

2005-06

Financial Statements

The University of Newcastle upon Tyne trading as Newcastle University

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Report of the Honorary Treasurer

for the year ended 31 July 2006

The University recorded a surplus in 2005–06 of £9.1 million, an excellent achievement in a difficult year. This surplus represents some 3 per cent of the total income for the year and was achieved primarily by cost savings. Total income grew by some £11.9 million or 4.3 per cent over the previous year.

The income and expenditure account and the balance sheet for the year now include the full implementation of FRS17, the accounting standard that relates to pensions. In accordance with that standard we have included details of the Retirement Benefits Plan, our local superannuation scheme. The majority of our staff are members of the Universities Superannuation Scheme and, as this scheme covers many universities, we cannot include those results in our calculations for the purpose of this accounting standard.

The inclusion of FRS17 has called for the University to restate the financial results for 2004–05 in order that they are on a comparable basis with 2005–06.

The growth in total income of some 4.3 per cent was the lowest in recent years and represents, to some extent, the non-cyclical nature of special initiative grants from funders which carry with them the requirement to spend the sums so received.

Grants from the Higher Education Funding Council for England (HEFCE) increased by 6.4 per cent in total, with core grants showing an increase of 7.5 per cent and special initiative grants an increase of 1.9 per cent.

Academic fees increased by 7.1 per cent, this increase coming from both home and overseas students. The investment made by the University in information systems development aimed at overseas students is showing benefits in our operations in that area of the market.

Research grants and contracts income showed a welcome rise of 4.1 per cent, including some £1.7 million of Research Council funding relating to the implementation of Full Economic Costing (fEC) in respect of their grants to us. This is the last year that this grant will be paid.

In expenditure terms the biggest cost increase came from staff costs which increased by some £13 million or 9 per cent, reflecting in part the implementation of the 'Fair Measures' pay scheme. The disparity between the increase in total income of 4.3 per cent and staff cost increases of 9 per cent put pressure on budgets for the year. With pay pressures coming both from the market for staff and from employee expectations, substantial increases in income in coming years will be essential.

The rapid expansion of the University over the past five years has called for capital expenditure schemes to be brought forward to create further capacity and to modernise our facilities.

In respect of the academic estate this has largely been achieved by the Science Research Investment Fund (SRIF) and Project Capital Allocation (PCA) schemes where funding for approved projects comes from the HEFCE. The University has to provide some funding from its own resources as a condition of the grant and almost invariably this exceeds the minimum required.

It is regrettable that our plans to expand our student accommodation at Castle Leazes, which I referred to last year, have been rejected. Expansion of the student residential estate, either by our own efforts, or in conjunction with developers, is essential.

We have had to develop our plans further for our proposed student services building and we hope to be in a position to apply for planning consent in the coming months.

The University has developed further its capital planning and evaluation procedures in the light of the need to improve the effectiveness of our capital spend and the emerging substantial capital programme.

Together with our partners, One NorthEast and Newcastle City Council, we have completed our purchase of the Science Central site, adjacent to the University campus, at a cost to the University of some £11 million. Additionally, we have recognised that substantial investment, both capital and recurrent, will have to be made to get the site in a state where development can take place, and have made provision in our 2006–07 budgets for the first year of these costs. Further, we, together with one of our partners, have made funds available in order to recruit those individuals whose skills will be essential for the University to realise its ambitions.

During the year we reviewed our investment management arrangements in a joint operation with the University of Newcastle upon Tyne Development Trust and have appointed two new managers for these investment funds. Initial results from both managers are encouraging.

The balance sheet remains strong, with short-term cash and investment balances being some £68 million (despite the purchase of the Science Central site) and demand for our courses remaining high, both of which give confidence for the current year. Competitive pressures are increasing in all the markets in which we operate and our costs are rising rapidly. The continued growth in income is a priority if the University's plans are to be realised.

P M Johnson
Honorary Treasurer

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

We have audited the financial statements ('the financial statements') of the University of Newcastle upon Tyne for the year ended 31 July 2006 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, the Statement of Principal Accounting Policies and the related notes. These financial statements 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 (United Kingdom Generally Accepted Accounting Practice) are 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 International Standards on Auditing (UK and Ireland). This report, including the 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 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 Training and Development Agency for Schools. 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 and Group. 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 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 with 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 institution and the Group at 31 July 2006, and of the surplus of income over expenditure, recognised gains and losses and cash flows for the Group for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- ii. in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools, 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 (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
9 October 2006

The maintenance and integrity of the University of Newcastle upon Tyne 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.

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 formalised 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.

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

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 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.

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.

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:

- 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, ensures that appropriate measures are in place which assure the financial sustainability of the University's activities, and reports to Council on progress against that plan on a regular basis. 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;
- 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;

- Estates Planning and Development 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.

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 embedded into ongoing operations and has been in place for the year ended 31 July 2006 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 (through Executive Board) considers reports setting out key performance and risk indicators. Executive Board is responsible for monitoring performance against those indicators on a regular basis, taking appropriate action to address performance issues and reporting to Council on the outcomes. 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.

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 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.

FRS17 'Retirement Benefits' has been adopted in full for the year ended 31 July 2006 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 2006.

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 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 March 2006 were £38.0 million on which its investment income for the year to that date was £0.8 million and in addition the trust received donations to the value of £0.8 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 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 and of Access Funds from the Higher Education Funding Council for England. Related payments received from the Training and Development Agency and the Higher Education Funding Council for England and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in notes 28 and 29 to the accounts.

5. Maintenance of Premises

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

6. Foreign Currency Translation

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

7. Leases

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

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

8. Tangible Fixed Assets

a. Land and Buildings

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

Where buildings are acquired with the aid of specific grants they are 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.

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

10. Stocks

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

11. Provisions

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

12. Pension Schemes

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

A small number of staff remain in other pension schemes.

The University is unable to identify its share of the underlying assets and liabilities of the USS on a consistent and reliable basis and, therefore, as required by FRS17, accounts for this scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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

13. Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 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 2006

	Note	2006 £000	Restated 2005 £000
INCOME			
Funding Council grants	1	112,402	105,562
Academic fees and support grants	2	49,649	46,362
Research grants and contracts	3	57,832	55,548
Other operating income	4	63,738	64,443
Endowment income and interest receivable	5	4,382	4,184
Total income		<u>288,003</u>	<u>276,099</u>
EXPENDITURE			
Staff costs	6	157,117	144,192
Other operating expenses	7	111,760	114,217
Depreciation	11	8,664	8,338
Interest payable	8	1,362	1,538
Total expenditure	9	<u>278,903</u>	<u>268,285</u>
Surplus on continuing operations after depreciation of fixed assets at valuation and before tax		9,100	7,814
Taxation	10	(23)	(18)
Surplus on continuing operations after depreciation of fixed assets at valuation and tax	20	<u>9,077</u>	<u>7,796</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 2006

	Note	2006 £000	Restated 2005 £000
Surplus on continuing operations after depreciation of fixed assets at valuation and tax		9,077	7,796
Appreciation of endowment asset investments	19	3,002	4,283
Endowment income retained for year	19	(102)	(67)
Net disposals of endowments	19	(60)	(2,535)
Actuarial loss relating to the pension scheme	30	(1,479)	(6,198)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>10,438</u>	<u>3,279</u>
Prior year adjustment	20	(14,765)	
TOTAL LOSSES RECOGNISED SINCE LAST PUBLISHED FINANCIAL STATEMENTS		<u>(4,327)</u>	
Reconciliation:			
Opening reserves and endowments		76,621	73,342
Total recognised gains for the year		10,438	3,279
Closing reserves and endowments		<u>87,059</u>	<u>76,621</u>

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

Balance Sheets

as at 31 July 2006

	Note	CONSOLIDATED		UNIVERSITY	
		2006 £000	Restated 2005 £000	2006 £000	Restated 2005 £000
FIXED ASSETS					
Tangible assets	11	147,588	136,816	147,588	136,816
Investments	12	56	56	61	61
		<u>147,644</u>	<u>136,872</u>	<u>147,649</u>	<u>136,877</u>
ENDOWMENT ASSET INVESTMENTS	13	<u>29,769</u>	<u>26,929</u>	<u>29,769</u>	<u>26,929</u>
CURRENT ASSETS					
Stocks and stores in hand		105	110	105	110
Debtors	14	27,838	28,159	28,020	28,042
Investments		53,000	62,000	53,000	62,000
Cash at bank and in hand		14,929	10,302	13,994	9,526
		<u>95,872</u>	<u>100,571</u>	<u>95,119</u>	<u>99,678</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	<u>(61,818)</u>	<u>(64,291)</u>	<u>(61,402)</u>	<u>(63,674)</u>
NET CURRENT ASSETS		<u>34,054</u>	<u>36,280</u>	<u>33,717</u>	<u>36,004</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>211,467</u>	<u>200,081</u>	<u>211,135</u>	<u>199,810</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	<u>(21,655)</u>	<u>(22,635)</u>	<u>(21,655)</u>	<u>(22,635)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS EXCLUDING PENSION LIABILITY		<u>189,812</u>	<u>177,446</u>	<u>189,480</u>	<u>177,175</u>
PENSION LIABILITY	30	<u>(17,028)</u>	<u>(14,698)</u>	<u>(17,028)</u>	<u>(14,698)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>172,784</u>	<u>162,748</u>	<u>172,452</u>	<u>162,477</u>
DEFERRED CAPITAL GRANTS	18	85,725	86,127	85,725	86,127
ENDOWMENTS					
Specific	19	26,060	23,559	26,060	23,559
General	19	3,709	3,370	3,709	3,370
		<u>29,769</u>	<u>26,929</u>	<u>29,769</u>	<u>26,929</u>
RESERVES					
General reserve excluding pension liability		74,318	64,390	73,986	64,119
Pension liability		(17,028)	(14,698)	(17,028)	(14,698)
General reserve including pension liability	20	<u>57,290</u>	<u>49,692</u>	<u>56,958</u>	<u>49,421</u>
TOTAL FUNDS		<u>172,784</u>	<u>162,748</u>	<u>172,452</u>	<u>162,477</u>

The financial statements on pages 7–26 were approved by the Council on 9 October 2006 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 2006

		2006	Restated 2005
	Note	£000	£000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	7,472	28,949
Returns on investments and servicing of finance	22	2,470	2,636
Taxation		(24)	(18)
Capital expenditure and financial investment	23	(14,144)	(3,610)
Cash (outflow) / inflow before use of liquid resources and financing		(4,226)	27,957
Management of liquid resources – cash reductions / (additions) to short-term deposits		9,000	(25,000)
Financing	24	(980)	(900)
Increase in cash in the period		<u>3,794</u>	<u>2,057</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Increase in cash in the period		3,794	2,057
Increase in borrowing		–	(17,000)
(Decrease) / increase in short-term deposits		(9,000)	25,000
Repayment of debt		980	17,900
Movement in net funds in period		(4,226)	27,957
Net funds at 1 August		<u>49,538</u>	<u>21,581</u>
Net funds at 31 July	25	<u>45,312</u>	<u>49,538</u>

Notes to the Accounts

1 FUNDING COUNCIL GRANTS	2006	2005
	£000	£000
HEFCE recurrent grant	87,005	80,917
HEFCE specific grants	19,946	19,581
HEFCE deferred capital grants released in year		
– Buildings	1,628	1,605
– Equipment	2,139	1,583
TDA recurrent grant	1,502	1,622
TDA specific grant	182	254
	<u>112,402</u>	<u>105,562</u>
2 ACADEMIC FEES AND SUPPORT GRANTS	2006	2005
	£000	£000
Full-time students	19,149	17,945
Full-time students charged overseas fees	20,666	18,936
Part-time fees	1,652	1,346
Research training support grants	4,969	5,279
Short courses	3,213	2,856
	<u>49,649</u>	<u>46,362</u>
3 RESEARCH GRANTS AND CONTRACTS	2006	2005
	£000	£000
Research Councils	17,651	14,488
UK-based charities	15,884	14,795
European Commission	6,375	6,054
Other grants and contracts	17,922	20,211
	<u>57,832</u>	<u>55,548</u>
4 OTHER OPERATING INCOME	2006	2005
	£000	£000
Residences, catering and conferences	15,343	14,677
Other services rendered	15,049	18,820
Health authorities	14,159	13,149
Other income	19,187	17,797
	<u>63,738</u>	<u>64,443</u>
5 ENDOWMENT INCOME AND INTEREST RECEIVABLE	2006	2005
	£000	£000
Transferred from specific endowments	868	787
Income from general endowment asset investments	123	105
Pension finance interest	157	–
Other interest receivable	3,234	3,292
	<u>4,382</u>	<u>4,184</u>

6 STAFF

	2006 £000	Restated 2005 £000
STAFF COSTS		
Wages and salaries	129,264	118,769
Social security costs	11,131	10,250
Other pension costs	16,722	15,173
	<u>157,117</u>	<u>144,192</u>
 Emoluments of the Vice-Chancellor	 197	 192

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 £27,398 (2005: £26,600). This was supplemented by £26,020 which relates to contributions paid in advance.

	2006 Number	2005 Number
Remuneration of higher paid staff, excluding employer's pension contributions (Clinical staff numbers in brackets):		
£70,000–£79,999	29 (12)	23 (15)
£80,000–£89,999	27 (20)	27 (23)
£90,000–£99,999	18 (16)	17 (12)
£100,000–£109,999	16 (9)	18 (14)
£110,000–£119,999	13 (10)	8 (7)
£120,000–£129,999	11 (10)	14 (12)
£130,000–£139,999	10 (8)	3 (3)
£140,000–£149,999	4 (4)	6 (6)
£150,000–£159,999	4 (4)	7 (7)
£160,000–£169,999	7 (7)	6 (6)
£170,000–£179,999	6 (6)	2 (2)
£180,000–£189,999	2 (2)	1 (1)
£190,000–£199,999	1 (1)	3 (3)
£200,000–£209,999	1 (1)	– (–)

7 OTHER OPERATING EXPENSES

	2006 £000	2005 £000
Residences, catering and conference operating expenses	9,519	7,871
Consumables and laboratory expenditure	14,665	15,232
Books and periodicals	3,492	3,035
Heat, light, water and power	4,648	4,287
Repairs and general maintenance	17,483	23,415
Long-term maintenance	1,266	1,751
Grants to Union Society (annual subvention and specific grant)	1,283	842
Auditors' remuneration	52	51
Auditors' remuneration in respect of non-audit services (grant certification)	46	3
Other expenses	59,306	57,730
	<u>111,760</u>	<u>114,217</u>

8 INTEREST PAYABLE

	2006	Restated
	£000	2005
		£000
On loans not wholly repayable within five years	1,362	1,419
Pension finance interest	–	119
	<u>1,362</u>	<u>1,538</u>

9 ANALYSIS OF 2005–06 EXPENDITURE BY ACTIVITY

	Staff Costs	Other Operating Expenses	Depreciation	Interest Payable	Total
	£000	£000	£000	£000	£000
Academic schools	82,884	22,407	1,683		106,974
Academic services	9,598	9,588	99		19,285
Administration and central services	16,742	8,707	316		25,765
Premises	6,997	27,348	3,034	396	37,775
Residences, catering and conferences	4,401	9,519	606	966	15,492
Research grants and contracts	26,420	19,451	856		46,727
Other expenditure	10,075	14,740	2,070		26,885
Total per income and expenditure account	<u>157,117</u>	<u>111,760</u>	<u>8,664</u>	<u>1,362</u>	<u>278,903</u>
The depreciation charge has been funded by:					
Deferred capital grants released		6,483			
General income		2,181			
		<u>8,664</u>			

10 TAXATION

	2006	2005
	£000	£000
United Kingdom corporation tax at 20 per cent	<u>23</u>	<u>18</u>

11 TANGIBLE ASSETS

CONSOLIDATED AND UNIVERSITY

	Land and Buildings					Total £000
	Freehold £000	Leasehold		Equipment £000	Leased Equipment £000	
		Long £000	Short £000			
COST						
Balance at 1 August 2005	84,416	69,670	3,135	36,210	1,401	194,832
Additions	11,011	2,820	–	5,605	–	19,436
Balance at 31 July 2006	<u>95,427</u>	<u>72,490</u>	<u>3,135</u>	<u>41,815</u>	<u>1,401</u>	<u>214,268</u>
DEPRECIATION						
Balance at 1 August 2005	14,370	11,889	1,449	28,908	1,400	58,016
Charge for year	1,557	1,446	241	5,420	–	8,664
Balance at 31 July 2006	<u>15,927</u>	<u>13,335</u>	<u>1,690</u>	<u>34,328</u>	<u>1,400</u>	<u>66,680</u>
NET BOOK VALUE						
At 31 July 2006	<u>79,500</u>	<u>59,155</u>	<u>1,445</u>	<u>7,487</u>	<u>1</u>	<u>147,588</u>
At 1 August 2005	<u>70,046</u>	<u>57,781</u>	<u>1,686</u>	<u>7,302</u>	<u>1</u>	<u>136,816</u>
Financed by capital grant	24,243	39,227	–	3,833	–	67,303
Other	55,257	19,928	1,445	3,654	1	80,285
	<u>79,500</u>	<u>59,155</u>	<u>1,445</u>	<u>7,487</u>	<u>1</u>	<u>147,588</u>

The net book value of tangible fixed assets includes an amount of £1,000 (2005: £1,000) in respect of assets held under finance leases.

The depreciation charge on these assets for the year was £nil (2005: £nil).

12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2006	2005	2006	2005
	£000	£000	£000	£000
Shares in subsidiary undertakings at cost less amounts written off	-	-	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:

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

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

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

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	
		2006	2005	2006	2005
		£000	£000	£000	£000
CVCP Properties PLC	1.3	<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>

13 ENDOWMENT ASSET INVESTMENTS

	CONSOLIDATED AND UNIVERSITY	
	2006	2005
	£000	£000
At 1 August	26,929	25,248
Additions	36,357	11,411
Disposals	(35,628)	(12,367)
Net depreciation on disposals and on revaluation	2,111	2,637
At 31 July	<u>29,769</u>	<u>26,929</u>
Fixed interest stock and equities	30,376	26,618
Bank balances	18	851
Cash to be withdrawn	(625)	(540)
	<u>29,769</u>	<u>26,929</u>
Fixed interest stock and equities at cost	<u>29,298</u>	<u>24,501</u>

14 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	2006	2005	2006	2005
	£000	£000	£000	£000
Debtors	25,125	26,104	25,074	25,914
Amounts owed by subsidiary undertakings	-	-	233	73
Prepayments and accrued income	2,713	2,055	2,713	2,055
	<u>27,838</u>	<u>28,159</u>	<u>28,020</u>	<u>28,042</u>

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		UNIVERSITY	
	Restated		Restated	
	2006	2005	2006	2005
	£000	£000	£000	£000
Fixed term loans	980	980	980	980
Payments received on account	12,514	11,955	12,514	11,955
Creditors	14,548	14,170	14,541	14,162
Social security and other taxation payable	4,250	4,120	4,234	4,103
Accruals and deferred income	29,526	33,066	29,133	32,474
	<u>61,818</u>	<u>64,291</u>	<u>61,402</u>	<u>63,674</u>

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	CONSOLIDATED AND UNIVERSITY	
	2006	2005
	£000	£000
Fixed term loans secured on residential and other property repayable by 2029	<u>21,655</u>	<u>22,635</u>

17 PROVISIONS FOR LIABILITIES AND CHARGES

	CONSOLIDATED AND UNIVERSITY	
	2006 £000	2005 £000
At 1 August	-	853
Expenditure in the year	-	(853)
At 31 July	-	-

18 DEFERRED CAPITAL GRANTS

	CONSOLIDATED AND UNIVERSITY		
	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 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>
Amounts received / receivable			
Buildings	370	898	1,268
Equipment	2,649	2,164	4,813
	<u>3,019</u>	<u>3,062</u>	<u>6,081</u>
Released to income and expenditure account			
Buildings	1,628	545	2,173
Equipment	2,139	2,171	4,310
	<u>3,767</u>	<u>2,716</u>	<u>6,483</u>
At 31 July 2006			
Buildings	63,470	16,182	79,652
Equipment	3,833	2,240	6,073
	<u>67,303</u>	<u>18,422</u>	<u>85,725</u>

19 ENDOWMENTS

	CONSOLIDATED AND UNIVERSITY		
	Specific £000	General £000	Total £000
At 1 August 2005	23,559	3,370	26,929
Disposals	(60)	-	(60)
Appreciation of endowment asset investments	2,651	351	3,002
Income for year	778	111	889
Transferred to income and expenditure account	(868)	(123)	(991)
At 31 July 2006	<u>26,060</u>	<u>3,709</u>	<u>29,769</u>

20 GENERAL RESERVE

	CONSOLIDATED		UNIVERSITY	
	2006 £000	2005 £000	2006 £000	2005 £000
Balance at beginning of year	64,457	55,071	64,186	54,754
Prior year adjustment				
FRS17 pension liability	(14,698)	(6,947)	(14,698)	(6,947)
Reversal of SSAP24 adjustment	(67)	(30)	(67)	(30)
	<u>(14,765)</u>	<u>(6,977)</u>	<u>(14,765)</u>	<u>(6,977)</u>
Restated balance at beginning of year	49,692	48,094	49,421	47,777
Surplus on continuing operations	9,077	7,796	9,016	7,842
Actuarial loss on pension scheme	(1,479)	(6,198)	(1,479)	(6,198)
Balance at year end	<u>57,290</u>	<u>49,692</u>	<u>56,958</u>	<u>49,421</u>

Impact of FRS17 Retirement Benefits

The adoption of FRS17 resulted in the following movements:

	CONSOLIDATED AND UNIVERSITY	
	2006 £000	2005 £000
Increase in staff costs	(1,008)	(1,434)
Increase in pension finance income / (costs)	157	(119)
Impact on the income and expenditure account for the year	<u>(851)</u>	<u>(1,553)</u>
Actuarial loss relating to the pension scheme	(1,479)	(6,198)
Decrease in total recognised gains and losses for the year	<u>(2,330)</u>	<u>(7,751)</u>
Pension liability at beginning of year	<u>(14,698)</u>	<u>(6,947)</u>
Pension liability at year end	<u>(17,028)</u>	<u>(14,698)</u>

Analysis of prior year adjustment

The prior year adjustment relates to the implementation of FRS17

	CONSOLIDATED AND UNIVERSITY £000
Adjustment to opening reserves at 1 August 2004	<u>(6,977)</u>
Adjustment to income and expenditure for the year ended 31 July 2005	
Impact of FRS17 Retirement Benefits	(1,553)
Reversal of SSAP24 adjustment	(37)
	<u>(1,590)</u>
Adjustment to total recognised gains and losses for the year ended 31 July 2005	<u>(6,198)</u>
	<u>(14,765)</u>

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

	2006	Restated 2005
	£000	£000
Surplus on continuing operations after depreciation of assets at valuation	9,100	7,814
Depreciation	8,664	8,338
Deferred capital grants released to income	(6,483)	(6,160)
Investment income	(4,225)	(4,184)
Interest payable	1,362	1,419
Difference between FRS17 net pension cost and cash contributions	851	1,553
Decrease / (increase) in stocks	5	(6)
Decrease in debtors	661	10,437
(Decrease) / increase in creditors	(2,463)	10,591
Decrease in provisions	–	(853)
Net cash inflow from operating activities	<u>7,472</u>	<u>28,949</u>

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2006	2005
	£000	£000
Income from endowments	482	877
Other interest received	3,359	3,158
Interest paid	(1,371)	(1,399)
Net cash inflow from returns on investments and servicing of finance	<u>2,470</u>	<u>2,636</u>

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2006	2005
	£000	£000
Purchase of tangible fixed assets	(19,436)	(10,543)
Payments to acquire endowment assets	(36,357)	(11,411)
Total fixed and endowment asset investments acquired	(55,793)	(21,954)
Receipts from sale of endowment assets	35,628	12,367
Deferred capital grants received	6,081	8,512
Endowments disposals	(60)	(2,535)
Net cash outflow from capital expenditure and financial investment	<u>(14,144)</u>	<u>(3,610)</u>

24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	£000
Fixed Term Loans	
At 1 August 2004	24,515
New loans	17,000
Capital repayments	(17,900)
At 31 July 2005	23,615
Capital repayments	(980)
At 31 July 2006	<u>22,635</u>

25 ANALYSIS OF CHANGES IN NET FUNDS	At 1 August 2005 £000	Cash Flows £000	Other Changes £000	At 31 July 2006 £000
Cash at bank and in hand:				
Endowment asset investments (note 13)	851	(833)	–	18
Others	10,302	4,627	–	14,929
	<u>11,153</u>	<u>3,794</u>	<u>–</u>	<u>14,947</u>
Short-term investments	62,000	(9,000)	–	53,000
Debt due within one year	(980)	980	(980)	(980)
Debt due after one year	(22,635)	–	980	(21,655)
	<u>49,538</u>	<u>(4,226)</u>	<u>–</u>	<u>45,312</u>

26 CAPITAL COMMITMENTS

	CONSOLIDATED AND UNIVERSITY	
	2006 £000	2005 £000
Commitments contracted at 31 July	47,768	33,744
Authorised but not contracted at 31 July	11,213	13,967
	<u>58,981</u>	<u>47,711</u>

The above commitments are principally funded from external sources.

27 CONTINGENT LIABILITIES

The University has a nomination agreement relating to student accommodation expiring 2028–29. 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 £37,000 and this will decline in line with a reduction in the number of pensioners.

28 ACCESS FUNDS

	2006 £000	2005 £000
Balance unspent at beginning of year	241	237
Funding Council grants	599	571
Interest earned	1	1
	<u>841</u>	<u>809</u>
Disbursements	(538)	(568)
Balance unspent at 31 July	<u>303</u>	<u>241</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

	2006	2005
	£000	£000
Training bursaries:		
Balance unspent at beginning of year	101	148
Grant	1,870	2,076
Disbursements	(1,827)	(2,123)
Balance unspent at 31 July	<u>144</u>	<u>101</u>
Minority ethnic recruitment:		
Balance unspent at beginning of year	2	1
Grant	9	10
Disbursements	(9)	(9)
Balance unspent at 31 July	<u>2</u>	<u>2</u>

The above training bursaries from the Training and Development Agency (TDA) 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, 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. 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 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 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 in line with 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 and pensions would increase by 2.9 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 £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.

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.

30 PENSION ARRANGEMENTS (continued)

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. An additional factor which could impact on the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as 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 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 £11,358,000 (2005: £10,317,000). This includes £958,000 (2005: £949,000) 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 £3,688,000 (2005: £3,262,000). The contribution payable by the University was 12.25 per cent of pensionable salaries.

A full actuarial valuation was carried out as at 1 August 2004 and updated to 31 July 2006 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended 31 July 2006	Year ended 31 July 2005	Year ended 31 July 2004
Rate of increase in salaries	4.2%	3.7%	4.0%
Rate of increase of pensions in payment	3.2%	2.7%	3.0%
Discount rate	5.3%	5.1%	5.8%
Inflation assumption	3.2%	2.7%	3.0%

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

	Value at 31 July 2006 £000	Long-term expected return %	Value at 31 July 2005 £000	Long-term expected return %	Value at 31 July 2004 £000	Long-term expected return %
Equities	42,675	7.75	36,881	8.0	30,596	7.6
Bonds	61,312	4.8	56,794	4.6	51,550	5.2
Property	6,404	7.75	6,503	7.5	5,601	7.6
Cash	1,653	4.5	1,812	4.7	1,986	4.5
Total market value of assets	112,044		101,990		89,733	
Actuarial value of liability	(129,072)		(116,688)		(96,680)	
Deficit in the scheme	(17,028)		(14,698)		(6,947)	
Related deferred tax asset	-		-		-	
Net pension liability	(17,028)		(14,698)		(6,947)	

30 PENSION ARRANGEMENTS (continued)

Analysis of the amount charged to operating surplus	2006	2005
	£000	£000
Current service cost	3,688	3,262
Past service cost	–	–
Total operating charge	<u>3,688</u>	<u>3,262</u>
Analysis of net return on pension scheme	2006	2005
	£000	£000
Expected return on pension scheme assets	6,112	5,461
Interest on pension liabilities	(5,955)	(5,580)
Net return / (deficit)	<u>157</u>	<u>(119)</u>
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2006	2005
	£000	£000
Actual return less expected return on pension scheme assets	4,783	9,037
Experience losses and gains arising on scheme liabilities	(849)	(2,953)
Changes in assumptions underlying the present value of the scheme liabilities	(5,413)	(12,282)
Actuarial loss recognised in STRGL	<u>(1,479)</u>	<u>(6,198)</u>
Movement in deficit during the year	2006	2005
	£000	£000
Deficit in scheme at beginning of the year	(14,698)	(6,947)
Movement in year:		
Current service cost	(3,688)	(3,262)
Contributions	2,680	1,828
Past service costs	–	–
Other finance income / (costs)	157	(119)
Actuarial loss	(1,479)	(6,198)
Deficit in scheme at end of the year	<u>(17,028)</u>	<u>(14,698)</u>

30 PENSION ARRANGEMENTS (continued)

History of experience gains and losses	Year ended 31 July 2006	Year ended 31 July 2005	Year ended 31 July 2004	Year ended 31 July 2003	Year ended 31 July 2002
Difference between expected and actual return on scheme assets:					
Amount (£000)	4,783	9,037	(475)	(75)	(12,815)
Percentage of scheme assets	4%	9%	0%	0%	(15%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	(849)	(2,953)	(26)	474	-
Percentage of scheme liabilities	(1%)	(3%)	0%	1%	0%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	(1,479)	(6,198)	(1,351)	(10,127)	(7,104)
Percentage of scheme assets	(1%)	(6%)	(2%)	(12%)	(9%)

The University also has a small number of staff in The National Health Service Scheme (NHSS), the total cost of which was £1,676,000 (2005: £1,594,000).

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	
	2006 £000	2005 £000	2006 £000	2005 £000
The Newcastle upon Tyne Hospitals NHS Trust	7,474	7,068	4,945	4,308
The University of Newcastle upon Tyne Union Society	714	363	1,319	985
	<u>8,188</u>	<u>7,431</u>	<u>6,264</u>	<u>5,293</u>

The University of Newcastle upon Tyne Development Trust made payments to the University of £2,224,000 (2005: £2,354,000).

Five-year Summary

	2006 £000	2005 (a) £000	2004 £000	2003 £000	2002 £000
INCOME					
Funding Council grants	112,402	105,562	89,463	80,911	76,385
Academic fees and support grants	49,649	46,362	44,073	38,929	31,256
Research grants and contracts	57,832	55,548	55,457	53,113	50,747
Other operating income (b)	63,738	64,443	64,184	55,062	57,534
Endowment income and interest receivable	4,382	4,184	2,469	2,401	2,541
Total income	<u>288,003</u>	<u>276,099</u>	<u>255,646</u>	<u>230,416</u>	<u>218,463</u>
EXPENDITURE					
Staff costs (c)	157,117	144,192	135,114	127,378	127,992
Other operating expenses	111,760	114,217	99,723	91,936	86,432
Depreciation	8,664	8,338	7,473	7,425	5,524
Interest payable	1,362	1,538	1,227	1,027	1,085
Total expenditure	<u>278,903</u>	<u>268,285</u>	<u>243,537</u>	<u>227,766</u>	<u>221,033</u>
Surplus / (deficit) after depreciation of assets but before tax	<u>9,100</u>	<u>7,814</u>	<u>12,109</u>	<u>2,650</u>	<u>(2,570)</u>

Notes:

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

(b) 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.

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



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