

Trustees' report and financial statements

year ended
31 December 2005

**TRUSTEES' REPORT and
FINANCIAL STATEMENTS**

YEAR ENDED 31 DECEMBER 2005

The King's Fund is an independent charitable foundation working for better health, especially in London. The King's Fund carries out research, policy analysis and development activities; working on its own, in partnerships, and through funding. The King's Fund is a major resource to people working in health and social care, offering leadership development courses; conferences; seminars and workshops; publications; information and library services; and conference and meeting facilities.

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CONTENTS

TRUSTEES' REPORT 2005

Introduction	6
Constitutional matters	6
Organisational matters	6
Trustees' responsibilities	6
Financial strategy and reserves	7
Key events in 2005	7
Major activities for 2006	8
Grants awarded in 2005	10
Financial review 2005	12
Investment policy and performance	13

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

Independent auditors' report to the Trustees of the King's Fund	16
Statement of financial activities	17
Balance sheet	18
Cash flow statement	19
Notes to the financial statements	20

LEGAL AND ADMINISTRATIVE INFORMATION

General Council	30
Committee members	31
Board of Directors and Senior Associates	32
Professional advisers	33

TRUSTEES' REPORT 2005

Introduction

The Trustees submit the Report and [audited] Financial Statements of the King's Fund, for the year ended 31 December 2005, which have been prepared in accordance with the provisions of the Statement of Recommended Practice (SORP), *Accounting and Reporting by Charities* and relevant accounting standards.

Constitutional matters

The King's Fund was formed in 1897 as an initiative of the then Prince of Wales to allow for the collection and distribution of funds in support of the hospitals of London. The current organisation is governed in accordance with the King Edward's Hospital Fund for London Act 1907, which stipulates both the Objects and Management of the King's Fund [the Corporation], namely: *'The objects of the Corporation are to administer ... moneys or property held or obtained by the Corporation ... towards the support benefit or extension of the hospitals of London ... and to do all such things as may be incidental or conducive to the attainment of the foregoing objects'* and *'The direction and management of the affairs of the Corporation and the administration and distribution of property and income thereof shall ... be vested in the President and General Council'*. Furthermore, *'A majority of the members of the General Council present at a meeting of the President and General Council may ... delegate the power of the General Council ... to any committee constituted under this Act.'*

Organisational matters

The members of General Council of the King's Fund are reappointed annually by the President and they meet once a year in accordance with the provisions of the Act. The General Council is the principal governing organ of the King's Fund but, at its meeting on 15 May 1996, the following resolution was adopted: *'Subject to the approval of the President and until the General Council shall otherwise direct, with effect from and including 1 January 1997, all the powers of the General Council in relation to King Edward's Hospital Fund for London be delegated to the Management Committee of the said Fund, which shall duly report its activities to the President and General Council from time to time.'*

The members of the Management Committee of the King's Fund are, for the purposes of charity law and reporting, deemed to be its Trustees. Members of the Management Committee are appointed for a three year term which may be followed by a second three year period if mutually acceptable. In special circumstances, members might serve for a third three year period. The Treasurer of the King's Fund plus the Chairman and Vice-Chairman of the Management Committee are appointed annually. In appointing or reappointing Trustees, the President is advised by the existing Trustees, who have a responsibility to seek out and attract persons of appropriate skills and calibre to augment or replace current members. Current membership of the Management Committee is shown on page 30.

The Management Committee meets four times per annum with the Chief Executive, who is appointed by the Management Committee, and the Board of Directors to consider matters related to the operations of the King's Fund. Two further meetings with the Chief Executive alone are held to consider policy direction and issues of wider strategy.

Day-to-day managerial responsibility has been delegated by the Management Committee to the Chief Executive and the Board of Directors.

The Investment, Audit and Remuneration Committees, whose members are appointed by the Management Committee, meet on a regular basis, and reports of those meetings are submitted to the next available meeting of the Management Committee. The Grants Committee was replaced by the Funding and Development Committee in September 2005 on the introduction of the Partners for Health awards programme. There are agreed terms of reference for all committees.

Trustees' responsibilities

Charity law requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the King's Fund and of the net incoming or outgoing resources for that period. In preparing those financial statements, the Trustees have:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that are reasonable and prudent
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepared the financial statements on a going-concern basis.

The Trustees have overall responsibility for ensuring that the King's Fund has appropriate systems of control, financial and otherwise. They are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the King's Fund. They are also responsible for safeguarding the assets of the King's Fund and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and to provide reasonable assurance that:

- the King's Fund is operating efficiently and effectively
- its assets are safeguarded against unauthorised use or disposal
- proper records are maintained and financial information used within the King's Fund, or for publication, is reliable
- the King's Fund complies with relevant laws and regulations.

The systems of internal control, of which the Financial Regulations of the King's Fund form a key component, are designed to provide reasonable, but not absolute, assurance against material misstatement or loss. They include:

- a three-year corporate strategy and financial plan plus an annual budget approved by the Trustees
- regular consideration by the Trustees of financial results, variances from budget, non-financial performance indicators and benchmarking reviews
- delegation of authority and segregation of duties
- identification and management of risks.

The Trustees have reviewed the risks to which the King's Fund is exposed and have ensured that systems have been established to mitigate those risks.

Financial strategy and reserves

The financial strategy of the King's Fund is:

- to manage the assets so as to achieve over the medium term a total return, namely income and capital growth combined, that maintains the real value of those assets, after allowing for expenditure, and to do so without taking excessive risks
- to limit the net annual expenditure of the King's Fund to 5 per cent of its net earning assets averaged over eight years.

The Trustees are mindful of the need, when adopting a 'total return' approach to the King's Fund's investments, to protect the capital of the endowed funds. The Trustees also recognise that the financial structure of the King's Fund is such that drawings from capital to bridge the gap between income, both from investments and from its activities, and expenditure will occur each year and set the budget accordingly. The reporting requirements of the SORP necessarily show this gap as a net outgoing of resources in the year.

The free reserves of the King's Fund are the unrestricted funds, less investment in fixed assets for the charity's own use. The Trustees consider the level of reserves, £45.4 million (£40.7 million in 2004), after allowing for the deficit £5.6 million (£6.0 million in 2004) on the King's Fund Staff Pension and Life Assurance Plan, to be at a level that is consistent with funding the programme of work set out in the three-year corporate strategy and the assessed financial risks associated with the current structure of the organisation and its activities.

Key events in 2005

Launch of Partners for Health in London

In February, the King's Fund launched its *Partners for Health in London* funding and development programme. The programme focuses on four areas: end-of-life care, sexual health, mental health advocacy, and research in the area of integrated health. The programme is designed to actively seek partner organisations who are keen to learn, and share their learning with others. A total of 103 applications for funding were received for the first round in the autumn. Details of the awards made in 2005 are given on page 7.

The Business of Caring

In June, the King's Fund launched *The Business of Caring*, the results of a one-year inquiry into care services for older people in London. The key finding was that there were major shortcomings in current arrangements for the support of older Londoners and their carers. The inquiry looked at the root causes of these problems and made 30 recommendations for action, relevant not only to London but also nationwide. The report led to an early-day motion in

the House of Lords, and a number of key organisations have promised follow-up work. The King's Fund will also take it forward in 2006 with a new programme of work to help develop a market of providers in social care.

NHS Market Futures

In the autumn, the NHS Market Futures work examined three critical aspects of the new NHS market – regulation, commissioning and primary care, and incentives. New papers sought to prompt debate about the consequences of policy decisions to date, the main challenges outstanding, and the best options for future reform. The King's Fund also hosted discussion events for senior policy-makers, managers and practitioners to get wider input to an analysis of the future direction for the new NHS market.

General Election

In March, the King's Fund produced, with the support of the Sunday Times, *An Independent Audit of the NHS Under Labour 1997-2005* – delivering a verdict on how it had managed spending, waiting lists and access to care, and how it had tackled the 'three clinical priorities' – cancer, heart disease, and mental health problems. The analysis sparked debates throughout the health sector and in the media. Closer to the election, the King's Fund took forward the debate by inviting people working in health, and those who represent them, to put their questions directly to a panel of health ministers, and then to the Prime Minister.

Choice

Research into public perceptions of patient choice, supported by Pfizer, revealed that many people viewed choice as complex and did not universally welcome the idea. The King's Fund report: *Public Views on Choices in Health and Health care: A qualitative study* was published in October.

Community Treatment Orders

The King's Fund report, *A Question of Numbers: The potential impact of community-based treatment orders in England and Wales* was published in September. It asked how many people in England and Wales might become subject to community treatment orders if the draft Mental Health Bill 2004 became law.

Chronic Disease Management

The King's Fund was contracted by the NHS to devise an algorithm which seeks to identify patients at risk of re-hospitalisation. It was made freely available from the website in February 2006 and is now in use by primary care trusts (PCTs) around the country.

Leadership Development

Numbers of participants for the Top Manager and Athena programmes were up on the previous year, and an independent evaluation of the Board Leadership Programme showed that it was valued highly and offered good value for money with around 60 per cent of non-executives from contributing trusts attending one or more events each year. It attracted over 90 per cent of London chairs to a residential leadership event. Positive evaluations were received for other development programmes run during the year.

Compass Helpline

Together with NHS Direct, the King's Fund launched a pilot, confidential helpline for patients (and their carers) in south-east London who are dying or living with an illness that may shorten their life. NHS Direct will evaluate this pilot with a view to rolling it out nationally.

Website

In July, HRH The Prince of Wales, President of the King's Fund, launched the new website on a visit to Cavendish Square. With hundreds of free publications, articles and briefings, and links to over 2,000 related organisations, the website is intended to become a vital source of information for policy makers, managers, professionals, media and the public, and to build closer links with those audiences.

Major activities for 2006

Policy research and analysis

The King's Fund policy team undertakes research and analysis into health and social care policy and practice. In 2006, the team will be expanded to strengthen its ability to undertake data analysis and respond to new developments.

The King's Fund will expand its capacity to provide research and development support to health care organisations to help them tackle specific challenges through a new initiative – King's Fund Consulting. This will focus particularly on the new PCTs and emerging foundation trusts. There is already a significant resource within the King's Fund to provide consultants skilled in policy, data analysis, and leadership and organisational development. This pool of consultants will be supplemented by King's Fund associates, as well as partnerships with external consultants, to complement the expertise of the directly employed team.

Social care funding reviews

The King's Fund review of social care funding for older people, led by Sir Derek Wanless, was published on 30 March. The report makes significant recommendations about how social care should be delivered and paid for in both the medium and longer term. Planning has commenced for the next inquiry in this series to focus on another group of social care clients.

Tackling poor access to health care among black and minority ethnic groups

A major 18-month project – launched in February – will pull together evidence on the nature and scale of difficulties with accessing health care among black and minority ethnic groups, identify and audit existing solutions, and determine ways of bringing about improvements.

Informing NHS funding decisions

The King's Fund is undertaking a programme of work to examine NHS funding decisions with the aim of influencing the government's 2007 Comprehensive Spending Review. The programme includes a major summit at Leeds Castle in Kent which will bring together experts to consider what information is needed to determine: where investment will be most effective; better ways of managing resources to obtain maximum value for money; and the impact of the lower rates of funding growth expected after 2008.

Analysing new NHS workforce contracts

The King's Fund will report on two evaluations of recent changes to contracts for NHS staff: the consultants' contract, introduced in 2003; and Agenda for Change, introduced in 2004, which affects all staff except doctors, dentists and the most senior managers.

The NHS market

Following on from its popular series of work analysing the current position and challenges for policies establishing and responding to stronger market forces within the NHS, the King's Fund will publish a summary of how the reforms are working together and where further reform is likely to be needed.

Specific projects already identified include:

- undertaking a detailed assessment of the impact of payment by results (the new method of paying care providers) on costs, activity and other measures of performance in a number of trusts
- examining the impact of extending choice of elective care providers and, more generally, analysing wider government policy around the development of choice in health care
- completing a study of how the regulation of health care could best be developed in the future, taking into account lessons from other countries and UK sectors
- publishing a report based on the findings of a working party that is bringing together voluntary and commercial sector health care providers to consider how they can work with NHS commissioners to obtain the best results for patients and the public
- examining possible social enterprise models for running primary and community health services.

Incentives for health

Two new studies will consider what motivates those who are marginalised or on low incomes to change health-damaging behaviour and what strategies are most likely to enable them to make decisions that improve their health.

Developing people and services

The King's Fund undertakes development in a variety of ways. These include testing out its ideas in practice (often in partnership with other organisations); running leadership programmes for managers and clinicians; and providing organisational development support across the health care system.

The development programme for 2006 includes the following projects:

- Improving chronic disease management – For the Department of Health, the King's Fund will complete the development of a software tool that will help practitioners and primary care trusts identify those patients at high risk of being admitted to hospital. A version of the tool is already available free of charge on the website and the final model will be released to the NHS in the spring. This work will be further built upon by trying to identify what works best to help people with chronic conditions stay out of hospital, and then testing out ideas in practice through a series of demonstration projects.
- Developing the social care market – Following up on the 2005 inquiry into London's social care market, the King's Fund is convening a taskforce to develop practical proposals for improving the availability of care services for older people.

- Partners for Health in London – Work has begun through the first four funded projects to address challenges in the areas of end-of-life care, sexual health and mental health advocacy. Future plans include working with other projects to help develop understanding of how complementary practice and traditional approaches to health can work most effectively with conventional health care. In addition, the King's Fund plans to hold a major consensus conference to explore ways of evaluating the efficacy and cost-effectiveness of integrated health and complementary therapies.
- Developing leaders in the NHS – As well as running the established programmes for NHS board members, managers and clinicians, the King's Fund will be launching new programmes in 2006. These will include initiatives for newly appointed clinician managers and a new range of personal coaching and mentoring services, and will have an increased focus on partnership, whole systems integration and board development. While all these initiatives will be available for the NHS as a whole, there will be a particular emphasis on London, for example through a bursary scheme to promote the development needs of junior and middle-level NHS managers from the capital's black and minority ethnic communities.
- Enhancing the Healing Environment – Originally developed by the King's Fund in 2000, this programme brings together clinicians, managers and patients with funding and support to improve the places where patients are treated and cared for. The King's Fund will continue to roll the programme out in a number of mental health and learning disability units across England with funding from the Department of Health, the Burdett Trust and the Calouste Gulbenkian Foundation. A new pilot programme, with the help of NHS charities and Marie Curie Cancer Care, to improve the settings where patients are cared for at the end-of-life has been launched.

Providing resources

A key part of the work of the King's Fund is providing resources to help those working in health and social care improve policy and practice. The resources offered range from conference and meeting facilities, to information services, publications and events – all of which are available through the website.

Developments for 2006 include:

- extending the range of services provided by our Information and library service to include an online catalogue and electronic document delivery
- expanding health policy briefings and analysis materials, adding a new dedicated section to the website
- launching an email bulletin service providing independent policy analysis and information on the work and services of the King's Fund, as well as updates on new publications and events
- rolling out a new conference programme covering the latest policy developments, a series of breakfast discussions and a range of policy seminars.

Grants awarded in 2005

In its grant-making, the King's Fund works at grassroots level, providing grants to a wide range of community-based initiatives to promote health in London, designed by people living and working in Greater London. The King's Fund is particularly interested in ideas that can be 'scaled up' and act as a catalyst to wider change.

During 2005 the King's Fund undertook a major review of its grant-making processes and decided to bring to an end the Development, Small and Consultancy Grant programmes and to wind up the Grants Committee that had determined awards for a number of years. These were replaced by the Partners for Health in London programme and Committee. Further information on the King's Fund's funding programmes and how to apply for support can be found at www.kingsfund.org.uk/funding.

The following tables show the name of each recipient organisation and the amount of all Development and Small grants awarded during 2005 by the Grants Committee and the first Partners for Health in London awards.

Development grants

These grants are awarded for work in priority areas identified by the Grants Committee from time to time. Development grants may cover a period of up to three years.

Awardee	Description	Grant
CancerBACUP	Web-based project to develop an accurate online assessment tool that calculates the genetic risk of breast cancer to an individual.	£50,000
Greenwich Citizen Advocacy	An advocacy service providing support to parents and parents-to-be with a learning disability.	£100,104
Hounslow Primary Care Trust	An advocacy service based in Hounslow general practices for refugees and asylum seekers.	£95,920
Kikiwa Counselling Centre	Funding for a bilingual health advocacy officer. The project aim is to make health services more accessible to people from three African organisations in Croydon.	£89,955
South London and Maudsley NHS Trust	A community based mental health service provided in partnership with four BME voluntary organisations in Lambeth.	£69,839
YWCA England	The project works across social care, health and youth work boundaries to provide support to teenage mothers, helping them to develop support systems and coping mechanisms.	£41,390
Total Development grants [6 awards]		£447,208

Small grants

These are grants up to a maximum of £5,000 given to support the setting up of new health projects targeting disadvantaged groups, or to encourage exploration of the sharing of new ideas in the health field, through publication, conferencing and networking.

Awardee	Description	Grant
Bexley & Bromley Citizen Advocacy	A self advocacy group covering issues such as health problems, first aid and healthy lifestyles.	£3,628
Deep Impact Theatre Company	Funding for staging a play looking at teenage suicide.	£3,000
Epilepsy Action London Forum	Workshops for young people covering aspects of living with epilepsy.	£2,064
Iftteen Somali Women's Association	Promoting refugee health needs in Bromley.	£3,068
Latin Integration Community Centre	Education sessions for Spanish speaking mothers led by Spanish speaking health professionals, specialising in medicine and psychology.	£3,431
Polari	A London-wide conference focused on the possible inequalities in accessing health and social care, experienced by older lesbians, gay men and bisexuals.	£3,000
Shopmobility Waltham Forest	Health information sessions covering topics such as healthy eating, relaxation, living with diabetes and pain management.	£5,000
Somali Positive Action Network	Health sessions providing advice and information on topics covering HIV treatment, pregnancy, hygiene and nutrition.	£5,000
Total Small grants [8 awards]		£28,191

Partners for Health in London

The Partners for Health in London funding programme is divided into four main areas: end-of-life care; mental health advocacy; sexual health for black and minority ethnic communities and research projects in integrated health. In addition to the main award, each recipient is allocated support to the value of £2,000 per annum for the life of the project.

Awardee	Description	Grant
Mind in Croydon	An advocacy service for parents accessing mental health services. The advocacy will assist them in accessing services in such a way as to protect and maintain the family and support parents.	£142,148
Mind in Hammersmith and Fulham	Developing an advocacy service aimed at helping people with mental health needs, especially older people, gain better access to services to improve their physical health.	£149,755
PACE	Funding to develop an advocacy service to improve access to mental health services for the lesbian and gay population.	£141,199
St Christopher's Hospice	Improving practical support available for dementia patients reaching the end-of-life and their carers. The project also aims to improve the contribution that health professionals can make to the quality of care.	£149,909
Support	Support at £2,000 per annum - £6,000 per award	£24,000
Total Partners for Health in London awards [4 awards]		£607,011

In addition to the above new awards, the final instalments of a number of awards made in earlier years were either paid or committed where the payment falls into 2006. The details of these sums are shown in Note 4 to the Financial Statements.

Financial review 2005

Income and expenditure

Total income for the year amounted to £9.4 million (£8.3 million in 2004), of which £6.4 million (£5.4 million in 2004) was generated from activities in furtherance of the objects of the King's Fund and £3.0 million (£2.9 million in 2004) was derived from the investment portfolio.

Income arising from the King's Fund's charitable objects rose by £1.0 million primarily as a result of increased income generation within the Policy Directorate, plus further work on the Enhancing the Healing Environment (EHE) national rollout programmes, included in *Programmes and Projects*. These gains more than offset the fall in income within *Leadership Development*. The increased income from *Other charitable activities*, includes a further rise in income generated from conference and catering services provided to clients in the health and social care sector. Investment income from securities rose by £0.1 million in the year.

Total expenditure of the King's Fund was £12.5 million (£15.3 million in 2004), a reduction of £2.8 million. The cost of investment management fell by £0.3 million in the year, largely as a result of the returns of Marathon Asset Management falling below the trigger level for the payment of a performance fee, as shown in Note 3 to the Financial Statements.

Charitable expenditure in 2004 included a one-off sum of £2.5 million within *Grants payable* which arose from the recognition of grant payments outstanding at the year end. Excluding this sum, like-for-like comparisons show that Charitable expenditure in 2005 was £0.1 million higher than the previous year. The most significant components of this change were: an increase in *Grants payable* of £0.4 million, which was directly related to the distribution of monies to organisations participating in the EHE programmes; an increase in expenditure on *Programmes and Projects* of £0.2 million, attributable to the expanded programme of Policy work and the additional management costs of the expanded EHE programmes; a drop in expenditure on *Leadership Development* of £0.4 million, directly linked to the reduction in the latter's income; and a reduction of £0.1 million in the *Support Costs*. An analysis of charitable expenditure is shown in Note 4 to the Financial Statements.

The average number of staff, expressed as full-time equivalents (FTE), employed by the King's Fund during the year was 93, compared with 112 in 2004. Further analysis is shown in Note 12 to the Financial Statements.

The outcome for the year, namely expenditure exceeding income by £3.1 million (£7.0 million in 2004) was in line with the financial strategy set out above in the Trustees' Report, that is to say that it was met by planned drawings from capital, and was within the budget approved by the Trustees at the outset of the year.

Tangible assets held for the King's Fund's own use

The value of the King's Fund's Fixed Assets held for its own use decreased by £0.4 million in the year as a result of depreciation on existing assets exceeding capital expenditure. At the year end the value of those assets was £18.1 million as shown in Note 6 to the Financial Statements.

Investment policy and performance

At 31 December 2005, the total value of the investment assets of the King's Fund was £123.0 million (£108.3 million in 2004). Adjusting for the withdrawals used to finance the activities of the King's Fund, investment assets rose by 15.3% (10.1% in 2004). Within the total, £5.2 million (£4.4 million in 2004) represents the value of the directly held agricultural properties. The investments of the King's Fund benefited from the upward movement of stock markets worldwide.

The King's Fund has adopted an investment policy which seeks to optimise performance through a diversified asset portfolio. The target allocation, reflecting the investment policy by asset class but excluding directly held agricultural properties, is shown below along with actual distribution at 31 December 2005. The Investment Committee reviews the actual and target allocations on a quarterly basis and also addresses any performance and stock selection issues with each of the King's Fund's investment managers, taking independent advice where necessary.

Asset Class	Target Allocation	Minimum	Maximum	Actual Distribution
UK Equities	40.0%	} 65.0%	} 80.0%	41.7%
Non-UK Equities	32.5%			36.2%
Fixed Interest	7.5%	5.0%	15.0%	5.0%
Alternative Assets				
Absolute Return	5.0%	0.0%	5.0%	4.4%
Private Equity*	5.0%	0.0%	5.0%	1.9%
Property	5.0%	3.0%	7.0%	6.2%
Cash	5.0%	3.0%	10.0%	4.6%
TOTAL	100.0%			100.0%

* This investment represents the first two of four equal payments of €1.5 million. The second payment was made in April 2005.

It should be noted that the King's Fund, as a matter of policy, does not invest directly in tobacco companies. The remit of the fund managers is to maximise total return, within an agreed level of risk. The volume of funds under management within the portfolios at the 31 December 2005 plus the actual results of the relevant fund managers during 2005, with comparison to the indices used to measure performance, in sterling terms, were as follows:

Fund manager	Principal asset class	Funds £000	Benchmark	Benchmark return	Actual return
Marathon Asset Management Ltd	Global Equities	48,134	MSCI World Index +2%	24.6%	21.4%
Schroder Investment Management Ltd	UK Equities	43,753	FTSE All Share Index + 2%	24.1%	20.8%
CCLA Investment Management Ltd	UK Fixed Interest	2,919	FTSE BG All Stocks Index	7.9%	7.7%
M & G Group Ltd	UK Fixed Interest	2,957	FTSE BG All Stocks Index	7.9%	7.5%
UBS Global Asset Management (UK) Ltd	Property	3,863	IPD (UK) Index	18.8%	17.5%
Charities Property Fund	Property	3,461	IPD (UK) Index	18.8%	15.3%
Quellos	Absolute Return	2,625	LIBOR 3 month sterling +4%	10.0%	7.1%
Pine Grove	Absolute Return	2,661	LIBOR 3 month sterling +4%	10.0%	5.6%
Schroders	Private Equity*	2,251	MSCI World +5%	27.8%	5.9%
Schroder Investment Management Ltd	Cash	4,560	7 Day LIBID + 0.25%	5.0%	4.8%
National Westminster Bank plc	Cash	900	LIBOR 3 month sterling	5.0%	4.3%

* By its nature, any investment at the outset of a Private Equity fund is likely to show only minimal returns in its early years. The benchmark return must, therefore, be considered as a longer term aim for this holding.

Whilst it can be seen that positive returns have been made on all of the investments, it is disappointing to recognise that none of these reached, let alone passed, the respective benchmark. The Investment Committee will be addressing these issues and, in particular, projections of future performance with the managers throughout 2006.

Donations and legacies

The Treasurer gratefully acknowledges donations and legacies received from the following during the past year:

Her Majesty the Queen, Donald Forrester Trust, A N Heilbron, D & K L Welbourne, and anonymous donors.



Anthony McGrath, Treasurer
6 June 2006

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005**

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF THE KING'S FUND

We have audited the financial statements of the King's Fund for the year ended 31 December 2005 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

This report is made solely to the charity trustees, as a body, in accordance with Regulation 6(2) of the Charities (Accounts and Reports) Regulations 1995 (SI 1995/2724) as amended by Regulation 4(a) of the Charities (Accounts and Reports) Regulations 2000 (SI 2000/2868). Our audit work has been undertaken so that we might state to the charity trustees those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity trustees, as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of Trustees and Auditors

The trustees' responsibilities for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of Trustees' Responsibilities.

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the Trustees' Annual Report is not consistent with the financial statements, if the charity has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Trustees' Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

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

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

Unqualified opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the charity as at 31 December 2005 and of its incoming resources and application of resources for the year then ended; and
- have been properly prepared in accordance with the Charities Act 1993.

Horwath Clark Whitehill LLP
Chartered Accountants and Registered Auditors
Date: 6 June 2006

St Bride's House
10 Salisbury Square
London EC4Y 8EH

STATEMENT OF FINANCIAL ACTIVITIES
Incorporating an Income and Expenditure Account
For the year ended 31 December 2005

	Notes	Restricted funds £000	Endowed funds £000	Un- restricted funds £000	2005 Total funds £000	2004 Total <i>Restated</i> £000
INCOMING RESOURCES						
Donations and legacies		2	-	21	23	13
<i>Activities in furtherance of the objects of the King's Fund</i>						
Programmes and Projects		15	-	1,878	1,893	784
Leadership Development		-	-	2,569	2,569	3,068
Publication and Information Services		-	-	195	195	156
Other charitable activities		-	-	1,721	1,721	1,397
Activities in furtherance of objects		15	-	6,363	6,378	5,405
<i>Investment income</i>						
Income from securities and cash assets		-	-	2,791	2,791	2,655
Income from properties		-	-	210	210	179
Activities for generating funds	3	-	-	3,001	3,001	2,834
Total incoming resources		17	-	9,385	9,402	8,252
RESOURCES EXPENDED						
<i>Costs of generating funds</i>						
Cost of investment management	3	-	-	266	266	635
<i>Charitable expenditure</i>						
<i>Activities in furtherance of the objects of the King's Fund</i>						
Grants payable		-	-	2,358	2,358	4,460
Programmes and Projects		44	-	2,287	2,331	2,178
Leadership Development		-	-	2,211	2,211	2,597
Publication and Information Services		-	-	1,261	1,261	1,177
Other charitable activities		-	-	890	890	971
Activities in furtherance of objects	4	44	-	9,007	9,051	11,383
<i>Support costs</i>						
Support costs and depreciation	4	-	-	2,729	2,729	2,810
<i>Management and administration</i>						
Senior management & professional services	4	-	-	482	482	468
Total resources expended		44	-	12,484	12,528	15,296
Net outgoing resources before transfers		(27)	-	(3,099)	(3,126)	(7,044)
Transfers between funds		6	-	(6)	-	-
Net outgoing resources after transfers		(21)	-	(3,105)	(3,126)	(7,044)
Net gains on investment assets		-	9,339	7,342	16,681	7,846
Actuarial gain / (loss) on pension scheme		-	-	149	149	(300)
Net movement in funds		(21)	9,339	4,386	13,704	502
Balances brought forward at 1 January		89	59,281	59,148	118,518	118,016
Balances carried forward at 31 December		68	68,620	63,534	132,222	118,518

All of the operations represented by the information above are continuing.

BALANCE SHEET

As at 31 December 2005

	Notes	31 December 2005			31 December 2004		
		£000	£000	£000	£000	£000	£000
FIXED ASSETS							
Tangible assets held for the King's Fund's use	6	18,115			18,490		
Investments	7	<u>123,015</u>	141,130		<u>108,261</u>	126,751	
CURRENT ASSETS							
Debtors	8	2,818			1,686		
Stocks		21			79		
Cash at bank and in hand		<u>166</u>	3,005		<u>1,003</u>	2,768	
CURRENT LIABILITIES							
<i>Amounts falling due within one year</i>	9						
Creditors		(3,772)			(2,549)		
Grants		<u>(1,644)</u>	(5,416)		<u>(1,381)</u>	(3,930)	
NET CURRENT LIABILITIES				(2,411)			(1,162)
LONG TERM LIABILITIES							
<i>Amounts falling due after one year</i>	10						
Grants			(935)				(1,071)
Total assets excluding pension liability				137,784			124,518
Pension scheme liability				(5,562)			(6,000)
Total assets including pension liability				132,222			118,518
FUNDS							
Restricted and endowed funds							
Restricted funds	12	68			89		
Endowed funds		<u>68,620</u>	68,688		<u>59,281</u>	59,370	
Unrestricted funds							
Designated fund for tangible own use assets		18,115			18,490		
Unrestricted funds		<u>50,981</u>	69,096		<u>46,658</u>	65,148	
Total funds excluding pension scheme liability				137,784			124,518
Pension scheme liability				(5,562)			(6,000)
Total funds including pension scheme liability				132,222			118,518

Approved by the Trustees at a meeting of the Management Committee on 6 June 2006 and presented to General Council on 19 June 2006.



Anthony McGrath, Treasurer
6 June 2006

CASH FLOW STATEMENT

For the year ended 31 December 2005

	Notes	2005 £000	2005 £000	2004 £000	2004 £000
Net cash outflow from operating activities	A		(5,650)		(6,334)
<i>Returns on investments</i>					
Dividends and interest received		2,791		2,655	
Investment property income received		210		179	
Net cash inflow from investing activities			3,001		2,834
<i>Capital expenditure and financial investment</i>					
Payments to acquire tangible fixed assets		(115)		(325)	
Net sale / (purchase) of securities		(895)		3,248	
Net receipts from sale of investment properties		143		818	
Net cash inflow / (outflow) from capital expenditure and financial investment			(867)		3,741
<i>Management of liquid resources</i>					
Reduction in cash deposits held as investments	B		2,679		64
Increase / (decrease) in cash in the year	B		(837)		305

NOTES TO THE CASH FLOW STATEMENT

Note A : Reconciliation of net outgoing resources to net cash outflow from operating activities

	2005 £000	2004 £000
Net outgoing resources	(3,126)	(7,044)
Investment income	(3,001)	(2,834)
Depreciation charged on tangible assets	490	472
Current service cost less contributions to Pension Scheme	(167)	(300)
Other finance income from Pension Scheme	(122)	-
Decrease in stocks	58	26
Increase in debtors	(1,132)	(112)
Increase in short term creditors	1,486	2,387
Increase / (decrease) in long term creditors	(136)	1,071
Net cash outflow from operating activities	(5,650)	(6,334)

Note B : Analysis of changes in net funds

	At 1 January 2005 £000	Movement £000	At 31 December 2005 £000
Cash at bank and in hand	1,003	(837)	166
Cash deposits held as investments	8,373	(2,679)	5,694
Total net funds	9,376	(3,516)	5,860

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1 BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with the historical cost convention as modified by the revaluation of listed investments and investment properties. They have been prepared in accordance with the Charities Act 1993, the Statement of Recommended Practice (SORP) – Accounting and Reporting by Charities – published in October 2000 and applicable accounting standards.

Restatement of 2004 Expenditure

To differentiate more clearly between the grant distribution and administrative aspects of the Enhancing the Healing Environment and similar programmes, administration costs have been included within Programmes and projects in 2005 and not Grants payable as previously. The respective figures for 2004 have been restated to allow accurate year-on-year comparison.

2 ACCOUNTING POLICIES

Donations and legacies

Donations and legacies are recognised in the Statement of Financial Activities when they become receivable, that is, where it is reasonably certain that they will be received and where the value can be measured with sufficient reliability.

Grants receivable

Grants receivable are recognised in the Statement of Financial Activities in full in the year in which they become receivable, that is, when the conditions for receipt have been met.

Investment income

Income from investments and securities held in segregated portfolios is accounted for when dividends and interest are receivable and includes recoverable taxation. Income received, but not distributed, by pooled funds is included as part of the net gains/losses on investment assets in the Statement of Financial Activities.

Other income

All other income is included in the Statement of Financial Activities when the King's Fund is legally entitled to the income and the amount can be quantified with reasonable accuracy.

Grants payable

Grants payable are included in the Statement of Financial Activities in the period in which the conditions attached to the award have been met. Any grants where conditions have been met but the grant has not yet been paid are accounted for as creditors on the Balance Sheet. Where grants have been approved in principle but conditions attached to the award have not yet been met they are included in the Notes to the Financial Statements as a contingent liability.

Other expenditure

All other expenditure has been classified under headings that aggregate all costs related to the category.

Costs of generating funds represent the fees paid to those charged with the management, including advice thereon, and custody of the investments of the King's Fund, including property. Support costs represent the outgoings incurred directly in support of expenditure on the objects of the King's Fund and include the costs of administering the grants programme, maintaining and running the freehold premises at 11-13 Cavendish Square; common services including finance, personnel, ICT (information and communications technology); and depreciation on tangible assets. Management and administration costs are those incurred in connection with administration of the King's Fund, including the office of the Chief Executive, and compliance with constitutional and statutory requirements, including, where applicable, the engagement of professional advisers, for example auditors and lawyers.

Pension costs

The King's Fund Staff Pension and Life Assurance Scheme (the Plan) is a defined benefits scheme. The current service costs of the Plan, together with the scheme interest cost less the expected return on the scheme assets for the year, are charged to the Statement of Financial Activities within staff costs. The actuarial gains and losses on the Plan are recognised immediately as other recognised gains and losses.

The assets of the Plan are measured at fair value at the Balance Sheet date. Liabilities are measured on an actuarial basis at the Balance Sheet date using the projected unit method and discounted at a rate equivalent to the current rate

of return on a high quality corporate bond of equivalent term to the scheme liabilities. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the Balance Sheet.

Tangible assets held for the King's Fund's use

Tangible assets costing more than £5,000, including any incidental expenses of acquisition, are capitalised and recorded at cost.

Depreciation is calculated so as to write off the cost of the tangible assets, including all of the plant and machinery within the freehold buildings, on a straight line basis over the expected useful economic lives of the assets concerned which are taken as:

Computer hardware and software.....	3 years
Office equipment.....	3 to 5 years
Plant and machinery	5 to 30 years

The expected useful economic life of each item of plant and machinery is determined by the independent consulting quantity surveyors retained by the King's Fund.

Freehold land and the structure of the buildings held for the King's Fund's use are not depreciated.

Investments

Investments are valued at mid-market prices at the Balance Sheet date. The Statement of Financial Activities includes the net gains and losses arising on revaluations and disposals throughout the year.

Investment properties are stated at their estimated value on an open market basis at the Balance Sheet date. Valuations are updated annually by the King's Fund's professional advisers.

Stocks

Stocks are stated at the lower of cost and net realisable value. For stocks considered to be in excess of realistic sales in the medium term, net realisable value is deemed to be zero.

Foreign currencies

Transactions denominated in foreign currencies during the year are translated at prevailing rates. Assets and liabilities are translated at rates applying at the Balance Sheet date. All differences are taken to the Statement of Financial Activities.

Funds

Restricted funds: The King's Fund receives grants from a range of bodies to fund some of its work on Programmes and Projects. Attached to each grant are restrictions on the manner in which it is to be spent, usually associated with a project brief and tender submission, as itemised in Notes 11 and 12 to the Financial Statements.

Endowed funds: The King's Fund has no power to spend its Endowed Funds and they are held in perpetuity to generate income to further the objectives of the King's Fund.

Designated fund for tangible own use assets: This unrestricted fund is fully tied up within the King's Fund's own use tangible fixed assets, ie its premises at 11–13 Cavendish Square, London W1G 0AN, together with the depreciated plant and machinery, office equipment and computers in those premises.

Unrestricted funds: The King's Fund has the power to spend its unrestricted funds within its objects as it sees fit.

3 INVESTMENT INCOME AND EXPENDITURE

	2005 £000	2004 £000
Listed securities and cash assets		
Investment assets in the UK	2,319	2,354
Investment assets outside the UK	472	301
Properties	210	179
	3,001	2,834

The transitional tax credit included above was £Nil (£24,000 in 2004).

The cost of investment management shown on the Statement of Financial Activities as £635,000 in 2004 included a performance fee of £305,000 payable to Marathon Asset Management Ltd, in accordance with their management contract. No such fee is payable for 2005.

4 ANALYSIS OF CHARITABLE EXPENDITURE

	Staff Costs £000	Other Costs £000	2005 £000	2004 <i>Restated</i> £000
Grants payable	–	2,358	2,358	4,460
Programmes and Projects	994	1,337	2,331	2,178
Leadership Development	1,119	1,092	2,211	2,597
Publication and Information Services	887	374	1,261	1,177
Other charitable activities	116	774	890	971
Sub Total	3,116	5,935	9,051	11,383
Support costs	1,306	1,423	2,729	2,810
Management and administration	254	228	482	468
Total charitable expenditure	4,676	7,586	12,262	14,661

Included in *Grants payable* above:

	2005 £000	2004 <i>Restated</i> £000
Grants Committee awards		3,908
Development grant awards in 2005	447	
Small grant awards in 2005	28	
Prior year awards for which conditions were met in 2005 - see below	100	
Partners for Health awards in 2005	607	–
Millennium grants - see below	581	471
Enhancing the Healing Environment national programme - see below	525	60
Other grants - see below	82	21
Payments from consultancy grants fund	7	–
Lapsed grants - prior year awards	(19)	–
	2,358	4,460

Included in *Support costs* above:

Depreciation charged on tangible assets	490	472
Grants administration	223	313
	713	785

Included in *Management and administration* above:

Auditors' remuneration - external audit fees	24	24
- other services	12	1
	36	25

Prior year awards for which conditions were met in 2005 [Year of award]

	£000		£000
Women's Health & Family Services [2002]	30	Chinese Mental Health Association [2002]	35
Enabled London Limited [2004]	35		
		Total prior year awards	100

Millennium grants

	£000		£000
<i>Developing the regulation of complementary and alternative therapies</i>			
Prince of Wales's Foundation for Integrated Health	99		
<i>Promoting health advocacy for minority ethnic communities</i>			
Council for Ethnic Minority Voluntary Sector Organisations	100	Croydon PCT	32
<i>Enhancing the Healing Environment in London's acute, mental health and primary care trusts</i>			
Haringey Teaching PCT	35	St Thomas' Hospital NHST	30
Kensington & Chelsea PCT	35	Sutton & Merton PCT	15
Lambeth PCT	35	Tavistock & Portman Charitable Fund	30
Lewisham Hospital NHST	5	Tower Hamlets	35
N E London Mental Health Trust	15	University College London Hospitals NHST	35
Queen Mary's Sidcup NHST	35	West London Mental Health Services NHST	10
S W London & St George's Hospitals NHST	35		
		Total Millennium Grants	581

Enhancing the Healing Environment National Programmes delivered under contract to the Department of Health

	£000		£000
<i>National roll-out to acute hospital trusts</i>			
Birmingham Children's Hospital NHST	15	Rotherham PCT	15
East & North Hertfordshire NHST	15	Sherwood Forest Hospitals NHST	30
East Somerset NHS Trust	30	South Manchester University Hospital NHST	30
Gloucestershire Partnership NHST	30	South Tyneside Healthcare NHST	15
Ipswich PCT	15	St Helens & Knowsley Hospitals NHST	15
Maldon & South Chelmsford PCT	15	Tees & N E Yorkshire Mental Health NHST	15
North Cumbria Acute Hospitals NHST	15	The Mid Yorkshire NHS Trust	30
		University Hospitals of Coventry & Warwickshire NHST	30
Northamptonshire Healthcare NHST	30	West Sussex Health & Social Care NHST	30
Oxfordshire Mental Healthcare NHST	30	York Health Services NHST Charitable Funds	30
Plymouth PCT	30		
Robert Jones & Agnes Hunt Orthopaedic Hospitals NHST	30		
<i>Mental health trusts (programme 1)</i>			
Cornwall Partnership Trust	15	S W Yorkshire Mental Health Trust	15
		Total EHE National Programmes	525

Other grants

		£000
Confidential helpline for people who are dying	NHS Direct	82
	Total other grants	82

5 TAXATION

The Fund is potentially liable to corporation tax on any surplus from certain of its conference and catering activities. No liability to corporation tax arises in either the current or prior year due to the availability of capital allowances and brought forward trading losses.

6 TANGIBLE ASSETS HELD FOR THE KING'S FUND'S USE

	Freehold land and buildings £000	Plant machinery and office equipment £000	Computer hardware and software £000	2005 Total assets £000	2004 Total assets £000
Cost					
At 1 January	14,867	6,203	249	21,319	21,081
Additions	–	38	77	115	325
Disposals	–	–	–	–	(87)
At 31 December	14,867	6,241	326	21,434	21,319
Depreciation					
At 1 January	–	2,656	173	2,829	2,444
Charge for the year	–	424	66	490	472
Disposals	–	–	–	–	(87)
	–	3,080	239	3,319	2,829
Net Book Value					
At 31 December	14,867	3,161	87	18,115	18,490
Previous Year	14,867	3,547	76	18,490	

The King's Fund's own use property, 11–13 Cavendish Square, London W1, including plant, machinery, fixtures and fittings but excluding computer hardware and software, is included in the Balance Sheet at its net book value (£18,028,000) in accordance with the SORP. As required by FRS11 (Impairment of Fixed Assets and Goodwill), the King's Fund has obtained an appropriate existing use valuation of the property. The value was estimated, on the basis of professional advice, at £22,500,000 at 31 December 2005. The King's Fund has also determined that both the estimated life of the structure of the building, at least 100 years, and the immaterial level of any depreciation in value, exempt it from the depreciation charges which are applied to all of the plant and machinery, as provided within FRS15 (Tangible Fixed Assets).

7 INVESTMENTS AT MARKET VALUE

	Securities £000	Property £000	2005 £000	2004 £000
Investment properties	–	5,152	5,152	4,473
Securities: Directly held listed	43,394	–	43,394	37,524
Held in unitised funds	68,775	–	68,775	57,891
Cash	5,694	–	5,694	8,373
	117,863	5,152	123,015	108,261
Investment assets in the UK	64,499	5,152	69,651	63,543
Investment assets outside the UK	53,364	–	53,364	44,718
	117,863	5,152	123,015	108,261

A reconciliation of the movement in the market value of the King's Fund's investments during the year is as follows:

	2005 £000	2004 £000
Opening Balance at 1 January	108,261	104,545
Purchases	6,559	21,105
Sales	(5,664)	(24,353)
Reduction in Cash Balances	(2,679)	(64)
Net receipts on sale of investment properties	(143)	(818)
Increase on Revaluation	16,681	7,846
Closing Balance at 31 December	123,015	108,261

8 DEBTORS

	2005 £000	2004 £000
Trade debtors	2,147	1,206
Prepayments and accrued income	643	450
Other debtors	28	30
	2,818	1,686

9 CREDITORS : AMOUNTS FALLING DUE IN LESS THAN ONE YEAR

	2005 £000	2004 £000
Trade creditors	582	422
Deferred income *	2,394	1,219
Taxation and social security	10	10
Other creditors and accruals	786	898
	3,772	2,549
Grants payable	1,644	1,381
	5,416	3,930

* All of the deferred income brought forward at 31 December 2004 was transferred to income during 2005.

10 CREDITORS : AMOUNTS FALLING DUE AFTER ONE YEAR

	2005 £000	2004 £000
Grants payable	935	1,071
	935	1,071

Commitments

At 31 December 2004, a total of £100,000 of grant awards was excluded from the commitments as the full conditions of the awards had not been met. There were no such sums at 31 December 2005.

11 SPLIT OF ASSETS BETWEEN FUNDS

	Restricted funds £000	Endowed funds £000	Unrestric- ted funds £000	2005 Total funds £000	2004 Total funds £000
Tangible assets for the King's Fund's own use	–	–	18,115	18,115	18,490
Investments : Securities	–	68,620	49,243	117,863	103,788
Investments : Property	–	–	5,152	5,152	4,473
Net current liabilities	68	–	(2,479)	(2,411)	(1,162)
Long term liabilities	–	–	(935)	(935)	(1,071)
Total funds excluding pension liability	68	68,620	69,096	137,784	124,518
Pension scheme liability	–	–	(5,562)	(5,562)	(6,000)
	68	68,620	63,534	132,222	118,518

12 MOVEMENTS IN RESTRICTED FUNDS

	Balance at 1 January 2005 £000	Incoming resources £000	Outgoing resources £000	Balance at 31 December 2005 £000
Programmes and Projects	89	21	44	66
Other	–	2	–	2
	89	23	44	68

13 EMPLOYEES

	2005 £000	2004 £000
Wages and salaries	3,833	4,161
Social security costs	328	346
Pension costs	515	395
Total emoluments	4,676	4,902

The total for Wages and salaries includes expenditure on temporary and seconded staff of £181,000 (£247,000 in 2004).

	2005	2004
Average number of full-time equivalent employees (including externally funded)		
Funding & Development (formerly Grants)	5	4
Programmes and Projects	16	26
Leadership Development	18	20
Publication and Information Services	23	25
Other charitable activities	4	4
Support functions	25	30
Management and administration	2	3
TOTALS	93	112

	2005	2004
The numbers of employees with remuneration exceeding £50,000 were:		
£50,000 – £59,999	4	4
£60,000 – £69,999	4	10
£70,000 – £79,999	7	2
£80,000 – £89,999	2	1
£100,000 – £109,999	–	1
£140,000 – £149,999	1	1

Contributions were made to the King's Fund Staff Pension and Life Assurance Plan, which is a defined benefits scheme, for 15 (15 in 2004) higher-paid employees and to the NHS Pension Scheme, which is also a defined benefits scheme, for three (three in 2004) higher-paid employees.

14 RELATED PARTY TRANSACTIONS

Investment Committee

Mr Michael Dobson, a member of the King's Fund Investment Committee, is the Chief Executive of Schroders plc, one of the King's Fund's investment managers. As at 31 December 2005, the market value of the King's Fund investments held by Schroder Investment Management Limited, a division of Schroders plc, totalled £50,440,000 (£43,544,000 in 2004). In 2005, £193,000 (£238,000 in 2004) was charged to the Statement of Financial Activities for investment management fees payable to Schroder Investment Management Limited.

Mr Dobson did not participate in any of the decisions, made by the Investment Committee during the year, in relation to the appointment of any division of Schroders plc to manage part of the investment portfolio of the King's Fund.

Mr Michael McLintock, a member of the King's Fund Investment Committee, is the Chief Executive of M&G and a board member of Prudential plc. The units held by the King's Fund in the M&G Charibond were valued at 31 December 2005 at £2,957,000 (£2,920,000 in 2004). Fees charged by the fund are deducted from the gross distribution declared and not separately recorded within the accounts of the King's Fund.

Mr McLintock did not participate in any of the decisions, made by the Investment Committee during the year, in relation to the appointment of any division of Prudential plc to manage part of the investment portfolio of the King's Fund.

15 PENSION SCHEMES

The King's Fund operates a funded defined benefits scheme, the King's Fund Staff Pension and Life Assurance Plan (the Plan). A full actuarial valuation of the Plan was carried out at 31 March 2003 and updated to 31 December 2005 by a qualified independent actuary.

	At 31 December 2005 £000	At 31 December 2004 £000
<i>Analysis of amounts charged to the Statement of Financial Activities:</i>		
Current service cost	(499)	(400)
Past service cost	–	–
Total operating charge	(499)	(400)
Expected return on the Plan assets	1,622	1,500
Interest on the Plan liabilities	(1,500)	(1,500)
Net finance cost	122	–
Total amount charged to the Statement of Financial Activities	(377)	(400)
<i>Analysis of the gain / (loss) recognised in the Statement of Financial Activities:</i>		
Actual return less expected return on the Plan assets	2,787	700
Gains and losses arising on the Plan liabilities	23	–
Changes in assumptions underlying the present value of the Plan liabilities	(2,661)	(1,000)
Actuarial gain / (loss) recognised in the Statement of Financial Activities	149	(300)
<i>Movement in the Plan deficit during the year:</i>		
Deficit in the Plan at beginning of the year	(6,000)	(6,000)
Movement during the year:		
Current service cost	(499)	(400)
Contributions	666	700
Other finance income	122	–
Actuarial gain / (loss)	149	(300)
Deficit in the Plan at end of the year	(5,562)	(6,000)

The actuarial valuation as at 31 December 2005 showed a reduction in the deficit from £6,000,000 to £5,562,000. No changes in benefits were made in 2005. The employer contribution as at 31 December 2005 is 24%.

	At 31 December 2005	At 31 December 2004	At 31 December 2003
Key assumptions used in the valuations:			
Rate of increase in salaries	3.75%	3.75%	3.75%
<i>Rate of increase in pension payments:</i>			
in respect of service prior to 1 April 2000	4.00%	4.00%	4.00%
for service after 1 April 2000	2.50%	2.50%	2.50%
Discount rate	4.75%	5.25%	5.50%
General price inflation	2.75%	2.75%	2.75%

In addition, the Plan has pension liabilities which are insured with a value of approximately £1.4m (£1.5m in 2004). The value of these liabilities has been excluded from both the assets and the liabilities since the liability is matched directly by an asset of equal value.

The fair value of the Plan's assets at the beginning and at the end of the period are set out below along with the expected rate of return for each class:

	Expected rate of return % p.a.	31 December 2005 £000	Expected rate of return % p.a.	31 December 2004 £000	Expected rate of return % p.a.	31 December 2003 £000
Assets in the Plan and the expected rates of return						
Equities (including property)	7.75	19,183	7.75	18,500	7.75	17,700
Bonds	4.75	4,272	5.25	2,000	5.50	2,400
Index-linked	4.00	265	-	-	-	-
Cash	4.50	2,859	4.75	2,100	4.00	500
Total market value of assets		26,579		22,600		20,600
Actuarial value of liabilities		(32,141)		(28,600)		(26,600)
Total deficit in the Plan		(5,562)		(6,000)		(6,000)
Net pension liability		(5,562)		(6,000)		(6,000)

History of experience gains and losses from 2002 to 2005	2005	2004	2003	2002
Difference between expected and actual return on Plan assets				
- amount (£000)	2,787	700	2,100	(5,570)
- as a percentage of Plan assets	10.5%	3.1%	10.2%	-31.4%
Experience gains and losses on Plan liabilities				
- amount (£000)	23	-	(1,300)	-
- as a percentage of present value of Plan liabilities	0.1%	0.0%	-4.9%	0.0%
Total recognised actuarial gains and losses:				
- amount (£000)	149	(300)	100	(7,650)
- as a percentage of present value of Plan liabilities	0.5%	-1.0%	0.4%	-32.4%

NHS Pension Scheme

In addition to the Plan, the King's Fund also contributes to the NHS Pension Scheme, a defined benefits scheme, for 10 members of staff as at the Balance Sheet date who are eligible to belong to this scheme. In 2005 the King's Fund contributed £29,637 (£14,500 in 2004) to the scheme. The employer's contribution rate is set by the Government Actuary at 14%.

The pension charge for the period for both defined benefit schemes (King's Fund and NHS) was £523,939 (£427,961 in 2004).

16 TRUSTEES' EXPENSES

No payments were made to Trustees in 2005 (£352 was reimbursed to one Trustee in 2004 in respect of travel and subsistence expenses). No Trustee received nor waived any remuneration during the year.

LEGAL AND ADMINISTRATIVE INFORMATION

Patron
Her Majesty The Queen

President
HRH The Prince of Wales KG KT PC GCB

GENERAL COUNCIL

Honorary Member
HRH Princess Alexandra KG GCVO

Ex-officio members

The Speaker of the House of Commons	The President of the Royal College of Nursing
The Rt Hon The Lord Mayor of the City of London	The President of the Royal College of Obstetricians and Gynaecologists
The Archbishop of Westminster	The President of the Royal College of Ophthalmologists
The Lord Bishop of London	The President of the Royal College of Paediatrics and Child Health
The Chief Rabbi	The President of the Royal College of Pathologists
The Secretary for Health Care Chaplaincy, the Free Churches' Group	The President of the Royal College of Physicians
The Keeper of the Privy Purse	The President of the Royal College of Psychiatrists
The President of the Community Practitioners and Health Visitors Association	The President of the Royal College of Radiologists
The President of the Faculty of Public Health Medicine	The President of the Royal College of Speech and Language Therapists
The Director of the Institute of Public Health	The President of the Royal College of Surgeons of England
The President of the Royal College of Anaesthetists	The Chairman of the Academy of Medical Royal Colleges
The President of the Royal College of General Practitioners	The President of the Institute of Healthcare Management
The President of the Royal College of Midwives	The London Regional Commissioner, NHS Appointments Commission

Other members

Dr Dwomoa Adu	Professor Charles Easmon	Ms Mary Ney
Professor Elizabeth Anionwu CBE	Professor Adrian Eddleston	Professor Sir Duncan Nichol CBE
Mr William Backhouse LVO	Professor Howard Glennerster	Mr Leslie Paine OBE
Sir Roger Bannister CBE	Mr Marius Gray	Professor Dame Lesley Rees
Major Sir Shane Blewitt GCVO	Professor Sir Andrew Haines	Mr Bryan Sanderson CBE
Dame Ann Bowtell DCB	Sir Graham Hart KCB	Sir Maurice Shock
Dr John Bradfield CBE	Professor R L Himsworth	Sir Sigmund Sternberg
Professor Sir Kenneth Calman KCB	Sir Donald Irvine CBE	Sylvia Countess of Limerick CBE
Professor Sir Cyril Chantler	Professor Sir Brian Jarman OBE	Sir Richard Thompson
Sir Timothy Chessells	Dr Stephen Lock CBE	Mr Max Ward
Baroness Cox of Queensbury	Mr Strone Macpherson	Professor Albert Weale
Dr Penelope Dash	Lord McColl of Dulwich CBE	Sir William Wells
Mr Michael Dobson	Mr Anthony McGrath	Professor Dame Jenifer Wilson-Barnett
Sir William Doughty	Professor David Neal	

COMMITTEE MEMBERS

MANAGEMENT COMMITTEE AND TRUSTEES OF THE KING'S FUND

Chairman Sir Cyril Chantler	Professor Howard Glennerster
Vice Chairman Professor Adrian Eddleston	Professor Sir Andrew Haines (to 1 December 2005)
Treasurer Mr Anthony McGrath	Ms Mary Ney (to 1 December 2005)
Professor Elizabeth Anionwu	Mr Bryan Sanderson CBE
Dame Ann Bowtell DCB (to 1 December 2005)	Sir William Wells
Dr Penelope Dash (from 15 March 2006)	

INVESTMENT COMMITTEE

Chairman Mr Anthony McGrath
Dr John Bradfield CBE
Ms Mary-Ann Daly (from 29 November 2005)
Mr Michael Dobson
Mr Strone Macpherson
Mr Michael McLintock
Mr Gary Steinberg (from 29 November 2005)
Mr Max Ward

FUNDING AND DEVELOPMENT COMMITTEE

Chairman Professor Howard Glennerster
Ms Di Barnes
Dr Michael Dixon OBE
Mr Yohannes Fassil
Mr Tom Hughes-Hallett
Mr Niall Dickson

AUDIT COMMITTEE

Chairman Mr Michael Dobson
Mr Strone Macpherson
Mr Anthony McGrath
Mr Bryan Sanderson CBE

REMUNERATION COMMITTEE

Chairman Sir William Wells
Sir Cyril Chantler
Professor Adrian Eddleston
Mr Anthony McGrath
Ms Mary Ney (to 1 December 2005)

BOARD OF DIRECTORS AND SENIOR ASSOCIATES

BOARD OF DIRECTORS

Chief Executive Niall Dickson

Deputy Chief Executive and Director of Resources Frank Jackson OBE (to July 2005)

Director of Funding and Development Steve Dewar

Director of Policy Jennifer Dixon

Director of Communications Michelle Dixon

Director of Finance and ICT Frank Gargent (from April 2005)

Director of Leadership Development David Knowles

SENIOR ASSOCIATES

Ms Di Barnes

Mr Stuart Bell

Professor John Billings

Mr Mark Britnell

Ms Anna Coote

Baroness Cumberlege of Newick

Professor Nancy Devlin

Dr Michael Dixon OBE

Mr Yohannes Fasil

Mr Tom Hughes-Hallett

Ms Beverley Hunt

Professor Julian Le Grand

Mr Alasdair Liddell CBE

Mr Keith Palmer

Dr Chai Patel CBE

Ms Julia Unwin OBE

Sir Derek Wanless

PROFESSIONAL ADVISERS

BANKERS

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London W1A 4NU

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66 Lincoln's Inn Fields
London WC2A 3LH

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Watford WD18 0BY

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London EC2A 3LX

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Whitehill LLP**

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10 Salisbury Square
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Brokers Ltd**

The Limes
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St Albans AL1 3UU

ACTUARIES

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Limited**

160 Queen Victoria Street
London EC4V 4AN

INVESTMENT MANAGERS: SECURITIES

**Schroder Investment
Management Ltd**

31 Gresham Street
London EC2V 7QA

**Marathon Asset
Management Ltd**

Orion House
5 Upper St Martin's Lane
London WC2H 9EA

**CCLA Investment
Management Ltd**

80 Cheapside
London EC2V 8DZ

M&G Group Ltd

Victoria Road
Chelmsford
Essex CM1 1FB

Quellos Europe Ltd

17c Curzon Street
London W1J 5HU

Pine Grove Offshore Fund Ltd

Washington Mall I, 3rd Floor
22 Church Street
Hamilton HM 11, Bermuda

INVESTMENT MANAGERS: PROPERTY

**UBS Global Asset Management
(UK) Ltd**

21 Lombard Street
London EC3V 9AH

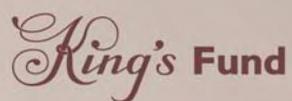
Charities Property Fund

2 Gresham Street
London EC2V 7QN

Cluttons

Portman House
2 Portman Street
London W1H 6DU

The King's Fund is an independent charitable foundation working for better health, especially in London. We carry out research, policy analysis and development activities, working on our own, in partnerships, and through funding. We are a major resource to people working in health and social care, offering leadership development courses; conferences; seminars and workshops; publications; information and library services and conference and meeting facilities.



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