



# Trustees' report

*King's* Fund

AND FINANCIAL STATEMENTS  
YEAR ENDED 31 DECEMBER 2002

TRUSTEES' REPORT AND  
FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2002

*King's* **Fund**

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

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# CONTENTS

## Legal and administrative information

Patron, President and General Council	1
Committee Members	2
Senior Staff and Associates	3
Professional Advisers	4

## Trustees' Report 2002

Introduction	5
Governance, risk management and internal control	5
Financial strategy and reserves	7
Strategic Review	7
Key events in 2002 and the year ahead	7
Grants awarded and paid in 2002	9
Employee relations	12
Financial review 2002	13

Independent Auditors' Report to the Trustees of the King's Fund	17
---	----

Statement of Financial Activities	18
-----------------------------------	----

Balance Sheet	19
---------------	----

Cash Flow Statement	20
---------------------	----

Notes to the Accounts	21
-----------------------	----



Patron  
Her Majesty The Queen

President  
HRH The Prince of Wales KG KT PC GCB

## GENERAL COUNCIL

Honorary Member  
HRH Princess Alexandra, The Hon Lady Ogilvy GCVO

The Lord Chancellor  
The Speaker of the House of Commons  
The Rt Hon The Lord Mayor  
The Archbishop of Westminster  
The Lord Bishop of London  
The Chief Rabbi  
The General Secretary of the Free Churches' Group  
The Governor of the Bank of England  
The Keeper of the Privy Purse  
The President of the Royal College of Anaesthetists  
The President of the Royal College of General Practitioners  
The President of the Royal College of Midwives  
The President of the Royal College of Nursing  
The President of the Royal College of Obstetricians and Gynaecologists

The President of the Royal College of Ophthalmologists  
The President of the Royal College of Paediatrics and Child Health  
The President of the Royal College of Pathologists  
The President of the Royal College of Physicians  
The President of the Royal College of Psychiatrists  
The President of the Royal College of Radiologists  
The President of the Royal College of Speech and Language Therapists  
The President of the Royal College of Surgeons  
The President of the Institute of Healthcare Management  
The Chairman of the Academy of Medical Royal Colleges

Sir Donald Acheson KBE  
Dr Dwomoa Adu  
Professor Elizabeth Anionwu CBE  
Mr William Backhouse LVO  
Sir Roger Bannister CBE  
Sir John Batten KCVO  
Major Sir Shane Blewitt GCVO  
Dame Ann Bowtell DCB  
Dr John Bradfield CBE  
Professor Sir Kenneth Calman KCB  
Sir Timothy Chessells  
Sir Michael Colman Bt  
Baroness Cox of Queensbury  
Mr Michael Dobson  
Sir William Doughty  
Professor Charles Easmon  
Professor Adrian Eddleston  
Professor Howard Glennerster  
Mr Marius Gray  
Professor Andrew Haines  
Sir Graham Hart KCB  
Professor Richard Himsworth  
Lord Hussey of North Bradley

Sir Donald Irvine CBE  
Professor Sir Brian Jarman OBE  
Lady Lloyd of Berwick  
Dr Stephen Lock CBE  
Mr Strone Macpherson  
Lord McColl of Dulwich  
Mr Anthony McGrath  
Professor David Neal  
Ms Mary Ney  
Professor Sir Duncan Nichol CBE  
Mr Leslie Paine OBE  
Baroness Prashar of Runnymede CBE  
Professor Dame Lesley Rees  
Sir John Riddell Bt CVO (to 31.12.02)  
Mr Bryan Sanderson CBE  
Ms Angela Starkis CBE (from 01.04.03)  
Sir Maurice Shock  
Dr Richard Thompson  
Mr Max Ward  
Professor Albert Weale  
Sir William Wells  
Professor Jenifer Wilson-Barnett

## COMMITTEE MEMBERS

### Management Committee

Chairman Sir Graham Hart KCB  
Vice-chairman Professor Adrian Eddleston  
Treasurer Mr Anthony McGrath  
Professor Elizabeth Anionwu CBE  
Dame Ann Bowtell DCB  
Professor Howard Glennerster  
Professor Andrew Haines  
Ms Mary Ney  
Baroness Prashar of Runnymede CBE (to 31.12.02)  
Ms Angela Starkis CBE (from 01.04.03)  
Mr Bryan Sanderson CBE  
Sir William Wells

### Executive Committee

Professor Adrian Eddleston  
Sir Graham Hart KCB, Chair  
Mr Anthony McGrath  
Sir William Wells

### Investment Committee

Dr John Bradfield CBE  
Sir Michael Colman Bt  
Mr Michael Dobson  
Mr Valentine Fleming  
Mr Marius Gray  
Mr Strone Macpherson  
Mr Anthony McGrath, Chair  
Mr Max Ward

### Grants Committee

Dr Sheila Adam (from 01.10.02)  
Ms Ziggi Alexander  
Mr William Backhouse LVO (to 01.12.02)  
Dame Ann Bowtell DCB, Chair  
Dr Muriel Buxton-Thomas (to 01.12.02)  
Ms Valerie Coleman (from 01.10.02)  
Ms Karen Goodman (from 01.01.03)  
Professor Howard Glennerster (from 01.10.02)  
Mrs Sheila Hewitt JP  
Professor Roger Jones (to 01.12.02)  
Mrs Anne Milner (to 01.12.02)  
Dr Parva Nayer (to 01.10.02)  
Professor Fiona Ross  
Ms Melba Wilson (from 01.10.02)

### Audit Committee

Mr Michael Dobson  
Mr Valentine Fleming  
Mr Strone Macpherson  
Mr Anthony McGrath, Chair  
Mr Bryan Sanderson CBE (from 29.04.03)

### Remuneration Committee

Professor Adrian Eddleston  
Sir Graham Hart KCB, Chair  
Mr Anthony McGrath  
Ms Mary Ney  
Sir William Wells

## SENIOR STAFF AND ASSOCIATES

### MANAGEMENT TEAM

Chief Executive Rabbi Julia Neuberger

Director, Personnel and Change Management David Bowers

Director, Health Policy (Health) Anna Coote

Director, Policy Resource Steve Dewar

Director, Health Policy (Health Care) Jennifer Dixon

Director, Communications Michelle Dixon

Director, Resources Frank Jackson OBE

Director, Education and Leadership Development David Knowles

Director, Grants Steve Manning

### OTHER SENIOR STAFF

Chief Economist John Appleby

Head of Finance Phil Brown

Senior Adviser, Primary Care Steve Gillam

Head of Corporate Services John Howard

Senior Adviser, Race and Diversity Beverley Hunt

Senior Adviser, Health and Social Care Janice Robinson

### SENIOR ASSOCIATES

Mr George Barlow OBE

Sir Cyril Chantler

Baroness Cumberlege of Newick

Lord Harris of Haringey

Sir Donald Irvine CBE

Sir Alan Langlands

Professor Julian Le Grand

Mr Gerard Lemos

Ms Catherine McLoughlin CBE

Ms Sylvie Pearce

Ms Heather Rabbatts CBE

Dr Maggie Semple

Professor Tony Travers

Ms Julia Unwin OBE



## PROFESSIONAL ADVISERS

### Bankers

Bank of England  
Threadneedle Street  
London  
EC2R 8AH

National Westminster Bank Plc  
1 Cavendish Square  
London  
W1A 4NU

### Auditors

PricewaterhouseCoopers LLP  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

### Insurance Brokers

David Winder Insurance Brokers Limited  
The Limes  
32–34 Upper Marlborough Road  
St. Albans  
AL1 3UU

### Investment Managers

#### Securities:

Schroder Investment Management (UK) Limited  
31 Gresham Street  
London  
EC2V 7QA

Marathon Asset Management Limited  
Orion House  
5 Upper St Martin's Lane  
London  
WC2H 9EA

#### Investment Advisers

Cambridge Associates Limited  
105 Wigmore Street  
London  
W1U 1QY

### Solicitors

Farrer & Co  
66 Lincoln's Inn Fields  
London  
WC2A 3LH

Sedgwick Kelly  
Watford Place  
27 King Street  
Watford  
WD18 0BY

### Actuaries

Buck Consultants Limited  
The International Finance Centre  
Old Broad Street  
London  
EC2N 1HQ

### Quantity Surveyors

Burke Hunter Brown  
40 Rivington Street  
London  
EC2A 3LX

### Investment Managers

#### Property:

Cluttons  
45 Berkeley Square  
London  
W1J 5AS

CB Hillier Parker  
77 Grosvenor Street  
London  
W1A 2BT

# TRUSTEES' REPORT 2002

## Introduction

The King's Fund began its existence in 1897 from 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.'

The members of General Council of the King's Fund are reappointed annually by the President, with whom 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.'

## Governance, risk management and internal control

Herewith the Trustees submit their annual report and the audited financial statements for the year ended 31 December 2002. The report and financial statements of the King's Fund have been prepared in accordance with the provisions of the Statement of Recommended Practice (SORP) – Accounting and Reporting by Charities – and relevant accounting standards.

Day-to-day managerial responsibility is delegated to the Chief Executive and Directors of the King's Fund, who together constitute the Management Team.

The Treasurer of the King's Fund, the Chairman and the Vice-Chairman of the Management Committee are reappointed annually by the President, and members of the Management Committee are appointed for a five-year term which may be renewed. The Management Committee, and the Executive Committee, which currently comprises the three annually appointed Trustees plus one other Management Committee nominee, each meet at least four times a year. The Investment, Audit, Remuneration and Grants 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. There are agreed Terms of Reference for all Committees.

In appointing or reappointing Trustees, and in particular members of the Management Committee, 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.

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 the 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 disposition
- proper records are maintained and that 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 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, a one-year financial plan and an annual budget approved by the Trustees
- regular consideration by the Management Committee 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, and where appropriate revised, the schedule of major risks to which the King's Fund is, or may be, exposed. The Trustees are satisfied that this schedule is comprehensive and that established internal controls and systems are of a standard necessary to mitigate those risks.

In addition, the Trustees have considered the guidance for directors of public listed companies contained within the Turnbull Report, as modified for unincorporated charities. They believe that although this is not mandatory, the King's Fund should, as a charity, adopt these guidelines as best practice. Accordingly, they have:

- set policies on internal controls which cover the following:
  - consideration of the type of risks the King's Fund faces
  - the level of risks which they regard as acceptable
  - the likelihood of the risks concerned materialising
  - the ability of the King's Fund to reduce the incidence and impact on the business of risks that do materialise
  - the costs of operating particular controls relative to the benefit obtained
- clarified the responsibility of management to implement the Trustees' policies and identify and evaluate risks for their consideration
- communicated to the employees that they have responsibility for internal control as part of their accountability for achieving objectives
- embedded the control system in the operations of the King's Fund so that it becomes part of the culture
- developed systems to respond quickly to evolving risks arising from factors within the King's Fund and to changes in the external environment
- included procedures for reporting failings immediately to appropriate levels of management and the Trustees together with details of corrective action being undertaken.

The Trustees, through the Audit Committee, have continued the agreement with PricewaterhouseCoopers to provide an internal audit service to the King's Fund. Details of the internal audit reviews, which are undertaken in accordance with an agreed annual plan, and the findings arising from them, are reported to the Audit Committee. Arrangements are in place for an open exchange of information with the external auditors.

## 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 is at least equal to the Fund's expenditure, and to do so without taking excessive risks
- to limit, by the year commencing 1 January 2003, the net annual expenditure of the King's Fund to 5% of its earning assets averaged over five years
- to maintain reserves so as to safeguard for the longer term the financial well being and charitable activities of the King's Fund.

A third year of falls in stock market values has had a direct impact on the level of net expenditure to which the King's Fund can commit in forthcoming years if it is to achieve its aim of maintaining reserves. The steps taken to effect reductions in expenditure levels are discussed further below.

The reserves of the King's Fund, being the amount of capitalised income less investment in fixed assets for the charity's own use, have been materially affected by the fall in investment values over the year. Nevertheless, the Trustees consider the level of reserves, £40.3 million (£58.7 million in 2001), to be at a level that is consistent with funding the programme of work set out in the three-year corporate strategy.

## Strategic Review

Given the declining value of the assets of the King's Fund, the financial strategy necessarily restricts the level of net expenditure that can be incurred. Projections in late 2001 indicated that, without significant change, net expenditure would greatly exceed the guideline based on asset values from 2003 onwards. To that end, a holding budget was developed for 2002 whilst a Strategic Review of all of the activities of the King's Fund was undertaken.

The key outcomes of the Strategic Review have seen notable changes in the organisational structure, resulting in a slimmed down Management Team; better use of the headquarters buildings in Cavendish Square, with more open plan working and the letting of office space to synergistic organisations; and a reduction of almost 20% in the number of directly employed individuals and greater emphasis on commissioning work from others.

Translating these actions into financial terms has generated a reduction of 22% in the net expenditure planned for 2003 over the year just ended. It is recognised, however, that significant challenges remain if the King's Fund is to continue to meet its commitment to matching expenditure to available resources in 2004 and beyond.

## Key events in 2002 and the year ahead

In the past year, the King's Fund has continued its efforts to improve health care and to promote better health and wellbeing in London and beyond.

The four main activities of the King's Fund – shaping health policy, developing effective services and healthy communities, building capacity and leadership, and acting as a resource to the health and social care community – give it unique access to the full spectrum of those involved in health.

Work continued with policy-makers, NHS staff and community-based organisations to achieve change in key areas. Education and leadership development programmes helped some 1,500 people build their personal and professional effectiveness, while over £2.5 million was distributed in grants to academic, voluntary and other organisations taking forward innovative projects to improve the health of Londoners.

Key events in 2002 included:

- the launch of a major programme of research, publishing and influencing work, *Shaping the New NHS*, which is brokering important debates on the case for and against the use of internal markets in the NHS, the real implications of increased patient choice, new ways of managing chronic care, and the role of medical professionalism in a modernised health service
- our report *Claiming the Health Dividend* launched new thinking about how the NHS might harness its huge spending power to achieve wider social, environmental and economic benefits, looking in particular at how it might increase local food procurement, ensure its buildings reach high environmental standards, and encourage local recruitment
- the commencement of a £250,000 grant-funded inquiry into the state of the London's mental health services, five years after the last survey by the King's Fund expressed serious concerns. This 18-month programme of linked research activities, publications and expert seminars is scrutinising needs, capacity and where improvements might be made in delivering services for Londoners with mental health problems.

Over the next year, important projects will include:

- developing the role the King's Fund plays in supporting the health and social care community in London through continued investment in its central London building, providing more affordable meeting space for public sector and voluntary organisations alongside the expansion of the information services
- publishing the findings of the inquiry into mental health in London; a major research project on London's health care workforce; and a guide to developing and managing small-scale improvements in hospital environments, through nurse-led teams
- launching new projects focusing on care markets, community leadership for health, and better support for people who are dying.

Further details of the work of the King's Fund during 2002 and its plans for 2003 can be found in *A Catalyst for Change: King's Fund Annual Review 2002–2003*.

## Grants awarded and paid in 2002

### Grants awarded

The following table shows the name of each recipient organisation and the amount of all grants awarded during the year. Where an organisation has received two or more grants, these are listed separately.

DEVELOPMENT GRANTS	29 awards
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.	£
Alzheimer's Concern Ealing	28,548
Aston-Mansfield	58,828
Barnet Carers Centre	40,000
Cardboard Citizens	50,000
Chinese Mental Health Association	105,403
College of Health	9,969
Core Arts	15,000
Finsbury Park Street Drinkers Initiative	19,250
Headway - the brain injury association	97,184
Hillingdon Carers	84,300
K-Generation	20,000
Kilburn Youth Centre	36,905
Kings Cross Homelessness Project	72,964
Mental Health Media	39,524
Royal Free Hospital School of Medicine	8,455
Second Wave Youth Arts	26,420
St Giles Trust	81,298
The Kids' Cookery School	15,120
The Passage	59,426
The Rape & Sexual Abuse Support Centre	5,000
The Shaftesbury Society	38,500
The Sick Doctors Trust	60,000
The Total Learning challenge	17,280
University of Sheffield	15,000
University of Westminster	25,970
Waltham Forest Alcohol Counselling Service	51,563
Womankind Worldwide	54,304
Women's Health and Family Services	91,937
Young Minds	50,000
Total Development Grants	<u>1,278,148</u>
STIMULUS GRANTS	54 awards
These are small grants, to a maximum of £5,000, given to support the setting up of new health projects targeting disadvantaged groups, or to encourage the exploration and sharing of new ideas in the health field, through publications, conferences and networking.	£
A Healing Journey	5,000
Ace of Clubs Day Centre	3,000
ACT – Reprinting of client guidelines	5,000
ACT – Contribution to core running costs	5,000
Active Kenyan Support	3,545
Advocacy Across London	3,500
Association of Breastfeeding Mothers	1,936
Athletes of the Heart	2,500
Barking and Dagenham Congolese Community Association	1,000
Cabinda Community Association	4,180
Calthorpe Project	1,230
Carers Network Westminster	2,300
Chain Reaction Theatre Company	4,700

Chelsea & Westminster Hospital Arts	5,000
Congolese Community Welfare Association	2,550
Congolese Refugees Centre	2,360
Consumers for Ethics in Research	5,000
Diverse Realities International	5,000
East London Great Lakes African Community	1,600
East Performance Workshop	1,015
Ebony People's Association	4,500
Ethiopian Community in Britain	5,000
Ethnic Minority Centre	4,450
Footprints (UK)	5,000
Great Lakes Initiative & Support Project	3,980
Greater London Mental Health Advocacy Network	2,500
Hillingdon Chinese Community Organisation	5,000
HIV/AIDS Association of Zambia	2,500
Hopeful Monsters	2,227
Horn of Africa Community Group	3,500
Hounslow Refugee Health Promotion	4,642
Hounslow Thalassaemia & Sickle Cell Support Group	1,148
Imagine Chicago	5,000
Independent Photography Project	3,560
K-Generation	3,850
Mama na Dada Management Project	5,000
Mosaada Centre for Single Women	2,880
North Westminster Forum (MH)	5,000
Peace in Millennium Refugee Project	2,500
Rosetta Life	3,300
Sangayi Association	2,500
Sicklenemia	4,960
Southwark Irish Pensioners Project	5,000
Spare Tyre Theatre Company	5,000
St. Peter's Bengali Association	3,200
Studio 3 Arts	5,000
The East London Communities Organisation	3,410
The Helios Foundation	5,000
The Kenyan Society of London	2,500
Uganda Aids Action Fund	5,000
UK Health Equity Network (HEN)	2,000
West London Churches Homeless Concern	5,000
Westminster Refugee Consortium	3,000
Women Together	1,500
Total Stimulus Grants	<u>194,023</u>

#### CONSULTANCY FUND

4 awards

Payments from the Consultancy Fund, to support the engagement of specialist assistance, are made where such a need is identified by the Grants monitoring team.

£

Greater London Mental Health Advocacy Network	5,000
Middlesex Association of the Blind	5,000
Sleep Scotland	2,000
Soil Association	4,000
Total Consultancy Fund	<u>16,000</u>

EVALUATION FUND	2 awards
Post-project evaluation may be commissioned for work in new or developmental areas to inform the decision-making process for future grant applications.	£
Alzheimer's Concern Ealing	5,000
The Total Learning Challenge (TLC)	<u>6,325</u>
Total Evaluation Fund	<u>11,325</u>
TOTAL OF GRANTS AWARDED IN 2002	<u><u>1,499,496</u></u>

Reconciliation of grant awards, payments and commitments

	£000
Commitments at 1 January 2002	1,971
Adjustment for revised grant awards	50
Awards in the year	1,499
Grants paid in the year	<u>(1,690)</u>
Commitments at 31 December 2002	<u><u>1,830</u></u>

Reconciliation of the above grants paid figure, to the total shown in the Statement of Financial Activities, is shown at Note 5 to the Accounts. Details of the year end commitments are shown at Note 12.



## Employee relations

There were two component factors of the Strategic Review which impacted directly on relations with the employees of the King's Fund. Almost all areas were subject to review, each giving rise to a proposal for reorganisation. The scale of change required the proposals to be considered separately. A combination of the extended period over which the Review was conducted, about eight months, and the number of consultation exercises undertaken, six, placed such pressure on the staff-side chair and representatives that they felt unable to continue in these roles beyond the end of the Strategic Review.

As a consequence, a complete review of the staff consultative arrangements has been initiated. A key element of this has been a facilitated workshop held to explore the many issues involved. It is intended that a new consultative framework will be established in the near future and discussion on what form that might take was one of the main themes of the workshop.

The King's Fund has an appraisal system which sets and monitors individual targets, emphasising the need for two-way dialogue between line managers and staff and providing upward feedback for senior management.

The King's Fund has a comprehensive range of detailed personnel policies and procedures, including an equal opportunities policy and a health and safety policy. All of these are underpinned by cross-Fund committees and management reporting. Policies and procedures are available to staff on the Intranet and are revisited on a rolling programme. Most recently, our maternity and leave policies were revised in anticipation of the legislative changes due to come into effect in April 2003.

The King's Fund attaches importance to good employment practices and operates in the awareness that these play a part in promoting a productive working environment, have an impact on our wider reputation and can help to avoid the unnecessary costs which flow from failure to deal effectively with staffing issues and problems.

## Financial review 2002

### Income and expenditure

Total income for the year amounted to £8.3 million (£8.4 million in 2001), of which £4.6 million (£4.3 million) was generated from activities in furtherance of the objects of the King's Fund and £3.7 million (£4.1 million) was derived from activities to generate funds, primarily from the investment portfolio. Analyses of income by type are shown at Notes 3 and 4 to the Accounts. A comparison of income for the past five years is shown in Figure 1.

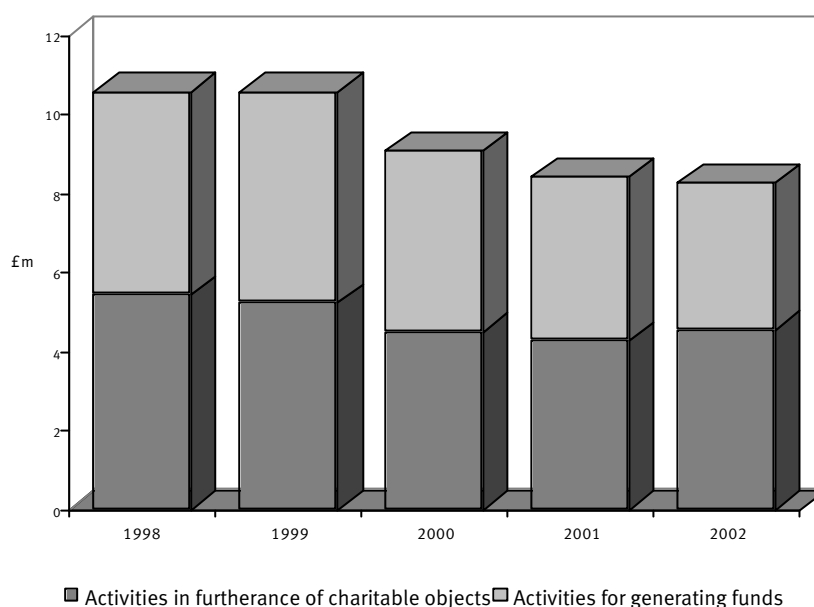


Figure 1: Income 1998–2002

Income from activities rose by £0.3 million, principally as a result of increased activity in Education and Leadership Development plus an upturn in monies received to fund Programmes and Projects. The income from other charitable activities in 2001 included a £0.3 million refund of VAT which was not repeated in 2002.

Total expenditure of the King's Fund was £13.9 million (£12.7 million in 2001) including £0.3 million of unplanned expenditure, principally redundancy and redeployment costs, arising from the Strategic Review. A comparison of expenditure over the past five years is shown in Figure 2. An analysis of the charitable expenditure is shown at Note 5 to the Accounts.

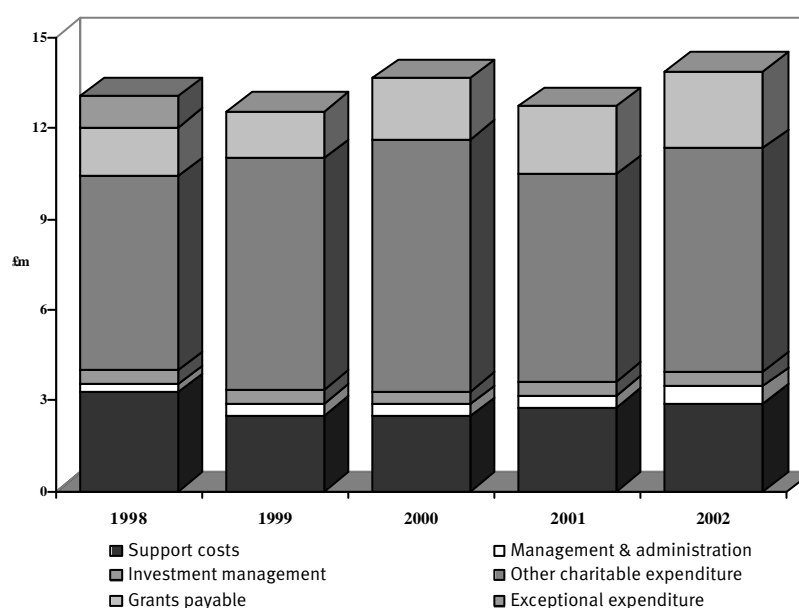


Figure 2: Expenditure 1998–2002

The increased expenditure in furtherance of objects results primarily from the growth in Education and Leadership Development activity. Expenditure on grants payable has again increased as work on the Millennium Grants programmes initiated in 2000 has continued alongside a full series of awards being made by the Grants Committee. The rise in Management and Administration costs is attributable to a one off provision made in the year.

The average number of staff, expressed as full time equivalents (FTE), employed by the King's Fund during the year was 131, compared with 136 in 2001, of whom 12 (12 in 2001) were funded by grants from other bodies. This small reduction in the average masks the major reduction in staff numbers arising from the Strategic Review which delivered a budgeted establishment for 2003 of 112.5 FTE, a reduction of 28 FTE from the previous year. After allowing for the costs of redundancy and redeployment, the total wage bill showed a marginal reduction of £0.1 million.

The outcome for the year, namely expenditure exceeding income by £5.6 million, was much as expected but significantly higher than the previous year. For an unprecedented third successive year the total return on the King's Funds assets – being the combination of investment income, which continued to fall, and the change in value of those assets – was negative.

### Assets

At 31 December 2002, the net value of the assets of the King's Fund was £112.0 million, a decrease of £28.7 million over the year. This decrease was largely due to the downturn in stock markets worldwide over the period coupled with a withdrawal from investments of £5.0 million to defray revenue expenditure.

The composition of the total net assets over the past five years is shown in Figure 3.

Capital expenditure, including work on the replacement of air conditioning plant, was greater than the depreciation charged in the year, resulting in an increase in the value of tangible assets held for the King's Fund's own use from £18.1 million to £18.4 million. The investment securities decreased in value over the year by £28.2 million to £88.7 million and the agricultural property was valued at £4.6 million (£4.7 million in 2001). Details of the portfolio composition are shown at Note 7 to the Accounts. At the year end, current assets exceeded current liabilities by £0.2 million.

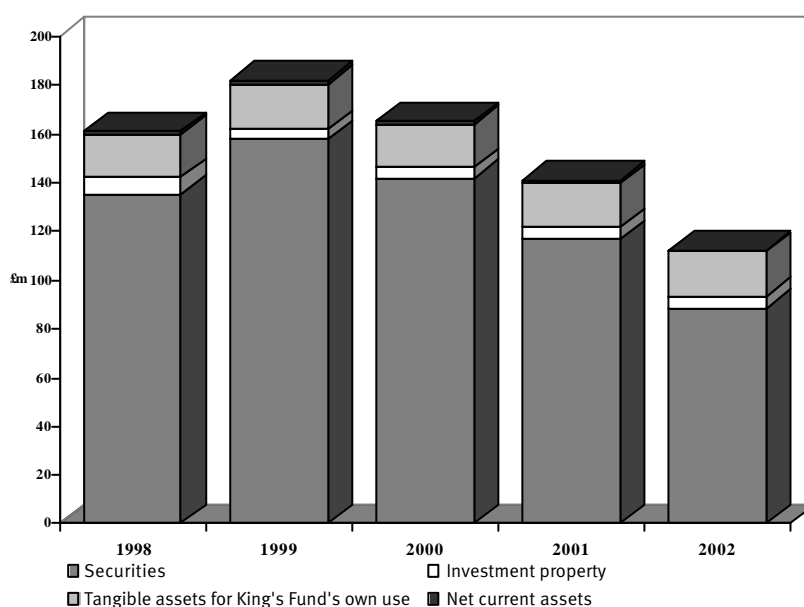


Figure 3: Assets 1998–2002

The composition of the investment portfolio of the King's Fund at the year end is shown in Figure 4.

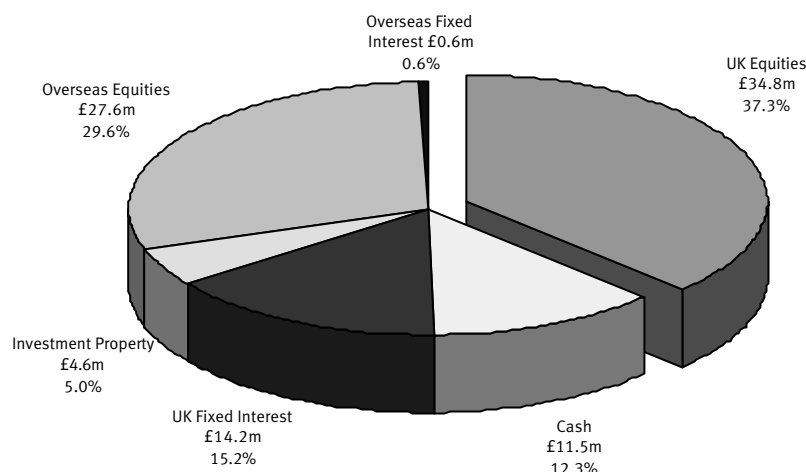


Figure 4: Investment portfolio, 31 December 2002

The overall trend in stock markets was downwards throughout the year and the net value of the King's Fund's investments fell by 23%, which matched the decline in the FTSE All Share index over the same period. This third successive year of losses has resulted in the value of the assets being reduced to 58% of their peak value at December 1999. In real terms, the reduction is greater.

The King's Fund pursues, in regard to its investment management, a policy of maximising total return. For the first three quarters of the year, monitoring against the WM Total Charity Median excluding Property benchmark continued, with the investments managed by Baring Asset Management Limited (BAM) and Schroder Investment Management (UK) Limited (SIM). These managers were charged with achieving a return not less than 2% below the one year benchmark and no worse than 1% above the three year figure. As can be seen from the table below, neither manager achieved the three year target. As to performance over one year, BAM succeeded in matching the target whilst SIM performed better and exceeded it by almost three percentage points.

	3 years to September 2002	Year to September 2002	Quarter 3 2002
WM Total Charity Median	-6.6%	-13.8%	-14.3%
Performance targets	=-5.6%	=-15.8%	–
Baring Asset Management	-10.4%	-15.8%	-16.0%
Schroder Investment Management	-6.6%	-12.9%	-14.3%

The results of the past few years have caused the Investment Committee to review both the composition and management structure of the investment portfolio. The conclusions of the review were that the proportion of investments held in UK equities should be reduced, with more focussed mandates given to the equity managers, and that diversity should be sought through alternative investments including hedge funds, property and private equity. The new target allocation, with the acceptable ranges, is shown in the table below.

Asset Class	Allocation	Minimum	Maximum
UK Equities	40.0%	} 65.0%	} 80.0%
Non-UK Equities	32.5%		
Fixed Interest	7.5%	5.0%	15.0%
Alternative Investments	15.0%	5.0%	15.0%
Cash	5.0%	5.0%	15.0%
TOTAL	100.0%		

In November 2002, the first changes in this direction were implemented with the conversion of the two general portfolios into a specialist UK equity portfolio and a global equity portfolio. The mandate for the former was awarded to SIM whilst the latter was achieved by the purchase of units in the Marathon Asset Management (MAM) Global Fund which comprises approximately 90% ex-UK equities.

Early in 2003, the Investment Committee determined that equal investments should be made in two fixed interest funds, namely the Charities Official Investment Fund managed by CCLA and Charibond managed by M&G Investments. Work will continue on selecting managers for alternative investments.

#### The Current Year – 2003

Stock markets worldwide, almost without exception, experienced further falls in value during the first quarter of 2003, although some rallying towards the end of the period mitigated against the low points of early March. The managers of the two specific portfolios, UK and Global Equities, not surprisingly reported losses in the period, but both showed positive returns against their respective benchmark index:

SIM – UK Equities	Performance Q1 2003	-5.6%	Benchmark index (FTSE All Share)	-7.6%
MAM – Global Fund	Performance Q1 2003	-2.36%	Benchmark index (MSCI World)	-3.18%

The two managers independently report that the portfolios are geared towards equities that will perform well in the projected low inflation, low-growth environment, and that each will respond positively to the modest upturn in market values anticipated later in the year. Set against the poor performance of equities, bonds continued to increase in value.

The budgeted net expenditure budget for 2003, derived from the Strategic Review, is 22% lower than that for the year just ended. Given, however, the depressed state of investment markets and the poor economic outlook, the King's Fund will continue to monitor closely its expenditure plans against the level of available resources. The key determinant in all of this work is the maintenance of a sufficient asset base to ensure the long term future of the King's Fund activities.

#### Donations and legacies

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

Her Majesty the Queen; HRH The Duke of Gloucester; The Bawden Fund; A H Chester; V Dodson; The Forrester Trust; Lord Hayter; A Heilbron; F J Lee; Rabbi J Neuberger; P Norton; G Pampiglione; D and K L Welbourne; and other anonymous donors.



Anthony McGrath  
Treasurer  
27 May 2003

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

For the year ended 31 December 2002

We have audited the financial statements which comprise the Statement of Financial Activities, the Balance Sheet, the cash flow statement and the related notes.

## Respective responsibilities of trustees and auditors

The charity's Trustees' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Trustees' responsibilities.

We have been appointed auditors under section 43 of the United Kingdom 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the charity's Trustees in accordance with paragraph 6(2) of the 1995 Regulations (as amended by the 2000 Regulations) made under Part VI, United Kingdom Charities Act 1993 and for no other purpose. We do not, in giving this opinion, accept or assume any responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with the United Kingdom Charities Act 1993. We also report to you if, in our opinion, the Trustees' 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 Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

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

## Opinion

In our opinion, the financial statements give a true and fair view of the state of the charity's affairs at 31 December 2002 and of its net outgoing resources and cash flows for the year then ended and have been properly prepared in accordance with the United Kingdom Charities Act 1993.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Southwark Towers  
32 London Bridge Street  
London  
SE1 9SY

28 May 2003

# STATEMENT OF FINANCIAL ACTIVITIES

Incorporating an Income and Expenditure Account

For the year ended 31 December 2002

		Restricted Funds		Unrestricted Funds		2002	2001
		Programmes and Projects	Capital Fund	Designated funds	General Fund	Total Funds	Total Restated
	Notes	£000	£000	£000	£000	£000	£000
<b>INCOMING RESOURCES</b>							
Donations and legacies		–	–	–	10	10	10
Activities in furtherance of the objects of the King's Fund							
Programmes and Projects		479	–	33	405	917	697
Education and Leadership Development		–	–	–	2,790	2,790	2,326
Publication and Information Services		–	–	–	234	234	265
Other charitable activities		–	–	–	607	607	999
Activities in furtherance of objects	3	479	–	33	4,036	4,548	4,287
Investment income							
Income from securities and cash assets		–	1,572	–	1,768	3,340	3,805
Income from properties		–	–	–	390	390	324
Activities for generating funds	4	–	1,572	–	2,158	3,730	4,129
<b>TOTAL INCOMING RESOURCES</b>		<b>479</b>	<b>1,572</b>	<b>33</b>	<b>6,204</b>	<b>8,288</b>	<b>8,426</b>
<b>RESOURCES EXPENDED</b>							
Cost of generating funds							
Cost of investment management		–	208	–	270	478	475
Charitable expenditure	5						
Cost of activities in furtherance of the objects of the King's Fund							
Grants payable		–	–	740	1,826	2,566	2,261
Programmes and Projects		532	–	598	1,722	2,852	2,787
Education and Leadership Development		–	–	–	2,610	2,610	2,195
Publication and Information Services		–	–	–	1,151	1,151	1,023
Other charitable activities		–	–	–	740	740	826
Activities in furtherance of objects		532	–	1,338	8,049	9,919	9,092
Support costs							
Support costs and depreciation		–	–	–	2,895	2,895	2,767
Management and administration							
Senior management and professional		–	–	–	591	591	398
<b>TOTAL RESOURCES EXPENDED</b>		<b>532</b>	<b>208</b>	<b>1,338</b>	<b>11,805</b>	<b>13,883</b>	<b>12,732</b>
Net incoming / (outgoing) resources before transfers		(53)	1,364	(1,305)	(5,601)	(5,595)	(4,306)
Transfers between funds	11 & 12	–	1,036	(674)	(362)	–	–
Net incoming / (outgoing) resources		(53)	2,400	(1,979)	(5,963)	(5,595)	(4,306)
Net losses on investment assets		–	(11,047)	–	(12,107)	(23,154)	(20,041)
Net movement in funds		(53)	(8,647)	(1,979)	(18,070)	(28,749)	(24,347)
Balances brought forward at 1 January		298	56,120	7,542	76,766	140,726	165,073
Fund balances carried forward at 31 December		<u>245</u>	<u>47,473</u>	<u>5,563</u>	<u>58,696</u>	<u>111,977</u>	<u>140,726</u>

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

# BALANCE SHEET

As at 31 December 2002

		31 December 2002			31 December 2001		
	Notes	£000	£000	£000	£000	£000	£000
FIXED ASSETS							
Tangible assets held for the King's Fund's use	6		18,415	111,753		18,069	139,651
Investments	7		<u>93,338</u>			<u>121,582</u>	
CURRENT ASSETS							
Debtors	8	940			1,575		
Stocks		104			160		
Cash at bank and in hand		<u>525</u>	1,569		<u>595</u>	2,330	
CURRENT LIABILITIES	9		<u>(1,345)</u>			<u>(1,255)</u>	
NET CURRENT ASSETS				224			1,075
TOTAL ASSETS				<u>111,977</u>			<u>140,726</u>
FUNDS							
RESTRICTED FUNDS							
Programmes and Projects	10 & 11		245	47,718		298	56,418
Capital Fund			<u>47,473</u>			<u>56,120</u>	
UNRESTRICTED FUNDS							
Designated funds	10 & 12		5,563	64,259		7,542	84,308
General Fund			<u>58,696</u>			<u>76,766</u>	
TOTAL FUNDS				<u>111,977</u>			<u>140,726</u>

Approved by the Audit Committee on 29 April 2003, under the delegated authority of the Management Committee, and presented to General Council on 20 June 2003.



Anthony McGrath  
Treasurer  
27 May 2003



# CASH FLOW STATEMENT

For the year ended 31 December 2002

	2002 £000	2002 £000	2001 £000	2001 £000
Operating activities				
Net cash outflow from operating activities		(4,421)		(4,454)
Capital expenditure and financial investment				
Payments to acquire tangible fixed assets	(739)		(306)	
Purchase of securities	(108,098)		(79,497)	
Sale of securities	121,833		83,466	
Expenditure on maintaining investment properties	(76)		–	
Net cash inflow for capital expenditure and financial investment		12,920		3,663
Increase / (decrease) in cash in the year		8,499		(791)

## Notes to the cash flow statement

Reconciliation of net outgoing resources to net cash outflow from operating activities	2002 £000	2001 £000
Net outgoing resources	(5,595)	(4,306)
Depreciation charged on tangible assets	368	386
Loss on disposal of fixed assets	25	8
Decrease / (increase) in stocks	56	(2)
Decrease in debtors	635	41
Increase / (decrease) in creditors	90	(581)
Net cash outflow from operating activities	(4,421)	(4,454)

	At 1 January 2002 £000	Movement £000	At 31 December 2002 £000
Analysis of changes in cash during the year			
Investment cash	2,925	8,569	11,494
Cash at bank and in hand	595	(70)	525
	3,520	8,499	12,019

# NOTES TO THE ACCOUNTS

For the year ended 31 December 2002

## 1 Basis of preparation

The accounts 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 United Kingdom Charities Act 1993, the Statement of Recommended Practice (SORP) – Accounting and Reporting by Charities – published in October 2000 and applicable accounting standards.

## 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. Donations and legacies are credited to the unrestricted General Fund unless they are permanent endowments, in which case they are credited to the restricted Capital Fund.

### 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 on 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 in 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 accounts as a contingent liability.

### Other expenditure

All other expenditure is accounted for on an accruals basis and 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. Management fees on pooled funds that are charged against the value of the investment are included as part of the net gains/losses on investment assets on the Statement of Financial Activities. 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 and ICT; and depreciation charged 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. Where appropriate, costs such as those relating to the Director of Resources/Deputy Chief Executive have been apportioned on the basis of estimates of staff time attributable to each function.

The apportionment of the costs of the catering function between Other charitable activities and Support costs was made on the basis of a management estimate of relative input.

## Pension costs

In accordance with the requirements of SSAP24, the cost of providing pensions and related benefits is charged to the Statement of Financial Activities over the employees' service lives on the basis of a constant percentage of earnings which is an estimate of the regular cost. Variations from regular cost, arising from periodic actuarial valuations, are allocated over the expected remaining service lives of current employees on the basis of a constant percentage of current and estimated future earnings. Any difference between the charge to the Statement of Financial Activities and the contributions payable to the scheme is shown as an asset or a liability in the Balance Sheet.

The transitional arrangements of the new accounting standard FRS17 require disclosure of assets and liabilities as at 31 December 2002, calculated in accordance with the requirements of FRS17, with comparative data for the preceding year. For the purpose of these financial statements, the figures shown below are illustrative only and do not impact on the Balance Sheet as at 31 December 2002.

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

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

Depreciation is calculated so as to write off the cost of the tangible assets, excluding freehold land and 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 buildings held for the King's Fund's use are not depreciated. The King's Fund's buildings are maintained in a condition to ensure that the buildings have a sufficiently long useful economic life that any depreciation charge and accumulated depreciation would be immaterial. A review of the useful economic life of the building is performed annually. See also Note 6.

Inalienable and historic assets are capitalised, except where their cost or value at date of gift is immaterial.

## 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.

## 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.

## Restricted Funds

**Programmes and Projects** The King's Fund receives grants from a range of bodies, including the Department of Health and a number of grant giving organisations, to fund much 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. See also Notes 10 and 11.

**Capital Fund** The King's Fund has no power to spend the capital sum, which is required to be held in perpetuity to generate income to further the objects of the King's Fund. Income generated from the Capital Fund is transferred to unrestricted funds to offset expenditure.

## Unrestricted Funds

**Designated funds** To recognise the longer term nature of some of the projects it undertakes, the King's Fund has chosen to designate elements of its unrestricted funds for these specific purposes. See also Note 12. In addition, sums have been designated to reflect the commitment made to the Millennium Grants and to commitments arising from Grants Committee awards made in 2002 and earlier years.

**General Fund** The King's Fund has the power to spend capital monies, as well as income from investments, from its unrestricted funds.

### 3 Income from activities in furtherance of the objects of the King's Fund

	Grants	Education Programme Fees	Other	2002	2001
	£000	£000	£000	£000	£000
Programmes and Projects	461	–	456	917	697
Education and Leadership Development	225	2,431	134	2,790	2,326
Publication and Information Services	–	–	234	234	265
Other charitable activities	–	–	607	607	999
	<u>686</u>	<u>2,431</u>	<u>1,431</u>	<u>4,548</u>	<u>4,287</u>

Included in Other charitable activities above:

	2002	2001
	£000	£000
Conference and Catering Services	520	599
Refund of overpaid VAT	–	257

### 4 Investment income

	2002	2001
	£000	£000
Listed securities and cash assets	3,340	3,805
Properties	390	324
	<u>3,730</u>	<u>4,129</u>

The transitional tax credit included above was £163,000 (£295,000 in 2001).

### 5 Analysis of charitable expenditure

	Staff Costs	Other Costs	2002	2001 Restated
	£000	£000	£000	£000
Grants payable	–	2,566	2,566	2,261
Programmes and Projects	1,556	1,296	2,852	2,787
Education and Leadership Development	1,384	1,226	2,610	2,195
Publication and Information Services	745	406	1,151	1,023
Other charitable activities	275	465	740	826
Sub Total	<u>3,960</u>	<u>5,959</u>	<u>9,919</u>	<u>9,092</u>
Support costs	1,424	1,471	2,895	2,767
Management and administration	228	363	591	398
Total Charitable Expenditure	<u>5,612</u>	<u>7,793</u>	<u>13,405</u>	<u>12,257</u>

The costs of Grants Administration, see below, are now included within Support costs and not in Grants payable. The figures for 2001 have been restated to reflect this change.

Analysis of Grants payable above:	2002	2001
	£000	Restated £000
Grants Committee Awards	1,690	1,651
Millennium Grants	740	425
Other Grants	136	185
Sub Total – Grants payable	2,566	2,261
Programmes and Projects expenditure distributed as grants	174	282
	<u>2,740</u>	<u>2,543</u>
Included in Support costs above:	2002	2001
	£000	Restated £000
Depreciation charged on tangible assets	368	386
Grants administration	251	236
Included in Management and administration above:	2002	2001
	£000	£000
Trustees' indemnity insurance	10	8
Auditors' remuneration - external audit fees	35	30
- internal audit fees	16	44
- other services	1	65

## 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	2002 Total Assets £000	2001 Total Assets £000
Cost					
At 1 January	14,860	4,923	300	20,083	19,858
Additions	4	717	18	739	306
Disposals	–	(144)	(149)	(293)	(81)
At 31 December	<u>14,864</u>	<u>5,496</u>	<u>169</u>	<u>20,529</u>	<u>20,083</u>
Depreciation					
At 1 January	–	1,767	247	2,014	1,701
Charge for the year	–	325	43	368	386
Disposals	–	(119)	(149)	(268)	(73)
	<u>–</u>	<u>1,973</u>	<u>141</u>	<u>2,114</u>	<u>2,014</u>
Net Book Value					
At 31 December	<u>14,864</u>	<u>3,523</u>	<u>28</u>	<u>18,415</u>	<u>18,069</u>
Previous Year	<u>14,860</u>	<u>3,156</u>	<u>53</u>	<u>18,069</u>	

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 (£18,387,000) 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 £20,400,000 at 31 December 2002. The King's Fund has also determined that both the estimated life of the building, at least 100 years, and the immaterial level of any depreciation in value, exempt it from depreciation charges, as provided within FRS15 (Tangible Fixed Assets).

## 7 Investments at market value

	Securities £000	Property £000	2002 £000	2001 £000
Investment properties	–	4,593	4,593	4,657
Securities: Listed	77,249	–	77,249	114,127
Unlisted	2	–	2	2
Cash	11,494	–	11,494	2,796
	<u>88,745</u>	<u>4,593</u>	<u>93,338</u>	<u>121,582</u>
Investments in the UK	60,654	4,593	65,247	94,897
Investments outside the UK	28,091	–	28,091	26,685
	<u>88,745</u>	<u>4,593</u>	<u>93,338</u>	<u>121,582</u>
Restricted Funds	47,567	–	47,567	56,120
Unrestricted Funds	41,178	4,593	45,771	65,462
	<u>88,745</u>	<u>4,593</u>	<u>93,338</u>	<u>121,582</u>
Market value at 1 January	116,925	4,657	121,582	145,886
Profit/(loss) on disposals	(6,837)	–	(6,837)	(8,480)
Other movements including revaluation at Balance Sheet date	<u>(21,343)</u>	<u>(64)</u>	<u>(21,407)</u>	<u>(15,824)</u>
Market value at 31 December	<u>88,745</u>	<u>4,593</u>	<u>93,338</u>	<u>121,582</u>

## 8 Debtors

	2002 £000	2001 £000
Trade debtors	401	639
Prepayments and accrued income	503	634
Loans repayable after more than 1 year	–	225
Other debtors	36	77
	<u>940</u>	<u>1,575</u>

## 9 Creditors : amounts falling due in less than one year

	2002 £000	2001 £000
Grants payable	270	280
Trade creditors	413	432
Deferred income *	78	293
Taxation and social security	82	–
Other creditors and accruals	502	250
	<u>1,345</u>	<u>1,255</u>

\* All deferred income was received in the year of account.

## 10 Funds

	Restricted Funds		Unrestricted Funds		2002 Total Funds £000	2001 Total Funds £000
	Programmes & Projects £000	Capital Fund £000	Designated funds £000	General Fund £000		
Tangible assets for the King's Fund's own use	–	–	–	18,415	18,415	18,069
Investments	21	47,473	5,563	40,281	93,338	121,582
Net current assets	<u>224</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>224</u>	<u>1,075</u>
	<u>245</u>	<u>47,473</u>	<u>5,563</u>	<u>58,696</u>	<u>111,977</u>	<u>140,726</u>

## 11 Movements in Restricted Funds

PROGRAMMES AND PROJECTS	Balance at 1 January 2002 £000	Incoming resources and transfers in £000	Outgoing resources and transfers out £000	Balance at 31 December 2002 £000
Health and Social Care Programme	66	66	117	15
Health Care Policy Programme	46	121	116	51
Health Systems Programme	29	88	99	18
Primary Care Programme	114	57	89	82
Public Health Programme	12	147	111	48
Non Programme Specific	31	–	–	31
	<u>298</u>	<u>479</u>	<u>532</u>	<u>245</u>

CAPITAL FUND	Balance at 1 January 2002 £000	Incoming resources and transfers in £000	Outgoing resources and transfers out £000	Balance at 31 December 2002 £000
Movements	56,120	1,572	208	57,484
Transfers from/to General Fund	–	2,400	1,364	1,036
Net losses on investment assets	–	–	11,047	(11,047)
	<u>56,120</u>	<u>3,972</u>	<u>12,619</u>	<u>47,473</u>

## 12 Movements in Unrestricted Funds

DESIGNATED FUNDS	Balance at 1 January 2002 £000	Incoming resources and transfers in £000	Outgoing resources and transfers out £000	Balance at 31 December 2002 £000
Policy and Development projects	398	210	232	376
Grants commitments	2,971	–	1,141	1,830
Millennium Grants	3,753	31	1,131	2,653
Programme Grants	420	466	182	704
	<u>7,542</u>	<u>707</u>	<u>2,686</u>	<u>5,563</u>

GENERAL FUND	Balance at 1 January 2002 £000	Incoming resources and transfers in £000	Outgoing resources and transfers out £000	Balance at 31 December 2002 £000
Movements	76,766	6,204	11,805	71,165
Movement in Policy and Development project commitments	–	–	22	(22)
Designation of Programme Grants commitments	–	–	445	(445)
Movement in Grants commitments	–	1,141	–	1,141
Transfer from/to Capital Fund	–	1,364	2,400	(1,036)
Net losses on investment assets	–	–	12,107	(12,107)
	<u>76,766</u>	<u>8,709</u>	<u>26,779</u>	<u>58,696</u>

### Commitments

At 31 December 2002, the outstanding balance of grants awarded by the Grants Committee was £1,830,000 (£1,971,000 in 2001 restated to exclude £1,000,000 incorporated within designated grants). These sums have not been included as liabilities as the conditions for payment have not yet been met. The King's Fund has designated an amount within its unrestricted funds to meet these commitments and those of its Millennium Grants and Programme Grants projects.

The balance of awards made during 2002, but not paid, to participants in the King's Fund Millennium Awards Scheme amounted to £71,431 (£78,035 in 2001).

### 13 Employees

	2002 £000	2001 £000
Wages and salaries	4,828	4,589
Social Security costs	363	386
Pension costs	421	413
Total emoluments	5,612	5,388

The total for Wages and salaries includes expenditure of £282,000 on redundancy and redeployment costs arising from the Strategic Review and on Temporary and seconded staff of £260,000 (£233,000 in 2001).

	2002 FTE	2001 FTE
Average number of employees (including externally funded)		
Grants	6	7
Programmes and Projects	32	38
Education and Leadership Development	23	23
Publication and Information Services	20	21
Other charitable activities	4	4
Support functions	43	40
Management and administration	3	3
TOTALS	131	136

	2002	2001
The numbers of employees with remuneration exceeding £50,000 were:		
£50,000 – £59,999	1	6
£60,000 – £69,999	13	12
£70,000 – £79,999	3	3
£80,000 – £89,999	–	–
£90,000 – £99,999	–	1
£100,000–£109,999	1	–
£110,000–£119,999	1	1

Contributions of £137,000 (£115,000 in 2001) were made to the King's Fund Staff Pension and Life Assurance Plan, which is a defined benefits scheme, for fifteen (eighteen in 2001) higher paid employees and of £22,000 (£22,000 in 2001) to the NHS Superannuation Scheme, which is also a defined benefits scheme, for four (five in 2001) higher paid employees.

### 14 Related party transactions

#### CityWell

One member of the King's Fund Management Committee, Sir William Wells, and the Chief Executive, Julia Neuberger, are trustees of CityWell, a company limited by guarantee which has applied for charitable status. As at 31 December 2002, CityWell had a total of seven trustees. During the year the King's Fund made grants to CityWell totalling £72,000 (£50,000 in 2001), and also provided office accommodation and advice, the values of which are not easily quantifiable. As the King's Fund, through its two trustees, is entitled to exercise more than 20% of the voting power at any general meeting of CityWell, it has a participating interest and CityWell is, therefore, an associated undertaking of the King's Fund. This is the second year of activity and the financial results of CityWell continue to be immaterial to the King's Fund. They have not, therefore, been incorporated into these Financial Statements.



## Investment Committee

Mr Michael Dobson, a member of the King's Fund investment committee, is the Chief Executive of Schroders plc. As at 31 December 2002, the market value of King's Fund investments held by Schroder Investment Management (UK) Limited (SIM), the institutional division of Schroders plc, totalled £54,240,000 (£59,144,000 in 2001). In 2002, £197,000 (£213,000 in 2001) was charged to the Statement of Financial Activities for investment management fees to SIM, including an accrual of £51,400 (£56,800 in 2001). Income totalling £78,600 (£101,300 in 2001), due to the King's Fund from SIM but not received during the year, was accrued and included in the Statement of Financial Activities.

## Grants Committee

Ms Melba Wilson, a member of the Grants Committee, is the Director of the Centre For Mental Health Services Development, which was retained by the King's Fund in late 2002 to chair a number of sessions related to its Mental Health Inquiry. The total fee payable for this work in 2003 will be £5,000.

Ms Ziggi Alexander, a member of the Grants Committee but acting in a personal capacity, received a fee of £150 in May 2002 as a member of a King's Fund panel on Promoting the social inclusion of older people.

## 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).

### Actuarial valuation – SSAP24

The latest triennial actuarial valuation of the Plan was carried out as at 1 April 2001 by an independent qualified actuary using the Projected Unit method and based upon the principal assumptions listed below:

Plan returns pre-retirement .....	6.25% pa
Plan returns post-retirement.....	5.25% pa
Price inflation.....	2.40% pa
Salary increases .....	3.90% pa
Pension increases pre 6 April 1997 .....	4.00% pa
Pension increases post 5 April 1997 .....	2.25% pa

As at this date the market value of the assets was £25,500,000 and represented 117% of the liabilities. The actuary established that the Plan had no statutory surplus, as defined by the Inland Revenue, and its MFR status was 122% at the valuation date. The next actuarial valuation will be brought forward and carried out as at 1 April 2003.

### Actuarial valuation – FRS17

The transitional arrangements of the new accounting standard FRS17 require disclosure of assets and liabilities as at 31 December 2002, calculated in accordance with the requirements of FRS17, with comparative data for the preceding year. The figures shown below are illustrative only and do not impact on the Balance Sheet as at 31 December 2002.

An assessment of the Plan was carried out at the beginning and at the end of the period based on the following main economic assumptions which were appropriate at the date of each assessment:

	At 31 December 2002	At 31 December 2001
Discount rate	5.50%	5.75%
Rate of increase in salaries	3.25%	4.00%
General price inflation	2.25%	2.50%
Rate of increase in pension payments:		
in respect of service prior to 1 April 2000	4.00%	4.00%
for service after 1 April 2000	2.25%	2.50%

Based on these assumptions the surplus / (deficit) in the scheme at each assessment date was:

	At 31 December 2002 £000	At 31 December 2001 £000
Total market value of scheme assets	17,700	22,300
Present value of scheme liabilities	(23,600)	(20,500)
Surplus / (deficit) in the scheme	(5,900)	1,800
Irrecoverable surplus	–	–
Recognised pension asset / (liability)	(5,900)	1,800
Related deferred tax liability	–	–
Net pension asset / (liability)	(5,900)	1,800

In addition, the Plan has pension liabilities which are insured with a value of approximately £2.0m (£1.6m in 2001). 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:

	31 December 2002 £000	Expected Return % p.a.	31 December 2001 £000	Expected Return % p.a.
Equities (including property)	14,600	7.50	18,000	7.50
Bonds	2,300	5.50	2,900	5.50
Cash	800	3.75	1,400	4.00
Total	17,700	7.10	22,300	7.00

The analysis of the amount that would be charged to operating profit was:

	£000
Current service cost	750
Past service cost	190
(Gains) / losses arising from settlements and curtailments	–
Total operating charge	940

The analysis of the amount that would be credited to other finance income was:

	£000
Expected return on Pension Plan assets	1,540
Interest on Pension Plan liabilities	(1,150)
Net return	390

Analysis of amounts that would be recognised in the statement of total recognised gains and losses (STRGL)

	£000
Actual return less expected return on Pension Plan assets	(5,570)
Gains and losses arising on the Plan liabilities	–
Changes in assumptions underlying the present value of the Plan liabilities	(2,080)
Actuarial gain / (loss) recognised in the STRGL	(7,650)

Set out below is an analysis of the movement in the Plan surplus during the year:

	£000
Surplus in the Plan at beginning of the year	1,800
Movement during the year:	
Current service cost	(750)
Contributions	500
Past service Cost	(190)
Curtailments and settlements	–
Other finance income	390
Actuarial gain / (loss)	(7,650)
Surplus / (deficit) in the Plan at end of the year	(5,900)

If the above amounts had been recognised in the financial statements, the King's Fund net asset position would have been as follows:

	At 31 December 2002 £000	At 31 December 2001 £000
Net assets excluding pension asset	111,977	140,726
Pension asset	(5,900)	1,800
Net assets including pension asset	106,077	142,526

The contributions made into the Plan by the King's Fund during the year were £374,897 (£354,852 in 2001).

HQS Limited, see Note 17, participates in the Plan as an Associated Employer. The King's Fund bears the majority of the liability and has, therefore, disclosed the whole scheme in its Financial Statements. Both employers pay contributions into the Plan at the same rate, which is determined by the King's Fund and is currently set at 12%.

#### NHS Pensions Scheme

In addition to the Plan, the King's Fund also contributes to the NHS Pensions Scheme, a defined benefit scheme, for twelve members of staff as at the Balance Sheet date who are eligible to belong to this scheme. In 2002 the King's Fund contributed £42,400 (£47,493 in 2001) to the scheme. The employer's contribution rate, currently 7%, is set by the Government Actuary.

The pension charge for the period for both defined benefit schemes, plus contributions to private pension plans for two employees, who were no longer employed at the Balance Sheet date, was £420,683 (£413,391 in 2001).

#### 16 Trustees' expenses

A total of £462 (£893 in 2001) was reimbursed to three (six in 2001) Trustees in respect of travel, subsistence and entertainment expenses incurred during the year. No Trustee received nor waived any remuneration during the year.

#### 17 Health Quality Service

The Management Committee, at its meeting on 2 December 1999, agreed to advance a loan to the Health Quality Service after it was established as a separate charitable company limited by guarantee, HQS Limited, on 1 January 2000. The outstanding balance of that loan at the 31 December 2001 is recognised in an agreement and is subject to interest charges.



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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 grants. We are a major resource to people working in health, offering leadership and education courses; seminars and workshops; publications; information and library services and conference and meeting facilities.

Registered charity: 207401