



Annual Accounts 2003

36	Report of the Treasurer
38	Corporate Governance
41	Responsibilities of the Council
42	Report of the Auditors
44	Statement of Principal Accounting Policies
49	Consolidated Income and Expenditure Account
50	Balance Sheets
52	Consolidated Cashflow Statement
53	Statement of Recognised Gains and Losses
54	Notes to the Accounts
72	Five-Year Summary Accounts
73	Financial Statistics

The accounts for the year ended 31 July 2003

Report of the Treasurer

As noted last year, the continued financial viability of the University requires careful control of four key activities:

- ability to generate an adequate and recurrent surplus
- sound investment of University reserves
- delivery of sustained investment in facilities and infrastructure
- maintenance of adequate cash resources for working capital purposes

The summary results are:

	2002/3	2001/2	2000/1
	£m	£m	£m
Income	291.8	279.5	255.4
Expenditure	<u>279.7</u>	<u>272.0</u>	<u>254.8</u>
Operating Surplus	<u><u>12.1</u></u>	<u><u>7.5</u></u>	<u><u>0.6</u></u>

The significant improvement in the operating surplus of the University over the last three years is pleasing to note. This increase is as a result of decisions taken two years ago to create a financially sustainable surplus, thereby enabling the University to become increasingly able to support the requirement for future investment through internally generated resources. The considerable efforts of management and staff have been critical in achieving this progress and continued vigilance will be required in order to ensure that the surplus remains at a sustainable level.

The University's income has grown by 4% in the year, assisted by the continued growth of 12% in Academic fees and Support Grants, following the 13% growth recorded last year. The increase in part time students has been particularly strong with an annual rise of 25%.

Other operating income has fallen by 4% this year, largely as a result of the non-recurrent revenues received last year (£3m VAT refund and £1.5m grant release). Adjusting for these items, underlying annual growth was a satisfactory 4%.

One encouraging improvement is within Endowment Income and Interest Receivable. This has been an area of considerable difficulty for the University as the value of equity investments and asset returns have fallen. The 18% improvement this year is partially as a result of improving market conditions, but is also due to the strong financial performance of the University, which has increased the funds available for investment.

In contrast to income, total expenditure has increased by only 3% in the year. Within this figure staff costs have grown disproportionately at 6% and represent some 58% of the total expenditure of the University. This increase is as a result of several factors including the annual pay awards of 4%, the introduction of a flexible benefits scheme and a re-balancing of staff towards Academic and Clinical roles. This investment in staff is both required and welcome. Nevertheless, the importance of careful management in such a significant cost area is well understood.

Report of the Treasurer (continued)



Other Operating Expenses have fallen by 5% during the year. Excluding rationalisation costs, which by their nature fluctuate year by year, this expenditure line has increased by 3% over last year. The University intends to continue the drive for further cost savings in this area.

The University's operating surplus of £12m is in line with budget and accounts for some 4% of turnover. This is further improved by the exceptional surplus in the year of £2.2m from the sale of the Griffin Close site. The University has therefore generated an adequate surplus in the year, although our ability to sustain this situation in the future depends to a significant extent upon the outcome of the current national debate on the funding of the higher education sector.

The University's available reserves have grown by £18m in the year, as ongoing progress has been made in rationalising activities and the cost base. In addition, the need for thorough business-plans has been reinforced whenever proposals require the use of reserves. Taken together these measures are ensuring the sound development and utilisation of University reserves.

Investment in facilities and infrastructure has continued at a significant pace in the year. Capital additions have increased from £46m last year to £66m this year with major investments in Medicine, Student Residences, the Business School, IT Networks and an innovative Central Kitchen development. The majority of these developments have been funded without recourse to loan finance, which is only considered when clearly identified new income streams can be predicted with confidence. The capital investment programme is scheduled to continue at this high level throughout the five year planning horizon of the University. This investment is required to sustain the University's position as an internationally recognised research led institution.

The cash and working capital resources of the University are closely monitored throughout the year. The investment policy for such funds is to obtain the best investment return at the lowest risk. Careful management of working capital in the year has led to a net cash inflow of £9m. As a result loans we had anticipated drawing down to meet the cash requirements during the year have not yet been required.

Our long-term investment returns have improved to 6%, compared to a negative 12% last year. This is due to an improvement in the capital values of our investment portfolio and higher returns of 4% on investments, comparing favourably with the WM index.

The approach to risk management has been consolidated and further developed throughout the year, as set out in the Corporate Governance Statement. This activity will continue to ensure that the University retains its financial strength in coming years.

The future funding of the Higher Education sector is currently an area of great uncertainty, and therefore of concern to all stakeholders. Nevertheless, the management of the University is strong, has clear direction and has developed robust business plans. I am therefore confident that this institution is well placed to seize whatever opportunities may be forthcoming.

Corporate Governance

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the Governance procedures applied by the University's Council.

The University endeavours to conduct business:

i) in accordance with the seven principles identified by the Nolan Committee on standards in public life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership),

AND

ii) in the light of the guidance to the University which has been provided by the Committee of University Chairmen in its 'Guide for Members of Governing Bodies of Universities in England and Wales'.

The Council welcomes the Combined Code on Corporate Governance issued by the London Stock Exchange, particularly as the University is a significant investor in a wide range of listed companies. The University is committed to exhibiting best practice in all aspects of corporate governance and this summary describes the manner in which the University is moving to apply the principles set out in section 1 of the Combined Code.

During the year, Council has reviewed its effectiveness and implemented recommendations to ensure the Governing Body continues to function optimally.

Summary of the University's Structure of Corporate Governance

The University's Council comprises 30 lay and academic persons appointed under the Statutes of the University, the majority of whom are non-executive. The roles of Chairman and Deputy Chairman of the Council are separate from the role of the University's Chief Executive, the Vice-Chancellor and Principal. The matters specifically referred to the Council for decision are set out in the Statutes of the University; by custom and under the Financial Memorandum with the Higher Education Funding Council for England, the Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the day-to-day operations of its business and its subsidiary companies.

The Council meets at least four times a year and has several Committees including a Strategy, Planning and Resources Committee, an Audit Committee, a Council Membership Committee and a Remuneration Committee. These Committees are formally constituted with terms of reference and with the exception of the Strategy, Planning and Resources Committee they comprise mainly lay members of Council, one of whom is the Chair. The Strategy, Planning and Resources Committee comprises both academic and lay members of Council, and is chaired by the Vice-Chancellor and Principal.

The Strategy, Planning and Resources Committee recommends to Council a corporate plan for the University, embracing all matters of a long-term, medium-term and short-term nature. It brings together academic, financial and physical planning and monitors the effectiveness of all such plans.

Corporate Governance (continued)



The Audit Committee meets at least twice annually. The Committee reviews the effectiveness of the University's financial and other control systems, satisfies itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness and advises the Council on risk management and the effectiveness of the accounting procedures. It reviews the external auditor's report and the scope and effectiveness of the internal auditor's work and advises Council on the appointment of both the Internal and External Auditor. It receives and considers reports from the Higher Education Funding Council for England as they affect the University's business and monitors adherence with the regulatory requirements and reviews the University's annual financial statements together with the accounting policies. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee does meet with the Internal and External Auditors on their own for independent discussions.

The Remuneration Committee meets annually and comprises the Pro-Chancellor, the Treasurer, one other lay member of Council and the Vice-Chancellor and Principal. It determines the annual remuneration of professorial and senior administrative staff, having sought comparative information within the University sector and elsewhere.

The Council Membership Committee considers nominations for co-opted vacancies in the Council membership under the relevant ordinance.

In addition, the Senate, under the Statutes, is responsible to the Council for regulating and directing the academic work of the University in teaching, examining and research for the award of all Degrees, Diplomas, Certificates and other academic distinctions of the University and for the discipline (whether intra-mural or extra-mural) of the students of the University and for the enforcement of such discipline.

The Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in article 9 of the Charter of Incorporation, Section 25 of the Statutes of the University and the Financial Memorandum with the HEFCE.

Statement of Internal Control

As the governing body of the University of Birmingham, we have responsibility for ensuring a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Charter and statutes and the financial memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Corporate Governance (continued)

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the extent and nature of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2003 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- Council meet a minimum of four times a year to consider the plans and strategic direction of the institution
- Council receive periodic reports from the Audit Committee concerning internal control, and we require regular reports from managers, either directly or through the Strategy, Planning and Resources Committee, on the steps they are taking to manage risks in their area of responsibility, including progress reports on key projects
- Council have requested the Audit Committee to provide oversight of the risk management process
- The Audit Committee receives regular reports from the Head of Internal Audit, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, together with recommendations for improvement
- An annual facilitated workshop takes place to identify and keep up to date the record of risks facing the institution
- An organisation wide risk register is now maintained
- Heads of budget centres are receiving guidance on how to monitor and manage risks in their area of responsibility
- A system of key performance indicators has been developed for the most significant risks facing the institution and this is being developed to take account of all risks on the risk record

Our review of the effectiveness of the system of internal control is informed by the Internal Audit unit, which operates to standards defined in the HEFCE Audit Code of Practice, and which was last reviewed for effectiveness by the HEFCE Audit Service in November 2000.

Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers of the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Responsibilities of the Council



In accordance with the Royal Charter, the Council of the University of Birmingham is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University Statutes, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit, cash flows, and total recognised gains and losses for that year.

In preparation of the financial statements, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- it is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

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

Report of the Auditors

Independent Auditor's Report to the Council of the University of Birmingham

We have audited the financial statements which comprise the consolidated income and expenditure account, the balance sheet, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the statement of accounting policies and significant estimation techniques.

Respective Responsibilities of the Council and Auditors

The Council's responsibility for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, applicable United Kingdom law and accounting standards is set out in the Statement of Responsibilities of the Council.

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 opinion has been prepared for and only for the Council. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Treasurer's Report and the Corporate Governance Statement.

Basis of Opinion

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

Report of the Auditors (continued)



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 affairs of the University and the Group at 31 July 2003, and of the surplus of income over expenditure, recognised gains and losses and cash flows of the University and the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions;
- in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- in all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the financial memorandum dated March 1996 with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
17 December 2003

Statement of Principal Accounting Policies and Estimation Techniques

1. General

In accordance with FRS 18 these accounting policies have been reviewed by the University's Council and are considered appropriate to the University's activities.

The Financial Statements have been prepared on the historical cost accounting basis, modified for the revaluation of certain fixed assets and investments, and in accordance with the Statement of Recommended Practice (SORP) applicable to Higher and Further Education Institutions and applicable Accounting Standards. They conform to the guidance published by the Higher Education Council for England.

2. Land and Buildings

Land and Buildings are stated at cost, or at valuation if acquired before 31 July 1998.

The University depreciates its buildings on the basis of:

Academic and administrative buildings	– 50 years
Residential and commercial buildings	– 30 years

The costs of renovating or converting buildings are capitalised and depreciated in accordance with the above basis.

Heritage buildings are maintained in such a state that their residual values are not materially different from their book values and hence a nil depreciation charge is made. Land is not depreciated.

Major repairs and refurbishments are capitalised and depreciated over 10 years, where they substantially add to the total area of the building, prolong its useful life or enhance the economic benefits of the building.

Where buildings are acquired with the aid of specific grants they are capitalised and the related grants are credited to deferred grants. The deferred capital grants are released to the Income and Expenditure Account over the useful economic life of the asset.

All buildings are regularly reviewed for indications of impairment. Where there is an impairment, the difference between the assessed recoverable value of the building and its written down cost is charged to the Income and Expenditure Account.

The transitional rules in FRS 15 have been applied and the book values at implementation have been retained.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

3. Equipment

All equipment is capitalised at cost, irrespective of value, and is depreciated over three years on a straight-line basis. Where equipment is acquired with the aid of specific grants, the grant is treated as a deferred capital grant and released to the Income and Expenditure Account over the expected useful economic life of the equipment.

4. Investments

Fixed Asset Investments are included in the Balance Sheet at market value. Increases/decreases in value arising on the revaluation of Fixed Asset Investments are carried to the Revaluation Reserve. Where a permanent diminution in value of an asset occurs, the excess will be charged to the Income and Expenditure Account to the extent it is not covered by a revaluation surplus.

Endowment Asset Investments are carried at market value. Such investments held at the previous year end, and carried at market value at that date, may be sold during the year. This crystallizes the value and any difference between the opening market value and the sale proceeds represents a revaluation movement. Consequently, the financial statements do not distinguish between the valuation adjustment relating to sales and those relating to continuing holdings as they are together treated as changes in the value of the investment portfolio.

Current Asset Investments are included at the lower of cost and net realisable value.

5. Stocks

Stocks for building maintenance and for resale are included at the lower of cost and net realisable value.

Consumable items are charged directly to the Income and Expenditure Account.

6. Cash Flows and Liquid Resources

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Liquid Resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

Statement of Principal Accounting Policies and Estimation Techniques (continued)



7. Repairs and Maintenance

The University has established a long-term plan for repairs and maintenance which ensures that the buildings remain in their current state of repair. The costs of repairs and maintenance are charged to the Income and Expenditure Account as incurred, unless they fulfil the capitalisation criteria described in paragraph 2.

8. Pensions

Retirement benefits for employees of the University are provided by defined benefit schemes, which are funded by contributions from the University and employees.

The two principal pension schemes for the University's staff are the Universities' Superannuation Scheme (USS) for academic and academic-related staff, and the University of Birmingham Pension and Assurance Scheme (BPAS) for other staff. The schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme.

The USS is valued every three years by the Government Actuary and BPAS is valued every three years by a professionally qualified independent actuary. Pension costs are assessed on the latest actuarial valuations of each scheme and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' service.

9. Taxation

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the university is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. Except for its trading activities and certain research and consultancy activities, the University cannot recover the Value Added Tax suffered on its expenditure and this cost is included under the various related expenditure heads.

The University's subsidiary companies are subject to corporation tax and value added tax in the same way as any commercial organisation.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Statement of Principal Accounting Policies and Estimation Techniques *(continued)*

10. University Companies

The results of the University's subsidiary undertakings have been consolidated in the financial statements and details of interests in these subsidiary undertakings are provided in note 33 to the Accounts.

11. Leased Assets

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income and expenditure on the same basis as above. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income and expenditure account over the period of the lease.

All other leases are operating leases and the annual rentals payable are charged to the Income and Expenditure Account

12. Merit Awards

Amounts paid in respect of Merit Awards on behalf of Health and Hospital Authorities and recharged to those Authorities, are included within the Income and Expenditure Account.

13. Guild of Students

The financial statements for the University of Birmingham Guild of Students have not been consolidated, as the University has no control or dominant influence over policy decisions. The contribution made by the University to the Guild is shown in note 8 and the aggregate capital and reserves and surplus for the year to 31 July 2003 are shown in note 34.

14. Recognition of Income

The recurrent grant from the Higher Education Funding Council for England represents the funding allocation, which is attributable to the current financial year and is credited direct to the Income and Expenditure Account.

Grants which are applied to acquire tangible fixed assets are credited to deferred grants and released to the Income and Expenditure Account over the estimated useful lives of the relevant assets.

Statement of Principal Accounting Policies and Estimation Techniques *(continued)*



Tuition fees represent student fees received and receivable attributable to the current accounting period.

Income from research grants and contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect costs.

The University acts as an agent in the collection and payment of training bursaries from the Teacher Training Agency and of Access Funds from HEFCE. Related payments received from the Teacher Training Agency and HEFCE and subsequent disbursements to students are excluded from the Income and Expenditure Account and are shown separately in note 30. Income from short term deposits is accrued up to the balance sheet date.

15. Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, when it is probable that a transfer of economic benefit will be incurred, and this transfer can be reliably estimated.

16. Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Consolidated Income and Expenditure Account

For the Year Ended 31 July 2003

	Note	2002/3 £000	2001/2 £000
Income			
Funding Council Grants	1	95,867	90,622
Academic Fees and Support Grants	2	59,557	53,294
Research Grants and Contracts	3	70,673	68,048
Other Operating Income	4	62,047	64,406
Endowment Income and Interest Receivable	5	3,709	3,151
Total Income		<u>291,853</u>	<u>279,521</u>
Expenditure			
Staff Costs	6	163,067	154,316
Depreciation	8	24,669	22,248
Other Operating Expenses	8	89,050	93,406
Interest Payable	7	2,941	2,002
Total Expenditure	8	<u>279,727</u>	<u>271,972</u>
Operating Surplus		12,126	7,549
Exceptional Item			
Profit arising from sale of Tangible Fixed Asset		2,178	–
Surplus for the year before taxation		14,304	7,549
Corporation Tax	9	(79)	(76)
Surplus for the Year after Taxation		14,225	7,473
Minority Interest		(101)	(129)
Retained Surplus for the Year		<u>14,124</u>	<u>7,344</u>
There were no discontinued operations during 2002/3 or 2001/2.			
Note of Historical Cost Surpluses and Deficits			
Surplus for the year		14,124	7,344
Difference between an Historical Cost Profit on Realised Investment Profits and Property Disposals and the actual realised Profit for the Year calculated on the revalued amount.		9,677	–
Difference between Historical Cost Depreciation and the actual charge based on the revalued amount.		621	784
Historical Cost Surplus		<u>24,422</u>	<u>8,128</u>

Balance Sheets

As at 31 July 2003

	Note	University		Consolidated	
		2003	2002	2003	2002
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	10	379,744	346,939	408,897	376,857
Investments	11	<u>8,945</u>	<u>8,934</u>	<u>8,596</u>	<u>8,592</u>
		<u>388,689</u>	<u>355,873</u>	<u>417,493</u>	<u>385,449</u>
Endowment Asset Investments	12	<u>57,210</u>	<u>54,803</u>	<u>57,210</u>	<u>54,803</u>
Current Assets					
Stocks and Stores in Hand		474	581	581	695
Debtors and Prepayments	13	58,448	64,623	51,397	50,744
Investments		29,360	17,624	29,360	17,624
Cash at Bank and in Hand		<u>644</u>	<u>3,122</u>	<u>2,195</u>	<u>4,949</u>
		<u>88,926</u>	<u>85,950</u>	<u>83,533</u>	<u>74,012</u>
Creditors:					
Amounts falling due within One Year	14	<u>(57,600)</u>	<u>(56,215)</u>	<u>(58,865)</u>	<u>(51,508)</u>
Net Current Assets		<u>31,326</u>	<u>29,735</u>	<u>24,668</u>	<u>22,504</u>
Total Assets Less Current Liabilities		477,225	440,411	499,371	462,756
Creditors:					
Amounts Falling Due After More Than One Year	15	(32,336)	(35,116)	(33,067)	(36,000)
Provisions for Liabilities and Charges	16	<u>(1,153)</u>	<u>(1,934)</u>	<u>(2,799)</u>	<u>(3,546)</u>
Total Net Assets		<u>443,736</u>	<u>403,361</u>	<u>463,505</u>	<u>423,210</u>

Balance Sheets (continued)

As at 31 July 2003

	Note	University		Consolidated	
		2003	2002	2003	2002
Represented by:		£000	£000	£000	£000
Deferred Capital Grants	17	63,275	39,184	64,214	40,162
Endowments					
Specific	18	50,275	47,878	50,275	47,878
General	18	<u>6,935</u>	<u>6,925</u>	<u>6,935</u>	<u>6,925</u>
		<u>57,210</u>	<u>54,803</u>	<u>57,210</u>	<u>54,803</u>
Reserves					
Revaluation Reserve	19	49,650	59,497	50,124	59,971
Income and Expenditure Account	20	273,601	249,877	290,072	266,490
Minority Interest		<u>—</u>	<u>—</u>	<u>1,885</u>	<u>1,784</u>
		<u>323,251</u>	<u>309,374</u>	<u>342,081</u>	<u>328,245</u>
Total Funds		<u>443,736</u>	<u>403,361</u>	<u>463,505</u>	<u>423,210</u>

The financial statements on pages 44 to 71 were approved by the Council on 17 December 2003 and signed on its behalf by:

Professor Michael Sterling, Vice-Chancellor and Principal

W J Glover, Treasurer

Consolidated Cash Flow Statement

For the Year Ended 31 July 2003

	Note	2002/3 £000	2001/2 £000
Net Cash Inflow from Operating Activities	24	32,600	11,393
Returns on Investments and Servicing of Finance	25	961	1,129
Taxation		(62)	–
Capital Expenditure and Financial Investment	26	<u>(20,523)</u>	<u>(25,859)</u>
Net Cash Inflow / (Outflow) before use of Liquid Resources and Financing		12,976	(13,337)
Financing	27	<u>(3,730)</u>	<u>23,871</u>
Increase in Cash in the year	28	<u>9,246</u>	<u>10,534</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

Increase in Cash in the year		9,246	10,534
New Leases/Loans		–	(26,819)
Repayment of Debt		<u>3,730</u>	<u>2,948</u>
Increase / (Decrease) in Net Funds		12,976	(13,337)
Net Funds at 1 August 2002		<u>(14,902)</u>	<u>(1,565)</u>
Net Funds at 31 July 2003	28	<u>(1,926)</u>	<u>(14,902)</u>

Consolidated Statement of Recognised Gains and Losses

For the Year Ended 31 July 2003

	Note	2002/3 £000	2001/2 £000
Surplus after Depreciation of Assets		14,124	7,344
Revaluation of Endowment Asset Investments	18	542	(9,949)
Revaluation of Fixed Asset Investments	19	11	(1,578)
Endowment Income Transfer to Accumulated Reserve		193	(17)
New Endowments	18	1,272	269
Other Movements on Income and Expenditure Account		–	1,635
Total Recognised Gains/(Losses) Relating to the Year		<u>16,142</u>	<u>(2,296)</u>
 Reconciliation			
Opening Reserves and Endowments		381,264	383,560
Total recognised gains/(losses) for the year		16,142	(2,296)
Closing Reserves and Endowments		<u>397,406</u>	<u>381,264</u>

Notes to the Accounts

For the Year Ended 31 July 2003

	2002/3 £000	2001/2 £000
1. Funding Council Grants		
Recurrent Grant from HEFCE	86,363	82,947
Specific Grants from HEFCE	6,253	5,636
Recurrent Grant from Teacher Training Agency	2,011	2,085
Deferred Capital Grants Released in Year:		
Equipment and Buildings	1,240	(46)
	<u>95,867</u>	<u>90,622</u>
2. Academic Fees and Support Grants		
Full-time students	22,720	20,691
Full-time students charged overseas and other fees	16,179	14,950
Part-time Courses – credit bearing	16,159	12,899
– non credit bearing	2,747	3,135
Research, Training and Support Grants	<u>1,752</u>	<u>1,619</u>
	<u>59,557</u>	<u>53,294</u>
3. Research Grants and Contracts		
Office of Science and Technology Research Councils	25,147	26,539
UK-Based Charities	17,225	16,701
UK Central/Local Government, Health and Hospital Authorities	14,322	11,643
UK Industry, Commerce and Public Corporations	6,892	6,971
EU Government Bodies	3,023	2,450
EU Other	845	834
Other Overseas	2,094	1,829
Other Sources	<u>1,125</u>	<u>1,081</u>
	<u>70,673</u>	<u>68,048</u>

Notes to the Accounts (continued)

	2002/3 £000	2001/2 £000
4. Other Operating Income		
Residences, Catering and Conferences	21,229	19,869
Other Services Rendered	13,376	13,272
Externally Funded Posts – Health Authorities	9,309	9,087
– Other Sources	1,545	1,114
Self-Financing Teaching Activities	4,491	4,462
Rented Properties and University Centre Lettings	1,217	1,151
Day Nursery	770	635
Release of Deferred Capital Grants	244	1,500
Barber Trust	676	735
German Institute	205	188
VAT Refund	–	3,362
Other Income	<u>8,985</u>	<u>9,031</u>
	<u>62,047</u>	<u>64,406</u>
5. Endowment Income and Interest Receivable		
Transferred from Specific Endowments (Note 18)	1,612	1,694
Income from General Endowment Asset Investments (Note 18)	290	290
Income from Short Term Investments	1,194	759
Other Investment Income	<u>613</u>	<u>408</u>
	<u>3,709</u>	<u>3,151</u>
6. Staff		
Staff Costs:		
Wages and Salaries	136,945	129,625
Social Security Costs	10,442	9,609
Other Pension Costs (Note 29)	<u>15,680</u>	<u>15,082</u>
	<u>163,067</u>	<u>154,316</u>
Emoluments of the Vice-Chancellor:		
Salary and benefits	210	192
Pension contributions to USS	<u>29</u>	<u>27</u>
	<u>239</u>	<u>219</u>
<p>The emoluments have been independently determined by the lay officers of the Council and reviewed according to performance. The emoluments shown are in respect of Professor Michael Sterling.</p> <p>Compensation for loss of office paid to staff earning in excess of £70,000 (2001/2: £50,000) per annum:</p>		
Payments to USS for enhanced pension benefits	234	806

The 2002/3 figure relates to compensation paid to three members of staff.

Notes to the Accounts (continued)

	2002/3 £000	2001/2 £000
6. Staff – continued		
Average staff numbers by major category:		
Academic and related/clinical	2,890	2,713
Other, including technical, clerical and manual	<u>2,852</u>	<u>3,135</u>
	<u>5,742</u>	<u>5,848</u>

Remuneration of other higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are included in the University's Income and Expenditure Account:

£70,001 – £80,000	56	45
£80,001 – £90,000	25	7
£90,001 – £100,000	11	15
£100,001 – £110,000	11	10
£110,001 – £120,000	9	13
£120,001 – £130,000	12	1
£130,001 – £140,000	5	7
£140,001 – £150,000	3	0
£160,001 – £170,000	0	1
£200,001 – £210,000	1	0

7. Interest Payable

	Consolidated	
	2002/3 £000	2001/2 £000
Finance Leases	1,552	1,683
Bank Loan Interest Repayable over more than 5 years	<u>1,389</u>	<u>319</u>
	<u>2,941</u>	<u>2,002</u>

8. Analysis of 2002/3 Expenditure by Activity

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total 2002/3	Total 2001/2
	£000	£000	£000	£000	£000	£000
Academic Schools						
Basic Teaching and Research	84,057	3,191	20,031	–	107,279	103,934
Research Grants and Contracts	35,088	8,903	15,869	–	59,860	57,657
Other Trading	3,744	106	5,272	–	9,122	8,690
Budget Centre Funds	<u>127</u>	<u>637</u>	<u>1,284</u>	–	<u>2,048</u>	<u>3,351</u>
	<u>123,016</u>	<u>12,837</u>	<u>42,456</u>	–	<u>178,309</u>	<u>173,632</u>
Academic Services						
Library	4,170	51	4,140	–	8,361	8,559
Academic Computing Service	4,141	729	1,405	–	6,275	5,501
Other Academic Services	<u>1,772</u>	<u>179</u>	<u>554</u>	–	<u>2,505</u>	<u>2,363</u>
	<u>10,083</u>	<u>959</u>	<u>6,099</u>	–	<u>17,141</u>	<u>16,423</u>

Notes to the Accounts (continued)

8. Analysis of 2002/3 Expenditure by Activity *continued*

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total 2002/3	Total 2001/2
	£000	£000	£000	£000	£000	£000
General Educational Expenditure						
Student Recruitment and Liaison	1,577	42	1,007	–	2,626	2,276
Other	177	22	1,295	–	1,494	1,649
	<u>1,754</u>	<u>64</u>	<u>2,302</u>	<u>–</u>	<u>4,120</u>	<u>3,925</u>
Premises						
Rates	–	–	553	–	553	612
Insurance and Rents	–	–	1,505	–	1,505	674
Cleaning, Portering and Custodial Services	3,082	30	881	–	3,993	3,445
Heat, Light, Water and Power	114	712	3,964	–	4,790	4,110
Repairs and General Maintenance	2,562	74	4,173	–	6,809	5,965
Depreciation of Buildings	–	6,807	–	–	6,807	6,258
Other	1,722	263	639	192	2,816	1,798
	<u>7,480</u>	<u>7,886</u>	<u>11,715</u>	<u>192</u>	<u>27,273</u>	<u>22,862</u>
Administration and Central Services						
Administrative Services	8,986	426	4,132	–	13,544	11,495
Audit Fees	–	–	52	–	52	53
Fees to Auditor for Non-Audit Work	–	–	2	–	2	4
Other Professional Fees	–	–	118	–	118	553
	<u>8,986</u>	<u>426</u>	<u>4,304</u>	<u>–</u>	<u>13,716</u>	<u>12,105</u>
Staff and Student Facilities						
Careers Service	415	8	55	–	478	464
Student Counselling and Support	453	12	41	–	506	435
Sports Facilities	1,104	162	1,326	–	2,592	2,575
Grant to Guild of Students	–	–	1,158	–	1,158	1,119
Other	–	6	50	–	56	119
	<u>1,972</u>	<u>188</u>	<u>2,630</u>	<u>–</u>	<u>4,790</u>	<u>4,712</u>
Residences Catering and Conferences						
Residences	2,834	239	6,277	2,749	12,099	11,418
Catering	1,424	99	2,375	–	3,898	3,274
Conferences	960	29	1,475	–	2,464	1,986
Depreciation of Buildings	–	1,533	–	–	1,533	1,003
	<u>5,218</u>	<u>1,900</u>	<u>10,127</u>	<u>2,749</u>	<u>19,994</u>	<u>17,681</u>
Other Expenditure						
Other Services Rendered	4,284	399	6,569	–	11,252	10,923
Other	274	10	2,848	–	3,132	9,709
	<u>4,558</u>	<u>409</u>	<u>9,417</u>	<u>–</u>	<u>14,384</u>	<u>20,632</u>
TOTAL	<u><u>163,067</u></u>	<u><u>24,669</u></u>	<u><u>89,050</u></u>	<u><u>2,941</u></u>	<u><u>279,727</u></u>	<u><u>271,972</u></u>

The depreciation charge has been funded by:
Deferred Capital Grants Released (Note 17)
General Income

10,421
14,248
24,669

Notes to the Accounts (continued)

9. Tax on Profit on Ordinary Activities

	Consolidated	
	2002/3	2001/2
	£000	£000
United Kingdom corporation tax at 30% on subsidiary company profits:		
Current Year	45	62
Prior Year over-provision	–	(4)
	<u>45</u>	<u>58</u>
Deferred tax – due to timing differences in a subsidiary company	34	18
Total Payable	<u>79</u>	<u>76</u>

10. Tangible Fixed Assets

	Assets in the course of Construction	Land and Buildings	Equipment	University
				Total
	£000	£000	£000	2002/3 £000
Cost or Valuation				
Valuation	–	59,234	–	59,234
Cost	16,718	275,115	44,589	336,422
As at 1 August 2002	<u>16,718</u>	<u>334,349</u>	<u>44,589</u>	<u>395,656</u>
Transfers at Cost	(3,763)	3,763	–	–
Additions/Disposals				
Additions at Cost	33,745	14,914	17,132	65,791
Disposals at Cost	–	(9,237)	(13,969)	(23,206)
Valuation as at 31 July 2003:				
Valuation	–	59,234	–	59,234
Cost	46,700	284,555	47,752	379,007
	<u>46,700</u>	<u>343,789</u>	<u>47,752</u>	<u>438,241</u>
Accumulated Depreciation				
As at 1 August 2002 – Valuation	–	3,146	–	3,146
As at 1 August 2002 – Cost	–	15,253	30,318	45,571
Charge for the Year – Valuation	–	7,379	–	7,379
Charge for the Year – Cost	–	784	15,586	16,370
Depreciation on Disposals – Cost	–	–	(13,969)	(13,969)
As at 31 July 2003	<u>–</u>	<u>26,562</u>	<u>31,935</u>	<u>58,497</u>
Net Book Value				
Valuation	–	48,709	–	48,709
Cost	46,700	268,518	15,817	331,035
Net Book Value as at 31 July 2003	<u>46,700</u>	<u>317,227</u>	<u>15,817</u>	<u>379,744</u>
Net Book Value as at 31 July 2002	<u>16,718</u>	<u>315,950</u>	<u>14,271</u>	<u>346,939</u>

Notes to the Accounts (continued)

10. Tangible Fixed Assets *continued*

	Assets in the course of Construction	Land and Buildings	Equipment	Consolidated
				Total
	£000	£000	£000	2002/3 £000
Cost or Valuation				
Valuation	–	59,708	–	59,708
Cost	17,059	308,322	44,841	370,222
As at 1 August 2002	<u>17,059</u>	<u>368,030</u>	<u>44,841</u>	<u>429,930</u>
Transfers at Cost	(4,104)	4,104	–	–
Additions/Disposals				
Additions at Cost	33,752	15,022	17,195	65,969
Disposals at Cost	–	(9,275)	(13,988)	(23,263)
As at 31 July 2003:				
Valuation	–	59,708	–	59,708
Cost	46,707	318,173	48,048	412,928
	<u>46,707</u>	<u>377,881</u>	<u>48,048</u>	<u>472,636</u>
Accumulated Depreciation				
As at 1 August 2002 – Valuation	–	3,146	–	3,146
As at 1 August 2002 – Cost	–	19,399	30,528	49,927
Charge for the Year – Valuation	–	7,379	–	7,379
Charge for the Year – Cost	–	1,673	15,617	17,290
Depreciation on Disposals – Cost	–	(15)	(13,988)	(14,003)
As at 31 July 2003	<u>–</u>	<u>31,582</u>	<u>32,157</u>	<u>63,739</u>
Net Book Value				
Valuation	–	49,183	–	49,183
Cost	46,707	297,116	15,891	359,714
Net Book Value as at 31 July 2003	<u>46,707</u>	<u>346,299</u>	<u>15,891</u>	<u>408,897</u>
Net Book Value as at 31 July 2002	<u>17,059</u>	<u>345,485</u>	<u>14,313</u>	<u>376,857</u>

Notes to the Accounts (continued)

The accumulated cost of Assets in the Course of Construction includes:

	£000
Institute of Biomedical Research	27,403
Selly Oak Teaching Centre	2,079
University House	4,866
Student Residence Improvements	4,479
New student Residences – The Vale	5,889
New Steam Main	1,145
	<u>45,861</u>

The reinstatement cost of buildings for insurance purposes is £982m (2002 £699m).

The net book value of the land and buildings represents freehold interests except for £37.4m (2002 £37.7m) of interest in long leasehold land and buildings.

The net book value of land and buildings includes an amount of £21.0m (2002 £21.3m) in respect of assets held under finance leases.

Fully depreciated equipment is written out after 3 years and shown as a disposal and a depreciation adjustment.

	University		Consolidated	
	2003 £000	2002 £000	2003 £000	2002 £000
11. Fixed Asset Investments				
Non-endowment investments				
Balance at 1 August	8,934	10,747	8,592	10,412
Arising on Consolidation	–	–	–	–
Additions	–	1,066	–	1,066
Depreciation on Disposals/Revaluation	<u>11</u>	<u>(2,879)</u>	<u>4</u>	<u>(2,886)</u>
Balance at 31 July	<u>8,945</u>	<u>8,934</u>	<u>8,596</u>	<u>8,592</u>

12. Endowment Asset Investments

	University and Consolidated	
	2003 £000	2002 £000
Balance at 1 August	54,803	64,500
Additions	1,865	252
Appreciations/(Depreciation) on Disposals/Revaluation	542	(9,949)
Balance at 31 July	<u>57,210</u>	<u>54,803</u>
Represented by:		
Investments	54,115	52,427
Investment Debtor	455	–
Cash	2,640	2,376
	<u>57,210</u>	<u>54,803</u>

Notes to the Accounts (continued)

13. Debtors	University		Consolidated	
	2003 £000	2002 £000 Restated	2003 £000	2002 £000 Restated
Amounts falling due within one year:				
Research Grants and Contracts	17,494	18,126	17,494	18,126
Other Debtors and Prepayments	18,017	23,634	18,299	23,808
Amounts due from Sale of Property	6,025	–	6,025	–
Birmingham Pension and Assurance Scheme SSAP 24 Prepayment	714	620	714	620
Alta Construction Services Ltd	–	1,484	–	–
Alta Estates Ltd	533	533	–	–
Loans to the Guild of Students and Junior Common Rooms	7	15	7	15
	<u>42,790</u>	<u>44,412</u>	<u>42,539</u>	<u>42,569</u>
Amounts falling due after one year:				
Birmingham Pension and Assurance Scheme SSAP 24 Prepayment	8,851	8,159	8,851	8,159
Alta Construction Services Ltd	–	4,702	–	–
Alta Estates Ltd	6,800	7,334	–	–
Loans to the Guild of Students and Junior Common Rooms	7	16	7	16
	<u>15,658</u>	<u>20,211</u>	<u>8,858</u>	<u>8,175</u>
	<u>58,448</u>	<u>64,623</u>	<u>51,397</u>	<u>50,744</u>

In the accounts for the year to July 2002, the Birmingham Pension and Assurance Scheme SSAP 24 Prepayment was shown as due within one year, and is now analysed between 'within' and 'after' one year.

14. Creditors: Amounts Falling due within one year	University		Consolidated	
	2003 £000	2002 £000	2003 £000	2002 £000
Obligations Under Finance Leases (Note 21)	1,342	1,194	1,342	1,194
Bank Loans and Overdrafts	1,437	8,554	1,712	2,657
Research Grants and Contracts in Advance	16,209	16,358	16,209	16,358
Corporation Tax	–	–	45	62
Social Security and Other Taxation Payable	3,975	3,516	3,975	3,516
Other Creditors	<u>34,637</u>	<u>26,593</u>	<u>35,582</u>	<u>27,721</u>
	<u>57,600</u>	<u>56,215</u>	<u>58,865</u>	<u>51,508</u>

The other creditors category includes an amount of £830k (2002 £61k) which represents cash held by the University on behalf of the Mercia Fund in respect of University Challenge projects.

15. Creditors: Amounts Falling due after more than one year	University		Consolidated	
	2003 £000	2002 £000	2003 £000	2002 £000
Obligations Under Finance Leases (Note 21)	10,594	11,936	10,594	11,936
Bank Loans repayable by Instalments Over More Than 5 years	<u>21,742</u>	<u>23,180</u>	<u>22,473</u>	<u>24,064</u>
	<u>32,336</u>	<u>35,116</u>	<u>33,067</u>	<u>36,000</u>

Notes to the Accounts (continued)

16. Provisions for Liabilities and Charges	University		Consolidated	
	2003	2002	2003	2002
	£000	£000	£000	£000
Restructuring				
At 1 August	1,934	–	1,934	–
Utilised during the year	(1,474)	–	(1,474)	–
Provided in year	643	1,934	643	1,934
At 31 July	1,103	1,934	1,103	1,934
Other				
At 1 August	–	–	–	–
Provided in Year	50	–	50	–
At 31 July	50	–	50	–
Deferred Taxation				
At 1 August	–	–	1,612	1,594
Provided in year (Note 9)	–	–	34	18
At 31 July	–	–	1,646	1,612
Total at 31 July 2003	1,153	1,934	2,799	3,546
Analysis of Deferred Taxation:				
Accelerated capital allowances	–	–	2,168	2,318
Less unutilised tax losses	–	–	(522)	(706)
At 31 July	–	–	1,646	1,612

17. Deferred Capital Grants

	Other	Funding	Consolidated	University
	Grants and	Council	Total	Total
	Benefactions			
	£000	£000	£000	£000
At 1 August 2002				
Buildings	5,238	27,136	32,374	31,396
Equipment	7,788	–	7,788	7,788
	13,026	27,136	40,162	39,184
Cash Received				
Buildings	10,185	12,739	22,924	22,924
Equipment	10,163	1,386	11,549	11,549
Released to Income and Expenditure				
Buildings – Depreciation	(283)	(778)	(1,061)	(1,022)
Equipment – Depreciation	(8,898)	(462)	(9,360)	(9,360)
At 31 July 2003				
Buildings	15,140	39,097	54,237	53,298
Equipment	9,053	924	9,977	9,977
	24,193	40,021	64,214	63,275

Notes to the Accounts (continued)

18. Endowments

	University and Consolidated		
	Specific	General	Total
	£000	£000	£000
At 1 August 2002	47,878	6,925	54,803
Additions	1,272	–	1,272
Appreciation of Endowment Asset Investments	532	10	542
Income for Year	1,805	290	2,095
Transfer from Budget Centre Funds	400	–	400
Transferred to Income and Expenditure Account (Note 5)	(1,612)	(290)	(1,902)
At 31 July 2003	<u>50,275</u>	<u>6,935</u>	<u>57,210</u>

19. Revaluation Reserve

	Consolidated		University	
	Land and Buildings	Investments	Total	Total
	£000	£000	£000	£000
At 1 August 2002	58,197	1,774	59,971	59,497
Revaluation in the year	–	11	11	11
Released to Income and Expenditure Account	(9,858)	–	(9,858)	(9,858)
As at 31 July 2003	<u>48,339</u>	<u>1,785</u>	<u>50,124</u>	<u>49,650</u>

Notes to the Accounts (continued)

20. Income and Expenditure Account

	Consolidated University					
	Balance	Additions/	Revaluation	Other	Balance	Balance
	1 August	(Reductions)	Reserve	Movements	31 July	31 July
	2002	for the year	Release		2003	2003
	£000	£000		£000	£000	£000
Available						
Academic Budget Centres	5,575	4,089	–	–	9,664	9,664
Non-Academic Budget Centres	6,272	100	–	(400)	5,972	5,972
Buildings Fund	921	8,509	–	–	9,430	9,430
Rationalisation Fund	(633)	760	–	–	127	127
Residences, Catering and Conference Funds	4,255	2,057	–	–	6,312	6,312
General Reserve	9,383	2,680	–	–	12,063	12,063
Subsidiary Undertakings	5,167	(142)	–	–	5,025	–
Other Funds	10,944	755	–	–	11,699	11,699
Sub-total – Available	41,884	18,808	–	(400)	60,292	55,267
Committed	224,606	(4,684)	9,858	–	229,780	218,334
TOTAL	266,490	14,124	9,858	(400)	290,072	273,601

21. Lease Obligations

	University and Consolidated	
	2003	2002
	£000	£000
Obligations under finance leases fall due as follows:		
Between two and five years	7,253	6,452
Over five years	3,341	5,484
Total over one year (Note 15)	10,594	11,936
Within one year (Note 14)	1,342	1,194
	11,936	13,130

22. Capital Commitments

	University and Consolidated	
	2003	2002
	£000	£000
University commitments contracted	43,764	51,931
Alta Estates Services Ltd commitments contracted	68	89

Committed expenditure includes: Institute of Biomedical Research (£6.1m), NMR Biomolecular Facility (£3.5m), University House refurbishment (£6.7m), and Shackleton Hall refurbishment (£13.2m).

Notes to the Accounts (continued)

23. Contingent Liability

University and Consolidated

	2003 £000	2002 £000
Bank loans guaranteed by the University, held by its subsidiary Birmingham Research Park Ltd	884	1,036

The University is a member of UMALT, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership, each member acts as insurer and insured. If the association suffers a shortfall in any underwriting year, the members are liable for their pro rata share. The scheme's ability to pay claims is derived from one of the following sources:

- (a) accumulated reserves of £10 million;
- (b) a £15 million internal loan facility from member institutions, of which the University has provided a facility of £5 million;
- (c) a £300 million aggregate layer of excess cover obtained through the Lloyds insurance market.

Multiple losses exceeding £150 million may result in a supplementary call for funding from the 78 members of the association.

24. Reconciliation of Operating Surplus to Net Cash from Operating Activities

Consolidated

	2002/3 £000	2001/2 £000
Surplus for the year before taxation	14,304	7,549
Depreciation of fixed assets (Note 10)	24,669	20,614
Deferred capital grants released to income (Note 17)	(10,421)	(8,845)
Investment Income	(768)	(1,148)
Decrease in stocks	114	141
(Increase)/Decrease in debtors	2,032	(15,112)
Increase in creditors	5,622	3,318
Increase/(Decrease) in provisions	(781)	1,934
Profit from sale of tangible fixed asset	(2,178)	–
Depreciation of investments	7	1,309
Other	–	1,633
Net Cash Inflow from Operating Activities	<u>32,600</u>	<u>11,393</u>

25. Returns on Investments and Servicing of Finance

Consolidated

	2002/3 £000	2001/2 £000
Income from fixed asset investments	1,396	762
Income from endowments	2,095	1,960
Income from short term investments	411	409
Interest Paid	(2,941)	(2,002)
	<u>961</u>	<u>1,129</u>

Notes to the Accounts (continued)

26. Capital Expenditure and Financial Investment

	Consolidated	
	2002/3 £000	2001/2 £000
Tangible assets acquired	(63,177)	(46,127)
Fixed asset investments acquired (Note 11)	–	(1,066)
Endowment asset investments acquired	<u>(1,600)</u>	<u>(252)</u>
Total fixed and endowment assets acquired	(64,777)	(47,445)
Receipts from sales of tangible assets	5,169	24
Deferred capital grants received	37,813	21,310
Endowments received	<u>1,272</u>	<u>252</u>
	<u>(20,523)</u>	<u>(25,859)</u>

27. Analysis of Changes in External Financing During the Year

	Consolidated	
	2002/3 £000	2001/2 £000
Balance at 1 August	39,851	15,980
New Leases/Loans	–	26,819
Capital repayments	<u>(3,730)</u>	<u>(2,948)</u>
Net Amount Acquired in Year	<u>(3,730)</u>	<u>23,871</u>
Balance at 31 July	<u>36,121</u>	<u>39,851</u>

28. Analysis of Changes in Net Funds

	Consolidated			
	At 1 August 2002 £000	Cash Flows £000	Other Changes £000	At 31 July 2003 £000
Short term deposits repayable on demand	17,624	11,736	–	29,360
Endowment asset investments	2,376	264	–	2,640
Cash in hand, and at bank	<u>4,949</u>	<u>(2,754)</u>	<u>–</u>	<u>2,195</u>
	24,949	9,246	–	34,195
Debt due within one year	(3,851)	3,576	(2,779)	(3,054)
Debt due after one year	<u>(36,000)</u>	<u>154</u>	<u>2,779</u>	<u>(33,067)</u>
	<u>(14,902)</u>	<u>12,976</u>	<u>–</u>	<u>(1,926)</u>

Notes to the Accounts (continued)

29. Pension Schemes

Pension arrangements are funded by employee and employer contributions to pension schemes that are financially separate from the University. Staff paid on academic and academically-related scales who are eligible, acquire pension rights through the Universities Superannuation Scheme (USS), which is a national scheme administered by a separate company on behalf of all universities. Some staff contribute to private schemes. Staff on other salary scales are covered by the University of Birmingham Pension and Assurance Scheme (BPAS), administered in-house by a Trustee Group comprising 4 employer nominated and 4 employee nominated Trustees with an independent Chair. Management of the Scheme's investments is undertaken by Schroder Investment Management Ltd (50%) and UBS Fund Management Ltd (50%).

Both schemes provide benefits based on final pensionable salary and the pension cost is assessed using the projected unit method for USS and a modified aggregate funding method for BPAS.

The total pension cost for each Scheme for the University is as follows:-

	2002/3	2001/2
	£000	£000
Contributions to USS	10,001	9,840
Contributions to BPAS	4,743	4,311
Contributions to Other Pension Schemes	936	931
Total Pension Costs (Note 6)	<u>15,680</u>	<u>15,082</u>

Universities Superannuation Scheme (USS)

USS is contracted out of the State Earnings-Related Pension Scheme and the assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme.

The latest actuarial valuation of the scheme was at 31st March, 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments, (i.e. the valuation rate of interest), and the rates of increase in salary and pensions. In relation to the past service liability the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £19,938 million, and the valuation of the past service liabilities was £19,776 million giving a surplus of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

The contribution rate payable by the University was 14% of pensionable salaries. The contribution rate required for future service benefits at the date of the valuation was 14.25%, but it was agreed to maintain the rate at 14% of salaries. To fund this reduction of 0.25% for 12 years from the valuation date, (the average outstanding working lifetime of the current members), required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation is due at 31 March 2005, when the above rates will be reviewed.

Notes to the Accounts (continued)

29. Pension Schemes *continued*

University of Birmingham Pension and Assurance Scheme (BPAS)

BPAS is contracted out of the State Earnings-Related Pension Scheme and management of the Scheme's investments is undertaken by Schroder Investment Management Ltd. and UBS Global Asset Management Ltd. The latest full actuarial valuation of the scheme was at 31st March, 2002, and the valuation identified that additional contributions were required as determined by the Pensions Act (1995) Minimum Funding Requirement Regulations.

Contributions have been paid by employees at the rate of 6% of pensionable pay and by the University at the rate of 14% of employees' pensionable pay.

Additionally a further £1.5 million was paid in the period ended 31st July, 2003, as determined by the Schedule of Contributions agreed with the Scheme Actuary.

The assumptions employed by the Scheme Actuary for the valuation of liabilities as at 31st July, 2003, were as follows:-

	July 2003	July 2002
Discount Rate	5.5%	5.8%
Salary Growth	4.1%	4.0%
Inflation	2.6%	2.5%
Pension Increases	2.6%	2.5%

The invested assets of the Scheme amounted to £135.8 million (after investment of the additional contribution).

The assets and the expected long term rate of return were:-

	July 2003		July 2002	
	£million	Rate of Return	£million	Rate of Return
Equities	59.7	8.1%	54.2	8.0%
Fixed Interest Bonds	49.4	5.5%	45.3	5.8%
Index Linked Gilts	24.6	4.7%	21.9	4.8%
Cash	2.1	4.0%	3.5	4.5%
Total	<u>135.8</u>		<u>124.9</u>	

The following amounts were measured in accordance with the requirements of Financial Reporting Standard 17:

	July 2003 £million	July 2002 £million
Total market value of assets	135.8	124.9
Present value of scheme liabilities	<u>169.6</u>	<u>148.7</u>
Deficit in the scheme	<u>33.8</u>	<u>23.8</u>

If the above amounts had been recognised in the financial statements, the University's net assets and profit and loss reserve at 31 July 2003 would be as follows:

	July 2003 £million	July 2002 £million
Net assets excluding pension deficit	453.9	414.4
Pension deficit	<u>(33.8)</u>	<u>(23.8)</u>
Net assets including pension deficit	<u>420.1</u>	<u>390.6</u>
Profit and loss reserve excluding pension deficit	280.5	257.7
Pension deficit	<u>(33.8)</u>	<u>(23.8)</u>
Profit and loss reserve including pension deficit	<u>246.7</u>	<u>233.9</u>

Notes to the Accounts (continued)

29. Pension Schemes *continued*

Additionally, if the pension costs had been recognised in accordance with Financial Reporting Standard 17, the following components of the pensions charge would have been recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2003:

	July 2003 £million
Analysis of amounts charged to Income and Expenditure account:	
Current service cost	4.6
Finance:	
Interest on pension scheme liabilities	8.5
Expected return on assets in the pension scheme	<u>(8.3)</u>
Net charge (credit) to other finance income	<u>0.2</u>
Total charge before tax	<u>4.8</u>

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:

Loss (Gain) on assets	0.3
Experience loss (gain) on scheme liabilities	(1.2)
Loss (gain) on change of assumptions	<u>12.1</u>
Total loss before tax	<u>11.2</u>

In total, the movement in the University's share of the scheme's deficit during the year is made up as follows:

	£million
Deficit on scheme at 1 August 2002	23.8
Movements in the year:	
– current service cost	4.6
– contributions	(6.0)
– finance income	0.2
– actuarial loss (gain)	11.2
Deficit on scheme at 31 July 2003	<u>33.8</u>

The experience gains and losses for the year ended 31 July 2003 were as follows:

	£million	%
Loss (gain) on assets	0.3	
Percentage of scheme assets at the end of the year		0.2%
Experience (gain) on scheme liabilities	(1.2)	
Percentage of scheme liabilities at the end of the year		(0.7%)
Total loss recognised in the statement of total recognised gains and losses:	11.2	
Percentage of scheme liabilities at the end of the year		6.6%

Notes to the Accounts (continued)

30. Access Funds and Teacher Training Agency Bursaries

	University and Consolidated			
	Access Funds		Teacher TA Bursaries	
	2002/3 £000	2001/2 £000	2002/3 £000	2001/2 £000
Balances Unspent as at 1 August	79	157	81	28
Funding Council Grants Received	1,086	1,053	2,324	2,300
Disbursed to Students	(1,009)	(1,131)	(2,311)	(2,247)
Balances Unspent at 31 July	<u>156</u>	<u>79</u>	<u>94</u>	<u>81</u>

Funding Council grants and bursaries are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

31. Benefits in Kind

No material benefits in kind are included within the University's Accounts.

32. Related Party Transactions

To capture information on related party transactions the University has circularised members and officers who attend:- Council, Strategy, Planning and Resources Committee, Investment Committee, Estates Committee and the Trustees of the University of Birmingham Pension and Assurance Scheme.

Due to the nature of the University's operations and the composition of the University's governing body, being drawn from commerce, industry and the public sector, it is inevitable that transactions will take place with organisations in which a member of the governing body has an interest. All such transactions are conducted at arms length and in accordance with the University's Manual of Financial Rules and Procedures with respect to procurement.

No declarations of disclosable interests have been made.

33. Subsidiary Undertakings

Name	University Holding	Business Activity
Alta Construction Services Limited	100%	Construction of Student Residences
Alta Estate Services Limited	100%	Operates a Combined Heat and Power plant
Birmingham Research and Development Limited	100%	Technology Transfer
Birmingham Research Park Limited	51%	Provision of Accommodation to High Technology Companies
Alta Library Services Limited	100%	Provision of Library Services
University of Birmingham Selly Oak Educational Trust	100%	Management of Land and Buildings on the Selly Oak Campus

The subsidiaries are all incorporated in and operate in Great Britain. Alta Construction Services Limited ceased trading on 31 July 2003; all of its income in 2002-3 and 2001-2 was derived from the University.

Notes to the Accounts (continued)

The University, through its subsidiaries, has investments in the following technology transfer companies:-

Applied Functional Materials Limited, Cryo Technology Limited, Entice Limited, E-PD Limited, Hybrid Systems Limited, Hyperspace Limited, Mermaid Diagnostics Limited, Metal Nanopowders Limited, Ortus Medical Limited, Scyron Limited, Vfridge Limited.

The summarised balance sheets and results of the subsidiaries for the year ended 31 July 2003 are as follows:-

	Alta Construction Services Limited	Alta Estate Services Limited	Birmingham Research and Development Limited	Birmingham Research Park Limited	Alta Library Services Limited	University of Birmingham Selly Oak Educational Trust
	£000	£000	£000	£000	£000	£000
Tangible Fixed Assets	–	12,558	51	5,275	–	11,269
Investments	–	–	179	–	–	–
Current Assets	<u>406</u>	<u>461</u>	<u>1,465</u>	<u>704</u>	<u>160</u>	<u>12</u>
	<u>406</u>	<u>13,019</u>	<u>1,695</u>	<u>5,979</u>	<u>160</u>	<u>11,281</u>
Capital and Reserves	–	3,716	356	3,848	–	11,269
Creditors	406	7,657	1,339	1,247	160	12
Bank Loan	–	–	–	884	–	–
Provisions	<u>–</u>	<u>1,646</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>406</u>	<u>13,019</u>	<u>1,695</u>	<u>5,979</u>	<u>160</u>	<u>11,281</u>
Profit/(Loss) for the Year	<u>220</u>	<u>113</u>	<u>346</u>	<u>253</u>	<u>113</u>	<u>(177)</u>

34. Guild of Students

The University has not consolidated the financial statements of the Guild of Students because the University has no control or dominant influence over policy decisions. The summarised balance sheet and results for the year ended 31 July 2003 are as follows:

	£000
Tangible Fixed Assets	298
Investments	5
Current Assets	<u>1,248</u>
	<u>1,551</u>
Reserves	650
Creditors	<u>901</u>
	<u>1,551</u>
Surplus (deficit) for the Year	<u>(55)</u>

The University's Income and Expenditure Account reflects payment to the Guild of Students of a Block Grant of £1,158k (Note 8) (2001/2 £1,119k).

Five-Year Summary Accounts

INCOME AND EXPENDITURE ACCOUNT

	1998/99	1999/00	2000/01	2001/02	2002/03
	£000	£000	£000	£000	£000
Income					
Funding Council Grants	75,858	80,378	84,018	90,622	95,867
Academic Fees and Support Grants	40,896	45,783	47,302	53,294	59,557
Research Grants and Contracts	52,232	56,512	62,916	68,048	70,673
Other Operating Income	50,874	56,457	57,150	64,406	62,047
Endowment Income and Interest	6,178	5,807	4,054	3,151	3,709
Total Income	<u>226,038</u>	<u>244,937</u>	<u>255,440</u>	<u>279,521</u>	<u>291,853</u>
Expenditure					
Staff Costs	123,717	142,318	150,075	154,316	163,067
Depreciation	17,301	19,001	20,585	22,248	24,669
Other Operating Expenses	73,316	80,708	82,254	93,406	89,050
Interest Payable	1,193	2,011	1,951	2,002	2,941
Total Expenditure	<u>215,527</u>	<u>244,038</u>	<u>254,865</u>	<u>271,972</u>	<u>279,727</u>
Operating Surplus before Tax and exceptional items	<u>10,511</u>	<u>899</u>	<u>575</u>	<u>7,549</u>	<u>12,126</u>
BALANCE SHEET					
Fixed Assets	286,121	318,068	361,780	385,449	417,493
Endowment Asset Investments	63,116	70,744	64,500	54,803	57,210
Net Current Assets	42,091	32,180	2,391	22,504	24,668
Creditors: Amounts Due After One Year	(14,878)	(14,793)	(14,165)	(36,000)	(33,067)
Provisions for Liabilities and Charges	–	–	(1,594)	(3,546)	(2,799)
Total Net Assets	<u>376,450</u>	<u>406,199</u>	<u>412,912</u>	<u>423,210</u>	<u>463,505</u>
Represented By					
Deferred Capital Grants	11,821	15,555	27,697	40,162	64,214
Endowments	63,116	70,744	64,500	54,803	57,210
Revaluation Reserve	68,064	62,105	60,698	59,971	50,124
Income and Expenditure Reserves:					
Available Funds	74,488	64,650	46,410	41,884	60,292
Committed Funds	158,961	193,145	213,607	226,390	231,665
	<u>233,449</u>	<u>257,795</u>	<u>260,017</u>	<u>268,274</u>	<u>291,957</u>
Total Funds	<u>376,450</u>	<u>406,199</u>	<u>412,912</u>	<u>423,210</u>	<u>463,505</u>

Financial Statistics

Sources of Income

% of Total Income	1998/99	1999/00	2000/01	2001/02	2002/03
	%	%	%	%	%
Grants from Funding Councils (HEFCE and TTA)	33.5	32.8	32.9	32.4	32.8
Tuition Fees – Home and EC	12.9	13.7	13.4	13.8	14.9
Tuition Fees – Overseas	5.2	5.0	5.1	5.3	5.5
Income from Research Grants and Contracts	23.1	23.1	24.6	24.3	24.2
Income from Residences, Catering and Conferences	8.2	8.0	7.6	7.1	7.3
Other Income	17.1	17.4	16.4	17.1	15.3
Total Income	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Analysis of Expenditure

% of Total Expenditure	%	%	%	%	%
Staff Costs	57.4	58.3	58.8	56.8	58.3
Depreciation	8.0	7.8	8.1	8.2	8.8
Other Operating Expenses	34.0	33.1	32.3	34.3	31.8
Interest Payable	0.6	0.8	0.8	0.7	1.1
Total Expenditure	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Operating surplus for the year as a % of total income	4.7%	0.4%	0.2%	2.7%	4.2%
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Indicators of Financial Strength

Ratio of available general funds to total expenditure (days)	142	111	81	66	88
<i>The number of days expenditure that could be sustained from available funds</i>					
Ratio of long-term liabilities to total net assets	3.8%	3.5%	4.2%	8.6%	7.2%
<i>Measures the extent to which an institution is funded by long term debt</i>					

Indicators of Liquidity and Solvency

Ratio of liquid assets to current liabilities	1.3	0.9	0.3	0.4	0.5
<i>Extent to which current liabilities could be met from cash and liquid investments</i>					
Ratio of current assets to current liabilities	2.1	1.8	1.1	1.4	1.4
<i>Extent to which current liabilities could be met from current assets</i>					
Debtor Days	70	71	65	81	78
<i>Days of total income (excluding Funding Council grants) represented by debtors (excluding SSAP24 provision)</i>					