

2011-12
Financial
Statements





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Front cover: Media, Communication and Cultural Studies students benefit from recently refurbished facilities in the Armstrong Building.

- 1 The recently completed Student Forum.
- 2 Newcastle University's new Business School building.
- 3 Project work develops students' teamworking skills.
- 4 University staff and students enjoy the experience of a lifetime as they proudly carry the Olympic Torch.

Foreword

My first year as Chair of Council has afforded a splendid opportunity to experience the quality and diversity of the University's activities. I have been reminded repeatedly that Newcastle University is both a great academic institution and a thriving community.

Among many highlights it was a particular pleasure to attend the opening ceremony of our new medical campus in Malaysia, where we were honoured to welcome the Duke of York, and the University's third graduation ceremony in Singapore. These international developments make a significant contribution to the advancement and consolidation of Newcastle's position as a world-class civic university.

I am especially grateful for the support I have received from colleagues and fellow Council members over the past year. It is a great privilege to see student, lay and academic members of Council working together for the good of the University. Most importantly I would like to restate my personal thanks and the gratitude of Council to those members who are now standing down. The University has benefitted enormously from their wisdom and unstinting commitment.

The full impact of these changes is unknown, but it is very pleasing to confirm that in 2012 we have enjoyed considerable success and remain on track in delivering our strategic objectives. In spite of reductions in the funding of teaching and research and our ongoing investment in the student experience, the University has again delivered a strong financial surplus and maintained its healthy cash resources. We are thus well placed to sustain investment in our academic vision.

Our students, both home and overseas, continue to report high levels of satisfaction through the National Student Survey and the International Student Barometer. This is reflected in their academic achievement, and their engagement with local and global communities. Crucially, the excellent and sustained performance of our graduates in the competitive job market is one of the key factors confirming the quality of their Newcastle degree.

Competition is also tough in the pursuit of research funding. But, as we prepare for the next major review, the Research Excellence Framework in 2014, the quality and impact of our research has been endorsed by impressive growth in the value of new awards, particularly from Research Councils.

Our societal challenge themes have become increasingly important drivers of our research, teaching and engagement activity. This year we introduced Social Renewal as our third theme and saw the further embedding of Ageing and Sustainability, the themes we introduced in the previous two years. The success of the societal challenge themes contributes strongly to the fulfilment of our vision, and we hope this will attract even more high-quality academic staff to work with us.

The University is proud of its relationships with those who support its purpose, and contribute to education, research and civic engagement in our region and nation. During the year we were delighted to award Honorary degrees to Professor Sir John Beddington, Sir Jonathon Porritt, David Nussbaum, Professor Lord John Krebs, Chris Mullins and Thomas Zehetmair, and to confer Honorary fellowships upon Sir Peter Carr, Margaret Levy and Mark Scrimshaw.

Finally, it is a pleasure to applaud the success of our students and staff over the past year. Newcastle University is performing well, is well managed, and has a strong and clear strategic vision. While turbulence will no doubt persist in higher education the University is rightly confident and enthusiastic about the future.



Mark I'Anson

Chair of University Council and Pro-Chancellor



The University Council works with the management team in setting the overall strategic direction. As part of this responsibility we have recently completed a review of our publication *Vision 2021: A world-class civic university*, which was launched three years ago. This process, in celebrating our success and upward trajectory, has firmly endorsed our vision, mission and strategic objectives.

Council is also responsible for overseeing effective governance and controls. Though it is not a business, the University must operate efficiently and in a business-like way, and I was therefore particularly pleased with the positive feedback from the Assurance Reviews recently undertaken by the Research Councils and the Higher Education Funding Council.

Across the world many economies, including our own, remain weak and the recovery fragile. Higher education in Britain has, so far, withstood the worst impacts of the economic downturn, but we face our own challenges. Reductions in funding are biting deeper and we are preparing for the full implementation of a new financial regime with significant changes in controls over student numbers.

Principal Officers of the University and Members of Council

for the year ended 31 July 2012

Chancellor

Professor Sir Liam Donaldson

Chair of Council and Pro-Chancellor

Mr Mark I'Anson

Vice-Chancellor

Professor Chris Brink

Deputy Vice-Chancellor

Professor Ella Ritchie

Members of Council

Mr Mark I'Anson (Chair) ^{1 4 6 7}

Professor Chris Brink ^{2 4 6 7}

Dr Peter Andras ²

Mr Neil Braithwaite ^{1 4}

Professor Vicki Bruce ²

Mr Liam Dale ³

Mr Mike Davison ^{1 5}

Mr Colin FitzPatrick ^{1 5}

Ms Jacqui Henderson (Vice-Chair) ^{1 7}

Mr Robert Hull ^{1 5}

Mr Peter Johnson (Treasurer) ^{1 4 6 7}

Professor David Manning ²

Mr Jeff McIntosh ^{1 4}

Mrs Heidi Mottram ¹

Mr Simon Pallett ²

Professor David Parker ²

Ms Laura Perry ³

Mr Simon Pleydell ¹

Ms Kate Priestley ^{1 6 7}

Professor Ella Ritchie ^{2 6}

Mr Ian Shott ¹

Mr Paul Walker ¹

Members of Executive Board

Professor Chris Brink
(Vice-Chancellor)

Professor Ella Ritchie
(Deputy Vice-Chancellor)

Professor Suzanne Cholerton
(Pro-Vice-Chancellor – Learning and Teaching)

Professor Chris Day
(Pro-Vice-Chancellor – Medical Sciences)

Professor Charles Harvey
(Pro-Vice-Chancellor – Humanities and Social Sciences)

Professor Steve Homans
(Pro-Vice-Chancellor – Science, Agriculture and Engineering)

Professor Tony Stevenson ⁴
(Pro-Vice-Chancellor – Planning and Resources)

Professor Nicholas Wright
(Pro-Vice-Chancellor – Research and Innovation)

Dr John Hogan
(Registrar)

Mr Richard Dale
(Executive Director of Finance)

Mrs Veryan Johnston
(Executive Director of Human Resources)

- ¹ Lay member
- ² Employee of the University
- ³ Student representative
- ⁴ Member of Finance Committee
- ⁵ Member of Audit Committee
- ⁶ Member of Nominations Committee
- ⁷ Member of Remuneration Committee

Vice-Chancellor's Introduction

The past academic year has been the last of the old dispensation. From September 2012 the new higher education fees regime came into effect, as well as the first significant deregulation of student enrolment numbers. The free-market orientation in higher education is well under way. Our response to increased competition in this marketplace will determine our future.

The first test for us, and indeed all universities, has been the enrolment figures for 2012–13. I am pleased to report that, in the face of stiff competition and new challenges, we have reinforced our position as a high-quality university, maintaining both total student numbers and the percentage of new entrants with top grades (AAB or better).

We understand that we must continue to be an attractive destination for students and staff, in presentation, in intellectual content, and in engagement with civil society. A year on from its £8m facelift, the Students' Union Building is a thriving hub for over 120 student societies and is now enhanced by the new Student Forum outside. King's Road is no longer a through road, but an attractive paved area. The new Business School building opened its doors this year, and the new INTO Building, which will be home to 800 international students, has just been completed.

The impact of these and other improvements is evidenced in this year's National Student Survey which, for the second year running, shows 89% of our students satisfied with their experience here. Moreover, the latest International Student Barometer places Newcastle 12th in the world in terms of the number of students who would recommend us to friends and family. These results are a credit to our staff.

Over the past year we have had a thorough reconsideration and then reaffirmation of our deeply held commitment to Newcastle as a world-class civic university. We have updated our *Vision 2021* document, clarifying the role to be played by each part of the University in realising that vision.

Research excellence is fundamental to what we do and aspire to, for its own sake and also for the value it adds to a good education for students and tangible benefits to civil society. The trajectory of our research performance, as reported to Council this year, is that we have seen a rise in research project applications, and an increase in both the number and the value of projects awarded. On the latest publicly available figures, Newcastle awards as reported by the Research Councils and analysed by the *Times Higher Education* have increased substantially since last year, placing Newcastle 13th by value of new awards.

Over the past year we have reached the stage where each faculty has made a commitment to a particular societal challenge theme. The Faculty of Medical Sciences leads our response to the challenge of an ageing population, the Faculty of Science, Agriculture and Engineering leads on sustainability, and the Faculty of Humanities and Social Sciences leads on social renewal. Under these three headings, we have increasingly active societal projects. For example, as one of the launch-year projects for our newly constituted Institute for Social Renewal we played a leading part in the Newcastle Fairness Commission, producing the report *Fair Share, Fair Play, Fair Go, Fair Say*.

Our international activities are going well. The NUMed Medical Campus in Malaysia is in full operation, and our science and engineering offshoot in Singapore has cemented its relationship with the Singaporean government, so that we now have a fully functioning satellite campus there.

As always, credit for the performance of the University must go to our staff and students. Thanks are also due for their support to Council, Court and our alumni, donors, benefactors and friends.

Improvements to our buildings and campus are matched by our investment in the student experience. New computer clusters across campus and in the Robinson Library are providing greater access to technology and resources. Every undergraduate can now benefit from work experience, internship or an industry placement during their study time here. Student sport has had its most successful year ever, resulting in a 10th place nationally in the BUCS sporting league. We have continued with our focus on Widening Participation, committing £29m over the next five years into a range of bursaries and scholarships to support young people from a broad spectrum of backgrounds, incomes and communities.

In the year we also received a *Times Higher Education* award for leading the 12 universities in the Realising Opportunities programme, where we work with schools to help raise aspirations. In addition, our commitment to sustainability in our operations has been recognised by the award of the ISO 14001 Environmental Management System standard, and a platinum-level award in the sector specific EcoCampus Environmental Management System, making us one of only two universities to have dual accreditation.

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A handwritten signature in black ink that reads "Chris Brink".

Professor Chris Brink
Vice-Chancellor

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, 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 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 range of activity, subject boundaries and traditional faculty divides, with a strategy to develop our research to address major societal challenges.

Over 21,000 students from more than 100 different countries choose to study at Newcastle. We have close to 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. We have invested significantly in the University's estate over the last few years to improve the quality of the environment for students, staff and visitors. We are one of the largest employers in the North East of England, with approximately 5,100 staff.

We play a leading role in the economic, social and cultural development of the North East of England and 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, the NHS and Durham University via the Angel Alliance.

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.



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Organisation

We have three core academic functions:

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

Strategic leadership of each of these is provided, on a university-wide basis, by our Deputy Vice-Chancellor and two Pro-Vice-Chancellors. Delivery of the core academic functions occurs in our three faculties, each led and managed by a Pro-Vice-Chancellor (PVC).

- 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, led and managed by a head. The core functions and 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. The academic enterprise is supported by a number of corporate activities within the professional support services, led and managed by the Registrar.

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1 Newcastle University's Visit Day.
2 Students' Union Building.

Charity status and public benefit statement

Newcastle University is an exempt charity under the terms of the Charities Act 2011. In developing and overseeing the University's strategy and activities, Council has had due regard to the Charity Commission's guidance on the reporting of public benefit. It also is aware that, because the University is charging high fees, it must make provision for those from lower income backgrounds to have the opportunity to benefit from the services provided. The principal beneficiaries of the University's services are our students and the public at large.



The Higher Education Funding Council for England (HEFCE) is the principal regulator for most English higher education institutions under the Charities Act 2011 and is the regulator for this University.

The University was established by an Act of Parliament in 1963, which did not state the object of the University. In March 2011, we gained approval from the Privy Council for a major set of revisions to our statutes, which included defining the object of the University as 'for the public benefit, to advance education, learning and research'.



Public benefit is embedded in our strategic aims and objectives set out in *Vision 2021: A world-class civic university*. The University takes seriously its commitment to ensure that it satisfies the Charity Commission's public benefit test that there must be identifiable benefits and the opportunity to benefit must not be unreasonably restricted. We have a range of schemes to encourage participation in our academic programmes by students from under-represented socio-economic groups and those from low income households.

Our student intake in September 2011 included 907 undergraduate and PGCE students eligible for full state support (ie their household income was at or below £25,000 per annum). This constitutes approximately 23% of our 2011 full-time UK undergraduate/PGCE entrants. A further 648 new undergraduates were eligible for partial state financial support (ie their household income was between £25,001 and £50,020 per annum) and this constitutes 16.3% of 2011 full-time UK undergraduate entrants.

We alert all prospective students to the opportunities for financial support, through our website, brochures, talks, mailshots, student newspaper and reminders throughout the year. In 2011–12 we provided £1.3m in means-tested bursaries to support 1,091 new entrants (27.5%) who may otherwise not have been able to afford the costs of going to university. We paid a further £3.6m to support 2,262 students continuing their studies.

Our bursary and scholarship schemes have been reviewed and revised for students entering from 2012, and we have committed more than £29m to student financial support over the next five years.

During 2011–12 we awarded more than 6,600 undergraduate and postgraduate degrees.

We are the largest research university in the North East. During the calendar year 2011 our academic staff published 4,340 research articles, books, book chapters and conference proceedings, up from 3,920 in 2010. Our total research income in 2011–12 was £86.0m.

To support the charitable work of the University, we received £3.8m in donations from a wide range of benefactors including many of our alumni and we are grateful for their support.

The University expects that useful knowledge acquired through research will be disseminated to the public and others able to benefit from such research. The University normally expects that any private (non-charitable) benefit will be legitimately incidental to the achievement of the University's charitable aims for public benefit. The terms and conditions of all externally funded research activity is assessed prior to acceptance in terms of the public benefit test for charitable purpose.

More information on the work of the University and the way it fulfils its charitable purpose is included in this review and in separate publications including the University's annual review.

1 Medical students in the Clinical Skills and Anatomy Lab.

2 The University has a popular public lectures programme.

Key Performance Indicators

Objective 1

To be in the top 20 in the UK for research quality and power

Ranking: Target – top 20

17th for Power and 27th for Quality in 2008 RAE.

Research income: Target – >£44k per academic
£41k in 2011–12. £43k in 2010–11, ahead of Russell Group and 1994 Group average.

Staff submittable to Research Excellence Framework: Target – 85% by 2013

Assessment of targeted submission rate is continuing for confirmation by 2013.

Patents: Target – eight patents per year

Four granted in 2011–12 (two granted in 2010–11).

Medium Risk

Objective 2

To achieve student satisfaction ratings of 90% or better in all subject areas

Satisfaction: Target – minimum 90% satisfaction.

No school below 90%

89% in 2012 (89% in 2011, 87% in 2010). Ahead of sector and comparator group, but room to improve in some schools.

Employment: Target – Top 15 in Times Guide for graduate-level jobs or postgraduate study

13th (76.5%) in 2013 Times Guide (published June 2012).

15th (75.4%) in 2012 Times Guide.

Medium Risk

Objective 3

To achieve a focus on societal challenge themes

Programme: Target – one societal challenge theme per year until 2012

The 2010 theme Ageing is now being sustained in the Faculty of Medical Sciences. The 2011 theme, Sustainability, was successfully launched. Social Renewal was launched in February 2012.

Staff involvement: Target – 10% of academics to contribute per year

Target has been achieved for each societal challenge theme.

Good

Objective 4

To achieve a significant international profile

International partnerships: Target – one per year until 2015

Monash and Groningen relationships significantly deepened. Agreement signed with Xiamen, relationship to be developed through Confucius Institute.

International student body: Target – 20% of total by 2014

21.4% in 2011–12. Ahead of comparator group.

In-country delivery: Target – three new operations by 2015

Malaysian Medical School opened November 2011.

Potential increase in the number and scope of programmes delivered at the Singapore Institute of Technology (SIT).

Good

Objective 5

To achieve financial and environmental sustainability

Financial surplus: Target – average 4% of income with minimum of 2% in any one year

2.6% in 2011–12. 4% target exceeded in previous three years.

Infrastructure investment: Target – > 6% of income

11% in 2011–12 confirming commitment to estate.

Research contribution: Target – > 25% of income

20% contribution earned in 2011–12 (2010–11: 24%).

Cash: Target – balances > £50m

Net cash at 31 July 2012 was £102m.

Staff costs: Target – < 55% of income

A significant sustainability measure. 55% in 2011–12.

Staff satisfaction: Target – staff satisfaction > 90%

In the most recent (2010) Opinion Survey, 93% of staff considered the University 'a good place to work'.

Carbon footprint: Revised Target – 43% reduction by 2020

The University is progressing well with actions within its control but achievement of the target depends on wider action to de-carbonise the electricity supply.

Generally Satisfactory

High Risk

Medium Risk

Generally Satisfactory

Good

Review of Operations

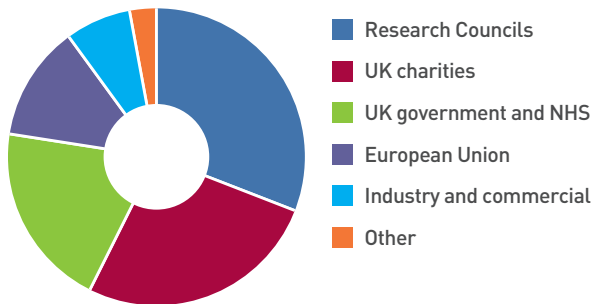
Research and innovation

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

Research income in 2011–12 was £86.0m, a decrease of £2.5m (3%) on 2010–11. The portfolio continues to show variable performance across different sources of funding. Research Charities income rose by £0.3m to £22.7m, whilst the Research Council portfolio fell for the second year in a row to £25.7m. Research income from EU government sources showed a healthy 24% increase to £11.2m whilst income from UK government sources decreased by 3%. Key research income streams are analysed below:

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New research awards during the year increased in value by 5% to £97.7m. The volatility of the funding environment experienced in 2010–11 continues with substantial year-on-year changes in the funding mix. Research Council awards increased by 20%, whilst awards from UK charities remained steady. Awards from UK industrial sources declined from £6.4m to £2.9m and UK government and health authorities increased from £19.1m to £20.6m.

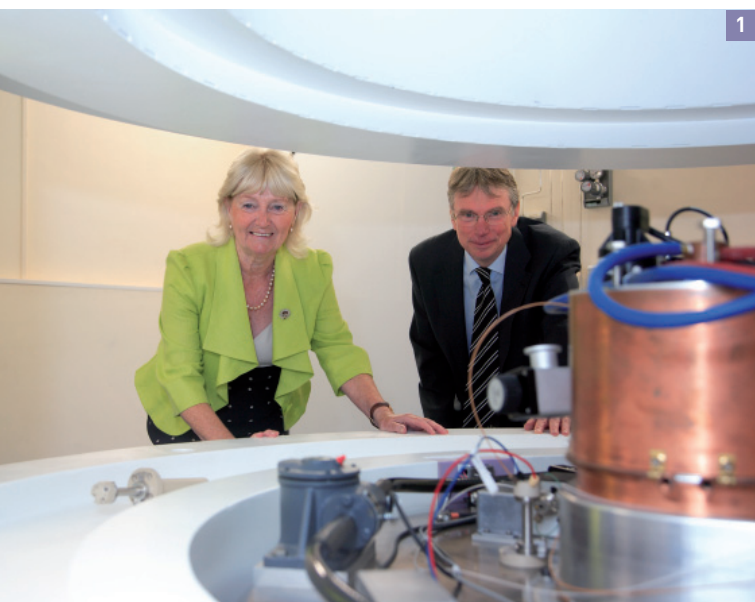
New research grants	2011–12		2010–11	
	£m	% of total	£m	% of total
Research Councils	28.2	29%	23.4	25%
European Commission	14.5	15%	13.3	14%
UK-based charities	26.2	27%	26.1	28%
Other	28.8	29%	29.9	33%
Total	97.7	100%	92.7	100%

A varied 12-month programme of events, designed to attract regional, national and international interest was delivered during the launch year of the second societal challenge theme in Sustainability. The programme builds on the development of the Newcastle Institute for Research on Sustainability, which consolidates research in the area in a single framework involving researchers across the University. The third societal challenge theme is Social Renewal, which was launched in February 2012. A new director has been recruited to lead this development.

The trend towards research concentration and collaboration continues with longer and larger awards becoming more significant. This is particularly evident in medical sciences, and 2011–12 saw success for several areas including renewal of our joint hosting of the NIHR Dementia and Neurodegenerative Diseases Research Network Co-ordinating Centre (with University College London) for £2.7m; renewal of our CRUK/DoH Experimental Cancer Medicine Centre – £2.5m; the award of the MRC/ARUK Centre for Integrated Musculoskeletal Ageing (CIMA) (with Liverpool and Sheffield) for £2.5m; ARUK Centre for Tissue Engineering (with Aberdeen, Keele and York) for £2.5m and, most significantly, the renewal of our NIHR Biomedical Research Centre (BRC) in Ageing and Age Related Diseases (awarded jointly with the Newcastle upon Tyne Hospitals NHS Foundation Trust) for £16.6m over five years.

The Engineering and Physical Sciences Research Council named Newcastle University as the UK provider on the National X-ray Photoelectron Service (XPS). Based in the University’s nanoLAB, the new centre was officially opened by EPSRC’s Chief Executive, Professor David Delpy. XPS is a powerful tool that is used to provide information about physical, chemical and electrical properties of any surface at an atomic level.

The importance of interdisciplinary research continues to rise and Professor Eric Cross was successful in gaining a Medical Research Council Strategic Project grant with teams from the Institutes of Health and Society and Ageing and Health, and the Schools of English Literature, Language and Linguistics, and Geography, Politics and Sociology. The project is about improving health and wellbeing in later life through the therapeutic use of creative arts, music, poetry and visual arts in reducing the sense of isolation through active versus passive participation.



1 Lady Elsie Robson with Professor Herbie Newell, at the opening of the Sir Bobby Robson Foundation PET Tracer Production Unit.

The University continues to prepare for the Research Excellence Framework (REF) exercise due to be completed in 2014. This is the national process for assessing the quality of UK Research run by HEFCE. The main area of work during 2011–12 has been ensuring a focus on submission of high-quality publications, delivery of the underlying University systems and reviewing progress in each of the faculties. The REF has introduced an entirely new dimension focussing on the assessment of the impact from research, which will count for 20% of the final grading, and the University has also undertaken substantial development work on the area of 'Impact'.

Learning, teaching and the student experience

We aim to deliver research-informed teaching and facilitate applied learning of the highest standard and deliver a fully rounded, enjoyable and formative student experience. The key objectives in our teaching and learning strategy are to:

- create opportunities for students' personal and professional development
- deliver teaching and training in a professional, challenging and engaging way
- deliver curricular and extracurricular 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

Population and portfolio

Registered students as at 1 December 2011 were 21,045, a 3.1% increase over 1 December 2010, largely reflecting further growth in overseas student numbers. Home and EU undergraduate student numbers were within HEFCE recruitment limits.

Total students	2011		2010	Growth	
	Full time	Part time			
Undergraduate					
Home and EU	13,200	51	13,251	13,248	–
Overseas	1,844	12	1,856	1,464	26.8%
Total	15,044	63	15,107	14,712	2.7%
Postgraduate					
Home and EU	2,002	1,298	3,300	3,247	1.6%
Overseas	2,453	185	2,638	2,455	7.5%
Total	4,455	1,483	5,938	5,702	4.1%
Total	19,499	1,546	21,045	20,414	3.1%

Since 2005, total student headcount has increased by 22% from 17,281 to 21,045. Home and EU students have increased by 11% from 14,904 to 16,551, and overseas students have increased by 89% from 2,377 to 4,494.

Undergraduate degrees awarded were:

Award	2011–12		2010–11	
	Number	% of total	Number	% of total
First class	647	17%	648	17%
Second class, first division	1,967	53%	1,971	51%
Second class, second division	617	17%	726	19%
Third class	80	2%	81	2%
Other	395	11%	436	11%
Total	3,706	100%	3,862	100%

The Newcastle University Medicine Malaysia (NUMed) campus was officially opened on 1 November 2011. NUMed currently offers an undergraduate degree in Medicine (MB BS). 60 local students enrolled in 2011 to train as doctors, joined by a further 25 students in their third year who had started their studies in Newcastle. We plan to offer BSc degrees in the Biomedical Sciences from 2013 along with a selection of Masters' degrees. As the Malaysian campus matures, further programmes may be added in response to regional priorities and demand.

In collaboration with the Singapore Institute of Technology, the University has expanded its undergraduate teaching in Singapore. From September 2011, in addition to existing Marine Technology programmes, we have offered three new programmes in Mechanical Design and Manufacturing Engineering, Chemical Engineering and Food and Human Nutrition. The collaboration will continue to develop, with additional subject areas, part-time and postgraduate programmes being considered for future years.



2 The official opening of Newcastle University Medicine Malaysia.

Performance

The University maintained its strong institutional performance in the annual National Student Survey (NSS), with 89% of students who took part in the 2012 survey agreeing or strongly agreeing that they were satisfied with the overall quality of their course. This is a 2% improvement on 2010, and shows a sustained improvement from 81% in 2006.

Percentage of students who agree or strongly agree to satisfaction in:	Newcastle		Sector
	2012	2011	2012
The teaching on my course	89%	89%	86%
Assessment and feedback	67%	66%	70%
Academic support	83%	82%	79%
Organisation and management	84%	86%	77%
Learning resources	86%	82%	82%
Personal development	83%	80%	81%
Overall satisfaction	89%	89%	85%
Satisfaction with the Students' Union	76%	n/a	66%

The results of the 2011 International Student Barometer (ISB) confirmed a number of very positive outcomes. 91% of respondents rated their general satisfaction with Newcastle as high. Newcastle achieved strong overall scores in all four of the key areas of the ISB: learning, living, support and arrival. Newcastle was ranked first in the Russell Group in a total of 23 specific areas this year, an impressive improvement on 2011 when Newcastle achieved first-place ranking in just two areas. Identified areas of strength include opportunities for virtual learning (94%), Careers Service (93%), IT support (95%), and the Library (93%). We are continuing to address areas identified for improvement, including opportunities for social integration of international students.

During 2011–12, we took part in the Postgraduate Taught Experience Survey. We participate in this survey and its research counterpart, the Postgraduate Research Experience Survey, in alternate years. We achieved a comparatively high response rate of 37% (national average of 25%). 89% of students who participated in the survey said that their experience at Newcastle had met or exceeded their expectations. This compared favourably to the national and Russell Group averages of 87%. In 13 schools, over 90% of students claimed that the overall experience of their course had met or exceeded their expectations. Only one school received a satisfaction score of less than 80%.

Despite the difficult economic climate, signs of a recovery in terms of graduate vacancies have been maintained, and the results of the 2011 Destination of Leavers of Higher Education survey have continued to reflect well on the University's increased focus on employability. Our employment indicator of 93.4% (2010: 94.3%) ranked Newcastle 1st in the region, and 4th equal of the 24 Russell Group universities. Encouragingly, despite the slight increase in unemployed graduates this year (from 5.7% to 6.4%), the proportion of our graduates in graduate-level jobs increased to 78.7% (2010: 77.7%). The percentage of graduates working in the North East decreased to 43.1% (2010: 48.4%), possibly a result of the increasingly tough regional labour market. We were ranked 13th for graduate prospects in the *Times Good University Guide 2013*, rising one place from 2012. Graduates progressing to further study fell to 16.1% (2010: 16.7%).

The number of graduates in self-employment rose significantly from 77 to 90 (37 of whom stayed in the North East). Government messages about recession being a good time to start a business may have impacted positively upon this activity.

Student offer

In 2010–11, we concentrated on articulating what students will get in return for their fees, and defining what the common elements and opportunities will be at the core of the learning experience of all undergraduate students. Our commitment embraces not only the academic learning experience but all aspects of a student's time at Newcastle: academic, social, cultural, sporting, residential and work experience. During 2011–12, we aligned a number of institutional projects around these themes, investing in a process of improvements to the consistency and quality of the student experience. A parallel process is considering the University's commitments to postgraduate taught provision.

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The impact of the University's investment in upgrading IT facilities, improving library resources, and developing innovative, user-friendly, learning spaces, is evident in the increased student satisfaction with learning resources. Whilst the trend for improvement in the area of assessment and feedback has been sustained, this is the only area of the NSS where our score is below the sector average. Further action is needed to address this, and to disseminate the good practice in some subject areas more widely. Results at subject level were also pleasing with 25 out of 47 of our published subject scores meeting or exceeding the 90% target for overall student satisfaction.

1 The University is committed to providing outstanding IT facilities for students.

We aim to offer each student the opportunity to engage with an up-to-date and coherent programme, designed and delivered to recognised external and professional standards, by subject experts. In support of this each subject area has undertaken project work relating to key institutional themes of research-informed teaching, assessment and feedback, and employability. We have supported the local leadership of educational change by establishing the role of Director of Excellence in Learning and Teaching and establishing a cross-institutional forum through which enhancement of learning and teaching can be promoted. The contribution of academic staff was recognised in our first student-led Learning and Teaching Excellence Awards, for which 130 staff were nominated.

In a more competitive HE market and a difficult economic climate, we also aim to support students to develop skills for learning, life, work and professional practice. As well as curricular development, the wider range of opportunities offered to students under the ncl+ scheme has been broadened. For example we launched JobsOC (Jobs On Campus), an on-campus jobs agency offering temporary and casual work assignments within the University to current students. A new entrepreneurship module has been developed, for which 31 students are already registered and 146 students benefitted from internal and external placements under the Newcastle Work Experience scheme.

Students are invited to be active members of the University community. Our updated student representation policy has been implemented, with over 50% of course representatives trained by Newcastle University Students' Union. There are now 72 student chairs of staff-student committees, compared with 24 in 2010-11. We have also invested in a new module and programme evaluation tool, to be rolled out across the University in the coming year.

We aim to provide access to facilities that are of a good standard, functionally suitable, and that support varied approaches to teaching, learning and assessment. The University migrated to a new version of its virtual learning environment, *Blackboard*. *Blackboard* usage increased by more than 40% with over 50 million hits and now contains academic content and programme information for 9,600 modules. Investment in learning spaces and staff support has facilitated the growth of the ReCap lecture capture service. During 2011-12, the number of views increased by 64% to 361,511, captures rose by 83% to 7,827 and recordings were made and viewed in every academic unit. The challenge over the next two years is to continue to extend the consistency of coverage and uptake of this service and to support staff in doing so.

In January 2012, following a successful trial, the Robinson Library introduced 24/7 opening for all term-time weeks. A number of students are employed to staff the Library overnight, under the supervision of a senior porter. This has been a popular development, with large numbers using the building overnight particularly during revision and assessment periods. A new 'Books on Time' service was introduced to encourage students to make direct recommendations to the Library for books they need. Funds were provided for this service by income received from overdue loan charges.

The phased redevelopment of the Robinson Library continued. During summer 2011, the main PC cluster was refurbished, and an additional 110 study desks and 125 PCs were added. The work was completed in summer 2012, with the addition of a further 190 individual study desks and dedicated research and silent reading areas.



We invested £2.5m in refurbishing the student accommodation stock, with much of this investment underpinning our carbon reduction strategy. In response to student preference for *en suite* accommodation close to campus, we secured planning permission to build 346 *en suite* units on campus, with work commencing in May 2012. Our catering offer has been rebranded and reorganised based on customer feedback with four new units opened during the year.

Sport continued to enhance the student experience at Newcastle with 9,218 students taking out Sports Centre membership. In performance sport our students (competing under the banner *Team Newcastle*) were ranked 10th out of 150 institutions competing in the British Universities and Colleges Sport (BUCS) programme. Team Newcastle also retained the Stan Calvert Memorial Cup in the annual varsity sports day against Northumbria University for an unprecedented fifth successive year. Campus Sport, our participation sports programme, attracted over 8,000 student visits to exercise classes, while 2,000+ students competed weekly in the Intramural Sport Programme. Over 40 students were actively involved in volunteering through sport in local schools, local sports clubs and the local community, with a further 650 students involved in running the 58 Athletics Union sports clubs and 170 Intramural teams. In addition, two students and a member of staff took part in the Olympic Torch Relay as part of an association with Samsung. Over £0.75m was invested in the sporting infrastructure, which included improvements to Cochrane Park sports ground to enable it to act as an official Games-Time Training Venue for the London 2012 Olympic Games.

We have reviewed our print, digital and face-to-face marketing information to communicate our student offer to prospective students and their advisers. Our online Undergraduate Prospectus has been significantly revised and we have introduced a new downloadable degree brochure scheme to ensure that students have instant access to the latest information. Attendance at our Visit Days in 2011 was the highest ever, with more than 29,000 participants over three days.



Engagement

We have defined engagement as the interaction of the University with the civil society to which it belongs. Engagement is one of our core activities which, while carried out in the sense of good citizenship, is firmly anchored in our research and teaching. Through engagement we contribute to our reputation for world-class research addressing key societal themes, we improve our ability to deliver relevant research informed programmes, we ensure fair access to our programmes and we continue to deliver an exceptional student experience.

Our objectives are to:

- develop the public understanding of Newcastle as a world-class civic university
- position Newcastle as a recognised leader in the social, cultural and economic development of the North East of England
- attain national and international recognition for the University as a leading institution in respect of the three societal challenge themes
- develop the public profile of Newcastle as a City of Science
- develop and maintain good relations with stakeholders, alumni and the wider public

We articulate our vision for engagement and the role of Newcastle as a civic university by developing the University's societal challenge themes. In Social Renewal, projects such as The Great North Build, a hugely successful interactive exhibition involving the creation of a Lego city, giving visitors an insight into the latest developments in urban design, provided us with the opportunity to engage the public in relevant research but was also a prompt for us all to think about what makes a well-functioning city or community.

The quality and diversity of the University's programme of cultural activity continues to grow, and we have built on our longstanding programme of public lectures and concerts with a series of events and festivals designed to engage a variety of communities. These have included the Festival of Belonging, which brought together international poets, novelists, film-makers and musicians with members of the public to examine issues to do with identity and where we think we belong, and the 'Can We Talk?' debate series with Alnwick's Barter Books, a collaboration ensuring the University's cultural offering is made more readily available to the communities of Northumberland. The University has also attracted and supported a number of external events including iVAMOS!, a festival celebration of Spanish- and Portuguese- speaking cultures in Newcastle and Gateshead, and Tipping Point, a national gathering of those concerned with the interface between the arts and environmental issues such as climate change. We also launched the 'Ideas Take Flight' campaign, a regional initiative to ensure local communities and stakeholders are involved in the design and delivery of the British Science Festival, when it comes to Newcastle in September 2013.

From 2012–13 we will offer every undergraduate student access to a range of volunteering, internship or business placements to ensure the University continues to deliver an exceptional student experience. Our wide offering of extracurricular opportunities for students encouraging personal and professional development (part of our ncl+ scheme) has been enhanced by the introduction of a University-wide entrepreneurship module, an enhancement of the Career Development Module and the Newcastle Work Experience programme that supports students' projects in local companies. Our relationships with local, national and international stakeholders and businesses strengthen such opportunities and contribute to teaching and learning and the quality of the student experience. We enable knowledge exchange through collaborative research degrees, industrial placements on many of our professional programmes and Masters' projects. Student Community Action Newcastle (SCAN), a registered charity helping students become involved in the local community, enables thousands of students to participate in community work throughout the year and raise thousands of pounds for local charities.

In 2012, our PARTNERS Programme (involving over 120 schools and colleges) continued to work with students, building their confidence, enabling them to demonstrate their potential for success in higher education and supporting them through their application, entry and transition to the University. With a commitment to widening participation and a focus on fair access to higher education, we continue to develop our portfolio of subject-specific outreach and engagement with regional schools and colleges, including new opportunities for pupils to spend up to three months working on real scientific research, by partnering a researcher through the University's Leading Edge scheme.

Our partnership with Newcastle City Council in Newcastle Science City aims to promote the area as a key location for science-based businesses and ensure that local communities and young people benefit from the job, skills and training opportunities arising from our being a 'City of Science'.

¹ The Director of the Newcastle Institute for Social Renewal, Professor Mark Shucksmith, at the Great North Museum Lego exhibition.



Sustainability

Newcastle is distinctive in our collaborative approach across operational, academic and civic agencies to achieve practical solutions and behavioural change to improve sustainability.

We have adopted Sustainability as a societal challenge theme under the banner of 'Enough, for all, forever'. As one example, recent research into using brownfield site soils to capture and store carbon has found this can be maximised by choosing vegetation to optimise the carbon sink, which potentially offsets the carbon footprint of any new development.

We achieved outstanding success with operational sustainability in 2011–12 with the award of the international Environmental Management System standard ISO 14001, the EcoCampus Platinum award, and a 'first-class honours' in the People & Planet 'Green League of Universities'. Only two UK universities have achieved both the ISO and EcoCampus standards, providing a framework for ensuring full legislative compliance and continual improvement in our performance. Only two research-intensive universities gained 'first-class' status in the league table.

Our improved performance reflects the combined efforts of staff and students. We have engaged staff through the Green Impact accreditation and award scheme enabling teams to monitor and continually improve every aspect of sustainability: from biodiversity to fair trade, energy to waste. Students have used the estate as a learning resource; assisting in achieving ISO 14001 and EcoCampus Platinum; carrying out a Habitat Survey of the estate; and carrying out campus waste audits as part of their studies, helping shape our waste policy.

Exceptional results in a challenging climate included: water consumption reduced by over 23% since 2005–06; diverting 95% of general waste from landfill, by measures including a furniture reuse scheme that continues to deliver significant savings; and the use of a social enterprise to recycle 56 tonnes of waste electronic goods at nil cost.

Biodiversity strategy achievements include a reduction in pesticide and herbicide use, the creation of an allotment, woodland corridors, wildlife friendly areas and pollinator planting.

Through active travel planning, including measures such as discounted staff travel passes, improvement in cycling infrastructure, and provision of pool cars (including electric vehicles), the proportion of staff travelling to work by car reduced from 40% in 2004 to 22% by 2010 and further reductions are expected.

Our carbon management plan sets a major challenge in the medium term to reduce scope 1 and scope 2 CO₂ emissions by 43% (against a 2005–06 baseline) by 2020. Meeting the target requires significant investment by the University and will also require government to progress decarbonisation of the grid. Despite an extensive capital programme with nine new buildings added since the baseline year, we have contained CO₂ emissions to date.

Our boiler replacement programme is delivering savings of over 1,000 tonnes of CO₂ per annum and we continue initiatives to reduce electricity consumption eg consolidating IT servers in an energy efficient data centre and a major project replacing air handling equipment and controls to reduce volume of conditioned air used in fume cupboard intensive buildings. We are introducing an energy and carbon dashboard to help building users develop energy plans to reduce consumption.

Our 2012 Development Options Report proposals to control floor space are partly driven by carbon considerations. We are improving our data quality for scope 3 carbon emissions, establishing a baseline for our supply chain.

Our Resources

People

The University depends for its success on recruiting, retaining and developing high-calibre staff. Overall, full-time equivalent staff increased from 4,564 at 31 July 2011 to 4,714 at 31 July 2012. These numbers include 67 full-time equivalent staff employed by our overseas subsidiaries. Staff costs in 2011–12 were £210.3m, compared to £204.3m in 2010–11. We manage our staff costs to ensure they remain at approximately 55% of total income.

The pay award for non-clinical staff in 2011 was an increase on all points of the common pay spine of £150, equivalent to an increase of ca 0.5%. The offer from 1 August 2012 is an increase on all points of 1%. This offer has not been accepted by any of the participating trade unions.

Changes were introduced to the Universities Superannuation Scheme in October 2011 to ensure it remains sustainable in the longer term. New joiners accrue benefits on a Career Revalued Benefits basis, with an employee contribution rate of 6.5% of pensionable salary, rather than on a final-salary basis; normal pension age is now linked to the state pension age. Contributions for existing members in the Final Salary section increased to 7.5% and provision is made for cost sharing between employers and members if costs should increase in future. Member contributions also increased (to 6.75%) for members of the Retirement Benefits Plan alongside an increase in the University's contributions to 13.25% following the outcome of the 2010 actuarial valuation.

A full Equal Pay Review took place during 2011 and the results reported to the Executive Board. Whilst it highlighted some areas for further action, the review demonstrated that, at university level, there are no longer any significant gender-based pay gaps.

Leadership and succession planning is of continued importance. The Leadership Succession Group, chaired by the Vice-Chancellor, has focused on recruiting and retaining high-calibre staff in areas of strategic importance such as the societal challenge themes. Newcastle University continues to contribute to national initiatives on this topic.

The University's expanded international operations were supported through redesigned induction events and an online induction film, to benefit new staff based in our campuses in Malaysia and Singapore. Personal and professional staff development priorities, for staff based in Singapore, were addressed during an in-country bespoke staff development event. This event highlighted key priorities and plans for future development to ensure that we continue to offer overseas-based staff the opportunity to develop in a manner consistent with expected standards and practices in our UK operations.

A new development programme for University middle managers was delivered, focusing on equipping managers to deal with the constantly changing environment and leading business improvement. An ongoing focus on performance management was achieved with the successful roll-out across all academic areas of workshops aimed at improving effective performance conversations.

Professor Jimmy Steele was awarded a CBE for services to dentistry and oral health and Professor Ella Ritchie was awarded an OBE for services to higher education. Professors Elaine Martin and Ian Metcalf were elected Fellows of The Royal Academy of Engineering. Professor Pooran Wyncarczyk was elected an 'at large' councillor for the Royal Society of Arts, Manufactures and Commerce (RSA) and Dr Undrell Moore was awarded a National Teaching Fellowship.

Financial resources

At 31 July 2012 the University held gross cash and short-term deposits totalling some £118.8m (2011: £122.5m), the equivalent of four months' recurrent total expenditure. These balances will decline in future years as the University fulfils its capital programme. Long-term debt, which relates solely to property, was £16.7m, a decrease of £1.0m in the year relating to the repayments of fixed term loans which are due to be repaid by 2029.

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Estate

Our estate strategic objectives are to facilitate academic priorities and:

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

Our strategy has improved the quality and functional suitability of our floor space through investing in maintenance, new build, refurbishment, rationalising the use of floor space and withdrawing from peripheral, less suitable space. We have increased lettings to third parties. Condition and functional suitability will improve at a slower rate as more difficult items are tackled. The current economic climate is also impacting on our ability to dispose of poorly performing properties.

Measure	2000–01	2009–10	2010–11	2011–12 ¹	Target 2012–13	Peer Median 2010–11
Floor space in condition category A & B	74%	87%	89%	89%	89%	82%
Floor space in functional suitability grade 1 & 2	34%	79%	80%	82%	84%	87%
Net internal area per student FTE (m ²)	17.0	11.7	11.4	11.4	11.1	10.8

The net internal area of the operational estate is 213,425m² against our 2012 target of 217,500m². Continued focus on space management is required to meet the challenge of carbon reduction. To meet our 2013 target of 208,000m² we will release over 10,000m² of floor space for alternative use, disposal or demolition by July 2013. While space per student FTE has reduced by 5.6m² since 2001, we believe that further efficiencies can be achieved. Although 94% of our teaching rooms now have a functional suitability of grade 1 or 2, the frequency of use of all teaching rooms stayed at 49% against our 60% target.

This year has seen the completion of the new Newcastle Biomedical Research Centre building at the Campus for Ageing and Vitality, the first phases of refurbishment of the Armstrong and Bedson Buildings, a campus-wide boiler replacement programme, refurbishment of laboratories for the Institute of Cellular Medicine and recladding of the Herschel Building. Our joint venture, INTO Newcastle, completed its teaching centre and student residential development in August 2012.

We continue to invest in student services and facilities. Our annual teaching and learning space programme focused on improving student experience and included: refurbishment and improvements to lecture theatres, teaching rooms and teaching computer clusters and further quick access computer stations in lobbies and student-facing areas. A new social learning space was created in the Agriculture Building and student social spaces in various buildings improved by utilising redundant porters' lodges and extending existing facilities to meet the students' requests for spaces to eat their own food and make hot drinks. £1m was injected to accelerate the long-term maintenance programme for the common areas of buildings (student common rooms, corridors and toilets). New and refurbished teaching rooms and student social spaces formed part of the Armstrong Building redevelopment.

Research-related projects have included the installation of an Advanced Technology Biomarker Generator, an ultra-compact cyclotron, the first in Europe and only the second in the world of its type, which helps with the diagnosis and treatment of cancer and other serious diseases, and an X-ray photoelectron spectroscope which probes the electronic structure of surfaces.



The third year of our Coherent Campus initiative included the completion of Claremont Gateway and the Student Forum landscaping works as phases 1 and 2 of the pedestrianisation of King's Road. Through joint planning, Newcastle City Council continues to enhance adjacent public realm spaces with wider pavements and a wider, better positioned pedestrian crossing on Queen Victoria Road. We are jointly working on improving pedestrian connections across Barras Bridge, the frontage to the University.

Other projects in progress include refurbishment of facilities for Fine Art in the King Edward VII Building, an extension to the Institute of Neuroscience, creation of new student residences in Kensington and Park Terraces, refurbishment of student accommodation at the Grand Hotel and in Windsor Terrace, phase 2 of the redevelopment of the Armstrong Building and investment in improving accessibility across the campus.

¹ 2011–12 results are estimates subject to final validation.

Information technology

Information technology systems and services are critical to the operations of the University. Dependence on IT continues to grow, with a trend towards a larger number of systems, with more users, handling more data.

The integrity and stability of our core IT systems remained an area of strength in 2011–12, with over 99.5% availability.

IT continues to offer critical support to learning, teaching and the student experience. In September 2011, the refurbishment of the Old Library PC cluster and the creation of the Students' Union 'Hub' increased the provision of 24-hour computing facilities by 168 seats. The number of quick access PCs in foyer areas also increased from 29 to 53, providing easy access to Internet and e-mail. These popular stations received 41,216 logins from October 2011 to July 2012 compared to 36,229 last year.

In summer 2012, all undergraduate and postgraduate taught student e-mail was migrated to Microsoft's Cloud based service, Office 365. The transition has delivered a 160-fold increase in e-mail storage capacity along with access to Microsoft products via the web.

In 2011 National Student Survey (NSS) results for the ability to access general IT resources were disappointing, dropping by 1% to 82%. However, this year we are pleased that the results increased to 86%, above the national average. Results for the autumn 2011 International Student Barometer (ISB) were also very positive; Newcastle's IT scores were the highest of the Russell Group participants.

Investments have been made in our network; the capacity of the University's connection to the JANET network has increased from 1Gbps to 2Gbps with a rise to 10Gbps planned for 2013. This will support the ever-increasing volume of data shared and stored by our researchers.

The in-house tool we have developed to help manage research and teaching profiles for individual members of staff, MyImpact, is now live. MyProjects allows each research bid to be tracked and managed from concept to completion.

Innovative use of technology has continued to reduce the energy consumption of our IT estate. Changes to the power management of desktop computers alone have led to a £0.1m saving when compared to 2010–11. A second University videoconferencing suite has also been opened, reducing the need for travel and the University's environmental impact.

In August 2011, Executive Board commissioned a Review of University IT Expenditure undertaken by KPMG. Each of the five key recommendations was accepted:

- establish a common University Infrastructure
- rationalise the IT staff model
- professionalise service management
- develop a University-wide IT Strategy and Governance Model
- realise IT procurement efficiencies

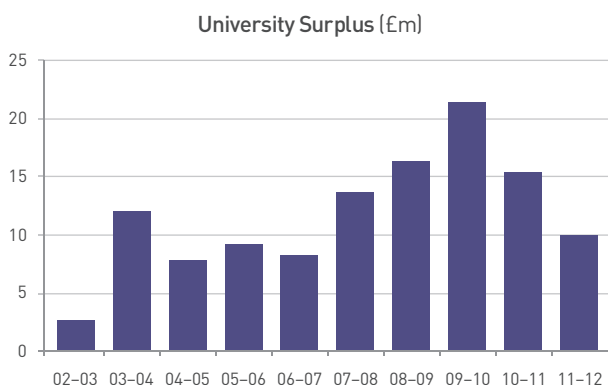
To ensure that the benefits and efficiencies highlighted by the review are realised, a Digital Campus Initiative has been established, led by the Pro-Vice-Chancellor – Planning and Resources. This will require significant investment in time and resources but it will provide Newcastle University with the IT services it needs to deliver Vision 2021.

Financial Review

Introduction

As predicted in last year's Operating and Financial Review, 2011–12 proved to be one of our most challenging years financially for some time. This was to be expected given significant cuts in HEFCE funding, Research Council reaction to the Wakeham Report, sharp increases in utility prices and the start-up costs of our two international campuses. In addition, the University committed itself to a £6m programme of improvements to the estate, academic infrastructure and student experience ahead of the new fees and funding regime.

As a result, total surplus declined from £15.4m in 2010–11 to £9.8m in 2011–12 and the 1% decline in net income was the first reduction in income in recent years. Nevertheless, continued good cost control ensured our results were better than budget and this was the tenth consecutive year of surplus for the University.



Net cash balances reduced from £104.8m to £102.1m, reflecting our continued capital investment programme, but this is considerably stronger than the position ten years ago when net cash balances were only £18.2m. Our financial strength and sound business planning processes will ensure the University is well placed to flourish in future years.

Net income declined by 1% from £382.2m to £379.5m with a sharp fall in HEFCE grants largely offset by continued growth in overseas student fee income. Total expenditure increased by 1% from £368.4m to £372.3m. Excluding the impact of the specific grant to the Students' Union in 2010–11, the increase in expenditure was 3%.

Income

Net income declined by 1% from £382.2m to £379.5m. Over the past five years, income has increased by £342.3m to £379.5m, an average growth of 3% per annum.

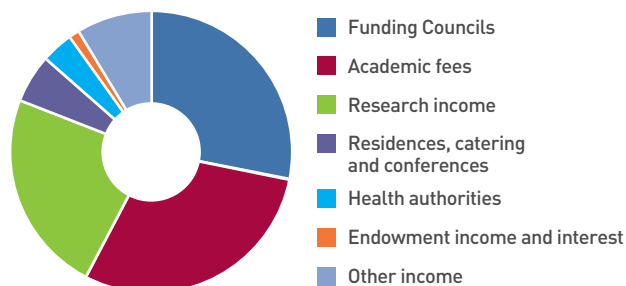
Funding Council grants reduced by 8% year on year reflecting public expenditure cuts and, in particular, a significant reduction in capital funding from HEFCE. Funding Council grants, as a percentage of net income, declined from 30.4% to 28.0% in line with expectations and are forecast to reduce to ca 24% in 2012–13.

Academic fees from full-time home and EU students increased by 3% due to 1.6% growth in postgraduate students and an increase in the home undergraduate fee from £3,290 to £3,375. Income for overseas students taught in the UK increased by 13% from £43.6m to £49.1m and fee income at our overseas campuses increased from £2.4m to £5.6m.

Research income in 2011–12 was £86.0m, a reduction of £2.5m (3%) on 2010–11. Research Council income fell by £3.5m (12%) to £25.7m reflecting the significant cuts in their capital budgets and a sharp fall in the reimbursement of indirect costs, partly in reaction to the Wakeham Report. As reported elsewhere, new grants from Research Councils remain buoyant and we expect the decline in income to reverse in future years. EU income increased from £9.0m to £11.2m, after a decline in the previous year, and the University continues to have a strong presence in European research activity.

Residence, catering and conference income grew by 4% from £20.8m to £21.7m. There has been a major review of our catering services in the last two years, resulting in a more efficient operation and an increase in the number of outlets. The income from our farms grew by 7%, reflecting higher prices during the year. However other areas of commercial income have fared less well during the recession including a reduction of 14% in consultancy income. Endowment income and interest increased from £3.1m to £4.6m, primarily due to a pension finance interest credit of £1.2m, as required by FRS17.

Key income streams are summarised below:



Expenditure

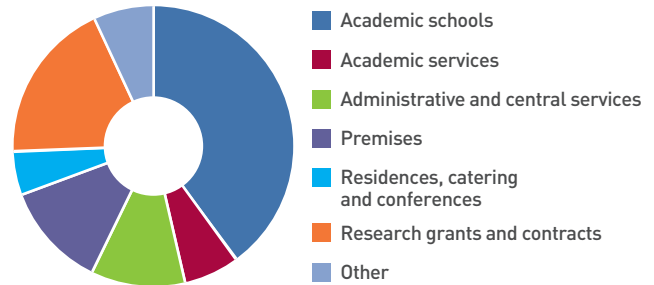
Total expenditure increased by 1% from £368.4m to £372.3m. Excluding the impact of the specific grant to the Students' Union in 2010–11, the increase in expenditure was 3%.

Staff costs increased from £204.3m to £210.3m (3%) and represented 55% of net income (2010–11: 53%) in line with the University's strategy. UK staff costs increased by 2% from £203.7m to £208.2m and non-UK costs increased from £0.6m to £2.1m, due to the opening of our campus in Malaysia and the growth of our campus in Singapore. Worldwide headcount increased by 3.3% during the year; most UK staff received an increase of £150 pa in August 2011 and there was an increase of 1% in the employer's contribution rate to the RBP pension scheme. Offsetting this, recruitment of new academic and research staff reduced average rates (due to the impact of incremental progression scales), and there was a reduction in overtime costs and bonus payments.

Other operating costs increased by £5.9m (4%) from £145.6m to £151.5m. Utility costs increased by £2.4m due to sharp increases in both gas and electricity prices, the impact of the new Business School and the Malaysian campus on usage and the introduction of carbon reduction credit payments. Rents increased by £2.4m due to the new Business School. Student bursary and related payments increased by £1.7m reflecting higher take up of bursaries and increased Research Council funded grants to postgraduate students. Expenditure on estates refurbishment projects increased by £3.8m reflecting our programme of improvements to the estate, academic infrastructure and student experience ahead of the new fees and funding regime.

Partly offsetting these increases were significant reductions in expenditure on consumables and external services. This largely reflects improved procurement arrangements following implementation of new purchasing systems across the University during 2011. Depreciation reduced from £9.6m to £9.5m, mainly due to timing of equipment purchases and an exceptional impairment of the value of two buildings in 2010–11.

Key expenditure streams are summarised below:



Pensions

An actuarial loss of £23.2m was recognised in the Statement of Consolidated Total Recognised Gains and Losses, as required by FRS17 (2010–11: a gain of £14.4m). This relates to the RBP, the local pension scheme for support staff, and the basis for the loss is fully documented in note 31 to the accounts. The loss is primarily due to a reduction in the year end discount rate which has significantly increased discounted future liabilities. Assets continue to out-perform the Trustees' target, reflecting continued strong performance by our investment managers and a buoyant corporate bond market.

The triennial valuation of the RBP at 1 August 2010 revealed a deficit of £7.3m relative to the technical provisions (5% of liabilities). The scheme's actuary estimated that this deficit had reduced to £4.7m (3% of liabilities) at 1 August 2011. Contribution rates were increased by 0.5% for employees and 1% for employers from August 2011.

The triennial valuation of the Universities Superannuation Scheme (USS) at 31 March 2011 revealed a deficit of £2.9bn relative to the technical provisions (8% of liabilities). The proposed recovery plan does not envisage further increases in contribution rates, due to previous increases in employer contributions and structural changes to the scheme introduced in October 2011.





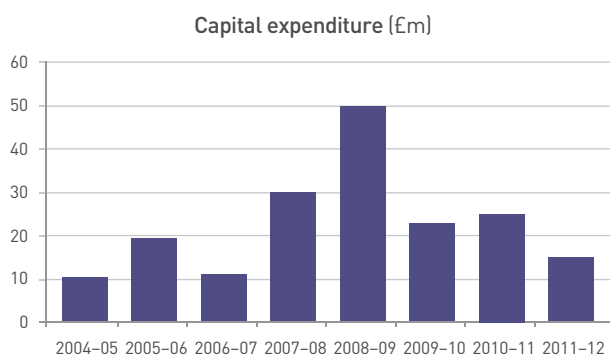
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Balance sheet

University capital expenditure in the year was £14.8m, a reduction of £10.1m on the previous year, reflecting a switch in focus from major capital projects to smaller refurbishment schemes during the year.



There were £33.2m of outstanding contracted capital commitments at 31 July 2012 (2011: £23.3m) with a further £12.3m authorised but not contracted (2011: £21.6m). Our current financial plans forecast £29m of estates development work in 2012-13 and £126m in future years. The main areas of focus in the next few years will be student accommodation with the start of construction work to develop Kensington and Park Terraces and planning under way for redevelopment of facilities in Richardson Road, the major refurbishment of the Armstrong Building and development of the Science Central site.

Net cash balances reduced from £104.8m to £102.1m, reflecting our continued capital investment programme, the lower surplus and reduced external capital grants. We expect cash balances to continue to gradually decline as the University fulfils its capital programme.

2 Students graduating at our Singapore campus.
3 Sir Alan Langlands officially opened the University's Biomedical Research Building on the Campus for Ageing and Vitality.

Outlook

The key objectives of our financial strategy are to:

- create capacity for strategic development by achieving an average annual historic cost surplus of at least 4% of income, with a minimum of 2% in any financial year
- 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

As anticipated, 2011-12 was a challenging year. However it was one which the University had prepared for carefully with robust academic and financial strategies which were executed well. We continue to have one of the strongest liquidity positions in the sector.

The longer term picture is of one of considerable challenge to the University, but also one which presents significant opportunity.

The key risks that we face in the coming years are:

- our ability to continue to attract talented home students
- the need to maintain and grow overseas student numbers in an immigration regime that is rapidly changing and not wholly favourable to international recruitment
- the outcome of the next Comprehensive Spending Review and the potential need for further deep cuts in public expenditure
- the impact of the 2014 Research Excellence Framework exercise
- inevitable pressures for salary increases after three years of tight restraint

We will, however, continue to strive for an excellent academic and student experience and to work with our partners, within the sector and elsewhere, to generate new sources of income and reduce costs.

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 risks affecting the University. Some risks may be unknown to us and other risks, currently regarded as immaterial, could turn out to be material. All of them have the potential to impact our income, expenditure, assets and liquidity adversely.

Going concern

Council confirms that it has reasonable expectation that the University has adequate resources to continue in operation for the foreseeable future. For this reason, it continues to adopt the going concern basis for preparing the accounts.

Strategic risks

We have a defined University-wide risk management process for identifying, evaluating and managing the significant risks faced by the University. A summary of the key strategic risks is presented to each meeting of Council. The risk factors below are all identified on the risk register and should be considered against the background of our risk management process.

Student recruitment

We need to continue to attract high-calibre students from a wide range of backgrounds from home and overseas. Although both home and overseas recruitment is buoyant, the introduction of higher fees, the changes to the controls on home undergraduate numbers and the government's policy on immigration controls produce challenges. The imposition of attendance monitoring requirements on non-EU students is especially onerous.

Student experience

The changes to the system of higher education funding have required us to re-examine our approaches to monitoring and improving the student experience.

Research

We are continuing to prepare for the Research Excellence Framework, which will be the main mechanism to judge the quality of our research performance and determine the allocation of research funds from HEFCE. We have policies and systems in place to secure research grants and deliver the necessary research outputs.

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.

Pensions

We need to ensure that the national pension scheme for academic and related staff, USS, and the local pension scheme for other staff, 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.

Financial viability

We need to ensure continued financial viability.

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 challenge 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.

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In reaching this conclusion, it has reviewed the sustainability of the University and is satisfied that the strategies, plans and processes in place will help the University move towards the achievement of its strategy. In particular, it is satisfied that academic strategies take account of the environment in which the University is operating as an institution and are financially sustainable.

The following are the key elements that give Council assurance in this area:

- it regularly reviews the University's performance using a number of key performance indicators in areas that are relevant to institutional sustainability, the results of which are summarised on page 7
- it has agreed a long-term target operating surplus of 4% of income (with a minimum of 2% in any one year) to reflect the need to generate cash to manage the University now and in the future
- it regularly reviews the University's strategic risk register, which is summarised below, and is assisted in this process by Audit Committee

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.

International

We have an internationalisation strategy and have developed two international campuses, one in Singapore and the other in Malaysia. The management of these and other international activities requires an active approach to reducing risks.

Business disruption

The exceptional storm systems of June and August 2012 caused widespread flooding across the campus and highlighted our emergency planning and business continuity arrangements, both of which have been strengthened in recent years. Further work will be undertaken to address the risk of floods.

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 overall accident rate and the level of staff accident rates reported under Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) reduced slightly during 2011–12 but remain higher than the sector average and are a matter for concern. An investigation is being conducted to identify the underlying causes and develop an action plan.

Incidents due to manual handling remain at a lower level following an awareness campaign and increased training. Accidents resulting from slips, trips and falls have not reduced. An awareness campaign and increased training is ongoing.

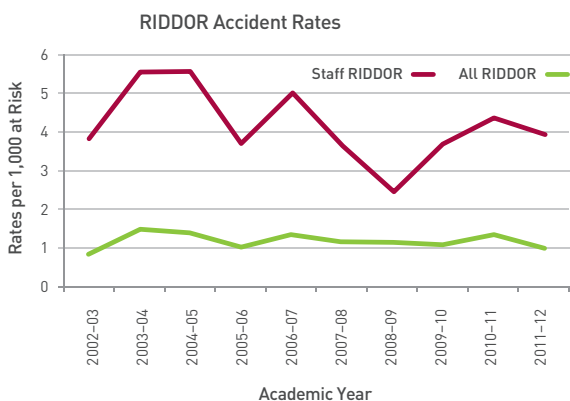
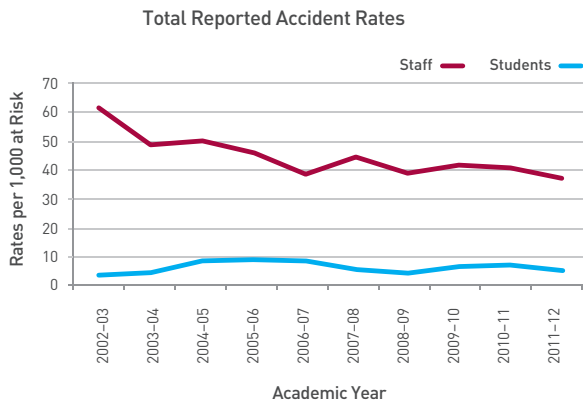
As part of our commitment to employee wellbeing, the University continues to promote healthier lifestyles and is an active member of the regional 'Better Health at Work' initiative; receiving the Bronze level award in January 2012 (our Estate Support Service received the Gold level award). Sickness absence rates for the University as a whole are in line with the HE sector average. The rate varies across staff groups with operational staff being of most concern at a rate of 5.6%. This is, however, a reduction of 1.8% in the last two years following significant efforts to manage absence more actively in this area.

Underlining our commitment to employee health and wellbeing, the University is also now a Public Health Responsibility Deal partner, with public commitments to a number of workplace health pledges.

Treasury

At 31 July 2012, the University had £92.0m short-term cash investments (2011: £91.0m). The level of deposits fluctuates throughout the year with materially higher cash balances between September and December due to the timing of tuition fees and HEFCE grants. This volatility is likely to increase in the new fees and funding regime as we become more dependent on receipts from the Student Loans Company. Although this may create short-term liquidity issues for some universities, there will not be a material impact for Newcastle although it will restrict our flexibility on optimising investment returns. Our investments are controlled by our counterparty policy, which is agreed by Finance Committee with advice from brokers. We only place our money with UK banks and building societies that we consider to be secure, based on external benchmarks. A wide portfolio of banks is chosen to spread risk, although events in 2007 and 2008 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.

At 31 July 2012, the University had £41.3m of endowments (2011: £41.9m). Endowments are primarily invested in equities. The University uses Majedie and BlackRock 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. During 2012–13 the University intends to migrate from passive management to active management of its non-UK equities and has appointed Baillie Gifford as its global investment manager.



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 a number of separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities. **Convocation** is a meeting of the alumni and is the body that appoints the Chancellor.

Academic Board is a meeting of all academic and related staff that receives an annual report from the Vice-Chancellor.

Court

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.

Senate

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.

Council

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 provided below. Council undertakes annual reviews of its effectiveness.

It has a majority of members from outside the University (lay members) including three lay officers; Chair, Vice-Chair 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 Chair and Vice-Chair 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.

- **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.

- **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 the 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.

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 (HEFCE), the Vice-Chancellor is the accountable officer of the University. In that capacity he and the Chair of Council 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 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.

Council: Statement of Primary Responsibilities

Council is the supreme governing body of the University, subject to the provisions of the University's Statutes. The primary responsibilities of Council are as follows:

General

- to be responsible for ensuring the effective management of the University and to take all final decisions on matters of fundamental concern, being decisions that have not been delegated to the Vice-Chancellor
- to safeguard the good name and values of the University
- to contribute to the development of, and approve the mission and strategic vision of, the University, long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders
- subject to the powers of Senate, to take such steps as it thinks proper to advance the interests of the University, maintain its efficiency, and encourage teaching, the pursuit of learning and the conduct of research within it
- to ensure that processes are in place to monitor and evaluate the performance and effectiveness of the University against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions
- to establish processes to monitor and evaluate the performance and effectiveness of Council itself
- to delegate authority to the Vice-Chancellor, as Chief Executive, for the academic, corporate, financial, estate and personnel management of the University, whilst recognising the additional accountability of the Vice-Chancellor to HEFCE. Council's scheme of delegation shall be kept under regular review
- to make such provision as it thinks fit for the general welfare of students, where appropriate through Senate
- to conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life embracing selflessness, integrity, objectivity, accountability, openness, honesty and leadership
- to ensure procedures are in place for handling internal grievances, whistle-blowing and for managing conflicts of interest

Finance

- to be the principal financial and business authority of the University, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate
- to ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment
- as part of the financial governance role
 - to ensure that funds from HEFCE are used only in accordance with the Further and Higher Education Act 1992, the Model Financial Memorandum between HEFCE and institutions, and any other conditions that HEFCE may from time to time prescribe
 - to ensure that reasonable discretion is exercised in the use of public funds and account taken of any relevant guidance on accountability, sustainability or propriety
 - to be responsible for delivering value for money from public funds, taking into account guidance on good practice

Employment

- to appoint, in accordance with the relevant Statutes
 - the vice-chancellor and to put in place suitable arrangements for monitoring his/her performance
 - a registrar, who is also secretary to Council, ensuring that there is an appropriate separation in the lines of accountability
 - a deputy vice-chancellor
 - one or more pro-vice-chancellors

and in each case to determine the conditions of appointment

- to be the employing authority for all staff in the University. This includes ultimate responsibility for
 - approving the human resources strategy
 - determining the conditions of appointment of the staff of the University, after consultation with Senate when required
 - the welfare of University staff
 - establishing, suspending or abolishing any post in the University, except those posts specifically created by the Statutes, after consultation with Senate
 - appointing members of staff of the University, on the recommendation of Senate when required

Compliance

- to be the University's legal authority and, as such, to ensure that systems are in place for meeting all of its legal obligations, including those which relate to health and safety and equal opportunities and which arise from contracts and other legal commitments made in its name
- to ensure that the University complies with any wishes attached to any property, legacy, endowment, bequest or gift in support of the work and welfare of the University
- to ensure that the University's constitution is followed at all times and that appropriate advice is available to enable this to happen

Responsibilities of Council in the Preparation of the Financial Statements

In accordance with the University's Statutes, 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.

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 HEFCE and the University, Council, through its accountable officer, 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, 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

Council has taken reasonable steps to:

- ensure that funds from HEFCE 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 HEFCE. 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 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
- 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 reported to Council to assure it 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 2012 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 provides an annual report to Council, which includes an opinion on the adequacy and effectiveness of the University's system of internal control, including risk management, corporate governance, internal control and value for money.

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

We have audited the group and parent institution financial statements (the 'financial statements') of the University of Newcastle upon Tyne (the 'University') for the year ended 31 July 2012 which comprise the Statement of Principal Accounting Policies, the Consolidated Income and Expenditure Account, the Statement of Consolidated Total Recognised Gains and Losses, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Council and auditors

As explained more fully in the Responsibilities of Council in the Preparation of the Financial Statements disclosure set out on pages 23–24 the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with paragraph 15 of the Charters and Statutes of the University and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Operating and Financial Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the University and the Group at 31 July 2012, and of the Group's income and expenditure, recognised gains and losses, and statement of cash flows for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation, and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion the statement of internal control, included as part of the Corporate Governance Statement, is inconsistent with our knowledge of the University and Group.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
23 October 2012

The maintenance and integrity of the University of Newcastle upon Tyne's website is the responsibility of the governing body; 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 2012.

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 joint ventures and the consolidated balance sheet includes the investment in joint ventures at the University's share of their underlying net assets.

The consolidated financial statements do not include the results of Newcastle University Students' Union as it is a separate company limited by guarantee in which the University has no financial interest and no control or significant influence over its policy decisions.

The consolidated financial statements do not include the results of the University of Newcastle upon Tyne Development Trust as it is a separate charity which manages its funds independently of the University. Although the University nominates some of the trustees, it has no control of the Trust's decisions.

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 Teaching Agency and of Access Funds from the Higher Education Funding Council for England. Related payments received from the Teaching Agency and the Higher Education Funding Council for England and subsequent disbursements to students are excluded from the income and expenditure account and are shown separately in notes 29 and 30 to the accounts.

5. Maintenance of Premises

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

6. Foreign Currency Translation

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

7. Leases

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

8. Tangible Fixed Assets

a. Land and Buildings

Land and buildings are stated at cost. Freehold land is not depreciated. Buildings are depreciated over their expected useful lives to the University (generally 50 years), and leasehold land over the life of the lease. Major refurbishments are depreciated over their expected useful lives to the University (generally 25 years).

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.

Costs incurred in relation to a fixed asset, after its initial purchase or production, have been capitalised to the extent that they increase the expected future benefits to the University from the existing tangible fixed asset beyond its previously assessed standard of performance.

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:

Research vessel	– 25 years
General equipment	– 4 to 10 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 that are separated into permanent and expendable. Notes to the accounts further analyse the endowments into the capital element and unapplied return.

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

10. Stocks

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

11. Provisions

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

12. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Newcastle upon Tyne Retirement 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 2011 and as such is a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478–488 of the Corporation Tax Act 2010 (CTA 2010) [formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)] 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 2012

	Note	2012 £m	2011 £m
INCOME			
Funding Council grants	1	106.4	116.2
Academic fees and support grants	2	116.4	106.3
Research grants and contracts	3	86.0	88.5
Other operating income (including share of joint venture)	4	72.9	74.2
Endowment income and interest receivable	5	4.6	3.1
Total income		<u>386.3</u>	<u>388.3</u>
Less: share of income from joint venture	13	(6.8)	(6.1)
Net income		<u>379.5</u>	<u>382.2</u>
EXPENDITURE			
Staff costs	6	210.3	204.3
Other operating expenses	7	151.5	145.6
Grant to Students' Union		–	7.8
Depreciation	11	9.5	9.6
Interest payable	8	1.0	1.1
Total expenditure	9	<u>372.3</u>	<u>368.4</u>
Surplus after depreciation of fixed assets at cost and before tax		7.2	13.8
Share of operating profit in joint venture	13	1.3	1.0
Operating surplus		<u>8.5</u>	<u>14.8</u>
Taxation	10	–	–
Surplus after depreciation of fixed assets at cost and tax		<u>8.5</u>	<u>14.8</u>
Deficit for the year transferred to endowment funds	19	(1.3)	(0.6)
Surplus for the year retained within general reserves	20	<u>9.8</u>	<u>15.4</u>

The income and expenditure account is in respect of continuing operations.
There is no difference between reported and historical cost surpluses and deficits.

Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2012

	Note	2012 £m	2011 £m
Surplus after depreciation of fixed assets at cost and tax		8.5	14.8
Appreciation of endowment asset investments	19	–	4.9
Net endowments	19	0.7	0.7
Actuarial (loss) / gain relating to the pension scheme	31	(23.2)	14.4
TOTAL RECOGNISED (LOSSES) / GAINS RELATING TO THE YEAR		<u>(14.0)</u>	<u>34.8</u>
Reconciliation:			
Opening reserves and endowments		177.3	142.5
Total recognised (losses) / gains for the year		(14.0)	34.8
Closing reserves and endowments		<u>163.3</u>	<u>177.3</u>

Balance Sheets

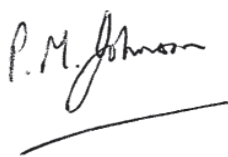
as at 31 July 2012

	Note	CONSOLIDATED		UNIVERSITY	
		2012 £m	2011 £m	2012 £m	2011 £m
FIXED ASSETS					
Tangible assets	11	241.0	236.5	240.6	235.9
Investments	12	0.1	0.1	1.2	1.2
Investment assets – joint venture	13				
Share of gross assets		8.3	6.4	–	–
Share of gross liabilities		(6.9)	(5.3)	–	–
		<u>242.5</u>	<u>237.7</u>	<u>241.8</u>	<u>237.1</u>
ENDOWMENT ASSET INVESTMENTS	14	<u>41.3</u>	<u>41.9</u>	<u>41.3</u>	<u>41.9</u>
CURRENT ASSETS					
Assets held for sale		0.8	–	0.8	–
Stocks and stores in hand		0.1	0.1	0.1	0.1
Debtors	15	34.7	34.7	37.6	36.6
Investments		92.0	91.0	92.0	91.0
Cash at bank and in hand		25.9	30.4	23.4	27.9
		<u>153.5</u>	<u>156.2</u>	<u>153.9</u>	<u>155.6</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	<u>(87.5)</u>	<u>(90.9)</u>	<u>(86.8)</u>	<u>(90.5)</u>
NET CURRENT ASSETS		<u>66.0</u>	<u>65.3</u>	<u>67.1</u>	<u>65.1</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>349.8</u>	<u>344.9</u>	<u>350.2</u>	<u>344.1</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17	<u>(15.7)</u>	<u>(16.7)</u>	<u>(15.7)</u>	<u>(16.7)</u>
NET ASSETS EXCLUDING PENSION LIABILITY		<u>334.1</u>	<u>328.2</u>	<u>334.5</u>	<u>327.4</u>
PENSION LIABILITY	31	<u>(36.8)</u>	<u>(14.7)</u>	<u>(36.8)</u>	<u>(14.7)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u>297.3</u>	<u>313.5</u>	<u>297.7</u>	<u>312.7</u>
DEFERRED CAPITAL GRANTS	18	133.9	136.1	133.9	136.1
ENDOWMENTS					
Permanent	19	30.0	30.7	30.0	30.7
Expendable	19	11.3	11.2	11.3	11.2
		<u>41.3</u>	<u>41.9</u>	<u>41.3</u>	<u>41.9</u>
RESERVES					
General reserve excluding pension liability		158.8	150.1	159.3	149.4
Pension liability		(36.8)	(14.7)	(36.8)	(14.7)
General reserve including pension liability	20	<u>122.0</u>	<u>135.4</u>	<u>122.5</u>	<u>134.7</u>
MINORITY INTEREST		0.1	0.1	–	–
TOTAL FUNDS		<u>297.3</u>	<u>313.5</u>	<u>297.7</u>	<u>312.7</u>

The financial statements on pages 26–47 were approved by Council on 22 October 2012 and signed on its behalf by:



C H BRINK, Vice-Chancellor



P M JOHNSON, Treasurer



R C DALE, Executive Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2012

	Note	2012 £m	2011 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	21	5.4	17.9
Returns on investments and servicing of finance	22	2.6	1.1
Taxation		-	-
Capital expenditure and financial investment	23	(10.7)	(17.8)
Cash (outflow) / inflow before use of liquid resources and financing		(2.7)	1.2
Management of liquid resources			
– cash increase in short-term deposits		(1.0)	(8.0)
Financing	24	(1.0)	(1.0)
Decrease in cash in the period		(4.7)	(7.8)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Decrease in cash in the period		(4.7)	(7.8)
Increase in short-term deposits		1.0	8.0
Repayment of debt		1.0	1.0
Movement in net funds in the period		(2.7)	1.2
Net funds at 1 August		104.8	103.6
Net funds at 31 July	25	102.1	104.8

Notes to the Accounts

1 FUNDING COUNCIL GRANTS	2012	2011
	£m	£m
HEFCE recurrent grant	94.8	99.1
HEFCE specific grants	7.0	12.2
HEFCE deferred capital grants released in year		
– Buildings	2.8	2.5
– Equipment	0.3	0.9
Teaching Agency recurrent grant	1.2	1.3
Teaching Agency specific grant	0.3	0.2
	<u>106.4</u>	<u>116.2</u>
2 ACADEMIC FEES AND SUPPORT GRANTS	2012	2011
	£m	£m
Full-time students	52.3	50.6
Full-time students charged overseas fees	54.7	46.0
Part-time fees	3.3	3.3
Research training support grants	3.9	4.3
Short courses	2.2	2.1
	<u>116.4</u>	<u>106.3</u>
3 RESEARCH GRANTS AND CONTRACTS	2012	2011
	£m	£m
Research Councils	25.7	29.2
UK-based charities	22.7	22.4
European Commission	11.2	9.0
Other grants and contracts	26.4	27.9
	<u>86.0</u>	<u>88.5</u>
4 OTHER OPERATING INCOME	2012	2011
	£m	£m
Residences, catering and conferences	21.7	20.8
Other services rendered	8.6	10.4
Health authorities	13.0	12.8
Other income	29.6	30.2
	<u>72.9</u>	<u>74.2</u>
5 ENDOWMENT INCOME AND INTEREST RECEIVABLE	2012	2011
	£m	£m
Income from permanent endowments (note 19)	1.1	0.8
Income from expendable endowments (note 19)	0.3	0.3
Pension finance interest	1.2	0.1
Income from short-term investments	2.0	1.9
	<u>4.6</u>	<u>3.1</u>

Notes to the Accounts (continued)

6 STAFF

	2012	2011
	£m	£m
STAFF COSTS		
Wages and salaries	164.1	160.4
Social security costs	13.9	13.5
Other pension costs	32.3	30.4
	<u>210.3</u>	<u>204.3</u>

	2012	2011
	£000	£000
Emoluments of the Vice-Chancellor:		
Salary	220.3	199.5
Benefits in kind	2.2	6.7
	<u>222.5</u>	<u>206.2</u>
Pension contributions	54.9	47.1
	<u>277.4</u>	<u>253.3</u>

	2012	2011
	Average FTEs	Average FTEs
STAFF NUMBERS		
Academic	1,224	1,166
Support	2,574	2,525
Research	889	862
	<u>4,687</u>	<u>4,553</u>

	2012		2011	
	Number		Number	
Remuneration of higher paid staff, excluding employer's pension contributions (Clinical staff numbers in brackets):				
£100,000–£109,999	18	(12)	22	(17)
£110,000–£119,999	13	(6)	13	(7)
£120,000–£129,999	17	(12)	17	(10)
£130,000–£139,999	14	(9)	13	(9)
£140,000–£149,999	11	(11)	8	(8)
£150,000–£159,999	9	(8)	10	(9)
£160,000–£169,999	12	(10)	11	(9)
£170,000–£179,999	6	(6)	4	(4)
£180,000–£189,999	5	(5)	5	(5)
£190,000–£199,999	–	–	3	(3)
£200,000–£209,999	6	(6)	7	(7)
£210,000–£219,999	3	(3)	2	(2)
£220,000–£229,999	2	(2)	–	–

7 OTHER OPERATING EXPENSES	2012	2011
	£m	£m
Building maintenance and renewals	19.3	17.7
Student-related expenditure	26.9	25.2
Consumables and laboratory expenditure	15.2	17.2
Staff-related expenditure	20.5	18.5
Non-capitalised equipment purchases and maintenance	14.8	14.3
Heat, light, water and power	10.2	7.8
Residences, catering and conference operating expenses	9.4	8.6
Professional fees	5.6	6.4
Books and periodicals	4.5	5.2
Students' Union annual subvention	1.2	1.3
Operating lease rentals – land and buildings	2.4	–
Other expenses	21.5	23.4
	<u>151.5</u>	<u>145.6</u>

Professional services include auditors' remuneration in respect of audit services for the Group of £103,445 (2011: £98,501) and for the University of £63,600 (2011: £53,588). In respect of non-audit services (mainly grant certification work) remuneration amounted to £57,138 (2011: £58,812) for the Group and University.

8 INTEREST PAYABLE	2012	2011
	£m	£m
On loans not wholly repayable within five years	<u>1.0</u>	<u>1.1</u>

9 ANALYSIS OF 2011–12 EXPENDITURE BY ACTIVITY

	Staff	Other	Depreciation	Interest	Total
	Costs	Operating		Payable	
	£m	Expenses	£m	£m	£m
Academic schools	114.1	31.8	1.6	–	147.5
Academic services	11.3	12.9	0.2	–	24.4
Administration and central services	21.9	18.7	–	–	40.6
Premises	8.5	31.7	5.9	0.3	46.4
Residences, catering and conferences	5.8	11.3	0.8	0.7	18.6
Research grants and contracts	38.8	28.9	1.0	–	68.7
Other expenditure	9.9	16.2	–	–	26.1
Total per income and expenditure account	<u>210.3</u>	<u>151.5</u>	<u>9.5</u>	<u>1.0</u>	<u>372.3</u>
The depreciation charge has been funded by:					
Deferred capital grants released			5.4		
General income			4.1		
			<u>9.5</u>		

Administration and central services includes £4.9m (2011: £4.8m) in respect of undergraduate bursaries.

10 TAXATION	2012	2011
	£m	£m
United Kingdom corporation tax at 20% (2011: 20.7%)	<u>–</u>	<u>–</u>

Notes to the Accounts (continued)

11 TANGIBLE ASSETS

CONSOLIDATED

	Land and Buildings			Assets under Construction	Equipment	Leased Equipment	Total
	Freehold	Leasehold	Short				
	£m	£m	£m	£m	£m	£m	£m
COST							
Balance at 1 August 2011	152.9	99.3	3.7	30.3	60.0	1.4	347.6
Additions	-	-	-	11.6	3.2	-	14.8
Transfers from assets under construction	13.0	17.1	-	(32.3)	2.2	-	-
Transfers to assets held for sale	(0.8)	-	-	-	-	-	(0.8)
Disposals	-	-	-	-	(2.1)	(1.4)	(3.5)
Balance at 31 July 2012	165.1	116.4	3.7	9.6	63.3	-	358.1
DEPRECIATION							
Balance at 1 August 2011	28.8	22.6	3.1	-	55.2	1.4	111.1
Charge for year	3.1	2.8	0.3	-	3.3	-	9.5
Eliminated on disposals	-	-	-	-	(2.1)	(1.4)	(3.5)
Balance at 31 July 2012	31.9	25.4	3.4	-	56.4	-	117.1
NET BOOK VALUE							
At 31 July 2012	133.2	91.0	0.3	9.6	6.9	-	241.0
At 1 August 2011	124.1	76.7	0.6	30.3	4.8	-	236.5
Financed by Funding Council capital grants	29.6	63.9	-	0.2	0.7	-	94.4
Other	103.6	27.1	0.3	9.4	6.2	-	146.6
	133.2	91.0	0.3	9.6	6.9	-	241.0

11 TANGIBLE ASSETS (continued)

UNIVERSITY

	Land and Buildings			Assets under Construction	Equipment	Leased Equipment	Total £m
	Freehold £m	Leasehold Long £m	Short £m				
COST							
Balance at 1 August 2011	152.9	99.3	3.7	30.3	59.2	1.4	346.8
Additions	-	-	-	11.6	3.0	-	14.6
Transfers from assets under construction	13.0	17.1	-	(32.3)	2.2	-	-
Transfers to assets held for sale	(0.8)	-	-	-	-	-	(0.8)
Disposals	-	-	-	-	(2.1)	(1.4)	(3.5)
Balance at 31 July 2012	165.1	116.4	3.7	9.6	62.3	-	357.1
DEPRECIATION							
Balance at 1 August 2011	28.8	22.6	3.1	-	55.0	1.4	110.9
Charge for year	3.1	2.8	0.3	-	2.9	-	9.1
Eliminated on disposals	-	-	-	-	(2.1)	(1.4)	(3.5)
Balance at 31 July 2012	31.9	25.4	3.4	-	55.8	-	116.5
NET BOOK VALUE							
At 31 July 2012	133.2	91.0	0.3	9.6	6.5	-	240.6
At 1 August 2011	124.1	76.7	0.6	30.3	4.2	-	235.9
Financed by Funding Council capital grants	29.6	63.9	-	0.2	0.7	-	94.4
Other	103.6	27.1	0.3	9.4	5.8	-	146.2
	133.2	91.0	0.3	9.6	6.5	-	240.6

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.

Notes to the Accounts (continued)

12 FIXED ASSET INVESTMENTS

	CONSOLIDATED		UNIVERSITY	
	2012	2011	2012	2011
	£m	£m	£m	£m
Shares in subsidiary undertakings at cost less amounts written off	–	–	1.1	1.1
Participating interest at cost less amounts written off	–	–	–	–
Other investments other than loans at cost	0.1	0.1	0.1	0.1
Total fixed asset investments	<u>0.1</u>	<u>0.1</u>	<u>1.2</u>	<u>1.2</u>

SHARES IN SUBSIDIARY UNDERTAKINGS

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

Name of Company	Percentage Holding of Ordinary Shares	Nature of Business
Newcastle University Holdings Limited	100	Operates as a holding company only.
Newcastle University Ventures Limited	100	Provides support for the commercial development of research and consultancy.
University of Newcastle upon Tyne Supply Company Limited	100	Leases assets to the University.
Newcastle University Pension Trustee (1971) Limited	100	Provides a corporate trusteeship for the University Retirement Benefits Plan.
Newcastle ISC Limited	100	Acts as a holding company for the joint venture INTO Newcastle University LLP.
NUMed Malaysia sdn bhd	100	A company incorporated in Malaysia for the development of an overseas medical campus.
NUInternational Singapore pte Limited	100	A company incorporated in Singapore for collaborative teaching and research.
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 Russell Group

Newcastle Science Company Limited

Universities UK

North East Universities Purchasing Consortium (NEUPC)

OTHER INVESTMENTS OTHER THAN LOANS

	Percentage of voting rights %	CONSOLIDATED		UNIVERSITY	
		2012 £m	2011 £m	2012 £m	2011 £m
CVCP Properties PLC	1.3	0.1	0.1	0.1	0.1
North East Seed Capital Fund LP	11.94	-	-	-	-
North East Seed Capital Fund Two LP	4.50	-	-	-	-
		<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

The University has direct minor shareholdings in a number of other companies, including spin outs, which are not material to these financial statements.

Shares in associated undertakings and other investments held by subsidiary companies are disclosed in the financial statements of those companies.

13 INVESTMENT IN JOINT VENTURES

INTO Newcastle University LLP is a joint venture between the University and INTO University Partnerships Limited. A 50% share of the LLP's gross assets and liabilities is included in the University's consolidated balance sheet and 50% 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 £1,975 (2011: £120,948) was due to the University from INTO Newcastle University LLP. In addition, £1,120,095 (2011: £1,049,603) was outstanding at the balance sheet date on an interest-bearing loan made by the University to INTO Newcastle University LLP.

Newcastle Science Central LLP is a joint venture between the University and Newcastle City Council. The principal activity of the joint venture is the sale and lease of land for the development of the Science Central site in Newcastle. The partnership is not yet trading.

14 ENDOWMENT ASSET INVESTMENTS

	CONSOLIDATED AND UNIVERSITY	
	2012 £m	2011 £m
At 1 August	41.9	36.9
Additions	16.2	14.6
Disposals	(16.4)	(14.5)
Net appreciation on disposals and on revaluation	-	4.9
Decrease in cash balances	(0.2)	(0.1)
(Decrease) / increase in other current balances	(0.2)	0.1
At 31 July	<u>41.3</u>	<u>41.9</u>
Fixed interest stock and equities	41.8	42.0
Bank balances	0.9	1.1
Other current balances	(1.4)	(1.2)
	<u>41.3</u>	<u>41.9</u>

15 DEBTORS

	CONSOLIDATED		UNIVERSITY	
	2012 £m	2011 £m	2012 £m	2011 £m
Trade debtors	13.1	16.3	13.1	16.2
Accrued income on research grants and contracts	12.8	12.0	12.8	12.0
Amounts owed by subsidiary undertakings	-	-	4.1	2.1
Prepayments and accrued income	6.9	5.2	5.8	5.2
Other debtors	1.9	1.2	1.8	1.1
	<u>34.7</u>	<u>34.7</u>	<u>37.6</u>	<u>36.6</u>

Notes to the Accounts (continued)

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	CONSOLIDATED		UNIVERSITY	
	2012	2011	2012	2011
	£m	£m	£m	£m
Fixed term loans	1.0	1.0	1.0	1.0
Payments received on account	24.3	24.7	24.3	24.7
Other creditors	18.1	24.6	18.1	24.5
Social security and other taxation payable	4.9	5.4	4.9	5.4
Accruals and deferred income	39.2	35.2	38.5	34.9
	<u>87.5</u>	<u>90.9</u>	<u>86.8</u>	<u>90.5</u>

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	CONSOLIDATED AND UNIVERSITY	
	2012	2011
	£m	£m
Fixed term loans secured on residential and other property repayable by 2029	15.7	16.7

18 DEFERRED CAPITAL GRANTS

	CONSOLIDATED AND UNIVERSITY		
	Funding Council	Other Grants and Benefactions	Total
	£m	£m	£m
At 1 August 2011			
Buildings	96.5	37.5	134.0
Equipment	0.7	1.4	2.1
	<u>97.2</u>	<u>38.9</u>	<u>136.1</u>
Amounts received			
Buildings	-	0.4	0.4
Equipment	0.3	2.5	2.8
	<u>0.3</u>	<u>2.9</u>	<u>3.2</u>
Released to income and expenditure account			
Buildings	2.8	1.1	3.9
Equipment	0.3	1.2	1.5
	<u>3.1</u>	<u>2.3</u>	<u>5.4</u>
At 31 July 2012			
Buildings	93.7	36.8	130.5
Equipment	0.7	2.7	3.4
	<u>94.4</u>	<u>39.5</u>	<u>133.9</u>

19 ENDOWMENTS

	CONSOLIDATED AND UNIVERSITY					
	Unrestricted Permanent £m	Restricted Permanent £m	Total Permanent £m	Restricted Expendable £m	2012 Total £m	2011 Total £m
At 1 August						
Capital	2.7	16.1	18.8	7.3	26.1	25.4
Unapplied return	2.0	9.9	11.9	3.9	15.8	11.5
	<u>4.7</u>	<u>26.0</u>	<u>30.7</u>	<u>11.2</u>	<u>41.9</u>	<u>36.9</u>
New endowments	-	0.4	0.4	0.3	0.7	0.8
Transfer out from expendable endowments	-	-	-	-	-	(0.1)
Appreciation of endowment asset investments	-	-	-	-	-	4.9
	<u>-</u>	<u>0.4</u>	<u>0.4</u>	<u>0.3</u>	<u>0.7</u>	<u>5.6</u>
Income	0.2	0.9	1.1	0.3	1.4	1.1
Expenditure	(0.9)	(1.3)	(2.2)	(0.5)	(2.7)	(1.7)
	<u>(0.7)</u>	<u>(0.4)</u>	<u>(1.1)</u>	<u>(0.2)</u>	<u>(1.3)</u>	<u>(0.6)</u>
At 31 July	<u>4.0</u>	<u>26.0</u>	<u>30.0</u>	<u>11.3</u>	<u>41.3</u>	<u>41.9</u>
Represented by:						
Capital	2.7	16.5	19.2	7.6	26.8	26.1
Unapplied return	1.3	9.5	10.8	3.7	14.5	15.8
	<u>4.0</u>	<u>26.0</u>	<u>30.0</u>	<u>11.3</u>	<u>41.3</u>	<u>41.9</u>

Notes to the Accounts (continued)

20 GENERAL RESERVE

	CONSOLIDATED		UNIVERSITY	
	2012 £m	2011 £m	2012 £m	2011 £m
Balance at beginning of year	135.4	105.6	134.7	105.3
Surplus retained for the year	9.8	15.4	11.0	15.0
Actuarial (loss) / gain on pension scheme	(23.2)	14.4	(23.2)	14.4
Balance at year end	<u>122.0</u>	<u>135.4</u>	<u>122.5</u>	<u>134.7</u>

Impact of FRS17 Retirement Benefits

FRS17 resulted in the following movements:

	CONSOLIDATED AND UNIVERSITY	
	2012 £m	2011 £m
Increase in staff costs	(0.1)	(0.3)
Pension finance income	1.2	0.1
Impact on the income and expenditure account for the year	<u>1.1</u>	<u>(0.2)</u>
Actuarial (loss) / gain relating to the pension scheme	(23.2)	14.4
(Decrease) / increase in total recognised gains and losses for the year	<u>(22.1)</u>	<u>14.2</u>
Pension liability at beginning of year	(14.7)	(28.9)
Pension liability at end of year	<u>(36.8)</u>	<u>(14.7)</u>

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

	2012 £m	2011 £m
Surplus after depreciation of fixed assets at cost and before tax	7.2	13.8
Depreciation	9.5	9.6
Loss on disposal of tangible fixed assets	-	0.1
Deferred capital grants released to income	(5.4)	(5.8)
Profit distribution from INTO Newcastle University LLP	1.0	-
Investment income	(3.4)	(3.0)
Interest payable	1.0	1.1
Difference between FRS17 net pension charge and cash contributions	(1.1)	0.2
Increase in debtors	-	(1.9)
(Decrease) / increase in creditors	(3.4)	3.8
Net cash inflow from operating activities	<u>5.4</u>	<u>17.9</u>

22 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2012 £m	2011 £m
Income from endowments	1.4	1.1
Other interest received	2.2	1.1
Interest paid	(1.0)	(1.1)
Net cash inflow from returns on investments and servicing of finance	<u>2.6</u>	<u>1.1</u>

23 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2012	2011
	£m	£m
Purchase of tangible fixed assets	(14.8)	(24.9)
Payments to acquire endowment assets	(16.2)	(14.6)
Total fixed and endowment asset investments acquired	<u>(31.0)</u>	<u>(39.5)</u>
Receipts from sale of endowment assets	16.4	14.5
Deferred capital grants received	3.2	6.5
Net endowments	<u>0.7</u>	<u>0.7</u>
Net cash outflow from capital expenditure and financial investment	<u>(10.7)</u>	<u>(17.8)</u>

24 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	£m
Fixed Term Loans	
At 1 August 2010	18.7
Capital repayments	<u>(1.0)</u>
At 31 July 2011	17.7
Capital repayments	<u>(1.0)</u>
At 31 July 2012	<u>16.7</u>

25 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August	Cash	Other	At 31 July
	2011	Flows	Changes	2012
	£m	£m	£m	£m
Cash at bank and in hand:				
Endowment asset investments (note 14)	1.1	(0.2)	-	0.9
Others	30.4	(4.5)	-	25.9
	<u>31.5</u>	<u>(4.7)</u>	-	<u>26.8</u>
Short-term investments	91.0	1.0	-	92.0
Debt due within one year	(1.0)	1.0	(1.0)	(1.0)
Debt due after one year	(16.7)	-	1.0	(15.7)
	<u>104.8</u>	<u>(2.7)</u>	<u>-</u>	<u>102.1</u>

26 CAPITAL COMMITMENTS

	CONSOLIDATED	
	AND UNIVERSITY	
	2012	2011
	£m	£m
Commitments contracted at 31 July	33.2	23.3
Authorised but not contracted at 31 July	12.3	21.6
	<u>45.5</u>	<u>44.9</u>

Notes to the Accounts (continued)

27 CONTINGENT LIABILITIES

The University has three nomination agreements relating to student accommodation. The expiry dates and nominated rooms are: 2015–16 239 beds; 2018–19 256 beds; 2028–29 90 beds and the charges in respect of these rooms should be fully recovered from student residential income.

28 LEASE OBLIGATIONS

Annual rentals under operating lease commitments, all relating to land and buildings, are as follows:

Leases expiring:

In two to five years

Over five years

CONSOLIDATED AND UNIVERSITY

	2012 £m	2011 £m
In two to five years	0.5	-
Over five years	2.2	-
	<u>2.7</u>	<u>-</u>

29 ACCESS FUNDS

Balance unspent at beginning of year

Funding Council grants

Disbursements

Balance unspent at 31 July

	2012 £m	2011 £m
Balance unspent at beginning of year	0.1	0.1
Funding Council grants	0.2	0.2
	<u>0.3</u>	<u>0.3</u>
Disbursements	(0.2)	(0.2)
Balance unspent at 31 July	<u>0.1</u>	<u>0.1</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.

30 TEACHING AGENCY

Training bursaries:

Balance overspent at beginning of year

Grant

Disbursements

Balance due from Teaching Agency at 31 July

	2012 £m	2011 £m
Balance overspent at beginning of year	-	(0.1)
Grant	0.6	1.5
Disbursements	(0.6)	(1.4)
Balance due from Teaching Agency at 31 July	<u>-</u>	<u>-</u>

The above training bursaries from the Teaching Agency 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.

31 PENSION ARRANGEMENTS

The University participates in two main pension schemes, the Retirement 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 £1.9m (2011: £1.8m). This includes £0.3m (2011: £0.2m) outstanding contributions at the balance sheet date.

The total pension cost for the University was:

	2012 £m	2011 £m
Contributions to USS	24.9	23.2
Contributions to RBP including FRS17 adjustment	5.5	5.4
Contributions to NHSS	1.9	1.8
Total pension cost (note 6)	<u>32.3</u>	<u>30.4</u>
Pension finance interest (note 5)	(1.2)	(0.1)
Total pension cost including pension finance interest	<u>31.1</u>	<u>30.3</u>

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 £5.5m (2011: £5.4m). The contribution payable by the University was 13.25% 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 £5.4m.

A full actuarial valuation was carried out as at 1 August 2010 and updated to 31 July 2012 by a qualified independent actuary. The major assumptions used by the actuary were:

	Year ended 31 July 2012	Year ended 31 July 2011
Discount rate at year end	4.30%	5.50%
Expected return on plan assets at year end	6.47%	6.90%
Future salary increases	3.30%	3.90%
Future pension increases applying to future benefit accrual	1.70%	2.10%
RPI inflation	2.80%	3.40%
CPI inflation	1.90%	2.50%
Life expectancy of current pensioners (from age 65)	22.5	22.1
Life expectancy of future pensioners (from age 65)	24.1	23.7

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

	Value at 31 July 2012 £m	Long- term expected return %	Asset Allocation %	Value at 31 July 2011 £m	Long- term expected return %	Asset Allocation %
Equities	75.1	8.25	50	73.8	8.25	52
Bonds	53.5	3.37	36	52.6	4.80	37
Property	10.5	8.25	7	7.9	8.25	6
Absolute return fund	11.2	7.75	7	7.2	7.75	5
Cash	0.2	0.50	-	0.7	0.50	-
Fair value of assets	<u>150.5</u>	<u>6.47</u>		<u>142.2</u>	<u>6.90</u>	
Present value of obligations	(187.3)			(156.9)		
Funded status	(36.8)			(14.7)		
Related deferred tax asset	-			-		
Net pension liability	<u>(36.8)</u>			<u>(14.7)</u>		

Notes to the Accounts (continued)

31 PENSION ARRANGEMENTS (continued)

Analysis of the amount charged to operating surplus	2012	2011
	£m	£m
Current service cost	5.5	5.4
Interest on obligation	8.5	8.5
Expected return on plan assets	(9.7)	(8.6)
Total operating charge	4.3	5.3
Change in defined benefit obligation	2012	2011
	£m	£m
Opening defined benefit obligation	156.9	157.9
Service cost (including employee contributions)	5.6	5.5
Interest cost	8.5	8.5
Actuarial losses / (gains)	23.6	(7.3)
Benefits paid	(7.3)	(7.7)
Closing defined benefit obligation	187.3	156.9
Change in fair value of plan assets	2012	2011
	£m	£m
Opening fair value of plan assets	142.2	129.0
Expected return	9.7	8.6
Actuarial gains	0.4	7.1
Contributions by employer	5.4	5.0
Contributions by employees	0.1	0.2
Benefits paid	(7.3)	(7.7)
Closing fair value of plan assets	150.5	142.2

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.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions and 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 was 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 triennial actuarial valuation of the scheme was at 31 March 2011. This was the second 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 actuary also carries out a review of the funding level each year between triennial valuations, and details of their estimate of the funding level at 31 March 2012 are also included in this note.

The triennial 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)	6.1% pa
the rate of increase in salary	4.4% pa (with short-term general pay growth at 3.65%)
the rate of increase in pensions	3.4% pa for 3 years and 2.6% pa thereafter
the assumed rates of mortality:	
Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

31 PENSION ARRANGEMENTS (continued)

The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI pa).

At the valuation date, the value of the assets of the scheme was £32,433.5m and the value of the scheme's technical provisions was £35,343.7m indicating a shortfall of £2,910.2m. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% pa, the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 93% funded; on a buy-out basis (ie assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 82%.

As part of this valuation, the trustees have determined, after consultation with the employer, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included in addition, on account of the variability mentioned above.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically, these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

- New entrants – other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.
- The normal pension age was increased for future service and new entrants to age 65.
- Flexible retirement options were introduced.
- Member contributions were uplifted to 7.5% pa and 6.5% pa for FS section members and CRB section members respectively.
- Cost sharing – if the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.
- Pension increase cap – for service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme-specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

Notes to the Accounts (continued)

31 PENSION ARRANGEMENTS (continued)

On the FRS17 basis, using an AA bond discount rate of 4.95% based on spot yields, the actuary estimated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. 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.

At 31 March 2012, USS had over 145,000 active members and the University had 2,618 active members participating in the scheme.

The total pension cost for the University was £24.9m (2011: £23.2m). This includes £2.1m (2011: £1.9m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

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 £20,000 and this will decline in line with a reduction in the number of pensioners.

32 RELATED PARTIES

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

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

	(Income)/ Expenditure		Debtor/(Creditor) balance		Nature of transaction/ relationship
	2012 £m	2011 £m	2012 £m	2011 £m	
Joint ventures, associates and spin outs					
INTO Newcastle University LLP	(1.5)	(1.7)	1.1	1.2	Fees for student accommodation and other services. Loan to joint venture.
Newcastle Science Company Limited	0.2	-	0.1	-	Partner funding.
Five Quarter Energy Limited	-	-	0.1	0.1	Loan to spin out.
Demuris Limited	-	-	0.1	-	Loan to spin out.
Alcyomics Limited	-	-	0.1	-	Loan to spin out.
Other organisations					
Newcastle University Students' Union	1.6	8.7	0.1	(1.3)	Union Society subvention and specific grant.
The University of Newcastle upon Tyne Development Trust	(1.9)	(1.6)	-	-	Endowment income distribution.
The Newcastle upon Tyne Hospitals NHS Trust	(10.5)	(13.2)	1.8	0.7	University representation on Trust Board. NHS/academic staff recharges.
International Centre for Life	-	0.1	-	-	University representation on Board. Net accommodation rental charges.
Council and Executive Board members					
Professor C Day, Medical Research Council member	(6.2)	(7.5)	-	0.2	Medical Research Council. Human health improvement through world-class research.
Mr S Pleydell, Trust Chief Executive	(0.3)	(0.2)	0.1	0.1	South Tees Hospitals NHS Trust. NHS/academic staff recharges.
Mr N Braithwaite, Senior Counsel	0.2	0.2	-	-	Dickinson Dees LLP. Professional services.
Mr M Davison, Non-executive Director	(0.1)	-	0.1	-	City Hospitals Sunderland. Research awards.

Council members did not receive any remuneration in respect of their service to Council during the year. The amount paid to members of Council in respect of expenses during the year amounted to £1,276 (2011: £4,444).

The University does not have any Linked Charities, as defined by the Charities Act 2011, Schedule 3, paragraph 28.

Five-year Summary

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
INCOME					
Funding Council grants	106.4	116.2	120.8	113.4	119.0
Academic fees and support grants	116.4	106.3	92.8	81.3	67.3
Research grants and contracts	86.0	88.5	85.2	84.5	75.4
Other operating income	66.1	68.1	71.8	82.0	73.4
Endowment income and interest receivable	4.6	3.1	1.9	4.2	7.2
Total income	379.5	382.2	372.5	365.4	342.3
EXPENDITURE					
Staff costs	210.3	204.3	198.5	192.9	180.3
Other operating expenses	151.5	145.6	143.9	145.8	136.8
Grant to Students' Union	-	7.8	0.2	-	-
Depreciation	9.5	9.6	8.3	9.5	10.4
Interest payable	1.0	1.1	1.7	1.9	1.2
Total expenditure	372.3	368.4	352.6	350.1	328.7
Surplus after depreciation of assets but before tax	7.2	13.8	19.9	15.3	13.6
Share of operating profit / (loss) in joint venture	1.3	1.0	0.5	0.2	(0.4)
Operating surplus	8.5	14.8	20.4	15.5	13.2
Taxation	-	-	-	-	-
Surplus after depreciation of assets and tax	8.5	14.8	20.4	15.5	13.2
Deficit for the year transferred to endowment funds	(1.3)	(0.6)	(0.9)	(0.7)	(0.4)
Surplus for the year retained within general reserves	9.8	15.4	21.3	16.2	13.6
Capital expenditure	14.8	24.9	22.7	49.2	29.9
Net funds	102.1	104.8	103.6	68.3	70.5



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