

Financial Statements

for the year ended 31 July 2008

PRESIDENT

Professor Eric Hobsbawm

VICE-PRESIDENT

The Right Honourable the Lord Mayor of London

CHAIRMAN OF GOVERNORS

Lord Marshall of Knightsbridge

SENIOR OFFICERS OF THE COLLEGE

MASTER

Professor David Latchman, MA, PhD, DSc, FRCPath

VICE-MASTER

Professor Philip Dewe, BCom, MSc, PhD

SECRETARY AND CLERK TO THE GOVERNORS

Keith Harrison, BA

REGISTRAR

Brian Harwood, BSc, PhD, ARCS, FRSA

DIRECTOR OF FINANCE

Peter Westley, BA, FCCA

LIBRARIAN

Philip Payne, BA, PGDip, MCLIP

This publication comprises the Financial Statements for Birkbeck College for the year ended 31 July 2008. It is introduced by the Chairman of Governors Report which highlights the College's academic and financial achievements during the past year and its strategies for the future. Further copies of this publication are available from the Finance Department. A sister publication, the Annual Report, is available from the External Relations Department.

CONTENTS

Membership of Committees 2007/08	1 - 2
Mission Statement	3
Operating and Financial Review	
• Master's Strategy Report	4 - 7
• Student Statistics	8 - 10
• Report of the Chairman of Governors	11 - 14
Statement of the College Governors' Responsibilities	15 - 16
Corporate Governance Statement	17 - 19
Report of the Independent Auditors to the Governors of Birkbeck College	20 - 21
Statement of Principal Accounting Policies	22 - 25
Income and Expenditure Account	26
Statement of Total Recognised Gains and Losses	27
Balance Sheet	28
Cash Flow Statement	29
Reconciliation of Net Cash Flow to Movement in Net Funds	29
Notes to the Accounts	30 - 41

MEMBERSHIP OF COMMITTEES 2007/08

THE GOVERNING BODY

Ex Officio Governors members who are also officers of the College	Professor D S Latchman – Master
Chair	Professor P Dewe - Vice-Master
Academic Board Governors	Lord Marshall of Knightsbridge
	Professor M Innes
	Professor S Maybank
	Professor M Oaksford
Academic Staff Governors	Mr R Clarke
	Mr S Hamil
	Dr D Horn
Non-Teaching Staff Governor	Ms G Panchal
Former Student Governors	Ms A Goddard
	Ms S Hodge
Student Governors	Mr R Park
	Mr J Umenyilora
Independent Governors	Mr R Agutter
	Dr A Burman
	Dr M Byrne
	Ms S Ebanja
	Mr T D D Hoffman
	Lady Hurd of Westwell
	Mr D D A Leslie
	Mrs J Manners
	Dame Mavis McDonald, DCB (Deputy Chair)
	Mr G Pollard
	Professor G J Whitty
Officers in attendance at the meetings:	Mr K Harrison - Secretary and Clerk to the Governors
	Mr P A Westley - Director of Finance
	Mrs K Bock - Deputy Clerk to the Governors

FINANCE AND GENERAL PURPOSES COMMITTEE

Lay members of the Governing Body	Lord Marshall of Knightsbridge
	Mr R Agutter – Chairman
	Dr A Burman
	Ms S Ebanja
	Ms A Goddard
	Mr T D D Hoffman
	Mr D D A Leslie
	Professor G J Whitty
Staff	Professor D S Latchman
	Professor P Dewe
	Professor M Innes
	Professor M Oaksford
	Ms G Panchal
Student	Mr J Umenyilora
Deputy Student	Mr N Ibrahim
Co-opted External Member	Mr R Allison

MEMBERSHIP OF COMMITTEES 2007/08 (continued)

Officers in attendance	Mr K Harrison - Secretary and Clerk to the Governors Mr P A Westley – Director of Finance Ms N Patel – Director of Human Resources Mr P Cowling – Director of Estates and Facilities Mr D McGhie – Deputy Secretary and Director of Planning Ms M Reeves – Deputy Secretary (Faculty of Lifelong Learning) Mrs K Bock – Deputy Clerk to the Governors
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NOMINATIONS COMMITTEE

Lay members of Governing Body	Lord Marshall of Knightsbridge – Chair Dame Mavis McDonald, DCB Dr M Byrne Ms S Ebanja Mr D D A Leslie
Staff	Professor D S Latchman Professor M Innes Professor M Oaksford
Student	Mr R Park

REMUNERATION COMMITTEE

Panel A – Remuneration of the Master

Lay members	Lord Marshall of Knightsbridge Dame Mavis McDonald, DCB Mr R Agutter Mr D D A Leslie
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Panel B – Professorial/AR and Postholders' Remuneration

Lay members	Lord Marshall of Knightsbridge Dame Mavis McDonald, DCB Mr R Agutter Mr D D A Leslie
Staff	Professor D S Latchman

AUDIT COMMITTEE

Members of the Audit Committee	Mr G Pollard – Chair Dr M Byrne Mrs J Manners
Co-opted external member	Mr P Shelton

MISSION STATEMENT

BIRKBECK IS COMMITTED TO FULFILLING THE VISION OF OUR FOUNDER, GEORGE BIRKBECK, OF UNIVERSAL ACCESS TO THE BENEFITS OF KNOWLEDGE.

Remaining true to the vision of our founder, the principal **aims** of Birkbeck College are:

- to provide part-time courses of study to meet the changing educational, cultural and training needs of adults who are engaged in earning their livelihood, and others who are able to benefit;
- to enable adult students from diverse social and educational backgrounds to participate in our courses;
- to maintain and develop excellence in research and research training in all our subject areas; and
- to make available the results of research, and the expertise acquired, through teaching, publication, partnerships with other organisations and the promotion of civic and public debate.

These broad aims embrace principles by which the College co-ordinates its planning and policies in respect of research and teaching, its special responsibilities to meet the needs of mature part-time students, and its goals with respect to quality and good management.

KEY SUPPORTING OBJECTIVES

1. To offer our students an integrated range of flexible, research-led courses across all levels of provision.
2. To achieve and maintain strong research cultures in support of interdisciplinary work in each school and faculty.
3. To ensure the College provides a favourable working and learning environment for its students and staff so that all may develop to their full potential.
4. To develop the College's capacity to respond rapidly to new and changing opportunities in higher and further education.
5. To strengthen the College's financial position by accumulating reserves to ensure its long-term viability.
6. To enhance the learning experience of our particular student community through the use of new technology and other means.
7. To develop sustainable partnerships within the London region and beyond.

OPERATING AND FINANCIAL REVIEW

Master's Strategy Report

Following the highest number of applications ever, the College enrolled a record number of students for the 2007-08 academic year. Currently, demand for our courses continues to be strong, with applications for 2008-09 being over 10% above those for the corresponding year and therefore once again the highest ever.

Moreover, the National Student Survey, as well as our own surveys of student opinion, continue to indicate a high level of student satisfaction with the College's teaching provision. The results of the latest National Student Survey released in the last few weeks place the College in the top 10 out of well over 100 higher education institutions and we are the highest ranked multi-faculty London institution. This maintains the successful National Student Survey results since the Survey began four years ago.



Although demand for our courses in Bloomsbury remains high, part of our increasing enrolment is due to our activities in Stratford. Over 650 students enrolled on courses at all levels in Stratford during 2007-08. Since enrolment on short courses continues throughout the year, comparable figures from 2008-09 enrolments are not yet available. However, there is every indication that the figures will be considerably higher in 2008-09. For example, enrolments on degree courses at Stratford have increased from 64 in 2007-08 to 158 thus far in 2008-09.

These successes in Stratford have considerably enhanced our standing with Newham council and with funding bodies who we need to provide support for our new building project. For the first time, Newham council has indicated in publicly available documents that it is allocating our preferred site in the Stratford island to us for educational use. We are now entering negotiations with them regarding the terms and costs of their providing the site to us.

These negotiations are being facilitated by the Thames Gateway Urban Development Corporation (UDC), which has indicated it will provide the costs of purchasing the site, as well as other financial support. The UDC, together with Sir David Melville (Government skills tsar for the Thames Gateway and former Vice Chancellor of Kent University), have indicated they regard this as the highest priority educational project for the Thames Gateway. They have commissioned a consultant's report looking at the requirements for the new building and the manner in which it could facilitate collaboration between Birkbeck and its potential partners, the University of East London and local further education colleges, so as to provide education and skills at a variety of levels to the people of Newham. The UDC and Sir David Melville are now brokering discussion between the partners and various funding bodies so as to further develop the project and provide funding for it. Hence, progress on the building project is proceeding in parallel with further development of our courses and enhanced student numbers in Stratford.

This year also saw the resolution of two long-standing property issues. The main building project, begun under my predecessor, was finally completed with the opening of the student information centre, whilst we finally agreed terms with the University for the acquisition of 27, 28 and 29 Russell Square.

OPERATING AND FINANCIAL REVIEW (continued)

These successes form the background to the College's response to the Government decision in September 2007 to withdraw funding for students studying for equivalent or lower qualifications (ELQ) to those which they hold already. This affects ten times as many part time students as full time students and further exacerbates the poor support for all part time students and the universities which teach them, compared to full time students. In terms of Birkbeck, we stand to lose 38% of our teaching funding due to this Government decision.

In response to this, we are continuing to pursue a dual approach. Firstly, in terms of Government, we continue to point out the disproportionate impact of the ELQ decision on the part-time sector. Our campaign had had some success with the Government and HEFCE who announced certain concessions, notably some additional funding for institutions with part time students and a promise of an annual review of the subjects which are not exempted. This opens the possibility of further exemptions being made if a subject was being damaged by the ELQ decision. It is hoped that this annual review process may give the opportunity for additional subjects to be added to those which are exempted.

The focus of our campaign has shifted however, to pointing out how the ELQ decision comes on top of the relatively poor support available to part-time students and the institutions which teach them. We are now lobbying both Government and the Opposition to improve this support. I would urge all our supporters and alumni to join us in this campaign since support for part-time students will only improve when this becomes an election issue, alongside improved support for 18 year olds studying full time.

In parallel, we have continued to pursue the second approach of working with HEFCE to ensure that we develop a strategy for the future that allows Birkbeck to continue to play a key role consistent with our mission of part-time study informed by research excellence. This is of particular importance since we can't simply recruit new students to compensate for those who will no longer be funded. Rather, we need to obtain fundable student numbers from HEFCE to replace those we have lost in order to ensure that additional students who are recruited attract HEFCE funding.

The College therefore proposed that HEFCE should fund a strategic review of our future and, following the award of £200,000 to do this, we selected Grant Thornton Limited to carry out the review. Most importantly, the Grant Thornton review identified a key role for Birkbeck in the future entirely consistent with our mission that would enable us to bid for the additional funded student numbers to HEFCE. This involves building on our traditional strengths of research excellence combined with part-time study but offering greater flexibility to students to study individual modules (perhaps supported by their employers) in a more flexible manner, so that degrees can be completed in less or more than the traditional four-year, part-time undergraduate degree, according to the students' requirements. This is obviously highly encouraging and forms the basis for Birkbeck to develop a new strategic plan, which is completely in keeping with Government and HEFCE priorities of employer engagement and widening participation. This recognises the key role of the part-time sector in delivering the Government/Leitch target that 40% of the workforce should have a university-level qualification by 2020.

However, it will be necessary for us to make changes at Birkbeck in order to ensure that we can deliver this exciting new agenda. Three key changes emerge from the Grant Thornton review and the discussions College management have had with the consultants. Firstly, we need to develop further the student experience so that every student, from the moment they first make an enquiry to the moment that they graduate, is supported in the most effective way possible. This has led to the proposal of a Birkbeck Student Centre in which students would be able to obtain answers to all their queries and receive support on matters such as finance and language skills.

OPERATING AND FINANCIAL REVIEW (continued)

The Student Centre, will be open when students need it to be open, including evenings and weekends. It will have highly trained staff who will be able to answer many of the questions students have regarding issues such as courses, fees, financial support, language support, visas etc. Moreover, just as importantly, they will know exactly where to refer students who have queries that the front line staff cannot immediately answer. The new student centre will be located in the new entrance hall, building on the success of this development.

Secondly, we need to reorganise the existing 16 schools of the College into a smaller number of 'super schools', with delegated financial responsibility. This will allow each super school to make resource decisions against a strategic plan, approved annually by the College management. This new structure will allow the third key change, namely the integration of the Faculty of Lifelong Learning with the rest of the College, so that each super school will include the appropriate subject areas from the lifelong learning faculty. This will enable the super schools to offer a single pathway in any particular subject, ranging from Certificate and Diploma level, right up to Doctoral level, with students beginning at a level appropriate to their prior qualifications and leaving at the level suited to their requirements, with the opportunity to return for further study in a seamless manner.

These proposals were debated and approved at the College committees in the summer term. In discussions at the Academic Board, we agreed to add the fourth key principle of maintaining the College's research excellence, which was implicit in the Grant Thornton review and the College management's discussion of it.

These four key principles were approved by Birkbeck's Governors at their meeting on 4 July 2008. They will form the basis for the College's new strategy and for a major bid to the HEFCE strategic development fund (SDF) for the additional student numbers and the resources required to implement our new strategic plan.

I have tasked a number of Birkbeck colleagues with taking these proposals forward, more details of which can be found on our strategic review website. Each of these individuals has convened a small group to assist them with their specific task and is consulting widely across the College. These groups will report to a steering group, which I chair.

I believe the changes will enable us to offer a seamless service to our students both in terms of academic study in their chosen discipline and the support services which are so important for recruitment and retention. Each super school will be able to offer a range of courses at all levels in its academic areas and will make a key contribution to the work of the College in the critical areas of research, teaching, widening participation, engagement with employers and our developments in Stratford.

The integration of the lifelong learning faculty will place the issues of lifelong learning and widening participation at the heart of Birkbeck, while maintaining the research excellence which distinguishes us from many other institutions with significant numbers of part-time students.

As well as preparing the SDF bid, we have also taken note of the recommendation by Grant Thornton that we considerably increase our numbers of non EU overseas students. The College agreed with their view that a research intensive university in London should be recruiting considerably more overseas students than is the case at present. Because of the importance of this issue, it was decided at the Strategic Review Steering Committee to set up a small sub-committee under my Chairmanship to carry this forward

OPERATING AND FINANCIAL REVIEW (continued)

Clearly, a number of these aspects will relate to other aspects of the strategic review. Thus, the new Birkbeck Student Centre will provide services to both home/EU and international students whilst the changes in central and school administrative structures may free up some staff to be redeployed into the international student area. Similarly, the devolved financial arrangements will allow schools to be incentivised to recruit overseas students by revenue sharing arrangements. Nonetheless, it is likely that some additional expenditure will be required, for example, to appoint a senior individual with experience in international recruitment to head a new international office. A detailed business plan is therefore being prepared showing the additional expenditure which would be required and the manner in which it would be recouped over the first few years with progressively increasing additional income to the College from enhanced overseas student numbers.

Overall therefore, I believe that the Strategic Review and the proposals now being discussed will allow the College to move forward in the aftermath of the ELQ funding decision. They will allow us to lay the basis for the College's future based on our research strengths and on our providing flexible teaching and student support appropriate to the needs of all our home, EU and international students. This will enable the College to maintain and develop its unique mission even in an environment of poor government support for part time students and the institutions which teach them, as well as to be in a position to benefit further from improvements in such support under future governments.

This is not the first time in its history that Birkbeck has faced difficulties. Each time, the College has responded magnificently and has emerged strengthened and better prepared for the future. I believe that by working together with all our staff, students, alumni and other supporters, we can achieve this once again and develop a new, improved Birkbeck which is loyal to its mission of high quality part-time study in an environment of research excellence, but which offers greater flexibility and an improved service to all our students.

Professor David S Latchman
Master

OPERATING AND FINANCIAL REVIEW (continued)

Student Statistics

The statistical information outlined in this section originates from HESES Student Return, December 2007

Degree Programmes:

Student numbers in 2007/08: 7,338

- Eighty-nine per cent of Birkbeck students study at part-time degree level
- Forty-two per cent are studying at postgraduate level.

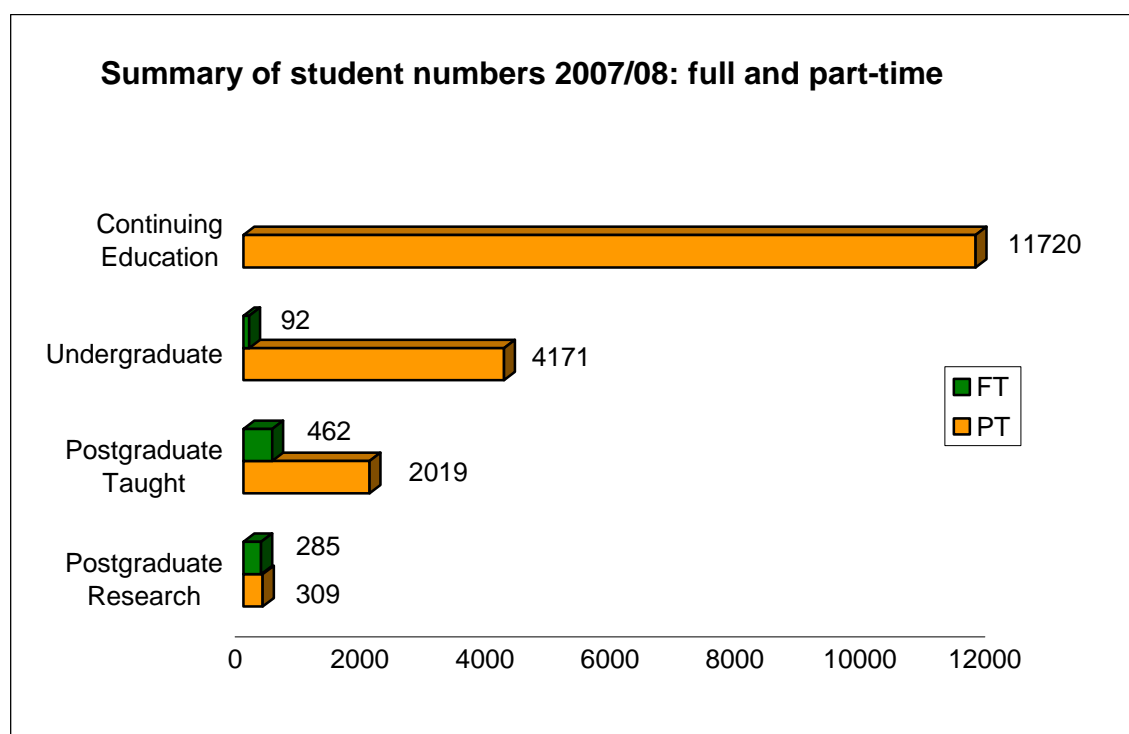
Non-degree Programmes – Lifelong learning

Student numbers in 2007/08: 11,720

Faculty of Lifelong learning offers a wide range of courses leading to certificates and diplomas, a variety of one and two term accredited and non-accredited courses, a programme of professional development and a number of weekend events and summer schools.

Although many extra-mural courses takes place on University premises in Central London, nearly half of the courses are offered at venues throughout the London area in conjunction with local adult education centres, voluntary organisations and museums.

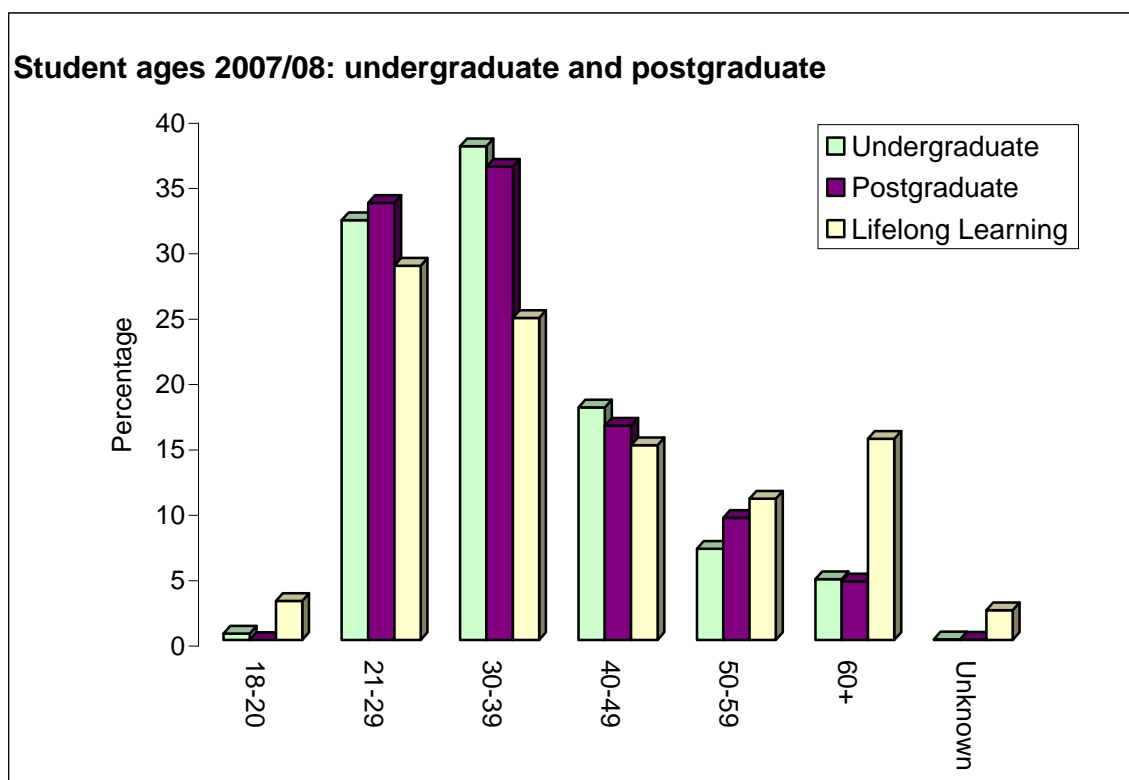
- Ninety-six per cent of Birkbeck students study at part-time degree and sub-degree level.
- 100 per cent of all continuing education students study part-time



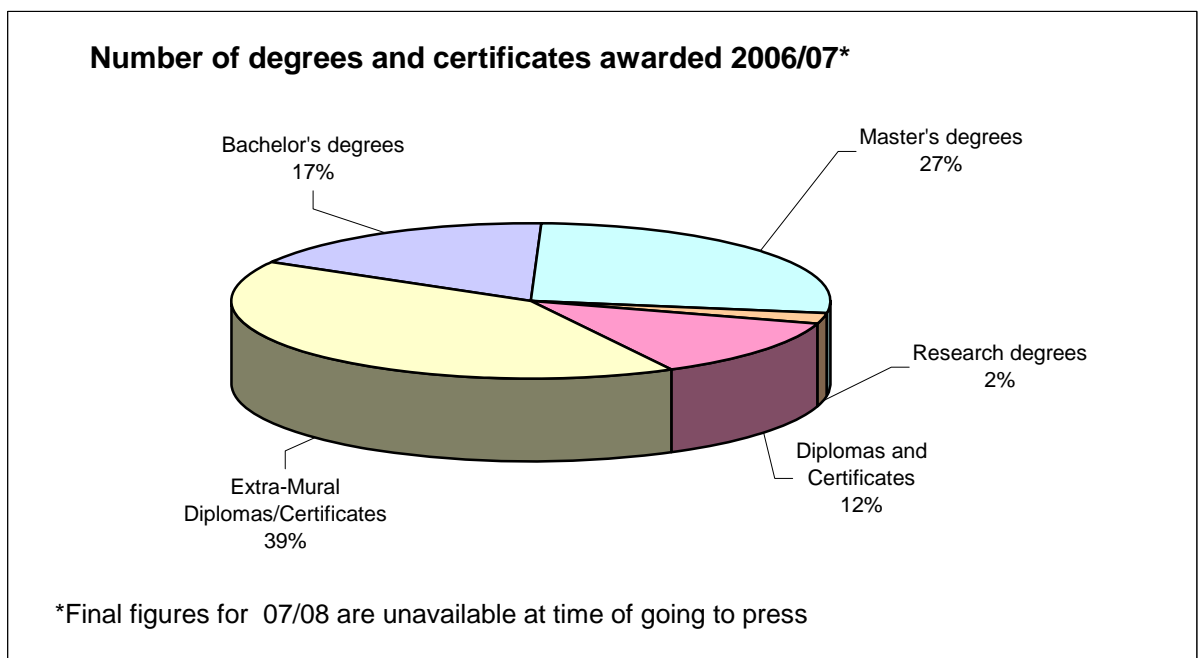
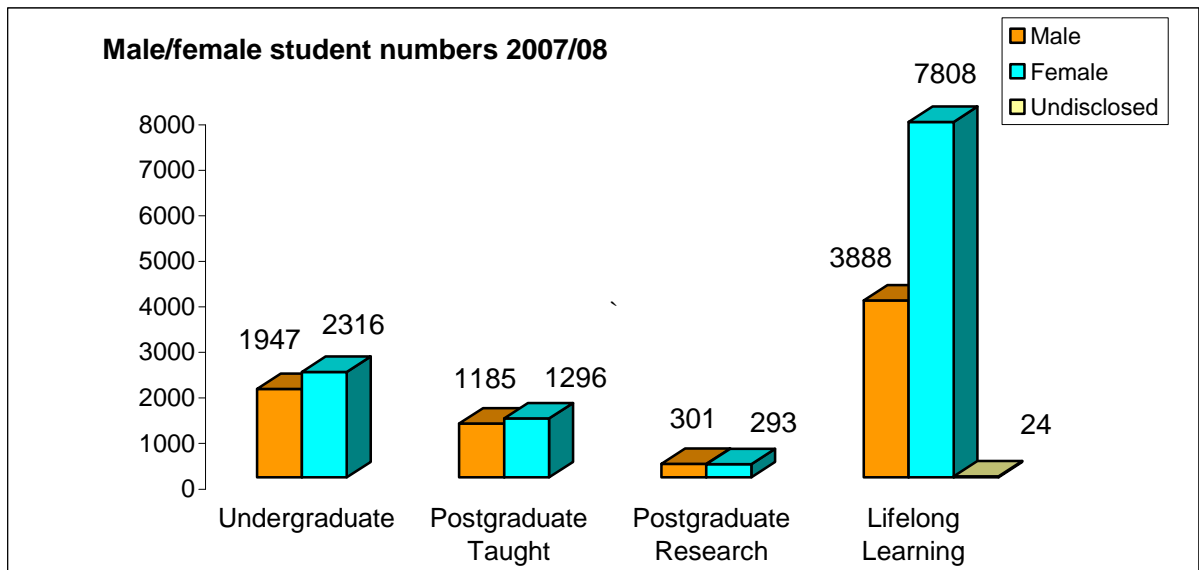
OPERATING AND FINANCIAL REVIEW (continued)

Student Profile

- Students join Birkbeck at different points in their lives, and come from a wide variety of backgrounds
- The majority are aged between 21 and 39
- 67 per cent of lifelong learning students are women
- 1,571 students were awarded extra-mural certificates and diplomas in 2006/07



OPERATING AND FINANCIAL REVIEW (continued)

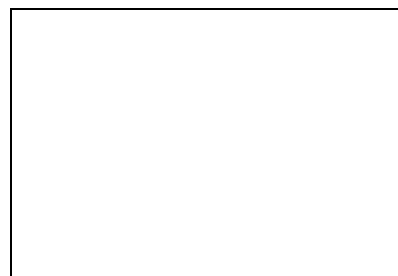


OPERATING AND FINANCIAL REVIEW (continued)

Financial Report of the Chairman of Governors

Scope of the Financial Statements

The Financial Statements presented to Governors comprise the results of the College undertaking its principal activities of teaching and research, together with such other activities as are thought necessary to facilitate the above. These other activities include rendering academic services to a variety of educational, commercial and other organisations.



Results for the Year

The College's Income and Expenditure for the year ended 31 July 2008, with the previous year's figures for comparison, are summarised as follows:

	2007/08	2006/07
	£000	£000
Income	72,755	66,436
Expenditure	(70,843)	(66,176)
Surplus on continuing operations after Depreciation	1,912	260
Transfer from accumulated income within specific endowments	1	(75)
Surplus for the year retained within General Reserves	1,913	185

The College's total income increased by £6,319k (9.5%) compared with the previous year.

Recurrent grants from the Higher Education Funding Council for England (HEFCE) increased by £2,742k (8.9%). The increase has arisen largely due to increases in Teaching grant £1,177k, Research grant £276k, Widening Participation grant £363k and release of the overprovision of grant holdback £684k. Specific grants decreased by £67k to £1,978k and comprised: Strategic Development Funding of £1,072k for Birkbeck Stratford and Linking London Lifelong Learning Network; Higher Education Innovation Funding of £491k; Teaching Quality Enhancement Funding of £239k; Strategically Important & Vulnerable Subjects of £91k; Procurement and Shared Services of £45k and Joint Information Systems Committee of £40k. Deferred Capital grants released from HEFCE funds for Buildings and Equipment were £947k, an increase of £234k on the previous year.

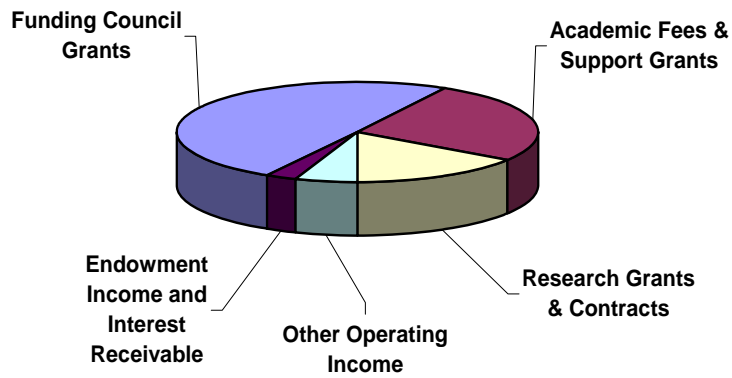
Income from academic fees and support grants increased by £2,496k to £19,919k an increase of 14.3%. The increase comprises both price and volume growth in student numbers.

Income from Research Grants and Contracts amounted to £10,784k; an increase of £220k (2.1%). The overhead contribution towards indirect costs was £2,641k and represents an average overhead recovery rate equivalent to 32.4% on direct research expenditure.

Other Operating Income increased by £831k to £4.8m. The main reasons for the increase were the External Programme with the University of London, rental income and a VAT refund backdated over 2 years.

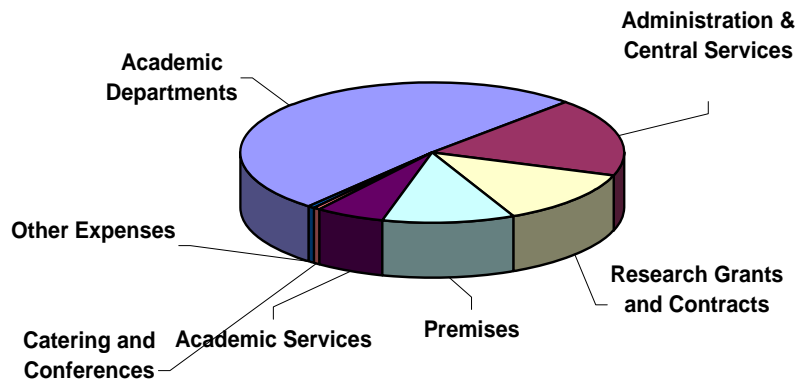
Endowment Income and Interest Receivable at £675k was £137k less than the previous year. The decrease in income was due to a £313k charge to the I&E Account resulting from a reduction in the market valuation of long-term investments.

Analysis of income 2007/08



	£000	%
Funding Council Grants	36,572	50
Academic Fees & Support Grants	19,919	27
Research Grants & Contracts	10,784	15
Other Operating Income	4,805	7
Endowment Income and Interest Receivable	675	1
	<u>72,755</u>	<u>100</u>

Analysis of expenditure 2007/08



	£000	%
Academic Departments	36,356	51
Administration & Central Services	13,784	19
Research Grants and Contracts	8,143	11
Premises	7,262	10
Academic Services	4,653	7
Catering and Conferences	487	1
Other Expenses	158	1
	<u>70,843</u>	<u>100</u>

OPERATING AND FINANCIAL REVIEW (continued)

Total Expenditure increased by £4,667k (7.1%) compared with the previous year reflecting the overall increase in teaching, research and support activities. Staff costs at £49,191k, representing 69.4% of total expenditure, increased by £3,572k (7.8%) on the previous year. The increase in staff costs reflects the total cost of the national pay award, incremental progression, promotions and merit awards and additional appointments made during the year.

Administration and Central Services expenditure increased by £1,487k (12.1%). The main reasons for the increase, in addition to pay increases referred to in the above paragraph, are i) marketing and course expenditure at Birkbeck Stratford, the Lifelong Learning Network ii) general educational expenditure on student hardship and iii) expenditure on student advertising and recruitment. Most of the additional expenditure can be directly matched to additional income.

Equipment, costing less than £10,000 per individual item is written-off in the year of acquisition. Total spend on equipment and furniture during the year was £2,919k of which £1,685k was written-off to the Income and Expenditure account and the remaining £1,234k was capitalised.

The surplus for the year, after depreciation, is £1,913k equivalent to 2.6% of Turnover. The Statement of Total Recognised Gains and Losses shows a total gain of £1,598k for the year accounted for by the annual surplus less the decrease (£315k) in endowment asset investments.

Investment Performance and Treasury Management

The market value, at 31 July 2008 of the College's long-term investments decreased from £14,503k to £13,361k (comprising General Fund Investments of £10,426k and Endowment Fund Investments of £2,935k). The unrealised losses on revaluation were £828k in the General Fund and £314k in the Unified Fund. Long-term investment income for the year amounted to £493k. Long-term Investments and Endowment Asset Investments are managed by Legal and General Investment Management Ltd. The investments are held in various index tracker funds and cash trusts. As at the last available valuation on 31 October 2008, the unrealised losses in the General Fund and Unified Fund were £1,145k and £605k respectively compared with their 31 July 2008 values.

The investment of short-term surplus cash deposits is managed by the Finance Department under the broad supervision of the Investment Sub-Committee. Surplus cash is invested in a special interest bearing deposit account with RBS/NatWest plc, and in instant access cash deposit accounts with Abbey Santander plc and HBoS plc. During the year interest received on short-term cash surpluses amounted to £495k. Further analysis of investment income and long-term investments is set out in notes 5, 10 and 11 of the Financial Statements.

Cash Flow

The Cash Flow Statement shows a net cash inflow of £1,766k mainly because of the £4,595k increase in short-term cash deposits. At year-end the balance on short-term cash deposits was £12,095k.

Fixed Assets and Capital Projects

Tangible fixed asset additions were £8,462k mainly on building projects. The depreciation charge for the year was £2,603k resulting in a net increase in tangible fixed assets of £5,859k. It is the College's intention to ensure that it has adequate estates facilities to deliver its teaching and research mission.

OPERATING AND FINANCIAL REVIEW (continued)

Risk Management

An effective approach to risk management is seen by the College as an essential element of corporate governance. Good progress has been made towards embedding risk management throughout the College. The College provided a full compliance statement on internal control last year and will continue to do so.

Within the College structure, the Faculty Deans, Heads of Schools and Section Heads of Administration are responsible for maintaining individual risk registers for their areas of responsibility. These are reviewed by the Risk Management Group and form the basis of the College's primary risk register which is reviewed annually by the Audit Committee and Governors. Reviews with the Senior Management Team of their risk registers have demonstrated that they are firmly committed to regarding risk factors as integral to good decision making and planning at all levels.

The College continues to monitor adherence to risk management procedures and processes to ensure that the Audit Committee and the Governors can be satisfied that risks are systematically recognised, assessed and managed.

Future Developments

A major capital project completed during the year was the purchase of 27-29 Russell Square from the University of London. This acquisition will complete our full occupancy of that side of the Square as we already occupy 26 and 30 Russell Square. The refurbishment of the electron microscopy suite in the school of crystallography, and refurbishment of the IT disaster recovery room were other capital projects undertaken during the year.

As set out in the Master's Strategy Report, the ELQ funding implications make it necessary for Birkbeck to strategically reorganise and restructure in order to capitalise on the significant opportunities that the changing HE policy environment is now creating. This includes investing over £20m in Estates capital works programmes over the next 3 years most of it funded through the HEFCE capital investment fund and strategic development fund. Another major building project in Stratford is being planned as part of the Birkbeck East initiative. The College along with other educational partners are entering negotiations with the London Borough of Newham on the terms and costs of their provision of the site on Stratford Island, and developing a business plan facilitated by the Thames Gateway Urban Development Corporation.

Birkbeck's financial strategy in the medium term is to achieve diversification of income particularly in relation to international student recruitment and to achieve annual surpluses in the region of 3% of Turnover.

Conclusion

The improvement in surplus is hugely encouraging but considerable uncertainty and challenges lie ahead given the loss of funding that the ELQ issue will cause and the gathering pace of the economic downturn. At the same time, Birkbeck is ideally placed to reposition itself by building on its core strengths and by developing new academic opportunities, focussing on flexible learning, widening participation, and employer engagement.

On behalf of the Governing Body, I would like to thank all staff for their dedication and support in ensuring the continuing success of the College's mission.

Lord Marshall of Knightsbridge

Chairman of Governors

STATEMENT OF THE COLLEGE GOVERNORS' RESPONSIBILITIES

In accordance with the College's Charter and Statutes, the Governors are responsible for the administration and management of the College's affairs, including ensuring an effective system of internal control and are required to present audited financial statements for each financial year.

The Governors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the College and to enable them to ensure that the financial statements are prepared in accordance with the College's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education and United Kingdom Generally Accepted Accounting Practice. In addition, within the terms and conditions of a Financial Memorandum agreed between the Governors of the College and the Higher Education Funding Council for England, the Governors, through the Master as designated office holder, are required to prepare financial statements for each financial year which give a true and fair view of the College's state of affairs and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Governors have 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; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the College will continue in operation.
- they are satisfied that the College has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Governors have taken reasonable steps to:

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

The key elements of the College's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, Faculty Deans, Heads of schools and Administrative Departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets and forecasts;

STATEMENT OF THE COLLEGE GOVERNORS' RESPONSIBILITIES (continued)

- regular reviews of key performance indicators and business risks and quarterly review and financial results involving variance reporting updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Governors;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance and General Purposes Committee; and
- a professional Internal Audit Service whose annual programme is approved by the Audit Committee. The Audit Committee receives reports on internal audit activity within the College. The Chairman of Audit Committee provides the Governors with reports on internal audit activity and an opinion on the adequacy and effectiveness of the College's system of internal control, including internal financial control.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance and Accountability Arrangements

Birkbeck College is a body incorporated by Royal Charter. Although the College does not have shareholders, and is not a listed company, the Governing Body is committed to achieving high standards of corporate governance, in line with accepted best practice. This summary describes the manner in which the College has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The Governing Body

The Governing Body comprises lay members, students, graduates and employees appointed under the Statutes of the College, the majority of whom are non-executive. The roles of Chairman and Deputy Chairman of the Governing Body are separated from the role of the College's Chief Executive, the Master.

The matters specially reserved to the Governing Body for decision are set out in the Charter and Statutes of the College, and under the Financial Memorandum with the Higher Education Funding Council for England. The Governing Body is responsible for the ongoing strategic direction of the College, approval of major developments and the receipt of regular reports from Senior Management on the day to day operations of its business.

The Governing Body is responsible for the College's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Governing Body met four times during the year and has several committees, including Finance and General Purposes Committee, Audit Committee, Nominations Committee and the Remuneration Committee. All of these committees are formally constituted with terms of reference. All lay members of the Governing Body are appointed to committees by the Governors on the recommendation of the Nominations Committee.

The Governing Body is of the view that there is an ongoing process for identifying, evaluating and managing the College's significant risks, that it has been in place for the year ended 31 July 2008 and up to the date of approval of the annual accounts, that it is regularly reviewed by the Governing Body and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

Academic Board

On all academic matters the Governors must consider, but not necessarily follow, the advice of the Academic Board, which is responsible to the Governing Body for the academic work of the College. The Academic Board has a membership of around 150 drawn almost entirely from academic staff and the students of the College and chaired by the Master. It delegates some of its powers to its Executive Committee.

CORPORATE GOVERNANCE STATEMENT (continued)

Finance and General Purposes Committee

The Finance and General Purposes Committee (F&GPC) reviews and then recommends to the Governors the College's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It reviews and then recommends to Governors the financial regulations and financial policies that are applied to management. It reviews the annual financial statements, including significant matters of judgement made by management, and meets with the external auditors to discuss the outcome of their audit; it then recommends the financial statements to Governors for approval. In addition the Investment Sub-Committee of F&GPC is responsible to and reports to F&GPC on the College's investments.

The Finance and General Purposes Committee met three times during the year.

Nominations Committee

The Nominations Committee considers nominations for co-opted vacancies in the Governing Body membership under the relevant Statute and for Governing Body appointed vacancies on College Committees. Its recommendations to the Governors take into account the balance of skills, knowledge and experience of Governors members and are based on assessment against objective criteria. It also considers issues of succession planning within the Governing Body.

The Nominations Committee normally meets once during the year.

Remuneration Committee

The Remuneration Committee determines the annual remuneration of the Master and of professorial and senior administrative staff. Lay members of Governing Body receive no remuneration for their services although expenses incurred in attending meetings are met by the College. Members of the Governing Body who are employees of the College receive no additional remuneration for their services to the Governing Body. The cost of living salary increases for all staff are determined by national pay negotiations for all universities. The employee members have no involvement in determining their own salaries.

The Remuneration Committee met once during the year.

Audit Committee

The Audit Committee comprises wholly lay members, drawn from the Governing Body and so has no executive responsibility. Members have recent, relevant financial and other appropriate experience. The Audit Committee met three times during the year.

The Audit Committee relies substantially on the work of the internal and external auditors, on the information provided by management and the response of management to the questions it raises.

CORPORATE GOVERNANCE STATEMENT (continued)

The remit of the Audit Committee includes:

- reviewing the effectiveness of the College's systems of internal control and risk management;
- satisfying itself and assuring the Governors, with advice from the Director of Finance, that satisfactory arrangements are in place to promote economy, efficiency and effectiveness;
- reviewing and approving the remit of the internal audit function;
- advising the Governors, as necessary, on the appointment and remuneration of the internal and external auditors, and their quality, reliability and effectiveness;
- reviewing with the external auditors the scope and nature of the audit, including the report to Audit Committee written by the external auditors; and
- assessing compliance with the regulatory framework relating to audit issues.

The external auditors have a standing arrangement to meet the Audit Committee members regularly without senior officers present. The auditors also attend meetings with senior officers to consider the items listed above, and to review plans for the audit process.

The College's internal audit function provides, by undertaking review, independent objective assurance to the Governing Body, through the Audit Committee, on the effectiveness of the risk management framework, and the design and effectiveness of the operation of internal controls that are intended to control application risks. Internal audit also helps the College accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes and, by working with management, adding value through advice and guidance. All reviews undertaken by internal audit are considered with the management in the relevant operational unit. The reviews are also considered by the Master, College Secretary and Director of Finance and appropriate action confirmed to the Audit Committee. The head of the internal audit has unfettered access to the Audit Committee.

The internal audit work programme is drawn down from a risk-focused audit plan, which remains dynamic and is updated regularly to reflect changes in the College's risk profile. Internal audit monitors the progress made by operational units in implementing recommendations to ensure that they are addressed in a timely and effective manner, and reports regularly thereon to the Audit Committee.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The Governing Body's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2008 meeting, the Governing Body carried out the annual assessment for the year ended 31 July 2008 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2008.

The membership of all of the above committees is shown on pages 1-2.

INDEPENDENT AUDITORS' REPORT TO THE GOVERNING BODY OF BIRKBECK COLLEGE

We have audited the College's financial statements of Birkbeck College for the year ended 31 July 2008 which comprise the College's Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

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

Respective Responsibilities of the Governing Body and Auditors

The Governing Body is responsible for preparing the Operating and Financial Review and the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 22-25.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the College have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England. We also report to you whether in our opinion the Operating and Financial Review is not consistent with the financial statements.

In addition we report to you if, in our opinion, the College has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

Basis of Opinion

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

INDEPENDENT AUDITORS' REPORT TO THE GOVERNING BODY OF BIRKBECK COLLEGE (continued)

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

Opinion

In our opinion:

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

KPMG LLP

Chartered Accountants and Registered Auditor
1 Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9PT

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The Financial Statements have been prepared in accordance with the statement of recommended practice (SORP): *Accounting for Further and Higher Education* and in accordance with applicable Accounting Standards.

Basis of Accounting

The Financial Statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments.

Basis of Consolidation

In accordance with FRS2, the activities of the student union have not been consolidated into the Financial Statements because the College does not exercise significant control or influence over those activities.

Recognition of Income

Income from research grants, contracts and other services rendered is included to the extent of completion of the contract or service concerned when it is measurable and when there is certainty of receipt. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments is included when it is earned. Income from donations is recognised when it is received.

Recurrent grants from the Funding Council are recognised in the period in which they are receivable.

Non-recurrent grants from the Funding Council or other bodies 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 life of the assets.

Pension Schemes

Retirements benefits for most employees of the school are provided by the Universities Superannuation Scheme (USS) and the superannuation arrangements of the University of London (SAUL). These are defined benefit schemes which are externally funded and contracted out of the State Earnings Related Pension Scheme. Contributions to the scheme are determined by qualified actuaries on the basis of triennial valuations using the Projected Unit Method. Review of the Scheme position are carried out in the period between valuations.

It is not possible to identify the College's share of the underlying assets and liabilities of the schemes. Therefore contributions are accounts for as if the schemes were defined contribution schemes and pension costs are based on the contributions payable in the year. Differences between contributions payable and contributions paid are shown as either accruals or prepayments on the balance sheet.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Leased Assets

Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases. The College does not hold any finance leases.

Foreign Currency Translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Tangible Fixed Assets

a. Land and Buildings

The freehold to all but two of the College's premises is owned by the University of London and therefore their values are not included in the Financial Statements. The University has leased the Malet Street Building to Birkbeck on a 99 year lease from 1939 at a peppercorn rent. In 1997 the College purchased a long lease on the building at 30 Russell Square from the University of London. In 2007 the College purchased a 99 year lease on 27-29 Russell Square. At the same time, the short leases on 25-26 Russell Square were also converted into 99 year leases by the University of London. The remaining University premises are occupied on short leases or letters of agreement also at peppercorn rents.

In 2001, the College purchased a long lease on 7 Bedford Square from a commercial landlord. The costs are being depreciated over the period of the lease.

Where buildings are acquired with the aid of specific grants or donations they are capitalised and depreciated over the expected useful life of the buildings. The related grants or donations are treated as deferred capital grants and released to income over the same period.

Further details of the College's Estate are shown on page 41.

b. Refurbishments

Expenditure on refurbishment projects is capitalised and depreciated as follows:

Refurbishments less than £500,000 depreciated over 5 years
Refurbishments greater than £500,000 depreciated over 50 years

c. Equipment

Equipment costing less than £10,000 per individual item is written-off to the Income and Expenditure Account in the year of acquisition. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its useful economic life as follows:

Computer equipment	-	3 years
Other general equipment	-	5 years
Equipment acquired for research or other projects	-	project life

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the Income and Expenditure Account over the expected useful economic life of the related equipment.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Investments

Investments that form part of Fixed Assets and Endowment Assets are listed on a recognised stock exchange and included in the Balance Sheet at market value.

Current Asset Investments are included in the Balance Sheet at the lower of their original cost and net realisable value.

Accounting for charitable donations

a. Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

b. Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective

c. Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Stocks

Stocks for re-sale are valued at the lower of cost and net realisable value.

Maintenance of Premises

The College has a five-year rolling long-term maintenance plan which forms part of the ongoing maintenance of the estate. The cost of long-term and routine corrective maintenance is charged to the Income and Expenditure Account as incurred.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Liquid Resources

Liquid resources include sums on short-term deposits with recognised banks and building societies.

Taxation Status

The College is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the College is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The College receives no similar exemption in respect of Value Added Tax.

INCOME AND EXPENDITURE ACCOUNT for the Year Ended 31 July 2008

	NOTE	2008 £000	As restated 2007 £000
INCOME			
Funding Council Grants	1	36,572	33,663
Academic Fees and Support Grants	2	19,919	17,423
Research Grants and Contracts	3	10,784	10,564
Other Operating Income	4	4,805	3,974
Endowment Income and Interest Receivable	5	675	812
TOTAL INCOME		<u>72,755</u>	<u>66,436</u>
EXPENDITURE			
Staff Costs	6	49,191	45,619
Other Operating Expenses	7	19,049	18,657
Depreciation	8	2,603	1,900
TOTAL EXPENDITURE		<u>70,843</u>	<u>66,176</u>
Surplus on continuing operations after Depreciation		1,912	260
Transfer from accumulated income in endowment funds		1	(75)
Surplus for the year retained within General Reserves		<u>1,913</u>	<u>185</u>

Income and expenditure relates wholly to continuing operations. The historical cost surplus is the same as the surplus shown above.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the Year Ended 31 July 2008

	NOTE	2008 £000	As restated 2007 £000
Surplus for Year after Depreciation		1,912	260
(Depreciation)/Appreciation of Endowment Assets	15	(323)	247
New Endowments	15	10	9
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>1,599</u>	<u>516</u>
RECONCILIATION			
Opening Reserves and Endowments		32,247	31,731
Total Recognised Gains and Losses for the Year		1,599	516
Closing Reserves and Endowments		<u>33,846</u>	<u>32,247</u>

BALANCE SHEET as at 31 July 2008

	NOTE	2008 £000	As restated 2007 £000
FIXED ASSETS			
Tangible Assets	9	50,089	44,230
Investments	10	10,426	11,254
		<u>60,515</u>	<u>55,484</u>
ENDOWMENT ASSET INVESTMENTS			
	11	2,935	3,249
CURRENT ASSETS			
Stock in Hand		10	4
Debtors	12	4,389	4,222
Investments	24	12,095	7,500
Cash at Bank and in Hand	24	1,818	4,543
		<u>18,312</u>	<u>16,269</u>
CREDITORS: Amounts falling due within one year			
	13	<u>(14,904)</u>	<u>(11,061)</u>
NET CURRENT ASSETS			
		3,408	5,208
NET ASSETS			
		<u>66,858</u>	<u>63,941</u>
DEFERRED CAPITAL GRANTS			
	14	33,012	30,997
ENDOWMENTS			
Permanent	15	2,765	3,068
Expendable	15	170	181
		<u>2,935</u>	<u>3,249</u>
RESERVES			
Revaluation Reserve	16	-	697
Income and Expenditure Account Reserve	17	<u>30,911</u>	<u>28,998</u>
TOTAL FUNDS			
		<u>66,858</u>	<u>63,941</u>

Approved by Governors at their meeting on 3 December 2008, and signed on their behalf by:

Lord Marshall of Knightsbridge
Chairman of Governors

Professor David Latchman
Master

Peter Westley
Director of Finance

CASH FLOW STATEMENT for the Year Ended 31 July 2008

	NOTE	2008 £000	As restated 2007 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	20	<u>6,329</u>	<u>500</u>
RETURNS ON INVESTMENTS			
Income from Endowments	5	125	106
Income from Investments	5	<u>547</u>	<u>692</u>
Net Cash Inflow from Returns on Investments		<u>672</u>	<u>798</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Tangible Assets Acquired	9	(8,462)	(4,914)
Other Investments Acquired	10	(975)	(901)
Endowment Asset Investments Acquired	11	(314)	(457)
Sales of Endowment Assets	11	201	368
Sale of Other Investments	10	654	681
Deferred Capital Grants Received	14	3,651	7,705
Endowments Received	15	<u>10</u>	<u>9</u>
Net Capital Expenditure and Financial Investment		<u>(5,235)</u>	<u>2,491</u>
NET CASH INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES		1,766	3,789
MANAGEMENT OF LIQUID RESOURCES			
Increase in Short Term Investments	24	(4,595)	(3,500)
(DECREASE)/INCREASE IN CASH	24	<u>(2,829)</u>	<u>289</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		2008 £000	2007 £000
(Decrease)/Increase in Cash in the Year	24	(2,829)	289
Increase in Short Term Deposits	24	<u>4,595</u>	<u>3,500</u>
Change in Net Funds		1,766	3,789
Net Funds at 1 August	24	<u>12,319</u>	<u>8,530</u>
Net Funds at 31 July	24	<u>14,085</u>	<u>12,319</u>

NOTES TO THE ACCOUNTS

1. FUNDING COUNCIL GRANTS	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Recurrent Grant:-		
HEFCE	33,647	30,905
Specific Grants:-		
Strategic Development Fund	1,072	1,513
HEIF	491	293
TQEF	239	239
Vulnerable Science Subjects	91	-
Procurement & Shared Services	45	-
JISC	40	-
Deferred Capital Grants released in the Year:-		
Buildings	812	713
Equipment	135	-
	<u>36,572</u>	<u>33,663</u>
2. ACADEMIC FEES AND SUPPORT GRANTS	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Full-time Home/EC Students	2,515	2,100
Full-time Students charged Overseas Fees	2,885	2,481
Part-time Fees	13,880	11,896
Short Course Fees	233	439
Research Training Support Grants	295	368
Other Teaching Activities	111	139
	<u>19,919</u>	<u>17,423</u>
3. RESEARCH GRANTS AND CONTRACTS	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Research Councils	4,586	4,537
UK Charities	1,778	1,412
Government	2,896	3,407
UK Industry	291	128
EU Government	932	696
Other	301	384
	<u>10,784</u>	<u>10,564</u>

NOTES TO THE ACCOUNTS (Continued)

4. OTHER OPERATING INCOME

	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Catering and Conferences	510	395
Other Services Rendered	795	927
Released from Deferred Capital Grants	192	121
Donations	291	256
Lettings	1,209	1,021
Other income	1,808	1,254
	<u>4,805</u>	<u>3,974</u>

5. ENDOWMENT INCOME AND INTEREST RECEIVABLE

	Year ended 31 July 2008 £000	As restated Year ended 31 July 2007 £000
Income from Expenable Endowments	9	7
Income from Permanent Endowments	116	99
Income from Investments (including realised gain on disposal)	547	692
	<u>672</u>	<u>798</u>
Income from Other Investments	3	6
Other Interest	-	8
	<u>675</u>	<u>812</u>

6. STAFF COSTS

	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Wages and Salaries	41,127	38,131
Social Security Costs	3,404	3,177
Other Pension Costs (Note 25)	4,660	4,311
	<u>49,191</u>	<u>45,619</u>
	219	187
	<u>219</u>	<u>187</u>

The emoluments of the Master are shown on the same basis as for higher paid staff. The College's pension contributions to USS in relation to the Master are paid at the same rate as for other academic and related staff and amounted to £30,628 (2006-07 £26,225).

NOTES TO THE ACCOUNTS (Continued)

6. STAFF COSTS (continued)

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

	Year ended 31 July 2008 Number	Year ended 31 July 2007 Number
£100,001 - £110,000	1	-
£140,001 - £150,000	1	1

	Year ended 31 July 2008 FTE	Year ended 31 July 2007 FTE
Average Full Time Equivalent (FTE) Staff Numbers by Major Category:-		
Academic	554	542
Technical	39	46
Other (Clerical, Manual and Administrative)	399	379
	<u>992</u>	<u>967</u>

7. OTHER OPERATING EXPENSES

	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
General Educational Expenditure	2,147	2,051
Equipment	1,685	1,852
Travel/Subsistence/Events	1,503	1,405
Fellowships, Scholarships & Prizes	1,464	1,667
General Estates & Facilities	1,462	1,421
Repairs & General Maintenance	1,204	870
Rent	1,156	1,185
Advertising/Publicity/Media	1,042	1,041
Consumables & Laboratory Expenditure	905	995
Heat, Light, Water & Power	846	790
Books & Periodicals	840	675
Staff Related Expenses	831	801
Catering, Conferences & Hospitality	670	522
Legal, Professional & Consultancy Fees	642	431
Printing/Stationery	626	624
Other Academic Support Costs	486	586
Student Facilities	431	445
Postage/Telephones	421	392
Other Expenses	296	309
Grants to Student Union	170	156
Insurance/Banking Costs	155	360
Auditors - External - Audit Fees	39	37
Auditors - Internal	28	42
	<u>19,049</u>	<u>18,657</u>

NOTES TO THE ACCOUNTS (Continued)

8. ANALYSIS OF EXPENDITURE BY ACTIVITY

	Staff Costs £000	Depn. £000	Other Operating Expenses £000	Total £000
Academic Departments	31,810	10	4,536	36,356
Academic Services	2,708	106	1,839	4,653
Research Grants and Contracts	5,847	497	1,799	8,143
Catering & Conferences	16	-	471	487
Premises	1,698	1,751	3,813	7,262
Administration & Central Services	7,081	239	6,464	13,784
Other Expenses	31	-	127	158
	<u>49,191</u>	<u>2,603</u>	<u>19,049</u>	<u>70,843</u>
Comparative 2007	<u>45,619</u>	<u>1,900</u>	<u>18,657</u>	<u>66,176</u>
The Depreciation Charge has been funded by:	£000			
Deferred Capital Grants Released (Note 14)	1,636			
General Income	967			
	<u>2,603</u>			

9. TANGIBLE ASSETS

	Assets in Course of Construction £000	Long Leasehold £000	Equipment £000	Total £000
<u>Cost</u>				
At 1 August 2007	1,177	53,204	7,541	61,922
Additions	481	6,503	1,478	8,462
Transfers	(973)	91	882	-
Disposals	-	(852)	(1,126)	(1,978)
At 31 July 2008	<u>685</u>	<u>58,946</u>	<u>8,775</u>	<u>68,406</u>
<u>Depreciation</u>				
At 1 August 2007	-	(10,348)	(7,344)	(17,692)
Charge for Year	-	(1,945)	(658)	(2,603)
Eliminated on Disposal	-	852	1,126	1,978
At 31 July 2008	<u>-</u>	<u>(11,441)</u>	<u>(6,876)</u>	<u>(18,317)</u>
<u>Net Book Value</u>				
At 31 July 2008	<u>685</u>	<u>47,505</u>	<u>1,899</u>	<u>50,089</u>
At 1 August 2007	<u>1,177</u>	<u>42,856</u>	<u>197</u>	<u>44,230</u>
Financed by capital grant	685	31,105	1,222	33,012
Other	-	16,400	677	17,077
Net Book Value at 31 July 2008	<u>685</u>	<u>47,505</u>	<u>1,899</u>	<u>50,089</u>

NOTES TO THE ACCOUNTS (Continued)

10. INVESTMENTS – LONG TERM

	2008	As Restated
	£000	2007
		£000
Balance at 1 August	11,254	8,519
Prior year adjustment	-	1,958
Balance at 1 August restated	<u>11,254</u>	<u>10,477</u>
Additions	975	901
Disposals	(654)	(681)
Revaluation	(1,149)	557
At 31 July	<u><u>10,426</u></u>	<u><u>11,254</u></u>

The above investments are listed on recognised stock exchanges and are analysed as follows:

	Year ended	Year ended
	31 July 2008	31 July 2007
	Market	Market
	Value	Value
	£000	£000
UK Equities	139	161
CAF UK Equitrack	5,362	7,187
European Index	272	301
US Index	372	420
Fixed Interest	313	336
Japan Index	428	492
Pacific Index	181	202
Cash Trust	3,359	2,155
	<u><u>10,426</u></u>	<u><u>11,254</u></u>

NOTES TO THE ACCOUNTS (Continued)

11. ENDOWMENT ASSET INVESTMENTS

	2008	As restated
	Market	2007
	Value	Market
	£000	Value
		£000
Investments		
Balance at 1 August	3,249	4,814
Prior year adjustment (Note 26)	-	(1,896)
Balance at 1 August restated	<u>3,249</u>	<u>2,918</u>
Purchases	314	457
Disposals	(201)	(368)
(Decrease)/Increase in market value	(323)	247
Increase/(Decrease) in Cash Balances	(104)	(5)
Balance at 31 July	<u><u>2,935</u></u>	<u><u>3,249</u></u>
	Year ended	Year ended
	31 July 2008	31 July 2007
	Market	Market
	Value	Value
	£000	£000
Represented by:		
CAF Fund	62	62
CAF UK Equitrack Fund	1,396	1,872
US Index	96	109
Fixed Interest	76	82
European Index	71	79
Japan Index	117	134
Pacific Index	47	52
Cash Trust	898	583
	<u>2,763</u>	<u>2,973</u>
Cash held at Bank	172	276
Total Endowment Asset Investments	<u><u>2,935</u></u>	<u><u>3,249</u></u>

12. DEBTORS

	Year ended	Year ended
	31 July 2008	31 July 2007
	£000	£000
Debtors	1,648	2,229
Research Expenditure Recoverable	2,707	1,903
Prepayments and Accrued Income	34	90
	<u>4,389</u>	<u>4,222</u>

13. CREDITORS: Amounts falling due within one year

	Year ended	Year ended
	31 July 2008	31 July 2007
	£000	£000
Trade Creditors	4,701	4,883
Research Grants received in advance	1,769	2,519
Other Taxation and Social Security	31	35
Accruals and Deferred Income	8,403	3,624
	<u>14,904</u>	<u>11,061</u>

NOTES TO THE ACCOUNTS (Continued)

14. DEFERRED CAPITAL GRANTS

	Funding Council £000	Other Grants & Benefactions £000	Total £000
At 1 August 2007			
Buildings	24,160	6,545	30,705
Equipment	-	292	292
Total	24,160	6,837	30,997
Cash Received			
Buildings	1,522	357	1,879
Equipment	1,769	3	1,772
Total	3,291	360	3,651
Released to Income and Expenditure			
Buildings	(812)	(235)	(1,047)
Equipment	(433)	(156)	(589)
Total	(1,245)	(391)	(1,636)
At 31 July 2008			
Buildings	24,870	6,667	31,537
Equipment	1,336	139	1,475
Total	26,206	6,806	33,012

15. ENDOWMENTS (As restated)

	Unrestricted Permanent	Restricted Permanent	Total Permanent	Restricted Expendable	2008 Total	2007 Total
At 1 August 2007						
Capital	1,341	1,375	2,716	-	2,716	2,398
Accumulated Income	-	352	352	181	533	520
	<u>1,341</u>	<u>1,727</u>	<u>3,068</u>	<u>181</u>	<u>3,249</u>	<u>2,918</u>
New Endowments	-	4	4	6	10	9
Investment Income	50	66	116	9	125	106
Expenditure	(108)	(12)	(120)	(6)	(126)	(31)
(Decrease)/Increase in market value	(144)	(159)	(303)	(20)	(323)	247
	<u>1,139</u>	<u>1,626</u>	<u>2,765</u>	<u>170</u>	<u>2,935</u>	<u>3,249</u>
Represented By:						
Capital	1,139	1,242	2,381	-	2,381	2,718
Accumulated Income	-	384	384	170	554	531
At 31 July 2008	<u>1,139</u>	<u>1,626</u>	<u>2,765</u>	<u>170</u>	<u>2,935</u>	<u>3,249</u>

NOTES TO THE ACCOUNTS (Continued)

16. REVALUATION RESERVE	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
At 1 August	697	140
Loss on revaluation in year	(697)	557
At 31 July	<u>-</u>	<u>697</u>

17. INCOME AND EXPENDITURE ACCOUNT RESERVE	General Balances £000	Departmental Balances £000	Total £000
Balance at 1 August 2007	21,649	5,196	26,845
Prior year adjustment	2,153	-	2,153
Balance at 1 August 2007 as restated	<u>23,802</u>	<u>5,196</u>	<u>28,998</u>
Surplus for the year	1,797	116	1,913
Balance at 31 July 2008	<u>25,599</u>	<u>5,312</u>	<u>30,911</u>

18. CAPITAL COMMITMENTS	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Commitments contracted at 31 July	<u>903</u>	<u>7,200</u>

19. CONTINGENT LIABILITIES

The College had no Contingent Liabilities at 31 July 2008 or at 31 July 2007.

20. RECONCILIATION OF OPERATING SURPLUS TO NET CASH FROM OPERATING ACTIVITIES

	Year ended 31 July 2008 £000	As restated Year ended 31 July 2007 £000
Surplus after Depreciation	1,912	260
Depreciation (Note 9)	2,603	1,900
Deferred Capital Grants Released to Income (Note 14)	(1,636)	(996)
Endowment Income (Note 5)	(125)	(106)
Investment Income (Note 5)	(547)	(692)
Revaluation of investments (Note 10)	452	-
Increase in Stock	(6)	(1)
Increase in Debtors	(167)	(351)
Increase in Creditors	3,843	486
Net Cash Inflow from Operating Activities	<u>6,329</u>	<u>500</u>

NOTES TO THE ACCOUNTS (Continued)

21. ACCESS FUNDS

	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
At 1 August	-	51
Funding Council Grants	429	345
Disbursed to Students	(384)	(407)
Transfer from I & E	-	11
Balance at 31 July	<u>45</u>	<u>-</u>

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

22. RETURN ON INVESTMENTS

	Year ended 31 July 2008 £000	As restated Year ended 31 July 2007 £000
Income from Endowments	125	106
Income from Investments	547	692
	<u>672</u>	<u>798</u>

23. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENTS

	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Tangible Assets Acquired	(8,462)	(4,914)
Endowment Asset Investments Acquired	(207)	(457)
Investments Acquired	<u>(975)</u>	<u>(901)</u>
Total Fixed and Endowment Asset investments Acquired	(9,644)	(6,272)
Receipts from Sales of Endowment Assets	201	368
Sale of Investments	654	681
Deferred Capital Grants Received	3,651	7,705
Endowments Received	10	9
	<u>(5,128)</u>	<u>2,491</u>

24. ANALYSIS OF CHANGES IN NET FUNDS

	Year ended 31 July 2008 £000	Cashflows £000	As restated Year ended 31 July 2007 £000
Cash at Bank and in Hand	1,818	(2,725)	4,543
Cash included in Endowment Assets	<u>172</u>	<u>(104)</u>	<u>276</u>
	1,990	(2,829)	4,819
Short Term Deposits	<u>12,095</u>	<u>4,595</u>	<u>7,500</u>
	<u>14,085</u>	<u>1,766</u>	<u>12,319</u>

NOTES TO THE ACCOUNTS (Continued)

25. PENSION SCHEMES

The two principal pension schemes for College staff are the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). The assets of the schemes are held in separate trustee-administered funds. The schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (formerly State Earnings- Related Pension Scheme). The schemes are valued every three years by actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuary reviews the progress of the scheme. USS provides benefits based on final pensionable salary for academic and related staff of participating UK Universities and certain other bodies engaged in higher education or research. SAUL provides similar benefits for non-academic staff of the College and other University of London colleges. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the schemes, and are accounted for on the basis of charging the cost of providing pensions which the College benefits from the employees' services. The last available actuarial valuations for both schemes and the assumptions and other data which have the most significant effect on the determination of the contribution levels are as follows:

	<u>USS</u>	<u>SAUL</u>
Latest actuarial valuation date	31.3.2005	31.3.2005
Investment return per annum	4.9%	5%
Salary scale increases per annum	3.9%	4.15%
Pension increases per annum	2.9%	2.65%
Market value of assets at date of last valuation	£21,740 million	£982million
Liabilities at date of last valuation	£28,308 million	£1,058 million
Proportion of accrued benefits covered by the actuarial value of the assets	77%	93%

The SAUL contribution rate for the year was 13%.

The USS contribution rate payable by the College is 14% of pensionable salaries. The actuary to the Universities Superannuation Scheme has confirmed that it is appropriate to take the pensions costs in the accounts to be equal to the actual contributions paid during the year. Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS17 basis, using a AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buyout basis was approximately 78%. The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

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

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

NOTES TO THE ACCOUNTS (Continued)

25. PENSION SCHEMES (continued)

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

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the College was:

	Year ended 31 July 2008 £000	Year ended 31 July 2007 £000
Contributions to USS	3,938	3,628
Contributions to SAUL	722	683
Total Pension Cost (Note 6)	<u>4,660</u>	<u>4,311</u>

It is not possible to identify the College's share of the underlying assets and liabilities of the schemes. Therefore contributions are accounted for as if SAUL and USS were defined contribution schemes and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8-12 of FRS 17.

26. PRIOR YEAR ADJUSTMENT

The prior year adjustment reflects changes to the accounting treatment of endowments arising from the implementation of the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions 2007. The prior year effects of these changes can be summarised as follows:

	£000
Income & Expenditure Account	
Transfer from accumulated income in endowment funds	(87)
Statement of Total Recognised Gains and Losses	
Surplus for Year After Depreciation	87
Appreciation of Endowment Assets	15
New Endowments	<u>(358)</u>
Total Change in Recognised Gains in the year	(256)
Transfer of Endowment Investments to Long Term Investments	1,958
Transfer of Endowment Cash to Cash In Hand	195
Net Increase of I&E Reserves	(2,153)
Movement in Net Assets	<u>-</u>

The 2006/07 opening reserves have been restated to reflect this change. There is no change to net assets.

Endowment Asset Investments	
Prior year adjustment (Note 11)	(1,896)
Net Purchases	(77)
Appreciation of Endowments Assets	15
Decrease in Cash held at bank	(195)
	<u>(2,153)</u>

NOTES TO THE ACCOUNTS (Continued)

SUMMARY OF THE COLLEGE'S ESTATE AS AT 31 JULY 2008 (not audited)

Location	Site	Net Internal Area (m2)
Malet Street	Main/Extension Buildings	19,755
Malet Street	North Block, Senate House	2,290
Gordon Square	39 – 47	4,024
University College	South Wing (Geology)	1,660
Gordon Street	Gordon House (part)	1,277
Tavistock Square	32	522
Torrington Square	Clore Management Centre	2,024
Torrington Square	28-29b, 32	411
Russell Square	25 – 26	1,350
Russell Square	30	1,648
Gower Street	4	320
Gower Street	10 - 16	1,282
Bedford Square	7	562
Henry Wellcome Building		709
		<u>37,834</u>