



## Annual Accounts 2007–08

The University of Birmingham  
has a long history of financial  
strength – 2008 is no exception,  
however...



... significant financial pressures are emerging, such as pensions and pay costs, infrastructure commitments and utilities, against a backdrop of slowing income flows. These will inevitably put a strain on this hitherto strong position. The team are up for the challenge.

*Mr Michael Gilbert, University Treasurer*

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# Treasurer's Report

In common with the rest of the higher education sector, the University has prepared the financial statements for 2007/08 in accordance with the new Statement of Recommended Practice (SORP) for Higher Education. This introduces a number of presentational changes – the most substantive of which relates to the disclosure and classification of endowments. One of the more significant requirements of the SORP is that we should include an overview of the University's finances and operations along the lines of an 'Operating and Financial Review' within the corporate sector. This report is therefore more extensive than previous Treasurer's Reports and does give a greater insight into the University's activities in 2007/08 and for the future. In addition there is a separate Annual Report Review.

The University of Birmingham was established by Royal Charter in 1900 and this allows us to act in a relatively autonomous fashion, having regard for any requirements to fulfil its charitable objects and any obligations to the Higher Education Funding Council for England or other regulatory bodies within the Sector.

The University is also a member of the Russell Group comprising twenty prestigious and research intensive Higher Education Institutions in the UK.

International reputation and recognition is an important indicator of success. We have remained in the top 100 universities in the world rankings for the past three years. In the Times Higher World University Rankings, our position improved by 15 places from 90th in 2006, to 75th in 2008. In the Shanghai Jiao Tong, we improved one place this year from 92nd to 91st.

Our financial strategy and monitoring is driven by a number of key financial indicators.

The most significant are:

- The need to generate a continuing recurrent surplus which supports the University's long term financial sustainability
- A demonstration that there is a rolling capital programme of maintenance and renewal which supports the University's academic endeavour
- Ensure that there is sufficient cash generated and maintained to support the working capital needs of the University and also the capital programme

The University has a successful track record in delivering on these indicators particularly over the recent past:

	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
	£m	£m	£m
Income	354.9	388.8	411.6
Expenditure	338.8	371.7	393.2
Surplus for year	15.8	55.4	17.8
Surplus as percentage of turnover	4.4%	14.2%	4.3%
Cash generated from operating activities	£15.4m	£27.3m	£9.9m
Average cash balance held during year	£20.3m	£52.3m	£66.3m
Capital expenditure (excluding equipment)	£40.3m	£44.3m	£60.3m

# Treasurer's Report

## (continued)

### Financial performance in 2007/08

Whilst funding council grants grew generally in line with inflation, the real effects of the second year of additional tuition fees for home/EU undergraduate students and the growth in the level of research income attributable mainly to further embedding of full economic costing were the main contributors to the overall growth in the University's income of £22.8m or 5.9%. Endowment income and interest receivable also increased by over £3m: a very positive result and discussed further in the Treasury Management section of this report.

Most sources of other income have remained stable between 2006/07 and 2007/08 except for that from Residences, Catering and Conferences which has decreased by £3.9m following the demolition of Mason Hall, a 515 bed residence built in 1967, which has now been replaced and is referred to further in the Capital Programme section below.

The growth in expenditure in 2007/08 is £21.3m or 5.7%. The most significant element, £14.5m, combines the effect of pay awards, performance rewards and growth in staff numbers. During 2007/08, the University honoured two elements of the three year pay deal for non clinical staff agreed for the period 2006-2009. In August 2007, pay scales were uprated by 3% with a further 3% in May 2008 which coupled with 1% from February 2007, resulted in an overall increase in pay rates of over 6% for the year. There is a further substantial increase in 2008/09. These increases would not have been affordable without the additional income derived from undergraduate fees and full economic costing of research.

Within Other Operating Expenses were a variety of increases which reflected additional activities across the University – in research grants and contracts, more scholarships and bursaries for undergraduate students and depreciation charges – which are still rising as the University continues with the delivery of its extensive capital programme. Those increases were partly offset by a reduced spend relating to Residences, Catering and Conferences following the closure of Mason Hall for the whole year.

The surplus of £17.8m for 2007/08 represents 4.3% of turnover and is well within the HEFCE guide of 3–5%. The £55.4m reported for 2006/07 included an exceptional item – a profit on property sales of £38.8m. Thus the 2006/07 comparator with 2007/08 is £16.6m and equated to 4% of turnover.

The Council takes the view that the cash generated from operating activities is a significant measure of financial strength and each year agrees a target level as part of the University's budget. At face value, the £9.9m generated in 2007/08 would not be considered adequate to maintain the financial sustainability of the University. However, during the year, the Council agreed to 'front load' contributions of £12.9m to the University of Birmingham Pension and Assurance Scheme (BPAS) following the March 2007 actuarial valuation. This plus an increase in research debtors has directly reduced the Operating Cash Surplus for the year. There is further comment on BPAS in the section on Risks and Opportunities.

### Capital programme

The University is very clear about and committed to a sustained investment in capital infrastructure embracing the development of new facilities, the refurbishment of others and the maintenance of the IT infrastructure in order to support the research and teaching aspirations of staff and students alike.

There is a substantial rolling ten year capital programme which results in an average spend of £50m p.a. This commitment to expenditure has existed for a number of years now and 2007/08 was no exception with a spend of £66m. Two major projects were progressed in the year – the complete redevelopment of the Muirhead Tower which will co-locate a significant proportion of the College of Social Sciences and the provision of 876 new residential places on the site of Mason Hall. This new development was completed on time and on budget and is now occupied.

# Treasurer's Report

## (continued)

During the year, the University commissioned a condition survey of the estate which confirmed a substantial level of backlog maintenance. The Council supports the need to address those needs over time and to ensure that the footprint of academic and other space is optimised in terms of size, usage and environmental impact. The capital programme is being refined to ensure those aims can be met.

### Treasury management

Through its Investment Sub-Committee, the University sets the policy for, and manages both the long term investment portfolio and its short term cash deposits. Both are managed by external providers. For the long term portfolio comprising mainly endowments, the risk/return equation is particularly crucial and this manifests itself in the asset allocation between equities, fixed interest, property and cash investments. Following a review of the propensity for risk, the University shifted the balance of those assets away from equities into other classes in advance of the major stockmarket falls.

In terms of the short term portfolio, cash deposits are spread across a range of banks and financial institutions with strict limits in terms of their credit ratings and on the sums placed with any one provider.

The investment returns from both portfolios topped £10.5m in 2007/08. The performance of the long term portfolio was consistent with the benchmarks agreed by Investment Sub-Committee. The returns from cash deposits were significant too – partly from reasonable investment rates, but primarily because the cash balances held by the University were substantial for a very significant part of the year.

The Investment Sub-Committee keeps the investment strategy under constant review and is well prepared to effect structural change to the portfolios as they continue to evaluate the risk/reward equation on behalf of Council. Since the balance sheet date there have been no material losses of cash deposits held by failing banks. The cash balances are either currently held in Treasury Bills or in a number of highly rated financial institutions.

Currently, the University has no significant long term borrowing. The policy has been to support academic developments from the cash generated from operating activities supplemented by capital grants by and large from HEFCE. So far, the student residential developments have been funded from the cash received from the sale of assets in 2007/08, but there may be a need for long term finance in the future. The University pays careful attention to the management of working capital and in particular the robust control of debtors and fair treatment of creditors. The policy around payment of suppliers for goods and services is to settle accounts within thirty days of the date of the invoice.

### Risks and opportunities

Clearly an organisation as large and as broadly based as the University is presented with risks and opportunities and the Council's aim is to manage the risks and seize the opportunities.

In many ways, Birmingham is not unique in the risks and potential financial pressures it is facing. What is different from many is that it starts from a position of relative financial strength.

The rates of increase in pay levels over the last three years have averaged around 8% per annum within the sector, which far exceeds the level of inflation applicable to most income streams which flow into universities. Indeed this will continue in 2008/09. In Birmingham, those pay increases have only been affordable because of a step change in fee income for Home/EU undergraduates and the implementation of full economic costing. Within one year from now, the impact of those additional income streams will have levelled out and will not provide the means to fund rising pay costs if those increases continue at recent historic levels.

# Treasurer's Report

## (continued)

Linked to pay is pensions and the escalating costs there are due to longevity, inflation and interest rate changes. The Universities Superannuation Scheme has signalled a likely increase in contribution rates in Autumn 2009 of 2% – which may increase further if there is not a curbing of pay increases going forward.

The University has two in-house schemes for support staff – BPAS – a defined benefit scheme which was closed to new members in 2002 and a group personal pension scheme – a defined contribution scheme – opened in April 2008. The last actuarial valuation of BPAS in March 2007 revealed a deficit of £34m towards which the University agreed to contribute £4.3m p.a. for ten years, subject to the valuation outcome in 2010. In 2007/08, the first three years' payments were made totalling £12.9m and as already noted, this has impacted directly on the operating cash surplus for the year. There is no doubt that the recent turmoil in the financial markets have increased the deficit on the scheme significantly. Longevity, inflation and interest rates are clearly issues for BPAS too. The University is working closely with the Trustees to monitor the position of the Scheme on a regular basis.

Given the current general economic climate, there is no doubt that interest rates, exchange rates and global issues could also impact upon the University's ability to recruit international students. The position is being carefully monitored with regular reports to the Council. Specifically, active steps are being taken in China and India.

In common with almost all organisations, the University is facing up to the rapidly escalating costs of energy. As research activities continue to grow, this places a strain on the energy budget. Given the significant environmental impacts relative to energy usage too, there are two very clear imperatives for active measures to reduce the consumption and therefore costs of energy right across the campus.

As a recipient of significant public funds through HEFCE, the University is aware that the public purse is now under greater pressure than ever and that there are no guarantees that the present outcomes of the last Comprehensive Spending Review will be sustained over the period.

In summary, increasing financial pressures from pay, pensions, the global economic issues and utilities will produce a considerable strain on the University's hitherto strong financial position. Those pressures will continue to be actively managed by the University's executive team and monitored by Council on a regular basis.

The corollary of risk is of course opportunity – and there are plenty to be seized.

One of the most fundamental arises from the newly restructured organisation which was effective from 1 August 2008. Five Colleges have been created from nineteen academic schools, a new University Executive Board which includes the five College heads has been formed which formulates and then delivers the University strategy approved by Council. The new structure will lead to faster decision making, greater collaboration within and outside of the University, more efficient ways of working and a greater ability to direct and target resources for investment. It will also foster an increase in interdisciplinary activity across the Colleges.

We have developed a new framework for managing institutional performance integrating strategic planning and budgeting, risk management, resource allocation and target setting. This is supported by a suite of institutional key performance indicators which Council review and monitor and which are being further developed to reflect activity in Colleges and Corporate Services.

The benefits are already beginning to emerge as the University celebrates its success in working with Advantage West Midlands and the University of Warwick with support from HEFCE on Science City Initiatives covering advanced materials, translational medicine and energy. Each

# Treasurer's Report

## (continued)

stream is a multi million pound investment and will have very significant benefits in the local, national and international knowledge transfer arena.

Like all Higher Education Institutions, Birmingham awaits the outcome of the Research Assessment Exercise (RAE), well aware that success therein is fundamental in terms of reputation and finance given the impact the RAE has on how HEFCE distributes its resources to institutions. The University has invested considerably in key appointments in a range of academic disciplines to retain and enhance its global position in relation to research and knowledge transfer.

Our externally funded research activity remains buoyant across a range of sponsors and we remain within the top ten universities in England in terms of income from research grants and contracts. We shall continue to exploit our intellectual property and deliver part of our knowledge transfer activities through our new innovations company Alta Innovations Limited.

In terms of student recruitment, our student population has remained stable over the last three years at just over 25,000. Whilst the balance of those students has changed between undergraduates and postgraduates, Home/EU and international recruitment, we are delighted that the quality of our Home/EU undergraduate intake has improved by half an 'A' level point over that time.

During 2008/09, the University will undergo an institutional audit conducted by the Quality Assurance Agency which will assess the quality of the student experience.

Another of the major strengths and opportunities that Birmingham has is the commitment of its alumni. Our alumni care passionately about seeing their institution thrive on the world stage; our academics teach in inspiring surroundings; produce graduates that are ready for the workplace; and conduct research that answers some of the global challenges of the 21st Century. Alumni contribute strongly to this vision and the reputation and excellence of their University. Their involvement helps to give us a competitive edge. During 2007/08 the University was in regular contact with 136,600 alumni and of these 2% financially support the institution annually. Since 2001 we have received pledged gifts and cash for core projects totalling in excess of £21m.

We are proud of the continued investment we have been making in the sustainability agenda too. Improvements in waste management, carbon and emission reductions combined with a growing level of sustainable procurement are major features of the University's report on environmental sustainability which is published annually on the University's website ([www.environment.bham.ac.uk](http://www.environment.bham.ac.uk))

In the coming years, we shall continue to engage in a variety of projects and developments that will provide a first class experience for students and will ensure that we attract the very best staff too. However, there is no doubt that in common with others in the sector that we will face some very significant financial challenges in working through the risks and uncertainties outlined above. There is considerable uncertainty around the Sector's finances, but we shall use our relative financial strength to seize the opportunities that we have identified and continue to invest for the benefit of students and staff, present and future.

Michael Gilbert BSc FCA  
Treasurer

26 November 2008



# Corporate Governance

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

The University endeavours to conduct business:

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

**And**

ii) in 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'.

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

## **Summary of the University's structure of Corporate Governance**

Following a governance review, the University's Council now comprises 24 lay and academic persons appointed under the Statutes of the University, the majority of whom are non-executive. The roles of Chairman and Deputy Chairman of the Council are separate from the role of the University's Chief Executive, the Vice-Chancellor and Principal. The matters specifically referred to the Council for decision are set out in the Statutes of the University; by custom and under the Financial Memorandum with the Higher Education Funding Council for England, the Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the day-to-day operations of its business and its subsidiary companies.

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

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

# Corporate Governance (continued)

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

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

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

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

The Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in article 9 of the Charter of Incorporation, Section 21 of the Statutes of the University and the Financial Memorandum with the HEFCE.

## **Statement of Internal Control**

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the extent and nature of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2008 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

# Corporate Governance (continued)

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

- Council meet a minimum of four times a year to consider the plans and strategic direction of the institution
- Council receive periodic reports from the Audit Committee concerning internal control, and we require regular reports from managers, either directly or through the Strategy, Planning and Resources Committee, on the steps they are taking to manage risks in their area of responsibility, including progress reports on key projects
- Council have requested the Audit Committee to provide oversight of the risk management process. 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 their independent opinion on the adequacy and effectiveness of the institution's system of internal control, together with recommendations for improvement
- A regular formal review takes place to identify and where necessary to revise and update the record of risks facing the institution
- An organisation wide risk register is maintained
- Heads of budget centres have received guidance on how to implement risk management in their area of responsibility and how to embed risk management within their normal management practices
- 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
- Reports are received from budget holders, department heads and project managers on internal control activities via sub committees of Council

Our 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 May 2006.

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

**Dr. W J Glover**  
Pro-Chancellor

26 November 2008

# Responsibilities of the Council

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

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

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

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

The Council has taken reasonable steps to:

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

**Dr. W J Glover**

Pro-Chancellor

26 November 2008

# Report of the Auditors

## **Independent auditors' 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 2008 which comprise the primary statements such as the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with accounting policies set out therein.

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

## **Respective Responsibilities of the University Council and Auditors**

The University Council's responsibilities for preparing the Treasurer's Report and the group financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memoranda with the Higher Education Funding Council for England and the Training and Development Agency for Schools. In addition we also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements. We also report to you if, in our opinion the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

## **Basis of Opinion**

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

# Report of the Auditors (continued)

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University and the group as at 31 July 2008 and of the Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2008 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2008 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memoranda with the Higher Education Funding Council for England and the Training and Development Agency for Schools.

## KPMG LLP

26 November 2008  
Chartered Accountants  
Registered Auditor  
2 Cornwall Street  
Birmingham  
B3 2DL

# Statement of Principal Accounting Policies and Estimation Techniques

The Accounts for the year ended 31 July 2008

## 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 Council for England. In adopting the SORP the University has made certain restatements and these are identified in note 21.

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. 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 33 to the Accounts. The University has also interests in a number of spin-out companies which are identified also in note 33.

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 2008 are shown in note 34.

## 3. Recognition of Income

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

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

Income from donations, other government grants and other specific grants and 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.

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 Training and Development Agency and HEFCE and subsequent disbursements to students are excluded from the Income and Expenditure Account and are shown separately in note 31. Income from short term deposits is accrued up to the balance sheet date.

## 4. Taxation

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received

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

The Accounts for the year ended 31 July 2008

within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. Except for its trading activities and certain research and consultancy activities, the University cannot recover the Value Added Tax suffered on its expenditure and this cost is included under the various related expenditure heads.

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

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

## 5. 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.

## 6. 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 10 years, where they substantially add to the total area of the building, prolong its useful life or enhance the economic benefits of the building.

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

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

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

## 7. Equipment

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



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

The Accounts for the year ended 31 July 2008

the expected useful economic life of the equipment.

## 8. 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 and 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 paragraph 6 and 7.

Any donated tangible fixed assets are accounted for at valuation on receipt.

## 9. 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 6.

## 10. Leased Assets

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

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

## 11. Investments

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

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

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

## 12. Stocks

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

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

The Accounts for the year ended 31 July 2008

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

## 13. Pensions

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

The two principal pension schemes for the University's staff are the Universities' Superannuation Scheme (USS) for academic and academic-related staff, and the University of Birmingham Pension and Assurance Scheme (BPAS) for other staff. The schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. The University also introduced from 1 April 2008 a new 'defined contribution' pension scheme for its support staff who are not members of BPAS.

The assets of the USS scheme are held in a separate trustee-administered fund. The institution 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.

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 charged to income and expenditure or to the statement of total recognised gains and losses in accordance with FRS 17 'Retirement Benefits'.

## 14. Provisions

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

## 15. Cash Flows and Liquid Resources

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

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

The institution uses derivative financial instruments called 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 2008

	Note	2007/8 £000	2006/7 £000
<b>Income</b>			As restated
Funding Council Grants	1	135,941	130,467
Academic Fees and Support Grants	2	90,782	81,526
Research Grants and Contracts	3	89,522	82,513
Other Operating Income	4	84,503	86,660
Endowment Income and Interest Receivable	5	<u>10,853</u>	<u>7,554</u>
<b>Total Income</b>		<u>411,601</u>	<u>388,720</u>
<b>Expenditure</b>			
Staff Costs	6	220,666	206,209
Depreciation	7	38,641	36,424
Other Operating Expenses	7	133,787	129,121
Interest Payable	8	<u>66</u>	<u>77</u>
<b>Total Expenditure</b>	7	<u>393,160</u>	<u>371,831</u>
<b>Operating Surplus</b>		18,441	16,889
Exceptional Items	9	<u>–</u>	<u>38,753</u>
<b>Surplus for the Year before Taxation</b>		18,441	55,642
Corporation Tax	10	<u>(154)</u>	<u>24</u>
<b>Surplus for the Year after Taxation</b>		18,287	55,666
Minority Interest		<u>(100)</u>	<u>(83)</u>
<b>Surplus after Minority Interest and Taxation</b>		18,187	55,583
Deficit for the year to accumulated income in endowment funds		<u>(344)</u>	<u>(207)</u>
<b>Surplus for the Year</b>		<u>17,843</u>	<u>55,376</u>
There were no discontinued operations during 2007/8 or 2006/7.			
<b>Note of Historical Cost Surpluses and Deficits</b>			
<b>Surplus for the Year</b>		17,843	55,376
Difference between an Historical Cost Profit on Realised Investment Profits and Property Disposals and the actual realised Profit for the Year calculated on the revalued amount.		–	2,925
Difference between Historical Cost Depreciation and the actual charge based on the revalued amount.		<u>624</u>	<u>624</u>
<b>Historical Cost Surplus</b>		<u>18,467</u>	<u>58,925</u>

# Balance Sheets

For the year ended 31 July 2008

	Note	Consolidated		University	
		2008 £000	2007 £000	2008 £000	2007 £000
<b>Fixed Assets</b>			As restated		As restated
Tangible Assets	11	<b>530,391</b>	492,254	<b>510,492</b>	471,322
Investments	12	<b>26,813</b>	17,639	<b>23,419</b>	11,295
		<b>557,204</b>	509,893	<b>533,911</b>	482,617
<b>Endowment Asset Investments</b>	13	<b>72,480</b>	77,062	<b>72,480</b>	77,062
<b>Current Assets</b>					
Stocks and stores in hand		<b>778</b>	754	<b>689</b>	640
Debtors and prepayments	14	<b>43,367</b>	37,284	<b>47,057</b>	41,983
Investments		<b>42,298</b>	84,537	<b>42,837</b>	84,537
Cash at bank and in hand		<b>5,107</b>	2,493	<b>2,123</b>	1,220
		<b>91,550</b>	125,068	<b>92,706</b>	128,380
<b>Creditors:</b>					
Amounts falling due within one year	15	<b>(78,589)</b>	(82,075)	<b>(77,025)</b>	(79,864)
<b>Net Current Assets</b>		<b>12,961</b>	42,993	<b>15,681</b>	48,516
<b>Total Assets less Current Liabilities</b>		<b>642,645</b>	629,948	<b>622,072</b>	608,195
<b>Creditors:</b>					
Amounts falling due after more than one year	16	<b>(344)</b>	(687)	<b>(822)</b>	(1,262)
Provisions for Liabilities and Charges	17	<b>(4,633)</b>	(2,233)	<b>(2,934)</b>	(600)
<b>Net Assets excluding Pension Fund Liabilities</b>		<b>637,668</b>	627,028	<b>618,316</b>	606,333
Pension Fund Liability	30	<b>(29,800)</b>	(12,600)	<b>(29,800)</b>	(12,600)
<b>Total Net Assets</b>		<b>607,868</b>	614,428	<b>588,516</b>	593,733

# Balance Sheets (continued)

For the year ended 31 July 2008

	Note	Consolidated		University	
		2008 £000	2007 £000	2008 £000	2007 £000
Represented by:			As restated		As restated
<b>Deferred Capital Grants</b>	18	<b>136,987</b>	123,740	<b>136,240</b>	122,954
<b>Endowments</b>					
Expendable	19	<b>3,866</b>	3,901	<b>3,866</b>	3,901
Permanent	19	<b>68,614</b>	73,161	<b>68,614</b>	73,161
		<u><b>72,480</b></u>	<u>77,062</u>	<u><b>72,480</b></u>	<u>77,062</u>
<b>Reserves</b>					
Income and Expenditure Account excluding pension reserve	20	<b>379,141</b>	375,760	<b>364,811</b>	360,077
Pension Reserve	20	<b>(29,800)</b>	(12,600)	<b>(29,800)</b>	(12,600)
Revaluation Reserve	20	<b>46,023</b>	47,503	<b>44,785</b>	46,240
Minority Interest		<b>3,037</b>	2,963	–	–
		<u><b>398,401</b></u>	<u>413,626</u>	<u><b>379,799</b></u>	<u>393,717</u>
<b>Total Funds</b>		<u><b>607,868</b></u>	<u>614,428</u>	<u><b>588,516</b></u>	<u>593,733</u>

The financial statements on pages 15 to 46 were approved by the Council on 26 November 2008 and signed on its behalf by:

**Professor Michael Sterling, Vice-Chancellor and Principal**

**Michael Gilbert, BSc, FCA Treasurer**

# Consolidated Cash Flow Statement

For the year ended 31 July 2008

	<i>Note</i>	<b>2007/8</b> <b>£000</b>	2006/7 £000
Net Cash Inflow from Operating Activities	25	<b>9,872</b>	27,272
Returns on Investments and Servicing of Finance	26	<b>8,887</b>	7,477
Taxation		<b>(38)</b>	(43)
Capital Expenditure and Financial Investment	27	<b><u>(51,434)</u></b>	<u>12,912</u>
Net Cash (Outflow)/Inflow before Financing	29	<b><u>(32,713)</u></b>	47,618
Financing	28	<b>(343)</b>	(345)
<b>(Decrease) / Increase in Cash in the Year</b>	29	<b><u>(33,056)</u></b>	<u>47,273</u>
<b>Reconciliation of Net Cash Flow to Movement in Net Funds</b>			
(Decrease)/Increase in Cash in the Year		<b>(33,056)</b>	47,273
Repayment of Debt	28	<b>343</b>	345
(Decrease) / Increase in Net Funds		<b><u>(32,713)</u></b>	<u>47,618</u>
Net Funds at 1 August		<b>90,129</b>	42,511
<b>Net Funds at 31 July</b>	29	<b><u><u>57,416</u></u></b>	<u><u>90,129</u></u>

# Consolidated Statement of Recognised Gains and Losses

For the year ended 31 July 2008

	<i>Note</i>	<b>2007/8</b> £000	2006/7 £000
Surplus after Depreciation of Assets at Valuation and Tax		<b>17,843</b>	55,415
(Depreciation)/Appreciation of Endowment Asset Investments	<i>19</i>	<b>(6,069)</b>	1,441
Revaluation of Fixed Asset Investments	<i>20</i>	<b>(856)</b>	945
Endowment Income Transfer from Accumulated Reserve		<b>344</b>	207
New Endowments	<i>19</i>	<b>957</b>	3,813
Actuarial (Loss)/Gain on Pension Fund	<i>30</i>	<b>(32,100)</b>	30,772
Total Recognised (Losses)/Gains Relating to the Year		<u><b>(19,881)</b></u>	<u>92,593</u>
Prior Year Adjustment	<i>21</i>	<b>309</b>	–
<b>Total Recognised (Losses)/Gains since the last accounting period</b>		<u><b>(19,572)</b></u>	<u>92,593</u>

## Reconciliation of Reserves and Endowments

Opening Reserves and Endowments – as previously published		<b>487,416</b>	394,823
Prior Year Adjustment	<i>21</i>	<b>309</b>	–
Opening Reserves and Endowments – restated		<u><b>487,725</b></u>	<u>394,823</u>
Total Recognised (Losses)/Gains for the Year		<b>(19,881)</b>	92,593
<b>Closing Reserves and Endowments</b>		<u><b>467,844</b></u>	<u>487,416</u>

# Notes to the Accounts

For the year ended 31 July 2008

	<i>Note</i>	<b>2007/8</b>	2006/7
		<b>£000</b>	£000
<b>1. Funding Council Grants</b>			
Teaching Recurrent Grant from HEFCE		<b>74,726</b>	73,881
Research Recurrent Grant from HEFCE		<b>42,999</b>	41,137
Other Grants from HEFCE		<b>5,894</b>	4,258
Training Development Agency Grants		<b>2,484</b>	2,624
Deferred Capital Grants Released (Note 18)		<b>9,838</b>	8,567
		<u><b>135,941</b></u>	<u>130,467</u>

## 2. Academic Fees and Support Grants

Undergraduate Tuition – Home and EU Students	<b>36,801</b>	29,220
Undergraduate Tuition – Other Students	<b>13,412</b>	13,023
Postgraduate Tuition – Home and EU Students	<b>14,324</b>	13,174
Postgraduate Tuition – Other Students	<b>19,273</b>	18,985
Other Courses	<b>3,753</b>	4,237
Research, Training and Support Grants	<b>3,219</b>	2,887
	<u><b>90,782</b></u>	<u>81,526</u>

## 3. Research Grants and Contracts

Office of Science and Technology Research Councils	<b>33,300</b>	29,795
UK-Based Charities	<b>21,718</b>	21,110
UK Central/Local Government, Health and Hospital Authorities	<b>17,951</b>	16,535
UK Industry, Commerce and Public Corporations	<b>7,570</b>	5,964
EU Government Bodies	<b>5,681</b>	4,887
EU Other	<b>631</b>	790
Other Overseas	<b>1,504</b>	2,340
Other Sources	<b>1,167</b>	1,092
	<u><b>89,522</b></u>	<u>82,513</u>

Income from research grants and contracts includes £5,702k (2006/7 £4,493k) in respect of deferred capital grants released.



# Notes to the Accounts (continued)

For the year ended 31 July 2008

	<i>Note</i>	<b>2007/8</b>	2006/7
		<b>£000</b>	£000
<b>4. Other Operating Income</b>			As restated
Residences, Catering and Conferences		<b>22,503</b>	26,382
Other Services Rendered		<b>20,325</b>	21,237
Externally Funded Posts – Health Authorities		<b>11,852</b>	11,321
Self-Financing Teaching Activities		<b>4,497</b>	4,074
Rented Properties and University Centre Lettings		<b>1,251</b>	1,014
Day Nursery and Health Centre		<b>1,457</b>	1,429
Release of Deferred Capital Grants		<b>713</b>	847
Barber Trust		<b>1,000</b>	1,004
VAT Refund		<b>1,252</b>	500
Other Income		<b>19,653</b>	18,852
		<b><u>84,503</u></b>	<b><u>86,660</u></b>
<b>5. Endowment Income and Interest Receivable</b>			
Income from Permanent Endowment Investments	19	<b>2,502</b>	1,831
Income from Restricted Expendable Endowment Investments	19	<b>144</b>	308
Income from Short Term Investments		<b>5,588</b>	3,997
Net Return on Pension Scheme		<b>1,900</b>	–
Other Investment Income		<b>719</b>	1,418
		<b><u>10,853</u></b>	<b><u>7,554</u></b>
<b>6. Staff</b>			
Staff Costs:			
Wages and Salaries		<b>181,966</b>	169,580
Social Security Costs		<b>15,409</b>	14,612
Other Pension Costs	30	<b>23,291</b>	22,017
		<b><u>220,666</u></b>	<b><u>206,209</u></b>
Emoluments of the Vice-Chancellor :			
Salary and Benefits		<b>292</b>	267
Pension Contributions to USS		<b>40</b>	37
		<b><u>332</u></b>	<b><u>304</u></b>
The emoluments shown are in respect of Professor Michael Sterling, and have been independently determined by the lay officers of the Council and reviewed according to performance.			
Compensation for loss of office was paid to members of staff earning in excess of £100,000 per annum:			
		–	270

# Notes to the Accounts (continued)

For the year ended 31 July 2008

	2007/8 Number	2006/7 Number
<b>6. Staff – continued</b>		
Average staff numbers by major category:		
Academic and related/Clinical	3,650	3,432
Other, including Technical, Clerical and Manual	2,400	2,547
	<u>6,050</u>	<u>5,979</u>

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

£100,001 – £110,000	20	20
£110,001 – £120,000	13	8
£120,001 – £130,000	5	10
£130,001 – £140,000	12	4
£140,001 – £150,000	11	9
£150,001 – £160,000	8	8
£160,001 – £170,000	5	8
£170,001 – £180,000	9	6
£180,001 – £190,000	1	6
£190,001 – £200,000	5	2
£200,001 – £210,000	1	4
£210,001 – £220,000	–	1
£230,001 – £240,000	1	–
£240,001 – £250,000	1	1
£260,001 – £269,000	1	1
£280,001 – £290,000	1	–

# Notes to the Accounts (continued)

For the year ended 31 July 2008

7. Analysis of Expenditure by Activity	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total 2007/8	Total 2006/7
	£000	£000	£000	£000	£000	£000
<b>Academic Schools</b>						
Core Teaching and Research	115,845	5,025	20,715	–	141,585	132,547
Research Grants and Contracts	41,245	5,702	21,354	–	68,301	64,858
Student Support	–	–	19,351	–	19,351	15,024
Other Trading	4,031	47	6,527	–	10,605	9,570
	<u>161,121</u>	<u>10,774</u>	<u>67,947</u>	<u>–</u>	<u>239,842</u>	<u>221,999</u>
<b>Academic Services</b>						
Information Services	10,678	4,382	6,777	–	21,837	20,296
Other Academic Services	10,854	613	5,736	–	17,203	17,442
	<u>21,532</u>	<u>4,995</u>	<u>12,513</u>	<u>–</u>	<u>39,040</u>	<u>37,738</u>
<b>Premises</b>						
Energy and Utilities	574	741	7,113	–	8,428	8,976
Repairs and General Maintenance	3,428	1,869	5,055	–	10,352	9,945
Depreciation of Buildings	–	15,014	–	–	15,014	12,929
Other	6,405	522	993	10	7,930	7,855
	<u>10,407</u>	<u>18,146</u>	<u>13,161</u>	<u>10</u>	<u>41,724</u>	<u>39,705</u>
<b>Administration and Services</b>						
Administrative Services	10,835	157	5,614	–	16,606	14,832
Audit Fees	–	–	95	–	95	91
Fees to Auditor for Non-Audit Work	–	–	72	–	72	42
Sports Facilities	1,702	159	1,601	–	3,462	3,055
Health, Nursery and Counselling Services	3,599	96	2,253	–	5,948	5,766
Grant to Guild of Students (Note 34)	–	–	1,380	–	1,380	1,342
	<u>16,136</u>	<u>412</u>	<u>11,015</u>	<u>–</u>	<u>27,563</u>	<u>25,128</u>
<b>Residences Catering and Conferences</b>						
Residences	1,582	120	8,877	56	10,635	13,251
Catering and Conferences	4,875	108	5,719	–	10,702	10,223
Depreciation of Buildings	–	3,490	–	–	3,490	4,718
	<u>6,457</u>	<u>3,718</u>	<u>14,596</u>	<u>56</u>	<u>24,827</u>	<u>28,192</u>
<b>Other Expenditure</b>						
Other Services Rendered	5,013	596	13,156	–	18,765	17,135
Other	–	–	1,399	–	1,399	1,934
	<u>5,013</u>	<u>596</u>	<u>14,555</u>	<u>–</u>	<u>20,164</u>	<u>19,069</u>
<b>Total</b>	<u>220,666</u>	<u>38,641</u>	<u>133,787</u>	<u>66</u>	<u>393,160</u>	<u>371,831</u>

The Depreciation charge has been funded by:

Deferred Capital Grants Released (Note 18)	16,371
General Income	22,270
	<u>38,641</u>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

<b>8. Interest Payable</b>	<b>2007/8</b>	2006/7
	<b>£000</b>	£000
Loans within Five Years:		
Loan Interest	<u>66</u>	<u>77</u>

## 9. Exceptional Items

Profit on Sale of Land and Buildings	<u>-</u>	<u>38,753</u>
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## 10. Tax on Profit on Ordinary Activities

United Kingdom corporation tax at 30% on subsidiary company profits:		
Current Year	(74)	(24)
Prior Year	(14)	-
Deferred tax – due to timing differences in a subsidiary company	(66)	48
Total (Payable) / Repayable	<u>(154)</u>	<u>24</u>

## 11. Tangible Fixed Assets

<b>Consolidated</b>	Assets in the Course of Construction £000	Land and Buildings £000	Equipment £000	<b>Consolidated Total £000</b>
<b>Cost or Valuation</b>				As restated
Valuation	-	47,676	-	<b>47,676</b>
Cost	18,141	503,347	46,211	<b>567,699</b>
As at 1 August 2007	<u>18,141</u>	<u>551,023</u>	<u>46,211</u>	<b>615,375</b>
Additions at Cost	42,161	18,114	18,762	<b>79,037</b>
Disposals at Valuation	-	-	-	-
Disposals at Cost	-	-	(13,755)	<b>(13,755)</b>
Transfers at Cost	-	(105)	-	<b>(105)</b>
Transfer of land to assets for resale (within current asset investments)	-	(2,150)	-	<b>(2,150)</b>
As at 31 July 2008:				
Valuation	-	47,676	-	<b>47,676</b>
Cost	60,302	519,206	51,218	<b>630,726</b>
	<u>60,302</u>	<u>566,882</u>	<u>51,218</u>	<b>678,402</b>

The University has reviewed its accounting policy for fixed asset investments and classified the buildings held by its subsidiary company, Birmingham Research Park Ltd as investment properties. In prior years those buildings have been included within tangible fixed assets.

# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 11. Tangible Fixed Assets continued

Consolidated	Assets in the Course of Construction £000	Land and Buildings £000	Equipment £000	Consolidated Total £000
<b>Accumulated Depreciation</b>				As restated
As at 1 August 2007 – Valuation	–	5,490	–	5,490
As at 1 August 2007 – Cost	–	87,440	30,191	117,631
Charge for the Year – Valuation	–	624	–	624
Charge for the Year – Cost	–	21,407	16,610	38,017
Depreciation on Disposals – Valuation	–	–	–	–
Depreciation on Disposals – Cost	–	–	(13,751)	(13,751)
As at 31 July 2008:	<u>–</u>	<u>114,961</u>	<u>33,050</u>	<u>148,011</u>
<b>Net Book Value</b>				
Valuation	–	41,562	–	41,562
Cost	60,302	410,359	18,168	488,829
<b>Net Book Value as at 31 July 2008</b>	<u>60,302</u>	<u>451,921</u>	<u>18,168</u>	<u>530,391</u>
Net Book Value as at 31 July 2007	<u>18,141</u>	<u>458,093</u>	<u>16,020</u>	<u>492,254</u>
The accumulated cost of Assets in the Course of Construction includes:	£000			
Mason Hall	34,526			
Muirhead Tower refurbishment	24,101			
Other	1,675			
	<u>60,302</u>			

### Leasehold Land and Buildings

The value of land and buildings shown above represents freehold interests except for the following:

	Valuation £000	Depreciation in year £000	Accumulated Depreciation £000	Net Book Value £000
Medical School	45,278	762	4,334	40,944
– on land leased in 1933 for 999 years from Birmingham City Council				
Clinical Research Building	3,106	62	621	2,485
– leased in 1953 for 75 years from the NHS				
Residential leasehold properties	775	27	260	515
	<u>49,159</u>	<u>851</u>	<u>5,215</u>	<u>43,944</u>

The reinstatement cost of buildings for insurances purposes is £1,372m (2007 £1,270m). 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

Of the buildings above there exists an exchequer interest. It is a condition of funding imposed by the Secretary of State and the Treasury that no transaction involving these assets should be entered into without the prior approval of the Higher Education Funding Council for England.

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

# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 11. Tangible Fixed Assets continued

University	Assets in the course of Construction £000	Land and Buildings £000	Equipment £000	University Total £000
<b>Cost or Valuation</b>				
Valuation	–	47,676	–	<b>47,676</b>
Cost	18,141	473,765	45,842	<b>537,748</b>
As at 1 August 2007	<u>18,141</u>	<u>521,441</u>	<u>45,842</u>	<b><u>585,424</u></b>
Additions at Cost	42,161	18,134	18,756	<b>79,051</b>
Disposals at Valuation	–	–	–	–
Disposals at Cost	–	–	(13,691)	<b>(13,691)</b>
Transfers at Cost	–	–	–	–
Transfer of land to assets held for resale (within current investments)	–	(2,150)	–	<b>(2,150)</b>
As at 31 July 2008:				
Valuation	–	47,676	–	<b>47,676</b>
Cost	60,302	489,749	50,907	<b>600,958</b>
	<u>60,302</u>	<u>537,425</u>	<u>50,907</u>	<b><u>648,634</u></b>
<b>Accumulated Depreciation</b>				
As at 1 August 2007 – Valuation	–	5,490	–	<b>5,490</b>
As at 1 August 2007 – Cost	–	78,755	29,857	<b>108,612</b>
Charge for the Year – Valuation	–	624	–	<b>624</b>
Charge for the Year – Cost	–	20,508	16,599	<b>37,107</b>
Depreciation on Disposals – Valuation	–	–	–	–
Depreciation on Disposals – Cost	–	–	(13,691)	<b>(13,691)</b>
As at 31 July 2008:	<u>–</u>	<u>105,377</u>	<u>32,765</u>	<b><u>138,142</u></b>
<b>Net Book Value</b>				
Valuation	–	41,562	–	<b>41,562</b>
Cost	60,302	390,486	18,142	<b>468,930</b>
<b>Net Book Value as at 31 July 2008</b>	<u>60,302</u>	<u>432,048</u>	<u>18,142</u>	<b><u>510,492</u></b>
Net Book Value as at 31 July 2007	<u>18,141</u>	<u>437,196</u>	<u>15,985</u>	<b><u>471,322</u></b>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

12. Fixed Asset Investments	Consolidated		University	
	2008	As restated 2007	2008	As restated 2007
	£000	£000	£000	£000
Balance at 1 August	17,639	15,982	11,295	11,086
Additions	10,055	219	12,955	319
Disposals	–	(265)	–	(265)
(Depreciation)/Appreciation on Disposals and Revaluation	(881)	1,703	(831)	155
Balance at 31 July	<u>26,813</u>	<u>17,639</u>	<u>23,419</u>	<u>11,295</u>
Represented by:				
Fixed Interest & Bonds	5,027	6,495	5,027	6,495
Equities	2,352	2,742	2,352	2,742
Property	17,740	8,151	10,908	1,269
Investments in Subsidiaries (Note 33)	–	–	3,438	538
Other Investments	304	224	304	224
Cash	1,390	27	1,390	27
	<u>26,813</u>	<u>17,639</u>	<u>23,419</u>	<u>11,295</u>

The University has reviewed its accounting policy for fixed asset investments and classified the buildings held by its subsidiary company, Birmingham Research Park Limited as investment properties. In prior years these buildings have been included within tangible fixed assets.

13. Endowment Asset Investments	Consolidated and University	
	2008	As restated 2007
	£000	£000
Balance at 1 August	77,062	71,638
Additions	5,176	7,553
Disposals	(3,689)	(3,570)
(Depreciation)/Appreciation on Disposals and Revaluation	(6,069)	1,441
Balance at 31 July	<u>72,480</u>	<u>77,062</u>
Represented by:		
Fixed Interest and Bonds	36,503	45,106
Equities	17,115	19,041
Property	6,503	8,812
Cash	12,359	4,103
	<u>72,480</u>	<u>77,062</u>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

14. Debtors	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Amounts falling due within one year:</b>				
Research Grants and Contracts	25,817	20,955	25,817	20,955
Other Debtors and Prepayments	17,550	16,329	16,460	15,599
Alta Cyclotron Limited	–	–	–	25
Alta Estates Limited	–	–	533	533
Birmingham Research Park Limited	–	–	90	90
	<u>43,367</u>	<u>37,284</u>	<u>42,900</u>	<u>37,202</u>
<b>Amounts falling due after one year:</b>				
Alta Estates Limited	–	–	4,134	4,668
Birmingham Research Park Limited	–	–	23	113
	<u>–</u>	<u>–</u>	<u>4,157</u>	<u>4,781</u>
	<u>43,367</u>	<u>37,284</u>	<u>47,057</u>	<u>41,983</u>

## 15. Creditors: Amounts Falling due within one year

	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
Loans and Bank Overdrafts	344	344	344	344
Research Grants and Contracts in Advance	23,586	19,282	23,586	19,282
Corporation Tax	74	24	–	–
Social Security and Other Taxation Payable	5,434	5,037	5,379	4,936
Trade Creditors	8,894	6,919	8,875	6,850
Accruals and Deferred income	7,195	6,606	5,765	5,349
Other Creditors	33,062	43,863	33,076	43,103
	<u>78,589</u>	<u>82,075</u>	<u>77,025</u>	<u>79,864</u>

## 16. Creditors: Amounts Falling due after more than one year

	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
Loan repayable by Instalments, within 5 years	<u>344</u>	<u>687</u>	<u>822</u>	<u>1,262</u>

The loan is repayable in quarterly instalments and incurs interest at 0.5% above Bank of England base rate.

The University has two Interest SWAP transactions with Barclays and one with the National Bank of Australia, for £5m each, that are effective until 2016. Each SWAP transaction incorporates a fixed rate, which is compared with a variable 3 month LIBOR interest rate. The University incurs an interest charge when the SWAP rate is less than the 3 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.



# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 17. Provisions for Liabilities and Charges

	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
<b>Restructuring</b>				
At 1 August	600	476	600	476
Utilised during the year	(537)	(390)	(537)	(390)
Provided in year	96	514	96	514
At 31 July	<u>159</u>	<u>600</u>	<u>159</u>	<u>600</u>
<b>Contract Termination Provision</b>				
At 1 August	–	–	–	–
Utilised during the year	–	–	–	–
Provided in year	2,775	–	2,775	–
At 31 July	<u>2,775</u>	<u>–</u>	<u>2,775</u>	<u>–</u>
<b>Deferred Taxation</b>				
At 1 August	1,633	1,681	–	–
Provided in year (Note 10)	66	(48)	–	–
At 31 July	<u>1,699</u>	<u>1,633</u>	<u>–</u>	<u>–</u>
<b>Total at 31 July</b>	<u>4,633</u>	<u>2,233</u>	<u>2,934</u>	<u>600</u>
Analysis of Deferred Taxation:				
Accelerated capital allowances	1,758	1,865	–	–
Less unutilised tax losses	(59)	(232)	–	–
At 31 July	<u>1,699</u>	<u>1,633</u>	<u>–</u>	<u>–</u>

## 18. Deferred Capital Grants

	Other Grants and Benefactions £000	Funding Council £000	Consolidated	University
			Total £000	Total £000
At 1 August 2007				
Buildings	20,265	95,107	115,372	114,586
Equipment	<u>5,113</u>	<u>3,255</u>	<u>8,368</u>	<u>8,368</u>
	<u>25,378</u>	<u>98,362</u>	<u>123,740</u>	<u>122,954</u>
Cash Received				
Buildings	4,579	15,560	20,139	20,139
Equipment	7,736	1,743	9,479	9,479
Released to Income and Expenditure				
Buildings	(752)	(6,963)	(7,715)	(7,676)
Equipment	(5,781)	(2,875)	(8,656)	(8,656)
At 31 July 2008				
Buildings	24,092	103,704	127,796	127,049
Equipment	<u>7,068</u>	<u>2,123</u>	<u>9,191</u>	<u>9,191</u>
	<u>31,160</u>	<u>105,827</u>	<u>136,987</u>	<u>136,240</u>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 19. Endowments

	Consolidated and University				
	Unrestricted	Restricted	Total	Restricted	Total
	Permanent	Permanent	Permanent	Expendable	
	£000	£000	£000	£000	£000
At 1 August 2007 (As Restated)	9,749	63,412	73,161	3,901	<b>77,062</b>
Additions	–	453	453	504	<b>957</b>
Depreciation of Endowment Asset Investments	(802)	(4,973)	(5,775)	(294)	<b>(6,069)</b>
Income for Year	320	2,180	2,500	144	<b>2,644</b>
Transfer from Budget Centre Funds	–	186	186	–	<b>186</b>
Expenditure	(320)	(1,591)	(1,911)	(389)	<b>(2,300)</b>
At 31 July 2008	<u>8,947</u>	<u>59,667</u>	<u>68,614</u>	<u>3,866</u>	<u><b>72,480</b></u>
<b>Represented by</b>					
Capital	8,947	58,219	67,166	3,813	70,979
Accumulated income	–	1,448	1,448	53	1,501
	<u>8,947</u>	<u>59,667</u>	<u>68,614</u>	<u>3,866</u>	<u><b>72,480</b></u>

## 20. Income and Expenditure Account

	Consolidated	University
	£000	£000
General reserves		
At 1 August 2007	375,760	360,077
Surplus Retained for the Year	17,843	19,196
Transfer from Revaluation Reserve	624	624
Transfer to Endowments	(186)	(186)
Pension Reserve Cash Contribution	(12,900)	(12,900)
Deduct Pension Surplus	(2,000)	(2,000)
At 31 July 2008	<u>379,141</u>	<u>364,811</u>
Pension Reserve		
At 1 August 2007	(12,600)	(12,600)
Actuarial Loss	(32,100)	(32,100)
Additional Cash Contribution	12,900	12,900
Surplus Retained within Reserves	2,000	2,000
At 31 July 2008	<u>(29,800)</u>	<u>(29,800)</u>
Revaluation Reserve		
At 1 August 2007	47,503	46,240
Revaluation in the Year	(856)	(831)
Released to Income and Expenditure Account	(624)	(624)
At 31 July 2008	<u>46,023</u>	<u>44,785</u>

The revaluation in the year is due to changes in the market values of investments and the impact of the University's property disposals.

# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 21. Prior Year Adjustments

During the year the University has adopted the requirements of the 2007 SORP for Higher and Further Education issued in July 2007. This has led to a restatement of endowment funds and income applied in prior years. In addition, the University has reviewed its accounting policy for fixed asset investments and classified the buildings held by its subsidiary company Birmingham Research Park Ltd (BRPL) as investment properties. In prior years these buildings have been included within tangible fixed assets.

The effect of these adjustments on the consolidated results is summarised below:

	Consolidated as previously reported 2006/7	Endowments	BRPL	As restated 2006/7
	£000	£000	£000	£000
<b>Income and Expenditure Account</b>				
Total Income	388,759	(39)	–	388,720
Total Expenditure	371,831	–	–	371,831
Retained Surplus for the Year	16,928	(39)	–	16,889
<b>Balance Sheet</b>				
Tangible Fixed Assets	499,054	–	(6,800)	492,254
Fixed Asset Investment	10,839	–	6,800	17,639
Endowment Asset Investments	76,753	309	–	77,062
Current Asset Investments	84,846	(309)	–	84,537
Creditors: Amounts falling due within one year	(82,384)	309	–	(82,075)
Total Net Assets	<u>614,119</u>	<u>309</u>	<u>–</u>	<u>614,428</u>
Endowment Funds	76,753	309	–	77,062
Income and Expenditure Account,	363,160	–	–	363,160
Total Funds	<u>614,119</u>	<u>309</u>	<u>–</u>	<u>614,428</u>

## 22. Lease Obligations

The University had no finance lease obligations in 2007/8 or 2006/7.

There were payments of £693k during the year (£720k in 2006/7) in respect of operating leases for equipment which expire between two and five years.

## 23. Capital Commitments

### Consolidated and University

	2008 £000	2007 £000
Contracts for Capital Expenditure	<u>54,706</u>	<u>89,248</u>

Committed expenditure includes: Muirhead (£23.1m), Subways (£11.3m), Medical Steam Main (£5.6m), Mason Hall (£2.4m), and Tennis Courts refurbishments (£2.3m).

As at 31 July 2008 the University had a financial commitment of £8.6m in favour of the University Hospitals Birmingham NHS Trust relating to the University's planned occupation of the Clinical Sciences Education Centre. This commitment will crystallise during the 2009/10 financial year, upon completion of the new hospital.

## 24. Contingent Liability

The University is a member of UM Association (Special Risks) Limited, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year the members are liable for their prorated share spread using a bank facility over 7 years. No liability has yet arisen under this guarantee.

# Notes to the Accounts (continued)

For the year ended 31 July 2008

<b>25. Reconciliation of Operating Surplus to Net Cash from Operating Activities</b>	<b>Consolidated</b>	
	<b>2007/8</b>	2006/7
	<b>£000</b>	£000
Surplus for the year before taxation	18,441	55,681
Depreciation of fixed assets (Note 11)	38,641	36,424
Deferred capital grants released to income (Note 18)	(16,371)	(13,836)
Returns on Investments and Servicing of Finance (Note 26)	(8,887)	(7,477)
Increase in stocks	(24)	(48)
Increase in debtors	(6,083)	(2,735)
Decrease in creditors	(2,935)	(1,366)
Decrease in provisions	2,334	124
Cash payment to pension scheme	(12,900)	–
Pension cost less than contributions payable	(100)	(800)
Net return on Pension Scheme	(1,900)	–
Profit from sale of tangible fixed asset	–	(38,753)
Depreciation of Fixed Asset Investments	–	265
Transfers in respect of Restricted Endowments	(344)	(207)
	<u>9,872</u>	<u>27,272</u>
Net Cash Inflow from Operating Activities		
	<u>9,872</u>	<u>27,272</u>
<b>26. Returns on Investments and Servicing of Finance</b>	<b>Consolidated</b>	
	<b>2007/8</b>	2006/7
	<b>£000</b>	£000
Income from fixed asset investments	719	1,418
Income from endowments	2,646	2,139
Income from short term investments	5,588	3,997
Interest paid	(66)	(77)
	<u>8,887</u>	<u>7,477</u>
<b>27. Capital Expenditure and Financial Investment</b>	<b>Consolidated</b>	
	<b>2007/8</b>	2006/7
	<b>£000</b>	£000
Tangible assets acquired	(79,037)	(57,460)
Fixed asset investments acquired	(12,955)	(3,412)
Endowment asset investments acquired	(2,776)	(27,331)
Current asset investments held for resale	(900)	–
	<u>(95,668)</u>	<u>(88,203)</u>
Total fixed current and endowment assets acquired		
	<u>(95,668)</u>	<u>(88,203)</u>
Receipts from sales of fixed asset investments	1,363	–
Receipts from sales of endowment asset investments	11,945	3,570
Receipts from sales of tangible assets	5	50,504
Deferred capital grants received	29,618	43,021
Endowments received	1,303	4,020
	<u>(51,434)</u>	<u>12,912</u>
<b>28. Analysis of Changes in External Financing During the Year Consolidated</b>	<b>Consolidated</b>	
	<b>2007/8</b>	2006/7
	<b>£000</b>	£000
Balance at 1 August	1,031	1,376
Capital repayments	(343)	(345)
Balance at 31 July	<u>688</u>	<u>1,031</u>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 29. Analysis of Changes in Net Funds

### Consolidated

	At 1 August 2007	Cash Flows	At 31 July 2008
	£000	£000	£000
Short term deposits repayable on demand	84,537	(45,289)	39,248
Fixed asset investments	27	1,363	1,390
Endowment asset investments	4,103	8,256	12,359
Cash in hand, and at bank	<u>2,493</u>	<u>2,614</u>	<u>5,107</u>
	91,160	(33,056)	58,104
Debt due within one year	(344)	–	(344)
Debt due after one year	<u>(687)</u>	<u>343</u>	<u>(344)</u>
Net Funds	<u>90,129</u>	<u>(32,713)</u>	<u>57,416</u>

## 30. 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 UBS Global Asset Management Ltd.

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

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

	2007/8 £000	2006/7 £000
USS	16,778	15,127
BPAS	4,400	4,900
Other Pension Schemes	<u>2,113</u>	<u>1,990</u>
Total Pension Costs (Note 6)	<u>23,291</u>	<u>22,017</u>

### Universities Superannuation Scheme (USS)

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and 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. 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 Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The institution 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. The latest published actuarial valuation of the scheme was at 31 March 2005. The 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 (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum.

# Notes to the Accounts (continued)

For the year ended 31 July 2008

In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and non-retired members

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 assumed life expectations on retirement at age 65 are:

Males	19.8 years
Females	22.8 years

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% 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. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% 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, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in Assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

# Notes to the Accounts (continued)

For the year ended 31 July 2008

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 bias towards 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 has agreed 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 whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers.

The strong 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. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

A formal triennial actuarial valuation was carried out as at 31 March 2008, but the results have not yet been disclosed. The contribution rate will be reviewed as part of each valuation.

## University of Birmingham Pension and Assurance Scheme (BPAS)

BPAS is contracted out of the State Earnings-Related Pension Scheme and management of the Scheme's investments is undertaken by UBS Global Asset Management Ltd. The latest full actuarial valuation of the scheme was at 31 March 2007, and the valuation identified that additional contributions were required as determined by the Pensions Act (1995) Minimum Funding Requirement Regulations.

The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments, (i.e. the valuation rate of interest), and the rates of increase in salary and pensions. In relation to the past service liability the financial assumptions were derived from market yields prevailing at the valuation date, it was assumed that the valuation rate of interest would be 4.3% per annum, salary increases would be 4.2% per annum and pensions would increase by 2.7% per annum. In relation to future service liabilities it was assumed that the valuation rate of interest would be 6.8% per annum, salary increases would be 4.2% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the modified aggregate method.

At the valuation date, the market value of the assets of the scheme was £159.6 million, and the valuation of the past service liabilities was £192.5 million, giving a deficit of £32.9 million. The assets therefore were sufficient to cover 82.3% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

The next valuation will be published later this year.

Contributions have been paid by employees at the rate of 6% of pensionable pay and by the University at the rate of 14% of employees' pensionable pay. Additionally a further £19.6 million was paid in the period ended 31st July 2006, as determined by the Schedule of Contributions agreed with the Scheme Actuary.

The assumptions employed by the Scheme Actuary for the valuation of liabilities as at 31st July 2008, were as follows:

	July 2008	July 2007
Discount Rate	6.4%	5.8%
Salary Growth	5.3%	4.7%
Inflation	3.8%	3.2%
Pension Increases	3.8%	3.2%

# Notes to the Accounts (continued)

For the year ended 31 July 2008

The invested assets of the Scheme amounted to £217.4 million (after investment of the additional contribution).

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

	July 2008		July 2007	
	£million	Rate of Return	£million	Rate of Return
Equities	100.3	8.5%	118.5	8.2%
Property	16.8	7.6%	20.4	7.0%
Corporate Bonds	56.2	6.6%	41.1	5.8%
Index Linked Bonds	22.6	4.8%	18.2	4.8%
Fixed Interest Bonds	4.8	4.8%	22.3	4.8%
Other Assets	16.7	4.8%	1.7	4.2%
Total	<u>217.4</u>		<u>222.2</u>	

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

	July 2008	July 2007
	£million	£million
Total market value of assets	217.4	222.2
Present value of scheme liabilities	(247.2)	(234.8)
Deficit in the scheme	<u>(29.8)</u>	<u>(12.6)</u>

The above amounts have been recognised in the financial statements as follows:

	July 2008	July 2007
	£million	£million
Net assets excluding pension deficit	637.3	625.5
Pension deficit	(29.8)	(12.6)
Net assets including pension deficit	<u>607.5</u>	<u>612.9</u>
Profit and loss reserve excluding pension deficit	379.1	375.8
Pension deficit	(29.8)	(12.6)
Profit and loss reserve including pension deficit	<u>349.3</u>	<u>363.2</u>

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 recognised gains and losses for the year ended 31 July 2008:

	July 2008	July 2007
	£million	£million
Analysis of amounts charged to Income and Expenditure account:		
Current service cost	4.4	4.9
Finance:		
Interest on pension scheme liabilities	13.5	12.6
Expected return on assets in the pension scheme	(15.4)	(13.3)
Net charge/(credit) to other finance income	(1.9)	(0.7)
Total charge before tax	<u>2.5</u>	<u>4.2</u>

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

(Loss)/Gain on assets	(29.4)	4.3
Experience (Loss) on scheme liabilities	(2.3)	(8.0)
(Loss)/Gain on change of assumptions	(0.4)	34.5
Total (Loss)/Gain before tax	<u>(32.1)</u>	<u>30.8</u>



# Notes to the Accounts (continued)

For the year ended 31 July 2008

The experience gains and losses for the year were as follows:	2007/8	2006/7	2005/6	2004/5	2003/4
	£million	£million	£million	£million	£million
(Loss)/Gain on assets	(29.4)	4.3	5.2	17.4	(3.8)
Experience (Loss)/Gain on scheme liabilities	(2.3)	(8.0)	2.0	(0.9)	1.2
Total (Loss)/Gain recognised in the statement of total recognised gains and losses	(32.1)	30.8	(7.9)	(13.4)	(9.3)

## Changes in Disclosed Assets and Liabilities

Year Ending	31 July 2008	31 July 2007
	£million	£million
Change in Scheme Liabilities		
Scheme liabilities at prior year	234.8	252.2
Employer service cost	4.4	4.9
Interest cost	13.5	12.6
Scheme participants' contributions	–	0.1
Actuarial Loss	–	(34.5)
Experience Gain	2.3	8.0
Benefits paid from scheme assets	(7.8)	(8.5)
Scheme liabilities at year end	<u>247.2</u>	<u>234.8</u>

## Change in Scheme Assets

Fair value of assets at prior year end	222.2	208.0
Expected return on assets	15.4	13.3
Actuarial (Losses)/Gains on assets	(29.4)	4.3
Employer contributions	17.4	4.9
Scheme participants' contributions	–	0.1
Benefits paid	(7.8)	(8.5)
Other adjustments	(0.4)	0.1
Fair value of assets at year end	<u>217.4</u>	<u>222.2</u>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

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

Year ending	31 July 2008	31 July 2007
	£million	£million
Deficit on scheme at 1 August	(12.6)	(44.2)
Movements in the year:		
– current service cost	(4.4)	(4.9)
– contributions paid	17.4	5.0
– finance income	1.9	0.7
– actuarial (Loss) / Gain	(32.1)	30.8
Deficit on scheme at 31 July	<u>(29.8)</u>	<u>(12.6)</u>

## Group Personal Pension Scheme (GPPP)

The University has now introduced from 1 April 2008 a new 'defined contribution' pension scheme for its support staff who are not members of the University of Birmingham Pension and Assurance Scheme (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.

## 31. Agency Arrangements

	Consolidated and University			
	Learning Support Funds		Training and Development Agency	
	2007/8	2006/7	2007/8	2006/7
	£000	£000	£000	£000
Balances Unspent as at 1 August	289	330	95	104
Funding Council Grants Received	638	680	2,305	2,610
Disbursed to Students	(780)	(700)	(2,276)	(2,619)
Administration Costs	(19)	(21)	–	–
Balances Unspent at 31 July	<u>128</u>	<u>289</u>	<u>124</u>	<u>95</u>

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 University also received £2.2m (2006/7 £1.7m) from the Funding Council in respect of the Aim Higher initiative, which has been disbursed to colleges in the West Midlands.

## 32. Related Party Transactions

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

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

No declarations of disclosable interests have been made.

The University has related interests with a small number of charitable trusts not disclosed in the financial statements. It will be carrying out further work to review the nature of these interests during 2008/9.

The University has close links with The Henry Barber Trust which is a separate registered charity incorporated under the Charitable Trustees Incorporation Act 1872. Its principal activities are the acquisition of works of art and coins, but it also provides the University with an annual grant disclosed in Note 4.

# Notes to the Accounts (continued)

For the year ended 31 July 2008

## 33. Subsidiary Undertakings

Name	University Holding	Business Activity
Alta Cyclotron Limited	100%	Preparation and sale of chemicals for clinical use
Alta Estate Services Limited	100%	Operating 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.

In July 2007, the University became aware of financial irregularities in one of its subsidiary companies, BRDL.

The company operated a separate financial system to the rest of the University Group. It was also subject to separate governance and control arrangements as specified by the Company Board. The Board of Directors of BRDL took swift and thorough action to identify the extent of the irregularities. The investigation continues and is subject to litigation. Steps are now being taken to secure recovery of assets.

The summarised balance sheets and results for the year ended 31 July 2008 are as follows:

	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
Tangible Fixed Assets	–	9,489	–	–	6,770	10,385	7
Investments	–	–	–	–	–	–	–
Current Assets	341	1,749	129	2,938	685	14	646
	<u>341</u>	<u>11,238</u>	<u>129</u>	<u>2,938</u>	<u>7,455</u>	<u>10,399</u>	<u>653</u>
Capital and Reserves	–	4,129	–	1,370	6,272	10,385	425
Creditors	341	5,416	129	1,568	1,183	14	228
Provisions	–	1,693	–	–	–	–	–
	<u>341</u>	<u>11,238</u>	<u>129</u>	<u>2,938</u>	<u>7,455</u>	<u>10,399</u>	<u>653</u>
Profit/(Loss) for the Year	<u>251</u>	<u>145</u>	<u>66</u>	<u>1,959</u>	<u>291</u>	<u>(177)</u>	<u>75</u>

# Notes to the Accounts (continued)

For the year ended 31 July 2008

The University has investments in the following companies:

	<b>£000</b>
Mercia Technology Fund 2	240
Universities UK Limited	64

The University also has an interest in the following companies managed through its subsidiaries. These have not been consolidated on grounds of materiality.

	<b>% Holding</b>
Ad Surf Eng Limited	6
Applied Functional Materials Limited	28
Astron Clinica Limited	10
Birmingham Health Science Devices Limited	50
Celentyx Limited	33
CPD-HQ Limited	33
Crimson Technologies Limited	10
EXMET Limited	10
Hybrid Systems Limited	25
INTREC Limited	17
McBurney Scientific Limited	16
Metal Nanopowders Limited	36
Neurogenix Limited	42
Ortus Medical Limited	25
Plasgene Limited	40
Prolego Technologies Limited	15
Scyron Limited	5
Speech Ark Limited	10
U21 Equity Limited	5
Cobra Therapeutics Limited	2
Talis Group Limited	3
Adsfab Limited	<1
1..... Limited	<1

## 34. Guild of Students

The University has not consolidated the financial statements of the Guild of Students because the University has no control or dominant influence over policy decisions. The summarised balance sheet and results for the year ended 31 July 2008 are as follows:

	<b>2007/8</b>	<b>2006/7</b>
	<b>£000</b>	<b>£000</b>
Tangible Fixed Assets	<b>225</b>	211
Investments	<b>5</b>	5
Current Assets	<b>2,337</b>	2,078
	<u><b>2,567</b></u>	<u>2,294</u>
Reserves	<b>1,618</b>	1,424
Creditors	<b>949</b>	870
	<u><b>2,567</b></u>	<u>2,294</u>
Surplus for the Year	<u><b>194</b></u>	<u>176</u>

The University's Income and Expenditure Account reflects payment to the Guild of Students of a Block Grant of £1,380k (Note 7) (2006/7 £1,342k).

# Five Year Summary Accounts

## Income and Expenditure Account

	2007/08	2006/07	2005/06	2004/05	2003/04
	£000	£000	£000	£000	£000
<b>Income</b>					
Funding Council Grants	135,941	130,467	122,465	114,213	105,200
Academic Fees and Support Grants	90,782	81,526	69,860	66,170	63,181
Research Grants and Contracts	89,522	82,513	76,736	73,609	70,201
Other Operating Income	84,503	86,660	81,323	76,558	68,104
Endowment Income and Interest	10,853	7,554	4,559	3,809	3,089
Total Income	<u>411,601</u>	<u>388,720</u>	<u>354,943</u>	<u>334,359</u>	<u>309,775</u>
<b>Expenditure</b>					
Staff Costs	220,666	206,209	194,240	181,735	169,732
Depreciation	38,641	36,424	30,704	29,668	26,929
Other Operating Expenses	133,787	129,121	113,706	100,101	94,737
Interest Payable	66	77	136	2,877	2,630
Total Expenditure	<u>393,160</u>	<u>371,831</u>	<u>338,786</u>	<u>314,381</u>	<u>294,028</u>
Operating Surplus before tax and exceptional items	<u>18,441</u>	<u>16,889</u>	<u>16,157</u>	<u>19,978</u>	<u>15,747</u>
<b>Capital Expenditure</b>					
Land and Buildings	60,274	44,305	40,278	37,309	46,268
Equipment	18,762	16,837	14,370	13,705	12,867
Total Capital Expenditure	<u>79,036</u>	<u>61,142</u>	<u>54,648</u>	<u>51,014</u>	<u>59,135</u>
<b>Balance Sheet</b>					
Fixed Assets	557,204	509,893	495,269	470,597	449,636
Endowment Asset Investments	72,480	77,062	71,292	67,804	59,911
Net Current Assets/(Liabilities)	12,961	42,993	(15,758)	(5,889)	11,817
Creditors: Amounts Due After One Year	(344)	(687)	(1,032)	(1,379)	(29,390)
Provisions for Liabilities and Charges	(4,633)	(2,233)	(2,157)	(1,932)	(2,434)
Total Net Assets, excluding pension liability	<u>637,668</u>	<u>627,028</u>	<u>547,614</u>	<u>529,201</u>	<u>489,540</u>
Represented By:					
Deferred Capital Grants	136,987	123,740	106,452	91,533	72,819
Endowments	72,480	77,062	71,292	67,804	59,911
Revaluation Reserve	46,023	47,503	50,107	50,039	49,604
Income and Expenditure Reserve	382,178	378,723	319,763	319,825	307,206
Total Funds, excluding pension liability	<u>637,668</u>	<u>627,028</u>	<u>547,614</u>	<u>529,201</u>	<u>489,540</u>

# Financial Statistics

## Sources of Income

% of Total Income	2007/08	2006/07	2005/06	2004/05	2003/04
	%	%	%	%	%
Grants from Funding Councils (HEFCE and TDA)	33.0	33.6	34.5	34.2	33.9
Tuition Fees – Home and EC	18.8	17.7	14.3	14.0	14.4
Tuition Fees – Overseas	3.3	3.3	5.4	5.8	6.0
Income from Research Grants and Contracts	21.7	21.2	21.6	22.0	22.6
Income from Residences, Catering and Conferences	5.5	6.8	7.6	7.7	7.0
Other Income	17.7	17.4	16.6	16.3	16.1
Total Income	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

## Analysis of Expenditure

% of Total Expenditure	%	%	%	%	%
Staff Costs	56.1	55.5	57.3	57.9	57.7
Depreciation	9.8	9.8	9.1	9.5	9.2
Other Operating Expenses	34.1	34.7	33.6	31.8	32.2
Interest Payable	0.0	0.0	0.0	0.8	0.9
Total Expenditure	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

**Operating surplus for the year as a % of total income** 4.5% 4.4% 4.6% 6.2% 5.3%

## Indicators of Financial Strength

Ratio of available general funds to total expenditure (days) The number of days expenditure that could be sustained from available funds	112	166	106	108	94
Ratio of long-term liabilities to total net assets Measures the extent to which an institution is funded by long term debt	0.1%	0.2%	0.2%	0.3%	6.3%

## 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	0.6	1.1	0.2	0.3	0.3
Ratio of current assets to current liabilities Extent to which current liabilities could be met from current assets	1.2	1.5	0.8	0.9	1.2
Debtor Days Days of total income (excluding Funding Council grants) represented by debtors	57	53	57	65	74



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