

# Financial Statements

**2007-08** The University of Newcastle upon Tyne  
trading as Newcastle University

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# Operating and Financial Review

for the year ended 31 July 2008

## Introduction

Overall it was a year of good progress for the University. Research income grew by 15 per cent and grant awards by 6 per cent. The University showed a significant improvement in the National Student Survey results – 86 per cent of students are now satisfied, a 4 per cent rise over the previous year. Work to rebuild the Executive Team, following several retirements, was completed.

We recorded a surplus of £13.6 million on a total income of £342.3 million, although some £6 million of this surplus was due to one-off items, which should not recur in future years. The surplus will be used to fund the University's capital expenditure programme to continue to improve the quality of the estate and enable new teaching and research initiatives. It will also help to reduce future requirements for bank loans.

## Mission and Strategy

### Our Mission

To be a world-class research-intensive university, to deliver teaching of the highest quality and play a leading role in the economic, social and cultural development of the North East of England.

### Our Strategy

We have five key strategic objectives in support of our mission:

- to make Newcastle a world-class research-intensive university
- to deliver international excellence in our learning, teaching and scholarship activities while providing an all-round student experience
- to support commercialisation of our research and teaching activity for social and economic benefit
- to play a leading role in the economic, social and cultural development of the North East of England
- to manage the institution in a sustainable manner

The University believes there should be parity of esteem between research and teaching and learning, and actions have been taken during the year to address perceived imbalances.

### Our Organisation

The University's governance structure is more fully explained in the corporate governance section. The University is organised into three faculties, each led by a Pro-Vice-Chancellor:

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

The three faculties help to manage our 24 schools, 13 research institutes and 26 other academic units. The structure in Medical Sciences was re-organised on 1 August 2008 to reflect changing priorities.

All administrative and operational activities, including Student and Academic Services, Estate Support Service, Finance, Human Resources, Library, and Information Systems and Support, are led by the Registrar.

The three faculty Pro-Vice-Chancellors and the Registrar are recognised as the four principal budget holders of the University and day-to-day financial management is undertaken on this basis.

Strategic development and operational excellence are supported by four 'cross-cutting' Pro-Vice-Chancellors, responsible for teaching and learning, research and innovation, engagement, and planning and resources.

## Review of the Year

### Research

Research income in 2007–08 was £75.4 million, an increase of £9.6 million (15 per cent) on the previous year. All faculties recorded year-on-year growth.

Research Council income grew by 18 per cent, UK-based charity income grew by 19 per cent and EC funding grew by 26 per cent. Trends in corporate grants remain a concern and there is evidence that the move to full economic costing is reducing the attractiveness of research in the UK.

Research Income	2007–08		2006–07	
	£m	% of total	£m	% of total
Research Councils	23.7	31%	20.2	31%
UK-based charities	19.6	26%	16.5	25%
European Commission	9.4	13%	7.4	11%
Other grants and contracts	22.7	30%	21.8	33%
<b>Total</b>	<b>75.4</b>	<b>100%</b>	<b>65.9</b>	<b>100%</b>

New research awards during the year increased in value by 6 per cent from £77.0 million to £81.6 million with a significant increase in the Faculty of Medical Sciences. The UK charity sector recorded a significant increase in new awards from £16.1 million to £26.6 million. Overseas grant awards increased from £2.8 million to £8.1 million following a £6.8 million award from Bristol Myers Squibb. All other sectors showed a reduction year on year.

New Research Grants	2007–08		2006–07	
	£m	% of total	£m	% of total
Research Councils	30.1	37%	31.0	40%
UK-based charities	26.6	32%	16.1	21%
European Commission	5.5	7%	10.0	13%
Other grants and contracts	19.4	24%	19.9	26%
<b>Total</b>	<b>81.6</b>	<b>100%</b>	<b>77.0</b>	<b>100%</b>

The 2008 Research Assessment Exercise results are due to be published by HEFCE in December 2008 and will have a significant impact on the University's future strategic planning.

### Teaching and Learning

Registered students as at 1 December 2007 were 18,363, a 0.1 per cent reduction from 31 December 2006, reflecting action to constrain taught student numbers within the agreed HEFCE contract range.

In the past five years total student numbers, measured as Full Time Equivalents, have increased by 8 per cent from 16,344 to 17,704. Home and EU students have increased by 11 per cent from 14,015 to 15,508 and overseas students have decreased by 6 per cent from 2,329 to 2,196.

Total Students	2008			2007
	Full Time	Part Time	Total	Total
Undergraduate				
Home and EU	13,161	64	13,225	13,300
Overseas	811	6	817	863
Total	13,972	70	14,042	14,163
Postgraduate				
Home and EU	1,771	1,087	2,858	2,731
Overseas	1,301	162	1,463	1,518
Total	3,072	1,249	4,321	4,249
<b>Total</b>	<b>17,044</b>	<b>1,319</b>	<b>18,363</b>	<b>18,412</b>

Undergraduate degrees awarded in the year were:

	2007-08		2006-07	
	Number	% of total	Number	% of total
First class	480	13%	495	13%
Second class, first division	1,848	51%	1,854	50%
Second class, second division	782	22%	808	22%
Third class	81	2%	133	4%
Other	423	12%	411	11%
<b>Total</b>	<b>3,614</b>	<b>100%</b>	<b>3,701</b>	<b>100%</b>

A think tank on teaching and learning and the student experience was held in February 2008. Several actions have already been successfully implemented and the remainder are targeted to complete by December 2008. Senate has agreed to make the position of Reader accessible via the teaching route to eliminate an asymmetry between teaching and research.

The University improved its performance in the annual National Student Survey (NSS), with 86 per cent of students who took part in the 2008 survey agreeing or strongly agreeing that they were satisfied with the overall quality of their course. This is an increase of 4 per cent compared to 2007, well above the national average increase of 1 per cent. As a result, the University has risen in the 'NSS league table' of higher education institutions.

All categories and all but one of the questions showed a year-on-year improvement although assessment and feedback and personal development remain below the national average. Results by category were:

Agree and strongly agree	Newcastle		England
	2008	2007	2008
The teaching on my course	85%	83%	83%
Assessment and feedback	58%	54%	64%
Organisation and management	79%	76%	73%
Learning resources	86%	84%	81%
Personal development	77%	75%	78%
Overall satisfaction	86%	82%	82%

The NSS has also provided survey data about specific subjects, and a number of those taught at Newcastle are ranked in the top 10 for student satisfaction.

Newcastle was named as the top town in the UK to be a student in June 2008, in research by the UK's foremost student accommodation website: [www.accommodationforstudents.com](http://www.accommodationforstudents.com)

Newcastle was placed 23rd in the 2008 *Sunday Times University Guide*, two places higher than last year. Newcastle was ranked 14th in the 'Head Teachers' verdicts', 11th for 'most in graduate-level jobs', 10th for 'best for sport', 22nd for 'highest graduate starting salaries' and 18th for 'highest entry points', but 11th for 'lowest state school intake'.

INTO Newcastle, our joint venture with INTO University Partnerships Limited is progressing well in line with the agreed business plan. INTO Newcastle provides English language training programmes for prospective international students as a self-funding activity and to boost international recruitment. Planning permission for teaching and accommodation buildings was granted during the year and building work is expected to start in 2009 at a total projected cost of £50 million.

During the year it was agreed to proceed with NUMI Singapore – Newcastle University's new Marine International campus – located within the Ngee Ann Polytechnic (NP) in Singapore. Internationally renowned for our work in marine technology, this is Newcastle University's first permanent off-shore venture, offering students the opportunity to take Newcastle degrees without travelling to the UK. The first 60 students joined the programme in September 2008.

Planning continued during the year for the proposed new international branch campus in the Iskandar Development Region in South Johor, Malaysia. The University received a formal letter of invitation from Malaysia's Minister of Higher Education at a ceremony in Kota Bahru in February 2008. Subject to approval of the business plan by Council, the campus will deliver and award the University's degrees in medicine and biomedical sciences.

### Engagement and Commercialisation

The University also has a firm commitment to play a full part in regional economic development, supporting and developing opportunities to establish new relationships with other organisations in the region.

The most significant initiative is our involvement with One NorthEast and Newcastle City Council as a founder partner in Newcastle Science City. Peter Arnold was appointed as the new Chief Executive of the partnership on 1 June 2008. Detailed planning is underway to create the required corporate structure, complete master planning for the old Newcastle Brewery site, to create a Newcastle Innovation Machine and to drive forward science enterprise in the city.

Work to refurbish and extend the Great North Museum embracing the Hancock Museum and the Hatton Gallery is nearing completion and the museum is expected to reopen in April 2009. This is part of the programme, led by the University, of major cultural developments on campus.

The University continues to develop its links with the Newcastle City Partnership and the regional Centres of Excellence.

Student engagement in the community continued to flourish during the year. Student Community Action Newcastle (SCAN) is a popular student organisation, which provides volunteers for local projects, and initiates its own. It is a registered charity and helps students become involved in the local community. Students into schools, colleges and community learning centres is a joint project with Northumbria University, which creates opportunities for students to work with local children in the classroom.

The high-profile Newcastle–Durham 'Beacon for Public Engagement' programme, one of only six in the country (funded by HEFCE, Research Council UK and The Wellcome Trust), commenced activities this year and will soon be recruiting the first cohort of Fellows. In parallel, the University was formally recognised by the United Nations University as a Regional Centre of Expertise (RCE) in Education for Sustainable Development. This saw the launching of a rapidly growing network of educators throughout the region, including many PARTNERS schools. RCE has significant potential for generating vigorous use of the GNM in future.

Our PARTNERS scheme provides opportunities for hundreds of young people from areas of low participation in higher education in Tyneside and Northumberland to visit the University and take part in a variety of activities, aimed at building their confidence and demonstrating their potential for success in higher education, and helping them make fully informed choices about their education after school or college.

During the year the University was delighted to award Honorary Doctor of Civil Law degrees to Sir Donald Curry, Professor Sir Christopher Edwards, Mary Midgley, Baroness Onora O'Neill and Professor Sir Michael Rawlins.

We also awarded Honorary Fellowships to Antony Jones, Richard Maudslay, George Mitchell and Peter Smedvig.

## Sustainability

The University has had a year of considerable financial achievement in 2007–8, recording a surplus of £13.6 million on a total income of £342.3 million.

The total income of the University, the surplus earned and the relevant percentages for the last five years demonstrate the successful growth of the University.

Year	Net Income £m	Surplus £m	Surplus as % Income %	Growth in Income %
2003–04	255.6	12.0	4.7	10.9
2004–05	276.1	7.8	2.8	8.0
2005–06	288.0	9.1	3.2	4.3
2006–07	316.5	8.2	2.6	9.9
2007–08	342.3	13.6	4.0	8.1

The surplus earned in these years has, when used together with other funds, enabled the University to implement its Capital Plan, which, over the five years 2007–08 to 2011–12, totals almost £140 million.

Financial plans, forecasts and results are regularly reviewed by Council, the Executive Board and Finance Committee. We budget for a surplus of 1 per cent of income with a further 1.5 per cent allocated to a capital capacity fund to generate funds for future refurbishment and new capital investment.

Robust internal controls are in place to ensure appropriate governance and to drive value for money.

We take our responsibilities for environmental sustainability very seriously. We are using an HE sector self-assessment tool (EcoCampus) to establish our environmental position and performance, enable us to develop targets, and demonstrate continuous improvement.

In 2007–08, our gas consumption decreased by 4 per cent, although there was a 1.5 per cent rise in electricity usage. Recent price trends mean that reductions are essential. To speed up the delivery of cost and carbon savings we have established a £625k revolving fund (with £500k funding from Salix Finance and HEFCE). The fund will invest in projects such as replacing inefficient heating and lighting systems, with the savings from the energy budget paid back into the fund for reinvestment in further projects.

We recycle 27 per cent of our waste and no longer put any general waste into landfill. A new waste manager has been leading a programme to increase significantly our recycling and our target is for 40 per cent of waste to be recycled by 2012.

Due to active travel planning, circa 300 car parking spaces have been removed from campus since 2006, with further reductions planned. The 2006 travel to work survey showed a decrease in numbers of staff driving to work from approximately 40 per cent to 35 per cent among respondents.

## Our Resources

### People

The University depends for its success in recruiting new staff and developing existing staff to have a balanced, well-managed and well-motivated workforce.

Overall FTE was broadly unchanged during the year increasing by 23 from 4,357 at 31 July 2007 to 4,380 at 31 July 2008.

In accordance with the 2006 national pay agreement by the Joint Negotiating Committee for Higher Education Staff, salaries were increased by 3 per cent in August 2007 and, for most people, a further 3 per cent in May 2008. An additional increase in line with the September 2008 RPI annual increase will be paid for October 2008 onwards.

The University manages its staff costs to ensure that, so far as is possible, they remain at approximately 55 per cent of total expenditure. Maintenance of this ratio will be a significant challenge in future as a result of pay rises and a potential significant increase in USS contributions.

In the last five years staff costs have risen from £135.1 million (2003–04) to £180.2 million (2007–08), an increase of 33 per cent. During the same period FTE has increased by 10 per cent from 3,988 to 4,380.

Student growth through that period was 8 per cent, leaving the staff–student ratio broadly unchanged. Research income per FTE has improved by 24 per cent from £13.9k to £17.3k.

The University conducted its second employee opinion survey in 2007 and communicated the results to staff during the autumn. There was significant improvement in six topics with 90 per cent of respondents saying they feel the University is a good place to work. Action plans are now in place to deal with areas of concern identified by staff.

# Operating and Financial Review (continued)

for the year ended 31 July 2008

## Executive Team

Our Vice-Chancellor, Professor Chris Brink, took up office on 1 August 2007. We were delighted to learn that his predecessor, Professor Sir Christopher Edwards, received a knighthood in the Queen's Birthday Honours.

Professor John Goddard retired on 30 September 2008 after 33 years' service to the University. He was appointed Deputy Vice-Chancellor in 2002. Professors Trevor Page and Oliver James retired on 31 July 2008 and 31 May 2008 respectively as Pro-Vice-Chancellors, and Mr Howard Farnhill retired as Bursar on 30 September 2008.

All have now been replaced and the new Executive Team from 1 July 2008 comprises:

### Professor Chris Brink

Vice-Chancellor

### Professor Chris Day

Pro-Vice-Chancellor – Medical Sciences

### Professor Charles Harvey

Pro-Vice-Chancellor – Humanities and Social Sciences

### Professor Oliver Hinton

Pro-Vice-Chancellor – Science, Agriculture and Engineering

### Professor Ella Ritchie

Pro-Vice-Chancellor – Teaching and Learning

### Professor Tony Stevenson

Pro-Vice-Chancellor – Planning and Resources

### Professor Nicholas Wright

Pro-Vice-Chancellor – Research and Innovation

### Professor Paul Younger

Pro-Vice-Chancellor – Engagement

### Dr John Hogan

Registrar

### Mr Richard Dale

Executive Director of Finance

## Financial Resources

At 31 July 2008 the University held cash and short-term deposits totalling some £89.9 million, the equivalent of just over three months' recurrent total expenditure. Balances increased by £4.5 million during the year, reflecting the strong surplus offset by the impact of the University's capital development programme.

The University has now recorded six consecutive years of surplus, which has helped to increase balances from £34.0 million at 31 July 2002 to £89.9 million at 31 July 2008. These balances are expected to decline in future years as the University fulfils its capital development programme.

Long-term debt, which relates solely to property, was £19.7 million. The balance reduced by £1.0 million during the year and is due to be repaid by 2029.

## Estate

The University's Estates Strategy 2007–12 anticipates capital expenditure of circa £140 million over a five-year period to develop and maintain an attractive, cohesive, financially sustainable environment supporting the provision of a high-quality student experience and internationally renowned research. This will be delivered through a comprehensive and integrated approach to capital investment, maintenance and space utilisation.

Continuing our successful strategy of space reduction and increased utilisation, selected key performance targets for the estate are:

	2007	2012
Net internal area of the non-residential estate (m <sup>2</sup> )	218,918	208,000
Frequency of use of all teaching rooms	45%	60%
Floor space in condition categories A & B	78%	85%
Floor space in functional suitability categories 1 & 2	67%	77%

HEFCE has awarded £46.6 million of capital grants to be paid to the University in a three-year period which started in May 2008. This will significantly reduce the University's borrowing requirements.

Our Estates Strategy has, over the past few years, been focused on improving buildings. Most of the buildings and facilities are now in good shape, and fulfil our academic needs. For example, 88 per cent of teaching rooms are now in functional suitability categories grade 1 (excellent) and grade 2 (good) and none are grade 4.

Moving forward, our aim is to create and enhance a campus which will be a coherent, recognisable, sustainable, pedestrian-friendly and welcoming place, suitable for a major civic university. There are two aspects to this goal: physical change and behavioural change and we are planning a range of actions on both fronts.

In terms of external physical change, we plan to demolish the building which previously housed the Museum of Antiquities (which is soon relocating to the Great North Museum), and subsequently to pedestrianise and landscape the middle part of King's Road. This will enable us to create a central plaza linking the space between the Northern Stage and the students' Union with the King's Quad, and with the Arches as a central feature. In terms of behavioural change, we will mount a number of initiatives to keep the campus tidy.

The Estates Strategy envisaged four major capital programmes, with others under review:

Newcastle University Business School	£40 million – to be lease funded
Student Residences	£35 million
Student and Administrative Services Building	£35 million
Medical Sciences New Building	£30 million

Construction work started on the Student and Administrative Services Building and the Medical Sciences New Building during the year. Previously authorised projects to refurbish and extend the Great North Museum and to build a new Music Centre are progressing well.

There were £74.7 million of outstanding contracted capital commitments at 31 July 2008 (2007: £36.1 million) with a further £1.0 million authorised but not contracted (2007: £50.5 million).

## Financial Review

### Introduction

The University recorded a total surplus of £13.6 million, an increase of £5.4 million on the previous year.

Net income grew by 8 per cent from £316.5 million to £342.3 million with significant increases in academic fees and research grants and contracts.

Net expenditure increased by 7 per cent from £308.3 million to £328.7 million with significant increases in staff costs, reflecting the 2006 national pay agreement, and estates maintenance and refurbishment costs.

An actuarial loss of £11.1 million was recognised in the Statement of Consolidated Total Recognised Gains and Losses in the year, as required by FRS17. This relates to the University's Retirement Benefits Plan (RBP) and compares to a gain of £13.1 million in 2006–07. This pattern reflects the decline in equity values during the year, an increase in the assumption on future salary increases and an increase in life expectancy assumptions. The basis for the loss is fully documented in note 30 of the accounts. The August 2007 actuarial valuation of the scheme showed a surplus of almost £1.0 million with 101 per cent funding of liabilities.

### Income

Net income grew by 8 per cent from £316.5 million to £342.3 million.

Funding Council grants as a percentage of total net income reduced from 36.5 per cent to 34.8 per cent in line with our financial strategy to reduce dependency on a single income stream.

Academic fees from full-time home and EU students increased by £7.4 million (28 per cent), reflecting the continued impact of the increased fees cap. 2008–09 is the final year in which there will be a full-year impact from the introduction of the capped increase in fees.

Research income increased by £9.6 million (15 per cent) reflecting both an increase in grant activity and the continuing impact of the introduction of full economic costing.

Health authority income reduced significantly following the transfer of the Postgraduate Institute for Medicine and Dentistry to the NHS. The increase in other income is mainly due to deferred capital grants, Heritage Lottery funding and the share of income from the INTO joint venture.

Key income streams are summarised below.

	2007–08		2006–07	
	£m	% of total	£m	% of total
Funding Council grants	119.0	35%	115.4	36%
Academic fees and support grants	67.3	20%	59.1	19%
Research grants and contracts	75.4	22%	65.9	21%
Residences, catering and conferences	17.0	5%	16.1	5%
Health authorities	12.2	3%	15.5	5%
Endowment income and interest	7.2	2%	4.9	2%
Other	44.2	13%	39.6	12%
<b>Total</b>	<b>342.3</b>	<b>100%</b>	<b>316.5</b>	<b>100%</b>

Over the past five years, income has increased by 34 per cent from £255.6 million to £342.3 million, an average growth of almost 8 per cent per annum.

### Expenditure

Net expenditure increased by 7 per cent from £308.3 million to £328.7 million.

Staff costs increased by £8.4 million (5 per cent), reflecting the 2006 national pay agreement. Other operating expenses grew by £10.9 million (9 per cent), largely due to increased estates maintenance and refurbishment costs.

Staff costs represented 55 per cent of total expenditure (2007: 56 per cent), in line with the University's financial strategy.



# Operating and Financial Review (continued)

for the year ended 31 July 2008

Key expenditure streams are summarised below.

	2007-08		2006-07	
	£m	% of total	£m	% of total
Academic schools	118.7	36%	116.2	38%
Academic services	19.7	6%	19.5	6%
Administration and central services	31.4	10%	29.3	10%
Premises	49.3	15%	41.1	13%
Residences, catering and conferences	16.5	5%	14.8	5%
Research grants and contracts	58.6	18%	53.9	17%
Other	34.5	10%	33.5	11%
<b>Total</b>	<b>328.7</b>	<b>100%</b>	<b>308.3</b>	<b>100%</b>

## Balance Sheet

Capital expenditure in the year was £29.9 million, an increase of £18.9 million on the previous year, reflecting the implementation of the University's capital plan.

Debtors increased by £3.5 million from £29.5 million to £33.0 million in line with income growth. This was more than offset by an increase of £4.9 million in short-term creditors from £73.0 million to £77.9 million.

Net cash balances increased from £64.6 million to £70.5 million during the year reflecting the strong surplus offset by the impact of the University's capital development programme. These balances are expected to decline in future years in line with the University's capital development programme.

The University's investment policy is reviewed by Finance Committee and action has been taken throughout the year to respond to the unfolding credit crisis and adjust our portfolio of banks and building societies to minimise risk on our cash assets.

## Outlook

The University has increased its total income by achieving success in relevant markets at a time when the government was providing substantial funds to expand the HE sector. As the markets become more difficult, and the government has signalled a lower level of increase in grant in future (when compared to the past), the outlook is more challenging. In this environment rising cost inflation, to levels not seen for many years, will be difficult to recover. The actuarial valuation of the Universities Superannuation Scheme Limited (USS), which is nearing completion, is expected to result in a significant increase in contributions from October 2009.

The University has commenced major building projects to renew existing assets and create capacity for the future, which are essential if the University's strategy is to be realised.

## Risk Factors

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 risk 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.

We have a defined University-wide risk management process for identifying, evaluating and managing the significant risks faced by the group. The risk factors below are all identified on Council's risk register and should be considered against the background of our risk management process.

## Research

We need to continue to grow research income and to improve the contribution which research makes to the University's income and expenditure account.

## Student Recruitment

We need to continue to attract high-calibre students from home and overseas.

## Student Experience

We need to recognise and address student expectations and experience. In particular we need to maintain teaching quality and standards.

## Newcastle Science City

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

## 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.

## Financial Viability

We need to ensure continued financial viability.

## Pensions

We need to ensure that USS and 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.

## Estate

We need to build and maintain an estate which is fit for purpose. Major capital projects need to be delivered on time and within budget.

## Support Services

We need to maintain appropriate and cost-effective support services with appropriate arrangements for disaster recovery and business continuity.

## Cash Investments

We need to ensure a suitably low level of risk for the University in the placement of its short-term cash investments. In the short term, this may mean reducing potential interest income to mitigate the current high level of risk in the UK financial services sector.

# Independent Auditors' Report to the Council of the University of Newcastle upon Tyne

We have audited the financial statements of the University of Newcastle upon Tyne for the year ended 31 July 2008 which comprise the consolidated income and expenditure account, the Group and University balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective Responsibilities of the Council and Auditors

The Council's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of the University in accordance with the Charters and Statutes of the University. 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 into 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. We 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 HEFCE and with the Funding Agreement with the Training and Development Agency for Schools. 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 within it. The other information comprises only the operating and financial review and the corporate governance statement.

We also review the statement on internal control, included as part of the corporate governance statement, and comment if the statement is inconsistent with our knowledge of the University and Group. We are not required to consider whether the statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures. We consider the implications for our

report if we become aware of any apparent misstatements or material inconsistencies within the financial statements. Our responsibilities do not extend to any other information.

## Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Code of Practice. 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 governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 2008, and of the surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended;
- ii. the financial statements have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- iii. in all material respects, income from the Higher Education Funding Council for England and the Training and Development Agency for Schools 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; and
- iv. in all material respects, income has been applied in accordance with the University's Statutes and where appropriate in accordance with the Financial Memorandum (2006–24) with the Higher Education Funding Council for England and the Funding Agreement with the Training and Development Agency for Schools.

## PricewaterhouseCoopers LLP

### Chartered Accountants and Registered Auditors Newcastle upon Tyne, 20 October 2008

The maintenance and integrity of the Newcastle University website is the responsibility of the 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.

The following statement is provided to enable readers of the financial statements of the University to obtain a better understanding of its governance and legal structure.

The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership), and with the guidance to universities from the Committee of University Chairmen 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 three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **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 University. 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.

Council has undertaken an effectiveness review and the statement of primary responsibilities adopted by Council is publicised in the governance section of the University website.

It has a majority of members from outside the University ('lay members') including three lay officers: Chairman, Vice-Chairman and Treasurer. Members also include representatives of the staff of the University and the student body. None of the lay members receives any payment, apart from reimbursed expenses, for the work they do for the University;

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

- **Court** is a large, mainly formal body. It offers a means whereby the wider interests served by the University can be associated with the University 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.

Most of the members of the Court are from outside the University, representing the local community and other organisations with an interest in the work of the University. Membership also includes representatives of the staff of the University (both academic and non-academic) and the Union Society.

Although Council normally meets six times each academic year, much of its detailed work is initially routed through Committees / Boards of Council, particularly:

- Executive Board, which 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 delivery of the plan, and ensures that appropriate measures are in place which assure the financial sustainability of the University's activities. Executive Board reports on these matters regularly to Council. Through the monitoring undertaken by the Financial Monitoring and Budget Scrutiny Group and the 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;
- 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 and for the implementation of tax policy;
- Audit Committee, which meets four or 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;
- Estate Committee, which is the mechanism for communicating and integrating all capital estate project proposals, with a membership reflecting the key constituencies of the University. It is a Committee of Council but will make recommendations to Executive Board for formal decision and referral to Council.

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 formally reported to Council.

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, 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.

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 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 Statutes of the University specify that the Registrar should act as Secretary of the Council. 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.

## **Responsibilities of the University's Council**

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.

### 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 the Higher Education Funding Council for England. 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 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 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 periodically reported to Council to ensure 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 2008 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 the HEFCE's Assurance Service; senior management and Audit Committee 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.

# 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.

The changes to the accounting treatment of endowments included in the Statement of Recommended Practice – Accounting for Further and Higher Education applicable from 1 August 2007 have been incorporated and the comparative period has been restated accordingly.

## 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 2008.

Details of the University's subsidiary and associated undertakings, 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 the Union Society as it is a separate organisation 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 its year end 31 July 2008 were £35.4 million. Its investment income for the period to that date was £0.9 million and the Trust received donations to the value of £20,000.

## 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 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 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:

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 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

The University holds a number of collections, exhibits and artefacts most of which have been donated or bequeathed to the University. These assets have no value attributed to them in the financial statements.

## 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 Limited (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 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 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 2008

	Note	2008 £000	Restated 2007 £000
<b>INCOME</b>			
Funding Council grants	1	119,035	115,416
Academic fees and support grants	2	67,274	59,132
Research grants and contracts	3	75,401	65,850
Other operating income (including share of joint venture)	4	75,320	71,502
Endowment income and interest receivable	5	7,191	4,906
Total income		<u>344,221</u>	<u>316,806</u>
Less: share of income from joint venture	13	(1,890)	(266)
Net income		<u>342,331</u>	<u>316,540</u>
<b>EXPENDITURE</b>			
Staff costs	6	180,225	171,787
Other operating expenses	7	136,782	125,900
Depreciation	11	10,445	9,231
Interest payable	8	1,248	1,353
Total expenditure	9	<u>328,700</u>	<u>308,271</u>
Surplus after depreciation of fixed assets at cost and before tax		13,631	8,269
Share of operating loss in joint venture	13	(458)	(342)
Operating surplus		<u>13,173</u>	<u>7,927</u>
Taxation	10	-	(100)
Surplus after depreciation of fixed assets at cost and tax		<u>13,173</u>	<u>7,827</u>
Deficit for the year transferred to endowment funds	19	(408)	(352)
Surplus for the year retained within general reserves	20	<u>13,581</u>	<u>8,179</u>

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 2008

	Note	2008 £000	Restated 2007 £000
Surplus after depreciation of fixed assets at cost and tax		13,173	7,827
(Depreciation) / appreciation of endowment asset investments	19	(3,291)	3,408
New endowments	19	933	2,330
Actuarial (loss) / gain relating to the pension scheme	30	(11,068)	13,138
<b>TOTAL RECOGNISED (LOSSES) / GAINS RELATING TO THE YEAR</b>		<u>(253)</u>	<u>26,703</u>
Prior year adjustment	20	(1,326)	
<b>TOTAL LOSSES RECOGNISED SINCE LAST PUBLISHED FINANCIAL STATEMENTS</b>		<u>(1,579)</u>	
Reconciliation:			
Opening reserves and endowments		113,762	87,059
Total recognised (losses) / gains for the year		(253)	26,703
Closing reserves and endowments		<u>113,509</u>	<u>113,762</u>

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

# Balance Sheets

as at 31 July 2008

	Note	CONSOLIDATED		UNIVERSITY	
		2008 £000	Restated 2007 £000	2008 £000	Restated 2007 £000
<b>FIXED ASSETS</b>					
Tangible assets	11	168,811	149,352	168,811	149,352
Investments	12	56	56	92	61
Investment assets – Joint venture	13				
Share of gross assets		1,746	669	-	-
Share of gross liabilities		(2,396)	(861)	-	-
		<u>168,217</u>	<u>149,216</u>	<u>168,903</u>	<u>149,413</u>
<b>ENDOWMENT ASSET INVESTMENTS</b>					
	14	<u>33,130</u>	<u>35,896</u>	<u>33,130</u>	<u>35,896</u>
<b>CURRENT ASSETS</b>					
Stocks and stores in hand		118	98	118	98
Debtors	15	32,994	29,547	33,114	29,478
Investments		71,000	74,000	71,000	74,000
Cash at bank and in hand		18,870	11,349	18,333	11,003
		<u>122,982</u>	<u>114,994</u>	<u>122,565</u>	<u>114,579</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>					
	16	<u>(77,874)</u>	<u>(73,011)</u>	<u>(77,859)</u>	<u>(72,914)</u>
<b>NET CURRENT ASSETS</b>					
		<u>45,108</u>	<u>41,983</u>	<u>44,706</u>	<u>41,665</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
		<u>246,455</u>	<u>227,095</u>	<u>246,739</u>	<u>226,974</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>					
	17	<u>(19,695)</u>	<u>(20,675)</u>	<u>(19,695)</u>	<u>(20,675)</u>
<b>NET ASSETS EXCLUDING PENSION LIABILITY</b>					
		<u>226,760</u>	<u>206,420</u>	<u>227,044</u>	<u>206,299</u>
<b>PENSION LIABILITY</b>					
	30	<u>(15,316)</u>	<u>(5,022)</u>	<u>(15,316)</u>	<u>(5,022)</u>
<b>NET ASSETS INCLUDING PENSION LIABILITY</b>					
		<u>211,444</u>	<u>201,398</u>	<u>211,728</u>	<u>201,277</u>
<b>DEFERRED CAPITAL GRANTS</b>					
	18	97,837	87,538	97,837	87,538
<b>ENDOWMENTS</b>					
Permanent	19	24,293	26,901	24,293	26,901
Expendable	19	8,837	8,995	8,837	8,995
		<u>33,130</u>	<u>35,896</u>	<u>33,130</u>	<u>35,896</u>
<b>RESERVES</b>					
General reserve excluding pension liability		95,695	82,888	96,077	82,865
Pension liability		(15,316)	(5,022)	(15,316)	(5,022)
General reserve including pension liability	20	<u>80,379</u>	<u>77,866</u>	<u>80,761</u>	<u>77,843</u>
<b>MINORITY INTEREST</b>					
		<u>98</u>	<u>98</u>	<u>-</u>	<u>-</u>
<b>TOTAL FUNDS</b>					
		<u>211,444</u>	<u>201,398</u>	<u>211,728</u>	<u>201,277</u>

The financial statements on pages 13–34 were approved by the Council on 20 October 2008 and signed on its behalf by:

C H BRINK, Vice-Chancellor

P M JOHNSON, Honorary Treasurer and Chairman of Finance Committee

R C DALE, Executive Director of Finance

# Consolidated Cash Flow Statement

for the year ended 31 July 2008

		<b>2008</b>	<b>Restated</b>
	<b>Note</b>	<b>£000</b>	<b>2007</b>
			<b>£000</b>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	21	10,623	18,097
Returns on investments and servicing of finance	22	4,841	3,336
Taxation received / (paid)		28	(28)
Capital expenditure and financial investment	23	(9,546)	(2,134)
Cash inflow before use of liquid resources and financing		<u>5,946</u>	<u>19,271</u>
Management of liquid resources			
– cash reduction / (additions) to short-term deposits		3,000	(21,000)
Financing	24	(980)	(980)
Increase / (decrease) in cash in the period		<u>7,966</u>	<u>(2,709)</u>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
Increase / (decrease) in cash in the period		7,966	(2,709)
(Decrease) / increase in short-term deposits		(3,000)	21,000
Repayment of debt		980	980
Movement in net funds in period		<u>5,946</u>	<u>19,271</u>
Net funds at 1 August		64,583	45,312
Net funds at 31 July	25	<u>70,529</u>	<u>64,583</u>

# Notes to the Accounts

<b>1 FUNDING COUNCIL GRANTS</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
HEFCE recurrent grant	95,782	92,239
HEFCE specific grants	18,054	17,966
HEFCE deferred capital grants released in year		
– Buildings	1,698	1,824
– Equipment	2,072	1,900
TDA recurrent grant	1,395	1,257
TDA specific grant	34	230
	<u>119,035</u>	<u>115,416</u>
<b>2 ACADEMIC FEES AND SUPPORT GRANTS</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Full-time students	34,298	26,871
Full-time students charged overseas fees	22,241	21,647
Part-time fees	2,369	1,586
Research training support grants	7,350	6,750
Short courses	1,016	2,278
	<u>67,274</u>	<u>59,132</u>
<b>3 RESEARCH GRANTS AND CONTRACTS</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Research Councils	23,743	20,172
UK-based charities	19,550	16,459
European Commission	9,404	7,449
Other grants and contracts	22,704	21,770
	<u>75,401</u>	<u>65,850</u>
<b>4 OTHER OPERATING INCOME</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Residences, catering and conferences	17,039	16,094
Other services rendered	20,030	20,501
Health authorities	12,167	15,485
Other income	26,084	19,422
	<u>75,320</u>	<u>71,502</u>
<b>5 ENDOWMENT INCOME AND INTEREST RECEIVABLE</b>	<b>2008</b>	<b>Restated</b>
	<b>£000</b>	<b>2007</b>
		<b>£000</b>
Income from permanent endowments (note 19)	790	586
Income from expendable endowments (note 19)	249	161
Pension finance interest	799	–
Other interest receivable	5,353	4,159
	<u>7,191</u>	<u>4,906</u>

<b>6 STAFF</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>STAFF COSTS</b>		
Wages and salaries	149,232	141,415
Social security costs	12,641	12,214
Other pension costs	18,352	18,158
	<u>180,225</u>	<u>171,787</u>
Emoluments of the Vice-Chancellor	226	209
Emoluments of the Vice-Chancellor Designate from 1 July 2007	–	19

The emoluments of the Vice-Chancellor and Vice-Chancellor Designate are shown on the same basis as for higher paid staff. 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 £27,396 (2007: £2,182).

Remuneration of higher paid staff, excluding employer's pension contributions (Clinical staff numbers in brackets):	<b>2008</b>	<b>2007</b>
	<b>Number</b>	<b>Number</b>
£100,000 – £109,999	15 (14)	17 (7)
£110,000 – £119,999	14 (6)	15 (12)
£120,000 – £129,999	13 (10)	10 (9)
£130,000 – £139,999	13 (11)	10 (6)
£140,000 – £149,999	10 (7)	8 (8)
£150,000 – £159,999	6 (6)	4 (4)
£160,000 – £169,999	4 (4)	2 (2)
£170,000 – £179,999	7 (7)	10 (10)
£180,000 – £189,999	4 (4)	6 (6)
£190,000 – £199,999	5 (5)	1 (1)
£200,000 – £209,999	2 (2)	2 (2)
£210,000 – £219,999	1 (1)	–

<b>7 OTHER OPERATING EXPENSES</b>	<b>2008</b>	<b>Restated</b>
	<b>£000</b>	<b>2007</b>
		<b>£000</b>
Residences, catering and conference operating expenses	10,100	8,548
Consumables and laboratory expenditure	14,100	15,820
Books and periodicals	3,978	3,902
Heat, light, water and power	6,785	5,770
Repairs and general maintenance	25,481	20,118
Long-term maintenance	2,804	1,870
Grants to Union Society (annual subvention and specific grant)	1,177	1,092
Auditors' remuneration	63	62
Auditors' remuneration in respect of non-audit services	34	36
Other expenses	72,260	68,682
	<u>136,782</u>	<u>125,900</u>

**8 INTEREST PAYABLE**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
On loans not wholly repayable within five years	1,248	1,298
Pension finance interest	–	55
	<u>1,248</u>	<u>1,353</u>

**9 ANALYSIS OF 2007–08 EXPENDITURE BY ACTIVITY**

	<b>Staff</b>	<b>Other</b>		<b>Interest</b>	
	<b>Costs</b>	<b>Operating</b>	<b>Depreciation</b>	<b>Payable</b>	<b>Total</b>
	<b>£000</b>	<b>Expenses</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Academic schools	94,398	23,748	570	–	118,716
Academic services	9,818	9,890	15	–	19,723
Administration and central services	18,450	12,803	184	–	31,437
Premises	7,937	38,055	2,954	364	49,310
Residences, catering and conferences	4,862	10,100	606	884	16,452
Research grants and contracts	30,989	24,247	3,374	–	58,610
Other expenditure	13,771	17,939	2,742	–	34,452
Total per income and expenditure account	<u>180,225</u>	<u>136,782</u>	<u>10,445</u>	<u>1,248</u>	<u>328,700</u>

The depreciation charge has been funded by:

Deferred capital grants released	8,543
General income	1,902
	<u>10,445</u>

**10 TAXATION**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
United Kingdom corporation tax at 20 per cent	<u>–</u>	<u>100</u>

## 11 TANGIBLE ASSETS

### CONSOLIDATED AND UNIVERSITY Land and Buildings

	Freehold £000	Leasehold Long £000	Short £000	Equipment £000	Leased Equipment £000	Total £000
<b>COST</b>						
Balance at 1 August 2007	96,410	76,501	3,899	47,018	1,401	225,229
Additions	5,596	17,153	45	7,110	-	29,904
Disposals	-	-	-	(2,901)	-	(2,901)
Balance at 31 July 2008	<u>102,006</u>	<u>93,654</u>	<u>3,944</u>	<u>51,227</u>	<u>1,401</u>	<u>252,232</u>
<b>DEPRECIATION</b>						
Balance at 1 August 2007	17,735	14,781	2,007	39,953	1,401	75,877
Charge for year	1,643	1,591	326	6,885	-	10,445
Eliminated on disposals	-	-	-	(2,901)	-	(2,901)
Balance at 31 July 2008	<u>19,378</u>	<u>16,372</u>	<u>2,333</u>	<u>43,937</u>	<u>1,401</u>	<u>83,421</u>
<b>NET BOOK VALUE</b>						
At 31 July 2008	<u>82,628</u>	<u>77,282</u>	<u>1,611</u>	<u>7,290</u>	<u>-</u>	<u>168,811</u>
At 1 August 2007	<u>78,675</u>	<u>61,720</u>	<u>1,892</u>	<u>7,065</u>	<u>-</u>	<u>149,352</u>
Financed by Funding Council capital grant	22,686	41,026	-	2,433	-	66,145
Other	<u>59,942</u>	<u>36,256</u>	<u>1,611</u>	<u>4,857</u>	<u>-</u>	<u>102,666</u>
	<u>82,628</u>	<u>77,282</u>	<u>1,611</u>	<u>7,290</u>	<u>-</u>	<u>168,811</u>

## 12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2008 £000	2007 £000	2008 £000	2007 £000
Shares in subsidiary undertakings at cost less amounts written off	-	-	36	5
Participating interest at cost less amounts written off	-	-	-	-
Other investments other than loans				
At cost 1 August	56	56	56	56
Additions in year	167	83	167	83
Amounts written off in year	(167)	(83)	(167)	(83)
At cost 31 July	56	56	56	56
Total fixed asset investments	56	56	92	61

### 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.
NUIdeasBank.ptc	100	A company incorporated in Singapore for the commercialisation of research.
NU Med Malaysia sdn bhd	100	A company incorporated in Malaysia for the development of an overseas medical campus.
Newcastle University Enterprises Limited	100	This company is not yet trading.
NUINTO Limited	51	Provides the teaching of English language skills.

### OTHER INVESTMENTS OTHER THAN LOANS

	Percentage of voting rights %	CONSOLIDATED		UNIVERSITY	
		2008 £000	2007 £000	2008 £000	2007 £000
CVCP Properties PLC	1.3	56	56	56	56
North East Seed Capital Fund LP	11.94	-	-	-	-
North East Seed Capital Fund Two LP	4.49	-	-	-	-
		56	56	56	56

The cost of the investment in North East Seed Capital Fund Two LP of £166,667 during the year was subsequently written off.

Shares in associated undertakings and other investments held by subsidiary companies are disclosed in the subsidiary company accounts.



## 13 INVESTMENT IN JOINT VENTURE

INTO Newcastle University LLP is a joint venture between the University and INTO University Partnerships Limited. A 50 per cent share of the LLP's gross assets and liabilities is included in the University's consolidated balance sheet and 50 per cent 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 £468,889 (2007: £322,998) was due to the University from INTO Newcastle University LLP and an amount of £28,694 (2007: £262,885) was due from the University to INTO Newcastle University LLP.

## 14 ENDOWMENT ASSET INVESTMENTS

	<b>CONSOLIDATED AND UNIVERSITY</b>	
	<b>2008 £000</b>	<b>Restated 2007 £000</b>
At 1 August	35,896	30,510
Additions	11,462	16,489
Disposals	(12,045)	(14,058)
Net (depreciation) / appreciation on disposals and on revaluation	(3,291)	3,408
Increase in cash balances	445	38
Increase / (decrease) in other current asset balances	663	(491)
At 31 July	<u>33,130</u>	<u>35,896</u>
Fixed interest stock and equities	31,637	35,449
Bank balances	1,334	889
Due to / (from) University	159	(442)
	<u>33,130</u>	<u>35,896</u>

## 15 DEBTORS

	<b>CONSOLIDATED</b>		<b>UNIVERSITY</b>	
	<b>2008 £000</b>	<b>Restated 2007 £000</b>	<b>2008 £000</b>	<b>Restated 2007 £000</b>
Debtors	30,191	25,449	29,996	24,998
Amounts owed by subsidiary undertakings	–	–	315	382
Prepayments and accrued income	2,803	4,098	2,803	4,098
	<u>32,994</u>	<u>29,547</u>	<u>33,114</u>	<u>29,478</u>

**16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	CONSOLIDATED		UNIVERSITY	
	2008 £000	2007 £000	2008 £000	2007 £000
Fixed term loans	980	980	980	980
Payments received on account	16,504	14,878	16,504	14,878
Creditors	17,659	15,693	17,655	15,689
Social security and other taxation payable	4,470	4,822	4,466	4,810
Accruals and deferred income	38,261	36,638	38,254	36,557
	<u>77,874</u>	<u>73,011</u>	<u>77,859</u>	<u>72,914</u>

**17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	CONSOLIDATED AND UNIVERSITY	
	2008 £000	2007 £000
Fixed term loans secured on residential and other property repayable by 2029	<u>19,695</u>	<u>20,675</u>

**18 DEFERRED CAPITAL GRANTS**

	CONSOLIDATED AND UNIVERSITY		
	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 2007			
Buildings	65,212	16,073	81,285
Equipment	<u>2,567</u>	<u>3,686</u>	<u>6,253</u>
	<u>67,779</u>	<u>19,759</u>	<u>87,538</u>
Amounts receivable			
Buildings	198	12,249	12,447
Equipment	<u>1,938</u>	<u>4,457</u>	<u>6,395</u>
	<u>2,136</u>	<u>16,706</u>	<u>18,842</u>
Released to income and expenditure account			
Buildings	1,698	614	2,312
Equipment	<u>2,072</u>	<u>4,159</u>	<u>6,231</u>
	<u>3,770</u>	<u>4,773</u>	<u>8,543</u>
At 31 July 2008			
Buildings	63,712	27,708	91,420
Equipment	<u>2,433</u>	<u>3,984</u>	<u>6,417</u>
	<u>66,145</u>	<u>31,692</u>	<u>97,837</u>

19 ENDOWMENTS

	Year ended 31 July 2008 CONSOLIDATED AND UNIVERSITY			
	Permanent Unrestricted £000	Permanent Restricted £000	Expendable Restricted £000	Total £000
At 1 August 2007 (as restated)				
Capital	2,409	14,376	6,083	22,868
Unapplied return	1,599	8,517	2,912	13,028
	<u>4,008</u>	<u>22,893</u>	<u>8,995</u>	<u>35,896</u>
Additions	-	326	607	933
Depreciation of endowment asset investments	(372)	(2,132)	(787)	(3,291)
	<u>(372)</u>	<u>(1,806)</u>	<u>(180)</u>	<u>(2,358)</u>
Income	117	673	249	1,039
Expenditure	(102)	(1,118)	(227)	(1,447)
	<u>15</u>	<u>(445)</u>	<u>22</u>	<u>(408)</u>
At 31 July 2008	<u>3,651</u>	<u>20,642</u>	<u>8,837</u>	<u>33,130</u>
Represented by:				
Capital	2,409	14,702	6,690	23,801
Unapplied return	1,242	5,940	2,147	9,329
	<u>3,651</u>	<u>20,642</u>	<u>8,837</u>	<u>33,130</u>

	Year ended 31 July 2007 (Restated) CONSOLIDATED AND UNIVERSITY			
	Permanent Unrestricted £000	Permanent Restricted £000	Expendable Restricted £000	Total £000
At 1 August 2006				
Capital	2,409	14,376	3,753	20,538
Unapplied return	1,282	6,620	2,070	9,972
	<u>3,691</u>	<u>20,996</u>	<u>5,823</u>	<u>30,510</u>
Additions	-	-	2,330	2,330
Appreciation of endowment asset investments	339	2,269	800	3,408
	<u>339</u>	<u>2,269</u>	<u>3,130</u>	<u>5,738</u>
Income	88	498	161	747
Expenditure	(110)	(870)	(119)	(1,099)
	<u>(22)</u>	<u>(372)</u>	<u>42</u>	<u>(352)</u>
At 31 July 2007	<u>4,008</u>	<u>22,893</u>	<u>8,995</u>	<u>35,896</u>
Represented by:				
Capital	2,409	14,376	6,083	22,868
Unapplied return	1,599	8,517	2,912	13,028
	<u>4,008</u>	<u>22,893</u>	<u>8,995</u>	<u>35,896</u>

The opening balance at 1 August 2006 has been adjusted by £741,000 and at 1 August 2007 by £1,257,000 reflecting the implementation of the requirements of the SORP 2007 in respect of donations and endowments.

## 20 GENERAL RESERVE

	CONSOLIDATED		UNIVERSITY	
	2008	Restated 2007	2008	Restated 2007
	£000	£000	£000	£000
Balance at beginning of year as previously stated	79,192	57,290	79,169	56,958
Prior year adjustment	(1,326)	(741)	(1,326)	(741)
Restated balance at beginning of year	77,866	56,549	77,843	56,217
Surplus retained for the year	13,581	8,179	13,986	8,488
Actuarial (loss) / gain on pension scheme	(11,068)	13,138	(11,068)	13,138
Balance at year end	80,379	77,866	80,761	77,843

### Impact of FRS17 Retirement Benefits

FRS17 resulted in the following movements:

	CONSOLIDATED AND UNIVERSITY	
	2008 £000	2007 £000
Increase in staff costs	(25)	(1,077)
Pension finance income / (costs)	799	(55)
Impact on the income and expenditure account for the year	774	(1,132)
Actuarial (loss) / gain relating to the pension scheme	(11,068)	13,138
(Decrease) / increase in total recognised gains and losses for the year	(10,294)	12,006
Pension liability at beginning of year	(5,022)	(17,028)
Pension liability at end of year	(15,316)	(5,022)

### Analysis of prior year adjustment

The prior year adjustment relates to the implementation of the requirements of the SORP 2007 in respect of donations and endowments.

Adjustment to opening reserves at 1 August 2006

Adjustments to income and expenditure for the year ended 31 July 2007:

Decrease in endowment income

Increase in other operating expenses

Transfer to endowment funds

### CONSOLIDATED AND UNIVERSITY

£000

(741)

(776)

(161)

352

(585)

(1,326)

## 21 RECONCILIATION OF SURPLUS BEFORE TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £000	Restated 2007 £000
Surplus after depreciation of fixed assets at cost and before tax	13,631	8,269
Depreciation	10,445	9,231
Deferred capital grants released to income	(8,543)	(7,149)
Investment income	(6,392)	(4,906)
Interest payable	1,248	1,298
Difference between FRS17 net pension charge and cash contributions	(774)	1,132
(Increase) / decrease in stocks	(20)	7
Increase in debtors	(3,839)	(902)
Increase in creditors	4,867	11,117
Net cash inflow from operating activities	10,623	18,097

## 22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	<b>2008</b> <b>£000</b>	<b>Restated</b> <b>2007</b> <b>£000</b>
Income from endowments	978	747
Other interest received	5,115	3,912
Interest paid	(1,252)	(1,323)
Net cash inflow from returns on investments and servicing of finance	<u>4,841</u>	<u>3,336</u>

## 23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	<b>2008</b> <b>£000</b>	<b>2007</b> <b>£000</b>
Purchase of tangible fixed assets	(29,904)	(10,995)
Payments to acquire endowment assets	(11,462)	(16,489)
Total fixed and endowment asset investments acquired	<u>(41,366)</u>	<u>(27,484)</u>
Receipts from sale of endowment assets	12,045	14,058
Deferred capital grants received	18,842	8,962
Endowment additions	933	2,330
Net cash outflow from capital expenditure and financial investment	<u>(9,546)</u>	<u>(2,134)</u>

## 24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	<b>£000</b>
Fixed Term Loans	
At 1 August 2006	22,635
Capital repayments	(980)
At 31 July 2007	<u>21,655</u>
Capital repayments	(980)
At 31 July 2008	<u>20,675</u>

## 25 ANALYSIS OF CHANGES IN NET FUNDS

	<b>At 1 August</b> <b>2007</b> <b>£000</b>	<b>Cash</b> <b>Flows</b> <b>£000</b>	<b>Other</b> <b>Changes</b> <b>£000</b>	<b>At 31 July</b> <b>2008</b> <b>£000</b>
Cash at bank and in hand:				
Endowment asset investments (note 14)	889	445	-	1,334
Others	11,349	7,521	-	18,870
	<u>12,238</u>	<u>7,966</u>	<u>-</u>	<u>20,204</u>
Short-term investments	74,000	(3,000)	-	71,000
Debt due within one year	(980)	980	(980)	(980)
Debt due after one year	(20,675)	-	980	(19,695)
	<u>64,583</u>	<u>5,946</u>	<u>-</u>	<u>70,529</u>

## 26 CAPITAL COMMITMENTS

	<b>CONSOLIDATED AND UNIVERSITY</b>	
	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Commitments contracted at 31 July	74,699	36,067
Authorised but not contracted at 31 July	1,012	50,539
	<u>75,711</u>	<u>86,606</u>

## 27 CONTINGENT LIABILITIES

The University has a nomination agreement relating to student accommodation expiring 2028-29. 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 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 £38,000 and this will decline in line with a reduction in the number of pensioners.

## 28 ACCESS FUNDS

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Balance unspent at beginning of year	225	303
Funding Council grants	413	450
Interest earned	1	1
	<u>639</u>	<u>754</u>
Disbursements	(454)	(529)
Balance unspent at 31 July	<u>185</u>	<u>225</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 TRAINING AND DEVELOPMENT AGENCY FOR SCHOOLS

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Training bursaries:		
Balance unspent at beginning of year	138	144
Grant	1,746	1,908
Disbursements	(1,776)	(1,914)
Balance unspent at 31 July	<u>108</u>	<u>138</u>
Minority ethnic recruitment:		
Balance unspent at beginning of year	1	2
Grant	8	7
Disbursements	(9)	(8)
Balance unspent at 31 July	<u>-</u>	<u>1</u>

The above training bursaries 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.

## 30 PENSION ARRANGEMENTS

The University participates in two main pension schemes, the Universities Superannuation Scheme Limited (USS) and the University of Newcastle upon Tyne 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 fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the University 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 actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. 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 and the assumed rates of mortality. 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 4.5 per cent per annum, salary increases would be 3.9 per cent per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800 million of liabilities to reflect recent experience) and pensions would increase by 2.9 per cent per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2 per cent per annum, including an additional investment return assumption of 1.7 per cent per annum, salary increases would be 3.9 per cent per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9 per cent per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and non-retired members

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males	19.8 years
Females	22.8 years

At the valuation date, the market value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million leaving a deficit of £6,568 million. The assets therefore were sufficient to cover 77 per cent 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. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126 per cent funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110 per cent funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74 per cent 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 90 per cent.

### 30 PENSION ARRANGEMENTS (continued)

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91 per cent at 31 March 2007 but that at 31 March 2008 it had fallen back to 77 per cent. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS17 basis, using an AA bond discount rate of 6 per cent based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104 per cent. An estimate of the funding level measured on a buy out basis was approximately 78 per cent.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3 per cent of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14 per cent of pensionable salaries.

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

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

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

The trustee believes that over the long-term, equity investment and investment in selected alternative asset classes will provide superior terms to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

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

The total pension cost for the University was £13,621,000 (2007: £12,302,000). This includes £1,592,000 (2007: £1,041,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14 per cent of pensionable salaries.



## 30 PENSION ARRANGEMENTS (continued)

### 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 £2,984,000 (2007: £3,995,000). The contribution payable by the University was 12.25 per cent 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 £3,126,000.

A full actuarial valuation was carried out as at 1 August 2007 and updated to 31 July 2008 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended 31 July 2008	Year ended 31 July 2007
Discount rate at year end	6.50%	5.70%
Expected return on plan assets at year end	6.79%	6.61%
Future salary increases	4.60%	4.10%
Future pension increases	3.00%	3.00%
Life expectancy of current pensioners (from age 65)	22.5	21.7
Life expectancy of future pensioners (from age 65)	23.4	21.7

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

	Value at 31 July 2008 £000	Long- term expected return %	Asset Allocation %	Value at 31 July 2007 £000	Long- term expected return %	Asset Allocation %
Equities	53,920	8.50	46	58,653	7.75	49
Bonds	54,322	5.00	47	52,376	5.20	44
Property	6,007	8.50	5	7,377	7.75	6
Cash	2,608	5.00	2	1,678	5.75	1
Fair value of assets	116,857	6.61		120,084	6.61	
Present value of obligations	(132,173)			(125,106)		
Funded status	(15,316)			(5,022)		
Related deferred tax asset	-			-		
Net pension liability	(15,316)			(5,022)		

### 30 PENSION ARRANGEMENTS (continued)

<b>Analysis of the amount charged to operating surplus</b>	<b>2008 £000</b>	<b>2007 £000</b>
Current service cost	2,984	3,995
Interest on obligation	7,087	6,847
Expected return on plan assets	(7,886)	(6,792)
Actuarial losses / (gains) recognised in the year	-	-
Past service cost	-	-
Losses / (gains) on curtailments and settlements	-	-
<b>Total operating charge</b>	<b>2,185</b>	<b>4,050</b>
<b>Change in defined benefit obligation</b>	<b>2008 £000</b>	<b>2007 £000</b>
Opening defined benefit obligation	125,106	129,072
Service cost (including employee contributions)	4,494	5,479
Interest cost	7,087	6,847
Actuarial losses / (gains)	1,535	(11,058)
Losses / (gains) on curtailments	-	-
Liabilities extinguished on settlements	-	-
Liabilities assumed on a business combination	-	-
Exchange differences on foreign plans	-	-
Benefits paid	(6,049)	(5,234)
<b>Closing defined benefit obligation</b>	<b>132,173</b>	<b>125,106</b>
<b>Change in fair value of plan assets</b>	<b>2008 £000</b>	<b>2007 £000</b>
Opening fair value of plan assets	120,084	112,044
Expected return	7,886	6,792
Actuarial (losses) / gains	(9,533)	2,080
Assets distributed on settlements	-	-
Contributions by employer	2,959	2,918
Contributions by employee	1,510	1,484
Assets acquired in a business combination	-	-
Exchange differences on foreign plans	-	-
Benefits paid	(6,049)	(5,234)
<b>Closing fair value of plan assets</b>	<b>116,857</b>	<b>120,084</b>

The University also has a small number of staff in the National Health Service Scheme (NHSS), the total cost of which was £1,747,000 (2007: £1,861,000).

## 31 RELATED PARTY TRANSACTIONS

Due to the University's operations and the composition of its Council (being drawn from local public and private sector 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 may have an interest are conducted at arm's 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	
	2008 £000	2007 £000	2008 £000	2007 £000
The Newcastle upon Tyne Hospitals NHS Trust	10,454	8,385	4,171	5,568
The University of Newcastle upon Tyne Union Society	761	638	1,384	1,239
	<u>11,215</u>	<u>9,023</u>	<u>5,555</u>	<u>6,807</u>

The University of Newcastle upon Tyne Development Trust made payments to the University of £1,569,000 (2007: £2,339,000).

## Five-year Summary

	2008 £000	2007 (a) £000	2006 £000	2005 (b) £000	2004 £000
<b>INCOME</b>					
Funding Council grants	119,035	115,416	112,402	105,562	89,463
Academic fees and support grants	67,274	59,132	49,649	46,362	44,073
Research grants and contracts	75,401	65,850	57,832	55,548	55,457
Other operating income (c)	73,430	71,236	63,738	64,443	64,184
Endowment income and interest receivable	7,191	4,906	4,382	4,184	2,469
<b>Total income</b>	<u>342,331</u>	<u>316,540</u>	<u>288,003</u>	<u>276,099</u>	<u>255,646</u>
<b>EXPENDITURE</b>					
Staff costs	180,225	171,787	157,117	144,192	135,114
Other operating expenses	136,782	125,900	111,760	114,217	99,723
Depreciation	10,445	9,231	8,664	8,338	7,473
Interest payable	1,248	1,353	1,362	1,538	1,227
<b>Total expenditure</b>	<u>328,700</u>	<u>308,271</u>	<u>278,903</u>	<u>268,285</u>	<u>243,537</u>
<b>Surplus after depreciation of assets but before tax</b>	13,631	8,269	9,100	7,814	12,109
Share of operating loss in joint venture	(458)	(342)	-	-	-
<b>Operating surplus</b>	<u>13,173</u>	<u>7,927</u>	<u>9,100</u>	<u>7,814</u>	<u>12,109</u>
Taxation	-	(100)	(23)	(18)	(98)
<b>Surplus after depreciation of assets and tax</b>	<u>13,173</u>	<u>7,827</u>	<u>9,077</u>	<u>7,796</u>	<u>12,011</u>
Deficit for the year transferred to endowment funds	(408)	(352)			
<b>Surplus for the year retained within general reserves</b>	<u>13,581</u>	<u>8,179</u>			

Notes:

(a) 2007 has been restated to include the impact of the changes to accounting for endowments in accordance with the SORP.

(b) 2005 has been restated to include the impact of the full implementation of FRS17 'Retirement Benefits'.

(c) Other operating income in 2004 includes £5,986k exceptional income in respect of the sale of freehold property.

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