



2012-13
Financial
Statements

Excellence
with a
Purpose

King's Gate student services building.



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Front cover: One of the X-ray Photoelectron Spectroscopy instruments in the School of Mechanical and Systems Engineering.

- 1 The Student Forum in front of the University Arches and Armstrong Building.
- 2 Standing PC stations in the Herschel Building.
- 3 EAT@NEWCASTLE is Newcastle University's in-house catering operation, with 12 outlets and an events catering business.
- 4 Studying at our Singapore campus.

Foreword

It gives me great pleasure to introduce Newcastle University's Financial Statements for 2012–13. Against a background of change we can celebrate a year of progress with many highlights.

The end of the first year of the new funding regime is a time to reflect. There has been turbulence across the sector but it is encouraging that, while continuing to widen participation, Newcastle has maintained strong recruitment of high-calibre undergraduates from Britain and the rest of the European Union.

We value the diversity of our community and it is splendid to report further growth in our international population. The completion of new buildings for our INTO foundation pathway initiative and, for the first time, celebrating the achievements of some of our Chinese graduates with a graduation ceremony in Shanghai, signify our commitment to international students. Elsewhere our international reputation has been further enhanced by the steady growth, both of student numbers and range of courses taught, at our campuses in Malaysia and Singapore.

The past year has seen an impressive increase in research activity and new research awards, with particular growth in awards from industry for medical research. The academic impact and social benefit of this work, across a broad range of themes, distinguishes Newcastle and confirms our place among the best universities.

The success of our students continues to reflect the quality of their experience at Newcastle and the status of their Newcastle degree. Even in these challenging economic times, employment figures for recent Newcastle graduates have never been better, with over 95% of our graduates in jobs or further training after six months. Beyond the academic sphere, our current students have also achieved new levels of sporting success.

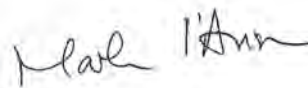
We place the student at the heart of all we do, and Newcastle students continue to report high levels of satisfaction through national and international surveys. We are not complacent, however, as the new funding regime inevitably extends student expectations. We continue to invest heavily to meet this obligation and it is very encouraging that this was recognised in a prestigious national Leadership and Management award recognising Newcastle's comprehensive 'offer' to our students in 2012–13.

I noted, in my introduction to last year's report, that economic recovery remained fragile. Nationally, we might have hoped for a more positive picture by now, but our University can nonetheless report another year of strong financial performance in 2012–13. When allied to further success in environmental management, where we are second in the Russell Group and 15th nationally, the University delivers a strong message in terms of social and financial sustainability. This will be an issue of increasing importance in higher education in coming years.

The University is proud to work with visionary leaders who locally and across national and international stages share our ambition and vision. Over the past year we have been privileged to award Honorary degrees to Professor Dame Sally Davies, Lord Garry Runciman, Sir Mark Walport, Professor Dorothy Bishop, Professor Martha Nussbaum, Professor Keith Wrightson, Shami Chakrabarti, Rakesh Bharti Mittal, and Sunil Bharti Mittal.

Council has a key role in guiding and shaping the University's strategy, and continues to work well with the management team and staff. I wish to thank all Council members for their support and commitment during the past year, but offer my particular thanks to those members who are now standing down. Their skilled and enthusiastic contribution has been invaluable and will be missed.

At its heart the University is its students and staff, and I wish to thank and congratulate both for their contribution to the results of the past year. Our University has responded to the challenges of a changing environment and is well positioned for further success.



Mark I'Anson

Chair of University Council and Pro-Chancellor



The embedding of the societal challenge themes of Ageing, Sustainability, and Social Renewal, which provide focus to our research in addressing three of the most pressing global issues, has also been very encouraging. Their ongoing contribution to our academic vision, in our research and teaching, is a key element in driving forward our mission to be a world-class civic university.

As expected, funding remains competitive, and we were particularly delighted to win HEFCE Catalyst funding towards the £7m cost of the Neptune National Centre for Subsea and Offshore Engineering, a major new facility to be built on the banks of the River Tyne. This is important recognition of the manner in which our University, whose origins lay in the industrial growth of the nineteenth century, maintains its leading role in the regional and national economy in the twenty first.

Principal Officers of the University and Members of Council

for the year ended 31 July 2013

Chancellor

Professor Sir Liam Donaldson

Chair of Council and Pro-Chancellor

Mr Mark l'Anson

Vice-Chancellor

Professor Chris Brink

Deputy Vice-Chancellor

Professor Ella Ritchie

Members of Council

Mr Mark l'Anson (Chair) ^{1 4 6 7}

Professor Chris Brink ^{2 4 6 7}

Dr Peter Andras ²

Dr John Appleby ²

Professor Alan Boddy ²

Mr Neil Braithwaite ^{1 4}

Professor Vicki Bruce ²

Mr Mike Davison ^{1 5}

Mr Colin FitzPatrick ^{1 5}

Professor Deborah Henderson ²

Ms Jacqui Henderson (Vice-Chair) ^{1 7}

Mr Robert Hull ^{1 5}

Mr Peter Johnson (Treasurer) ^{1 4 6 7}

Mr Jeff McIntosh ^{1 4}

Mrs Heidi Mottram ¹

Ms Laura Perry ³

Mr Simon Pleydell ¹

Ms Kate Priestley ^{1 6 7}

Professor Ella Ritchie ^{2 6}

Ms Rachael Thornton ³

Mr Paul Walker ¹

Members of Executive Board

Professor Chris Brink
(Vice-Chancellor)

Professor Ella Ritchie
(Deputy Vice-Chancellor)

Professor Suzanne Cholerton
(Pro-Vice-Chancellor – Learning and Teaching)

Professor Chris Day
(Pro-Vice-Chancellor – Medical Sciences)

Professor Charles Harvey
(Pro-Vice-Chancellor – Humanities and Social Sciences)

Professor Steve Homans
(Pro-Vice-Chancellor – Science, Agriculture and Engineering)

Professor Tony Stevenson ⁴
(Pro-Vice-Chancellor – Planning and Resources)

Professor Nicholas Wright
(Pro-Vice-Chancellor – Research and Innovation)

Dr John Hogan
(Registrar)

Mr Richard Dale
(Executive Director of Finance)

Mrs Veryan Johnston
(Executive Director of Human Resources)

- ¹ Lay member
- ² Employee of the University
- ³ Student representative
- ⁴ Member of Finance Committee
- ⁵ Member of Audit Committee
- ⁶ Member of Nominations Committee
- ⁷ Member of Remuneration Committee

Vice-Chancellor's Introduction

The past academic year has been the first of the new dispensation. The new higher education fees regime came into effect in September 2012, as well as the first significant deregulation of student enrolment numbers. As I remarked last year, the free-market orientation in higher education is now well under way.

We should be clear that this is a fundamental shift. The new paymaster is no longer the state, but the student. With that come a number of realities and risks. One of them is the likelihood that higher education will increasingly be thought of as a private benefit, more than a public good. Our view at Newcastle University is that it is both, in equal measure.

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Accordingly, we wish to do two things: enhance student satisfaction with the education we provide, and provide an education that has at its heart the idea of citizenship and civic responsibility. Fortunately, these aims flow very naturally from what we have long enunciated: the vision of a world-class civic university, engagement with our city and region, the principle of education for life, and the commitment to parity of esteem between research and teaching.



Looking back, I am pleased to report that we have had a good year on all fronts. After September 2012 it became clear that our enrolment figures compared very favourably with our peers. During the course of the year we put a lot of effort into recruitment for 2013–14, and the application numbers rose considerably, both in the UK and internationally. As a result undergraduate recruitment in 2013 is significantly higher than 2012. The National Student Survey scores show that 90% of our students are satisfied with the overall quality of their course and the International Student Barometer also recorded 90% overall satisfaction. Our latest employability figures are particularly pleasing, with 95.2% of our graduates shown to be in employment or further study within six months of graduating. Once again our students have done us proud in the BUCS student sports league, with Newcastle placed in 10th position nationally. We have also done well in student entrepreneurship, with a significant increase in new start-up companies launched by students.

We saw a significant increase in the value of new research awards over the past year, and we are getting close to the symbolic figure of £100m research income per annum. This is a particularly notable achievement given the very large amount of time and support simultaneously expended on preparing our submission for the Research Excellence Framework. One notably large award, for example, is for a £21.9m drugs trial for the pharmaceutical

company ARIAD, in conjunction with the Newcastle NHS Hospitals Foundation Trust (£9.4m of the total will come to Newcastle University). In a significant new step, we have been successful in gaining funding for the Neptune National Centre for Offshore and Subsea Engineering, to be located on the North Bank of the Tyne, and in collaboration with a number of engineering companies already situated there.

Our various programmes of civic engagement continue apace, increasingly through our three societal challenge themes of Ageing, Social Renewal and Sustainability, all of which are now fully functioning, and details of which appear in their respective websites: www.ncl.ac.uk/changingage, www.ncl.ac.uk/socialrenewal and www.ncl.ac.uk/sustainability. Internationally, our Medical School in Malaysia exceeded its recruitment target with an intake of more than 100 new students, and our campus in Singapore extended its collaboration with the Singapore Institute of Technology, launching further degree programmes. We launched a Confucius Institute on campus with our Chinese partner university, Xiamen, and also paid reciprocal academic visits.

The campus is looking better than ever, with the Student Forum now a central feature of student life. The INTO Centre for international students means that the campus is now alive at night and over weekends, and this feature will soon be further enhanced by the accommodation blocks being constructed on Park Terrace and Kensington Terrace. Looking ahead, we will be putting a lot of effort into the development of Science Central, where we plan to focus our activities on urban sustainability and initiatives in computing and digital sciences. The groundworks are nearing completion, and the first building is under construction.

Many of our staff have won national awards and accolades over the past year – too many to mention here, but we do celebrate their success at various events during the course of the year. I will, however, mention two exceptional personal awards: Emeritus Professor John Goddard won the Lord Dearing Lifetime Achievement Award, and Professor Sugata Mitra won the \$1m TED Wish Prize for his 'School in the Cloud'. In addition, it is pleasant to mention that we won the *Times Higher Education* award as Outstanding Leadership and Management Team and we have been shortlisted for University of the Year, the results of which will be announced in November 2013.

As always, I would like to express thanks and appreciation to our staff and students, Senate, Council and Court, as well as our alumni, donors, benefactors and friends.

A handwritten signature in black ink that reads "Chris Brink". The signature is written in a cursive, flowing style.

Professor Chris Brink
Vice-Chancellor

The University

Overview

Newcastle University can trace its origins to a school of medicine and surgery, established in Newcastle in 1834, and to the College of Physical Science, later Armstrong College, founded in the city in 1871. These two colleges formed one division of the federal University of Durham, the Durham Colleges forming the other division. The Newcastle Colleges merged to form King's College in 1937 and, in 1963, when the federal University was dissolved, King's College became the University of Newcastle upon Tyne, latterly trading as Newcastle University.

The University is a member of the Russell Group, comprising leading research institutions in the UK. We have one of the largest European Union research portfolios in the UK and have research links with many other countries. Our research spans a wide range of activity, subject boundaries and traditional faculty divides, with a strategy to develop our research to address major societal challenges.

Over 21,000 students from more than 100 different countries choose to study at Newcastle University. We have over 200 full-time undergraduate degree programmes on offer, in a wide range of subject areas and combinations. Our 50-acre site at the heart of Newcastle city centre has some of the best teaching and learning facilities in the country. We have invested significantly in the University's estate over the last few years to improve the quality of the environment for students, staff and visitors. We are one of the largest employers in the North East of England, with approximately 5,100 staff.

We play a leading role in the economic, social and cultural development of the North East of England and we collaborate with a range of partners and strategic initiatives, helping to extend the University's influence and reinforce our ties with the city, region and beyond. These include Newcastle City Council, the NHS and Durham University via the Angel Alliance.

Our principal competitors are research-intensive universities in the UK and, to a lesser extent, other universities in the North East. However, it is in the nature of the higher education sector that we compete and collaborate at the same time.

Organisation

We have three core academic functions:

- research and innovation
- learning, teaching and the student experience
- engagement

Strategic leadership of each of these is provided, on a university-wide basis, by our Deputy Vice-Chancellor and two Pro-Vice-Chancellors. Delivery of the core academic functions occurs in our three faculties, each led and managed by a Pro-Vice-Chancellor (PVC).

- Faculty of Humanities and Social Sciences
- Faculty of Medical Sciences
- Faculty of Science, Agriculture and Engineering

Each faculty consists of a number of academic units, typically a school or a research institute, led and managed by a head. The core functions and structures combine to form the academic map of the University in which we envisage the faculties as vertical columns, with the core functions as cross-cutting institutional activities. Interdisciplinary and cross-disciplinary activities are co-ordinated and supported by the functional PVCs. The academic enterprise is supported by a number of corporate activities within the professional support services, led and managed by the Registrar.

- The University Arches and Armstrong Building sit within a beautifully landscaped area.



Charity status and public benefit statement

Newcastle University is an exempt charity under the terms of the Charities Act 2011. In developing and overseeing the University's strategy and activities, Council has had due regard to the Charity Commission's guidance on the reporting of public benefit. It also is aware that, because the University is charging high fees, it must make provision for those from lower income backgrounds to have the opportunity to benefit from the services provided. The principal beneficiaries of the University's services are our students and the public at large.



The Higher Education Funding Council for England (HEFCE) is the principal regulator for most English higher education institutions under the Charities Act 2011 and is the regulator for this University.

The University was established by an Act of Parliament in 1963, which did not state the object of the University. In March 2011, we gained approval from the Privy Council for a major set of revisions to our statutes, which included defining the object of the University as 'for the public benefit, to advance education, learning and research'.

Public benefit is embedded in our strategic aims and objectives set out in *Vision 2021: A world-class civic university*. The University takes seriously its commitment to ensure that it satisfies the Charity Commission's public benefit test that there must be identifiable benefits and the opportunity to benefit must not be unreasonably restricted. We have a range of schemes to encourage participation in our academic programmes by students from under-represented socio-economic groups and those from low income households.

In the academic year 2012–13 865 UK and EU undergraduates with low income or widening participation backgrounds with household income at or below £25,000 per annum, or from a designated under-represented group, were awarded scholarships by the University. This constitutes 21.8% of our 2012 full-time home (UK and EU) undergraduate entrants. Of these, 467 eligible low income students from England and the EU were awarded a National Scholarship part-funded by the government.

We alert all prospective and current students to the opportunities for financial support, through our website, brochures, talks, mail shots, student newspaper, e-mail and plasma screen reminders throughout the year. In 2012–13 we provided £2.25m in

means-tested scholarships to support new entrants who may otherwise have been unable to afford the costs of going to university. We paid a further £3.4m to support 2,392 students continuing their studies. The 2012–13 UK undergraduate financial support of £5.7m represents an increase of £800,000 compared to 2011–12.

Our bursary and scholarship schemes have been reviewed and revised for students entering from 2013, and we have committed more than £35m through our Access Agreement to student financial support over the next five years. This is a substantial increase over the previous commitment reported last year of £29m.

During 2012–13 we awarded more than 7,000 undergraduate and postgraduate degrees.

We are the largest research university in the North East. During the calendar year 2012 our academic staff published 4,124 research articles, books, book chapters and conference proceedings, a slight decrease from 4,340 in 2011. Our total research income in 2012–13 was £93.4m.

To support the charitable work of the University, we received £10.9m in donations, a significant increase over £3.8m in the previous financial year. This included £4.2m from the Wellcome Trust for the Centre for Translational Systems Neuroscience, £1m from the Barbour Foundation and £1m from the Reece Foundation and £2.5m in other charitable grants to support research. We receive funding from a wide range of benefactors including many of our alumni and we are grateful for their support.

The University expects that useful knowledge acquired through research will be disseminated to the public and others able to benefit from such research. The University normally expects that any private (non-charitable) benefit will be legitimately incidental to the achievement of the University's charitable aims for public benefit. The terms and conditions of all externally funded research activity is assessed prior to acceptance in terms of the public benefit test for charitable purpose.



More information on the work of the University and the way it fulfils its charitable purpose is included in this review and in separate publications including our *Profile and Annual Review*.

¹ The University welcomed approximately 36,000 visitors to campus over three Visit Days in Autumn 2012 and Summer 2013.

Key Performance Indicators

Objective 1

Top 20 in the UK for research

Research income per academic FTE:

Target \geq Russell Group Median

£42.5k in 2012-13. £41k in 2011-12. RG median £44k in 2011-12.

World citation impact:

Target \geq Russell Group Median

Using a Normalised measure of Citation Impact, Newcastle score 78. Russell Group median is 80.

Number of PhDs graduated per academic FTE:

Target \geq Russell Group Median

0.2 in 2011-12. RG median 0.2 in 2011-12.

Objective 2

Top 20 in the UK for student satisfaction

National Student Survey:

Target \geq 90% overall satisfaction and \leq 5% disagreement

Overall satisfaction 90% in 2013 (89% in 2012). Overall dissatisfaction 5% in 2013 (5% in 2012).

Other satisfaction indicators:

Target \geq 90% satisfaction in each

Postgraduate Taught Experience Survey (PTES):

PTES 2012, 91% (2010, 89%).

Postgraduate Research Experience Survey (PRES):

PRES 2013*, 83% (2011, 89%).

* PRES questions revised in 2013.

International Student Barometer (ISB):

ISB 2012, 90.1% (2011, 91.4%). Average UK ISB in 2012 is 88.4%.

Objective 3

Focus on three societal challenge themes: Ageing; Social Renewal; Sustainability

Supported by strong media coverage, all three themes are now generating research income and informing teaching programmes across the University's three faculties

Case studies have been developed to demonstrate the civic impact of the themes, supported by subject specific and cross-disciplinary events

While the economic environment remains challenging business opportunities associated with each theme are being exploited

Objective 4

A significant international, national and regional profile and reputation

Our position in national and international league tables:

Target – 20th in at least two national tables, top 100 in at least one international table

22nd in 2014 Complete University Guide and 27th in 2014 Guardian University Guide (both published in 2013).

129th in the 2013-14 QS World Ranking and 201-300 in the Academic Ranking of World Universities 2013.

International, national and regional media profile:

Average media mentions in 2012-13 were 1,633 per month, compared to 1,158 for comparator group.

Objective 5

Financial and environmental sustainability

Staff costs:

Target – \leq 55% of income

A significant sustainability measure. 54.0% in 2012-13.

Overall staff satisfaction:

Target – \geq 90%

In the 2013 Employee Opinion Survey, 92% of staff considered the University 'a good place to work'.

Percentage of waste recycled:

Target – \geq 92% general waste recycled in any one year, with a minimum of 90%

2012-13, 94% unchanged from 2011-12.

CO₂ emissions:

Target – decreasing kg CO₂ per m² gross internal areas (non residential & residential)

2011-12, 103. 2010-11, 97.

Net surplus:

Target – 4% of income with a minimum of 2% in any one year

4.5% in 2012-13. Average of last five years is 4.2%.

Infrastructure investment:

Target – \geq 3% of insurance replacement value

4.1% in 2012-13 confirming commitment to the estate.

Functional suitability of the estate:

Target – \geq 85% recorded as class 1 or 2 in Estates Management Statistics

2012-13, 84%. 2011-12, 82%.

Net cash balances:

Target – \geq £50m

Net cash at 31 July 2013 was £128.8m.

High Risk

Medium Risk

Generally Satisfactory

Good

Review of Operations

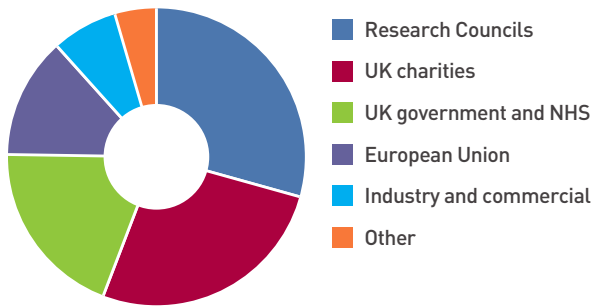
Research and innovation

The key objectives in our research and innovation strategy are to:

- grow areas of strength and address areas of weakness to achieve international excellence in all we do
- identify institutional challenge themes responding to societal needs and demands
- develop an innovation culture embedded throughout the University

Research income increased by 9% from £86.0m in 2011–12 to £93.4m in 2012–13, with increases across almost the entire portfolio of funding sources. Following two successive years of decreased income from Research Councils, 2012–13 saw an increase from £25.7m to £27.3m. UK charity income also increased from £22.7m to £24.5m and UK government/health authority income from £16.5m to £18.5m. Similarly, research income from EU government sources increased from £11.2m to £11.9m. Key research income streams are analysed below:

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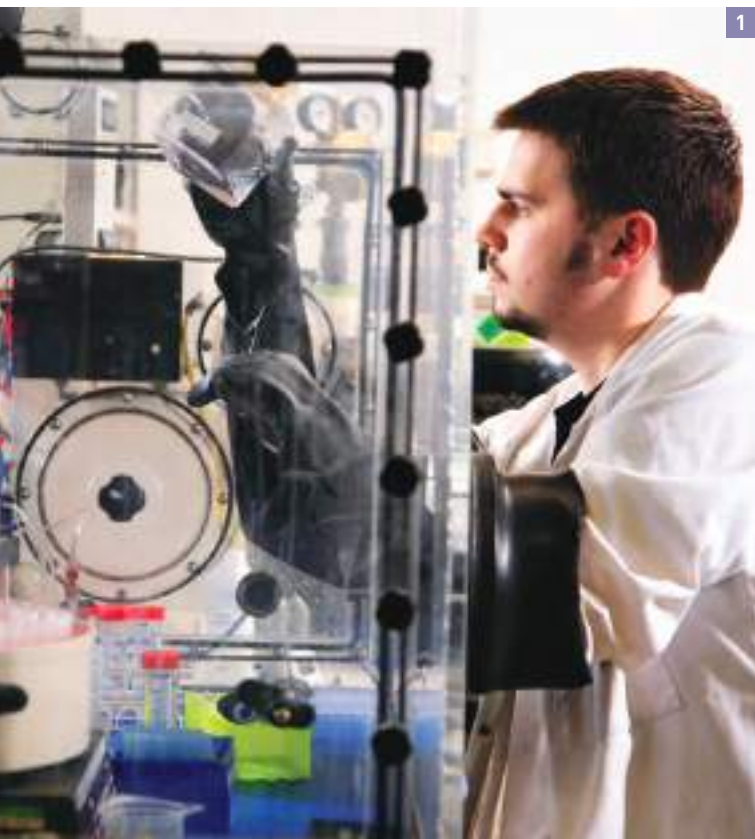
New research awards during the year increased by an impressive 28% from £97.7m in 2011–12 to £125.1m in 2012–13. The majority of this increase relates to success in securing Research Council funding, up from £28.2m to £37.5m, UK industry funding up from £3.0m to £7.3m and EU government funding up from £14.5m to £17.4m.

Notable successes include the £21.9m 10-year Clinical Trial SPIRIT 3 with ARIAD Pharmaceuticals Inc, which has brought £9.4m to Newcastle. The Medical Sciences Faculty has signed its largest ever partnership arrangement, a five-year, £5m contract with Astex Pharmaceuticals, a cancer drug discovery company.

The focus on interdisciplinary research led to funding success including an interdisciplinary EPSRC Frontier award in Systems Biology for cleaner, cheaper water, worth £5.6m over five years, and involving teams from Civil Engineering, Biology, Computing Science, Electrical Engineering and Mathematics, a major consortium partnership in the £2.7m SINATRA Project, funded by NERC, the Environment Agency and the UK Met Office under the Flooding from Intense Rainfall thematic programme and a £0.8m NERC project led by Civil Engineering and Geosciences, and Geography, Politics and Sociology entitled ‘Flooding from Intense Rainfall’ and also involving Bristol, Reading and Hull. We were awarded £3.5m by the EPSRC and the ESRC to set up one of two national centres in which social scientists, engineers, industrialists, policy makers and other stakeholders can research and collaborate, investigating how technical and market interactions between our energy, water, transport, waste and digital technology systems can be exploited to get better economic, social and environmental value from our infrastructure.

Sizeable infrastructure funding also continues, for example the Clinical Ageing Research Unit (£3.9m), NIHR School for Public Health Research (£2.1m) and Wellcome Trust Human Development Biology Resource (£1.5m).

A key challenge in the coming year will be the University’s submission to the Research Excellence Framework (REF) exercise in November 2013. This is the national process for assessing the quality of UK Research run by HEFCE. Preparation is being undertaken as part of a clear strategic framework developed by a sub-group of the University Research Committee, the ‘REF Steering Group’ chaired by the Pro-Vice-Chancellor – Research and Innovation. All major milestones in preparation of the REF submission have been met to date as the exercise now enters the final stages.



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1 A researcher using an anaerobic chamber in the Institute for Cell and Molecular Biosciences.

2 Shanghai graduation ceremony.

Learning, teaching and the student experience

We aim to deliver research-informed teaching and facilitate applied learning of the highest standard and deliver a fully rounded, enjoyable and formative student experience. Our key objectives are to:

- create opportunities for students' personal and professional development
- deliver teaching and training in a professional, challenging and engaging way
- deliver curricular and extracurricular provision, which ensures graduates are well-equipped for further training, research or workforce needs
- deliver all modules and programmes to agreed specifications
- ensure that our programmes meet relevant accreditation and quality standards
- foster a culture of independent learning, critical thinking and enterprise
- conduct an active programme of raising aspirations and widening participation

Population and portfolio

Total registered students as at 1 December 2012 were 21,378, a 2% increase compared with 1 December 2011. UK and EU undergraduate new intake numbers showed a slight fall compared with 2011, reflecting a decline in deferred entries from the previous year and an unanticipated national reduction of 17% in the number of AAB+ GCE A level students entering HEIs through UCAS. However this was more than offset by a 24% increase in overseas undergraduate intake. Postgraduate UK/EU students fell by 7% and postgraduate overseas students by 4%.

Total students	2012			2011 Total	Growth %
	Full time	Part time	Total		
Undergraduate					
Home and EU	13,280	69	13,349	13,251	1%
Overseas	1,719	7	1,726	1,470	17%
Total	14,999	76	15,075	14,721	2%
Postgraduate					
Home and EU	1,826	1,237	3,063	3,300	- 7%
Overseas	2,350	187	2,537	2,638	- 4%
Total	4,176	1,424	5,600	5,938	- 6%
Taught overseas	703	0	703	386	82%
Total	19,878	1,500	21,378	21,045	2%

Since 2005, Home and EU students have increased by 10% from 14,904 to 16,412, and overseas students have more than doubled from 2,377 to 4,966 with a total headcount increase of 24%.



Undergraduate degrees awarded were:

Award	2012-13		2011-12	
	Number	% of total	Number	% of total
First class	763	19%	647	17%
Second class, first division	2,075	51%	1,967	53%
Second class, second division	704	17%	617	17%
Third class	73	2%	80	2%
Other	442	11%	395	11%
Total	4,057	100%	3,706	100%

The Newcastle University Medicine Malaysia (NUMed) campus, officially opened in November 2011, currently offers an undergraduate degree in Medicine (MB BS). A total of 228 students were enrolled in 2012-13. BSc degrees in Biomedical Sciences will be offered from 2013 along with a selection of Masters' degrees. As the Malaysian campus matures, further programmes may be added in response to regional priorities and demand.

In collaboration with the Singapore Institute of Technology, the University has expanded its undergraduate teaching in Singapore, which from 2013 includes Marine Engineering, Naval Architecture, Offshore Engineering, Mechanical Design and Manufacturing Engineering, Chemical Engineering, Electrical Power Engineering and Food and Human Nutrition. Additional subject areas, part-time and postgraduate programmes are being considered for future years. In 2012-13, 260 new entrants brought the total number of students to 490.

Performance

The University further improved its strong institutional performance in the annual National Student Survey (NSS), with 90% of students who took part in the 2013 survey satisfied with the overall quality of their course. This is a 1% improvement on 2012, and shows a sustained improvement from 81% in 2006.

Percentage of students who agree or strongly agree to satisfaction in:	Newcastle		Sector
	2013	2012	2013
The teaching on my course	89%	89%	87%
Assessment and feedback	70%	67%	71%
Academic support	84%	83%	80%
Organisation and management	85%	84%	78%
Learning resources	91%	86%	85%
Personal development	84%	83%	82%
Overall satisfaction	90%	89%	86%
Satisfaction with the Students' Union	78%	76%	68%

These improvements, and Newcastle's performance against the sector as a whole, reflect the significant impact of the University's commitment to articulating and delivering the undergraduate 'student offer' as well as our investment in upgrading IT facilities, improving library resources, and developing innovative, user-friendly, learning spaces. Whilst improvements in the area of assessment and feedback have been sustained, this is the only area of the NSS where our score is below the sector average. Further action to address this, and to disseminate the good practice in some subject areas more widely, continues to be a high priority. Subject results were also pleasing with 30 out of 48 of published scores meeting or exceeding our 90% target for overall student satisfaction (compared with 25 out of 47 in 2012).

In the 2012 International Student Barometer (ISB), 90% of Newcastle respondents were satisfied overall, giving strong overall scores in all four ISB categories: learning, living, support and arrival. Newcastle was ranked first in the Russell Group in nine specific areas. Particular strengths include the Students' Union (96%), IT support (96%), campus environment (96%), the Library (95%), expert lecturers (95%) and virtual learning (95%). We continue to address areas identified for improvement, including opportunities for social integration of international students.

During 2012–13, we took part in the Postgraduate Research Experience Survey. We participate in this survey and its teaching counterpart, the Postgraduate Taught Experience Survey, in alternate years. We achieved a notably high response rate of 55% (national average 42%). 83% of respondents were satisfied with their experience at Newcastle, comparing favourably to the national and Russell Group averages of 81% and 82% respectively. Newcastle scored higher than the Russell Group average in all of the seven main areas of the survey and also achieved higher aggregate scores than the Russell Group in all but four subject areas. In 15 schools, over 85% of students claimed that they were satisfied with the experience of their research degree programme, and no school achieved a satisfaction score of less than 70%.

Excellent employability outcomes for our 2012 graduates reflected our continued focus on development of our students' employability skills. The Destination of Leavers of Higher Education survey employment indicator of 95.2% (2011: 93.4%) placed Newcastle top of the 24 Russell Group universities and first in the North East. The proportion of graduates in graduate-level jobs increased to 80.4% (2011: 78.7%), and the percentage working in the North East increased to 44.1% (2011: 43.1%). This performance consistently places us in the top 15 of the major university league tables for graduate career prospects, including *The Times Good University Guide*, *The Sunday Times University Guide* and *The Guardian University Guide*.

Student offer

In 2012–13 we focussed on the delivery of our undergraduate student offer, which articulates what students will get in return for their fees, and defines the common elements and opportunities at the core of the learning experience of all undergraduate students. Our commitment embraces not only the academic learning experience but all aspects of a student's time at Newcastle: academic, social, cultural, sporting, residential and work experience. We continued to improve, and invest in, the consistency and quality of the student experience. The approach we have taken to the student offer has been recognised by the award of the *Times Higher Education Leadership and Management Award for Outstanding Leadership and Management Team 2013*. The key focus for the coming year will be commitments to postgraduate taught provision.



Key commitments in our student offer include the opportunity for each student to engage with an up-to-date and coherent programme, designed and delivered to recognised external and professional standards, by subject experts. Directors of Excellence in Learning and Teaching lead academic developments and contribute to a cross-institutional forum to promote enhancement of learning and teaching. This year's student-led Teaching Excellence Awards generated 545 nominations for 307 members of staff, reflecting the high regard in which our teaching colleagues are held by their students.

1 Visitors at our Autumn Visit Day find out all about studying as an undergraduate at Newcastle.



2

Our support for students to develop skills for learning, life, work and professional practice included 12,600 individual opportunities provided under the ncl+ scheme. A wealth of volunteering, accredited and paid opportunities were offered, such as an entrepreneurship module, the Newcastle Work Experience scheme and the JobsOC (Jobs On Campus) agency which offers current students temporary and casual work on campus.

Students are invited to be active members of the University community through our student representation system, with course representatives trained by Newcastle University Students' Union and student chairs of staff-student committees. The 'Student Voice' is an important feature of our governance and strategic planning processes, through representation on key committees and groups.

High-quality, functional facilities that support varied approaches to teaching, learning and assessment are an important feature of Newcastle's provision. All modules have a presence on the University's virtual learning environment, *Blackboard*, which received more than 50 million hits in 2012-13. Further growth of the ReCap lecture capture service and support for its increased use resulted in 15,960 recordings, attracting 474,042 views amounting to 64,430 hours of viewing in 2012-13.

Following the major Library refurbishments in 2012, further improvements have been made to social learning spaces and facilities for researchers. As a result of significant investment over the past two years, the satisfaction rating for Library facilities and services in the National Student Survey increased to 93% in 2013, from 90% in 2012; the rating in the Postgraduate Research Experience Survey (PRES) rose to 88% (from 83% in 2011).

We invested £2.7m in refurbishing the student accommodation stock, with much of this investment underpinning our carbon reduction strategy. In response to student preference for *en suite* accommodation close to campus, we have converted the Grand Hotel from 48 shared facilities rooms to 66 *en suite* rooms at a cost of £2.3m (opened September 2013). Work continues on the capital development at Kensington and Park Terraces to create 350 *en suite* rooms by September 2014.

Sport continued to enhance the student experience with 9,306 students taking out Sports Centre membership and 256,190 centre visits. In performance sport *Team Newcastle* students were ranked 10th out of 155 institutions in the British Universities and Colleges Sport (BUCS) programme. Campus Sport, our participation sports programme, attracted over 16,000 visits to exercise classes, and the seven sports intra-mural programme featured 243 teams and over 2,700 participants. The sports volunteer programme supported 50 students who gained 33 qualifications and contributed 473 volunteer hours in local schools and sports clubs. Investment in the sporting infrastructure continued with the refurbishment of the rifle range and the installation of a new sports hall floor.

We have reviewed our print, digital and face-to-face marketing information to communicate our student offer to prospective students and their advisers, and are investing significantly in the use of digital channels and social media to engage students from all backgrounds. As part of our Access Agreement commitments, we are significantly expanding our links and widening participation activities with schools and colleges across the UK. More than 33,000 participants attended our three Visit Days in 2012 (29,000 in 2011).



3

2 The Jobs On Campus scheme is one of a wide range of volunteering, accredited and paid opportunities for our students.

3 Increased use of digital channels and social media are helping us to engage with students from all backgrounds.

Engagement

Engagement is an integral, embedded part of our teaching, research and service endeavours, rather than a separate, additional strand of activity. Our engagement objectives are:

- to develop the public understanding of Newcastle as a world-class civic university
- to position Newcastle as a recognised leader in the social, cultural and economic development of the North East of England
- to attain national and international recognition for the University as a leading institution in respect of the three societal challenge themes
- to develop the public profile of Newcastle as a City of Science
- to develop and maintain good relations with stakeholders, alumni and the wider public

12

Through PARTNERS, our flagship widening participation programme, now involving 130 schools and colleges, we work with pupils, building their confidence, enabling them to demonstrate their potential for success in higher education and supporting them through their application, entry and transition to the University. We continue to lead on the HEFCE-funded Realising Opportunities project (involving 15 institutions), which aims to encourage the progression of able young people from under-represented groups to

research-intensive universities. Our Graduate Ambassadors are recent Newcastle University graduates offering a wide range of support, presentations and interactive activities to young people in target regions across the UK. Our Teachers' Toolkit is a searchable online resource for teachers, providing everything we offer for schools and colleges in one place. Events, projects and resources to use in the classroom, including interactive exercises, images and videos, all developed by University staff, can be booked through the Toolkit.

We have made the commitment to offer every undergraduate student access to a range of volunteering, internship or business placements to ensure the University continues to deliver an exceptional student experience. Our wide offering of extracurricular opportunities for students – over 12,600 opportunities in total – is strengthened by our relationships with local, national and international stakeholders and businesses, who play a significant role in the quality of our student experience.

The quality and diversity of the University's programme of cultural activity continues to grow, and we have built on our longstanding programme of public lectures and concerts with a series of events and initiatives designed to engage a variety of communities. The Confucius Institute, a new centre dedicated to promoting Chinese language and culture, which launched in May 2013, will help to build closer academic, cultural, economic and social ties between the North East and China. The new institute, based at the heart of the Newcastle University campus, is a joint venture between Newcastle and Xiamen University.

For the sixth year in a row, the University contributed to ¡VAMOS!, a unique community festival celebrating Spanish- and Portuguese-speaking cultures in Newcastle and Gateshead. In preparation for the British Science Festival held in the city in September 2013, our Street Science Team, a new group of specially trained students, brought to life science, technology, engineering and maths through the medium of street performance, delivering over 5,000 inspirational science-based interactions with the public.

Through Newcastle Science City, we aim to promote the area as a key location for science-based businesses and ensure that local communities and young people benefit from the job, skills and training opportunities arising from our being a 'City of Science'. We have also invested in our relationship with community organisations and charities in the city, working with Newcastle Council for Voluntary Service (NCVS) to explore emerging priorities for the local voluntary sector.



¹ Our specially trained Street Scientist team of students brings life science, technology engineering and maths to the public.

² The Confucius Institute, a joint venture between Newcastle and Xiamen University, was launched in May.



Sustainability

In 2012 Newcastle University was the first research-intensive university to achieve dual environmental management accreditation with Platinum EcoCampus and ISO 14001. With ‘first-class honours’ awards in the People & Planet ‘Green League’ in both 2012 and 2013, our continuous improvement makes us the ‘greenest’ university in our region, second in the Russell Group, and despite the energy intensity of our research, 15th in the People & Planet ‘Green League’ and in the top 10% of all UK universities.

We have increased the amount of general waste we recycle from 29% in 2007–08 to a consistent rate of over 90% since 2010. No general waste is sent to landfill, with non-recyclable material sent to an ‘energy from waste’ plant. To address the challenging area of waste minimisation we have recently launched a web-based resource redistribution scheme (WARPit) to encourage the reuse of items internally such as office consumables and furniture. In the first month of its implementation, trades on WARPit have recorded savings of ca 4,000kg CO₂.

By July 2012 water consumption had been reduced by ca 29% compared to 2005–06 through investment in water-efficient technologies including push taps, urinal controls and shower restrictors – in the residential estate aerated shower heads save 15,000m³ of water per annum, equivalent to six Olympic-size swimming pools.

Between 2004 and 2012 the proportion of staff who drive to work halved from 40% to 20%, saving an estimated 270 tonnes of CO₂ per annum. We have increased cycle parking spaces to 994 and showering and drying facilities are incorporated within all new buildings and major refurbishments. Seven electric vehicle charging points have been installed on campus as part of the North East ‘Plugged in Places’ project, and our car club, available to all staff, also has an electric car sited on campus. We also provide access to the region’s first pay-per-use cycle scheme, with two cycle points located on campus.

Carbon reduction is a challenging area. Increase in estate size and university activities in 2011–12 resulted in a year on year increase in direct CO₂ emissions of ca 2.7% to 45,697 tonnes. We continue to invest in energy efficiency – our Revolving Green Fund invested ca £200,000 in 2012–13; hotel-style room card controls have been installed as part of the Grand Hotel refurbishment, meaning minimal energy is consumed when unoccupied, and speed controls have been added to the ventilation plant at the Medical School and Bedson Building. These projects combined are projected to save over 550 tonnes of CO₂ per annum, and a further 12 tonnes of CO₂ has been saved through energy efficiency measures within other improvement projects on campus.

Sustainable procurement initiatives include the introduction of flexible energy contracts to control costs in volatile markets, and we are leading into a joint procurement exercise with the NHS for clinical waste disposal.

Our accreditation and award scheme ‘Green Impact’ continues to grow and develop awareness of sustainability issues among staff and students. Sixteen teams took part in 2012–13, three achieved Bronze awards and seven Silver, for actions such as undertaking energy audits, labelling light switches and bin amnesties. Awards are presented by the Vice-Chancellor at an annual ‘Celebrating Success’ event every June.

Sustainability is identified as one of three societal challenge themes for research. The Newcastle Institute for Research on Sustainability leads projects including; SwitchEV which is a leading electric vehicle research project; research at the University farm into multi-functional landscape design to provide more food, reduce flood impacts, improve water quality, sequester carbon and limit soil degradation; and the use of environmental sensors within buildings to test sustainable building models and influence occupier behaviour.

Our Resources

People

The success of the University depends on recruiting, retaining and developing high-calibre staff. Overall, full-time equivalent staff increased from 4,714 at 31 July 2012 to 4,853 at 31 July 2013. These numbers include 84 full-time equivalent staff employed by our overseas subsidiaries (2012: 67). Staff costs in 2012–13 were £218.8m, compared to £210.3m in 2011–12. We manage our staff costs to ensure they remain at approximately 55% of total income.

The pay award for non-clinical staff in 2012 was an increase of 1% on all points of the common pay spine. The offer from 1 August 2013 is also an increase of 1%. This offer has not been accepted by any of the participating trade unions. In order to address issues of concern over fair pay, the University has decided that, from 1 August 2013, it will cease using the first point on the common pay spine. Assuming an increase of 1%, the minimum rate will then equate to £7.20 per hour.

Following a year of benefit and contribution changes to both of our defined benefit pension schemes in 2011–12, this year has seen the introduction of Pensions Auto-Enrolment from May. The University strategy is to use the Universities Superannuation Scheme (USS) as the auto-enrolment vehicle for academic staff and those on equivalent pay scales, and to use the National Employment Savings Trust (NEST) for all other workers. The University continues to offer those staff who are not eligible for the USS the option of joining the Retirements Benefits Plan (RBP), but this defined benefit scheme is not an auto-enrolment vehicle; those staff who do not take up the opportunity and who are eligible for auto-enrolment will be enrolled to NEST. Prior to the University staging date in May those staff who had not exercised their option of joining the RBP were offered a fresh opportunity; 130 staff took advantage of this. As at the end of July 238 employees were auto-enrolled into either USS or NEST of which 103 had subsequently opted out. It is too early to be certain of the precise impact, but it is highly likely that this legislation will result in a modest increase in membership levels of USS and RBP and that a substantial proportion of those auto-enrolled into NEST will decide to opt out; the overall impact on the University's pension costs is not estimated to be substantial at this stage.

The fourth University-wide employee opinion survey produced evidence of continued high levels of employee engagement; 61% of staff took part, and 92% of respondents reported that 'The University is a good place to work'. More staff are now reporting having had a performance and development review (88%), but the numbers reporting undue stress is up slightly at 23%. Unit managers are now working on action plans to address areas for improvement.

Newcastle University won the coveted *Times Higher Education* award for Outstanding Contribution to Leadership Development for the second time in November 2012. The award recognised the 'Unpacking Your Chair' programme, part of a range of development opportunities for professorial staff.

The Athena SWAN Awards recognise success in developing employment practices to support and further the careers of women in science, technology, engineering, maths and medicine (STEMM) departments in higher education. The University achieved re-accreditation this year at Bronze level while Silver awards were achieved by the Institute of Health and Society and Institute of Cellular Medicine, with more schools/institutes expected to achieve this standard during 2013–14.



We also successfully retained the HR Excellence in Research Award, which recognises the progress we have made in the implementation of the Concordat to Support the Career Development of Researchers and the European Charter for Researchers. Newcastle is one of the first ten universities in the UK to achieve the award.

Professor Sue Robson and Dr Jarka Glassey were appointed National Teaching Fellows. Professor Christine Harrison, Professor of Childhood Cancer Cytogenetics was elected as a Fellow of the Academy of Medical Sciences. Professor Gary Ford, Director, UK Stroke Research Network was awarded an OBE in the Queen's New Year Honours List for services to research in stroke medicine. Professor Sugata Mitra, Professor of Educational Technology, was announced as the winner of the prestigious TED Wish Prize.

Financial resources

At 31 July 2013 the University held gross cash and short-term deposits totalling some £143.3m (2012: £117.9m), the equivalent of five months' (2012: four) recurrent total expenditure. These balances will decline in future years as the University fulfils its capital programme. Loan balances, which relate solely to property, were £15.8m, a decrease of £0.9m in the year relating to the repayments of fixed term loans which are due to be repaid by 2029.

Estate

Our estate strategic objectives are to facilitate academic priorities and:

- improve the condition and fitness for purpose of our buildings
- implement the Coherent Campus initiative
- ensure effective utilisation of space and improve the net:gross space ratio
- deliver full life-cycle value for money on all major projects

Our strategy has improved the quality and functional suitability of our floor space through investing in maintenance, new build, refurbishment, rationalising the use of floor space and withdrawing from peripheral, less suitable space. We have increased lettings to third parties. Condition and functional suitability will improve at a slower rate as more difficult items are tackled. The current economic climate is also impacting on our ability to dispose of poorly performing properties.

Measure	2000–01	2011–12	Peer Median 2011–12	2012–13	Target 2013–14
Floor space in condition category A & B	74%	89%	81%	89%	89%
Floor space in functional suitability grade 1 & 2	34%	82%	89%	84%	87%
Net internal area per student FTE (m ²)	17.0	11.2	11.1	11.1	10.6

The operational estate area is 208,300m² (net internal area) against our 2012–13 target of 208,000m². While the new extension to the Institute of Neuroscience increased operational area, a long leasehold was granted on the Bruce Building, the 16-17 Framlington Terrace lease was terminated and support service space was reduced through smart-working. Continued focus on estate modernisation and reducing poorer floor space will offset growth. We are projected to reduce our core estate to 207,500m², our target for 2013–14. With further disposals in 2013–14, such as Close House lease termination and our predicted increase in student numbers, space per student FTE should drop below 11.0m² against our 2012–13 target of 11.1m² (subject to planned disposals being realised). Currently 95% of our teaching rooms are grade 1 or 2 functional suitability with frequency of use improving to 61% against our 60% target.

This year we completed the first phase of an extension to the Institute of Neuroscience, the second phase of refurbishments to the Armstrong and Bedson Buildings, the Robinson Library rationalisation, refurbished facilities with an accessible entrance for Fine Art in the King Edward VII Building and improvements to the Building Science facility. Additionally, the teaching centre and student residential development for our joint venture, INTO Newcastle, came into use. We have invested in air handling plant to reduce carbon emissions and continued our programme of improving building accessibility.

We continue to invest in student teaching and learning facilities to improve student experience. Our annual programme included: upgrade of teaching rooms and lecture theatres including audio visual and induction loop improvements, refurbishment of teaching labs, computer rooms and student-facing areas, including common rooms, social learning, and touchdown spaces with quick-access computer stations.

The fourth year of Coherent Campus investment improved landscaping to Merz Courtyard and around Herschel Building, works to stabilise embankments at the rear of the King's Road Centre and improvements to cycle parking and smoking shelters. A major aspect was a contribution to a City Council highways improvement scheme for Barras Bridge and Haymarket to improve student safety and connectivity through better crossings and pedestrian areas in 2014.

Other projects in progress include the second phase of an extension to the Institute of Neuroscience, the third phase of refurbishments to the Armstrong and Bedson Buildings, the refurbishment of student accommodation in the Grand Hotel and the development of a hyperbaric chamber at the Neptune Yard on the River Tyne. Design work is at an advanced stage for the development of an atrium to house social space in the Medical Sciences Faculty. The redevelopment of Kensington and Park Terraces as student residences is well advanced. Additionally, an architectural appointment has been made to develop options for the redevelopment of a 1,000-bed student residence at Richardson Road, plus an extension to the Sports Centre.



Future new-build will be focused at Science Central, with vacated space on the main campus enabling major relocation, rationalisation and the release of underperforming and redundant properties for alternative uses, including third party use and disposal.

¹ The Rise Up Entrepreneurship programme includes masterclasses and clinics to help students develop business knowledge, ideas and skills.

² The new INTO Newcastle teaching centre and student residences came into use this year.



Information technology

Information technology systems and services remain critical to the teaching, research and operations of the University. Each year, dependence on IT grows, with a larger number of systems, more users, more data and different platforms.

Investments appear to have been successful – in 2013, National Student Survey (NSS) results for the ability to access general IT resources have increased by 6% to 92%, building on the improvements from last year. This places Newcastle firmly in the top quartile of HEIs. The staff survey in 2013 showed a high level of satisfaction with IT systems.

The integrity and stability of our core IT systems continues to be an area of strength, with availability remaining at 99.5% for the year.

IT continues to offer critical support to learning, teaching and the student experience. In 2012–13, the refurbishment of the PC cluster in the Robinson Library included the installation of fully integrated all-in-one PCs. Three mobile apps were launched giving access to key student information including timetabling, *Blackboard*, cluster usage and library facilities from both Android and Apple mobile devices. These apps have averaged 19,909 unique visitors each week. The Recap lecture recording service has also undergone a large expansion with 202 venues now able to offer the service compared to 62 in 2011.

Innovative use of technology has continued to reduce the University's energy consumption. A tender for 543 'green' PCs resulted in an energy saving of £6,000 over their lifetime. There were 172 videoconferences held for 831 participants in the central videoconference suites, up 46% on last year. Participants stated that this avoided 586 international flights.

Information Systems and Services (ISS) and the School of Computing Science completed a project to decommission the School's two server rooms and consolidate these in the University's primary datacentre. Alongside increased resilience, this will result in £352,000 of savings over five years, £255,000 in energy and £97,000 in equipment. The project has also provided the School with the space for a new MSc common/project room.

The IT service desk system was replaced with a new Service Management System, providing enhanced management information and the scope to deliver additional functions such as self-service and change management.

The Digital Campus Initiative invested £1.1m in IT projects in 2012–13. The four main projects were:

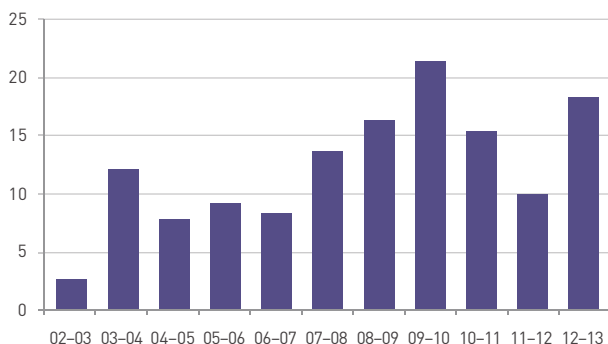
- wireless survey of the whole campus, to determine the cost of pervasive wi-fi coverage and set out the optimal locations for the wi-fi points
- network replacements: all core and building network equipment is being replaced by March 2015 to support the infrastructure stream of Digital Campus
- campus firewall: the firewall connecting the University to Janet/Internet was replaced providing increased throughput and new security capabilities
- AV and video conferencing improvements: 16 teaching rooms had AV equipment upgraded, improving image quality, maintenance and power consumption. New software was provided for the Student Response System to enable mobile access and for the videoconferencing systems to provide better access to mobile devices

Financial Review

Introduction

2011–12 was a challenging year as we sought to manage the impact of cuts in HEFCE funding, Research Council reaction to the Wakeham Report, sharp increases in utility prices, the start-up costs of our two international campuses and the need to invest in student experience ahead of the new fees and funding regime. By comparison, 2012–13 was a distinctly better year. Newcastle emerged well from the first round of home student recruitment in the new fees and funding dispensation, both our overseas operations performed well and research growth was the strongest for some time. As a result the University's financial performance was significantly better than in 2011–12. We made an exceptional non-cash charge of £7.5m to the income and expenditure account, relating to an impairment of the freehold value of our share of the Science Central site. Nevertheless the total surplus was £18.3m compared to £9.8m in 2011–12. The average surplus in the last five years has been 4.2% of income, slightly better than our financial strategy to achieve an average surplus of 4% of income.

University Surplus (£m)



Net funds increased from £102.1m to £128.8m, reflecting the strong surplus. This is considerably stronger than the position in 2002 when net cash balances were only £18.2m. Our financial and academic strength will ensure the University is well placed to flourish in future years and we have ambitious plans to invest in our estate, our academic staff and our supporting infrastructure to develop the University.

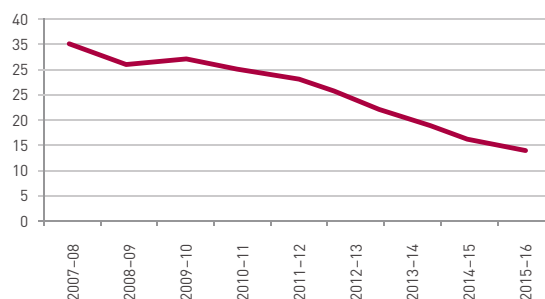
Net income grew by 7% from £379.5m to £405.3m with significant increases in fee income, as a result of the new funding arrangements, and research grants. In contrast, total expenditure, excluding exceptional items, only increased by 3% from £372.3m to £381.8m, reflecting the continuing benefits of our *Procure to Pay* efficiency initiative and the high level of investment in improvement to the student experience in 2011–12.

Income

Net income grew by 7% from £379.5m to £405.3m. Over the past four years, income has increased from £365.4m to £405.3m, an average growth of 3% per annum.

Funding Council grants reduced by 9% year on year reflecting the new funding regime for undergraduate and PGCE students. This was better than we had expected due to improved retention rates for continuing students and an increase in our Higher Education Innovation Fund (HEIF) grant. Funding Council grants, as a percentage of income, declined from 28% to 23.9% and are forecast to reduce to ca 20% in 2013–14.

Funding Council income as % of total income

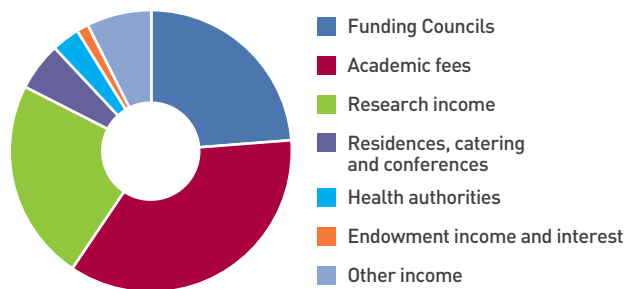


Academic fees from full-time home and EU students increased from £52.3m to £74.1m, reflecting the introduction of the new £9,000 pa fee. Income for overseas students taught in the UK increased from £49.0m to £52.3m with a small decline in postgraduate students more than offset by a significant increase in undergraduate students. Fee income at our overseas campuses increased from £5.7m to £9.5m due to a strong fourth year of recruitment in Malaysia and the second year of recruitment for mechanical and chemical engineering and food and human nutrition in Singapore.

Research income in 2012–13 was £93.4m, an increase of £7.4m (9%) on 2011–12. Income from Research Councils increased by £1.6m (6%) to £27.3m, reflecting the high level of new awards in 2011–12. UK charity research income increased by £1.8m (8%) to £24.5m, UK government and health authority research income increased by £2.0m (12%) and research income from EU government sources increased by £0.7m (6%) to £11.9m.

The INTO joint venture occupied its new teaching and residential buildings in September 2012, which enabled a very significant growth in income during the year. However the impact on other operating income was partly offset by the continuing impact of economic conditions on consultancy and CPD income. Residences, catering and conference income and health authority income remained broadly unchanged. Interest receivable increased from £3.2m to £3.9m, primarily due to an increase in the pension finance credit required by FRS17.

Key income streams are summarised below.



Expenditure

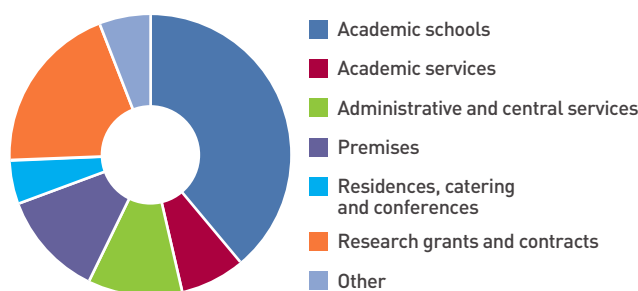
Total expenditure, excluding exceptional items, increased by 3% from £372.3m to £381.8m. Over the past four years, expenditure has grown from £350.1m to £381.8m, an average increase of 2% per annum.

Staff costs increased from £210.3m to £218.8m (4%) and represented 54% of net income (2011–12: 55%) broadly in line with the University's strategy. UK staff costs increased by 4% from £208.2m to £215.6m and non-UK costs increased from £2.1m to £3.2m, due to the continued expansion of our campuses in Malaysia and Singapore. Worldwide headcount increased by 2.9% during the year (UK 2.6%, non-UK 25.4%); UK non-clinical staff received a 1% pay rise from 1 August 2012 (there was no general increase for clinical staff) and, as required by FRS17, there was an additional charge of £1.2m for RBP pension costs. Offsetting this, recruitment of new academic and research staff reduced average rates due to the impact of incremental progression scales.

Other operating expenses increased slightly from £151.5m to £152.2m. This is mainly due to the impact of the University's *Procure to Pay* initiative which has centralised and improved control of procurement of lower value purchases and the timing of estates refurbishment and maintenance activity. Partly offsetting these reductions, utility costs increased by £0.5m due to price increases; student bursary and related payments increased by £0.6m, in accordance with the access agreement with the Office for Fair Access (OFFA), and staff-related costs increased by £1.1m reflecting continued growth in our international activity.

Depreciation increased by £0.4m from £9.5m to £9.9m due to higher levels of equipment-related capital expenditure during the year.

Key expenditure streams are summarised below:



Pensions

An actuarial gain of £15.8m was recognised in the Statement of Consolidated Total Recognised Gains and Losses, as required by FRS17 (2011–12: a loss of £23.2m). This relates to the RBP, the local pension scheme for support staff, and the basis for the gain is fully documented in note 31 to the accounts. The gain is primarily due to a very significant improvement in asset values during the year (15%), well ahead of the Trustees' target. UK and global equities performed very well during the year and other classes of asset also recorded significant increases in value. The next triennial valuation of the RBP is due as at 1 August 2013 and any necessary changes to contributions and/or benefits will be implemented in August 2014. The triennial valuation as at 1 August 2010 revealed a deficit of £7.3m relative to the technical provisions (5% of liabilities) and a 15-year recovery plan was implemented from August 2011 which received approval from the Pensions Regulator in August 2013. The scheme's actuary estimated that this deficit had reduced to £7.1m (4% of liabilities) at 1 August 2012.

The triennial valuation of the Universities Superannuation Scheme (USS) at 31 March 2011 revealed a deficit of £2.9bn relative to the technical provisions (8% of liabilities). The next valuation is due at 31 March 2014 and is likely to show a deteriorating position, requiring further increases in employee and employer contributions and, potentially, further reform of benefits.

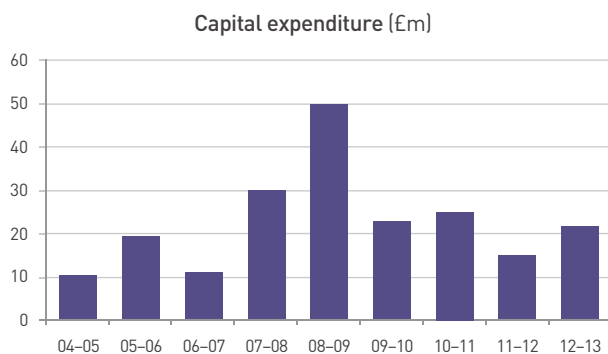
We do not expect the introduction of Pensions Auto-Enrolment in May 2013 to have a material impact on the University's cost base.



¹ Developments this year included a new accessible entrance and refurbished facilities for Fine Art in the King Edward VII Building.

Balance sheet

University capital expenditure in the year was £21.3m, an increase of £6.5m on the previous year, reflecting the impact of a major project to develop student accommodation on the site of the former University administration offices in Kensington and Park Terraces, a development at the Institute of Neuroscience and the continued programme to restore the historic Armstrong Building to its former glory. This was less than the forecast included in last year's Operating and Financial Review due to slippage of some projects caused by the bad weather during the latter half of 2012 and the transfer of Science Central land from University ownership to Newcastle Science Central LLP (with new funding now accounted for as investment in joint ventures rather than as capital expenditure).



There were £17.1m of outstanding capital commitments as at 31 July 2013 (2012: £33.2m) with a further £10.9m authorised but not contracted (2012: £12.3m). Our current financial plans indicate £30m capital expenditure in 2013–14, comprising £13m non-residential development on the main campus, £2m work on Science Central, £11m residential developments and £4m equipment. The key projects proposed for future years are construction of the University's first academic building on the Science Central site, completion of the Armstrong Building and Kensington/Park Terraces projects, an extension to the Sports Centre and redevelopment of the Richardson Road student residences.

Net cash balances increased from £102.1m to £128.8m reflecting the strong surplus recorded in 2012–13 and a significant increase in Euro balances held on behalf of research collaborators.

Outlook

The key objectives of our financial strategy are to:

- create capacity for strategic development by achieving an average annual historical cost surplus of at least 4% of income, with a minimum of 2% in any financial year
- deliver value for money in all our activities
- grow income faster than our peer group
- identify and exploit opportunities for new areas of profitable income
- maintain a robust balance sheet with sufficient cash reserves to meet our financial obligations
- provide enterprise resource planning services, which are top quartile in higher education and meet our legal and ethical obligations

The University starts from a strong base as we have one of the soundest liquidity positions in the sector and our strategy is firmly anchored by a cautious economic outlook. 2011–12 was a challenging year as we sought to manage the impact of cuts in HEFCE funding, Research Council reaction to the Wakeham Report, sharp increases in utility prices, the start-up costs of our two international campuses and the need to invest in student experience ahead of the new fees and funding regime. By comparison, 2012–13 was a distinctly better year. Newcastle emerged well from the first round of home student recruitment in the new fees and funding dispensation. Both our overseas operations performed well and research growth was the strongest for some time.



We expect continuing strong financial performance in 2013–14, in line with strong recruitment trends – both for home and for overseas students. We expect research income to remain buoyant and to see continued improvement in our overseas operations.

The medium-term picture is one of considerable challenge to the University, but also one which presents significant opportunity. The new home undergraduate tuition fee of £9,000 per annum will provide financial headroom for the University to achieve its strategic objectives, even after allowing for potential losses in student recruitment and the very steep reduction in government capital funding. Although the impact of the 2015–16 public expenditure announcement on 26 June 2013 would appear to be manageable, we remain concerned about the outlook for future years given continued pressure on public sector finances.

The financial sustainability of the USS pension scheme remains a major medium-term risk and the March 2014 valuation could lead to a significant increase in employer contributions.

Managing Risk

In common with all organisations we are affected by a number of risk factors, not all of which are wholly within our control. Although some of the risk factors are macroeconomic and likely to affect the performance of the HE sector as a whole, others are particular to Newcastle University.

This section highlights some of the risks affecting us but it is not intended to be an extensive analysis of all risks affecting the University. Some risks may be unknown to us and other risks, currently regarded as immaterial, could turn out to be material. All of them have the potential to impact our income, expenditure, assets and liquidity adversely.

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Going concern

Council confirms that it has reasonable expectation that the University has adequate resources to continue in operation for the foreseeable future. For this reason, it continues to adopt the going concern basis for preparing the accounts.



In reaching this conclusion, it has reviewed the sustainability of the University and is satisfied that the strategies, plans and processes in place will help the University move towards the achievement of its strategy. In particular, it is satisfied that academic strategies take account of the environment in which the University is operating as an institution and are financially sustainable.

The following are the key elements that give Council assurance in this area:

- it regularly reviews the University's performance using a number of key performance indicators in areas which are relevant to institutional sustainability, the results of which are summarised on page 7
- it has agreed a long-term target operating surplus of 4% of income (with a minimum of 2% in any one year) to reflect the need to generate cash to manage the University now and in the future
- it regularly reviews the University's strategic risk register, which is summarised below, and is assisted in this process by Audit Committee

1 The impressive main pedestrian entrance to the University campus with the Students' Union Building on the left.

Strategic risks

We have a defined University-wide risk management process for identifying, evaluating and managing the significant risks faced by the University. A summary of the key strategic risks is presented to each meeting of Council. The risk factors below are all identified on the risk register and should be considered against the background of our risk management process.

Student recruitment

We need to continue to attract high-calibre students from a wide range of backgrounds from home and overseas. Although both home and overseas recruitment is buoyant, the introduction of higher fees, the changes to the controls on home undergraduate numbers and the government's policy on immigration controls produce challenges. Widening participation to under-represented socio-economic groups remains an important but challenging objective.

Student experience

The change to the system of higher education funding has placed a stronger emphasis on maintaining a high-quality student experience.

Research

We are continuing to prepare for the Research Excellence Framework, which will be the main mechanism to judge the quality of our research performance and determine the allocation of research funds from HEFCE. We have policies and systems in place to secure research grants and deliver the necessary research outputs.

Staff

We need to recruit, develop, retain and reward staff of an appropriate calibre in an appropriate manner to meet the needs of the University.

Pensions

We need to ensure that the national pension scheme for academic and related staff, USS, and the local pension scheme for other staff, RBP, are appropriately funded to meet their long-term obligations. Increases in life expectancy and higher salary increases will place increasing strain on these funds.

Financial viability

We need to ensure continued financial viability.

Newcastle Science City

We need to develop Newcastle Science City in a way that is conducive to the academic development of the University and that is within our financial resources.

Societal challenge themes

We need to gain institutional buy-in to the societal challenge themes concept and apply the skills of the University to work that improves society.

Major projects

We need to ensure that major capital, commercial and research projects are effectively managed and produce the expected outcomes.

Information

We need to have an appropriate information strategy and control of data and ensure we can respond effectively to a severe business disruption event.

International

We have an internationalisation strategy and have developed two international campuses, one in Singapore and the other in Malaysia. The management of these and other international activities requires an active approach to reducing risks.

Business disruption

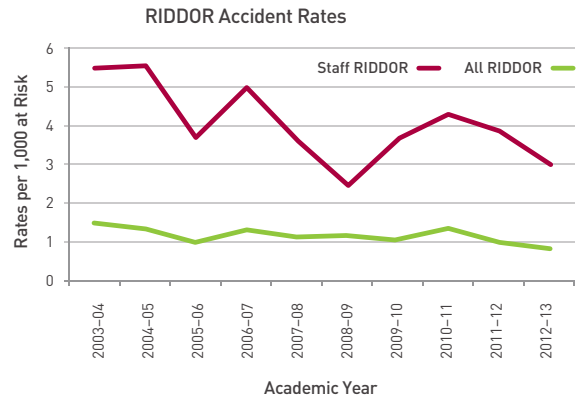
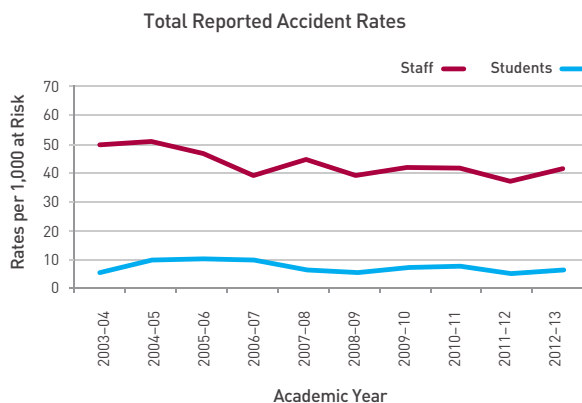
The exceptional storms of July and August 2012 caused widespread flooding across the campus and highlighted our emergency planning and business continuity arrangements, both of which have been strengthened in recent years. Further work is being undertaken to reduce the impact of floods.

Health, safety and wellbeing

Council and Executive Board receive regular reports on performance relating to health and safety, which is the first agenda item at each meeting.

The level of staff accident rates reported under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) reduced slightly during 2012–13. However the overall accident rates for staff increased slightly. Both rates remain higher than the sector average and are a matter for concern. A comprehensive review of the effectiveness of the University's arrangements for the management of safety incidents was completed and a new process for the reporting, investigation and follow up of incidents is being developed for implementation during 2013–14.

A review of slips, trips and falls was concluded and reported to Executive Board and Council. The action plan to address a previously high incidence of slips, trips and falls included implementation of the online HSE STEP training package and resulted in a reduction of incidents.



Sickness absence rates for the University as a whole (2.2%) are below the HE sector average (2.6%). The rate varies across staff groups with operational staff being of most concern at a rate of 5.5%. This is, however, a reduction of 1.9% in the last two years following significant efforts to manage absence more actively in this area.

The University continued its proactive approach to staff wellbeing, promoting healthier lifestyles through a range of health and wellbeing campaigns. This work helped us achieve the Silver 'Better Health at Work' Award for the University, with two of our units having already reached Gold standard.

Treasury

At 31 July 2013, the University had £108.0m short-term cash investments (2012: £92.0m). The level of deposits fluctuates throughout the year with materially higher cash balances between September and December due to the timing of tuition fees and HEFCE grants. This volatility is likely to increase in the next few years as we become more dependent on receipts from the Student Loans Company. Although this may create short-term liquidity issues for some universities, there will not be a material impact for Newcastle although it will restrict our flexibility on optimising investment returns. Our investments are controlled by our counterparty policy, which is agreed by Finance Committee with advice from brokers. We only place our money with UK banks and building societies which we consider to be secure based on external benchmarks. A wide portfolio of banks is chosen to spread risk, although events in 2007 and 2008 led us to focus on a smaller number of more secure banks. We regularly review our investments and take rapid action if we believe there is any deterioration in risk. Our policy was agreed in full recognition that we may reduce potential interest income to mitigate the high level of risk in the financial services sector.

At 31 July 2013, the University had £55.2m of endowments (2012: £41.3m). Endowments are primarily invested in equities. The University uses Majedie, Baillie Gifford and Black Rock to manage its investments. During 2012–13 the University migrated from passive management to active management of its non-UK equities following the appointment of Baillie Gifford as its global investment manager. Finance Committee meets formally with Majedie and Baillie Gifford once a year and the Executive Director of Finance meets quarterly with them to review progress. In addition, we receive monthly performance reports.

Corporate Governance

Newcastle 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), and with the guidance to universities from the Committee of University Chairs in its Guide for Members of Higher Education Governing Bodies in the UK.

The University is an independent corporation whose legal status derives from the Universities of Durham and Newcastle upon Tyne Act 1963 which, with its supporting statutes and schedules, sets out the University's objectives, powers and framework of governance.

The statutes require the University to have a number of separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities. **Convocation** is a meeting of the alumni and is the body that appoints the Chancellor.

Academic Board is a meeting of all academic and related staff that receives an annual report from the Vice-Chancellor.

Court

Court is not part of the University's day-to-day decision-making processes but plays an important and influential role on behalf of the University's stakeholders. Its membership is representative of the University, the local community and other organisations with an interest in the work of the University. It meets twice a year to receive a report from the Vice-Chancellor and to discuss any matters relevant to the interests and wellbeing of the University.

Senate

Senate is the academic authority of the University and draws its membership predominantly from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.

Council

Council is the supreme governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. It is also responsible for the University's system of internal control and for reviewing its effectiveness, including the appropriateness of its arrangements for risk management and value for money. It keeps under regular review the performance of the University and makes use of key performance indicators to assist in this task. A statement of Council's primary responsibilities is provided below. Council undertakes annual reviews of its effectiveness.

It has a majority of members from outside the University (lay members) including three lay officers; Chair, Vice-Chair and Treasurer. Members also include staff of the University and the student body. None of the lay members receive any payment, apart from reimbursed expenses, for the work they do for the University. Council normally meets six times each academic year.

Much of the detailed work is routed through Committees of Council, particularly the following:

- **Audit Committee**, comprising lay members only, which meets five times each year with the University's internal auditors (and, where relevant, external auditors) in attendance. The Committee reviews the effectiveness of internal control systems by considering detailed reports together with recommendations for improvement, management responses and implementation plans. As part of its annual opinion it also gives assurance about the management and quality of data to HEFCE, HESA and other public bodies.

- **Nominations Committee**, which makes recommendations to Council in respect of the appointment of lay members of Council, the offices of Chair and Vice-Chair of Council, Honorary Treasurer and members of the Committees of Council.

- **Remuneration Committee**, which considers the remuneration and terms and conditions of senior members of staff.

- **Finance Committee**, which considers and recommends to Council the financial strategy for the University and advises on investments, determines the level of funding to be made available to support the annual budget allocations, approves the accounting policies and considers the financial statements. It also has overall responsibility for ensuring the appropriate management of taxation within the University.

- **Executive Board**, is the senior management team of the University and is formally designated as a joint committee of Council and Senate. It keeps under review the University's strategy and makes recommendations on the development of the strategy to Senate and Council. It develops and regularly reviews the University's business plan, assesses the risks related to the delivery of the plan, and ensures that appropriate measures are in place to assure the financial sustainability of the University's activities. Executive Board reports on these matters regularly to Council. Through the monitoring undertaken by its Financial Monitoring and Budget Scrutiny Group and Budget Setting Group, Executive Board is also responsible for the use of resources and financial performance of all budgetary units. It has particular responsibility for value for money.

These committees, and in some cases others, are formally constituted as Committees of Council with written terms of reference and specified membership, including a significant proportion of lay members. The decisions of these committees are reported to Council and, where relevant, Senate.

The principal academic and administrative officer of the University is the Vice-Chancellor, who has general responsibility for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England (HEFCE), the Vice-Chancellor is the accountable officer of the University. In that capacity he and the Chair of Council can be summoned to appear before the Public Accounts Committee of the House of Commons. The Vice-Chancellor is also responsible for assuring the quality and accuracy of University data provided to HEFCE, HESA and other public bodies.

As Chief Executive of the University, the Vice-Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and shaping of the institutional ethos. The Deputy Vice-Chancellor, Pro-Vice-Chancellors and senior administrative officers all contribute in various ways to these aspects of the work, but the ultimate responsibility for what is done rests with Council.

The Registrar acts as Secretary of Council and Senate. Any enquiries about the constitution and governance of the University should be addressed to the Registrar. The University maintains a Register of Interests of members of Council and senior officers, which may be consulted by arrangement with the Registrar.

Council: Statement of Primary Responsibilities

Council is the supreme governing body of the University, subject to the provisions of the University's statutes. The primary responsibilities of Council are as follows:

General

- to be responsible for ensuring the effective management of the University and to take all final decisions on matters of fundamental concern, being decisions that have not been delegated to the Vice-Chancellor
- to safeguard the good name and values of the University
- to contribute to the development of, and approve the mission and strategic vision of, the University, long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders
- subject to the powers of Senate, to take such steps as it thinks proper to advance the interests of the University, maintain its efficiency, and encourage teaching, the pursuit of learning and the conduct of research within it
- to ensure that processes are in place to monitor and evaluate the performance and effectiveness of the University against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions
- to establish processes to monitor and evaluate the performance and effectiveness of Council itself
- to delegate authority to the Vice-Chancellor, as Chief Executive, for the academic, corporate, financial, estate and personnel management of the University, whilst recognising the additional accountability of the Vice-Chancellor to HEFCE. Council's scheme of delegation shall be kept under regular review
- to make such provision as it thinks fit for the general welfare of students, where appropriate through Senate
- to conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life embracing selflessness, integrity, objectivity, accountability, openness, honesty and leadership
- to ensure procedures are in place for handling internal grievances, whistle-blowing and for managing conflicts of interest

Finance

- to be the principal financial and business authority of the University, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate
- to ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment
- as part of the financial governance role
 - to ensure that funds from HEFCE are used only in accordance with the Further and Higher Education Act 1992, the Model Financial Memorandum between HEFCE and institutions, and any other conditions that HEFCE may from time to time prescribe
 - to ensure that reasonable discretion is exercised in the use of public funds and account taken of any relevant guidance on accountability, sustainability or propriety
 - to be responsible for delivering value for money from public funds, taking into account guidance on good practice

Employment

- to appoint, in accordance with the relevant statutes
 - the Vice-Chancellor and to put in place suitable arrangements for monitoring his/her performance
 - a registrar, who is also secretary to Council, ensuring that there is an appropriate separation in the lines of accountability
 - a Deputy Vice-Chancellor
 - one or more Pro-Vice-Chancellors
 - the Pro-Vice-Chancellors/Provosts

and in each case to determine the conditions of appointment

- to be the employing authority for all staff in the University. This includes ultimate responsibility for
 - approving the human resources strategy
 - determining the conditions of appointment of the staff of the University, after consultation with Senate when required
 - the welfare of University staff
 - establishing, suspending or abolishing any post in the University, except those posts specifically created by the statutes, after consultation with Senate
 - appointing members of staff of the University, on the recommendation of Senate when required

Compliance

- to be the University's legal authority and, as such, to ensure that systems are in place for meeting all of its legal obligations, including those which relate to health and safety and equal opportunities and which arise from contracts and other legal commitments made in its name
- to ensure that the University complies with any wishes attached to any property, legacy, endowment, bequest or gift in support of the work and welfare of the University
- to ensure that the University's constitution is followed at all times and that appropriate advice is available to enable this to happen

Responsibilities of Council in the Preparation of the Financial Statements

In accordance with the University's statutes, Council 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.

Council is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University's statutes, the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between HEFCE and the University, Council, through its accountable officer, 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 cash flows for that year.

In causing the financial statements to be prepared, Council 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
- financial statements are prepared on the going concern basis

Council has taken reasonable steps to:

- ensure that funds from HEFCE 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 University and prevent and detect fraud
- secure the economical, efficient and effective management of the University's resources and expenditure

Statement on Internal Control

Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible. This is in accordance with the responsibilities assigned to the governing body in the Universities of Durham and Newcastle upon Tyne Act 1963 and the Financial Memorandum with HEFCE. It is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable and not absolute assurance against material misstatement or loss.

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

- clear definitions of, and the authority delegated to, heads of academic units and heads of administrative services
- a comprehensive medium- and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- clearly defined and formalised requirements for approval and control of expenditure
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee
- key performance and risk indicators, which are monitored by the senior management team (through Executive Board) on a regular basis. Appropriate action is taken to address performance issues and the outcome reported to Council

- an ongoing process designed to identify the principal risks (whether business, operational, compliance or financial) to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The reporting method uses a system whereby risks are ranked in terms of likelihood and impact and are reviewed and reported to Council to assure it that procedures are in place for the identified risks to be managed

Council is of the view that the University's process for identifying, evaluating and managing its significant risks is embedded into ongoing operations and has been in place for the year ended 31 July 2013 and up to the date of the approval of the financial statements.

The system of internal control is regularly reviewed by Council and accords with the internal control guidance for directors in the Combined Code as deemed appropriate for higher education. It is informed also by a professional Internal Audit team, which works to standards defined in the HEFCE Audit Code of Practice and which is reviewed for effectiveness by HEFCE's Assurance Service. Senior management and Audit Committee have also reviewed the performance of Internal Audit and are satisfied with it.

The Internal Audit annual plan is approved by the Audit Committee and endorsed by Council. The senior management team and Audit Committee receive regular internal audit reports, which include recommendations for improvement. Internal Audit provides an annual report to Council, which includes an opinion on the adequacy and effectiveness of the University's system of internal control, including risk management, corporate governance, internal control and value for money.

Independent Auditors' Report to the Council of Newcastle University

We have audited the group and parent institution financial statements (the 'financial statements') of Newcastle University (the 'University') for the year ended 31 July 2013 which comprise the Statement of Principal Accounting Policies, the Consolidated Income and Expenditure Account, the Statement of Consolidated Total Recognised Gains and Losses, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of Net Cash Flow to Movement in Net Funds and the related notes 1 to 32. 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 Council, as a body, in accordance with paragraph 15 of the Charters and Statutes of the University and for no other purpose. Our audit work has been undertaken so that we might state to the Council, as a body, those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the Council and auditors

As explained more fully in the Responsibilities of Council in the Preparation of the Financial Statements disclosure set out on pages 23–24 the Council is responsible for the preparation of the financial statements and for being satisfied that they 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 Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements 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 affairs of the University and the Group at 31 July 2013, and of the Group's income and expenditure, recognised gains and losses, and statement of cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been properly 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

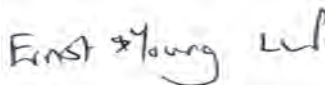
In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation, 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 Statement, is inconsistent with our knowledge of the University and Group



Ernst & Young LLP
Statutory Auditor
Newcastle upon Tyne
28 October 2013

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

The maintenance and integrity of Newcastle University's website is the responsibility of its Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Principal Accounting Policies

In accordance with FRS18 these accounting policies have been reviewed by Council and are considered appropriate to the University's activities.

1. Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education and in accordance with applicable accounting standards. They conform to the guidance published by the Higher Education Funding Council for England.

2. Basis of Accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of endowment asset investments.

3. Basis of Consolidation

The consolidated financial statements consolidate the results of the University and all subsidiary undertakings for the financial year to 31 July 2013.

Details of the University's subsidiary and associated undertakings, investment in joint ventures and other investments are provided in notes 12 and 13 to the accounts.

The consolidated income and expenditure account includes the University's share of the profits or losses and tax of associated undertakings and the consolidated balance sheet includes the investment in associated undertakings at the University's share of their underlying net assets. Associated undertakings are those in which the University has a participating interest and a significant influence over their commercial and financial policy decisions.

The consolidated financial statements do not include the results of Newcastle University Students' Union as it is a separate company limited by guarantee in which the University has no financial interest and no control or significant influence over its policy decisions.

The consolidated financial statements do not include the results of the University of Newcastle upon Tyne Development Trust as it is a separate charity which manages its funds independently of the University. The University nominates less than half of the trustees and it has no control of the Trust's decisions.

4. Recognition of Income

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

Charitable donations which have no specific terms attached to them are classified as expendable and unrestricted. The income from such donations is recognised in the income and expenditure account when received. Charitable donations which have specific terms attached to them are accounted for as endowment funds unless the purpose is the purchase and / or construction of tangible fixed assets whereby the donation is treated as a deferred capital grant.

Endowment funds are classified as either expendable, where the capital element can be converted into income, or permanent, where the capital element must be permanently maintained. Income from expendable endowments is included in the income and expenditure account to the extent of the related expenditure during the year. Permanent endowments are managed on a total return basis. The entire investment return is included in the income and expenditure account to the extent of the related expenditure during the year.

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

Non-recurrent grants from Funding Councils or other bodies receivable 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.

The University acts as an agent in the collection and payment of training bursaries from the Training and Development Agency for Schools and of Access Funds from the Higher Education Funding Council for England. Related payments received from the Training and Development Agency for Schools and the Higher Education Funding Council for England and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in notes 29 and 30 to the accounts.

5. Maintenance of Premises

The University has a rolling long-term maintenance plan which is reviewed periodically and forms the basis 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.

6. 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 or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

7. Leases

Leasing agreements that transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets. Costs under operating leases are charged on a straight-line basis over the lease term.

8. Tangible Fixed Assets

a. Land and Buildings

Land and buildings are stated at cost. Freehold land is not depreciated. Buildings are depreciated over their expected useful lives to the University (generally 50 years), and leasehold land over the life of the lease. Major refurbishments are depreciated over their expected useful lives to the University (generally 25 years).

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

b. Equipment

Equipment costing less than £20,000 per individual item or group of related items and all software costs are written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Research vessel	– 25 years
General equipment	– 4 to 10 years
Equipment acquired for specific research projects	– project life (generally 3 years)
Leased equipment	– period of lease

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is credited to a deferred capital grant account and released to the income and expenditure account over the expected useful life of the related equipment or the period of the grant in respect of specific research projects.

c. Heritage Assets

Where material, heritage assets purchased on or after 1 August 2007 are measured and recognised at their cost. Where reliable cost or valuation information is available assets acquired prior to 1 August 2007 are included in fixed assets.

9. Investments

Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost, less any provision for impairment in their value.

Endowment asset investments are included in the balance sheet at market value. The asset value is represented by endowment reserves which is separated into permanent and expendable. Notes to the accounts further analyse the endowments into the capital element and unapplied return.

Current asset investments are included at the lower of cost and net realisable value.

10. Stocks

Stocks are valued at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

11. Provisions

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

12. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Newcastle upon Tyne Retirements Benefits Plan (1971) (RBP) which is an Exempt Approved Scheme under the Finance Act 1970. The schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P).

The funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes.

A small number of staff remain in other pension schemes.

The University is unable to identify its share of the underlying assets and liabilities of the USS on a consistent and reliable basis and, therefore, as required by FRS17, accounts for this 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 RBP scheme's assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on AA corporate bonds. The post-retirement benefit surplus or deficit is included on the University's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. The current service cost and any past service costs are included in the income and expenditure account within staff costs, and the expected return on the scheme's assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within interest receivable / payable. Actuarial gains and losses, including differences between the expected and actual return on scheme assets are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

13. Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 2011 and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478–488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) 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 University receives no similar exemption in respect of Value Added Tax (VAT). The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

14. Cash Flow and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash. Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

Consolidated Income and Expenditure Account

for the year ended 31 July 2013

	Note	2013 £m	2012 £m
INCOME			
Funding Council grants	1	96.9	106.4
Academic fees and support grants	2	144.5	116.4
Research grants and contracts	3	93.4	86.0
Other operating income (including share of joint ventures)	4	75.3	72.9
Endowment income and interest receivable	5	5.1	4.6
Total income		415.2	386.3
Less: share of income from joint ventures	13	(9.9)	(6.8)
Net income		405.3	379.5
EXPENDITURE			
Staff costs	6	218.8	210.3
Other operating expenses	7	152.2	151.5
Exceptional impairment of fixed assets	11	7.5	-
Depreciation	11	9.9	9.5
Interest payable	8	0.9	1.0
Total expenditure	9	389.3	372.3
Surplus after depreciation of fixed assets at cost and before tax		16.0	7.2
Share of operating profit in joint ventures	13	1.6	1.3
Operating surplus		17.6	8.5
Taxation	10	-	-
Surplus after depreciation of fixed assets at cost and tax		17.6	8.5
Deficit for the year transferred to endowment funds	19	(0.7)	(1.3)
Surplus for the year retained within general reserves	20	18.3	9.8

The income and expenditure account is in respect of continuing operations.

Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2013

	Note	2013 £m	2012 £m
Surplus after depreciation of fixed assets at cost and tax		17.6	8.5
Appreciation of endowment asset investments	19	12.4	-
Net movement in endowments	19	2.2	0.7
Actuarial gain / (loss) relating to the pension scheme	31	15.8	(23.2)
TOTAL RECOGNISED GAINS / (LOSSES) RELATING TO THE YEAR		48.0	(14.0)
Reconciliation:			
Opening reserves and endowments		163.3	177.3
Total recognised gains / (losses) for the year		48.0	(14.0)
Closing reserves and endowments		211.3	163.3

There is no difference between reported and historical cost surpluses and deficits.

Balance Sheets

as at 31 July 2013

	Note	CONSOLIDATED		UNIVERSITY	
		2013 £m	2012 £m	2013 £m	2012 £m
FIXED ASSETS					
Tangible assets	11	237.9	241.0	237.7	240.6
Investments	12	0.1	0.1	11.4	1.2
Investment assets – joint ventures	13				
Share of gross assets		19.0	8.3	–	–
Share of gross liabilities		(8.2)	(6.9)	–	–
		<u>248.8</u>	<u>242.5</u>	<u>249.1</u>	<u>241.8</u>
ENDOWMENT ASSET INVESTMENTS					
	14	<u>55.2</u>	<u>41.3</u>	<u>55.2</u>	<u>41.3</u>
CURRENT ASSETS					
Assets held for sale		0.2	0.8	0.2	0.8
Stocks and stores in hand		0.1	0.1	0.1	0.1
Debtors	15	39.2	34.7	42.0	37.6
Short term liquid deposits		108.0	92.0	108.0	92.0
Cash at bank and in hand		35.3	25.9	31.9	23.4
		<u>182.8</u>	<u>153.5</u>	<u>182.2</u>	<u>153.9</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	16	<u>(99.1)</u>	<u>(87.5)</u>	<u>(98.0)</u>	<u>(86.8)</u>
NET CURRENT ASSETS					
		<u>83.7</u>	<u>66.0</u>	<u>84.2</u>	<u>67.1</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		<u>387.7</u>	<u>349.8</u>	<u>388.5</u>	<u>350.2</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	17	<u>(18.3)</u>	<u>(15.7)</u>	<u>(18.3)</u>	<u>(15.7)</u>
NET ASSETS EXCLUDING PENSION LIABILITY					
		<u>369.4</u>	<u>334.1</u>	<u>370.2</u>	<u>334.5</u>
PENSION LIABILITY					
	31	<u>(20.5)</u>	<u>(36.8)</u>	<u>(20.5)</u>	<u>(36.8)</u>
NET ASSETS INCLUDING PENSION LIABILITY					
		<u>348.9</u>	<u>297.3</u>	<u>349.7</u>	<u>297.7</u>
DEFERRED CAPITAL GRANTS					
	18	137.5	133.9	137.5	133.9
ENDOWMENTS					
Permanent	19	38.6	30.0	38.6	30.0
Expendable	19	16.6	11.3	16.6	11.3
		<u>55.2</u>	<u>41.3</u>	<u>55.2</u>	<u>41.3</u>
RESERVES					
General reserve excluding pension liability		176.6	158.8	177.5	159.3
Pension liability	31	(20.5)	(36.8)	(20.5)	(36.8)
General reserve including pension liability	20	<u>156.1</u>	<u>122.0</u>	<u>157.0</u>	<u>122.5</u>
MINORITY INTEREST					
		0.1	0.1	–	–
TOTAL FUNDS					
		<u>348.9</u>	<u>297.3</u>	<u>349.7</u>	<u>297.7</u>


The financial statements on pages 26–47 were approved by Council on 28 October 2013 and signed on its behalf by:



C H BRINK, Vice-Chancellor



S J LIGHTLEY, Treasurer



R C DALE, Executive Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2013

	Note	2013 £m	2012 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	36.1	5.4
Returns on investments and servicing of finance	22	2.3	2.6
Taxation		-	-
Capital expenditure and financial investment	23	(11.7)	(10.7)
Cash inflow / (outflow) before use of liquid resources and financing		<u>26.7</u>	<u>(2.7)</u>
Management of liquid resources			
– cash increase in short-term deposits		(16.0)	(1.0)
Financing	24	(0.9)	(1.0)
Increase / (decrease) in cash in the year		<u>9.8</u>	<u>(4.7)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Increase / (decrease) in cash in the year		9.8	(4.7)
Increase in short-term deposits		16.0	1.0
Repayment of debt		0.9	1.0
Movement in net funds in the year		<u>26.7</u>	<u>(2.7)</u>
Net funds at 1 August		102.1	104.8
Net funds at 31 July	25	<u>128.8</u>	<u>102.1</u>

Included within net funds and creditors: amounts falling due within one year (note 16) are cash balances of £18.8m (2012 £14.1m) that relate to, and are ring-fenced for, collaborative research projects.

Notes to the Accounts

	2013	2012
	£m	£m
1 FUNDING COUNCIL GRANTS		
HEFCE recurrent grant	86.0	94.8
HEFCE specific grants	7.0	7.0
HEFCE deferred capital grants released in year		
– Buildings	3.4	2.8
– Equipment	0.3	0.3
Teaching Agency recurrent grant	0.1	1.2
Teaching Agency specific grant	0.1	0.3
	<u>96.9</u>	<u>106.4</u>
2 ACADEMIC FEES AND SUPPORT GRANTS		
Full-time students	74.1	52.3
Full-time students charged overseas fees, UK taught	52.3	49.0
Full-time students charged overseas fees, overseas taught	9.5	5.7
Part-time fees	3.2	3.3
Research training support grants	3.1	3.9
Short courses	2.3	2.2
	<u>144.5</u>	<u>116.4</u>
3 RESEARCH GRANTS AND CONTRACTS		
Research Councils	27.3	25.7
UK-based charities	24.5	22.7
European Commission	11.9	11.2
Other grants and contracts	29.7	26.4
	<u>93.4</u>	<u>86.0</u>
4 OTHER OPERATING INCOME		
Residences, catering and conferences	21.7	21.7
Other services rendered	7.1	8.6
Health authorities	13.3	13.0
Share of income from joint ventures	9.9	6.8
Other income	23.3	22.8
	<u>75.3</u>	<u>72.9</u>
5 ENDOWMENT INCOME AND INTEREST RECEIVABLE		
Income from permanent endowments (note 19)	0.9	1.1
Income from expendable endowments (note 19)	0.3	0.3
Pension finance interest	1.7	1.2
Income from short-term investments	2.2	2.0
	<u>5.1</u>	<u>4.6</u>

Notes to the Accounts (continued)

6 STAFF

	2013	2012
	£m	£m
STAFF COSTS		
Wages and salaries	170.0	164.1
Social security costs	14.4	13.9
Other pension costs	33.2	32.2
FRS17 pension service cost adjustment	1.2	0.1
	<u>218.8</u>	<u>210.3</u>

	2013	2012
	£000	£000
Emoluments of the Vice-Chancellor:		
Salary	222.0	220.3
Benefits in kind	1.7	2.2
	<u>223.7</u>	<u>222.5</u>
Pension contributions	55.9	54.9
	<u>279.6</u>	<u>277.4</u>

	2013	2012
	Average FTEs	Average FTEs
Academic	1,259	1,224
Support	2,606	2,574
Research	946	889
	<u>4,811</u>	<u>4,687</u>

Remuneration of higher paid staff, excluding the Vice-Chancellor and employer's pension contributions
(Clinical staff numbers in brackets):

	2013		2012	
	Number		Number	
£100,000–£109,999	23	(12)	18	(12)
£110,000–£119,999	8	(6)	13	(6)
£120,000–£129,999	17	(11)	17	(12)
£130,000–£139,999	15	(10)	14	(9)
£140,000–£149,999	9	(9)	11	(11)
£150,000–£159,999	12	(10)	9	(8)
£160,000–£169,999	5	(4)	12	(10)
£170,000–£179,999	12	(12)	6	(6)
£180,000–£189,999	3	(2)	5	(5)
£190,000–£199,999	2	(2)	–	–
£200,000–£209,999	5	(5)	6	(6)
£210,000–£219,999	2	(2)	3	(3)
£220,000–£229,999	3	(3)	2	(2)

7 OTHER OPERATING EXPENSES	2013	2012
	£m	£m
Building maintenance and renewals	16.0	19.3
Student-related expenditure	27.5	26.9
Consumables and laboratory expenditure	15.5	15.2
Staff-related expenditure	21.6	20.5
Non-capitalised equipment purchases and maintenance	15.4	14.8
Heat, light, water and power	10.7	10.2
Residences, catering and conference operating expenses	9.2	9.4
Professional fees	4.3	5.6
Books and periodicals	4.4	4.5
Students' Union annual subvention	1.4	1.2
Operating lease rentals – land and buildings	6.8	4.5
Other expenses	19.4	19.4
	<u>152.2</u>	<u>151.5</u>

Professional services include auditors' remuneration in respect of audit services for the Group of: £90,940 – Ernst & Young LLP (2012: £nil), and £3,900 – PricewaterhouseCoopers LLP (2012: £103,445); and for the University of: £55,040 (2012: £nil) and £3,900 (2012: £63,600), respectively. In respect of non-audit services (mainly grant certification work), remuneration amounted to £15,840 (2012: £nil) and £13,080 (2012: £57,138) respectively for the Group and University.

8 INTEREST PAYABLE	2013	2012
	£m	£m
On loans not wholly repayable within five years	<u>0.9</u>	<u>1.0</u>

9 ANALYSIS OF 2012–13 EXPENDITURE BY ACTIVITY

	Staff	Other		Exceptional	Interest	
	Costs	Operating	Depreciation	Costs	Payable	Total
	£m	Expenses	£m	£m	£m	£m
Academic schools	115.2	33.5	2.0	–	–	150.7
Academic services	11.7	14.9	0.1	–	–	26.7
Administration and central services	22.6	19.0	–	–	–	41.6
Premises	8.4	31.4	5.6	–	0.3	45.7
Residences, catering and conferences	5.5	11.2	0.7	–	0.6	18.0
Research grants and contracts	43.7	31.0	1.5	–	–	76.2
Other expenditure	11.7	11.2	–	7.5	–	30.4
Total per income and expenditure account	<u>218.8</u>	<u>152.2</u>	<u>9.9</u>	<u>7.5</u>	<u>0.9</u>	<u>389.3</u>
The depreciation charge has been funded by:						
Deferred capital grants released			6.2			
General income			3.7			
			<u>9.9</u>			

Administration and central services includes £4.2m (2012: £4.9m) in respect of undergraduate bursaries.

10 TAXATION	2013	2012
	£m	£m
United Kingdom corporation tax at 20% (2012: 20%)	<u>–</u>	<u>–</u>

Notes to the Accounts (continued)

11 TANGIBLE ASSETS

CONSOLIDATED

	Land and Buildings			Assets under Construction £m	Equipment £m	Total £m
	Freehold £m	Leasehold Long £m	Short £m			
COST						
Balance at 1 August 2012	165.1	116.4	3.7	9.6	63.3	358.1
Additions	1.4	-	-	16.1	3.8	21.3
Transfers from assets under construction	4.7	0.2	0.2	(5.1)	-	-
Transfers from long to short leasehold	-	(15.9)	15.9	-	-	-
Disposals	(11.2)	-	-	(4.7)	(2.3)	(18.2)
Balance at 31 July 2013	<u>160.0</u>	<u>100.7</u>	<u>19.8</u>	<u>15.9</u>	<u>64.8</u>	<u>361.2</u>
DEPRECIATION						
Balance at 1 August 2012	31.9	25.4	3.4	-	56.4	117.1
Charge for year	3.3	2.0	0.9	-	3.7	9.9
Impairment	7.5	-	-	-	-	7.5
Eliminated on disposals	(8.9)	-	-	-	(2.3)	(11.2)
Transfers from long to short leasehold	-	(1.1)	1.1	-	-	-
Balance at 31 July 2013	<u>33.8</u>	<u>26.3</u>	<u>5.4</u>	<u>-</u>	<u>57.8</u>	<u>123.3</u>
NET BOOK VALUE						
At 31 July 2013	<u>126.2</u>	<u>74.4</u>	<u>14.4</u>	<u>15.9</u>	<u>7.0</u>	<u>237.9</u>
At 1 August 2012	<u>133.2</u>	<u>91.0</u>	<u>0.3</u>	<u>9.6</u>	<u>6.9</u>	<u>241.0</u>
Financed by Funding Council capital grants	27.8	62.4	-	1.9	0.5	92.6
Other	98.4	12.0	14.4	14.0	6.5	145.3
	<u>126.2</u>	<u>74.4</u>	<u>14.4</u>	<u>15.9</u>	<u>7.0</u>	<u>237.9</u>

11 TANGIBLE ASSETS (continued)

UNIVERSITY

	Land and Buildings			Assets under Construction £m	Equipment £m	Total £m
	Freehold £m	Leasehold Long £m	Short £m			
COST						
Balance at 1 August 2012	165.1	116.4	3.7	9.6	62.3	357.1
Additions	1.3	-	-	16.1	3.9	21.3
Transfers from assets under construction	4.7	0.2	0.2	(5.1)	-	-
Transfers from long to short leasehold	-	(15.9)	15.9	-	-	-
Disposals	(11.2)	-	-	(4.7)	(2.3)	(18.2)
Balance at 31 July 2013	<u>159.9</u>	<u>100.7</u>	<u>19.8</u>	<u>15.9</u>	<u>63.9</u>	<u>360.2</u>
DEPRECIATION						
Balance at 1 August 2012	31.9	25.4	3.4	-	55.8	116.5
Charge for year	3.3	2.0	0.9	-	3.5	9.7
Impairment	7.5	-	-	-	-	7.5
Eliminated on disposals	(8.9)	-	-	-	(2.3)	(11.2)
Transfers from long to short leasehold	-	(1.1)	1.1	-	-	-
Balance at 31 July 2013	<u>33.8</u>	<u>26.3</u>	<u>5.4</u>	<u>-</u>	<u>57.0</u>	<u>122.5</u>
NET BOOK VALUE						
At 31 July 2013	<u>126.1</u>	<u>74.4</u>	<u>14.4</u>	<u>15.9</u>	<u>6.9</u>	<u>237.7</u>
At 1 August 2012	<u>133.2</u>	<u>91.0</u>	<u>0.3</u>	<u>9.6</u>	<u>6.5</u>	<u>240.6</u>
Financed by Funding Council capital grants	27.8	62.4	-	1.9	0.5	92.6
Other	<u>98.3</u>	<u>12.0</u>	<u>14.4</u>	<u>14.0</u>	<u>6.4</u>	<u>145.1</u>
	<u>126.1</u>	<u>74.4</u>	<u>14.4</u>	<u>15.9</u>	<u>6.9</u>	<u>237.7</u>

The University holds a number of collections, exhibits and artefacts, most of which have been donated or bequeathed to the University. These assets are not considered Heritage Assets as defined in the SORP and therefore have no value attributed to them in the financial statements.

On 31 January 2013 the University disposed of its interest in the land known as Science Central to Newcastle Science Central LLP. This land was given a full valuation on that date by Sanderson Weatherall, RICS qualified chartered surveyors, who are independent of the University. The difference between the net book value of the land and the value of the capital allocated to the University by Newcastle Science Central LLP of £7.5m has been treated as an exceptional impairment in the consolidated income and expenditure account.

Notes to the Accounts (continued)

12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2013	2012	2013	2012
	£m	£m	£m	£m
Shares in subsidiary undertakings at cost less amounts written off	-	-	1.1	1.1
Other investments other than loans				
At cost 1 August	0.1	0.1	0.1	0.1
Additions on disposal of land to Newcastle Science Central LLP	-	-	7.0	-
Other additions in year	-	-	3.2	-
At cost 31 July	0.1	0.1	10.3	0.1
Total fixed asset investments	0.1	0.1	11.4	1.2

SHARES IN SUBSIDIARY UNDERTAKINGS

Details of the companies, all registered in England and Wales (unless otherwise stated), in which Newcastle University holds an interest are as follows:

Name of Company	Percentage Holding of Ordinary Shares	Nature of Business
Newcastle University Holdings Limited	100	Operates as a holding company only.
Newcastle University Ventures Limited	100	Provides support for the commercial development of research and consultancy.
University of Newcastle upon Tyne Supply Company Limited	100	Leases assets to the University.
Newcastle University Pension Trustee (1971) Limited	100	Provides a corporate trusteeship for the University Retirement Benefits Plan.
Newcastle ISC Limited	100	Acts as a holding company for the joint venture INTO Newcastle University LLP.
NUMed Malaysia sdn bhd	100	A company incorporated in Malaysia for the development of an overseas medical campus.
NUInternational Singapore pte Limited	100	A company incorporated in Singapore for collaborative teaching and research.
Newcastle University Enterprises Limited*	100	This company is not yet trading.
NUINTO Limited	51	Provides the teaching of English language skills.

University membership in companies limited by guarantee:

The Russell Group

Newcastle Science Company Limited

Universities UK

North East Universities Purchasing Consortium (NEUPC)

*For the year ended 31 July 2013, Newcastle University Enterprises Limited (CRN: 06331269) was exempt from the requirements to prepare individual accounts by virtue of Section 394A of the Companies Act 2006 relating to dormant subsidiaries.

12 FIXED ASSET INVESTMENTS (continued)

OTHER INVESTMENTS OTHER THAN LOANS

	Percentage of voting rights %	CONSOLIDATED		UNIVERSITY	
		2013 £m	2012 £m	2013 £m	2012 £m
CVCP Properties PLC	1.3	0.1	0.1	0.1	0.1
North East Seed Capital Fund LP	11.94	-	-	-	-
North East Seed Capital Fund Two LP	4.50	-	-	-	-
		<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

The University has direct minor shareholdings in a number of other companies, including spin outs, which are not material to these financial statements.

Shares in associated undertakings and other investments held by subsidiary companies are disclosed in the financial statements of those companies.

13 INVESTMENT IN JOINT VENTURES

INTO Newcastle University LLP is a joint venture between the University and INTO University Partnerships Limited. A 50% share of the LLP's gross assets and liabilities is included in the University's consolidated balance sheet and 50% of its net income is reported in the University's consolidated income and expenditure account.

INTO Newcastle University LLP's principal activity is the provision of pre-University education and residential accommodation for international students. At the year end an amount of £774,498 (2012: debtor of £1,975) was due from the University to INTO Newcastle University LLP. In addition, £1,088,363 (2012: £1,120,095) was outstanding at the balance sheet date on an interest bearing loan made by the University to INTO Newcastle University LLP.

Newcastle Science Central LLP is a joint venture between the University and Newcastle City Council. The principal activity of the joint venture is the sale and lease of land for the development of the Science Central site in Newcastle. This land was transferred into the partnership on 31 January 2013. A 50% share of the LLP's losses to date is reported in the University's consolidated income and expenditure account and the University's interest in the gross assets and liabilities of the LLP is included in the University's consolidated balance sheet.

	CONSOLIDATED	
	2013 £m	2012 £m
Share of income from joint venture – INTO Newcastle University LLP	<u>9.9</u>	<u>6.8</u>
Share of operating profit from joint venture – INTO Newcastle University LLP	1.9	1.3
Share of operating loss from joint venture – Newcastle Science Central LLP	(0.3)	-
	<u>1.6</u>	<u>1.3</u>
Share of gross assets from joint venture – INTO Newcastle University LLP	8.8	8.3
Share of gross assets from joint venture – Newcastle Science Central LLP	10.2	-
	<u>19.0</u>	<u>8.3</u>
Share of gross liabilities from joint venture – INTO Newcastle University LLP	(7.9)	(6.9)
Share of gross liabilities from joint venture – Newcastle Science Central LLP	(0.3)	-
	<u>(8.2)</u>	<u>(6.9)</u>

Notes to the Accounts (continued)

14 ENDOWMENT ASSET INVESTMENTS

	CONSOLIDATED AND UNIVERSITY	
	2013 £m	2012 £m
At 1 August	41.3	41.9
Additions	43.4	16.2
Disposals	(42.4)	(16.4)
Net appreciation on disposals and on revaluation	12.4	-
Increase / (decrease) in cash balances	0.4	(0.2)
Increase / (decrease) in other current asset balances	0.1	(0.2)
At 31 July	<u>55.2</u>	<u>41.3</u>
Fixed interest stock and equities	55.2	41.8
Bank balances	1.3	0.9
Other current balances	(1.3)	(1.4)
	<u>55.2</u>	<u>41.3</u>

15 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	2013 £m	2012 £m	2013 £m	2012 £m
Trade debtors	18.7	13.1	17.3	13.1
Accrued income on research grants and contracts	13.6	12.8	13.6	12.8
Amounts owed by subsidiary undertakings	-	-	4.6	4.1
Prepayments and accrued income	5.1	6.9	4.9	5.8
Other debtors	1.8	1.9	1.6	1.8
	<u>39.2</u>	<u>34.7</u>	<u>42.0</u>	<u>37.6</u>

Contained within amounts owed by subsidiary undertakings is an amount of £500,000, due from NUMed Malaysia which is repayable after more than one year.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		UNIVERSITY	
	2013 £m	2012 £m	2013 £m	2012 £m
Fixed term loans	1.0	1.0	1.0	1.0
Payments received on account	32.4	24.3	32.4	24.3
Research collaborator creditors	18.8	14.1	18.8	14.1
Other creditors	4.0	4.0	4.0	4.0
Social security and other taxation payable	5.2	4.9	5.2	4.9
Accruals and deferred income	37.7	39.2	36.6	38.5
	<u>99.1</u>	<u>87.5</u>	<u>98.0</u>	<u>86.8</u>

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

CONSOLIDATED AND UNIVERSITY

2013	2012
£m	£m
14.8	15.7
3.5	-
<u>18.3</u>	<u>15.7</u>

Fixed term unsecured loans repayable by 2029
Accruals and deferred income

	Effective Interest Rate %	CONSOLIDATED AND UNIVERSITY 2013 £m	CONSOLIDATED AND UNIVERSITY 2012 £m
Fixed term unsecured loans are repayable in accordance with the following profile:			
Student residences loan due after one year but not more than five years	5.98	2.7	2.7
Academic buildings loan due after one year but not more than five years	5.67	1.2	1.2
		<u>3.9</u>	<u>3.9</u>
Student residences loan due after more than five years	5.98	7.7	8.3
Academic buildings loan due after more than five years	5.67	3.2	3.5
		<u>14.8</u>	<u>15.7</u>

18 DEFERRED CAPITAL GRANTS

CONSOLIDATED AND UNIVERSITY

	Funding Council £m	Other Grants and Benefactions £m	Total £m
At 1 August 2012			
Buildings	93.7	36.8	130.5
Equipment	0.7	2.7	3.4
	<u>94.4</u>	<u>39.5</u>	<u>133.9</u>
Amounts received			
Buildings	1.8	5.7	7.5
Equipment	0.1	2.2	2.3
	<u>1.9</u>	<u>7.9</u>	<u>9.8</u>
Released to income and expenditure account			
Buildings	2.8	0.9	3.7
Building disposals	0.6	-	0.6
Equipment	0.3	1.6	1.9
	<u>3.7</u>	<u>2.5</u>	<u>6.2</u>
At 31 July 2013			
Buildings	92.1	41.6	133.7
Equipment	0.5	3.3	3.8
	<u>92.6</u>	<u>44.9</u>	<u>137.5</u>

Notes to the Accounts (continued)

19 ENDOWMENTS

	CONSOLIDATED AND UNIVERSITY					
	Unrestricted Permanent £m	Restricted Permanent £m	Total Permanent £m	Restricted Expendable £m	2013 Total £m	2012 Total £m
At 1 August						
Capital	2.7	16.5	19.2	7.6	26.8	26.1
Unapplied return	1.3	9.5	10.8	3.7	14.5	15.8
	<u>4.0</u>	<u>26.0</u>	<u>30.0</u>	<u>11.3</u>	<u>41.3</u>	<u>41.9</u>
New endowments	-	-	-	2.2	2.2	0.7
Appreciation of endowment asset investments	1.2	8.0	9.2	3.2	12.4	-
	<u>1.2</u>	<u>8.0</u>	<u>9.2</u>	<u>5.4</u>	<u>14.6</u>	<u>0.7</u>
Income	0.1	0.8	0.9	0.3	1.2	1.4
Expenditure	(0.2)	(1.3)	(1.5)	(0.4)	(1.9)	(2.7)
	<u>(0.1)</u>	<u>(0.5)</u>	<u>(0.6)</u>	<u>(0.1)</u>	<u>(0.7)</u>	<u>(1.3)</u>
At 31 July	<u>5.1</u>	<u>33.5</u>	<u>38.6</u>	<u>16.6</u>	<u>55.2</u>	<u>41.3</u>
Represented by:						
Capital	2.7	16.5	19.2	9.8	29.0	26.8
Unapplied return	2.4	17.0	19.4	6.8	26.2	14.5
	<u>5.1</u>	<u>33.5</u>	<u>38.6</u>	<u>16.6</u>	<u>55.2</u>	<u>41.3</u>

20 GENERAL RESERVE

	CONSOLIDATED		UNIVERSITY	
	2013 £m	2012 £m	2013 £m	2012 £m
Balance at beginning of year	122.0	135.4	122.5	134.7
Surplus retained for the year	18.3	9.8	18.7	11.0
Actuarial gain / (loss) on pension scheme	15.8	(23.2)	15.8	(23.2)
Balance at year end	<u>156.1</u>	<u>122.0</u>	<u>157.0</u>	<u>122.5</u>

Impact of FRS17 Retirement Benefits

FRS17 resulted in the following movements:

	CONSOLIDATED AND UNIVERSITY	
	2013 £m	2012 £m
Increase in staff costs	(1.2)	(0.1)
Pension finance income	1.7	1.2
Impact on the income and expenditure account for the year	<u>0.5</u>	<u>1.1</u>
Actuarial gain / (loss) relating to the pension scheme	15.8	(23.2)
Increase / (decrease) in total recognised gains and losses for the year	<u>16.3</u>	<u>(22.1)</u>
Pension liability at beginning of year	(36.8)	(14.7)
Pension liability at end of year	<u>(20.5)</u>	<u>(36.8)</u>

21 RECONCILIATION OF SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2013 £m	2012 £m
Surplus after depreciation of fixed assets at cost and before tax	16.0	7.2
Depreciation	9.9	9.5
Fixed asset impairment	7.5	-
Profit on disposal of asset held for resale	(1.1)	-
Deferred capital grants released to income	(6.2)	(5.4)
Profit distribution from INTO Newcastle University LLP	2.4	1.0
Investment income	(3.4)	(3.4)
Interest payable	0.9	1.0
Difference between FRS17 net pension charge and cash contributions	(0.5)	(1.1)
(Increase) / decrease in debtors	(4.5)	-
Increase / (decrease) in creditors	15.1	(3.4)
Net cash inflow from operating activities	<u>36.1</u>	<u>5.4</u>
22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	2013 £m	2012 £m
Income from endowments	1.2	1.4
Other interest received	2.1	2.2
Interest paid	(1.0)	(1.0)
Net cash inflow from returns on investments and servicing of finance	<u>2.3</u>	<u>2.6</u>
23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	2013 £m	2012 £m
Purchase of tangible fixed assets	(21.3)	(14.8)
Payments to acquire long-term investments	(2.0)	-
Payments to acquire endowment assets	(43.4)	(16.2)
Total fixed and endowment asset investments acquired	<u>(66.7)</u>	<u>(31.0)</u>
Receipts from sale of endowment assets	42.4	16.4
Receipts from sale of asset held for resale	1.8	-
Deferred capital grants received	8.6	3.2
Net endowments	2.2	0.7
Net cash outflow from capital expenditure and financial investment	<u>(11.7)</u>	<u>(10.7)</u>
24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR		£m
Fixed Term Loans:		
At 1 August 2011		17.7
Capital repayments		(1.0)
At 31 July 2012		<u>16.7</u>
Capital repayments		(0.9)
At 31 July 2013		<u>15.8</u>

Notes to the Accounts (continued)

25 ANALYSIS OF CHANGES IN NET FUNDS	At 1 August 2012 £m	Cash Flows £m	Other Changes £m	At 31 July 2013 £m
Cash at bank and in hand:				
Endowment asset investments (note 14)	0.9	0.4	–	1.3
Others	25.9	9.4	–	35.3
	<u>26.8</u>	<u>9.8</u>	<u>–</u>	<u>36.6</u>
Short-term investments	92.0	16.0	–	108.0
Debt due within one year	(1.0)	0.9	(0.9)	(1.0)
Debt due after one year	(15.7)	–	0.9	(14.8)
	<u>102.1</u>	<u>26.7</u>	<u>–</u>	<u>128.8</u>

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26 CAPITAL COMMITMENTS

	CONSOLIDATED AND UNIVERSITY	
	2013 £m	2012 £m
Commitments contracted at 31 July	17.1	33.2
Authorised but not contracted at 31 July	10.9	12.3
	<u>28.0</u>	<u>45.5</u>

In the 2014 financial year the University anticipates signing a lease for its NUmEd Malaysia campus which will be treated as a finance lease in those financial statements, the fair value of this lease using the exchange rate at 31 July 2013 was £18.3m.

27 CONTINGENT LIABILITIES

The University has three nomination agreements relating to student accommodation. The expiry dates and nominated rooms are: 2015–16: 239 beds; 2018–19: 256 beds; 2028–29: 90 beds and the charges in respect of these rooms should be fully recovered from student residential income.

28 LEASE OBLIGATIONS

Annual rentals under operating lease commitments, all relating to land and buildings, are as follows:

	CONSOLIDATED AND UNIVERSITY	
	2013 £m	2012 £m
Leases expiring:		
In two to five years	1.0	0.5
Over five years	5.1	2.2
	<u>6.1</u>	<u>2.7</u>

29 ACCESS FUNDS

	CONSOLIDATED AND UNIVERSITY	
	2013 £m	2012 £m
Balance unspent at beginning of year	0.1	0.1
Funding Council grants	0.1	0.2
	<u>0.2</u>	<u>0.3</u>
Disbursements	(0.1)	(0.2)
Balance unspent at 31 July	<u>0.1</u>	<u>0.1</u>

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 income and expenditure account.

30 TEACHING AGENCY

	2013	2012
	£m	£m
Training bursaries:		
Grant	1.7	0.6
Disbursements	(1.7)	(0.6)
Balance due from Teaching Agency at 31 July	<u>-</u>	<u>-</u>

The above training bursaries from the Teaching Agency are available solely for students in initial teacher training; the University acts only as paying agent. The bursaries and related disbursements are therefore excluded from the income and expenditure account.

31 PENSION ARRANGEMENTS

The University participates in two main pension schemes, the Retirements Benefits Plan (1971) (RBP) and Universities Superannuation Scheme Limited (USS).

The University also has a small number of staff in the National Health Service Scheme (NHSS), the total cost of which was £1.9m (2012: £1.9m). This includes £0.3m (2012: £0.3m) outstanding contributions at the balance sheet date.

The total pension cost for the University was:

	2013	2012
	£m	£m
Contributions to USS	25.9	24.9
Contributions to RBP including FRS17 adjustment	6.6	5.5
Contributions to NHSS	1.9	1.9
Total pension cost (note 6)	<u>34.4</u>	<u>32.3</u>
Pension finance interest (note 5)	(1.7)	(1.2)
Total pension cost including pension finance interest	<u>32.7</u>	<u>31.1</u>

RBP

RBP is an Exempt Approved Scheme under the Finance Act 1970 and provides benefits based on final pensionable salary; it is established under irrevocable trusts and its assets are kept strictly separate from those of the University. It is a defined benefit scheme. The total pension cost to the University was £6.6m (2012: £5.5m). The contribution payable by the University was 13.25% of pensionable salaries. There were no outstanding contributions at the balance sheet date.

The expected contribution to the plan during the next accounting year is £5.6m.

A full actuarial valuation was carried out as at 1 August 2010 and updated to 31 July 2013 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended	Year ended
	31 July 2013	31 July 2012
Discount rate at year end	4.60%	4.30%
Expected return on plan assets at year end	7.20%	6.47%
Future salary increases	3.80%	3.30%
Future pension increases applying to future benefit accrual	1.80%	1.70%
RPI inflation	3.30%	2.80%
CPI inflation	2.30%	1.90%
Life expectancy of current pensioners (from age 65)	23.2	22.5
Life expectancy of future pensioners (from age 65)	24.7	24.1

Notes to the Accounts (continued)

31 PENSION ARRANGEMENTS (continued)

The assets in the scheme and the expected rate of return were:

	Value at 31 July 2013 £m	Long- term expected return %	Asset Allocation %	Value at 31 July 2012 £m	Long- term expected return %	Asset Allocation %
Equities	78.4	8.00	45	75.1	8.25	50
Bonds	58.8	4.28	34	53.5	3.37	36
Property	12.1	8.00	7	10.5	8.25	7
Absolute return fund	22.5	6.50	13	11.2	7.75	7
Cash	0.9	0.50	1	0.2	0.50	-
Fair value of assets	172.7	7.2		150.5	6.47	
Present value of obligations	(193.2)			(187.3)		
Funded status	(20.5)			(36.8)		
Net pension liability	(20.5)			(36.8)		

Analysis of the amount charged to operating surplus

	2013 £m	2012 £m
Current service cost	6.6	5.5
Interest on obligation	8.0	8.5
Expected return on plan assets	(9.7)	(9.7)
Total operating charge	4.9	4.3

Change in defined benefit obligation

	2013 £m	2012 £m
Opening defined benefit obligation	187.3	156.9
Service cost (including employee contributions)	6.8	5.6
Interest cost	8.0	8.5
Actuarial (gains) / losses	(0.9)	23.6
Benefits paid	(8.0)	(7.3)
Closing defined benefit obligation	193.2	187.3

Change in fair value of plan assets

	2013 £m	2012 £m
Opening fair value of plan assets	150.5	142.2
Expected return	9.7	9.7
Actuarial gains	14.9	0.4
Contributions by employer	5.4	5.4
Contributions by employee	0.2	0.1
Benefits paid	(8.0)	(7.3)
Closing fair value of plan assets	172.7	150.5

31 PENSION ARRANGEMENTS (continued)

USS

USS is a defined benefit scheme which is externally funded and 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.

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 University is therefore exposed to actuarial risks associated with other institutions and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and, therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 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 results of the valuation are:

the rate of return on investments (ie the valuation rate of interest)	6.1% pa
the rate of increase in salary	4.4% pa (with short-term general pay growth at 3.65%)
the rate of increase in pensions	3.4% pa for 3 years and 2.6% pa thereafter
the assumed rates of mortality:	
Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

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 pa).

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% pa the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it 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, the actuary estimated that the funding level would have been approximately 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 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 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.

31 PENSION ARRANGEMENTS (continued)

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 on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.
- The normal pension age was increased for future service and new entrants to age 65.
- Flexible retirement options were introduced.
- Member contributions were uplifted to 7.5% pa and 6.5% pa 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 a AA bond discount rate of 4.2% based on spot yields, the actuary estimated 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 University's future contribution commitment. 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.

At 31 March 2013, USS had over 148,000 active members and the University had 2,542 active members participating in the scheme.

The total pension cost for the University was £25.9m (2012: £24.9m). This includes £2.3m (2012: £2.1m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

The University participated in the Federated Superannuation System prior to the creation of USS. This scheme purchased annuities to provide pensioners with their benefits. However, annuity growth has fallen below inflation and is insufficient to cover the annual guaranteed increase and as a result participating employers are invoiced for the shortfall. The University's contribution for the current year was £13,000 and this will decline in line with a reduction in the number of pensioners.

32 RELATED PARTIES

The University had transactions with a number of organisations which fell within the definition of Related Parties under FRS8 'Related Party Disclosures'. In accordance with FRS8 no disclosure has been made of intra-group transactions and balances eliminated on consolidation. Due to the nature of the University's operations and the composition of its Council (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council or Executive Board may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. Details of transactions are shown below.

	(Income)/ Expenditure		Debtor/(Creditor) balance		Nature of transaction/ relationship
	2013 £m	2012 £m	2013 £m	2012 £m	
Joint ventures, associates and spin outs					
INTO Newcastle University LLP	(0.3)	(1.5)	0.3	1.1	Fees for student accommodation and other services.
Newcastle Science Company Limited	0.1	0.2	–	0.1	Partner funding.
Five Quarter Energy Limited	–	–	–	0.1	Loan to spin out.
Demuris Limited	–	–	0.1	0.1	Loan to spin out.
Alcyomics Limited	–	–	0.1	0.1	Loan to spin out.
Other organisations					
Newcastle University Students' Union	1.1	1.6	0.1	0.1	Union Society subvention and specific grant.
The University of Newcastle upon Tyne Development Trust	(1.8)	(1.9)	0.1	–	Endowment income distribution.
The Newcastle upon Tyne Hospitals NHS Trust	(10.2)	(10.5)	2.7	1.8	University representation on Trust Board. NHS/academic staff recharges.
Council and Executive Board members					
Mrs H Mottram, Northumbrian Water Chief Executive	0.9	0.7	–	–	Water rates.
Professor C Day, Medical Research Council member	(7.2)	(6.2)	0.1	–	Medical Research Council research funding.
Professor S Homans, Biotechnology and Biological Sciences Research Council member (2013 only)	(5.1)	–	–	–	BBSRC research funding.
Professor A Boddy, Leukaemia and Lymphoma Research Panel member (2013 only)	(1.5)	–	0.4	–	Research funding.
Professor C Brink, Russell Group Board Director	0.1	–	–	–	Russell Group subscription.
Mr S Pleydell, Trust Chief Executive (part year)	(0.2)	(0.3)	0.1	0.1	South Tees Hospitals NHS Trust NHS/academic staff recharges.
Mr N Braithwaite, Senior Counsel	–	0.2	–	–	Bond Dickinson LLP professional services.
Mr M Davison, non-executive director	0.1	(0.1)	–	0.1	City Hospitals Sunderland.
Professor V Bruce, Governor, British Academy (2013 only)	(0.1)	–	–	–	Research funding.

Council members did not receive any remuneration in respect of their service to Council during the year. The amount paid to members of Council in respect of expenses during the year amounted to £3,627 (2012: £1,276).

The University does not have any connected institutions, as defined by the Charities Act 2011, Schedule 3, paragraph 28.

Five-year Summary

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
INCOME					
Funding Council grants	96.9	106.4	116.2	120.8	113.4
Academic fees and support grants	144.5	116.4	106.3	92.8	81.3
Research grants and contracts	93.4	86.0	88.5	85.2	84.5
Other operating income	65.4	66.1	68.1	71.8	82.0
Endowment income and interest receivable	5.1	4.6	3.1	1.9	4.2
Total income	<u>405.3</u>	<u>379.5</u>	<u>382.2</u>	<u>372.5</u>	<u>365.4</u>
EXPENDITURE					
Staff costs	218.8	210.3	204.3	198.5	192.9
Other operating expenses	152.2	151.5	145.6	143.9	145.8
Grant to Students' Union	-	-	7.8	0.2	-
Exceptional impairment of fixed asset	7.5	-	-	-	-
Depreciation	9.9	9.5	9.6	8.3	9.5
Interest payable	0.9	1.0	1.1	1.7	1.9
Total expenditure	<u>389.3</u>	<u>372.3</u>	<u>368.4</u>	<u>352.6</u>	<u>350.1</u>
Surplus after depreciation of assets but before tax	16.0	7.2	13.8	19.9	15.3
Share of operating profit in joint ventures	1.6	1.3	1.0	0.5	0.2
Operating surplus	17.6	8.5	14.8	20.4	15.5
Taxation	-	-	-	-	-
Surplus after depreciation of assets and tax	17.6	8.5	14.8	20.4	15.5
Deficit for the year transferred to endowment funds	(0.7)	(1.3)	(0.6)	(0.9)	(0.7)
Surplus for the year retained within general reserves	<u>18.3</u>	<u>9.8</u>	<u>15.4</u>	<u>21.3</u>	<u>16.2</u>
Capital expenditure	<u>21.3</u>	<u>14.8</u>	<u>24.9</u>	<u>22.7</u>	<u>49.2</u>
Net funds	<u>128.8</u>	<u>102.1</u>	<u>104.8</u>	<u>103.6</u>	<u>68.3</u>



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