

Financial ²⁰⁰⁶⁻⁰⁷ Statements

The University of Newcastle upon Tyne
trading as Newcastle University

Contents

	Page
Report of the Honorary Treasurer	2
Independent Auditors' Report to the Council	3
Corporate Governance	4–6
Statement of Principal Accounting Policies	7–9
Consolidated Income and Expenditure Account	10
Balance Sheets	11
Consolidated Cash Flow Statement	12
Notes to the Accounts	13–27
Five-year Summary	28

Report of the Honorary Treasurer

for the year ended 31 July 2007

The University recorded a surplus in 2006–07 of £8.8 million on total income of £317 million.

The last four years have seen income grow from £230 million to £317 million, an increase of some 38 per cent, whilst the total amount of surplus earned in that period was some £39 million. The University has used the funds represented by these surpluses to invest in new facilities for teaching, research and support services.

The growth in total income of some 10 per cent in 2006–07 was an excellent achievement, with the increase in research grants and contracts of some 14 per cent being particularly welcome. It was, however, a further difficult year in the international student market due, in part, to the sterling / dollar exchange rate.

Staff costs, which represent the largest single element of costs, increased by some 9.3 per cent in the year and represent some 54 per cent of total income, close to the benchmark we have applied for the past five years. With further cost increases coming from the three-year national pay deal and market pressures, continued growth in the total income of the University is essential.

During the year the University signed a long-term agreement with INTO Partnerships, which will facilitate the development of an international pre-undergraduate college, together with residential accommodation for some 500 students, on campus. Whilst initial recruitment is encouraging, the full potential will not be realised until the new accommodation is in place. The University has included its share of the results of the venture in its financial statements for 2006–07.

The University received three major endowments during the year totalling some £2.3 million which were added to our endowment investment funds. These endowments are of great assistance to the University in carrying forward its work and we are most grateful for them.

Our capital spending plans for academic, student residences and support services purposes were set out in our Capital Plan, which was completed in the year, and forecasts expenditure of over £120 million in the next four years. The funding for each of the cases in the plan will come from a variety of sources with the Higher Education Funding Council for England being a key element in the majority of these cases.

During the year we took out a 10-year lease on new property in the city centre to deliver our post-experience courses in the Business School. This investment will give our successful Business School much needed capacity in the short and medium term whilst allowing for a new building for the Business School to be sourced.

As the year drew to a close we received planning consent for a new student services building which, together with associated works, is expected to cost some £35 million. We expect work to start on site in the spring of 2008, with completion some two years later.

We expect to be informed of the final outcome of the government's Comprehensive Spending Review later in the year. The result will impact not only on our recurrent budgets but also our ability to finance the cases in the Capital Plan. We hope that the very significant achievements of this and other universities, over the last 10 years or so particularly, will be rewarded in the terms of the outcome of this Review.

Our financial position remains strong but, with increasing cost pressures and a large programme of capital expenditure to fund, continued growth of income, in real terms, is essential.

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 2007 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) 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 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 the 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 2007, 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 22 October 2007

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.

The following statement is provided to enable readers of the Annual Report and Financial Statements of the University to obtain a better understanding of its governance and legal structure.

The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership), and with the guidance to universities from the Committee of University Chairmen in its Guide for Members of Higher Education Governing Bodies in the UK.

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

The Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

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

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.

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

- Executive Board, which keeps under review the University's strategy and makes recommendations on the development of the strategy to Senate and Council. It develops and regularly reviews the University's business plan, assesses the risks related to delivery of the plan, and ensures that appropriate measures are in place which assure the financial sustainability of the University's activities. Executive Board reports on these matters regularly to Council. Through the monitoring undertaken by the Financial Monitoring and Budget Scrutiny Group and the Budget Setting Group, Executive Board is also responsible for the use of resources and financial performance of all budgetary units. It has particular responsibility for value for money;
- Finance Committee, which considers and recommends to Council the financial strategy for the University and advises on investments, determines the level of funding to be made available to support the annual budget allocations, approves the accounting policies and considers the financial statements;
- 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.

The principal academic and administrative officer of the University is the Vice-Chancellor who has general responsibility for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the Designated Officer of the University. In that capacity he can be summoned to appear before the Public Accounts Committee of the House of Commons.

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

The Statutes of the University specify that the Registrar should act as Secretary of the Council. Any enquiries about the constitution and governance of the University should be addressed to the Registrar.

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

Responsibilities of the University's Council

In accordance with the University's Statutes, the Council is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University's Statutes, the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going-concern basis.

The Council has taken reasonable steps to:

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

Statement on Internal Control

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

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

- clear definitions of, and the authority delegated to, heads of academic schools and heads of administrative services;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- clearly defined and formalised requirements for approval and control of expenditure;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee;
- key performance and risk indicators which are monitored by the senior management team (through Executive Board) on a regular basis. Appropriate action is taken to address performance issues and the outcomes reported to Council;
- an ongoing process designed to identify the principal risks (whether business, operational, compliance or financial) to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The reporting method uses a system whereby risks are ranked in terms of likelihood and impact, and are reviewed and periodically reported to Council to ensure that procedures are in place for the identified risks to be managed.

Council is of the view that the University's process for identifying, evaluating and managing its significant risks is embedded into ongoing operations and has been in place for the year ended 31 July 2007 and up to the date of the approval of the annual accounts.

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

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

Statement of Principal Accounting Policies

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

1. Basis of Preparation

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

2. Basis of Accounting

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

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 2007.

Details of the University's subsidiary and associated 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. During the year, the University Development Trust changed its accounting date from 31 March to 31 July and therefore the results cover a 16-month period. The total assets of the University Development Trust at its year end 31 July 2007 were £39.0 million. Its investment income for the period to that date was £1.3 million and 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 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 2007

	Note	2007 £000	2006 £000
INCOME			
Funding Council grants	1	115,416	112,402
Academic fees and support grants	2	59,132	49,649
Research grants and contracts	3	65,850	57,832
Other operating income (including share of joint venture)	4	71,502	63,738
Endowment income and interest receivable	5	5,682	4,382
Total income		<u>317,582</u>	<u>288,003</u>
Less: share of income from joint venture	13	(266)	-
Net income		<u>317,316</u>	<u>288,003</u>
EXPENDITURE			
Staff costs	6	171,787	157,117
Other operating expenses	7	125,739	111,760
Depreciation	11	9,231	8,664
Interest payable	8	1,353	1,362
Total expenditure	9	<u>308,110</u>	<u>278,903</u>
Operating surplus on continuing activities		9,206	9,100
Share of operating loss in joint venture	13	(342)	-
Surplus on continuing operations after depreciation of fixed assets at valuation and before tax		8,864	9,100
Taxation	10	(100)	(23)
Surplus on continuing operations after depreciation of fixed assets at valuation and tax	20	<u>8,764</u>	<u>9,077</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 2007

	Note	2007 £000	2006 £000
Surplus on continuing operations after depreciation of fixed assets at valuation and tax		8,764	9,077
Appreciation of endowment asset investments	19	3,477	3,002
Endowment income dispersed for year	19	(937)	(102)
Net additions / (disposals) of endowments	19	2,330	(60)
Actuarial gain / (loss) relating to the pension scheme	30	13,138	(1,479)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>26,772</u>	<u>10,438</u>
Prior year adjustment		-	(14,765)
TOTAL GAINS / (LOSSES) RECOGNISED SINCE LAST PUBLISHED FINANCIAL STATEMENTS		<u>26,772</u>	<u>(4,327)</u>
Reconciliation:			
Opening reserves and endowments		87,059	76,621
Total recognised gains for the year		26,772	10,438
Closing reserves and endowments		<u>113,831</u>	<u>87,059</u>

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

Balance Sheets

as at 31 July 2007

	Note	CONSOLIDATED		UNIVERSITY	
		2007 £000	2006 £000	2007 £000	2006 £000
FIXED ASSETS					
Tangible assets	11	149,352	147,588	149,352	147,588
Investments	12	56	56	61	61
Investment assets – joint venture	13				
Share of gross assets		669	-	-	-
Share of gross liabilities		(861)	-	-	-
		<u>149,216</u>	<u>147,644</u>	<u>149,413</u>	<u>147,649</u>
ENDOWMENT ASSET INVESTMENTS	14	<u>34,639</u>	<u>29,769</u>	<u>34,639</u>	<u>29,769</u>
CURRENT ASSETS					
Stocks and stores in hand		98	105	98	105
Debtors	15	30,873	27,838	30,804	28,020
Investments		74,000	53,000	74,000	53,000
Cash at bank and in hand		11,349	14,929	11,003	13,994
		<u>116,320</u>	<u>95,872</u>	<u>115,905</u>	<u>95,119</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	16	<u>(73,011)</u>	<u>(61,818)</u>	<u>(72,914)</u>	<u>(61,402)</u>
NET CURRENT ASSETS					
		<u>43,309</u>	<u>34,054</u>	<u>42,991</u>	<u>33,717</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		227,164	211,467	227,043	211,135
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	17	<u>(20,675)</u>	<u>(21,655)</u>	<u>(20,675)</u>	<u>(21,655)</u>
NET ASSETS EXCLUDING PENSION LIABILITY					
		206,489	189,812	206,368	189,480
PENSION LIABILITY					
	30	<u>(5,022)</u>	<u>(17,028)</u>	<u>(5,022)</u>	<u>(17,028)</u>
NET ASSETS INCLUDING PENSION LIABILITY					
		<u>201,467</u>	<u>172,784</u>	<u>201,346</u>	<u>172,452</u>
DEFERRED CAPITAL GRANTS					
	18	87,538	85,725	87,538	85,725
ENDOWMENTS					
Specific	19	30,554	26,060	30,554	26,060
General	19	4,085	3,709	4,085	3,709
		<u>34,639</u>	<u>29,769</u>	<u>34,639</u>	<u>29,769</u>
RESERVES					
General reserve excluding pension liability		84,214	74,318	84,191	73,986
Pension liability		(5,022)	(17,028)	(5,022)	(17,028)
General reserve including pension liability	20	<u>79,192</u>	<u>57,290</u>	<u>79,169</u>	<u>56,958</u>
MINORITY INTEREST					
		98	-	-	-
TOTAL FUNDS					
		<u>201,467</u>	<u>172,784</u>	<u>201,346</u>	<u>172,452</u>

The financial statements on pages 7-27 were approved by the Council on 22 October 2007 and signed on its behalf by:
C H BRINK, 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 2007

	Note	2007 £000	2006 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	17,341	7,472
Returns on investments and servicing of finance	22	4,092	2,470
Taxation		(28)	(24)
Capital expenditure and financial investment	23	(2,134)	(14,144)
Cash inflow / (outflow) before use of liquid resources and financing		<u>19,271</u>	<u>(4,226)</u>
Management of liquid resources			
– cash (additions) / reductions to short-term deposits		(21,000)	9,000
Financing	24	(980)	(980)
(Decrease) / increase in cash in the period		<u>(2,709)</u>	<u>3,794</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
(Decrease) / increase in cash in the period		(2,709)	3,794
Increase / (decrease) in short-term deposits		21,000	(9,000)
Repayment of debt		980	980
Movement in net funds in period		<u>19,271</u>	<u>(4,226)</u>
Net funds at 1 August		45,312	49,538
Net funds at 31 July	25	<u>64,583</u>	<u>45,312</u>

Notes to the Accounts

1 FUNDING COUNCIL GRANTS	2007	2006
	£000	£000
HEFCE recurrent grant	92,239	87,005
HEFCE specific grants	17,966	19,946
HEFCE deferred capital grants released in year		
– Buildings	1,824	1,628
– Equipment	1,900	2,139
TDA recurrent grant	1,257	1,502
TDA specific grant	230	182
	<u>115,416</u>	<u>112,402</u>
2 ACADEMIC FEES AND SUPPORT GRANTS	2007	2006
	£000	£000
Full-time students	26,871	19,149
Full-time students charged overseas fees	21,647	20,666
Part-time fees	1,586	1,652
Research training support grants	6,750	4,969
Short courses	2,278	3,213
	<u>59,132</u>	<u>49,649</u>
3 RESEARCH GRANTS AND CONTRACTS	2007	2006
	£000	£000
Research Councils	20,172	17,651
UK-based charities	16,459	15,884
European Commission	7,449	6,375
Other grants and contracts	21,770	17,922
	<u>65,850</u>	<u>57,832</u>
4 OTHER OPERATING INCOME	2007	2006
	£000	£000
Residences, catering and conferences	16,094	15,343
Other services rendered	20,501	15,049
Health authorities	15,485	14,159
Other income	19,422	19,187
	<u>71,502</u>	<u>63,738</u>
5 ENDOWMENT INCOME AND INTEREST RECEIVABLE	2007	2006
	£000	£000
Transferred from specific endowments	1,422	868
Income from general endowment asset investments	101	123
Pension finance interest	–	157
Other interest receivable	4,159	3,234
	<u>5,682</u>	<u>4,382</u>

6 STAFF	2007	2006
	£000	£000
STAFF COSTS		
Wages and salaries	141,415	129,264
Social security costs	12,214	11,131
Other pension costs	18,158	16,722
	<u>171,787</u>	<u>157,117</u>
Emoluments of the Vice-Chancellor	209	197
Emoluments of the Vice-Chancellor Designate from 1 July 2007	19	-

The emoluments of the Vice-Chancellor and Vice-Chancellor Designate are shown on the same basis as for higher paid staff. The University's pension contributions to USS in relation to the Vice-Chancellor and Vice-Chancellor Designate are paid at the same rates as for other academic staff and amounted to £nil (2006: £53,418) for the Vice-Chancellor and £2,182 (2006: £nil) for the Vice-Chancellor Designate.

Remuneration of higher paid staff, excluding employer's pension contributions (Clinical staff numbers in brackets):	2007	2006
	Number	Number
£70,000 – £79,999	36 (14)	29 (12)
£80,000 – £89,999	25 (18)	27 (20)
£90,000 – £99,999	21 (20)	18 (16)
£100,000 – £109,999	17 (7)	16 (9)
£110,000 – £119,999	15 (12)	13 (10)
£120,000 – £129,999	10 (9)	11 (10)
£130,000 – £139,999	10 (6)	10 (8)
£140,000 – £149,999	8 (8)	4 (4)
£150,000 – £159,999	4 (4)	4 (4)
£160,000 – £169,999	2 (2)	7 (7)
£170,000 – £179,999	10 (10)	6 (6)
£180,000 – £189,999	6 (6)	2 (2)
£190,000 – £199,999	1 (1)	1 (1)
£200,000 – £209,999	2 (2)	1 (1)

7 OTHER OPERATING EXPENSES	2007	2006
	£000	£000
Residences, catering and conference operating expenses	8,548	9,519
Consumables and laboratory expenditure	15,820	14,665
Books and periodicals	3,902	3,492
Heat, light, water and power	5,770	4,648
Repairs and general maintenance	20,118	17,483
Long-term maintenance	1,870	1,266
Grants to Union Society (annual subvention and specific grant)	1,092	1,283
Auditors' remuneration	62	52
Auditors' remuneration in respect of non-audit services	36	46
Other expenses	68,521	59,306
	<u>125,739</u>	<u>111,760</u>

8 INTEREST PAYABLE

	2007 £000	2006 £000
On loans not wholly repayable within five years	1,298	1,362
Pension finance interest	55	–
	<u>1,353</u>	<u>1,362</u>

9 ANALYSIS OF 2006–07 EXPENDITURE BY ACTIVITY

	Staff Costs £000	Other Operating Expenses £000	Depreciation £000	Interest Payable £000	Total £000
Academic schools	91,633	23,582	980	–	116,195
Academic services	9,935	9,477	101	–	19,513
Administration and central services	17,501	11,498	322	–	29,321
Premises	7,429	30,335	2,966	378	41,108
Residences, catering and conferences	4,727	8,548	606	920	14,801
Research grants and contracts	30,437	21,380	2,123	–	53,940
Other expenditure	10,125	20,919	2,133	55	33,232
Total per income and expenditure account	<u>171,787</u>	<u>125,739</u>	<u>9,231</u>	<u>1,353</u>	<u>308,110</u>

The depreciation charge has been funded by:

Deferred capital grants released	7,149
General income	2,082
	<u>9,231</u>

10 TAXATION

	2007 £000	2006 £000
United Kingdom corporation tax at 20 per cent	<u>100</u>	<u>23</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 2006	95,427	72,490	3,135	41,815	1,401	214,268
Additions	983	4,011	764	5,237	-	10,995
Disposals	-	-	-	(34)	-	(34)
Balance at 31 July 2007	<u>96,410</u>	<u>76,501</u>	<u>3,899</u>	<u>47,018</u>	<u>1,401</u>	<u>225,229</u>
DEPRECIATION						
Balance at 1 August 2006	15,927	13,335	1,690	34,328	1,400	66,680
Charge for year	1,808	1,446	317	5,659	1	9,231
Eliminated on disposals	-	-	-	(34)	-	(34)
Balance at 31 July 2007	<u>17,735</u>	<u>14,781</u>	<u>2,007</u>	<u>39,953</u>	<u>1,401</u>	<u>75,877</u>
NET BOOK VALUE						
At 31 July 2007	<u>78,675</u>	<u>61,720</u>	<u>1,892</u>	<u>7,065</u>	<u>-</u>	<u>149,352</u>
At 1 August 2006	<u>79,500</u>	<u>59,155</u>	<u>1,445</u>	<u>7,487</u>	<u>1</u>	<u>147,588</u>
Financed by capital grant	23,364	41,848	-	2,567	-	67,779
Other	55,311	19,872	1,892	4,498	-	81,573
	<u>78,675</u>	<u>61,720</u>	<u>1,892</u>	<u>7,065</u>	<u>-</u>	<u>149,352</u>

The net book value of tangible fixed assets includes an amount of £nil (2006: £1,000) in respect of assets held under finance leases.

The depreciation charge on these assets for the year was £1,000 (2006: £nil).

12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2007 £000	2006 £000	2007 £000	2006 £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 1 August	56	56	56	56
Additions in year	83	-	83	-
Amounts written off in year	(83)	-	(83)	-
At cost 31 July	<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>
Total fixed asset investments	<u>56</u>	<u>56</u>	<u>61</u>	<u>61</u>

SHARES IN SUBSIDIARY UNDERTAKINGS

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

Name of Company	Percentage Holding of Ordinary Shares	Nature of Business
Newcastle University Holdings Limited	100	Operates as a holding company only.
Newcastle University Ventures Limited	100	Provides support for the commercial development of research and consultancy.
University of Newcastle upon Tyne Supply Company Limited	100	Leases assets to the University.
Newcastle University Pension Trustee (1971) Limited	100	Provides a corporate trusteeship for the University Retirement Benefits Plan.
Newcastle ISC Limited	100	Acts as a holding company for the joint venture INTO Newcastle University LLP.
NUIdeasBank.pte	100	A company incorporated in Singapore for the commercialisation of research.
NUINTO Limited	51	Provides the teaching of English language skills.

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	
		2007 £000	2006 £000	2007 £000	2006 £000
CVCP Properties PLC	1.3	56	56	56	56
North East Seed Capital Fund LP	11.94	-	-	-	-
		<u>56</u>	<u>56</u>	<u>56</u>	<u>56</u>

The cost of the investment in North East Seed Capital Fund LP of £83,333 was written off during the year.

13 INVESTMENT IN JOINT VENTURE

INTO Newcastle University LLP is a joint venture between the University and INTO University Partnerships Limited. A 50 per cent share of the LLP's gross assets and liabilities are included in the University's consolidated balance sheet and 50 per cent of its net income is reported in the University's consolidated income and expenditure account. INTO Newcastle University LLP's principal activity is the provision of pre-University education and residential accommodation for international students. At the year end an amount of £322,998 (2006: £nil) was due to the University from INTO Newcastle University LLP and an amount of £262,885 (2006: £nil) was due from the University to INTO Newcastle University LLP.

14 ENDOWMENT ASSET INVESTMENTS

	CONSOLIDATED AND UNIVERSITY	
	2007 £000	2006 £000
At 1 August	29,769	26,929
Additions	16,489	36,357
Disposals	(14,058)	(35,628)
Net depreciation on disposals and on revaluation	2,439	2,111
At 31 July	<u>34,639</u>	<u>29,769</u>
Fixed interest stock and equities	35,449	30,376
Bank balances	889	18
Cash to be withdrawn	(1,699)	(625)
	<u>34,639</u>	<u>29,769</u>
Fixed interest stock and equities at cost	<u>33,032</u>	<u>29,298</u>

15 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	2007 £000	2006 £000	2007 £000	2006 £000
Debtors	25,518	25,125	25,067	25,074
Amounts owed by subsidiary undertakings	–	–	382	233
Prepayments and accrued income	5,355	2,713	5,355	2,713
	<u>30,873</u>	<u>27,838</u>	<u>30,804</u>	<u>28,020</u>

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		UNIVERSITY	
	2007 £000	2006 £000	2007 £000	2006 £000
Fixed term loans	980	980	980	980
Payments received on account	14,878	12,514	14,878	12,514
Creditors	15,693	14,548	15,689	14,541
Social security and other taxation payable	4,822	4,250	4,810	4,234
Accruals and deferred income	36,638	29,526	36,557	29,133
	<u>73,011</u>	<u>61,818</u>	<u>72,914</u>	<u>61,402</u>

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

CONSOLIDATED AND UNIVERSITY

	2007 £000	2006 £000
Fixed term loans secured on residential and other property repayable by 2029	<u>20,675</u>	<u>21,655</u>

18 DEFERRED CAPITAL GRANTS

CONSOLIDATED AND UNIVERSITY

	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 2006			
Buildings	63,470	16,182	79,652
Equipment	<u>3,833</u>	<u>2,240</u>	<u>6,073</u>
	<u>67,303</u>	<u>18,422</u>	<u>85,725</u>
Amounts received / receivable			
Buildings	3,566	438	4,004
Equipment	<u>634</u>	<u>4,324</u>	<u>4,958</u>
	<u>4,200</u>	<u>4,762</u>	<u>8,962</u>
Released to income and expenditure account			
Buildings	1,824	547	2,371
Equipment	<u>1,900</u>	<u>2,878</u>	<u>4,778</u>
	<u>3,724</u>	<u>3,425</u>	<u>7,149</u>
At 31 July 2007			
Buildings	65,212	16,073	81,285
Equipment	<u>2,567</u>	<u>3,686</u>	<u>6,253</u>
	<u>67,779</u>	<u>19,759</u>	<u>87,538</u>

19 ENDOWMENTS

CONSOLIDATED AND UNIVERSITY

	Specific £000	General £000	Total £000
At 1 August 2006	26,060	3,709	29,769
Additions	2,330	-	2,330
Appreciation of endowment asset investments	3,069	408	3,477
Income for year	517	69	586
Transferred to income and expenditure account	<u>(1,422)</u>	<u>(101)</u>	<u>(1,523)</u>
At 31 July 2007	<u>30,554</u>	<u>4,085</u>	<u>34,639</u>

Notes to the Accounts (continued)

20 GENERAL RESERVE

	CONSOLIDATED		UNIVERSITY	
	2007 £000	2006 £000	2007 £000	2006 £000
Balance at beginning of year	57,290	49,692	56,958	49,421
Surplus on continuing operations	8,764	9,077	9,073	9,016
Actuarial gain / (loss) on pension scheme	13,138	(1,479)	13,138	(1,479)
Balance at year end	<u>79,192</u>	<u>57,290</u>	<u>79,169</u>	<u>56,958</u>

Impact of FRS17 Retirement Benefits

FRS17 resulted in the following movements:

	CONSOLIDATED AND UNIVERSITY	
	2007 £000	2006 £000
Increase in staff costs	(1,077)	(1,008)
Increase in pension finance (costs) / income	(55)	157
Impact on the income and expenditure account for the year	(1,132)	(851)
Actuarial gain / (loss) relating to the pension scheme	13,138	(1,479)
Increase / (decrease) in total recognised gains and losses for the year	12,006	(2,330)
Pension liability at beginning of year	(17,028)	(14,698)
Pension liability at end of year	<u>(5,022)</u>	<u>(17,028)</u>

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

	2007 £000	2006 £000
Surplus on continuing operations after depreciation of assets at valuation	8,864	9,100
Depreciation	9,231	8,664
Deferred capital grants released to income	(7,149)	(6,483)
Share of operating loss in joint venture	342	-
Investment income	(5,682)	(4,225)
Interest payable	1,298	1,362
Difference between FRS17 net pension charge and cash contributions	1,132	851
Decrease in stocks	7	5
(Increase) / decrease in debtors	(1,819)	661
Increase / (decrease) in creditors	11,117	(2,463)
Net cash inflow from operating activities	<u>17,341</u>	<u>7,472</u>

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2007 £000	2006 £000
Income from endowments	1,503	482
Other interest received	3,912	3,359
Interest paid	(1,323)	(1,371)
Net cash inflow from returns on investments and servicing of finance	<u>4,092</u>	<u>2,470</u>

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2007 £000	2006 £000
Purchase of tangible fixed assets	(10,995)	(19,436)
Payments to acquire endowment assets	(16,489)	(36,357)
Total fixed and endowment asset investments acquired	(27,484)	(55,793)
Receipts from sale of endowment assets	14,058	35,628
Deferred capital grants received	8,962	6,081
Endowments additions / (disposals)	2,330	(60)
Net cash outflow from capital expenditure and financial investment	<u>(2,134)</u>	<u>(14,144)</u>

24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	£000
Fixed Term Loans	
At 1 August 2005	23,615
Capital repayments	(980)
At 31 July 2006	22,635
Capital repayments	(980)
At 31 July 2007	<u>21,655</u>

25 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2006 £000	Cash Flows £000	Other Changes £000	At 31 July 2007 £000
Cash at bank and in hand:				
Endowment asset investments (note 14)	18	871	-	889
Others	14,929	(3,580)	-	11,349
	<u>14,947</u>	<u>(2,709)</u>	<u>-</u>	<u>12,238</u>
Short-term investments	53,000	21,000	-	74,000
Debt due within one year	(980)	980	(980)	(980)
Debt due after one year	(21,655)	-	980	(20,675)
	<u>45,312</u>	<u>19,271</u>	<u>-</u>	<u>64,583</u>

26 CAPITAL COMMITMENTS

	CONSOLIDATED AND UNIVERSITY	
	2007 £000	2006 £000
Commitments contracted at 31 July	36,067	47,768
Authorised but not contracted at 31 July	50,539	11,213
	<u>86,606</u>	<u>58,981</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 £36,000 and this will decline in line with a reduction in the number of pensioners.

28 ACCESS FUNDS

	2007 £000	2006 £000
Balance unspent at beginning of year	303	241
Funding Council grants	450	599
Interest earned	1	1
	<u>754</u>	<u>841</u>
Disbursements	(529)	(538)
Balance unspent at 31 July	<u>225</u>	<u>303</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

	2007 £000	2006 £000
Training bursaries:		
Balance unspent at beginning of year	144	101
Grant	1,908	1,870
Disbursements	(1,914)	(1,827)
Balance unspent at 31 July	<u>138</u>	<u>144</u>
Minority ethnic recruitment:		
Balance unspent at beginning of year	2	2
Grant	7	9
Disbursements	(8)	(9)
Balance unspent at 31 July	<u>1</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 appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by a management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

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

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest) and the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5 per cent per annum, salary increases would be 3.9 per cent per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800 million of liabilities to reflect recent experience) and pensions would increase by 2.9 per cent per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2 per cent per annum, including an additional investment return assumption of 1.7 per cent per annum, salary increases would be 3.9 per cent per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9 per cent per annum.

Standard mortality tables were used as follows:

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

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

Males	19.8 years
Females	22.8 years

At the valuation date, the market value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million leaving a deficit of £6,568 million. The assets therefore were sufficient to cover 77 per cent of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126 per cent funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110 per cent funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74 per cent of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90 per cent.

30 PENSION ARRANGEMENTS (continued)

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77 per cent at 31 March 2005 to 91 per cent at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109 per cent and on a buy-out basis was approximately 84 per cent.

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

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

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

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

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

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

The total pension cost for the University was £12,302,000 (2006: £11,358,000). This includes £1,041,000 (2006: £958,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14 per cent of pensionable salaries.

30 PENSION ARRANGEMENTS (continued)

RBP

RBP is an Exempt Approved Scheme under the Finance Act 1970 and provides benefits based on final pensionable salary; it is established under irrevocable trusts and its assets are kept strictly separate from those of the University. It is a defined benefit scheme. The total pension cost to the University was £3,995,000 (2006: £3,688,000). 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 2007 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended 31 July 2007	Year ended 31 July 2006	Year ended 31 July 2005
Rate of increase in salaries	4.1%	4.2%	3.7%
Rate of increase of pensions in payment	3.1%	3.2%	2.7%
Discount rate	5.7%	5.3%	5.1%
Inflation assumption	3.1%	3.2%	2.7%

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

	Value at 31 July 2007 £000	Long-term expected return %	Value at 31 July 2006 £000	Long-term expected return %	Value at 31 July 2005 £000	Long-term expected return %
Equities	58,653	7.75	42,675	7.75	36,881	8.0
Bonds	52,376	5.20	61,312	4.8	56,794	4.6
Property	7,377	7.75	6,404	7.75	6,503	7.5
Cash	1,678	5.75	1,653	4.5	1,812	4.7
Total market value of assets	120,084		112,044		101,990	
Actuarial value of liability	(125,106)		(129,072)		(116,688)	
Deficit in the scheme	(5,022)		(17,028)		(14,698)	
Related deferred tax asset	-		-		-	
Net pension liability	(5,022)		(17,028)		(14,698)	

30 PENSION ARRANGEMENTS (continued)

Analysis of the amount charged to operating surplus	2007	2006
	£000	£000
Current service cost	3,995	3,688
Past service cost	–	–
Total operating charge	<u>3,995</u>	<u>3,688</u>
Analysis of net return on pension scheme	2007	2006
	£000	£000
Expected return on pension scheme assets	6,792	6,112
Interest on pension liabilities	(6,847)	(5,955)
Net (deficit) / return	<u>(55)</u>	<u>157</u>
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)	2007	2006
	£000	£000
Actual return less expected return on pension scheme assets	2,080	4,783
Experience gains and losses arising on scheme liabilities	562	(849)
Changes in assumptions underlying the present value of the scheme liabilities	10,496	(5,413)
Actuarial gain / (loss) recognised in STRGL	<u>13,138</u>	<u>(1,479)</u>
Movement in deficit during the year	2007	2006
	£000	£000
Deficit in scheme at beginning of the year	(17,028)	(14,698)
Movement in year:		
Current service cost	(3,995)	(3,688)
Contributions	2,918	2,680
Past service costs	–	–
Other finance (costs) / income	(55)	157
Actuarial gain / (loss)	13,138	(1,479)
Deficit in scheme at end of the year	<u>(5,022)</u>	<u>(17,028)</u>

30 PENSION ARRANGEMENTS (continued)

History of experience gains and losses	Year ended 31 July 2007	Year ended 31 July 2006	Year ended 31 July 2005	Year ended 31 July 2004	Year ended 31 July 2003
Difference between expected and actual return on scheme assets:					
Amount (£000)	2,080	4,783	9,037	(475)	(75)
Percentage of scheme assets	2%	4%	9%	0%	0%
Experience gains and losses on scheme liabilities:					
Amount (£000)	562	(849)	(2,953)	(26)	474
Percentage of scheme liabilities	0%	(1%)	(3%)	0%	1%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	13,138	(1,479)	(6,198)	(1,351)	(10,127)
Percentage of scheme assets	10%	(1%)	(6%)	(2%)	(12%)

The University also has a small number of staff in the National Health Service Scheme (NHSS), the total cost of which was £1,861,000 (2006: £1,676,000).

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	
	2007 £000	2006 £000	2007 £000	2006 £000
The Newcastle upon Tyne Hospitals NHS Trust	8,385	7,474	5,568	4,945
The University of Newcastle upon Tyne Union Society	638	714	1,239	1,319
	<u>9,023</u>	<u>8,188</u>	<u>6,807</u>	<u>6,264</u>

The University of Newcastle upon Tyne Development Trust made payments to the University of £2,339,000 (2006: £2,224,000).

Five-year Summary

	2007 £000	2006 £000	2005 (a) £000	2004 £000	2003 £000
INCOME					
Funding Council grants	115,416	112,402	105,562	89,463	80,911
Academic fees and support grants	59,132	49,649	46,362	44,073	38,929
Research grants and contracts	65,850	57,832	55,548	55,457	53,113
Other operating income (b)	71,236	63,738	64,443	64,184	55,062
Endowment income and interest receivable	5,682	4,382	4,184	2,469	2,401
Total income	317,316	288,003	276,099	255,646	230,416
EXPENDITURE					
Staff costs (c)	171,787	157,117	144,192	135,114	127,378
Other operating expenses	125,739	111,760	114,217	99,723	91,936
Depreciation	9,231	8,664	8,338	7,473	7,425
Interest payable	1,353	1,362	1,538	1,227	1,027
Total expenditure	308,110	278,903	268,285	243,537	227,766
Operating surplus	9,206	9,100	7,814	12,109	2,650
Share of operating loss in joint venture	(342)	-	-	-	-
Surplus after depreciation of assets but before tax	8,864	9,100	7,814	12,109	2,650
Taxation	(100)	(23)	(18)	(98)	-
Surplus after depreciation of assets and tax	8,764	9,077	7,796	12,011	2,650

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.

(c) Staff costs in 2003 include voluntary severance costs of £4,376k.



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Designed by The Roundhouse Design Consultants, Newcastle upon Tyne.
Printed by Statex Colour Print, Newcastle upon Tyne.

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