'000	2011 £'000
<b>FIXED ASSETS</b>			
Intangible assets	11	-	(51)
Tangible assets	12	3,716	3,663
Fixed asset Investments	14	10,005	9,087
		<u>13,721</u>	<u>12,699</u>
<b>ENDOWMENT ASSETS</b>			
	15	21,037	21,491
<b>CURRENT ASSETS</b>			
Stocks	16	99	106
Debtors	17	666	1,853
Cash at bank and in hand		1,083	2,785
		<u>1,848</u>	<u>4,744</u>
<b>TOTAL CURRENT ASSETS</b>		1,848	4,744
<b>CREDITORS: amounts falling due within one year</b>	18	(4,057)	(5,420)
		<u>(2,209)</u>	<u>(676)</u>
<b>NET CURRENT LIABILITIES</b>		(2,209)	(676)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>32,549</u>	<u>33,514</u>
<b>CREDITORS: amounts falling due after more than one year</b>	19	(32)	(62)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	21	(1,307)	(1,316)
		<u>31,210</u>	<u>32,136</u>
<b>NET ASSETS</b>		31,210	32,136
<b>DEFERRED CAPITAL GRANTS</b>			
	22	1,502	1,739
<b>ENDOWMENTS</b>			
Permanent Restricted	23	5,468	5,227
Permanent Unrestricted	23	11,117	11,518
Expendable Restricted	23	4,452	4,746
		<u>21,037</u>	<u>21,491</u>
<b>TOTAL ENDOWMENTS</b>		21,037	21,491
<b>RESERVES</b>			
General reserve	24	7,215	7,175
Restricted reserves	24a	324	203
Revaluation Reserve	24b	1,132	1,528
<b>TOTAL</b>		<u>31,210</u>	<u>32,136</u>

The financial statements of the Courtauld Institute of Art, registered number 04464432, were approved by the governing body on 28 November 2012 and were signed on its behalf by:

James Hughes-Hallett, Chairman

COURTAULD INSTITUTE OF ART

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 July 2012

	Note	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Cash flow from operating activities	25	(1,092)	2,549
Returns on investments and servicing of finance	26	517	1,289
Capital expenditure and financial investment	27	(1,097)	(2,273)
Financing	28	(29)	(29)
<b>(Decrease)/ Increase in cash in the year</b>	29	<b>(1,701)</b>	<b>1,536</b>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

(Decrease)/ Increase in cash in the year		(1,701)	1,536
Decrease in debt	28	29	29
Cash inflow/ (outflow) from endowment asset investments	29	150	(458)
Cash inflow/ (outflow) from fixed asset investments	29	97	(111)
Movement in net funds in year		(1,425)	996
Net funds at 1 August	29	3,884	2,888
Net funds at 31 July		2,459	3,884

1. STATEMENT OF ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable accounting standards.

**Basis of accounting**

The financial statements are prepared under the historical cost convention modified by the revaluation of endowment asset investments.

**Basis of consolidation**

The consolidated financial statements include the Institute and its subsidiary undertakings for the financial year ended 31 July 2012. Details of the Institute's subsidiary undertakings are provided in note 13 to the financial statements. The financial statements have been consolidated under the acquisition method of accounting.

The Courtauld Institute of Art Fund (CIAF) is a charity registered under the Charities Act 2011, number 288509. Its principal activity is to raise funds for the benefit of the Courtauld Institute of Art. In accordance with Section 97 of the Act, CIAF is treated as a special trust for accounting purposes and its activities and results have therefore been aggregated into the Institute's results for the year. As required by the SORP, reserves held by the CIA Fund at the Balance Sheet date are treated as either endowments (in the case of restricted reserves in CIAF) or restricted reserves (in the case of unrestricted reserves in CIAF) within the institute's accounts.

**Surplus attributable to The Courtauld Institute of Art**

The surplus for the financial year dealt within the financial statements of the parent Institute, Courtauld Institute of Art, was £168,000 (2010/11: surplus of £1,259,000). Included within the results for 2011/12 was a restricted surplus of £121,000 attributable to CIAF (2010/11: surplus of £109,000, see above and note 24a). As permitted by Section 408 of the Companies Act 2006, no separate income and expenditure account is presented in respect of the parent Institute.

**Going Concern**

The company's business activities and plans for the future are set out in the Directors' Report on page 1. The directors have considered these plans and the budget for the year ahead in their assessment of adopting the going concern basis for the preparation of these financial statements.

In making this assessment the directors have produced future forecasts which show that the company will be able to manage its working capital and existing resources to enable it to meet its liabilities as they fall due. The directors acknowledge that the impact of the current economic environment is uncertain, and are managing this uncertainty and its impact on the forecasts on a regular basis.

Based on these factors, the directors have prepared these financial statements on the going concern basis.

**Revenue Recognition**

Non-recurrent grants from the Funding Council or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Income from research grants, contracts and other services rendered is accounted for on an accruals basis and is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the period and any related contributions towards overhead costs. Any payments received in advance of such performance are recognised on the balance sheet as liabilities. All income from non-endowment related short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Fee income is stated gross and credited to the income & expenditure account over the period in which the students are studying. Where the amount of the tuition fee is reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and included within operating income

Income and expenditure related to the Summer School which runs for the four weeks ending in the first week of August each year is treated as falling in full in the year in which the summer school commences.

According to the SORP, all donations that are expendable but which are restricted to a purpose specified by the donor are to be treated as expendable endowments. However due to the long term nature of The Courtauld's investment policy, the Institute has made a deliberate decision to only treat donations likely to be held for the long term as endowments. Donations due to be expended over a short term period are treated as deferred income and are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. For this purpose, long-term is taken to mean in excess of five years.

**Endowments**

Permanent Endowments are invested on a total return basis. Returns on investments are credited to the income and expenditure account to the extent that they have been applied for the purposes intended by the donor. Returns beyond this amount are retained within the unapplied total return fund as part of the endowment until such time as they are applied by the Institute and a transfer is made to the income and expenditure account.

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of consolidated total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 1. STATEMENT OF ACCOUNTING POLICIES (continued)

**Foreign currency translation**

Transactions denominated in 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. Exchange differences are dealt with in the income and expenditure account, except in respect of foreign exchange variations in respect of future endowments, any exchange variations for which are shown in the statement of total recognised gains and losses.

**Pension Schemes**

The Institute participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (SP2). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the amount payable to the scheme in respect of the accounting period.

The Institute also participates in the Superannuation Arrangements of the University of London ("SAUL"), which is a centralised defined benefit scheme and is contracted-out of the Second State Pension. SAUL is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in SAUL, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations. As above, it is not possible to identify the institution's share of the assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, accounts for the scheme as if it were a defined contribution scheme.

SCT Enterprises Limited contributes to two defined contribution schemes on behalf of its employees. In accordance with FRS17, contributions to these schemes are included as expenditure in the period in which they are payable.

**Negative goodwill**

Negative goodwill arising upon acquisitions is included within intangible assets and is released to the income and expenditure account over the life of the tangible assets to which it relates. Any residual negative goodwill is recognised in the income and expenditure account in the period expected to benefit.

**Tangible fixed assets****a) Land and buildings**

Land and buildings are stated at historical cost. Costs incurred in relation to a tangible fixed asset, after its initial purchase or production, are capitalised to the extent that they increase the expected future benefits to the institution from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned.

Where assets related to land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

**b) Equipment**

Equipment costing less than £10,000 per individual item or set of similar items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its useful economic life as follows:

General equipment - 10% per annum from the year of acquisition  
Computer equipment - 33% per annum from the year of acquisition

Where fixed assets are acquired with the aid of specific grants, they are capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related fixed assets.

**c) Rare books and artefacts**

Rare books and artefacts valued at £853,000 are capitalised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. All such assets are fully accessible by users of The Courtauld's book library and a detailed catalogue of the collection is due to be completed in 2013. The last valuation of the collection took place in 2002, and the next valuation is expected to take place in 2013/14 once cataloguing of the collection has been completed. Future valuations will then take place every ten years. Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

**Leased assets**

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

**Investments**

Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value. Listed assets are included in the balance sheet at market value.

Investments that form part of endowment assets are included in the balance sheet at market value.

**Stocks**

Stocks are stated at the lower of their cost and net realisable value.

**Taxation**

The Institute 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 Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the Institute is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The Institute receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the cost of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

SCT Enterprises Limited is subject to corporation tax and Value Added Tax in the same way as any commercial organisation and current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

**Provisions**

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

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

2 FUNDING COUNCIL GRANTS

	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Recurrent grant from HEFCE	2,987	2,968
Matched Funding Scheme	-	1,142
Deferred Capital Grants released	253	267
Other specific grants from HEFCE	49	184
	<u>3,289</u>	<u>4,561</u>

3 TUITION FEES AND EDUCATION CONTRACTS

	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
UK Higher Education students	1,272	973
European Union (EU) (excluding UK)	100	465
Non-EU students	1,136	1,078
Total fees paid by or on behalf of individual students	<u>2,508</u>	<u>2,516</u>
Other education income	82	111
	<u>2,590</u>	<u>2,627</u>

4 RESEARCH GRANTS AND CONTRACTS

	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Research councils	54	127
UK based charities	94	51
EU Charity	92	88
Other grants and contracts	858	679
	<u>1,098</u>	<u>945</u>

5 OTHER INCOME

	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Donations	1,863	1,834
Deferred Capital Grants released	43	36
The Courtauld Gallery- admissions and events	606	502
SCT Enterprises Ltd (The Gallery Shop)	810	706
Residences and accommodation	583	501
Other income	641	480
	<u>4,546</u>	<u>4,059</u>

6 ENDOWMENT AND INVESTMENT INCOME

	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
Income from endowments released to I&E account (note 23)	80	1,064
Other investment income	438	227
	<u>518</u>	<u>1,291</u>



## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 7 STAFF COSTS

The average weekly number of persons (including directors) employed by the Group during

	Year ended 31 July 2012	Year ended 31 July 2011
	No	No
Teaching departments	34	33
Teaching support services	2	2
Gallery & Libraries	18	21
Administration and central services	47	44
Premises	6	5
Other	13	13
	<u>120</u>	<u>118</u>
<b>Staff costs for the above persons:</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	4,969	4,967
Social security costs	434	433
Pension costs	567	577
	<u>5,970</u>	<u>5,977</u>

The number of staff, including the directors, who received emoluments (excluding employers pension contributions) of more than £100,000 in the financial year was:

	Year ended 31 July 2012	Year ended 31 July 2011
	No	No
£170,000- £180,000	<u>1</u>	<u>1</u>

## 8 SENIOR POST HOLDER'S EMOLUMENTS

The emoluments of the Director of the Institute are as follows:

	Year ended 31 July 2012	Year ended 31 July 2011
	£'000	£'000
Salary	174	174
Pension contributions	28	28
	<u>202</u>	<u>202</u>

Pension contributions are in respect of employer's contributions to the Universities Superannuation Scheme and are paid at the same rate as for other employees.

## 9 ANALYSIS OF EXPENDITURE BY ACTIVITY

	Staff costs	Other operating expenses	Depreciat ion	Year ended 31 July 2012	Year ended 31 July 2011
	£'000	£'000	£'000	Total £'000	Total £'000
Teaching departments	2,684	1,655	-	4,339	3,798
Academic information services	498	152	-	650	679
Gallery	580	713	28	1,321	1,338
Administration and central services	1,724	1,006	214	2,944	2,866
Premises costs	-	1,766	337	2,103	1,844
Planned maintenance	-	233	-	233	300
Other income generating activities - Institute	254	113	-	367	356
Other income generating activities - subsidiaries	230	483	17	730	663
	<u>5,970</u>	<u>6,121</u>	<u>596</u>	<u>12,687</u>	<u>11,844</u>

\* other operating expenses includes interest payable ( see note 10).

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 9 ANALYSIS OF EXPENDITURE BY ACTIVITY (continued)

	Year ended 31 July 2012	Year ended 31 July 2011
	Total £'000	Total £'000
<b>Other operating expenses include:</b>		
Amortisation of negative goodwill	(51)	(64)
Auditors' remuneration		
- statutory audit	55	53
- other services	20	11
Hire of other assets	12	11
Operating Leases	606	441

The external audit fee for the Institute was £50,880 inclusive of VAT (2010-11: £49,140)

## 10 INTEREST PAYABLE

	Year ended 31 July 2012	Year ended 31 July 2011
	£'000	£'000
On bank loans and other loans:		
Repayable within 5 years by instalments	1	2
	<u>1</u>	<u>2</u>

## 11 INTANGIBLE FIXED ASSETS

## Negative goodwill

	Institute £'000	Group £'000
<b>Cost</b>		
At 1 August 2011 and 31 July 2012	<u>(599)</u>	<u>(1,080)</u>
<b>Amortisation</b>		
At 1 August 2011	548	1,029
Released in the year	51	51
At 31 July 2012	<u>599</u>	<u>1,080</u>
<b>Net book value</b>		
At 31 July 2012	-	-
At 31 July 2011	<u>(51)</u>	<u>(51)</u>

Negative goodwill for the Institute relates to the difference between the value of assets acquired

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 12 TANGIBLE FIXED ASSETS

Institute

	Leasehold land and buildings £'000	Rare books and artefacts £'000	Computer equipmen t £'000	General equipmen t £'000	Total £'000
<b>Cost</b>					
At 1 August 2011	3,253	853	640	1,597	6,343
Additions	482	-	71	73	626
At 31 July 2012	3,735	853	711	1,670	6,969
<b>Depreciation</b>					
At 1 August 2011	1,365	-	535	811	2,711
Charge for year	337	-	80	162	579
At 31 July 2012	1,702	-	615	973	3,290
<b>Net book value</b>					
At 31 July 2012	2,033	853	96	697	3,679
At 31 July 2011	1,888	853	105	786	3,632
Inherited	-	853	-	-	853
Financed by capital grant	1,783	-	40	74	1,897
Other	250	-	56	623	929
	2,033	853	96	697	3,679

## 12 TANGIBLE FIXED ASSETS

Group

	Leasehold land and buildings £'000	Rare books and artefacts £'000	Computer equipmen t £'000	General equipmen t £'000	Total £'000
<b>Cost</b>					
At 1 August 2011	3,253	853	647	1,710	6,463
Additions	482	-	71	96	649
At 31 July 2012	3,735	853	718	1,806	7,112
<b>Depreciation</b>					
At 1 August 2011	1,365	-	542	893	2,800
Charge for year	337	-	80	179	596
At 31 July 2012	1,702	-	622	1,072	3,396
<b>Net book value</b>					
At 31 July 2012	2,033	853	96	734	3,716
At 31 July 2011	1,888	853	105	817	3,663
Inherited	-	853	-	-	853
Financed by capital grant	1,783	-	40	74	1,897
Other	250	-	56	660	966
	2,033	853	96	734	3,716

NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 July 2012

13 **SUBSIDIARY UNDERTAKINGS**  
Institute

The Institute has the following subsidiary undertaking:

Name	Ownership	Year end
SCT Enterprises Limited	100%	31/07/2012

SCT Enterprises Limited is a company registered in England and Wales and its principal activity is

14 **FIXED ASSET INVESTMENTS**  
Institute and Group

	2012 £'000	2011 £'000
Balance brought forward at 1 August	9,087	6,951
Total Returns accrued in the year	36	1,185
Income received transferred to income & expenditure account	(432)	(223)
Transfers from cash	1,314	1,174
	<u>10,005</u>	<u>9,087</u>
<b>Represented by:</b>		
Unit Trusts and Investment Trusts	9,531	8,710
Cash balances	474	377
	<u>10,005</u>	<u>9,087</u>

15 **ENDOWMENT ASSETS**  
Institute and Group

	2012 £'000	2011 £'000
Balance brought forward at 1 August		
Capital	16,831	15,491
Unapplied Total Returns	4,660	2,794
	<u>21,491</u>	<u>18,285</u>
Additions (note 22)	353	958
Total Returns on endowment asset investments	80	2,930
Income received transferred to income & expenditure account	(80)	(1,064)
Transfer of accumulated income from general reserves	(807)	382
Balance at 31 July	<u>21,037</u>	<u>21,491</u>
<b>Represented by:</b>		
Unit Trusts and Investment Trusts	19,929	20,456
Cash balances	964	814
Amounts owing from benefactors & others	144	221
	<u>21,037</u>	<u>21,491</u>

For the purpose of managing the investment portfolio and for all other management and administrative purposes, the endowment asset investments and fixed asset investments continue to be administered jointly in a single fund which was valued at £31.042m at 31 July 2012. (31 July 2011: £30.578m).

16 **STOCKS**

	Institute		Group	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Finished goods	3	1	99	106

17 **DEBTORS**

	Institute		Group	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Trade and student debtors	114	72	126	78
Amounts due from subsidiary undertakings	171	118	-	-
Taxation and VAT recoverable	74	91	74	91
HEFCE Match Funding Grants	-	1,314	-	1,314
Other Accrued Revenue	218	144	223	157
Other debtors	41	18	41	18
Prepayments	195	193	202	195
	<u>813</u>	<u>1,950</u>	<u>666</u>	<u>1,853</u>

NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 July 2012

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Institute		Group	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
Bank loan	30	30	30	30
Payments received in advance	3,236	4,449	3,236	4,449
Trade creditors	260	476	277	492
Amounts due to subsidiary undertakings	4	1	-	-
Accruals	186	227	218	233
Other taxation and social security	137	146	149	168
Other creditors	147	48	147	48
	<u>4,000</u>	<u>5,377</u>	<u>4,057</u>	<u>5,420</u>

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	Institute and Group	
	2012	2011
	£'000	£'000
Bank loan	32	62
	<u>32</u>	<u>62</u>

20 BORROWINGS	Institute and Group	
	2012	2011
	£'000	£'000
Loans are repayable as follows:		
In one year or less	30	30
Between one and two years	32	30
Between two and five years	-	32
	<u>62</u>	<u>92</u>

Interest is payable on the unsecured loan from the bank at variable rates, linked to the lender bank's base rate. Interest payable on the bank loan was 1.5% throughout the year.

21 PROVISIONS FOR LIABILITIES AND CHARGES	Dilapidations	
	2012	2011
	£'000	£'000
Institute and Group		
At 1 August	1,316	1,287
Transferred from income and expenditure account	175	225
Utilised in year	(184)	(196)
At 31 July	<u>1,307</u>	<u>1,316</u>

The dilapidations provision relates to costs to be incurred in returning the premises licensed from Somerset House Trust to their original condition. Following a significant round of capital improvements over the last two years, it is anticipated that much of the remaining provision will be utilised during 2012/13. At that time the need to continue to build the provision will be re-assessed.

22 DEFERRED CAPITAL GRANTS	Balance		Balance	
	at 1		at 31 July	
	August	Received	Released	2012
	2011	in year	in year	2012
	£'000	£'000	£'000	£'000
HEFCE- Leasehold land and buildings	(1,264)	(16)	209	(1,071)
HEFCE- General Equipment	(93)	-	44	(49)
Other- Land and buildings	(278)	(27)	32	(273)
Other- General Equipment	(104)	(16)	11	(109)
	<u>(1,739)</u>	<u>(59)</u>	<u>296</u>	<u>(1,502)</u>

Capital grants are deferred and released to the Income & Expenditure account over the useful economic life of the asset against the related depreciation charge in proportion to the level of the grant received.

NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 July 2012

## 23 ENDOWMENTS

Institute and Group	Permanent Restricted £'000	Permanent Unrestricted £'000	Total Permanent £'000	Expendable Restricted £'000	Total 2012 £'000	Total 2011 £'000
At 1 August 2011						
Capital	4,254	7,831	12,085	4,746	16,831	15,491
Unapplied Total Returns	973	3,687	4,660	-	4,660	2,794
	5,227	11,518	16,745	4,746	21,491	18,285
Received in the year	353		353		353	958
Total Returns accrued in the year	20		63	17		
		43			80	2,930
Total Returns transferred to income & expenditure account (note 6)	(20)	(43)	(63)	(17)	(80)	(1,064)
Transfer of accumulated income from general reserves	(112)	(401)	(513)	(294)	(807)	382
At 31 July 2012						
Capital	4,607	7,831	12,438	4,452	16,890	16,831
Unapplied Total Returns	861	3,286	4,147	-	4,147	4,660
	5,468	11,117	16,585	4,452	21,037	21,491
<b>Representing</b>						
Fellowships and scholarships funds	1,887	211	2,098	1,517	3,615	3,731
Prizes funds	12	-	12	-	12	12
Chairs and lectureships funds	2,044	-	2,044	1,748	3,792	3,606
Other funds	1,525	10,906	12,431	1,187	13,618	14,142
	5,468	11,117	16,585	4,452	21,037	21,491

The Board has resolved that income up to a maximum of 4% of the current value of unrestricted endowments should be released to the Income & Expenditure Account, to cover any residual operating deficit of the Institute.

The Institute operates a total returns policy in respect of its endowment and fixed asset investments. Releases to the income & expenditure account and transfers to general reserves are accordingly based on income and growth realised during the year, subject to the conditions for the use of funds being met in the case of restricted funds and the limits imposed by the board in the case of unrestricted funds.

Included within the table above, the Institute holds three permanent unrestricted endowments that could be considered to be material charitable funds. The funds, each of which was given to support the long term financial sustainability of the Institute, can be analysed as follows:

	Lisbet Rausing £'000	The Garfield Weston Foundation £'000	The Deborah Loeb Brice Foundatio n £'000
At 1 August 2011			
Capital	5,000	1,000	1,123
Unapplied Total Returns	2,864	538	188
	7,864	1,538	1,311
Additions			221
Total Returns accrued in the year			
	30	6	5
Total Returns transferred to income & expenditure account (note 6)	(332)	(40)	(75)
At 31 July 2012			
Capital	5,000	1,000	1,344
Unapplied Total Returns	2,562	504	118
	7,562	1,504	1,462

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

24 MOVEMENT ON GENERAL RESERVES

	Institute £'000	Group £'000
At 1 August 2011	7,153	7,175
Deficit retained for the year	(761)	(767)
Transfers from accumulated income within endowments	807	807
At 31 July 2012	<u>7,199</u>	<u>7,215</u>

24a MOVEMENT ON RESTRICTED RESERVES  
Institute and Group

	Year ended 31 £'000
At 1 August 2011	203
CIAF surplus retained for the year	121
At 31 July 2012	<u>324</u>

24b MOVEMENT ON REVALUATION RESERVES  
Institute and Group

	Year ended 31 £'000
At 1 August 2011	1,528
Total Returns on fixed asset investments	36
Income received transferred to income & expenditure account	(432)
At 31 July 2012	<u>1,132</u>

25 RECONCILIATION OF OPERATING SURPLUS/ (DEFICIT) TO NET CASH OUTFLOW

	Year ended 31 July 2012 £'000	Year ended 31 July 2011 £'000
(Deficit)/ Surplus on continuing operations	(646)	1,639
Depreciation	596	539
Amortisation of negative goodwill	(51)	(64)
Decrease/ (increase) in stocks	7	(1)
Decrease in debtors	1,187	322
(Decrease)/ Increase in creditors	(1,363)	1,677
(Decrease)/ Increase in provisions	(9)	29
Interest receivable	(518)	(1,291)
Interest payable	1	2
Deferred capital grants released	(296)	(303)
Net (outflow)/ inflow from operating activities	<u>(1,092)</u>	<u>2,549</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

26 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2012	2011
	£'000	£'000
Income from endowments	80	1,064
Other interest received	438	227
Interest paid	(1)	(2)
Net cash inflow from returns on investments and servicing of finance	<u>517</u>	<u>1,289</u>

27 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2012	2011
	£'000	£'000
Purchase of tangible fixed assets	(649)	(902)
Capital grants received	59	185
Endowment income received	807	(382)
Transfers from cash to fixed asset investments	(1,314)	(1,174)
Net cash outflow from capital expenditure and financial investment	<u>(1,097)</u>	<u>(2,273)</u>

28 FINANCING

	2012	2011
	£'000	£'000
Repayment of loans	(29)	(29)
	<u>(29)</u>	<u>(29)</u>

29 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2011	Cash flows	At 31 July 2012
	£'000	£'000	£'000
Cash at bank and in hand	2,785	(1,702)	1,083
Endowment asset investments (note 15)	814	150	964
Fixed Asset investments (note 14)	377	97	474
Debt due within one year	(30)	-	(30)
Debt due after more than one year	(62)	30	(32)
Total	<u>3,884</u>	<u>(1,425)</u>	<u>2,459</u>



NOTES TO THE FINANCIAL STATEMENTS  
Year ended 31 July 2012

30 PENSION AND SIMILAR OBLIGATIONS

**University Superannuation Scheme (USS)**

The Institute participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (SP2). The assets of the scheme are held in a separate administered by the trustees, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the new scheme-specific funding regime introduced by the Pension Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are also included in this note.

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

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

Standard mortality tables were used as follows:

Male members' mortality	S1NA ["light"] YoB tables- No age rating
Female members' mortality	S1NA["light"] YoB tables- rated down one year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The CMI 2009 projections with a 1.25% per annum long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 30 PENSION AND SIMILAR OBLIGATIONS

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using an AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

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

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

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

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

Since the previous valuation at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

*New Entrants*

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

*Normal pension age*

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

*Flexible retirement*

Flexible retirement options were introduced.

*Member contributions increased*

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

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 30 PENSION AND SIMILAR OBLIGATIONS

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the Institute's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis at the date of the last triennial valuation are set out below:

<b>Assumption</b>	<b>Change in assumption</b>	<b>Impact on shortfall</b>
Investment Return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

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

The trustees believe that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of the covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100%, thereby minimising the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

At 31 March 2012, USS had over 145,000 active members and The Courtauld had 65 active members participating in the scheme.

The total pension cost for the institution was £473,000 (2011: £467,000). The contribution rate payable by the institute was 16% of pensionable salaries.

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

## 30 PENSION AND SIMILAR OBLIGATIONS

**Superannuation Scheme of the University of London (SAUL)**

The Institute participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The Courtauld Institute of Art has now adopted FRS17 for accounting for pension costs. It is not possible to identify the The Courtauld's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (ie cash amounts) in accordance with paragraphs 8 – 12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the technical provisions:

	31-Mar-11
Discount Rate:	
'- pre-retirement	6.80% p.a.
'- post-retirement	4.70% p.a.
General salary increases*	3.75% p.a. until 31 March 2014, 4.50% p.a. thereafter
Retail Prices Index Inflation ("RPI")	3.50% p.a.
Consumer Prices Index Inflation ("CPI")	2.80% p.a.
Pension increases in payment (excess over GMP)	2.80% p.a.
Mortality - base table	SAPS Normal (year of birth) tables with an age rating of +0.5 years for males and -0.4 years for females
Mortality - future improvements	Future improvements in line with CMI 2010 projections with a long term trend of 1.25% p.a.

\*excluding an allowance for promotional increases

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,506 million representing 95% of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee's long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13% of Salaries and 6% of Salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

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

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

At 31 March 2012, SAUL had over 10,000 active members and The Courtauld had 28 active members participating in the scheme.

The total pension cost for the institute was £87,000 (2011: £101,000). The contribution rate payable by the institution was 13% of pensionable salaries.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 July 2012

31 FINANCIAL COMMITMENTS

At 31 July 2012 the Group and the Institute had annual commitments under non-cancellable operating leases as follows:

	2012 £'000	2011 £'000
<b>Land and buildings</b>		
Expiring in over five years	606	606

The Institute occupies the North block of Somerset House under a lease dated 1 December 1987. The annual rent payable under the terms of the lease is subject to review every five years with the next review due to take place in July 2012. The current terms include a peppercorn rent on the 'fine rooms' which house the public area of The Courtauld Gallery.

In April 2009, the Institute entered into a 30 year lease (with a break clause after 15 years) with the Duchy of Lancaster for the provision of student accommodation at Duchy House.

32 RELATED PARTY TRANSACTIONS

On 20 May 2003, the Institute invested £300,000 of endowment assets in SVG Capital plc (formerly Schroder Ventures International Investment Trust plc) convertible bonds. In accordance with the terms and conditions of the bonds, they were converted into ordinary shares of the company on 13 June 2006 and the Institute elected to retain the shares. Nicholas Ferguson served as Chairman of both The Courtauld Institute of Art and of SVG Capital plc throughout the year to 31 July 2012.

During the year, the Institute paid £114,000 (2010-11 £116,000) to the University of London, of which the Institute is an independent College, for central university governance, the university Careers Group, Senate House Libraries, the University of London Union, examination services and the private housing group.

During the year the Institute acted as Custodian for the works of art displayed and stored in the Courtauld Gallery but owned by the Samuel Courtauld Trust and others. Nicholas Ferguson and Sir Angus Stirling are also directors of the Samuel Courtauld Trust.

SCT Enterprises Limited ("SCTE") is a wholly owned subsidiary of The Courtauld Institute of Art. During the year, the Institute paid SCTE £111,000 for the provision of admissions and image services (2010-11 £108,000) and SCTE paid the Institute £45,000 in rent for the use of space within The Courtauld (2010-11 £45,000). At the end of the year, SCTE accrued a gift aid payment to the Institute equal to its taxable profit of £152,000 (2010-11 £108,000).

During the year the Institute received donations from Nicholas Ferguson of £8,850 (2010-11 £7,000), from Martin Halusa of £20,000 (2010-11 £481,000), from James Hughes-Hallett of £8,000 (2010-11 £6,000), from Sir Angus Stirling of £1,600 (2010-11 £5,950) and from Professor Deborah Swallow of £16,500 (2010-11 £14,000). All five are Directors of the Institute.

No payment was made to any director for expenses relating to their role as a Director (2010-11: £Nil).

33 CONTROLLING PARTY

The Institute is a company limited by guarantee without any share capital and members, hence there is no controlling party.