

THE ROYAL PHARMACEUTICAL SOCIETY OF GREAT BRITAIN

2007 FINANCIAL STATEMENTS



Royal
Pharmaceutical
Society
of Great Britain

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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COUNCIL MEMBERS AND ADVISORS

President

Mr Hemant R Patel

Vice - President

Mr Gerald Alexander

(until 5 June 2007)

Mr Martin Astbury

(from 5 June 2007)

Treasurer

Mr John Jolley

(until 5 June 2007)

Mr Andrew Gush

(from 5 June 2007)

Mr Stephen Acres

(from 17 May 2007)

Miss Seema Agha

Mr Gerald Alexander

Mrs Margaret Allan

(from 7 September 2007)

Ms Cathryn Brown

(from 17 May 2007)

Mr Jonathan Buisson

Mr David Carter

Mr Steve Churton

(from 17 May 2007)

Mr Brian Curwain

Mr Sultan Dajani

(until 16 May 2007)

Prof Stephen Denyer

Mrs Dorothy Drury

Dr Phillida Entwistle

Mrs Davan Eustace

(until 16 May 2007)

Mr John Gentle

Mr John Hanlon

Mrs Sylvia Hikins

Mrs Corinne Hunt

(until 16 May 2007)

Mrs Lorna Jacobs

Mr Raymond Jobling

Mr John Jolley

Mr Alan Kershaw

Mrs Sue Kilby

(from 17 May 2007)

Prof Alistair Michell

Mrs Lesley Morgan

Mr Graham Philips

Ms Jane Ramsey

(from 17 May 2007)

Mr Colin Ranshaw

(until 16 May 2007)

Ms Marcia Saunders

Prof Michael Schofield

(until 16 May 2007)

Mr Douglas Simpson

Mr David Thomson

Mr Stephen Wells

(until 16 May 2007)

Chief Executive & Registrar

Miss Ann M Lewis OBE

(until 31 August 2007)

Mr Jeremy Holmes

(from 1 September 2007)

Principal Office

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Auditors

Horwath Clark Whitehill LLP

St. Brides House

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London

EC4Y 8EH

Solicitors

Eversheds

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85 Queen Victoria Street

London

EC4V 4JL

Bankers

National Westminster Bank

91 Westminster Bridge Road

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SE1 7HW

Investment Managers

Investec Asset Management

2 Gresham Street

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REPORT OF THE COUNCIL

The Council presents its report and the audited financial statements of the Society for the year ended 31 December 2007.

Principal activities

The Society's principal activities are the regulation, leadership and development of the profession of pharmacy.

Legal status

The Society is governed by a framework comprising its Royal Charter and legislation. This is underpinned by regulations and byelaws. The Society was founded in 1841 and incorporated by Royal Charter in 1843. The Society's current Charter was granted in 2004.

The Charter provides the Society with a legal identity and certain powers, in addition to its statutory functions set out in legislation.

Governance

The Society is governed by a Council of 17 elected pharmacists (three places reserved for the constituencies of England with Isle of Man and Channel Islands, Scotland and Wales; 14 unreserved places) elected by the pharmacists currently on the Society's register of pharmacists, one pharmacist appointed by the universities awarding pharmacy degrees accredited by the Society and two pharmacy technicians elected by those technicians on the voluntary register of pharmacy technicians at the time of the election. In addition, there are 10 lay members appointed by the Privy Council.

The Council elects annually the President, Vice President and the Treasurer who together with the Immediate Past President constitute the Officers. The Council meets six times a year to consider strategic issues affecting pharmacy and to decide on policies and also has an additional meeting prior to the Annual General Meeting. Further meetings of the Council can be called as required.

By virtue of its integrated roles of regulating the profession and safeguarding the public, and leading and developing the profession, the Society performs functions of a public nature and is therefore accountable not only to its membership, but also to the public at large, as represented by Parliament. In addition to the tenets espoused by the various reports on corporate governance, one of the key recommendations of the Nolan Committee on Standards in Public Life was the need for organisations to focus on achieving good governance in order to be effective in the future. The Society has recognised the need to monitor developments in corporate governance and standards in public life to ensure that the Council keeps abreast of current good practice and can revise its procedures to take account of developments.

Corporate Governance

Governance Committee met three times in 2007 and considered the following

- Appraisal and development process for Council members
- Standing orders of Council regarding inadmissibility of a motion relating to a matter already contained in the agenda
- Draft guidance on Regulations on Special resolutions
- Draft guidance on suspension and removal of Council members
- Policy development regarding Fitness to Practise matters
- Distribution of Investigating Committee minutes
- RPS Publishing governance: amendment to composition of the RPSP Board
- Role of Chairmen of committees and working groups
- Procedure for election of Officers and Council members working with the Officers
- Public Access to meetings of Council and Committees of Council

The Committee also reviewed and amended the Council Governance Handbook for annual adoption by the Council. Progress continued to replace Byelaws under the old Charter with Regulations under the 2004 Charter, but has now been suspended following confirmation of the establishment of the General Pharmaceutical Council to undertake the Society's regulatory functions from January 2010.

Audit Committee

The Audit Committee held 3 meetings during 2007 and the following issues were considered:-

- **Risk Assessment and Disaster Recovery.** The committee continued to receive updates on the Society's risk assessment register and disaster recovery plans. Significant successes were noted by the Committee on the Society's new disaster recovery site where initial testing of the procedures and processes went well.
- **Internal Audit.** During the year, the Committee received 8 reports on systems across all Directorates within the Society. The Committee received updates on the progress made with implementing any recommendations within the internal audit reports. The Committee was fully satisfied with the progress made. A full internal audit plan encompassing 65 days of audit activity has been planned for 2008.
- **Benevolent Fund.** The Committee worked with the newly appointed Trustees of the Benevolent Fund to agree audit support during the first year of the Trustees' tenure. It was agreed that the Committee would support the Trustees for the first half of the year and then the audit remit function would transfer to the Trustees thereafter. This has been successfully completed during the year.
- **Training of Committee Members.** As part of the success of training new committee members in previous years, training continued for newly appointed members as part of their induction before attending their first meeting.

Risk Management

During 2007, work has continued to consolidate the Society's approach to risk and its ability to continue operating in the event of an emergency.

The risk register is reviewed on a regular basis both by the Executive Group and the Audit Committee. On an annual basis the complete register is considered by Council.

Within each directorate, operational risk registers have been created and these are monitored by the nominated individuals within each team. Risk issues are also considered as part of the normal project planning process and are included in papers presented to Council. A specific risk register is being created as part of the work involved in the formation of the GPhC to ensure that the likely impact of the changes can be managed effectively.

In the area of business continuity, plans for each of the operational areas have been developed and reviewed on a regular basis. During the course of the year a test was carried out in conjunction with the Society's contractor to ensure that the IT systems could be recreated at the remote office location. This test was successful and will be repeated annually.

Remuneration Committee

The Remuneration Committee met five times during the year. The Committee agreed the Society's 2007/8 general salary increase for staff, agreed the individual salary increases for the Chief Executive and Registrar, Directors and dealt with other matters pertaining to senior members of staff.

In accordance with its remit the Remuneration Committee also undertook a review of the Society's general approach to remuneration and benefits and recommended changes to Council which were

agreed in December 2007. Implementation of these changes will be introduced in the first quarter of 2008.

National Pharmacy Boards

English Pharmacy Board

The English Pharmacy Board held its inaugural meeting in February followed by three other formal meetings during the year. The Board established a communications sub-group that met a number of times during the year. This led to collaboration on a Fabian Society event at the Labour Party Conference which resulted in Board members having access to Dawn Primarolo MP (the Pharmacy Minister).

The Board agreed its key objectives for the year and has been actively progressing these objectives. It has published a number of documents and guides for pharmacists in 2007, including a number of joint publications for pharmacists with a special interest. The members of the Board have been actively liaising with Branches and Regions with Board members attending Regional Meetings and talking at Branch meetings around England.

Scottish Pharmacy Board

The Scottish Pharmacy Board held its inaugural meeting in February followed by four other formal meetings during the year. It established four working groups that each met four times. The Board also held five informal meetings and met with Branch Secretaries in November.

In 2007, the Scottish Pharmacy Board held several events including a launch of the Board and its Manifesto for Scottish Pharmacy in March. In May and June, the Board held five road-shows in different Scottish cities and its Annual Meeting in Edinburgh. The Annual Report 2006-2007 was launched at the Annual Meeting.

Welsh Pharmacy Board

The Welsh Pharmacy Board held its inaugural meeting in February followed by three other formal meetings during the year. It established a Communications and Public Affairs sub group that met four times. The Board also held five informal working days and met with the Branch Secretaries and the Pharmacy Development Groups in May, 2007.

The Board agreed 13 key objectives to underpin Council's 5 Strategic Priorities for 2007 and carried out a range of activities and engaged with members through three regional awareness events held around Wales. The Board have lobbied the Welsh Assembly Government during the last twelve months and launched their Manifesto for Pharmacy in February, 2007.

Future of Pharmacy Regulation

In early 2007, the Government published its White Paper "Trust, Assurance and Safety: The Regulation of Health Professionals in the 21st Century". The White Paper proposed the establishment of a General Pharmaceutical Council, which would take on the regulatory role currently undertaken by the Society and the establishment of a professional leadership organisation for pharmacy. Significant work has been undertaken during 2007 including assisting with the Carter Working Party. Ongoing discussions and meetings are taking place with the Department of Health with a view to a de-merger taking place in January, 2010.

Pension Scheme

The uncertainty created by the White Paper has caused the Trustees of the Scheme and the Society to consider the potential impact this may have on the Scheme. Questions remain as to whether those staff who would transfer to the new regulatory body would remain in the Scheme, how their share of the actuarial deficit would be funded and by whom. These uncertainties are the reason why the actuarial valuation and the revised schedule of contributions, has yet to be finalised. However, what is clear from the Society's view point is that if the pension scheme is to remain affordable, the level of

future benefits must be reviewed. Complete closure of the Scheme at this point has been considered but rejected as being detrimental to the Society's immediate financial position and a disincentive to the retention of skilled and experienced staff. The loss of such staff at this time could imperil the establishment of the new regulatory body and the Society's evolution into a new professional body.

In addition to the work above, two further important events took place last year. First the Trustees and the Society agreed and executed a new consolidation of the Scheme's governing Trust Deed and Rules to ensure everyone is operating under a clear and up to date document.

Secondly, the Scheme actuary began work on his new triennial Actuarial Valuation and Report of the assets and liabilities as at 31st December, 2006. This is the first valuation undertaken for the Scheme under new pension regulations. The Trustees are required to discuss the draft results of this actuarial report with the Society to agreed funding levels and contribution rates. The results of the valuation determine the level of contribution the Society will be required to pay to repair the shortfall in the amount of the Fund now available to meet the cost of the liabilities, constituted by the benefits accrued to date.

With a view to controlling pension costs for the future, the Society instigated a consultation with the active Scheme members in November about possible changes to future pension accrual. The intention is that the outcome of that consultation will be known in time to implement any change on 1st April, 2008.

The final phase of the asset allocation transition of the Fund (initiated two years earlier) was completed over the summer and at the end of September, the Trustees gave notice to their Fund Managers. All investments are currently managed by Barclays Global Investors. (Barclays were already actively managing half of the Fund and were given an interim mandate to invest the other half passively). Once the Actuary's current valuation has been completed, the overall investment strategy and appointment of other fund managers will be considered. Investment returns have continued broadly in line with expectations.

More information regarding the Pension Scheme can be found in note 14 to the financial statements. This information includes disclosures required to date by Financial Reporting Standard 17 (FRS17).

Financial Results

The 2007 financial results before taxation, exceptional items and FRS17 Pension Reserve disclosure is an operational deficit of £216,000. The comparative figure for 2006 was a surplus of £210,000. Due to the change in legislation in 2006, no gift aid payments were made during the year (2006: £853,000).

After incorporating the FRS 17 actuarial surplus and the tax liability for the year, the final result for the year is a surplus of £4,622,000. The comparative adjusted result for 2006 was a deficit of £1,243,000.

With the changes in tax legislation, which was announced in the 2006 Chancellor's budget speech, the Society reviewed its tax planning affairs during 2007. Significant work has been undertaken during the year to structure the tax liability on RPS Publishing's taxable profits to enable a minimum amount to be reported for the year.

Total accumulated funds at the end of 2007 before the Pension Fund deficit amounted to £7,903,000, (2006 - £8,379,000). After incorporating the current year surplus of £722,000 the retained reserves increased to £8,625,000. The significant change in FRS17 valuation has been explained under Note 14.

The Society's Balance Sheet is reporting an improvement in reserves with the FRS17 valuation at year-end. However, this will be short-lived following the adverse change in the markets witnessed during January, 2008. Continuing careful management of the Society's reserves is required. With the significant number of retention fee payments received in December, the Balance Sheet is reporting net liabilities at the year-end. This is normal practice due to the accounting treatment of our membership fees. This will regularise in 2008 when the membership fees are processed through the revenue line within the Income and Expenditure statement.

A more detailed analysis of income and expenditure has been included in note 2 to the financial statements to enhance transparency and help with the interpretation of the financial information.

Review of business activities

A summary of the financial position for 2007 is as follows:

- Income from retention fees relating to Members, Technicians and Premises rose by 7.8% in 2007. This is due to a slight increase in retention fee (Practising 6.0%, Premise 4.0%, Technician's 5.7%) and an increased number of practising members on the register.
- Overall income grew by 6.5% compared to 2006. In addition to increased fees from members, registrants and premises, income from RPS Publishing increased by 5.4%.
- In 2007, the Society received further funding from the Department of Health for its Inspectorate to undertake controlled drugs monitoring activities. This income offsets the corresponding costs reported during the year.
- The activities of Medicines Partnership were transferred out of the Society in 2006, therefore there was no income reported in 2007 (2006: £294,000).
- Overall expenditure on professional and regulatory activities increased by £2,251,000 – 13.9% (2006: £880,000 – 5.7%).
- With the introduction of the new Section 60 order during the first quarter, Fitness to Practise and Legal Affairs operated the Disciplinary Committees under the old and new rules therefore requiring parallel committees to be run. Despite this and undertaking a full formal tender process, legal costs remained consistent year-on-year.
- The Society fully implemented the inspection of Controlled Drugs during 2007. This included the recruitment of new inspectors within Fitness to Practise and Legal Affairs. The expenditure for this activity amounted to £444,000 during the year (2006: £0). This activity is funded by the Department of Health and there is equivalent income to offset against this expenditure.
- At year-end, the Society was made aware of a number of legal cases relating to decisions taken at the disciplinary committee which could lead to High Court action. It is anticipated that these cases could potentially amount to over £300,000 if the process is fully exhausted in the High Court. As the notified cases are at the early stages of discussions, no provision has been made in the 2007 accounts.
- Following the publication of the White Paper and the Carter Review earlier in the year, a significant amount of time and effort has been spent on planning for the future of the Society including formal meetings of Council. In order to support both work streams, supported by external experts, the costs totalled £422,000 during the year.
- Due to changes in corporate recharges, the Resources Directorate is reporting higher costs as all central costs are now absorbed within Resources and then recharged out to all Directorates on a monthly basis. Previously the costs were recharged out per invoice. The net recharge after taking account of the transfer of Central Costs to RPS Publishing has reported a small reduction in the current year.
- Due to the changes in tax legislation, there were no grants received during the year from any charity to fund activities within the Society.
- There was a significant reduction in capital expenditure during the year compared to 2006. Total capital amounted to £1.3 million which mostly supported the Society's investment in its IT infrastructure.
- Interest receivable has reported an 18% increase from 2006. This has been achieved by active cash management, continual review of market rates and higher cash balances.
- In 2006, an exceptional contribution of £1,959,000 was made to the pension fund by the Society to partially address the funding deficit. There was no such contribution in 2007.

- **RPS Publishing**, the Society's publishing arm, saw some improvement in the business environment during the year and this helped it improve its financial performance over 2006. Advertising sales recovered unexpectedly well and it looks as though 2006 was the bottom of this economic cycle. There was also a slight improvement in BNF revenue. These positive changes were partly countered by a lower performance from the Pharmaceutical Press as a result of the timing of the publication of the major reference works which had boosted the 2006 comparatives. Overall the increase in revenues and control over costs led to a significant improvement in contribution. The year ended with a largely full complement of staff and with the continuing programme of investment this means the RPS Publishing business is in a strong position to benefit from any market opportunities that arise. Pharmaceutical Press suffered from comparison to a particularly strong year in 2006 which was dominated by the publication of the 35th edition of Martindale, which appeared in November and contributed a third of total revenues in that year. In 2007 other publications performed well: in particular the new title Rules and Guidance for Pharmaceutical Manufacturers and Distributors did much better than expected and the new book programme continued to expand in terms of numbers of titles and sales.

The online service MedicinesComplete made excellent progress with a 70% year on year revenue improvement with a higher investment in sales and marketing and a competitive product reaping rewards, especially in the industry market. Licence fee income held steady despite the continued weakness of the US dollar which also contributed here as elsewhere to lower-than-expected revenues.

BNF Publications enjoyed a solid year. It continued to invest heavily in the development of its digital publishing activities and reorganised internally to improve its business focus. The BNF was supplied as usual to the departments of health although some cutbacks from departments of health reduced total BNF sales. The biennially published Nurse Prescribers' Formulary was also supplied in a reduced format as a result of a change in the required specification. However, the total net contribution from BNF Publications slightly improved due to a change in the phasing of investment and in the sales mix.

PJ Publications

The trend in advertising revenues reversed with a significant increase in overall revenue of 8% compared with 2006. Subscription revenue continued to show strong growth, due in part to higher prices and in part to technician registration. Production and editorial costs were kept under firm control, and despite further increases in distribution charges, the total increase over the previous year's contribution was over 25%. PJ Publications as a whole continued to make a very substantial contribution to the success of RPS Publishing.

Statement of Council's responsibilities for the preparation of financial statements

The Council is required to prepare financial statements which show a true and fair view of the state of the Society's affairs as at the year end and of its surplus or deficit for the year then ended.

In order to meet this requirement the Council must be satisfied that:

- suitable accounting policies are selected and then consistently applied;
- judgements and estimates that are made are reasonable and prudent;
- applicable accounting standards have been followed;
- financial statements are prepared on a going concern basis unless it is inappropriate to assume that the Society will continue its activities.

The Council is responsible for ensuring that proper books and records are maintained, for safeguarding the assets of the Society, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Appointment of Auditors

Council agreed that Horwath Clark Whitehill LLP should be re-appointed as the Society's auditors.

By order of the Council

Mr Andrew Gush
Treasurer
02 April 2008

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF THE ROYAL PHARMACEUTICAL SOCIETY OF GREAT BRITAIN

We have audited the financial statements of the Royal Pharmaceutical Society of Great Britain for the year ended 31 December 2007 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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

Respective responsibilities of council and auditors

The Council is responsible for preparing the Report of the Council. As described on page 8, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards.

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. We also report to you if, in our opinion, the Report of the Council is not consistent with the financial statements, if the Society 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 Report by the Council 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 of 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 Society'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 Society as at 31 December 2007 and of its results for the year then ended.

Horwath Clark Whitehill LLP
Chartered Accountants and Registered
Auditors
02 April 2008

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

THE GENERAL FUND

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2007

	Note	2007 £'000	2007 Pensions Reserve £'000	2007 Total £'000	2006 Restated £'000
Income	2	35,176	115	35,291	33,126
Expenditure	2	(35,796)	(119)	(35,915)	(33,351)
Operating deficit		<u>(620)</u>	<u>(4)</u>	<u>(624)</u>	<u>(225)</u>
Interest receivable and similar income	4	431	-	431	364
Interest payable on loan notes	5	(27)	-	(27)	(27)
(Deficit)/surplus on ordinary activities before taxation	6	<u>(216)</u>	<u>(4)</u>	<u>(220)</u>	<u>112</u>
Taxation	7	(260)	-	(260)	-
(Deficit)/surplus on ordinary activities after taxation		<u>(476)</u>	<u>(4)</u>	<u>(480)</u>	<u>112</u>
Pension scheme actuarial gain/(loss) (FRS17)		-	5,102	5,102	(1,355)
Retained surplus /(deficit) for the year		<u>(476)</u>	<u>5,098</u>	<u>4,622</u>	<u>(1,243)</u>
Reconciliation of funds					
Total funds brought forward		8,379	(4,376)	4,003	5,246
Accumulated fund as at 31 December including pension reserve		<u><u>7,903</u></u>	<u><u>722</u></u>	<u><u>8,625</u></u>	<u><u>4,003</u></u>

2006 Income and expenditure have been restated to exclude intra-company transactions between RPS Publishing and the other Directorates. There is no net effect on the deficit for the year.

All activities of the Society are continuing.

There are no recognised gains or losses for the current or preceding financial year other than as stated in the Income and Expenditure Account above, therefore no separate statement of recognised gains and losses has been prepared.

There is no difference between the deficit on ordinary activities before taxation and the retained surplus for the year stated above, and their historical cost equivalents.

BALANCE SHEET*As at 31 December 2007*

	Note	2007	2007	2006	2006
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	8	9,044		8,548	
Intangible assets	9	12		24	
			9,056		8,572
Current assets					
Stocks	10	384		267	
Debtors	11	4,433		6,158	
Deposits and cash		12,923		4,929	
		17,740		11,354	
Creditors : amounts falling due within one year	12	(18,539)		(11,089)	
Net current (liabilities) / assets			(799)		265
Total assets less current liabilities			8,257		8,837
Creditors : amounts falling due after more than one year	12		(354)		(458)
Net assets excluding pension liability			7,903		8,379
Pension scheme surplus/(liability)	14		722		(4,376)
Net assets including pension liability			8,625		4,003
Funds employed					
Accumulated Fund			6,338		6,814
Replacement Fund			1,565		1,565
Total funds before pension asset/(liability)			7,903		8,379
Pension scheme funding surplus/(deficit)			722		(4,376)
Total funds including deficit on pension scheme reserve			8,625		4,003

The financial statements on pages 11 to 26 were approved on 02 April 2008 and were signed on behalf of the Council by:

Mr Hemant R Patel (President)

Mr Andrew Gush (Treasurer)

CASH FLOW STATEMENT

For the Year Ended 31 December 2007

	Note	2007	2007	2006	2006
		£'000	£'000	£'000	£'000
Operating activities					
Net cash inflow from operating activities	15		8,975		200
Returns on investments and servicing of finance					
Interest and other similar income received			431		364
Interest payable and other similar expenditure			(27)		(27)
Loan note repayment during the year			(104)		(63)
Taxation					
UK corporation tax paid		-		-	
UK corporation tax refunded		-		-	
		-----	-	-----	-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(1,281)		(2,648)	
		-----	(1,281)	-----	(2,648)
Increase/(decrease) in cash for the period			<u>7,994</u>		<u>(2,174)</u>
Reconciliation of net cash flow to movement in net funds					
			2007		2006
			£'000		£'000
Increase/(decrease) in cash for the period			7,994		(2,174)
Net cash funds at 1 January			4,929		7,103
Net cash funds at 31 December			<u>12,923</u>		<u>4,929</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. Accounting policies

a) Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. A summary of the accounting policies which have been applied consistently is set out below.

b) Tangible fixed assets

No value is attributed in the balance sheet to the Society's collections of books, drug jars and silver plate, which are charged to the Income and Expenditure Account on purchase, or to the copyright of The Pharmaceutical Journal and other publications.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, in equal annual instalments over the expected useful economic lives of the assets. The principal annual rates in use are as follows.

	<u>Annual rates</u>
<i>Freehold property</i>	2%
<i>Long leasehold</i>	2%
<i>Plant and machinery</i>	6.7% – 10%
<i>Office equipment -</i>	
<i>Motor vehicles</i>	33%
<i>General office & computer equipment</i>	20%
<i>P.C.'s and peripheral equipment</i>	100%
<i>Conference/canteen equipment</i>	At cost
<i>Museum artefacts</i>	At cost

No depreciation is provided on freehold land and no depreciation is provided on assets in the course of construction.

As part of good financial practice, a formal review of the fixed asset register is completed annually to ensure that all assets remain active and are still in use.

c) Intangible assets

Intangible assets represent the acquisition of the entire share capital and publishing rights of various publications. The asset is being amortised on a straight-line basis over a five-year period. This period is the estimated period over which the value of the underlying publishing rights acquired are expected to exceed the value of the underlying asset.

d) Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value and after making due allowance for obsolete and slow moving items. Cost represents materials, direct labour and appropriate production overheads.

In line with industry practice, the Society is writing off publication editorial costs as incurred.

e) Income

Income from professional activities and publishing is stated net of Value Added Tax, where appropriate, and represents the invoiced value of goods and services supplied.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

1. Accounting policies (continued)

Membership fees are recognised in the Income and Expenditure Account in the year to which they relate.

Income from investments is included in the financial statements when received. Interest on loans and deposits is accrued as earned.

f) Revenue grants

Revenue grants receivable are matched against the expenditure of the specific projects in respect of which they are granted. Where projects span more than one accounting period, any excess of grants received over expenditure incurred to date is carried forward in the Society's balance sheet as a current liability.

g) Foreign exchange

Assets and liabilities denominated in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. Foreign exchange differences are taken to the Income and Expenditure Account in the year in which they arise.

h) Pension costs

Retirement benefits are provided by a defined benefits scheme, which is funded by contributions from both the Society and employees. Payments are made to a pension trust, which is financially separate to the Society. These payments are made in accordance with periodic calculations by professionally qualified actuaries. Pension costs are accounted for on a basis of charging the expected cost of providing pensions over the period during which the Society benefits from the employees' services. The effect of variations from regular costs are spread over the expected average remaining service lives of members of the scheme. The Society's defined benefit pension scheme was closed to new entrants on 31st December, 2002.

All new employees are offered the opportunity to join the Society's sponsored Group Personal Pension Scheme (GPP) run by Aegon (previously known as Scottish Equitable). The GPP is a stakeholder compliant defined contribution scheme to which the Society contributes varying percentages of salary depending upon the age of the employee. Costs are accounted for on an accruals basis.

The details set out in note 14 meet the disclosure requirements of FRS 17 which was fully implemented in 2005.

i) Operating lease rentals

Operating lease rentals are charged to the Income and Expenditure Account as they are incurred over the lease term on a straight-line basis.

j) Deferred taxation

FRS 19 (Deferred Tax) has been adopted for these accounts. In accordance with the standard full provision is made, at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantially enacted at the balance sheet date, in respect of timing differences which have arisen but not reversed at the balance sheet date. Timing differences are differences between the Society's taxable profits and its results as stated in the accounts. Deferred tax is measured on a non-discounted basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

2. Income and expenditure

	Note	Income		Expenditure	
		2007 £'000	Restated 2006 £'000	2007 £'000	Restated 2006 £'000
From professional and regulatory activities					
Members and registrants fees		12,513	11,556		
Premises fees		2,232	2,122		
Total fee income		14,745	13,678		
Council		1	-	744	812
Corporate Affairs and Strategic Development		326	268	2,491	2,514
Education and Registration		938	865	2,747	2,370
Fitness to Practise and Legal Affairs		505	101	4,722	3,610
Practice and Quality Improvement		61	104	1,228	1,068
Public Affairs and Communication		423	528	2,839	2,594
Resources		67	20	4,056	3,548
Secretary and Registrar/Chief Executive		-	8	552	421
Scotland and Wales		58	54	1,055	841
Transfer of central costs to RPS Publishing		-	-	(2,518)	(1,985)
Medicines Partnership		-	294	-	294
Scottish Drug Testing Scheme		62	62	62	62
White Paper / Carter Review		-	-	422	-
Total from professional and regulatory activities		17,186	15,982	18,400	16,149
RPS Publishing		17,990	17,067	14,878	14,189
Gift Aid		-	-	-	853
Transfer of central costs to RPS Publishing		-	-	2,518	1,985
Total RPS Publishing		17,990	17,067	17,396	17,027
FRS 17 pension reserve adjustment	14	115	77	119	175
Total for the year		35,291	33,126	35,915	33,351

In 2007, internal recharges for central overheads were charged across the organisation. For consistent presentation against prior year figures, such recharges are not included above.

2006 Income and expenditure have been restated to exclude intra-company transactions between RPS Publishing and the other Directorates. There is no net effect on the deficit for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. Information regarding employees

Employee costs represent:

	2007	2006
	£'000	£'000
Wages and salaries	11,129	10,654
Social security costs	1,065	1,061
Other pension costs	1,382	1,591
	<u>13,576</u>	<u>13,306</u>

The average number of persons employed by the Society during the year was:

	No.	No.
Corporate and strategic development	35	27
Education and registration	34	30
Fitness to practise	50	42
Practice and quality improvement	13	12
Public affairs and communication	26	26
RPS publishing	109	106
Resources	41	38
Chief executive and registrar	1	1
Scotland	9	8
Wales	4	5
	<u>322</u>	<u>295</u>

	No.	No.
Monthly average of employees in post during the year	<u>301</u>	<u>284</u>

	£'000	£'000
Chief Executive and Registrar & Directors' remuneration:		
Basic salaries	861	974
Benefits	64	46
Pension contributions	137	182
	<u>1,062</u>	<u>1,202</u>

	No.	No.
Chief Executive and Registrar & Directors' remuneration, excluding pension contributions, fell within the following ranges:		
£0 -£50,000	3	-
£50,001-£80,000	2	2
£80,001-£90,000	-	1
£90,001-£100,000	1	3
£100,001-£110,000	2	2
£110,001-£120,000	1	1
£120,001-£130,000	1	-
£130,001-£140,000	1	1
£135,001-£150,000	-	-
	<u>11</u>	<u>10</u>

During the year, the Director of Corporate and Strategic Development, Director of Public Affairs and Communication, the Director of Education and Registration left the Society and have not been replaced. The Secretary and Registrar retired from the Society and a new Chief Executive was appointed in September, 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. Interest receivable and similar income

	2007	2006
	£'000	£'000
Interest receivable	<u>431</u>	<u>364</u>

5. Interest payable and similar expenditure

	2007	2006
	£'000	£'000
Interest payable on loan notes	<u>27</u>	<u>27</u>

6. Deficit on ordinary activities before taxation

This is stated after charging :

	2007	2006
	£'000	£'000
Motor vehicle operating lease rentals	133	129
Depreciation of tangible fixed assets	765	553
Amortisation of intangible assets	12	120
Auditors remuneration : as auditors	46	30
for other services	35	71
	<u>991</u>	<u>903</u>

7. Taxation

	2007	2006
	£'000	£'000
Deferred tax	-	-
UK corporation tax at 30% (2006 : 30%) based on surplus for the year	260	-
Overseas tax	-	-
	<u>260</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

7. Taxation (Continued)

a) Analysis of current tax charge

	2007	2006
	£'000	£'000
Loss for the period	216	210
Expected tax charge at 30%	65	63
Effects of:-		
Non taxable income net of unrelieved operating losses	(183)	247
Disallowable expenditure	(146)	(26)
Capital allowances in excess of depreciation	(1)	(28)
Gift Aid payment	-	(256)
Prior year deferred tax restated at 28%	(17)	-
Corporation tax differential	22	-
Actual tax charge	<u>260</u>	<u>-</u>

b) Analysis of factors affecting future tax charge

The proportion of profits from RPS Publishing is subject to periodical review by the Revenue.

The deferred tax provided represents the difference between the net book value of eligible assets and their tax written down value and taking into account the agreed eligible percentage of capital allowances available. There are no material deferred tax liabilities which are not provided for.

NOTES TO THE FINANCIAL STATEMENTS*For the year ended 31 December 2007***8. Tangible fixed assets**

	Freehold Property	Long Leasehold	Plant & Machinery	Office Equipment	Motor Vehicles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
As at 1 January 2007	6,821	608	2,243	3,645	34	13,351
Additions	65	-	113	1,103	-	1,281
Disposals	-	-	-	(186)	(34)	(220)
As at 31 December 2007	<u>6,886</u>	<u>608</u>	<u>2,356</u>	<u>4,562</u>	<u>-</u>	<u>14,412</u>
Depreciation						
As at 1 January 2007	1,251	70	1,186	2,262	34	4,803
Charge for the year	134	12	158	461	-	765
Disposals	-	-	-	(166)	(34)	(200)
As at 31 December 2007	<u>1,385</u>	<u>82</u>	<u>1,344</u>	<u>2,557</u>	<u>-</u>	<u>5,368</u>
Net Book Value						
As at 31 December 2007	<u>5,501</u>	<u>526</u>	<u>1,012</u>	<u>2,005</u>	<u>-</u>	<u>9,044</u>
As at 31 December 2006	<u>5,570</u>	<u>538</u>	<u>1,057</u>	<u>1,383</u>	<u>-</u>	<u>8,548</u>

The freehold properties were valued independently as at 31 December 2007 on the basis of open market value. The open market value of the Society properties was estimated as follows:

Freehold properties £15,030,000 (Lambeth headquarters, Bell House, Cardiff office)
Leasehold properties £900,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

9. Intangible assets	2007	2006
	£'000	£'000
Cost		
Opening and Closing Balance	<u>1,142</u>	<u>1,142</u>
Amortisation		
Opening Balance	1,118	998
Charge for the year	<u>12</u>	<u>120</u>
Total Amortisation	<u>1,130</u>	<u>1,118</u>
Net book value	<u>12</u>	<u>24</u>
10. Stocks and work in progress	2007	2006
	£'000	£'000
Work in progress	42	19
Finished goods and goods for resale	342	248
	<u>384</u>	<u>267</u>
11. Debtors	2007	2006
	£'000	£'000
Trade debtors	2,414	3,079
Balances with related parties (note 16)	12	716
Other debtors	1,056	1,365
Prepayments and accrued income	949	998
VAT debtor	2	-
	<u>4,433</u>	<u>6,158</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. Creditors

	2007	2006
	£'000	£'000
a. Amounts falling due within one year		
Trade creditors	1,257	1,513
Corporation tax	260	-
Other taxes and social security	440	397
Other creditors	836	926
Loan note	104	104
Accruals	1,445	1,510
Deferred income	14,197	6,639
	<u>18,539</u>	<u>11,089</u>
b. Amounts falling due after more than one year		
	2007	2006
	£'000	£'000
Loan notes	354	458
	<u>354</u>	<u>458</u>

The loan notes represent monies due for the purchase of Stockley Drugs Interaction Systems Limited in 2001. The loan notes are repaid over an eight year period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

13. Commitments

As at 31 December 2007, the Society has the following annual commitments.

	2007	2006
	£'000	£'000
Operating leases which expire :		
Within one year	20	107
Within two to five years	127	81
	<u>147</u>	<u>188</u>
Contracts placed for future capital expenditure to be incurred within one year and not provided for in the financial statements	<u>53</u>	<u>62</u>

14. Pensions

The RPSGB Pension Scheme is a defined benefit scheme closed to new entrants. The assets of the scheme are held separately, under the control of its trustees, and the Society does not have access to these funds. An actuarial valuation was carried out as at 31 December 2003 by consulting actuaries, FPS, now Capita Hartshead, using the Attained Age method. The valuation revealed a deficit of £3,456,000. The next triennial valuation as at 31 December 2006 has been undertaken by Capita Hartshead and at the time of writing, the results have yet to be finalised.

The Society continues to look at ways to reduce its exposure to the scheme and limit the cost of maintaining the scheme in the future.

In accordance with the requirements of Financial Reporting Standard 17, the scheme Actuary has carried out a valuation of the scheme using the assumptions specified by the reporting standard. The assumptions used in calculating the expected return on assets and the schemes liabilities are detailed in the following disclosures.

The FRS17 valuation as at December, 2007 reveals a surplus of assets to liabilities amounting to £722,000. This is significantly different to the deficit declared at the end of 2006 and reveals a movement in the course of the year of £5,098,000. Underlying this movement has been an increase in asset values of £2,605,000 and a reduction in liabilities of £2,493,000. That asset value increase is to be expected, as the Society has continued to contribute to the Scheme, however, for the liabilities to have decreased at the same time is counter intuitive. The reason for this change is almost entirely due to the rate used to discount future liabilities. From the following tables, it can be seen that the rate used to discount future liabilities has increased from 5.1% to 5.8%, an effective increase of 13.7% which has resulted in a substantial reduction in the overall liabilities.

The discount rate used in the FRS17 valuation is derived from the return on corporate bonds in the market place at the valuation date. As such, this rate is subject to considerable volatility on a daily basis. Between December 2006 and December 2007 the corporate bond rate increased substantially, partly as a result of the "credit crunch" emanating from the sub-prime woes of North America. However, since the FRS17 valuation date, 31 December 2007 both the value of the worldwide Equity markets have fallen and interest rates have declined. If the current market rates, at the time of writing, were to be applied, then a very different picture would undoubtedly emerge with lower asset values and higher liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. Pensions (Continued)

FRS17 Disclosures

Assumptions

	2007 % pa	2006 % pa	2005 % pa
Inflation rate	3.20	3.00	2.75
Discount rate	5.80	5.10	4.75
Expected return on assets	5.00	5.00	5.70
Expected rate of salary increases	4.70	4.50	4.25
Rate of pension increases in payment			
Post April 1997	3.10%	3.00%	3.00%
Post April 2006	2.20%	2.10%	-
Rate of pension increases in deferment			
Post April 1997	3.10%	3.00%	3.00%
Post April 2006	2.20%	2.10%	-

Scheme assets and expected rate of return

	2007		2006		2005	
	Market value	Expected Rate of return	Market value	Expected Rate of return	Market value	Expected Rate of return
	% pa		% pa		% pa	
Equities	24,635	6.65	26,662	6.35	28,252	6.00
Bonds	16,715	5.15	11,504	4.85	4,664	4.50
Cash	1,139	5.00	1,718	5.00	906	4.00
Total market value of assets	<u>42,489</u>		<u>39,884</u>		<u>33,822</u>	
Present value of liabilities	41,767		44,260		38,704	
Surplus / (deficit) in the plan	<u>722</u>		<u>(4,376)</u>		<u>(4,882)</u>	
Net pension asset / (liability)	<u><u>722</u></u>		<u><u>(4,376)</u></u>		<u><u>(4,882)</u></u>	

Volatility of FRS17

It should be noted that the methodology and assumptions prescribed for the purposes of FRS17 mean that the disclosures will be inherently volatile, varying greatly according to investment market conditions at each accounting date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. Pensions (Continued)

	2007	2006
	£'000	£'000
Deficit in plan at the beginning of the year	(4,376)	(4,882)
Movement in year:		
Current service cost	(1,572)	(1,349)
Employer contributions	1,453	3,266
Past service costs	-	(133)
Other finance income	115	77
Actuarial gain / (loss)	5,102	(1,355)
Surplus / (deficit) in plan at the end of the year	<u>722</u>	<u>(4,376)</u>

Analysis of History of Experience

Analysis of the amount charged against operating income

	2007	2006
	£'000	£'000
Current service cost	1,572	1,349
Past service cost	-	133
Total operating charge (net of employee contributions)	<u>1,572</u>	<u>1,482</u>

Analysis of the amount credited to other finance income

	2007	2006
	£'000	£'000
Expected return on plan assets	2,336	1,955
Interest on plan liabilities	(2,221)	(1,878)
Net return	<u>115</u>	<u>77</u>

Analysis of amount recognised in statement of total recognised gains and losses

	2007	2006
	£'000	£'000
Actual return less expected return on scheme assets	284	1,881
Changes in assumptions	4,818	(3,236)
Recognised actuarial gain / (loss)	<u>5,102</u>	<u>(1,355)</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. Pensions (Continued)

History of experience gains and losses

	2007	2006	2005	2004
	£'000	£'000	£'000	£'000
Loss on scheme assets				
Amount	284	1,881	4,082	865
% of scheme assets at end of period	1%	5%	12%	3%
Experience loss on scheme liabilities				
Amount	-	-	(658)	(514)
% of scheme liabilities at end of period	-%	-%	(2%)	(2%)
Total actuarial gain/(loss) recognised in other gains and losses				
Amount	5,102	(1,355)	(747)	(2,013)
% of scheme liabilities at end of period	12%	(3%)	(2%)	(6%)

15. Reconciliation of operating (deficit)/surplus to net cash (outflow)/inflow from operating activities

	2007	2006
	£'000	£'000
Operating deficit	(620)	(127)
Exceptional pension fund payment	-	(1,959)
Depreciation of tangible fixed assets	765	704
Amortisation of intangible assets	12	120
Loss on disposal of tangible fixed assets	20	444
(Increase)/decrease in stocks	(117)	65
Decrease/(Increase) in debtors	1,725	(1,424)
Increase in creditors	7,190	2,377
Net cash inflow/(outflow) from operating activities	<u>8,975</u>	<u>200</u>

16. Related party transactions

The Society charges agreed amounts for certain administrative activities performed on behalf of the Benevolent Fund, the Pharmaceutical Trust for Education and Charitable Objects and the Educational Funds of the Royal Pharmaceutical Society of Great Britain. The Society also administers the rental of certain properties on behalf of the Benevolent Fund.

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