



BIRMINGHAM CITY
University

Report of the Board of Governors and Audited Accounts 2012-13



BIRMINGHAM CITY UNIVERSITY
CONSOLIDATED FINANCIAL STATEMENTS FOR 2012/13

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OPERATING AND FINANCIAL REVIEW

The Board of Governors of Birmingham City University presents its annual report and the University's audited financial statements for the year ended 31st July 2013.

Birmingham City University is an independent corporation, established as a Higher Education Corporation under the terms of the Education Reform Act 1988, and of an Instrument of Government approved by the Privy Council in April 1993. The University is an exempt charity within the meaning of the Charities Act 2011. The Board of Governors of the University are the charitable Trustees of the University.

The University's Board of Governors has reviewed the University's Public Benefit statement in light of the new public benefit guidance issued by the Charity Commission in September 2013. The Board considers that in the nature of its public benefit statement; the ways in which the University operates as a Charity; and the ways in which it reports on the charitable activities it undertakes, it is fully compliant with the Charity Commission's general public benefit guidance.

The University's charitable objects and our activities for the public benefit are fully reflected in the University's Corporate Plan, in our operational plans, and in the ways in which the University is led and managed.

The following report summarises the Board's assessment of how the University has delivered its charitable purposes for the public benefit and the University's overall performance in 2012/13. In discussing and approving this report, the Board, as Trustees, has had regard to the Charity Commission's guidance on Charitable Purposes and Public Benefit.

Public Benefit Statement

The University's main charitable purpose is the advancement of education. This purpose derives from Section 124 of the Education Reform Act 1988 which established what is now, Birmingham City University, as a Higher Education Corporation. Its purpose is expressed in the University's mission, updated in July 2011, which is: to transform the prospects of individuals, employers and society through excellence in practice-based education, research and knowledge exchange.

As well as meeting its main charitable purpose of the advancement of education, the University also makes a significant contribution to the following charitable purposes identified in the 2011 Charities Act:

- The advancement of health or the saving of lives
- The advancement of citizenship or community development
- The advancement of the arts, culture, heritage or science
- The promotion of ... equality and diversity
- The advancement of environmental protection or improvement

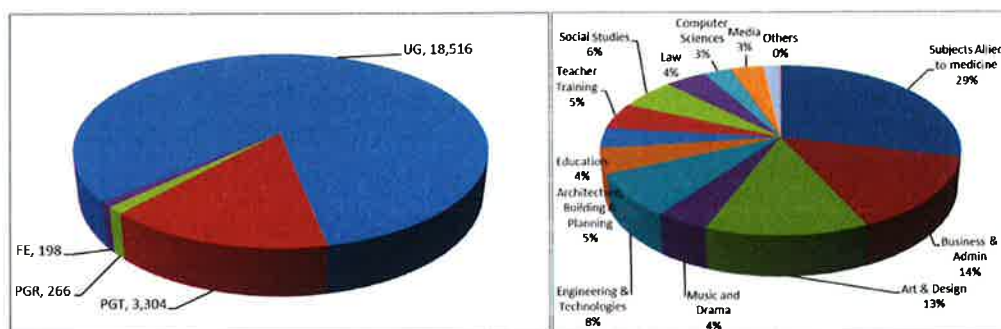
The University has undertaken an awareness raising programme to ensure that all Governors, all managers and key individuals within the University are aware of the University's obligations as an exempt charity, and of the requirements for serious incident reporting. A serious incident reporting procedure has been established. During 2012/13 no serious incidents or incidents of harm to beneficiaries were reported within the University, and the Board of Governors is not aware of any activity which could cause harm to the University's beneficiaries.

The University's activities for the public benefit are summarised below. Further information on the University's charitable activities is provided on the University website (www.bcu.ac.uk)

and in our annual review and corporate plan [<http://www.bcu.ac.uk/about-us/corporate-information>].

The Advancement of Education

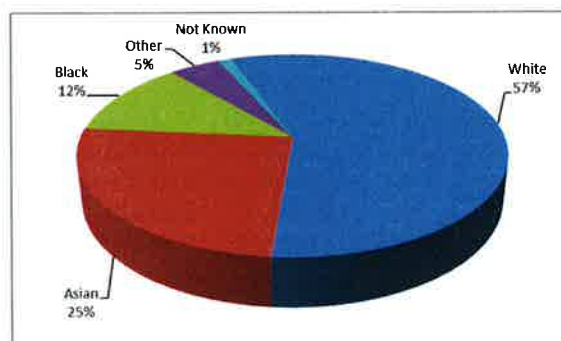
The University carries out its main charitable purpose through the provision of undergraduate and postgraduate education as shown in the following charts.



The University's primary beneficiaries are the students who study and learn at the University. The University's activities also benefit society at large, through the education and training of students who upon graduation make a particular contribution to the creative industries and to professional practice, across our broad and varied subject areas.

In 2012/13, 6899 students graduated from undergraduate programmes plus 2228 postgraduates.

In delivering its charitable purpose of the advancement of education, the University has identified for itself a particular role in raising the aspirations of students from less privileged backgrounds, those from ethnic minority backgrounds and those with no previous history of Higher Education. The practice-based nature of the University's provision and its location in one of the youngest and most ethnically diverse cities in the UK mean that it is well placed to deliver on this purpose. The ethnic profile of students is shown in the chart.



Through this work, the University makes a significant and positive contribution to improving the life opportunities of those from less-advantaged backgrounds, which is a major public benefit. This is illustrated by the national indicators of widening participation, in which the University performs exceptionally well both in absolute terms and by comparison to our sector adjusted benchmark.

HESA Performance Indicators show that for 2011-12 the proportion of young full-time first degree entrants:

- From state schools or colleges was 97.0%
- From socio-economic classes 4-7 was 42.2%
- From low participation neighbourhoods was 12.3%

In all of the above indicators, the University's performance exceeded our institutional benchmarks and was well ahead of the UK average.

The University is also proud of the encouragement that is provided to students who have left care and those with disabilities, and puts appropriate targeted support and positive interventions in place to ensure that their University experience is rewarding and fruitful.

The University has committed to spend over £3m of Home/EU undergraduate tuition fee income on financial support for those from less wealthy family backgrounds and on access

and retention measures. This includes the University's match funding to the Government National Scholarship Programme, regional collaborative activity that continues to take forward the successful activity previously funded through AimHigher, University outreach and activities to support student retention, progression and achievement. The University has also committed resource on achieving the sector adjusted benchmark for the participation of students in receipt of disabled students' allowance.

In 2012/13, the University received and administered over £4.1m of funding for Widening Participation and Improving Retention. These funds were used to promote a range of activities to raise aspirations among under-represented groups; maximise opportunities for access to HE; meet the needs of a diverse student group including social, pastoral and welfare needs to help them achieve success; and to help under-represented groups develop the skills and attitudes necessary to fulfil their ambitions.

In addition, the University has sponsored the establishment of the Birmingham City University Academies Trust during 2012/13 and the first school, City Road Primary, has been adopted into the Trust. The school currently caters for around 400 pupils aged three to 11 (including its nursery). As a member of the Trust, the University will play a pivotal role in developing and improving the learning experience of all its pupils by bringing a wide range of expertise and strategic leadership to the Academy.

The University has also won a significant contract as the West Midlands regional provider for the education charity Teach First, which seeks to ensure that all children, regardless of their family income, receive a first class education. The charity recruits, trains and supports graduates as teachers to work in schools in low income communities.

Prizes and Scholarships, Bursaries and Hardship Funds

Our charitable purpose of the advancement of education is demonstrated also through our Bursaries and Hardship Funds. The University administers in excess of £4m of trust and endowment funds, through its Trustee Committee. These funds exist to provide a range of bursaries, prizes, scholarships and awards to assist the students, our key beneficiaries, to achieve their potential, and in recognition of academic excellence in specific fields. In 2012/13 the Trustee Committee approved the disbursement of £207k in bursaries, scholarships and prizes from these Trust Funds.

In addition to these trust funds, the University distributed over £700k of grants and loans to students facing particular and unforeseen financial hardship. Students who are at risk of dropping out, for financial, family or other circumstantial reasons, have access to these hardship funds. Loans and grants are made to students on the basis of evidence, to help them to resolve their problems and return to and complete their education.

The Advancement of Health or Saving Lives

The University delivers benefit to its secondary beneficiaries, the public at large, through the undertaking of research and the publication of research results. The University has a clear focus on research that has a direct practical outcome and impact, particularly in health-related areas.

Work is underway to prevent the recurrence of endometriosis, a common and painful condition in which small pieces of the womb lining are found outside the womb, which is taking place at both the University's Centre for Health and Social Care Research and at Birmingham Women's Hospital. Current projects within the University's Pain Research Group include investigating the impact of psychological characteristics within a therapy known as Spinal Cord Stimulation, and investigating brain activation associated with chronic pain using neuroimaging techniques.

The Advancement of the Arts, Culture, Heritage or Science

The University's location within the centre of the city and its concentration of arts and performance-related educational provision, mean that the University is a major contributor to the cultural life of the city and the region.

This has been further enhanced with the opening of the University's Parkside Building, housing the Birmingham Institute of Art and Design and the School of Media, as the next phase of development of the University's city centre campus, which is on the edge of the city's cultural quarter.

Birmingham City University offers a distinctive creative and cultural portfolio and plays a significant contributor within the creative and cultural industries:

- Over 5,000 students (over 20 per cent of our student population) are enrolled on creative and cultural courses annually.
- We produce more graduate talent in these areas than anywhere outside London.
- We produce world class research in creative and cultural subjects.

Birmingham Conservatoire typically organises around 200 concerts and recitals per annum, many of them free, with an estimated audience of 40,000. These concerts enable the public to hear music of the highest professional standard, performed by the Conservatoire's professional musicians and student musicians. Through such performances the public in the City and the West Midlands have access to a musical repertoire that is rarely available elsewhere.

Composers from the Conservatoire contributed four out of twenty works commissioned as part of the London 2012 Cultural Olympiad and subsequently received an award from the Royal Philharmonic Society (RPS).

The University organises the Birmingham Made Me Design Expo, a unique business-education collaboration to promote Birmingham's achievements in design and innovation.

The Advancement of Citizenship and Community Development

Evidence of the University's charitable activities for the public benefit can be found in our strong commitment to Corporate Responsibility, and a strong ethos of good community citizenship. We are committed, through our activities, to improving the life chances of individuals, and to enhancing the social, economic, cultural and physical environments of key communities within which we operate and with which we work. Students regularly participate in volunteering activities, with community groups, local schools and charities. University staff serve as trustees and advisers to various local charities, and we have an active programme of staff acting as school governors in more deprived inner city schools which require enhanced governance support.

The University's Centre for Applied Criminology includes several leading criminologists with renowned international reputations. There are well established links with HMP Grendon, a psychiatric prison to provide treatment for prisoners with antisocial personality disorders, which is the only prison in Europe that operates as a therapeutic community seeking to lower the number of reoffenders. This link has been formalised in a Memorandum of Understanding between the prison and the University.

The University launched The Concept Factory due 2012/13. This offers a social space for likeminded enterprising students and graduates to network and be creative; undertake a range of free training workshops, programmes and events; and receive mentoring support with advisors available to give help in setting-up a business, becoming self-employed or starting a social enterprise.

The promotion of ... Equality and Diversity

Birmingham City University is strongly committed to equality and diversity and has a highly diverse student population. For example, over 42 percent of the student population is Black and Minority Ethnic (BME), 63 percent female and, 8 percent of students have a declared disability. Monitoring of the 2012/13 full-time undergraduate population demonstrates further increase in the participation of new entrants originating from low socio-economic backgrounds, those who declared a BME background and those from neighbourhoods with historically low HE participation.

The University also has favourable staff diversity profiles where data is collected for age, disability, sex/gender and ethnicity. For example 6% of Birmingham City University staff declared a disability compared to 3% in the UK HE sector and approximately 18% of staff are from a BME background compared to 13% in the UK HE Sector. Within the recent Staff Engagement Survey, most of the respondents felt satisfied with their level of diversity awareness and declared that they believe that the University is committed to equality of opportunity for all staff.

The Advancement of Environmental Protection or Improvement

In undertaking its activities the University aims for the highest environmental standards, and promotes environmental awareness and good practice among its staff, its students, and major suppliers. As evidence of its efforts, the University has been one of just ten UK universities to be awarded the EcoCampus Platinum award. The University has achieved a 19.4% reduction in carbon emissions from energy use in buildings and a 37% reduction in water use when compared to 2005/06. The new Parkside Building, which opened to students for the 2013/14 academic year, has been constructed to the BREEAM Excellent standard.

The University and the Students' Union have joint Fairtrade Status for our commitment to using Fairtrade products whenever practicable.

Our commitment to environmental improvement extends to our research priorities. For example the University is leading the European Climate-KIC (Knowledge Innovation Community) Transitions Project, involving several large companies, universities and small businesses to create a suite of planning support products and services to deliver innovation in climate control.

Non-Financial Performance Measures

In carrying out its charitable purposes, and particularly the advancement of education, the University monitors progress against a range of non-financial measures which relate to the reputation of the University, the success of its beneficiaries (particularly its students) and the value of its staff.

Within the Guardian League Table, the University position was fairly steady, moving from 60th to 61st; and from 63rd to 66th in the Complete University Guide. However, the increase over recent years in overall satisfaction within the National Student Survey (NSS) has not been maintained, with the latest score falling from 83% to 82% whilst the national average rose from 85% to 86%. This is one of the significant factors used within the League Tables rankings and has led to the University falling from 75th to 91st within the more recent Times Table. Student satisfaction is an important focus of current management attention and a range of actions are being put in place in advance of the next survey in the spring. This also forms part of a broader programme of action that has been launched during 2012/13 entitled 'Partners for Success' which in addition covers retention, progression and achievement and employment outcomes.

Other performance measures relating to the student body:

- For the second year in succession, the 2012 graduate destinations results showed significant improvement for those in employment/further study, with a published Performance Indicator outcome of 89.9%, which is ahead of the University's benchmark and the median for its sector comparators.
- The HESA Performance Indicators for non-continuation have continued to maintain the improvement shown over recent years, and most notably, the projected proportion of full-time first degree students to complete their degree improved from 71.3% to 77.1%.

As concerns staff, all faculties and departments have now achieved at least the basic standard for Investors in People (IIP), with the number achieving gold-level accreditation having increased to 6. The Staff Engagement Survey was repeated with an increase in response rate to 57%; and of the 16 questions that demonstrated a statistically significant difference compared to the previous survey, 13 of them showed an improved outcome.

Financial Strategy and Future Prospects

Throughout the last four years the University has demonstrated strong and stable financial performance, while continuing to invest in its facilities. It is recognised that the environment in which the University now operates brings new challenges and new competitive pressures.

The University's Board of Governors has taken the opportunity to refresh the Corporate Plan and to re-state the University's commitment to its charitable objects; to continuing academic innovation; to robust financial management and the generation of surpluses for investment; to reducing its carbon footprint and to increasing its efficiency in the use of resources.

The Board has also taken the opportunity to review our mission and to articulate our vision of becoming the leading university for creative and professional practice, inspired by innovation and enquiry.

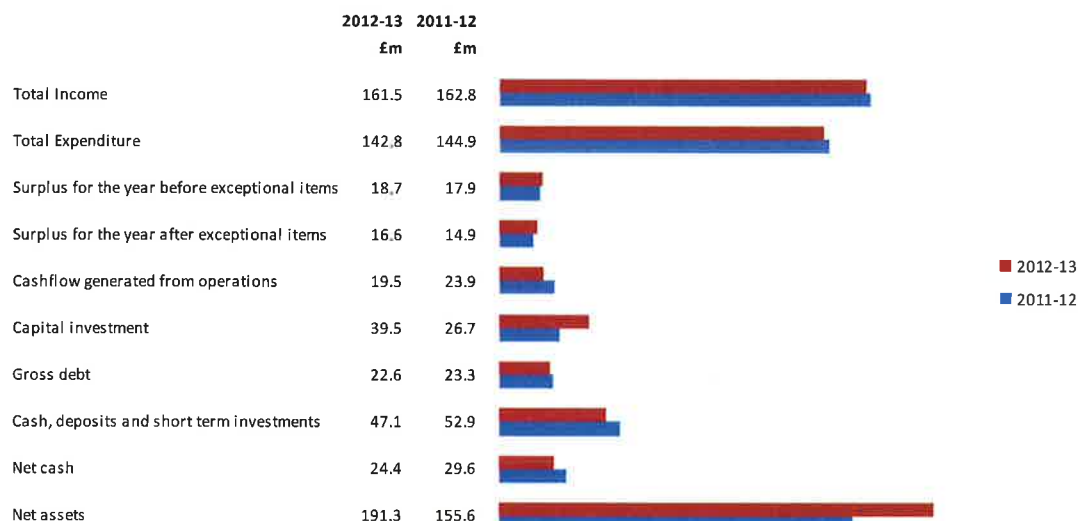
The University recognises and appreciates the significant public investment in higher education and the personal financial investment that individual students make in their educational experience. The University's financial strategy is to operate as cost-effectively as possible, while ensuring that its students and stakeholders receive the services and facilities they require. In the more volatile funding environment we face we will continue to place a high priority on the financial sustainability of the University, ensuring that we can continue to renew and update our buildings, resources and facilities to provide an outstanding learning environment. It will be more important than ever that our programmes of teaching and research reflect the most up-to-date thinking and practice and are responsive to employer and industry demand where appropriate.

In 2012/13 100% of the University's financial surplus from the previous academic year was used to improve the provision of education.

Looking forward to 2013/14, we have budgeted for a lower level of surplus, reflecting a combination of the continued reduction in HEFCE funding, inflationary pressures and uncertainties remaining around the impact of the new financial structure for higher education provision.

Key Financial Highlights

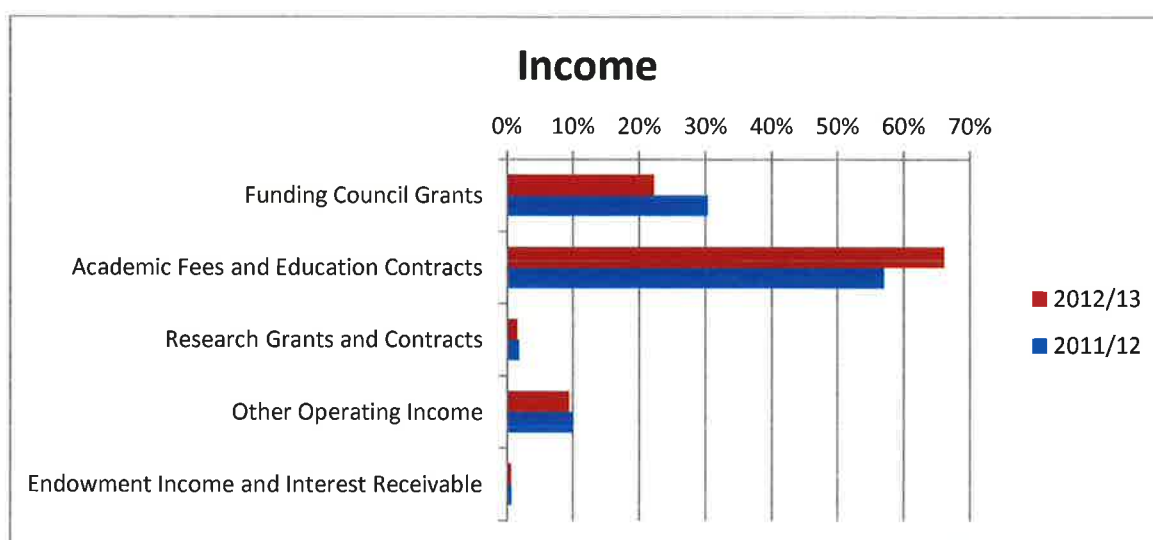
The consolidated accounts for 2012/13 have been prepared in accordance with the requirements of the Higher Education Funding Council for England. The consolidated results for the year ended 31 July 2013 are summarised below:



Financial Performance 2012/13

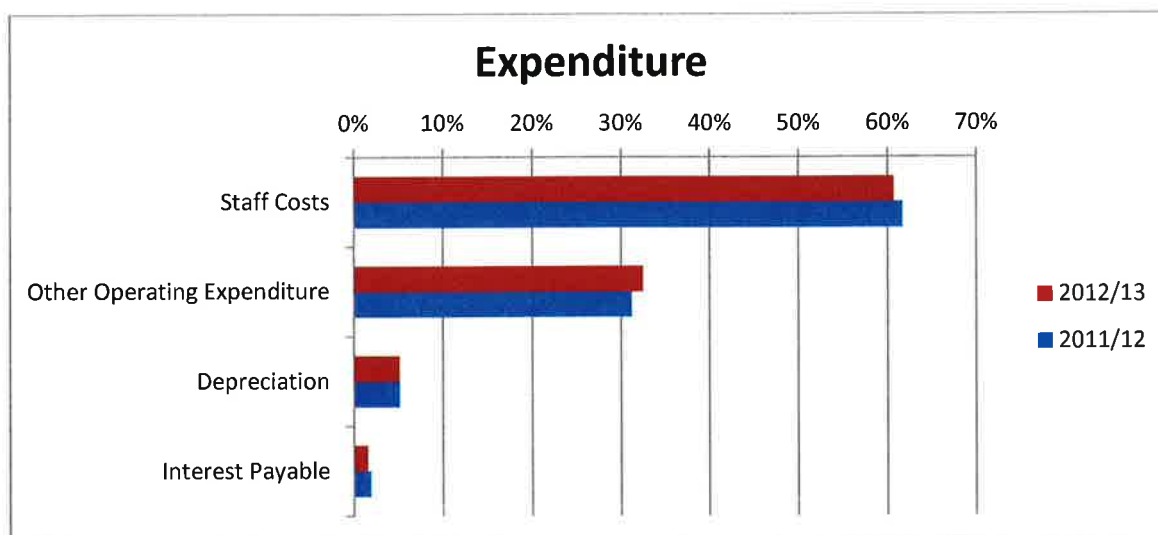
The external operating environment continued to present significant challenges with a continuing deterioration in the global economy and expected reductions in public expenditure emerging from this. Against this backdrop, the results for the year reflect a strong financial performance. Before exceptional items the Group achieved a surplus of £18.7m (2012: £17.9m).

Total income for the year was £161.5m (2012: £162.8m) a reduction of £1.3m. This included a decrease of £13.7m in Funding Council Grants, mainly reflecting funding cuts by HEFCE.



Total expenditure for the year was £142.8m (2012: £144.9m) a reduction of £2.1m which included a reduction in Staff Costs of £2.7m offset by a small increase in Other Operating

Expenses of £1.1m reflecting the impact of cost control and efficiency measures implemented by the University.



Capital Investment

Cash invested in capital investment for the year amounted to £39.5m (2012: £26.7m) as the Group continued its Estates Development. This includes expenditure on new facilities in the The Parkside Building (part of the City Centre Campus development) for our art, design and media courses, with cutting-edge technology including industry-standard photographic and TV studios, which was completed in 2013.

Cashflow and Treasury Management

Cashflow from operations for the year was £19.5m (2012: £23.9m). After taking into account capital expenditure and financial investment, the cash outflow before deposits and borrowing amounted to £5.2m (2012: outflow of £5.8m).

The Group has long-term borrowings in the form of mortgages secured on student residential accommodation amounting to £21.6m (2012: £22.4m) of which 91.5% is on a fixed rate basis. In addition, the Group had undrawn borrowing facilities amounting to £30m. The borrowings are subject to a set of financial covenants and the Group has complied with these requirements during the year.

Gross debt at the year end was £22.6m (2012: 23.3m). The Group has cash and money market deposits amounting to £47.1m at 31 July (2012: 52.9m) giving net cash balances of £24.4m (2012: 29.6m) as at the year end.

The cash balances are invested with a variety of counterparties, including UK banks and building societies. The counterparty list has been kept under close review during the year with a view to balancing risk and return, but with short term rates being at historically low levels, the Group is earning lower interest on its cash balances than the rates payable on its mortgages.

Corporate Governance and Internal Control

The University endeavours to conduct its business in accordance with the seven Principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). It has adopted the Governance Code of Practice published by the Committee of University Chairs in November 2004 (updated March 2009) with only minor variations.

The Corporation

The University is an independent corporation, established as a Higher Education Corporation under the terms of the Education Reform Act 1988 and of an Instrument of Government approved by the Privy Council in April 1993. The University is an exempt charity within the meaning of the Charities Act 2011. Its powers are set out in the Act; its framework of governance is set out in the Articles of Government which were approved by the Board of Governors in November 1995. The current version of the Articles was approved by the Privy Council in September 1995.

The Board of Governors and the Senate

The Articles require the University to have a Board of Governors and a Senate, each with clearly defined functions and responsibilities, to oversee and manage its activities.

The Board is the executive governing body, responsible for the finance, property and staffing of the University. It is specifically required to determine the educational character and mission of the University and to set its general strategic direction.

The Board, which includes the Vice-Chancellor within its membership, has a majority of independent members, chosen in line with strict criteria contained in the legislation. It is customary for the Chairman of the Board to be elected from the independent members. There is also provision for the appointment of co-opted members, some of whom may be members of the staff of the University, and for representatives of the Senate and of the student body.

Subject to the overall responsibility of the Board of Governors, the Senate oversees academic affairs and draws its membership entirely from the staff and the students of the University. It is particularly concerned with general issues relating to the teaching and research work of the University.

In accordance with the Articles of Government of the University, the University Secretary has been appointed as Clerk to the Board and, in that capacity, provides independent advice on matters of governance to all Board members.

The University maintains a Register of Interests of members of the Board and senior officers which may be consulted by arrangement with the University Secretary.

The members of the Governing Body are its trustees for the purpose of charity law. The trustees and officers serving during the year and until the date the financial statements were formally approved were as follows:

Chairman:	Mr Alex Stephenson, CBE, BEng (Marine) (Independent Member)
Deputy Chairman:	Mr Vic Cocker, CBE, BA (Econ) (Independent Member)
Ex-officio Member:	Professor David Tidmarsh, BSc(Hons), PhD, CEng,FIMECHE,FCMI (Vice-Chancellor) (until 30 November 2012) Professor Cliff Allan, FRSA (Vice-Chancellor) (from 1 December 2012)
Independent Members:	Mr Jim Beeston, OBE, Dip.T.P, M.R.T.P.I Honorary Alderman John Charlton, CBE The Rt Hon Lord Grocott PC Mr Mark Hopton, FCA (from 20 June 2013) Mr Joe Kelly FCA, MBA

Ms Jenny Ladbrooke, BA (Hons), MCIPD
Ms Nicky Lloyd, CPA, FCA, BA (Hons)
Ms Jenny Loynton, LLB
Mr Andrew Messenger, FCIB

Co-opted Members: Dr Waqar Azmi, OBE
Professor Graham Henderson, CBE, DL (from 25 July 2013)
Ms Ann Jones, BA (Hons), PGCE
Professor David Roberts, BA (Hons), DPhil, FHEA, FEA
(teaching staff representative)
Mr Raaj Shamji, BA (Hons), ACMA, MBA, MEGTT (general
staff representative)
Mr Shaun Smith

Member of teaching staff
nominated by Senate: Professor Stuart Brand, BSc (Hons), PhD

Student Governor: Mr Elgan Hughes (to 30 June 2013)
Mr Joe Boyd (from 1 July 2013)

No members of the Board received remuneration for their services as Governors. Expenses paid to Board members (for travel and necessary subsistence) totalled £512 for 2012/13.

Ex-officio and elected staff representatives on the Board had their salaries agreed in the normal way as employees (i.e. in accordance with agreed salary scales or, in the case of the Vice-Chancellor, via the approval of the University's Personnel and Remuneration Committee). No staff representatives received additional payment for their role as Trustees.

All members and co-opted members of the Board of Governors and its Committees are required to complete the annual Register of Interests. In addition, declarations of interest are sought and, where appropriate, minuted whenever substantive matters are discussed or decided.

The University's Governance structure is supported by a number of wholly-owned subsidiary companies. All non-charitable work carried out by the University is undertaken through these subsidiary companies.

The Vice-Chancellor

The Vice-Chancellor is the chief executive officer who is responsible to the Board of Governors for the organisation, direction and management of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the Accountable Officer who reports to HEFCE on behalf of the University. The Vice-Chancellor can be summoned to appear before the Public Accounts Committee of the House of Commons.

The senior officers of the University in 2012/13 were the Pro-Vice-Chancellors, the Chief Operating Officer, the University Secretary and the Director of Finance and Resource Allocation who, together with the Vice-Chancellor, comprise the Vice-Chancellor's Office. As chief executive officer, the Vice-Chancellor has overall executive responsibility for the development of strategy, the identification and planning of new developments and the shaping of the University's ethos. Although the other senior officers all contribute in various ways to this aspect of the work, ultimate responsibility for what is done rests with the Vice-Chancellor.

In the executive leadership of the University the Vice-Chancellor is supported by the University Executive Group, which comprises all members of the Vice-Chancellor's Office, the six Executive Deans of faculty; the Director of Human Resources; and the Director of Learning and Teaching.

Committees of the Board of Governors

The Board of Governors meets regularly and at least three times each academic year, but much of its detailed work is initially handled by committees, namely the Finance Committee, the Personnel and Remuneration Committee, the Nominations and Governance Committee, the Trustee Committee and the Audit Committee. The decisions of these Committees are all formally reported to the Board.

A significant proportion of the membership of these committees consists of independent and co-opted lay members of the Board. Student and staff members are not eligible to serve on these committees, except for the Trustee Committee. It is customary for the Chair to be selected from among the lay members serving on the committees. The Vice-Chancellor is required to withdraw from meetings of the Personnel and Remuneration Committee when his own salary and terms and conditions of service are under discussion.

CUC Governance Code of Practice

The University has complied with the Governance Code of Practice published by the Committee of University Chairs in November 2004 and with its update, published in March 2009, with only two minor variations. These relate to the effectiveness of the Senate and the locus of responsibility for ensuring that the University is well connected with its stakeholders. The Board has no formal remit to review the effectiveness of Senate. However, at the invitation of the Board, Senate reviewed its own effectiveness and that of its committees in 2007/08. As a further minor variation from the Code the Board concluded that it would be more appropriate for the Vice-Chancellor, rather than the Chairman, to be charged with ensuring that the University is well connected with its stakeholders and that the Chairman should be responsible for ensuring that the responsibility is discharged effectively, as with other responsibilities held by the Vice-Chancellor.

Internal Control

The Board of Governors is responsible 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 has responsibility.

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

The University's system of internal control is based on a continuous process of management and monitoring, designed to:-

- identify the principal risks to the achievement of policies, aims and objectives;
- evaluate the nature and extent of those risks;
- manage the risks efficiently, effectively and economically.

The following specific actions have been taken in relation to risk management.

- The Board has approved a Risk Management and Internal Control Policy.
- The respective responsibilities of the Board, the Audit Committee and the Vice-Chancellor's Office have been identified.
- The Vice-Chancellor's Office has compiled, and the Board has approved, a "Risk Register" which identifies and assesses the key risks that could prevent the University Group from achieving its strategic objectives.
- In addition to providing regular reports on the steps being taken to manage risks in their areas of responsibility, the Vice-Chancellor's Office is committed to reviewing the Risk Register twice a year and reports its findings to the Audit Committee and the Board.

- The Audit Committee provides the Board with regular reports and advice on the implementation and continuing effectiveness of the University's risk management and internal control arrangements.

The University has an internal audit service, which operates to standards defined in the HEFCE Code of Practice for Audit and Accountability and which was last reviewed for effectiveness by the HEFCE Audit Service in March 2007. The internal audit service submits regular reports which include the head of internal audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. The Audit Committee holds an annual meeting both with senior members of the internal audit team and the external audit team at which no members of the University Executive are present.

The Board of Governors' review of the effectiveness of the system of internal control is informed by the work of the internal and external auditors, the Audit Committee and the Vice-Chancellor's Office, who have operational responsibility for the development and maintenance of the internal control framework.

On the basis of the foregoing, procedures have been in place as from 1st August 2012 to enable a full statement on internal control to be made for the whole of the financial year ended 31st July 2013 and up to the date of approval of the Financial Statements.

Going Concern

The Board of Governors considers that the University has adequate resources to continue in operational existence for the foreseeable future and, therefore, has adopted the going concern basis of accounting in these financial statements.

RESPONSIBILITIES OF THE BOARD OF GOVERNORS

In accordance with the Education Reform Act 1988, the Board of Governors of the University 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 Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice: Accounting for Further and Higher Education 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 Board of Governors of the University, the Board of Governors, through the Vice-Chancellor, 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 and cashflows for that year.

In causing the financial statements to be prepared, the Board of Governors has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- it is appropriate that the financial statements are prepared on the going concern basis.

Having regard to its charitable purpose, the Board of Governors has taken reasonable steps to:

- ensure that income from the Higher Education Funding Council for England, the Teaching Agency, the Skills Funding Agency and the Education Funding Agency, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2013 have been applied for the purposes for which they were received and in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England dated 1 August 2010, the Financial Memorandum with the Teaching Agency and the funding agreement with the Skills Funding Agency;
- 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;
- secure the economical, efficient and effective management of the University's resources and expenditure.

REPORT OF THE INDEPENDENT AUDITORS TO THE BOARD OF GOVERNORS

We have audited the group and University financial statements (the “financial statements”) of Birmingham City University for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Board of Governors, in accordance with paragraph 13(2) of the University's Articles of Government and section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Board of Governors 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 Board of Governors for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Board of Governors and auditor

As explained more fully in the Responsibilities of the Board of Governors of Birmingham City University's Statement set out on page 13 the Board of Governors is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31 July 2013 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion, the statement of internal control included as part of the Corporate Governance and Internal Control Statement is inconsistent with our knowledge of the University and group.



Trevor Rees

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

28 November 2013

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the Year Ended 31st July 2013

	<u>Note</u>	<u>2012/13</u> <u>£'000</u>	<u>2011/12</u> <u>£'000</u>
INCOME			
Funding Council Grants	2	35,852	49,555
Academic Fees and Education Contracts	3	106,907	92,902
Research Grants and Contracts	4	2,492	2,968
Other Operating Income	5	15,204	16,214
Endowment Income and Interest Receivable	6	998	1,132
Total Income		<u>161,453</u>	<u>162,771</u>
EXPENDITURE			
Staff Costs	7	86,732	89,440
Other Operating Expenses	9	46,397	45,263
Depreciation of Assets at Cost and Valuation	11	7,407	7,476
Interest Payable	10	2,233	2,729
Total Expenditure		<u>142,769</u>	<u>144,908</u>
Surplus before Exceptional Items		18,684	17,863
EXCEPTIONAL ITEMS	11	(2,045)	(3,000)
SURPLUS FOR THE YEAR		16,639	14,863
Surplus transferred to endowment funds	20	(20)	(14)
SURPLUS FOR THE YEAR RETAINED IN GENERAL RESERVES		<u>16,619</u>	<u>14,849</u>

The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations.

The notes on pages 21 to 47 form part of these accounts.

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES

For the Year Ended 31st July 2013

	Note	2012/13 £'000	2011/12 £'000
Surplus for the year		16,639	14,863
Difference between an historical cost depreciation charge and the actual depreciation charge for the year		767	778
HISTORICAL COST SURPLUS FOR THE YEAR		<u>17,406</u>	<u>15,641</u>

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the Year Ended 31st July 2013

	Note	2012/13 £'000	2011/12 £'000
Surplus for the year		16,639	14,863
New endowment assets received	20	830	117
Revaluation of endowment investments	20	327	51
Pension Scheme actuarial gain/(loss)	26	5,597	(8,830)
TOTAL RECOGNISED GAINS		<u>23,393</u>	<u>6,201</u>
Reconciliation:			
Opening endowments and reserves at 1st August		142,723	136,522
Total recognised gains for the year		23,393	6,201
Closing endowments and reserves at 31st July		<u>166,116</u>	<u>142,723</u>

The notes on pages 21 to 47 form part of these accounts.

BALANCE SHEETS AS AT 31st JULY 2013

		<u>Consolidated</u>		<u>University</u>	
	<u>Note</u>	<u>2013</u> <u>£'000</u>	<u>2012</u> <u>£'000</u>	<u>2013</u> <u>£'000</u>	<u>2012</u> <u>£'000</u>
FIXED ASSETS					
Tangible Assets	11	234,074	207,234	227,879	202,223
Investments	12	205	205	4,505	4,505
		<u>234,279</u>	<u>207,439</u>	<u>232,384</u>	<u>206,728</u>
ENDOWMENT ASSETS	13	<u>4,555</u>	<u>3,378</u>	<u>4,555</u>	<u>3,378</u>
CURRENT ASSETS					
Stocks	14	135	115	135	115
Debtors	15	4,276	8,532	9,921	15,978
Current asset investments		17,000	18,000	17,000	18,000
Investments: Short Term Deposits		9,000	41,800	9,000	41,800
Cash at Bank and in Hand		37,859	10,970	37,771	10,737
		<u>68,270</u>	<u>79,417</u>	<u>73,827</u>	<u>86,630</u>
CREDITORS DUE WITHIN ONE YEAR	16	<u>(32,743)</u>	<u>(48,293)</u>	<u>(31,734)</u>	<u>(46,979)</u>
NET CURRENT ASSETS		<u>35,527</u>	<u>31,124</u>	<u>42,093</u>	<u>39,651</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		274,361	241,941	279,032	249,757
CREDITORS DUE AFTER MORE THAN ONE YEAR	17	(22,240)	(22,527)	(22,240)	(22,527)
PROVISIONS	18	<u>(813)</u> <u>(23,053)</u>	<u>(821)</u> <u>(23,348)</u>	<u>(500)</u> <u>(22,740)</u>	<u>(500)</u> <u>(23,027)</u>
NET ASSETS excluding pension liability		251,308	218,593	256,292	226,730
PENSION LIABILITY	26	(59,961)	(62,964)	(59,961)	(62,964)
NET ASSETS including pension liability		<u>191,347</u>	<u>155,629</u>	<u>196,331</u>	<u>163,766</u>
Represented by:					
DEFERRED CAPITAL GRANTS	19	<u>25,230</u>	<u>12,905</u>	<u>24,179</u>	<u>12,735</u>
ENDOWMENTS					
Permanent	20	<u>4,555</u>	<u>3,378</u>	<u>4,555</u>	<u>3,378</u>
REVALUATION RESERVE	21	42,386	43,561	42,386	43,561
GENERAL RESERVE					
General Reserve excluding pension liability		179,137	158,749	185,172	167,056
Pension Reserve	26	<u>(59,961)</u>	<u>(62,964)</u>	<u>(59,961)</u>	<u>(62,964)</u>
General Reserve including pension liability	22	<u>119,176</u>	<u>95,785</u>	<u>125,211</u>	<u>104,092</u>
TOTAL FUNDS		<u>191,347</u>	<u>155,629</u>	<u>196,331</u>	<u>163,766</u>

BALANCE SHEETS AS AT 31ST JULY 2013 (continued)

The accounts on pages 16 to 47 were approved by the Board of Governors on 28 November 2013 and signed on its behalf by:

J A Stephenson, Chairman of the Board of Governors



C Allan, Vice-Chancellor



R C Spilsbury, Director of Finance and Resource Allocation



The notes on pages 21 to 47 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31st July 2013

	<u>Note</u>	<u>2012/13</u> <u>£'000</u>	<u>2011/12</u> <u>£'000</u>
Net Cash Inflow from Operating Activities	29	19,524	23,911
Returns on Investments and Servicing of Borrowings	30	(196)	(62)
Capital Expenditure and Financial Investment	31	(24,534)	(29,679)
Cash outflow before Deposits and Borrowing		<u>(5,206)</u>	<u>(5,830)</u>
Decrease in Short Term Deposits	32	32,800	11,900
Cash outflow associated with Borrowings	32	(682)	(755)
INCREASE IN CASH AT BANK	32	<u>26,912</u>	<u>5,315</u>
Cash at Bank at 1st August	32	11,144	5,829
Cash at Bank at 31st July	32	<u>38,056</u>	<u>11,144</u>

As at 31st July 2013 short term deposits of £9,000,000 (2012: £41,800,000) were available to the University, with a further £17,000,000 (2012: £18,000,000) held on longer-term deposit as current asset investments.

MOVEMENTS IN CONSOLIDATED NET BORROWINGS

For the Year Ended 31st July 2013

	<u>Note</u>	<u>2012/13</u> <u>£'000</u>	<u>2011/12</u> <u>£'000</u>
Increase in cash at bank (as above)		26,912	5,315
Decrease in Short Term Deposits		(32,800)	(11,900)
Additional loans		(155)	-
Capital repayments		<u>837</u>	<u>755</u>
Increase in net borrowings during the year		<u>(5,206)</u>	<u>(5,830)</u>
Net cash at 1st August		29,622	35,452
Net cash at 31st July	32	<u>24,416</u>	<u>29,622</u>

The notes on pages 21 to 47 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the University's accounts.

1.1 Accounting Convention

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain land and buildings and Endowment Asset Investments.

1.2 HEFCE Accounts Direction

As instructed by the Higher Education Funding Council for England's Accounts Direction for 2012/13, these financial statements have been prepared in accordance with the 2007 Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and with applicable accounting standards.

1.3 Basis of consolidation

The consolidated financial statements incorporate the accounts of the University and its subsidiary companies.

1.4 Recognition of Income

Income represents amounts invoiced for goods and services, excluding value added tax, supplied in the period and in the case of research, design and development includes the value of work carried out but not yet invoiced. In the case of grants, the value claimable at the date of the balance sheet is brought into account. All income from cash deposits and endowments including realised profits on disposal of assets, is credited to the income and expenditure account in the period in which it is earned. Income from endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to endowments.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the lives of the assets.

The University acts as an agent in the collection and payment of training bursaries from the Training Agency for Schools and of access funds and bursaries from HEFCE. Payments received from the Training Agency for Schools and HEFCE and the subsequent disbursement to students are excluded from the consolidated income and expenditure account and are shown separately in note 33 to the accounts.

1.5 Leasing Costs

Leasing agreements that transfer to the University substantially all the benefits and risks of ownership are considered to be finance leases. All other leases are operating leases.

NOTES TO THE ACCOUNTS (continued)

1. Principal Accounting Policies (continued)

Fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations is treated as finance charges which is amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure over the periods of the leases.

1.6 Post Retirement Benefits

The University participates in three principal, defined benefit pension schemes: the West Midlands Pension Fund (WMPF), the Universities Superannuation Scheme (USS) and the Teacher's Pension Scheme England and Wales (TPS), both of which provide retirement benefits based on final pensionable pay. The assets of the schemes are held separately from those of the University and are administered independently.

WMPF assets are measured using market values; scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The University's share of the pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full and movements are split between operating charges, finance items and, in the Statement of Total Recognised Gains and Losses, actuarial gains and losses.

The USS is a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. 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 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 TPS is accounted for as if it were a defined contribution pension scheme because the University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As a result, the amount charged to the income and expenditure account represents the contributions payable in respect of the accounting period.

1.7 Taxation

The University is an exempt charity within the meaning of schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993), and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA2009 and sections 471, and 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation

NOTES TO THE ACCOUNTS (continued)

1. Principal Accounting Policies (continued)

of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

All subsidiary companies (with the exception of the Technology Innovation Centre, which is a charity) are liable to Corporation tax and Value Added Tax in the same way as any other commercial organisation.

1.8 Tangible Fixed Assets and Depreciation

For land and buildings, the transitional rules set out in FRS15: "Tangible Fixed Assets" were applied in 1999/2000 such that the book values at implementation were retained. Freehold and leasehold land and buildings were valued in 1996 by DTZ Debenham Thorpe Limited, Chartered Surveyors, on the basis of Depreciated Replacement Cost or Open Market Assessment depending on the nature of each property. The valuations were carried out in accordance with the Valuation and Appraisal Manual published by the Royal Institution of Chartered Surveyors.

Equipment is stated at cost. Equipment costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Depreciation is provided so as to charge the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Existing freehold buildings	- up to 60 years
Leasehold land and buildings	- period of lease or useful economic life, if shorter
Newly completed buildings:	
Externals	- up to 60 years
Services	- 30 years
Finishes	- 20 years
Fixtures and fittings	- 30 years
Equipment	- between 3 and 10 years

No depreciation is provided on freehold land or on assets in the course of construction.

Grants received for the acquisition of tangible fixed assets are treated as deferred capital grants and credited to the income and expenditure account over the estimated useful economic lives of the assets to which they relate.

NOTES TO THE ACCOUNTS (continued)

1. Principal Accounting Policies (continued)

1.9 Investments

Endowment Asset Investments are included in the balance sheet at market value.

1.10 Stocks

Stocks are stated at the lower of cost and net realisable value.

1.11 Reimbursement of Inherited Liabilities

On 1st April 1989 tangible fixed assets and associated loan debt were transferred from Birmingham City Council (BCC) to the University under the Education Reform Act 1988. From April 1989 until February 2006 loan debt interest and principal payable by the University to BCC were reimbursed by the HEFCE. Receipts in reimbursement of interest payable were included in the income and expenditure account as income; amounts reimbursed in relation to principal repayments were credited directly to the revaluation reserve. In February 2006 the remaining inherited loan debt was repaid early and in full by the University; this transaction was also fully funded by the HEFCE.

The tangible fixed assets associated with the inherited loan debt continue to be depreciated in accordance with the accounting policy stated above. In addition, a transfer equivalent to the depreciation charge on these inherited fixed assets is made from the revaluation reserve to the general reserve to reflect the fact that, as the HEFCE has reimbursed the full amount of inherited loan debt principal, there will be no overall effect on the general reserve as a result of the depreciation of inherited fixed assets.

1.12 Cash Flows and Liquid Resources

Cash flows consist of increases or decreases in cash. Cash includes cash at bank and in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources consist of readily disposable assets. They include term deposits held as part of the University's treasury management activities, but exclude any such assets held as Endowment Asset Investments.

1.13 Provisions

Provisions are recognised when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of that obligation can be made.

1.14 Accounting for Charitable Donations

Charitable Donations are accounted for as follows:

- a) Unrestricted donations. Where the University receives a donation, bequest or gift with no specific terms attached to its use, it is recognised as a charitable donation in the consolidated income and expenditure account once the donation

NOTES TO THE ACCOUNTS (continued)

1. **Principal Accounting Policies (continued)**

has been received or, if before receipt, there is sufficient evidence to provide certainty of receipt and the value can be measured with reasonable certainty.

- b) Permanent endowments. Donations which the donor intends to be invested permanently to produce an income for the benefit of the University or any specific purpose within the University are treated as permanent endowments.
- c) Expendable endowments. Donations which are intended to be retained for the benefit of the University but where the terms enable the use of capital balances are treated as expendable endowments.
- d) Deferred capital grants. Donations received towards the cost of tangible fixed assets other than land are treated as deferred capital grants and are released to income and expenditure account over the life of the related asset.
- e) Tangible fixed assets. Land donated for use by the University is valued and the associated credit is taken to the income and expenditure account as a donation in other income in the year of receipt.

1.15 Heritage Assets

Heritage assets are defined as assets that are held principally for their contribution to knowledge and culture and the accounting for these assets is governed by FRS30.

Heritage assets valued at over £25,000 are capitalised and recognised in the balance sheet provided appropriate valuations are available. Donated assets that are capitalised will be reported in the income and expenditure account at valuation on receipt.

Valuations are performed by specialist external valuers. Not all donated assets will be subject to valuation because the cost of valuation is not considered to be commensurate with the benefits to users of the accounts. Heritage assets that are irreplaceable originals for which no reliable value can be attributed will not be capitalised in the financial statements.

Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material. They are subject to impairment reviews if damage or deterioration is reported. They are maintained and the cost of maintenance is charged to the income and expenditure account as incurred.

NOTES TO THE ACCOUNTS (continued)

2. Funding Council Grants

	2012/13 £'000	2011/12 £'000
HEFCE:		
Teaching funds	27,302	38,115
Research funds	1,597	1,733
Other specific grants	1,507	2,295
Deferred capital grants released	1,473	1,515
National Scholarship Programme	564	-
	<u>32,443</u>	<u>43,658</u>
Skills Funding Agency/Education Funding Agency	1,155	990
Training Agency for Schools	<u>2,254</u>	<u>4,907</u>
	<u>35,852</u>	<u>49,555</u>

Funding Council student access funds and training bursaries are excluded from income and expenditure (see Note 33).

3. Academic Fees and Education Contracts

	2012/13 £'000	2011/12 £'000
Full-time home/EU fees	56,852	38,789
Full-time international fees	15,456	17,926
Part-time fees	5,511	5,301
Further education fees	146	192
Full cost course fees	<u>1,316</u>	<u>2,195</u>
	<u>79,281</u>	<u>64,403</u>
Health professions education contracts	<u>27,626</u>	<u>28,499</u>
	<u>106,907</u>	<u>92,902</u>

The health professions education contracts include the training of nurses (pre- and post- registration), midwives, radiographers, radiotherapists, speech and language therapists and operating department practitioners for the NHS and the Royal Centre for Defence Medicine.

4. Research Grants and Contracts

	2012/13 £'000	2011/12 £'000
Research grants	2,249	2,645
Research contracts	<u>243</u>	<u>323</u>
	<u>2,492</u>	<u>2,968</u>

5. Other Operating Income

	2012/13 £'000	2011/12 £'000
Student residences	6,965	6,781
Catering	1,354	1,231
Other services rendered	<u>6,885</u>	<u>8,202</u>
	<u>15,204</u>	<u>16,214</u>

NOTES TO THE ACCOUNTS (continued)

6. Endowment Income and Interest Receivable

	2012/13 £'000	2011/12 £'000
Income from endowment assets	167	149
Interest receivable	831	983
	<u>998</u>	<u>1,132</u>

7. Staff Numbers and Costs

The full time equivalent number of persons employed on 31st July 2013 was 1,917 (2012: 1,876).

Aggregate payroll costs during the year were as follows:

	2012/13 £'000	2011/12 £'000
Wages and salaries	73,191	75,738
Social security costs	5,212	5,350
Other pension costs	8,329	8,352
	<u>86,732</u>	<u>89,440</u>

Included within payroll costs above are restructuring costs amounting to £0.37 million (2012: £1.875 million).

Including the Vice-Chancellor, four members of the Board of Governors are employees of the University. No members of the Board receive any remuneration for the work which they do for the Board.

8. Senior Staff Remuneration

	2012/13	2011/12
Remuneration of the former Vice-Chancellor	£157,040	£258,035
Remuneration of the current Vice-Chancellor	<u>£138,017</u>	<u>-</u>

The remuneration shown above includes the money value of benefits-in-kind but excludes the University's pension contributions to the Teachers' Pension Scheme made on the Vice-Chancellors' behalf. These employer's contributions are paid at the same rate as for other academic staff and amounted to £22,003 relating to the new Vice-Chancellor in 2012/13 (2011/12: £22,004).

NOTES TO THE ACCOUNTS (continued)

8. Senior Staff Remuneration (continued)

Remuneration of other higher paid staff, excluding employer's pension contributions:

	Number of staff	
	<u>2012/13</u>	<u>2011/12</u>
£100,000 - £109,999	2	-
£110,000 - £119,999	-	2
£120,000 - £129,999	1	1
£130,000 - £139,999	2	1

One member of staff whose annualised remuneration was in excess of £100,000 received a payment for compensation for loss of office during the year of £100,000 (2011/12: Nil).

9. Other Operating Expenses

Other Operating Expenses include:-

	<u>2012/13</u> <u>£'000</u>	<u>2011/12</u> <u>£'000</u>
External auditor's remuneration for audit work	58	75
External auditor's remuneration for non-audit work	96	422
Hire of equipment under operating leases	252	189
Hire of other assets under operating leases	4,862	5,016

10. Interest Payable

	<u>2012/13</u> <u>£'000</u>	<u>2011/12</u> <u>£'000</u>
On loans not wholly repayable within five years:		
Bank Loans	<u>1,198</u>	<u>1,240</u>
Net interest on pension scheme:		
Expected return on scheme assets	(6,322)	(6,694)
Interest on pension liabilities	<u>7,357</u>	<u>8,183</u>
	<u>1,035</u>	<u>1,489</u>
	<u>2,233</u>	<u>2,729</u>

NOTES TO THE ACCOUNTS (continued)

11. Tangible Fixed Assets

	Freehold land & buildings	Assets in course of construction	Consolidated Long leasehold land & buildings	Equipment, minor works and vehicles	Heritage assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1.8.12	111,190	36,244	108,406	45,130	425	301,395
Additions at cost	-	32,479	-	4,191	-	36,670
Donated land	-	7,015	-	-	-	7,015
Impairment	(777)	-	(7,002)	-	-	(7,779)
Transfers	-	(62,456)	60,305	2,151	-	-
Disposals	(166)	-	(159)	(5,520)	-	(5,845)
At 31.7.13	110,247	13,282	161,550	45,952	425	331,456
Depreciation						
At 1.8.12	38,384	-	21,081	34,697	-	94,162
Charge for year	2,358	-	3,490	2,838	-	8,686
Disposals	(166)	-	(159)	(5,141)	-	(5,466)
At 31.7.13	40,576	-	24,412	32,394	-	97,382
Net book value						
At 31.7.13	69,671	13,282	137,138	13,558	425	234,074
At 31.7.12	72,806	36,244	87,325	10,433	425	207,234

For land and buildings, the transitional rules set out in FRS 15: "Tangible Fixed Assets" were applied in 1999/2000 such that the book values at implementation were retained.

Freehold and leasehold land and buildings were valued in 1996 by DTZ Debenham Thorpe Limited, Chartered Surveyors, on the basis of Depreciated Replacement Cost or Open Market Assessment depending on the nature of each property. The valuations were carried out in accordance with the Valuation and Appraisal Manual published by the Royal Institution of Chartered Surveyors.

Exceptional items reported in the income and expenditure account comprise:

	2012/13 £'000	2011/12 £'000
Donated land	7,015	-
Impairment charges	(7,779)	(3,000)
Accelerated depreciation	(1,281)	-
	<u>(2,045)</u>	<u>(3,000)</u>

NOTES TO THE ACCOUNTS (continued)

11. Tangible Fixed Assets (continued)

The University has considered the carrying value of the New Canal Street site in the context of the uncertainty surrounding its future given the ongoing consultation

regarding the proposed HS2 rail link. Whilst at 31 July 2012, the University still had a right to develop the New Canal Street site, during 2011/12 the University concluded its negotiations with Birmingham City Council and Advantage West Midlands to secure an alternative site (City Park Plot) in order to protect the significant investment it had already made in this development.

Under an agreement signed with Birmingham City Council on 5 August 2011, the University is satisfied that in the event of a disposal of the New Canal Street site, it is entitled to the first £8m of any proceeds and should secure at least this amount if the site is subsequently sold or subject to a CPO. However, on the basis of independent land valuations undertaken in September 2013, and following the draw-down of the lease for City Park Plot, the University considers that it is both prudent and appropriate to recognise an impairment charge of £7m (2011/12: £3m) and the corresponding value of the donated land in the 2012/13 financial statements.

The University has decommissioned student residences at its City South Campus and has no plans to bring them back into operational use. Therefore, an accelerated depreciation charge has been recognised in these financial statements amounting to £1.28m. In addition, the University has impaired land at the City North Campus by £0.78m in order to recognise a reduction in the market value of the land below its carrying value at 31 July 2013.

	University					Total
	Freehold land & buildings	Assets in course of construction	Long leasehold land & buildings	Equipment, minor works and vehicles	Heritage assets	
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation						
At 1.8.12	109,551	36,244	104,145	39,520	425	289,885
Additions at cost	-	32,479	-	4,171	-	36,650
Donated land	-	7,015	-	-	-	7,015
Impairment	(777)	-	(7,002)	-	-	(7,779)
Transfers	-	(62,456)	60,305	2,151	-	-
Disposals	(166)	-	(1,577)	(3,131)	-	(4,874)
At 31.7.13	108,608	13,282	155,871	42,711	425	320,897
Depreciation						
At 1.8.12	38,384	-	19,898	29,380	-	87,662
Charge for year	2,358	-	3,384	2,702	-	8,444
Disposals	(166)	-	(159)	(2,763)	-	(3,088)
At 31.7.13	40,576	-	23,123	29,319	-	93,018
Net book value						
At 31.7.13	68,032	13,282	132,748	13,392	425	227,879
At 31.7.12	71,167	36,244	84,247	10,140	425	202,223

NOTES TO THE ACCOUNTS (continued)

12. Investments

Unlisted investments at cost:-	Consolidated		University	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
NUS Services Ltd	-	-	-	-
CVCP Properties plc	35	35	35	35
BCU Property Ltd	-	-	4,300	4,300
Other	170	170	170	170
	<u>205</u>	<u>205</u>	<u>4,505</u>	<u>4,505</u>

CVCP Properties plc is owned by Universities UK and its member institutions. BCU Property Limited is a wholly owned subsidiary of the University.

13. Endowment Assets

At 31st July:-

	Consolidated and University	
	2013 £'000	2012 £'000
COIF Charities Fixed Interest Fund	373	627
COIF Charities Property Fund	371	-
COIF Charities Investment Fund	3,529	2,517
Total endowment investments at valuation	4,273	3,144
Bank balances	197	174
Other	85	60
	<u>4,555</u>	<u>3,378</u>

Endowments assets constitute the University's Trust and Prize Funds. The capital element of these assets is invested in Income Shares in the COIF Charities Fixed Interest and Investment Funds on the basis of professional investment advice.

	Consolidated and University			
	COIF Fixed Interest Fund £'000	COIF Charities Property Fund £'000	COIF Investment Fund £'000	Total £'000
Movements in endowment investments:-				
At 1.8.12	627	-	2,517	3,144
Additional investment	90	70	642	802
Transfer	(321)	321	-	-
Revaluations	(23)	(20)	370	327
At 31.7.13	<u>373</u>	<u>371</u>	<u>3,529</u>	<u>4,273</u>

NOTES TO THE ACCOUNTS (continued)

14. Stock

	Consolidated		University	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Raw materials and consumables	82	79	82	79
Finished goods and goods for resale	53	36	53	36
	<u>135</u>	<u>115</u>	<u>135</u>	<u>115</u>

15. Debtors

	Consolidated		University	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Trade debtors	715	4,443	1,310	5,115
Prepaid expenditure	2,236	2,129	2,224	2,094
Accrued income	1,325	1,960	1,000	1,606
Amounts due from subsidiaries	-	-	5,387	7,163
	<u>4,276</u>	<u>8,532</u>	<u>9,921</u>	<u>15,978</u>

All trade debtors are due for payment within one year. The amounts due from subsidiaries are generally not due for payment within one year.

16. Creditors Due Within One Year

	Consolidated		University	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Mortgages (Note 17)	841	795	841	795
Trade creditors	6,727	4,772	6,715	4,588
Value Added Tax	134	119	124	113
Social security	833	916	833	906
Accrued expenditure	8,641	13,223	8,998	13,568
Deferred income	8,947	21,503	7,600	20,042
Other creditors	6,620	6,965	6,623	6,967
	<u>32,743</u>	<u>48,293</u>	<u>31,734</u>	<u>46,979</u>

Deferred income includes amounts received which relate to goods or services to be provided after 31st July 2013.

NOTES TO THE ACCOUNTS (continued)

17. Creditors Due After More Than One Year

	Consolidated and University	
	2013	2012
	£'000	£'000
Accrued expenditure	441	-
Mortgages secured on student residential accommodation	21,594	22,435
Salix Revolving Green Fund	205	92
	<u>22,240</u>	<u>22,527</u>

	Consolidated and University	
	2013	2012
	£'000	£'000
Maturity of mortgages secured on student residential accommodation and due: -		
Within 1 and 2 years	890	841
Within 2 and 5 years	2,995	2,829
After 5 years	17,709	18,765
	<u>21,594</u>	<u>22,435</u>

The Salix Revolving Green Fund provides repayable grants to HEIs to undertake projects which reduce carbon emissions, with the grant repayable from any financial savings made.

18. Provisions

	Consolidated		University	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Dilapidation costs on rented properties	500	500	500	500
Potential exam costs relating to registered candidates	5	13	-	-
Clawback provision for externally funded projects	308	308	-	-
	<u>813</u>	<u>821</u>	<u>500</u>	<u>500</u>

The provision for dilapidation costs is based on the estimated costs of reinstatement identified by a review of rented properties occupied by the University. The provision for exam costs is calculated based on the number of candidates registered with Awarding Body for the Built Environment Limited at 31 July and who are entitled to attempt an exam. Provision has therefore been made for an estimate of the exam costs the company may incur relating to those exams based on historic profiles of resits. The provision for externally funded projects has been made in relation to a potential clawback of funds pending an audit of renegotiated output-related targets.

NOTES TO THE ACCOUNTS (continued)

19. Deferred Capital Grants

	Consolidated		University	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
At 1st August	12,905	14,880	12,735	14,470
Receivable during the year	13,996	-	13,055	-
	26,901	14,880	25,790	14,470
Released to I & E account	(1,671)	(1,975)	(1,611)	(1,735)
At 31st July	25,230	12,905	24,179	12,735

The balances at 31st July are analysed as follows:

	Consolidated		University	
	2013	2012	2013	2012
	£'000	£'000	£'000	£'000
Buildings	22,782	9,266	21,841	9,266
Equipment	2,448	3,639	2,338	3,469
	25,230	12,905	24,179	12,735

20. Endowments

Permanent, restricted funds:-	Consolidated and University £'000
At 1.8.12:	
Capital	3,179
Accumulated income	199
	3,378
New endowment assets received	830
Revaluation of investments	327
Investment income	167
Expenditure	(147)
Surplus income for the year	20
At 31.7.13	4,555
Capital	4,336
Accumulated income	219
	4,555

These reserves represent the capital and accumulated income of the University's Trust and Prize Funds.

NOTES TO THE ACCOUNTS (continued)

21. Revaluation Reserve

	Consolidated and University £'000
At 1.8.12	43,561
Transfer to General Reserve re: depreciation on inherited assets	(1,175)
At 31.7.13	42,386

The revaluation reserve arises primarily as a result of the transfer on 1st April 1989 of tangible fixed assets and associated loans from Birmingham City Council under the Education Reform Act 1988. The reserve also takes account of subsequent professional revaluations of the University's tangible fixed assets.

22. General Reserve

	Consolidated £'000	University £'000
At 1.8.12	95,785	104,092
Surplus for the year	16,639	14,367
Pension Scheme actuarial gain	5,597	5,597
Transfers from Revaluation Reserve	1,175	1,175
Transfer to Endowments	(20)	(20)
At 31.7.13	119,176	125,211

23. Contingent Liabilities

The University has given a guarantee to Millennium Point Property Ltd to pay the property lease rental of its subsidiary, Technology Innovation Centre (TIC). The lease term is 30 years until 30 March 2029 and the current annual rental is £871,486 (2012: £850,232).

On 26th September 2006 the University entered into an agreement to act as guarantor, for the benefit of Birmingham City Council, in relation to the possible future rental income shortfalls of Millennium Point Property Limited. The University's maximum contingent liability in any one year is £275,000 and the guarantee expires on 31st March 2016.

NOTES TO THE ACCOUNTS (continued)

24. Lease Obligations

Annual commitments under operating leases were as follows.

	<u>Consolidated and</u> <u>University</u>	
	2013 £'000	2012 £'000
Leases expiring:		
Within one year	647	311
In the second to fifth years inclusive	744	2,795
After five years	1,790	2,067
	<u>3,181</u>	<u>5,173</u>

25. Capital commitments

Capital commitments were as follows:

	<u>Consolidated and</u> <u>University</u>	
	2013 £'000	2012 £'000
Authorised and contracted at 31st July	58,233	28,825
Authorised but not contracted at 31st July	-	62,709
	<u>58,233</u>	<u>91,534</u>

The gross value of capital commitments set out above reflect the costs associated with the implementation of the University's two-campus strategy. Authorised and contracted costs reflect the approved costs set out in the University's major projects plan in relation to the development of the Park Plot and a major IT project. The University had no capital commitments authorised but not contracted at 31 July 2013.

No provision has been made in the accounts for these capital commitments. However, the University has taken steps to ensure that it will have access to sufficient cash and liquid resources to enable it to finance its major projects plan.

NOTES TO THE ACCOUNTS (continued)

26. Pension Schemes

The University's employees belong to three principal pension schemes, the Teachers' Pension Scheme (TPS), The Universities Superannuation Scheme (USS) and the West Midlands Pension Fund, a Local Government Pension Scheme (LGPS). The total pension cost for the year was £8,329,000 (2011/12: £8,352,000)

Teachers' Pension Scheme

The Teachers' Pension Scheme is an unfunded defined benefit scheme. Contributions are credited to the Exchequer under arrangements governed by the Superannuation Act 1972.

The pensions cost is assessed every five years in accordance with the advice of the Government Actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2004
Actuarial method	Prospective Benefits
Investment returns per annum	6.5%
Pension increases per annum	5.0%
Salary scale increases per annum	5.0%
Market value of assets at date of last valuation	£163,240 million
Proportion of members' accrued benefits covered by the actuarial value of the assets	98.04%

The last formal actuarial valuation undertaken for the Teachers' Pension Scheme was completed in 2004. Consequently, a formal actuarial valuation would have been due by 2008. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new scheme design.

Following the implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000, the Government Actuary carried out a further review on the level of employers' contributions. For the period from 1 August 2012 to 31 July 2013 the employer contribution was 14.1%. The employee contribution rate for the same period ranged between 6.4% and 11.2% according to salary bands.

Under the definitions set out in Financial Reporting Standard 17 (Retirement Benefits), the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme.

Universities Superannuation Scheme

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

NOTES TO THE ACCOUNTS (continued)

26. Pension Schemes (continued)

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the 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 regular reviews of the funding levels. In particular, he 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 2013 are also included in this note.

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 (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is as at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the

NOTES TO THE ACCOUNTS (continued)

26. Pension Schemes (continued)

cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the valuation effective date there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants

Other than in specific, limited circumstances, new entrants are now provided benefits on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age

The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement

Flexible retirement options were introduced.

Member contributions increased

Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost sharing

If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap

For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

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.

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

NOTES TO THE ACCOUNTS (continued)

26. Pension Schemes (continued)

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.

At 31 March 2013, USS had over 148,000 active members and the University had 43 active members participating in the scheme.

The contribution rate payable by the University was 16% of pensionable salaries.

Local Government Pension Scheme

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The employer's contribution rate for 2012/13 was 11.4% plus a past service lump sum equivalent to an additional 2% of pensionable pay; for 2013/14, the rate will be 11.4% plus a past service lump sum of £560,712 for the year, which approximates to an additional 2% of pensionable pay. From April 2008 employees' contributions rates for both existing and new members were set according to bands of previous year's full-time equivalent pay. These bands are reviewed and updated every April.

In accordance with FRS 17 the following information is based upon a full actuarial valuation of the fund as at 31 March 2010 updated to 31 July 2013 and 2012 by a qualified independent actuary.

	31 July 2013	31 July 2012
Inflation – CPI	2.4%	2.1%
Rate of increase in salaries	4.15%	3.85%
Rate of increase in pensions	2.4%	2.1%
Discount rate for liabilities	4.5%	4.3%
Proportion of employees opting to take a commuted lump sum	50%	50%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement age 65 are:

	31 July 2013 Years	31 July 2012 Years
<i>Retiring today</i>		
Males	22.1	22.0
Females	24.8	24.7
<i>Retiring in 20 years</i>		
Males	23.9	23.8
Females	26.7	26.6

NOTES TO THE ACCOUNTS (continued)

26. Pension Schemes (continued)

The Group's share of the assets in the scheme and the expected rates of return were:

	Consolidated & University			
	2013	Value at	2012	Value at
	Long term	31 July	Long term	31 July
	rate of	2013	rate	2012
	return	£'000	of return	£'000
	expected at		expected at	
	31 July		31 July	
	2013		2012	
Equities	7.0%	52,446	7.0%	57,969
Property	5.7%	10,761	6.0%	10,762
Government Bonds	3.3%	10,390	2.5%	9,803
Other Bonds	4.3%	13,854	3.4%	10,549
Cash	0.5%	5,071	0.5%	1,705
Other	7.0%	31,171	7.0%	15,771
Total market value of assets		123,693		106,559
Present value of scheme liabilities		(183,654)		(169,523)
Deficit in the scheme		(59,961)		(62,964)

The expected return on other assets varies dependent on the type of asset. For the purposes of this calculation, a yield of 7.0% (2012: 7.0%) has been applied.

Analysis of the amount charged to the consolidated income and expenditure account:

	2013	2012
	£'000	£'000
Employer service cost (net of employee contributions)	(4,858)	(4,653)
Past service cost	(82)	(31)
Total operating charge	(4,940)	(4,684)

Analysis of pension finance costs:

	2013	2012
	£'000	£'000
Expected return on pension scheme assets	6,322	6,694
Interest on pension scheme liabilities	(7,357)	(8,183)
Pension finance costs	(1,035)	(1,489)

Amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL):

	2013	2012
	£'000	£'000
Actual return less expected return on pension scheme assets	9,121	(3,658)
Changes in assumptions	(3,524)	(5,172)
Actuarial gain/(loss) recognised in STRGL	5,597	(8,830)

NOTES TO THE ACCOUNTS (continued)

26. **Pension Schemes** (continued)

Asset and Liability Reconciliation:

	Consolidated & University £'000
Liabilities at start of period	169,523
Service cost	4,858
Interest cost	7,357
Employee contributions	1,617
Past Service cost	82
Actuarial losses	3,524
Benefits paid	(3,307)
Liabilities at end of period	183,654
Assets at start of period	106,559
Expected return on assets	6,322
Actuarial gains	9,121
Employer contributions	3,381
Employee contributions	1,617
Benefits paid	(3,307)
Assets at end of period	123,693

History of consolidated experience gains or losses

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Difference between the expected and actual return on assets:					
Amount	9,121	(3,658)	4,860	7,863	(11,926)
% of scheme assets	7.4%	(3.4%)	4.8%	9.0%	(16.5%)
Experience gains and losses on scheme liabilities:					
Amount	(3,524)	(5,172)	(1,410)	-	-
% of scheme liabilities	1.9%	(3.1%)	0.9%	0.0%	0.0%
Total amounts recognised in statement of total recognised gains and losses:					
Amount	5,597	8,830	2,276	2,311	4,739
% of scheme liabilities	3.0%	(5.2%)	(1.5%)	(1.7%)	(3.9%)

NOTES TO THE ACCOUNTS (continued)

27. Post Balance Sheet Events

There were no unadjusted post balance sheet events, favourable or unfavourable, between the balance sheet date and 28 November 2013, the date on which these accounts were approved by the Board of Governors.

28. Subsidiary companies

These consolidated financial statements incorporate the accounts of the University and its subsidiary undertakings as follows. The net assets or liabilities of each company (as disclosed in their respective audited financial statements) are also shown.

	Net Assets/(Liabilities) at: -	
	31st July 2013	31st July 2012
	£	£
ABBE Limited	(732,166)	(841,761)
Birmingham School of Acting	(822,887)	(822,887)
Technology Innovation Centre	(3,983,426)	(6,383,595)
TIC Commercial Limited	(204,298)	(195,896)
BCU Enterprise Limited	(691,202)	(496,151)
BCU Property Limited	4,205,915	4,265,470
BCU Trustees Limited	2	2

There are no minority interests and all of the subsidiaries engage in activities which, for legal or commercial reasons, are more appropriately undertaken by a limited company.

NOTES TO THE ACCOUNTS (continued)

29. Net Cash Flow From Operating Activities

Reconciliation of consolidated operating surplus to net cashflow from operating activities for the year:-

	2012/13 £'000	2011/12 £'000
Surplus for the year	16,639	14,863
Adjustments for items not relating to operating activities		
- release of capital grant (Note 19)	(1,671)	(1,975)
- donated asset	(7,015)	-
- written off professional costs on fixed assets	-	-
- endowment income, investment income and interest receivable (Note 6)	(998)	(1,132)
- depreciation (Note 11)	8,686	7,476
- Impairment charge (note 11)	7,779	3,000
- interest payable (Note 10)	2,233	2,729
- loss on disposal of fixed assets	381	172
	<u>9,395</u>	<u>10,270</u>
Surplus from operating activities	26,034	25,133
FRS17 operating charges (Note 26)	4,940	4,684
FRS17 contributions paid (Note 26)	(3,381)	(3,411)
(Increase)/Decrease in stock	(20)	74
Decrease/(Increase) in debtors excluding interest receivable	4,255	(1,539)
Decrease in creditors	(12,296)	(1,039)
(Decrease)/Increase in provisions	(8)	9
Net cash inflow from operating activities for the year	<u>19,524</u>	<u>23,911</u>

30. Returns on Investments and Servicing of Borrowings

	2012/13 £'000	2011/12 £'000
Cash flows for the year associated with returns on investments and servicing of borrowings:-		
Income from endowments	167	149
Investment income	-	-
Interest received	832	1,036
Interest paid	(1,195)	(1,247)
Net cash outflow for the year	<u>(196)</u>	<u>(62)</u>

NOTES TO THE ACCOUNTS (continued)

31. Capital Expenditure and Financial Investment

Cash flows for the year associated with capital expenditure and financial investment:-	2012/13 £'000	2011/12 £'000
Payments to acquire Tangible Assets	(39,531)	(26,685)
Payments to acquire Fixed Asset Investments	1,000	-
Payments to acquire Current Asset Investments	-	(2,994)
Payments to acquire Endowment Asset Investments	(827)	(117)
Deferred Capital Grants received	13,996	-
Receipts from sales of Tangible Assets	(2)	-
Endowments received	830	117
Net cash outflow for the year	<u>(24,534)</u>	<u>(29,679)</u>

32. Consolidated Net Borrowings

Changes during the year were as follows:-	At 1.8.12 £'000	2012/13 Cash inflow/ (outflow) £'000	At 31.7.13 £'000
Salix Revolving Green Fund	92	113	205
Mortgages	23,230	(795)	22,435
<u>Total consolidated borrowings</u>	<u>23,322</u>	<u>(682)</u>	<u>22,640</u>
less:			
Cash at bank: endowment assets	174	23	197
Cash at bank: other	10,970	26,889	37,859
	11,144	26,912	38,056
Short term deposits	41,800	(32,800)	9,000
<u>Total cash, bank and deposits</u>	<u>52,944</u>	<u>(5,888)</u>	<u>47,056</u>
<u>Consolidated Net Cash</u>	<u>(29,622)</u>	<u>(5,206)</u>	<u>(24,416)</u>

Mortgages relate to a borrowing facility of £48,900,000 provided by National Westminster Bank plc to the University. The principal outstanding at 31st July 2013 of £22,435,000 (2012: £23,230,000) was secured on University student residential accommodation and included £19,923,594 chargeable at a fixed interest rate of 5.76%.

Net cash flows associated with consolidated borrowings were as follows:

	2012/13 £'000	2011/12 £'000
Salix Revolving Green Fund	113	(6)
Mortgages repaid	(795)	(749)
Net cash outflow associated with consolidated borrowings	<u>(682)</u>	<u>(755)</u>

NOTES TO THE ACCOUNTS (continued)

33. Student Access Funds and Training Bursaries

	2012/13		
	HEFCE Access Funds £'000	HEFCE Training Bursaries £'000	TDA Training Bursaries £'000
Funding Council grants	621	-	2,000
Disbursed to students	(621)	-	(2,000)
Balance unspent at 31st July	-	-	-

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

34. Related Party Transactions

Due to the nature of the University's activities and the composition of the Board of Governors it is possible that transactions will take place from time-to-time with organisations in which a member of the Board of Governors may have an interest. All such transactions are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

There were no material related party transactions during the year (2011/12: £nil).

The University has met individual expenses incurred by members of the Board of Governors for services provided to the University, either by reimbursement of the member or by providing the member with an allowance or by payment direct to a third party. The aggregate amount of those expenses and the number of members involved were as follows:

	Aggregate Value £	Number of members 2012/13
Travel and subsistence	512	1

35. Heritage Assets

The University's heritage assets support its teaching, research and public engagement. The collection includes objects, such as paintings and sculpture. The strengths of the collection relates to the University's own specialist areas of excellence. The heritage assets held in the University make a significant contribution to scholarly endeavour, teaching and learning and the dissemination of knowledge for the public benefit.

The acquisition, preservation, management and disposal of heritage assets is in accordance with the University's general policies in regard to its heritage assets; relevant assets are curated by the appropriate staff in the Birmingham Institute of Art and Design to ensure that such assets continue to be available to staff and students for teaching, research and other purposes.

NOTES TO THE ACCOUNTS (continued)

35. Heritage Assets (continued)

The collection was valued in 2011 by an external valuer. Information on the qualifications of the valuer can be found at <http://schoonantiquesandart.com/index.html>.

As detailed in the accounting policy, heritage assets that are valued at over £25,000 will be capitalised and recognised in the balance sheet provided appropriate valuations are available.

Donated assets are not valued unless they are of special interest as the cost of doing so is not commensurate with the benefits of users of the financial statements. Donated assets that are capitalised will be reported in the profit and loss account at valuation.

The University does not normally dispose of its heritage assets and there have been no disposals during this period.

FIVE YEAR SUMMARY (Not part of the audited accounts)

GROUP INCOME AND EXPENDITURE ACCOUNTS	2012/13 £'000	2011/12 £'000	2010/11 £'000	2009/10 £'000	2008/09 £'000
Income					
Funding Council Grants	35,852	49,555	55,669	54,751	58,851
Other Income	124,603	112,084	113,080	106,608	96,967
Endowment Income/Investment					
Income/Interest Receivable	998	1,132	821	454	1,233
	<u>161,453</u>	<u>162,771</u>	<u>169,570</u>	<u>161,813</u>	<u>157,051</u>
(Decrease)/Increase in income	(0.8%)	(4.0%)	4.8%	3.0%	4.8%
Expenditure					
Staff Costs	86,732	89,440	89,006	95,474	93,861
Other Operating Expenses	46,397	45,263	52,271	50,043	47,258
Depreciation	7,407	7,476	7,827	7,913	8,315
Interest Payable	2,233	2,729	2,981	4,152	3,276
	<u>142,769</u>	<u>144,908</u>	<u>152,085</u>	<u>157,582</u>	<u>152,710</u>
Surplus before exceptionals	18,684	17,863	17,485	4,231	4,341
Exceptional items	<u>(2,045)</u>	<u>(3,000)</u>	<u>(3,991)</u>	<u>1,105</u>	<u>-</u>
Surplus for the Year	<u>16,639</u>	<u>14,863</u>	<u>13,494</u>	<u>5,336</u>	<u>4,341</u>
Surplus : Income before exceptionals	11.6%	10.9%	10.3%	2.6%	2.8%
Staff costs: Total income	53.7%	54.9%	52.5%	59.0%	59.7%

FIVE YEAR SUMMARY (Not part of the audited accounts)

GROUP BALANCE SHEETS					
As at 31st July					
	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Fixed Assets	<u>234,279</u>	<u>207,439</u>	<u>189,236</u>	<u>191,401</u>	<u>193,936</u>
Endowment Assets	<u>4,555</u>	<u>3,378</u>	<u>3,196</u>	<u>2,275</u>	<u>1,808</u>
Current Assets					
Stock	135	115	189	198	201
Debtors	4,276	8,532	7,046	9,206	7,132
Current Asset Investments	17,000	18,000	15,000	30,000	-
Short term deposits	9,000	41,800	53,700	16,200	35,000
Cash at bank and in hand	<u>37,859</u>	<u>10,970</u>	<u>5,668</u>	<u>5,094</u>	<u>2,983</u>
	68,270	79,417	81,603	60,698	45,316
Creditors within one year	<u>(32,743)</u>	<u>(48,293)</u>	<u>(47,428)</u>	<u>(43,016)</u>	<u>(37,344)</u>
Net Current Assets	<u>35,527</u>	<u>31,124</u>	<u>34,175</u>	<u>17,682</u>	<u>7,972</u>
Total assets less current liabilities	274,361	241,941	226,607	211,358	203,716
Creditors after one year	(22,240)	(22,527)	(23,328)	(24,065)	(24,687)
Provisions	(813)	(821)	(504)	-	-
Pension Liability	(59,961)	(62,964)	(51,372)	(51,074)	(49,243)
TOTAL NET ASSETS	<u>191,347</u>	<u>155,629</u>	<u>151,403</u>	<u>136,219</u>	<u>129,786</u>
Represented by:					
Deferred capital grants	25,230	12,905	14,880	16,795	18,470
Endowments	4,555	3,378	3,196	2,275	1,808
Revaluation reserve	42,386	43,561	44,756	45,539	46,646
General reserve	<u>119,176</u>	<u>95,785</u>	<u>88,571</u>	<u>71,610</u>	<u>62,862</u>
TOTAL FUNDS	<u>191,347</u>	<u>155,629</u>	<u>151,403</u>	<u>136,219</u>	<u>129,786</u>

FIVE YEAR SUMMARY (Not part of the audited accounts)

GROUP LIQUIDITY	2013	2012	2011	2010	2009
As at 31st July	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand:					
Endowment assets	197	174	161	167	257
Other cash at bank	37,859	10,970	5,668	5,094	2,983
	<u>38,056</u>	<u>11,144</u>	<u>5,829</u>	<u>5,261</u>	<u>3,240</u>
Short term deposits	9,000	41,800	53,700	16,200	35,000
Liquid resources per balance sheet	47,056	52,944	59,529	21,461	38,240
Longer term deposits in current asset investments	17,000	18,000	15,000	30,000	-
Total cash and deposits	<u>64,056</u>	<u>70,944</u>	<u>74,529</u>	<u>51,461</u>	<u>38,240</u>

GROUP NET BORROWINGS	2013	2012	2011	2010	2009
As at 31st July	£'000	£'000	£'000	£'000	£'000
Salix Revolving Green Fund	205	92	98	87	-
Nat West Bank (secured)	22,435	23,230	23,979	24,687	25,357
Total borrowings	22,640	23,322	24,077	24,774	25,357
less: cash at bank and short term deposits	(47,056)	(52,944)	(59,529)	(21,461)	(38,240)
NET (CASH)/BORROWINGS	<u>(24,416)</u>	<u>(29,622)</u>	<u>(35,452)</u>	<u>3,313</u>	<u>(12,883)</u>

GROUP CASHFLOWS	2012/13	2011/12	2010/11	2009/10	2008/09
For the year ended 31st July	£'000	£'000	£'000	£'000	£'000
Operating cash inflow	19,524	23,911	30,943	14,239	14,200
Investment returns/servicing of borrowings	(196)	(62)	(683)	(952)	75
Net Capital receipts/(expenditure) and Financial Investment	(24,534)	(29,679)	8,505	(29,483)	(17,192)
(Increase)/decrease in short term deposits	32,800	11,900	(37,500)	18,800	1,900
Outflow from borrowings	(682)	(755)	(697)	(583)	(632)
Cash increase/(decrease) for year	26,912	5,315	568	2,021	(1,649)
Cash at bank: opening	11,144	5,829	5,261	3,240	4,889
Cash at bank: closing	<u>38,056</u>	<u>11,144</u>	<u>5,829</u>	<u>5,261</u>	<u>3,240</u>

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