Financial Statements: Commentary

Financial Statements 2011/12 by Giles Kerr, Director of Finance

This year the University achieved an income of £1016.1m, an increase of 10.5% on 2010/11. This resulted in a surplus for the year of £52.3m, compared with £15.4m in 2010/11. The increase in the level of surplus was largely due to continued growth in research and teaching income in conjunction with careful control of expenditure and also increased transfers from Oxford University Press.

At 5% of income, the level of surplus achieved in 2011/12 is the minimum required to sustain the current infrastructure of the University, but not sufficient to finance new capital investments in the longer term.

The largest source of our income remains external research income at £409m, which increased by 8.6% on last year. Grants from the Higher Education Funding Council for England (HEFCE) were up by 1.3% on last year, and represent the second largest source of University income at £203.6m. Academic fees and support grants amounted to £173.3m, up by 13.5% as a result of increased student numbers and revision to fees charged for some courses.

The Oxford Thinking Campaign continued to go from strength to strength. The initial target of £1.25bn was passed in March 2012 and, by July 2012, the Campaign total reached £1.37bn. A new goal of £3bn has now been announced.

However, the upward pressure on costs continued to be significant. Expenditure rose by 7% to £971.8m. Staff costs remain the University’s single largest cost at £499.1m, and rose by 4.1%. This resulted from an annual negotiated pay settlement of 0.4%, annual promotional increments, and a 4.3% increase in the average number of staff, offset by a reduction in early retirement charges.

2011/12 was also a year of record capital expenditure, with £139.2m invested in new projects across a wide range of academic activities. Projects achieving completion included Phase 2 of the Said Business School for Executive Education, the refurbishment of the Ashmolean Egyptian Galleries, and the Oxford Centre for Functional MRI of the Brain at the John Radcliffe Hospital.

The forthcoming year will offer both challenges and opportunities for the University:

- The current economic climate is affecting the level of investment available for teaching and research and further cuts in government support are possible.
- Following the reduction in government capital funding to the higher education sector, future capital spending plans are increasingly dependent on internal funding and capital grants and donations from other sources.
- The significant shift from public to private funding following changes in UK/EU undergraduate fees are generating some additional income for the University. However, additional fee income is offset by reduced government funding for teaching; and in addition most of the additional income is being invested in providing
improved bursaries, student support and better access for less well-off students. It will continue to be the case that the University has to meet almost half the costs of teaching UK and EU undergraduates; a cost of tens of millions a year.

- If long-term interest rates remain at the current unusually low level, it is possible that the sector will face substantial increases in the cost of pension provision.
- Although this year’s surplus was significantly higher than that of 2010/11, in an environment where government funding for capital expenditure is greatly reduced, the 5% achieved is the minimum required to sustain the University’s current infrastructure. However, it is not sufficient to sustain our academic plans in the longer term. In order to undertake significant new activities, we will need to generate larger recurrent surpluses to finance capital investments.

The University will continue to seek to manage its sources of revenue effectively and its costs efficiently in order to generate the positive long-term cash flow needed to ensure that Oxford maintains its pre-eminent position amongst the world’s leading universities.