UNIVERSITY OF BIRMINGHAM


‘The University of Birmingham has taken considered steps to ensure that we will meet the challenges ahead from a position of strength.’

Professor David Eastwood,
Vice-Chancellor

# Annual Report and Accounts 2009/10

# Contents

# Vice-Chancellor's Report

Higher Education is entering a period of change. Announcements in the Government's Spending Review 2010 and the recommendations in Lord Browne's review of student finance shape a very different future for our sector. Change is inevitable. It is not, however, unexpected.

Over the course of the past 12 months, the University of Birmingham has taken considered steps to ensure that we will meet the challenges ahead from a position of strength.

As this annual report and accounts will demonstrate, we have exploited the considerable advantage of our financial stability with investments in areas of activity that will position Birmingham as a leading institution.

**Financial advantage**

The global economic downturn has had both negative and positive effects on the business of the University. A weakened pound has enhanced the appeal of the UK as a destination for international students, and we have seen an increase of up to 36% in the number of applications from overseas in the past three years. We have aligned our financial strength to our ambitious academic strategy. Key to this is identifying our academic priorities, controlling our costs, investing in excellence, and disinvesting where appropriate. In its first full year of operation, this academically-led approach, called Sustainable Excellence, has been successful, with nearly all key targets met or exceeded and the University's academic and financial position enhanced.

Although the Government's cuts to research funding through the Comprehensive Spending Review were less severe than was expected, the challenge to secure research grants is becoming ever more demanding. In this climate it will take great effort to maintain funding levels, and at Birmingham we are seeking to increase our grant capture. In this year we have begun a programme of increasing the support available to the academic community in the development of research applications, and continue to address our performance in this area.

We launched our ambitious Circles of Influence fundraising campaign. This campaign had the target of raising £60m by the end of 2011 from a combination of charitable and alumni donations, endowments and matched funding. The last two years of our campaign have delivered over £11m to the University. This, coupled with activities that have also accessed public sources of funding – including capital and research grants to support specific projects – means that a year ahead of our schedule we are delighted to say that we are very near to reaching our goal. We have achieved a huge amount, but there is still much more that we need to do, to which philanthropy provides the key.

Our estate remains one of our most important, defining attributes and we have maintained our commitment to protect and enhance it throughout this year. We have 'broken the ground' for the new £18m Bramall Music Building, which continues to rise in the heart of Chancellors' Court, completing our founder Joseph Chamberlain's original vision for the Institution.

The complete renovation of Winterbourne House, restoring it to its former Arts and Crafts glory, has been more than an act of architectural benevolence. This investment has delivered a new resource for the University; both a visitor attraction, with tea room, and a well equipped, high quality conference venue: an eloquent example of the University taking full advantage of its assets.

Also, we are building for the 21st century, taking seriously our commitment to improving our carbon management. The redevelopment of the Muirhead Tower resulted in a dramatic reduction in its carbon footprint, and we are currently completing a refurbishment of both the Gisbert Kapp and Metallurgy and Materials Engineering buildings at a cost of £39m, improving academic facilities to enhance both teaching and research, carbon efficiency and occupancy levels.

**Advancing our academic reputation**

We have also been using our financial assets to support academic investment: strengthening and nurturing the real heart of the University. As part of our Sustainable Excellence initiative, we identified resource to invest in areas of academic innovation. These initiatives propagated collaboration between prolific research areas and promised outcomes that would be of global significance. Building on research areas in which we could demonstrate internationally-renowned academic leadership, these projects span our full discipline range: the Birmingham Heritage and Cultural Learning Hub, the Centre for Excellence in Nuclear Energy and a new initiative in Resilience and Urban Living, exploring how urban life can adapt to or become resilient to the challenges of climate change, sustainability and the global economic downturn. We have also invested in three new areas of health-related research, including: Stem Cells and Ageing; Systems Science for Health, and the Global Infection initiative, which is enhancing our understanding of the impact of infectious diseases internationally.

By encouraging and then supporting emerging research ideas, we are actively using our financial stability to realise our academic ambitions.

At the beginning of this year we made a commitment to invest in a programme of educational enhancement that will further improve the student experience. We intend to make our students independent, self-motivated learners, because we believe that these attributes are essential in making them motivated and multi-talented employees and citizens. In the establishment of the Centre for Learning and Academic Development, we have created a resource which not only supports the development of student skills, but also spearheads initiatives that will enhance teaching quality, year on year; supporting the professional development of new University lecturers through our postgraduate teaching programme. We are developing new standards for, and tools to support teaching excellence in a drive to ensure that the learning experience at Birmingham becomes an exemplar amongst our peer institutions, to the lasting benefit of our students and graduates.

**Profile**

We have also sought to use this period to advance the profile of our University, seizing the opportunity to host the BBC's Prime Ministerial debate, prior to the UK General Election. Broadcast coverage of the event took the University of Birmingham name around the globe and resulted in £4m of media coverage for the University in the UK, alone. We positioned the University as a thought leader in the run-up to the Election, issuing the weekly Birmingham Brief to the media, politicians and policy formers. The Brief enabled University academics to communicate their informed views on contemporary issues to an engaged community. These briefs continue to be produced by popular demand.

Taking inspiration from areas of academic activity in which Birmingham is internationally leading, we also launched our 'Heroes campaign', which highlighted the work of our academic elite to the general public and the business audience. This has also been well received by both internal and external audiences and caught the mood of the institution: a growing pride in the real impact of our academic colleagues.

Our international profile has also been elevated as we have actively forged purposeful, high level relations in North America, China and India, including the establishment of permanent presences in each of these areas. Activity has been championed at the most senior levels of the University, emphasising the essential part that international reputation plays in our ambitions for the future. A series of senior delegations and recruitment road shows are building partnerships, establishing globally significant research collaborations, and attracting media coverage that will encourage influential academic collaborations, as well as supporting the recruitment of increasing numbers of international students.

**The Future**

Our preparations for the challenges that we are now facing have included an unflinching realignment of our financial resource, investment in our areas of research strength, investment in our education experience, and a concerted effort to raise the profile of our University in the region, across the UK, and around the world.

Against this background the whole University community has also been engaged in the development of our five year strategy *Shaping our future*: Birmingham 2015'. All staff had the opportunity to contribute to this strategic framework and it is to their credit that this document is a purposeful, eloquent and ambitious plan for Birmingham's future. Although this document defines our ambitions for the next five years, I believe that it charts the right course for the University long into the future.

While there are many institutions who will be considering the future with trepidation; Birmingham is not.

We are ready for a future where change brings opportunity; where ambition and initiative reap rewards; and where the challenges of an increasingly demanding student market and the battle for research funding are the spur that accelerates our drive to be amongst the world's few truly leading universities.

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

24 November 2010

# Treasurer's Report

## Introduction

I have pleasure in presenting my report on the financial statements which comprise the consolidated results of the University and its subsidiary undertakings captured in note 31.

Last year I highlighted that the difficulties associated with declining income sources combined with growing cost pressures had been recognised within the University and that planning was well underway which would continue to articulate our academic ambition alongside financial sustainability. Events over the last twelve months, particularly around public funding for Higher Education have brought that need into an even sharper focus and this report alongside the Vice-Chancellor's Report gives a clear and unambiguous message on how this great University expects to prosper academically and financially.

## Regulatory environment

The University is able to operate in a relatively autonomous fashion, having regard to requirements to fulfil our charitable objectives under the Royal Charter (by which it was established in 1900), to the Higher Education Funding Council for England (HEFCE) and other regulatory bodies within the sector.

The University is an exempt charity by virtue of schedule 2 of the Charities Act 1993 and since June 2010 HEFCE has been the University's principal regulator under the Charities Act 2006. As a result, there are now a number of additional disclosures within this report and within the financial statements not the least, of which is our commitment to public benefit, described below.

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

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

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

Council has had due regard to the Charity Commissioners' guidance on public benefit, particularly the supplementary guidance on the advancement of education when setting the University's objectives and activities.

In many cases the charitable relevance of our activities in relation to teaching is self evident as the advancement of education is delivered to both our under and post graduate students across a wide range of subjects. Further information in relation to the wide range of academic opportunities can be found in the University's online prospectus (see www.birmingham.ac.uk/students/ug). Our student population is drawn from both the UK and further afield and this mix of backgrounds and experiences enriches the learning experience gained in attending the University. We produce graduates who have received training in their chosen academic discipline, together with other skills, through volunteering, electives or placements abroad, training as student mentors and numerous other extracurricular activities.

Our research interests are varied and wide-ranging. Our internationally acclaimed academics advance knowledge in cutting edge and global areas of concern, such as research into Parkinson's disease and new carbon neutral energy systems. The University's fleet of five vehicles powered by hydrogen, which we are using as a pilot scheme, is evidence of the applicability of our research which we hope will benefit generations to come.

The University provided £27m of scholarships and bursaries during 2009/10 to encourage entry to higher education from as wide a cross section of the community as possible.

The University also actively encourages widening participation through our highly praised Access to Birmingham scheme. This involves targeted engagement with young people who have little or no experience of university, to find out what studying at university involves. The scheme started in 2000, and due to its success, we are now supporting the development of similar schemes across the country.

Whilst at the University we provide a full range of support for students to enhance their learning experience. The range of student services available includes student welfare and counselling, additional support for our disabled students, sports facilities, careers and financial advice.

Many of the University's facilities are also used by our local community. This includes for example swimming lessons for children in the sports centre and use of our hockey and rugby pitches by local clubs and societies.

In an innovative collaboration between John Hopkins University, Maryland, the University of Birmingham and Eton College we have brought part of the Myers Collection from Eton College to the University's Barber Institute of Fine Arts for an open exhibition. Access to the full collection will be facilitated during the next 15 years as items are loaned from Eton College to both John Hopkins University and

# Treasurer's Report (continued)

Birmingham so that our specialist academics can create a digital library with 3D images of the artefacts to be used by schools and private researchers throughout the world. This is just one example of the links the University is making with other organisations to make the wealth of knowledge we have available to a wider audience.

International reputation and recognition remain important indicators of success. Our continued position as one of the top 100 Universities in the world is evidenced by our improved rating. The QS World Rankings (previously the THE-QS World Rankings) ranks the world's Top 200 universities and is now in its seventh year. We have achieved a rise of seven places from 66th in 2009 to 59th position internationally, from rankings of 75th in 2008 and 90th in 2006. We remain in the top 100 in the 2010 Shanghai Jiao Tong ranking too.

In the spirit of effective governance, the University Council undertook a 'Council Effectiveness Review' which embraced the conduct of business, the structure of committees which report to Council and the background, skills and expertise amongst Council members. The outcome coincided with the end of the term appointments of four members. Those vacancies were filled through an externally supported recruitment process and the new Council members are identified on page 15.

### Financial overview

Our financial strategy continues to be driven by a number of key financial indicators of which the most significant are:

- the need to generate a continuing recurrent surplus to support long term financial sustainability
- a continuous capital investment in the University's estate, facilities and IT infrastructure in support of the University's strategic plan
- the maintenance of an adequate cash flow to support the working capital needs of the University and its capital and other investment needs

The financial results for the last three years demonstrate the University's positive performance against those indicators:

| | 2007/08 | 2008/09 | 2009/10 |
|---|---|---|---|
| Income | £411.6m | £441.0m | £462.4m |
| Operating surplus for year | £18.4m | £25.1m | £22.3m |
| Surplus as percentage of income | 4.5% | 5.7% | 4.8% |
| Cash generated from operating activities | £9.9m | £52.9m | £57.5m |
| Average cash balance held during year | £66.3m | 70.4m | £121.4m |
| Capital expenditure (excluding equipment) | £60.3m | £32.4m | £36.9m |
| Income and Expenditure Account Reserve | £379.1m | £402.8m | £426.89m |

The 2009/10 results continue to support a long history of financial strength particularly in terms of the operating surplus for the year and the cash generated from operating activities, which, coupled with ensuring there is an ongoing level of capital investment, indicate our commitment and belief in continued financial sustainability. As explained in the Responsibilities of the Council on page 18, these accounts continue to be prepared on a going concern basis.

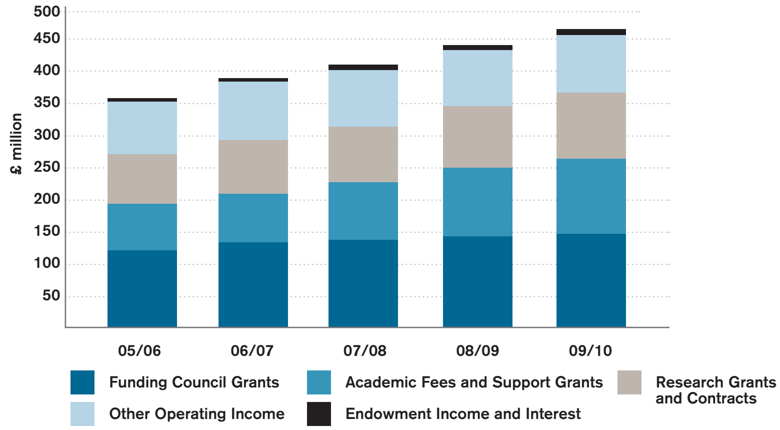
During the year, we have been focusing on the implementation of our 'Sustainable Excellence' plan which required both investment and disinvestment in Colleges and Corporate Services in order to deliver our academic ambition. With that in mind we have invested £2.1m in supporting new and enhancing existing academic activity – much of which has been funded through the Income and Expenditure Account this year. We expect the returns from those investments to manifest themselves in 2010/11 and beyond in terms of increased postgraduate recruitment, quality and volume of research and an enhanced student experience. Further investment is also planned in the following three years.

In terms of reshaping some of our academic and service provision, we are committed to spending just over £3m in 2009/10 principally in support of voluntary severance arrangements for a number of staff in Colleges and Corporate Services.

The cash generated from operating activities in 2009/10 is similar to 2008/09 and includes £8m related to capital grants to support the bringing forward of capital schemes planned and agreed with HEFCE. The quantum of the operating cash flow is significant in that it allows us to continue to fund our obligations to the Birmingham Pension and Assurance Scheme (BPAS), make an ongoing commitment to our capital plan, and to retain significant cash for further academic re-investment in 2010/11 and beyond. This is essential if the University is to deliver the five year strategy outlined in the Vice-Chancellor's Report.

# Treasurer's Report (continued)

## Income



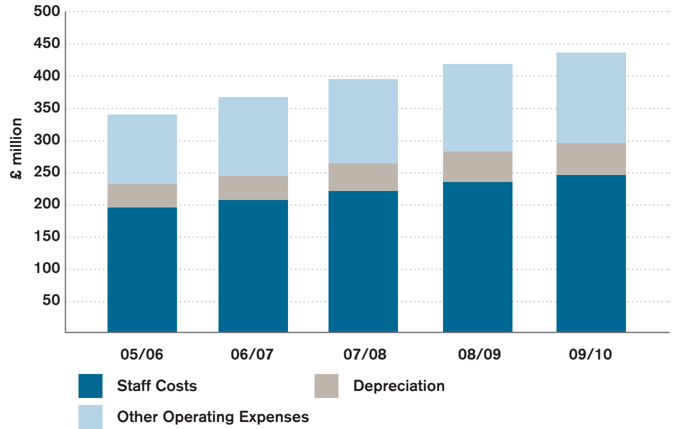

### Income

Total income increased by 5% in 2009/10 and whilst there has been continued growth throughout the five year period, the graph illustrates how the mix of income sources has shifted. Whilst Funding Council grants have remained fairly constant in absolute terms, their relative value is beginning to decline and will continue to do so as restraint in public expenditure accelerates.

In contrast, income from academic fees and support grants has increased significantly in both absolute and relative terms. The period between 2006/07 and 2008/09 showed significant growth from the impact of the additional fee income from Home /EU undergraduate tuition. This is now virtually at 'steady state'. In addition, our income from postgraduate activity has increased by over 25% in the same period as our popularity for, and attractiveness to postgraduate students has grown.

Income from research grants and contracts has increased by 8% pa on average over the last five years. This is an area where we are seeking to improve our position relative to other research intensive institutions.

## Expenditure




### Expenditure

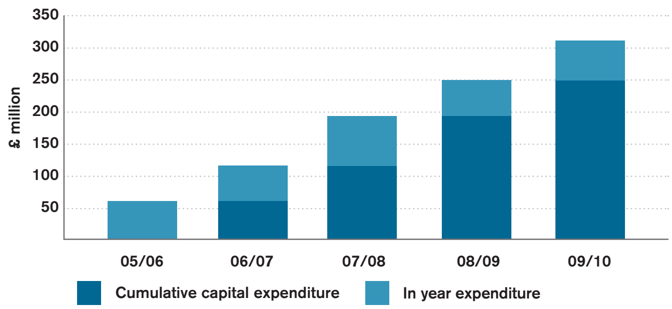
Total expenditure has grown by 6% in 2009/10 – slightly more than total income, but this includes the revenue cost of investing and disinvesting in core activities highlighted earlier in this report. When those costs are excluded, then income and expenditure growth are broadly in line.

# Treasurer's Report (continued)

Staff costs – particularly over the last three years – have represented a constant proportion of total expenditure and reflect salary increases, changes in staff numbers and the continuing rise in pension costs. During 2009/10, the employer contributions to the Universities Superannuation Scheme (USS) rose by 2% with a full year cost of approximately £1.8m for our University.

Whilst non pay costs have shown a steady reduction as a percentage of total expenditure in recent years, depreciation charges have been increasing as we continue to commit to significant levels of capital expenditure each year.

## Capital Programme




### Capital Expenditure

The five year capital spend on buildings, equipment and facilities has been very significant at £309m to support teaching, research and the student experience.

We have a strong commitment to a continuous investment in our estate. It covers 230 hectares, contains some 220 buildings and is insured for £1.2bn. We aim to invest approximately £50m pa in its development and renewal over the long term. Following a condition survey in 2007/08, we identified a substantial level of backlog maintenance and this is gradually being dealt with.

The actual spend in 2009/10 was some £13m lower than the average target of £50m pa due mainly to the timing of the delivery of schemes. This is mirrored by the level of capital commitments at year end.

During 2009/10, our focus has been on progressing three very large and significant capital schemes:

- The Bramall Music building is a purpose built, first class facility for music with a substantial performance space. The total cost is approximately £18m, a third of which is being contributed by very generous donors and alumni. We have used some of the capital investment funds from HEFCE to fund this project in 2009/10 and will do so in 2010/11 too.
- The Metallurgy and Materials building is being substantially refurbished to upgrade its 1960s infrastructure and fittings into a modern and fit for purpose building which will contribute significantly to the delivery of 'Shaping Our Future : Birmingham 2015'. The projected cost is £31m and again is partly funded from HEFCE capital grants.
- The Gisbert Kapp building is home to a significant proportion of engineering at Birmingham. Recent refurbishment is being complemented by a spend of £8.2m to transform the appearance and energy efficiency of a heavily-utilised and prominent building.

The spend on those three projects in 2009/10 was £9m. In addition, we invested £8.6m in the establishment of a Clinical Sciences Education Centre in the new Queen Elizabeth Hospital, undertook some refurbishment within the Guild of Students of £1.8m along with a variety of other refurbishment schemes of lecture theatres, academic

# Treasurer's Report (continued)

facilities, student residences and fire precautions totalling £15m. We also continued to tackle backlog maintenance issues in the subways beneath the campus housing key IT, communications and heating systems costing £2.4m.

All our capital spend is in line with the principles agreed by Council of:

- delivering high quality, flexible facilities that are attractive to high calibre students and staff,
- driving space efficiency and long term sustainability (financial and environmental),
- establishing a coherent disposition of activities within a flexible development framework,
- promoting interdisciplinarity, and
- promoting the reputation of the University and engagement with the wider community.

## Reserves

At 31 July 2010 the General, or Income and Expenditure reserves were £427m. Of these £388m is required to cover the net depreciation, after capital grants, on the buildings and equipment held by the University.

## Treasury Management

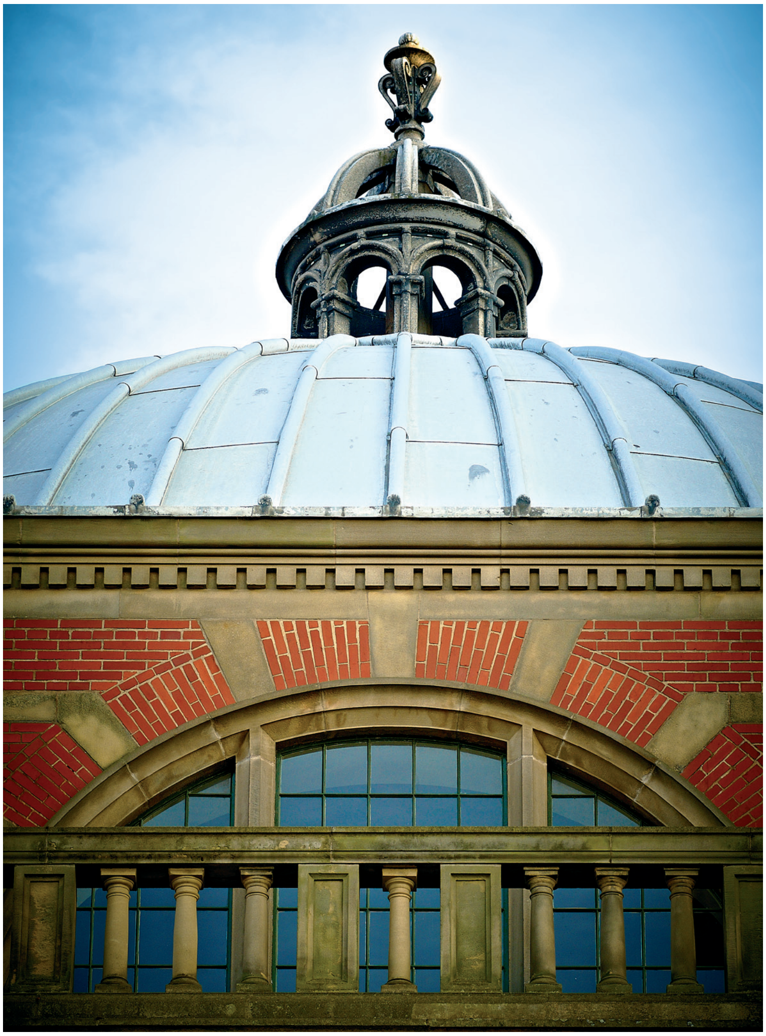
Through its Investment Sub-Committee, the University sets the policy for, and oversees, both the long term investment portfolio and its short term cash deposits. Both are managed by external providers. For the long term portfolio comprising mainly endowments, the risk/return equation is particularly crucial and this manifests itself in the asset allocation between equities, fixed interest, property and cash investments and more latterly in hedge funds.

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 income in 2009/10 was over £6m. Despite the economic conditions, the returns from both long and short term investments held up well. The actual rate of return for short term deposits was 1.62% compared to an average base rate of 0.50% for the year. The actual return on the long term investments was 13.96% and outperformed the benchmark of 11.63% for portfolios of a similar composition and was considered acceptable given the continued volatility in markets throughout the year.

Currently the University has no long term borrowings. Our policy has been to support capital developments from the cash generated from activities supplemented by capital grants by and large from HEFCE. The ambition of our new five year plan requires the delivery of another significant capital programme which will begin in earnest in 2014 when the current programme comes to an end. The scale, scope and timing of their delivery may result in a need for external loan finance.

We pay 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, as a large and broadly based university, we are presented with many risks and opportunities. The Council's aim is to manage the risks and seize the opportunities.

The reform of public sector finances and the spending constraints that it will impose has been clearly signalled by the Government. In particular for higher education there is the impact of the Spending Review (SR) and the outcome of the Independent Review of Higher Education Funding and Student Finance (the Browne Review). It is clear from the Spending Review that there will be major reductions in the public funding available to higher education and we have been anticipating this in our medium to longer term financial planning. The most significant reductions will be in the teaching funding. We are currently assessing the impact of the proposals in the Browne Review in which UK undergraduates will be asked to contribute more than they currently do for their higher education through loans for tuition. However, provision will remain 'free at the point of entry' and the repayments of those loans will be driven entirely by the level of graduate earnings. The proposals in the review recognise that ability to repay will be a key driver in the determination of the graduate contributions made by each individual.

We are actively considering how we can enhance further the student experience that we offer. This thinking is of paramount importance as we plan the next phase of our capital investment from 2014, currently estimated at £360m over a ten year period. We shall continue to attract the brightest and best students to Birmingham regardless of their background who will engage with academic colleagues who also consider this University as the employer of choice.

In terms of research, the Government has rightly chosen to protect the science and research budgets in cash terms. This is a welcome recognition of the importance of the sector to economic growth. Though the distribution of the research budget currently is not clear, we are continuing to plan and invest in our research profile over the period of our five year strategy. In Birmingham, our total income for research from all sources in 2009/10 was £150m of which around two thirds was from publicly funded bodies such as HEFCE, UK Research Councils and the NHS. We will be monitoring the funding announcements across all of those areas as changes therein could impact upon the level of engagement we can support with those bodies.

The recruitment of international students in 2009/10 was highly successful, well above our target for the year, and applications for 2010/11 remain buoyant. Whilst exchange rates are favourable, students may continue to prefer the UK and, in particular Birmingham, as a destination of choice, but the recruitment trends are being very carefully monitored. It is clear that right across the sector, growth in international student recruitment is anticipated, yet there has to be a question as to the sustainability of that approach sector wide. We are formulating a very clear global engagement strategy beginning with substantially increasing our investment in our international relationship teams as well as focusing attention on our representative offices in China and India.

This will position us well for securing effective partnerships in teaching and research across a variety of academic disciplines, cementing relationships with industry and businesses overseas and capturing an increased share of the international student market.

Just as we face potential risks from declining income streams, so must we deal with rising costs. Pay and pensions represent 55% of our expenditure and are the biggest single challenge as they continue to grow due to pay award and increasing pension costs. In contrast to the previous five years however, where pay costs in the sector grew by 8% pa on average, there was considerable restraint in 2009/10 with growth of around 2.5%. This lower increase will assist in delivering a financially sustainable future as other economic pressures increase.

The rising cost of pensions present potential difficulty too. The Universities Superannuation Scheme (USS) is currently consulting on reforms to increase contribution levels, and adjust benefits in an attempt to recover the substantial actuarial deficit it faces.

More locally, the University has a Self-Administered Trust – a defined benefit pension scheme, BPAS, which was closed to new members in 2002. The Scheme underwent a triennial actuarial valuation in March 2010. The Trustees and the University will almost certainly be facing an increased deficit from the last valuation in 2007 due to increasing longevity, falling investment returns and declining interest rates. The Council will agree a response to the valuation in February 2011 but is aware that additional contributions to the Scheme are likely to continue for some time to fund the deficit.

Like many organisations, the University recognises the risks around environmental sustainability and the need to play its part in the Government's Carbon Reduction Commitment.

We published our first Carbon Management Plan in 2006 in conjunction with the Carbon Trust which called for a 6% reduction in emissions against 2005/06 levels by 2011. We are well on course to meet that target through the implementation of a number of specific projects. However, we know that we can and must do more.

Council has recently approved a Carbon Management Strategy 2010–2020 which has a challenging target to reduce our scope 1 and 2 carbon emissions by a further 2% pa over that period. These targets will be understood and supported by our community, reflecting the particular needs and features of our University and at the same time support the primary academic mission of education and research.

We shall invest in emissions reduction technology and through behavioural changes, establishing carbon budgets for Colleges and Corporate Services, developing sustainable procurement, more effective use of space, IT and facilities, we believe our carbon reduction targets are achievable.

We are confident that the most significant and exciting opportunities will emerge from the delivery of our five year plan 'Shaping Our Future: Birmingham 2015' in which we have identified five key strategic goals:

- **enhance our research power** such that our faculty is at the global forefront of their disciplines through world-class academic appointments and developing the potential of our existing staff;
- **provide our students with a distinctive, high quality experience** through continuing enhancement of the quality of our teaching and learning, the services that we provide and by promoting the academic quality of our graduates;
- **sustain our financial strength and use it purposefully** by reviewing and extending our plans to ensure sustainable excellence in the light of the Spending Review and the Browne Report, yet preserving our ability to invest in academic excellence, our estate and infrastructure;
- **enhance our performance and status as an 'engaged university'** by developing a global engagement strategy, a cultural strategy and effective partnerships with key organisations and major employers all of which will lead to enhanced external visibility and reputation;
- **be the destination of choice amongst our peers,** by developing a coherent suite of programmes designed to attract, develop and retain the highest quality students and staff, with consideration of appropriate reward and recognition for performance.

Those goals are mutually supportive; key successes in any of those areas will create a virtuous circle, enhancing the opportunities for success in other areas. Success in all of those goals will require a step change in our performance, and this will be reflected by a rise in our position in the national and global league tables.

**Our intention is to be recognised as one of the world's leading universities.**

**MG Gilbert BSc FCA**
Treasurer

24 November 2010

# Corporate Governance

Current members of the Council who are also trustees of the exempt charity, who served throughout the year ended 31 July 2010, except where indicated otherwise, are listed below.

### Lay Members appointed by the Council

| | | |
|---|---|---|
| **Mr J E K Smith*** | **The Pro-Chancellor (from 1 August 2010)** | Commenced November 2009 |
| **Dr W J Glover** | **The Pro-Chancellor** | Term ended July 2010 |
| **Mr C N Banks CBE** | **Deputy Pro-Chancellor** | |
| **Mr M G Gilbert** | **Treasurer** | |
| Dr S Battle CBE | | Term ended July 2010 |
| Ms B Blow | | Term ended July 2010 |
| Mrs M Cass | | Term ended July 2010 |
| Mrs M Davies | | |
| Mr M R Devenish | | Term commenced August 2010 |
| Mr R Halton | | |
| Mr D Hartnett CB | | Resigned July 2010 |
| Dr R C Horton | | Term commenced August 2010 |
| Mr R J Keys | | Term commenced August 2010 |
| Mr G R Mackenzie OBE | | |
| Mr N C Paul CBE | | Commenced August 2009, Resigned March 2010 |
| Dr N Price OBE | | |
| Mr D Roy, Hon Alderman | | |
| Dr S S Sahota OBE | | Term ended July 2010 |
| Ms C Snowball CBE | | Term commenced August 2010 |
| Mr C I Squires | | Term commenced August 2010 |
| Dr J S Taunque MBE | | |
| Ms S Vickers | | Term commenced August 2010 |

### Ex Officio Members

| | |
|---|---|
| Professor D S Eastwood | The Vice-Chancellor and Principal |
| Professor M C Sheppard | The Vice-Principal and Provost |

### Academic Members Appointed by the Senate

| | |
|---|---|
| Professor M J Hilton | Modern History |
| Professor J M Marshall | Medicine |
| Professor C Ryan | Economics |
| Professor A J Schofield | Physics and Astronomy |

### Appointed by Guild of Students

| | | |
|---|---|---|
| Ms D Meredith | President of the Guild of Students | Term commenced August 2010 |
| Mr R Hunter | Vice-President, Education and Access of the Guild of Students | Term commenced August 2010 |
| Mr F G Neuner | President of the Guild of Students | Term ended July 2010 |
| Ms B Jones | Vice-President, Education and Access of the Guild of Students | Term ended July 2010 |

### Secretary to Council

| | |
|---|---|
| Mr L Sanders | The Registrar and Secretary |

### Advisors

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

* Mr J E K Smith is the Deputy Chairman of the Higher Education Funding Council for England (HEFCE) and Chairman of the Student Loans Company Limited.

# Corporate Governance (continued)

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 University is committed to exhibiting best practice in all aspects of corporate governance.

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

The University's Council comprises 24 lay and academic persons appointed under the Statutes of the University, the majority of whom are 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.

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

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.

# Corporate Governance (continued)

The Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in article 7 of the Charter of Incorporation, Section 9 of the Statutes of the University and the Financial Memorandum with the HEFCE.

## Statement of Internal Control

As the governing body of the University of Birmingham, the Council has 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 2010 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

- Council meet a minimum of four times a year to consider the plans and strategic direction of the institution;
- Council receive periodic reports from the Audit Committee concerning internal control, and we require regular reports from managers, either directly or through the Strategy, Planning and Resources Committee, on the steps they are taking to manage strategic 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 Internal Audit, which includes their independent opinion on the adequacy and effectiveness of the institution's systems of governance, risk management and internal control, together with recommendations for improvement;
- A 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 within their own areas 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.

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 and the risk management process 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 risk management process and by comments made by the external auditors in their management letter and other reports.

**JEK Smith**
Pro-Chancellor

24 November 2010

# Responsibilities of the Council

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

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

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

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

The University Council has taken reasonable steps to:

- ensure that funds from 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.

**JEK Smith**
Pro-Chancellor

24 November 2010

# 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 2010 which comprise the primary statements such as the Council 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, as a body 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 Accounts Direction issued by the Higher Education Funding Council for England, 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 18.

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 Memorandum with the Higher Education Funding Council for England dated June 2008 and the Financial Memorandum with the Teacher Development Agency. 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.

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

# Report of the Auditors (continued)

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 2010 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 2010 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 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.

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

24 November 2010

# Statement of Principal Accounting Policies and Estimation Techniques

The Accounts for the year ended 31 July 2010

### 1. Basis of Preparation

The Financial Statements have been prepared on the historical cost accounting basis, modified for the revaluation of certain fixed assets and investments, and in accordance with the Statement of Recommended Practice (SORP) 2007 applicable to Higher and Further Education Institutions and applicable Accounting Standards. They conform to the guidance published by the Higher Education Funding Council for England.

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 31 to the Accounts. The University has also interests in a number of other companies which are identified also in note 31.

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 2010 are shown in note 32.

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

All endowment and investment income is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment is transferred from the Income and Expenditure Account to restricted endowments. Income from other services rendered is included to the extent of completion of the contract or services concerned and is measured at the fair value of the consideration receivable.

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

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 29.

Income from short term deposits is accrued up to the balance sheet date.

### 4. Taxation

The University is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Subsidiary companies are liable to corporation tax.

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

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

The Accounts for the year ended 31 July 2010

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.

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

### 7. Heritage Assets

The University holds collections of works of art, museum objects, books and manuscripts, which were donated or bequeathed to the University and defined as heritage assets. Heritage assets are held in specific collections and also by individual departments across the University campus. Details of significant collections are provided in note 10.

Due to the varied nature of the assets and the lack of comparable market values it is not considered practical to obtain a meaningful valuation of the heritage assets. The University does not therefore recognise these assets on its balance sheet or show a depreciation charge in the Income and Expenditure Account. Any costs incurred relating to the restoration or conservation of these assets is included in the Income and Expenditure Account in the year in which it is incurred.

### 8. Equipment

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

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

The Accounts for the year ended 31 July 2010

### 9. 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.

### 10. 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.

### 11. Leased Assets

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

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

### 12. 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.

### 13. Stocks

Stocks for building maintenance and for resale are included at the lower of cost and net realisable value. Consumable items are charged directly to the Income and Expenditure Account.

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

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

The Accounts for the year ended 31 July 2010

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

The University also introduced from 1 April 2008 a new 'defined contribution' pension scheme for its support staff who are not members of BPAS.

### 15. Provisions

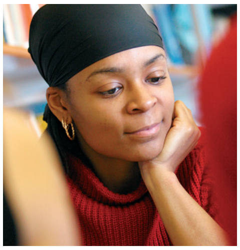
Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, when it is probable that a transfer of economic benefit will be incurred, and this transfer can be reliably estimated.

### 16. 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.

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# Consolidated Income and Expenditure Account

For the year ended 31 July 2010

| | Note | 2009/10 | 2008/09 |
|---|---|---|---|
| | | £000 | £000 |
| **Income** | | | |
| Funding Council Grants | 1 | **146,750** | 144,111 |
| Academic Fees and Support Grants | 2 | **116,083** | 104,592 |
| Research Grants and Contracts | 3 | **104,811** | 98,075 |
| Other Operating Income | 4 | **88,485** | 87,031 |
| Endowment Income and Interest Receivable | 5 | **6,244** | 7,190 |
| **Total Income** | | **462,373** | 440,999 |
| | | | |
| **Expenditure** | | | |
| Staff Costs | 6 | **244,191** | 233,353 |
| Restructuring Costs | 7 | **3,079** | – |
| Depreciation | 7 | **47,435** | 44,384 |
| Other Operating Expenses | 7 | **142,890** | 137,955 |
| Interest Payable | 8 | **2,510** | 171 |
| **Total Expenditure** | **7** | **440,105** | 415,863 |
| | | | |
| **Operating Surplus** | | **22,268** | **25,136** |
| Corporation Tax | 9 | **34** | (140) |
| **Surplus for the Year after Taxation** | | **23,302** | 24,996 |
| Minority Interest | | **(113)** | (73) |
| **Surplus after Minority Interest and Taxation** | | **22,189** | 24,923 |
| Deficit for the year to accumulated income in endowment funds | | **(67)** | (352) |
| **Surplus for the Year** | | **22,122** | 24,571 |

(There were no discontinued operations during 2009/10 or 2008/09.)

| **Note of Historical Cost Surpluses and Deficits** | | |
|---|---|---|
| **Surplus for the Year** | **22,122** | 24,571 |
| Difference between Historical Cost Depreciation and the actual charge based on the revalued amount. | **624** | 624 |
| **Historical Cost Surplus** | **22,746** | 25,195 |

# Balance Sheets

For the year ended 31 July 2010

| | | CONSOLIDATED | | UNIVERSITY | |
|---|---|---|---|---|---|
| | Note | **2010** | 2009 | **2010** | 2009 |
| | | £000 | £000 | £000 | £000 |
| **Fixed Assets** | | | | | |
| Tangible Assets | 10 | **553,119** | 540,083 | **535,004** | 521,089 |
| Investments | 11 | **22,842** | 23,878 | **20,839** | 21,793 |
| | | **575,961** | 563,961 | **555,843** | 542,882 |
| **Endowment Asset Investments** | 12 | **78,136** | 71,184 | **78,136** | 71,184 |
| **Current Assets** | | | | | |
| Stocks and stores in hand | | **757** | 730 | **639** | 667 |
| Debtors and prepayments | 13 | **48,076** | 43,476 | **51,832** | 48,358 |
| Investments | | **114,035** | 74,127 | **114,035** | 74,127 |
| Cash at bank and in hand | | **20,404** | 12,998 | **15,788** | 8,722 |
| | | **183,272** | 131,331 | **182,294** | 131,874 |
| Creditors: Amounts falling due within one year | 14 | **(133,408)** | (106,637) | **(132,588)** | (106,807) |
| **Net Current Assets** | | **49,864** | 24,694 | **49,697** | 25,067 |
| **Total Assets less Current Liabilities** | | **703,961** | 659,839 | **683,676** | 639,133 |
| Creditors: Amounts falling due after more than one year | 15 | **–** | – | **(191)** | (287) |
| Provisions for Liabilities and Charges | 16 | **(4,360)** | (2,478) | **(2,672)** | (690) |
| **Net Assets excluding Pension Fund Liabilities** | | **699,601** | 657,361 | **680,813** | 638,156 |
| Pension Fund Liability | 28 | **(44,000)** | (68,500) | **(44,000)** | (68,500) |
| **Total Net Assets** | | **655,601** | 588,861 | **636,813** | 569,656 |

# Balance Sheets (continued)

For the year ended 31 July 2010

| | Note | CONSOLIDATED 2010 £000 | CONSOLIDATED 2009 £000 | UNIVERSITY 2010 £000 | UNIVERSITY 2009 £000 |
|---|---|---|---|---|---|
| Represented by: | | | | | |
| **Deferred Capital Grants** | 17 | **147,588** | 136,525 | **146,918** | 135,817 |
| **Endowments** | | | | | |
| Restricted Expendable | 18 | **5,777** | 65,799 | **5,777** | 65,799 |
| Permanent | 18 | **72,359** | 5,385 | **72,359** | 5,385 |
| | | **78,136** | 71,184 | **78,136** | 71,184 |
| **Reserves** | | | | | |
| Income and Expenditure Account (excluding pension reserve) | 19 | **426,760** | 402,814 | **412,251** | 387,815 |
| Pension Reserve | 19 | **(44,000)** | (68,500) | **(44,000)** | (68,500) |
| Revaluation Reserve | 19 | **44,311** | 44,144 | **43,508** | 43,340 |
| Minority Interest | | **2,806** | 2,694 | **–** | – |
| | | **429,877** | 381,152 | **411,759** | 362,655 |
| **Total Funds** | | **655,601** | 588,861 | **636,813** | 569,656 |

The financial statements on pages 21 to 59 were approved by the Council on 24 November 2010 and signed on its behalf by:

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

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

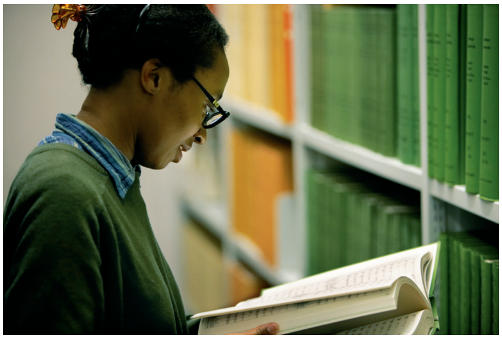
# Consolidated Cash Flow Statement

For the year ended 31 July 2010

| | Note | **2009/10** | 2008/09 |
|---|---|---|---|
| | | **£000** | £000 |
| **Net Cash Inflow from Operating Activities** | 23 | **55,667** | 52,930 |
| **Returns on Investments and Servicing of Finance** | 24 | **5,634** | 6,519 |
| **Taxation** | | **(17)** | (73) |
| Capital Expenditure and Financial Investment | 25 | **(18,684)** | (12,622) |
| Net Cash Inflow/(Outflow) before Financing | 27 | **42,600** | 46,754 |
| **Financing** | **26** | **(344)** | (344) |
| **Increase/(Decrease) in Cash in the Year** | 27 | **42,256** | 46,410 |

**Reconciliation of Net Cash Flow to Movement in Net Funds**

| | Note | **2009/10** | 2008/09 |
|---|---|---|---|
| Increase in Cash in the Year | | **42,256** | 46,410 |
| Repayment of Debt | 26 | **344** | 344 |
| Increase in Net Funds | 27 | **42,600** | 46,754 |
| **Net Funds at 1 August** | | **104,170** | 57,416 |
| **Net Funds at 31 July** | 27 | **146,770** | 104,170 |



# Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2010

| | Note | 2009/10 | 2008/09 |
|---|---|---|---|
| | | **£000** | £000 |
| Surplus after Depreciation of Assets at Valuation and Tax | | **22,122** | 24,571 |
| Appreciation/(Depreciation) of Endowment Asset Investments | 18 | **5,909** | (5,944) |
| Revaluation of Fixed Asset Investments | 19 | **791** | (1,255) |
| Endowment Income Transfer from Accumulated Reserve | | **67** | 352 |
| New Endowments | 18 | **976** | 4,968 |
| Actuarial Gain/(Loss) on Pension Fund | 28 | **7,600** | (40,900) |
| Past service costs | 28 | **18,100** | – |
| **Total Recognised Gain/(Losses) Relating to the Year** | | **55,565** | (18,208) |

**Reconciliation of Reserves and Endowments**

| | | |
|---|---|---|
| Opening Reserves and Endowments | **449,642** | 467,850 |
| Total Recognised Losses for the Year | **55,565** | (18,208) |
| **Closing Reserves and Endowments** | **505,207** | 449,642 |

# Notes to the Accounts

For the year ended 31 July 2010

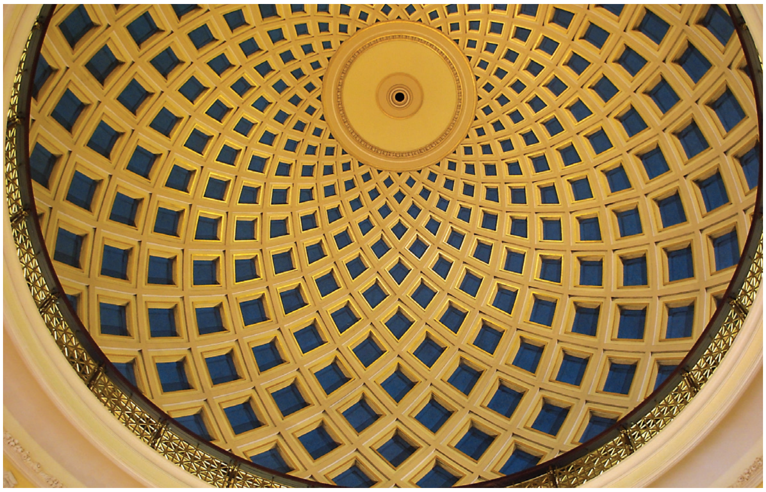
| | Note | 2009/10 | 2008/09 |
|---|---|---|---|
| | | £000 | £000 |
| **1. Funding Council Grants** | | | |
| Teaching Recurrent Grant from HEFCE | | **80,551** | 80,701 |
| Research Recurrent Grant from HEFCE | | **44,976** | 44,276 |
| Other Grants from HEFCE | | **8,580** | 7,508 |
| Training Development Agency Grants | | **3,220** | 2,615 |
| Deferred Capital Grants Released – Buildings and Equipment | 17 | **9,423** | 9,011 |
| | | **146,750** | 144,111 |
| **2. Academic Fees and Support Grants** | | | |
| Undergraduate Tuition – Home and EU Students | | **51,165** | 45,649 |
| Undergraduate Tuition – Other Students | | **16,285** | 15,053 |
| Postgraduate Tuition – Home and EU Students | | **16,221** | 14,617 |
| Postgraduate Tuition – Other Students | | **24,623** | 21,932 |
| Other Courses | | **3,975** | 4,036 |
| Research, Training and Support Grants | | **3,814** | 3,305 |
| | | **116,083** | 104,592 |
| **3. Research Grants and Contracts** | | | |
| Research Councils | | **38,904** | 35,680 |
| UK Based Charities | | **23,430** | 23,032 |
| UK Central/Local Government, Health and Hospital Authorities | | **25,452** | 21,246 |
| UK Industry, Commerce and Public Corporations | | **6,513** | 7,453 |
| EU Government Bodies | | **6,777** | 7,157 |
| EU Other | | **772** | 868 |
| Other Overseas | | **2,175** | 1,731 |
| Other Sources | | **788** | 908 |
| | | **104,811** | 98,075 |

Income from research grants and contracts includes £11,074k (2008/09 £8,811k) in respect of deferred capital grants released.

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| | Note | 2009/10 | 2008/09 |
|---|---|---|---|
| | | £000 | £000 |
| **4. Other Operating Income** | | | |
| Residences, Catering and Conferences | | **29,508** | 28,164 |
| Other Services Rendered | | **15,394** | 15,496 |
| Externally Funded Posts – Health Authorities | | **12,505** | 12,782 |
| Self-Financing Teaching Activities | | **3,717** | 4,598 |
| Rented Properties and University Centre Lettings | | **1,509** | 1,472 |
| Day Nursery and Health Centre | | **1,567** | 1,533 |
| Release of Deferred Capital Grants | | **956** | 802 |
| Barber Trust | | **893** | 996 |
| VAT Refund | | **1,620** | 1,360 |
| Other Income | | **20,816** | 19,829 |
| | | **88,485** | 87,031 |
| **5. Endowment Income and Interest Receivable** | | | |
| Income from Permanent Endowment Investments | 18 | **2,222** | 2,649 |
| Income from Restricted Expendable Endowment Investments | 18 | **137** | 145 |
| Income from Short Term Investments | | **1,632** | 2,573 |
| Net Return on Pension Scheme | | **–** | 500 |
| Other Investment Income | | **2,253** | 1,323 |
| | | **6,244** | 7,190 |



# Notes to the Accounts (continued)

For the year ended 31 July 2010

| 6. Staff | Note | 2009/10 | 2008/09 |
|---|---|---|---|
| | | £000 | £000 |
| Staff Costs: | | | |
| Wages and Salaries | | **203,488** | 192,344 |
| Social Security Costs | | **16,818** | 15,950 |
| Other Pension Costs | 28 | **26,964** | 25,059 |
| **Total** (includes restructuring costs of £3,079k) | | **247,270** | 233,353 |
| **Emoluments of the Vice-Chancellor:** | | | |
| **Professor David Eastwood** | | | |
| Salary and benefits | | **341** | 88 |
| Pension contributions to USS | | **51** | 13 |
| | | **392** | 101 |
| **Professor Michael Sterling** | | | |
| Salary and benefits | | **–** | 222 |
| Pension contributions to USS | | **–** | 29 |
| | | **–** | 251 |

The emoluments shown are in respect of Professor Michael Sterling are for the period until 31 March 2009 and Professor David Eastwood for the subsequent period during the 2008/09 financial year and for Professor David Eastwood for the 2009/10 financial year. They have been independently determined by the lay officers of the Council and reviewed according to performance.

| | | |
|---|---|---|
| Compensation for loss of office was paid to one member of staff earning in excess of £100,000 per annum | 133 | – |
| Average staff numbers by major category: | | |
| Academic and related/Clinical | **3,767** | 3,677 |
| Other, including Technical, Clerical and Manual | **2,322** | 2,362 |
| | **6,089** | 6,039 |

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:

| | | |
|---|---|---|
| £100,000 – £110,000 | **20** | 22 |
| £110,001 – £120,000 | **10** | 14 |
| £120,001 – £130,000 | **10** | 9 |
| £130,001 – £140,000 | **9** | 10 |
| £140,001 – £150,000 | **7** | 9 |
| £150,001 – £160,000 | **10** | 9 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| | Note | **2009/10** | 2008/09 |
|---|---|---|---|
| | | **£000** | £000 |
| £160,001 – £170,000 | | **10** | 9 |
| £170,001 – £180,000 | | **6** | 3 |
| £180,001 – £190,000 | | **2** | 3 |
| £190,001 – £200,000 | | **3** | 3 |
| £200,001 – £210,000 | | **7** | 4 |
| £220,001 – £230,000 | | **1** | – |
| £240,001 – £250,000 | | **–** | 1 |
| £320,001 – £330,000 | | **1** | – |

During the financial year 2009/10 expenses of £6,873 were reimbursed to Council members.

| **7. Analysis of Expenditure by Activity** | Staff Costs | Depreciation | Other Operating Expenses | Interest Payable | **Total 2009/10** | Total 2008/09 |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** | £000 |
| **Academic Schools** | | | | | | |
| Core Teaching and Research | 127,912 | 5,350 | 20,970 | – | **154,232** | 149,246 |
| Research Grants and Contracts | 45,694 | 11,074 | 24,330 | – | **81,098** | 74,867 |
| Student Support | – | – | 24,836 | – | **24,836** | 22,200 |
| Other Trading | 4,153 | 60 | 6,252 | – | **10,465** | 10,453 |
| | 177,759 | 16,484 | 76,388 | – | **270,631** | 256,766 |
| **Academic Services** | | | | | | |
| Information Services | 12,708 | 4,452 | 8,501 | – | **25,661** | 24,990 |
| Other Academic Services | 14,107 | 814 | 6,207 | – | **21,128** | 18,237 |
| | 26,815 | 5,266 | 14,708 | – | **46,789** | 43,227 |
| **Premises** | | | | | | |
| Energy and Utilities | 611 | 717 | 9,371 | – | **10,699** | 9,149 |
| Repairs and General Maintenance | 3,611 | 460 | 5,433 | – | **9,504** | 10,718 |
| Depreciation of Buildings | – | 17,923 | – | – | **17,923** | 17,351 |
| Other | 6,685 | 499 | 1,097 | – | **8,281** | 7,334 |
| | 10,907 | 19,599 | 15,901 | – | **46,407** | 44,552 |
| **Administration and Services** | | | | | | |
| Administrative Services | 10,520 | 110 | 4,938 | 607 | **16,175** | 16,973 |
| Audit Fees | – | – | 94 | – | **94** | 98 |
| Fees to Auditor for Non-Audit Work | – | – | 65 | – | **65** | 78 |
| Sports Facilities | 1,819 | 165 | 1,833 | – | **3,817** | 3,648 |
| Health, Nursery and Counselling Services | 3,379 | 57 | 1,258 | – | **4,694** | 5,645 |
| Grant to Guild of Students (Note 32) | – | – | 1,847 | – | **1,847** | 1,772 |
| | 15,718 | 332 | 10,035 | 607 | **26,692** | 28,214 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| 7. Analysis of Expenditure by Activity continued | Staff Costs | Depreciation | Other Operating Expenses | Interest Payable | **Total 2009/10** | Total 2008/09 |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** | £000 |
| **Residences Catering and Conferences** | | | | | | |
| Residences | 1,275 | 149 | 6,841 | 3 | **8,268** | 7,264 |
| Catering and Conferences | 5,761 | 182 | 6,469 | – | **12,412** | 11,367 |
| Depreciation of Buildings | – | 5,113 | – | – | **5,113** | 4,487 |
| | 7,036 | 5,444 | 13,310 | 3 | **25,793** | 23,118 |
| **Other Expenditure** | | | | | | |
| Other Services Rendered | 5,956 | 310 | 9,556 | – | **15,822** | 13,893 |
| Restructuring Costs | 3,079 | – | – | – | **3,079** | |
| Writedown of Investment Properties | – | – | 1,825 | – | **1,825** | 3,410 |
| Other | – | – | 1,167 | 1,900 | **3,067** | 2,683 |
| | 9,035 | 310 | 12,548 | 1,900 | **23,793** | 19,986 |
| **Total** | 247,270 | 47,435 | 142,890 | 2,510 | **440,105** | 415,863 |

| The Depreciation charge has been funded by: | |
|---|---|
| Deferred Capital Grants Released (Note 17) | 21,453 |
| General Income | 25,982 |
| | 47,435 |

| 8. Interest Payable | **Total 2009/10** | Total 2008/09 |
|---|---|---|
| | **£000** | £000 |
| Net interest from pension scheme | **1,900** | – |
| Swap Interest | **607** | 152 |
| Loan Interest | **3** | 19 |
| | **2,510** | 171 |

| 9. Tax on Profit on Ordinary Activities | | |
|---|---|---|
| United Kingdom corporation tax at 30% on subsidiary company profits: | | |
| Current Year | **(67)** | (202) |
| Prior Year | **–** | – |
| Deferred tax – due to timing differences in a subsidiary company | **101** | 62 |
| **Total Credit/(Charge)** | **34** | (140) |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| 10. Tangible Fixed Assets Consolidated | Assets in the Course of Construction | Land and Buildings | Equipment | **Consolidated Total** |
|---|---|---|---|---|
| | £000 | £000 | £000 | **£000** |
| **Cost or Valuation** | | | | |
| Valuation | – | 47,676 | – | **47,676** |
| Cost | 2,742 | 609,242 | 58,448 | **670,432** |
| As at 1 August 2009 | 2,742 | 656,918 | 58,448 | **718,108** |
| Additions at Cost | 2,882 | 34,088 | 23,501 | **60,471** |
| Disposals at Valuation | – | – | – | **–** |
| Disposals at Cost | – | – | (16,949) | **(16,949)** |
| As at 31 July 2010: | | | | |
| Valuation | – | 47,676 | – | **47,676** |
| Cost | 5,624 | 643,330 | 65,000 | **713,954** |
| | 5,624 | 691,006 | 65,000 | **761,630** |
| **Accumulated Depreciation** | | | | |
| As at 1 August 2009 – Valuation | – | 6,738 | – | **6,738** |
| As at 1 August 2009 – Cost | – | 133,548 | 37,739 | **171,287** |
| Charge for the Year – Valuation | – | – | – | **–** |
| Charge for the Year – Cost | – | 26,137 | 21,298 | **47,435** |
| Depreciation on Disposals – Valuation | – | – | – | **–** |
| Depreciation on Disposals – Cost | – | – | (16,949) | **(16,949)** |
| As at 31 July 2010 – Valuation | – | 6,738 | – | **6,738** |
| As at 31 July 2010 – Cost | – | 159,685 | 42,088 | **201,773** |
| **As at 31 July 2010:** | – | 166,423 | 42,088 | **208,511** |
| **Net Book Value** | | | | |
| Valuation | – | 40,938 | – | **40,938** |
| Cost | 5,624 | 483,645 | 22,912 | **512,181** |
| **Net Book Value as at 31 July 2010** | 5,624 | 524,583 | 22,912 | **553,119** |
| Net Book Value as at 31 July 2009 | 2,742 | 516,632 | 20,709 | **540,083** |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

**10. Tangible Fixed Assets** continued
**Consolidated**

| The accumulated cost of Assets in the Course of Construction includes: | £000 |
|---|---|
| Medical School Steam Main | 2,771 |
| Bramall Music Building | 2,030 |
| Rose Garden | 823 |
| | 5,624 |

| **Leasehold Land and Buildings** | Cost | Depreciation in year | Accumulated Depreciation | **Net Book Value** |
|---|---|---|---|---|
| | £000 | £000 | £000 | **£000** |
| The value of land and buildings shown on previous page represents freehold interests except for the following: | | | | |
| Medical School (on land leased in 1933 for 999 years from Birmingham City Council) | 45,278 | 761 | 5,853 | **39,425** |
| Clinical Research Building (leased in 1953 for 75 years from the NHS) | 3,106 | 62 | 746 | **2,360** |
| Residential leasehold properties | 775 | 26 | 310 | **465** |
| | 49,159 | 849 | 6,909 | **42,250** |

The reinstatement cost of buildings for insurances purposes is £1,229m (2009 £1,398m). 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 2010

| **10. Tangible Fixed Assets** continued **University** | Assets in the course of Construction | Land and Building | Equipment | **University Total** |
|---|---|---|---|---|
| | £000 | £000 | £000 | **£000** |
| **Cost or Valuation** | | | | |
| Valuation | – | 47,676 | – | **47,676** |
| Cost | 2,742 | 579,785 | 58,143 | **640,670** |
| As at 1 August 2009 | 2,742 | 627,461 | 58,143 | **688,346** |
| Additions at Cost | 2,882 | 34,088 | 23,492 | **60,462** |
| Disposals at Valuation | – | – | – | **–** |
| Disposals at Cost | – | – | (16,786) | **(16,786)** |
| As at 31 July 2010: | | | | |
| Valuation | – | 47,676 | – | **47,676** |
| Cost | 5,624 | 613,873 | 64,849 | **684,346** |
| | 5,624 | 661,549 | 64,849 | **732,022** |
| **Accumulated Depreciation** | | | | |
| As at 1 August 2009 – Valuation | – | 6,738 | – | **6,738** |
| As at 1 August 2010 – Cost | – | 123,075 | 37,444 | **160,519** |
| Charge for the Year – Valuation | – | – | – | **–** |
| Charge for the Year – Cost | – | 25,262 | 21,285 | **46,547** |
| Depreciation on Disposals – Valuation | – | – | – | **–** |
| Depreciation on Disposals – Cost | – | – | (16,786) | **(16,786)** |
| As at 31 July 2010 – Valuation | – | 6,738 | – | **6,738** |
| As at 31 July 2010 – Cost | – | 148,337 | 41,943 | **190,280** |
| **As at 31 July 2010:** | – | 155,075 | 41,943 | **197,018** |
| **Net Book Value** | | | | |
| Valuation | – | 40,938 | – | **40,938** |
| Cost | 5,624 | 465,536 | 22,906 | **494,066** |
| **Net Book Value as at 31 July 2010** | 5,624 | 506,474 | 22,906 | **535,004** |
| Net Book Value as at 31 July 2009 | 2,742 | 497,648 | 20,699 | **521,089** |

The University holds heritage assets across several locations with the main collections in the following areas:

**Lapworth Museum of Geology**
The Lapworth is specialist geological museum dating back to 1880 containing over 250,000 specimens.

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

**Research & Cultural Collections**
The University displays and teaches from thousands of objects within the following distinct collections, the Danford Collection of West African Art and Artefacts, the Institute of Archaeology and Antiquity Museum, the Collection of Historic Physics Instruments, the Biological Sciences Collection, the Zoology Collection, the Medical School Collection, the Silver and Plate Collection, the University Heritage Collection, and the Campus Collection of Fine and Decorative Art. In addition there are important objects and artefacts which have yet to be formalised into collections such as those for computing and chemistry.

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| 11. Fixed Asset Investments | | CONSOLIDATED | | UNIVERSITY | |
|---|---|---|---|---|---|
| | | **2010** | 2009 | **2010** | 2009 |
| | | **£000** | £000 | **£000** | £000 |
| Balance at 1 August | | **23,878** | 26,813 | **21,793** | 23,419 |
| Additions | | **80** | 1,785 | **80** | 1,705 |
| Transfer from Current Asset Investments | | **–** | 361 | **–** | 900 |
| Writedown to Income and Expenditure Account | | **(1,825)** | (3,410) | **(1,825)** | (3,410) |
| Appreciation/(Depreciation) on Disposals and Revaluation | | **709** | (1,671) | **791** | (821) |
| **Balance at 31 July** | | **22,842** | 23,878 | **20,839** | 21,793 |
| Represented by: | | | | | |
| Fixed Interest & Bonds | | **4,574** | 4,737 | **4,574** | 4,737 |
| Equities | | **1,883** | 1,572 | **1,883** | 1,572 |
| Property | | **13,734** | 15,270 | **8,293** | 9,747 |
| Hedge funds | | **949** | – | **949** | – |
| Investments in Subsidiaries | 31 | **–** | – | **3,438** | 3,438 |
| Other Investments | | **464** | 384 | **464** | 384 |
| Cash | | **1,238** | 1,915 | **1,238** | 1,915 |
| | | **22,842** | 23,878 | **20,839** | 21,793 |

| 12. Endowment Asset Investments | CONSOLIDATED AND UNIVERSITY | |
|---|---|---|
| Balance at 1 August | **71,184** | 72,480 |
| Reclassification | **–** | (672) |
| Additions | **1,043** | 5,320 |
| Appreciation/(Depreciation) on Disposals and Revaluation | **5,909** | (5,944) |
| **Balance at 31 July** | **78,136** | 71,184 |
| Represented by: | | |
| Fixed Interest and Bonds | **33,894** | 34,813 |
| Equities | **16,628** | 14,173 |
| Property | **7,342** | 4,568 |
| Hedge funds | **7,021** | – |
| Cash | **13,251** | 17,630 |
| | **78,136** | 71,184 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

## 13. Debtors

| | CONSOLIDATED | | UNIVERSITY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£000** | £000 | **£000** | £000 |
| **Amounts falling due within one year:** | | | | |
| Research Grants and Contracts | **27,674** | 27,811 | **27,674** | 27,811 |
| Trade Debtors | **5,644** | 4,632 | **5,644** | 4,632 |
| Other Debtors | **2,349** | 1,408 | **2,506** | 2,157 |
| Prepayments and Accrued income | **10,728** | 8,284 | **10,728** | 8,284 |
| Alta Estate Services Limited | **–** | – | **533** | 533 |
| | **46,395** | 42,135 | **47,085** | 43,417 |
| **Amounts falling due after one year:** | | | | |
| Alta Estates Services Limited | **–** | – | **3,066** | 3,600 |
| Manufacturing Technology Centre Limited | **100** | – | **100** | – |
| Other Debtors and Prepayments | **1,581** | 1,341 | **1,581** | 1,341 |
| | **1,681** | 1,341 | **4,747** | 4,941 |
| | **48,076** | 43,476 | **51,832** | 48,358 |

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

| | CONSOLIDATED 2010 | CONSOLIDATED 2009 | UNIVERSITY 2010 | UNIVERSITY 2009 |
|---|---|---|---|---|
| Loans Repayable By Instalments | **–** | 344 | **–** | 344 |
| Research Grants and Contracts in Advance | **28,124** | 26,797 | **28,124** | 26,797 |
| Corporation Tax | **67** | 54 | **–** | – |
| Social Security and Other Taxation Payable | **6,314** | 5,725 | **6,065** | 5,544 |
| Trade Creditors | **5,731** | 7,334 | **5,716** | 7,294 |
| Deferred Income | **70,685** | 45,483 | **70,202** | 45,187 |
| Accruals | **7,404** | 10,742 | **7,270** | 10,742 |
| Other Creditors | **15,083** | 10,158 | **15,211** | 10,899 |
| | **133,408** | 106,637 | **132,588** | 106,807 |

The Other Creditors category includes an amount of £3.1m which represents cash being held by the University on behalf of the HEFCE relating to the STEM initiative. The STEM project plans to both increase and widen student participation in Science, Technology, Engineering and Mathematics.

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

| | CONSOLIDATED 2010 | CONSOLIDATED 2009 | UNIVERSITY 2010 | UNIVERSITY 2009 |
|---|---|---|---|---|
| Alta Estates Services Limited | **–** | – | **191** | 287 |
| | **–** | – | **191** | 287 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| 16. Provisions for Liabilities and Charges | CONSOLIDATED | | UNIVERSITY | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **£000** | £000 | **£000** | £000 |
| **Restructuring** | | | | |
| At 1 August | **181** | 159 | **181** | 159 |
| Utilised during the year | **(181)** | (130) | **(181)** | (130) |
| Provided in year | **2,328** | 152 | **2,328** | 152 |
| **At 31 July** | **2,328** | 181 | **2,328** | 181 |
| **Contract Termination Provision** | | | | |
| At 1 August | **–** | 2,775 | **–** | 2,775 |
| Utilised during the year | **–** | (2,775) | **–** | (2,775) |
| Provided in year | **–** | – | **–** | – |
| **At 31 July** | **–** | – | **–** | – |
| **Other Provisions** | | | | |
| At 1 August | **509** | – | **509** | – |
| Utilised during the year | **(165)** | – | **(165)** | – |
| Provided in year | **–** | 509 | | 509 |
| **At 31 July** | **344** | 509 | **344** | 509 |
| **Deferred Taxation** | | | | |
| At 1 August | **1,788** | 1,699 | **–** | – |
| (Released)/Provided in year (Note 9) | **(100)** | 89 | **–** | – |
| **At 31 July** | **1,688** | 1,788 | **–** | – |
| **Total at 31 July** | **4,360** | 2,478 | **2,672** | 690 |
| **Analysis of Deferred Taxation:** | | | | |
| Accelerated capital allowances | **1,464** | 1,638 | **–** | – |
| Other timing differences | **224** | 150 | **–** | – |
| **At 31 July** | **1,688** | 1,788 | **–** | – |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

## 17. Deferred Capital Grants

| | | | CONSOLIDATED | UNIVERSITY |
|---|---|---|---|---|
| | Other Grants and Benefactions | Funding Council | **Total** | Total |
| | **£000** | £000 | **£000** | £000 |
| At 1 August 2009 | | | | |
| Buildings | 24,383 | 99,428 | **123,811** | 123,103 |
| Equipment | 11,230 | 1,484 | **12,714** | 12,714 |
| | 35,613 | 100,912 | **136,525** | 135,817 |
| **Amounts Receivable** | | | | |
| Buildings | 3,232 | 14,286 | **17,518** | 17,518 |
| Equipment | 12,738 | 2,260 | **14,998** | 14,998 |
| **Released to Income and Expenditure Account** | | | | |
| Buildings | (956) | (7,562) | **(8,518)** | (8,480) |
| Equipment | (11,074) | (1,861) | **(12,935)** | (12,935) |
| At 31 July 2010 | | | | |
| Buildings | 26,659 | 106,152 | **132,811** | 132,141 |
| Equipment | 12,894 | 1,883 | **14,777** | 14,777 |
| | 39,553 | 108,035 | **147,588** | 146,918 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

## 18. Endowments

| | CONSOLIDATED AND UNIVERSITY | | | | |
|---|---|---|---|---|---|
| | Unrestricted Permanent | Restricted Permanent | Total Permanent | Restricted Expendable | **Total** |
| | £000 | £000 | £000 | £000 | **£000** |
| **Balance at 1 August 2009** | 24,688 | 41,111 | 65,799 | 5,385 | **71,184** |
| Additions | – | 520 | 520 | 456 | **976** |
| Appreciation of Endowment Asset Investments | 2,041 | 3,567 | 5,608 | 301 | **5,909** |
| Income for Year | 895 | 1,327 | 2,222 | 137 | **2,359** |
| Transferred to Income and Expenditure Account | (895) | (895) | (1,790) | (502) | **(2,292)** |
| **Balance at 31 July 2010** | 26,729 | 45,630 | 72,359 | 5,777 | **78,136** |
| Represented by | | | | | |
| Capital | 26,729 | 43,579 | 70,308 | 5,541 | **75,849** |
| Accumulated income | – | 2,051 | 2,051 | 236 | **2,287** |
| | 26,729 | 45,630 | 72,359 | 5,777 | **78,136** |

## 19. Income and Expenditure Account

| | CONSOLIDATED | UNIVERSITY |
|---|---|---|
| | £000 | £000 |
| At 31 July 2009 | 402,814 | 387,815 |
| Reclassification of Endowments | – | – |
| Surplus Retained for the Year | 22,120 | 22,612 |
| Transfer from Revaluation Reserve | 624 | 624 |
| Deduct Pension Surplus | 1,200 | 1,200 |
| **At 31 July 2010** | 426,760 | 412,251 |
| **Pension Reserve** | | |
| At 31 July 2009 | (68,500) | (68,500) |
| Actuarial gain | 7,600 | 7,600 |
| Past service cost | 18,100 | 18,100 |
| Deduct FRS 17 Net pension expense | (1,200) | (1,200) |
| **At 31 July 2010** | (44,000) | (44,000) |
| **Revaluation Reserve** | £000 | £000 |
| Balance at 31 July 2009 | 44,144 | 43,341 |
| Revaluation in the Year | 791 | 791 |
| Released to Income and Expenditure Account | (624) | (624) |
| **At 31 July 2010** | 44,311 | 43,508 |

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

# Notes to the Accounts (continued)

For the year ended 31 July 2010

### 20. Lease Obligations

The University had no finance lease obligations in 2009/10 or 2008/09. There were payments of £567k during the year (£695k in 2008/09) in respect of operating leases for equipment which expire between two and five years.

### 21. Commitments

| (a) Capital | CONSOLIDATED AND UNIVERSITY | |
|---|---|---|
| | **2010** | 2009 |
| | **£000** | £000 |
| **Contracts for Capital Expenditure** | **81,470** | **70,459** |

Committed expenditure includes: Metallurgy and Materials (£25.9m), Bramall Music Building (£15.5m), Subways (£7.0m), Gisbert Kapp (£5.9m), Steam Main (£4.5m) and Rose Garden (£4.1m).

**(b) Financial**

The University has two Interest SWAP transactions with Barclays and one with the National Bank of Australia, for £5m. 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.

### 22. 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 2010

## 23. Reconciliation of Operating Surplus to Net Cash from Operating Activities

| | | CONSOLIDATED | |
|---|---|---|---|
| | Note | **2009/10** | 2008/09 |
| | | **£000** | £000 |
| Surplus for the year before taxation | | **22,268** | 25,136 |
| Depreciation of fixed assets | 10 | **47,435** | 44,384 |
| Deferred capital grants released to income | 17 | **(21,453)** | (18,663) |
| Returns on Investments and Servicing of Finance | 24 | **(5,634)** | (6,519) |
| Decrease/(Increase) in stocks | | **(27)** | 48 |
| Increase in debtors | | **(2,622)** | (165) |
| Increase/(Decrease) in creditors | | **10,800** | 9,423 |
| (Increase)/Decrease in provisions | | **1,942** | (2,244) |
| Pension cost less than contributions payable | | **(700)** | (1,700) |
| Net return on pension scheme | | **1,900** | (500) |
| Profit from sale of tangible fixed assets | | **–** | 672 |
| Writedown of fixed asset investment | | **1,825** | 3,410 |
| Transfers in respect of specific endowments | | **(67)** | (352) |
| **Net Cash Inflow from Operating Activities** | | **55,667** | 52,930 |

## 24. Returns on Investments and Servicing of Finance

| | | |
|---|---|---|
| Income from fixed asset investments | **2,253** | 1,323 |
| Income from endowments | **2,359** | 2,794 |
| Income from short term investments | **1,632** | 2,573 |
| Interest paid | **(610)** | (171) |
| | **5,634** | 6,519 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

## 25. Capital Expenditure and Financial Investment

| | Note | CONSOLIDATED 2009/10 £000 | 2008/09 £000 |
|---|---|---|---|
| Tangible assets acquired | | **(60,539)** | (58,106) |
| Fixed asset investments acquired | | **(757)** | (1,625) |
| Endowment asset investments acquired | | **(5,422)** | (2,736) |
| **Total fixed current and endowment assets acquired** | | **(66,718)** | (62,467) |
| Receipts from sales of fixed asset investments | | – | 525 |
| Receipts from sales of endowment asset investments | | – | 5,271 |
| Receipts from sales of tangible assets | | – | 6 |
| Deferred capital grants received | | **46,988** | 41,307 |
| Endowments received | | **1,046** | 2,736 |
| | | **(18,684)** | (12,622) |

## 26. Analysis of Changes in External Financing During the Year

| | | |
|---|---|---|
| Balance at 1 August | **344** | 688 |
| Capital repayments | **(344)** | (344) |
| **Balance at 31 July** | – | 344 |

## 27. Analysis of Changes in Net Funds

| | At 1 August 2009 £000 | Cash Flows £000 | **At 31 July 2010 £000** |
|---|---|---|---|
| Short term deposits repayable on demand | 71,971 | 39,906 | **111,877** |
| Fixed asset investments | 1,915 | (677) | **1,238** |
| Endowment asset investments | 17,630 | (4,379) | **13,251** |
| Cash in hand, and at bank | 12,998 | 7,406 | **20,404** |
| | 104,514 | 42,256 | **146,770** |
| Debt due within one year | (344) | 344 | – |
| **Net Funds** | 104,170 | 42,600 | **146,770** |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

### 28. 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:-

| | **2009/10** | 2008/09 |
|---|---|---|
| | **£000** | £000 |
| USS | **21,055** | 18,200 |
| BPAS | **2,960** | 4,200 |
| Other Pension Schemes | **2,949** | 2,659 |
| **Total Pension Costs** | **26,964** | 25,059 |

### Universities Superannuation Scheme (USS)

The Institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 135,000 active members and the institution has 3,179 active members participating in the scheme.

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

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

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

# Notes to the Accounts (continued)

For the year ended 31 July 2010

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

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

**Standard mortality tables were used as follows:**

| | |
|---|---|
| Male Members' mortality | PA92 MC YoB tables-Rated down 1 year |
| Female Members' mortality | PA92 MC YoB tables-No age rating |

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

| | |
|---|---|
| Males (females) currently aged 65 | 22.8 (24.8) years |
| Males (females) currently aged 45 | 24.0 (25.9) years |

At the valuation date, the value of the assets of the scheme was £28.8 billion and the value of the scheme's technical provisions was £28.1 billion indicating a surplus of £0.7 billion. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (ie, assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset out performance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

# Notes to the Accounts (continued)

For the year ended 31 July 2010

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities 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 £1.5 billion |
| Rate of salary growth | Increase/decrease by 0.5% | Increase/decrease by £0.7 billion |
| Rate of mortality | More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation) | Increase by £1.6 billion |

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a 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 although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above

# Notes to the Accounts (continued)

For the year ended 31 July 2010

100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the institution was £21.1m (2009: £18.2m). This includes £1.8m (2009: £1.6m) outstanding contributions at the balance sheet date.

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

**University of Birmingham Pension and Assurance Scheme (BPAS)**
BPAS is contracted out of the State Earnings Related Pension Scheme and the management of the Scheme's investments is undertaken by a team of investment managers comprised of UBS Asset Management Ltd. (Equities and Property), Royal London Asset Management Ltd. (Index Linked Securities and Sterling Credit Bonds), Barclays Global Investors Ltd. (Sterling Currency Hedge Fund) and Standard Life Investments (Global Absolute Return Fund). The latest actuarial valuation of the scheme was at the 31st March 2007 and it revealed a funding shortfall as the scheme's assets were less than the technical provisions.

The assumptions which have the most significant impact on the valuation are those relating to the rate of return on investments (ie, the discount rates pre and post retirement), the rates of increase in salary and pension and the mortality rate. The 2007 valuation utilised differential discount rates pre and post retirement to reflect the nature of the assets held to generate the required returns. The pre retirement discount rate was 7.2% and the post retirement rate was 4.5%. It was assumed that salary increases would be 4.6% with pension increases at 3.1% (for service post 2006 where a pension increase cap of 2.5% applied to some members a rate of 2.25% was used). Improvements in mortality have impacted on all schemes and led to higher liabilities. The 2007 valuation used the standard tables PA92 projected to calendar year 2007 with allowance for future improvements in line with the medium cohort improvement factors from 2007.

The total value of the accrued benefits (Technical Provisions) was £254.4 million and the market value of the assets was £219.9 million leaving a shortfall of £34.5 million. The assets were therefore sufficient to cover 86% of the accrued benefits. The Trustees of the scheme have therefore put a Recovery Plan in place to address the shortfall.

The next valuation as at 31st March 2010 is currently being completed and the results of this will define discussions on the payment schedule for the future.

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

In July 2010, the government announced that it intended for future increases in occupational pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The University has considered the Birmingham Pension and Assurance Scheme rules and associated members' literature and has concluded that, as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses ('STRGL'). At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue an abstract towards the end of 2010. Should the final abstract call for a different accounting treatment it may be necessary to reflect any change as a prior year adjustment in the financial statements for the following year.

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| The assumptions employed by the Scheme Actuary for the valuation of liabilities as at 31 July 2010, were as follows: | July 2010 | July 2009 | July 2008 |
|---|---|---|---|
| Discount Rate | **5.4%** | 6.0% | 6.4% |
| Salary Growth | **4.0%** | 5.1% | 5.3% |
| Inflation | **3.5%** | 3.6% | 3.8% |
| Pension Increases | **3.0%** | 3.6% | 3.8% |

| The invested assets of the Scheme amounted to £227.4 million (after investment of the additional contribution). The assets and the expected long term rate of return were: | 2010 £million | 2010 Rate of Return | 2009 £million | 2009 Rate of Return |
|---|---|---|---|---|
| Equities | **92.7** | **8.0%** | 90.9 | 8.6% |
| Property | **12.6** | **6.7%** | 11.3 | 7.3% |
| Corporate Bonds | **73.7** | **5.4%** | 62.5 | 6.0% |
| Index Linked Bonds | **21.4** | **4.4%** | 18.9 | 4.6% |
| Fixed Interest Bonds | **0.6** | **4.4%** | 1.2 | 4.6% |
| Other Assets | **26.4** | **4.5%** | 16.3 | 4.6% |
| **Total** | **227.4** | | 201.1 | |
| The following amounts were measured in accordance with the requirements of Financial Reporting Standard 17: | | | | |
| Total market value of assets | **227.4** | | 201.1 | |
| Present value of scheme liabilities | **(271.4)** | | (269.6) | |
| **Deficit in the scheme** | **(44.0)** | | (68.5) | |
| The above amounts have been recognised in the financial statements as follows: | | | | |
| Net assets excluding pension deficit | **699.6** | | 657.4 | |
| Pension deficit | **(44.0)** | | (68.5) | |
| **Net assets including pension deficit** | **655.6** | | 588.9 | |
| Income and Expenditure reserve excluding pension deficit | **426.7** | | 402.8 | |
| Pension deficit | **(44.0)** | | (68.5) | |
| **Income and Expenditure reserve including pension deficit** | **382.7** | | 334.3 | |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| Analysis of amounts charged to Income and Expenditure account: | July 2010 £million | July 2009 £million |
|---|---|---|
| **Current service cost** | **3.5** | 4.2 |
| Finance: | | |
| Interest on pension scheme liabilities | **15.9** | 15.6 |
| Expected return on assets in the pension scheme | **(14.0)** | (16.1) |
| Curtailments | **–** | (0.6) |
| Net interest charge/(credit) to other finance income | **1.9** | (1.1) |
| **Total charge before tax** | **5.4** | **3.1** |
| Analysis of amounts recognised in Statement of Total Recognised Gains and Losses: | | |
| Gain/(Loss) on assets | **16.8** | (29.8) |
| Experience Gain/(Loss) on scheme liabilities | **11.1** | (1.3) |
| Gain/(Loss) on change of assumptions | **(2.2)** | (9.8) |
| **Total (Gain)/Loss before tax** | **25.7** | (40.9) |

| The experience gains and losses for the year were as follows: | 2009/10 £million | 2008/09 £million | 2007/08 £million | 2006/07 £million | 2005/06 £million |
|---|---|---|---|---|---|
| Gain/(Loss) on assets | **16.8** | (29.8) | (29.4) | 4.3 | (5.2) |
| Experience Gain/(Loss) on scheme liabilities | **11.1** | (11.1) | (2.3) | (8.0) | 2.0 |
| Total Gain/(Loss) recognised in the statement of total recognised gains and losses | **25.7** | (40.9) | (32.1) | 30.8 | 7.9 |

**Changes in Disclosed Assets and Liabilities**

| Year Ended | July 2010 £million | July 2009 £million |
|---|---|---|
| **Change in Scheme Liabilities** | | |
| Scheme liabilities at prior year | **269.6** | 247.2 |
| Employer service cost | **3.5** | 4.2 |
| Interest cost | **15.9** | 15.6 |
| Actuarial Loss | **9.2** | 9.8 |
| Experience Loss | **–** | 1.3 |
| Administration expenditure | **(0.3)** | – |
| Past service (gain)/cost | **(18.1)** | – |
| Benefits paid from scheme assets | **(8.4)** | (7.9) |
| Curtailments | **–** | (0.6) |
| **Scheme liabilities at year end** | **271.4** | 269.6 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

| Change in Scheme Assets | July 2010 £million | July 2009 £million |
|---|---|---|
| Fair value of assets at prior year end | **201.1** | 217.4 |
| Expected return on assets | **14.0** | 16.1 |
| Actuarial Gains/(Losses) on assets | **16.8** | (29.8) |
| Employer contributions | **4.2** | 5.3 |
| Benefits paid | **(8.4)** | (7.9) |
| Other adjustments | **(0.3)** | – |
| **Fair value of assets at year end** | **227.4** | 201.1 |

### Group Personal Pension Scheme (GPPP)

The University introduced from 1 April 2008, a new 'defined contribution' pension scheme for its support staff who are not members of 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. The estimated value of employer contribution for the year ending 31 July is £1.1 million.

| 29. Agency Arrangements | CONSOLIDATED AND UNIVERSITY | | | |
|---|---|---|---|---|
| | Learning Support Funds | | Training and Development Agency | |
| | **2009/10 £000** | 2008/09 £000 | **2009/10 £000** | 2008/09 £000 |
| Balances Unspent as at 1 August | **128** | 128 | **18** | 124 |
| Funding Council Grants Received | **442** | 514 | **2,216** | 1,942 |
| Disbursed to Students | **(391)** | (499) | **(2,161)** | (2,048) |
| Administration Costs | **(13)** | (15) | – | – |
| **Balances Unspent at 31 July** | **166** | 128 | **73** | 18 |

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

The University also received £2.2m (2008/09 £1.7m) from the Funding Council in respect of the Aim Higher initiative, which has been disbursed to colleges in the West Midlands.

# Notes to the Accounts (continued)

For the year ended 31 July 2010

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

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

The University has not consolidated the financial statements of The Henry Barber Trust because the University has no control or dominant influence over policy decisions. The summarised balance sheet and results for the year ended 31 July 2010 are as follows:

| | **2009/10** | 2008/09 |
|---|---|---|
| | **£000** | £000 |
| Tangible Fixed Assets | **27,242** | 27,421 |
| Investment property | **3,905** | 4,325 |
| Net Current Assets | **2,639** | 2,150 |
| **Net Assets/Funds** | **33,786** | 33,896 |
| **Net movement in Funds for the year** | **(110)** | 5,207 |

The University's Income and Expenditure Account includes a receipt from the Trust of an annual grant of £1,020k (2008/09 £962k).

# Notes to the Accounts (continued)

For the year ended 31 July 2010

### 31. 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 (ceased trading 1 May 2008) |
| 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.

The summarised balance sheets and results for the year ended 31 July 2010 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 | – | 8,085 | – | 80 | 5,900 | 10,030 | – |
| Current Assets | 340 | 3,837 | 96 | 1,357 | 931 | 10 | 2,567 |
| | **340** | **11,922** | **96** | **1,437** | **6,831** | **10,040** | **2,567** |
| Capital and Reserves | – | 4,179 | – | 1,429 | 6,396 | 10,030 | 731 |
| Creditors | 340 | 6,055 | 96 | 8 | 435 | 10 | 1,836 |
| Provisions | – | 1,688 | – | – | – | – | – |
| | **340** | **11,922** | **96** | **1,437** | **6,831** | **10,040** | **2,567** |
| **Profit/(Loss) for the Year** | **216** | **(123)** | **43** | **(248)** | **228** | **(177)** | **318** |

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

| | **2009/10** | 2008/09 |
|---|---|---|
| | **£000** | £000 |
| Mercia Technology Fund 2 | **400** | 320 |
| Universities UK Limited | **64** | 64 |
| Waterloo House Limited | **2,646** | 2,586 |

# Notes to the Accounts (continued)

For the year ended 31 July 2010

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

| | % Holding |
|---|---|
| Ad Surf Eng Limited | 6 |
| Adsfab Limited | <1 |
| Applied Functional Materials Limited | 31 |
| Astron Clinica Limited (in administration) | <1 |
| Biowaste2energy Limited | 37 |
| Cambridge Mechatronics | <1 |
| Celentyx Limited | 31 |
| Cobra Bio-manufacturing Plc | 2 |
| Crimson Technologies Limited | <1 |
| Cytox Limited | <1 |
| Hybrid Biosystems Limited | 16 |
| Inanovate Limited | 3 |
| Interface Spectra Limited | 75 |
| INTREC Limited | 17 |
| McBurney Scientific Limited | 16 |
| Metal Nanopowders Limited | 36 |
| Neuregenix Limited | 41 |
| Oral Health Innovations Limited | 5 |
| Ortus Medical Limited | 20 |
| Personal Screening Plc | <1 |
| Plasgene Limited | 40 |
| Practice Management Services Limited (in administration) | 10 |
| Scyron Limited (in administration) | 2 |
| Speech Ark Limited | 10 |
| Talis Group Limited | 3 |
| U21 Equity Limited | 5 |
| Weather Systems International Limited | <1 |

**32. 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 2010 are as follows:

| | **2009/10** | 2008/09 |
|---|---|---|
| | **£000** | £000 |
| Tangible Fixed Assets | **976** | 165 |
| Investments | **6** | 5 |
| Current Assets | **1,834** | 2,659 |
| | **2,816** | 2,829 |
| Reserves | **1,918** | 1,867 |
| Creditors | **898** | 962 |
| | 2,816 | 2,829 |
| **Surplus for the Year** | **51** | 120 |

The University's Income and Expenditure Account reflects payment to the Guild of Students of a Block Grant of £1,847k (Note 7) (2008/09 £1,772k).

# Five Year Summary Accounts

| | CONSOLIDATED AND UNIVERSITY | | | | |
|---|---|---|---|---|---|
| | **2009/10** | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
| | **£000** | £000 | £000 | £000 | £000 |
| **Income** | | | | | |
| Funding Council Grants | **146,750** | 144,111 | 135,941 | 130,467 | 122,465 |
| Academic Fees and Support Grants | **116,083** | 104,592 | 90,782 | 81,526 | 69,860 |
| Research Grants and Contracts | **104,811** | 98,075 | 89,522 | 82,513 | 76,736 |
| Other Operating Income | **88,485** | 87,031 | 84,503 | 86,660 | 81,323 |
| Endowment Income and Interest Receivable | **6,244** | 7,190 | 10,853 | 7,554 | 4,559 |
| **Total Income** | **462,373** | 440,999 | 411,601 | 388,720 | 354,943 |
| **Expenditure** | | | | | |
| Staff Costs | **247,270** | 233,353 | 220,666 | 206,209 | 194,240 |
| Depreciation | **47,435** | 44,384 | 38,641 | 36,424 | 30,704 |
| Other Operating Expenses | **142,895** | 137,955 | 133,787 | 129,121 | 113,706 |
| Interest Payable | **2,510** | 171 | 66 | 77 | 136 |
| Total Expenditure | **440,110** | 415,863 | 393,160 | 371,831 | 338,786 |
| **Operating Surplus before tax and exceptional items** | **22,263** | 25,136 | 18,441 | 16,889 | 16,157 |
| **Capital Expenditure** | | | | | |
| Land and Buildings | **36,970** | 32,476 | 60,274 | 44,305 | 40,278 |
| Equipment | **23,501** | 21,606 | 18,762 | 16,837 | 14,370 |
| **Total Capital Expenditure** | **60,471** | 54,082 | 79,036 | 61,142 | 54,648 |
| **Balance Sheet** | | | | | |
| Fixed Assets | **575,961** | 563,961 | 557,204 | 509,893 | 495,269 |
| Endowment Asset Investments | **78,136** | 71,184 | 72,480 | 77,062 | 71,292 |
| Net Current Assets/(Liabilities) | **49,864** | 24,695 | 12,967 | 42,993 | (15,758) |
| Creditors: Amounts Due After One Year | **–** | – | (344) | (687) | (1,032) |
| Provisions for Liabilities and Charges | **(4,360)** | (2,478) | (4,633) | (2,233) | (2,157) |
| **Total Net Assets, excluding pension liability** | **699,601** | 657,362 | 637,674 | 627,028 | 547,614 |
| Represented by: | | | | | |
| Deferred Capital Grants | **147,588** | 136,525 | 136,987 | 123,740 | 106,452 |
| Endowments | **78,136** | 71,184 | 72,480 | 77,062 | 71,292 |
| Revaluation Reserve | **44,311** | 44,145 | 46,023 | 47,503 | 50,107 |
| Income and Expenditure Reserve | **429,566** | 405,508 | 382,184 | 378,723 | 319,763 |
| **Total Funds, excluding pension liability** | **699,601** | 657,362 | 637,674 | 627,028 | 547,614 |

# Financial Statistics

| | **2009/10** | 2008/09 | 2007/08 | 2006/07 | 2005/06 |
|---|---|---|---|---|---|
| | **%** | % | % | % | % |
| **Sources of Income**<br>% of Total Income | | | | | |
| Grants from Funding Councils (HEFCE and TDA) | **31.7** | 32.7 | 33.0 | 33.6 | 34.5 |
| Tuition Fees – Home and EU | **16.3** | 15.3 | 18.8 | 17.7 | 14.3 |
| Tuition Fees – Overseas | **8.8** | 8.4 | 3.3 | 3.3 | 5.4 |
| Income from Research Grants and Contracts | **22.7** | 22.2 | 21.7 | 21.2 | 21.6 |
| Income from Residences, Catering and Conferences | **6.4** | 6.5 | 5.5 | 6.8 | 7.6 |
| Other Income | **14.1** | 14.9 | 17.7 | 17.4 | 16.6 |
| **Total Income** | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Analysis of Expenditure**<br>% of Total Expenditure | | | | | |
| Staff Costs | **56.2** | 56.1 | 56.1 | 55.5 | 57.3 |
| Depreciation | **10.8** | 10.7 | 9.8 | 9.8 | 9.1 |
| Other Operating Expenses | **32.4** | 33.2 | 34.1 | 34.7 | 33.6 |
| Interest Payable | **0.6** | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Expenditure** | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 |
| **Operating surplus for the year as a % of total income** | 4.8% | 5.7% | 4.5% | 4.4% | 4.6% |
| **Indicators of Financial Strength** | | | | | |
| Ratio of short term cash to total expenditure (days)<br>The number of days expenditure that could be sustained from available funds | **110** | 75 | 41 | 86 | 19 |
| Ratio of long-term liabilities to total net assets<br>Measures the extent to which an institution is funded by long term debt | **0.0%** | 0.1% | 0.1% | 0.2% | 0.2% |
| **Indicators of Liquidity and Solvency** | | | | | |
| Ratio of liquid assets to current liabilities<br>Extent to which current liabilities could be met from cash and liquid investments | **1.0** | 0.8 | 0.6 | 1.1 | 0.2 |
| Ratio of current assets to current liabilities<br>Extent to which current liabilities could be met from current assets | **1.4** | 1.2 | 1.2 | 1.5 | 0.8 |
| Debtor Days<br>Days of total income (excluding Funding Council grants) represented by debtors | **56** | 53 | 57 | 53 | 57 |

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