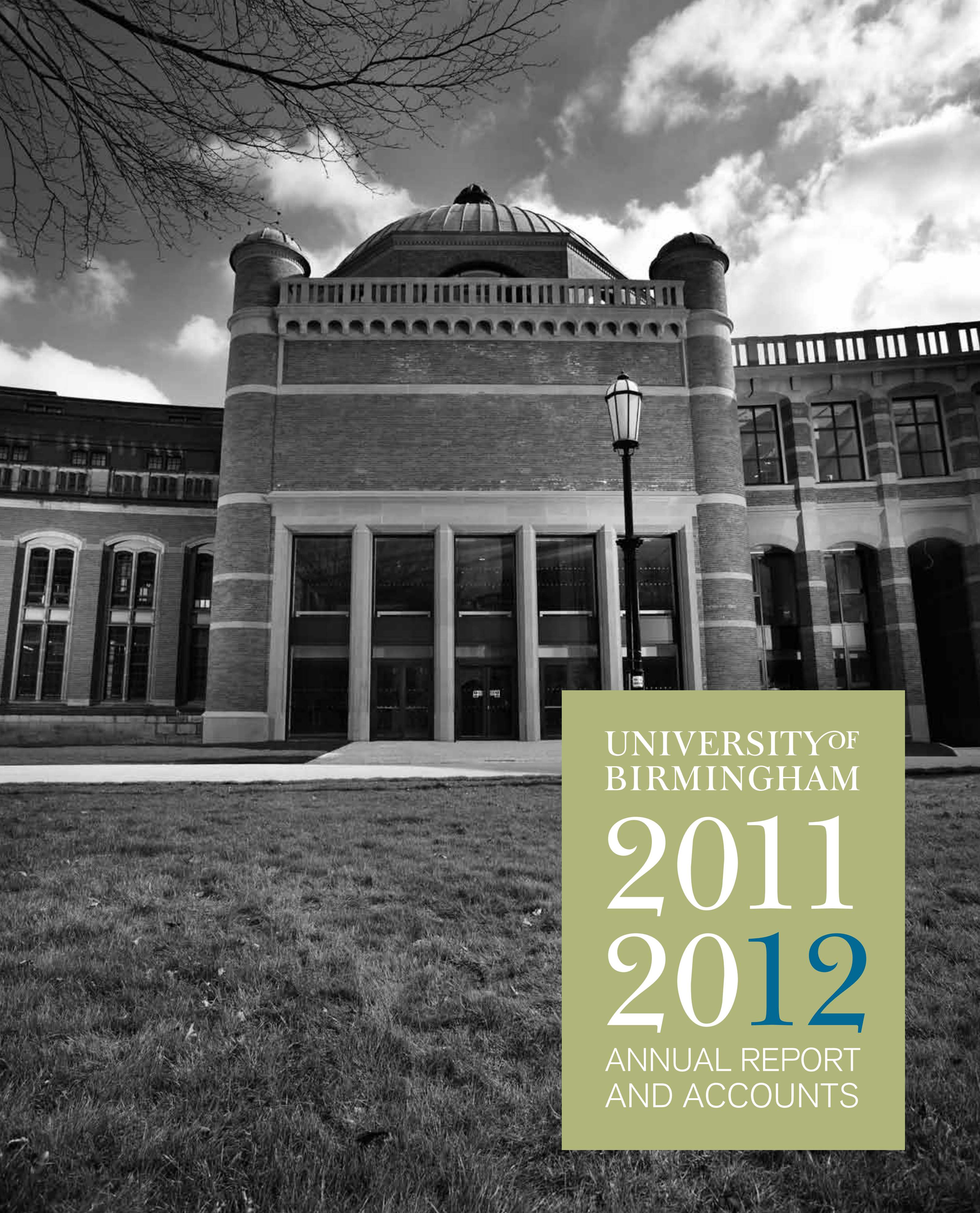


UNIVERSITY OF BIRMINGHAM

2011 2012

ANNUAL REPORT AND ACCOUNTS

Contents

Vice-Chancellor's Report

At Birmingham we are seizing opportunities to shape our university for the 21st century: securing our position amongst the world's leading universities; be recognised for the quality of our research and graduates; and securing prestigious partnerships with international business and industry.

Higher education in the UK is experiencing unprecedented change as the effects of the new fees system, tighter immigration controls and the global economic downturn have an impact across the sector. Whilst change creates turbulence, it also creates opportunities.

Numerous recent successes exemplify our progress: progress which is being achieved against the tide. In 2011 we welcomed the most highly qualified cohort of new undergraduate students in more than a decade. In the National Student Survey we achieved a student satisfaction rating of 88%, 4% ahead of the national average. Following two years of steep increases, the percentage of students in graduate-level work or further study six months after graduation rose to its highest point to date, 80%: a notable achievement in a depressed employment market, and one that places us 10th in the UK for the employability of our students.

The University increased research grant capture by an outstanding 50% in this past year, with the College of Arts and Law second only to Oxford amongst English universities for the value of research funding secured. The exceptional research of our Chemical Engineers was recognised by a prestigious Queen's Anniversary Prize in early 2012, the highest honour which can be awarded to universities or colleges. The Prize was presented in recognition of the world-leading work of our Centre for Formulation Engineering, the first and only institute of this scale and breadth in the UK, whose pioneering research in micro-structured materials has attracted multi-national partners including Cadbury/Kraft, Proctor & Gamble and Unilever.

We have invested in order to secure the quality of our academic community for the future. The Birmingham Fellows initiative which, when launched, was unique in the UK, attracted over 1,400 applications from young, ambitious researchers from across the globe, each interested in developing their career at our university. The strength and range of the applicants persuaded us to increase the number recruited and 34 outstanding young academics are already making their presence felt on campus. Applications for the new cohort are equally impressive.

Birmingham's profile on the international stage has risen significantly in the past year. The University of Birmingham's Guangzhou Centre was opened in autumn 2011, evidence of our long-term commitment to China and the strength of our partnership with Birmingham's sister city. Our unique partnership with the Guangzhou Municipal Government (GMG) is the foundation for a portfolio of research initiatives across healthcare, engineering and environmental sciences that have attracted £1.46million funding, to date. The office is also developing plans for an International Graduate Education Centre and partnerships with leading research institutes, hospitals, and companies in Guangzhou.

In the USA, our relationships in the Mid-West and with the cultural sector in Chicago have been strengthened following the University's contribution to Chicago's Cultural Plan, a successful Cultural Symposium and work with the National Public Housing Museum. This range of activities demonstrates our value and commitment as a partner in the region. Our academic partnerships with the University of Illinois, Urbana-Champaign, University of Chicago and Northwestern University are crystallising into a range of successful research collaborations.

In Brazil, our research expertise in oil and gas, bio-energy, foreign policy and sporting legacies, as well as our strategic partnership with the University of Nottingham, have made us an attractive partner for Brazilian institutions and the Brazilian Government. £2million of funding is being invested in our joint initiative which includes research partnerships and postgraduate scholarships that will grow the country's knowledge base and enable them to exploit their natural resources more effectively.

This has also been a landmark year for the future of our Edgbaston estate. The Bramall Music Building was completed, realising Chamberlain's original vision for the heart of the University. This magnificent building affords previously hidden views across campus and includes the Elgar Concert Hall, an acoustically perfect venue that is an asset for both the University, and the city. In addition, the University secured planning permission for the next phase of our hugely ambitious capital programme including plans for a state-of-the-art Sports Complex, the most ambitious and exciting new Library in any UK university this century, and a series of over 20 individual projects that will fit our campus for the next 100 years – all ensuring that the quality of our facilities are in keeping with the quality of our academic community and surpass their expectations.

An act of extraordinary generosity by two alumni of the University helped to make the Bramall possible and again, against the economic downturn, the University was able to announce that its fundraising initiative, Circles of Influence, had achieved its £60million target 12 months ahead of schedule. Inspired by this success we have increased the target to £160million, driven by the

knowledge that funds raised through philanthropy enable us to change lives. Circles of Influence is already supporting students from disadvantaged backgrounds, funding research into healthcare developments and new technologies, and is helping us to preserve and develop the fabric of the University for the future.

We are rightly proud of our achievements this year, not least because they have been carefully planned and hard won. They are also a statement of intent. In this period of change and challenge, our strategy is being tested and our successes this year demonstrate that our plans are robust. Our vertiginous rise in the *Sunday Times* league table, advancing 12 places to 13th, is the highest of any research intensive institution and further evidence of a sea change at Birmingham.

We are well placed, not simply to survive the current turbulence, but to emerge a still more resilient, successful, and influential academic force in our city; within our country; and across the globe.

Professor David Eastwood
Vice-Chancellor and Principal

29 November 2012

Treasurer's Report

The landscape for provision of higher education in England continues to change. During this year, the details around future funding changes have become clearer. The result is that the relative stability in funding year to year for both teaching and research which the sector has benefitted from for many years now, effectively ceased at the end of the 2011/12 financial year.

Income for the year was £472.0m (2010/11 £470.7m), the historical cost surplus was £8.2m (2010/11 £27.9m) with a net cash inflow of £30.2m (2010/11 £59.7m) all of which were in line with our plan and leave us in a strong position to deal with the challenges ahead.

In the UK/EU undergraduate market, the movement away from grant funding to student fees will begin in earnest from 2012/13 coupled with a new student number control arrangement. This will necessitate a new approach to ensure that we continue to attract the very best students to our university.

Postgraduate and international markets are also a key part of the rich academic and revenue mix of our university. Both groups will present challenges in recruitment. This is exemplified with the constraints and restrictions emerging from changes to immigration policies delivered through the UK Border Agency.

The parameters around the Research Excellence Framework 2013 (REF) are also now very clear with an emphasis on 'impact' being a key driver of success. The outcome of the REF will determine the level of financial support from the Higher Education Funding Council for England (HEFCE) for several years to come. It is bound to affect our ability to secure external grants and contracts too.

Income for teaching and research are the two most significant drivers of financial sustainability; both are changing in quantum and are becoming increasingly a part of a competitive environment where high quality and excellence are the measures of success. These are a key focus in our risk assessment, mitigation and monitoring.

Sustaining income from these sources is key to delivering our five-year plan 'Shaping our Future: Birmingham 2015'. When we embarked upon its delivery, we recognised that if we were to succeed, we needed to reposition the University in a number of key academic areas. This would be achieved by improving our support of academic delivery by reconfiguring and enhancing some of the professional services across the University and by investing in our estate, IT and campus infrastructure. There will also be some elements of disinvestment.

The repositioning began in 2010. Since then, we have agreed to invest £25.7m in supporting academic initiatives such as Pharmacy, Birmingham Fellows and new professorial appointments across the University (including restructuring in some areas). Further commitments of £18.6m have been made in improving services which support our academic business such as the implementation of a campus wide IT strategy, improving library content recording and a range of international initiatives including partnerships in China and Brazil. £13.8m was incurred in 2011/12 and the remaining £30.5m will be dealt with over the balance of the plan period.

In terms of investing in our estate and infrastructure, the Council approved £175m for three signature projects which will transform the campus. There are plans to commit further sums in successive years.

Treasurer's Report (continued)

Many of those investments have been funded by using retained cash surpluses generated in earlier years and the inevitable impact has been to reduce our cash surplus significantly in 2011/12 compared with 2010/11. The need to invest is continuous and we shall continue to generate cash surpluses through sustainable financial planning for just that purpose.

We are actively engaged with the external environment which enables us to understand the context of the changes and, in many cases influence them. Our engagement is not only within the sector but also through serving on industry bodies, responding to consultations and maintaining active membership of global alliances. This engagement and influence are critical to enable the University's Executive Board to make informed decisions about the University and how it should develop.

Our financial strength enables us to respond confidently as we continue to deal with the medium-term changes but in the context of our longer term strategic and financial planning aspirations.

All of our activity continues to be underpinned by our five-year plan, 'Shaping our Future: Birmingham 2015', a key aspect of which is sustaining our financial strength and using it purposefully. Our performance in 2011/12 is an important platform for achieving our plan and is described below.

Income and Expenditure

Our delivery of financial sustainability is driven and measured by our financial key performance indicators, the most significant being:

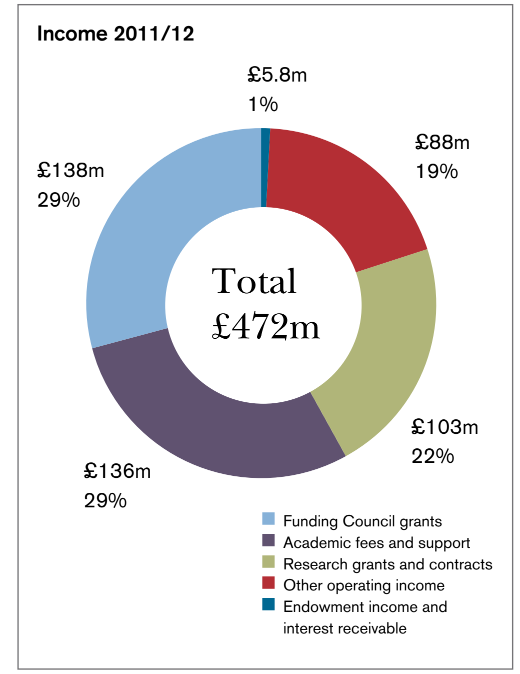
- Generating a continuing recurrent surplus to support long-term sustainability;
- Continuous capital investment in the estate, facilities and infrastructure; and
- Maintaining adequate cash balances.

The surplus for the year was in line with our medium-term financial plan and leaves us on course to deliver the objectives set out in 'Shaping our Future: Birmingham 2015'.

The operating surplus was £5.8m (2010/11 £27m) and equates to approximately 1.5% of total income (2010/11 6%). In parallel, there was a net cash outflow before financing of £0.5m (2010/11 inflow £13.5m). This reflected our plan to incur revenue costs now which will provide benefit in the future and support our strategic aims. During 2011/12, we continued to manage our cost base to ensure that value for money was achieved.

We also took the opportunity to revise our asset capitalisation limits. This is explained more fully in the accounts on pages 23 and 36, note 10. This, together with accelerated depreciation arising from the early delivery of significant parts of our capital plan, has impacted on our results for the year and reduced the surplus for this year by some £7.6m.

Income



As expected, our revenues were largely static at £472.0m (2010/11 £470.7m). In line with previous years, Funding Council grants continued to represent around 30% of total income and academic fees were 29%. The balance between the two will shift significantly over the next three years as the new student fee regime takes effect.

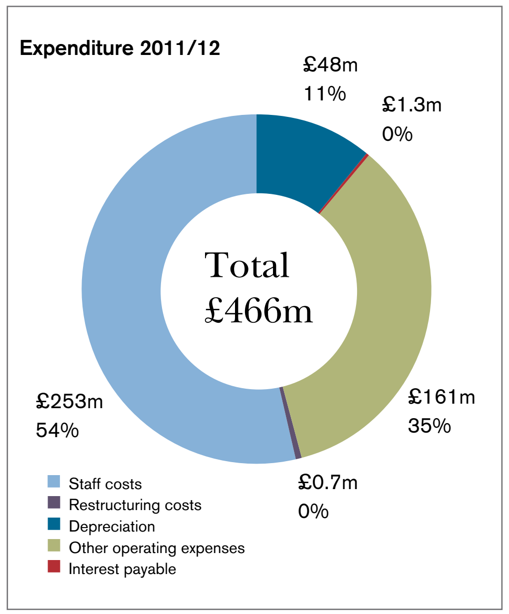
Research grants and contracts income increased by £1.7m to £103.3m compared with 2010/11. In 2011/12 we were very successful in winning new awards amounting to £145m (2010/11 £93m) which will impact very positively on income flows in future years. This has been particularly pleasing against a backdrop of reductions in funding opportunities across a range of sponsors. Although we continue to see a decline in the level of contribution to indirect costs from awards, it is nevertheless pleasing to see that our focus on enhancing our research power is beginning to produce the outcomes we are seeking. A major element of other operating income is that derived from student residences which has grown by 7%.

Treasurer’s Report (continued)

This growth will increase further over the next five years as we continue with the residences refurbishment and redevelopment programme, creating more high-quality accommodation which impacts directly on, and influences very positively, the overall student experience.

Other income, which includes revenue from the use of our facilities by third parties, funding for student support and general donations, do show some variations due to changes in the level of activity between years, they are largely consistent with 2010/11 after accounting for the £4.2m receipt included last year.

Expenditure



During the year we have continued to identify areas of activity which can be delivered more cost effectively or where disinvestment is appropriate as a means of managing our ongoing cost base.

The costs associated with over 6,000 members of staff continue to be significant at 54% of our total expenditure (2010/11 55%) of which pension costs amounted to £28.7m (2010/11 £28.1m).

Overall, our pay costs grew by 2% through a combination of cost of living awards, rewards for performance and changes in staff numbers.

Given the scale and age of the estate, the costs of maintaining it also represent a large element of our cost base. Expenditure (excluding capital investment) was £50.6m in the year. This represented 11% (2010/11 10%) of our total costs with depreciation accounting for almost half at £25.2m (2010/11 £22m).

In these challenging times, we remained committed to investing in achieving our strategic goals and this year have delivered or developed:

- Academic enhancement through the recruitment of 34 Birmingham Fellows across all Colleges;
- New Chair appointments and additional academic staff in key subject areas such as Music, Haematology and Biosciences;
- Enhanced student facilities and IT facilities;
- New programmes such as the Birmingham Foundation Academy; Postgraduate Pharmacy courses and a Liberal Arts provision;
- Scholarships and bursaries to assist students;
- The Freshers’ Good Read at Birmingham book programme; and
- Administrative support to facilitate research grant and contract capture.

Cash Flow

The University continued to generate significant cash from its operations at £30.1m (2010/11 £59.7m). This is vital to support the ongoing investment in new and growing academic areas and continues to be a key area of focus in considering our longer term sustainability in the context of the changing funding landscape.

The reduction in operating cash from last year mainly reflects the investments made ahead of securing future benefits together with working capital movements. Our longer term financial planning demonstrates that our cash generation will be sufficient to secure our future sustainability.

During the year we concluded discussions with the European Investment Bank and secured a long-term, unsecured loan of £75m to support our capital investment programme on very competitive terms. Although all of the loan was drawn down in April 2012, none of it had been spent by 31 July 2012 and it therefore formed part of the significant cash balances held at year end.

Donations and fundraising

During the year we launched the second phase of our Circles of Influence Campaign to raise, in total, £160m of which £60m was secured in the first phase. As reported by the Vice-Chancellor, we are immensely appreciative of the contributions made by our donors and as a result we have been able to support specific initiatives for students around employability, volunteering, scholarships and innovative areas of research including autism diagnosis; fighting cancer and infection; and food security.

Treasurer’s Report (continued)

Balance Sheet

Fixed assets

In order to maintain our large estate which covers 230 hectares and over 270 buildings, we continue to invest heavily in enhancing existing facilities as well as new developments. In 2011/12 we spent £46.6m against our annual target of £50m on land and buildings. This included:

- Completion of a major refurbishment of the Metallurgy and Materials building on Pritchatts Road. This project has taken three years at a total cost of over £30m;
- Refurbishment of the Learning Centre;
- Delivery of the prestigious Doug Ellis Learning Hub in the Medical School and completion of the Bramall Music Building with its formal opening in November, both of which have been made possible only with generous philanthropic giving; and
- Extensions to some of our existing Halls of Residence; together with additional combined heat and power facilities to reduce the carbon impact and running costs.

The total spend on these projects in the year was £35m.

During 2011/12, the Council approved the first phase of a very ambitious and exciting capital plan of £175m which will deliver a new state-of-the-art-library, a multi-faceted sports centre which will benefit students, staff and the local community and a new student hub which will collocate the most important aspects of student needs right at the heart of the campus in the original Aston Webb Building.

Investments

The Investment Sub Committee continues to set the policy for the short-, medium- and long-term investment portfolios and to have oversight of their management and performance. Each year, it reviews the strategic asset allocation to ensure that it remains fit for purpose to deliver investment returns whilst managing risk.

Given the uncertainty and volatility in worldwide markets, particularly with reference to markets in Europe, it became increasingly more difficult in 2011/12 to achieve a substantial return with an acceptable risk profile. As a consequence, the portfolio was rebalanced with a small reduction in the sums allocated to equities and bonds and a corresponding increase in hedge of fund investments. Despite difficult economic conditions, the long-term portfolio delivered a total return of 4.3% (2010/11 9.8%) and the short term cash delivered 1.4 % (2010/11 1.7%). The portfolios continue to be managed by external providers, with careful consideration of the cash requirements of the University.

Liabilities

We pay careful attention to the management of working capital and in particular the robust control of debtors and fair treatment of creditors. Whilst trade creditors have increased from £5.2m to £11.2m this year as a result of the timing of some of our capital invoices, the balance still reflects our policy of settling supplier accounts within 30 days of invoice.

Bank loans reflect the drawdown of the long-term loan from the European Investment Bank of £75m. The terms are described more fully on page 44, note 15 to the accounts.

Although BPAS, a defined benefit pension scheme and the University’s Self-Administered Trust, was closed to new entrants 10 years ago, it continues to show both an accounting and an actuarial deficit. Currently the University is contributing an additional £4.3m per annum towards the deficit identified in the last actuarial valuation the scheme.
The next triennial valuation is due in March 2013.

Risks and opportunities

Council approved a new strategic risk register in 2010/11 which has been actively monitored throughout the year. Whilst there were no new risks identified during 2011/12, there has been an increased focus on the risks associated with the recruitment of students, research grant capture and the financial implications thereof. The changes in these risks, their impact and likelihood are a consequence of the increasing challenges in the external environment.

The risk register is very clearly aligned to ‘Shaping our Future: Birmingham 2015’. The way we are responding to the key institutional risks within each of the strategic aims of that plan is commented on below.

Sustained financial strength

The planned changes to the funding of teaching continue apace. The admissions round for 2012/13 has presented challenges for many institutions.
The changes to student number controls for undergraduates with less than AAB and equivalent qualifications will be extended to ABB from 2013/14. The impact across the sector is far from clear and means the University’s engagement with potential applicants and responses to market trends become ever more important.

The decisions as to how and where to invest to sustain the University’s growth and development in teaching and research activities will be part of our response to the changing market. Regular monitoring of our applications is critical to ensure that we can intervene in a timely and effective manner if we are to hit our recruitment targets.

Management of the overall cost base, seeking new sources of income and seizing new opportunities all contribute to the University’s financial sustainability and its ability to deliver in a more competitive landscape and close attention is paid to this throughout the year.

Treasurer's Report (continued)

Research power

The Government has rightly chosen to protect the science and research budgets in cash terms. This recognises the importance of the sector to economic growth. It is therefore pleasing to note research awards in excess of £130m have been secured in 2011/12, which will flow as income in future. The challenge now is to sustain this level of awards in successive years, thereby maintaining our market share demonstrating the impact of our research in the run up to the Research Excellence Framework in 2013.

Student experience

The national Key Information Set (KIS) was launched in 2012 to assist students of the future in choosing the most appropriate Higher Education Institution for them and includes data from the National Student Survey. Whilst in the most recent output of that survey, Birmingham saw one of the most impressive improvements in the sector in terms of overall satisfaction growing to 88%, the significance of maintaining high academic quality alongside demand for our programmes will remain a challenge and risk which must be actively managed. Investments in the teaching and learning spaces, a full review of curricula and local responses to feedback and benchmarking will all contribute to ensuring our students have a high-quality experience.

Destination of choice

In order to deliver the experience for our students, we need to recruit and retain the best staff. Initiatives such as the Birmingham Fellows have provided new opportunities to recruit high-quality early-career academic staff to the University. This has been such a successful venture that we are embarking on a second recruitment round in 2012/13. We continue to enhance the development opportunities for both academic and professional services teams, responding to change and ensuring our staff are supported and engaged.

Engaged University

The need to sustain external recognition on an international scale for our teaching and research activities is ongoing. The development of new alliances and initiatives in new geographies described in the Vice-Chancellor's report, staff and student mobility and taking positive actions to enhance our league table performance, all contribute to keeping Birmingham at the forefront of engagement. We have made good progress in 2011/12 and the challenge will be to maintain that momentum.

Other operating risks

In addition to the strategic risks outlined above, there are a number of high-level operating risks which could, if not properly managed, impact seriously on the reputation of the University as well as its capacity to deliver the five-year plan. These include failure of leadership, management, governance, IT, infrastructure, financial control, regulation, compliance and our environmental or carbon management strategy. The related controls and other mitigating actions are all kept under regular review to ensure that the likelihood of failure is minimised and in the event that any such risk does materialise that the impact is managed and controlled.

Opportunities

The University has a number of opportunities for development and wider engagement. All have been at the centre of activity in 2011/12 and will continue to be developed. They include:

- Further strengthening of our international engagement, particularly in Chicago, Brazil, China and India;
- Developing research collaborations internationally to deliver innovative and thought-provoking activity. This also includes appointing internationally acclaimed academics;
- Capital enhancements to the campus which have commenced (for example the Learning Centre refurbishment) or planned (such as the new Library and Sports Centre);
- Engagement with the student body through a range of initiatives and governance involvement to enable the students to contribute to and influence significant decisions about the University's activities;
- Supporting teaching in the University through curriculum review: the Centre for Learning and Academic Development (CLAD), which is training teaching staff; tools such as virtual learning; and the wealth of resources and special collections on campus.

All of these contribute to the University's ability to respond to changes in the external environment and to develop strategies for continuous improvement.

Regulatory environment

The University is an exempt charity by virtue of schedule 3 of the Charities Act 2011 and since June 2010 HEFCE has been the University's principal regulator under that Act.

The University is able to operate autonomously, having regard to requirements to fulfil our charitable objectives under Royal Charter (by which it was established in 1900), to the HEFCE and other regulatory bodies within the sector.

The University's activities are governed by its Charter and Statute. In accordance with these, the University is required to:

- Be both a teaching and an examining university;
- Further the prosecution of original research;
- Provide instruction in such branches of learning as the University may think fit;
- Work for the advancement, dissemination and application of knowledge in such a manner as the University may determine so as to be for the public benefit; and
- Set up fellowships, scholarships, studentships, exhibitions, bursaries, prizes and other such awards for the benefit of individuals and society at large.

All our activities are defined by these principles delivering a benefit to the students and staff who are involved with the University and more widely to the public.

Public benefit

In setting strategy and implementing decisions to enhance the University's activity, the University's Council has taken due regard of the Charity Commission guidance on public benefit. The charitable aim of the advancement of education is exemplified in both our undergraduate and postgraduate teaching across a wide range of subjects. More than 30,000 students, with over 5,000 graduating each year, enjoy the benefits of higher education at the University. Through continually developing new and innovative professional courses, the more traditional programmes, we are sharing knowledge and developing enquiring minds. Many of our students pursue research across a wide range of disciplines, finding original concepts and new inventions which will in time result in changes to our society, advancements in healthcare and enhanced economic well-being.

In the year, 18 patent applications were made, over 122 new records of inventions were registered and we celebrated a new award for student entrepreneurial activity which captured the interest of students and industrial partners alike. Further information in relation to the wide range of academic opportunities can be found in the University's online prospectus (see www.birmingham.ac.uk/students/ug).

The University also provides a series of lectures which are open to students, staff and the local community on areas of wide interest. In 2012 our Baggs Memorial Happiness Lecture was given by Jung Chang and was attended by over 600 people. The public lecture series was extensive with 16 inaugural lectures delivered this year alongside prestigious events often involving distinguished external academics from many disciplines across the campus.

Over 75% of our student population is drawn from the UK. The rest come from a wide range of countries with a mix of backgrounds and experiences. This combination enriches the learning experience gained in attending the University. We produce graduates who have received training in their chosen academic discipline, together with other skills, through volunteering, electives or placements abroad, training as student mentors and numerous other extracurricular activities. The wide range of student societies ensures there is opportunity for everyone to extend their network and try out new things.

Our research interests are varied and wide-ranging. Our internationally acclaimed academics advance knowledge in cutting edge and global areas of concern, such as discovering the Higgs Boson particle at the Large Hadron Collider; showing human brain cells are vulnerable to Hepatitis C virus; building the first hydrogen powered locomotive; the reduction in city pollution achievable using green walls; leading sessions at the Hay Festival of Literature and the Arts; and establishing the first centre dedicated to understanding the UK's character and values. Additional information about how these and other research activities impact can be found online (see www.birmingham.ac.uk/news).

In delivering research the University is mindful of the need to minimise any detrimental impact and there are policies and procedures for initial ethical approval of projects as well as ensuring compliance with appropriate standards for dealing with clinical tissue, sensitive data or areas of ethical concern.

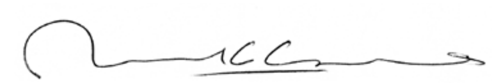
The University continues to provide scholarships and bursaries to encourage entry to, and continuation of, higher education from as wide a cross section of the community as possible. In 2011/12 financial support amounted to £33m (2010/11 £32m). We also actively encourage widening participation through our highly praised Access to Birmingham scheme. This involves targeted engagement with young people who have little or no experience of university, to assist them in finding out what studying at university involves. The scheme started in 2000 and we are supporting the development of similar schemes across the country.

The University provides a full range of support for students to enhance their learning experience. The range of student services available includes student welfare and counselling, additional support for our disabled students, sports facilities, careers and financial advice. We also have day nurseries available for use by our students and the public. Many of the University's facilities are also used by our local community. These include swimming lessons for children in the sports centre and use of our hockey and rugby pitches by local clubs and societies.

Conclusion

The University remains an exciting and dynamic organisation which is at the heart of an ever-changing international higher education environment. Our global impact on society continues to grow through educating leaders, experts and professionals of the future, through world leading and collaborative research which has real impact and through civic engagement – particularly here in Birmingham and the region. We are well placed to continue to achieve our strategic objectives through our clear and targeted investment strategy underpinned by a sustainable financial plan.

This can only be delivered with the strong commitment and engagement of our staff and our students. I would like to thank everyone for their contribution over the last year. I look forward to us continuing to work together to capitalise on the strong foundation and to develop opportunities in a period of continuing change.



Dr Michael Gilbert
Treasurer

29 November 2012

Corporate Governance

Current members of the Council, who are also trustees of the exempt charity, who served throughout the year ended 31 July 2012 and to the date of approval of these accounts, except where indicated otherwise are set out in the table. Their attendance at meetings as members of Council, Strategy, Planning and Resources (SPRC), Audit, Remuneration and Membership Committees are shown below.

		Meeting attendance 2011/12				
Members	Council membership dates	Council 5 in year	SPRC 6 in year	Audit 4 in year	Remuneration 3 in year	Membership 3 in year
Lay Members appointed by the Council						
Mr J E K Smith The Pro-Chancellor		5/5	5/6	–	3/3	3/3
Mr C N Banks CBE Deputy Pro-Chancellor		4/5	6/6	–	3/3	3/3
Dr M G Gilbert Treasurer		5/5	6/6	3/4*	1/3	3/3
Mrs M Davies		5/5	–	4/4	–	3/3
Mr M R Devenish		4/5	4/6	–	–	–
Mr R Halton		4/5	4/6	–	2/3	–
Dr R C Horton		5/5	–	–	–	–
Mr R J Keys		4/5	–	4/4	–	–
Mr G R Mackenzie OBE	Term ended July 2012	5/5	–	4/4	–	–
Dr N E Price OBE		5/5	–	3/4	–	–
Mr D Roy, Hon Alderman		3/5	–	–	–	–
Ms C Snowball CBE		3/5	–	–	3/3	–
Dr R Sondhi		3/5	–	–	–	–
Ms S Vickers	Retired from Council July 2012	2/5	–	–	–	–
Mr D Anderson CBE	Term commenced August 2012	–	–	–	–	–
Mr D Davies OBE	Term commenced January 2012	2/3	–	–	–	–
Mr R Haywood	Term commenced August 2012	–	–	–	–	–
Ms S Kaur-Stubbs	Term commenced August 2012	–	–	–	–	–

* In attendance only

		Meeting attendance 2011/12				
Members		Council 5 in year	SPRC 6 in year	Audit 4 in year	Remuneration 3 in year	Membership 3 in year
Appointed by Guild of Students						
Mr D Franklin President of the Guild of Students	Term commenced August 2012	–	–	–	–	–
Ms E Halford Postgraduate and Mature Students Officer		4/4	–	–	–	–
Mr M Harrop President of the Guild of Students	Term ended July 2012	5/5	6/6	–	–	–
Ex Officio Members						
Professor D S Eastwood The Vice-Chancellor and Principal		5/5	6/6	–	3/3	3/3
Professor M C Sheppard The Vice-Principal and Provost		5/5	6/6	–	–	1/3
Academic Members Appointed by Senate						
Professor M J Hilton Modern History	Term ended July 2012	3/5	–	–	–	–
Professor J Frampton Medicine	Term commenced March 2012	2/2	–	–	–	–
Professor C Ryan Economics		5/5	5/6	–	–	–
Professor A J Schofield Physics and Astronomy		5/5	–	–	–	3/3
Professor A Sanders Law	Term commenced August 2012	–	–	–	–	–
Secretary to Council						
Mr L Sanders The Registrar and Secretary		5/5	–	–	–	–

Advisors

External Auditors	KPMG LLP
Bankers	Lloyds TSB Plc
Solicitors (from Panel of)	Martineau Johnson Mills & Reeve LLP Pinsent Masons LLP

Corporate Governance (continued)

The following statement is given to assist readers of the Financial Statements in obtaining 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),
ii) in full accordance with 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'; and
iii) in accordance with the UK Corporate Governance Code in so far as it is applicable to the Higher Education sector.

The University is committed to exhibiting best practice in all aspects of corporate governance, in particular the Council has adopted and complied with CUC governance code of practice and general principles.

Summary of the University's structure of Corporate Governance

The University's Council comprises 24 lay and academic persons appointed under the Statutes of the University, the majority of whom are lay members. 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 policies of the Council are set out in the Statutes of the University, by custom and under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). Full details of the Council's responsibilities are set out in the Code of Practice of Corporate Governance statutes and on the University's website.

The University complies with the CUC's Governance Code of Practice and General Principles, which summarises the Council's responsibilities as follows:

- Approving the mission and strategic vision of the institution, long-term business plans, key performance indicators (KPIs) and annual budgets, and ensuring that these meet the interests of stakeholders;
- Appointing the head of institution as chief executive of the institution and putting in place stable arrangements for monitoring his performance;
- Ensuring the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, clear procedures for handling internal grievances and for managing conflicts of interest; and
- Monitoring institutional performance against plans and approved KPIs, which should be, where possible and appropriate, benchmarked against other institutions.

Council

The Council, which is chaired by the Pro-Chancellor, meets at least four times a year and has several committees: a Strategy, Planning and Resources Committee (SPRC), Audit Committee, a Membership Committee and a Remuneration Committee, all of which have lay members. Attendance at meetings in the year is shown on pages 12 and 13. Senate and the University Executive Board (UEB) have no lay members.
All committees are formally constituted with terms of reference.

Strategy, Planning and Resources

SPRC recommends to the 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. The Committee also recommends the annual budget to the Council, oversees the development and implementation of systems relating to institutional performance monitoring and monitors strategic risks.

The membership currently comprises the Vice-Chancellor (Chairman), the Pro-Chancellor, the Deputy Pro-Chancellor, the Treasurer, the Provost and Vice-Principal, three Pro-Vice-Chancellors, three academic members of Council, three lay members of Council and the President of the Guild of Students.

Audit

The Audit Committee meets four times a year and is made up of five lay members of Council who are not members of SPRC. There is also provision for two possible co-opted members. The co-opted member at present is Mr H James Hunt, appointed 1 August 2012. At present the Committee has two vacancies, one Council member and one co-opted position.

Corporate Governance (continued)

The Committee reviews the effectiveness of the University's financial and other internal control systems, satisfies itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness and advises the Council on risk management. 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 HEFCE as they affect the University's business. It reviews adherence with 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 regularly with the Internal and External Auditors on their own for independent discussions.

Membership

Membership Committee considers nominations for vacancies in the Council membership under the relevant ordinance. The Committee is chaired by the Pro-Chancellor and includes the Vice-Chancellor, and at least three members of Council.

At one of its meetings each year, the Committee reviews the establishment, terms of reference, constitution, composition and membership of all Council committees and will make any recommendations to Council for changes in consultation with the chairperson of the relevant committee.

Remuneration

The Remuneration Committee is responsible to the University Council for setting the remuneration of all senior staff including the Vice-Chancellor, those staff on UEB who report directly to him, professors and senior professional staff.

The Committee is comprised of five lay members of University Council and the Vice-Chancellor. The Registrar and Secretary is in attendance. No member of staff is present for discussion of their own remuneration.
The Committee is chaired by the Deputy Pro-Chancellor. The Pro-Chancellor is a member of the Committee, but since he reports to the Committee on the Vice-Chancellor's performance and recommends to the Committee the Vice-Chancellor's remuneration, the University believes it is appropriate that a different senior lay officer chairs the Committee. Human Resources service the Committee and support the remuneration process.

The Remuneration Committee meets at least twice a year and its purpose is to:

- Take an overview of the reward policy and associated structures and processes which are designed to support a high performance culture;
- Review senior staff remuneration;
- Review equal pay issues; and
- Review remuneration for the Vice-Chancellor and those staff who report directly to him (excluding his Personal Assistant).

The Committee ensures that it complies with the HEFCE Accounts Direction on senior staff remuneration.

The annual process for setting senior staff remuneration is as follows:

1. At its first meeting, the Remuneration Committee considers and agrees the parameters and principles that will apply to that year's process and the information and data it wishes to consider at its second meeting, when it sets senior staff remuneration. The Vice-Chancellor is responsible for overseeing the annual process for senior staff (other than himself, which falls to the Pro-Chancellor) working within the approach agreed by the Committee.

2. In the case of senior academic staff, professors are invited to submit a statement describing their achievements over the previous 12 months, which is reviewed by their head of school. These are then considered alongside market data by their head of college, who makes recommendations regarding proposed remuneration increases for their college and is responsible for ensuring consistency and equality of treatment. The Vice-Chancellor meets with each Head of College to scrutinise these recommendations, and, following moderation by the Pro-Vice-Chancellors (thematic) and the Provost and Vice-Principal, the Vice-Chancellor presents his plan for the remuneration of professors to the second meeting of Remuneration Committee for consideration and approval.

Corporate Governance (continued)

3. There is a parallel process for senior professional staff, under which the Registrar and Secretary recommends remuneration increases reflecting individuals' performance, informed by the appraisal process, and taking account of comparative market data and equal pay issues. The Vice-Chancellor meets with the Registrar and Secretary to scrutinise these recommendations and then presents his plan for the remuneration of professional staff to the second meeting of Remuneration Committee for consideration and approval.

Those members of UEB who report directly to the Vice-Chancellor agree a series of collective and individual objectives at the start of the year, which are reviewed at least twice during the year and provide the Vice-Chancellor with an assessment of performance which, along with market pay data and other relevant inputs, is used by him to prepare proposals for the remuneration of those staff which he presents to the second meeting of the Remuneration Committee for consideration and for approval.

The Vice-Chancellor's performance objectives are agreed each year with the Pro-Chancellor. These are endorsed by the Remuneration Committee. The Pro-Chancellor undertakes six- and twelve-month appraisal discussions with the Vice-Chancellor and obtains feedback from selected individuals both within the University and its external stakeholders and reports these to Remuneration Committee. The Pro-Chancellor makes a recommendation to the Remuneration Committee's second meeting on the Vice-Chancellor's remuneration, informed by his assessment of the Vice-Chancellor's performance, the findings of the annual Committee of University Chairmen (CUC) Survey of Vice-Chancellors' remuneration, other market data and relevant information. The Committee scrutinises the Pro-Chancellor's recommendation and agrees the Vice-Chancellor's remuneration.

The Vice-Chancellor's total remuneration is comprised of two elements, base salary and a performance-related payment of up to 10% of salary. The Pro-Chancellor proposes targets for payout of the performance-related element to the Remuneration Committee who determine the level of award.

University Executive Board

The University Executive Board (UEB) is a committee of the Council established by Ordinance (the University's internal legislation) that normally meets weekly to steer the implementation of University strategy and policies under Council's direction and within the Council's scheme of delegation. An additional purpose is to foster good communication and inter-collegiate activity in the University and to promote transparency in decision making.

Its membership comprises of the Vice-Chancellor and Principal (in the Chair), the Provost and Vice-Principal, the Pro-Vice-Chancellors, the Heads of Colleges, the Registrar and Secretary, the Director of Finance, the Director of Human Resources and such other persons as may be recommended by the Vice-Chancellor, after consultation with the University Executive Board, and approved by the Council for such terms of office as it determines.

Senate

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 Senate is chaired by the Vice-Chancellor and consists of up to 60 members drawn from the University leadership, academic staff and the Guild of Students.

Statement of Internal Control

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 7 of the Charter of Incorporation, Section 9 of the Statutes

Corporate Governance (continued)

of the University and the Financial Memorandum with HEFCE.

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

Council has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- Council meets a minimum of four times a year to consider the plans and strategic direction of the institution.
- Council receives periodic reports from the Audit Committee concerning internal control, and requires regular reports from managers, either directly or through the SPRC, on the steps they are taking to manage strategic risks in their area of responsibility, including progress reports on key projects.
- Council has requested the Audit Committee to provide oversight of the risk management process. This provides a formal reporting and appraisal mechanism, in addition to the reports noted above.
- The Audit Committee receives regular reports from the Head of Internal Audit, which include an independent opinion on the adequacy and effectiveness of the institution's systems of governance, risk management and internal control, together with recommendations for improvement.
- A risk management process has been established which includes a risk register which is fully aligned to the strategic goals set out in the strategic framework which was approved by the Council in 2010. Heads of Budget Centres seek to manage the risks in their own areas and embed this within their normal management processes.
- A system of key performance indicators has been developed for the risks contained in the risk register, and residual risks are monitored against these regularly.
- A regular formal review takes place to identify and where necessary revise and update the record of risks facing the institution.
- Reports are received from budget holders, department heads and project managers on internal control activities via committees of Council.
- Systematic and comprehensive independent peer reviews of Schools and Corporate Services have been introduced aimed at enhancing performance in line with the strategic framework.

The review of the effectiveness of the system of internal control is informed by the Internal Audit Service, 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 2011.

The 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.

Ed Smith

Ed Smith
Pro-Chancellor

29 November 2012

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 University 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 (HEFCE) and the Council of the University, the University 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 University 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;
- It is satisfied that the University has adequate resources to continue in operation for the foreseeable future; and
- The going concern basis is appropriate for the preparation of the financial statements.

The University Council has taken reasonable steps to:

- Ensure that funds from HEFCE and the Teaching Agency are used only for the purposes for which they have been given and in accordance with the Financial Memoranda 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.

Ed Smith
Pro-Chancellor

29 November 2012

Report of the Auditor

Independent auditor's report to the Council of the University of Birmingham

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

This report is made solely to the Council, in accordance with the Charters and Statutes of the institution. Our audit work has been undertaken so that we might state to the University Council those matters we are required to state to it 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 University Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Council and Auditor

As explained more fully in the Statement of Responsibilities of the Council on page 18, the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Report of the Auditor (continued)

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed in the Higher Education Funding Council for England (HEFCE) Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- Funds from whatever source administered by the University for specific purposes have been properly applied to those purposes;
- Income has been applied in accordance with the University's Statutes; and
- Funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

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

- The statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the University and Group.

M J Rowley
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

29 November 2012

Statement of Principal Accounting Policies and Estimation Techniques

The Accounts for the year ended 31 July 2012

1. Basis of preparation

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) 2007 applicable to Higher and Further Education Institutions and applicable Accounting Standards. They conform to the guidance published by the Higher Education Funding Council for England (HEFCE).

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.

2. Going concern basis

The University's business activities and current financial position, together with the factors likely to affect its future development, performance and position are set out in the Treasurer's Report.

The University has considerable financial resources and a diverse range of income streams to ensure sustainability. The University continues to deliver its strategic plan, providing focus and direction up to 2015 and as a consequence Council believes that the University is well placed to manage its business risks successfully despite the uncertain economic climate.

Council believes that the University has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

3. Basis of consolidation

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 30 to the Accounts. The University also has interests in a number of other companies which are also identified in note 30.

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 7 and the aggregate capital and reserves and surplus for the year to 31 July 2012 of the Guild are shown in note 31.

4. Recognition of income

The recurrent grant from HEFCE 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.

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

All endowment and investment income is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment is transferred from the Income and Expenditure Account to restricted endowments.

Income from other services rendered is included to the extent of completion of the contract or services concerned and is measured at the fair value of the consideration receivable.

Tuition fees represent student fees received and receivable attributable to the current accounting period. Where the amount of the tuition fee is reduced by discounts for prompt payment, income is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

The Accounts for the year ended 31 July 2012

The University acts as an agent in the collection and payment of training bursaries from government agencies and of Learning Support Funds from HEFCE. Related payments received from Health Authorities, Research Councils, the Teaching Agency and HEFCE and subsequent disbursements to students are excluded from the Income and Expenditure Account and are shown separately in note 28.

Income from short-term deposits is accrued up to the Balance Sheet date.

5. Taxation

The University is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 CTA 2009 and sections 471, 478-488 CTA 2010 or section 256 of the taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The University is partially exempt in respect of Value Added Tax (VAT), so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate.

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.

6. 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.

7. 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.

Historic 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 ten 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.

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.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

The Accounts for the year ended 31 July 2012

Where land and buildings are held for either income generation or capital appreciation they are classified as investment properties and valued annually in accordance with SSAP19 within Investments, and are not depreciated. Value appreciation is reflected in the revaluation reserve. Any permanent diminution in value is recorded in the Income and Expenditure Account.

8. Heritage assets

FRS 30 Heritage Assets was adopted in 2010/11 and relates to works of art and other valuable artefacts, held principally for their contribution to knowledge and culture rather than for the University's operational use. Heritage assets acquired since 1 August 1999 and valued over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable.

Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

9. Equipment

During the year the University changed the basis for capitalisation of equipment. Previously all equipment was capitalised at cost irrespective of value. Now equipment costing £25,000 or less per item is written off in the Income and Expenditure Account in the period of acquisition. All other equipment is capitalised at cost 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.

10. Donated assets

Where the University receives a donation, bequest or gift with no specific terms attached to its use, it is recorded as income in the Income and Expenditure Account.

Donated buildings and equipment are recognised in the Balance Sheet at fair value and an equivalent sum is recognised in deferred capital grants. They are depreciated over their expected useful life, with corresponding income released from deferred capital grants to the Income and Expenditure Account in line with the University's asset capitalisation policies in paragraphs 7, 8 and 9.

11. 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 7.

12. 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 Account 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.

13. 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.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

The Accounts for the year ended 31 July 2012

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 values of the investment portfolio.

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

14. 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.

15. Pensions
Retirement benefits for certain 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 assets of these schemes are held in separate trustee-administered funds. The institution is unable to identify its share of the underlying assets and liabilities of the USS scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

As required by FRS 17 'Retirement benefits', the difference between the fair value of the assets held in BPAS and the scheme's liabilities is recognised in the University's Balance Sheet as a pension scheme asset or liability as appropriate. Changes in the BPAS scheme asset or liability arising from factors other than cash contribution by the University are dealt with in the Income and Expenditure Account or the Statement of Total Recognised Gains and Losses in accordance with FRS 17 'Retirement benefits'.

In addition the University has a 'defined contribution' pension scheme for its support staff who are not members of BPAS. University contributions are charged to the Income and Expenditure Account as incurred.

16. 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 value can be reliably estimated.

17. Cash and short-term deposits
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.

Short-term deposits 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.

18. Financial instruments
The only financial instruments the University has are interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate, or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Consolidated Income and Expenditure Account

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
Income			
Funding Council grants	1	138,256	142,209
Academic fees and support grants	2	136,288	125,825
Research grants and contracts	3	103,266	101,540
Other operating income	4	88,297	95,003
Endowment income and interest receivable	5	5,890	6,171
Total income		**471,997**	**470,748**
Expenditure			
Staff costs	6	253,302	247,258
Restructuring costs	7	746	1,536
Depreciation	7	48,960	48,702
Other operating expenses	7	161,845	145,627
Interest payable	8	1,320	616
Total expenditure	**7**	**466,173**	**443,739**
Operating surplus		5,824	27,009
Corporation Tax	9	343	153
Surplus for the year after taxation		**6,167**	27,162
Minority interest		(39)	(72)
Surplus after minority interest and taxation		**6,128**	27,090
Surplus transferred from accumulated income in endowment funds	18	1,470	194
Surplus for the year retained in general reserves		**7,598**	**27,284**

There were no discontinued operations during 2011/12 or 2010/11.

Note of historical cost surpluses and deficits		
Surplus for the year	**7,598**	**27,284**
Difference between historical cost depreciation and the actual charge based on the revalued amount	624	624
Historical cost surplus	**8,222**	**27,908**

Balance Sheets

For the year ended 31 July 2012

	Note	Consolidated 2012	Consolidated 2011	University 2012	University 2011
		£000	**£000**	**£000**	**£000**
Fixed assets					
Tangible assets	*10*	**576,353**	566,682	**559,851**	549,871
Investments	*11*	**18,106**	21,527	**17,551**	20,671
		594,459	588,209	**577,402**	570,542
Endowment asset investments	*12*	**83,476**	82,979	**83,476**	82,979
Current assets					
Stocks and stores in hand		**813**	803	**633**	616
Debtors and prepayments	*13*	**46,336**	43,781	**48,399**	46,807
Investments		**172,673**	128,664	**172,673**	128,664
Cash at bank and in hand	*14*	**56,343**	25,733	**52,182**	20,653
		276,165	198,981	**273,887**	196,740
Creditors					
Amounts falling due within one year	*14*	**(128,313)**	(129,345)	**(126,272)**	(128,212)
Net current assets		**147,852**	69,636	**147,615**	68,528
Total assets less current liabilities		**825,787**	740,824	**808,493**	722,049
Creditors: amounts falling due after more than one year	*15*	**(75,000)**	-	**(75,000)**	(96)
Provisions for liabilities and charges	*16*	**(1,260)**	(2,488)	**(131)**	(993)
Net assets excluding pension fund liability		**749,527**	738,336	**733,362**	720,960
Pension fund liability	*27*	**(24,200)**	(30,700)	**(24,200)**	(30,700)
Total net assets		**725,327**	707,636	**709,162**	690,260

Balance Sheets (continued)

For the year ended 31 July 2012

	Note	Consolidated 2012	Consolidated 2011	University 2012	University 2011
		£000	**£000**	**£000**	**£000**
Represented by:					
Deferred capital grants	*17*	**167,815**	159,442	**167,223**	158,811
Endowments					
Restricted expendable	*18*	**6,255**	6,348	**6,255**	6,348
Permanent	*18*	**77,221**	76,631	**77,221**	76,631
		83,476	82,979	**83,476**	82,979
Reserves					
Income and Expenditure Account (excluding pension reserve)	*19*	**452,942**	449,920	**439,707**	435,724
Pension reserve	*19*	**(24,200)**	(30,700)	**(24,200)**	(30,700)
Revaluation reserve	*19*	**43,046**	43,664	**42,956**	43,446
Minority interest		**2,248**	2,331	**-**	-
		474,036	465,215	**458,463**	448,470
Total funds		**725,327**	707,636	**709,162**	690,260

The financial statements on pages 21 to 56 were approved by the Council on 29 November 2012 and signed on its behalf by:

- **Professor David Eastwood, Vice-Chancellor and Principal**

- **Dr Michael Gilbert, BSc, FCA, Treasurer**

Consolidated Cash Flow Statement

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
Net cash inflow from operating activities	*22*	**30,170**	59,713
Returns on investments and servicing of finance	*23*	**4,569**	4,855
Taxation		**(12)**	(38)
Capital expenditure and financial investment	*24*	**(35,194)**	(51,010)
Net cash (outflow)/inflow before financing	*26*	**(467)**	13,520
Financing	*25*	**75,000**	-
Increase in cash in the year	*26*	**74,533**	13,520

	Note	2011/12	2010/11
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		**74,533**	13,520
Drawdown of new loans	*25*	**(75,000)**	-
(Decrease)/increase in net funds		**(467)**	13,520
Net funds at 1 August		**160,290**	146,770
Net funds at 31 July	*26*	**159,823**	160,290

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
Surplus after depreciation of assets at valuation and tax		**6,128**	27,090
Appreciation of endowment asset investments	*18*	**1,017**	3,963
Appreciation/(depreciation) of fixed asset investments	*19*	**6**	(23)
New endowments	*18*	**950**	1,074
Actuarial gain on pension fund	27	**1,300**	8,500
Total recognised gains since the last accounting period		**9,401**	40,604

	2011/12	2010/11
Reconciliation of reserves and endowments		
Opening reserves and endowments	**545,863**	505,259
Total recognised gains for the year	**9,401**	40,604
Closing reserves and endowments	**555,264**	545,863

Notes to the Accounts

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
1. Funding Council grants			
Teaching recurrent grant from HEFCE		**73,970**	76,921
Research recurrent grant from HEFCE		**42,249**	43,850
Other grants from HEFCE		**7,411**	6,511
Teaching Agency grants		**3,017**	4,537
Deferred capital grants released – Buildings and Equipment	*17*	**11,609**	10,390
		138,256	142,209
2. Academic fees and support grants			
Undergraduate tuition – home and EU students		**55,849**	54,010
Undergraduate tuition – other students		**18,794**	17,861
Postgraduate tuition – home and EU students		**18,486**	17,006
Postgraduate tuition – other students		**34,423**	29,519
Other courses		**4,480**	3,779
Research, training and support grants		**4,256**	3,650
		136,288	125,825
3. Research grants and contracts			
Research Councils		**34,041**	35,241
UK-based charities		**21,614**	23,194
UK Central/Local Government, Health and Hospital Authorities		**27,074**	26,341
UK industry, commerce and public corporations		**5,223**	5,273
EU government bodies		**10,099**	7,268
EU other		**1,722**	1,138
Other overseas		**2,601**	2,219
Other sources		**892**	866
		103,266	101,540

Income from research grants and contracts includes £5,978k (2010/11 £10,004k) in respect of deferred capital grants released.

Notes to the Accounts (continued)

For the year ended 31 July 2012

	Note	2011/12	2010/11
		£000	£000
4. Other operating income			
Residences, catering and conferences		**32,885**	30,743
Other services rendered		**8,675**	12,405
Externally funded posts – Health Authorities		**14,244**	13,721
Self-financing teaching activities		**2,893**	3,162
Rented properties and University Centre lettings		**1,263**	1,362
Day nursery and health centre		**2,058**	2,044
Release of deferred capital grants		**1,485**	1,118
Barber Trust		**1,088**	1,054
VAT refund		**493**	779
Other income		**23,213**	28,615
		88,297	95,003

Other income includes £4.25m in respect of a legal settlement in 2010/11.

	Note	2011/12	2010/11
5. Endowment income and interest receivable			
Income from permanent endowment investments	*18*	**1,680**	2,462
Income from restricted expendable investments	*18*	**91**	137
Income from short-term investments		**2,284**	2,295
Net return on pension scheme	*27*	**800**	400
Other investment income		**1,035**	877
		5,890	6,171

Notes to the Accounts (continued)

For the year ended 31 July 2012

6. Staff	Note	2011/12	2010/11
		£000	£000
Staff costs:			
Salaries		**208,051**	203,900
Social security costs		**17,328**	16,770
Other pension costs	27	**28,669**	28,124
Total (includes restructuring costs of £746k (2010/11 £1,536k)		**254,048**	248,794

Emoluments of the Vice-Chancellor:		
Professor David Eastwood		
Salary and benefits	**372**	368
Pension contributions to USS	**34**	51
	406	419

The emoluments shown have been independently determined by the Remuneration Committee of the Council and have been reviewed according to performance.

Compensation for loss of office paid to members of staff earning in excess of £100,000 per annum	**-**	132

Average staff numbers by major category:	2011/12 Number	2010/11 Number
Academic and related/clinical	**3,877**	3,818
Other, including technical, clerical and manual	**2,269**	2,268
	6,146	6,086

Notes to the Accounts (continued)

For the year ended 31 July 2012

6. Staff (continued)

Remuneration of 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:

	2011/12 Number	2010/11 Number
£100,001 – £110,000	**24**	16
£110,001 – £120,000	**14**	14
£120,001 – £130,000	**10**	7
£130,001 – £140,000	**13**	13
£140,001 – £150,000	**11**	9
£150,001 – £160,000	**13**	8
£160,001 – £170,000	**5**	9
£170,001 – £180,000	**7**	6
£180,001 – £190,000	**3**	2
£190,001 – £200,000	**4**	6
£200,001 – £210,000	**4**	4
£210,001 – £220,000	**1**	1
£220,001 – £230,000	**1**	1
£360,001 – £370,000	**–**	1
£370,001 – £380,000	**1**	–
	111	97

During the financial year 2011/12 expenses of £7,982 (2010/11, £5,960) were reimbursed to Council members, who are also trustees.

Notes to the Accounts (continued)

For the year ended 31 July 2012

7. Analysis of expenditure by activity	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	**Total 2011/12**	Total 2010/11
	£000	£000	£000	£000	£000	£000
Academic schools						
Core teaching and research	135,191	4,143	26,826	-	**166,160**	159,448
Research grants and contracts	46,899	5,978	30,098	-	**82,975**	80,270
Student support	-	-	33,569	-	**33,569**	28,454
Other trading	585	34	5,602	-	**6,221**	8,632
	182,675	10,155	96,095	-	**288,925**	276,804
Academic services						
Information services	13,628	4,742	10,921	-	**29,291**	25,724
Other academic services	14,226	606	8,138	-	**22,970**	23,411
	27,854	5,348	19,059	-	**52,261**	49,135
Premises						
Energy and utilities	627	770	7,149	-	**8,546**	7,984
Repairs and general maintenance	3,560	1,452	5,432	-	**10,444**	9,882
Depreciation of buildings	-	22,947	-	-	**22,947**	19,742
Other	6,309	93	2,252	-	**8,654**	8,095
	10,496	25,262	14,833	-	**50,591**	45,703
Administration and services						
Administrative services	12,229	47	5,795	-	**18,071**	17,475
Audit fees	-	-	105	-	**105**	95
Fees to auditor for non-audit work	-	-	81	-	**81**	52
Sports facilities	3,781	139	2,439	-	**6,359**	3,810
Health, nursery and counselling services	4,535	103	1,483	-	**6,121**	4,209
Grant to Guild of Students (Note 31)	-	-	1,873	-	**1,873**	1,874
	20,545	289	11,776	-	**32,610**	27,515
Residences catering and conferences						
Residences	1,404	132	7,758	-	**9,294**	8,129
Catering and conferences	5,868	610	6,710	-	**13,188**	13,888
Depreciation of buildings	-	6,808	-	-	**6,808**	5,273
	7,272	7,550	14,468	-	**29,290**	27,290
Other expenditure						
Other services rendered	2,650	356	3,877	-	**6,883**	13,218
Restructuring costs	746	-	-	-	**746**	1,536
Write down of investment properties	-	-	75	-	**75**	730
Other	1,810	-	1,662	1,320	**4,792**	1,808
	5,206	356	5,614	1,320	**12,496**	17,292
Total	254,048	48,960	161,845	1,320	**466,173**	443,739
The depreciation charge has been funded by:						
Deferred capital grants released (Note 17)		19,150			**19,150**	21,512
General income		29,810			**29,810**	27,190
		48,960			**48,960**	48,702

Notes to the Accounts (continued)

For the year ended 31 July 2012

8. Interest payable	*Note*	**Total 2011/12**	Total 2010/11
		£000	£000
Swap interest	*21b*	**588**	616
Loan interest		**732**	-
		1,320	616

9. Tax on profit on ordinary activities		
United Kingdom Corporation Tax at 25% on subsidiary company profits:		
Current year	**(23)**	(40)
Prior year	**-**	-
Deferred tax – due to timing differences in subsidiary companies	**366**	193
Total credit	**343**	153

Notes to the Accounts (continued)

For the year ended 31 July 2012

10. Tangible fixed assets **Consolidated**	*Note*	Assets in the Course of Construction	Land and Buildings	Equipment	Heritage Assets	**Total 2012**
		£000	£000	£000	£000	**£000**
Cost						
As at 1 August 2011		22,883	718,753	62,760	164	**804,560**
Transfers		(22,883)	22,883	-	-	-
Transfer from Fixed Asset Investments	11	-	3,230	-	-	**3,230**
Additions		7,352	39,288	8,761	-	**55,401**
Disposals		-	-	(21,606)	-	**(21,606)**
As at 31 July 2012		7,352	784,154	49,915	164	**841,585**
Accumulated depreciation						
As at 1 August 2011		-	194,006	43,872	-	**237,878**
Charge for the year		-	32,702	16,258	-	**48,960**
Depreciation on disposals		-	-	(21,606)	-	**(21,606)**
As at 31 July 2012		-	226,708	38,524	-	**265,232**
Net book value as at 31 July 2012		**7,352**	**557,446**	**11,391**	**164**	**576,353**
Net book value as at 31 July 2011		22,883	524,747	18,888	164	566,682

The accumulated cost of assets in the course of construction includes:	£000
Pritchatts Road Car Park	36
New Library	614
Grange Road	298
Sports Centre	1,230
Tennis Court Flats	3,995
Jarrett Hall	749
Mason & Tennis Court (CHP)	430
	7,352

Fully depreciated equipment is written out after three years and shown as a disposal and a depreciation adjustment. In the year a part of Edgbaston Park Road was transferred from fixed asset investments and reclassified as a fixed asset due to a change in the use from a commercial letting to part of the University's estate. During 2011/12 the basis of capitalising equipment was changed. Previously all equipment irrespective of value was capitalised and depreciated over three years. From 1 August 2011 only equipment with a cost over £25,000 has been capitalised. Items costing less than £25,000 are now written off to the Income and Expenditure Account in the period of acquisition. In 2011/12 £7,636k has been written off as a result of this change in capitalisation.

Notes to the Accounts (continued)

For the year ended 31 July 2012

10. Tangible fixed assets continued
Consolidated

Leasehold land and buildings	Valuation at 31 July 1998	Depreciation in year	Accumulated Depreciation	**Net Book Value**
	£000	£000	£000	**£000**
The value of land and buildings shown on page 36 represents freehold interests except for the following:				
Medical School (on land leased in 1933 for 999 years from Birmingham City Council)	45,278	761	7,375	**37,903**
Clinical research building (leased in 1953 for 75 years from the NHS)	3,106	62	870	**2,236**
Residential leasehold properties	775	26	362	**413**
	49,159	849	8,607	**40,552**

The reinstatement cost of buildings for insurances purposes is £1,378m (2010/11 £1,320m). In addition the University occupies space in a number of NHS-owned properties for which it pays no rent due to the existence of longstanding reciprocal cost sharing arrangements.

Exchequer funded assets

There exists an exchequer interest in certain buildings. It is a condition of funding imposed by the government that no transaction involving these assets should be entered into without the prior approval of the Higher Education Funding Council for England.

Tangible Fixed Assets

Heritage Assets

The University holds and maintains historic buildings, collections of art and other valuable items of artistic, scientific and historical importance (heritage assets). The University conserves these assets and supplements the collections where appropriate in order to enable use of the assets for teaching and research and allow access to the public. Further information on the University's policies regarding conservation, preservation, management and disposal of heritage assets can be found on the University's website www.birmingham.ac.uk/culture

The University also holds heritage assets that have not been capitalised as, due to their unique nature, reliable information on cost or valuation is not readily available. This is owing to the lack of information on original purchase cost and the fact that these assets are not readily realisable. All costs incurred in relation to preservation and conservation are expensed as incurred. There have been no significant additions in the year or disposals.

Key heritage assets held by the University fall into the categories detailed right.

Historic buildings

The University has a number of prestigious heritage buildings, including the Aston Webb Building and the Chamberlain Clock Tower.

Research and Cultural Collections

The University displays and teaches from thousands of objects within the following distinct collections: the Danford Collection of West African Art and Artefacts, the Institute of Archaeology and Antiquity Museum, the Collection of Historic Physics Instruments, the Biological Sciences Collection, the Zoology Collection, the Medical School Collection, the Silver and Plate Collection, the University Heritage Collection, and the Campus Collection of Fine and Decorative Art.

Special Collections

The Special Collections and Archives of the University of Birmingham consist of approximately 120,000 pre-1850 books dating from 1471 and some 3 million archives and manuscripts, all of which provide a rich resource for teaching and research.

Lapworth Museum of Geology

The Lapworth is a specialist geological museum dating back to 1880 containing over 250,000 specimens.

Notes to the Accounts (continued)

For the year ended 31 July 2012

10. Tangible fixed assets continued **University**	*Note*	Assets in the course of Construction	Land and Building	Equipment	Heritage Assets	**University Total** 2012
		£000	£000	£000	£000	**£000**
Cost						
As at 1 August 2011		22,883	690,247	62,603	164	**775,897**
Transfers		(22,883)	22,883	-	-	**-**
Transfers from Fixed Asset Investments	*11*	-	3,230	-	-	**3,230**
Additions		7,352	38,718	8,719	-	**54,789**
Disposals		-	-	(21,606)	-	**(21,606)**
As at 31 July 2012		7,352	755,078	49,716	164	**812,310**
Accumulated depreciation						
As at 1 August 2011		-	182,303	43,723	-	**226,026**
Charge for the year		-	31,799	16,240	-	**48,039**
Depreciation on disposals		-	-	(21,606)	-	**(21,606)**
As at 31 July 2012		-	214,102	38,357	-	**252,459**
Net book value						
As at 31 July 2012		**7,352**	**540,976**	**11,359**	**164**	**559,851**
As at 31 July 2011		22,883	507,944	18,880	164	**549,871**

Notes to the Accounts (continued)

For the year ended 31 July 2012

11. Fixed asset investments	*Note*	**Consolidated** 2012	Consolidated 2011	**University** 2012	University 2011
		£000	£000	**£000**	£000
Balance at 1 August		**21,527**	22,842	**20,671**	20,839
Additions		**-**	-	**50**	-
Transfers to Tangible Fixed Assets	*10*	**(3,230)**	-	**(3,230)**	-
Writedown to Income and Expenditure Account		**(75)**	(730)	**(75)**	(730)
Appreciation/(Depreciation) on Disposals and Revaluation		**(116)**	(585)	**135**	562
Balance at 31 July		**18,106**	21,527	**17,551**	20,671
Represented by:					
Fixed interest securities and bonds		**3,662**	4,171	**3,662**	4,171
Equities		**2,410**	3,053	**2,410**	3,053
Property		**8,305**	11,872	**4,262**	7,578
Hedge funds		**2,871**	1,653	**2,871**	1,653
Investments in subsidiaries		**-**	-	**3,488**	3,438
Other investments		**464**	464	**464**	464
Cash		**394**	314	**394**	314
		18,106	21,527	**17,551**	20,671

In the year a part of Edgbaston Park Road was transferred from fixed asset investments and reclassified as a fixed asset due to a change in the use from a commercial letting to part of the University's estate.

12. Endowment asset investments	**Consolidated and University** 2012	2011
	£000	£000
Balance at 1 August	**82,979**	78,136
Additions	**950**	1,551
Disposals	**(1,470)**	-
Appreciation on disposals and revaluation	**1,017**	3,292
Balance at 31 July	**83,476**	82,979
Represented by:		
Fixed interest securities and bonds	**27,047**	30,709
Equities	**20,332**	24,987
Property	**7,323**	7,387
Hedge funds	**21,211**	12,168
Cash	**7,563**	7,728
	83,476	82,979

Notes to the Accounts (continued)

For the year ended 31 July 2012

13. Debtors	Consolidated		University	
	2012	2011	2012	2011
	£000	£000	£000	£000
Amounts falling due within one year:				
Research grants and contracts	28,182	26,358	28,182	26,358
Trade debtors	4,378	5,215	4,378	5,215
Other debtors	2,485	2,799	2,015	2,759
Prepayments and accrued income	10,576	9,184	10,576	9,184
Alta Estate Services Limited	-	-	533	533
	45,621	43,556	45,684	44,049
Amounts falling due after one year:				
Alta Estate Services Limited	-	-	2,000	2,533
Manufacturing Technology Centre Limited	475	225	475	225
Other debtors and prepayments	240	-	240	-
	715	225	2,715	2,758
	46,336	43,781	48,399	46,807

14. Creditors: amounts falling due within one year				
Research grants and contracts in advance	32,760	32,829	32,760	32,829
Corporation Tax	13	39	-	-
Social security and other taxation payable	6,503	6,353	6,416	6,100
Trade creditors	11,248	5,182	11,056	5,074
Deferred income	52,349	62,136	52,190	61,982
Accruals	13,712	10,230	13,353	9,881
Other creditors	11,728	12,576	10,497	12,346
	128,313	129,345	126,272	128,212

The Other creditors category includes an amount of £806k (£2.4m 2010/11) which represents funds being held as cash by the University on behalf of HEFCE relating to the STEM initiative. The STEM project plans to increase and widen student participation in Science, Technology, Engineering and Mathematics.

Notes to the Accounts (continued)

For the year ended 31 July 2012

15. Creditors: amounts falling due after more than one year	Consolidated		University	
	2012	2011	2012	2011
	£000	£000	£000	£000
Bank loan (unsecured)	75,000	-	75,000	-
Alta Estates Services Limited	-	-	-	96
	75,000	-	75,000	96

During the year the University has taken out an unsecured loan of £75m from the European Investment Bank to provide funding for the University's Capital Programme. This loan drawn down is in two tranches of £60m and £15m with fixed and variable interest rates respectively. The £60m tranche attracts interest at a fixed rate of 4.038%. The facility is for 23 years and the capital repayments will commence July 2015 with interest payable from July 2012 on a quarterly basis. The £15m tranche attracts interest at a rate of LIBOR plus 1.401%. The facility is again for 23 years and capital repayments commence from July 2015 with interest payable from July 2012.

	Consolidated 2012	University 2012
	£000	£000
Less than one year	-	-
One to two years	938	938
Two to five years	18,750	18,750
More than five years	55,312	55,312

	Consolidated		University	
16. Provisions for liabilities and charges	2012	2011	2012	2011
Restructuring	£000	£000	£000	£000
At 1 August	993	2,328	993	2,328
Utilised during the year	(862)	(2,052)	(862)	(2,052)
Provided in year	-	717	-	717
At 31 July	131	993	131	993
Other provisions				
At 1 August	-	344	-	344
Utilised during the year	-	(344)	-	(344)
At 31 July	-	-	-	-
Deferred taxation				
At 1 August	1,495	1,688	-	-
(Released) in year (Note 9)	(366)	(193)	-	-
At 31 July	1,129	1,495	-	-
Total at 31 July	1,260	2,488	131	993
Analysis of deferred taxation:				
Accelerated capital allowances	933	1,138	-	-
Other timing differences	196	357	-	-
At 31 July	1,129	1,495	-	-

Notes to the Accounts (continued)

For the year ended 31 July 2012

17. Deferred capital grants

	HEFCE	Grants Other	Consolidated Total	University Total
	£000	£000	£000	£000
At 1 August 2011				
Buildings	118,202	31,787	**149,989**	149,358
Equipment	1,957	7,496	**9,453**	9,453
	120,159	39,283	**159,442**	158,811
Amounts receivable				
Buildings	19,985	5,013	**24,998**	24,998
Equipment	1,283	1,242	**2,525**	2,525
Released to Income and Expenditure Account				
Buildings	(9,826)	(1,259)	**(11,085)**	(11,046)
Equipment	(1,783)	(6,282)	**(8,065)**	(8,065)
At 31 July 2012				
Buildings	128,361	35,541	**163,902**	163,310
Equipment	1,457	2,456	**3,913**	3,913
	129,818	37,997	**167,815**	167,223

18. Endowments

	Consolidated and University					
	Unrestricted Permanent	Restricted Permanent	Total Permanent	Restricted Expendable	**2011/12 Total**	2010/11 Total
	£000	£000	£000	£000	**£000**	£000
Balance at 1 August 2011						
Capital	27,998	46,249	74,247	6,175	**80,422**	75,849
Accumulated income	-	2,384	2,384	173	**2,557**	2,287
	27,998	48,633	76,631	6,348	**82,979**	78,136
New endowments	-	249	249	701	**950**	1,074
Investment income	595	1,085	1,680	91	**1,771**	2,599
Expenditure	(595)	(1,710)	(2,305)	(936)	**(3,241)**	(2,793)
	-	(625)	(625)	(845)	**(1,470)**	(194)
Increase in market value of investments	353	613	966	51	**1,017**	3,963
At 31 July 2012	28,351	48,870	77,221	6,255	**83,476**	82,979
Represented by:						
Capital	28,351	47,111	75,462	6,150	**81,612**	80,422
Accumulated income	-	1,759	1,759	105	**1,864**	2,557
	28,351	48,870	77,221	6,255	**83,476**	82,979

Notes to the Accounts (continued)

For the year ended 31 July 2012

19. Reserves

	Consolidated	University
Income and Expenditure Account	£000	£000
At 31 July 2011	449,920	435,724
Surplus retained for the year	7,598	8,559
Transfer from revaluation reserve	624	624
Deduct pension surplus	(5,200)	(5,200)
At 31 July 2012	**452,942**	**439,707**
Pension reserve		
At 31 July 2011	(30,700)	(30,700)
Actuarial gain/(loss)	1,300	1,300
Past service cost	-	-
Add FRS 17 net pension gain	5,200	5,200
At 31 July 2012	**(24,200)**	**(24,200)**
Revaluation reserve	£000	£000
Balance at 31 July 2011	43,664	43,446
Revaluation in the year	6	134
Released to Income and Expenditure Account	(624)	(624)
At 31 July 2012	**43,046**	42,956

The revaluation in the year is due to changes in the market values of fixed asset investments.

20. Lease obligations

The University had no finance lease obligations in 2011/12 or 2010/11. There were payments of £960k during the year (£784k in 2010/11) in respect of operating leases for equipment which expire between two and five years.

21. Commitments

	Consolidated and University	
(a) Capital	**2012**	2011
	£000	£000
Contracts for capital expenditure	**38,016**	**59,486**

Committed expenditure includes: Jarratt Hall Extension (£12.9m), Westmere House refurbishment for Institute of Advanced Studies (£2.9m), Aston Webb infrastructure work (£2.9m), 9 & 11 Pritchatts Road (£1.3m), Bramall Music Building (£1.3m), Metallurgy and Materials Building (£1.4m), The Learning Centre (£1.6m), Oakley Court (£2m), and the Tennis Court refurbishment (£2.7m).

(b) Financial

The only financial instruments the University has are interest rate swaps which are not held for speculative purposes and are available to reduce exposure to interest rate movements.

Notes to the Accounts (continued)

For the year ended 31 July 2012

21. Commitments

(b) Financial continued

The University has two Interest SWAP transactions with Barclays and one with the National Bank of Australia, for £5m each. Each SWAP transaction incorporates a fixed rate, which is compared with a variable three-month LIBOR interest rate. The University incurs an interest charge when the SWAP rate is less than the three-month LIBOR rate, and receives interest where the variable LIBOR interest rate exceeds the SWAP. Both of the Barclays SWAPs expire in 2021, while the National Bank of Australia SWAP expires in 2026.

22. Reconciliation of operating surplus to net cash from operating activities

		Consolidated	
	Note	**2011/12**	2010/11
		£000	£000
Surplus for the year before tax		**5,824**	27,009
Depreciation of tangible assets	*10*	**48,960**	48,702
Deferred capital grants released to income	*17*	**(19,150)**	(21,512)
Investment income (net)		**(4,570)**	(5,555)
Increase in stocks		**(10)**	(46)
Decrease in debtors		**1,954**	116
Increase in creditors		**3,515**	16,121
Decrease in provisions		**(1,228)**	(1,872)
Cash payment to pension scheme		**(4,300)**	(4,300)
Pension cost less than contributions payable		**(100)**	(100)
Net return on pension scheme		**(800)**	-
Writedown of fixed asset investment		**75**	730
Impairment of assets in Income and Expenditure		-	420
Net cash inflow from operating activities		**30,170**	59,713

23. Returns on Investments and Servicing of Finance

Income from fixed asset investments	**2,762**	877
Income from endowments	**1,771**	2,599
Income from short-term investments	**1,356**	1,995
Interest paid	**(1,320)**	(616)
	4,569	4,855

Notes to the Accounts (continued)

For the year ended 31 July 2012

24. Capital expenditure and financial investment

	Consolidated	
	2011/12	2010/11
	£000	£000
Tangible assets acquired	**(53,603)**	(63,015)
Fixed Asset Investments acquired	**80**	(924)
Endowment asset investments acquired	**(1,115)**	(6,597)
Total fixed and endowment assets acquired	**(54,638)**	(70,536)
Deferred capital grants received	**18,494**	17,975
Endowments received	**950**	1,551
	(35,194)	(51,010)

25. Analysis of changes in borrowings during the year

Balance at 1 August	–	–
New unsecured bank loan	**75,000**	–
Balance at 31 July	**75,000**	–

26. Analysis of changes in Net Funds

	At 1 August 2011	Cash Flows	**At 31 July 2012**
	£000	£000	**£000**
Short-term deposits repayable on demand	126,515	44,008	**170,523**
Fixed Asset Investments	314	80	**394**
Endowment asset investments	7,728	(165)	**7,563**
Cash in hand, and at bank	25,733	30,610	**56,343**
	160,290	74,533	**234,823**
Debt due after one year	–	(75,000)	**(75,000)**
Net funds	160,290	(467)	**159,823**

Notes to the Accounts (continued)

For the year ended 31 July 2012

27. 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 may be covered by the University of Birmingham Pension and Assurance Scheme (BPAS), administered in-house by a Trustee Group comprising four employer-nominated and four employee-nominated Trustees with an independent Chair. Management of the Scheme's investments is undertaken by a panel of investment managers as detailed below.

USS provides benefits on a final pensionable salary basis for staff joining the scheme before 30 September 2011 and for those joining from the 1 October 2011 benefits are on a Career Revalued Benefits (CRB) calculated basis; BPAS provide benefits based on final pensionable salary. The pension cost is assessed using the projected unit method for USS and a modified aggregate funding method for BPAS.

The total pension cost charged in the year for each scheme for the University is as follows:

	2011/12	2010/11
	£000	£000
USS	22,519	22,332
BPAS	2,242	2,254
Other pension schemes	3,908	3,538
Total Pension Costs (Note 6)	28,669	28,124

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 145,000 active members, of which the University has 3,351 active members participating in the scheme.

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

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

Notes to the Accounts (continued)

For the year ended 31 July 2012

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

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

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

Standard mortality tables were used as follows:

Male members' mortality	S1NA ('light') YoB tables – Rated down 1 year
Female members' mortality	S1NA ('light') YoB tables – No age rating

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

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

At the valuation date, the value of the assets of the Scheme was £32.4 billion and the value of the Scheme's technical provisions was £35.4 billion indicating a shortfall of £2.9 billion. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

Notes to the Accounts (continued)

For the year ended 31 July 2012

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

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing contribution rate was 16% of salaries. Following UK Government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases have been based on the Retail Prices Index measure of price inflation.

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

- *New Entrants* – Other than in specific circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.
- *Normal Pension Age* – The Normal Pension Age was increased for future service and new entrants, to age 65.
- *Flexible retirement* – Flexible retirement options were introduced.
- *Member contributions increased* – Contributions were uplifted to 7.5% per annum and 6.5% per annum for FS Section members and CRB Section members respectively.
- *Cost Sharing* – If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% per annum and members would pay the remaining 35% to the fund as additional contributions.
- *Pensions Increase Cap* – For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

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

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

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

Notes to the Accounts (continued)

For the year ended 31 July 2012

Assumption\Change in assumption\Impact on scheme liabilities

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

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

The trustee believes that over the long term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide while maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the Scheme actuary, and considers the views of the employers.

The positive cash flow of the Scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the Scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the Scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the Scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2014. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the year was £22.5 million (2011: £22.3 million). This includes £1.9 million (2011: £1.8 million) outstanding contributions at the Balance Sheet date.

The Contribution rate payable by the institution was 16% of pensionable salaries.

Notes to the Accounts (continued)

For the year ended 31 July 2012

University of Birmingham Pension and Assurance Scheme (BPAS)

BPAS is contracted out of the State Earnings Related Pension Scheme and the management of the Scheme's investments is undertaken by a team of investment managers comprised of UBS Asset Management Ltd (Property), Royal London Asset Management Ltd (Index Linked Securities and Sterling Credit Bonds), Blackrock (Equities, Market Advantage Fund and Sterling Currency Hedge Fund), Standard Life Investments (Global Absolute Return Fund) and Comgest (Emerging market equities). It was closed to new members in 2002. The latest actuarial valuation of the scheme was at 31 March 2010 and it revealed a funding shortfall as the Scheme's assets were less than the technical provisions.

The assumptions which have the most significant impact on the valuation are those relating to the rate of return on investments (ie, the discount rates pre- and post-retirement), the rates of increase in salary and pension and the mortality rate. The 2010 valuation utilised differential discount rates pre- and post-retirement to reflect the nature of the assets held to generate the required returns. The pre-retirement discount rate was 7.4% and the post-retirement rate was 4.7%. It was assumed that salary increases would be 4.4% with pension increases at 3.1% (for service post-2006 where a pension increase cap of 2.5% applied to some members a rate of 2.25% was used). Improvements in mortality have impacted on all schemes and led to higher liabilities. The 2010 valuation used 105% of the SAPS 'All pensioners' tables with medium cohort improvements from 2002 to 2010. A further allowance for future improvements in line with medium cohort improvements with a minimum improvement of 1.25% per annum is also applied from 2010. The expected lifetime of a participant who is age 65 and the expected lifetime (from age 65) of a participant who will be 65 in 20 years below based on the mortality tables.

Age	Males	Females
65	21	23.6
65 in 20 years	22.9	25.4

The total value of the accrued benefits (Technical Provisions) was £293.8 million and the market value of the assets was £231.3 million leaving a shortfall of £62.5 million. The assets were therefore sufficient to cover 79% of the accrued benefits. The Trustees of the Scheme have therefore put a Recovery Plan in place to address the shortfall. The Recovery Plan provides for the University making payments of £4.3m per annum on the 1 August each year from 2010 to 2030. The estimated total employer contributions for the year end 31 July 2013 is £7.4m.

Contributions have been paid by the University at the rate of 14% of employees' pensionable pay. Further payments were made by the University on behalf of those members who have chosen to participate in the salary sacrifice scheme. These contributions were dependent on the benefit option chosen by each member and their age on 1 August 2006 (the date of implementation of this scheme design). Additionally a further £12.9 million was paid in the period ended 31 July 2008 and a further £4.3 million per annum thereafter as determined by the Schedule of Contributions agreed by the Scheme Actuary.

Notes to the Accounts (continued)

For the year ended 31 July 2012

The assumptions employed by the Scheme Actuary for the valuation of liabilities as at 31 July 2012, were as follows:	**2012**	2011
Discount rate	**4.50%**	5.30%
Salary growth	**3.10%**	4.05%
Inflation	**2.80%**	3.75%
Pension increases	**2.10%**	3.05%

The invested assets of the Scheme amounted to £264.1 million (after investment of the additional contribution). The assets and the expected long-term rate of return were:	**2012 £million**	**2012 Rate of Return**	2011 £million	2011 Rate of Return
Equities	**112.0**	**6.5%**	107.8	7.7%
Property	**13.9**	**5.2%**	13.7	6.5%
Corporate Bonds	**63.4**	**3.9%**	58.3	5.3%
Index Linked Bonds	**52.2**	**2.7%**	47.2	4.1%
Fixed Interest Bonds	**0.4**	**2.7%**	1.0	4.1%
Other Assets	**22.2**	**2.0%**	22.9	5.0%
Total	**264.1**		250.9	

The following amounts were measured in accordance with the requirements of Financial Reporting Standard 17:	**2012 £million**	2011 £million
Total market value of assets	**264.1**	250.9
Present value of scheme liabilities	**(288.3)**	(281.6)
Deficit in the scheme	**(24.2)**	(30.7)

The above amounts have been recognised in the financial statements as follows:	**2012 £million**	2011 £million
Net assets excluding pension deficit	**749.5**	738.3
Pension deficit	**(24.2)**	(30.7)
Net assets including pension deficit	**725.3**	707.6
Profit and loss reserve excluding pension deficit	**452.9**	449.9
Pension deficit	**(24.2)**	(30.7)
Profit and loss reserve including pension deficit	**428.7**	419.2

Notes to the Accounts (continued)

For the year ended 31 July 2012

Additionally, in accordance with Financial Reporting Standard 17, the following components of the pensions charge have been recognised in the Income and Expenditure Account and Statement of Total Recognised Gains and Losses for the year ended 31 July 2012:

Analysis of amounts charged to Income and Expenditure account:	**2012 £million**	2011 £million
Current service cost	**2.9**	**3.2**
Finance:		
Interest on pension scheme liabilities	**14.7**	14.3
Expected return on assets in the pension scheme	**(15.5)**	(14.7)
Net interest credit to other finance income	**(0.8)**	(0.4)
Total charge before tax	**2.1**	2.8
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:		
Gain on assets	**0.0**	11.3
Experience (loss)/gain on scheme liabilities	**(4.3)**	1.6
Gain/(loss) on change of assumptions	**5.6**	(4.4)
Total gain before tax	**1.3**	8.5

The experience gains and losses for the year were as follows:	**2011/12 £million**	2010/11 £million	2009/10 £million	2008/09 £million	2007/08 £million
Gain/(loss) on assets	**0.0**	11.3	16.8	(29.8)	(29.4)
Experience (loss)/gain on scheme liabilities	**(4.3)**	1.6	11.1	(11.1)	(2.3)
Total gain/(loss) recognised in Statement of Total Recognised Gains and Losses	**1.3**	8.5	25.7	(40.9)	(32.1)

Changes in Disclosed Assets and Liabilities

Change in Scheme Liabilities	**2012 £million**	2011 £million
Scheme liabilities at prior year	**281.6**	271.4
Employer service cost	**2.9**	3.2
Interest cost	**14.7**	14.3
Actuarial loss	**(1.3)**	2.8
Benefits paid from scheme assets	**(9.2)**	(9.4)
Administrative expenses paid	**(0.4)**	(0.7)
Curtailments	**–**	–
Scheme charge/past service cost	**–**	–
Scheme liabilities at year end	**288.3**	**281.6**

Notes to the Accounts (continued)

For the year ended 31 July 2012

Change in Scheme Assets	**2012 £million**	2011 £million
Fair value of assets at prior year end	**250.9**	227.4
Expected return on assets	**15.5**	14.7
Actuarial losses on assets	**0.0**	11.3
Employer contributions	**7.3**	7.6
Benefits paid	**(9.2)**	(9.4)
Other adjustments	**(0.4)**	(0.7)
Fair value of assets at year end	**264.1**	250.9

Group Personal Pension Scheme (GPPP)

The University introduced from 1 April 2008, a new 'defined contribution' pension scheme for its support staff who are not members of BPAS. The scheme will enable staff to build a fund that can be used to provide a pension on retirement in addition to the normal state pension. The University contributes 10% in addition to an agreed percentage paid by the individual. The scheme operates as a Group Personal Pension Scheme and is run on the University's behalf by Friends Provident. The estimated value of employer contributions for the year ending 31 July 2013 is £1.6 million.

	Consolidated and University			
28. Agency Arrangements	Learning Support Funds		Teaching Agency	
	2011/12 £000	2010/11 £000	**2011/12 £000**	2010/11 £000
Balances Unspent as at 1 August	**26**	166	**185**	73
Funding Council grants received	**349**	381	**869**	2,065
Disbursed to students	**(331)**	(382)	**(986)**	(1,953)
Administration costs	**(11)**	(11)	**–**	–
Balances Unspent at 31 July	**33**	154	**68**	185

The above 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. The unspent balances are held within Other creditors in note 14 and held as cash at bank.

Notes to the Accounts (continued)

For the year ended 31 July 2012

29. 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 arm's length and in accordance with the University's Manual of Financial Rules and Procedures with respect to procurement.

Two examples of such relationships are:

(i) Mr J E K Smith, who is the Chairman of the Student Loans Company Limited, with which the University transacts for a proportion of its student fee income.

(ii) Professor D S Eastwood is a Director of the Universities Superannuation Scheme (USS), of which many University employees are members.

The University has strong links with The Henry Barber Trust which is a separate registered charity incorporated under the Charitable Trustees Incorporation Act 1872. Its charitable objects are:

'to provide funding for the four professorial chairs of Law, Jurisprudence, Fine Arts and Music, together with a number of other annuities, scholarships and prizes, the repair, maintenance and equipment of the Institute building, the purchase of works of art and the provision of musical recitals'.

The Barber Institute of Fine Arts which is hosted in the University of Birmingham's site, holds one of the finest small collections of European art in the United Kingdom.

The University has not consolidated the financial statements of the The Henry Barber Trust because the University has no control or dominant influence over policy decisions. The most recent available summarised balance sheet and results for the year ended 31 July 2012 are as follows:

	2011/12	2010/11
	£000	£000
Tangible Fixed Assets	31,167	30,283
Investment property	3,830	3,830
Net Current Assets	2,635	2,436
Net Assets/Funds	**37,632**	36,549
Net movement in Funds for the year	**1,083**	2,763

The University's Income and Expenditure Account includes a receipt from the Trust of an annual grant of £1,047k (2010/11 £1,044k).

Notes to the Accounts (continued)

For the year ended 31 July 2012

30. Subsidiary Undertakings

Name	University Holding	Business Activity
Alta Birmingham China Limited	100%	Management of a representative office in China
Alta Cyclotron Services Limited	100%	Preparation and sale of chemicals for clinical use
Alta Estate Services Limited	100%	Operation a Combined Heat and Power plant
Alta Library Services Limited	100%	Provision of library services
Birmingham Research and Development Limited	100%	Technology Transfer
Birmingham Research Park Limited	51%	Provision of Accommodation to High Technology Companies
University of Birmingham Selly Oak Educational Trust	100%	Management of Land and Buildings on the Selly Oak Campus
Alta Innovations Limited	100%	Technology Transfer

The subsidiaries are all incorporated in and operate in Great Britain, other than Alta Birmingham China Limited which operates in the UK and holds a representative office in China.

	Alta Birmingham China Limited	Alta Cyclotron Services Limited	Alta Estate Services Limited	Alta Library Services Limited	Birmingham Research and Development Limited	Birmingham Research Park Limited	University of Birmingham Selly Oak Educational Trust	Alta Innovations Limited
	£000	£000	£000	£000	£000	£000	£000	£000
Tangible Fixed Assets	-	2	6,824	-	-	4,502	9,676	-
Investments	-	-	-	-	80	-	-	-
Current Assets	171	305	919	92	1,321	1,166	11	2,051
	171	307	7,743	92	1,401	5,668	9,687	2,051
Capital and Reserves	75	-	3,143	-	1,384	4,588	9,676	-
Creditors	96	307	3,471	92	17	1,080	11	1,317
Provisions	-	-	1,129	-	-	-	-	734
	171	307	7,743	92	1,401	5,668	9,687	2,051
Profit/(Loss) for the Year	**75**	**-**	**(844)**	**-**	**(13)**	**81**	**(177)**	**5**

The University has investments in the following companies shown at cost or valuation and which are included in the Balance Sheet:

	2011/12	2010/11
	£000	£000
Mercia Technology Fund 2	400	400
Universities UK Limited	64	64
Waterloo House	2,528	2,513

Notes to the Accounts (continued)

For the year ended 31 July 2012

The University also has an interest in the following companies, which have not been consolidated on the grounds of materiality:

	% Holding
Ad Surf Eng Limited	6
Applied Functional Materials Limited	31
Bioscience Ventures	59
Biowaste2 Energy	37
Cambridge Mechatronics	<1
Celentyx Limited	32
Circassia Holdings Limited	<1
Cobra Bio-manufacturing Limited	2
Cytox Limited	15
Inanovate Inc	<1
Interface Spectra	75
McBurney Scientific Limited	16
Metal Nanopowders Limited	37

	% Holding
The Native Antigen Company	5
Neuregenix Limited	41
Oral Health Innovations Ltd	5
Ortus Medical Limited	20
Personal Screening PLC	<1
Plasgene Limited	40
PsiOxus Therapeutics	1
Speech Ark Limited	10
Talis Group Limited	3
U21 Equity Limited	5
Warwick Advertising Limited	<1
Weather Systems International Limited	<1
Irresistible Materials Limited	36

The University has two connected charitable institutions as defined under paragraph 28 of schedule 3 of the Charities Act 2011. One is the University of Birmingham Selly Oak Educational Trust included as a subsidiary in these consolidated accounts. The other is the Samuel Hanson Robowtham Trust, with the University's investment of shares being included within Endowment Assets in the Balance Sheet. It is not consolidated on the basis of the University holding a minority shareholding.

31. 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 2012 are as follows:

	2011/12	2010/11
	£000	£000
Tangible Fixed Assets	**1,117**	1,224
Investments	**5**	6
Current Assets	**2,037**	1,746
	3,159	2,976
Reserves	**1,928**	1,996
Creditors	**1,231**	980
	3,159	2,976
(Deficit)/Surplus for the Year	**(68)**	78

The University's Income and Expenditure Account reflects payment to the Guild of Students of a Block Grant of £1,873k (Note 7) (2010/11 £1,847k).

Five-Year Summary Accounts

	Consolidated and University				
	2011/12	2010/11	2009/10	2008/09	2007/08
	£000	£000	£000	£000	£000
Income & Expenditure Account					
Income					
Funding Council grants	**138,256**	142,209	146,750	144,111	135,941
Academic fees and support grants	**136,288**	125,825	116,083	104,592	90,782
Research grants and contracts	**103,266**	101,540	104,811	98,075	89,522
Other operating income	**88,297**	95,003	88,485	87,031	84,503
Endowment income and interest	**5,890**	6,171	6,244	7,190	10,853
Total income	**471,997**	470,748	462,373	440,999	411,601
Expenditure					
Staff costs	**254,048**	248,794	247,270	233,353	220,666
Depreciation	**48,960**	48,702	47,435	44,384	38,641
Other operating expenses	**161,845**	145,627	142,890	137,955	133,787
Interest payable	**1,320**	616	2,510	171	66
Total expenditure	**466,173**	443,739	440,105	415,863	393,160
Operating surplus, before tax and exceptional items	**5,824**	27,009	22,268	25,136	18,441
Capital expenditure					
Land and buildings	**46,637**	46,117	36,970	32,476	60,274
Equipment	**8,761**	16,516	23,501	21,606	18,762
Total capital expenditure	**55,398**	62,633	60,471	54,082	79,036
Balance Sheet					
Fixed assets	**594,459**	588,209	575,961	563,961	557,204
Endowment asset investments	**83,476**	82,979	78,136	71,184	72,480
Net current assets/(liabilities)	**147,852**	69,636	49,864	24,694	12,967
Creditors: amounts due after one year	**(75,000)**	–	–	–	(344)
Provisions for liabilities and charges	**(1,260)**	(2,488)	(4,360)	(2,478)	(4,633)
Total net assets, excluding pension liability	**749,527**	738,336	699,601	657,361	637,674
Represented by:					
Deferred capital grants	**167,815**	159,442	147,588	136,525	136,987
Endowments	**83,476**	82,979	78,136	71,184	72,480
Revaluation reserve	**43,046**	43,664	44,311	44,144	46,023
Income and expenditure reserve	**455,190**	452,251	429,566	405,508	382,184
Total funds, excluding pension liability	**749,527**	738,336	699,601	657,361	637,674

Financial Statistics

	Consolidated and University				
	2011/12	2010/11	2009/10	2008/09	2007/08
	%	%	%	%	%
Sources of income % of total income					
Grants from Funding Councils (HEFCE and TA)	29.2	30.1	31.7	32.7	33.0
Tuition fees – home and EU	17.6	16.7	16.3	15.3	14.2
Tuition fees – overseas	11.3	10.1	8.8	8.4	7.9
Income from research grants and contracts	21.9	21.6	22.7	22.2	21.7
Income from residences, catering and conferences	7.0	6.5	6.4	6.5	5.5
Other income	13.0	15.0	14.1	14.9	17.7
Total income	100.0	100.0	100.0	100.0	100.0
Analysis of Expenditure % of total expenditure					
Staff costs	54.5	56.1	56.2	56.1	56.1
Depreciation	10.5	11.0	10.8	10.7	9.8
Other operating expenses	34.7	32.8	32.4	33.2	34.1
Interest payable	0.3	0.1	0.6	0.0	0.0
Total expenditure	100.0	100.0	100.0	100.0	100.0
Operating surplus for the year as % of total income	1.2%	5.7%	4.8%	5.7%	4.5%
Indicators of financial strength					
Ratio of short-term cash to total expenditure (days) *The number of days expenditure that could be sustained from short-term cash and bank balances*	178	125	110	75	41
Ratio of long-term liabilities to total net assets *Measures the extent to which an institution is funded by long-term debt*	9.1%	0.0%	0.0%	0.1%	0.1%
Indicators of liquidity and solvency					
Ratio of liquid assets to current liabilities *Extent to which current liabilities could be met from cash and liquid investments*	1.8	1.1	1.0	0.8	0.6
Ratio of current assets to current liabilities *Extent to which current liabilities could be met from current assets*	2.2	1.5	1.4	1.2	1.2
Debtor days *Days of total income (excluding Funding Council grants) represented by debtors*	51	54	56	53	57

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