



Annual Accounts 2004

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The accounts for the year ended 31 July 2004

Report of the Treasurer

The University has, for the fourth year in a row, improved its financial performance. It is a credit to all staff that this success has been attained and then sustained.

The University monitors its financial viability with reference to four key indicators:

- Ability to generate an adequate and recurrent surplus
- Sound investment of University reserves
- Delivery of sustained investment in facilities and infrastructure
- Maintenance of adequate cash resources for working capital purposes

The summary results are:

	2003/04	2002/03	2001/02
	£m	£m	£m
Income	310.3	291.8	279.5
Expenditure	294.0	279.7	272.0
Operating surplus	<u>16.3</u>	<u>12.1</u>	<u>7.5</u>

Continuing the pattern of the previous three years, the University has again generated a significant increase in the operating surplus, in line with its policy to create and maintain a financially stable environment, which would enable investment in the University's future without the need to resort to external finance.

The University's income has grown by 6.4% in the year. Yet again, the growth in academic fees and support grants of 6% has been a significant factor, with the increase in international recruitment being a very positive element of fees growth.

Other operating income has increased by almost 11%. In particular, we are seeing the benefits of foresight from our strategy for exploitation and knowledge transfer activities and the University's development campaign beginning to bear fruit.

The University's expenditure has grown at 5.1% in the year. The largest element within this is staff costs, which have grown at 4.1%, reflecting both sector pay awards and the local desire to improve the position of the lower paid members of our staff. Salaries remain an area where the University is very conscious of both the need to attract and retain quality staff and also the potential significant impact upon the University's cost base.

Depreciation has risen by some £2.3m or 9.2%. This reflects, in income and expenditure terms, the University's very significant capital spend on a wide range of facilities over the last few years. The new facilities include the leading edge Institute of Biomedical Research and the Business School (recently voted the leading provider of MBA programmes in the country - according to the Economist Intelligence Unit's ranking of the world's 100 best full-time MBA programmes), student residences and a major campus-wide catering development.

The other significant increase in expenditure relates to other operating expenses which reflects a rise of 6.4% from 2002/03, particularly in information technology and student recruitment and liaison, where the University continues to invest in readiness for 2006 and beyond.

Report of the Treasurer (continued)



Overall, the University's operating surplus is now some 5% of turnover and this is facilitating the ongoing investment in the University's academic agenda. The University is currently planning for the introduction of tuition fees in 2006, the impact of full Economic Costing in 2005 and the Research Assessment Exercise in 2008. These developments will all have a considerable impact on the University's financial position, with potential short-term costs outweighed by long-term benefits. Great care will be taken in steering the University's finances through what will be a time of opportunity and challenge for students and staff alike.

The University's reserves have grown by £8m in the year; mainly as a result of the surplus generated. What is particularly pleasing is that the increase - from an improved performance - is embedded in many of the budget centres' activities. It indicates that the endeavours taken to drive business planning in investment decisions are starting to deliver.

The University has invested some £60m in buildings and capital infrastructure in 2003/04 alone. Over the past three years, this investment has been substantial at £172m, with further planned investment at this level. Birmingham, already one of the World's top 100 Universities, is determined to improve upon its reputation as an international centre for teaching and research and to develop the academic and other facilities which underpin this. New investments that have recently opened, or are currently underway, include a new student village centre (including restaurants, shops and bars), the development of a spectacular new lecture theatre/student facilities complex in the Medical School and a new building for the research 6* rated School of Sport and Exercise Sciences. All of those investments are being achieved without the need for recourse to loan finance. The five-year capital plan of the University demands a multi-million pound level of annual investment, continuing into the future. With this level of spend it is vital that the University secures maximum benefits from its procurement arrangements on a project by project basis.

The University has continued to keep a close eye on the cash and working capital positions in 2003/04. As noted above, this attention to the detail has enabled the capital investment to be undertaken in that year without the requirement to raise new loans. Although this has led to an outflow of cash in the year of £13m, the University still held £21m in short-term liquid assets (including endowments) at 31 July 2004 and is focused on optimising its liquidity position.

Noted in the accounts is a significant change in the University's long-term debt position, which took place after the year-end. This is the redemption of some historic, but now expensive leases. The overall portfolio has been reviewed and it is planned to redeem the remaining long term loans very soon, replacing them with revolving credit facilities. Both changes will generate significant cost savings and benefits to the University which will be more evident in my report for 2004/05.

The long-term investment fund returns have improved to 8% compared to 6% last year. This is a gratifying development and compares well with the benchmark performance target set for the Investment Managers.

The University has again achieved its financial objectives in the year and this has contributed to an overall increase in its financial health. Looking forward, the University will be implementing full Economic Costing in 2005, benefiting from new student fees in 2006, and participating in the Research Assessment Exercise in 2008. Planning and preparations for all of these are well underway with a revised University Plan due in 2005. Whatever the final content of the Plan, the University is strategically well positioned, with thriving resources and sound management, to capitalise on all the opportunities and challenges that may come its way.

Corporate Governance



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

The University endeavours to conduct business:

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

AND

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

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

Summary of the University's Structure of Corporate Governance

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

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

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

Corporate Governance (continued)

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

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

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

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

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

Statement of Internal Control

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

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

Corporate Governance (continued)

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the extent and nature of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2004 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

- Council meet a minimum of four times a year to consider the plans and strategic direction of the institution
- Council receive periodic reports from the Audit Committee concerning internal control, and we require regular reports from managers, either directly or through the Strategy, Planning and Resources Committee, on the steps they are taking to manage risks in their area of responsibility, including progress reports on key projects
- Council have requested the Audit Committee to provide oversight of the risk management process. This provides a formal reporting and appraisal mechanism, in addition to the reports noted above
- The Audit Committee receives regular reports from the Head of Internal Audit, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, together with recommendations for improvement
- An annual facilitated workshop takes place to identify and keep up to date the record of risks facing the institution
- An organisation wide risk register is maintained
- Heads of budget centres are receiving guidance on how to monitor and manage risks in their area of responsibility
- A system of key performance indicators has been developed for the 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 unit, which operates to standards defined in the HEFCE Audit Code of Practice, and which was last reviewed for effectiveness by the HEFCE Audit Service in November 2000.

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

Responsibilities of the Council



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

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

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

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

The Council has taken reasonable steps to:

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

Report of the Auditors

Independent Auditors' Report to the Council of the University of Birmingham

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

Respective Responsibilities of the Council and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Council. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions. We also report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, the University has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

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

We also review the statement of internal control included as part of the Corporate Governance Statement and comment if the statement is inconsistent with our knowledge of the University. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

Report of the Auditors (continued)



Basis of Opinion

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

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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- a. the financial statements give a true and fair view of the state of affairs of the University and the Group at 31 July 2004, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the University and the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education;
- b. in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- c. in all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the financial memoranda with the Higher Education Funding Council for England dated March 1996 and October 2003.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
9 December 2004

Statement of Principal Accounting Policies and Estimation Techniques



1. General

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

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

2. Land and Buildings

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

The University depreciates its buildings on the basis of:

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

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

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

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

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

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

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

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



3. Equipment

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

4. Investments

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

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

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

5. Stocks

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

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

6. Cash Flows and Liquid Resources

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

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

Statement of Principal Accounting Policies and Estimation Techniques (continued)



7. Repairs and Maintenance

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

8. Pensions

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

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

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

9. Taxation

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

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

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

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



10. University Companies

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

11. Leased Assets

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

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

12. Merit Awards

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

13. Guild of Students

The financial statements for the University of Birmingham Guild of Students have not been consolidated, as the University has no control or dominant influence over policy decisions. The contribution made by the University to the Guild is shown in note 8 and the aggregate capital and reserves and surplus for the year to 31 July 2004 are shown in note 34.

14. Recognition of Income

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

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

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



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

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

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

15. Provisions

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

16. Foreign Currencies

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

Consolidated Income and Expenditure Account

For the Year Ended 31 July 2004

	Note	2003/4 £000	2002/3 £000
Income			
Funding Council Grants	1	105,200	95,867
Academic Fees and Support Grants	2	63,181	59,557
Research Grants and Contracts	3	70,201	70,673
Other Operating Income	4	68,688	62,047
Endowment Income and Interest Receivable	5	<u>3,089</u>	<u>3,709</u>
Total Income		<u>310,359</u>	<u>291,853</u>
Expenditure			
Staff Costs	6	169,732	163,067
Depreciation	8	26,929	24,669
Other Operating Expenses	8	94,737	89,050
Interest Payable	7	<u>2,630</u>	<u>2,941</u>
Total Expenditure	8	<u>294,028</u>	<u>279,727</u>
Operating Surplus		16,331	12,126
Exceptional Items		<u>–</u>	<u>2,178</u>
Surplus for the year before taxation		16,331	14,304
Corporation Tax	9	<u>(124)</u>	<u>(79)</u>
Surplus for the Year after Taxation		16,207	14,225
Minority Interest		<u>(94)</u>	<u>(101)</u>
Retained Surplus for the Year		<u>16,113</u>	<u>14,124</u>
There were no discontinued operations during 2003/4 or 2002/3.			
Note of Historical Cost Surpluses and Deficits			
Surplus for the year		16,113	14,124
Difference between an Historical Cost Profit on Realised Investment Profits and Property Disposals and the actual realised Profit for the Year calculated on the revalued amount.		–	9,677
Difference between Historical Cost Depreciation and the actual charge based on the revalued amount (note 20).		<u>755</u>	<u>621</u>
Historical Cost Surplus		<u>16,868</u>	<u>24,422</u>

Balance Sheets

As at 31 July 2004

	Note	University		Consolidated	
		2004	2003	2004	2003
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	10	411,506	379,744	440,811	408,897
Investments	11	<u>9,181</u>	<u>8,945</u>	<u>8,825</u>	<u>8,596</u>
		<u>420,687</u>	<u>388,689</u>	<u>449,636</u>	<u>417,493</u>
Endowment Asset Investments	12	<u>59,911</u>	<u>57,210</u>	<u>59,911</u>	<u>57,210</u>
Current Assets					
Stocks and Stores in Hand		501	474	598	581
Debtors and Prepayments	13	59,715	58,448	52,157	51,397
Investments		15,094	29,360	15,094	29,360
Cash at Bank and in Hand		<u>821</u>	<u>644</u>	<u>2,760</u>	<u>2,195</u>
		76,131	88,926	70,609	83,533
Creditors:					
Amounts falling due within one year	14	<u>(56,232)</u>	<u>(57,600)</u>	<u>(58,108)</u>	<u>(58,865)</u>
Net Current Assets		<u>19,899</u>	<u>31,326</u>	<u>12,501</u>	<u>24,668</u>
Total Assets less Current Liabilities		500,497	477,225	522,048	499,371
Creditors:					
Amounts falling due after more than one year	15	(29,390)	(32,336)	(29,390)	(33,067)
Provisions for Liabilities and Charges	16	<u>(717)</u>	<u>(1,153)</u>	<u>(2,434)</u>	<u>(2,799)</u>
Total Net Assets		<u>470,390</u>	<u>443,736</u>	<u>490,224</u>	<u>463,505</u>

Balance Sheets (continued)

As at 31 July 2004

	Note	University		Consolidated	
		2004	2003	2004	2003
Represented by:		£000	£000	£000	£000
Deferred Capital Grants	17	71,207	63,275	72,109	64,214
Endowments					
Specific	18	52,758	50,275	52,758	50,275
General	18	<u>7,153</u>	<u>6,935</u>	<u>7,153</u>	<u>6,935</u>
		<u>59,911</u>	<u>57,210</u>	<u>59,911</u>	<u>57,210</u>
Reserves					
Revaluation Reserve	19	49,131	49,650	49,604	50,124
Income and Expenditure Account	20	290,141	273,601	306,620	290,072
Minority Interest		<u>—</u>	<u>—</u>	<u>1,980</u>	<u>1,885</u>
		<u>339,272</u>	<u>323,251</u>	<u>358,204</u>	<u>342,081</u>
Total Funds		<u>470,390</u>	<u>443,736</u>	<u>490,224</u>	<u>463,505</u>

The financial statements on pages 44 to 71 were approved by the Council on 9 December 2004 and signed on its behalf by:

Professor Michael Sterling, Vice-Chancellor and Principal

W J Glover, Treasurer

Consolidated Cash Flow Statement

For the Year Ended 31 July 2004

	Note	2003/4 £000	2002/3 £000
Net Cash Inflow from Operating Activities	24	29,146	32,600
Returns on Investments and Servicing of Finance	25	459	961
Taxation		(46)	(62)
Capital Expenditure and Financial Investment	26	<u>(39,564)</u>	<u>(20,523)</u>
Net Cash Inflow / (Outflow) before Financing		(10,005)	12,976
Financing	27	<u>(3,419)</u>	<u>(3,730)</u>
(Decrease) / Increase in Cash in the year	28	<u>(13,424)</u>	<u>9,246</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

(Decrease) / Increase in Cash in the year		(13,424)	9,246
Arising on Consolidation of Subsidiary Undertakings		(11)	–
New Leases/Loans	27	(367)	–
Repayment of Debt	27	3,786	3,730
Increase / (Decrease) in Net Funds		<u>(10,016)</u>	<u>12,976</u>
Net Funds (Debt) at 1 August 2003		(1,926)	(14,902)
Net Funds (Debt) at 31 July 2004	28	<u>(11,942)</u>	<u>(1,926)</u>

Consolidated Statement of Recognised Gains and Losses

For the Year Ended 31 July 2004



	<i>Note</i>	2003/4 £000	2002/3 £000
Surplus after Depreciation of Assets		16,113	14,124
Revaluation of Endowment Asset Investments	18	1,509	542
Revaluation of Fixed Asset Investments	19	235	11
Endowment Income Transfer to Accumulated Reserve		–	193
New Endowments	18	872	1,272
Total Recognised Gains/(Losses) Relating to the Year		<u>18,729</u>	<u>16,142</u>
 Reconciliation			
Opening Reserves and Endowments		397,406	381,264
Total recognised gains for the year		18,729	16,142
Closing Reserves and Endowments		<u>416,135</u>	<u>397,406</u>

Notes to the Accounts

For the Year Ended 31 July 2004

	2003/4 £000	2002/3 £000
1. Funding Council Grants		
Recurrent Grant from HEFCE	90,878	86,363
Specific Grants from HEFCE	8,289	6,100
Recurrent Grant from Teacher Training Agency	2,290	2,011
Specific Grants from Teacher Training Agency	133	153
Deferred Capital Grants Released in Year:		
Equipment and Buildings	3,610	1,240
	<u>105,200</u>	<u>95,867</u>
2. Academic Fees and Support Grants		
Full-time students	24,392	22,720
Full-time students charged overseas and other fees	18,776	16,179
Part-time Courses – credit bearing	15,915	16,159
– non credit bearing	3,172	2,747
Research, Training and Support Grants	<u>926</u>	<u>1,752</u>
	<u>63,181</u>	<u>59,557</u>
3. Research Grants and Contracts		
Office of Science and Technology Research Councils	23,590	25,147
UK-Based Charities	18,032	17,225
UK Central/Local Government, Health and Hospital Authorities	15,383	14,322
UK Industry, Commerce and Public Corporations	7,160	6,892
EU Government Bodies	3,330	3,023
EU Other	645	845
Other Overseas	1,160	2,094
Other Sources	<u>901</u>	<u>1,125</u>
	<u>70,201</u>	<u>70,673</u>

Notes to the Accounts (continued)

	2003/4 £000	2002/3 £000
4. Other Operating Income		
Residences, Catering and Conferences	21,657	21,229
Other Services Rendered	17,004	13,376
Externally Funded Posts – Health Authorities	9,802	9,309
– Other Sources	1,597	1,545
Self-Financing Teaching Activities	4,438	4,491
Rented Properties and University Centre Lettings	1,004	1,217
Day Nursery	832	770
Release of Deferred Capital Grants	1,001	244
Barber Trust	767	676
German Institute	193	205
Other Income	10,393	8,985
	<u>68,688</u>	<u>62,047</u>
5. Endowment Income and Interest Receivable		
Transferred from Specific Endowments (Note 18)	1,740	1,612
Income from General Endowment Asset Investments (Note 18)	290	290
Income from Short Term Investments	1,027	1,194
Other Investment Income	32	613
	<u>3,089</u>	<u>3,709</u>
6. Staff		
Staff Costs:		
Wages and Salaries	141,357	136,945
Social Security Costs	11,891	10,442
Other Pension Costs (Note 29)	16,484	15,680
	<u>169,732</u>	<u>163,067</u>
Emoluments of the Vice-Chancellor:		
Salary and benefits	223	210
Pension contributions to USS	31	29
	<u>254</u>	<u>239</u>
The emoluments have been independently determined by the lay officers of the Council and reviewed according to performance. The emoluments shown are in respect of Professor Michael Sterling.		
Compensation for loss of office paid to staff earning in excess of £70,000 per annum:	0	234

Notes to the Accounts (continued)

6. Staff – continued

Average staff numbers by major category:

Academic and related/clinical	2,903	2,890
Other, including technical, clerical and manual	<u>2,778</u>	<u>2,852</u>
	<u>5,681</u>	<u>5,742</u>

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

£70,001 – £80,000	48	56
£80,001 – £90,000	33	25
£90,001 – £100,000	9	11
£100,001 – £110,000	17	11
£110,001 – £120,000	7	9
£120,001 – £130,000	12	12
£130,001 – £140,000	3	5
£140,001 – £150,000	10	3
£200,001 – £210,000	0	1
£220,001 – £230,000	1	0
£230,001 – £240,000	1	0

7. Interest Payable

	2003/4 £000	2002/3 £000
Finance Leases	1,404	1,552
Bank Loan Interest Repayable over more than 5 years	<u>1,226</u>	<u>1,389</u>
	<u>2,630</u>	<u>2,941</u>

8. Analysis of 2003/4 Expenditure by Activity

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total 2003/4	Total 2002/3
	£000	£000	£000	£000	£000	£000
Academic Schools						
Basic Teaching and Research	87,163	3,720	21,656	–	112,539	107,279
Research Grants and Contracts	35,257	6,774	16,966	–	58,997	59,860
Other Trading	3,947	91	5,795	–	9,833	9,122
Budget Centre Funds	<u>251</u>	<u>544</u>	<u>2,370</u>	<u>–</u>	<u>3,165</u>	<u>2,048</u>
	<u>126,618</u>	<u>11,129</u>	<u>46,787</u>	<u>–</u>	<u>184,534</u>	<u>178,309</u>
Academic Services						
Library	3,893	161	2,155	–	6,209	8,361
Academic Computing Service	5,350	3,135	5,129	–	13,614	6,275
Other Academic Services	<u>1,266</u>	<u>99</u>	<u>341</u>	<u>–</u>	<u>1,706</u>	<u>2,505</u>
	<u>10,509</u>	<u>3,395</u>	<u>7,625</u>	<u>–</u>	<u>21,529</u>	<u>17,141</u>

Notes to the Accounts (continued)

8. Analysis of 2003/4 Expenditure by Activity *continued*

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total 2003/4	Total 2002/3
	£000	£000	£000	£000	£000	£000
General Educational Expenditure						
Student Recruitment and Liaison	1,913	42	2,293	–	4,248	2,626
Other	197	24	1,449	–	1,670	1,494
	<u>2,110</u>	<u>66</u>	<u>3,742</u>	<u>–</u>	<u>5,918</u>	<u>4,120</u>
Premises						
Rates	–	–	702	–	702	553
Insurance and Rents	–	–	1,401	–	1,401	1,505
Cleaning, Portering and Custodial Services	3,154	64	597	–	3,815	3,993
Heat, Light, Water and Power	102	724	3,732	–	4,558	4,790
Repairs and General Maintenance	2,634	59	3,555	–	6,248	6,809
Depreciation of Buildings	–	7,323	–	–	7,323	6,807
Other	1,889	240	186	40	2,355	2,816
	<u>7,779</u>	<u>8,410</u>	<u>10,173</u>	<u>40</u>	<u>26,402</u>	<u>27,273</u>
Administration and Central Services						
Administrative Services	10,184	484	3,082	–	13,750	13,544
Audit Fees	–	–	45	–	45	52
Fees to Auditor for Non-Audit Work	–	–	2	–	2	2
Other Professional Fees	–	–	177	–	177	118
	<u>10,184</u>	<u>484</u>	<u>3,306</u>	<u>–</u>	<u>13,974</u>	<u>13,716</u>
Staff and Student Facilities						
Careers Service	432	8	87	–	527	478
Student Counselling and Support	487	20	106	–	613	506
Sports Facilities	1,209	299	1,256	–	2,764	2,592
Grant to Guild of Students	–	–	1,199	–	1,199	1,158
Other	504	165	325	–	994	56
	<u>2,632</u>	<u>492</u>	<u>2,973</u>	<u>–</u>	<u>6,097</u>	<u>4,790</u>
Residences Catering and Conferences						
Residences	2,556	240	6,514	2,588	11,898	12,099
Catering	2,063	98	2,752	–	4,913	3,898
Conferences	1,006	26	1,563	–	2,595	2,464
Depreciation of Buildings	–	1,706	–	–	1,706	1,533
	<u>5,625</u>	<u>2,070</u>	<u>10,829</u>	<u>2,588</u>	<u>21,112</u>	<u>19,994</u>
Other Expenditure						
Other Services Rendered	4,142	871	7,666	2	12,681	11,252
Other	133	12	1,636	–	1,781	3,132
	<u>4,275</u>	<u>883</u>	<u>9,302</u>	<u>2</u>	<u>14,462</u>	<u>14,384</u>
TOTAL	<u><u>169,732</u></u>	<u><u>26,929</u></u>	<u><u>94,737</u></u>	<u><u>2,630</u></u>	<u><u>294,028</u></u>	<u><u>279,727</u></u>

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

11,422
15,507
26,929

Notes to the Accounts (continued)

9. Tax on Profit on Ordinary Activities

	2003/4	2002/3
	£000	£000
United Kingdom corporation tax at 30% on subsidiary company profits: Current Year	52	45
Deferred tax – due to timing differences in a subsidiary company	72	34
Total Payable	<u>124</u>	<u>79</u>

10. Tangible Fixed Assets

University	University			
	Assets in the course of Construction	Land and Buildings	Equipment	Total
	£000	£000	£000	2003/4 £000
Cost or Valuation				
Valuation	–	51,119	–	51,119
Cost	46,700	292,670	47,752	387,122
As at 1 August 2003	<u>46,700</u>	<u>343,789</u>	<u>47,752</u>	<u>438,241</u>
Transfers at Cost	(58,336)	58,336	–	–
Additions/Disposals				
Additions at Cost	30,158	15,098	12,781	58,037
Disposals at Cost	–	(1,306)	(16,452)	(17,758)
As at 31 July 2004:				
Valuation	–	51,119	–	51,119
Cost	18,522	364,798	44,081	427,401
	<u>18,522</u>	<u>415,917</u>	<u>44,081</u>	<u>478,520</u>
Accumulated Depreciation				
As at 1 August 2003 – Valuation	–	3,254	–	3,254
As at 1 August 2003 – Cost	–	23,308	31,935	55,243
Charge for the Year – Valuation	–	755	–	755
Charge for the Year – Cost	–	10,859	14,362	25,221
Depreciation on Disposals – Cost	–	(1,007)	(16,452)	(17,459)
As at 31 July 2004	<u>–</u>	<u>37,169</u>	<u>29,845</u>	<u>67,014</u>
Net Book Value				
Valuation	–	47,110	–	47,110
Cost	18,522	331,638	14,236	364,396
Net Book Value as at 31 July 2004	<u>18,522</u>	<u>378,748</u>	<u>14,236</u>	<u>411,506</u>
Net Book Value as at 31 July 2003	<u>46,700</u>	<u>317,227</u>	<u>15,817</u>	<u>379,744</u>

Notes to the Accounts (continued)

10. Tangible Fixed Assets *continued*

	Assets in the course of Construction	Land and Buildings	Equipment	Consolidated Total
	£000	£000	£000	2003/4 £000
Cost or Valuation				
Valuation	–	51,593	–	51,593
Cost	46,707	326,288	48,048	421,043
As at 1 August 2003	<u>46,707</u>	<u>377,881</u>	<u>48,048</u>	<u>472,636</u>
Transfers at Cost	(58,343)	58,343	–	–
Arising on consolidation	–	–	20	20
Additions/Disposals				
Additions at Cost	30,158	16,110	12,867	59,135
Disposals at Cost	–	(1,306)	(16,484)	(17,790)
As at 31 July 2004:				
Valuation	–	51,593	–	51,593
Cost	18,522	399,435	44,451	462,408
	<u>18,522</u>	<u>451,028</u>	<u>44,451</u>	<u>514,001</u>
Accumulated Depreciation				
As at 1 August 2003 – Valuation	–	3,254	–	3,254
As at 1 August 2003 – Cost	–	28,328	32,157	60,485
Arising on consolidation	–	–	5	5
Charge for the Year – Valuation	–	755	–	755
Charge for the Year – Cost	–	11,760	14,414	26,174
Depreciation on Disposals – Cost	–	(1,007)	(16,476)	(17,483)
As at 31 July 2004	<u>–</u>	<u>43,090</u>	<u>30,100</u>	<u>73,190</u>
Net Book Value				
Valuation	–	47,584	–	47,584
Cost	18,522	360,354	14,351	393,227
Net Book Value as at 31 July 2004	<u>18,522</u>	<u>407,938</u>	<u>14,351</u>	<u>440,811</u>
Net Book Value as at 31 July 2003	<u>46,707</u>	<u>346,299</u>	<u>15,891</u>	<u>408,897</u>

Notes to the Accounts (continued)

The opening value of land and buildings has been re-analysed between cost and valuation during the year.

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

	£000
Shackleton Hall	13,994
Medical School Improved Facilities	2,525
Sport and Exercise Sciences building	1,348
Other student residences	655
	<u>18,522</u>

The reinstatement cost of buildings for insurance purposes is £1,142m (2003 £982m).

The net book value of the land and buildings represents freehold interests except for £37.1m (2003 £37.4m) of interest in long leasehold land and buildings.

The net book value of land and buildings includes an amount of £20.7m (2003 £21.0m) in respect of assets held under finance leases. These lease arrangements were terminated after the balance sheet date.

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

	University		Consolidated	
	2004 £000	2003 £000	2004 £000	2003 £000
11. Fixed Asset Investments				
Non-endowment investments				
Balance at 1 August	8,945	8,934	8,596	8,592
Appreciation on Disposals/Revaluation	<u>236</u>	<u>11</u>	<u>229</u>	<u>4</u>
Balance at 31 July	<u>9,181</u>	<u>8,945</u>	<u>8,825</u>	<u>8,596</u>

12. Endowment Asset Investments

	University and Consolidated	
	2004 £000	2003 £000
Balance at 1 August	57,210	54,803
Additions	1,192	1,865
Appreciations/(Depreciation) on Disposals/Revaluation	1,509	542
Balance at 31 July	<u>59,911</u>	<u>57,210</u>
Represented by:		
Investments	57,005	54,115
Investment Debtor	–	455
Cash	2,906	2,640
	<u>59,911</u>	<u>57,210</u>

Notes to the Accounts (continued)

13. Debtors

	University		Consolidated	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due within one year:				
Research Grants and Contracts	16,697	17,494	16,697	17,494
Other Debtors and Prepayments	19,399	18,024	19,091	18,306
Amounts due from Sale of Property	6,025	6,025	6,025	6,025
Birmingham Pension and Assurance Scheme SSAP 24 Prepayment	813	714	813	714
Alta Estates Ltd	533	533	–	–
Birmingham Research Park Ltd	90	–	–	–
	<u>43,557</u>	<u>42,790</u>	<u>42,626</u>	<u>42,539</u>
Amounts falling due after one year:				
Birmingham Pension and Assurance Scheme SSAP 24 Prepayment	9,524	8,851	9,524	8,851
Alta Estates Ltd	6,267	6,800	–	–
Birmingham Research Park Ltd	360	–	–	–
Loans to the Guild of Students and Junior Common Rooms	7	7	7	7
	<u>16,158</u>	<u>15,658</u>	<u>9,531</u>	<u>8,858</u>
	<u>59,715</u>	<u>58,448</u>	<u>52,157</u>	<u>51,397</u>

14. Creditors: Amounts Falling due within one year

	University		Consolidated	
	2004 £000	2003 £000	2004 £000	2003 £000
Obligations Under Finance Leases (Note 21)	1,508	1,342	1,508	1,342
Bank Loans and Overdrafts	1,437	1,437	1,804	1,712
Research Grants and Contracts in Advance	15,411	16,209	15,411	16,209
Corporation Tax	–	–	51	45
Social Security and Other Taxation Payable	3,952	3,975	4,022	3,975
Other Creditors	<u>33,924</u>	<u>34,637</u>	<u>35,312</u>	<u>35,582</u>
	<u>56,232</u>	<u>57,600</u>	<u>58,108</u>	<u>58,865</u>

The other creditors category includes an amount of £599k (2003 £830k) which represents cash held by the University on behalf of the Mercia Fund in respect of University Challenge projects.

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

	University		Consolidated	
	2004 £000	2003 £000	2004 £000	2003 £000
Obligations Under Finance Leases (Note 21)	9,085	10,594	9,085	10,594
Bank Loans repayable by Instalments Over More Than 5 years	<u>20,305</u>	<u>21,742</u>	<u>20,305</u>	<u>22,473</u>
	<u>29,390</u>	<u>32,336</u>	<u>29,390</u>	<u>33,067</u>

After the balance sheet date, the obligations under finance leases were discharged and £19.7million of bank loans were converted to revolving credits.

Notes to the Accounts (continued)

16. Provisions for Liabilities and Charges	University		Consolidated	
	2004	2003	2004	2003
	£000	£000	£000	£000
Restructuring				
At 1 August	1,103	1,934	1,103	1,934
Utilised during the year	(850)	(1,474)	(850)	(1,474)
Provided in year	<u>464</u>	<u>643</u>	<u>464</u>	<u>643</u>
At 31 July	717	1,103	717	1,103
Other				
At 1 August	50	–	50	–
Provided in Year	<u>(50)</u>	<u>50</u>	<u>(50)</u>	<u>50</u>
At 31 July	–	50	–	50
Deferred Taxation				
At 1 August	–	–	1,646	1,612
Provided in year (Note 9)	<u>–</u>	<u>–</u>	<u>71</u>	<u>34</u>
At 31 July	–	–	1,717	1,646
Total at 31 July 2003	<u>717</u>	<u>1,153</u>	<u>2,434</u>	<u>2,799</u>
Analysis of Deferred Taxation:				
Accelerated capital allowances	–	–	2,168	2,168
Less unutilised tax losses	<u>–</u>	<u>–</u>	<u>(451)</u>	<u>(522)</u>
At 31 July	<u>–</u>	<u>–</u>	<u>1,717</u>	<u>1,646</u>

17. Deferred Capital Grants

	Other Grants and Benefactions	Funding Council	Consolidated	University
			Total	Total
	£000	£000	£000	£000
At 1 August 2003				
Buildings	15,140	39,097	54,237	53,298
Equipment	<u>9,053</u>	<u>924</u>	<u>9,977</u>	<u>9,977</u>
	<u>24,193</u>	<u>40,021</u>	<u>64,214</u>	<u>63,275</u>
Cash Received				
Buildings	1,893	9,305	11,198	11,198
Equipment	4,906	3,213	8,119	8,119
Released to Income and Expenditure				
Buildings – Depreciation	(515)	(2,077)	(2,592)	(2,555)
Equipment – Depreciation	<u>(7,297)</u>	<u>(1,533)</u>	<u>(8,830)</u>	<u>(8,830)</u>
At 31 July 2004				
Buildings	16,518	46,325	62,843	61,941
Equipment	<u>6,662</u>	<u>2,604</u>	<u>9,266</u>	<u>9,266</u>
	<u>23,180</u>	<u>48,929</u>	<u>72,109</u>	<u>71,207</u>

Notes to the Accounts (continued)

18. Endowments

	University and Consolidated		
	Specific	General	Total
	£000	£000	£000
At 1 August 2003	50,275	6,935	57,210
Additions	872	–	872
Appreciation of Endowment Asset Investments	1,291	218	1,509
Income for Year	1,740	290	2,030
Transfer from Budget Centre Funds	163	–	163
Transferred to Income and Expenditure Account (Note 5)	(1,740)	(290)	(2,030)
Excess income transferred from Income and Expenditure Reserve	157	–	157
At 31 July 2004	<u>52,758</u>	<u>7,153</u>	<u>59,911</u>

19. Revaluation Reserve

	Consolidated		University	
	Land and Buildings	Investments	Total	Total
	£000	£000	£000	£000
At 1 August 2003	48,339	1,785	50,124	49,650
Revaluation in the year	–	235	235	236
Released to Income and Expenditure Account	(755)	–	(755)	(755)
As at 31 July 2004	<u>47,584</u>	<u>2,020</u>	<u>49,604</u>	<u>49,131</u>

Notes to the Accounts (continued)

20. Income and Expenditure Account

	Consolidated University					
	Balance 1 August 2003	Additions/ (Reductions) for the year	Revaluation Reserve Release	Other Movements	Balance 31 July 2004	Balance 31 July 2004
	£000	£000		£000	£000	£000
Available						
Academic Budget Centres	9,664	2,710	–	–	12,374	12,374
Non-Academic Budget Centres	5,972	2,691	–	–	8,663	8,663
Buildings Fund	9,430	(8,142)	–	–	1,288	1,288
Rationalisation Fund	127	416	–	–	543	543
Residences, Catering and Conference Funds	6,312	680	–	–	6,992	6,992
General Reserve	12,063	4,922	–	(212)	16,773	16,773
Subsidiary Undertakings	5,025	8	–	–	5,033	–
Other Funds	11,699	4,994	–	(108)	16,585	16,585
Sub-total – Available	60,292	8,279	–	(320)	68,251	63,218
Committed	229,780	7,834	755	–	238,369	226,923
TOTAL	290,072	16,113	755	(320)	306,620	290,141

21. Lease Obligations

	University and Consolidated	
	2004	2003
	£000	£000
Obligations under finance leases fall due as follows:		
Between two and five years	6,730	7,253
Over five years	2,355	3,341
Total over one year (Note 15)	9,085	10,594
Within one year (Note 14)	1,508	1,342
	10,593	11,936

Subsequent to the balance sheet date, the finance leases have been redeemed by the University.

22. Capital Commitments

	University and Consolidated	
	2004	2003
	£000	£000
Contracts for capital expenditure	24,062	43,832

Committed expenditure includes: Institute of Biomedical Research (£2.1m), Medical School improvements (£9.1m), Biosciences refurbishment (£1.9m), and power supply improvements (£1.3m).

Notes to the Accounts (continued)

23. Contingent Liability

University and Consolidated

	2004 £000	2003 £000
Bank loans to subsidiaries guaranteed by the University	–	884

The University is a member of UMA (Special Risks) Ltd, a company limited by guarantee formed to provide a mutual association for terrorism risks. If the association suffers a shortfall in any underwriting year, the members are liable for their pro rata share. The scheme's ability to pay claims is derived from one of the following sources:

- (a) accumulated reserves of £10 million;
- (b) a £15 million internal loan facility from member institutions, of which the University has provided a facility of £2 million;
- (c) a £350 million aggregate layer of excess cover obtained through the Lloyds insurance market and off-shore insurers, structured to provide cover for up to two maximum losses of £175 million each.

Losses exceeding £175 million may result in a supplementary call for funding from the 107 members of the association.

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

Consolidated

	2003/4 £000	2002/3 £000
Surplus for the year before taxation	16,331	14,304
Depreciation of fixed assets (Note 10)	26,929	24,669
Deferred capital grants released to income (Note 17)	(11,422)	(10,421)
Investment Income	(459)	(768)
(Increase)/Decrease in stocks	(17)	114
(Increase)/Decrease in debtors	(760)	2,032
(Decrease)/Increase in creditors	(1,027)	5,622
Decrease in provisions	(436)	(781)
Profit from sale of tangible fixed asset	–	(2,178)
Depreciation of investments	7	7
Net Cash Inflow from Operating Activities	<u>29,146</u>	<u>32,600</u>

25. Returns on Investments and Servicing of Finance

Consolidated

	2003/4 £000	2002/3 £000
Income from fixed asset investments	32	613
Income from endowments	2,030	2,095
Income from short term investments	1,027	1,194
Interest Paid	(2,630)	(2,941)
	<u>459</u>	<u>961</u>

Notes to the Accounts (continued)

26. Capital Expenditure and Financial Investment

	Consolidated	
	2003/4 £000	2002/3 £000
Tangible assets acquired	(59,135)	(63,177)
Endowment asset investments acquired	<u>(926)</u>	<u>(1,600)</u>
Total fixed and endowment assets acquired	(60,061)	(64,777)
Receipts from sales of tangible assets	308	5,169
Deferred capital grants received	19,317	37,813
Endowments received	<u>872</u>	<u>1,272</u>
	<u>(39,564)</u>	<u>(20,523)</u>

27. Analysis of Changes in External Financing During the Year

	Consolidated	
	2003/4 £000	2002/3 £000
Balance at 1 August	36,121	39,851
New Leases/Loans	367	–
Capital repayments	<u>(3,786)</u>	<u>(3,730)</u>
Net Amount Acquired in Year	<u>(3,419)</u>	<u>(3,730)</u>
Balance at 31 July	<u>32,702</u>	<u>36,121</u>

28. Analysis of Changes in Net Funds

	Consolidated				At 31 July 2004 £000
	At 1 August 2003 £000	Arising on Consolidation £000	Cash Flows £000	Other Changes £000	
Short term deposits repayable on demand	29,360	–	(14,266)	–	15,094
Endowment asset investments	2,640	–	266	–	2,906
Cash in hand, and at bank	<u>2,195</u>	<u>(11)</u>	<u>576</u>	<u>–</u>	<u>2,760</u>
	34,195	(11)	(13,424)	–	20,760
Debt due within one year	(3,054)	–	2,688	(2,946)	(3,312)
Debt due after one year	<u>(33,067)</u>	<u>–</u>	<u>731</u>	<u>2,946</u>	<u>(29,390)</u>
	<u>(1,926)</u>	<u>(11)</u>	<u>(10,005)</u>	<u>–</u>	<u>(11,942)</u>

Notes to the Accounts (continued)

29. Pension Schemes

Pension arrangements are funded by employee and employer contributions to pension schemes that are financially separate from the University. Staff paid on academic and academically-related scales who are eligible, acquire pension rights through the Universities Superannuation Scheme (USS), which is a national scheme administered by a separate company on behalf of all universities. Some staff contribute to private schemes. Staff on other salary scales 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:

	2003/4	2002/3
	£000	£000
Contributions to USS	11,126	10,001
Contributions to BPAS	4,166	4,743
Contributions to Other Pension Schemes	1,192	936
Total Pension Costs (Note 6)	<u>16,484</u>	<u>15,680</u>

Universities Superannuation Scheme (USS)

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

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

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

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

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

Notes to the Accounts (continued)

29. Pension Schemes *continued*

University of Birmingham Pension and Assurance Scheme (BPAS)

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

Contributions have been paid by employees at the rate of 6% of pensionable pay and by the University at the rate of 14% of employees' pensionable pay. Additionally a further £1.585 million was paid in the period ended 31st July, 2004, as determined by the Schedule of Contributions agreed with the Scheme Actuary.

The assumptions employed by the Scheme Actuary for the valuation of liabilities as at 31st July, 2004, were as follows:

	July 2004	July 2003
Discount Rate	5.7%	5.5%
Salary Growth	4.5%	4.1%
Inflation	3.0%	2.6%
Pension Increases	3.0%	2.6%

The invested assets of the Scheme amounted to £144.7 million (after investment of the additional contribution).

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

	July 2004		July 2003	
	£million	Rate of Return	£million	Rate of Return
Equities	75.0	8.1%	59.7	8.1%
Property	—	—	—	—
Fixed Interest Bonds	47.7	5.7%	49.4	5.5%
Index Linked Gilts	20.3	5.0%	24.6	4.7%
Cash	1.7	4.0%	2.1	4.0%
Total	<u>144.7</u>		<u>135.8</u>	

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

	July 2004 £million	July 2003 £million
Total market value of assets	144.7	135.8
Present value of scheme liabilities	<u>184.9</u>	<u>169.6</u>
Deficit in the scheme	<u>40.2</u>	<u>33.8</u>

If the above amounts had been recognised in the financial statements, the University's net assets and profit and loss reserve at 31 July 2004 would be as follows:

	July 2004 £million	July 2003 £million
Net assets excluding pension deficit	479.9	453.9
Pension deficit	<u>(40.2)</u>	<u>(33.8)</u>
Net assets including pension deficit	<u>439.7</u>	<u>420.1</u>
Profit and loss reserve excluding pension deficit	296.3	280.5
Pension deficit	<u>(40.2)</u>	<u>(33.8)</u>
Profit and loss reserve including pension deficit	<u>256.1</u>	<u>246.7</u>

Notes to the Accounts (continued)

29. Pension Schemes *continued*

Additionally, if the pension costs had been recognised in accordance with Financial Reporting Standard 17, the following components of the pensions charge would have been recognised in the income and expenditure account and statement of recognised gains and losses for the year ended 31 July 2004:

	July 2004 £million	July 2003 £million
Analysis of amounts charged to Income and Expenditure account:		
Current service cost	4.3	4.6
Finance:		
Interest on pension scheme liabilities	9.2	8.5
Expected return on assets in the pension scheme	<u>(8.9)</u>	<u>(8.3)</u>
Net charge (credit) to other finance income	<u>0.3</u>	<u>0.2</u>
Total charge before tax	<u>4.6</u>	<u>4.8</u>

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

Loss (Gain) on assets	3.8	0.3
Experience loss (gain) on scheme liabilities	(1.2)	(1.2)
Loss (gain) on change of assumptions	<u>6.7</u>	<u>12.1</u>
Total loss before tax	<u>9.3</u>	<u>11.2</u>

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

	£million
Deficit on scheme at 1 August 2003	33.8
Movements in the year:	
– current service cost	4.3
– contributions	(7.5)
– finance income	0.3
– actuarial loss (gain)	9.3
Deficit on scheme at 31 July 2004	<u>40.2</u>

The experience gains and losses for the year ended 31 July 2004 were as follows:

	£million	%
Loss (gain) on assets	3.8	
Percentage of scheme assets at the end of the year		2.6%
Experience (gain) on scheme liabilities	(1.2)	
Percentage of scheme liabilities at the end of the year		(0.6%)
Total loss recognised in the statement of total recognised gains and losses:	9.3	
Percentage of scheme liabilities at the end of the year		5.0%

Notes to the Accounts (continued)

30. Hardship Funds and Teacher Training Agency Bursaries

	University and Consolidated			
	Hardship Funds		Teacher TA Bursaries	
	2003/4	2002/3	2003/4	2002/3
	£000	£000	£000	£000
Balances Unspent as at 1 August	156	79	94	81
Funding Council Grants Received	1,022	1,086	2,219	2,324
Disbursed to Students	(851)	(1,009)	(2,230)	(2,311)
Balances Unspent at 31 July	<u>327</u>	<u>156</u>	<u>83</u>	<u>94</u>

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

31. Benefits in Kind

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

32. Related Party Transactions

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

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

No declarations of disclosable interests have been made.

33. Subsidiary Undertakings

Name	University Holding	Business Activity
Alta Estate Services Limited	100%	Operates a Combined Heat and Power plant
Birmingham Research and Development Limited	100%	Technology Transfer
Birmingham Research Park Limited	51%	Provision of Accommodation to High Technology Companies
Alta Library Services Limited	100%	Provision of Library Services
Entice Technology Limited	57.5%	Software development
University of Birmingham Selly Oak Educational Trust	100%	Management of Land and Buildings on the Selly Oak Campus

The subsidiaries are all incorporated in and operate in Great Britain.

Notes to the Accounts (continued)

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

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

The summarised balance sheets and results of the subsidiaries for the year ended 31 July 2004 are as follows:

	Alta Estate Services Limited	Birmingham Research and Development Limited	Birmingham Research Park Limited	Alta Library Services Limited	Entice Technology Limited	University of Birmingham Selly Oak Educational Trust
	£000	£000	£000	£000	£000	£000
Tangible Fixed Assets	11,981	92	5,267	–	11	11,092
Investments	–	172	–	–	–	–
Current Assets	<u>1,022</u>	<u>2,450</u>	<u>413</u>	<u>151</u>	<u>55</u>	<u>17</u>
	<u>13,003</u>	<u>2,714</u>	<u>5,680</u>	<u>151</u>	<u>66</u>	<u>11,109</u>
Capital and Reserves	3,888	343	4,040	–	–	11,092
Creditors	7,397	2,371	1,640	151	(66)	17
Bank Loan	–	–	–	–	–	–
Provisions	<u>1,718</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>13,003</u>	<u>2,714</u>	<u>5,680</u>	<u>151</u>	<u>(66)</u>	<u>11,109</u>
Profit/(Loss) for the Year	<u>172</u>	<u>884</u>	<u>192</u>	<u>107</u>	<u>–</u>	<u>(177)</u>

34. Guild of Students

The University has not consolidated the financial statements of the Guild of Students because the University has no control or dominant influence over policy decisions. The summarised balance sheet and results for the year ended 31 July 2004 are as follows:

	2003/4	2002/3
	£000	£000
Tangible Fixed Assets	188	298
Investments	5	5
Current Assets	<u>1,302</u>	<u>1,248</u>
	<u>1,495</u>	<u>1,551</u>
Reserves	657	650
Creditors	<u>838</u>	<u>901</u>
	<u>1,495</u>	<u>1,551</u>
Surplus (deficit) for the Year	<u>7</u>	<u>(55)</u>

The University's Income and Expenditure Account reflects payment to the Guild of Students of a Block Grant of £1,199k (Note 8) (2002/3 £1,158k).

Five-Year Summary Accounts

INCOME AND EXPENDITURE ACCOUNT

	1999/00	2000/01	2001/02	2002/03	2003/04
	£000	£000	£000	£000	£000
Income					
Funding Council Grants	80,378	84,018	90,622	95,867	105,200
Academic Fees and Support Grants	45,783	47,302	53,294	59,557	63,181
Research Grants and Contracts	56,512	62,916	68,048	70,673	70,201
Other Operating Income	56,457	57,150	64,406	62,047	68,688
Endowment Income and Interest	5,807	4,054	3,151	3,709	3,089
Total Income	<u>244,937</u>	<u>255,440</u>	<u>279,521</u>	<u>291,853</u>	<u>310,359</u>
Expenditure					
Staff Costs	142,318	150,075	154,316	163,067	169,732
Depreciation	19,001	20,585	22,248	24,669	26,929
Other Operating Expenses	80,708	82,254	93,406	89,050	94,737
Interest Payable	2,011	1,951	2,002	2,941	2,630
Total Expenditure	<u>244,038</u>	<u>254,865</u>	<u>271,972</u>	<u>279,727</u>	<u>294,028</u>
Operating Surplus before Tax and exceptional items	<u>899</u>	<u>575</u>	<u>7,549</u>	<u>12,126</u>	<u>16,331</u>

BALANCE SHEET

Fixed Assets	318,068	361,780	385,449	417,493	449,636
Endowment Asset Investments	70,744	64,500	54,803	57,210	59,911
Net Current Assets	32,180	2,391	22,504	24,668	12,501
Creditors: Amounts Due After One Year	(14,793)	(14,165)	(36,000)	(33,067)	(29,390)
Provisions for Liabilities and Charges	–	(1,594)	(3,546)	(2,799)	(2,434)
Total Net Assets	<u>406,199</u>	<u>412,912</u>	<u>423,210</u>	<u>463,505</u>	<u>490,224</u>
Represented By:					
Deferred Capital Grants	15,555	27,697	40,162	64,214	72,109
Endowments	70,744	64,500	54,803	57,210	59,911
Revaluation Reserve	62,105	60,698	59,971	50,124	49,604
Income and Expenditure Reserves:					
Available Funds	64,650	46,410	41,884	60,292	68,251
Committed Funds	193,145	213,607	226,390	231,665	240,349
	<u>257,795</u>	<u>260,017</u>	<u>268,274</u>	<u>291,957</u>	<u>308,600</u>
Total Funds	<u>406,199</u>	<u>412,912</u>	<u>423,210</u>	<u>463,505</u>	<u>490,224</u>

Financial Statistics

Sources of Income

% of Total Income	1999/00	2000/01	2001/02	2002/03	2003/04
	%	%	%	%	%
Grants from Funding Councils (HEFCE and TTA)	32.8	32.9	32.4	32.8	33.9
Tuition Fees – Home and EC	13.7	13.4	13.8	14.9	14.4
Tuition Fees – Overseas	5.0	5.1	5.3	5.5	6.0
Income from Research Grants and Contracts	23.1	24.6	24.3	24.2	22.6
Income from Residences, Catering and Conferences	8.0	7.6	7.1	7.3	7.0
Other Income	17.4	16.4	17.1	15.3	16.1
Total Income	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Analysis of Expenditure

% of Total Expenditure	%	%	%	%	%
Staff Costs	58.3	58.8	56.8	58.3	57.7
Depreciation	7.8	8.1	8.2	8.8	9.2
Other Operating Expenses	33.1	32.3	34.3	31.8	32.2
Interest Payable	0.8	0.8	0.7	1.1	0.9
Total Expenditure	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Operating surplus for the year as a % of total income	0.4%	0.2%	2.7%	4.2%	5.3%
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Indicators of Financial Strength

Ratio of available general funds to total expenditure (days)	111	81	66	88	94
<i>The number of days expenditure that could be sustained from available funds</i>					
Ratio of long-term liabilities to total net assets	3.5%	4.0%	8.6%	7.2%	6.3%
<i>Measures the extent to which an institution is funded by long term debt</i>					

Indicators of Liquidity and Solvency

Ratio of liquid assets to current liabilities	0.9	0.3	0.4	0.5	0.3
<i>Extent to which current liabilities could be met from cash and liquid investments</i>					
Ratio of current assets to current liabilities	1.8	1.1	1.4	1.4	1.2
<i>Extent to which current liabilities could be met from current assets</i>					
Debtor Days	71	65	81	78	74
<i>Days of total income (excluding Funding Council grants) represented by debtors (excluding SSAP24 provision)</i>					