



financial  
statements  
2004-05  
University of Newcastle upon Tyne



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# Report of the Honorary Treasurer for the year ended 31 July 2005

It gives me pleasure to report that, in financial terms, the University had a successful year in 2004–05, recording a surplus after taxation of £9.4 million. The growth in total income of some 10.6 per cent was particularly gratifying, although this growth was heavily influenced by certain non-recurrent items.

Recurrent grants from the Higher Education Funding Council for England (HEFCE) showed an increase of some 11.1 per cent, whilst full-time home fees were up by 6.7 per cent and our student residences recorded an increase in income of 8.9 per cent. The doubling of interest receivable was primarily due to the University having higher than budgeted cash and short-term balances, some £7 million of which was due to the sale of Close House. The strong cash position is forecast to unwind as the capital programme is implemented.

No growth was recorded in both research income and full-time overseas student fees. In both these cases the results were worse than we had budgeted and remedial action was taken to protect the overall financial position of the University.

It is a matter of concern that the University research income is lower than we had planned, particularly given the large investment that has been made in buildings, equipment and people in this area.

The University has conducted a thorough investigation into the failure to achieve the overseas student fee income targets and as a result has invested heavily in information systems development, a measure designed to improve our performance in an increasingly volatile market.

The results for the year were influenced by an increase in specific grants from HEFCE which rose from £12.4 million to £19.6 million, these grants resulting in an increase in recurrent expenditure to match the income.

The University received *circa* £800,000 from the Research Councils in lieu of increased overheads on those research grants and contracts that they fund. This sum approximates to the increased contribution arising from the implementation of Full Economic Costing (fEC) and pricing for these contracts.

The University has invested in resources to meet the requirements of fEC and has obtained independent approval for the arrangements it has implemented. The consequence of this approval is that the University can bid for Research Council and UK government research contracts on the new basis of funding. The University plans to expand fEC to cover all its activities in order that all costing and pricing decisions are properly informed.

The University has negotiated a new partial exemption agreement with HM Revenue & Customs which is effective from 1 August 2004. The agreement gives certainty to the VAT position and, as a result, the University has written back to income a provision of *circa* £700,000 which it has been carrying to cover unforeseen VAT liabilities.

On 27 July 2005 the University transferred ownership of The Sowerby Centre for Health Informatics at Newcastle Limited to its management. This will not have a material impact on the earnings of the University.

Work continues with our partners to create the Great North Museum. Funding for this *circa* £26 million scheme will come from a variety of sources and we are encouraged by the response of the Heritage Lottery Fund to our initial proposal. The University is setting aside a total of £3 million in equal instalments over three years (2004–05 to 2006–07) as a cash contribution to this scheme.

Plans are well advanced for a new building on the campus. This building will be for academic and student support services and is estimated to cost some £40 million. Whilst funding will come from a variety of sources, long-term loan finance is expected to form a major component of the resources needed.

Demand for additional student residential accommodation caused the University to submit plans for a major development at its Castle Leazes site. This scheme, which was costed at some £10 million, has not been accepted by the planning authorities and the University has given notice of appeal.

The University is in the final stages of agreeing a new pay package for its staff. The financial modelling shows a significant increase in costs, in common with similar schemes at other universities, which will impact in 2005–06 and coming years.

In July 2005 the University authorized the purchase of land close to the main campus at a cost of up to £10.5 million. Initial proposals for this site would see a major expansion of the University in the coming years.

2006–07 will see the implementation of the new arrangements, approved by the Office for Fair Access (OFFA), for home undergraduate fees and the related bursaries. The additional income these new measures bring will build up over a period of years and will enable the University to plan with greater certainty the level of teaching income.

The results for 2004–05 are good and give confidence for the expansion of the University. The large capital programme will make significant demands on both management and financial resources.

**P M Johnson**  
Honorary Treasurer

# Independent Auditors' Report to the Council of the University of Newcastle upon Tyne for the year ended 31 July 2005

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

## **Respective Responsibilities of the Council and Auditors**

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Council of the institution in accordance with the Charters and Statutes of the institution. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

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

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

## **Basis of Audit Opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and 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 institution'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 institution and the group at 31 July 2005, and of the surplus of income over expenditure, recognized gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education;
- ii. in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received;
- iii. in all material respects, income has been applied in accordance with the institution's Statutes and where appropriate in accordance with the Financial Memorandum (03/54) with the Higher Education Funding Council for England and the funding agreement with the Teacher Training Agency.

**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
**Newcastle upon Tyne**  
**12 December 2005**

# 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.

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

- clear definitions of, and the authority delegated to, heads of academic schools and heads of administrative services;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- clearly defined and formalized requirements for approval and control of expenditure;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by Council and whose head provides Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control.

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



The following statement is provided to enable readers of the Annual Report and Accounts of the University to obtain a better understanding of 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 institution. It is also responsible for the University's system of internal control and for reviewing its effectiveness including the appropriateness of its arrangements for risk management and value for money.

It has a majority of members from outside the University ('lay members') from whom the Chairman and Vice-Chairman may be appointed. Members also include representatives of the staff of the University and the student body. None of the lay members receive any payment, apart from reimbursed expenses, for the work they do for the University.

- **Senate** is the academic authority of the University and draws its membership entirely from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.
- **Court** is a large, mainly formal body. It offers a means whereby the wider interests served by the University can be associated with the institution and provides a public forum where members of Court can raise any matters about the University. The Court meets twice a year to receive reports from the Vice-Chancellor. It regulates the custody and use of the common seal of the University.

Changes to the Statutes of the University require the approval of the Court before they can be submitted to the Privy Council.

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

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.

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

- **Strategy Board**, which identifies the University's key objectives. It develops, reviews and monitors the progress of the overall strategic plan to ensure the integration of the academic, physical and financial elements of the plan, in order to achieve the effective and efficient use of resources. In respect of Estates issues it is advised by Estates Strategy Committee;
- **Executive Board**, which exercises an integrated overview of the University's policy and resources through the implementation of the strategic plan and operating statement. Through the Financial Monitoring and Budget Scrutiny Group it reviews the use of resources and the financial performance of all budgetary units;
- **Finance Committee**, which considers and recommends to Council the financial strategy for the University and advises on investments, determines the level of funding to be made available to support the annual budget allocations, approves the accounting policies and considers the financial statements;
- **Audit Committee**, which usually meets five times each year with the University's internal auditors (and, where relevant, external auditors) in attendance. The Audit Committee keeps under review the effectiveness of the internal control systems by considering detailed reports together with recommendations for improvement, management responses and implementation plans;

- Nominations Committee, which makes recommendations to Council in respect of the appointment of lay members of Council, the offices of Chairman and Vice-Chairman of Council, Honorary Treasurer and members of the Committees of Council;
- Remuneration Committee, which considers the remuneration and terms and conditions of senior members of staff.

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 (from whom the Chair will be selected). The decisions of these committees are formally reported to Council.

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.

Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible. This is in accordance with the responsibilities assigned to the governing body in the Universities of Durham and Newcastle upon Tyne Act 1963 and the Financial Memorandum with the Higher Education Funding Council for England. The system of internal control is based on an ongoing process designed to identify the principal risks (whether business, operational, compliance or financial) to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. It is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The senior management team and the Audit Committee also receive regular reports from internal audit, which include recommendations for improvement.

The University's process for identifying, evaluating and managing its significant risks has been formally agreed by Council. Council is of the view that it is being embedded into ongoing operations and has been in place for the year ended 31 July 2005 and up to the date of the approval of the annual accounts. This process is regularly reviewed by Council and accords with the internal control guidance for directors in the Combined Code as deemed appropriate for higher education.

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

The University maintains a Register of Interests of members of Council and Senior Officers which may be consulted by arrangement with the Registrar.

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.



# Statement of Principal Accounting Policies

In accordance with FRS 18 these accounting policies have been reviewed by Council and are considered appropriate to the University's activities.

## 1. Basis of Preparation

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

## 2. Basis of Accounting

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

## 3. Basis of Consolidation

The consolidated financial statements consolidate the results of the University and all subsidiary undertakings for the financial year to 31 July 2005.

Details of the University's subsidiary undertakings are provided in note 12 to the accounts.

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

The consolidated financial statements do not include the results of the Union Society as it is a separate organization in which the University has no financial interest and no control or significant influence over its policy decisions.

The University Development Trust has not been consolidated as it has a separate Trustee Board, which manages the funds independently of the University. The total assets of the University Development Trust at 31 March 2005 were £31.2 million on which its investment income for the year to that date was £0.7 million, and in addition the Trust received donations to the value of £0.4 million.

## 4. Recognition of Income

Income from specific endowments and donations and research grants and contracts is included to the extent of the related expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short-term deposits and general endowment asset investments is credited to the income and expenditure account in the period in which it is earned.

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

Non-recurrent grants from Funding Councils or other bodies receivable in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortized in line with depreciation over the life of the assets.

The University acts as an agent in the collection and payment of training bursaries from the Teacher Training Agency and of Access Funds from the Higher Education Funding Council for England. Related payments received from the Teacher Training Agency and the Higher Education Funding Council for England and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in notes 28 and 29 to the accounts.

## 5. Maintenance of Premises

The University has a rolling long-term maintenance plan which is reviewed periodically and forms the basis of the ongoing maintenance of the estate. The cost of long-term and routine corrective maintenance is charged to the income and expenditure account as incurred.

## 6. Foreign Currency Translation

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

# Statement of Principal Accounting Policies (continued)

## 7. Leases

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

Costs under operating leases are charged on a straight line basis over the lease term.

## 8. Tangible Fixed Assets

### a. Land and Buildings

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

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

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

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

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

### b. Equipment

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

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

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

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

## 9. Investments

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

Endowment asset investments are included in the Balance Sheet at market value.

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

## 10. Stocks

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

## 11. Provisions

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

## 12. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Newcastle upon Tyne Retirements Benefits Plan (1971) which is an Exempt Approved Scheme under the Finance Act 1970. The schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employees' services.

A small number of staff remain in other pension schemes.

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

## 13. Taxation Status

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

The University receives no similar exemption in respect of Value Added Tax (VAT).

The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organization.

## 14. Cash Flow and Liquid Resources

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

# Consolidated Income and Expenditure Account for the year ended 31 July 2005

	Note	2005 £000	2004 £000
<b>INCOME</b>			
Funding Council grants	1	105,562	89,463
Academic fees and support grants	2	46,362	44,760
Research grants and contracts	3	55,548	55,457
Other operating income	4	64,443	57,511
Endowment income and interest receivable	5	4,184	2,469
Total income		<u>276,099</u>	<u>249,660</u>
<b>EXPENDITURE</b>			
Staff costs	6	142,721	134,325
Staff severance scheme	17	–	789
Total staff costs		<u>142,721</u>	<u>135,114</u>
Other operating expenses	7	114,217	99,723
Depreciation	11	8,338	7,473
Interest payable	8	1,419	1,227
Total expenditure	9	<u>266,695</u>	<u>243,537</u>
Surplus on continuing operations after depreciation of fixed assets at valuation and before tax		9,404	6,123
Profit on disposal of freehold property		–	5,986
Surplus on continuing operations after depreciation of fixed assets at valuation and disposals of assets but before tax		9,404	12,109
Taxation	10	(18)	(98)
Surplus on continuing operations after depreciation of fixed assets at valuation, disposals of assets and tax	20	<u>9,386</u>	<u>12,011</u>

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

# Statement of Consolidated Total Recognized Gains and Losses for the year ended 31 July 2005

	Note	2005 £000	2004 £000
Surplus on continuing operations after depreciation of fixed assets at valuation, disposals of assets and tax		9,386	12,011
Appreciation of endowment asset investments	19	4,283	931
Endowment income retained for year	19	(67)	(55)
Net disposals of endowments	19	(2,535)	(1,165)
<b>TOTAL RECOGNIZED GAINS RELATING TO THE YEAR</b>		<u>11,067</u>	<u>11,722</u>
Reconciliation:			
Opening reserves and endowments		80,319	68,597
Total recognized gains for the year		<u>11,067</u>	<u>11,722</u>
Closing reserves and endowments		<u>91,386</u>	<u>80,319</u>

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

# Balance Sheets

## as at 31 July 2005

	Note	CONSOLIDATED		UNIVERSITY	
		2005 £000	2004 £000	2005 £000	2004 £000
<b>FIXED ASSETS</b>					
Tangible assets	11	136,816	134,611	136,816	134,611
Investments	12	56	56	61	61
		<u>136,872</u>	<u>134,667</u>	<u>136,877</u>	<u>134,672</u>
<b>ENDOWMENT ASSET INVESTMENTS</b>	13	<u>26,929</u>	<u>25,248</u>	<u>26,929</u>	<u>25,248</u>
<b>CURRENT ASSETS</b>					
Stocks and stores in hand		110	104	110	104
Debtors	14	28,159	38,062	28,042	37,571
Investments		62,000	37,000	62,000	37,000
Cash at bank and in hand		10,302	7,100	9,526	6,111
		<u>100,571</u>	<u>82,266</u>	<u>99,678</u>	<u>80,786</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	15	<u>(64,224)</u>	<u>(53,933)</u>	<u>(63,607)</u>	<u>(52,775)</u>
<b>NET CURRENT ASSETS</b>		<u>36,347</u>	<u>28,333</u>	<u>36,071</u>	<u>28,011</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>200,148</u>	<u>188,248</u>	<u>199,877</u>	<u>187,931</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	16	<u>(22,635)</u>	<u>(23,301)</u>	<u>(22,635)</u>	<u>(23,301)</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	<u>-</u>	<u>(853)</u>	<u>-</u>	<u>(853)</u>
<b>NET ASSETS</b>		<u>177,513</u>	<u>164,094</u>	<u>177,242</u>	<u>163,777</u>
<b>DEFERRED CAPITAL GRANTS</b>	18	86,127	83,775	86,127	83,775
<b>ENDOWMENTS</b>					
Specific	19	23,559	22,436	23,559	22,436
General	19	3,370	2,812	3,370	2,812
		<u>26,929</u>	<u>25,248</u>	<u>26,929</u>	<u>25,248</u>
<b>RESERVES</b>					
General Reserve	20	<u>64,457</u>	<u>55,071</u>	<u>64,186</u>	<u>54,754</u>
<b>TOTAL FUNDS</b>		<u>177,513</u>	<u>164,094</u>	<u>177,242</u>	<u>163,777</u>

The financial statements on pages 7-23 were approved by the Council on 12 December 2005 and signed on its behalf by:  
 C R W EDWARDS, Vice-Chancellor  
 P M JOHNSON, Honorary Treasurer and Chairman of Finance Committee  
 H B FARNHILL, Bursar

# Consolidated Cash Flow Statement

## for the year ended 31 July 2005

	Note	2005 £000	2004 £000
NET CASH INFLOW			
FROM OPERATING ACTIVITIES	21	28,949	11,680
Returns on investments and servicing of finance	22	2,636	1,422
Taxation		(18)	(48)
Capital expenditure and financial investment	23	(3,610)	(11,886)
Cash inflow before use of liquid resources and financing		<u>27,957</u>	<u>1,168</u>
Management of liquid resources			
- cash additions to short-term deposits		(25,000)	(4,000)
Financing	24	<u>(900)</u>	<u>8,885</u>
Increase in cash in the period		<u>2,057</u>	<u>6,053</u>
RECONCILIATION OF NET CASH FLOW			
TO MOVEMENT IN NET FUNDS			
Increase in cash in the period		2,057	6,053
Increase in borrowing		(17,000)	(9,850)
Increase in short-term deposits		25,000	4,000
Repayment of debt		<u>17,900</u>	<u>965</u>
Movement in net funds in period		27,957	1,168
Net funds at 1 August		<u>21,581</u>	<u>20,413</u>
Net funds at 31 July	25	<u>49,538</u>	<u>21,581</u>

# Notes to the Accounts

<b>1 FUNDING COUNCIL GRANTS</b>	2005	2004
	£000	£000
HEFCE recurrent grant	80,917	72,849
HEFCE specific grants	19,581	12,395
HEFCE deferred capital grants released in year		
– Buildings	1,605	1,605
– Equipment	1,583	815
TTA recurrent grant	1,622	1,592
TTA specific grant	254	207
	<u>105,562</u>	<u>89,463</u>
<b>2 ACADEMIC FEES AND SUPPORT GRANTS</b>	2005	2004
	£000	£000
Full-time students	17,945	16,823
Full-time students charged overseas fees	18,936	19,093
Part-time fees	1,346	1,526
Research training support grants	5,279	2,397
Short courses	2,856	4,921
	<u>46,362</u>	<u>44,760</u>
<b>3 RESEARCH GRANTS AND CONTRACTS</b>	2005	2004
	£000	£000
Research Councils	14,488	14,364
UK-based charities	14,795	14,049
European Commission	6,054	4,797
Other grants and contracts	20,211	22,247
	<u>55,548</u>	<u>55,457</u>
<b>4 OTHER OPERATING INCOME</b>	2005	2004
	£000	£000
Residences, catering and conferences	14,677	13,482
Other services rendered	18,820	16,304
Health authorities	13,149	11,558
Other income	17,797	16,167
	<u>64,443</u>	<u>57,511</u>
<b>5 ENDOWMENT INCOME AND INTEREST RECEIVABLE</b>	2005	2004
	£000	£000
Transferred from specific endowments	787	731
Income from general endowment asset investments	105	92
Other interest receivable	3,292	1,646
	<u>4,184</u>	<u>2,469</u>



# Notes to the Accounts (continued)

<b>6 STAFF</b>	2005 £000	2004 £000
<b>STAFF COSTS</b>		
Wages and salaries	118,769	112,466
Social security costs	10,250	9,533
Other pension costs	13,702	12,326
	<u>142,721</u>	<u>134,325</u>

Emoluments of the Vice-Chancellor	192	170
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The emoluments of the Vice-Chancellor 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 £26,600 (2004: £23,554).

Remuneration of higher paid staff, excluding employer's pension contributions (Clinical staff numbers in brackets):	2005 Number	2004 Number
£70,000–£79,999	23 (15)	37 (12)
£80,000–£89,999	27 (23)	21 (14)
£90,000–£99,999	17 (12)	16 (6)
£100,000–£109,999	18 (14)	13 (10)
£110,000–£119,999	8 (7)	10 (9)
£120,000–£129,999	14 (12)	10 (10)
£130,000–£139,999	3 (3)	3 (3)
£140,000–£149,999	6 (6)	8 (8)
£150,000–£159,999	7 (7)	4 (4)
£160,000–£169,999	6 (6)	3 (3)
£170,000–£179,999	2 (2)	2 (2)
£180,000–£189,999	1 (1)	1 (1)
£190,000–£199,999	3 (3)	

During the year the University finalized all voluntary severance scheme payments (2004: £789,000).

<b>7 OTHER OPERATING EXPENSES</b>	2005 £000	2004 £000
Residences, catering and conference operating expenses	7,871	7,792
Consumables and laboratory expenditure	15,232	13,952
Books and periodicals	3,035	2,723
Heat, light, water and power	4,287	3,403
Repairs and general maintenance	23,415	13,753
Long-term maintenance	1,751	1,231
Grants to Union Society	842	894
Auditors' remuneration	51	49
Auditors' remuneration in respect of non-audit services	3	12
Other expenses	57,730	55,914
	<u>114,217</u>	<u>99,723</u>

<b>8 INTEREST PAYABLE</b>	2005 £000	2004 £000
On loans not wholly repayable within five years	<u>1,419</u>	<u>1,227</u>

## 9 ANALYSIS OF 2004–05 EXPENDITURE BY ACTIVITY

	Staff Costs £000	Other Operating Expenses £000	Depreciation £000	Interest Payable £000	Total £000
Academic schools	75,172	17,913	2,903		95,988
Academic services	8,767	9,216	126		18,109
Administration and central services	15,222	9,695	378		25,295
Premises	5,905	32,958	2,573	415	41,851
Residences, catering and conferences	3,998	7,871	606	1,004	13,479
Research grants and contracts	25,444	20,872	1,088		47,404
Other expenditure	8,213	15,692	664		24,569
Total per income and expenditure account	<u>142,721</u>	<u>114,217</u>	<u>8,338</u>	<u>1,419</u>	<u>266,695</u>

The depreciation charge has been funded by:

Deferred capital grants released	6,160
General income	2,178
	<u>8,338</u>

## 10 TAXATION

	2005 £000	2004 £000
United Kingdom corporation tax at 20%	<u>18</u>	<u>98</u>

## 11 TANGIBLE ASSETS

	CONSOLIDATED AND UNIVERSITY					Total £000
	Land and Buildings		Equipment £000	Leased Equipment £000		
	Freehold £000	Leasehold Long £000		Short £000		
<b>COST</b>						
Balance at 1 August 2004	80,046	69,067	3,135	30,640	1,401	184,289
Additions	4,370	603	–	5,570	–	10,543
Balance at 31 July 2005	<u>84,416</u>	<u>69,670</u>	<u>3,135</u>	<u>36,210</u>	<u>1,401</u>	<u>194,832</u>
<b>DEPRECIATION</b>						
Balance at 1 August 2004	12,812	10,508	1,209	23,749	1,400	49,678
Charge for year	1,558	1,381	240	5,159	–	8,338
Balance at 31 July 2005	<u>14,370</u>	<u>11,889</u>	<u>1,449</u>	<u>28,908</u>	<u>1,400</u>	<u>58,016</u>
<b>NET BOOK VALUE</b>						
At 31 July 2005	<u>70,046</u>	<u>57,781</u>	<u>1,686</u>	<u>7,302</u>	<u>1</u>	<u>136,816</u>
At 1 August 2004	<u>67,234</u>	<u>58,559</u>	<u>1,926</u>	<u>6,891</u>	<u>1</u>	<u>134,611</u>
Financed by capital grant	24,926	39,802	–	3,323	–	68,051
Other	45,120	17,979	1,686	3,979	1	68,765
	<u>70,046</u>	<u>57,781</u>	<u>1,686</u>	<u>7,302</u>	<u>1</u>	<u>136,816</u>

The net book value of tangible fixed assets includes an amount of £1,000 (2004: £1,000) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £nil (2004: £24,000).

# Notes to the Accounts (continued)

## 12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2005	2004	2005	2004
	£000	£000	£000	£000
Shares in subsidiary undertakings				
At cost less amounts written off 1 August 2004	-	-	5	5
Provision for diminution in value	-	-	-	-
	<u>-</u>	<u>-</u>	<u>5</u>	<u>5</u>
At cost less amounts written off 31 July 2005	-	-	5	5
Participating interest at cost less amounts written off	-	-	-	-
Other investments other than loans at cost	56	56	56	56
	<u>56</u>	<u>56</u>	<u>61</u>	<u>61</u>

### SHARES IN SUBSIDIARY UNDERTAKINGS

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

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

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

Close House Limited awaits formal confirmation of dissolution.

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

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

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

The Sowerby Centre for Health Informatics at Newcastle Limited, a company limited by guarantee, was acquired by its management on the 27 July 2005.

### SHARES IN ASSOCIATED UNDERTAKINGS

Newcastle University Ventures Limited owns 30 per cent of the Bioscience Partnership Limited, which is non-trading.

OTHER INVESTMENTS OTHER THAN LOANS	Percentage % of voting rights	CONSOLIDATED		UNIVERSITY	
		2005	2004	2005	2004
		£000	£000	£000	£000
CVCP Properties PLC	1.3	56	56	56	56
		<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>

## 13 ENDOWMENT ASSET INVESTMENTS

	CONSOLIDATED AND UNIVERSITY	
	2005	2004
	£000	£000
At 1 August	25,248	25,537
Additions	11,411	7,418
Disposals	(12,367)	(10,674)
Net depreciation on disposals and on revaluation	2,637	2,967
At 31 July	<u>26,929</u>	<u>25,248</u>
Fixed interest stock and equities	26,618	23,292
Bank balances	851	1,996
Cash to be withdrawn	(540)	(40)
	<u>26,929</u>	<u>25,248</u>
Fixed interest stock and equities at cost	<u>24,501</u>	<u>25,874</u>

**14 DEBTORS**

	CONSOLIDATED		UNIVERSITY	
	2005	2004	2005	2004
	£000	£000	£000	£000
Debtors	26,104	36,439	25,914	35,827
Amounts owed by subsidiary undertakings	-	-	73	191
Prepayments and accrued income	2,055	1,623	2,055	1,553
	<u>28,159</u>	<u>38,062</u>	<u>28,042</u>	<u>37,571</u>

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

	CONSOLIDATED		UNIVERSITY	
	2005	2004	2005	2004
	£000	£000	£000	£000
Fixed term loans	980	1,214	980	1,214
Payments received on account	11,955	12,475	11,955	12,475
Creditors	14,170	9,477	14,162	9,379
Amounts owed to subsidiary undertakings	-	-	-	131
Social Security and other taxation payable	4,120	4,615	4,103	4,576
Accruals and deferred income	32,999	26,152	32,407	25,000
	<u>64,224</u>	<u>53,933</u>	<u>63,607</u>	<u>52,775</u>

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

	CONSOLIDATED AND UNIVERSITY	
	2005	2004
	£000	£000
Fixed term loans secured on residential and other property repayable by 2029	<u>22,635</u>	<u>23,301</u>

**17 PROVISIONS FOR LIABILITIES AND CHARGES**

	CONSOLIDATED AND UNIVERSITY	
	2005	2004
	£000	£000
At 1 August	853	2,587
Charged to income and expenditure account	-	789
Expenditure in the year	(853)	(2,523)
At 31 July	<u>-</u>	<u>853</u>

# Notes to the Accounts (continued)

## 18 DEFERRED CAPITAL GRANTS

	CONSOLIDATED AND UNIVERSITY		
	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 2004			
Buildings	65,559	13,343	78,902
Equipment	1,839	3,034	4,873
	<u>67,398</u>	<u>16,377</u>	<u>83,775</u>
Amounts received / receivable			
Buildings	774	2,995	3,769
Equipment	3,068	1,675	4,743
	<u>3,842</u>	<u>4,670</u>	<u>8,512</u>
Released to income and expenditure account			
Buildings	1,605	509	2,114
Equipment	1,584	2,462	4,046
	<u>3,189</u>	<u>2,971</u>	<u>6,160</u>
At 31 July 2005			
Buildings	64,728	15,829	80,557
Equipment	3,323	2,247	5,570
	<u>68,051</u>	<u>18,076</u>	<u>86,127</u>

## 19 ENDOWMENTS

	CONSOLIDATED AND UNIVERSITY		
	Specific £000	General £000	Total £000
At 1 August 2004	22,436	2,812	25,248
Additions	15	-	15
Disposals	(2,550)	-	(2,550)
Appreciation of endowment asset investments	3,721	562	4,283
Income for year	724	101	825
Transferred to income and expenditure account	(787)	(105)	(892)
At 31 July 2005	<u>23,559</u>	<u>3,370</u>	<u>26,929</u>

## 20 GENERAL RESERVES

	CONSOLIDATED	UNIVERSITY
	£000	£000
At 1 August 2004	55,071	54,754
Surplus on continuing operations	9,386	9,432
At 31 July 2005	<u>64,457</u>	<u>64,186</u>

<b>21 RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	2005 £000	2004 £000
Surplus on continuing operations after depreciation of assets at valuation	9,404	12,109
Depreciation	8,338	7,473
Profit on disposal of tangible fixed assets	-	(5,986)
Deferred capital grants released to income	(6,160)	(5,386)
Investment income	(4,184)	(2,469)
Interest payable	1,419	1,227
Increase in stocks	(6)	(11)
Decrease / (increase) in debtors	10,437	(4,110)
Increase in creditors	10,554	10,567
Decrease in provisions	(853)	(1,734)
Net cash inflow from operating activities	<u>28,949</u>	<u>11,680</u>

<b>22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	2005 £000	2004 £000
Income from endowments	877	877
Other interest received	3,158	1,745
Interest paid	(1,399)	(1,200)
Net cash inflow from returns on investments and servicing of finance	<u>2,636</u>	<u>1,422</u>

<b>23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	2005 £000	2004 £000
Purchase of tangible fixed assets	(10,543)	(19,012)
Payments to acquire endowment assets	(11,411)	(7,418)
Total fixed and endowment asset investments acquired	<u>(21,954)</u>	<u>(26,430)</u>
Receipts from sale of endowment assets	12,367	10,674
Deferred capital grants received	8,512	5,035
Endowments disposals	(2,535)	(1,165)
Net cash outflow from capital expenditure and financial investment	<u>(3,610)</u>	<u>(11,886)</u>

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

Fixed Term Loans	£000
At 1 August 2003	<u>15,630</u>
New loans	9,850
Capital repayments	(965)
At 31 July 2004	<u>24,515</u>
New loans	17,000
Capital repayments	(17,900)
At 31 July 2005	<u>23,615</u>

# Notes to the Accounts (continued)

## 25 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2004 £000	Cash Flows £000	Other Changes £000	At 31 July 2005 £000
Cash at Bank and in Hand				
Endowment asset investments (note 13)	1,996	(1,145)	-	851
Others	7,100	3,202	-	10,302
	9,096	2,057	-	11,153
Short-term investments	37,000	25,000	-	62,000
Debt due within one year	(1,214)	810	(576)	(980)
Debt due after one year	(23,301)	-	666	(22,635)
	21,581	27,867	90	49,538

## 26 CAPITAL COMMITMENTS

	CONSOLIDATED AND UNIVERSITY	
	2005 £000	2004 £000
Commitments contracted at 31 July	33,744	37,491
Authorized but not contracted at 31 July	13,967	3,091
	47,711	40,582

The above commitments are principally funded from external sources.

## 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 £53,000 and this will decline in line with a reduction in the number of pensioners.

## 28 ACCESS FUNDS

	2005 £000	2004 £000
Funding Council grants	571	647
Interest earned	1	1
	572	648
Disbursed to students	(331)	(411)
Balance unspent at 31 July	241	237

Funding Council grants are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

## 29 TEACHER TRAINING AGENCY

	2005 £000	2004 £000
Training Bursaries:		
Grant	2,076	2,058
Disbursements	(1,975)	(1,910)
Balance unspent at 31 July	101	148
Minority ethnic recruitment:		
Grant	10	8
Disbursements	(8)	(7)
Balance unspent at 31 July	2	1



### 30 PENSION ARRANGEMENTS

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

#### USS

USS is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions are accounted for as if it were a defined contribution scheme. The cost recognized within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

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

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

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

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed. The total pension cost for the University was £10,317,000 (2004: £9,584,000). This includes £949,000 (2004: £888,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14 per cent of pensionable salaries.

#### RBP

RBP is an Exempt Approved Scheme under the Finance Act 1970 and provides benefits based on final pensionable salary: it is established under irrevocable trusts and its assets are kept strictly separate from those of the University. It is a defined benefit scheme. The total pension cost to the University was £1,791,000 (2004: £1,685,000). The contribution payable by the University was 9 per cent of pensionable salaries. A full actuarial valuation was carried out as at 1 August 2004 and updated to 31 July 2005 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended 31 July 2005	Year ended 31 July 2004
Rate of increase in salaries	3.7%	4.0%
Rate of increase of pensions in payment	2.7%	3.0%
Discount rate	5.1%	5.8%
Inflation assumption	2.7%	3.0%

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

	Value at 31 July 2005	Long-term expected return	Value at 31 July 2004	Long-term expected return
	£000	%	£000	%
Equities	36,881	8.0	30,596	7.6
Bonds	56,794	5.5	51,550	5.2
Property	6,503	7.5	5,601	7.6
Cash	1,812	4.7	1,986	4.5
	<u>101,990</u>		<u>89,733</u>	

# Notes to the Accounts (continued)

The following amounts at 31 July 2005 and 31 July 2004 were measured in accordance with the requirements of FRS 17.

	2005 £000	2004 £000
Total market value of assets	101,990	89,733
Present value of scheme liabilities	116,688	96,680
Deficit in the scheme	<u>(14,698)</u>	<u>(6,947)</u>

If the above amounts had been recognized in the financial statements, the group's net assets and general reserve at 31 July 2005 and 31 July 2004 would be as follows:

	2005 £000	2004 £000
Net assets excluding pension liability	177,513	164,094
Pension liability	(14,698)	(6,947)
Net assets including pension liability	<u>162,815</u>	<u>157,147</u>
General reserve excluding pension liability	64,457	55,071
Pension reserve	(14,698)	(6,947)
General reserve	<u>49,759</u>	<u>48,124</u>

The following amounts would have been recognized in the performance statements in the years to 31 July 2005 and 31 July 2004 under the requirements of FRS 17:

<b>Operating profit</b>	2005 £000	2004 £000
Current service cost	3,262	2,860
Past service cost	–	–
Total operating charge	<u>3,262</u>	<u>2,860</u>

<b>Other finance income</b>	2005 £000	2004 £000
Expected return on pension scheme assets	5,461	5,272
Interest on pension scheme liabilities	(5,580)	(4,999)
Net (deficit) / return	<u>(119)</u>	<u>273</u>

<b>Statement of total recognized gains and losses</b>	2005 £000	2004 £000
Actual return less expected return on pension scheme assets	9,037	(475)
Experience losses and gains arising on scheme liabilities	(2,953)	(26)
Changes in assumptions underlying the present value of the scheme liabilities	<u>(12,282)</u>	<u>(850)</u>
Actuarial loss recognized in STRGL	<u>(6,198)</u>	<u>(1,351)</u>

<b>Movement in (deficit) / surplus during the year</b>	2005 £000	2004 £000
Deficit in scheme at beginning of the year	(6,947)	(4,685)
Movement in year:		
Current service cost	(3,262)	(2,860)
Contributions	1,828	1,676
Past service costs	–	–
Other finance income	(119)	273
Actuarial loss	<u>(6,198)</u>	<u>(1,351)</u>
Deficit in scheme at end of the year	<u>(14,698)</u>	<u>(6,947)</u>

The University also has a small number of staff in The National Health Service Scheme (NHSS), the total cost of which was £1,594,000 (2004: £1,057,000).

### 31 RELATED PARTY TRANSACTIONS

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

The principal related party transactions are shown below:

	Charged by the University		Charged to the University	
	2005 £000	2004 £000	2005 £000	2004 £000
The Newcastle upon Tyne Hospitals NHS Trust	7,068	7,105	4,308	3,371
The University of Newcastle upon Tyne Union Society	363	350	985	1,140
	<u>7,431</u>	<u>7,455</u>	<u>5,293</u>	<u>4,511</u>

The University of Newcastle upon Tyne Development Trust made payments to the University of £1,567,000 (2004: £1,804,000).

# Five-year Summary

	2005	2004	2003	2002	2001
	£000	£000	£000	£000	£000
<b>INCOME</b>					
Funding Council grants	105,562	89,463	80,911	76,385	67,924
Academic fees and support grants	46,362	44,073	38,929	31,256	27,842
Research grants and contracts	55,548	55,457	53,113	50,747	45,080
Other operating income (a)	64,443	64,184	55,062	57,534	44,685
Endowment income and interest receivable	4,184	2,469	2,401	2,541	3,816
Total income	<u>276,099</u>	<u>255,646</u>	<u>230,416</u>	<u>218,463</u>	<u>189,347</u>
<b>EXPENDITURE</b>					
Staff costs (b)	142,721	135,114	127,378	127,992	111,647
Depreciation	8,338	7,473	7,425	5,524	3,715
Other operating expenses	114,217	99,723	91,936	86,432	72,681
Interest payable	1,419	1,227	1,027	1,085	1,259
Total expenditure	<u>266,695</u>	<u>243,537</u>	<u>227,766</u>	<u>221,033</u>	<u>189,302</u>
Surplus / (deficit) after depreciation of assets but before tax	<u>9,404</u>	<u>12,109</u>	<u>2,650</u>	<u>(2,570)</u>	<u>45</u>

## Notes:

(a) Other operating income in 2004 includes £5,986k exceptional income in respect of the sale of freehold property whilst 2002 includes £5,534k exceptional income relating to the sale of an investment.

(b) Staff costs in 2003 and 2002 include voluntary severance costs of £4,376k and £7,998k respectively.



**University of Newcastle upon Tyne**  
Newcastle upon Tyne  
NE1 7RU  
United Kingdom

Telephone: +44 (0) 191 222 6000

**[www.ncl.ac.uk](http://www.ncl.ac.uk)**

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