



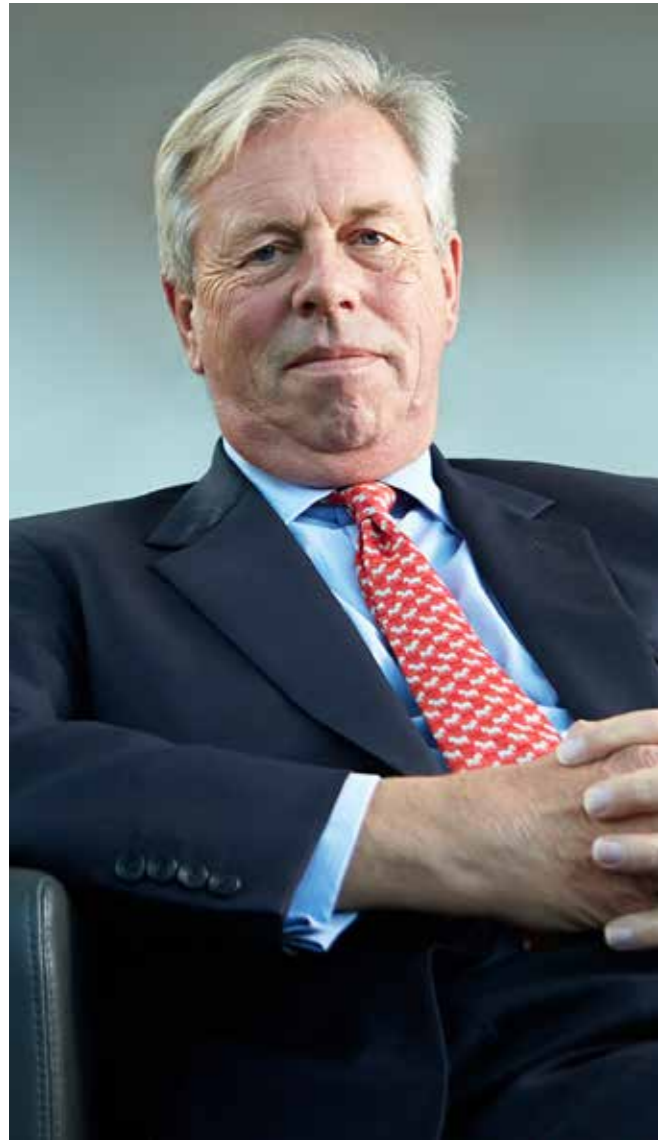
Durham University
**Annual Report and
Financial Statements**
for the year ended
31 July 2017

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INTRODUCTION FROM THE CHAIR OF COUNCIL



This Annual Report illustrates the current status of the University and the contribution and impact its teaching and research has on the lives of students, the region, the nation, and internationally.

Over the past year I have been privileged to oversee Council's consideration and approval of the new University Strategy, 2017-2027. The University has set out its plans for growth and development which will ensure it builds on the core strengths and values which distinguish this great institution, is transformational in its research, education and the wider student experience whilst ensuring it is sustainable for the coming decade. The Strategy is set out in a detailed document that is available on the University's website.

During 2016/17 Council approved the implementation of a key part of the Strategy, which sees all Durham University students and academic staff located within Durham City from 2018/19. An important part of this move was the transfer of the School of

Pharmacy, Medicine and Health to the University of Newcastle Faculty of Medical Sciences which has been completed successfully. Council is convinced that these moves will enhance the research and teaching outcomes of all staff and students affected by the changes.

In line with its long history as a place of innovation, Council also approved the repurposing of the Queen's Campus at Stockton, through the establishment of an International Study Centre to provide foundation studies and to support the University's goal of increased recruitment of non-EU students.

Council also endorsed the implementation of new career tracks for academic staff and a review of the efficiency of the operation of professional services, which will support increased student numbers, enhance the University's overall efficiency and improve career pathways for all staff.

The past year has therefore been a period of rapid change within the University. Change brings with it the requirements of additional work, increased flexibility and tolerance of uncertainty on both staff and students alike. On behalf of all members of Council, I would like to thank all staff and students for the engaged and constructive approach that has characterised the process. The University is fortunate to have a staff who continually demonstrate extraordinary levels of dedication to it.

The University has been proactive in responding to national concern regarding sexual violence and misconduct affecting universities and society generally. The Universities UK report 'Changing the Culture' cited as good practice the work of the University and Durham Students' Union to create a culture of respect, in which sexual violence is not tolerated. A key element of this has been the development of a new Sexual Violence and Misconduct Policy and Procedure and awareness-raising among staff and students.

The regulatory environment in which universities must operate is becoming more demanding. Council members have been involved in taking forward the recommendations of the externally-facilitated Council Effectiveness Review 2016, which will not only ensure that Council maintains effective governance but will also assist Council in helping the University meet the wider challenges it faces in delivering the Strategy. This has included a continuation of regular joint meetings of Council and Senate begun in 2016, which have enhanced mutual understanding and cooperation. In addition, together with my fellow Council member, Kate Pretty, I have been meeting with all heads of academic departments which has elicited invaluable feedback.

Both the country and the sector face an unusual number of major uncertainties. The only way that Durham University can minimise the risks it faces as a consequence is to continue to improve its performance within research, teaching and student experience. The successful delivery of the University Strategy, 2017-2027 is of the utmost importance. Council will continue to provide both rigorous challenge and constructive support to the Vice-Chancellor and his leadership team to ensure we meet our goals both effectively and prudently.

Robert Gillespie



INTRODUCTION FROM THE VICE-CHANCELLOR

2016/17 has been another busy and successful year for Durham University. This year saw the confirmation and launch of the University Strategy, 2017-2027, commencement of key developments to boost our academic and business futures and recognition of our many achievements through positive performance in league tables and awards for our staff. We have also demonstrated a collective ability to embrace some important changes. I am quite certain that we have a great future ahead of us, notwithstanding all the uncertainties in our operating environment.

In December 2016, Council approved the University Strategy, 2017-2027 and implementation has moved forward quickly. The Strategy notes that Durham is much more than a leading research-intensive university. We are a collegiate university, a historic university, a university that values the wider student experience very highly alongside education and research. In addition, while the University continues to attract outstanding staff and students from around the world – the core of our business and success – it is clear that the achievement of our ambitious goals will require changes to be made to some aspects of the operations of the University and a substantial investment in our estate and IT infrastructure.

The Strategy, alongside the new Strategic Risk Register, will strengthen the position of the University for the challenging times ahead arising from Brexit, changes to visa regulations for non-EU staff and students and possible changes to the UK higher education (HE) funding structure. The current uncertainties present risks for the University which require us in a thoughtful and agile manner to match investments in our people and estate to our objectives. We also need to work across the sector to bring to government's attention the scale, success and impact of higher education across the country and internationally.

Durham University is also a major business anchor in the North-East England economy. A huge amount of work has been undertaken during the year to ensure the successful relocation of activities from Queen's Campus with a number of Durham University Business School programmes moving to Durham City and the transfer of the School of Medicine, Pharmacy and Health to Newcastle University for the 2017/18 academic year. There will be further relocations over the summer of 2018.

To support the proposed increase in student numbers at Durham we have begun work to modernise our admissions systems. We have also implemented changes in the research division to enhance the support given to academics to facilitate their research activities. The opening, in March, of the new Ogden Centre for Fundamental Physics confirms our position as a world-leading centre of research in astronomy and cosmology. The Centre will support scientists, students



and researchers to continue to investigate the mysteries of the cosmos.

Another key part of our Strategy is the wider student experience, which continues to provide a wealth of opportunities for our students in sport, music, theatre, volunteering and leadership. Through 2016/17 Durham students achieved extraordinary national success in sport, music and drama and supported the local community through voluntary activity.

We have again enjoyed a successful year in national and international league tables, with our highest ever number of subjects (eight) in the top 50 of the QS World University Subject Rankings 2017 including three in the top ten.

Many staff received individual and team success including prestigious awards for research, teaching and a CBE in The Queen's Birthday Honours List for Professor Carlos Frenk (Physics) for services to cosmology and the public dissemination of science. Durham was also the first UK University to receive the Association of University Administrators' Mark of Excellence. Contributing to this strong staffing structure I was pleased to welcome a number of new appointments to the University's senior leadership team to deliver effective leadership and strategic direction during this time of major change.

Over the 2017/18 academic year we will begin to see delivery of the key Strategy priorities and develop a Campaign for Durham to strengthen our financial position to fund our extra investments. I am confident that once again we will work together to achieve the best for our whole community.

Professor Stuart Corbridge

Operational overview

University overview

Durham University, founded in 1832, is England's third oldest university. At its heart sits the medieval world heritage site of Durham Cathedral and Castle. The University has inherited a continuous line of learning and scholarship dating from the greatest European scholar of the seventh century, Bede, to the present day. The University now comprises 25 departments across three faculties and employs over 4,000 staff FTE (full-time equivalent) and around 18,000 students with 30% of staff and 21% of students of non-UK origin. There are currently 16 colleges, though this is set to increase. Students benefit from the strong collegiate nature of the University, combining rigorous hard work on their degree courses with a strong commitment to activities outside the curriculum. The colleges are a great source of friendship, well-being, pastoral and scholarly support.

The table below shows Durham University's national league table position presented by the year of publication. The University has achieved a consistently high ranking in the UK, with some volatility in the two international league tables in the last two years. In all three major national league tables the University ranks very highly on entry standards and graduate prospects.

Durham University League Table Performance

League Table	2015	2016	2017
Complete University Guide	5th	6th	6th
The Times and Sunday Times Good University Guide	5th	4th	5th
The Guardian	6th	6th	4th
QS (Quacquarelli Symonds) World University Rankings	61st	74th	78th
Times Higher Education (THE) World University Rankings	70th	96th	97th

Key Performance Indicators	Current	Target
Times and Sunday Times Good University Guide	5th	Top 5

Our Characteristics

We are:

Welcoming

We are open and friendly

Collegiate

We prize our colleges and sense of community

Inclusive

We value each other and embrace difference

Our Values

We are:

Motivated

We like to participate and achieve our goals

Inquisitive

We prize intellectual freedom and curiosity

Challenging

We like to push boundaries and ourselves

Rigorous

We value knowledge and clear thinking

Innovative

We work at the frontier to improve lives

Strategic goals and vision

The University Strategy, 2017-2027 was approved by the University Council in December 2016 and was launched in May 2017. The Strategy was developed over a period of 18 months with wide consultation and input from the University community, staff, students and other stakeholders. The starting point for strategy development was that the University is building on a strong base but that it could be even better. In common with others in the sector, the University is facing challenges in terms of competing for the best academic talent, capturing research grants, developing its international reputation and increasing diversity. The Strategy is designed to address all of these areas for improvement and more. In developing the Strategy, the University has not just made aspirational statements about where it will be in the next ten years; it has set out a roadmap to get there, with concrete actions which are being monitored robustly through its governance processes.

Since the University created its previous strategy in 2010, higher education in the UK has changed significantly. Domestically, the introduction of £9,000 fees has had an impact on the expectations and behaviour of applicants and students. The removal of student number control has led to some universities dramatically increasing their intake. The recent domestic political turbulence, not least due to Brexit, has created uncertainty potentially leading to a reduction in research grant income from European sources as well as decreasing the attractiveness of the UK overseas. The forthcoming exit of Britain from the EU combined with the already increasing number and variety of international providers of HE may further increase competition for the best students and staff across the globe. In developing a new Strategy 2017-2027, external drivers and a full gap analysis were completed to ensure that the direction of travel would be determined taking into account current and future trends. The new Strategy represents the most effective means of managing the majority of the strategic risks which the University faces.

Vision and aims

By 2027 Durham University will be better defined thematically and geographically, more globally visible, world-leading in all its core areas, with a stronger and sustainable business model. It will be a forceful voice in national and international affairs and will be widely recognised for its ability to combine innovation and leadership with a strong sense of community and heritage.

Overarching Aims

Durham University is already one of the world's best universities. To achieve its vision for 2027, it is committed to three strategic goals of equal weight:

- producing world-leading and world-changing research across all of its core academic units;
- delivering an education that is challenging, enabling, research-led and transformative;
- providing its students with a wider experience that is as good as any in the world, through the colleges, Durham Students' Union and Experience Durham.

The University is also committed to being an active and positive presence for its members throughout their lives: it works hard to establish a culture of affection that binds together past, present and prospective members. The University seeks to extend these networks of affection and support across the local communities in which it is situated, in the process engaging, empowering and learning from a wide range of external stakeholders.

Operational overview

Future plans

Between 2017 and 2027 the size and shape of Durham University will change as follows:

Queen's Campus at Stockton will be repurposed in line with its long history of innovation. The Campus will be at the heart of the international ambitions of Durham University by hosting an International Study Centre, as well as other units linked to commercial activities.

Overall, the University's footprint in or very close to Durham City will be expanded by student number growth of just under 6,000, including growth in postgraduate students. This includes the phased relocation to Durham City of about 1,900 students from Queen's Campus, Stockton over the 2017/18 and 2018/19 academic years.

Several academic departments will grow significantly to achieve critical mass and be globally competitive by 2027. Other departments will be reshaped or restructured to consolidate and extend academic success. Outstanding, mainly junior, faculty will be recruited across the University. Forecasted growth in staff numbers over the period of the Strategy, to support research and teaching excellence is displayed below.

Proposed Staff Number Growth

Academic Teaching Staff*	2015/16 FTE	2026/27 FTE	% Growth
Total	1,009	1,319	30.7%

The University will embark on a comprehensive programme of estate development in three phases to accommodate the planned growth and provide a world-class environment.

*'Teaching and research' and 'teaching only' academic employment functions.'

Risk Management

The University has in place a system of risk management overseen by Audit Committee and Council. A new strategic risk register has been prepared this year alongside the University Strategy, 2017-2027. The major overarching risks together with key mitigating actions are tabulated below:

Risk	Key Controls
Major turbulence in the macro policy and funding environment	<p>Brexit Management Group</p> <p>Active participation in sector groups and networks e.g. Russell Group, and associated lobbying</p> <p>Core elements of Strategy to diversify income base, strengthen international engagement, reduce support costs and increase surplus</p>
Insufficient resolve to take forward the major opportunities, key initiatives and level of investment required to achieve the objectives of the Strategy	<p>Engagement between the University Executive Committee (UEC), Senate and Council</p> <p>Monitoring by UEC</p> <p>Development of the senior leadership team</p> <p>Strategy engagement events (e.g. town halls, Strategy summits)</p> <p>Annual planning round</p> <p>Integrated quarterly reporting on progress, performance and planning</p>
Failure to sustain the balance between established operational commitments and the delivery of transformational change required to achieve the objectives of the Strategy	<p>Programme management arrangements and resources</p> <p>Development of the senior leadership team</p> <p>Strategy engagement events (e.g. town halls, Strategy summits)</p> <p>Internal communications and training</p> <p>Annual planning round</p> <p>Quarterly reporting on progress, performance and planning</p> <p>Reacting to feedback on demand and responding with additional resource where needed, using internal and external consultants as and when required</p>



The following sections outline the different areas of the Strategy, what has been achieved in the past year, future plans and related risks.

As the institution is at the beginning of a new Strategy the starting position for Key Performance Indicators (KPIs) is, where possible, provided.

The performance indicator targets listed in this report are set for the full Strategy timescale to 2027. KPI development for the Strategy is deliberately agile to ensure definitions and targets are set in a methodical, informed way and with consideration to behaviours which could result from measuring each KPI. The suite of KPIs will be regularly reviewed and indicators or targets revised or added to in the light of changes in direction, market, or new information.

As the KPIs become embedded, future reports will include whether existing performance on the KPIs are within or outside of the required trajectory to achieve the ten year strategic aims.

People

Goal

To have across all of Durham's Departments, Research Institutes/Centres and Colleges, faculty members of great distinction who will inspire students, contribute to the public good through their world leading research and public engagement, and firmly position the University as a world class centre of academic excellence.

What has been achieved

New academic recruitment procedures have been developed and implemented to enable academic staff to fully engage in recruitment, selection and search for new colleagues to join Durham University from across the world. These new processes ensure that each recruitment decision is consistent with the highest standards of academic recruitment in the sector to enable Durham to deliver world-leading research and education. A successful worldwide recruitment campaign for 111 academic posts took place in 2016/17, making exceptional appointments, and a second was launched in September 2017.



New career tracks have been developed and implemented for teaching, research and professional faculty members. These new tracks are supportive of the development needs of academic staff and those of the faculties.

The University has developed both an Operations Strategy that provides a framework within which efficient and effective support for the Strategy can be delivered, and a service excellence programme, the Delivering Operational Excellence Strategy (Durham DOES). DOES encompasses all of the University's professional services and promotes a joined-up approach to the

wider development of activities that are central to the effective operation of the University, including estates, information technology and human resources.

The University operates one of the country's leading employer supported volunteer programmes, which offers staff the opportunity to volunteer, in work time, for up to five days per year,

providing practical help to a range of local charities and community partners.

A number of new outside appointments to the University's senior leadership team were made in the past year.

Jane Robinson joined as Chief Operating Officer in September 2016 and is responsible for the effective leadership, alignment and provision of the

Professional Support Services that underpin the delivery of the Strategy. Before taking up her position at Durham she was Chief Executive of Gateshead Council.

Professor Alan Houston is responsible for the delivery of the University's Education Strategy, which aims to deliver premium educational experience for all students to meet diverse needs and ensure future success. Alan joined Durham University in January 2017 from the University of California, San Diego, USA, where he most recently served as Senior Director, International Initiatives.

Owen Adams OBE joined Durham University in January 2017 as Pro-Vice-Chancellor (Colleges and Student Experience) from the British Army, where he most recently served as Commander at the Royal School of Artillery. Owen is responsible for the overall strategic direction of the University's colleges and Experience Durham, which co-ordinates University sport, staff and student volunteering and outreach, student theatre and music.

Professor Antony Long took up his role as Deputy Vice-Chancellor and Provost in November 2016 having previously served in a number of senior leadership positions at Durham. Antony is responsible for delivering the University's Academic Strategy and a step change in the University's performance in the areas of equity and inclusion. As Provost, he has particular responsibility for work around the faculty.

The University looks forward to the arrival of its first Pro-Vice-Chancellor (Global), Professor Claire O'Malley, in January 2018. Claire is currently Vice Provost (Research and Knowledge Exchange) at the University of Nottingham Malaysia Campus. Claire will be responsible for the strategic leadership and implementation of the University's international agenda, a key part of the University's Strategy.



Future plans

The University aims to be a good employer and to be an employer of choice. The importance of the well-being of the workforce is recognised alongside the need to learn from best practice, to develop exemplar policy and practices which support smart working and to proactively support equality and diversity across the workforce. The overall goal of the People Strategy is to ensure that Durham University has a workforce in place which is collectively able to deliver world class research and engagement, education and a wider student experience on a consistent and sustainable basis.

Continued recruitment investments are planned annually throughout the course of the Strategy. The University is committed to building a faculty that is at least as diverse and innovative as those of its peers. Currently 38% of the academic staff at the University are female, compared to 44% in the top third of the Russell Group and 24% of professors are female, compared to 30% of the top third of the Russell Group¹.

New academic review procedures are being enacted to build and support a world class faculty across all departments. A robust and well evidenced pay audit will be undertaken to develop the most effective reward systems for academic staff. The University is committed to national pay bargaining, and therefore any developments will take account of national practice. It is also proposed to develop an additional career track for technical staff during 2017/18.

A new operating model is being developed to enhance the University's long-term financial sustainability. Consultants have been engaged to support this work and staff have been engaged and informed throughout the development of the programme, through a series of open meetings and user groups.

¹ Note, the top HESA salary grade for teaching and research staff is used as a proxy as the data is not currently available for the Professor role

Key Performance Indicators	Current	Target
Percentage of Faculty members who are female	38% (22nd in Russell Group)	Top third Russell Group

Related Risk	Key Controls
Failure to recruit, develop, retain and reward appropriate quality and quantity of staff	New recruitment processes and probation policy
	New annual progression process
	New academic career tracks
	Market supplements and start-up resources offered
	Staff development including senior leadership development programmes
	Strengthening international alliances
Benchmarking salaries against UK peers	
Tackling Brexit issues directly with staff and students	

Research and Engagement

Goal

To strengthen Durham University as an institution in which world-leading and world-changing research and engagement is created and sustained across all core units in the Arts and Humanities, Sciences and Social Sciences.

What has been achieved

In the past year substantial improvements have been made to the effectiveness of research support, reducing the burden on academics undertaking research, impact and engagement work. A new structure for the research division has been established with recruitment and motivation of appropriate personnel. The restructure is reducing fragmentation and creating a cohesive operation incorporating support for research, knowledge exchange, finance and contracting. In addition, a new research pricing policy has been implemented to make more judicious use of institutional investments, including the use of matched funding in major grant application bids.



Durham University departments deliver world leading research with Archaeology, Geography and Theology and Religion all ranked in the top ten of departments globally and over half of the departments are in the top 100. The University also has ten doctoral training centres.

The University continues to produce research of the highest standard across all three of its faculties, illustrated through the following highlights from 2016/17.

The University was successful in two Engineering and Physical Sciences Research Council (EPSRC) programme grant applications totalling around £5.4m of new income to Durham, £3.8m on a Quantum Science grant and a further £1.6m on a Physics Skyrmionics grant. The Physics Department has also been successful in gaining an additional £8.9m of new consolidated grant awards.

The University is also performing encouragingly in the Global Challenges Research Fund (GCRF) with Engineering gaining two successful major GCRF, funded by the EPSRC and worth £1.6m to the University and £2.4m in total.

The Leverhulme Trust awarded one of its prestigious Research Programme Grants to a collaboration between the Universities of Durham and Bristol for 'SPOCK: Scientific Properties of Complex Knots'. The £1.7m project will involve researchers coming together from diverse and complementary disciplines in both universities, including mathematics, physics, chemistry,

biosciences, anthropology, computer science and philosophy.

Durham University is a partner in a new £7.5m Centre of Expertise on Child Sexual Abuse launched by the UK Home Office and led by Barnardo's. The Centre will become the authoritative source of research and knowledge on tackling child sexual abuse and exploitation.

It is part of a package of measures, announced by the UK Government, to protect children and young people from sexual abuse, exploitation and trafficking, and to crack down on offenders.



In the QS World University Rankings 2016-17 Durham University is 4th among UK universities for research citations

The Arts Council England and Durham University have announced The Durham Commission on Creativity and Education to investigate what happens when children experience arts and culture, and how this helps them develop and thrive.

Further highlights of research undertaken in the University over the year include, the discovery that Britain had a secret ban on communists in government service from the 1920s to the 1940s, further evidence of the existence of dark matter, the accessibility of one of the UK's largest shale gas reserves and the alarming assessments of the plight of leopards in the Soutpansberg Mountains of South Africa and primates worldwide.

Durham University academics are internationally recognised for their outstanding research achievements. For example during 2016/17, the Royal Geographical Society (RGS) awarded Professor Harriet Bulkeley the Back Award for her contributions to the shaping of international policy on climate change and Professor David Evans received the Busk Medal for excellence and originality in the study of glacial landscapes and empowering the next generation. Professor Tom McLeish was the first recipient of the Sam Edwards Medal from the Institute of Physics, which also presented Professor Nigel Glover with the Lord Rayleigh Medal. Pro-Vice-Chancellor (Research) (PVCR) Professor Claire Warwick has been appointed as Chair of the PVCR Committee of the prestigious Russell Group.

Future plans

The University will provide research active academics with research support and leave arrangements on a par with key Russell Group peers. Arrangements to build new conference, seminar and travel support systems, to go alongside sabbatical arrangements that are more clearly focused on research activities have been approved. From 2017/18 academic staff will be provided with individual conference, seminar and travel budgets.

Resources will be provided for a substantial, growing and high performing cohort of postgraduate and post-doctoral researchers, with a particular emphasis on ensuring critical mass in science. To this end, the Chancellor's Scholarships scheme will, from 2017/18 onwards, provide additional resourcing of £2.8m per annum for PhD and post-doctoral support.

A review of interdisciplinary research was undertaken in 2016/17 and will now be considered by the University's Senate. Investment will be made in University Research Institutes to build capacity and to increase income to support interdisciplinary research to address global challenges.

A new research information system will be implemented by 2018/19 to provide timely and accurate management information to underpin decision making and reporting.

Planned improvements to the estate will support a world-leading research culture, including targeted investments in buildings, libraries, museums, laboratories and equipment.

Key Performance Indicators	Current	Target
Citations per academic staff member	4th in UK (QS rankings)	Top three in the UK
UK research assessment exercises	9 of 23 units of assessment in top third of Russell Group in 2015 (39% of submission)	All units in Russell Group top third
PhD students per academic staff member	1.56 per core academic FTE in 2015/16 (16th in Russell Group)	2 per academic FTE

Related Risk	Key Controls
Failure to secure new or maintain/grow existing research grant and contract funding	Lobbying (via the Russell Group) to maintain Government funding of the Research Councils Diversification of research income streams Research facilitation function

Education

Goal

To provide outstanding educational opportunities for Durham University undergraduates, postgraduates and research students, producing critically and socially engaged graduates of the highest calibre who enrich society through their employability and role as global citizens.

What has been achieved

In the first Teaching Excellence Framework exercise Durham achieved a silver award for delivering high quality teaching, learning and outcomes for its students, consistently exceeding rigorous national quality requirements for UK higher education.



59% of staff have a recognised teaching qualification, well above the sector average of 44%

Durham University is committed to recognising and rewarding excellence in teaching. High levels of student satisfaction and achievement are facilitated by the very high quality of core full and part-time academic teaching staff. All academic staff, including senior research active staff, have teaching responsibilities. Given Durham's status as a research institution, this means that students are taught by world-leading researchers, and are exposed to cutting-edge ideas and methodologies in their disciplines, from the outset of their studies. Durham University is proud that a very high percentage of staff are fellows of the Higher Education Academy.

The University runs a 'Transitions' programme, a four-week, pre-arrival e-learning course introducing students to academic study, digital literacy and independent learning. Piloted in 2014/15 with seven departments, it was subsequently rolled out across the institution, with 95% participation amongst the undergraduate student body. Further enhancement of this provision will take place as a result of a

successful bid to the 2016 Higher Education Funding Council for England (HEFCE) Catalyst Fund for innovations in learning and teaching which addresses barriers to student success.

The Academic Skills Programme provides a study skills support service that enhances the academic skills development of all undergraduates. Comprising both bespoke online resources and face-to-face classes, it

draws on provision initially developed to support specific student groups including the English Language Centre's in-session activity targeted at non-native speakers and Foundation Centre support for students coming from disadvantaged backgrounds. This is supplemented by provision for broad-based academic skills development. Since its launch, the programme has become an important and valued tool, with attendance at workshops

substantially increasing from 900 in 2014/15 to 1,760 in 2015/16 and 2,189 in 2016/17. The University has also adopted a state-of-the-art lecture capture system, which will enhance student learning.

Reflecting the University's reputation for research, and the appetite for learning and academic skills that it instils in students, the results from the Destinations of Leavers in Higher Education (DLHE) demonstrate over the last three years that 23-25% of students have gone on to further study. This is significantly above the national average of around 15%. Durham University has the highest score for overall satisfaction of all Russell Group institutions in the NSS and the highest rate of employment and further study for undergraduates completing their first degree, according to the Higher Education Statistics Agency (HESA).

Durham University's Supported Progression Scheme offers talented teenagers free support to help them reach their full potential. Since the scheme began in 2011, more than 1,200 young people have taken part, with more than 450 going on to study at Durham. Of the acceptances to the 2016/17 intake 5% were from 'Polar 3' low participation neighbourhoods and 14% were from Acorn Category 4/5 disadvantaged postcodes. The University also offers a wide range of bursaries and many fully-funded scholarships to support a thriving community of postgraduate taught students.

2017 marks the 15th anniversary of science outreach, activities to stimulate interest in science and to encourage better understanding of the application of science to everyday lives. The successful Schools' Science Festival was attended by 900 pupils from 30 schools this year and the Celebrate Science three-day science festival attracted 6,000 people in 2016. In the last three years a Science Ambassadors Programme has been introduced with over 550 students trained as Science Ambassadors. This programme has been incorporated into the Institute of Physics' Improving Gender Balance Project which is currently being rolled out across the UK.

Future plans

The University will build a new Centre for Teaching and Learning to host a wide range of learning environments and technologies including a Centre for Academic Development (CAD). The CAD will bring together three key areas of activity: a learning lab, where new pedagogies and teaching technologies can be tested; a centre for professional development, providing programmes for all members of the University's teaching community; and a supplemental instruction hub, where students can receive help with study skills, English composition and maths.

In order to achieve greater access for under-represented groups at both undergraduate (UG) and postgraduate (PG) taught levels the University will implement a University-wide ambitious Fair Access Strategy that will enable it to exceed its access agreement targets. A new admissions system (both software and people) will allow the University to communicate with prospective students, applicants and newly admitted students in a much more granular and sophisticated fashion. Optimisation of admissions to focus on those from targeted backgrounds, use of contextual data to make differential and guaranteed offers to students of outstanding potential in key categories and the promotion of scholarships and other forms of financial support to taught postgraduate applicants and enquirers who meet fair access criteria will all be implemented in 2017/18.

The University intends to develop stronger partnerships with local schools, building on established links such as the supported progression scheme, the collaborative work of the University's School of Education, the work of Durham's Centre for Evaluation and Monitoring (CEM), and the voluntary activity of the University's staff and students.

New competitive academic scholarships will be established for students from under-represented groups and internship and placement opportunities will be specifically designed for students from these groups. The University will offer additional £1,000 college accommodation bursaries to all first year students for whom the Student Finance England assessed 'residual household income' is between £25,000 (the current bursary threshold) and £35,000 and it will limit the maximum value of all bursaries, including those of the Supported Progression Scheme, to £2,000.

A process is underway to make sure that curriculum pathways are both clear to students and educationally robust. This process will ensure that more efficient timetabling and space utilisation will be achieved.

The University aims to provide the vast majority of its undergraduate students with some form of work experience (placement, internship, job) before they graduate. To achieve this, each faculty will recruit a placement officer in 2017/18 with expanded opportunities for placements, internships and work experience in place by 2019/20.

Key Performance Indicators	Current	Target
Performance in the National Student Survey	2nd decile in the UK for overall satisfaction with course (2016/17)	Top decile in the UK for overall satisfaction with course

Related Risk	Key Controls
Failure to achieve undergraduate and postgraduate student recruitment quality and quantity targets (Home/International/UG/PG)	<ul style="list-style-type: none"> Student recruitment and conversion activity Tackling Brexit issues directly with staff and students Robust and market-evidenced fee setting process Annual planning process

The Wider Student Experience

Goal

To ensure that Durham University students enjoy an unrivalled ethos and environment in which to pursue the highest quality of education and student experience, through which they will further develop qualities of, *inter alia*, independence, self-expression, intellectual curiosity, critical thinking, creativity, entrepreneurship, teamwork, leadership and a strong sense of social citizenship.

What has been achieved

Studying at Durham enables a developmental transformation for life. There are three principles of student development on which the Widening Student Experience are focused.

Personal effectiveness: interpersonal relations, initiative, self-awareness and motivation, organisation, confidence, resilience, participation, teamwork, leadership, enterprise, success in chosen field.

Intellectual curiosity: broadening horizons, critical thinking, self-reflection, creativity, open-mindedness, the art of conversation, appreciation of the broad diversity of academic disciplines.

A sense of belonging and responsibility: engaged social citizenship, respect for diversity, a sense of place, a 'culture of affection,' lifelong affinity, a concern for the local and the global.



Durham University students are active volunteers, providing practical community support across more than 80 student led projects.

Across the year over 2,500 students have entertained audiences with some outstanding performances. There are 30 student theatre companies, which produced 15 productions at the National Student Drama Festival 2017, with seven winning major awards. At the Durham Festival of the Arts students performed, promoted and organised 16 concerts, 13 musical productions and

29 theatre shows in a three week period for a combined audience of over 3,000. There are over 20 different student run music societies with Durham winning the inaugural UniBrass Shield at the 2017 University Brass Band Championship.

The University has a 75% participation rate in sports, the highest in the UK.

This year, over 8,000 students took part in college sport activities through 6,500 fixtures across 20 sports. The University retained its status as Britain's leading Team Sport University for the third season in succession. Over 2,500 students contributed to a record points total resulting in Durham finishing second in the British Universities and Colleges Sport points table for a sixth



Student led volunteer projects

successive year. Durham University clubs won 16 national titles and were runners-up in a further nine national championships. In addition, 42 student athletes and three coaches represented their country. Over 1,750 students undertook leadership and organisational positions across University and college sport whilst 102 students were involved in the Leadership Academy programme which is underpinned by support from the Armed Forces and University alumni.

The condition of the University's estate is the major issue currently affecting student experience; plans are being developed to remedy this, in line with the Accommodation and Estates Strategy.

Sexual violence and misconduct is an issue of international concern affecting all universities. Durham University is committed to eliminating sexual violence and to create an environment where all members of the University community feel safe and respected. The recommendations of the University's Sexual Violence Task Force are being implemented including the development of a training programme with awareness-raising and training for all new students, online *Consent Matters* training, disclosure training for staff and bystander training for student leaders.



Future plans

A central component of Widening Student Experience is the refocusing of activity around student development. The Durham Award will be enhanced to build a framework around development and leadership for Durham students, delivered through both co-curricula and extra-curricula activities. This will range from more academically focused courses, including courses on critical thinking and global citizenship, to recognising the developments students gain through participation, leadership and excellence in music, drama, sport and volunteering.

The University aims to create between four and six new colleges, two of which will be established by 2019/20. The University plans to have in excess of 50% of students in University accommodation by 2027 and will work appropriately with private providers of residential student accommodation to ensure that specification is most effectively mapped onto student demand and expectations.

A large-scale, integrated sports park will be built on the Maiden Castle site to allow Durham to compete sustainably at the highest levels of British university sport, whilst increasing overall levels of participation in sport and physical activity.

Key Performance Indicators	Current	Target
Staff and student volunteering hours	31,500 (2016/17)	100,000 per annum
Proportion of students gaining the Durham Award	n/a - under development	75%

Related Risk	Key Controls
Failure to provide world-class wider student experience	College system
	Central coordination of University sport, volunteering and outreach, theatre and music
	Library & IT facilities
	Careers service, counselling, mental health, disability support
	International student support



Global Durham

Goal

To position Durham as a globally networked university that is widely recognised as an outstanding place to study and work and a significant contributor to international research and engagement agendas.

What has been achieved

A new Pro-Vice-Chancellor (Global) has been appointed to lead the internationalisation of the University and build institutional level partnerships with between eight and ten peer institutions with the aim of enhancing research and education collaborations and the institutional reputation. In line with this, two Memorandums of Understanding (MoU) have been signed this year; one with the Palace Museum in Beijing, China and another with Tubingen University.



An International Study Centre (ISC) has been established on the University's Stockton Campus in partnership with Study Group. Recruitment has been highly successful with around 450 students welcomed to Queen's Campus on 11th September and a further 150 expected in January. The original forecast for recruitment was 250 students in total. At peak capacity the ISC will provide 35% of the University's international student intake with anticipated revenue of £200m over the life of the ten year contract.

The University officially joined the Coimbra Group on 1 January 2017. The Coimbra Group is an association of older European multi-disciplinary research universities founded in 1985. The

Coimbra Group works for the benefit of its members by promoting 'internationalization, academic collaboration, excellence in learning and research, and service to society' through

'creating special academic and cultural ties', by lobbying at the European level, and by developing best-practice.

A corporate agreement has been signed with Goodenough College, London, for



Nationalities are currently represented among staff and students

use of accommodation and event space and options are being investigated for the use of a London office. Approval has been granted for the creation of a Hong Kong subsidiary company to enable tax efficient philanthropic giving and to provide the possible basis for the creation of an office and staffing.

Over 2,000 students responded to an i-Graduate Global Education Profile Survey in the Epiphany term. The survey explores how well international and home students integrate socially and academically, and how well prepared they feel for the global workplace. Results are now being analysed and will be reported widely across the University including the Durham Students' Union, which the University has been working with on this project.

During 2016/17 the University also held a range of events to mark the 30th anniversary of Durham Castle and Cathedral as a World Heritage Site.



Future plans

The University will identify and build mutually beneficial, productive relationships with key international peers, developing partnerships with up to ten key international peers in North America, Europe and East Asia.

Study abroad options will be promoted for all students. The University will enter into strategic partnerships with target international universities for student exchanges by 2019 with 25% of Durham undergraduate students to undertake study or work abroad during their degree programme by 2020. Opportunities for shorter periods of study-abroad will be addressed by developing new Summer Schools, placements and work experience opportunities.

The University aims to establish a presence in key global cities, starting with London and New York, to enable better engagement with partners, alumni, students, staff and potential funders around the world. A fundraising effort, 'Campaign for Durham', is being prepared that will secure further funding to support strategic objectives.

Key Performance Indicators	Current	Target
Proportion of international (non-UK) students	29% (2016/17)	35%
% students working or studying abroad as part of their degree	12% (2016/17)	25%
Percentage of eligible subject areas in QS World Top 50	33% or 8 of 24 relevant subjects	50%
Contactable alumni	129,623	185,000

Related Risk	Key Controls
Failure to create a diverse, equal and inclusive community	New recruitment and promotion processes
	Athena Swan commitments
Failure to maximise and manage University profile and brand internationally	Diversity and Equality Advisory Group (DEAG)
	Equality and diversity action plan, to address core equalities objectives, aligned with strategy overseen by DEAG and UEC
	Gender balance and profile discussed with departments during planning process
	Active management at departmental level through planning and Faculty support
Failure to maximise and manage University profile and brand internationally	Ongoing marketing and communications work supporting student recruitment activity
	Active membership of Networks (Coimbra, Matariki)
	Development of institutional partnerships
	Ongoing work of Global Engagement, supporting individual academic travel and collaboration, and Faculty-level initiatives
Failure to maximise and manage University profile and brand internationally	Enhanced Arts & Humanities individual research budgets

Accommodation, Estates and Infrastructure

Goal

To enable Durham University to deliver its Strategy through sustainable investments in physical infrastructure and residential accommodation; by so doing, to create an attractive, world-class environment for staff, students and the wider community.

What has been achieved

Durham University's position as a world-leading centre of research in astronomy and cosmology was reaffirmed with the opening of the iconic new Ogden Centre for Fundamental Physics building in March 2017. The Centre has benefitted from the generous support of The Ogden Trust and The Wolfson Foundation and was designed by Studio Libeskind.



Durham University's £25m investment in its New World Programme supports high performance computing of the first rank and has enabled new working platforms across the University. The New World Programme, which started in 2013, addresses weaknesses and potential vulnerabilities in infrastructure, provides the people, skills and processes to support the delivery of services and sets out a structure and collaborative model for the development of future services.

At Collingwood College major plans are underway to establish a new 200-seat arts centre, a gym extension, a Yoga/Pilates studio, an enlarged Junior Common Room and a bar conservatory, all thanks to a transformational gift from an alumnus.

An estates condition survey undertaken, showed that currently 59% of Durham University's non-residential space is in the top A and B building condition categories, whereas 38% of its residential accommodation is in the A or B categories.

The University is selecting a partner to develop, build and operate a minimum of 500 new college bedrooms by September 2019.



The University shares a **UNESCO World Heritage Site** with **Durham Cathedral**



Future plans

The University plans to deliver a new estate in three phases, beginning with the construction of a Centre for Teaching and Learning, new buildings for Mathematical Sciences and Computer Science, a new sports park, two new colleges and some remodelling of existing buildings to accommodate early growth. The second phase of estate development from c.2020-2023 will begin with a new business school and include new facilities for the Arts and Humanities departments. The third phase of estate development will ensure that laboratory-based science departments have facilities to match their international reputations.

Investment will also be undertaken in the existing estate (both collegiate and academic) such that 85% of buildings are of a very high standard (category A & B) by 2027.

Four to six new colleges will be established throughout the lifetime of the Strategy.

To further improve information technology, an Information Systems Strategy will be developed and implemented.

Key Performance Indicators	Current	Target
Proportion of estate buildings in Categories A and B ('high standard')	52.2% (2015/16)	85%

Related Risk	Key Controls
Failure to maintain and improve existing estate and deliver the University Estate Masterplan (planned projects)	<ul style="list-style-type: none"> UEC to oversee estates developments and prioritisation of investments in the existing estate Increased budget for backlog maintenance Effective soft facilities management Additional programme management capacity Early engagement with Durham County Council. Effective engagement with local residents Communications with students

Economic and Regional Contribution

Goal

To increase Durham University's impact through partnering with innovators in industry, collaborating with cultural leaders in the arts and supporting local good causes and to be an active partner in regional, national and international debates, tackling issues big and small, locally and globally, for the good of the city, region, nation and the world.

What has been achieved

The University and its cultural activities play a crucial role in making Durham an attractive place to study, work, live, visit and invest. Durham University is worth £1.1 billion a year to the UK economy and supports over 13,500 jobs, including more than £600m and over 10,000 jobs in North East England.



For every £1 Durham University receives in funding, it generates £3.21 for the UK economy (BiGGAR Economics, 2016).

Durham University researchers have created new businesses and employment including many spin out companies in the last twenty years, such as Kromek, and Applied Graphene Materials, supporting nearly 1,000 jobs. Research and knowledge transfer activities generate over £139m GVA (gross value added) for the UK economy, supporting 2,700 jobs including collaborations with Procter and Gamble, IBM and Ørsted.

The University plays a crucial role in the local tourism sector. Around 262,000 people visited its attractions, including

the Palace Green Library, the Oriental Museum and the Botanic Garden, in 2016/17. The Palace Green Library and the World Heritage Site Visitor Centre are situated in the heart of the World Heritage Site and attract close to 150,000 visits a year. In 2016/17 the University Learning Team worked with 24,197 school children. Over the last five years the Team has worked with 95% of all primary schools in County Durham.

Maiden Castle Sports ground currently hosts 15 community clubs, engaging 2,000 local residents, including staff, each week. The University also hosts

and leads on the delivery of performance programmes for talented young people, through to full-time senior athletes based in the region, including the Durham Institute of Sport and Durham Women's Football, who compete in the FA Super League.

The University further developed a strong partnership with Durham County Council signing a Memorandum of Understanding in July 2017, supporting shared objectives on economic development, research, culture and heritage, place and community and communications.



Financial Review

The focus in managing the University's finances is to plan and deliver long term financial sustainability, specifically by generating cash from operations and maintaining a strong balance sheet. To support delivery of the Strategy, cash must be generated in order to make investments in the infrastructure and service debt through interest and loan repayments.

While the capital programme has been constrained during the preparation phase of the Strategy, cash balances have deliberately been permitted to rise in readiness for the implementation phase which will involve extensive development of the estate over the ten year life of the Strategy. The current cash balance will be one of the sources used to fund the Estate Masterplan, alongside cash generated from operations in future years and possible additional borrowing.

Risk

The strategic risk identified in relation to financial sustainability is rated as amber in the Strategic Risk Register reported to Council quarterly and has several components which are described below.

Potential risk triggers	Existing controls and further action
Failure to keep staff costs at a sustainable level by reacting to additional costs of employment as they arise whether from national collective wage agreements, changes in government policy or the underlying deficit in the USS and local pension schemes (pay inflation, NIC, pension costs, apprenticeship levy) by reducing establishment	<p>Voluntary Severance Scheme launched</p> <p>Target Operating Model being developed and process reviews commenced for support services</p> <p>Horizon scanning for national pay issues</p>
Failure to identify new / alternative income streams	Income diversification work in progress
Failure to rebalance cost base between academic and non-academic by failing to achieve reductions in operations required to achieve financial targets	Investment in academic posts via a major global campaign to support the development of the academic disciplines
Failure to maintain and grow income streams including meeting student recruitment targets, especially international	<p>Income diversification work in progress</p> <p>Student recruitment planning and marketing;</p> <p>Tackling Brexit issues directly with staff and students</p> <p>Review of process and IT support for student recruitment and admissions</p>
Loss of research grants or commercial income as EU sources diminish and are theoretically replaced with additional funding from UKRI	<p>Lobbying at national level to maintain government funding</p> <p>Improvements to internal support arrangements</p>
Failure to maintain good financial management and to operate overall financial control	<p>Regular monitoring and KPIs</p> <p>Improvements in integrated planning process</p> <p>Reporting of savings targets and initiatives</p>

Results for 2017

The results for the year have are as described below:

Operating Surplus

	2016 £m	2017 £m
Operating surplus	23.2	22.4
Non-operating items		
Voluntary Severance	-	(5.5)
Disposal of fixed assets	-	3.3
Major donations	-	5.0
Valuation of liabilities	(11.8)	9.0
Pension adjustments – staff cost and interest	(6.6)	2.3
Pension adjustments – actuarial (loss) / gain	(16.8)	8.1
Net gain on valuation of assets	0.4	3.9
Other	0.2	-
Total Comprehensive Income	(11.4)	48.5

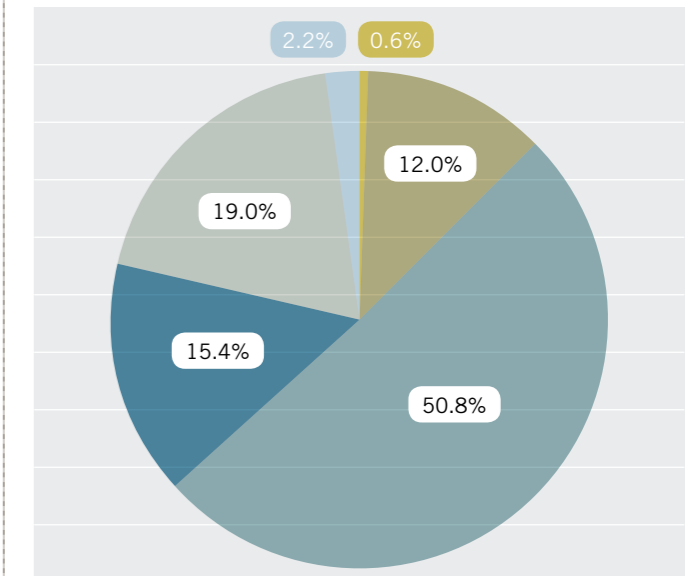
The operating surplus is the measure used to report financial results during the year and excludes items deemed to be 'non-operating' in nature. These are set out separately above and show the extent to which the University's reported Total Comprehensive Income has been impacted this year by both one-off accounting entries such as the cost of the voluntary severance scheme, amounts generated from the disposal of properties and major donations and by end-of-year (non-cash) valuations of assets and liabilities, the latter relating to both pension scheme accounting and interest rate swaps. The University's bottom line performance continues to be impacted by such end of year volatility which this year has been considerably more favourable than last year.

The 2017 operating surplus is similar in scale to 2016 and exceeded budget by £9.4 million. This was principally due to some activities generating more surplus than budgeted, including research £3.2m; student numbers £3.7m; doctoral training centres £1.4m; and donations £3.0m whilst some costs including depreciation exceeded their budget.

Operating Income and Expenditure

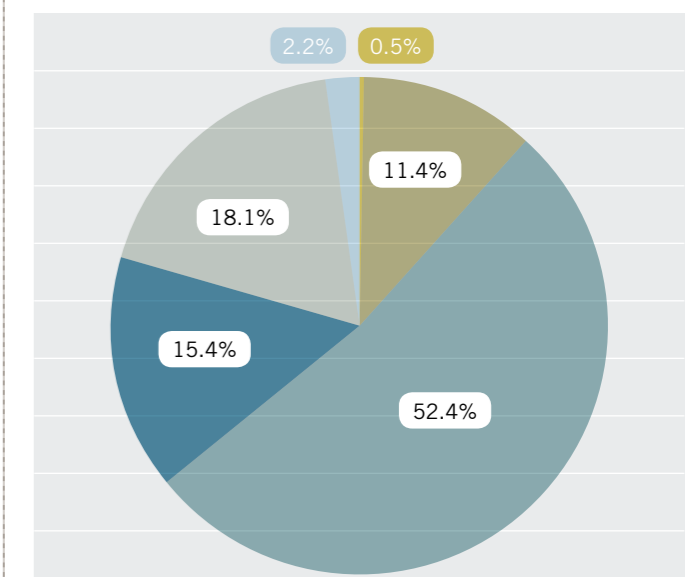
The elements of operating income and expenditure giving rise to the operating surplus reported above were as follows.

Income 2016



- Funding Council grants
- Tuition fees and education contracts
- Research grants and contracts
- Other income
- Donations and endowments
- Investments income

Income 2017

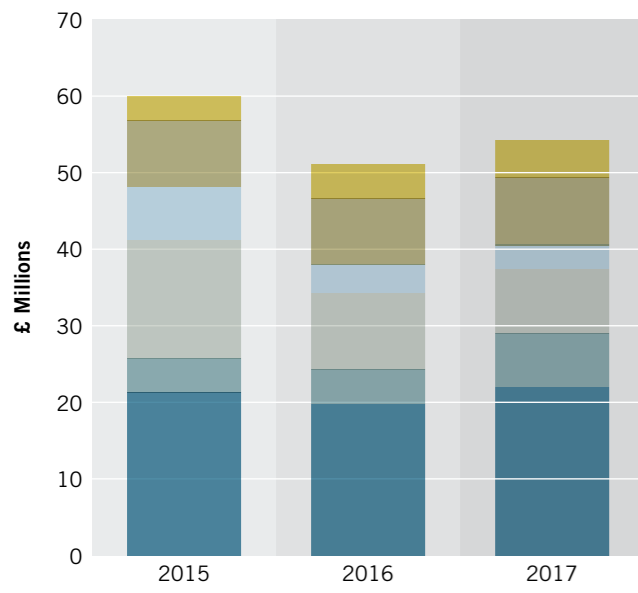


- Funding Council grants
- Tuition fees and education contracts
- Research grants and contracts
- Other income
- Donations and endowments
- Investments income



Total operating income overall increased by 4.7% to £347 million. Tuition fee income increased by 8% to £182m representing over 52% of total income and when residence fees are included total income from students represented 63% of total income. The main area of growth in tuition fee income came from full-time international students. Income from research grants increased by £2.2m, maintaining its share at 15.4% of total income.

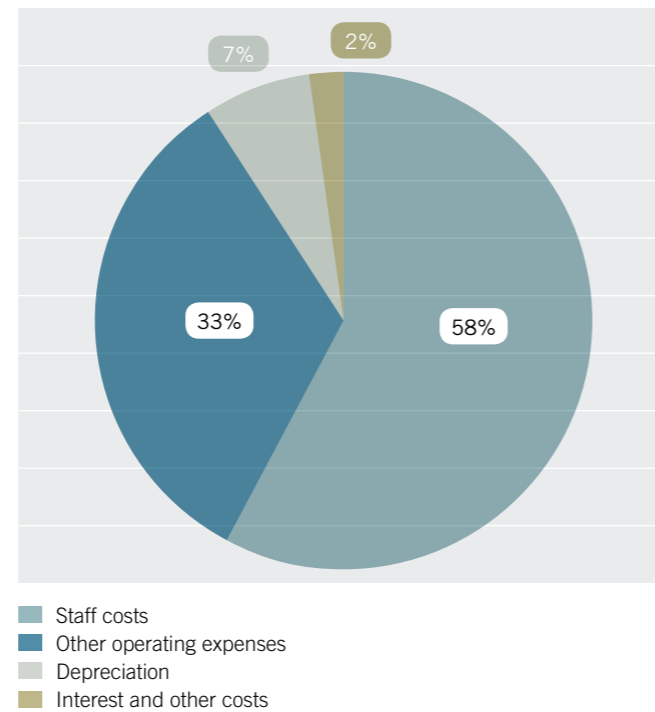
Research Income Sources



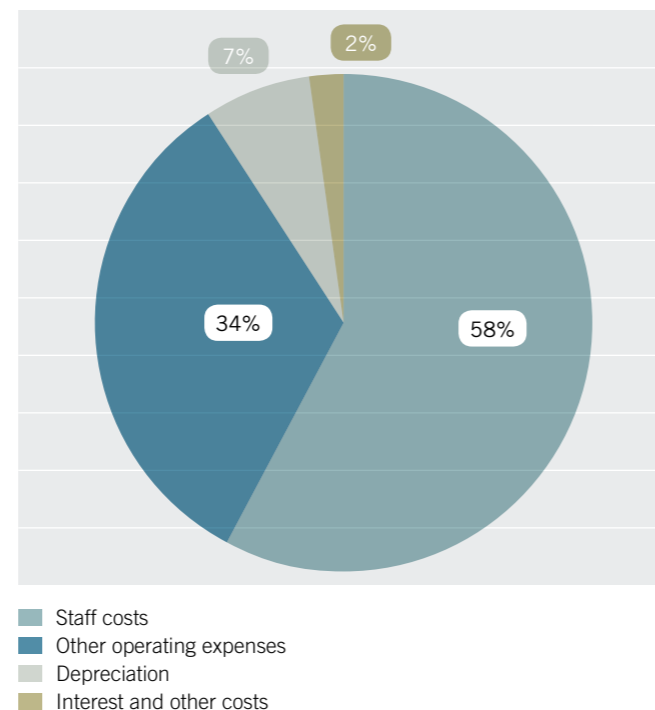
- Other
 - EU government bodies
 - UK industry
 - UK government bodies*
 - UK-based charities
 - UK Research Councils
- * Includes Research Development Expenditure Credit in 2015 (£6.4m) and 2016 (0.4m)

Total operating expenditure increased by 3.5% to £319m. Staff costs excluding voluntary severance and pension adjustments rose by 2.4% and other operating expenses by 6%. Depreciation charges increased by 3% and interest payable before accounting adjustments reduced by 4.2%.

Expenditure 2016



Expenditure 2017



Staff costs as a percentage of total costs is a different measure to the KPI which considers staff costs as a percentage of income.

Student numbers

Full-time student numbers increased by 2.4% in the year, the largest rise being seen in 'Home/EU' students (those from the United Kingdom and other countries in the European Union). The following chart presents the development of student numbers over the last three years.

	Student Numbers		
	2015	2016	2017
Undergraduate			
Home/EU	10,992	11,300	11,662
Overseas	1,738	1,808	1,824
Total	12,730	13,108	13,486
Postgraduate			
Taught home	1,285	1,163	1,171
Taught overseas	1,311	1,333	1,451
Research home	1,084	1,049	1,006
Research overseas	498	569	574
Total	4,178	4,114	4,202
Distance Learning	272	278	239
Total	17,180	17,500	17,927

Balance Sheet

The value of fixed assets was maintained through capital expenditure of a similar value to the charge for depreciation. The capital programme this year has been more modest than recent years because the focus has been on capital project planning and delivery for several major projects essential to support the University in moving towards achieving its strategic goals. Included in the £24m spent on buildings and equipment were £1.4m on completion of the new Physics building (total cost £11m) and £1.3m completing the development of Palace Green Library. Design work carried out cost £1.5m for an expanded Sports facility at Maiden Castle (total project cost £35m) and £1.4m for a new teaching facility adjacent to St Mary's college (total project cost £40m). Over £2m each was spent upgrading facilities in lecture theatres and colleges. Remaining expenditure was on other improvements to infrastructure, including £7m on equipment to support research and teaching and over £5m on IT facilities including two new data centres and improvements to services and applications.

Capital investment is planned to be substantially greater next year.

Investments rose in value through the investment of £1m of donated money and appreciation of £4m in the value of assets already held. Debtor balances reduced mainly through receipt of the remaining RDEC claim. Although research debtor balances increased, other trade debtors outstanding were almost £1m lower. Short term creditors increased by £1m, a reduction in research creditors of £2.2m being more than offset by an increase in trade creditors and deferred income. Long term creditors reduced through repayment of borrowing amounting to £3.3m and the revaluation of the end of year liability for interest rate swaps (which varies with fluctuations in interest rates) which was £9m lower.

Pension liabilities fell, as described in note 22, in respect of USS by £5.7m and DUPS by £4.6m. Other provisions increased by £5.6m, this being the amount recognised in relation to the voluntary severance scheme.

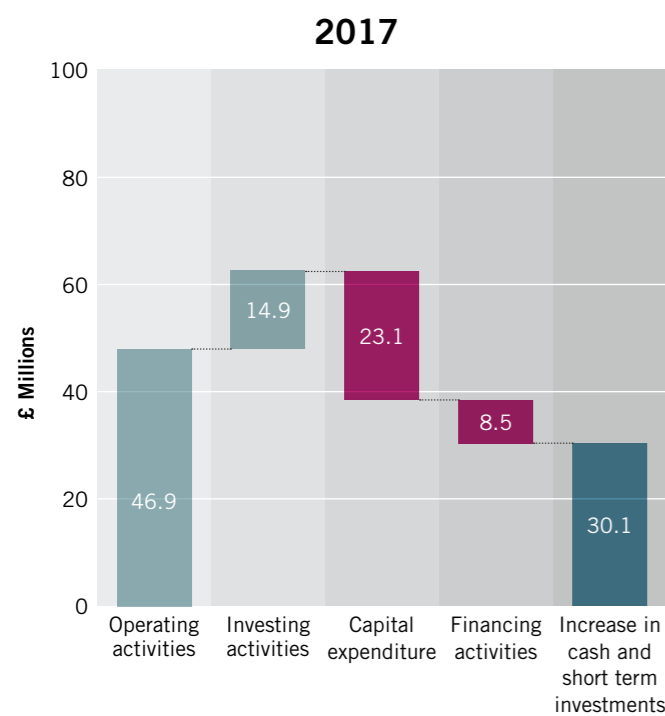
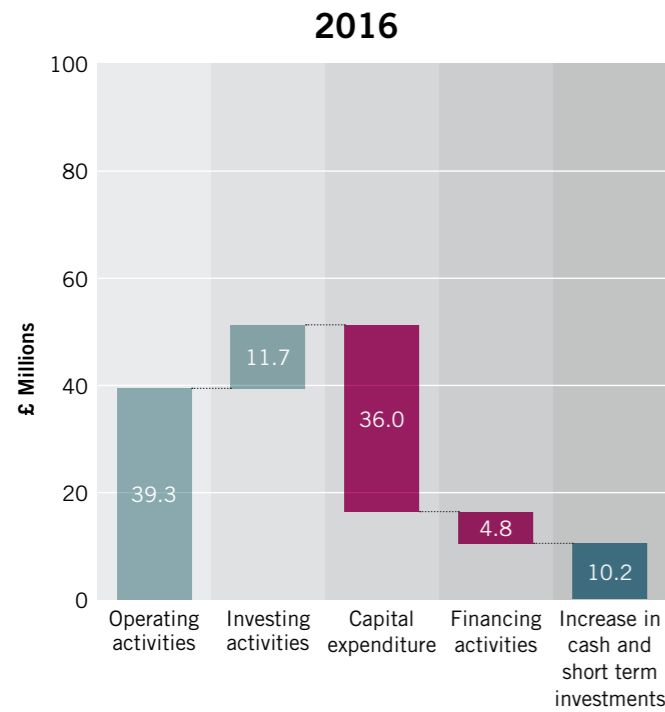
Total reserves increased by £48.5m. Endowment reserves are described in note 23 and increased by £4.4m, of which £3.9m arose through appreciation of investments. Restricted reserves increased by £5.6m, largely through capital grants and donations not expended by year-end. General reserves increased by £38.5m, a substantial proportion of which arose through the revaluation of year end assets and liabilities.



Governance

Cash generation, liquidity and financing

Operating cash generated by activities increased by £7.5m to £46.9m, which is 13.5% of total income and exceeds the targeted level of £11%. The following waterfall charts compare the sources and applications of cash generation for 2016 and 2017.



Debt collection continues to be vigorously pursued and debts written off in the year fell to £30,000 (2016 £67,000). Payment of creditors continues to be made promptly with our default terms being to pay within 30 days of receiving a valid invoice.

Whilst the capital programme has been in development, cash balances have continued to rise and moved up by £27.8m to £90.6m at year-end, in addition to £33m held on short term deposit. During the year an average of £111.6m has been invested over periods ranging from instant access to 205 days at an average return of 0.56%.

There is a longer term investment fund, principally for endowments, which operates with agreed asset allocations and returned 12.9% during the year (total of income and capital appreciation) which was in line with its benchmark.

All the capital expenditure during the year has been funded by grants, internally generated funds and benefactions. No new borrowings have been drawn during the year and a Revolving Credit Facility of £15m remains in place to support in-year working capital requirements, if it should prove necessary. Work is continuing to define the optimum level of borrowing required to finance the capital programme and further borrowing is expected in the near future.

Monitoring financial performance

The key performance indicators by which financial performance is measured focus on the generation of cash from operating activities as well as compliance with borrowing covenants and staff costs as a percentage of income; all these measures have been maintained within their target range.

Outlook

The financial pressure on universities is increasing and recent developments have called into question the government's commitment to the current funding regime as regards regulated tuition fee levels. Other risks to institutional sustainability outside of Durham's control are proliferating (Brexit and the current valuation of the USS pension scheme being just two of the most substantial) but are being kept under regular review. The immediate future is secure as the International Study Centre has exceeded its first year target numbers substantially and recruitment to the University itself for the 2017/18 academic year has confirmed the attractiveness of Durham as a place to study and obtain a degree that is sought after by major employers. We will continue to model alternative scenarios to ensure that developmental plans can remain affordable.

Framework

Durham University was founded in 1832 by Act of Parliament. Its legal status derives from a Royal Charter dated 1837 and the Universities of Durham and Newcastle upon Tyne Act 1963 when King's College became the independent University of Newcastle. It is also a charity exempt from registration under Schedule 3 of the Charities Act 2011. HEFCE is the regulator of all higher education charities.

The University's objects, powers and framework of governance are set out in its Charter and Statutes, the latest version of which was approved by the Privy Council in July 2011.

The University receives a relatively small proportion of its funding directly from public sources with the majority of funding coming from student fees, competitively won grants and philanthropic gifts. A memorandum of assurance and accountability establishes the University's responsibility for the public funding it receives from the Funding Council.

As a charity, the University must operate for the public benefit. In setting and reviewing the strategic objectives the University governing body, Council has had due regard to the Charity Commission's guidance on public benefit. In fundraising activities, the University adheres to the Charities (Protection and Social Investment) Act 2016.

The University conducts 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 Governance Code of Practice issued by the Committee of University Chairs (CUC).

Leadership

The principal academic and administrative officer of the University is the Vice-Chancellor, who has general responsibility to Council and Senate for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal memorandum of assurance and accountability between the University and HEFCE, the Vice-Chancellor is the Accountable Officer.

The Vice-Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and the shaping of the institutional ethos. The members of the University Executive Committee and senior managers all contribute to aspects of the Vice-Chancellor's work, but the ultimate responsibility for what is done rests with Council.

The University Secretary is responsible for the University's overall governance, assurance and legal compliance and reports directly to the Chair of Council and the Vice-Chancellor, as Chair of Senate.

The Chief Financial Officer is responsible for all aspects of the University's Financial Strategy, including financial planning and reporting, treasury investment, procurement and value for money.

Council

Council is the governing body of the University. It has custody, control and disposition of all the University's property and finances and is responsible for setting the strategic direction of the institution. Subject to the powers reserved in the Statutes to the Senate, Council has ultimate responsibility for all the affairs of the University. It is responsible for taking such steps as it thinks proper for the purpose of advancing the interests of the University, maintaining its efficiency and encouraging the prosecution of learning and research.

All Council members are the charity trustees of the University. The majority (twelve) are lay members, drawn from outside the University, including the Chair. There are seven appointed members of University staff and five ex-officio members. In addition to members and the University Secretary a number of senior officers regularly attend Council meetings.

None of the lay members receive payment for the work they do for the University, but may claim reimbursement of reasonable expenses which are disclosed in the financial statements. A Register of Interests of all Council members is retained by the University Secretary.

The Chair of Council is Robert Gillespie, a non-executive Director of the Royal Bank of Scotland Group plc and a non-executive member of the Partnership Board of Ashurst LLP. He is also Chairman of the Boat Race Company Limited, the organisation that manages the Oxford and Cambridge Boat Race and is a non-executive Director to the Social Finance Board.

The appointment process for new members of Council is overseen by the Nominations Committee which ensures there is an appropriate mix of skills and experience to enable Council to fulfil its responsibilities. Vacancies are advertised externally and independent search companies have been used to widen the pool and diversity of candidates. A skills register of all Council members is maintained by the University Secretary. An induction programme is provided and members receive training through presentations to Council on topical issues and from external providers, such as the Leadership Foundation for Higher Education.

During 2015/16 Council underwent an independent review of its effectiveness (CER) supported by the Good Governance Institute. The CER confirmed that the University meets its obligations under the CUC Code of HE Governance. In the context of its ambitious new ten year Strategy and the challenging operating environment in which this is to be delivered, the CER set out a number of ways in which the University could strengthen its governance and make it more fit for purpose. Actions have been taken forward this year on nine priority areas including the deployment and appraisal of Council members, digital governance, raising the visibility of Council, reviewing and improving the flow of Council business, increasing the student membership of Council, establishment of strategic advisory groups to the Vice-Chancellor, and the development of a Code of Conduct. Council will consider a progress report in February 2018.



University Governance Committees

Following the conclusion of the CER and the review of Senate's effectiveness, Council reconsidered the recommendations of an earlier overarching review of University governance and is assured that the majority of the recommendations have been addressed. Some outstanding matters relating to colleges governance will be considered by Senate and Council in 2018.

During 2016/17 Council met on eight occasions and the minutes of meetings are published on the University website. Much of the year was devoted to consideration of the new Strategy including agreement of the new Values and Characteristics with which the University wants to be associated. A new Academic Strategy (Education, Research and Engagement, Faculty, Wider Student Experience and Internationalisation) was approved alongside refreshed enabling strategies (including Estate, People, Financial, Operational and Cultural Strategies).

Lay Council members are encouraged to get involved in other aspects of University life including reviewing student academic appeals, participating in recruitment panels for senior posts, Convocation (meetings with alumni) and graduation ceremonies. These activities cultivate a wider understanding of the University and engagement with key stakeholders.

The membership of Council during 2016/17 is provided in the table. The following members were appointed from 1 August 2017:

- Ex-officio: President of Durham Students' Union, Miss Megan Croll
- Staff member: Professor Catherine Alexander
- Staff member: Professor Colin Macpherson

The following were invited to attend meetings as observers:

- Mr Nigel Perry (observer from February 2017, to become lay member August 2018)
- Ms Sabrina Seel (student observer from July 2017)

Council Membership 2016/17		Meetings attended
Ex-officio members		
The Chancellor	Sir Thomas Allen	n/a
Vice-Chancellor	Professor Stuart Corbridge	8/8
Deputy Vice-Chancellor	Professor Antony Long (from November 2016)	6/6
Dean of Durham	The Very Reverend Andrew Tremlett	4/8
President of Durham Students' Union	Ms Alice Dee (to July 2017)	8/8
Lay members		
	Mrs Joanna Barker	7/8
	Mr Richard Burge	5/8
	Ms Alexis Cleveland (Vice-Chair)	6/8
	Ms Fiona Ellis	7/8
	Mr Robert Gillespie (Chair)	8/8
	Mr James Grierson (from February 2017)	3/3
	Mr Steven Harman	5/8
	Mrs Alison Hastings	6/8
	Mrs Susan Johnson	7/8
	Mrs Jill May	7/8
Appointed members of University staff	Mr Andrew Mitchell (Vice-Chair)	4/8
	Dr Kate Pretty	7/8
	Dr Anne Allen (to July 2017)	7/8
	Professor Mike Bentley	5/8
	Dr Camila Caiado	8/8
Professor Jon Davidson (to September 2016)	n/a	
Professor Joe Elliott	8/8	
Professor Clare McGlynn	2/8	
Professor Nicholas Saul (to July 2017)	4/8	

The work of Council is supported by a number of committees which exercise delegated authority in accordance with terms of reference approved by Council and whose decisions and recommendations are formally reported back to Council.

Senate is the supreme governing body in all academic matters, subject to the powers of Council, and has overall responsibility for academic quality and standards. It is responsible for promoting, directing and regulating teaching and research. Senate membership is drawn from across University staff plus representatives from Durham Students' Union and is chaired by the Vice-Chancellor.

Audit Committee assesses the adequacy of the University's risk management, control and governance arrangements and advises Council on provisions to promote economy, efficiency and effectiveness. It also ensures that the arrangements for the management and quality assurance of data submitted to the Higher Education Statistics Agency are adequate. The Committee meets at least annually with the University's external auditors to consider their audit findings, and at each meeting with the Head of the University Assurance Service to consider and approve detailed assurance reports including management responses, and any suggestions for improving the University's system of internal control. Senior University staff, including the Vice-Chancellor, attend meetings of the Audit Committee as necessary, but are not members of the Committee, whose membership is drawn from among lay Council members and co-opted members. Where deemed appropriate, the Committee meets with the external auditors and the Head of the University Assurance Service in the absence of University staff.

Audit Committee Membership 2016/17		Meetings attended
Lay members	Ms Alexis Cleveland (Chair)	6/6
	Mrs Alison Hastings	5/6
	Mrs Susan Johnson	5/6
	Mrs Jill May	5/6
Co-opted member	Mr Grant Evans (from May 2017)	1/1

Finance Committee advises Council on the financial position of the University and recommends to Council the University's annual financial statements, budgets and financial forecasts.

Finance Committee Membership 2016/17		Meetings attended
Ex-officio members		
Chair of Council	Mr Robert Gillespie	8/10
Vice-Chair of Council	Mr Andrew Mitchell	6/10
Vice-Chancellor	Professor Stuart Corbridge	9/10
Deputy Vice-Chancellor	Professor Antony Long (from November 2016)	7/7
President of Durham Students' Union	Ms Alice Dee	9/10
Members of Council	Mrs Joanna Barker (Chair)	10/10
	Professor Mike Bentley (from January 2017)*	5/10
	Mr Steve Harman	6/10
	Professor Clare McGlynn (to January 2017)	0/4
	Dr Kate Pretty	10/10
	Professor Nicholas Saul	3/10
Co-opted member	Mr Ian Thompson (to November 2016)	0/3

* Co-opted member from October to January.



Nominations Committee is responsible for making recommendations on the appointment of Council members and for making recommendations to Senate and Council for the membership of all their committees. The Committee actively monitors and seeks to improve the diversity of the membership of Council and committees. Council has agreed a change of title and wider remit of the Governance and Nominations Committee to take effect from 1 August 2017.

Nominations Committee Membership 2016/17		Meetings attended
Ex-officio members		
Chair of Council	Mr Robert Gillespie (Chair)	2/2
Vice-Chair of Council	Mrs Alexis Cleveland	2/2
Vice-Chair of Council	Mr Andrew Mitchell	2/2
Vice-Chancellor	Professor Stuart Corbridge	2/2
Lay Members of Council		
	Mr Richard Burge	1/2
	Mrs Susan Johnson	2/2
Staff members		
	Professor Robert Holdsworth	2/2
	Professor Linda McKie	1/2

Remuneration Committee determines the annual remuneration of senior staff and approves any arrangements made with senior individuals in connection with the cessation of their employment with the University. The Committee includes consideration of relevant HEFCE guidance in conducting its business. In 2017/18 the Committee will be considering the recent public attention given to senior staff remuneration.

Remuneration Committee Membership 2016/17		Meetings attended
Ex-officio members		
Chair of Council	Mr Robert Gillespie	2/2
Vice-Chancellor	Professor Stuart Corbridge	2/2
Member of Audit Committee		
	Ms Alexis Cleveland	1/2
Lay members of Council		
	Mr Richard Burge	1/2
	Dr Kate Pretty (Chair)	2/2

University Strategy Implementation Committee provides strategic oversight and scrutiny of progress in implementing the University Strategy 2017-2027 to give assurance to Council. This committee was established in February 2017 in response to a review of the governance committee framework supporting the new Strategy.

University Strategy Implementation Committee Membership 2016/17		Meetings attended
Ex-officio members		
Vice-Chancellor	Professor Stuart Corbridge	1/1
President of Durham Students' Union	Ms Alice Dee	1/1
Members of Council		
	Dr Kate Pretty (Chair)	1/1
	Mrs Alexis Cleveland	1/1
	Ms Fiona Ellis	1/1
	Mr James Grierson	1/1
	(Staff member to be confirmed)	

University Executive Committee is a joint committee of Senate and Council and chaired by the Vice-Chancellor. The other members are the Deputy Vice-Chancellor, the six Pro-Vice-Chancellors, the Chief Operating Officer and the Chief Financial Officer. The University Secretary is in attendance at all meetings. The purpose of the Committee is to manage the University's Strategy and monitor the achievement of its objectives. It owns and manages key risks, co-ordinates planning and recommends the annual budget and financial forecasts to the Finance Committee and Council. It makes recommendations to Senate and Council on important policy initiatives.

Statement of the Council's Primary Responsibilities

- To enable the University to achieve and develop its mission and primary objectives of learning and teaching and research. Council is responsible for approving and for keeping under review the University's long-term and strategic plans, including key performance indicators, and for ensuring that these meet the interests of stakeholders.
- Subject to the powers of the Senate, to be responsible for the organisation of teaching and research, including the organisation of Faculties, Boards of Studies and other groupings, the appointments of the Deputy Vice-Chancellor, Pro-Vice-Chancellors and Deans, the appointment of Heads of Departments (Chairs of Boards of Studies), and the prescription of the dates when the Michaelmas, Epiphany and Easter Terms begin and end.
- To appoint the Vice-Chancellor as Chief Executive of the University and Accountable Officer, and to put in place suitable arrangements for monitoring his/her performance. The Council is responsible for the removal of the Vice-Chancellor for good cause.
- To delegate authority to the Vice-Chancellor, as Chief Executive, for the effective academic, corporate, financial, estate and human resource management of the University.
- To establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the Vice-Chancellor.
- To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and clear procedures for handling internal grievances and for managing conflicts of interest. Council is responsible for the appointment of the University's external auditors.
- To ensure processes are in place to monitor and evaluate the performance and effectiveness of the University against the plans and approved key performance indicators, which shall, where possible and appropriate, be benchmarked against other comparable institutions.
- To establish processes to monitor and evaluate the performance and effectiveness of itself and the University's system of governance.
- 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.
- To safeguard the good name and values of the University and to be responsible for the ethical governance of the University.
- To appoint the Registrar as Secretary to Council.
- To be the employing authority for all staff in the University and in the maintained Colleges and Societies including having responsibility for fixing salaries and conditions of posts, for establishing, suspending or abolishing any posts other than posts created by the University's Statutes, for establishing a human resources strategy and, subject to the powers of the Senate, for the maintenance of discipline.
- To be the principal financial and business authority of the University including having responsibility for:
 - the custody, control and disposition of all the University's finances, including ensuring that proper books of account are kept; approving the annual budget, financial statements and financial forecasts; establishing budget centres within the University for the efficient management of resources and appointing Budget Officers for each budget centre; the approval of fees.
 - the custody, control and disposition of all the University's property.
- To be the University's legal authority and, as such, to ensure that systems are in place for meeting all the University's legal obligations, including those arising from contracts and other legal commitments made in the University's name. Council is responsible for making regulations for the custody and use of the common seal of the University and for representing the University in all negotiations for obtaining grants from public bodies in aid of the work of the University.
- To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the University.
- To be responsible for providing facilities for the recreation and well-being of students. Subject to the powers of the Senate, to be responsible for the regulation of the relations between the Council and the students, and for the maintenance of student discipline.
- To be responsible for effective planning, ongoing control, monitoring and review of the University's health and safety management mechanisms.
- Subject to the provisions of the Statutes, to be responsible for the recognition of the recognised Colleges of the University. In particular, University Council shall approve the appointment of the Heads of the Recognised Colleges.
- To approve changes to Statutes and 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

The Council is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

Council is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy, at any time, the financial position of the University and which 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 and other relevant accounting standards. In addition, within the terms and conditions of the memorandum of assurance and accountability agreed between the HEFCE and the University and the Funding Agreement agreed between the National College for Teaching and Leadership (NCTL) and the University, Council through its designated officer, the Vice-Chancellor, is required to prepare financial statements for each financial year which give a true and fair view of the University's state of affairs and of the surplus or deficit and cash flows for that year.

In the preparation of the financial statements and in accordance with the exercise of its powers under the statutes, Council is responsible for ensuring that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates which are made are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- it is satisfied that the University has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis continues to be adopted in the preparation of the financial statements.

Council has taken reasonable steps to:

- ensure that funds from the HEFCE are used only for the purposes for which they have been given and in accordance with the memorandum of assurance and accountability and any other conditions which the HEFCE may from time to time prescribe;
- ensure that funds from the NCTL are used only for the purposes for which they have been given and in accordance with the agreement between the NCTL and the University and any other conditions, which the NCTL may from time to time impose;
- 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 to prevent and detect fraud and other irregularities; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

System of Internal Control

Council is responsible 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 responsibility in large part is overseen by the Audit Committee.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The 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 the matters reserved for Council and the authority delegated to individual managers;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Comprehensive Financial Regulations, detailing financial controls and procedures approved by Council and Finance Committee;
- Key performance indicators, business risks and financial performance are monitored by the University Executive Committee on a regular basis. Appropriate action is taken to address performance issues and the outcome reported to Council;

- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions being subject to formal detailed appraisal and review according to delegated authorities;
- An ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, and to manage them efficiently, effectively and economically. All identified strategic risks are the responsibility of a risk owner, all of whom are members of the University Executive Committee and responsible for alerting it to significant matters. UEC reports to Council on matters concerning risk management and internal control.

The process has been in place throughout the year ended 31 July 2017, and up to the date of approval of the financial statements, and is in accordance with the responsibilities assigned in the memorandum of assurance and accountability with HEFCE.

Council's review of the effectiveness of the system of internal control is informed by the work of the University Assurance Service, which is conducted in conformance with the International Standards of the Professional Practice of Internal Auditing.

The University Assurance Service (supported by an external provider) undertakes a planned programme of assurance reviews as part of a risk-based strategic and annual assurance plan and reports its findings to the University's management and Audit Committee. These are summarised in an annual report which includes an independent opinion on the adequacy and effectiveness of the University's arrangements for the provision of adequate internal control, corporate governance, risk management and the achievement of value for money.

From an assessment of the performance of the University Assurance Service by the Audit Committee, informed by the views of the Vice-Chancellor, it is considered that these arrangements were effective for the year ended 31 July 2017.

Signed on behalf of Durham University

R Gillespie
Chair of Council

Public Benefit Statement and Charity Fundraising

The Council is responsible for ensuring the University fulfils its responsibilities as a charity. The University strives to be a socially responsible institution and to contribute effectively to economic and social development through knowledge exchange, enterprise and entrepreneurship; establishing partnerships with social enterprises and public sector organisations which facilitate translation of knowledge and understanding to wider benefit; raising educational aspirations through work and leadership in schools and academies, with an emphasis on the locality; promoting volunteering and community engagement as a means of using expertise to contribute to social well-being; and promoting sustainable initiatives for the benefit of future generations.



Education and Aspiration Raising

The University's admissions policy is to attract and admit the most able and motivated students with the greatest potential to contribute to, and to benefit from, the education provided, irrespective of their background.

To support this aim the University runs a Supported Progression Scheme for talented teenagers from local state schools and organises Summer Schools in partnership with the Sutton Trust to give bright students from non-privileged homes the opportunity to experience university life and engage with schools and teaching staff across the UK. The University offers a range of bursaries including grants for undergraduate students from low income families and those who attended the Supported Progression Scheme and provides a range of scholarships for undergraduate and postgraduate students.

Exceptional pastoral care is provided for all students through college communities and best practice from professional support services. This results in one of the best completion rates in the country for first degree studies. Among all students, the University promotes excellence in sport, culture and voluntary activities, that are organised at University level, through the colleges and the Durham Students' Union, providing opportunities for stimulating personal development and the well-being of the community.

At the end of their studies the University's graduates are in high demand with employers, as evidenced by the ranking of 39th in the 2016/17 QS world rankings for employer reputation. The Careers Employability and Enterprise Centre assists all students, including graduates, to plan their next career move including running, in collaboration with the colleges, the Durham Award which is a mark of excellence, recognised by employers, to demonstrate employability skills.

Research and Knowledge Exchange

Publication of research outcomes enhances the body of publicly available knowledge. The University aims to deliver research in each of its disciplines that addresses questions and issues with the potential to make significant impact on knowledge, people or the economy, or to enhance or change society for the better. Citing just two out of many examples, University staff are currently involved in research into the impact of the law on smoke-free public places since implementation ten years ago and obtaining measurements from the 2016 earthquakes in Italy to improve understanding of earthquakes and help engineers design more resilient infrastructure.

The University has nine Research Institutes that lead the world in areas including energy; hazard; risk and resilience; particle physics; medieval and early modern studies; and computational cosmology.



Community Engagement

As a responsible institution, the commitment to civic and social responsibility is an important priority of the University. Staff and students are encouraged to volunteer in the local community and contribute around 31,500 hours of support to charities and organisations.

The University works in partnership with other agencies such as Durham County Council, County Durham Cultural Partnership, the Durham Area Action Partnership, the North East England Chamber of Commerce, local community and voluntary groups in order to share insights, professional expertise and values to improve the locality in which the University is situated. In particular, the University shares ownership and management of the UNESCO World Heritage Site with Durham Cathedral and takes pride in ensuring that it, together with the surrounding peninsula, is maintained and enhanced as a place to live and work, for staff, students and visitors alike.

The University provides facilities open to the public, including lectures and concerts, museums, sports facilities and other visitor attractions. The sports facilities offer outreach programmes to promote improved physical fitness, emotional and psychological well-being for adults, after-school clubs and holiday camps for children and host community clubs and National League programmes.

Sustainability

The University Greenspace team develop and promote environmental activities and coordinate environmental initiatives across the institution. The University is working to reduce its environmental footprint through responsible utilities and waste management and by developing and implementing a green

communication and travel policy.

The University ensures its buildings are constructed and maintained to high environmental standards and that renewable energy is used wherever possible. Recent buildings have incorporated ground source heat pumps and solar or photovoltaic panels to reduce carbon emissions.

Annual Greenspace Fortnight events are held to promote Fairtrade, green travel initiatives and reduce food waste. The Green Move Out Scheme encourages students to reduce, reuse and recycle household items in partnership with local charities and achieved a 71% weight increase in collections in 2017 compared to 2016.

Charity Fundraising

Durham University actively seeks donations, sponsorship and legacy gifts from individuals, trusts and foundations, commercial and charitable organisations, and government-related funding streams from all around the world to support research, educational and outreach activities consistent with the charitable mission of the University.

The University adopts the Association of Fundraising Professionals Code of Ethical Principles and Standards and is registered with the Fundraising Regulator. The Development and Alumni Relations Office leads, facilitates and supports donor cultivation and solicitation efforts by University colleagues to engender a professional approach to interactions with donors for the protection of the public.

The University has written agreements with the recognised colleges, St Chad's and St John's, in compliance with the University's policies on fundraising.



Independent Auditor's Report to the Council of Durham University

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Durham University ("the University") for the year ended 31 July 2017 which comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, Cash Flow Statement and related notes.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2017, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland, and with the 2015 Statement of Recommended Practice – Accounting for Further and Higher Education*; and
- meet the requirements of HEFCE's Accounts Direction to higher education institutions for 2016-17 financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Council is responsible for the other information, which comprises the Operating and Financial review and Corporate Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Council responsibilities

The Council is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent University's ability to continue as a going concern; disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

Report on other legal and regulatory requirements

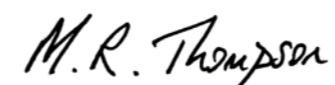
We are required to report on the following matters under the HEFCE Audit Code of Practice (effective 1 August 2016) issued under the Further and Higher Education Act 1992.

In our opinion, in all material respects:

- funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- income has been applied in accordance with the University's Statutes (or articles of government for post 1992 institutions); and
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the Council for our audit work, for this report, or for the opinions we have formed.



Mick Thompson
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

8 November 2017



Statement of Principal Accounting Policies

1. Basis of Preparation

The financial statements have been prepared under the historical cost convention, other than where land and certain heritage assets were revalued to their fair value at transition to FRS102, with the revalued amount being treated as deemed cost. The financial statements have been prepared in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and the Financial Reporting Standard 102 (FRS102). The University is a public benefit entity and has applied the relevant public benefit requirements of FRS102.

Council has a reasonable expectation that the University and its subsidiary undertakings have adequate resources to continue in operational existence for the foreseeable future. Financial forecasts, including detailed cash flow forecasts, are prepared for a period of at least three years from the balance sheet date of these financial statements and the University is satisfied that it can meet its working capital needs from its forecast cash balances. Accordingly, it continues to adopt the going concern basis in preparing the financial statements.

Judgements made by management in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 29.

2. Basis of Consolidation

The financial statements consolidate the financial statements of the University and its subsidiary undertakings for the financial year to 31 July.

The consolidated financial statements include the results of student organisations that have elected to opt into a framework enabling them to operate within the organisational and governance structure of the University but do not include those of the student bodies which are separate entities, as the University has no significant control or influence over the policy decisions of those bodies.

The University has investment shareholdings in unquoted companies over which it has no significant influence on policy or strategy decisions. These companies are not consolidated but are accounted for as investments at the lower of cost or net realisable value.

3. Recognition of Income

Income from the sale of goods or services is credited to the Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Statement of Comprehensive Income and Expenditure over the period in which students are

studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Funds the University receives and disburses as a paying agent on behalf of a funding body are excluded from the income and expenditure of the University where it is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms of the restriction applied to the individual endowment fund.

Non-exchange transactions

Such transactions take place where income is received without approximately equal value being given in exchange and are accounted for using the performance model.

- Government grants (including funding council teaching and other grant, research grants from government sources and capital grants), grants from non-government sources (including research grants from non-government sources and capital grants) and donations are recognised within the Statement of Comprehensive Income and Expenditure when the University is entitled to the income and any performance related conditions have been met. Income received in advance of performance related conditions is deferred on the balance sheet and released to the Statement of Comprehensive Income and Expenditure as such conditions are met.
- Where grants or donations have no performance related conditions but have a restriction regarding how they may be spent, the income is retained within the restricted reserve until such time that it is utilised in line with the restrictions, at which point the income is released to general reserves through a reserve transfer.
- Endowments are donations where the donor has specified either that the gift must be invested and only the income spent against the donor's stated aims (which may be restrictive or for the general purposes of the University) or that the gift may be spent against the donor's stated restrictive aims but any unspent funds are to be invested. Endowments are recognised when the University is entitled to the income and are recorded as permanent or expendable endowment reserves as appropriate.

4. Employee benefits

Post-employment benefits (pensions)

The University participates in the Universities Superannuation Scheme (USS) and in the Durham University Pension Scheme (DUPS), both of which are defined benefit schemes, externally funded and until 31 March 2016 contracted out of the State

Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. The University also contributes to the NHS pension scheme which is an unfunded defined benefit scheme and to NOW Pensions, a defined contribution scheme in compliance with the government's automatic enrolment requirements.

The two funded defined benefit schemes are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the schemes.

The USS scheme is a multi-employer scheme for which the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS102 "Employee benefits", the scheme is accounted for as if it were a defined contribution scheme and the amount charged to the Statement of Comprehensive Income and Expenditure represents the contributions payable to the scheme for the accounting period. However, because the University has entered into an agreement (the scheme Recovery Plan that determines how all employers will fund the overall deficit) it is required to recognise a liability within provisions for the contractual commitment to make deficit contributions and any resulting expense appears in the Statement of Consolidated Income and Expenditure. The provision is calculated based on the value of deficit contributions over the period of the Recovery Plan discounted to their present fair value.

The NHS scheme is also a multi-employer scheme and is therefore accounted for as a defined contribution scheme.

Defined Benefit Scheme

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The University's net obligation in respect of its defined benefit pension scheme (DUPS) is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of any scheme assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of the scheme and having maturity dates approximating to the terms of the scheme's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Defined Contribution Scheme

A defined contribution scheme is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Statement of Consolidated Income and Expenditure in the

periods during which services are rendered by employees.

Short term employee benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement.

5. Leases

Finance leases

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below. Only finance leases with an initial value of over £10,000 are recognised in line with the policy on recognising fixed assets.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Service concession arrangements

There are currently no Service Concession Arrangements.

6. Foreign Currencies

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 either at the rates at the date of the balance sheet or, where there are related forward exchange contracts, at contract rates. The resulting exchange differences are recognised in the Statement of Comprehensive Income and Expenditure.

7. Tangible Fixed Assets

a) Capitalisation

Tangible assets are capitalised where they are capable of being used for a period which exceeds one year and which:

- Individually have a cost equal to or greater than £10,000; or
- Collectively have a cost equal to or greater than £10,000 where the assets are functionally interdependent or are purchased together and intended to be used as a group under common management control; or



- Irrespective of their individual cost, form part of the initial equipping of a new building.

Expenditure on a tangible asset after its initial purchase is capitalised where it increases the expected future benefits to the University from that asset beyond its previous standard of performance, the cost of such enhancement being added to the gross cost of the relevant asset.

b) Valuation

Tangible fixed assets are stated as follows:

Asset	Basis
Land	Deemed cost at 1 August 2014 (valuation at that date).
Buildings	Cost or, in the case of buildings for which the cost cannot readily be ascertained, at valuation.
Equipment and other tangible fixed assets	Cost

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.

c) Depreciation

Freehold land is not depreciated as it is considered to have an indefinite useful life. Other tangible assets are depreciated on a straight line basis over their useful life as follows:

Buildings	15 to 50 years according to the designated useful life of its components
General and scientific equipment, furniture and IT infrastructure	8 years
Motor vehicles and computer equipment and software	4 years
Equipment acquired for specific research projects	Project life (generally 3 years)

No depreciation is charged on assets in the course of construction. Borrowing costs attributable to the acquisition or construction of a fixed asset are not capitalised but are recognised as an expense in the Statement of Comprehensive Income and Expenditure in the period in which they are incurred.

8. Heritage assets

Assets meeting the definition of a heritage asset that have a cost or value of over £10,000 and were acquired since 1 August 2007 are capitalised at cost or value on acquisition, where such a valuation is reasonably obtainable.

Heritage assets where a value is maintained for insurance purposes are recognised at deemed cost based on a valuation at 1 August 2014. Other heritage assets are not capitalised as obtaining and maintaining valuations for them would be prohibitively expensive due to the extent of the collections.

Heritage assets are defined as “tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture”.

Heritage assets are not depreciated as their long economic life and high residual value mean that any depreciation would not be material.

9. Investments

Investments in subsidiary companies are stated at the original cost of the investment and reviewed for impairment where appropriate.

Investment property is land and buildings held for rental income or capital appreciation rather than for delivering services. Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the Statement of Comprehensive Income and Expenditure. Properties are not depreciated but are revalued or reviewed annually according to market conditions at the balance sheet date.

Current asset investments are included in the balance sheet at fair value with movements recognised in the Statement of Comprehensive Income and Expenditure.

10. Stock

Stock is stated at the lower of cost and net realisable value.

11. Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents contains sums relating to endowment reserves which bear restrictions regarding their use.

12. Financial Instruments

Costs of financial instruments used to hedge interest rate risk are held on the Balance Sheet at fair value with movements in fair value recognised in the Statement of Comprehensive Income and Expenditure.

13. Provisions

Provisions are recognised in the financial statements where the University has a present financial obligation as a result of a past event and it is probable that a cost will arise on settlement of the obligation and a reliable estimate can be made of its value. The amount recognised is determined by discounting the

expected future cash flows at a rate that reflects risks specific to the liability.

14. Taxation

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and is therefore 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 and 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. Irrecoverable VAT on inputs is included in the cost of such inputs, including tangible fixed assets.

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. A deferred tax liability is provided for if transactions or events giving rise to an obligation to pay more tax in the future, or less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that they are more likely than not to be recoverable in the future.

15. Joint venture

The University's share of income and expenditure in joint venture entities is reported in the Statement of Comprehensive Income and Expenditure and its share of assets and liabilities of joint venture entities is recognised in the consolidated Balance Sheet using the gross equity method.

16. Accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying accounting policies. Estimates, assumptions and judgements are continually evaluated based on available information and experience. Estimates based on assumptions and judgements could differ significantly from actual results. The areas most affected by the use of estimates and judgements are described below.

a. Useful lives of fixed assets

The useful lives of the University's assets are determined by management at the time the asset is acquired and reviewed regularly for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Nevertheless, some assets, including buildings, remain in use well beyond their useful life and to this extent there is no charge to depreciation in respect of fully written-off assets.

b. Non-current asset investments – endowment properties

Endowment properties are included at fair value which has initially been provided by professional valuation. In future years the value of endowment properties will be adjusted by management in line with movements in the property market in the area in which the properties are situated.

c. Recoverability of debts

It is assumed initially that all debts will be recoverable in full unless there is evidence to suggest otherwise. Any debt that is evidently doubtful is provided for in full. For all other debts, once these reach six months overdue a provision is created by type of debt based on historical experience of irrecoverability. The adequacy of the provision is assessed and adjusted annually. The provision is deducted from the value of Other trade receivables in note 17.

d. Annual leave liability

The liability for outstanding annual leave is calculated based on the assumption that academics do not take leave during University terms, but take leave pro rata during the vacation periods. Actual data of outstanding leave is taken for a sample of administrative staff and extrapolated.

e. Calculation of pension provision

- The calculation of the liability for the present value of recovery contributions to the USS scheme is made using assumptions about the future salary and numerical growth of members of the USS scheme. The estimates used for these variables are consistent with those used in creating the University's financial forecasts.
- The calculation of the defined benefit pension liability in the DUPs scheme is made using actuarial assumptions including future salary and general inflation and the expected longevity of scheme members. The estimates used for these assumptions are consistent with those used in creating the University's financial forecasts and in actuarial valuation of the scheme for the trustees.

Financial Statements

Consolidated and University Statement of Comprehensive Income and Expenditure - Year ended 31 July 2017

	Note	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
Income					
Tuition fees and education contracts	1	181,719	181,719	168,446	168,446
Funding body grants	2	39,403	39,403	39,750	39,750
Research grants and contracts	3	53,362	53,362	51,458	51,458
Other income	4	62,949	62,791	62,895	62,335
Investment Income	5	10,948	10,948	1,981	1,979
Donations and endowments	6	12,773	12,773	7,404	7,541
Total income		361,154	360,996	331,934	331,509
Expenditure					
Staff costs	7	185,255	185,255	184,023	183,839
Provision for staff restructuring	22	5,564	5,564	-	-
Other operating expenses	9	107,326	107,168	101,268	101,014
Depreciation	12	22,427	22,406	21,774	21,751
Interest and other finance costs	10	7,352	7,333	19,679	19,669
Total expenditure		327,924	327,726	326,744	326,273
Surplus before other gains and share of operating surplus of joint venture		33,230	33,270	5,190	5,236
Gain on disposal of fixed assets		3,328	3,328	-	-
Net gain on investments		3,883	3,883	366	366
Share of operating surplus in joint venture		-	-	-	-
Surplus before tax		40,441	40,481	5,556	5,602
Taxation	11	-	-	(77)	(77)
Surplus for the year		40,441	40,481	5,479	5,525
Actuarial gain/(loss) in respect of pension schemes		8,075	8,075	(16,846)	(16,846)
Total comprehensive income for the year		48,516	48,556	(11,367)	(11,321)
Represented by:					
Endowment income	23	4,350	4,350	1,357	1,357
Restricted income	25	5,631	5,631	463	463
Unrestricted income		38,535	38,575	(13,187)	(13,141)
		48,516	48,556	(11,367)	(11,321)





Consolidated Statement of Changes in Reserves

	Income and expenditure account			Total
	Endowment £'000	Restricted £'000	Unrestricted £'000	
Balance at 1 August 2015	66,275	5,752	291,670	363,697
Adjustment to land value*	-	-	(950)	(950)
Adjusted balance at 1 August 2015	66,275	5,752	290,720	362,747
Surplus from income and expenditure statement	1,357	1,258	2,864	5,479
Other comprehensive income	-	-	(16,846)	(16,846)
Release of restricted funds spent in year	-	(795)	795	-
Total comprehensive income for the year	1,357	463	(13,187)	(11,367)
Balance at 1 August 2016	67,632	6,215	277,533	351,380
Surplus from income and expenditure statement	4,350	6,761	29,330	40,441
Other comprehensive income	-	-	8,075	8,075
Release of restricted funds spent in year	-	(1,130)	1,130	-
Total comprehensive income for the year	4,350	5,631	38,535	48,516
Balance at 31 July 2017	71,982	11,846	316,068	399,896

*See note 12 for an explanation of the adjustment to land value which is a correction to the implementation of FRS102.

University Statement of Changes in Reserves

	Income and expenditure account			Total
	Endowment £'000	Restricted £'000	Unrestricted £'000	
Balance at 1 August 2015	66,275	5,752	293,166	365,193
Adjustment to land value*	-	-	(950)	(950)
Adjusted balance at 1 August 2015	66,275	5,752	292,216	364,243
Surplus from income and expenditure statement	1,357	1,258	2,910	5,525
Other comprehensive income	-	-	(16,846)	(16,846)
Release of restricted funds spent in year	-	(795)	795	-
Total comprehensive income for the year	1,357	463	(13,141)	(11,321)
Balance at 1 August 2016	67,632	6,215	279,075	352,922
Surplus from income and expenditure statement	4,350	6,761	29,370	40,481
Other comprehensive income	-	-	8,075	8,075
Release of restricted funds spent in year	-	(1,130)	1,130	-
Total comprehensive income for the year	4,350	5,631	38,575	48,556
Balance at 31 July 2017	71,982	11,846	317,650	401,478

*See note 12 for an explanation of the adjustment to land value which is a correction to the implementation of FRS102.



Consolidated and University Balance Sheets - 31 July 2017

	Note	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000 Restated*	University 2016 £'000 Restated*
Non-current assets					
Fixed assets	12	467,406	468,016	468,403	468,992
Heritage assets	12	37,034	37,034	37,006	37,006
Investments	13	62,420	62,421	57,538	57,539
Investment in joint venture	14	-	-	-	-
		<u>566,860</u>	<u>567,471</u>	<u>562,947</u>	<u>563,537</u>
Current assets					
Stock	16	459	439	502	482
Trade and other receivables	17	18,771	18,771	20,059	20,059
Investments	18	37,332	37,332	35,009	35,009
Cash and cash equivalents	19	90,554	90,550	62,742	62,740
		<u>147,116</u>	<u>147,092</u>	<u>118,312</u>	<u>118,290</u>
Creditors: amounts falling due within one year	20	(72,727)	(72,585)	(71,487)	(71,346)
Net current assets		<u>74,389</u>	<u>74,507</u>	<u>46,825</u>	<u>46,944</u>
Total assets less current liabilities		641,249	641,978	609,772	610,481
Creditors: amounts falling due after more than one year	21	(150,331)	(150,331)	(162,646)	(162,646)
Provisions					
Pension provisions	22	(84,605)	(84,605)	(94,913)	(94,913)
Other provisions	22	(6,417)	(5,564)	(833)	-
Total net assets		<u>399,896</u>	<u>401,478</u>	<u>351,380</u>	<u>352,922</u>

	Note	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000 Restated*	University 2016 £'000 Restated*
Restricted Reserves					
Endowment reserves	23	71,982	71,982	67,632	67,632
Restricted reserves	25	11,846	11,846	6,215	6,215
Unrestricted Reserves					
Income and expenditure reserve		316,068	317,650	277,533	279,075
		<u>399,896</u>	<u>401,478</u>	<u>351,380</u>	<u>352,922</u>

The Financial Statements were approved by the Council on 30 October 2017 and signed on its behalf by:

R Gillespie
Chair of Council

S Corbridge
Vice-Chancellor

S McGill
Chief Financial Officer

* Explanation of the restatement, which relates to freehold land, is given in note 12.



Consolidated Cash Flow Statement for the year ended 31 July 2017

	Note	2017 £'000	2016 £'000			
Cash flow from operating activities						
Surplus for the year		40,441	5,479			
Adjustment for non-cash items						
Depreciation	12	22,427	21,774			
Gain on investments		(3,883)	(366)			
Decrease in stock	16	43	80			
Decrease in debtors	17	1,302	2,753			
(Decrease) / increase in creditors	20 21	(9,091)	9,809			
(Decrease) / increase in pension provision	22	(2,233)	6,631			
Increase) / (decrease) in other provisions	22	5,584	(288)			
Adjustment for investing or financing activities						
Investment income	5	(1,892)	(1,981)			
Interest payable	10	5,328	5,560			
Endowment donations	6	(147)	(662)			
(Profit) / loss on sale of fixed assets		(3,326)	56			
Capital grant income		(7,665)	(9,538)			
Net cash flow from operating activities		46,888	39,307			
Cash flows from investing activities						
Proceeds from sale of fixed assets		6,261	223			
Capital grant receipts		7,665	9,538			
Investment income		1,892	1,981			
Payments made to acquire fixed assets		(23,085)	(35,958)			
New non-current asset investments		(950)	-			
New deposits		(2,372)	(15,568)			
		(10,589)	(39,784)			
Cash flows from financing activities						
Interest paid		(5,374)	(5,532)			
Endowment cash received		147	662			
New unsecured loans		-	3,157			
Repayment of amounts borrowed		(3,260)	(3,107)			
		(8,487)	(4,820)			
Increase / (decrease) in cash and cash equivalents in the year	19	27,812	(5,297)			
Cash and cash equivalents at beginning of the year	19	62,742	68,039			
Cash and cash equivalents at end of the year	19	90,554	62,742			
		27,812	(5,297)			



Notes to the Financial Statements

	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
1. Tuition fees and education contracts				
Full-time home and EU students	105,210	105,210	102,366	102,366
Full-time international students	63,265	63,265	53,488	53,488
Part-time students	3,446	3,446	2,270	2,270
Short courses	2,525	2,525	2,820	2,820
Research training support grants	5,843	5,843	5,626	5,626
Other fees	1,430	1,430	1,876	1,876
	181,719	181,719	168,446	168,446
2. Funding body grants				
Recurrent grant				
Higher Education Funding Council	35,269	35,269	34,849	34,849
Specific grants				
Higher Education Funding Council	82	82	731	731
National College for Teaching and Leadership	-	-	67	67
Capital grants				
Higher Education Funding Council	4,052	4,052	4,103	4,103
	39,403	39,403	39,750	39,750
3. Research grants and contracts				
Research councils	22,816	22,816	19,928	19,928
UK charities	5,543	5,543	4,956	4,956
Central /Local Government	8,939	8,939	10,012	10,012
UK industries	3,406	3,406	3,608	3,608
EU Government	9,228	9,228	8,848	8,848
Other overseas	3,185	3,185	3,531	3,531
Other sources	245	245	190	190
Research and Development Expenditure Credit (RDEC)	-	-	385	385
	53,362	53,362	51,458	51,458

	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
4. Other income				
Residences, catering and conferences	43,461	43,461	41,714	41,236
Other services rendered	7,154	7,154	10,230	10,230
Other income	12,334	12,176	10,951	10,869
	62,949	62,791	62,895	62,335
5. Investment income				
Investment income on endowments	1,201	1,201	1,041	1,041
Investment income on restricted reserves	100	100	147	147
Other investment income	591	591	793	791
Decrease in fair value of derivatives	9,056	9,056	-	-
	10,948	10,948	1,981	1,979
The change in value of the derivatives in 2016 was an increase and is shown in note 10. The liability relating to the derivatives is in note 21.				
6. Donations and endowments				
Capital grants and donations	8,131	8,131	3,332	3,332
New endowments	147	147	662	662
Donations with restrictions	1,705	1,705	979	979
Unrestricted donations	2,790	2,790	2,431	2,568
	12,773	12,773	7,404	7,541
7. Staff costs				
Salaries	150,796	150,796	144,652	144,468
Social security costs	14,134	14,134	11,782	11,782
Movement on USS provision	(6,390)	(6,390)	4,160	4,160
Other pension costs				
USS (See note 28(a))	20,126	20,126	17,966	17,966
DUPS (See note 28(b))	6,485	6,485	5,357	5,357
NOW (See note 28(c))	94	94	84	84
NHS (See note 28(d))	10	10	22	22
	185,255	185,255	184,023	183,839



7. Staff costs *continued*

	Consolidated 2017	University 2017	Consolidated 2016	University 2016
	£'000	£'000	£'000	£'000
Analysis of staff costs by activity				
Academic and related expenditure	111,541	111,541	108,728	108,731
Administration and central services	16,706	16,706	14,108	14,108
Premises	5,662	5,662	5,553	5,553
Residences, catering and conferences	13,629	13,629	13,567	13,380
Research grants and contracts	21,378	21,378	22,466	22,466
Student and staff facilities and amenities	9,746	9,746	9,671	9,671
General educational expenditure	4,172	4,172	4,215	4,215
Miscellaneous expenditure	2,441	2,441	5,715	5,715
	185,275	185,275	184,023	183,839
			2017	2016
Emoluments of the Vice-Chancellor			£'000	£'000
Salary			286	231
Pension contribution to USS			16	39
			302	270
			£'000	£'000
Emoluments of the Acting Vice-Chancellor				
Salary			-	24
Pension contribution to USS			-	-
			-	24

The Vice-Chancellor commenced employment in September 2015 and consequently his emoluments for 2015/16 are for eleven months only.

The Vice-Chancellor withdrew from membership of USS in November 2016 and from that date only contributions to maintain life assurance cover were paid. He received instead an Additional Remuneration Allowance, on the same basis as all other employees who opt out of pension scheme membership, to compensate for the loss of full employer pension contributions.

Remuneration of other higher paid staff

Excluding employer's pension contributions

	2017 No.	2016 No.
£100,000 – £109,999	15	7
£110,000 – £119,999	11	14
£120,000 – £129,999	8	5
£130,000 – £139,999	4	2
£140,000 – £149,999	1	4
£150,000 – £159,999	3	1
£160,000 – £169,999	1	1
£170,000 – £179,999	1	1
£180,000 – £189,999	1	1
£190,000 – £199,999	1	-
	46	36

Compensation for loss of office paid to senior post-holders

	2017 £'000	2016 £'000
Aggregate amount of compensation payable recorded within staff costs	-	248
	2017 No.	2016 No.
Number of staff	-	2

Key management personnel

	2017 £'000	2016 £'000
Key management personnel remuneration including compensation	1,977	1,998
	2017 No.	2016 No.
Number of staff	11	11

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling. The remuneration disclosed relates to the members of the University Executive Committee which comprises: Vice-Chancellor and Warden, Deputy Vice-Chancellor and Provost, Pro-Vice-Chancellor (Education), Pro-Vice-Chancellor (Research), Pro-Vice-Chancellor (Arts), Pro-Vice-Chancellor (Science), Pro-Vice-Chancellor (Social Sciences and Health), Pro-Vice-Chancellor Colleges and Student Experience, Chief Operating Officer, Chief Financial Officer and University Secretary.



7. Staff costs *continued*

Staff numbers	2017	2016
Full-time equivalent staff numbers by type	No.	No.
Academic	1,603	1,621
Professional and technical	1,063	1,037
Administrative and clerical	670	670
Facilities and other support	619	614
	3,955	3,942

Council members

The University's Council members are the trustees for charitable law purposes. Due to the nature of the University's operations and the composition of the 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 the Council may have an interest. All transactions involving organisations in which a member of Council may have an interest, including those identified below, are conducted at arms' length and in accordance with the University's Financial Regulations and usual procurement procedures and are disclosed within the information provided in Note 8.

No Council member has received any remuneration or waived payments during the year (2016 - nil).

The total expenses paid to or on behalf of 14 of the Council members was £19,884 (2016: £19,364 to 14 of the Council members). This represents travel and subsistence expenses incurred in attending Council and Committee meetings in their official capacity.

8. Related party transactions

The University maintains a Register of Interests for all its senior staff including Council members.

The following transactions have been identified for disclosure in relation to those organisations related to senior executive staff and members of Council:

Organisation	Council Member	Receipts £'000	Debtors £'000	Payments £'000	Creditors £'000
Applied Graphene Materials	Mr Andrew Mitchell	36	-	-	-
Association of Commonwealth Universities	Professor Stuart Corbridge	-	-	6	-
College Junior Common Room Societies		120	11	188	-
Commonwealth School Commission	Mr Richard Burge	152	-	-	-
CPI Innovation Services	Mr Nigel Perry	197	-	13	-
Durham Cathedral	The Very Reverend Andrew Tremlett	30	5	106	9
Durham County Council	Mr Ian Thompson	96	-	1,251	-
Durham Students Union		23	2	6	-
Foreign & Commonwealth Office	Mr Richard Burge	5	-	-	-
ICAEW	Mrs Jill May	-	-	8	-
Natural Environment Research Council	Professor Mike Bentley	-	-	25	-
St John's College	Dr Anne Allen	133	32	712	-

The University makes payments on behalf of and is re-imbursed by Durham Students' Union (SU). The University does not exercise day to day control over the affairs of SU.

The University has taken advantage of the exemption within FRS102 not to disclose transactions with other members of the Group.

The University accounts for transactions relating to those Durham Student Organisations and Experience Durham which elected to opt in to a framework enabling them to operate within the organisational and governance structure of the University. There remain three student organisations that elected to remain independent and the values of transactions with them are included above as College Junior Common Room Societies.



9. Analysis of non-staff costs by activity

	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
Academic and related expenditure	27,352	27,352	26,657	26,657
Administration and central services	4,220	4,062	3,271	3,260
Premises	16,224	16,224	14,378	14,378
Residences, catering and conferences	10,703	10,703	10,617	10,453
Research grants and contracts	13,685	13,685	12,391	12,391
Student and staff facilities and amenities	8,573	8,573	7,346	7,346
General educational expenditure	23,710	23,710	23,003	23,003
Miscellaneous expenditure	2,859	2,859	3,605	3,526
	107,326	107,168	101,268	101,014
Other operating expenses include:				
	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
External auditors remuneration in respect of audit services	85	79	60	50
External auditors remuneration in respect of non-audit services				
Other assurance work	25	25	4	4
Tax compliance / VAT advice	70	70	11	11
Other advisory work	489	489	-	-
Total	584	584	15	15
Operating lease rentals:				
Land and buildings	967	967	993	993
Other	381	381	340	340

The audit services figure for 2017 includes £24,000 for the audit of the US GAAP version of the accounts which is required every three years.

Within the non-audit services figures, other advisory work in the current year comprises advice on the Durham DOES transformation programme, financing options and an IT risk assessment.

10. Interest and other finance costs

	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
Loan interest	5,328	5,309	5,560	5,550
Increase in fair value of derivatives	-	-	11,760	11,760
Net charge on USS pension scheme	719	719	1,116	1,116
Net charge on DUPS pension scheme	28 1,305	1,305	1,243	1,243
	7,352	7,333	19,679	19,669

The change in value of the derivatives in 2017 was a reduction and is shown in note 5. The liability relating to the derivatives is in note 21.

11. Taxation

	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
Current tax				
UK corporation tax suffered on Research and Development Expenditure Credit (RDEC) claims	-	-	77	77
	-	-	77	77
Deferred tax				
Origination and reversal of timing differences	-	-	-	-
	-	-	-	-
Total tax expense	-	-	77	77



12. Tangible assets

	Consolidated				
	Freehold Land and Buildings	Equipment	Assets in the Course of Construction	Heritage Assets	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 August 2016 as previously stated	527,914	137,755	12,162	37,006	714,837
Adjustment to land value	(950)	-	-	-	(950)
At 1 August 2016 restated	526,964	137,755	12,162	37,006	713,887
Additions	-	-	24,393	-	24,393
Capitalisation	16,539	12,866	(29,433)	28	-
Disposals	(3,247)	(3,788)	-	-	(7,035)
At 31 July 2017	540,256	146,833	7,122	37,034	731,245
Depreciation					
At 1 August 2016	109,616	98,862	-	-	208,478
Charge for year	10,677	11,750	-	-	22,427
Disposals	(313)	(3,787)	-	-	(4,100)
At 31 July 2017	119,980	106,825	-	-	226,805
Net Book Value					
At 31 July 2017	420,276	40,008	7,122	37,034	504,440
At 1 August 2016	417,398	38,893	12,162	37,006	505,409

The adjustment to land value arises due to the correction of an error in the recognition of land owned by the University at deemed cost as part of the transition to FRS102. Land held as leasehold by a subsidiary company was incorrectly included as freehold University land with a value of £950,000. The adjustment also appears in the statement of changes to reserves.

The effect of this adjustment, on the comparative figures for the preceding period, is to decrease the income and expenditure reserve and decrease fixed assets by £950,000. This adjustment does not have an impact on the reported surplus in the current financial year nor on the previously reported surplus for the 2016 financial year.

	University				
	Freehold Land and Buildings	Equipment	Assets in the Course of Construction	Heritage Assets	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 August 2016 as previously stated	526,457	137,885	12,162	37,006	713,510
Adjustment to land value	(950)	-	-	-	(950)
At 1 August 2016 restated	525,507	137,885	12,162	37,006	712,560
Additions	-	-	24,393	-	24,393
Capitalisation	16,539	12,866	(29,433)	28	-
Disposals	(3,247)	(3,788)	-	-	(7,035)
At 31 July 2017	538,799	146,963	7,122	37,034	729,918
Depreciation					
At 1 August 2016	107,699	98,863	-	-	206,562
Charge for year	10,656	11,750	-	-	22,406
Disposals	(313)	(3,787)	-	-	(4,100)
At 31 July 2016	118,042	106,826	-	-	224,868
Net Book Value					
At 31 July 2017	420,757	40,137	7,122	37,034	505,050
At 1 August 2016	417,808	39,022	12,162	37,006	505,998

The adjustment to land value arises due to the correction of an error in the recognition of land owned by the University at deemed cost as part of the transition to FRS102. Land held as leasehold by a subsidiary company was incorrectly included as freehold University land with a value of £950,000. The adjustment also appears in the statement of changes to reserves.

The effect of this adjustment, on the comparative figures for the preceding period, is to decrease the income and expenditure reserve and decrease fixed assets by £950,000. This adjustment does not have an impact on the reported surplus in the current financial year nor on the previously reported surplus for the 2016 financial year.



12. Tangible assets *continued*

Heritage Assets

Heritage assets with an initial cost or value over £10,000 and acquired after 1 August 2007 are capitalised. Also capitalised are heritage assets for which an insurance value is held, including the Library's special collections.

Durham University holds other heritage assets in its Libraries and Museums, information about which may be found at: www.durham.ac.uk/library/asc. Included in these collections are materials in many formats such as paper and parchment manuscripts, printed books, photographs, maps, prints, moving images, museum artefacts etc. The University has not capitalised these assets as obtaining and maintaining valuations for them would be prohibitively expensive due to the extent of the collections.

The Library's collecting policy for its Archives and Special Collections is designed to support the research and teaching of Durham University, and to develop coherent collections which build on existing strengths as a service to scholarship generally. In considering any acquisition, therefore, attention is paid to its scholarly significance, its appropriateness to the University's academic needs and priorities, and its relation to the Library's existing collections and to the existing pattern of national and regional collections.

This year's acquisitions were the Lanchester Diploma Roman treasures and the Italian Book of Hours.

Heritage asset acquisitions	2017 £'000	2016 £'000	2015 £'000	2014 £'000	Earlier £'000
Acquisitions purchased with specific donations	10	30	-	103	102
Acquisitions purchased with University funds	18	53	10	77	1,824
Total acquisitions capitalised	28	83	10	180	1,926

13. Non-current investments

	Subsidiary companies £'000	Subsidiary investment in spinouts £'000	Other fixed asset investments £'000	Total £'000
Consolidated				
At 1 August 2016	-	140	57,398	57,538
Additions	-	-	950	950
Increase in market value	-	-	3,932	3,932
At 31 July 2017	-	140	62,280	62,420
University				
At 1 August 2016	1	140	57,398	57,539
Additions	-	-	950	950
Increase in market value	-	-	3,932	3,932
At 31 July 2017	1	140	62,280	62,421
Other non-current investments consist of:	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
Pooled fund investments	44,258	44,258	39,376	39,376
Properties	18,022	18,022	18,022	18,022
Other	140	141	140	141
	62,420	62,421	57,538	57,539



14. Investment in joint venture

The University holds a 12.5% share of N8 Limited, a company limited by guarantee. This is a joint venture company owned equally by eight research intensive Northern Universities. The arrangement is treated as a joint venture and is accounted for using the equity method, such that 12.5% of the company's gross assets and liabilities are incorporated into the consolidated balance sheet of the University and 12.5% of its net income is reported in the University's consolidated income and expenditure account.

	2017 £'000	2016 £'000
Income and expenditure account		
Income	49	44
Surplus before tax	-	-
Balance Sheet		
Current assets	13	24
Creditors due after more than one year	(13)	(24)
Share of net assets	-	-

The University participates in a number of joint research contracts with other Universities, both as lead institution and in collaboration with another institution as lead. Income from such arrangements during 2017 amounted to £16 million (2016 £12.5 million).

15. Investments in subsidiary companies

The companies in which the University has a major interest and whose results are consolidated in these statements are as follows:

Name	Principal Activities	Percentage of Shares and Class
Durham University Investments Ltd	Intermediate holding company	100% Ordinary shares
Durham University Developments Ltd*	Property trading	100% Ordinary shares
Durham Women's Football Club Ltd*	Football club activities	100% Ordinary shares

All of the above companies are incorporated in England and Wales

*These shares are held indirectly through Durham University Investments Limited

The University also held investments in the following companies which have been set up to carry out spin-off businesses. The results of these companies are not included in the consolidated statements.

FSCAN Ltd ***	24.9% Ordinary shares
GeoEnergy Durham ***	24.9% Ordinary shares
Geospatial Research Ltd ***	24.0% Ordinary shares
Olexys Ltd ***	22.0% Ordinary shares
Concept analyst Ltd ***	20.0% Ordinary shares
Lightox Ltd	16.6% Ordinary shares
Virtual Centre.Com Ltd	15.0% Ordinary shares
Durham Magneto Optics Ltd	13.42% Ordinary shares
Gamble De Grussa Ltd	10.87% Ordinary shares
Applied Graphene Materials plc	5.57% Ordinary shares
Intogral Ltd	5.00% Ordinary shares
Kromek plc	2.32% Ordinary shares
Goliath Wind Ltd	2.22% Ordinary shares
Synergis Technologies Ltd	0.97% Ordinary shares
P2I Ltd	0.13% Ordinary shares

*** Not consolidated because at 31 July 2017 the University did not exercise effective control over these companies.

Other companies are not consolidated because the level of shareholding is below 20%

The University also holds investments in companies established jointly by several Universities:

N8 Ltd	Research	12.5% share (company limited by guarantee)
CVCP Properties Plc	Property	0.9% Ordinary shares



	Consolidated	University	Consolidated	University
	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
16. Stock				
Goods for resale	439	439	482	482
Durham University Developments Ltd – development land for resale (see Note 22)	20	-	20	-
	459	439	502	482
17. Trade and other receivables				
Amounts falling due within one year:				
Research grant receivables	8,518	8,518	6,404	6,404
Other trade receivables	9,579	9,579	10,357	10,357
Prepayments and accrued income	674	674	770	770
Research and Development Expenditure Credit (RDEC)	-	-	2,528	2,528
	18,771	18,771	20,059	20,059
18. Current investments				
Short term investment in shares	4,332	4,332	4,381	4,381
Short term deposits	33,000	33,000	30,628	30,628
	37,332	37,332	35,009	35,009

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority. The short term deposits had more than three months' maturity at 31st July 2017. The interest rates for these deposits are fixed for the duration of the deposit at time of placement. The weighted average interest rate of these deposits was 1.2% per annum and the remaining weighted average period for which the interest rate was fixed on these deposits was 205 days.

19. Cash and cash equivalents

	At 1st	Cash Flows	At 31st July
	August 2016		2017
	£'000	£'000	£'000
Cash and Cash equivalents	62,742	27,812	90,554

20. Creditors: amounts falling due within one year

	Consolidated	University	Consolidated	University
	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
Unsecured loans	3,457	3,457	3,457	3,457
Trade payables	17,254	17,112	16,472	16,472
Research grants received on account	22,751	22,751	24,937	24,937
Social security and other taxation payable	4,360	4,360	4,299	4,299
Accruals and deferred Income	24,905	24,905	22,322	22,181
	72,727	72,585	71,487	71,346

Deferred income

Included within accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

	Consolidated	University	Consolidated	University
	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
Donations	1,211	1,211	1,174	1,174



21. Creditors: amounts falling due after more than one year

	Consolidated	University	Consolidated	University
	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
Derivatives	29,965	29,965	39,020	39,020
Unsecured loans	120,366	120,366	123,626	123,626
	150,331	150,331	162,646	162,646
Analysis of unsecured loans	Consolidated	University	Consolidated	University
	2017	2017	2016	2016
	£'000	£'000	£'000	£'000
Due within one year or on demand	3,457	3,457	3,457	3,457
Due between one and two years	3,457	3,457	3,457	3,457
Due between two and five years	30,839	30,839	30,642	30,642
Due in five years or more	86,070	86,070	89,527	89,527
Total secured and unsecured loans	123,823	123,823	127,083	127,083
Due between one and two years	(3,457)	(3,457)	(3,457)	(3,457)
Due after more than one year	120,366	120,366	123,626	123,626

Loans

On 26 July 2004 the University agreed a loan facility with Barclays Bank plc for £92 million. The loan is unsecured and the terms are as follows:

- An existing loan of £41 million repayable in equal quarterly instalments over a 30 year period providing finance for capital expenditure.
- An additional loan facility of up to £12 million repayable in equal instalments over a 30 year period providing additional finance for capital expenditure. At 31 July 2017 this facility had been fully drawn down.
- A further loan facility of up to £35.5 million, plus £1.5m interest added to the principal sum, repayable over a 30 year period commencing on 31 October 2006. The loan is profiled so that the repayments increase during the course of the loan.

On 24 June 2010 an additional loan facility to support the University's capital programme was agreed as follows: up to £70 million was available as a revolving credit facility until 23 December 2013, following which £45 million was established as a term loan over 27 years, to be repaid wholly at the end of the term. The remaining £25 million will be available as a revolving credit facility until 23 June 2020 when, if drawn, it will be established as a term loan on the same basis as above. At 31 July 2017 £55 million had been drawn under this facility.

All the above loans bear interest at LIBOR but are subject to interest rate hedging arrangements described below.

On 30 June 2014 loan funding was agreed with the North East Local Enterprise Partnership. The loan is for £10 million to support IT infrastructure development including high performance computing and data management facilities as phase one of a larger project to develop novel complex data handling and laboratory space. The rate of interest is fixed at 1.9% and the loan is repayable over ten years commencing 30 June 2019. At 31 July 2017 this loan had been fully drawn down and £468,000 (2016: £271,000) interest added to the principal sum.

The loan liabilities have been classified according to the maturity date of the longest permitted refinancing.

Interest rate hedging

Under the terms of the 2010 loan, the University committed to hedging at least 60% of its outstanding loan balances and has developed and implemented a hedging strategy to achieve this over the term of the loans with additional protection against interest rate fluctuations for an additional 25% of the outstanding balance until July 2020. The hedging instruments in place at 31 July 2017 were as follows:

- £5.9 million amortising to nil by March 2027, fixed at 5.66%;
- £27.1 million amortising to nil by July 2034, fixed at 5.36%;
- £29.2 million rising to £30.9 million by July 2027 then amortising to £27 million by July 2034 and then level until June 2040, fixed at 4.61%;
- £25.9 million amortising to £23.4 million by July 2020, fixed at 3.97%.

The fair value of the liability represented by these interest rate hedges is disclosed as Derivatives in the note above.



22. Provisions for liabilities

Consolidated	Obligation to fund deficit on USS Pension £'000	Defined Benefit Obligations (Note 28) £'000	Total Pensions Provisions £'000	Infrastructure funding £'000	Staff restructure £'000	Total Other £'000
At 1 August 2016	41,083	53,830	94,913	833	-	833
Utilised in year	(2,422)	-	(2,422)	-	-	-
Additions	719	3,437	4,156	20	5,564	5,584
Reductions	(3,967)	(8,075)	(12,042)	-	-	-
At 31 July 2017	35,413	49,192	84,605	853	5,564	6,417

University	Obligation to fund deficit on USS Pension £'000	Defined Benefit Obligations (Note 28) £'000	Total Pensions Provisions £'000	Infrastructure funding £'000	Staff restructure £'000	Total Other £'000
At 1 August 2016	41,083	53,830	94,913	-	-	-
Utilised in year	(2,422)	-	(2,422)	-	-	-
Additions	719	3,437	4,156	-	5,564	5,564
Reductions	(3,967)	(8,075)	(12,042)	-	-	-
At 31 July 2017	35,413	49,192	84,605	-	5,564	5,564

Obligation to fund deficit on USS Pension

The USS scheme is a multi-employer scheme for which the assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore unable to identify its share of the underlying assets and liabilities of the scheme and, as required by Section 28 of FRS102 "Employee benefits", the scheme is accounted for as if it were a defined contribution scheme.

As part of the 2014 valuation of the USS pension scheme, the trustees determined, after consultation with the employers, a recovery plan to extinguish the shortfall by 31 March 2031. The contributions being paid by the employer include an amount designed to recover the deficit, the rates of which are disclosed in note 28a. In accordance with FRS102 Section 28, a liability is recognised for the contractual commitment to make such deficit contributions, calculated based on the value of deficit contributions over the period of the Recovery Plan discounted to their present fair value using an appropriate discount rate. The reduction in the provision includes the amount of recovery contributions paid during 2017 less the impact of unwinding the discount during 2017.

Defined Benefit Obligations

The deficit on the University sponsored pension scheme (DUPS) is recognised as a liability. Details of this scheme, including the basis of the accounting valuation and the movement in assets and liabilities and the resulting deficit, are disclosed in Note 28.

Infrastructure funding

Durham University Developments Ltd entered into an agreement with a developer to carry out infrastructure works costing a maximum of £1 million, of which £600,000 is an interest free loan (capital value index-linked to the RPI). After 10 years the development of the site is incomplete and hence the proportion of the loan relating to undeveloped plots is repayable by the Company.

Staff restructuring

The provision relates to a voluntary severance scheme to enable staff to leave the University in order to promote increased efficiency and effectiveness in professional support services. The provision is the expected cost of settlement relating to those staff who had accepted offers of severance by 31 July 2017.



23. Endowment reserves

Consolidated and University

	Restricted Permanent £'000	Unrestricted Permanent £'000	Restricted Expendable £'000	2017 Total £'000	2016 Total £'000
At 1 August 2016					
Capital	26,518	30,659	8,269	65,446	64,226
Accumulated income	1,904	-	282	2,186	2,049
	<u>28,422</u>	<u>30,659</u>	<u>8,551</u>	<u>67,632</u>	<u>66,275</u>
New endowments	53	-	94	147	662
Investment income	791	166	244	1,201	1,041
Expenditure	(363)	(166)	(401)	(930)	(1,087)
Increase in market value of investments	2,556	558	818	3,932	741
Total endowment comprehensive income for the year	3,037	558	755	4,350	1,357
At 31 July 2017	<u>31,459</u>	<u>31,217</u>	<u>9,306</u>	<u>71,982</u>	<u>67,632</u>
Represented by					
Capital	29,128	31,217	9,012	69,357	65,446
Accumulated income	2,331	-	294	2,625	2,186
	<u>31,459</u>	<u>31,217</u>	<u>9,306</u>	<u>71,982</u>	<u>67,632</u>
Analysis by type of purpose:					
Lectureships	414	-	3,274	3,688	3,306
Fellowships	10,911	-	-	10,911	9,796
Scholarships and bursaries	9,306	-	-	9,306	8,378
Research support	5,538	-	4,022	9,560	8,936
Prize funds	1,862	-	-	1,862	1,651
Student facilities	3,428	-	2,010	5,438	4,906
General	-	31,217	-	31,217	30,659
	<u>31,459</u>	<u>31,217</u>	<u>9,306</u>	<u>71,982</u>	<u>67,632</u>

Consolidated and University

	2017 Total £'000	2016 Total £'000
Analysis by asset:		
Fixed assets	18,022	18,022
Current and non current asset investments	44,258	39,376
Cash and cash equivalents	9,702	10,234
	<u>71,982</u>	<u>67,632</u>

24. Connected charitable institutions

A number of charitable institutions are administered by or on behalf of the University and have been established for its general or special purposes. As a result, under paragraph 28 of Schedule 3 to the Charities Act 2011, these connected institutions are exempt from registration with the Charity Commission. The movements in the year on the total funds of all connected institutions were as follows:

	College Trusts £'000	Fellowships £'000	Prizes £'000	Scholarships £'000	Total £'000
Opening balance 1 August 2016	1,866	2,635	33	1,179	5,713
Additions	531	-	-	-	531
Income	55	84	1	34	174
Expenditure	(167)	(89)	-	(24)	(280)
Change in market value	218	286	3	146	653
Closing balance at 31 July 2017	<u>2,503</u>	<u>2,916</u>	<u>37</u>	<u>1,335</u>	<u>6,791</u>
Number of funds	<u>5</u>	<u>2</u>	<u>2</u>	<u>9</u>	<u>18</u>



25. Restricted reserves

Consolidated and University	Unspent Capital Grants £'000	Donations £'000	2017 Total £'000	2016 Total £'000
Balances at 1 August 2016	512	5,703	6,215	5,752
New grants	7,665	-	7,665	3,332
New donations	-	1,705	1,705	979
Investment income	-	100	100	147
Capital grants utilised	(2,709)	-	(2,709)	(3,200)
Expenditure	-	(1,130)	(1,130)	(795)
Total restricted comprehensive income for the year	4,956	675	5,631	463
At 31 July 2017	5,468	6,378	11,846	6,215
Analysis of other restricted funds/donations by type of purpose:				
Fellowships	-	417	417	283
Scholarships and bursaries	-	1,684	1,684	1,607
Research support	-	1,923	1,923	2,067
Student facilities	5,468	2,270	7,738	2,177
Prize funds	-	84	84	81
	5,468	6,378	11,846	6,215

26. Capital commitments

	Consolidated 2017 £'000	University 2017 £'000	Consolidated 2016 £'000	University 2016 £'000
Commitments contracted for	14,190	14,190	10,002	10,002

27. Lease obligations

	Land and Buildings £'000	Plant and Machinery £'000	Total £000	2016 £000
Payable during the year	967	381	1,348	1,333
Future minimum lease payments due				
Not later than 1 year	967	381	1,348	1,333
Later than 1 year and not later than 5 years	3,868	266	4,134	4,350
Later than 5 years	9,758	-	9,758	10,725
Total lease payments due	14,593	647	15,240	16,408



28. Pensions

a. Universities Superannuation Scheme

The University participates in the Universities Superannuation Scheme (USS). With effect from 1 October 2016 the scheme changed from a defined benefit only scheme to a hybrid scheme, providing defined benefits up to a salary cap as well as defined contribution benefits in relation to salary above the cap. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Ltd. This scheme is available to most academic and academic-related staff.

Because of the mutual nature of the scheme, the scheme's assets are not allocated to individual universities and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other universities' employees and is unable to identify its share of the underlying assets and liabilities of the scheme. As required by FRS102 Section 28 therefore, the University accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The University is required to contribute a specified percentage of payroll costs to the scheme to fund the benefits payable to members, including deficit recovery contributions. In 2017 the percentage was 18% (2016: to 31 March 16% and thereafter 18%).

As part of the 2014 scheme valuation, the trustees determined, after consultation with the employers, a recovery plan to extinguish the shortfall by 31 March 2031. The rate of deficit contributions included in the overall employer contribution rate during 2017 was 2.5% (2016: to 31 March 2016 0.7% and thereafter 2.5%). The rate reduced from 1 August 2016 to 31 March 2017 to 2.2% and thereafter to 2.1%. The next actuarial valuation will be carried out at 31 March 2017, as a result of which the employer contribution rate and the level of deficit recovery contributions required may be varied.

The total cost of contributions charged to the Income and Expenditure account was £20,126,000 (2016: £17,966,000). This includes £1,666,000 (2016: £1,616,000) outstanding contributions at the balance sheet date. The total cost of contributions paid includes £2,422,000 of deficit recovery contributions which has been utilised to reduce the provision for future deficit recovery contributions as disclosed in Note 22.

The latest triennial actuarial valuation of the scheme was at 31 March 2014 ("the valuation date") which was carried out using the projected unit method. The 2017 valuation is under way. The 2014 valuation was the third valuation for USS under the 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 regular reviews of funding levels, in particular at each year between triennial valuations and details of his estimate of the funding level at 31 March 2017 are included in this note. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2017	2016
Discount rate	2.6%	3.6%
Pensionable salary growth	n/a	n/a
Price inflation (CPI)	2.4%	2.2%

The main demographic assumption used relates to mortality. Mortality in retirement is assumed to be in line with standard mortality tables provided by Continuous Mortality Investigation (CMI) as follows:

Males members' mortality	98% of S1NA ["light"] YoB tables – no age rating
Females members' mortality	99% of S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates, the CMI 2014 projections with a 1.5% pa long term rate were also adopted.

The assumed life expectancies on retirement at age 65 are:

	2017	2016
Males currently aged 65 (years)	24.4	24.3
Females currently aged 65 (years)	26.6	26.5
Males currently aged 45 (years)	26.5	26.5
Females currently aged 45 (years)	29.0	28.8

The estimate of funding carried out at each scheme year between actuarial valuations was as follows:

	2017	2016
Existing benefits		
Scheme assets	£60.0bn	£49.8bn
Scheme liabilities	£77.5bn	£58.3bn
Scheme deficit	£17.5bn	£8.5bn
Scheme funding level	77%	85%

The next actuarial valuation is due as at 31 March 2017. This will be finalised by 30 June 2018 and its results will be reported in the 2018 financial statements.



28. Pensions *continued*

b. Durham University Pension Scheme

The University sponsors the Durham University Pension Scheme (the Scheme) which provides benefits on a defined benefits basis for University employees not eligible for membership of Universities Superannuation Scheme. The assets of the Scheme are held in a separate trustee-administered fund. The trustees are composed of representatives of both the University and employees. The last full actuarial valuation of this Scheme was carried out by a qualified independent actuary as at 6 April 2015 and updated on an approximate basis to 31 July 2017.

Following consultation with affected members, a review of the Scheme in 2016 adjusted benefits to be on a Career Revalued Benefits basis for service from 1 August 2016. Further information about the Scheme is available at: www.durham.ac.uk/treasurer/dups

The last funding valuation of the Scheme at 6 April 2015 was carried out by a qualified actuary and showed a deficit of £26.3 million. The deficit was expected to be removed by 31 July 2030 through a combination of additional contributions of 3.3% of pensionable salary and asset outperformance over and above that anticipated in the technical provisions. The trustees will monitor progress against this target. The next funding valuation is due to be carried out as at 6 April 2018, at which time progress towards recovery of funding will be reviewed.

The recovery plan for the Scheme is dependent on the employer making contributions to address the deficit at the rate stated above. If the cost of future service exceeds the rate calculated in the valuation, the employer has agreed to make up the difference by additional contributions. The situation is reviewed annually with an exceptional contribution being made in August based on the pensionable payroll at July. During 2017 the difference in the cost of future service was calculated on 28 February 2017 as 3.5% and an exceptional contribution of £662,000 was made to the scheme on 11 August 2017.

The contributions made by the employer to the Scheme over the financial year have been £3,306,000 (2016: £2,959,000). These contributions are equivalent to an agreed employer contribution rate of 16% of pensionable pay (which includes an allowance for expenses and death in service insurance premiums payable) plus for one year only an additional 1% of pensionable pay to cover the cost of phasing in an increase in member contributions.

Risks associated with the Scheme

The Scheme exposes the University to a number of risks, the most significant of which are as follows:

Asset volatility	The liabilities for accounting purposes are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield this will create a deficit. The Scheme holds a significant proportion of growth assets (equities, property and global absolute return fund) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives.
Changes in bond yields	A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings.
Inflation	The majority of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although in most cases caps on the level of inflationary increase are in place to protect against extreme inflation). The majority of the assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit.
Life expectancy	The majority of the Scheme's obligations are to provide benefits for the life of the members, so increases in life expectancy will result in an increase in the liabilities.

The University and trustees have a long-term intention to reduce investment risk as and when appropriate. This could include an asset-liability matching policy which aims to reduce the volatility of the Scheme's funding level by investing in assets such as swaps which perform in line with the Scheme's liabilities so as to protect against bond yields being lower and interest rates being higher than expected. The trustees insure certain benefits payable on death before retirement.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension (GMP). The UK government intends to implement legislation which could result in an increase in the value of GMP which would increase the obligations of the Scheme. At this stage, it is not possible to quantify the impact of this change.



28. Pensions *continued*

b. Durham University Pension Scheme *continued*

Reporting at 31 July 2017

The results of the latest funding valuation at 6 April 2015 have been adjusted to the balance sheet date taking account of experience over the period since the valuation, market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

Assumptions

The plan's liabilities have been calculated using the following principal actuarial assumptions which reflect the nature and term of the Plan's liabilities:

<i>Main financial assumptions</i>	2017	2016
	% per annum	% per annum
RPI inflation	3.15	2.70
CPI inflation	2.05	1.60
Long term rate of salary increases	3.50	3.45
Rate of discount for Scheme liabilities	2.65	2.40
Increases to pensions in payment - minimum 3%	3.60	3.40
Increases to pensions in payment - maximum 2.5%	2.15	2.00

Non-financial assumptions

The most significant non-financial assumption is assumed longevity and the mortality assumptions adopted at 31 July 2017 imply the following life expectancies from age 65:

	2017	2016
	years	years
Male currently aged 65	21.4	21.3
Female currently aged 65	24.1	24.0
Male currently aged 45	23.1	23.0
Female currently aged 65	26.0	25.9

The mortality table adopted is the SAPS "All Lives" table with a scaling factor of 115% for males and 110% for females. An allowance for future improvement has been made in line with CMI 2014 core projections assuming a long term rate of improvement in mortality of 1.25% p.a. for men and women.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Effect on liability
Discount rate	Increase by 0.5%	Decrease by £14.9 million
Mortality underpin	Increase by 0.25%	Increase by £2.9 million

Scheme assets and expected rates of return

The assets of the Scheme were invested as follows:

	2017	2016
	£'000	£'000
UK equities	30,424	28,322
Overseas equities	24,709	20,807
Bonds UK Corporate	-	12,093
Absolute return	4,467	8,650
Multi Asset Credit	10,666	-
Illiquid Credit	5,003	-
Liability Driven Investments	17,784	15,100
Property	10,780	9,409
Cash / other	4,790	4,355
	108,623	98,736



28. Pensions *continued*

b. Durham University Pension Scheme *continued*

The expected long-term rates of return are as follows:

	2017	2016
	%	%
Equities	6.60	6.40
Bonds UK Corporate	2.65	2.40
Bonds UK Government	1.90	1.50
Absolute return	5.60	5.40
Property	6.60	6.40
Cash	0.25	0.50

The expected long term return on corporate bonds is equal to the discount rate used to value the liabilities. This is based on the annualised yield on the AonHewitt GBP Select AA Curve at a duration of approximately 20 years.

Present values of Scheme liabilities, fair value of assets and deficit

	2017	2016
	£'000	£'000
Present value of Scheme liabilities	(157,815)	(152,566)
Fair value of Scheme assets	108,623	98,736
Net liability	<u>(49,192)</u>	<u>(53,830)</u>

Reconciliation of opening and closing balances of the present value of Scheme liabilities

	2017	2016
	£'000	£'000
Present value of Scheme liabilities at 1 August	152,566	124,135
Current service cost	5,539	4,500
Interest cost	3,685	4,418
Contributions by members	64	54
Actuarial (gains) / losses	(401)	23,372
Benefits paid and death in service insurance premiums	(3,660)	(4,112)
Past service costs	22	199
Present value of plan liabilities at 31 July	<u>157,815</u>	<u>152,566</u>



28. Pensions *continued*

b. Durham University Pension Scheme *continued*

Reconciliation of opening and closing balances of the fair value of Scheme assets

	31 July 2017 £'000	31 July 2016 £'000
Fair value of Scheme assets at 1 August	98,736	89,908
Expected return on plan assets	2,380	3,175
Actuarial gain	7,674	6,526
Contributions by employer	4,353	3,843
Contributions by members	64	54
Benefits paid and death in service insurance premiums	(3,660)	(4,112)
Administration costs	(924)	(658)
Fair value of Scheme assets at 31 July	<u>108,623</u>	<u>98,736</u>

Analysis of the charge to the income and expenditure account

	2017 £'000	2016 £'000
Analysis of operating charge		
Current service cost	(5,539)	(4,500)
Administration costs	(924)	(658)
Past service cost	(22)	(199)
Operating charge	<u>(6,485)</u>	<u>(5,357)</u>
Analysis of pension finance cost		
Expected return on plan assets	2,380	3,175
Interest on plan liabilities	(3,685)	(4,418)
Pension finance cost	<u>(1,305)</u>	<u>(1,243)</u>
Total cost	<u>(7,790)</u>	<u>(6,600)</u>

Amount recognised in Other Comprehensive Income

	2017 £'000	2016 £'000
Actual return less expected return on plan assets	7,674	6,526
Experience gains arising on plan liabilities	135	(1,055)
Change in financial and demographic assumptions underlying the plan liabilities	266	(22,317)
	<u>8,075</u>	<u>(16,846)</u>

Amounts for the current and previous four years

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fair value of assets	108,623	98,736	89,908	80,217	75,069
Present value of Scheme liabilities	(157,815)	(152,566)	(124,135)	(109,291)	(99,474)
Deficit in Scheme	(49,192)	(53,830)	(34,227)	(29,074)	(24,405)
Experience adjustment on Scheme liabilities	135	(1,055)	190	485	3,536
Experience adjustment on Scheme assets	7,674	6,526	6,036	754	5,646
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities	266	(22,317)	(9,870)	(5,334)	(5,173)

Not on FRS102 basis

Estimate of contributions to be paid to plan

The best estimate of contributions to be paid by the employer to the plan for the year beginning 1 August 2017 is £4,300,000.'



28. Pensions *continued*

c. NOW Pensions

In response to the government's requirement for all employers to introduce automatic enrolment into a pension scheme for eligible staff, the University has appointed NOW Pensions to provide its workplace pension scheme for automatic enrolment. NOW Pensions provides a money purchase scheme which invests employer and employee contributions to provide a member specific fund that will be converted into pension on the member's retirement.

Employer contributions are currently 1% and employees pay 1%. The cost to the University during 2017 was £94,000 (2016: £84,000).

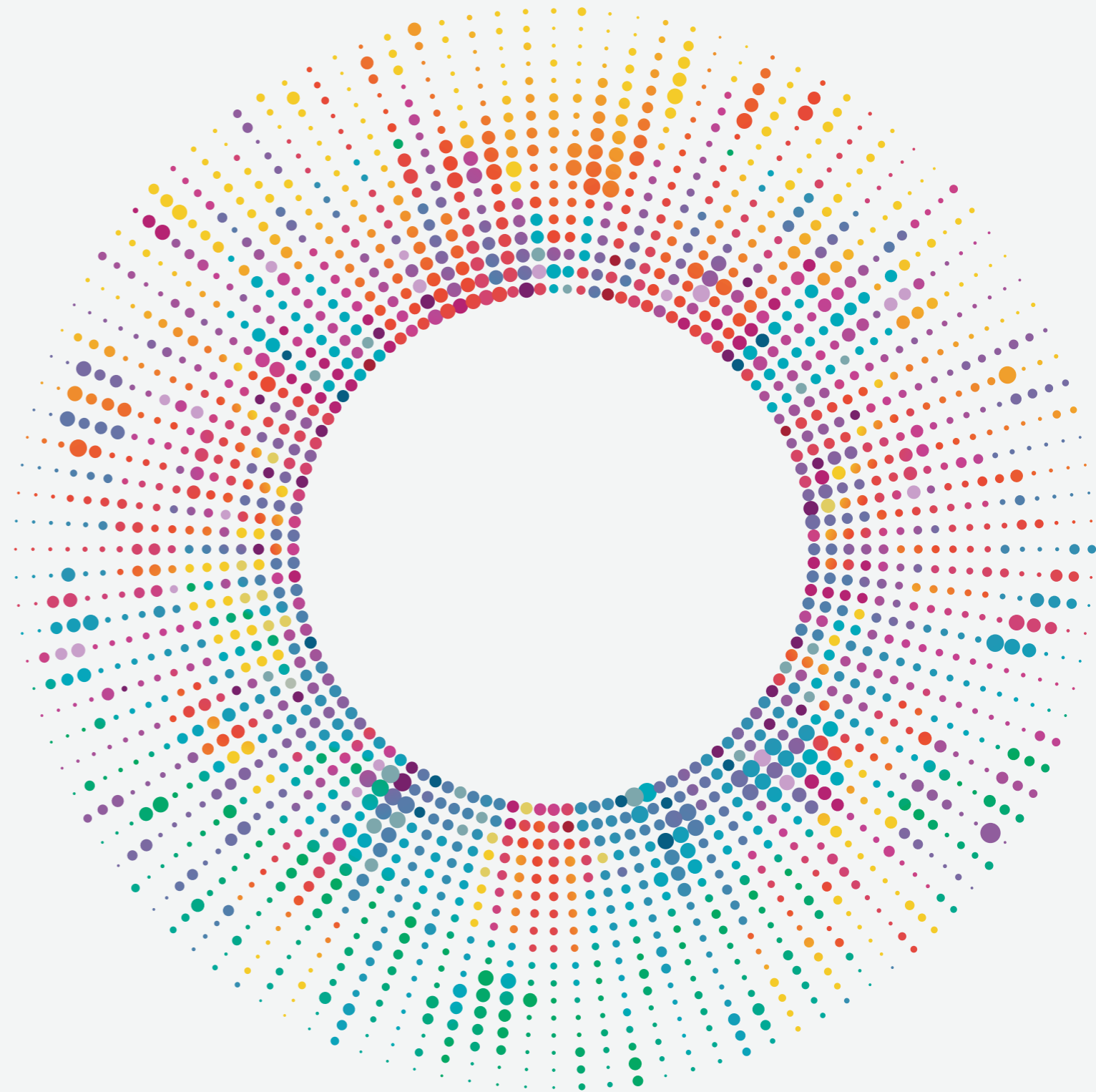
d. NHS Pension Scheme

The University employs a small number of staff who, due to their background, participate in the NHS Pension Scheme. The University is not able to identify its share of the assets and liabilities of the scheme and therefore accounts only for contributions paid which amounted to £10,000 (2016: £22,000).

29. Post Balance Sheet event

The School of Medicine Pharmacy and Health was transferred to the University of Newcastle-upon-Tyne on 1st August 2017 as a transfer of a going concern as part of a re-purposing of the Queens Campus at Stockton on Tees.

The impact in 2017/18 is expected to be a reduction in income and expenditure of £7,512,000 and £6,191,000 respectively. Assets comprising equipment were transferred at net book value, £1,487,000 on the transfer date.





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