

Financial Statements

2008-09 The University of Newcastle upon Tyne
trading as Newcastle University



Contents

| | Page |
|---|-------------|
| Operating and Financial Review | 4–19 |
| Vice-Chancellor’s Introduction | 4 |
| The University | 6 |
| Strategic Review | 7 |
| Review of Operations | 8 |
| Our Resources | 14 |
| Financial Review | 16 |
| Managing Risk | 18 |
| Corporate Governance | 20–22 |
| Independent Auditors’ Report to Council | 23–24 |
| Statement of Principal Accounting Policies | 25–27 |
| Consolidated Income and Expenditure Account | 28 |
| Balance Sheets | 29 |
| Consolidated Cash Flow Statement | 30 |
| Notes to the Accounts | 31–45 |
| Five-year Summary | 46 |

Operating and Financial Review

For the year ended 31 July 2009



Vice-Chancellor's Introduction

We all have an eventful year behind us, given the drastic change in the national and international economic situation. No doubt we will in consequence have an interesting time ahead. Despite the national and global perturbations, however, Newcastle University has had a good year, as you will read in this review.

Student satisfaction improved against a national trend downwards. Our research activity continues to grow strongly and we were generally pleased with the results of the 2008 Research Assessment Exercise (RAE). The Great North Museum has welcomed record visitor numbers. Our 'Ten Steps for the North East' programme to help the region through the economic downturn has won regional and national acclaim and our major building investment programme is progressing well.

For these positive developments I would like to open this review by saying thank you. The performance of the University is a function of the hard work and personal efforts of our staff, with the active support and interaction of our students, alumni, supporters and benefactors. Without that, the progress and achievements reported here would not have materialised.

There were two defining developments over the past year. I have already mentioned the economic downturn – beyond our control, but impacting on our future. Very much within our control, however, has been the development of Vision 2021, our strategic framework for managing our future as a world-class civic university. Given the increasing successes of the University, the outcome of the RAE, the economic downturn, and the new Executive Board which took office during 2008, it was time for us to get our thoughts straight on the way ahead. Vision 2021 was produced after extensive and intensive consultation, and approved by Council in March 2009.

Central to that document is the idea of acknowledging both the supply side and the demand side of the knowledge economy, and to ensure that our University is an active and successful player in both dimensions. On the supply side we have the free creation of knowledge, curiosity-driven research, disciplinary knowledge, teaching and learning aimed at broadening the mind, and taking into society the benefits of education and rational discourse. This aspect of our University is grounded in our academic schools and faculties. On the demand side we have large-scale societal issues, real-life problems requiring knowledge-based solutions, interdisciplinary work, the integration of knowledge, professional training and skills development, and a broad thematic approach responding to societal needs and demands. We recognise that large-scale societal problems do not come to us neatly packaged in disciplinary parcels, therefore we structure a number of institution-wide, cross-faculty and/or multi-school structures and networks to do so. We do not see societal engagement as a charitable 'outreach' activity, nor do we see it only as a 'third strand' entrepreneurial activity. We see it as positioning our teaching and research as an integral part of civil society, and we argue that this brings as much benefit to the University as the benefit we hope to contribute to society. Thus we see the supply side and the demand side of our activities as acting in a mutually reinforcing feedback loop.

We see ourselves as doing high-quality academic work, measured and judged against the best done anywhere in the world, but we also see ourselves as choosing to work in areas responsive to large-scale societal needs and demands. We believe in, and strive for, world-class academic excellence – but excellence with a purpose. We can respond to the classic question about academic work – 'Is it good?' – and confidently say yes, because we know that we have been, and can be, independently evaluated as such. We can also respond to the societal question about our work, which is 'What is it good for?', and point at our many contributions over a long time to a better society.

These are not ideas that we made up *de novo* over the past year. All we have done is to articulate an ethos and understanding that has been growing at Newcastle University for some time. The global economic downturn, the credit crisis and the fluctuation in currency values show us once again the value of having a durable intellectual currency. The one thing society cannot afford, even when its monetary currency fluctuates, is any devaluation of its intellectual currency. The value of our intellectual currency is

not set by universities alone, but it cannot be set without universities either. At this University, the quality of our intellectual endeavour is fundamental to what we do. The integration of the local and the global, of quality and relevance, of culture and science, is what we aim for. Our pursuit of quality is what makes us a global player. Our determination to respond to societal challenges is what sets us apart.

In an operational sense these thoughts can be summarised very simply: we do not regard the University in the first place as a business, because our primary motive is not profit but academic excellence. However, we have to be businesslike in our activities in order to attain our academic goals. Core to this is our financial sustainability, and so I am pleased to be able to report that our financial results are good. We report 7% income growth and a significant surplus. We have good cash reserves, low levels of debt, and a strong balance sheet. We are as well positioned as any to face the widely expected difficult times ahead.

To conclude, I would like to say thank you and pay tribute to our past Chancellor, Lord Patten of Barnes, and to welcome our new Chancellor, Sir Liam Donaldson. Chris Patten stepped down as Chancellor of Newcastle University after 10 years, during which time he worked with three Vice-Chancellors and two Chairmen of Council. His strong but good-natured support, wise counsel and inimitable graduation addresses will long be remembered. As his successor we are fortunate to welcome the man who is the nation's doctor, a long-time Honorary Professor at our University, and a staunch Newcastle United supporter. We will hold an inauguration ceremony for Sir Liam in December.



Professor Chris Brink
Vice-Chancellor

Operating and Financial Review (continued)

For the year ended 31 July 2009

The University

Overview

Newcastle University can trace its origins to a school of medicine and surgery, established in Newcastle in 1834, and to the College of Physical Science, later Armstrong College, which was founded in the city in 1871. These two colleges formed one division of the federal University of Durham, the Durham Colleges forming the other division. The Newcastle Colleges merged to form King's College in 1937 and, in 1963, when the federal University was dissolved, King's College became the University of Newcastle upon Tyne, latterly trading as Newcastle University.

The University is a member of the Russell Group, comprising 20 leading research institutions in the UK. It has one of the largest European Union research portfolios in the UK and has research links with many other countries. Our research spans a wide spectrum and activity spans subject boundaries and traditional faculty divides. To help promote interdisciplinary research, we have established internationally renowned research institutes and centres.

Nearly 19,000 students from more than 100 different countries choose to study at Newcastle. We have over 200 full-time undergraduate degree programmes on offer, in a wide range of subject areas and combinations. Our 50-acre site at the heart of Newcastle city centre boasts some of the best teaching and learning facilities in the country. Our multimillion pound investment in the campus is set to continue, ensuring state-of-the-art facilities for our students and researchers. We are one of the largest employers in the North East of England, with approximately 5,000 staff.

We aim to play a leading role in the economic, social and cultural development of the North East of England. We collaborate with a range of partners and strategic initiatives, helping to extend the University's influence and reinforce our ties with the city, region and beyond. These include Newcastle City Council, One North East, the NHS and Newcastle Science City.

Our principal competitors are research-intensive universities in the UK and, to a lesser extent, other universities in the North East. However, it is in the nature of the higher education sector that we compete and collaborate at the same time.

Organisation

We have three core academic functions:

- research and innovation
- teaching and learning, and the student experience
- engagement

Strategic leadership of each of these is provided, on a university-wide basis, by a pro-vice-chancellor. Delivery of the core functions occurs in our three core academic structures, which are the three faculties, each led and managed by a pro-vice-chancellor.

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

Each faculty consists of a number of academic units, typically a school or a research institute, each led and managed by a head. The core functions and core structures combine to form the academic map of the University, in which we envisage the faculties as vertical columns, with the core functions as cross-cutting institutional activities. Interdisciplinary and cross-disciplinary activities are co-ordinated and supported by the functional PVCs, while academic staff are line-managed within the faculties. The academic enterprise is supported by a number of corporate activities within the Professional Support Services, led and managed by the Registrar.



Newcastle University's impressive Armstrong Building

Executive Board

The University is led and managed by the Vice-Chancellor and Executive Board, comprising:

Professor Chris Brink

Vice-Chancellor

Professor Chris Day

Pro-Vice-Chancellor – Medical Sciences

Professor Charles Harvey

Pro-Vice-Chancellor – Humanities and Social Sciences

Professor Oliver Hinton

Pro-Vice-Chancellor – Science, Agriculture and Engineering

Professor Ella Ritchie

Pro-Vice-Chancellor – Teaching and Learning

Professor Tony Stevenson

Pro-Vice-Chancellor – Planning and Resources

Professor Nicholas Wright

Pro-Vice-Chancellor – Research and Innovation

Professor Paul Younger

Pro-Vice-Chancellor – Engagement

Dr John Hogan

Registrar

Mr Richard Dale

Executive Director of Finance

Mrs Veryan Johnston

Executive Director of Human Resources

Profiles of members of the Executive Board and senior lay members of Council can be found at

www.ncl.ac.uk/about/peoplestructures/staff/officers.

Arrangements for governance, including the roles of Council, Senate and Court, and supervision by the Higher Education Foundation Council for England (HEFCE) are described in more detail in the Corporate Governance section.

Strategic Review



The student experience forms part of one of our three core academic functions

Council approved a revised strategic overview for the University in March 2009¹. Our vision is of Newcastle as a civic university with a global reputation for academic excellence.

Mission

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

Principles and Values

There are certain fundamental values shared throughout the higher education sector to which we are committed, including: academic freedom; the pursuit of knowledge and understanding truth; a sound academic disciplinary base; a methodology based on reason and evidence; social responsibility; and transparency.

In addition, we:

- are committed to excellence
- value diversity
- respond to societal challenges
- accord parity of esteem to research and teaching
- educate for life
- are globally ambitious and regionally rooted
- invest in excellent staff

¹ The full document can be found at www.ncl.ac.uk/documents/vision2021 – copies are available from the Registrar.

Institutional Objectives

Our overall institutional objectives are to achieve:

- top 20 in the UK for research quality and power
- student satisfaction ratings of 90% or better in all subjects
- focus on selected societal challenge themes
- a significant international profile
- financial and environmental sustainability

The core functional objectives are outlined in the Review of Operations section. Our businesslike approach requires focus on key issues, for which we identify specific objectives and operational actions and performance measures. These are the student experience, human resources, financial control and sustainability, strategic positioning, information technology and resources, the estate and environmental sustainability.

Each faculty has its own strategic plan on how to support and attain our institutional goals in the context of its own disciplinary clusters. The three faculties jointly subscribe to the following core strategic objectives:

- achieve and sustain research excellence
- deliver a high-quality student experience on all programmes
- embed the drive, ambition and capabilities needed to excel in both teaching and research
- strengthen and deepen our international activities and reputation
- expand postgraduate recruitment based on an international reputation for excellence
- make a distinctive contribution to the development and delivery of societal challenge themes

Review of Operations

Research and Innovation

The key objectives in our research and innovation strategy are to:

- grow areas of strength and address areas of weakness to achieve international excellence in all we do
- identify institutional challenge themes responding to societal needs and demands
- develop an innovation culture embedded throughout the University

The Research Assessment Exercise results were published by HEFCE in December 2008. It was the first survey of its kind for seven years and will have a significant impact on our research funding from HEFCE for the next four years at least. 58% of Newcastle's research was judged to be 'world-leading' or 'internationally excellent' (4* and 3*). In 26 out of 38 submissions, 50% or more of the unit was judged to be in the 4* and 3* categories.

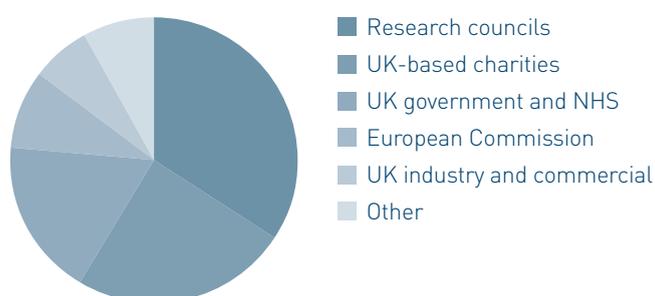
Newcastle was ranked seventeenth out of 162 universities and colleges in the UK in a league table of research power compiled by the influential *Research Fortnight* magazine (2001: sixteenth). The University scored an institutional Grade Point Average (GPA) of 2.63, twenty-seventh in the national quality league tables (2001: thirty-second). The University's strategic objective is to be in the top 20 for both research quality and power, which in the 2008 exercise would have required an institutional GPA of 2.70.



Research income in 2008-09 was £84.5m

The University performed well on research environment, with many assessing panels commenting very favourably on the provision of training for postgraduate research students. However, some areas performed relatively poorly on esteem indicators and the overall quality profiles were, in some cases, pulled down by low esteem scores. An extensive review of the results and the associated commentaries has been conducted and a detailed action plan agreed to exploit the strengths identified and address areas of weakness.

Research income in 2008–09 was £84.5m, an increase of £9.1m (12%) on the previous year. All faculties recorded year on year growth. Research council income and UK charity grants continued to grow and UK industrial and commercial income grew strongly after a period of decline. UK government grants fell by 15% and will be a focus for the coming year. Key research income streams are analysed below:



New research awards during the year increased in value by 8% from £81.6m to £87.8m with significant increases in research council and EU awards. The rate of growth slowed markedly in the fourth quarter, possibly giving early indications of the impact of the recession and the squeeze on public expenditure.

| New Research Grants | 2008–09 | | 2007–08 | |
|---------------------|-------------|-------------|-------------|-------------|
| | £m | % of total | £m | % of total |
| Research councils | 36.4 | 41% | 30.1 | 37% |
| UK-based charities | 24.8 | 28% | 26.6 | 32% |
| European Commission | 7.8 | 9% | 5.5 | 7% |
| Other | 18.8 | 22% | 19.4 | 24% |
| Total | 87.8 | 100% | 81.6 | 100% |

The government announced that three new centres, based at Newcastle, Nottingham and Aberdeen Universities, have been designated Digital Economy Research hubs. They will develop digital technology aimed at transforming the lives of the elderly, disabled, and people in rural communities. Newcastle is working with IBM, Microsoft, Philips and the University of Dundee to establish the £12m hub, aimed at promoting inclusion in digital technology.

The Angel Alliance, between Newcastle and Durham Universities, was successful in securing grant awards of £3.6m from the EPSRC to harness science and engineering technology, which could ultimately lead to improvements in healthcare.

The University's strategic objective is to focus on selected societal challenge themes. Ageing and vitality has been identified as our first societal theme. Launched under the title 'Changing Age', a series of events including a major public debate will be undertaken during the next 12 months.

Teaching, Learning and the Student Experience

The key objectives in our teaching and learning strategy are to:

- create opportunities for students' personal and professional development
- deliver research-informed teaching and training in a professional, challenging and engaging way
- deliver curricular and extra-curricular provision, which ensures graduates are well equipped for further training, research or workforce needs
- deliver all modules and programmes to agreed specifications
- ensure that our programmes meet relevant accreditation and quality standards
- foster a culture of independent learning, critical thinking and enterprise
- conduct an active programme of raising aspirations and widening participation

Registered students as at 31 December 2008 were 18,878, a 2.8% increase over 31 December 2007, reflecting growth in overseas numbers partly offset by action to constrain home-taught student numbers within the agreed HEFCE contract range.

| Total Students | 2008 | | Total | 2007 Total | Growth % |
|----------------------|---------------|--------------|---------------|---------------|--------------|
| | Full Time | Part Time | | | |
| Undergraduate | | | | | |
| Home and EU | 13,103 | 62 | 13,165 | 13,225 | -0.5% |
| Overseas | 985 | 5 | 990 | 817 | +21.2% |
| Total | 14,088 | 67 | 14,155 | 14,042 | +0.8% |
| Postgraduate | | | | | |
| Home and EU | 1,822 | 1,142 | 2,964 | 2,858 | +3.7% |
| Overseas | 1,599 | 160 | 1,759 | 1,463 | +20.2% |
| Total | 3,421 | 1,302 | 4,723 | 4,321 | +9.3% |
| Total | 17,509 | 1,369 | 18,878 | 18,363 | +2.8% |

Operating and Financial Review (continued)

For the year ended 31 July 2009

In the past five years total students, measured as full-time equivalents, have increased by almost 9% from 16,727 to 18,194. Home and EU students have increased by 7% from 14,444 to 15,527 and overseas students have increased by 17% from 2,283 to 2,667.

Undergraduate degrees awarded in the year were:

| | 2008-09 | | 2007-08 | |
|----------------------------------|--------------|-------------|--------------|-------------|
| | Number | % of total | Number | % of total |
| First class | 490 | 14% | 480 | 13% |
| Second class, first division | 1,855 | 52% | 1,848 | 51% |
| Second class, second division | 706 | 19% | 782 | 22% |
| Third class | 100 | 3% | 81 | 2% |
| Other | 442 | 12% | 423 | 12% |
| Total | 3,593 | 100% | 3,614 | 100% |

The impact of the recession on graduate recruiters and on our graduates' employment prospects was undoubtedly reflected in the results of the 2008 Destination of Leavers from HE survey. Unemployment rose from 3.2% for the 2007 cohort (the lowest result of the last four years) to 6.5% in 2008. Our Employment Indicator of 91.8% ranked Newcastle fourteenth equal out of the 20 Russell Group universities. The proportion in graduate-level jobs fell to 76.6%, reversing the recent upward trend. The percentage of graduates working in the North East is almost identical to last year's figure at 48.7% (2007: 48.5%).

The number of graduates in self-employment increased, in line with a consistent upward trend over the last four years. Numbers of graduates going on to further study increased: a potential result of many postponing their entry to the employment market in the hope that the economic situation will improve.

Graduate employer activity on campus is still vibrant even though the number of vacancies is decreasing. Implementation of the Newcastle Graduate Skills Framework, combined with increased awareness and uptake of ncl+ activity, will be key to helping our current students thrive in an ever-challenging graduate labour market.

The University improved its performance in the annual National Student Survey (NSS), with 87% of students who took part in the 2009 survey agreeing or strongly agreeing that they were satisfied with the overall quality of their course. The response rate improved this year to 65% and, for the first time, exceeded the national average of 62%.



87% of students agreed or strongly agreed that they were satisfied with the overall quality of their course in the 2009 National Student Survey

Overall satisfaction showed an improvement of 1% compared to 2008, against a 1% worsening in the national average result. Our results were better than the national average in every category other than assessment and feedback. As a result, the University has risen in the NSS league table of higher education institutions. Our overall satisfaction rate placed us joint fifth of the 20 Russell Group universities (2008: seventh) and joint twenty-ninth (out of 128) for all HEIs (2008: thirty-ninth), moving us into the top quartile. Detailed results were:

| Agree and Strongly Agree | Newcastle | | England |
|-----------------------------|------------|------------|------------|
| | 2009 | 2008 | 2009 |
| The teaching on my course | 87% | 85% | 83% |
| Assessment and feedback | 62% | 58% | 65% |
| Academic support | 78% | 75% | 74% |
| Organisation and management | 81% | 79% | 72% |
| Learning resources | 85% | 86% | 81% |
| Personal development | 80% | 77% | 79% |
| Overall satisfaction | 87% | 86% | 81% |

Action continues to be taken to address our relatively low scores on assessment and feedback and it is pleasing to note that satisfaction in this area has improved from 52% to 62% in the past three years. Further improvements to facilities, such as computer clusters, are underway to improve satisfaction with learning resources. A 'You said, we did' web page will be made available to inform students about the action taken in response to their feedback.

Our strategic objective is to improve overall satisfaction to at least 90% in all subjects. Thirteen out of 32 subject areas achieved the 90% target in 2009, compared to three out of 28 in 2006.

The average scores for the 2009 Postgraduate Research Experience survey showed that our postgraduate research students were more satisfied than the sector average. The three aspects of study that students regarded as most important – supervisory support, opportunities to develop research skills and access to facilities – were also those aspects on which students ranked the University highest in meeting their expectations.

The ReCap lecture and event-recording service has been further developed during the year and is now available in 20 teaching spaces. The system allows audio and visual material, including the presenter's voice, presentation slides, websites and visualised documents, to be recorded and published online in an automated, easy-to-use process. The expansion of the system, combined with increased awareness of its existence and benefits to students, led to some 1,100 recordings being made during the year with more than 50,000 viewings.

Newcastle University finished the year in tenth position in the national British Universities and Colleges Sport league table. This is the third consecutive year in which Newcastle has finished among the top ten universities for sport in the UK. Newcastle crews won three of the championship events at the 175th anniversary Tyne Regatta, won the Grand Challenge Cup at the Durham Regatta and regained the Harry Clasper Trophy in the annual University Boat Race against Durham. Newcastle also retained the Stan Calvert Trophy, the annual interdisciplinary sporting contest against Northumbria University.

INTO Newcastle, our joint venture with INTO University Partnerships Limited, is progressing ahead of its agreed business plan and recorded its first annual surplus in 2008–09. INTO Newcastle provides English language training programmes and a wide range of foundation and pre-entry programmes for prospective international students. This is done as a self-funding activity and to boost international recruitment. The success of the INTO partnership has contributed to our strong growth in international students.

Our new international marine degree programme located within the Ngee Ann Polytechnic in Singapore commenced operations during the year. The first undergraduate degrees will be awarded in summer 2010.

The University agreed in October 2008 to the development of an international campus in Johor Bahru, Malaysia. This campus will initially teach MB BS medical degree students. The proposed MB BS programme has been approved by the Malaysian Medical Council and the Malaysian Qualifications Agency. The first cohort of students has been recruited and will be taught in Newcastle from September 2009 for a two-year period. Agreements to build and lease the buildings have been signed with Iskandar Investment Berhad and building work is proceeding on schedule. The new campus is expected to open in 2011.

The Quality Assurance Agency for Higher Education is due to conduct an institutional audit at Newcastle University in autumn 2009. The purpose of the audit is to safeguard the public interest in the security of standards and quality of learning opportunities in UK higher education institutions. The University's good reputation and, ultimately, the retention of its degree-awarding powers depends on a successful outcome to the audit.

Engagement

In the context of the vision of Newcastle University as 'a civic university with a global reputation for academic excellence', we have a firm commitment to play a leading role in the development of North East England, and of regions worldwide that face challenges addressed by our research base. The key objectives in our engagement strategy are to:

- attract top talent to settle in the North East
- develop and implement the concept of Newcastle Science City
- contribute our facilities and skills to support healthy growth of civic and regional culture
- use our global standing and intellectual capital to influence and inform national debate
- implement strategic partnership initiatives to address major global challenges relating especially to health, wellbeing and sustainable development

Operating and Financial Review (continued)

For the year ended 31 July 2009

We are nearing completion of three strands of strategic review and development: to define and implement our engagement strategy; to review and develop the University's strategic positioning activities; and to determine our corporate social responsibility strategy.

A major ongoing initiative is our involvement with One North East and Newcastle City Council as a founder partner in Newcastle Science City. The latter was formally incorporated as Newcastle Science Company Limited on 1 April 2009 with the board including two University nominees. There are five distinct strands of activity: building the partnership; development of the Science Central site; the Newcastle Innovation Machine; scientific enterprise; and education and community engagement. Planning for Science Central, the former Newcastle Brewery site, is being led by 1NG on behalf of the partnership. Over 170 of Newcastle's leading scientists attended the inaugural Scientia08 science conference in November 2008. The aim of the conference was to create a unique 'technology map' of the city's science to promote it around the world to help attract investment and enable scientists to develop beneficial local networks.

In January 2009, we launched our ten-step plan to boost the North East economy. Partly funded by VAT savings and special HEFCE grants, the plan comprised a package of measures intended to help local businesses, families and individuals cope with the effects of the global economic downturn. These included making it easier to work productively with the University as suppliers or clients, bringing forward elements of our long-term programme of maintenance and refurbishment works, and improved energy efficiency, the introduction of a Business Voucher Scheme for small and medium-sized companies, matching curriculum provision to the needs of regional employers, expanding our successful Newcastle Work Experience scheme giving small businesses low-cost access to skilled and enthusiastic students, and expanding provision of free cultural and educational activities.

The £26m project to redevelop the Great North Museum, embracing the Hancock Museum, the Hatton Gallery and a resource centre, was completed in May 2009. It has proved an exceptionally popular visitor attraction with the Museum exceeding its annual target for visitor numbers of 300,000 in the first three months of its operation. The project received generous funding from a wide range of supporters.



The Great North Museum exceeded its annual target of 300,000 visitors in its first three months

Student engagement in the community continued to flourish during the year. Student Community Action Newcastle (SCAN) is a popular student organisation, which provides volunteers for local projects and also initiates its own. It is a registered charity and helps students become involved in the local community. Through the Career Development Module, delivered by the Careers Service, students can also engage in many activities such as Students into Schools. This is a joint project with Northumbria University through which up to 500 students each year act as positive role models working with young people in schools and community settings.

Our PARTNERS Programme (involving 108 schools and colleges) and our wide-ranging portfolio of widening participation and outreach activities seek to encourage and support greater progression to Newcastle University by young people from lower-income backgrounds or areas of low participation in higher education in the North East, Cumbria and parts of West Yorkshire. They seek to build the confidence of students, enabling them to demonstrate their potential for success in higher education, and helping them to make fully informed choices about their education after school or college. Our team of five graduate ambassadors and 130 part-time undergraduate student ambassadors contribute to a wide range of events for young people, both on and off campus. Professor Ella Ritchie was asked by the government to chair a group of 13 universities looking at the possibility of sharing widening participation schemes. This is one of the government initiatives arising out of the 'New Opportunities' white paper.

We are the lead institution for two major regional projects: Aimhigher Tyne, Wear and Northumberland, which seeks to promote progression and widening participation; and Beacon North East, one of the six national pilot 'Beacons for Public Engagement'. Through Beacon, we seek to enable more effective two-way knowledge exchange between researchers and people in wider society and to transform the culture within the partner universities such that participatory practices become central to their strategy.

The University received £2.9m of bequests and donations during the year with a further grant of £1.4m from the University Development Trust. This ongoing financial support enables us to fund a large number of student and research-related activities.

We were delighted to award Honorary Doctor of Civil Law degrees to Parveen Akhtar, Choo Chiau Beng, Lee Hall, Pummi Mattu, and Richard Sadler. We awarded Honorary Fellowships to Joe Carlebach, Ian Clark, Howard Farnhill and Glen Wilson.

Sustainability

We continue to invest in our academic teaching and research base as well as in infrastructure to improve our performance, ensuring best practice and value for money with demonstrable cost savings in many cases. We offer over 40 undergraduate and postgraduate courses in the sustainability area and many more modules as part of our contribution to civil society to raise the awareness of environmental sustainability amongst our student body. We also engage in leading-edge sustainability research in many of our schools and have two institutes focused on this – the Institute for Research in Environment and Sustainability and the Joseph Swan Institute for Energy Research.

We are making great strides in improving the environmental sustainability of our infrastructure and are implementing the Environmental Management System – EcoCampus, which will assist us in moving towards environmental sustainability through good operational and management practices. Due to active travel planning, our 2008 staff travel to work survey showed a very significant modal shift away from car travel from 35.3% in 2006 to 25.3% in 2008.

Compared to 2007–08, annual electricity consumption for 2008–09 has reduced by 1.4% (circa £50k per annum, 320 tonnes of CO₂), the first reduction since 1993. The savings result from investment in energy conservation including lighting upgrades and lighting controls (including schemes funded by Salix); implementation of a green purchasing requirement for all new computers; replacement of energy inefficient fridges and freezers over five years old; upgrading the Building Management System (BMS) and improved energy awareness amongst staff as a result of our ongoing work with over 70 environmental co-ordinators across the campus. All our buildings now have Display Energy Certificates prominently displayed.

The impact of the boiler replacement programme, upgrade of the BMS and improved energy awareness have seen a reduction in gas consumption from 33 GWh to 28 GWh (saving £170k per annum). The carbon savings will amount to a third of our commitment to reduce carbon emissions by 10% by 2013. Improved metering, further upgrades to the BMS and further behaviour change will enable further savings.

We have achieved our 2012 recycling target, with 40% of waste recycled and a significant amount of our other waste sent for incineration (with heat recovery). Consequently, our waste to landfill has reduced from 707 tonnes in 2006–07 to 115 tonnes in 2008–09 saving an estimated 500 tonnes of CO₂. The introduction of food waste composting will increase our recycling rates to above 60%, and the returns on the equipment investment will be realised within 12 months.



We are making great strides in improving the environmental sustainability of our infrastructure © WRAP

Operating and Financial Review (continued)

For the year ended 31 July 2009

Our Resources

People

The University depends for its success on recruiting, retaining and developing high-calibre staff. Overall staff FTE increased by 89 from 4,380 at 31 July 2008 to 4,469 at 31 July 2009.

We manage our staff costs to ensure they remain at approximately 55% of total income. Maintenance of this ratio will be a significant challenge in future as a result of pay rises and an increase of 2% in USS contributions from October 2009. In the last five years staff costs have risen from £144.2m to £192.9m, an increase of 34%. During the same period FTE has increased by 9% from 4,082 to 4,469. Student growth through that period was 9%, leaving the staff-student ratio broadly unchanged. Research income per FTE has improved by 39% from £13,600 to £18,900.

In accordance with the 2006 national pay agreement by the Joint Negotiating Committee for Higher Education, staff salaries were increased by 5% in October 2008.

Remuneration Committee accepted a recommendation from the Vice-Chancellor and executive team that they would forgo a pay increase in the economic downturn. During pay negotiations for 2009, concern about the low pay offer (0.5%) and job security elsewhere in the sector resulted in the University and College Union, which represents academic and senior administrative staff, balloting for industrial action. The ballot was subsequently withdrawn and employee relations locally remain constructive and co-operative. Regular meetings take place with the three main trade unions represented and joint working is increasingly common.

The University continues to invest in leadership development. Succession planning for senior executive positions and key academic/research positions has been supported by development centres and coaching. A 'Success Factors' framework has been introduced through recruitment, performance review and pay processes for all professional, administrative, technical and operational job families.

Two of our professors were recognised in the 2009 New Year Honours List. Professor Tom Kirkwood (Institute for Ageing and Health) was awarded the CBE and Professor Mark Shucksmith (School of Architecture, Planning and Landscape) the OBE. Several members of staff were recognised by prestigious bodies: Professor Steve Larter was elected a fellow of the Royal Society, Professor Patrick Chinnery was elected to the Fellowship of the Academy of Medical Sciences, Emeritus Professor Patsy Healy OBE was awarded an Ordinary Fellowship of the British Academy, Professors Jeremy Boulton and Philip Lowe were elected to the Academy of Social Sciences and Colin Bryson was the sixth staff member to be awarded a National Teaching Fellowship.

'Diversity Week 09' was a very successful series of events involving staff and students with the aim of 'exploring differences to inform learning in research, teaching, engagement, work and life'. The University publishes an Equality and Diversity Annual Report available at www.ncl.ac.uk/diversity/annualreport

Financial Resources

At 31 July 2009 the University held cash and short-term deposits totalling some £86.9m, the equivalent of three months' recurrent total expenditure. Balances reduced by £3.0m during the year, reflecting the impact of the University's capital development programme. These balances will decline in future years as the University fulfils its capital programme. Long-term debt, which relates solely to property, was £18.7m. The balance reduced by £1.0m during the year and is due to be repaid by 2029.



The University is improving the condition of its buildings and their fitness for purpose through increased investment

Estate

The key objectives in our estate strategy are to:

- improve the condition of our buildings and their fitness for purpose
- implement the Coherent Campus initiative
- ensure effective utilisation of space and improve the net to gross space ratio
- deliver 'full life cycle' value for money on all major projects



Corporate hoarding designs are used to explain building works during major construction work

Our 2007 estate strategy anticipated capital expenditure of circa £140m over a five-year period to develop and maintain an attractive, financially sustainable environment for a high-quality student experience and internationally renowned research, delivered through a comprehensive and integrated approach to capital investment, maintenance and space utilisation.

The University has made significant progress in reducing floorspace per student FTE and improving building condition and fitness for purpose through increased investment. In 2000, we tended to be an unfavourable outlier in our peer group on these indicators; we are now generally at the median level. While floorspace will increase as new buildings come onstream, this will be mitigated by an estate rationalisation and disposal plan. We have set key performance targets for the estate. These include:

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

We were close to most milestones for the first two years of the plan although reductions to academic floorspace have been delayed by deferred projects. Disposals planned for the coming year may be delayed by the poor property market.

Of the £46.6m of HEFCE capital grants to be paid to the University in the three-year period from May 2008, £6.8m was accelerated to help the UK and local economy. Expenditure is progressing to meet the requirements and most projects will complete this calendar year.

A long-term programme of investment to improve the campus environment has commenced including improvements to accessibility, landscaping and cycling infrastructure, and behavioural campaigns including energy saving. Events held to raise awareness included a World Environment Day event. We are working with Newcastle City Council and other bodies, seeking traffic-calming measures and improvements to highways and pedestrian crossings around the city-centre campus.

Buildings completed in 2008–09 included the new music studios and the Great North Museum: Hancock. King's Gate, the new student and administrative services building, together with surrounding landscaping, was completed in September 2009, creating a University 'front door' facing the city for the first time. Our new Medical Sciences Building should complete in December. The Business School, a third-party development, has been delayed by financial market conditions and is now scheduled for completion in early 2011. A joint venture company, INTO Newcastle, commences a major development on campus this autumn comprising a teaching centre and 500 bedrooms.

The estate strategy and capital plan are being reviewed to deliver the University's strategic plan; investment in the Coherent Campus and the student experience are major themes, with phased annual investment in refurbishment and improvement rather than new build projects.

Information Technology

Some 10,000 computers are used across the University – PCs provided for students and staff, and students' own PCs. Reflecting the University's structure, information services are delivered both by a dedicated service unit and by computing officers in academic units. Core computing services such as e-mail, the desktop, the network, internet access, security and business systems are centrally managed in the interests of efficiency.

Operating and Financial Review (continued)

For the year ended 31 July 2009

A distinctive feature at Newcastle is the wide adoption of SAP software for student administration as well as finance and human resources. Common in other sectors, this model is innovative in UK higher education. In December 2008, SAP was upgraded across the University, with no unplanned downtime. A customer interaction centre project, based on SAP technology, is nearing completion for use at King's Gate.

Computing contributes to the University's strategic goals in obvious ways. Lecture-recording software, online assessment and the use of assistive technologies support teaching and improve the student experience, alongside systems for Registration, module booking and timetabling. Early 2009 saw the installation of a research data service, consisting of servers and data storage. The new Web Strategy, agreed in January 2009, will support Newcastle's engagement in the region and beyond.

Smart use of IT is making a significant contribution to the green agenda. We are implementing a range of measures including the use of lower power PCs, 'switch off' campaigns, virtualisation of servers (running fewer, larger computers and closing server rooms) and innovative printing techniques to reduce the environmental impact.



Smart use of IT is making a significant contribution to the green agenda

Shared services are used where this makes sense for the University. There are strong links to the national Joint Information Systems Committee and to the Russell Group. Newcastle acts as the gateway for all of the North East universities to the joint academic network, JANET.

In December 2008, the University approved a new Information Security Policy, covering all of the University's information, with the focus on people and processes as well as technology, in order to mitigate a wider range of risks.

Financial Review

Introduction

The University recorded a total surplus of £16.2m, an increase of £2.6m on the previous year. The University has recorded seven consecutive years of surplus, which has helped to increase cash balances from £34.0m at 31 July 2002 to £86.9m at 31 July 2009.



Net income grew by 7% on the previous year from £342.3m to £365.4m with significant increases in academic fees and research grants and contracts. Net expenditure increased by 7% on the previous year from £328.7m to £350.1m with significant increases in staff costs, reflecting the 2006 national pay agreement and electricity and gas prices.

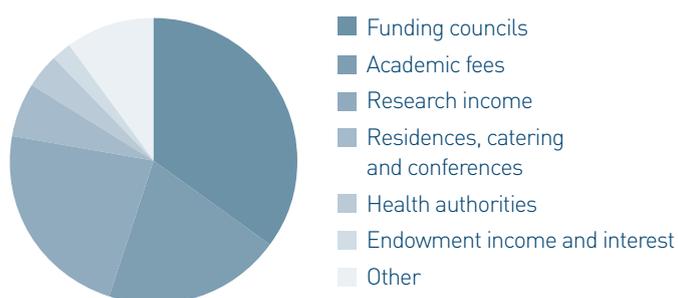
An actuarial loss of £19.1m was recognised in the Statement of Consolidated Total Recognised Gains and Losses in the year, as required by FRS17. This relates to the University's Retirement Benefits Plan (RBP) and compares to a loss of £11.1m in 2007-08. The basis for the loss is fully documented in note 30 of the accounts but is primarily due to lower than expected returns on the scheme's assets in 2008-09 and a reduction in the year end discount rate. The August 2007 actuarial valuation of the scheme showed a surplus of almost £1.0m with 101% funding of liabilities.

Income

Net income grew by 7% on the previous year from £342.3m to £365.4m. Over the past five years, income has increased by 32% from £276.1m to £365.4m, an average growth of just over 7% per annum.

Funding Council grants as a percentage of total net income reduced from 34.8% to 31.0% due to completion of SRIF investment programmes. Academic fees from full-time home and EU students increased by £7.0m (20%), reflecting the continued impact of the increased fees cap. Last year was the final year in which there will be a full-year impact from the introduction of the capped increase in fees. Overseas student fees increased by 24% from £23.3m to £29.0m, our best result for several years. Research income increased by £9.1m (12%) reflecting an increase in grant activity and the continuing impact of the introduction of full economic costing.

Key income streams are summarised below.

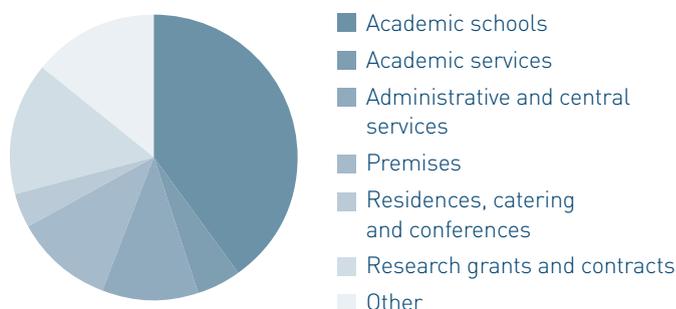


Expenditure

Net expenditure increased by 7% on the previous year from £328.7m to £350.1m. Over the past five years, expenditure has increased by 30% from £268.3m to £350.1m, an average growth of just under 7% per annum.

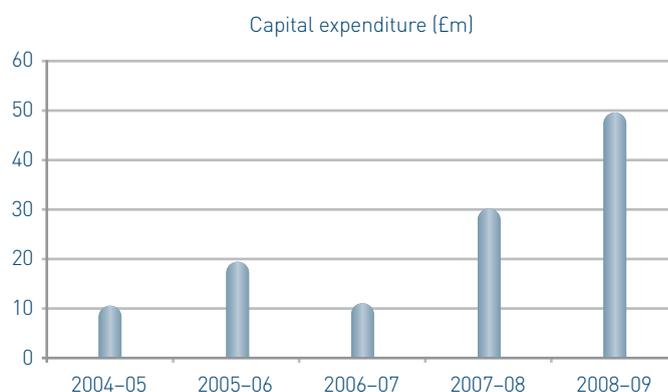
Staff costs increased by £12.6m (7%), mostly due to pay increases in line with the 2006 national pay agreement, partly offset by the introduction of salary sacrifice arrangements for pension contribution, resulting in savings of £0.8m in the year. Staff costs represented 53% of total income (2008: 53%), in line with the University's financial strategy. Maintenance of this ratio will be a significant challenge in future as a result of pay rises and an increase of 2% in USS contributions from October 2009. Other operating expenses grew by £9.0m (7%) mainly due to very significant electricity and gas price increases, general inflation, increased student bursaries and the direct costs associated with our increase in research grants. Depreciation reduced slightly, reflecting lower levels of capital expenditure on new equipment.

Key expenditure streams are summarised below.



Balance Sheet

Capital expenditure in the year was £49.2m, an increase of £19.3m on the previous year, reflecting the implementation of the University's capital plan. This was the peak year in the capital programme and expenditure in future years will be somewhat lower. There were £22.6m of outstanding contracted capital commitments at 31 July 2009 (2008: £74.7m) with a further £9.3m authorised but not contracted (2008: £1.0m).



Debtors reduced by £0.7m from £33.0m to £32.3m, reflecting improved collections performance. The beneficial cash flow was augmented by an increase of £3.5m in short-term creditors from £77.9m to £81.4m.

Net cash balances reduced from £70.5m to £68.3m during the year, reflecting the impact of the University's capital development programme largely offset by the strong surplus and the improvement in working capital balances. These balances are expected to decline in future years in line with the University's capital development programme.

Risk management of the University's cash and equity investments is described in detail in the Managing Risk section.

Operating and Financial Review (continued)

For the year ended 31 July 2009

Outlook

The University is nearing the end of a prolonged period of growth in student numbers, research activity and funding. Significant investment by HEFCE, One North East, the ERDF and others has enabled us to address much of the deterioration in our infrastructure seen in the 1980s and early 1990s. The 2008 credit crisis and the subsequent economic recession mean the prognosis for future public funding is not encouraging. The full extent of the challenge will probably not become clear until after the next General Election.

In the current climate, we can only make progress through convincing our stakeholders that higher education in general and Newcastle University in particular is an effective investment, with all our plans being linked to strategy and rigorously tested for value for money. We do this, not only for our own sustainability, but because we believe that it is through knowledge creation that the UK economy will thrive. This is then underpinned by a relentless drive to improve market share, growth in unregulated income, process and IT-led efficiency improvements and prudent financial management.

The key objectives in our financial strategy are to:

- create capacity for strategic development by achieving an annual historic cost surplus of at least 2% of income, with a medium-term target of 4%
- deliver value for money in all our activities
- grow income faster than our peer group
- identify and exploit opportunities for new areas of profitable income
- maintain a robust balance sheet with sufficient cash reserves to meet our financial obligations
- provide enterprise resource planning services, which are top quartile in higher education and meet our legal and ethical obligations

The University starts from a sound base. We recorded a significant surplus in 2008–09 on a rising trend and have a sound budget in place for 2009–10. There is strong evidence of improving market share in both research awards and overseas student recruitment. We have one of the soundest liquidity positions in the sector and our refreshed strategy is firmly anchored by the revised economic outlook.

We do not at present plan redundancies beyond those occurring in the normal course of events, although such a course of action cannot be ruled out if public expenditure cuts are excessively severe.

Managing Risk

In common with all organisations we are affected by a number of risk factors, not all of which are wholly within our control. Although some of the risk factors are macroeconomic and likely to affect the performance of the HE sector as a whole, others are particular to Newcastle University.

This section highlights some of the risks affecting us but it is not intended to be an extensive analysis of all risk affecting the University. Some risks may be unknown to us and other risks, currently regarded as immaterial, could turn out to be material. All of them have the potential to impact upon our income, expenditure, assets and liquidity adversely.

Strategic Risks

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

Research

We need to ensure a robust and timely response to the lessons learned from the 2008 Research Assessment Exercise, growing areas of strength and addressing areas of weakness.

Staff

We need to recruit, develop, retain and reward staff of an appropriate calibre in an appropriate manner to meet the needs of the University.

Financial Viability

We need to ensure continued financial viability.

Student Recruitment

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

Pensions

We need to ensure that USS and RBP are appropriately funded to meet their long-term obligations. Increases in life expectancy and higher salary increases will place increasing strain on these funds.

Newcastle Science City

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

Societal Themes

We need to gain institutional buy-in to the societal challenge themes concept and apply the skills of the University to work that improves society.

Major Projects

We need to ensure that major capital, commercial and research projects are effectively managed and produce the expected outcomes.

Information

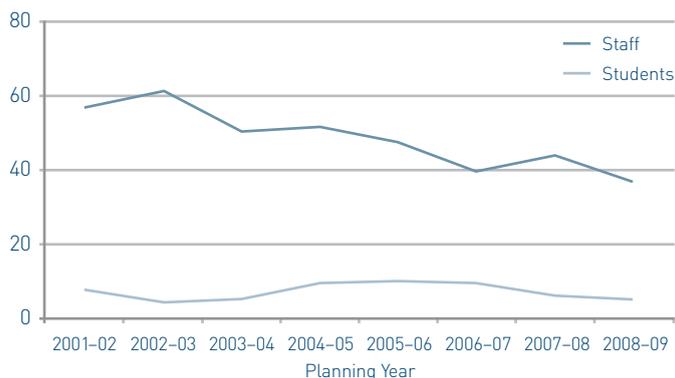
We need to have an appropriate information strategy and control of data, and ensure we can respond effectively to a severe business disruption event.

Health and Safety

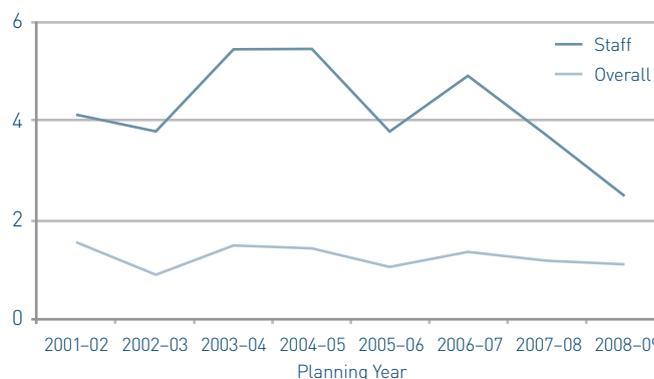
Council and Executive Board receive regular reports on performance relating to health and safety, which is the first agenda item at each meeting. The level of accidents reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) remains largely unchanged, although there was an increase in manual handling accident reports during 2008. A campaign to raise awareness of this issue and training to improve skills commenced in 2009.

The University, in common with others in the North East, has worked with the Health and Safety Executive to monitor management of stress against HSE standards. Results in the 2007 employee opinion survey showed 23% of respondents reporting stress compared with 40% at other universities. Focus groups were conducted and action plans have been implemented.

Reported accident rates (per 1,000 at risk)



RIDDOR accident rates (per 1,000 at risk)



Treasury

At 31 July 2009, the University had £71.0m cash investments (2008: £71.0m). The level of investments fluctuates throughout the year with materially higher cash balances between September and December due to the timing of tuition fees and HEFCE grants. Balances will decline in the medium term in line with our capital expenditure programme. Our investments are controlled by our counterparty policy, which is agreed by Finance Committee with advice from brokers. We only place our money with secure UK banks and building societies. A wide portfolio of banks is chosen to spread risk, although events of the past two years have led us to focus on a smaller number of more secure banks. We regularly review our investments and take rapid action if we believe there is any deterioration in risk. Our policy was agreed in full recognition that we may reduce potential interest income to mitigate the high level of risk in the financial services sector. The University was not exposed by any of the failures in Iceland, Ireland or the USA.

At 31 July 2009, the University had £32.3m of endowments (2008: £33.1m). Endowments are primarily invested in UK equities. The University uses Majedie, London-based brokers who consistently outperform the market, and Barclays Global Investors to manage its investments. Finance Committee meets formally with Majedie once a year and the Executive Director of Finance meets quarterly with them to review progress. In addition, we receive monthly performance reports. The University's portfolio did not have any exposure to Lehmans and there was no material exposure to any other bank.

Corporate Governance

Newcastle 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 Chairs 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:

The Court

The Court is not part of the University's day-to-day decision-making processes but plays an important and influential role on behalf of the University's stakeholders. Its membership is representative of the University, the local community and other organisations with an interest in the work of the University. It meets twice a year to receive a report from the Vice-Chancellor and to discuss any matters relevant to the interests and wellbeing of the University.

The Senate

The Senate is the academic authority of the University and draws its membership predominantly 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.

The Council

The Council is the supreme 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. A statement of Council's primary responsibilities is published in the governance section of the University internet. Council undertakes annual reviews of its effectiveness.

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. Council normally meets six times each academic year.

Much of the detailed work is routed through Committees of Council, particularly the following:

- **Audit Committee**, comprising lay members only, which meets five times each year with the University's internal auditors (and, where relevant, external auditors) in attendance. The Committee reviews the effectiveness of internal control systems by considering detailed reports together with recommendations for improvement, management responses and implementation plans. As part of its annual opinion it also gives assurance about the management and quality of data to HEFCE, HESA and other public bodies.
- **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.
- **Executive Board**, a joint committee of Council and Senate, 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 to assure the financial sustainability of the University's activities. Executive Board reports on these matters regularly to Council. Through the monitoring undertaken by its Financial Monitoring and Budget Scrutiny Group and Budget Setting Group, Executive Board is also responsible for the use of resources and financial performance of all budgetary units. It has particular responsibility for value for money.
- **Finance Committee**, which considers and recommends to Council the financial strategy for the University and advises on investments, determines the level of funding to be made available to support the annual budget allocations, approves the accounting policies and considers the financial statements. It also has overall responsibility for ensuring the appropriate management of taxation within the University.
- **Estate Committee**, which is the mechanism for communicating and integrating all capital estate project proposals, with a membership reflecting the key constituencies of the University. It is a Committee of Council but makes 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 reported to Council and, where relevant, Senate.

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. The Vice-Chancellor is also responsible for assuring the quality and accuracy of University data provided to HEFCE, HESA and other public bodies.

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 Registrar acts as Secretary of the Council and Senate. 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 Council in the Preparation of the Financial Statements

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

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

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

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

The Council has taken reasonable steps to:

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

Statement on Internal Control

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

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

- clear definitions of, and the authority delegated to, heads of academic units 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

Corporate Governance (continued)

- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Finance Committee
- key performance and risk indicators, which are monitored by the senior management team (through Executive Board) on a regular basis. Appropriate action is taken to address performance issues and the outcome reported to Council
- an ongoing process designed to identify the principal risks (whether business, operational, compliance or financial) to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The reporting method uses a system whereby risks are ranked in terms of likelihood and impact and are reviewed and periodically reported to Council to ensure that procedures are in place for the identified risks to be managed

Council is of the view that the University's process for identifying, evaluating and managing its significant risks is embedded into ongoing operations and has been in place for the year ended 31 July 2009 and up to the date of the approval of the financial statements.

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

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

We have audited the group financial statements of the University of Newcastle upon Tyne for the year ended 31 July 2009 which comprise the consolidated income and expenditure account, the consolidated and University balance sheets, the consolidated cash flow statement, the statement of group total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of the Council and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of the University in accordance with its Statutes. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

We report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the 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 HEFCE and with the Funding Agreement with the Training and Development Agency for Schools.

We also report to you whether, in our opinion, the information given in the operating and financial review is consistent with the financial statements. In addition we report to you if, in our opinion, the institution has not kept adequate accounting records, if the financial statements are not in agreement with the accounting records 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. This other information comprises only the operating and financial review and corporate governance statement.

We also review the statement of internal control included as part of the corporate governance statement and comment if the statement is inconsistent with our knowledge of the institution. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures. 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 Accountability and Audit Code of Practice contained in the Financial Memorandum 2008–09. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the institution's circumstances, consistently applied and adequately disclosed.

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

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

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the institution at 31 July 2009, and of the group's income and expenditure, recognised gains and losses, and statement of cash flows for the year then ended
- ii. the financial statements have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice
- iii. in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools and 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; and
- iv. in all material respects, income has been applied in accordance with the institution's Statutes and where appropriate in accordance with the Financial Memorandum (2008–19) 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 26 October 2009

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

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 2009.

Details of the University's subsidiary and associated undertakings, investment in joint ventures and other investments are provided in notes 12 and 13 to the accounts.

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

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

The University Development Trust has not been consolidated as it has a separate Trustee Board which manages the funds independently of the University. The total assets of the University Development Trust at its year end 31 July 2009 were £33m. Its investment income for the period to that date was £0.8m and the Trust received donations to the value of £nil.

4. Recognition of Income

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

Charitable donations which have no specific terms attached to them are classified as expendable and unrestricted. The income from such donations is recognised in the income and expenditure account when received. Charitable donations which have specific terms attached to them are accounted for as endowment funds unless the purpose is the purchase and/or construction of tangible fixed assets whereby the donation is treated as a deferred capital grant.

Endowment funds are classified as either expendable, where the capital element can be converted into income, or permanent, where the capital element must be permanently maintained. Income from expendable endowments is included in the income and expenditure account to the extent of the related expenditure during the year. Permanent endowments are managed on a total return basis. The entire investment return is included in the income and expenditure account to the extent of the related expenditure during the year.

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

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

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

5. Maintenance of Premises

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

Statement of Principal Accounting Policies

(continued)

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

Where material, heritage assets purchased on or after 1 August 2007 are measured and recognised at their cost. Where reliable cost or valuation information is available assets acquired prior to 1 August 2007 are included in fixed assets.

9. Investments

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

Endowment asset investments are included in the balance sheet at market value. The asset value is represented by endowment reserves which is separated into permanent and expendable. Notes to the accounts further analyse the endowments in to the capital element and unapplied return.

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

10. Stocks

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

11. Provisions

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

12. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (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 2009

| | Note | 2009 £m | 2008 £m |
|---|------|--------------|--------------|
| INCOME | | | |
| Funding Council grants | 1 | 113.4 | 119.0 |
| Academic fees and support grants | 2 | 81.3 | 67.3 |
| Research grants and contracts | 3 | 84.5 | 75.4 |
| Other operating income (including share of joint venture) | 4 | 86.0 | 75.3 |
| Endowment income and interest receivable | 5 | 4.2 | 7.2 |
| Total income | | <u>369.4</u> | <u>344.2</u> |
| Less: share of income from joint venture | 13 | (4.0) | (1.9) |
| Net income | | <u>365.4</u> | <u>342.3</u> |
| EXPENDITURE | | | |
| Staff costs | 6 | 192.9 | 180.3 |
| Other operating expenses | 7 | 145.8 | 136.8 |
| Depreciation | 11 | 9.5 | 10.4 |
| Interest payable | 8 | 1.9 | 1.2 |
| Total expenditure | 9 | <u>350.1</u> | <u>328.7</u> |
| Surplus after depreciation of fixed assets at cost and before tax | | 15.3 | 13.6 |
| Share of operating profit / (loss) in joint venture | 13 | 0.2 | (0.4) |
| Operating surplus | | <u>15.5</u> | <u>13.2</u> |
| Taxation | 10 | - | - |
| Surplus after depreciation of fixed assets at cost and tax | | <u>15.5</u> | <u>13.2</u> |
| Deficit for the year transferred to endowment funds | 19 | (0.7) | (0.4) |
| Surplus for the year retained within general reserves | 20 | <u>16.2</u> | <u>13.6</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 2009

| | Note | 2009 £m | 2008 £m |
|--|------|--------------|--------------|
| Surplus after depreciation of fixed assets at cost and tax | | 15.5 | 13.2 |
| Depreciation of endowment asset investments | 19 | (0.5) | (3.3) |
| Net endowments | 19 | 0.4 | 0.9 |
| Actuarial loss relating to the pension scheme | 30 | (19.1) | (11.1) |
| TOTAL RECOGNISED LOSSES RELATING TO THE YEAR | | <u>(3.7)</u> | <u>(0.3)</u> |
| Reconciliation: | | | |
| Opening reserves and endowments | | 113.5 | 113.8 |
| Total recognised losses for the year | | (3.7) | (0.3) |
| Closing reserves and endowments | | <u>109.8</u> | <u>113.5</u> |

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

Balance Sheets

as at 31 July 2009

| | Note | CONSOLIDATED | | UNIVERSITY | |
|--|------|---------------|---------------|---------------|---------------|
| | | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| FIXED ASSETS | | | | | |
| Tangible assets | 11 | 208.5 | 168.8 | 208.5 | 168.8 |
| Investments | 12 | 0.1 | 0.1 | 0.1 | 0.1 |
| Investment assets – Joint venture | 13 | | | | |
| Share of gross assets | | 2.7 | 1.7 | – | – |
| Share of gross liabilities | | (3.2) | (2.4) | – | – |
| | | <u>208.1</u> | <u>168.2</u> | <u>208.6</u> | <u>168.9</u> |
| ENDOWMENT ASSET INVESTMENTS | 14 | 32.3 | 33.1 | 32.3 | 33.1 |
| CURRENT ASSETS | | | | | |
| Stocks and stores in hand | | 0.1 | 0.1 | 0.1 | 0.1 |
| Debtors | 15 | 32.3 | 33.0 | 32.5 | 33.2 |
| Investments | | 71.0 | 71.0 | 71.0 | 71.0 |
| Cash at bank and in hand | | 15.9 | 18.9 | 15.3 | 18.3 |
| | | <u>119.3</u> | <u>123.0</u> | <u>118.9</u> | <u>122.6</u> |
| CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR | | | | | |
| | 16 | <u>(81.4)</u> | <u>(77.9)</u> | <u>(81.4)</u> | <u>(77.9)</u> |
| NET CURRENT ASSETS | | | | | |
| | | <u>37.9</u> | <u>45.1</u> | <u>37.5</u> | <u>44.7</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | | | |
| | | 278.3 | 246.4 | 278.4 | 246.7 |
| CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR | | | | | |
| | 17 | <u>(18.7)</u> | <u>(19.7)</u> | <u>(18.7)</u> | <u>(19.7)</u> |
| NET ASSETS EXCLUDING PENSION LIABILITY | | | | | |
| | | 259.6 | 226.7 | 259.7 | 227.0 |
| PENSION LIABILITY | | | | | |
| | 30 | <u>(34.8)</u> | <u>(15.3)</u> | <u>(34.8)</u> | <u>(15.3)</u> |
| NET ASSETS INCLUDING PENSION LIABILITY | | | | | |
| | | <u>224.8</u> | <u>211.4</u> | <u>224.9</u> | <u>211.7</u> |
| DEFERRED CAPITAL GRANTS | | | | | |
| | 18 | 114.9 | 97.8 | 114.9 | 97.8 |
| ENDOWMENTS | | | | | |
| Permanent | 19 | 23.7 | 24.3 | 23.7 | 24.3 |
| Expendable | 19 | 8.6 | 8.8 | 8.6 | 8.8 |
| | | <u>32.3</u> | <u>33.1</u> | <u>32.3</u> | <u>33.1</u> |
| RESERVES | | | | | |
| General reserve excluding pension liability | | 112.3 | 95.7 | 112.5 | 96.1 |
| Pension liability | | <u>(34.8)</u> | <u>(15.3)</u> | <u>(34.8)</u> | <u>(15.3)</u> |
| General reserve including pension liability | 20 | <u>77.5</u> | <u>80.4</u> | <u>77.7</u> | <u>80.8</u> |
| MINORITY INTEREST | | | | | |
| | | <u>0.1</u> | <u>0.1</u> | <u>–</u> | <u>–</u> |
| TOTAL FUNDS | | | | | |
| | | <u>224.8</u> | <u>211.4</u> | <u>224.9</u> | <u>211.7</u> |

The financial statements on pages 25–45 were approved by the Council on 26 October 2009 and signed on its behalf by:

C H BRINK, Vice-Chancellor

P M JOHNSON, Honorary Treasurer and Chairman of Finance Committee

R C DALE, Executive Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2009

| | Note | 2009 £m | 2008 £m |
|---|-------------|--------------------|--------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 21 | 19.0 | 10.6 |
| Returns on investments and servicing of finance | 22 | 3.5 | 4.8 |
| Taxation received | | - | - |
| Capital expenditure and financial investment | 23 | (24.7) | (9.5) |
| Cash (outflow) / inflow before use of liquid resources and financing | | (2.2) | 5.9 |
| Management of liquid resources – cash reduction to short-term deposits | | - | 3.0 |
| Financing | 24 | (1.0) | (1.0) |
| (Decrease) / increase in cash in the period | | (3.2) | 7.9 |
| RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS | | | |
| (Decrease) / increase in cash in the period | | (3.2) | 7.9 |
| Decrease in short-term deposits | | - | (3.0) |
| Repayment of debt | | 1.0 | 1.0 |
| Movement in net funds in period | | (2.2) | 5.9 |
| Net funds at 1 August | | 70.5 | 64.6 |
| Net funds at 31 July | 25 | 68.3 | 70.5 |

Notes to the Accounts

| | | |
|---|--------------|--------------|
| 1 FUNDING COUNCIL GRANTS | 2009 | 2008 |
| | £m | £m |
| HEFCE recurrent grant | 98.7 | 95.8 |
| HEFCE specific grants | 10.1 | 18.0 |
| HEFCE deferred capital grants released in year | | |
| – Buildings | 1.8 | 1.7 |
| – Equipment | 1.3 | 2.1 |
| TDA recurrent grant | 1.4 | 1.4 |
| TDA specific grant | 0.1 | – |
| | <u>113.4</u> | <u>119.0</u> |
| 2 ACADEMIC FEES AND SUPPORT GRANTS | 2009 | 2008 |
| | £m | £m |
| Full-time students | 41.7 | 34.7 |
| Full-time students charged overseas fees | 29.0 | 23.3 |
| Part-time fees | 2.7 | 2.7 |
| Research training support grants | 6.5 | 5.6 |
| Short courses | 1.4 | 1.0 |
| | <u>81.3</u> | <u>67.3</u> |
| 3 RESEARCH GRANTS AND CONTRACTS | 2009 | 2008 |
| | £m | £m |
| Research councils | 28.0 | 23.7 |
| UK-based charities | 22.8 | 19.6 |
| European Commission | 10.8 | 9.4 |
| Other grants and contracts | 22.9 | 22.7 |
| | <u>84.5</u> | <u>75.4</u> |
| 4 OTHER OPERATING INCOME | 2009 | 2008 |
| | £m | £m |
| Residences, catering and conferences | 18.2 | 17.0 |
| Other services rendered | 15.3 | 20.0 |
| Health authorities | 13.2 | 12.2 |
| Other income | 39.3 | 26.1 |
| | <u>86.0</u> | <u>75.3</u> |
| 5 ENDOWMENT INCOME AND INTEREST RECEIVABLE | 2009 | 2008 |
| | £m | £m |
| Income from permanent endowments (note 19) | 0.7 | 0.8 |
| Income from expendable endowments (note 19) | 0.3 | 0.2 |
| Pension finance interest | – | 0.8 |
| Other interest receivable | 3.2 | 5.4 |
| | <u>4.2</u> | <u>7.2</u> |

Notes to the Accounts (continued)

6 STAFF

| | 2009 | 2008 |
|-----------------------|--------------|--------------|
| | £m | £m |
| STAFF COSTS | | |
| Wages and salaries | 153.7 | 149.2 |
| Social security costs | 12.9 | 12.7 |
| Other pension costs | 26.3 | 18.4 |
| | <u>192.9</u> | <u>180.3</u> |

The University introduced a salary sacrifice scheme in June 2008 for employee pension contributions, the impact of which is to reduce wages and salaries and increase other pension costs by a corresponding amount, both in total and for the Vice-Chancellor.

| | 2009 | 2008 |
|-----------------------------------|-------------|-------------|
| | £000 | £000 |
| Emoluments of the Vice-Chancellor | 244.3 | 225.6 |

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 £41,646 (2008: £27,396).

Remuneration of higher paid staff, excluding employer's pension contributions
(Clinical staff numbers in brackets):

| | 2009 | | 2008 | |
|-------------------|---------------|------|---------------|------|
| | Number | | Number | |
| £70,000–£79,999 | 36 | (14) | 36 | (14) |
| £80,000–£89,999 | 25 | (18) | 25 | (18) |
| £90,000–£99,999 | 21 | (20) | 21 | (20) |
| £100,000–£109,999 | 19 | (12) | 15 | (14) |
| £110,000–£119,999 | 15 | (9) | 14 | (6) |
| £120,000–£129,999 | 15 | (10) | 13 | (10) |
| £130,000–£139,999 | 5 | (5) | 13 | (11) |
| £140,000–£149,999 | 12 | (9) | 10 | (7) |
| £150,000–£159,999 | 10 | (10) | 6 | (6) |
| £160,000–£169,999 | 6 | (6) | 4 | (4) |
| £170,000–£179,999 | 6 | (6) | 7 | (7) |
| £180,000–£189,999 | 5 | (5) | 4 | (4) |
| £190,000–£199,999 | 6 | (6) | 5 | (5) |
| £200,000–£209,999 | 2 | (2) | 2 | (2) |
| £210,000–£219,999 | 1 | (1) | 1 | (1) |

7 OTHER OPERATING EXPENSES

| | 2009 £m | 2008 £m |
|--|--------------|--------------|
| Building maintenance and renewals | 20.4 | 32.7 |
| Student related expenditure | 19.7 | 17.1 |
| Consumables and laboratory expenditure | 17.4 | 14.1 |
| Staff related expenditure | 16.4 | 15.4 |
| Non-capitalised equipment purchases and maintenance | 15.7 | 15.7 |
| Heat, light, water and power | 10.9 | 8.5 |
| Residences, catering and conference operating expenses | 7.4 | 8.4 |
| Professional fees | 5.7 | 4.6 |
| Books and periodicals | 4.9 | 4.0 |
| Grants to Union Society (annual subvention and specific grant) | 1.5 | 1.2 |
| Other expenses | 25.8 | 15.1 |
| | <u>145.8</u> | <u>136.8</u> |

Professional services include auditors' remuneration in respect of audit services amounting to £61,525 (2008: £63,491); and in respect of non-audit services amounting to £52,839 (2008: £34,118), mainly grant certification work and SAP Basis reviews.

8 INTEREST PAYABLE

| | 2009 £m | 2008 £m |
|---|------------|------------|
| On loans not wholly repayable within five years | 1.2 | 1.2 |
| Pension finance interest | 0.7 | – |
| | <u>1.9</u> | <u>1.2</u> |

9 ANALYSIS OF 2008-09 EXPENDITURE BY ACTIVITY

| | Staff Costs £m | Other Operating Expenses £m | Depreciation £m | Interest Payable £m | Total £m |
|---|----------------------|--------------------------------------|--------------------|---------------------------|--------------|
| Academic schools | 101.7 | 28.1 | 0.5 | – | 130.3 |
| Academic services | 10.2 | 12.9 | – | – | 23.1 |
| Administration and central services | 20.3 | 14.8 | 0.1 | – | 35.2 |
| Premises | 8.4 | 22.2 | 3.3 | 0.4 | 34.3 |
| Residences, catering and conferences | 5.2 | 10.0 | 0.6 | 0.8 | 16.6 |
| Research grants and contracts | 35.0 | 26.6 | 3.0 | – | 64.6 |
| Other expenditure | 12.1 | 31.2 | 2.0 | 0.7 | 46.0 |
| Total per income and expenditure account | <u>192.9</u> | <u>145.8</u> | <u>9.5</u> | <u>1.9</u> | <u>350.1</u> |
| The depreciation charge has been funded by: | | | | | |
| Deferred capital grants released | | | 7.5 | | |
| General income | | | 2.0 | | |
| | | | <u>9.5</u> | | |

10 TAXATION

| | 2009 £m | 2008 £m |
|--|------------|------------|
| United Kingdom corporation tax at 21 per cent (2008: 20 per cent). | <u>–</u> | <u>–</u> |

Notes to the Accounts (continued)

11 TANGIBLE ASSETS

| | CONSOLIDATED AND UNIVERSITY | | | | | Total £m |
|--|-----------------------------|--|------------|-----------------|---------------------------|--------------|
| | Land and Buildings | | | | | |
| | Freehold £m | Leasehold Long £m Short £m | | Equipment £m | Leased Equipment £m | |
| COST | | | | | | |
| Balance at 1 August 2008 | 102.0 | 93.7 | 3.9 | 51.2 | 1.4 | 252.2 |
| Additions | 29.7 | 16.5 | - | 3.0 | - | 49.2 |
| Disposals | - | - | - | - | - | - |
| Balance at 31 July 2009 | <u>131.7</u> | <u>110.2</u> | <u>3.9</u> | <u>54.2</u> | <u>1.4</u> | <u>301.4</u> |
| DEPRECIATION | | | | | | |
| Balance at 1 August 2008 | 19.4 | 16.4 | 2.3 | 43.9 | 1.4 | 83.4 |
| Charge for year | 1.7 | 1.8 | 0.3 | 5.7 | - | 9.5 |
| Eliminated on disposals | - | - | - | - | - | - |
| Balance at 31 July 2009 | <u>21.1</u> | <u>18.2</u> | <u>2.6</u> | <u>49.6</u> | <u>1.4</u> | <u>92.9</u> |
| NET BOOK VALUE | | | | | | |
| At 31 July 2009 | <u>110.6</u> | <u>92.0</u> | <u>1.3</u> | <u>4.6</u> | <u>-</u> | <u>208.5</u> |
| At 1 August 2008 | <u>82.6</u> | <u>77.3</u> | <u>1.6</u> | <u>7.3</u> | <u>-</u> | <u>168.8</u> |
| Financed by Funding Council capital grants | 28.5 | 50.9 | - | 1.2 | - | 80.6 |
| Other | <u>82.1</u> | <u>41.1</u> | <u>1.3</u> | <u>3.4</u> | <u>-</u> | <u>127.9</u> |
| | <u>110.6</u> | <u>92.0</u> | <u>1.3</u> | <u>4.6</u> | <u>-</u> | <u>208.5</u> |

The University holds a number of collections, exhibits and artefacts, most of which have been donated or bequeathed to the University. These assets are not considered Heritage Assets as defined in the SORP and therefore have no value attributed to them in the financial statements.

12 FIXED ASSET INVESTMENTS

| | CONSOLIDATED | | UNIVERSITY | |
|--|--------------|------------|------------|------------|
| | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| Shares in subsidiary undertakings at cost less amounts written off | - | - | - | - |
| Participating interest at cost less amounts written off | - | - | - | - |
| Other investments other than loans | | | | |
| At cost 1 August | 0.1 | 0.1 | 0.1 | 0.1 |
| Additions in year | - | 0.2 | - | 0.2 |
| Amounts written off in year | - | (0.2) | - | (0.2) |
| At cost 31 July | 0.1 | 0.1 | 0.1 | 0.1 |
| Total fixed asset investments | 0.1 | 0.1 | 0.1 | 0.1 |

SHARES IN SUBSIDIARY UNDERTAKINGS

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

| Name of Company | Percentage Holding of Ordinary Shares | Nature of Business |
|--|---------------------------------------|---|
| Newcastle University Holdings Limited | 100 | Operates as a holding company only. |
| Newcastle University Ventures Limited | 100 | Provides support for the commercial development of research and consultancy. |
| University of Newcastle upon Tyne Supply Company Limited | 100 | Leases assets to the University. |
| Newcastle University Pension Trustee (1971) Limited | 100 | Provides a corporate trusteeship for the University Retirement Benefits Plan. |
| Newcastle ISC Limited | 100 | Acts as a holding company for the joint venture INTO Newcastle University LLP. |
| NUIdeasBank.ptc | 100 | A company incorporated in Singapore for the commercialisation of research. |
| NU Med Malaysia sdn bhd | 100 | A company incorporated in Malaysia for the development of an overseas medical campus. |
| Newcastle University Enterprises Limited | 100 | This company is not yet trading. |
| NUINTO Limited | 51 | Provides the teaching of English language skills. |

University membership in companies limited by guarantee:

The Centre of Excellence for Life Sciences Limited
The Russell Group
Newcastle Science Company Limited

Notes to the Accounts (continued)

OTHER INVESTMENTS OTHER THAN LOANS

| | Percentage of voting rights % | CONSOLIDATED | | UNIVERSITY | |
|-------------------------------------|-------------------------------------|--------------|------------|------------|------------|
| | | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| CVCP Properties PLC | 1.30 | 0.1 | 0.1 | 0.1 | 0.1 |
| North East Seed Capital Fund LP | 11.94 | - | - | - | - |
| North East Seed Capital Fund Two LP | 4.5 | - | - | - | - |
| | | <u>0.1</u> | <u>0.1</u> | <u>0.1</u> | <u>0.1</u> |

Shares in associated undertakings and other investments held by subsidiary companies are disclosed in these companies' accounts.

13 INVESTMENT IN JOINT VENTURE

INTO Newcastle University LLP is a joint venture between the University and INTO University Partnerships Limited. A 50 per cent share of the LLP's gross assets and liabilities is included in the University's consolidated balance sheet and 50 per cent of its net income is reported in the University's consolidated income and expenditure account. INTO Newcastle University LLP's principal activity is the provision of pre-University education and residential accommodation for international students. At the year end an amount of £120,735 (2008: £468,889) was due to the University from INTO Newcastle University LLP and an amount of £nil (2008: £28,694) was due from the University to INTO Newcastle University LLP.

14 ENDOWMENT ASSET INVESTMENTS

| | CONSOLIDATED AND UNIVERSITY | |
|---|--------------------------------|-------------|
| | 2009 £m | 2008 £m |
| At 1 August | 33.1 | 35.8 |
| Additions | 16.5 | 11.4 |
| Disposals | (15.6) | (12.0) |
| Net depreciation on disposals and on revaluation | (0.5) | (3.3) |
| (Decrease) / increase in cash balances | (0.2) | 0.4 |
| (Decrease) / increase in other current asset balances | (1.0) | 0.8 |
| At 31 July | <u>32.3</u> | <u>33.1</u> |
| Fixed interest stock and equities | 32.2 | 31.6 |
| Bank balances | 1.1 | 1.3 |
| Due (from) / to University | (1.0) | 0.2 |
| | <u>32.3</u> | <u>33.1</u> |

15 DEBTORS

| | CONSOLIDATED | | UNIVERSITY | |
|---|--------------|-------------|-------------|-------------|
| | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| Trade Debtors | 13.6 | 18.2 | 13.4 | 18.3 |
| Accrued income on research grants and contracts | 13.5 | 11.4 | 13.5 | 11.4 |
| Amounts owed by subsidiary undertakings | - | - | 0.4 | 0.3 |
| Prepayments and accrued income | 4.1 | 2.8 | 4.1 | 2.8 |
| Other Debtors | 1.1 | 0.6 | 1.1 | 0.4 |
| | <u>32.3</u> | <u>33.0</u> | <u>32.5</u> | <u>33.2</u> |

Included within prepayments and accrued income is a balance of £1.1m relating to matched funding which will be paid by HEFCE over the next three years, with £1.0m due after 12 months.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | CONSOLIDATED | | UNIVERSITY | |
|--|--------------|-------------|-------------|-------------|
| | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| Fixed term loans | 1.0 | 1.0 | 1.0 | 1.0 |
| Payments received on account | 18.9 | 16.5 | 18.9 | 16.5 |
| Creditors | 20.6 | 17.6 | 20.6 | 17.6 |
| Social security and other taxation payable | 4.7 | 4.5 | 4.7 | 4.5 |
| Accruals and deferred income | 36.2 | 38.3 | 36.2 | 38.3 |
| | <u>81.4</u> | <u>77.9</u> | <u>81.4</u> | <u>77.9</u> |

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | CONSOLIDATED AND UNIVERSITY | |
|--|-----------------------------|-------------|
| | 2009 £m | 2008 £m |
| Fixed term loans secured on residential and other property repayable by 2029 | <u>18.7</u> | <u>19.7</u> |

18 DEFERRED CAPITAL GRANTS

| | CONSOLIDATED AND UNIVERSITY | | |
|--|-----------------------------|-------------------------------------|--------------|
| | Funding Council £m | Other Grants and Benefactions £m | Total £m |
| At 1 August 2008 | | | |
| Buildings | 63.7 | 27.7 | 91.4 |
| Equipment | 2.4 | 4.0 | 6.4 |
| | <u>66.1</u> | <u>31.7</u> | <u>97.8</u> |
| Amounts receivable | | | |
| Buildings | 17.5 | 5.0 | 22.5 |
| Equipment | - | 2.1 | 2.1 |
| | <u>17.5</u> | <u>7.1</u> | <u>24.6</u> |
| Released to income and expenditure account | | | |
| Buildings | 1.8 | 0.9 | 2.7 |
| Equipment | 1.2 | 3.6 | 4.8 |
| | <u>3.0</u> | <u>4.5</u> | <u>7.5</u> |
| At 31 July 2009 | | | |
| Buildings | 79.4 | 31.8 | 111.2 |
| Equipment | 1.2 | 2.5 | 3.7 |
| | <u>80.6</u> | <u>34.3</u> | <u>114.9</u> |

Notes to the Accounts (continued)

19 ENDOWMENTS

| | CONSOLIDATED AND UNIVERSITY | | | | | |
|---|---------------------------------|-------------------------------|--------------------------|--------------------------------|---------------------|---------------------|
| | Unrestricted Permanent £m | Restricted Permanent £m | Total Permanent £m | Restricted Expendable £m | 2009 Total £m | 2008 Total £m |
| At 1 August | | | | | | |
| Capital | 2.4 | 14.7 | 17.1 | 6.7 | 23.8 | 22.9 |
| Unapplied return | 1.3 | 5.9 | 7.2 | 2.1 | 9.3 | 13.0 |
| | <u>3.7</u> | <u>20.6</u> | <u>24.3</u> | <u>8.8</u> | <u>33.1</u> | <u>35.9</u> |
| | | | | | | |
| New endowments | 0.2 | 0.3 | 0.5 | - | 0.5 | 0.9 |
| Transfer out from expendable endowments | - | - | - | (0.1) | (0.1) | - |
| Depreciation of endowment asset investments | (0.1) | (0.3) | (0.4) | (0.1) | (0.5) | (3.3) |
| | <u>0.1</u> | <u>-</u> | <u>0.1</u> | <u>(0.2)</u> | <u>(0.1)</u> | <u>(2.4)</u> |
| | | | | | | |
| Income | 0.1 | 0.6 | 0.7 | 0.3 | 1.0 | 1.0 |
| Expenditure | (0.2) | (1.2) | (1.4) | (0.3) | (1.7) | (1.4) |
| | <u>(0.1)</u> | <u>(0.6)</u> | <u>(0.7)</u> | <u>-</u> | <u>(0.7)</u> | <u>(0.4)</u> |
| | | | | | | |
| At 31 July | <u>3.7</u> | <u>20.0</u> | <u>23.7</u> | <u>8.6</u> | <u>32.3</u> | <u>33.1</u> |
| Represented by: | | | | | | |
| Capital | 2.6 | 15.0 | 17.6 | 6.7 | 24.3 | 23.8 |
| Unapplied return | 1.1 | 5.0 | 6.1 | 1.9 | 8.0 | 9.3 |
| | <u>3.7</u> | <u>20.0</u> | <u>23.7</u> | <u>8.6</u> | <u>32.3</u> | <u>33.1</u> |

20 GENERAL RESERVE

| | CONSOLIDATED | | UNIVERSITY | |
|----------------------------------|--------------|-------------|-------------|-------------|
| | 2009 £m | 2008 £m | 2009 £m | 2008 £m |
| Balance at beginning of year | 80.4 | 77.9 | 80.8 | 77.8 |
| Surplus retained for the year | 16.2 | 13.6 | 16.0 | 14.1 |
| Actuarial loss on pension scheme | (19.1) | (11.1) | (19.1) | (11.1) |
| Balance at year end | <u>77.5</u> | <u>80.4</u> | <u>77.7</u> | <u>80.8</u> |

Impact of FRS17 Retirement Benefits

FRS17 resulted in the following movements:

| | CONSOLIDATED AND UNIVERSITY | |
|--|--------------------------------|---------------|
| | 2009 £m | 2008 £m |
| Decrease in staff costs | 0.3 | - |
| Pension finance costs | (0.7) | 0.8 |
| Impact on the income and expenditure account for the year | (0.4) | 0.8 |
| Actuarial loss relating to the pension scheme | (19.1) | (11.1) |
| Decrease in total recognised gains and losses for the year | (19.5) | (10.3) |
| Pension liability at beginning of year | (15.3) | (5.0) |
| Pension liability at end of year | <u>(34.8)</u> | <u>(15.3)</u> |

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

| | 2009 £m | 2008 £m |
|--|-------------|-------------|
| Surplus after depreciation of fixed assets at cost and before tax | 15.3 | 13.6 |
| Depreciation | 9.5 | 10.4 |
| Profit on disposal of tangible fixed assets | (0.4) | - |
| Deferred capital grants released to income | (7.5) | (8.5) |
| Investment income | (4.2) | (6.4) |
| Interest payable | 1.2 | 1.2 |
| Difference between FRS17 net pension charge and cash contributions | 0.4 | (0.8) |
| Decrease / (increase) in debtors | 1.2 | (3.8) |
| Increase in creditors | 3.5 | 4.9 |
| Net cash inflow from operating activities | <u>19.0</u> | <u>10.6</u> |

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

| | 2009 £m | 2008 £m |
|--|------------|------------|
| Income from endowments | 1.0 | 1.0 |
| Other interest received | 3.7 | 5.1 |
| Interest paid | (1.2) | (1.3) |
| Net cash inflow from returns on investments and servicing of finance | <u>3.5</u> | <u>4.8</u> |

Notes to the Accounts (continued)

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

| | 2009 | 2008 |
|--|---------------|---------------|
| | £m | £m |
| Purchase of tangible fixed assets | (49.2) | (29.9) |
| Payments to acquire endowment assets | (16.5) | (11.4) |
| Total fixed and endowment asset investments acquired | <u>(65.7)</u> | <u>(41.3)</u> |
| Receipts from sale of endowment assets | 15.6 | 12.0 |
| Receipts from sale of tangible fixed assets | 0.4 | - |
| Deferred capital grants received | 24.6 | 18.9 |
| Net endowments | <u>0.4</u> | <u>0.9</u> |
| Net cash outflow from capital expenditure and financial investment | <u>(24.7)</u> | <u>(9.5)</u> |

24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

| | £m |
|--------------------|-------------|
| Fixed Term Loans | |
| At 1 August 2007 | 21.7 |
| Capital repayments | (1.0) |
| At 31 July 2008 | <u>20.7</u> |
| Capital repayments | (1.0) |
| At 31 July 2009 | <u>19.7</u> |

25 ANALYSIS OF CHANGES IN NET FUNDS

| | At 1 August | Cash | Other | At 31 July |
|---------------------------------------|--------------------|--------------|----------------|-------------------|
| | 2008 | Flows | Changes | 2009 |
| | £m | £m | £m | £m |
| Cash at bank and in hand: | | | | |
| Endowment asset investments (note 14) | 1.3 | (0.2) | - | 1.1 |
| Others | 18.9 | (3.0) | - | 15.9 |
| | <u>20.2</u> | <u>(3.2)</u> | <u>-</u> | <u>17.0</u> |
| Short-term investments | 71.0 | - | - | 71.0 |
| Debt due within one year | (1.0) | 1.0 | (1.0) | (1.0) |
| Debt due after one year | (19.7) | - | 1.0 | (18.7) |
| | <u>70.5</u> | <u>(2.2)</u> | <u>-</u> | <u>68.3</u> |

26 CAPITAL COMMITMENTS

| | CONSOLIDATED AND UNIVERSITY | |
|--|--------------------------------|-------------|
| | 2009 £m | 2008 £m |
| Commitments contracted at 31 July | 22.6 | 74.7 |
| Authorised but not contracted at 31 July | 9.3 | 1.0 |
| | <u>31.9</u> | <u>75.7</u> |

27 CONTINGENT LIABILITIES

The University has two nomination agreements relating to student accommodation expiring 2015/2016 and 2028/29. The number of nominated rooms shall not exceed 150 and 90 respectively 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 £39,000 and this will decline in line with a reduction in the number of pensioners.

28 ACCESS FUNDS

| | 2009 £m | 2008 £m |
|--------------------------------------|------------|------------|
| Balance unspent at beginning of year | 0.2 | 0.2 |
| Funding Council grants | 0.3 | 0.4 |
| | <u>0.5</u> | <u>0.6</u> |
| Disbursements | (0.5) | (0.4) |
| Balance unspent at 31 July | <u>-</u> | <u>0.2</u> |

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

29 TRAINING AND DEVELOPMENT AGENCY FOR SCHOOLS

| | 2009 £m | 2008 £m |
|--------------------------------------|------------|------------|
| Training bursaries: | | |
| Balance unspent at beginning of year | 0.1 | 0.1 |
| Grant | 1.5 | 1.7 |
| Disbursements | (1.6) | (1.7) |
| Balance unspent at 31 July | <u>-</u> | <u>0.1</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. Minority ethnic recruitment grants during the year amounted to £13,000 (2008: £8,000) and disbursements amounted to £4,000 (2008: £9,000).

Notes to the Accounts (continued)

30 PENSION ARRANGEMENTS

The University participates in two main pension schemes, the Retirements Benefits Plan (1971), (RBP) and Universities Superannuation Scheme Limited (USS). The University also has a small number of staff in the National Health Service Scheme (NHSS), the total cost of which was £1.8m (2008: £1.8m). This includes £0.2m (2008: £0.1m) outstanding contributions at the balance sheet date.

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 £4.3m (2008: £3.0m). The contribution payable by the University was 12.25 per cent of pensionable salaries. There were no outstanding contributions at the balance sheet date.

The expected contribution to the plan during the next accounting year is £4.8m.

A full actuarial valuation was carried out as at 1 August 2007 and updated to 31 July 2009 by a qualified independent actuary. The major assumptions used by the actuary were:

| | Year ended 31 July 2009 | Year ended 31 July 2008 |
|---|----------------------------|----------------------------|
| Discount rate at year end | 5.90% | 6.50% |
| Expected return on plan assets at year end | 7.10% | 6.79% |
| Future salary increases | 4.40% | 4.60% |
| Future pension increases | 2.50% | 3.00% |
| Inflation | 3.40% | 3.60% |
| Life expectancy of current pensioners (from age 65) | 22.5 | 22.5 |
| Life expectancy of future pensioners (from age 65) | 23.4 | 23.4 |

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

| | Value at 31 July 2009 £m | Long- term expected return % | Asset Allocation % | Value at 31 July 2008 £m | Long- term expected return % | Asset Allocation % |
|------------------------------|-----------------------------------|--|--------------------------|-----------------------------------|--|--------------------------|
| Equities | 61.5 | 8.70 | 54 | 53.9 | 8.50 | 46 |
| Bonds | 48.9 | 5.00 | 42 | 54.4 | 5.00 | 47 |
| Property | 4.4 | 8.70 | 4 | 6.0 | 8.50 | 5 |
| Cash | 0.3 | 0.50 | | 2.6 | 5.00 | 2 |
| Fair value of assets | 115.1 | 7.10 | | 116.9 | 6.79 | |
| Present value of obligations | (149.9) | | | (132.2) | | |
| Funded status | (34.8) | | | (15.3) | | |
| Related deferred tax asset | - | | | - | | |
| Net pension liability | (34.8) | | | (15.3) | | |

30 PENSION ARRANGEMENTS (continued)

| Analysis of the amount charged to operating surplus | 2009 | 2008 |
|--|--------------|--------------|
| | £m | £m |
| Current service cost | 4.3 | 3.0 |
| Interest on obligation | 8.6 | 7.1 |
| Expected return on plan assets | (7.9) | (7.9) |
| Total operating charge | 5.0 | 2.2 |
| | | |
| Change in defined benefit obligation | 2009 | 2008 |
| | £m | £m |
| Opening defined benefit obligation | 132.2 | 125.1 |
| Service cost (including employee contributions) | 4.5 | 4.5 |
| Interest cost | 8.6 | 7.1 |
| Actuarial losses | 12.3 | 1.5 |
| Benefits paid | (7.7) | (6.0) |
| Closing defined benefit obligation | 149.9 | 132.2 |
| | | |
| Change in fair value of plan assets | 2009 | 2008 |
| | £m | £m |
| Opening fair value of plan assets | 116.9 | 120.1 |
| Expected return | 7.9 | 7.9 |
| Actuarial losses | (6.8) | (9.6) |
| Contributions by employer | 4.6 | 3.0 |
| Contributions by employee | 0.2 | 1.5 |
| Benefits paid | (7.7) | (6.0) |
| Closing fair value of plan assets | 115.1 | 116.9 |

USS

USS is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 130,000 active members and the University has 2,445 active members participating in the scheme.

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

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. 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:

| | | |
|---|-----------------------------------|-------------------|
| the rate of return on investments (ie the valuation rate of interest) | 6.4% pa | |
| the rate of increase in salary | 4.3% pa | |
| the rate of increase in pensions | 3.3% pa | |
| the assumed rates of mortality: | Males (females) currently aged 65 | 22.8 (24.8) years |
| | Males (females) currently aged 45 | 24.0 (25.9) years |

Notes to the Accounts (continued)

30 PENSION ARRANGEMENTS (continued)

At the valuation date, the value of the assets of the scheme was £28,843 million and the value of the scheme's technical provisions was £28,135 million indicating a surplus of £707 million. The assets therefore were sufficient to cover 103 per cent of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, agreed to increase the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme-specific funding regime had fallen from 103% to 74%. This estimate is based on the funding levels at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions. On the FRS17 basis, using an AA bond discount rate of 7.1% based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy out basis was approximately 46%.

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 next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the University was £20.2m (2008: £13.6m). This includes £1.7m (2008: £1.6m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14% of pensionable salaries.

31 RELATED PARTIES

The University had transactions with a number of organisations which fell within the definition of Related Parties under FRS8 'Related Party Disclosures'. Details of transactions, where material, are shown below. In accordance with FRS8 no disclosure has been made of intra-group transactions and balances eliminated on consolidation.

| | (Income)/ Expenditure | | Debtor balance | | Nature of transaction/ relationship |
|---|----------------------------------|--------------------|---------------------------|--------------------|---|
| | 2009 £m | 2008 £m | 2009 £m | 2008 £m | |
| Joint Ventures, Associates and Spin Outs | | | | | |
| INTO Newcastle LLP | (1.6) | (1.0) | 0.1 | 0.5 | Fees for student accommodation and other services. |
| Viratom Limited | (0.1) | (0.1) | 0.1 | – | Consultancy. |
| N8 Limited | (0.1) | (0.1) | 0.1 | 0.1 | Northern Way initiative support. |
| Other Organisations | | | | | |
| Newcastle University Union Society | 1.1 | 0.6 | 0.2 | 0.2 | Union Society subvention. |
| The University of Newcastle upon Tyne Development Trust | (1.4) | (1.6) | – | – | Endowment income distribution. |
| The Newcastle upon Tyne Hospitals NHS Trust | (7.6) | (6.3) | 0.8 | – | University representation on Trust Board. NHS/academic staff recharges. |
| Northern Stage (Theatrical Productions Ltd) | (0.1) | (0.1) | – | – | University representation on Board. Net accommodation rental income. |
| International Centre for Life | 0.1 | 0.1 | – | – | University representation on Board. Net accommodation rental charges. |
| Espalier Ltd | – | – | 0.8 | – | Joint venture partner. Demolition costs. |
| Council and Executive Board Members | | | | | |
| Eversheds LLP | 0.7 | 0.5 | – | – | Mr C J Hilton, Vice-Chair of Council. Partner in Eversheds. University legal fees. |
| South Tees Hospitals NHS Trust | (0.1) | (0.2) | 0.1 | 0.1 | Mr S Pleydell, Council member. Trust Chief Executive. NHS/academic staff recharges. |
| The Centre of Excellence for Life Sciences Ltd | 0.1 | 0.2 | 0.1 | – | Mr I Shott, Council member. Company Chairman. Net accommodation charges. |

Five-year Summary

| | 2009 £m | 2008 £m | 2007 (a) £m | 2006 £m | 2005 (b) £m |
|--|--------------|--------------|----------------|--------------|----------------|
| INCOME | | | | | |
| Funding Council grants | 113.4 | 119.0 | 115.4 | 112.4 | 105.6 |
| Academic fees and support grants | 81.3 | 67.3 | 59.1 | 49.7 | 46.4 |
| Research grants and contracts | 84.5 | 75.4 | 65.9 | 57.8 | 55.5 |
| Other operating income | 82.0 | 73.4 | 71.2 | 63.7 | 64.4 |
| Endowment income and interest receivable | 4.2 | 7.2 | 4.9 | 4.4 | 4.2 |
| Total income | <u>365.4</u> | <u>342.3</u> | <u>316.5</u> | <u>288.0</u> | <u>276.1</u> |
| EXPENDITURE | | | | | |
| Staff costs | 192.9 | 180.3 | 171.8 | 157.1 | 144.2 |
| Other operating expenses | 145.8 | 136.8 | 125.9 | 111.8 | 114.2 |
| Depreciation | 9.5 | 10.4 | 9.2 | 8.6 | 8.4 |
| Interest payable | 1.9 | 1.2 | 1.4 | 1.4 | 1.5 |
| Total expenditure | <u>350.1</u> | <u>328.7</u> | <u>308.3</u> | <u>278.9</u> | <u>268.3</u> |
| Surplus after depreciation of assets but before tax | 15.3 | 13.6 | 8.2 | 9.1 | 7.8 |
| Share of operating profit / (loss) in joint venture | 0.2 | (0.4) | (0.3) | - | - |
| Operating surplus | <u>15.5</u> | <u>13.2</u> | <u>7.9</u> | <u>9.1</u> | <u>7.8</u> |
| Taxation | - | - | (0.1) | - | - |
| Surplus after depreciation of assets and tax | <u>15.5</u> | <u>13.2</u> | <u>7.8</u> | <u>9.1</u> | <u>7.8</u> |
| Deficit for the year transferred to endowment funds | (0.7) | (0.4) | (0.4) | | |
| Surplus for the year retained within general reserves | <u>16.2</u> | <u>13.6</u> | <u>8.2</u> | | |

Notes:

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

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

Newcastle University
Newcastle upon Tyne
NE1 7RU
United Kingdom
www.ncl.ac.uk

We would like to thank the following for the use of their illustrative material: John Donoghue;
Jim McAdam; North News and Pictures; Print Services, Newcastle University; WRAP.

Designed by Smith Creative, Newcastle upon Tyne.
Printed by Potts on Greencoat Velvet 80% recycled paper.

© Newcastle University, 2009.

The University of Newcastle upon Tyne trading as Newcastle University.



THE QUEEN'S
ANNIVERSARY PRIZES
FOR HIGHER AND FURTHER EDUCATION

2005



80% recycled
This booklet is printed
on 80% recycled paper