



financial statements 2003-04

University of Newcastle upon Tyne

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We would like to thank the following for the use of their illustrative material:
Colin Cuthbert; The Sage Gateshead; Keith Pattison.

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In making my first report as Honorary Treasurer I would like to pay tribute to my predecessor, David Wilson, who made an outstanding contribution to the University over a period of 15 years. David was appointed to the University Council in 1989 and was Chairman of Audit Committee before being appointed Honorary Treasurer in 1993 and retiring from Council on 31 July 2004. His capacity to get rapidly to the heart of subjects being discussed and suggest ways forward earned him great respect from the University community and his wise counsel will be missed.

The financial statements for the year ended 31 July 2004 reflect, in financial terms, a further successful year for the University. Total income was up by 8.4 per cent and whilst pay costs, excluding severance costs, increased by 9.2 per cent the result shows a surplus of £6.12 million (compared to £2.65 million in 2003) before taking into account taxation and the profit on the disposal of freehold property. The inclusion of these latter two items results in a surplus of £12.01 million. There is no doubt that this success owes a great deal to the reorganization of our management arrangements for academic and support services, completed some two years ago.

Whilst the growth in income was across the board there were some wide variations. Income from the Higher Education Funding Council for England showed an increase in recurrent funding of 7.9 per cent and in specific grants of 22 per cent. Overseas student fees for full-time study continued to rise strongly showing an increase of 18.3 per cent whilst income from research grants and contracts rose by 4.4 per cent.

Costs continue to be well controlled, but the recently announced pay agreement for the sector is forecast to increase staff costs materially, at least in the short and medium term, when it is fully implemented in 2004/2005.

As the year closed the University sold the freehold of Close House for £7 million whilst entering into a long lease for the research facilities there and an agreement to use the sports pitches. The funds so obtained will be used to partially fund the University's ambitious capital expenditure programme.

During the year, two new research buildings were opened, these being the Paul O'Gorman, Northern Institute for Cancer Research building and the Devonshire Building. The total invested in these new buildings is just short of £30 million with the majority of the funding coming from the Scientific Research Infrastructure Fund which is administered by HEFCE, but with a significant contribution coming from charities in the case of the Paul O'Gorman, Northern Institute for Cancer Research Building. In order to complete the funding package for the Devonshire Building, the University borrowed £7.5 million under a long term agreement, this being the first time in recent years that the University has borrowed for academic build purposes.

Work continues on the £5.5 million extension to our Claremont Sports Hall where completion is scheduled for 2004/2005.

The recently approved legislation gives clarity to the fee arrangements which will apply to home undergraduate students starting in 2006. Whilst this clarity is welcome it is expected to further increase competition in the student market, whilst also increasing student expectations of their University experience. The University is well placed to address these issues.

During the year the University, as part of a national initiative, committed significant funds to further develop costing and pricing across all its activities and initial results are encouraging.

The University has successfully expanded its income over the last three years, which has given both resources to address investment needs in staff and facilities and confidence for plans to expand further in the coming years.

P M Johnson
Honorary Treasurer

We have audited the financial statements which comprise the consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the statement of total recognized gains and losses and the related notes which have been prepared under the historical cost convention as modified by the revaluation of endowment asset investments and the accounting policies set out in the statement of principal accounting policies.

Respective Responsibilities of the Council and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Council and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Treasurer's report and the corporate governance statement.

Basis of Opinion

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

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

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2004, and of the surplus of income over expenditure, recognized gains and losses and cashflows of the University and the group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education;
- ii. in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- iii. in all material respects, income has been applied in accordance with the University's Statutes and where appropriate in accordance with the Financial Memorandum with the Higher Education Funding Council for England dated August 2000 and October 2003.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
13 December 2004

In accordance with the University's Statutes, the 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.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University'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 the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the 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.

The Council has taken reasonable steps to:

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

The key elements of the University's system of internal financial 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 schools 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 formalized requirements for approval and control of expenditure;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by Council and whose head provides Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The following statement is provided to enable readers of the Annual Report and Accounts of the University to obtain a better understanding of corporate governance and the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance.

The University is incorporated under Statute, namely 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 three separate bodies each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **Court** is a large, mainly formal body. It offers a means whereby the wider interests served by the University can be associated with the institution, and provides a public forum where members of Court can raise any matters about the University. The Court meets twice a year to receive reports from the Vice-Chancellor. It regulates the custody and use of the common seal of the University. Changes to the Statutes of the University require the approval of the Court before they can be submitted to the Privy Council.

The majority of the members of the Court are from outside the University, representing the local community and other designated bodies with an interest in the work of the University. Membership also includes representatives of the staff of the University (both academic and non-academic);

- **Senate** is the academic authority of the University and draws its membership entirely 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; and
- **Council** is the executive 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.

Council normally meets six times each year. Over half of its members ('lay members') are drawn from outside the University, from whom the Chairman and Vice-Chairman may be appointed. Members also include representatives of the staff of the University and the student body.

Much of the business which Council considers is initially routed through Committees/Boards of Council, including:

- **Strategy Board**, which identifies the University's key objectives. It develops, reviews and monitors the progress of the overall strategic plan to ensure the integration of the academic, physical and financial elements of the plan, in order to achieve the effective and efficient use of resources. In respect of Estates issues it is advised by Estates Strategy Committee;
- **Executive Board**, which exercises an integrated overview of the University's policy and resources through the implementation of the strategic plan and operating statement. Through the Financial Monitoring and Budget Scrutiny Group it reviews the use of resources and the financial performance of all budgetary units;
- **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;
- **Audit Committee**, which usually meets five times each year with the University's internal auditors (and, where relevant, external auditors) in attendance. The Audit Committee keeps under review the effectiveness of the internal control systems by considering detailed reports together with recommendations for improvement, management responses and implementation plans;
- **Nominations Committee**, which makes recommendations to Council in respect of the appointment of lay members of Council, the offices of Chairman and Vice-Chairman 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.

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 the Higher Education Funding Council for England. The system of internal control is based on 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. 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 of effectiveness. The senior management team and the Audit Committee also receive regular reports from internal audit which include recommendations for improvement.

The University's process for identifying, evaluating and managing its significant risks has been formally agreed by Council. Council is of the view that it has been in place for the year ended 31 July 2004 and up to the date of the approval of the annual accounts.

This process is regularly reviewed by Council and accords with the internal control guidance for directors in the Combined Code as deemed appropriate for higher education.

The senior management team receives regular reports setting out key performance and risk indicators. The reporting method uses a system whereby risks are ranked in terms of likelihood and impact, and are reviewed on a continuous basis to ensure that procedures are in place for the identified risks to be managed.

The principal academic and administrative officer 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, the Vice-Chancellor is the Designated Officer of the University; in that capacity he can be summoned to appear before the Public Accounts Committee of the House of Commons.

The University maintains a Register of Interests of members of Council and Senior Officers.

In accordance with FRS 18 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 Institutions 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 2004.

Details of the University's subsidiary undertakings are provided in note 12 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 tangible 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 the Union Society as it is a separate organization in which the University has no financial interest and no control or significant influence over its policy decisions.

The University Development Trust has not been consolidated as it has a separate Trustee Board which manages the funds independently of the University. The total assets of the University Development Trust at 31 March 2004 were £29.9 million on which its investment income for the year to that date was £0.8 million and in addition the Trust received donations to the value of £0.4 million.

4. Recognition of Income

Income from specific endowments and donations and 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 and general endowment asset investments is credited to the income and expenditure account in the period in which it is earned.

Recurrent grants from the Funding Councils are recognized 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 amortized 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 Teacher Training Agency and of Access Funds from the Higher Education Funding Council for England. Related payments received from the Teacher Training Agency 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 28 and 29 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 of 50 years and leasehold land over the life of the lease.

Where buildings are acquired with the aid of specific grants they are capitalized 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 capitalized 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 is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalized.

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

General Equipment	– 4 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 capitalized 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.

9. Investments

Fixed asset investments that are not listed on a recognized 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.

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

10. Stocks

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

11. Provisions

Provisions are recognized 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) 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. In the intervening years, the actuaries review the progress of the schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employees' services.

A small number of staff remain in other pension schemes.

The University has taken advantage of the transitional adoption arrangements allowed under FRS 17 and its effect is disclosed by way of a note to the accounts.

13. Taxation Status

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

The 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 organization.

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 2004

	Note	2004 £000	2003 £000
INCOME			
Funding Council grants	1	89,463	80,911
Academic fees and support grants	2	44,073	38,929
Research grants and contracts	3	55,457	53,113
Other operating income	4	58,198	55,062
Endowment income and interest receivable	5	2,469	2,401
Total income		249,660	230,416
EXPENDITURE			
Staff costs	6	134,325	123,002
Staff severance scheme	17	789	4,376
Total staff costs		135,114	127,378
Other operating expenses	7	99,723	91,936
Depreciation	11	7,473	7,425
Interest payable	8	1,227	1,027
Total expenditure	9	243,537	227,766
Surplus on continuing operations after depreciation of fixed assets at valuation and before tax		6,123	2,650
Profit on disposal of freehold property		5,986	-
Surplus on continuing operations after depreciation of fixed assets at valuation and disposals of assets but before tax		12,109	2,650
Taxation	10	(98)	-
Surplus on continuing operations after depreciation of fixed assets at valuation, disposals of assets and tax	20	12,011	2,650

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

Statement of Consolidated Total Recognized Gains and Losses for the year ended 31 July 2004

	Note	2004 £000	2003 £000
Surplus on continuing operations after depreciation of fixed assets at valuation, disposals of assets and tax		12,011	2,650
Appreciation of endowment asset investments	19	931	569
Endowment income retained for year	19	(55)	(119)
Net (disposals) / additions of endowments	19	(1,165)	164
TOTAL RECOGNIZED GAINS RELATING TO THE YEAR		11,722	3,264
Reconciliation:			
Opening reserves and endowments		68,597	65,333
Total recognized gains for the year		11,722	3,264
Closing reserves and endowments		80,319	68,597

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

Balance Sheets as at 31 July 2004

	Note	CONSOLIDATED		UNIVERSITY	
		2004 £000	2003 £000	2004 £000	2003 £000
FIXED ASSETS					
Tangible assets	11	134,611	124,009	134,611	124,009
Investments	12	56	56	61	61
		<u>134,667</u>	<u>124,065</u>	<u>134,672</u>	<u>124,070</u>
ENDOWMENT ASSET INVESTMENTS	13	<u>25,248</u>	<u>25,537</u>	<u>25,248</u>	<u>25,537</u>
CURRENT ASSETS					
Stocks and stores in hand		104	93	104	84
Debtors	14	38,062	27,182	37,571	27,507
Investments		37,000	33,000	37,000	33,000
Cash at bank and in hand		7,100	3,039	6,111	2,051
		<u>82,266</u>	<u>63,314</u>	<u>80,786</u>	<u>62,642</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	<u>(53,933)</u>	<u>(42,796)</u>	<u>(52,775)</u>	<u>(42,285)</u>
NET CURRENT ASSETS		<u>28,333</u>	<u>20,518</u>	<u>28,011</u>	<u>20,357</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>188,248</u>	<u>170,120</u>	<u>187,931</u>	<u>169,964</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	<u>(23,301)</u>	<u>(14,810)</u>	<u>(23,301)</u>	<u>(14,810)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(853)</u>	<u>(2,587)</u>	<u>(853)</u>	<u>(2,587)</u>
NET ASSETS		<u>164,094</u>	<u>152,723</u>	<u>163,777</u>	<u>152,567</u>
DEFERRED CAPITAL GRANTS	18	83,775	84,126	83,775	84,126
ENDOWMENTS					
Specific	19	22,436	22,823	22,436	22,823
General	19	2,812	2,714	2,812	2,714
		<u>25,248</u>	<u>25,537</u>	<u>25,248</u>	<u>25,537</u>
RESERVES					
General Reserve	20	55,071	43,060	54,754	42,904
TOTAL FUNDS		<u>164,094</u>	<u>152,723</u>	<u>163,777</u>	<u>152,567</u>

The financial statements on pages 7-23 were approved by the Council on 13 December 2004 and signed on its behalf by:
C R W EDWARDS, Vice-Chancellor
P M JOHNSON, Honorary Treasurer and Chairman of Finance Committee
H B FARNHILL, Bursar

Consolidated Cash Flow Statement for the year ended 31 July 2004

Notes to the Accounts

	Note	2004 £000	2003 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	11,680	1,324
Returns on investments and servicing of finance	22	1,422	1,287
Taxation paid		(48)	-
Capital expenditure and financial investment	23	(11,886)	(357)
Cash inflow before use of liquid resources and financing		1,168	2,254
Management of liquid resources - cash additions to short term deposits		(4,000)	(3,000)
Financing	24	8,885	(877)
Increase / (decrease) in cash in the period		6,053	(1,623)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Increase / (decrease) in cash in the period		6,053	(1,623)
Increase in borrowing		(9,850)	-
Increase in short term deposits		4,000	3,000
Repayment of debt		965	877
Movement in net funds in period		1,168	2,254
Net funds at 1 August		20,413	18,159
Net funds at 31 July	25	21,581	20,413

1 FUNDING COUNCIL GRANTS

	2004 £000	2003 £000
HEFCE recurrent grant	72,849	67,511
HEFCE specific grants	12,395	10,162
HEFCE deferred capital grants released in year		
- Buildings	1,605	1,362
- Equipment	815	503
TTA recurrent grant	1,592	1,267
TTA specific grant	207	106
	<u>89,463</u>	<u>80,911</u>

2 ACADEMIC FEES AND SUPPORT GRANTS

	2004 £000	2003 £000
Full-time students	16,823	15,722
Full-time students charged overseas fees	19,093	16,135
Part-time fees	1,526	1,210
Research training support grants	1,710	921
Short courses	4,921	4,941
	<u>44,073</u>	<u>38,929</u>

3 RESEARCH GRANTS AND CONTRACTS

	2004 £000	2003 £000
Research Councils	14,364	13,379
UK-based charities	14,049	14,733
European Commission	4,797	4,489
Other grants and contracts	22,247	20,512
	<u>55,457</u>	<u>53,113</u>

4 OTHER OPERATING INCOME

	2004 £000	2003 £000
Residences, catering and conferences	13,482	12,286
Other services rendered	15,276	15,386
Health authorities	11,558	11,686
Other income	17,882	15,704
	<u>58,198</u>	<u>55,062</u>

5 ENDOWMENT INCOME AND INTEREST RECEIVABLE

	2004 £000	2003 £000
Transferred from specific endowments	731	802
Income from general endowment asset investments	92	94
Other interest receivable	1,646	1,505
	<u>2,469</u>	<u>2,401</u>

6 STAFF	2004 £000	2003 £000
STAFF COSTS		
Wages and salaries	112,466	103,561
Social security costs	9,533	8,185
Other pension costs	12,326	11,256
	<u>134,325</u>	<u>123,002</u>

Emoluments of the Vice-Chancellor 170 164

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. During the year the Vice-Chancellor assigned the benefit of his earnings from One NorthEast to the University in the sum of £6,536. The University's pension contributions to USS in relation to the Vice-Chancellor are paid at the same rates as for other academic staff and amounted to £23,554 (2003: £22,771).

Remuneration of higher paid staff, excluding employer's pension contributions (Clinical staff numbers in brackets):	2004 Number	2003 Number
£70,000-£79,999	37 (12)	39 (36)
£80,000-£89,999	21 (14)	18 (14)
£90,000-£99,999	16 (6)	28 (21)
£100,000-£109,999	13 (10)	7 (6)
£110,000-£119,999	10 (9)	8 (7)
£120,000-£129,999	10 (10)	5 (5)
£130,000-£139,999	3 (3)	6 (6)
£140,000-£149,999	8 (8)	3 (3)
£150,000-£159,999	4 (4)	
£160,000-£169,999	3 (3)	
£170,000-£179,999	2 (2)	
£180,000-£189,999	1 (1)	

During the year the University operated a voluntary severance scheme. The total costs of the scheme in the year were £789,000 (2003: £4,376,000)

7 OTHER OPERATING EXPENSES	2004 £000	2003 £000
Residences, catering and conference operating expenses	7,792	9,105
Consumables and laboratory expenditure	13,952	12,946
Books and periodicals	2,723	2,749
Heat, light, water and power	3,403	3,051
Repairs and general maintenance	13,753	10,413
Long-term maintenance	1,231	538
Grants to Union Society	894	799
Auditors' remuneration	49	54
Auditors' remuneration in respect of non-audit services	12	60
Other expenses	55,914	52,221
	<u>99,723</u>	<u>91,936</u>

8 INTEREST PAYABLE	2004 £000	2003 £000
On loans not wholly repayable within five years	1,227	1,024
On finance leases	-	3
	<u>1,227</u>	<u>1,027</u>

9 ANALYSIS OF 2003-04 EXPENDITURE BY ACTIVITY

	Staff Costs £000	Other Operating Expenses £000	Depreciation £000	Interest Payable £000	Total £000
Academic schools	70,071	17,808	1,884		89,763
Academic services	8,783	7,457	152		16,392
Administration and central services	14,065	9,325	276		23,666
Premises	5,813	20,237	2,468	160	28,678
Residences, catering and conferences	3,706	7,792	632	1,067	13,197
Research grants and contracts	24,688	20,682	1,350		46,720
Other expenditure	7,988	16,422	711		25,121
Total per income and expenditure account	<u>135,114</u>	<u>99,723</u>	<u>7,473</u>	<u>1,227</u>	<u>243,537</u>
The depreciation charge has been funded by:					
Deferred capital grants released		5,386			
General income		2,087			
		<u>7,473</u>			

10 TAXATION

	2004 £000	2003 £000
United Kingdom corporation tax at 20%	98	-

11 TANGIBLE ASSETS

	CONSOLIDATED AND UNIVERSITY					Total £000
	Land and Buildings		Equipment £000	Leased Equipment £000		
	Freehold £000	Long Leasehold £000		Short Leasehold £000	Leased Equipment £000	
COST						
Balance at 1 August 2003	75,359	60,454	3,135	26,078	1,401	166,427
Additions	5,837	8,613	-	4,562	-	19,012
Disposals	(1,150)	-	-	-	-	(1,150)
Balance at 31 July 2004	<u>80,046</u>	<u>69,067</u>	<u>3,135</u>	<u>30,640</u>	<u>1,401</u>	<u>184,289</u>
DEPRECIATION						
Balance at 1 August 2003	11,572	9,127	968	19,375	1,376	42,418
Charge for year	1,453	1,381	241	4,374	24	7,473
Eliminated on disposals	(213)	-	-	-	-	(213)
Balance at 31 July 2004	<u>12,812</u>	<u>10,508</u>	<u>1,209</u>	<u>23,749</u>	<u>1,400</u>	<u>49,678</u>
NET BOOK VALUE						
At 31 July 2004	<u>67,234</u>	<u>58,559</u>	<u>1,926</u>	<u>6,891</u>	<u>1</u>	<u>134,611</u>
At 1 August 2003	<u>63,787</u>	<u>51,327</u>	<u>2,167</u>	<u>6,703</u>	<u>25</u>	<u>124,009</u>
Financed by capital grant	25,609	39,950	-	1,839	-	67,398
Other	41,625	18,609	1,926	5,052	1	67,213
	<u>67,234</u>	<u>58,559</u>	<u>1,926</u>	<u>6,891</u>	<u>1</u>	<u>134,611</u>

The net book value of tangible fixed assets includes an amount of £1,000 (2003: £25,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £24,000 (2003: £45,000).

12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2004 £000	2003 £000	2004 £000	2003 £000
Shares in subsidiary undertakings				
At cost less amounts written off 1 August 2003	-	-	5	5
Additions during year	-	-	-	-
Provision for diminution in value	-	-	-	-
At cost less amounts written off 31 July 2004	-	-	5	5
Participating interest at cost less amounts written off	-	-	-	-
Other investments other than loans at cost	56	56	56	56
	<u>56</u>	<u>56</u>	<u>61</u>	<u>61</u>

SHARES IN SUBSIDIARY UNDERTAKINGS

The following companies are wholly owned subsidiaries and are registered in England and Wales:

Newcastle University Holdings Limited is a wholly owned subsidiary of the University of Newcastle upon Tyne and operates as a holding company only.

The following subsidiaries are wholly owned subsidiaries of Newcastle University Holdings Limited

Close House Limited operated Close House Mansion, which following the sale of the mansion on 30 July 2004 has ceased trading.

Newcastle University Ventures Limited provides support for the commercial development of research and consultancy.

University of Newcastle upon Tyne Supply Company Limited leases assets to the University.

Newcastle University Pension Trustee (1971) Limited provides a corporate trusteeship for the University Retirement Benefits Plan.

The Sowerby Centre for Health Informatics at Newcastle Limited, a company limited by guarantee, is a contract research organization executing a health informatics contract for the Department of Health.

SHARES IN ASSOCIATED UNDERTAKINGS

Newcastle University Ventures Limited owns 30 per cent of the Bioscience Partnership Limited.

OTHER INVESTMENTS OTHER THAN LOANS	Percentage % of voting rights	CONSOLIDATED		UNIVERSITY	
		2004 £000	2003 £000	2004 £000	2003 £000
CVCP Properties PLC	1.3	56	56	56	56
		<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>

13 ENDOWMENT ASSET INVESTMENTS

	CONSOLIDATED AND UNIVERSITY	
	2004 £000	2003 £000
At 1 August	25,537	24,923
Additions	7,418	6,926
Disposals	(10,674)	(6,745)
Net depreciation on disposals and on revaluation	2,967	433
	<u>25,248</u>	<u>25,537</u>
Fixed interest stock and equities	23,292	25,617
Bank balances	1,996	4
Cash to be withdrawn	(40)	(84)
	<u>25,248</u>	<u>25,537</u>
Fixed interest stock and equities at cost	<u>25,874</u>	<u>28,047</u>

14 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	2004 £000	2003 £000	2004 £000	2003 £000
Debtors	36,439	25,110	35,827	25,046
Amounts owed by subsidiary undertakings	-	-	191	411
Prepayments and accrued income	1,623	2,072	1,553	2,050
	<u>38,062</u>	<u>27,182</u>	<u>37,571</u>	<u>27,507</u>

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		UNIVERSITY	
	2004 £000	2003 £000	2004 £000	2003 £000
Fixed term loans	1,214	820	1,214	820
Payments received on account	12,475	12,149	12,475	12,149
Creditors	9,477	5,550	9,379	5,461
Amounts owed to subsidiary undertakings	-	-	131	174
Social Security and other taxation payable	4,615	3,897	4,576	3,860
Accruals and deferred income	26,152	20,380	25,000	19,821
	<u>53,933</u>	<u>42,796</u>	<u>52,775</u>	<u>42,285</u>

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	CONSOLIDATED AND UNIVERSITY	
	2004 £000	2003 £000
Fixed term loans secured on residential and other property repayable by 2029	23,301	14,810

17 PROVISIONS FOR LIABILITIES AND CHARGES

	CONSOLIDATED AND UNIVERSITY	
	2004 £000	2003 £000
At 1 August	2,587	5,031
Charged to income and expenditure account	789	4,376
Expenditure in the year	(2,523)	(6,820)
At 31 July	<u>853</u>	<u>2,587</u>

The provision relates to the voluntary severance scheme and will be substantially utilized by December 2004.

18 DEFERRED CAPITAL GRANTS

	CONSOLIDATED AND UNIVERSITY		
	Funding Council £000	Other Grants & Benefactions £000	Total £000
At 1 August 2003			
Buildings	65,936	12,938	78,874
Equipment	1,405	3,847	5,252
	<u>67,341</u>	<u>16,785</u>	<u>84,126</u>
Amounts received / receivable			
Buildings	1,228	872	2,100
Equipment	1,249	1,686	2,935
	<u>2,477</u>	<u>2,558</u>	<u>5,035</u>
Released to income and expenditure account			
Buildings	1,605	467	2,072
Equipment	815	2,499	3,314
	<u>2,420</u>	<u>2,966</u>	<u>5,386</u>
At 31 July 2004			
Buildings	65,559	13,343	78,902
Equipment	1,839	3,034	4,873
	<u>67,398</u>	<u>16,377</u>	<u>83,775</u>

19 ENDOWMENTS

	CONSOLIDATED AND UNIVERSITY		
	Specific £000	General £000	Total £000
At 1 August 2003	22,823	2,714	25,537
Additions	75	-	75
Disposals	(1,240)	-	(1,240)
Appreciation of endowment asset investments	827	104	931
Income for year	682	86	768
Transferred to income and expenditure account	(731)	(92)	(823)
At 31 July 2004	<u>22,436</u>	<u>2,812</u>	<u>25,248</u>

20 GENERAL RESERVES

	CONSOLIDATED	UNIVERSITY
	£000	£000
At 1 August 2003	43,060	42,904
Surplus on continuing operations	12,011	11,850
At 31 July 2004	<u>55,071</u>	<u>54,754</u>

21 RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004 £000	2003 £000
Surplus on continuing operations after depreciation of assets at cost	12,109	2,650
Depreciation	7,473	7,425
Profit on disposal of tangible fixed assets	(5,986)	-
Deferred capital grants released to income	(5,386)	(5,771)
Investment income	(2,469)	(2,401)
Interest payable	1,227	1,027
Increase in stocks	(11)	(4)
(Increase) / decrease in debtors	(4,110)	309
Increase in creditors	10,567	533
Decrease in provisions	(1,734)	(2,444)
Net cash inflow from operating activities	<u>11,680</u>	<u>1,324</u>

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2004 £000	2003 £000
Income from endowments	877	992
Other interest received	1,745	1,336
Interest paid	(1,200)	(1,041)
Net cash inflow from returns on investments and servicing of finance	<u>1,422</u>	<u>1,287</u>

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2004 £000	2003 £000
Purchase of tangible fixed assets	(19,012)	(19,062)
Payments to acquire endowment assets	(7,418)	(6,926)
Total fixed and endowment asset investments acquired	<u>(26,430)</u>	<u>(25,988)</u>
Receipts from sale of endowment assets	10,674	6,745
Deferred capital grants received	5,035	18,722
Endowments (disposed) / received	(1,165)	164
Net cash (outflow) from capital expenditure and financial investment	<u>(11,886)</u>	<u>(357)</u>

24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	Finance Leases £000	Fixed Term Loans £000	Total £000
	At 1 August 2002	57	16,450
Capital repayments	(57)	(820)	(877)
At 31 July 2003	-	15,630	15,630
New loans	-	9,850	9,850
Capital repayments	-	(965)	(965)
At 31 July 2004	-	24,515	24,515

25 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2003 £000	Cash Flows £000	Other Changes £000	At 31 July 2004 £000
Cash at Bank and in Hand				
Endowment asset investments (note 13)	4	1,992	-	1,996
Others	3,039	4,061	-	7,100
	<u>3,043</u>	<u>6,053</u>	<u>-</u>	<u>9,096</u>
Short term investments	33,000	4,000	-	37,000
Debt due within one year	(820)	820	(1,214)	(1,214)
Debt due after one year	(14,810)	-	(8,491)	(23,301)
	<u>20,413</u>	<u>10,873</u>	<u>(9,705)</u>	<u>21,581</u>

26 CAPITAL COMMITMENTS

	CONSOLIDATED AND UNIVERSITY	
	2004 £000	2003 £000
Commitments contracted at 31 July	37,491	21,143
Authorized but not contracted at 31 July	3,091	43,946
	<u>40,582</u>	<u>65,089</u>

The above commitments are principally funded from external sources

27 CONTINGENT LIABILITIES

The University has a nomination agreement relating to student accommodation expiring 2028/2029. The number of nominated rooms shall not exceed 90 and the charges in respect of these rooms should be fully recovered from student residential income. The University obtained a bank guarantee for £350,000 as a condition of a teaching project delivered in Egypt.

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 £60,000 and this will decline in line with a reduction in the number of pensioners.

28 ACCESS FUNDS

	2004 £000	2003 £000
Funding Council grants	647	627
Interest earned	1	2
	<u>648</u>	<u>629</u>
Disbursed to students	(411)	(531)
Balance unspent at 31 July	<u>237</u>	<u>98</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.

29 TEACHER TRAINING AGENCY

	2004 £000	2003 £000
Training Bursaries	2,058	1,997
Disbursements	(1,910)	(1,926)
Balance unspent at 31 July	<u>148</u>	<u>71</u>

30 PENSION ARRANGEMENTS

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

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 trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions are accounted for as if it were a defined contribution scheme. The cost recognized within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

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

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

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25 per cent of salaries but it was agreed that the institution contribution rate will be maintained at 14 per cent of salaries. To fund this reduction of 0.25 per cent for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

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

The total pension cost for the University was £9,584,000 (2003: £8,867,000). This includes £888,000 (2003: £801,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14 per cent of pensionable salaries.

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 £1,685,000 (2003: £1,641,000). The contribution payable by the University was 9 per cent of pensionable salaries.

A full actuarial valuation was carried out as at 31 July 2001 and updated to 31 July 2004 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended 31 July 2004	Year ended 31 July 2003
Rate of increase in salaries	4.0%	3.6%
Rate of increase of pensions in payment	3.0%	2.6%
Discount rate	5.8%	5.5%
Inflation assumption	3.0%	2.6%

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

	Value at 31 July 2004 £000	Long-term expected return %	Value at 31 July 2003 £000	Long-term expected return %
Equities	30,596	7.6	41,999	7.6
Bonds	51,550	5.2	38,887	4.8
Property	5,601	7.6	5,031	7.6
Cash	1,986	4.5	386	3.5
	<u>89,733</u>		<u>86,303</u>	

The following amounts at 31 July 2004 and 31 July 2003 were measured in accordance with the requirements of FRS 17.

	2004 £000	2003 £000
Total market value of assets	89,733	86,303
Present value of scheme liabilities	96,680	90,988
Deficit in the scheme	<u>(6,947)</u>	<u>(4,685)</u>

If the above amounts had been recognized in the financial statements, the group's net assets and general reserve at 31 July 2004 and 31 July 2003 would be as follows:

	2004 £000	2003 £000
Net assets excluding pension liability	164,094	152,723
Pension liability	(6,947)	(4,685)
Net assets including pension liability	<u>157,147</u>	<u>148,038</u>
General reserve excluding pension liability	55,071	43,060
Pension reserve	(6,947)	(4,685)
General reserve	<u>48,124</u>	<u>38,375</u>

The following amounts would have been recognized in the performance statements in the years to 31 July 2004 and 31 July 2003 under the requirements of FRS 17:

Operating Profit	2004 £000	2003 £000
Current service cost	2,860	2,731
Past service cost	-	-
Total operating charge	<u>2,860</u>	<u>2,731</u>
Other finance income	2004 £000	2003 £000
Expected return on pension scheme assets	5,272	5,147
Interest on pension scheme liabilities	(4,999)	(4,590)
Net return	<u>273</u>	<u>557</u>
Statement of total recognized gains and losses	2004 £000	2003 £000
Actual return less expected return on pension scheme assets	(475)	(75)
Experience losses and gains arising on scheme liabilities	(26)	474
Changes in assumptions underlying the present value of the scheme liabilities	(850)	(10,526)
Actuarial loss recognized in STRGL	<u>(1,351)</u>	<u>(10,127)</u>
Movement in (deficit) / surplus during the year	2004 £000	2003 £000
(Deficit) / surplus in scheme at beginning of the year	(4,685)	5,970
Movement in year:		
Current service cost	(2,860)	(2,731)
Contributions	1,676	1,646
Past service costs	-	-
Other finance income	273	557
Actuarial loss	<u>(1,351)</u>	<u>(10,127)</u>
Deficit in scheme at end of the year	<u>(6,947)</u>	<u>(4,685)</u>

The University also has a small number of staff in The National Health Service Scheme (NHSS), the total cost of which was £1,057,000 (2003: £748,000).

31 RELATED PARTY TRANSACTIONS

Due to the University's operations and the composition of its Council (being drawn from local public and private sector organizations), it is inevitable that transactions will take place with organizations in which a member of Council may have an interest. All transactions involving organizations in which a member of Council may have an interest are conducted at arms length and in accordance with the University's financial regulations and normal procurement procedures.

The principal related party transactions are shown below :

	Charged by the University		Charged to the University	
	2004 £000	2003 £000	2004 £000	2003 £000
The Newcastle upon Tyne Hospitals NHS Trust	7,105	6,512	3,371	3,669
The University of Newcastle upon Tyne Union Society	350	282	1,140	1,082
	<u>7,455</u>	<u>6,794</u>	<u>4,511</u>	<u>4,751</u>

The University of Newcastle upon Tyne Development Trust made payments to the University of £1,804,000 (2003: 1,696,000). Professor C R W Edwards, the Vice-Chancellor of the University is a governor of the Wellcome Trust and a board member of One NorthEast.

Five-year Summary

	2004 £000	2003 £000	2002 £000	2001 £000	2000 £000
INCOME					
Funding Council grants	89,463	80,911	76,385	67,924	64,046
Academic fees and support grants	44,073	38,929	31,256	27,842	24,771
Research grants and contracts	55,457	53,113	50,747	45,080	42,061
Other operating income (a)	64,184	55,062	57,534	44,685	38,133
Endowment income and interest receivable	2,469	2,401	2,541	3,816	3,272
Total income	255,646	230,416	218,463	189,347	172,283
EXPENDITURE					
Staff costs (b)	135,114	127,378	127,992	111,647	103,926
Depreciation	7,473	7,425	5,524	3,715	3,944
Other operating expenses	99,723	91,936	86,432	72,681	62,543
Interest payable	1,227	1,027	1,085	1,259	1,269
Total expenditure	243,537	227,766	221,033	189,302	171,682
Surplus / (deficit) after depreciation of assets but before tax	12,109	2,650	(2,570)	45	601

Notes:

- (a) Other operating income in 2004 includes £5,986k exceptional income in respect of the sale of freehold property whilst 2002 includes £5,534k exceptional income relating to the sale of an investment.
 (b) Staff costs in 2003 and 2002 include voluntary severance costs of £4,376k and £7,998k respectively.