PROSPECTUS DATED 2 JULY 2013

MANCHESTER 1824

The University of Manchester

THE UNIVERSITY OF MANCHESTER

(incorporated by Royal Charter)

£300,000,000

4.25 per cent. Bonds due 2053

The issue price of the £300,000,000 4.25 per cent. Bonds due 2053 (the "**Bonds**") of The University of Manchester (the "**Issuer**") is 97.982 per cent. of their principal amount.

Unless previously redeemed or purchased and cancelled, the Bonds will be redeemed at their principal amount on 4 July 2053. The Bonds are subject to redemption, in whole but not in part, at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in the United Kingdom. The Bonds may also be redeemed at any time at the option of the Issuer, in whole or in part, at the Redemption Price (as defined in "*Terms and Conditions of the Bonds—Condition 5(c)—Redemption at the option of the Issuer*"). See "*Terms and Conditions of the Bonds—Redemption and Purchase*".

The Bonds will bear interest from 4 July 2013 at the rate of 4.25 per cent. per annum payable semi-annually in arrear on 4 January and 4 July in each year commencing on 4 January 2014. Payments on the Bonds will be made in sterling without deduction for or on account of taxes imposed or levied by the United Kingdom to the extent described under "*Terms and Conditions of the Bonds—Condition 7—Taxation*".

Applications have been made to the United Kingdom Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**") for the Bonds to be admitted to listing on the Official List of the FCA and to the London Stock Exchange plc (the "**London Stock Exchange**") for the Bonds to be admitted to trading on the Regulated Market of the London Stock Exchange. The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. The Bonds are being offered outside the United States by the Managers (as defined in "*Subscription and Sale*") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Bonds will be in bearer form and in the denominations of £100,000 and higher integral multiples of £1,000 (up to £199,000). The Bonds will initially be in the form of a temporary global bond (the "**Temporary Global Bond**"), without interest coupons, which will be deposited on or around 4 July 2013 (the "**Issue Date**") with a common safekeeper for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). The Temporary Global Bond will be exchangeable, in whole or in part, for interests in a permanent global bond (the "**Permanent Global Bond**"), without interest coupons, not earlier than 40 days after the Issue Date upon certification as to non U.S. beneficial ownership. Interest payments in respect of the Bonds cannot be collected without such certification of non U.S. beneficial ownership. The Permanent Global Bond will be exchangeable in certain limited circumstances in whole, but not in part, for Bonds in definitive form in the denominations of £100,000 and higher integral multiples of £1,000 (up to £199,000) each with interest coupons and (if applicable) talons attached. See "*Summary of Provisions Relating to the Bonds in Global Form*".

The Bonds are expected to be assigned a rating of Aa1 by Moody's Investors Service Limited ("**Moody's**") upon issue. Moody's is established in the European Economic Area ("**EEA**") and registered under Regulation (EU) No 1060/2009, as amended (the "**CRA Regulation**").

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Joint Lead Managers

Barclays **HSBC** **The Royal Bank of Scotland**

Co-Manager

National Australia Bank Limited

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IMPORTANT NOTICES

This Prospectus comprises an approved prospectus for the purposes of section 85(2) of the FSMA.

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has confirmed to Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc (the "**Joint Lead Managers**") and National Australia Bank Limited (the "**Co-Manager**", and together with the Joint Lead Managers, the "**Managers**") that this Prospectus contains all information which is (in the context of the issue, offering and sale of the Bonds) material; this Prospectus is true and accurate in all material respects and is not misleading; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading and are based on reasonable assumptions; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Bonds other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Managers or the Trustee.

Neither the Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe or purchase, any Bonds.

The distribution of this Prospectus and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*".

In particular, the Bonds have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. Persons.

In this Prospectus, unless otherwise specified, references to "**£**" or "**sterling**" are to the lawful currency for the time being of the United Kingdom. References to "**billions**" are to thousands of millions.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

In connection with the issue of the Bonds, The Royal Bank of Scotland plc (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over allot Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

OVERVIEW

This overview must be read as an introduction to this Prospectus and any decision to invest in the Bonds should be based on a consideration of the Prospectus as a whole.

Words and expressions defined in the "Terms and Conditions of the Bonds" below or elsewhere in this Prospectus have the same meanings in this overview.

The Issuer:	The University of Manchester
Joint Lead Managers:	Barclays Bank PLC HSBC Bank plc The Royal Bank of Scotland plc
Co-Manager:	National Australia Bank Limited
Trustee:	HSBC Corporate Trustee Company (UK) Limited
Principal Paying Agent:	HSBC Bank plc
The Bonds:	£300,000,000 4.25 per cent. Bonds due 2053.
Issue Price:	97.982 per cent. of the principal amount of the Bonds.
Issue Date:	4 July 2013.
Use of Proceeds:	General corporate purposes. See "*Use of Proceeds*".
Interest:	The Bonds will bear interest from 4 July 2013 at a rate of 4.25 per cent. per annum payable semi-annually in arrear on 4 January and 4 July in each year commencing 4 January 2014.
Status:	The Bonds will constitute direct, unsecured and unconditional obligations of the Issuer.
Form and Denomination:	The Bonds will be issued in bearer form in the denominations of £100,000 and higher integral multiples of £1,000 (up to £199,000). The Temporary Global Bond and the Permanent Global Bond are to be issued in new global note form.
Final Redemption:	4 July 2053.
Optional Redemption:	On giving not less than 10 nor more than 20 days' notice to the Bondholders (which notice shall be irrevocable) in accordance with Condition 15 (*Notices*), the Issuer may redeem some or all of the Bonds for the time being outstanding at any time at the Redemption Price together with interest accrued to (but excluding) the date of redemption. See Condition 5(c) (*Redemption at the option of the Issuer*).
Tax Redemption:	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxation in the United Kingdom. See Condition 5(b) (*Redemption for tax reasons*).
Negative Pledge:	So long as any of the Bonds remain outstanding, the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness or any guarantee or indemnity in respect of any Relevant Indebtedness without (a) at the same time or prior thereto securing the Bonds equally and rateably therewith or (b) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders. See Condition 3 (*Negative Pledge*).

Cross Default:	The Trustee may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality if (i) any Indebtedness of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period; or (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (provided no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or (iii) the Issuer fails to pay when due any amount payable by it under any guarantee for, or indemnity in respect of, any Indebtedness, *provided that* the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above individually or in the aggregate exceeds £20,000,000 (or its equivalent in any other currency or currencies). See Condition 8(c) (*Cross-default of Issuer*).
Withholding Tax:	All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment in the limited circumstances set out in Condition 7 (*Taxation*).
Rating:	The Bonds are expected to be assigned a rating of Aa1 by Moody's. Moody's is established in the EEA and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Governing Law:	The Bonds, the Trust Deed, the Paying Agency Agreement and any non-contractual obligations arising out of or in connection with any of them will be governed by English law.
Listing and Trading:	Applications have been made for the Bonds to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Selling Restrictions:	For a description of certain restrictions on offers, sales and deliveries of the Bonds and on the distribution of offering materials in the United Kingdom and the United States see "*Subscription and Sale*".

Risk Factors:	Investing in the Bonds involves risks. See ''*Risk Factors*''.
ISIN:	XS0947761556.
Common Code:	094776155.

RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Bonds for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks relating to the Issuer

Due to recent changes in the way in which university teaching is funded, there is a degree of uncertainty over whether the current level of United Kingdom ("UK") and other European Union ("EU") student numbers will be maintained

The distribution of public funds in the form of ''block grants'' for teaching, research and for other activities to English universities and colleges that provide higher education is the responsibility of the Higher Education Funding Council for England (''**HEFCE**''). HEFCE was established by the Further and Higher Education Act 1992 and does not form part of any government department, but is a public body whose annual priorities are set by the Secretary of State for Business, Innovation and Skills. The total amount of public funding that HEFCE receives is set by the government each year.

University teaching is supported by a combination of the HEFCE block grant and student fees. Funding arrangements for the university sector have recently been reformed, with the new funding arrangements taking effect from the 2012/13 academic year. The full future impact of these reforms is uncertain, but the proportion of teaching income received from HEFCE will reduce and the proportion of teaching income derived from student fees will increase.

Prior to the 2012/13 academic year, higher education institutions received most of their funding for teaching as part of the HEFCE ''block grant''. The block grant was calculated according to the number of students enrolled on courses and the nature of those courses (taking into account that certain types of courses, such as laboratory subjects, cost more than classroom based ones). In addition, each student was required to pay a tuition fee of up to £3,375 per annum, either directly or via the Student Loans Company Limited. The Issuer received £92.7 million for teaching within its total block grant for the 2011/12 academic year and £54.8 million in student fees from the Student Loans Company Limited.

From the 2012/13 academic year, the maximum fee for UK and EU undergraduate students (''**UK/EU students**'') has been raised to £9,000 per annum and the HEFCE block grant has been significantly reduced. As a consequence, a greater proportion of funding for teaching has been distributed by the Student Loans Company Limited (in the form of higher tuition fees paid direct to institutions for newly admitted students underwritten by loans made to those students). In the 2012/13 academic year the Issuer will receive £74.3 million for teaching within its total block grant for the full financial year and £80.7 million from the Student Loans Company Limited in respect of tuition fees.

The funding that the Issuer receives for teaching UK/EU students is therefore dependent upon the number of students who choose to study on a course provided by the Issuer. The current economic climate coupled with higher tuition fees could have an impact on the willingness of students to enter higher education, and this could impact on the number of students who apply to the Issuer. Whilst the Issuer has historically attracted a high level of student applications, there can be no guarantee that this will continue. A significant reduction in student numbers could have a material impact on the Issuer's teaching income and overall finances.

The Issuer does not have complete control over the tuition fees that it is able to charge to UK/EU students and this could have an impact on the revenue generated by the Issuer from its teaching activities

The 2012/13 academic year has been a transitional one from the perspective of funding received by the Issuer for teaching. While the new funding arrangements applied to UK/EU students who started a course for the first time in 2012, UK/EU students who started studying for their current courses in the 2011/12 academic year or before continue to be subject to the overall funding arrangements which were in place when they started their course.

Over the next two to three years, as the sector completes the transition to the new funding regime, an increasing proportion of teaching income will come from student tuition fees. The Issuer does not have control over the amount it can charge UK/EU students for tuition fees. The maximum amount that the Issuer is able to charge is specified by the government, and the government may increase or decrease this amount.

Continued pressure to reduce government funding means there is no guarantee that the current system or levels of funding will be maintained. The Issuer could see a reduction in revenue from its teaching activities if government policy changes and, for example, the maximum tuition fee is reduced.

The Issuer's ability to charge the maximum tuition fees is dependent on compliance with criteria set by the Office for Fair Access ("OFFA")

The Issuer, along with some other universities, is one of the institutions which is permitted to charge each new UK/EU student from the 2012/13 academic year a maximum of £9,000 per year in tuition fees. This is above the basic rate of tuition fees for UK/EU students commencing undergraduate courses in the 2012/13 academic year, which is set at £6,000 per year. In order to be able to charge the higher rate, the Issuer must comply with criteria set by the OFFA. The Issuer's OFFA Access Agreement provides detailed information on the Issuer's commitment to all students, regardless of background or financial circumstances. This includes merit-based and needs-focused bursary and scholarship programmes and a range of targets and milestones to enhance the Issuer's measurable performance in widening access and participation.

If the Issuer fails to comply with its OFFA criteria, it may lose its ability to charge the maximum level of tuition fees. Such a reduction in the level of tuition fees would reduce the revenue generated by the Issuer by its teaching activities.

The removal of AAB/ABB students from student number controls may lead to increased competition for the highest quality students

Prior to the 2012/13 academic year, universities were subject to an overall restriction on the total number of UK/EU students they could recruit. From the 2012/13 academic year, most UK/EU students with grades of AAB or higher at A level or an equivalent qualification were removed from these student number controls, enabling those institutions who attract high numbers of applications from high quality students to expand and accept additional students.

In the 2011/12 academic year, around 60 per cent. of the Issuer's UK/EU students either achieved grades of AAB or higher or an equivalent qualification therefore falling outside the student number control.

From the 2013/14 academic year onwards, this policy is to be extended to students with grades of ABB.

The policy is designed to increase competition for the most highly qualified students amongst universities, and to encourage the most successful universities to expand. While the Issuer, based on its current pattern of applications and acceptances, should be in a position to recruit additional students should it choose to do so, there is also a risk that it may lose high quality students who would otherwise have accepted a place at the Issuer to other universities seeking to expand. If these places are not filled by students with lower grades, the overall number of students accepting places at the Issuer may decrease, with a consequent decrease in teaching revenue.

The move towards a competitive market for students will increase the importance of the quality of the student experience, and fluctuations in the Issuer's rating by its existing and/or former students in the National Student Survey ("NSS") may lead to an increase or decrease in student numbers

The Issuer is exposed to the pressures of international and UK competition for students. The Issuer competes for the best students in both domestic and international markets.

In such a competitive environment, institutions can differentiate themselves by the quality of experience they offer their students. One indicator is the result of the NSS, conducted annually since 2005. It gathers opinions from undergraduates in their final year on the quality of their courses. The survey asks undergraduates to provide feedback on what it has been like to study their course at their institution. In the 2012 NSS, the Issuer moved up four percentage points from 79 per cent. overall satisfaction to 83 per cent. Despite this improvement, this still placed the Issuer in the third quartile of all UK universities. In the 2011/12 academic year, the Issuer received the largest number of applications within the Russell Group and the largest number of applications to UCAS, the Universities and Colleges Admissions Service (the organisation responsible for managing applications to higher education courses in the UK), so there is currently no indication that performance in the NSS is linked to application levels. However, NSS results may take on greater significance as students become responsible for the payment of higher levels of tuition fees.

One of the key performance indicators in the Issuer's Manchester 2020 Strategic Plan is to seek to achieve a figure of at least 90 per cent. student satisfaction in the NSS by 2020. However, the Issuer's rating could go down as well as up, which could have an adverse effect on student recruitment.

A deterioration in employee relations with the Issuer's staff and trade unions could lead to industrial action and impact on the Issuer's reputation, research and teaching functions

The Issuer could experience a deterioration in employee relations with its staff and trade unions, as a consequence of issues such as changes to pensions, pay claims, requirement for more staff flexibility to improve the student experience and effectiveness initiatives. Any such deterioration could result in informal action, such as work to rule, or formal industrial action, including strike action, which could impact on the Issuer's reputation, research and teaching functions. The Issuer has good working relationships with the three recognised trade unions, and continues to develop partnership working with those trade unions and a staff engagement policy. A comprehensive staff survey conducted by an independent third party in March/April 2013, with a 71 per cent. response rate from eligible staff, found that 94 per cent. agree that the Issuer is a good place to work.

There have been changes to the UK's immigration system which could impact negatively on the Issuer's ability to attract non-UK/EU students

In 2011, the Issuer was awarded the Queen's Award for Enterprise in the International Trade category for more than doubling its annual overseas income in the 6 years to 2010 to a figure of £93.4 million. The overall international student fee income (from both full-time and part-time students) increased by £12.9 million (10.4 per cent.) in the 2011/12 academic year. However, continued growth cannot be guaranteed.

Fee income from non-UK/EU students is a significant element in the Issuer's total income. In 2011/12, tuition fee income from full-time non-UK/EU students was £119.7 million as compared with £86.7 million for tuition fee income from full-time UK/EU students. In contrast to fees from UK/EU students, the Issuer is not subject to a fee cap in relation to non-UK/EU students and is therefore able to charge a higher amount.

There is a risk that current UK immigration arrangements will impact negatively on the competitiveness of the UK higher education sector and on the way in which the UK higher education sector is perceived internationally.

In 2008, a points-based immigration system was introduced by the government with the policy objectives of controlling immigration more effectively, tackling abuse and identifying the most talented migrant workers and students. There has been a series of changes since the introduction of the points-based system, with the aim of reducing net migration to "tens of thousands" per annum by 2015. This, together with the adverse publicity generated by the removal of London Metropolitan University's licence to recruit non-UK/EU students, may have contributed to deterring non-UK/EU students from making applications to UK universities. It has also reduced the opportunities for such students to work in the UK following graduation.

This could have implications for the Issuer's capacity to attract non-UK/EU students at current levels and therefore could reduce the Issuer's non-UK/EU student fee income.

In an increasingly competitive environment, the Issuer's ability to maintain fee levels from non-UK/EU students cannot be guaranteed

Although the Issuer is not subject to a fee cap in relation to non-UK/EU students and is therefore able to charge a higher amount, the maintenance of its fee levels cannot be guaranteed. The ability of the Issuer to set fee levels for non-UK/EU students is, to an extent, dictated by market forces. The Issuer is competing in a global market and its ability to command particular fee levels will depend on, amongst other things, global economic conditions, its competitors and the international reputation of the Issuer more generally.

If the Issuer is unable to maintain or improve the current fee levels charged to non-UK/EU students, this will reduce the Issuer's non-UK/EU student fee income and will impact on the overall revenue of the Issuer.

There is uncertainty over whether postgraduate taught student numbers and postgraduate research numbers can be maintained

Between the 2008/09 academic year and the 2011/12 academic year, the Issuer saw an overall increase of over 20 per cent. in the number of UK/EU full-time students on taught postgraduate courses and an increase of 9 per cent. in the number of UK/EU full-time postgraduate research students.

It is not yet clear whether the increase in the level of tuition fees for UK/EU undergraduate students will affect the number of prospective students who choose to go on to apply for a place on a taught postgraduate or postgraduate research course. Given the increased student loan liability incurred by UK/EU students, there is no guarantee that the numbers of UK/EU postgraduate students will remain at their current levels.

The numbers of UK/EU postgraduate taught students could decrease from their current levels since the funding available to these students has become more limited.

The numbers of UK/EU postgraduate research students could decrease from their current levels if the Issuer loses its source of research funding for such students (see ***Significant changes are being made to the way in which the government provides funding for research that could impact adversely upon the Issuer's research funding*** below).

In the 2011/12 academic year, the Issuer's total number of UK/EU full-time postgraduate students (comprising students on both taught and research courses) was 4,215, representing 51 per cent. of the total postgraduate population of the Issuer. Any significant reduction in the numbers of postgraduate students will impact on the Issuer's teaching revenue and on its ability to continue its research activities at current levels.

Significant changes are being made to the way in which the government provides funding for research that could impact adversely upon the Issuer's research funding

Applying data from the 2008 Research Assessment Exercise (''**RAE**'') the Issuer was placed third in the UK after the University of Oxford and the University of Cambridge in terms of research power (calculated on research activity rated 3* and 4* multiplied by the number of full-time equivalent research staff involved in such research).

There is no guarantee that the Issuer's previous strong performance will be reflected in the new system for assessing the quality of research in UK Higher Education Institutions which will be completed in 2014 to assess research that has taken place in the period 2008 to 2013 (inclusive). Known as the Research Excellence Framework (''**REF**''), it will replace the RAE. One of the main differences between the RAE and the REF is the requirement in the new system to submit cases showing not just the output of research in terms of ''originality'', ''significance'' and ''rigour'', but also the impact of the Issuer's research in terms of its ''reach'' and ''significance''. Less weight will be given to the research environment case, an element where the Issuer has previously achieved high scores.

The results of the RAE and REF are important because they are used to assess how much recurrent block funding will be provided by the government. HEFCE provides block grants for institutions to support their research infrastructure and enable their research activities. The majority of this HEFCE-provided grant is known as ''quality-related'' or ''QR'' funding. Providing the funding as a block grant allows the particular institution freedom to decide how to use the funds. The Issuer's performance in the REF relative to the rest of the sector will affect its recurrent QR funding for the period after 2015. In the 2011/12 academic year, 10 per cent. of the Issuer's total income was provided by QR funding.

The continued success of the Issuer in relation to its research activities cannot be guaranteed. A change in the assessment of the quality of the Issuer's research activities relative to the rest of the sector could impact adversely on the level of QR funding received by the Issuer.

The results of the RAE/REF also have a much wider reputational impact. The continued success of the Issuer in relation to its research activities is an important factor in the ability of the Issuer to maintain its ranking amongst other global academic institutions and to attract further research funding.

Following the HM Treasury Review 2010, the pressure to achieve focus in research delivery has led to a number of developments which may impact upon the Issuer's research income. For example, in the 2012/13 academic year, only research judged to be of international significance (primarily based on the results of the RAE) was funded from the QR funding element of the block grant. Future cuts to government support for research cannot be ruled out.

The Issuer receives research grant income from publicly-funded Research Councils, government departments, charitable foundations, the EU, overseas sources and through collaborations with the private sector none of which can be guaranteed to continue in the future

In addition to the block grant, the Issuer receives public funding from competitively won grants for specific research projects and programmes provided by UK Research Councils.

The Issuer also receives a significant proportion of its research grant income from UK and foreign charitable foundations, the EU, overseas sources, government departments and through collaborations with the private sector. Further cuts to the funding available to these sources, and hence the funds available to them to support research activities, cannot be ruled out.

There are financial risks associated with the pensions schemes in which the Issuer participates which could have adverse impacts on the Issuer

The principal pension schemes in which the Issuer participates are:

- the Universities Superannuation Scheme (''**USS**''), which is the Issuer's principal scheme for academic and academic-related staff;
- the University of Manchester Superannuation Scheme (''**UMSS**'');
- the NHS Pension Scheme (''**NHSPS**''); and
- the Greater Manchester Pension Fund (''**GMPF**'').

All four schemes are contracted out of the State Second Pension (''**S2P**''). In addition, the Issuer runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme (''**MILGPS**''). All five schemes are defined benefit schemes, with the assets of the schemes held separately from those of the Issuer in separate trustee administered funds. With the exception of NHSPS, each fund has a full valuation every three years carried out by professionally qualified independent actuaries.

Both the USS and the NHSPS are large multi-employer schemes. As a result of the mutual nature of those two schemes, their assets are not hypothecated to individual institutions and scheme-wide contribution rates are set. The Issuer is therefore exposed to the actuarial risks associated with other institutions' employees. It is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reliable basis. As such, as required by FRS 17, the Issuer accounts for the USS and the NHSPS scheme as if they were defined contribution schemes.

The last triennial actuarial valuation of the USS was carried out as at 31 March 2011. At the valuation date of 31 March 2011, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million, indicating a shortfall of £2,910.2 million. The scheme's assets were sufficient to cover 92 per cent. of its liabilities. As at 31 March 2011, the scheme-wide contribution rate required for future service benefits at the date of the valuation was 12.80 per cent. of pensionable salaries for the final salary section. The trustee has determined a plan to pay off the shortfall. The employers' deficit contributions in the first six years of the recovery plan (i.e. periods up to 31 March 2017) will amount to 16 per cent. per annum of salaries less the blended employer future services' cost of accrual.

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

With effect from October 2011 there were a number of changes to the benefits provided by the scheme which included the following:

- new entrants are now provided on a Career Revalued Basis (CRB) rather than a Final Salary (FS) Basis;
- the normal pension age was increased to 65 years;
- member contributions were increased to 7.5 per cent. and 6.5 per cent. for the FS and CRB sections respectively; and
- a pension increase cap has been introduced.

For the year ended 31 July 2012, the total pension cost was £50.7 million in relation to USS.

The UMSS is the Issuer's own defined benefit scheme. A new Career Average Revalued Earnings (CARE) section of UMSS was introduced to new joiners from 1 April 2012. Existing members at 1 April 2012 were able to continue in the Final Salary section of the UMSS, but also had a one-off opportunity to switch to the new CARE section of the UMSS, on 1 April 2012, for future pension build up.

A full actuarial valuation was carried out at 31 July 2010 and updated to 31 July 2012 on an FRS 17 basis by a qualified actuary, independent of the UMSS's sponsoring employer.

At the last full actuarial valuation of the UMSS on a scheme funding valuation basis, the value of the assets of the UMSS was £287.1 million and the value of the past service liabilities was £377.1 million leaving a deficit of £90 million. The assets therefore were sufficient to cover 76 per cent. of the benefits which had accrued to members' deficit after allowing for expected future increases in earnings. The next full triennial valuation of the scheme is at 31 July 2013. According to the Issuer's 2011/12 financial statements, as at 31 July 2012, the UMSS was in deficit by £92.9 million on an FRS 17 basis.

The Issuer is currently making additional deficit contributions of £4.5 million per annum.

The Issuer has given the scheme direct security over a number of properties to the value of at least £35 million (2011: £40 million). The security over these properties will be released over the next two years as further deficit contributions are paid. All direct security will be released by 31 July 2015.

For the year ended 31 July 2012, the total pension cost for the Issuer in respect of the UMSS was £14.2 million on an FRS 17 basis.

The Issuer also participates in the NHSPS. The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the government. There are no underlying assets. It is not possible to identify each institution's share of the underlying assets and liabilities of the NHSPS and hence contributions to the NHSPS are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is therefore equal to the contributions payable to the NHSPS for the year.

The latest published actuarial valuation of the NHSPS was at 31 March 2004. The contribution rate payable by the Issuer during the year ended 31 July 2012 was equal to 14 per cent. of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the NHSPS.

The total pension cost for the Issuer in respect of the NHSPS for the year ended 31 July 2012 was £2.6 million (2011: £2.8 million).

The GMPF is a final salary defined benefit scheme and a separate fund within the local government pension scheme (LGPS). The LGPS is regulated by statute, with separate regulations for England and Wales and for Scotland. The benefits of LGPS funds are determined nationally by regulation and meet the definition of a defined benefit scheme. LGPS is a funded scheme, with some 100 separate funds administered locally by administering bodies. Each fund has many employing authorities. The LGPS is not therefore a national multi-employer scheme, but each separate LGPS fund is a multi-employer scheme. The Issuer is a member of one of these funds, the GMPF, which is administered by Tameside Metropolitan Borough Council. The Issuer is able to ascertain the value of its share of this multi-employer scheme. According to the Issuer's 2011/12 financial statements, as at 31 July 2012 the Issuer's share of GMPF was a deficit of £15.2 million on an FRS 17 basis. This included an unfunded element of £2.1 million.

For the year ended 31 July 2012, the total pension cost for the Issuer in respect of the GMPF was £1.6 million on an FRS 17 basis.

The MILGPS is a final salary defined benefit scheme. From 1 June 2003, all active members participating in the MILGPS transferred to UMSS. The deferred members remain within MILGPS.

A full actuarial valuation of the scheme was carried out as at 1 September 2011. This showed a deficit of £1.5 million and a funding level of 62 per cent. According to the Issuer's 2011/12 financial statements, as at 31 July 2012 the MILGPS was in deficit by £1.1 million on an FRS 17 basis.

Given the current status of the pensions schemes described above, it is possible that the Issuer may be required to make further payments in respect of those schemes which could have an adverse impact on the Issuer's finances.

The delivery of the Issuer's Campus Masterplan 2012-2022 includes risks associated with any major estates project

The Issuer plans to invest over £1 billion over the period between 2012 and 2022, with the intention of creating a single, world-class campus for staff and students. The Campus Masterplan will also involve the Issuer moving out of most of the buildings on the existing North Campus. As with any major capital project, there are risks that the works may not be completed on time and on budget, with consequent disruption to the student experience over a period of years.

In an increasingly competitive environment, the Issuer's ability to recruit and retain the best academics cannot be guaranteed

The Issuer's ability to attract the highest calibre of researchers and teachers cannot be guaranteed. On the global stage, the Issuer competes for the best academics with foreign institutions with greater endowment and other investment assets. The reputational impact of the RAE and the REF going forward, the changes to the UK immigration system and potential future cuts to the public funding of higher education could all have an impact on the ability of the Issuer to compete for and retain the best academics. In addition, the uncertainty over whether postgraduate student numbers can be maintained could have an adverse effect on the number and quality of the academics of the future.

The value of the Issuer's endowments can fall as well as rise

The total endowment assets of the Issuer were valued at £153.7 million as at 31 July 2012. The value of the Issuer's investments, and the income received from them, could fall as well as rise and therefore the income, return and the availability of funding to the Issuer from the endowment assets could vary considerably.

Many of the Issuer's endowment assets are restricted for specific purposes

As at 31 July 2012, £138.3 million of the Issuer's endowment assets (approximately 90 per cent. of the total endowment assets) were restricted for specific purposes. The accumulated income (£14.3 million as at 31 July 2012) and some of the capital (£22.7 million as at 31 July 2012) must be applied solely for the purpose for which they were given.

In addition, as at 31 July 2012, £15.4 million of the Issuer's endowments comprised endowments whereby the income could be used for unrestricted purposes, but the capital could not be utilised.

Much of the value of the Issuer's endowment assets is therefore not available to holders of the Bonds or other creditors of the Issuer.

Other sources of income are important for the Issuer, the continued availability of which cannot be guaranteed

The Issuer derives significant rental income from its student residences and additional income from its catering facilities to students. If student numbers decline as a result of the risk factors mentioned above, this will have an adverse impact on these levels of income.

Claims against the Issuer could have a material impact on the revenue or business of the Issuer

To date, claims against the Issuer have not had a material impact on the revenue or business of the Issuer, although there can be no assurance that the Issuer will not, in the future, be subject to a claim which may have a material impact upon its revenue or business, with associated reputational damage.

The Issuer has the benefit of insurance for, among others, employer's liability, public liability and professional indemnity at a level which the Issuer considers to be prudent for the type of activities in which the Issuer is engaged.

The development of the Massive Open Online Courses (MOOCs) and other on-line learning platforms may have a negative impact on the numbers of students who apply to study at a physical university

New models of delivering learning could have a significant impact on the Issuer's business model, for example MOOCs and other on-line learning vehicles. A MOOC is an on-line course aimed at large-scale interactive participation and open access via the internet. A recent distance-learning development, MOOCs provide their teaching through videos, set texts and set problems, as well as interactive user forums for students and academics. The Issuer is developing MOOCs with third-party providers and, through its wholly-owned subsidiary Manchester Business School Worldwide Limited, delivers blended learning MBA programmes to overseas students on behalf of the Issuer's business school. Blended learning is a mix of distance learning and workshop delivery.

The development of MOOCs may have a negative impact on the number of students who apply to study at a physical university, particularly if the MOOC sector develops to the extent that free, or low-cost, study of an on-line curriculum is able to lead to a qualification from an accredited institution.

Reputation risk

The Issuer is a leading academic institution and has a reputation as a leading teaching and research institution. This reputation has been built up over a long time. The Issuer's reputation is an important factor in attracting the best academics and the best students. If, for example, the integrity of research, admissions or standards of teaching were to be called into question, this would have the potential to damage the reputation of the Issuer.

A failure to manage reputational risk effectively could materially affect the Issuer's business and prospects.

Risk relating to the Bonds

There is no active trading market for the Bonds

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Bonds to be admitted to listing on the Official List of the FCA and to trading on the Regulated Market of the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds.

The Bonds may be redeemed prior to maturity

In the event that the Issuer would be obliged to increase the amounts payable in respect of any Bonds due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Bonds in accordance with their terms and conditions (the "**Conditions**").

In addition the Conditions provide that the Bonds are redeemable at the Issuer's option and accordingly the Issuer may choose to redeem the Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Because the Temporary Global Bond and the Permanent Global Bond are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Bonds will initially be represented by the Temporary Global Bond and thereafter by a Permanent Global Bond except in certain limited circumstances described in the Permanent Global Bond. The Temporary Global Bond and the Permanent Global Bond will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Bond, investors will not be entitled to receive Definitive Bonds (as defined below). Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Temporary Global Bond and the Permanent Global Bond. While the Bonds are represented by the Temporary Global Bond or the Permanent Global Bond, investors will be able to trade beneficial interests in the Bonds only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Permanent Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Permanent Global Bond.

Holders of beneficial interests in the Temporary Global Bond or the Permanent Global Bond will not have a direct right to vote in respect of the Bonds. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Minimum Denomination

As the Bonds have denominations consisting of the minimum denomination of £100,000 and higher integral multiples of £1,000 (up to £199,000), it is possible that the Bonds may be traded in amounts in excess of £100,000 that are not integral multiples of £100,000. In such case a Bondholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination of £100,000 may not receive a Definitive Bond in respect of such holding (should Definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to that minimum denomination.

Credit Rating

The Bonds are expected to be assigned a rating of ''Aa1'' by Moody's. Moody's is established in the EEA and registered under the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Bonds.

Exchange rate risks and exchange controls

Payments of principal and interest on the Bonds will be made in sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the ''**Investor's Currency**'') other than sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency equivalent value of the principal payable on the Bonds and (3) the Investor's Currency equivalent market value of the Bonds. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

The Bonds bear interest at a fixed rate. An investment in the Bonds during that time involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the ''**Savings Directive**''), each EU Member State (a ''**Member State**'') is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg will instead (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) apply a withholding system in relation to such payments, unless during such period they elect otherwise, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Savings Directive. Investors who are in any doubt as to their position should consult their professional advisers.

Modifications, waivers and substitution

The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of the Conditions or the Trust Deed and to obtain written resolutions of Bondholders without calling a meeting.

Any modification of the Conditions or the Trust Deed may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Bondholders holding not less than one-quarter of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than one-third of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; provided, however, that certain proposals (including any proposal to delay or extend any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than one-half or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders and Couponholders, whether present or not.

A written resolution signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Bonds who for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed and whose Bonds are outstanding shall, for all purposes, take effect as an Extraordinary Resolution.

In certain circumstances, where the Bonds are held in global form in Euroclear Clearstream, Luxembourg, the Issuer and the Trustee (as the case may be) will be entitled to rely upon:

(i) where the terms of the proposed resolution have been notified through the relevant clearing system(s), approval of a resolution proposed by the Issuer or the Trustee (as the case may be) given by way of electronic consents communicated through the electronic communications systems of the relevant clearing systems in accordance with their operating rules and procedures by or on behalf of the holders of not less than 90 per cent. in nominal amount of the Bonds for the time being outstanding; and

(ii) where electronic consent is not being sought, consent or instructions given in writing directly to the Issuer and/or the Trustee (as the case may be) by accountholders in the clearing systems with entitlements to the Permanent Global Bond or, where the accountholders hold such entitlement on behalf of another person, on written consent from or written instruction by the person for whom such entitlement is ultimately beneficially held (directly or via one or more intermediaries), provided that the Issuer and the Trustee have obtained commercially reasonable evidence to ascertain the validity of such holding and taken reasonable steps to ensure such holding does not alter following the giving of such consent/instruction and prior to effecting such resolution.

A written resolution or an electronic consent as described above may be effected in connection with any matter affecting the interests of Bondholders, including the modification of the Conditions, that would otherwise be required to be passed at a meeting of Bondholders satisfying the special quorum in accordance with the provisions of the Trust Deed, and shall for all purposes take effect as an

Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Bondholders, agree to (i) modifications of, or to the waiver or authorisation of any breach or proposed breach of, the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default or potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Bonds in place of the Issuer, in each case in the circumstances described in Condition 12 and the Trust Deed.

TERMS AND CONDITIONS OF THE BONDS

The following is the text of the Terms and Conditions of the Bonds which (subject to completion and amendment) will be endorsed on each Bond in definitive form:

The £300,000,000 4.25 per cent. Bonds due 2053 (the "**Bonds**", which expression includes any further Bonds issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of The University of Manchester (the "**Issuer**") are constituted by a trust deed dated 4 July 2013 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and HSBC Corporate Trustee Company (UK) Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed). The Issuer, HSBC Bank plc as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds) and the Trustee have entered into a paying agency agreement dated 4 July 2013 (as amended or supplemented from time to time, the "**Paying Agency Agreement**") in relation to the Bonds. Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and subject to their detailed provisions. The holders of the Bonds (the "**Bondholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively, which expressions shall, unless the context otherwise requires, include the holders of the talons for further Coupons (the "**Talons**") and the Talons, respectively) are bound by and have the benefit of the Trust Deed and are deemed to have notice of all the provisions of the Trust Deed and those applicable to them of the Paying Agency Agreement. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection by Bondholders during normal business hours at the Specified Offices (as defined in the Trust Deed) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Bonds are serially numbered and in bearer form in denominations of £100,000 and higher integral multiples of £1,000 up to and including £199,000 with Coupons and Talons attached at the time of issue. Bonds of one denomination will not be exchangeable for Bonds of another denomination. Title to the Bonds, the Coupons and the Talons will pass by delivery. The holder of any Bond, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Bonds or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Bonds constitute direct, unsecured and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by applicable laws relating to creditors' rights.

3. Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Issuer shall not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Indebtedness of the Issuer or any guarantee or indemnity by the Issuer in respect of any Relevant Indebtedness without (a) at the same time or prior thereto securing the Bonds equally and rateably therewith or (b) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Bondholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

In these Conditions:

"**Relevant Indebtedness**" means any indebtedness for money borrowed or raised which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which, for the time being, is, or is intended by the Issuer to be, listed, quoted, dealt in or traded on any stock exchange or regulated securities market; and

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. Interest

The Bonds bear interest from 4 July 2013 (the "**Issue Date**") at the rate of 4.25 per cent. per annum, (the "**Rate of Interest**") payable semi-annually in arrear on 4 January and 4 July in each year (each, an "**Interest Payment Date**") commencing on 4 January 2014, subject as provided in Condition 6 (*Payments*).

The amount of interest payable on each Interest Payment Date shall be £21.25 per £1,000 (the "**Calculation Amount**").

Each Bond will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

If interest is required to be paid in respect of a Bond on any date other than an Interest Payment Date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by a fraction (a) the numerator of which is the number of days from (and including) the most recent Interest Payment Date (or from the Issue Date if such period is before the first scheduled Interest Payment Date) to (but excluding) the date of payment; and (b) the denominator of which is the number of days (including the first such day and excluding the last such day) in the scheduled Interest Period in which the relevant calculation period falls multiplied by two, rounding the resulting figure to the nearest penny (half a penny being rounded upwards) and multiplying such rounded figure by a fraction equal to the denomination of such Bond divided by the Calculation Amount.

5. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 4 July 2053, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Bondholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 2 July 2013; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Bonds were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee:

(A) a certificate signed by an Authorised Signatory of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely on such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) and (ii) above without liability to any person for so doing, in which event it shall be conclusive and binding on the Bondholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Bonds in accordance with this Condition 5(b).

(c) *Redemption at the option of the Issuer*: On giving not less than 10 nor more than 20 days' notice to the Bondholders in accordance with Condition 15 (*Notices*), the Issuer may redeem some or all of the Bonds for the time being outstanding at any time at the Redemption Price (as defined below) together with interest accrued to (but excluding) the date of redemption (the ''**Redemption Date**'').

The ''**Redemption Price**'' shall be the higher of (a) the principal amount of the Bonds to be redeemed and (b) the product of the principal amount of the Bonds to be redeemed and the price, expressed as a percentage (rounded to three decimal places, with 0.005 being rounded down), (as reported in writing to the Issuer and the Trustee by an independent financial adviser (a ''**financial adviser**'') appointed by the Issuer and approved by the Trustee) at which the Gross Redemption Yield on the Bonds on the Calculation Date is equal to the sum of (i) the Gross Redemption Yield at 11.00 a.m. (London time) on such date of the 4.25 per cent. Treasury Stock due December 2055 (or, where such financial adviser advises the Issuer and the Trustee that, for reasons of illiquidity or otherwise, such stock is not appropriate for such purpose, such other government stock as such financial adviser may recommend) and (ii) 0.15 per cent.

For such purposes:

''**Business Day**'' means a day on which banks are generally open for business in London;

''**Calculation Date**'' means the date which is the second Business Day prior to the date on which the notice to redeem is dispatched; and

''**Gross Redemption Yield**'' means a yield, expressed as a percentage, calculated by the financial adviser on the basis set out by the United Kingdom Debt Management Office in the paper ''Formulae for Calculating Gilt Prices from Yields'' page 5, Section One: Price/Yield Formulae (Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June, 1998 and updated on 15 January, 2002 and 16 March, 2005) (as updated, amended or supplemented from time to time) on a semi-annual compounding basis (converted on an annualised yield and rounded up (if necessary) to four decimal places) or, if such formula does not reflect generally accepted market practice at the time of redemption, a yield calculated in accordance with generally accepted market practice at such time, all as advised to the Issuer and the Trustee by such financial adviser.

Any notice given pursuant to this Condition 5(c) (*Redemption at the option of the Issuer*) shall be irrevocable and shall specify the Redemption Date and the Redemption Price. If any such notice has been given, references in these Terms and Conditions and the Trust Deed to ''**principal**'', ''**principal moneys**'' and ''**principal amount**'' shall, unless the context otherwise requires, be deemed to include references to the Redemption Price in relation to any redemption pursuant to such notice. Upon the expiry of any such notice, the Issuer shall be bound to redeem the Bonds so called for redemption at the applicable Redemption Price on the Redemption Date together with accrued interest as aforesaid unless previously purchased and cancelled or redeemed. The Trustee may rely absolutely on the advice of any financial adviser appointed as provided in this Condition 5(c) (*Redemption at the option of the Issuer*) and shall not be liable for so doing.

(d) *Partial redemption*: If the Bonds are to be redeemed in part only on any date in accordance with Condition 5(c) (*Redemption at the option of the Issuer*), the Bonds to be redeemed shall be selected by the drawing of lots in such place as the Issuer approves and in such manner as shall be fair and reasonable in the circumstances, subject to compliance with applicable law and the rules of each listing authority, stock exchange and/or quotation system (if any) by which the Bonds have then been admitted to listing, trading and/or quotation, and the notice to Bondholders referred to in Condition 5(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Bonds so to be redeemed and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

(e) *Purchase*: The Issuer or any party acting on its behalf may at any time purchase Bonds in the open market or otherwise and at any price, *provided that* all unmatured Coupons and unexchanged Talons are purchased therewith.

Bonds purchased by or on behalf of the Issuer may, at the option of the Issuer or the relevant party, be cancelled (together with all unmatured Coupons purchased therewith) or may be held, re-issued or re-sold. Bonds held by or on behalf of the Issuer shall not entitle the holder to vote at any meetings of the Bondholders and such Bonds shall be deemed not to be outstanding for the purposes of calculating quorums at meetings of Bondholders or for the purposes of Condition 8 (*Events of Default*), Condition 12 (*Meetings of Bondholders; Modification and Waiver; Substitution*) and Condition 13 (*Enforcement*).

6. Payments

(a) *Principal*: Payments of principal shall be made only against presentation and (*provided that* payment is made in full) surrender of Bonds at the Specified Office of any Paying Agent outside the United States by transfer to a sterling account maintained by the payee with a bank in London.

(b) *Interest*: Payments of interest shall, subject to paragraph (f) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) (*Principal*) above.

(c) *Payments subject to fiscal laws*: All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(d) *Deduction for unmatured Coupons*: If a Bond is presented without all unmatured Coupons relating thereto, then:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; *provided, however, that* if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; *provided, however, that* where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; *provided, however, that*, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) (*Principal*) above against presentation and (*provided that* payment is made in full) surrender of the relevant missing Coupons. No payments will be made in respect of void coupons.

(e) *Payments on business days*: If the due date for payment of any amount in respect of any Bond or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place (including the place of presentation), a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place and, in the case of payment by transfer to a sterling account as referred to above, on which dealings in foreign currencies may be carried on both in London and in such place of presentation.

(f) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bonds at the Specified Office of any Paying Agent outside the United States.

(g) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bond or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(h) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Bonds (each, a "**Coupon Sheet**"), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (*Prescription*). Upon the due date for redemption of any Bond, any unexchanged Talon relating to such Bond shall become void and no Coupon will be delivered in respect of such Talon.

7. Taxation

All payments of principal and interest in respect of the Bonds and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the United Kingdom or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Bondholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Bond or Coupon by reason of its having some connection with the United Kingdom other than the mere holding of the Bond or Coupon; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

(c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or

(d) more than 30 days after the Relevant Date except to the extent that the holder of such Bond or Coupon would have been entitled to such additional amounts on presenting such Bond or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the United Kingdom, references in these Conditions to the United Kingdom shall be construed as references to the United Kingdom and/or such other jurisdiction.

8. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject in each case to its being indemnified and/or secured and/or prefunded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Bonds on the due date for payment thereof or fails to pay any amount of interest in respect of the Bonds within three days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Bonds or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy or remediation or (ii) being a default which is, in the opinion of the Trustee, capable of remedy or remediation, remains unremedied or unremediated for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof to the Issuer; or

(c) *Cross-default of Issuer*:

(i) any Indebtedness (as defined below) of the Issuer is not paid when due or (as the case may be) within any originally applicable grace period; or

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer or (provided no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(iii) the Issuer fails to pay when due any amount payable by it under any guarantee for, or indemnity in respect of, any Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee or indemnity referred to in sub-paragraph (iii) above individually or in the aggregate exceeds £20,000,000 (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of an amount in excess of £20,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or substantially the whole of the undertaking, assets and revenues of the Issuer; or

(f) *Insolvency, etc.*: (i) the Issuer is (or is deemed to be) insolvent or bankrupt or is unable to pay its debts as they fall due; (ii) the Issuer stops or suspends payment of all or a material part of its debts being an amount not less than £20,000,000 (or its equivalent in any other currency or currencies), or makes a general assignment or composition with or for the benefit of the relevant creditors in respect of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or a material part of the debts of the Issuer being an amount not less than £20,000,000 (or its equivalent in any other currency or currencies), in each case in circumstances of the Issuer's financial distress; and/or (iii) an administrator or liquidator is appointed over the whole or substantially the whole of the undertaking, assets and revenues of the Issuer; or

(g) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer save for a solvent winding-up solely for the purposes of a reconstruction or amalgamation of the Issuer, the terms of which have been previously approved in writing by the Trustee or by an Extraordinary Resolution; or

(h) *Failure to take action, etc.*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its payment obligations under and in respect of the Bonds or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Bonds, the Coupons and the Trust Deed admissible in evidence in the courts of the United Kingdom is not taken, fulfilled or done; or

(i) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its payment obligations under or in respect of the Bonds or the Trust Deed,

provided that, in the case of sub-paragraphs (b), (e), (h) and (i) above, the Trustee shall have certified in writing that the happening of the relevant event or events is in its opinion materially prejudicial to the interests of the Bondholders.

For the purpose of these Conditions, ''**Indebtedness**'' means indebtedness for money borrowed or raised, other than indebtedness created by the Bonds.

9. Prescription

Claims for principal shall become void unless the relevant Bonds are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. For this purpose, references to Bonds and Coupons shall not include Talons.

10. Replacement of Bonds, Coupons and Talons

If any Bond, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent and the Paying Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

11. Trustee and Paying Agents

Under the Trust Deed, the Trustee is entitled to be indemnified and/or secured and/or prefunded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Bondholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Bondholders as a class and will not be responsible for any consequence for individual holders of Bonds or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Paying Agency Agreement and in connection with the Bonds and the Coupons, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee, not to be unreasonably withheld) at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain (a) a principal paying agent, (b) a paying agent in London and (c) a paying agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Bondholders in accordance with Condition 15 (*Notices*).

12. Meetings of Bondholders; Modification and Waiver; Substitution

(a) *Meetings of Bondholders*: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters relating to the Bonds, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Trustee (subject to it being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Bondholders holding not less than one-quarter of the aggregate principal amount of the outstanding Bonds. The quorum at any meeting convened to vote on an Extraordinary Resolution will be one or more persons holding or representing more than one-third of the aggregate principal amount of the outstanding Bonds or, at any adjourned meeting, one or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented; *provided, however, that* certain proposals (including, without limitation, any proposal to delay or extend any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds, to alter the method of calculating the amount of any payment in respect of the Bonds or the date for any such payment, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Bondholders at which one or more persons holding or representing not less than one-half or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Bonds form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Bondholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in nominal amount of all Bonds then outstanding will take effect as it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Bondholders or Couponholders agree to any modification of these Conditions or the Trust Deed or the Paying Agency Agreement (other than in respect of a Reserved Matter) if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Bondholders and to any modification of the Bonds, the Trust Deed or the Paying Agency Agreement which is in the opinion of the Trustee of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Bondholders or Couponholders authorise or waive any proposed breach or breach of the Bonds or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Bondholders will not be materially prejudiced thereby.

The Trustee may rely absolutely on the advice of any financial adviser appointed by it or the Issuer in connection with the foregoing and shall not be liable for so doing.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Bondholders as soon as practicable thereafter.

(c) *Substitution*: The Trust Deed contains provisions under which a successor in business of the Issuer or any other party may, without the consent of the Bondholders or Couponholders, assume the obligations of the Issuer as principal debtor under the Trust Deed and the Bonds *provided that* certain conditions specified in the Trust Deed are fulfilled.

No Bondholder or Couponholder shall, in connection with any substitution, be entitled to claim any indemnification or payment in respect of any tax consequence thereof for such Bondholder or (as the case may be) Couponholder except to the extent provided for in Condition 7 (*Taxation*) (or any undertaking given in addition to or substitution for it pursuant to the provisions of the Trust Deed).

13. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such steps, actions or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Bonds, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Bonds or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or secured and/or prefunded to its satisfaction.

No Bondholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Bondholders or Couponholders and in accordance with the Trust Deed, create and issue further Bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Bonds. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of Bonds having the benefit of the Trust Deed.

15. Notices

Notices to the Bondholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or via a recognised information service under the Financial Services and Markets Act 2000 or equivalent. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders.

16. Governing Law

The Bonds and the Trust Deed and any non-contractual obligations arising out of or in connection with the Bonds and the Trust Deed are governed by English law.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will initially be in the form of the Temporary Global Bond which will be deposited on the Issue Date with a common safekeeper for Euroclear and Clearstream, Luxembourg.

The Bonds will be issued in new global note (''**NGN**'') form. On 13 June 2006 the European Central Bank (the ''**ECB**'') announced that Bonds in NGN form are in compliance with the ''Standards for the use of EU securities settlement systems in ESCB credit operations'' of the central banking system for the euro (the ''**Eurosystem**''), **provided that** certain other criteria are fulfilled. At the same time the ECB also announced that arrangements for Bonds in NGN form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2006 and that debt securities in global bearer form issued through Euroclear and Clearstream, Luxembourg after 31 December 2006 will only be eligible as collateral for Eurosystem operations if the NGN form is used.

The Bonds are intended to be held in a manner which would allow Eurosystem eligibility and will therefore be deposited with one of the International Central Securities Depositaries as common safekeeper. Accordingly, the Bonds are intended to be held in a manner which would allow the Bonds to be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria. On 6 September 2012 the Governing Council of the ECB announced additional measures to preserve collateral availability for counterparties in order to maintain their access to the Eurosystem's liquidity-providing operations, including that marketable debt instruments denominated in currencies other than the euro, namely the U.S. dollar, sterling and the Japanese yen, and issued and held in the euro area, should become eligible to be used as collateral in Eurosystem credit operations until further notice. Once measures have been introduced under which Eurosystem eligibility is extended to sterling denominated securities, the Bonds are expected to be in a form which can be recognised as eligible collateral.

The Temporary Global Bond will be exchangeable in whole or in part for interests in the Permanent Global Bond not earlier than 40 days after the Issue Date upon certification as to non U.S. beneficial ownership. No payments will be made under the Temporary Global Bond unless exchange for interests in the Permanent Global Bond is improperly withheld or refused. In addition, interest payments in respect of the Bonds cannot be collected without such certification of non U.S. beneficial ownership.

The Permanent Global Bond will be exchanged in whole, but not in part, for Bonds in definitive form (''**Definitive Bonds**'') in the denomination of £100,000 each and higher integral multiples of £1,000 up to and including £199,000 against presentation and surrender of the Permanent Global Bond to the Principal Paying Agent if Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business (an ''**Exchange Event**'').

So long as the Bonds are represented by a Temporary Global Bond or a Permanent Global Bond and the relevant clearing system(s) so permit, the Bonds will be tradeable only in the minimum authorised denomination of £100,000 and higher integral multiples of £1,000, notwithstanding that no Definitive Bonds will be issued with a denomination above £199,000.

Whenever the Permanent Global Bond is to be exchanged for Definitive Bonds, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Bonds, duly authenticated and with Coupons and (if applicable) Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Bond to the bearer of the Permanent Global Bond against the surrender of the Permanent Global Bond to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Bond and the Permanent Global Bond will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Temporary Global Bond and the Permanent Global Bond. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Permanent Global Bond will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Permanent Global Bond to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Bonds. On each occasion on which a payment of principal or interest is made in respect of the Permanent Global Bond, the Issuer shall procure that the payment is entered in the records of Euroclear and Clearstream, Luxembourg.

Payments on business days: In the case of all payments made in respect of the Permanent Global Bond "**business day**" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 5(c) (*Redemption at the option of the Issuer*) in relation to some only of the Bonds, the Permanent Global Bond may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Bonds to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 15 (*Notices*), while all the Bonds are represented by the Permanent Global Bond (or by the Permanent Global Bond and/or the Temporary Global Bond) and the Permanent Global Bond is (or the Permanent Global Bond and/or the Temporary Global Bond are) deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Bondholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

Meetings: The holder of the Permanent Global Bond shall (unless the Permanent Global Bond represents only one Bond) be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Bondholders and, at any such meeting, as having one vote in respect of each £1,000 in principal amount of Bonds.

Purchase and Cancellation: Cancellation of any Bond required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Permanent Global Bond.

Trustee's Powers: In considering the interests of Bondholders while the Permanent Global Bond is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Permanent Global Bond and may consider such interests as if such accountholders were the holder of the Permanent Global Bond.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, expected to amount to £293,196,000 after deduction of the total commissions and other expenses incurred in connection with the issue of the Bonds, will be used by the Issuer for general corporate purposes.

DESCRIPTION OF THE ISSUER

Introduction

The Issuer is the largest university by number of full-time students in the United Kingdom. The Issuer's historic roots are in the Victoria University of Manchester, the first English civic university originally founded in 1851 as Owens College, and the University of Manchester Institute of Science and Technology originally founded in 1824 as the Manchester Mechanics Institute.

The Issuer is a founding member of the Russell Group, which is now made up of 24 leading institutions in the UK.

Globally, the Issuer was placed 40th in the Academic Ranking of World Universities 2012, compiled by Shanghai Jiao Tong University (5^{th} in the UK). It was placed 32^{nd} in the QS World Rankings 2012 (8^{th} in the UK) and 49^{th} in the Times Higher World University Rankings 2012 (7^{th} in the UK). In the last national Research Assessment Exercise (''**RAE**'') it was ranked third in the UK for research power (quality times volume of staff).

The Issuer's students pursue courses across a wide range of subjects. In the 2011/12 academic year the Issuer offered 760 programmes of which 348 (46 per cent.) were available to undergraduates and 412 (54 per cent.) were available to postgraduate students. The Issuer organises its academic activities into four Faculties, three of which comprise a number of Schools. The terms ''Faculty'' and ''School'' for this purpose indicate a financial and administrative academic grouping of related facilities and departments for teaching and research disciplines. The four Faculties are: Engineering and Physical Sciences, Medical and Human Sciences, Life Sciences and Humanities.

The Issuer's objects and strategic vision

The Issuer's objects (''**Objects**'') are set out in its Royal Charter (''**Charter**''). The Objects are to advance education, knowledge and wisdom by research, scholarship, learning and teaching, for the benefit of individuals and society at large.

In 2012, the Issuer adopted the Manchester 2020 Strategic Plan (''**Strategic Plan**'') which identifies three core goals for the Issuer:

- **world-class research:** the Issuer aims to be one of the top 25 research universities in the world, where internationally-leading researchers produce research of the highest significance and impact. The Issuer aims to be recognised for its inter-disciplinary research, for training outstanding researchers and giving parity of esteem to discovery, application, knowledge transfer and impact;
- **outstanding learning and student experience:** the Issuer's goal is to provide a superb higher education and learning experience to outstanding students, irrespective of their backgrounds, and to produce graduates distinguished by their intellectual capabilities, employability, leadership qualities and their ability and ambition to contribute to society; and
- **social responsibility:** the Issuer's goal is to contribute to the social and economic success of the local, national and international community by using its expertise and knowledge to find solutions to the major challenges of the 21st century, and by producing graduates who exercise social leadership and responsibility.

History and constitution of the Issuer

The Issuer is a charter corporation which came into existence on 1 October 2004. It was established by the Charter on the dissolution of the Victoria University of Manchester and University Manchester Institute of Science and Technology. The rights, properties, assets and obligations of those two institutions were transferred to the Issuer by means of the University of Manchester Act 2004.

The Issuer's principal constitutional document is its Charter, which sets out the powers and Objects of the Issuer and provides for a Board of Governors (''**Board**'') to be the Governing Body of the Issuer. The Board is the principal governance and policy-making body of the Issuer. Further information on the Board and the governance structure of the Issuer is set out in the section titled ''*Governance and Regulation of the Issuer*'' on page 38 of this document.

The Charter gives power to the Board to make statutes, ordinances and regulations to carry into effect the Charter, to promote the Objects and to regulate and govern the affairs, business, work and interests of the Issuer. The Board has enacted, amended and repealed various statutes (''**Statutes**''), ordinances

(“**Ordinances**”) and regulations (“**Regulations**”) over time for these purposes. The Issuer is therefore governed by its Charter, the Statutes, Ordinances and Regulations, together with applicable national and EU legislation.

The Charter may be amended and the Statutes may be enacted, amended and repealed from time to time but any such action requires the approval of Her Majesty in Council (being the Queen acting through the Privy Council). Ordinances and Regulations may be enacted, amended or repealed from time to time by the Board (with approval from the Senate as the principal academic authority of the Issuer on academic matters) without needing to seek this approval.

The Issuer is listed as an exempt charity under Schedule 3 of the Charities Act 2011 and is therefore not required to register with the Charity Commission. HEFCE is responsible for ensuring that the Issuer, as an exempt charity, fulfils its obligations under charity law. The members of the Board are the charity trustees. Further information on the charity status of the Issuer is set out in the section titled “*Governance and Regulation of the Issuer*” on page 42 of this document.

Student and Staff Numbers

The Issuer has undergraduate and postgraduate students from the UK, EU and overseas (outside the EU). Details of full-time and part-time student numbers for each of the last four academic years are set out below (rounded to the nearest 5 students)[1]:

Academic year	Undergraduate		Postgraduate		Total
	Full-time	Part-time	Full-time	Part-time	
2011/12	27,150	1,000	8,330	4,190	40,680
2010/11	27,410	1,270	7,950	3,775	40,405
2009/10	27,105	1,585	7,950	3,755	40,395
2008/09	26,070	1,575	6,900	3,645	38,190

For the 2012/13 academic year, as at 1 December 2012 there were 38,210 students registered. Historically, additional students are registered in the course of an academic year.

These figures break down as follows (again, rounded to the nearest 5 students):

Academic year	Undergraduate		Postgraduate		Total
	UK/EU	Overseas	UK/EU	Overseas	
2011/12	23,720	4,430	7,995	4,525	40,680
2010/11	24,665	4,015	7,465	4,260	40,405
2009/10	25,045	3,645	7,540	4,165	40,395
2008/09	24,370	3,275	6,975	3,570	38,190

The Issuer has the largest number of overseas (outside the EU) students in the UK.

Competition for student places at the Issuer remains strong. For undergraduate entry in 2012, 51,080 applications for full-time courses were received which equates to 7 applications for every place offered.

Set out below are the numbers of undergraduate applications and undergraduate admissions for the last five academic years:

Academic year of entry	Full-time undergraduate applications	Full-time undergraduate 1 December admissions
2012/13	51,080	7,244
2011/12	56,691	8,186
2010/11	55,428	8,602
2009/10	53,913	8,552
2008/09	52,368	8,773

The fall in applications for the 2012/13 academic year versus the 2011/12 academic year coincided with a reduction in applications to universities in England arising from the major charges in the fee regime for undergraduates in England.

1 These figures do not include certain other additional students, for example distance learning students based overseas.

In the 2011/12 academic year the Issuer received the largest number of applications for full-time places within the Russell Group and the largest number of applications for full-time places to UCAS, the Universities and Colleges Admissions Service (the organisation responsible for managing applications to higher education courses in the UK).

For undergraduate entry in the 2013/14 academic year, as at 31 May 2013 the Issuer has received 53,058 undergraduate applications for full-time places.

The Issuer had an average of 8,988 FTE staff in the year ended 31 July 2012 engaged in its activities, including 2,318 academic staff, 1,446 academic support staff, 1,740 other research staff and 3,484 administrative, management and other support staff. The Issuer has decided to increase its academic resources and over the last 18 months has recruited around 160 academic staff, including some leading scholars.

Principal Activities of the Issuer

The principal activities of the Issuer can be summarised as follows:

- research and innovation;
- teaching;
- social responsibility; and
- other activities, including the operation of residences, catering and conferencing facilities, museums, libraries and collections, consultancy and the commercialisation of intellectual property generated within the Issuer.

Sources of Income

The Issuer's income in each of the last four academic years, together with actual figures for the current academic year to April (as reported in the consolidated income and expenditure account in the Issuer's audited financial statements, adjusted where appropriate to the basis used in the 2011/12 financial statements) is shown in the table, and described in more detail below.

	Amount in £ million				
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13 9 months YTD**
					(unaudited)
Funding Body Grants	206.8	209.0	203.2	196.5	132.4
Tuition Fees and Education Contracts	205.8	227.7	247.3	262.1	226.4
Research Grants and Contracts	191.3	194.6	196.2	188.0	143.2
Other income	129.6	145.1	147.0	145.5	101.5
Endowment and Investment Income	21.1	11.4	14.8	15.2	11.2
Total income	**754.6**	**787.9**	**808.6**	**807.3**	**614.7**

Funding Body Grants

The Issuer receives recurrent grant funding from the government through the Higher Education Funding Council for England ("**HEFCE**") in the form of "block grants" for teaching, for research and for other activities. HEFCE was established by the Further and Higher Education Act 1992 and does not form part of any government department, but is a public body whose annual priorities are set by the Secretary of State for Business, Innovation and Skills. The total amount of public funding that HEFCE receives is set by the government each year. The block grant received from HEFCE currently relates to both the Issuer's teaching and research activities and the terms on which it is to be made available to the Issuer are set out in a Financial Memorandum with HEFCE.

- ***Research***:

  The Issuer receives a block grant from HEFCE to support its research infrastructure and enable its research activities.

HEFCE calculates the block grant primarily on the basis of research quality, taking into account the volume and relative cost of research in different areas (''**QR funding**''). HEFCE calculates how much funding to provide for research in different subjects, and then allocates the total for each subject between institutions. These calculations take into account the quality of research as measured in the 2008 RAE, the volume of research using research-active staff numbers and relative costs reflecting the fact that laboratory-based research is more expensive than library-based research. Funding is also allocated for other research-related costs such as supervision of postgraduate research students and funds to support research that universities carry out with charities and with business and industry.

The Issuer was allocated £84.2 million of QR funding, representing 5 per cent. of the overall UK grant award, in the 2012/13 academic year. 65 per cent. of its research activity was judged to be world-leading (4*) or internationally excellent (3*) in the last RAE and the Issuer submitted research in 53 units of assessment, more than any other university in the UK.

Applying data from the RAE, the Issuer was placed third in the UK both in terms of research power (calculated using a quality score times the number of FTE research staff) and in terms of the volume of staff within 3* and 4* quality levels. On quality alone (measured by grade point average), the Issuer is ranked fifth if specialist institutions (such as the Institute of Cancer Research) are disregarded and is ranked fourteenth overall in the UK. Research at the Issuer is undertaken across all the disciplines embraced by its four Faculties.

Government pressure to achieve focus in research delivery has led to a number of developments at a national level which may impact upon the Issuer's research income, some examples of which are set out below:

- HEFCE confirmed that only research judged to be of international significance would be funded from the QR funding element of the block grant in the 2012/13 academic year. The assessment of international significance is based primarily on the outcome of the RAE. QR funding is highly concentrated, with more than one-third of QR funding allocated to the 5 largest recipients and over 70 per cent. allocated to the 20 largest recipients. In the 2012/13 academic year the Issuer was the fifth largest recipient of QR funding.
- A new system for assessing the quality of research in UK higher education institutions will be completed in 2014 to assess research that has taken place in the period 2008 to 2013 (inclusive). Known as the Research Excellence Framework (''**REF**''), it will replace the RAE, and will include an additional requirement to demonstrate the impact of research in terms of its ''reach'' and ''significance'' and not just its quality. The Issuer's performance in the REF relative to the rest of the sector will affect its recurrent HEFCE QR funding for the period after 2015.

- ***Teaching***:

  University teaching is supported by a combination of the HEFCE block grant and student fees.

  The amount of the teaching block grant is calculated by HEFCE according to the number of UK and EU undergraduate and postgraduate taught students enrolled on the Issuer's courses and the nature of the courses. HEFCE takes into account the fact that certain courses, such as laboratory subjects, cost more than classroom-based ones. There are also special allocations to assist Government priorities such as protecting strategically important subjects, widening participation and commercial collaborations. In the 2011/12 academic year the Issuer had more students from low participation neighbourhoods than any other English institution in the Russell Group.

  Prior to the 2012/13 academic year, higher education institutions received a significant proportion of their funding for undergraduate teaching as part of the HEFCE block grant. The Issuer received £92.7 million for teaching within its total ''block grant'' for the 2011/12 academic year. From the 2012/13 academic year a significant proportion of funding for teaching will be distributed by the Student Loans Company Limited (as higher tuition fees paid direct to institutions for newly admitted students underwritten by loans made to those students) and the HEFCE block grant will consequently reduce.

  The funding that the Issuer receives for teaching students from the UK and other Member States is now linked directly to the number of students who choose to study on a course provided by the Issuer. The Issuer's publicly-funded income is therefore more dependent than previously upon students deciding to enter higher education. In recognition that some courses cost more to provide than the maximum fee of £9,000, HEFCE will continue to provide the Issuer with an element of teaching block grant to assist with the direct funding of some of those courses, although this position may change after the next Comprehensive Spending Review in June 2013.

Tuition Fees and Education Contracts

Students are charged tuition fees for courses undertaken at the Issuer. These are regulated for full-time UK and EU undergraduate students and from the 2012/13 academic year, newly admitted UK and EU undergraduate students at the Issuer are charged tuition fees of £9,000 per annum. Tuition fees in 2012/2013 for UK and EU undergraduate students who started in the 2011/12 academic year or before are £3,465.

Tuition fees for non-UK/EU students are not regulated and are variable according to cost of provision and issues such as market demand and availability of loans or other funding based upon standard (minimum) fees set by the Issuer. Standard fees for non-UK/EU students in 2012/13 have been set at £13,000 per annum for an Arts programme, £16,500 per annum for a Science programme and £30,000 per annum for Clinical programmes.

Research Grants and Contracts

The Issuer is recognised as one of the leading research universities in the United Kingdom.

There are 25 Nobel Prizes winners amongst the Issuer's current and former staff and students. Most recently, in 2010, Professor Sir Andre Geim and Professor Sir Konstantin Novoselov were awarded the Nobel Prize for physics for groundbreaking experiments regarding the two-dimensional material graphene. The Issuer has three Nobel Laureates currently employed.

The Issuer receives income in the form of grants for specific research projects and programmes, income from UK Research Councils, charities, central government departments and hospitals and health authorities. It also derives income through collaborations with the private sector and from overseas sources.

A breakdown of research grants and contracts income by source is set out below:

	Amount in £ millions				
Sponsor Type	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13 9 months YTD**
					(unaudited)
Research Councils	80.6	75.6	76.1	72.3	51.9
UK based charities	43.3	43.8	48.9	45.8	34.5
UK central government, hospitals and health authorities	34.8	39.5	32.6	31.7	24.3
UK industry and commerce	13.4	14.1	14.4	12.8	11.2
Overseas	18.6	20.5	23.4	24.7	21.0
Other Sources	0.6	1.1	0.8	0.7	0.3
Total	**191.3**	**194.6**	**196.2**	**188.0**	**143.2**

Typically the Issuer will receive research awards up to one year in advance of the research activity commencing. The awards will be recognised as research income in the Issuer's accounts only once the research activity has commenced and usually over the duration of a number of years. Some awards are partially or wholly capital in nature (for example to fund specialist research facilities). These will not be included in research income, but instead treated as deferred capital grants. The Issuer has experienced an increase in the value of awards secured in the current financial year. A year-on-year comparison of the period from 1 August to the end of May shows a 64 per cent. increase in value to £227 million, which is 14 per cent. higher than the total for the whole of last year. Large awards secured in the current year include £23 million towards the National Graphene Institute, £18 million for a new advanced materials and manufacturing facility, £13 million for a new Cancer Research building and £5 million for an eHealth research centre.

Other income

- ***Benefactions and Donations***:

  The Issuer receives benefactions and donations from a variety of different sources. These sources include trusts and foundations, corporations and individuals (both alumni of the Issuer and non-alumni). In 2011/12, the Issuer accounted for unrestricted donations of £4.3 million.

  The Issuer also receives benefactions and donations, the use of which is restricted by the terms on which the gift or donation is made. For example, a gift to fund a specific professorship can only be used for the funding of that specific professorship.

- ***Residences, catering and conferences***:

  Income generated from these activities is set out below:

	Amount in £ millions				
Sponsor Type	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13 9 months YTD**
					(unaudited)
Income from residences, catering and conferences	45.4	46.2	47.1	47.8	34.6

Endowment and Investment Income

The Issuer held £122.5 million of fixed asset investments as at 31 July 2012, made up primarily of long term cash deposits (£85 million), investment in an investment portfolio managed by BlackRock (£17.5 million) and investment properties (£9.6 million).

The Issuer held £153.7 million of endowment assets as at 31 July 2012, made up of investment in the BlackRock portfolio (£137.9 million), investment in the Coutts portfolio (£1.5 million) and bank and building society deposits (£14.3 million). Endowments date from 1850 to the present day and range in value from approximately £150 to £19.5 million.

The investment management of the Issuer's endowment, and some of its long-term investment, funds has been outsourced to BlackRock, who have been the Issuer's main investment managers since 2006. The Issuer's Finance Committee has responsibility for overseeing investments, compliance with the Treasury Management Policy and the Socially Responsible Investment Policy and monitors the performance of the investment portfolio through quarterly reports from BlackRock.

The investment portfolio with BlackRock comprises the capital of the Issuer's endowment assets (except for one individual endowment invested with Coutts) and an element of the Issuer's long-term investment funds.

The Issuer's Estate

The Issuer's estate is large and varied and comprises 339 buildings with a total gross internal area of approximately 925,000 m^2. The total reinstatement cost assessment, as at March 2013, of all space occupied by the Issuer (including leased space) amounts to £2.96 billion. Over 90 per cent. of the Issuer's estate is freehold.

The Issuer's built estate is focused around Oxford Road (approximately 80 per cent. or 740,000 m^2), but includes a number of sites, mainly in the Greater Manchester area, although there are also property interests in the wider region and, to a limited extent, nationwide.

The five main sites used for academic purposes are the:

- Oxford Road site (47 ha), which is the main university campus;
- Sackville Road site (15 ha), otherwise known as the North Campus;
- Fallowfield Site (29 ha), which comprises student accommodation and the sports centre;
- Victoria Park Site (8 ha), which comprises student accommodation; and
- Jodrell Bank Site (145 ha), which accommodates the Jodrell Bank Observatory and Jodrell Bank Discovery Centre, and also consists of some farmland.

In addition, there are other Manchester sites at Deansgate (John Rylands Library), Broomcroft Hall (President's residence), Wythenshawe Sports Ground, Birley Fields (data centre), Aldow Enterprise Park (warehouse), MUTECH Sports Ground, Upper Brook Street (Victoria Hall), Cavendish Street (Opal Hall) and Boat House site (Sale Boat Club).

There are remote sites where specific research is undertaken at Westlakes Science Park (Dalton Nuclear Facility), Cambridge (Merlin Network and farm), Darnhall Telescope (Merlin Network), Defford Telescope (Merlin Nework), Knockin Telescope (Merlin Network), Tabley Estate, Birkenhead (Lauries Centre), Kendal Enterprise Centre and Sellafield.

The Issuer also operates at a number of NHS sites, focused in the North West of England, and to a limited extent elsewhere.

Campus Masterplan

The Campus Masterplan, approved by the Board in 2012, will involve relocation of activities on the North Campus to the main campus on Oxford Road, the construction of new research and teaching buildings, student facilities and major improvements to the public realm on the Oxford Road site.

Phase One of the Campus Masterplan, costing around £700 million, is scheduled for delivery between 2012 and 2018. The current intention is to construct a new Manchester Engineering Campus Development, new centres for the School of Law and Manchester Business School, a major refurbishment of the University library and the University of Manchester Students' Union and a new Medical School. It is also proposed that there will be a new teaching block, as well as a new car park and refurbishment of the telescope at Jodrell Bank.

On completion of Phase One in 2018, the Issuer will move out of most of the buildings on the North Campus bringing together substantially all of the Issuer's teaching and research facilities on to a single site.

Outline plans have been drawn up for a second phase which is expected to cost around £300 million and would be delivered between 2018 and 2022. It is currently intended that Phase Two will create a Biomedical Campus, a new health centre, and refurbishments of the Schools of Computer Science, Earth, Atmospheric and Environmental Sciences, Mathematics and Chemistry.

Libraries, Museums and Collections

The Issuer holds and maintains heritage assets, such as historic buildings and collections of art and other valuable artefacts of historical, scientific and artistic importance.

Heritage assets acquired since 1 August 2007 and valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. Heritage assets of £1.8 million were capitalised at 31 July 2012. The Issuer also holds heritage assets that are not capitalised as, due to their unique nature, reliable information on cost or valuation is not readily available. The total value of heritage assets for insurance purposes was £1,335 million at 31 July 2012.

The Issuer conserves these assets as a resource for researchers, students and members of the public. The Issuer's museums and collections include the John Rylands Library at Deansgate, the Manchester Museum, the Manchester Medical Museum, the Whitworth Art Gallery, Tabley House and the Jodrell Bank Discovery Centre.

Commercialisation of Intellectual Property

The Issuer runs an integrated technology transfer, incubator facility and student enterprise activity – known as its innovation group ("**UMI^3**").

Its spin-out companies have attracted and/or assisted in raising over £227 million of third party investments, it has received over £60 million of intellectual property grants and contracts, share sale proceeds and royalties (as at 30 April 2013) and brokered/concluded over 300 licences in the last nine years.

It operates an early business stage proof-of-principle scheme linking into all of the Issuer's Faculties and, in 2008, a £32 million seed investment fund, known as The UMIP Premier Fund, was raised for the Issuer's spin-outs.

UMI^3 manages approximately 26,000 m^2 of incubator facilities, housing a mixture of spin-outs of the Issuer, as well as small and medium sized companies from outside of the campus.

UMI3, through its incubator and monitoring network activity, has supported over 1,500 student entrepreneurs through various competitions and schemes and currently runs an IT business accelerator for the Issuer's students.

Social Responsibility

Social Responsibility is a core goal of the Issuer, which includes widening participation, public and local community engagement, research which benefits society and graduates who make a difference to society.

The Manchester Access Programme (MAP) supports outstanding Year 12 and 13 students from under-represented groups in Greater Manchester to progress successfully into university. Since its development in 2005, 716 MAP students have been successful in gaining a place at the Issuer, with 376 gaining places at other higher education institutions.

The Issuer acknowledges that it has an important responsibility for enriching the cultural lives and scientific understanding of its local community. Manchester Museum, Whitworth Art Gallery, John Rylands Library and The Jodrell Bank Discovery Centre work to engage with schoolchildren and people from under-represented groups. In 2011/12 the Manchester Museum and the Whitworth Art Gallery had over 35,000 structured contacts with schoolchildren.

The Issuer's Solvency

There have been no recent events particular to the Issuer that are relevant, to a material extent, to the evaluation of the Issuer's solvency.

The Issuer's Subsidiaries

The Issuer is part of a group as it has various subsidiary undertakings (together with the Issuer, the "**Group**") and interests in other entities both in the UK and overseas. The Issuer is not dependent on any other entity within the Group.

The Issuer currently has 12 active wholly-owned subsidiaries, one of which, Manchester Business School Worldwide Limited, has 3 active wholly-owned subsidiaries. It also has one small joint venture entity with Manchester Metropolitan University. Most of these subsidiaries are very small relative to the Issuer. The aggregate income and net assets of all subsidiaries is less than 5 per cent. of the Issuer's consolidated income and net assets. The Issuer's main trading subsidiaries are Manchester Business School Worldwide Limited, The University of Manchester I3 Limited and The University of Manchester Conferences Limited.

The Issuer's Contact Details

The contact address for the Issuer is The University of Manchester, Oxford Road, Manchester, M13 9PL UK and its telephone number is +44 (0)161 275 2145.

GOVERNANCE AND REGULATION OF THE ISSUER

Introduction

An explanation of certain key governance aspects of the Issuer, together with a summary of each of the constituent bodies and offices referred to in the summary, is set out below.

- Under the Charter, the governing body of the Issuer is the Board of Governors (''**Board**'').
- The Board exercises all the powers and discretions of the Issuer, subject to the laws of the Issuer and save to the extent that such exercise is reserved to the Senate or to the General Assembly by the Charter or Statutes of the Issuer.
- The President and Vice-Chancellor is the chief executive officer of the Issuer and is responsible to the Board for the effective and efficient management of the Issuer, for the conduct of its business generally and for the achievement of its institutional objectives.
- The Senate is the principal academic authority of the Issuer and is responsible for the promotion of research and the regulation and superintendence of the education and discipline of the students of the Issuer.
- The General Assembly of the Issuer has the authority to present the Issuer and its achievements to the wider community and to receive the views thereupon from that community.
- As part of its arrangements for effective governance, management and financial control, the Board has appointed and constituted a number of governance committees including:
    - a Finance Committee;
    - an Audit Committee;
    - a Remuneration Committee;
    - a Nominations Committee; and
    - a Staffing Committee.

In addition to the above, there is also a Planning and Resources Committee, an executive committee, which is structured as an internal management committee rather than a committee of the Board.

The Board

The Board is the Issuer's governing body. It meets formally at least five times in each academic year plus a two day planning and accountability conference. Its membership of 25 has a majority of persons who are not employed by the Issuer, known as ''lay'' members. Pursuant to the Statutes, the Chair of the Board is appointed by the Board from within the lay category of membership. The President and Vice-Chancellor, members of the Senate, members of the Issuer's support staff and a student representative also serve on the Board.

The Board carries the ultimate responsibility for the Issuer's overall strategic direction and for the management of its finances, property and affairs generally, including the employment arrangements for all staff. It is a specific role of the Board to satisfy itself that work being undertaken on its behalf, whether by committees or officers, is consistent with corporate objectives, the Issuer's Objects and within the bounds of good practice.

The Board (with approval from the Senate on academic matters) has the power to enact, amend and repeal Ordinances and Regulations for the Issuer and, subject to the approval of the Privy Council, to enact, amend or repeal any Statute and amend the Charter.

The Senate

The Senate is the principal academic authority of the Issuer and is responsible to the Board for the promotion of research and for monitoring standards in teaching. It is the final arbiter on purely academic matters. The Senate has approximately 70 members and is chaired by the President and Vice-Chancellor. Of its core membership a third of these are designated ex-officio and reserved for those with academic management responsibilities centrally and in the Faculties and two-thirds are elected academic members (professorial and non-professorial). The remaining members are either co-opted members or student representatives.

The General Assembly

The General Assembly is the interface between the Issuer and the wider community and is chaired by the Chancellor. It has over 200 members, a majority of which are lay members. Lay members are drawn from a range of local, regional and national interests. The General Assembly acts as a two-way channel of communication through which the Issuer presents its achievements to the wider community and receives feedback from that community. Its membership also includes staff, alumni and students of the Issuer.

The Finance Committee

The Finance Committee has delegated authority from the Board to, among other things, advise or take appropriate action to ensure: the financial viability of the Issuer; that the requirements of the Financial Memorandum with HEFCE to maintain financial solvency are met; that the Issuer's principal accounting functions reflect best financial practice; that major capital projects are appropriately and satisfactorily managed; and that the Issuer's investments, including trust funds, are appropriately and satisfactorily managed. The Finance Committee also has responsibility for considering, commenting upon and forwarding to the Board: long-term financial plans for the Issuer and to set the framework within which planning and resource allocation should take place; recommendations relating to the borrowing facilities of the Issuer; recommendations for amendment of the Issuer's Financial Regulations; the annual budgets of the Issuer; and the Issuer's financial statements and the financial plans and forecasts for HEFCE. The Finance Committee has 8 members, meets at least four times a year and is chaired by a lay member of the Board.

The Audit Committee

The Audit Committee is responsible for reviewing the Issuer's arrangements for risk management, control and governance and is chaired by a lay member of the Board. It also advises the Board on the criteria for the appointment and remuneration of the external auditors and the arrangements for internal audit, determines the scope of their work and reviews their interim and final reports. The risk management element of this role includes the review of the processes which lead to the statement on internal control in the annual financial statements. The Audit Committee will also, whenever appropriate, provide explicit confirmation to the Board that necessary actions have been, or are being, taken to remedy any significant failings or weaknesses identified from any external or internal audits undertaken or from the review of the effectiveness of internal control.

The Remuneration Committee

The Remuneration Committee is chaired by the Chair of the Board and consists entirely of lay members of the Board, except for the President and Vice-Chancellor. The Remuneration Committee is responsible to the Board, under delegated authority, for the remuneration arrangements for certain senior officers of the University (including the President and Vice Chancellor, the Registrar, Secretary and Chief Operating Officer, Vice-Presidents and Deans and Vice-Presidents), and brings forward policies and procedures on the remuneration of senior staff for approval by the Board.

The Nominations Committee

The Nominations Committee is a joint committee of the Board and the General Assembly and is chaired by the Pro-Chancellor (a lay member appointed by the General Assembly). The incumbent Pro-Chancellor is Mrs Gillian Easson. In addition to the Chair, it consists of three Board members and five lay members of the General Assembly. The Committee is responsible for making recommendations to the Board and the General Assembly on the appointment and re-appointment of lay members to the Board and to the General Assembly, for reviewing the external bodies represented on the General Assembly and for making recommendations to the General Assembly on the appointment of a Pro-Chancellor.

The Staffing Committee

The Staffing Committee is a committee of the Board established by the Board to give full and proper consideration to any proposals duly notified to it by or on behalf of the President and Vice-Chancellor to dismiss members of staff by reason of redundancy. The terms of reference of the Staffing Committee have been approved by the Board following consultation with the recognised campus trade unions. The Staffing Committee is chaired by the Deputy Chair of the Board, a lay member of the Board.

The Planning and Resources Committee

The Planning and Resources Committee is chaired by the President and Vice-Chancellor and includes in its membership the Deputy President and Deputy Vice-Chancellor, the Vice-Presidents, the Registrar, Secretary and Chief Operating Officer and the Director of Finance, with representation from Heads of Services, the Senate and the University of Manchester Students' Union (''**Students' Union**''). It serves as the primary source of advice to the Board on matters relating to the development and allocation of the Issuer's resources, on strategic planning issues and on the financial, education and research performance of the Issuer against agreed goals and targets. Additionally, in consultation with other relevant committees, it develops, for approval by the Board, the Issuer's annual planning, budgeting, performance evaluation and accountability cycle, annual revisions of the Issuer's Strategic Plan and the Issuer's annual budget.

The Chancellor

The Chancellor is elected as the ceremonial head of the Issuer, presiding over meetings of the General Assembly and over congregations of the Issuer for the conferment of degrees. The Chancellor has no executive authority and is not a member of the Board. The incumbent Chancellor is Mr Tom Bloxham.

The President and Vice-Chancellor

The President and Vice-Chancellor is the chief executive officer and the principal academic and administrative officer of the Issuer. In fulfilling these functions, the President and Vice-Chancellor has overall responsibility for the executive management of the Issuer and for its day-to-day direction, being accountable to the Board for the exercise of these responsibilities. The President and Vice-Chancellor is the designated Accountable Officer under the terms of the Financial Memorandum between the Issuer and HEFCE. As the chief executive officer of the Issuer, the President and Vice-Chancellor exercises primary influence on the development of institutional policy and strategy, the identification and planning of new developments and in shaping its institutional ethos. The current President and Vice-Chancellor is Professor Dame Nancy Rothwell.

The Registrar, Secretary and Chief Operating Officer

The Registrar, Secretary and Chief Operating Officer is appointed by the Board and serves as secretary to the Board, its principal committees, the Senate and the General Assembly. The Registrar, Secretary and Chief Operating Officer is also the head of the administration of the Issuer, responsible to the President and Vice-Chancellor for the provision of the administrative and support services required for the efficient conduct of business of the Issuer. The current Registrar, Secretary and Chief Operating Officer is Mr Will Spinks.

The Senior Leadership Team

The President and Vice-Chancellor is supported in her role by a Deputy President and Deputy Vice-Chancellor, four Vice-Presidents and Deans, two Vice-Presidents with specific policy responsibilities, a Registrar, Secretary and Chief Operating Officer, a Director of Finance and a Director of Human Resources. The current incumbents of these roles are:

- Professor Dame Nancy Rothwell, President and Vice-Chancellor;
- Professor Rod Coombs, Deputy President and Deputy Vice-Chancellor;
- Mr Will Spinks, Registrar, Secretary and Chief Operating Officer;
- Professor Luke Georghiou, Vice-President (Research and Innovation);
- Professor Clive Agnew, Vice-President (Teaching, Learning and Students);
- Professor Colin Bailey, Vice-President and Dean of the Faculty of Engineering and Physical Sciences;
- Professor Keith Brown, Vice-President and Dean of the Faculty of Humanities;
- Professor Martin Humphries, Vice-President and Dean of the Faculty of Life Sciences;
- Professor Ian Jacobs, Vice-President and Dean of the Faculty of Medical and Human Sciences;
- Mr Stephen Mole, Director of Finance; and
- Mrs Karen Heaton, Director of Human Resources.

Membership of the Board

The following individuals are the current members of the Board:

Name:	Governor since:	Principal activities outside the Issuer:
Category 1, ex officio members (2)		
Professor Dame Nancy Rothwell, FRS, FMedSci, FSB, FRSA, FRCP, DL *President and Vice-Chancellor*	1 July 2010	Non-Executive Director of AstraZeneca President of the Society of Biology Member of the Greater Manchester Local Enterprise Partnership, Co-chair of the Prime Minister's Council for Science and Technology
Mr Nick Pringle, *General Secretary of the Students' Union*	1 July 2012	
Category 2, lay members (4)		
Mr Anil Ruia, OBE, JP, DL, *Chair*	1 September 2005	Chairman of Botraco Ltd. Director at Warren Tea Limited India Board Member of the Higher Education Funding Council for England Chair of the Arts Council North West
Mr Robert E Hough, DL, *Deputy Chair*	1 September 2005	Chairman of Peel Investments Ltd Director of Peel Airports Chairman of Durham Tees Valley Airport Director of Provident Financial PLC, Styles & Wood Group PLC and Turley Associates. Chair of Liverpool Local Enterprise Partnership
Mr Michael Crick	1 September 2012	Political correspondent of Channel 4 News
Mr Stephen Dauncey	1 September 2010	Director Finance Services of the Highways Agency
Dame Susan Ion, OBE	1 October 2004	Visiting Professor at Imperial College and of London South Bank University Member of the Scientific Advisory Board of the Department of Energy and Climate Change Non-Executive Director of the UK Health and Safety Laboratory Chairman of the Science and Technology Committee of the European Atomic Energy Community Member of the US Department of Energy Nuclear Energy Advisory Committee
Councillor Mohammed Afzal Khan, CBE	1 September 2007	Partner of Mellor Jackson Khan solicitors Councillor for Manchester Cheetham Board Member of BBC Children in Need Board Member of the Manchester Christie Hospital Non-Executive Director of the Manchester Primary Health Care Trust
Mr Paul Lee, DL	1 September 2010	Senior Partner of Addleshaw Goddard Board Member of the Confederation of British Industry Chairman of the Horserace Betting Levy Board
Mrs Christine Lee-Jones	1 September 2010	Non-Executive Director of Walton Centre NHS Foundation Trust Magistrate
Dr Keith Lloyd	20 May 2008	Non-Executive Director of the Advisory Board to the London Underground PPP Arbiter Non-Executive Director of UMI3
Mr Neville Richardson	1 September 2011	Non-Executive Director of the Seddon Group
Dr Brenda Smith	1 September 2006	Director of Smithbiz Associates Non-Executive Director of the Central Manchester University Hospitals Foundation Trust
Mr Andrew Spinoza	1 September 2012	Director of Spinoza Kennedy Vesey Communications
Dr John Stageman, OBE	1 September 2010	Member of the Biotechnology and Biological Sciences Research Council Chairman of Bionow Ltd Chairman of the HealthTech and Medicines Knowledge Transfer Network for the Technology Strategy Board

Mr Gerry Yeung, OBE	1 September 2007	Director of YangSing Director of Manchester Investment Development Agency Service
Category 3, members of the Senate (7)		
Professor Colette Fagan	1 September 2009	–
Professor Maggie Gale	1 September 2010	–
Professor Andrew Gibson	1 September 2011	–
Dr Reinmar Hager	1 September 2012	–
Dr Caroline Jay	14 November 2012	–
Professor Chris Taylor	1 September 2011	Chair of UK Institute for Health Informatics Director of Imorphics Limited
Professor Pamela Vallely	1 September 2011	
Category 4, members of staff other than academic or research staff (2)		
Mr Edward Mark Glass	1 September 2011	–
Dr Andrew Walsh	1 September 2010	–

The business address for each of the members of the Board is The University of Manchester, Oxford Road, Manchester, M13 9PL.

The Issuer maintains an up-to-date register of any potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests and/or duties. Ordinance XVIII states that Board members are required to declare any personal interest in the business to be discussed by the Board or any committee and the relevant member must, if necessary and as required, withdraw from the consideration of such business. On this basis, the Issuer is not aware of any potential conflicts of interest between the duties to the Issuer of the members of the Board listed above and their private interests and/ or other duties.

Regulation

HEFCE is responsible for ensuring that the Issuer acts in accordance with its governance obligations, that it manages itself and the funding it receives appropriately and that it complies with the requirements imposed on it by virtue of its exempt charitable status.

The Issuer must comply with certain requirements which are specified in HEFCE's Financial Memorandum and Audit Code of Practice. The Issuer is required to submit audited financial statements to HEFCE each year. A representative of the Issuer can be called before the Public Accounts Committee to discuss issues relating to financial regularity, propriety or value for money in relation to the public funding that it has received.

The Issuer must provide HEFCE with certain information about the way it operates and its financial position, in order to demonstrate the effectiveness of its management systems and ability to make appropriate use of the funding it receives. The Issuer must provide HEFCE with certain information such as copies of the annual audited financial statements, financial forecasts, Audit Committee's annual report, the internal auditors' annual report, the external auditors' management letter and the management response. The Issuer must also provide annual accountability returns to HEFCE and HEFCE, through reviewing these returns, is able to provide the Issuer with a confidential risk assessment. The Issuer is also under an obligation to provide HEFCE with any other information it might reasonably require to enable it to act as principal charity regulator. If there is any material adverse change in the Issuer's circumstances, it is under a duty to inform HEFCE of that change, as well as informing HEFCE of any significant developments which could impact upon the mutual interests of the Issuer and HEFCE.

In addition the Issuer is required to submit returns to other Higher Education bodies – notably annual student, staff and finance returns to the Higher Education Statistics Agency, an annual Access Agreement to the Office for Fair Access (and associated monitoring returns) and returns to the Quality Assurance Agency, UK Research Councils and the NHS.

Before entering into significant new long term financial commitments, the Issuer must obtain written consent from HEFCE where the annualised servicing cost of the Issuer's total financial commitments would increase to above 4 per cent. of its total income. The issue of the Bonds does not require specific consent.

The Issuer is listed as an exempt charity under Schedule 3 of the Charities Act 2011. Consequently, in relation to its charitable activities, the Issuer benefits from the status of a charity but it is not necessary for it to register with the Charity Commission. Due to the provisions to the Charities Act 2011, HEFCE is responsible for ensuring that the Issuer, as an exempt charity, fulfils its obligations under charity law. HEFCE's objective is to promote compliance by the trustees of the Issuer with their legal obligations when controlling and managing the Issuer, so far as reasonably possible. In doing so it is required to monitor the Issuer regularly, and potentially to liaise with the Charity Commission if the issues involved are more complex and may result in the use of its power.

A Memorandum of Understanding exists between HEFCE and the Charity Commission. This sets out how HEFCE, as principal regulator of higher education institutions which are exempt charities, works in conjunction with the Charity Commission and, in particular, how the two bodies formulate regulatory policy frameworks and co-ordinate their approach to regulation. The members of the Board are charitable trustees and, as such, must exercise their duties as trustees prudently and in accordance with the Issuer's Charter, Statutes, Ordinances and Regulations. The Charity Commission has the power to take proceedings against the members of the Board if it believes that they have acted imprudently. The actions that the Board takes should always be in the public interest.

The Charities Act 2006 (now incorporated in the Charities Act 2011) extended most of the Charity Commission's powers in relation to exempt charities (including the Issuer). However, before exercising any of its powers in respect of the Issuer, the Charity Commission must first consult with HEFCE. HEFCE is also able to invite the Charity Commission to use its powers in relation to investigation and intervention. Legal decisions taken by the Charity Commission are subject to review of the Charity Tribunal.

TAXATION

*The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Bonds. It is based on current law and the practice of Her Majesty's Revenue and Customs (''**HMRC**''), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of Bonds. The comments relate only to the position of persons who are absolute beneficial owners of the Bonds. They assume that there will be no substitution of the Issuer pursuant to Condition 12(c) (Substitution) of the Bonds or any related documentation. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Bondholders who are in any doubt as to their tax position should consult their professional advisers. Bondholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Bonds are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Bonds. In particular, Bondholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Bonds even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

UK Taxation

UK Withholding Tax on UK Source Interest

Bonds listed on a recognised stock exchange

Under section 987 of the Income Tax Act 2007 (''**ITA**'') securities issued by a company which carry a right to interest, such as the Bonds, will constitute ''*quoted Eurobonds*'' provided they are and continue to be listed on a recognised stock exchange. Whilst the Bonds are and continue to be quoted Eurobonds, payments of interest on the Bonds may be made without withholding or deduction for or on account of United Kingdom income tax. The Issuer is of the view that it is a ''company'' for the purposes of section 987 of the ITA.

Securities will be ''listed on a recognised stock exchange'' for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The London Stock Exchange is a recognised stock exchange, and accordingly the Bonds issued by the Issuer will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the Regulated Market of that Exchange.

All Bonds

In all cases falling outside the ''quoted Eurobond'' exemption described above, interest on the Bonds may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply).

Provision of Information

HMRC has powers to obtain information relating to securities in certain circumstances. This may include details of the beneficial owners of the Bonds (or the persons for whom the Bonds are held), details of the persons to whom payments derived from the Bonds are or may be paid and information and documents in connection with transactions relating to the Bonds. Information may be required to be provided by, amongst others, the holders of the Bonds, persons by (or via) whom payments derived from the Bonds are made or who receive (or would be entitled to receive) such payments, persons who effect or are a party to transactions relating to the Bonds on behalf of others and certain registrars or administrators. In certain circumstances, the information obtained by HMRC may be exchanged with tax authorities in other countries.

Other Rules Relating to United Kingdom Withholding Tax

Where interest has been paid under deduction of United Kingdom income tax, Bondholders or Couponholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to ''**interest**'' above mean ''interest'' as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of ''interest'' or ''principal'' which may prevail under any other law or which may be created by the terms and conditions of the Bonds or any related documentation.

EU Savings Directive

Under the Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg will instead (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld) apply a withholding system in relation to such payments, unless during such period they elect otherwise, deducting tax at a rate of 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Luxembourg has announced that it will no longer apply the withholding tax system as from 1 January 2015 and will provide detail of payments of interest (or similar income) as from this date.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Savings Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

Non-UK Taxation

The proposed financial transactions tax

In September 2011, the EU Commission attempted to introduce an EU-wide financial transactions tax. However not all the Member States were in favour of such a tax and so the tax could not be implemented in all Member States. Subsequently, 11 Member States requested that the Commission develop a proposal for the introduction of a common financial transactions tax (''**FTT**'') for each of those Member States. The Commission developed such a proposal under the EU's enhanced cooperation procedure which allows 9 or more Member States to implement common legislation. In January 2013 the EU Council of Ministers authorised the Commission to proceed with enhanced cooperation for a common FTT and the European Commission (the ''**Commission**'') has now published a draft Directive containing proposals for the FTT. It is not certain that this draft Directive will be implemented in its present form and it may be subject to significant change. This FTT is currently intended to be introduced in the 11 participating Member States (Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia). Additional Member States may decide to participate.

Under the current draft Directive, the proposed FTT imposes a charge on a wide range of financial transactions including purchases, sales and exchanges of financial instruments including bonds; this charge will be levied at not less than 0.1 per cent. of the sale price. Material modifications of financial instruments also attract a charge at the applicable rate. In both cases the charge is applied separately to each financial institution that is party to a transaction; if a financial institution does not pay the tax then it is currently intended that each party to the financial transaction, including persons other than financial institutions, will be jointly and severally liable.

Under the current draft Directive, a charge to FTT will arise if at least one party to a financial transaction is established in (or is treated as established in) a participating Member State and a financial institution established in (or is treated as established in) a participating Member State is a party to the transaction, for its own account or for the account of another person, or if the financial institution is acting in the name of a party to the transaction.

It is important to be aware that, under the current draft Directive, a financial institution will be treated as established in a participating Member State if, among other things, its seat is there, it is authorised there (as regards authorised transactions) or it is acting via a branch in that Member State (as regards branch transactions). It may also be treated as established in a participating Member State in relation to a particular transaction, merely because it is entering into the financial transaction with another person who is established in that Member State.

Furthermore, under the current draft Directive, a financial institution which is not otherwise established in a participating Member State will be treated as established in a participating Member State in respect of a financial transaction if it is a party (for its own account or for the account of another person) or is acting in the name of a party, to a financial transaction in respect of a financial instrument issued within that Member State. The other party to such a transaction will, to the extent not otherwise established in a participating Member State, also be treated as established in that Member State.

Under the current draft Directive, there are limited exemptions to the proposed FTT; one important exemption is the ''primary market transactions'' exemption which should cover the issuing, allotting, underwriting or subscribing for shares, bonds and securitised debt but not derivatives contracts. There is some uncertainty as to whether this exemption applies to the issuance of commercial paper or money market instruments, although the taxation of such issuances would seem likely to be in breach of EU law. There are no broad exemptions for financial intermediaries or market makers. Therefore the effective cumulative rate applicable to some dealings in financial instruments could be greatly in excess of the headline rate of the tax.

Even though it is proposed that the FTT be introduced only in the participating Member States, it can be seen from what is said above that it could make dealings in financial instruments more costly for persons both inside and outside the 11 participating Member States, and the FTT could be payable in relation to the Bonds if the FTT is introduced and the conditions for a charge to arise are satisfied.

The proposed FTT is still under review and it may therefore change significantly before it is implemented. In particular, in April 2013, the UK Government announced that it is to challenge the legality of certain aspects of the proposed FTT. This challenge may lead to changes in the scope of the FTT. Moreover, if a draft Directive is adopted, it will need to be implemented into the respective domestic laws of the participating Member States and the domestic provisions implementing the Directive may differ.

It is currently proposed that the FTT should be introduced in the participating Member States on 1st January, 2014, although this may be subject to change.

Prospective holders of the Bonds are strongly advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Barclays Bank PLC, HSBC Bank plc and The Royal Bank of Scotland plc (the ''**Joint Lead Managers**'') and National Australia Bank Limited (the ''**Co-Manager**'', and together with the Joint Lead Managers, the ''**Managers**'') have, in a subscription agreement dated 2 July 2013 (the ''**Subscription Agreement**'') and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Bonds at their issue price of 97.982 per cent. of their principal amount plus any accrued interest in respect thereof and less total commissions and certain expenses incurred by the Managers in connection with the management of the issue of the Bonds. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and/or its affiliates in the ordinary course of business.

General

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses, distributes or publishes this Prospectus or any other offering material relating to the Bonds. Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or possess, distribute or publish this Prospectus or any other offering material relating to the Bonds, in all cases at their own expense.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

United States of America

The Bonds have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after commencement of the offering, an offer or sale of Bonds within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Bonds has been authorised by a resolution of the Board of Governors of the Issuer dated 19 June 2013 and by a resolution of the Finance Committee of the Issuer dated 17 June 2013.

Listing and Admission to Trading

2. Application has been made to the FCA for the Bonds to be admitted to the Official List of the FCA, and to the London Stock Exchange for such Bonds to be admitted to trading on the Regulated Market of the London Stock Exchange. It is expected that such admission will become effective, and that dealings in the Bonds on the London Stock Exchange will commence, on or about 4 July 2013.

   The Issuer estimates that the total expenses related to the admission to trading will be approximately £8,200.

Governmental, Legal and Arbitration Proceedings

3. There are no, and have not been any, governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

Significant Change/Material Adverse Change

4. Since 31 July 2012 there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer and its consolidated subsidiaries (taken as a whole).

Auditors

5. The consolidated financial statements of the Issuer for the two years ended 31 July 2011 and 31 July 2012 have been audited without qualification by Deloitte LLP 2, Hardman Street, Manchester, M3 3HE. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.

Documents on Display

6. Copies of the following documents may be inspected during normal business hours at the offices of the Issuer for 12 months from the date of this Prospectus:

   (a) the Charter and Statutes of the Issuer;

   (b) the Paying Agency Agreement and the Trust Deed, and

   (c) the audited consolidated financial statements of the Issuer for the years ended 31 July 2011 and 31 July 2012.

Yield

7. On the basis of the issue price of the Bonds of 97.982 per cent. of their principal amount, the gross yield of the Bonds is a semi-annual yield of 4.357 per cent. per annum.

Legend Concerning U.S. Persons

8. The Bonds and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

ISIN and Common Code

9. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0947761556 and the Common Code is 094776155.

   The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg.

FINANCIAL STATEMENTS AND AUDITORS' REPORTS

Contents

INDEPENDENT AUDITOR'S REPORT

to the Board of Governors of The University of Manchester

We have audited the financial statements of The University of Manchester for the year ended 31 July 2011 which comprise the consolidated income and expenditure account, the statement of consolidated historical cost surpluses and deficits, the statement of consolidated total recognised gains and losses, the consolidated and University balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to increase/(decrease) in net funds/(debt) and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the Board of Governors of the University, as a body, in accordance with the charter and statutes of the University. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it 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 board of governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Governors and auditor

As explained more fully in the Governing Body's Responsibilities Statement, the governing body is responsible for the preparation of the financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the University and the group's affairs as at 31 July 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education.

Opinion on other matters prescribed by the Higher Education Funding Council for England Audit Code of Practice

In our opinion:

- in all material respects, income from the funding council, the Training and Development Agency for Schools and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2011 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2011 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, with the funding council, the funding agreement with the Training and Development Agency for Schools and the funding agreement with the Learning and Skills Council.

Matter on which we are required to report by exception

We have nothing to report in respect of the following matter where the Higher Education Funding Council for England Audit Code of Practice requires us to report to you if, in our opinion:

- the Statement of Internal Control (included as part of the Corporate Governance Statement) is inconsistent with our knowledge of the University.

Chris Powell

Christopher Powell
(Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors
Manchester, England

28 November 2011

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2011

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with the Royal Charter, the Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the Financial Memorandum agreed with HEFCE, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies detailed below have been applied consistently throughout the year and the preceding year.

The University's activities, together with the factors likely to affect its future development, performance and position are set out in the Director of Finance's Financial Review of the year which forms part of the Board of Governors' Report. The Board of Governors' Report also describes the financial position of the University, its cash flows, liquidity position and borrowing facilities; the University's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposure to credit risk and liquidity risk.

The Board of Governors has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

BASIS OF ACCOUNTING

Modified historical cost basis

The Financial Statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets and investments.

Basis of consolidation

The consolidated financial statements include the financial statements of the University and subsidiary undertakings for the financial year to 31 July, as disclosed in note 12. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation. The consolidated financial statements include the University's share of the profits and net assets of material associated undertakings over which the University has a significant but not dominant influence.

In accordance with FRS 2, The University of Manchester Students' Union has not been consolidated because the University does not control its activities.

Recognition of income

Recurrent grants from HEFCE are recognised in the year for which they are receivable.

Non-recurrent grants from HEFCE or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised to income in line with depreciation over the life of the asset for which the grant was awarded.

Student fee income is credited to the income and expenditure account over the year in which it is earned. Where the amount of the tuition fee is reduced by a discount for prompt payment, income is shown net of the discount. Bursaries and scholarships are accounted for as expenditure and not deducted from income.

Income from research grants and contracts and other services rendered is included according to the degree of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. Any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met. In many cases recognition is directly related to expenditure incurred for specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments. Other donations are recognised by inclusion as other income in the income and expenditure account.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments after the result for the year has been struck. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

All other income is credited to the income and expenditure account in the year in which it is earned.

Accounting for Charitable donations

(a) Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

(b) Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution [SORP para 144].
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income [SORP para 143, 147].
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective [SORP para 144].

(c) Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the expected useful life of the related asset. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account.

(d) Gifts in kind, including donated tangible fixed assets

Gifts in kind are included as a donation in other income using a reasonable estimate of their gross value or the amount actually realised. Donated tangible fixed assets, with the exception of land, are valued and accounted for as fixed assets under the appropriate fixed asset category. The same amount is credited to deferred capital grants where the accounting treatment is then the same as for grant funded tangible fixed assets. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account. Land donated for use by the University is valued, and the associated credit is taken to the income and expenditure account as a donation in other income.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated. Normal trading transactions, that are not settled by the balance sheet date, are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity, the part relating to the Institution's share is eliminated.

Foreign currency translations

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 year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are taken to the income and expenditure account in the period in which they arise.

Tangible fixed assets

(a) Land and buildings

Land and buildings are stated at cost except where revalued prior to the implementation of FRS 15 "Tangible fixed assets'. Buildings are depreciated over their expected useful lives of 50 years and leasehold buildings over the life of the lease. Land is not depreciated.

Buildings under construction are included at cost, based on the value of architects' certificates and other costs incurred at 31 July. They are not depreciated until they are brought into use.

Major enhancements to existing buildings at a cost of more than £150,000 are capitalised where appropriate and depreciated over their expected useful economic life to the University of 20 years, or less if the leasehold is shorter.

Certain fixed assets were revalued prior to the implementation of FRS 15 'Tangible fixed assets'. The transitional rules set out in FRS 15 have been applied and accordingly the book values at implementation have been retained.

(b) Equipment

Individual items of equipment and groups of functionally dependant items costing more than £25,000 are capitalised at cost. All other items are written off to the income and expenditure account in the year of acquisition. Capitalised equipment is depreciated on a straight line basis over its expected useful economic life as follows:

Boilers, building plant and scientific equipment	- 10 years
Mainframe computers and proprietary software	- 5 years
Computer software	- 8 years
Motor vehicles and other general equipment	- 4 years
Equipment acquired for specific research projects	- project life (generally 3 years)

(c) Grant-funded tangible fixed assets

Where tangible fixed assets within the categories (a) and (b) above are purchased with the aid of specific grants they are capitalised and depreciated in line with the relevant accounting policy. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful life of the related asset.

(d) Impairment

A review for impairment of a tangible fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the tangible fixed asset may not be recoverable.

(e) Maintenance

The full costs of repairs and routine corrective maintenance on tangible fixed assets are charged against revenue in the year in which they are incurred.

(f) Assets held for resale

Tangible fixed assets surplus to requirements are held at the lower of cost and net realisable value.

(g) Heritage assets

Works of art and other valuable artefacts (heritage assets) acquired since 1 August 2007 and valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable.

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

Where heritage assets have not been capitalised, details of the nature and age of these assets are disclosed.

Leases

Finance leases which transfer substantially all the benefits and risks of ownership of an asset to the University, are treated as if the asset had been purchased outright. The fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. Depreciation on leased assets is charged to income and expenditure over the shorter of lease term or the useful economic life of an equivalent owned asset. The excess of lease payments over recorded lease obligations is treated as a finance charge and amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure on a straight line basis over the relevant lease term.

Goodwill and intangible assets

Goodwill arising on consolidation is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill and intangible assets are amortised over their estimated economic life up to a maximum of 20 years. Impairment tests are carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment. Where there is impairment in the carrying value of goodwill, the loss is incurred in the results for the period.

Positive purchased goodwill is capitalised and classified as an asset on the balance sheet.

Website development costs

Design and content costs relating to the development of websites to support specific teaching or training courses, or for specific research projects, as well as design and content costs for websites that are for the general use of the institution and its staff are written off as incurred to the income and expenditure account.

Investments

(a) Fixed asset investments

Listed investments and properties held as fixed asset investments are stated at market value. Investments in the UMIP Premier Fund are valued using accepted methodologies for venture capital investments. Investments held on a listed market are valued at their estimated realisable value. Investments in companies set up so as to exploit university intellectual property are carried at the lower of cost and net realisable value. Other investments are stated at the lower of cost and market value.

Investment properties are revalued annually to open market value. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the income and expenditure account. Depreciation is not provided in respect of freehold investment properties, or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years. The Board of Governors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 Accounting for investment properties. The financial effect of the departure from the statutory accounting rules cannot reasonably be quantified due to insufficient information on original cost.

Appreciation/depreciation in the market value of investments within fixed assets is added to or subtracted from the revaluation reserve, via the statement of total recognised gains and losses. A diminution in value is charged to the income and expenditure account, to the extent that it is not covered by a previous revaluation surplus. On the disposal of fixed asset investments, any accumulated surplus brought forward is transferred from the revaluation reserve to the income and expenditure account as a reserve movement.

Certain fixed asset investments are held within investment portfolios managed by independent fund managers. The portfolios are revalued at the balance sheet date through the revaluation reserve. Transactions within the portfolios are not accounted for separately. Realised gains and losses are recognised only on withdrawal of funds from the portfolios.

(b) Subsidiary and associated undertakings

In the consolidated financial statements, investments in associated undertakings are stated at the University's share of their net assets. Investments in associated and subsidiary undertakings are stated at cost less provision for impairment in the University's balance sheet.

(c) Current asset investments

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

(d) Endowment assets

Endowment asset investments are carried at market value. Appreciation/depreciation in the market value of endowment assets and any gain or loss on disposal is added to or subtracted from the endowment funds concerned and is not brought into the income and expenditure account, but reported through the statement of total recognised gains and losses.

Certain endowment asset investments are held within investment portfolios managed by independent fund managers. Transactions within the portfolios are not accounted for separately. Realised gains and losses are only added to or subtracted from the endowment funds on withdrawal of funds from the portfolios.

Stocks

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

Pension schemes

The four principal schemes for the University's staff are the Universities' Superannuation Scheme ('USS'), the NHS Pension scheme ('NHSPS'), the University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). All four schemes are contracted out of the State Second Pension ('S2P'). In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme ('MILGPS'). All five schemes are defined benefit schemes which are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. With the exception of NHSPS, each fund has a full valuation every three years carried out by professionally qualified independent actuaries.

Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of FRS 17.

Of the five schemes, USS and NHSPS are both multi-employer schemes. Because of the mutual nature of the schemes, the schemes' assets are not hypothecated to individual institutions and scheme-wide contribution rates are 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 two schemes on a consistent and reasonable basis. Therefore, as required by FRS 17, these schemes are accounted for as if they are defined contribution schemes. 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.

For the remaining three schemes, assets are included at market value, measured on a bid price basis where applicable, and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on AA rated corporate bonds. The post-retirement benefit surplus or deficit is included on the University's balance sheet. Surpluses are included only to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the income and expenditure account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised in the statement of total recognised gains and losses.

Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the entity an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Financial instruments

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available as cash to the University within 24 hours without penalty. No other investments, however liquid, are included as cash.

Liquid resources include term deposits, government securities, loan stock, and other instruments held as part of the University's treasury management activities. They exclude any assets held within fixed asset and endowment asset investments.

Provisions and contingent liabilities

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

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; and an inability to measure the economic outflow.

Agency arrangements

Where the University receives and disburses funds as paying agent on behalf of a funding body for which the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction, then the related income and expenditure is excluded from the consolidated income and expenditure account. Details are disclosed within note 37 'Amounts disbursed as agent' and include Access Funds and Training Bursaries.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 July 2011

	Notes	2011 £000	2010 £000
Income			
Funding body grants	1	203,221	209,018
Tuition fees and education contracts	2	247,275	227,749
Research grants and contracts	3	196,242	194,603
Other income	4	147,004	145,147
Endowment and investment income	5	14,842	11,380
Total income		808,584	787,897
Expenditure			
Staff costs	6	420,232	434,826
Other operating expenses	7(b)	280,107	276,906
Depreciation	11	43,842	40,827
Interest and other finance costs	8	10,326	11,989
Total expenditure		754,507	764,548
Surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation		54,077	23,349
Share of operating surpluses in associates	12(b)	77	11
Taxation	9	(110)	(100)
Surplus on continuing operations after depreciation of fixed assets at cost/valuation and taxation		54,044	23,260
Minority interest in subsidiary undertakings' results for the year	25	(64)	253
Surplus on continuing operations after depreciation of fixed assets at cost/valuation, taxation and minority interest		53,980	23,513
Surplus for the year transferred from/(to) accumulated income in endowment funds	22	845	(296)
Surplus for the year retained within general reserves	23	54,825	23,217

The surplus for the year retained within general reserves is attributable to the following:

	2011 £000	2010 £000
University	56,653	21,943
Group undertakings	(1,828)	1,274
	54,825	23,217

STATEMENT OF CONSOLIDATED HISTORICAL COST SURPLUSES AND DEFICITS

for the year ended 31 July 2011

	Notes	2011 £000	2010 £000
Surplus on continuing operations before taxation		54,090	23,613
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	24	26	229
Historical cost surplus for the year before taxation		54,116	23,842
Historical cost surplus for the year after taxation		54,006	23,742

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 July 2011

	Notes	2011 £000	2010 £000
Surplus on continuing operations after depreciation of assets at cost/valuation, disposal of assets and taxation		54,825	23,217
Unrealised surplus/(deficit) on revaluation of investment properties	24	317	(663)
Unrealised surplus on revaluation of fixed asset investments	24	1,351	877
Net endowment (expenditure)/income retained in the year	22	(956)	282
New endowments and dividends reinvested	22	2,612	3,117
Net appreciation of endowment assets including reinvested profits on sales	22	12,680	13,642
Actuarial (loss)/gain recognised in respect of pension schemes	32(a)	(26,472)	10,413
Total recognised surplus relating to the year		44,357	50,885
Reconciliation			
Opening reserves and endowments		256,219	205,334
Total recognised gains for the year		44,357	50,885
Closing reserves and endowments		300,576	256,219

BALANCE SHEETS

as at 31 July 2011

		Consolidated		University	
		2011	2010	2011	2010
	Notes	£000	£000	£000	£000
Fixed assets					
Goodwill	10	-	-	-	-
Tangible assets	11	687,813	671,963	654,273	637,385
Investments	12	122,149	90,666	123,041	92,305
Total fixed assets		809,962	762,629	777,314	729,690
Endowment assets	13	158,704	144,368	158,704	144,368
Current assets					
Stock		1,515	1,509	1,447	1,435
Debtors: amounts falling due within one year	14	92,183	88,156	93,319	87,627
Debtors: amounts falling due after more than one year	15	353	389	11,882	10,602
Investments	16	172,045	168,301	172,045	168,301
Cash at bank and in hand		18,989	18,639	3,984	5,738
Total current assets		285,085	276,994	282,677	273,703
Creditors: amounts falling due within one year	17	(246,832)	(229,967)	(235,767)	(219,617)
NET CURRENT ASSETS		38,253	47,027	46,910	54,086
TOTAL ASSETS LESS CURRENT LIABILITIES		1,006,919	954,024	982,928	928,144
Creditors: amounts falling due after more than one year	18	(182,809)	(190,119)	(181,103)	(188,413)
Provisions for liabilities	20	(5,461)	(11,446)	(4,681)	(10,776)
NET ASSETS EXCLUDING PENSION LIABILITIES		818,649	752,459	797,144	728,955
Net pension liabilities	32(a)	(86,991)	(75,337)	(86,991)	(75,337)
NET ASSETS INCLUDING PENSION LIABILITIES		731,658	677,122	710,153	653,618
Deferred capital grants	21	431,014	420,893	411,692	401,018
Endowment funds					
Expendable endowments	22	26,175	23,451	26,175	23,451
Permanent endowments	22	132,529	120,917	132,529	120,917
Total endowment funds		158,704	144,368	158,704	144,368
Reserves					
Income and expenditure account excluding pension reserve	23	211,875	171,842	214,020	172,159
Pension reserve	23	(86,991)	(75,337)	(86,991)	(75,337)
Income and expenditure account including pension reserve		124,884	96,505	127,029	96,822
Revaluation reserve	24	16,988	15,346	12,728	11,410
Total reserves		141,872	111,851	139,757	108,232
Minority interests	25	68	10	-	-
TOTAL FUNDS		731,658	677,122	710,153	653,618

The Financial Statements on pages 13 to 52 were approved by the Board of Governors of the University of Manchester on 23 November 2011 and were signed on its behalf by:

Mr Anil Ruia
Chair of the Board of Governors and Pro-Chancellor

Professor Dame Nancy Rothwell
President and Vice-Chancellor

Mr Stephen Mole
Director of Finance

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 July 2011

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	26	66,411	61,435
Returns on investments and servicing of finance	27	1,896	699
Taxation	9	-	-
Capital expenditure and financial investment	28	(57,424)	(37,951)
Cash inflow before management of liquid resources		10,883	24,183
Management of liquid resources	29	(35,058)	7,844
Financing	30	(6,278)	(6,033)
(Decrease)/increase in cash in the year		(30,453)	25,994

RECONCILIATION OF CONSOLIDATED NET CASH FLOW TO INCREASE/(DECREASE) IN NET FUNDS/(DEBT)

for the year ended 31 July 2011

	Note	2011 £000	2010 £000
(Decrease)/increase in cash in the year	31	(30,453)	25,994
Cash outflow/(inflow) from liquid resources	31	35,058	(7,844)
Change in debt resulting from cash flows	31	6,278	6,033
Reclassification of debt to long term creditors	31	-	704
Movement in net funds in year		10,883	24,887
Net funds/(debt) at beginning of year	31	5,650	(19,237)
Net funds at end of year	31	16,533	5,650

NOTES TO THE FINANCIAL STATEMENTS

1 Funding body grants

	Consolidated 2011 £000	Consolidated 2010 £000
Recurrent grants		
Higher Education Funding Council - Teaching	97,054	102,217
Higher Education Funding Council - Research	83,161	83,000
Higher Education Funding Council - Other	7,572	8,228
Training and Development Agency	2,700	2,883
Specific grants		
Special initiatives	3,406	5,029
Deferred capital grants released in year:		
Buildings	7,738	6,072
Equipment	1,590	1,589
	203,221	209,018

2 Tuition fees and education contracts

	Consolidated 2011 £000	Consolidated 2010 £000
Fees in respect of:		
Full-time home and EU students	84,226	80,265
Full-time international students	107,805	93,371
Part-time students	21,432	19,250
Short course fees	15,001	18,209
Other teaching contract courses - core activities	17,914	15,635
Research training support grants	897	1,019
	247,275	227,749

3 Research grants and contracts

	Consolidated 2011 £000	Consolidated 2010 £000
Research Councils	76,140	75,574
UK based charities	48,937	43,832
UK central government, hospitals and health authorities	32,628	39,494
UK industry and commerce	14,383	14,133
Overseas	23,386	20,469
Other sources	768	1,101
	196,242	194,603

Research grants and contracts income includes the release of deferred capital grants of £9.6m for the year ended 31 July 2011 (2010: £7.2m).

4 Other income

	Consolidated 2011 £000	Consolidated 2010 £000
Residences, catering and conferences	47,052	46,163
Premises	2,962	2,634
Academic departments	35,753	31,477
Academic services	2,101	2,529
Continuing education and training	77	335
Administration and central services	4,877	2,384
Services rendered	4,098	4,314
Health authorities	23,505	28,167
Other general income - University only	8,951	7,764
Use of sports facilities	1,162	917
Other general income - subsidiary undertakings	7,906	6,373
Manchester University Press	1,897	1,770
Releases of deferred capital grants from non-funding body sources	6,663	10,320
	147,004	145,147

5 Endowment and investment income

	Consolidated 2011 £000	2010 £000
Income from expendable endowments (note 22)	397	507
Income from permanent endowments (note 22)	2,704	3,102
Income from donations	4,463	5,274
Income from short term investments	3,713	1,997
Dividends from general fund investments	415	454
Surplus on disposal of fixed asset investments	170	-
Net return on pension schemes (note 32a)	2,450	-
Other interest receivable	530	46
	14,842	11,380

6 Staff costs

	Consolidated 2011 £000	2010 £000
Wages and salaries	325,039	332,153
Social security costs	27,229	28,434
Pension costs (note 32a)	55,776	65,010
Early retirement and voluntary severance scheme costs (note 20)	12,188	9,229
	420,232	434,826

Clinical Excellence Awards paid to NHS Consultants employed on joint contracts between the NHS and the University are not borne by the University and are excluded from the above analysis. These amount to £4.7m for the year ended 31 July 2011 (2010: £3.7m).

As set out in note 32, in June 2009 the University introduced a salary sacrifice arrangement, known as PensionChoice, for University employees who are members of the USS and UMSS pension schemes. Wages and salaries for USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff and the pension costs reflect the increased employer element of the USS and UMSS pension contributions.

There are two early retirement and voluntary severance schemes included in the above figures. The first came into effect from 30 April 2010 and concluded 31 January 2011. The second came into effect from 1 May 2011 and remained open at 31 July 2011.

Staff numbers	Consolidated 2011 Numbers	2010 Numbers
Academic - teaching and research	1,824	1,872
Academic - teaching only	437	436
Research	1,725	1,748
Administrative and management	1,233	1,265
Clerical and secretarial	1,395	1,588
Academic support	1,466	1,331
Craft / manual	869	903
Other	-	253
Total number of staff	8,949	9,396

The staff numbers disclosed above relate to full-time equivalents.

6 Staff costs (continued)

Remuneration of higher paid staff (other than the President and Vice-Chancellor), excluding employer's pension contributions, was within the ranges set out below. Payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment are included within remuneration.

	Consolidated 2011 Number of Employees	Consolidated 2010 Number of Employees
£100,001 - £110,000	32	17
£110,001 - £120,000	9	16
£120,001 - £130,000	9	7
£130,001 - £140,000	8	6
£140,001 - £150,000	1	1
£150,001 - £160,000	6	3
£160,001 - £170,000	2	7
£170,001 - £180,000	4	1
£180,001 - £190,000	1	1
£200,001 - £210,000	3	2
£280,001 - £290,000	2	1
	77	62

Emoluments of the President and Vice-Chancellor	Consolidated 2011 £000	Consolidated 2010 £000
Salary	245	279
Benefits in kind	3	14
	248	293
Pension contributions	39	39

The Chair of the Board of Governors and Pro-Chancellor has waived his right to fees in respect of the year.
Two Presidents served during the prior year ended 31 July 2010. The amount disclosed is the aggregate of their emoluments.
Termination payments totalling £0.1m were paid to individuals whose annual remuneration exceeded £100,000.

7(a) Analysis of expenditure by activity

Consolidated

	Staff Costs £000	Other operating expenses £000	Depreciation £000	Interest payable £000	2011 £000	2010 £000
Academic departments	236,512	87,626	4,897	-	329,035	328,474
Academic services	25,023	18,524	964	-	44,511	47,093
Research grants and contracts	84,802	57,671	9,169	-	151,642	149,591
Residences, catering and conferences	11,183	22,942	37	2,168	36,330	37,508
Premises	21,216	36,438	27,562	8,046	93,262	92,879
Administration and central services	4,586	9,176	25	-	13,787	30,055
Staff and student facilities	9,778	7,168	-	-	16,946	17,761
General educational expenditure	4,389	22,646	3	-	27,038	24,545
Other services rendered	3,017	4,057	4	-	7,078	8,338
Early retirement and voluntary severance scheme costs	12,188	-	-	-	12,188	9,229
Total University	**412,694**	**266,248**	**42,661**	**10,214**	731,817	745,473
Subsidiary undertakings	7,538	13,859	1,181	112	22,690	19,075
Total	**420,232**	**280,107**	**43,842**	**10,326**	754,507	764,548

7(b) Analysis of other operating expenses

Consolidated

	2011 £000	2010 £000
Equipment purchases and maintenance	29,411	31,407
Estate repairs and maintenance	24,689	21,315
Consumables and laboratory expenditure	31,600	24,152
Catering supplies	4,754	5,349
Library and publications	8,147	8,162
Professional and other fees	40,295	42,734
Travel and subsistence	15,006	14,948
Printing, stationery and office expenses	12,304	12,336
Fellowships, scholarships and prizes	55,522	55,589
Recruitment, training and welfare	4,359	3,666
Heat, light, water and power	14,567	17,884
Rent, rates and insurance	13,852	14,337
Grants to student union	1,413	1,413
External auditor's remuneration in respect of audit services	228	367
External auditor's remuneration in respect of non audit services	471	490
Other expenditure	9,675	11,859
Subsidiary undertakings other operating expenditure	13,814	10,898
	280,107	276,906

The analysis of auditor's remuneration is as follows:	2011 £000	2010 £000
Fees payable to the University's auditor for the audit of the University's annual accounts	195	317
Fees payable to the University's auditor and its associates for other services to the Group		
The audit of the University's subsidiaries pursuant to legislation	33	50
Total audit fees	228	367
Other services pursuant to legislation	19	-
Tax services	246	210
Consultancy services	206	280
Total non-audit fees	471	490

There are also £633k (2010: £343k) of fees payable to the University's auditor included within the tangible fixed asset additions, for property consultancy services received. The disclosures above are for the Group. The University is not required, in its individual financial statements, to disclose separately information about fees for non-audit services provided to the University because the consolidated financial statements are required to disclose such fees on a consolidated basis.

8 Interest and other finance costs

	Consolidated 2011 £000	2010 £000
Bank and other loans wholly repayable within five years	40	10
Bank and other loans not wholly or partly repayable within five years	10,174	10,518
Other interest payable	112	153
Pension finance cost (note 32a)	-	1,308
	10,326	11,989

9 Taxation

	Consolidated 2011 £000	2010 £000
Current Tax		
UK corporation tax of 27.33% (2010: 28%) on surplus for the year	-	-
Deferred tax		
Origination and reversal of timing differences	110	100
Total tax charge	110	100
Tax paid in year	-	-

10 Goodwill

	Consolidated £000
Cost	
At 1 August 2010 and at 31 July 2011	94
Amortisation	
At 1 August 2010 and at 31 July 2011	94
Net book value	
At 1 August 2010 and at 31 July 2011	-

There are no other intangible assets within the University.

11 Tangible fixed assets

(a) Consolidated	Freehold land and buildings £000	Lease premium £000	Assets under construction £000	Fixtures, fittings, tools and equipment £000	Heritage assets £000	2011 Total £000
Cost/valuation						
At 1 August 2010	749,844	-	17,428	196,977	1,463	965,712
Additions at cost	8,863	-	44,381	8,653	214	62,111
Transfers between categories	10,564	-	(12,259)	1,695	-	-
Disposals	(5,614)	-	-	(8,434)	-	(14,048)
At 31 July 2011	763,657	-	49,550	198,891	1,677	1,013,775
Depreciation						
At 1 August 2010	145,062	-	-	148,687	-	293,749
Charge for the year	22,860	-	-	20,982	-	43,842
Disposals	(3,748)	-	-	(7,881)	-	(11,629)
At 31 July 2011	164,174	-	-	161,788	-	325,962
Net book value						
At 31 July 2011	**599,483**	-	**49,550**	**37,103**	**1,677**	687,813
At 1 August 2010	604,782	-	17,428	48,290	1,463	671,963

(b) University	Freehold land and buildings £000	Lease premium £000	Assets under construction £000	Fixtures, fittings, tools and equipment £000	Heritage assets £000	2011 Total £000
Cost/valuation						
At 1 August 2010	706,379	5,400	18,158	193,983	1,463	925,383
Additions at cost	8,863	-	44,381	7,991	214	61,449
Transfers between categories	10,564	-	(12,259)	1,695	-	-
Disposals	(5,614)	-	-	(7,684)	-	(13,298)
At 31 July 2011	720,192	5,400	50,280	195,985	1,677	973,534
Depreciation						
At 1 August 2010	139,874	888	-	147,236	-	287,998
Charge for the year	22,091	74	-	20,496	-	42,661
Disposals	(3,748)	-	-	(7,650)	-	(11,398)
At 31 July 2011	158,217	962	-	160,082	-	319,261
Net book value						
At 31 July 2011	**561,975**	**4,438**	**50,280**	**35,903**	**1,677**	654,273
At 1 August 2010	566,505	4,512	18,158	46,747	1,463	637,385

The transitional rules set out in FRS 15 'Tangible Fixed Assets' have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained subject to the requirement to test assets for impairment.

Included in Freehold land and buildings are buildings which were revalued to £13.3m, with accumulated depreciation of £7.0m (2010: £6.7m). These buildings have a net book value of £6.3m at 31 July 2011. The historical cost of these buildings is £11.8m and accumulated depreciation is £6.4m, giving a net book value on a historical cost basis of £5.5m (2010: £5.6m).

Land and buildings with a net book value of £10.1m (2010: £16.0m) are the subject of security granted in respect of certain bank loans as disclosed in note 19 to the financial statements.

At 31 July 2011, freehold land and buildings included £4.5m (2010: £4.5m) in respect of freehold land which is not depreciated.

11 Tangible fixed assets (continued)

Heritage assets

The University holds and maintains certain heritage assets, such as historic buildings and collections of art and other valuable artefacts of historical, scientific and artistic importance. The University conserves these assets and augments the collections where appropriate in order to enable use of the assets for teaching and research and access to the assets for engagement with members of the public. Further information on the University's policies regarding conservation, preservation, management and disposal of heritage assets can be found on the University's website www.manchester.ac.uk/aboutus/structure/culturalassets.

Heritage assets acquired since 1 August 2007 and valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. These comprise in the main works of art purchased by the Whitworth Art Gallery and books donated to the John Rylands University Library. Capitalised donated heritage assets have been valued internally on acquisition on the basis of knowledge and experience of similar assets. Heritage assets held at cost or valuation are not depreciated due to their indefinite life and high residual value. Amounts for the current year and previous three years are as follows:

	2011 £000	2010 £000	2009 £000	2008 £000
Cost or valuation at 1 August	1,463	809	409	-
Acquisitions purchased with donations	214	29	-	409
Value of acqusitions by donation	-	625	400	-
Total acquisitions capitalised	214	654	400	409
Cost or valuation at 31 July	1,677	1,463	809	409

The University also holds heritage assets that are not capitalised as, due to their unique nature, reliable information on cost or valuation is not readily available. This is owing to the lack of information on original purchase cost and the fact that these assets are not readily realisable. All costs incurred in relation to preservation and conservation are expensed as incurred. Key heritage assets held by the University fall into the categories detailed below. Their total value for insurance purposes is £1,324m (2010: £1,316m).

Whitworth Art Gallery, Manchester Museum and Manchester Medical Museum

Whitworth Art Gallery houses and displays collections including flat textiles ranging from 3rd Century AD to the present day; 17th century to modern day wallpapers; selections of prints, pre-1880 watercolours and modern art and sculpture collections. The Manchester Museum houses and displays various artefacts and fossils, in particular it has a substantial collection of ancient Egyptian artefacts as part of its archaeology collection. It also houses and displays collections in the fields of botany, anthropology and palaeontology as well as collections of rocks and minerals for example. The Manchester Medical Museum houses and displays past medical and nursing equipment, instruments and apparatus and some archival material.

Historic buildings: John Rylands Library Deansgate and Tabley House

John Rylands Library at Deansgate, Manchester is a Grade 1 listed building from the late 1800s styled in Victorian Gothic architecture. The building also houses and displays a rare collection of ancient books and manuscripts, including the oldest known piece of the New Testament and medieval manuscripts. The University also owns Tabley House, an 18th century Palladian mansion in Cheshire. The house is let on a long-lease of 125 years to a third party. Part of the house is open to the public and houses and displays various painting and furniture collections from that era.

Jodrell Bank

The University owns the 76 metre Lovell Telescope sited at Jodrell Bank in Cheshire. It was built in 1957, is a Grade 1 listed building and remains one of the most powerful radio telescopes in the world.

12 Investments within fixed assets

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Movement in the year				
Balance at 1 August	90,666	33,159	92,305	36,771
Additions	31,645	57,553	30,403	56,372
Disposals and investments written off	(500)	(76)	(1,055)	(442)
Amounts provided on unquoted shares during the year	(1,217)	(184)	(398)	(1,582)
Release of provisions on investments written off	500	-	1,055	-
Transfer investment properties to current assets	(613)	-	(613)	-
Revaluation/(devaluation) of investment properties	317	(663)	317	(663)
Net appreciation of other investments within fixed assets including reinvested profits on sales	1,351	877	1,027	1,849
Balance at 31 July	122,149	90,666	123,041	92,305
Analysis of closing balance				
Other fixed interest securities	1,864	1,731	1,864	1,731
UK industrial and commercial securities	7,153	6,185	7,153	6,185
Overseas industrial and commercial securities	5,155	4,216	5,155	4,216
Property funds	1,396	1,274	1,396	1,274
Investment properties	10,386	10,682	10,386	10,682
Cash instruments	1,969	2,837	1,969	2,837
Cash held with investment managers	54	163	54	163
Long-term cash deposits	85,000	55,000	85,000	55,000
Bank and building society deposits	-	158	-	158
Interests in subsidiary undertakings (note 12a)	-	-	6,170	6,165
Interests in associated undertakings (note 12b)	6,784	6,383	70	70
Loan to Sugden Sports Trust	-	-	3,705	3,705
Other investments	2,388	2,037	119	119
Total investments within fixed assets	122,149	90,666	123,041	92,305
Investments at cost	105,191	74,659	114,522	85,174

The investment properties totalling £10.4m (2010: £10.7m) were revalued on an open market basis as at 31 July 2008 by an external valuer, GVA Grimley Ltd which is registered with the Royal Institution of Chartered Surveyors. The valuation was performed in accordance with the RICS Valuation Standards (6th Edition). The valuation has been updated to 31 July 2011 by senior management at The University of Manchester and the value was revised upwards to £11.0m as a consequence. Part of a property valued at £0.6m was then transferred to current assets held for sale before year end, resulting in the current valuation of investment properties of £10.4m.

12 Investments within fixed assets (continued)

(a) Investments in subsidiary undertakings

At year end, investments in subsidiary undertakings after provisions comprise:

Directly owned / Indirectly owned	Group Holding %	University 2011 £	University 2010 £	Description
Manchester Innovation Holdings Limited	100	4,143,092	4,143,092	Holding company
Manchester Innovation Limited	100	-	-	Construction of a biotech incubator building
Manchester Technology Developments Limited	100	-	-	Dissolved 23 August 2011
Control Technology Centre Limited	100	-	-	Dissolved 7 December 2010
The University of Manchester Innovation Centre Limited *(formerly Manchester Incubator Company Limited)*	100	-	-	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	1,836,153	1,836,153	Holding company
UVL Investments Limited	100	-	-	Holding of investments in spin off companies
Fusion (LP One) Limited	100	-	-	Not trading
Fusion (LP Two) Limited	100	-	-	Not trading
Fusion (LP Three) Limited	100	-	-	Not trading
Fusion (LP Four) Limited	100	-	-	Not trading
UVL Management Services Limited	100	-	-	Dissolved 1 June 2010
The University of Manchester Venture Fund Management Limited	100	-	-	Dissolved 15 June 2010
UMIST Ventures Fund (General Partner) Limited	100	-	-	Dissolved 15 June 2010
UMIST Ventures Fund (Carried Interest Partner) Limited	100	-	-	Dissolved 15 June 2010
Manchester Informatics Limited	100	100	100	Ceased trading 31 December 2010
Visual Automation Limited	100	2	2	Provision of consultancy services
Manchester Technology Fund Limited	100	-	-	Dissolved 23 August 2011
The University of Manchester I3 Limited *(formerly The University of Manchester Intellectual Property Limited)*	100	50,000	50,000	Management of intellectual property
UMIP UPF Limited	100	10,000	10,000	Investment in the UMIP Premier Fund
The University of Manchester Conferences Limited	100	2	2	Management of conference facilities
Systemcost Trading Limited	100	185	185	Design and construction company
The University of Manchester Car Parks Limited	100	96	96	Maintenance and running of car park facilities
The University of Manchester Licensing Company Limited	100	1,000	1,000	Dormant
The University of Manchester Incubator Company Limited	100	1	1	Dissolved 23 August 2011
MBS Incubator Limited	56	-	-	Dissolved 1 November 2011
MBSI Portfolio Limited	100	-	-	Dissolved 8 November 2011
Dryden Street Nursery Limited (CLG)	50	-	-	Management of Dryden Street Nursery
Dryden Street Partnership	100	-	-	Dissolved 31 July 2010
Sugden Sports Trust	50	-	-	Ownership of sports centre
UMIST Educational Trust	100	-	-	Rental of buildings
Vumpine Limited	50	50	50	Dormant
UMSS Limited	100	2	2	To undertake the duty of trustee of UMSS
MBS Worldwide Limited	100	124,288	124,288	Provision of distance learning
Manchester Business School (Shanghai) Limited	100	-	-	Consultancy and management services
Manchester Business School America Inc	100	-	-	Provision of distance learning
Manchester Business School PTE Ltd	100	-	-	Dormant
The University of Manchester Ophthalmic Services Limited	100	100	100	Ceased trading 30 September 2011
UoM Singapore PTE Ltd	100	5,260	-	Teaching of Nursing degrees in Singapore
The University of Manchester (CLG)	100	-	-	Dormant
Owens College (CLG)	100	-	-	Dormant
Owens College Manchester (CLG)	100	-	-	Dormant
Manchester University (CLG)	100	-	-	Dormant
UMIST (CLG)	100	-	-	Dormant
		6,170,331	6,165,071	

Certain subsidiary undertakings above are shown as having nil cost of investment. In each case these are either indirectly owned as indicated, are limited by guarantee ('CLG') or are Trusts.

Where applicable, the 'Group holding' is equivalent to the proportion of voting rights and shares held.

All the subsidiary undertakings are incorporated in England and Wales, with the exception of UoM Singapore PTE Ltd and the subsidiaries of MBS Worldwide Limited.

All subsidiary undertakings prepare statutory accounts to the same year end date as the University with the exception of Sugden Sports Trust and UMIST Educational Trust, which have a financial year end of 31 March.

12 Investments within fixed assets (continued)

(b) Investments in associated undertakings

Movement in the year	Consolidated 2011 £000	Consolidated 2010 £000
Balance at 1 August	6,383	7,344
Share of profits	77	11
Share of property revaluations/(devaluations)	324	(972)
Balance at 31 July	6,784	6,383

The University and Group had the following associated undertakings as at 31 July 2011:

Name of associate	Class of share capital held	Proportion held by the University and Group	Share of net assets/ (liabilities) 2011 £000	Share of net assets/ (liabilities) 2010 £000	Nature of business
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	28%	3,663	3,219	Ownership and management of buildings housing technology based businesses
One Central Park Limited Financial year end 31 July	£1 ordinary	20%	3,164	3,207	Ownership and management of buildings to operate education and incubation services
The Corridor, Manchester Financial year end 31 March	CLG	33%	(43)	(43)	To maximise the economic potential of the City South area of Manchester
			6,784	6,383	

The associated companies are accounted for using the equity method. All associated companies were incorporated in the United Kingdom.

13 Endowment assets

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Movement in the year				
Balance at 1 August	144,368	127,327	144,368	127,327
New endowments including unreleased income earned on capital	1,656	3,399	1,656	3,399
Net appreciation including reinvested profits on sales	12,680	13,642	12,680	13,642
Balance at 31 July	158,704	144,368	158,704	144,368
Analysis of closing balance				
Other fixed interest securities	15,984	16,037	15,984	16,037
UK industrial and commercial securities	61,558	55,832	61,558	55,832
Overseas industrial and commercial securities	44,276	39,170	44,276	39,170
Property	11,865	11,707	11,865	11,707
Hedge funds	140	134	140	134
Cash instruments	9,817	6,083	9,817	6,083
Cash held with investment managers	559	1,569	559	1,569
Bank and building society deposits and uninvested bank balances	14,505	13,836	14,505	13,836
Total endowment assets	158,704	144,368	158,704	144,368
Endowment assets at cost	110,207	108,551	110,207	108,551

14 Debtors: amounts falling due within one year

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Trade debtors	27,549	22,835	25,506	19,549
Accrued income on research grants and contracts	29,459	35,790	29,459	35,790
Prepayments and accrued income	32,631	29,462	32,697	30,512
Current assets held for sale	2,480	-	2,480	-
Amounts due from subsidiary companies	-	-	3,177	1,776
Amounts due from associate companies and spin outs	64	69	-	-
Balance at 31 July	92,183	88,156	93,319	87,627

Current assets held for sale represents the book value of a property which was previously held partly in Tangible fixed assets and partly in Fixed asset investments. The sale has been agreed and contracts exchanged soon after the year end.

15 Debtors: amounts falling due after more than one year

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Loans to University of Manchester Students' Union	67	41	67	41
Amounts due from subsidiary companies	-	-	11,815	10,561
Amounts due from associate companies and spin outs	286	348	-	-
Balance at 31 July	353	389	11,882	10,602

16 Investments within current assets

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Bank deposits repayable after due notice	155,495	120,437	155,495	120,437
Bank deposits repayable on demand	16,550	47,864	16,550	47,864
Balance at 31 July	172,045	168,301	172,045	168,301

Deposits with more than 24 hours maturity at the balance sheet date are held with banks and building societies, all of which operate in the London market and are licensed by the FSA. The interest rates for these deposits are fixed for the duration of the deposit at the time of placement.

At 31 July 2011 the weighted average interest rate of these fixed rate deposits was 1.2% (2010: 0.85%) per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 76 days (2010: 76 days).

17 Creditors: amounts falling due within one year

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Bank loans (note 19)	6,310	6,278	6,310	6,278
Loans other than bank loans (note 19)	1,000	-	1,000	-
Trade creditors	26,337	17,831	24,906	16,713
Social security and other taxation payable	19,899	18,995	19,229	18,844
Amounts owed to group undertakings	-	-	84	274
Other creditors	21,038	27,568	20,538	27,336
Deferred income on research grants and contracts	69,509	58,935	69,509	58,753
Accruals and deferred income	102,739	100,360	94,191	91,419
Balance at 31 July	246,832	229,967	235,767	219,617

18 Creditors: amounts due after more than one year

	Consolidated		University	
	2011	2010	2011	2010
	£000	£000	£000	£000
Bank loans (note 19)	70,990	77,300	70,990	77,300
Loans other than bank loans (note 19)	110,706	111,706	109,000	110,000
Other creditors due after more than one year:				
After five years	1,113	1,113	1,113	1,113
Balance at 31 July	182,809	190,119	181,103	188,413

19 Borrowings

	Consolidated		University	
	2011	2010	2011	2010
Bank and other loans	£000	£000	£000	£000
Bank and other loans are repayable as follows:				
In one year or less	7,310	6,278	7,310	6,278
Between one and two years	10,580	6,310	10,580	6,310
Between two and five years	25,244	30,174	25,244	30,174
In five years or more	145,872	152,522	144,166	150,816
	189,006	195,284	187,300	193,578
Included within creditors: amounts falling due within one year	(7,310)	(6,278)	(7,310)	(6,278)
	181,696	189,006	179,990	187,300

Secured bank loans

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2011 and 2021 totalling £21.1m (2010: £22.2m) are secured on various student residences.

Bank loans with an interest rate of 8.4%, repayable by instalments falling due between 2011 and 2017 totalling £1.1m (2010: £1.3m) are secured on Ronson Hall.

Bank loans with an interest rate of LIBOR plus spread, repayable by instalments falling due between 2011 and 2014 totalling £3.0m (2010: £3.9m) are secured by an all monies guarantee (see note 35).

Unsecured bank and other loans

Bank loans with an interest rate of 6.1%, repayable by instalments falling due between 2011 and 2026 totalling £16.2m (2010: £16.8m).

Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2011 and 2019 totalling £17.7m (2010: £19.8m.

Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2011 and 2022 totalling £18.1m (2010: £19.4m).

Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £100.0m (2010: £100.0m).

Other loans which are interest free and repayable by instalments falling due between 2012 and 2014 totalling £10.0m (2010: £10.0m).

Other loans with an interest rate of 6.5%, repayable by one repayment falling due in 2018 totalling £1.7m (2010: £1.7m).

20 Provisions for liabilities

(a) Consolidated

	Early retirement / voluntary severance £000	Dilapidation provision £000	Deferred tax £000	2011 Total £000
Balance at beginning of year	9,229	1,547	670	11,446
Utilised during the year	(16,736)	(300)	-	(17,036)
Charged/(credited) to income and expenditure account	12,188	(1,247)	110	11,051
Balance at 31 July	**4,681**	-	**780**	5,461

Deferred tax

The elements of deferred tax are as follows:

	2011 £000	2010 £000
Difference between accumulated depreciation and capital allowances	804	729
Other timing differences	(24)	(59)
Balance at 31 July	780	670

(b) University

	Early retirement / voluntary severance £000	Dilapidation provision £000	2011 Total £000
Balance at beginning of year	9,229	1,547	10,776
Utilised during the year	(16,736)	(300)	(17,036)
Charged/(credited) to income and expenditure account	12,188	(1,247)	10,941
Balance at 31 July	**4,681**	-	4,681

Early retirement and voluntary severance scheme

The early retirement and voluntary severance scheme provision is in respect of future committed payments due to employees at the balance sheet date. The provision is expected to be settled within the next six months dependent upon the agreed departure date of the relevant employees. As the amount of the provision for each employee is already determined at the time of agreeing to the commitment, the amount of the final settlement is anticipated to be in line with the year end provision.

Dilapidation provision

This provision was in respect of costs associated with rectification work for a leased building. The provision has been settled in the year at £300k with the remaining provision being released.

21 Deferred capital grants

(a) Consolidated

	Funding Council £000	Other grants £000	2011 Total £000
Balance at 1 August 2010			
Buildings	261,892	134,199	396,091
Equipment	4,760	18,701	23,461
Donated assets	-	1,341	1,341
Total	266,652	154,241	420,893
Grants received/receivable			
Buildings	20,267	5,826	26,093
Equipment	-	9,550	9,550
Donated assets	-	-	-
Total received	20,267	15,376	35,643
Released to income and expenditure			
Buildings	7,738	5,215	12,953
Equipment	1,590	10,852	12,442
Donated assets	-	127	127
Total released	9,328	16,194	25,522
Balance at 31 July 2011			
Buildings	274,421	134,810	409,231
Equipment	3,170	17,399	20,569
Donated assets	-	1,214	1,214
Total	**277,591**	**153,423**	**431,014**

(b) University

	Funding Council £000	Other grants £000	2011 Total £000
Balance at 1 August 2010			
Buildings	261,892	114,324	376,216
Equipment	4,760	18,701	23,461
Donated assets	-	1,341	1,341
Total	266,652	134,366	401,018
Grants received/receivable			
Buildings	20,267	5,826	26,093
Equipment	-	9,550	9,550
Donated assets	-	-	-
Total received	20,267	15,376	35,643
Released to income and expenditure			
Buildings	7,738	4,662	12,400
Equipment	1,590	10,852	12,442
Donated assets	-	127	127
Total released	9,328	15,641	24,969
Balance at 31 July 2011			
Buildings	274,421	115,488	389,909
Equipment	3,170	17,399	20,569
Donated assets	-	1,214	1,214
Total	**277,591**	**134,101**	**411,692**

22 Endowments

Consolidated and University	Unrestricted permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2011 Total £000	2010 Total £000
Balance at 1 August						
Capital	14,469	94,354	108,823	21,259	130,082	113,558
Accumulated income	-	12,094	12,094	2,192	14,286	13,769
	14,469	106,448	120,917	23,451	144,368	127,327
New endowments	-	1,946	1,946	684	2,630	2,592
Reclassification of endowment funds	-	(507)	(507)	507	-	-
Dividends reinvested	12	77	89	17	106	290
Appreciation of endowment assets	1,443	9,111	10,554	2,126	12,680	13,642
University of Manchester (withdrawal)/contribution	-	(105)	(105)	(19)	(124)	235
Purchase of tangible assets from endowment funds	-	(110)	(110)	(1)	(111)	(14)
Investment income	361	2,343	2,704	397	3,101	3,609
Expenditure for year	(361)	(2,598)	(2,959)	(987)	(3,946)	(3,313)
Balance at 31 July	**15,924**	**116,605**	**132,529**	**26,175**	158,704	**144,368**
Representing:						
Capital	15,924	104,981	120,905	24,593	145,498	130,082
Accumulated income	-	11,624	11,624	1,582	13,206	14,286
Total	**15,924**	**116,605**	**132,529**	**26,175**	158,704	**144,368**

There are no restricted permanent endowments which have a deficit on their accumulated income balances.

Set out below are details of material charitable funds that are over 1% of the value of total endowment funds.

	Capital value at 31 July 2011 £000	Opening accumulated income £000	Investment income £000	Expenditure £000	Closing accumulated income £000	Date received
Hallsworth Fund*	19,456	502	442	(529)	415	1944
Simon Fund*	10,797	388	245	(417)	216	1943
Oncology department fund*	9,564	222	217	(263)	176	1975
Student Services Centre - prize and scholarship fund*	5,216	222	118	-	340	2001
John Rylands general library fund*	5,174	823	117	(198)	742	1972
John Rylands research institute fund*	4,765	955	108	-	1,063	1972
National fund for research into crippling diseases	4,026	29	91	(113)	7	1974
Dr Mont Follick professorship in phonetics	2,870	180	65	(152)	93	1962
BNFL permanent endowment	2,745	116	62	(157)	21	2008
BNFL expendable endowment	2,745	91	62	(60)	93	2008
Simon Fund (special) 1960	2,471	-	56	(56)	-	1960
Frederick Craven Moore Fund	2,399	243	54	(50)	247	1975
Hulme Trust	2,156	-	39	(39)	-	1881
Davies Chair in Entrepreneurship	1,737	66	44	(15)	95	2008
	76,121	3,837	1,720	(2,049)	3,508	
Significant funds and charities with income above £100,000. See asterixed funds above	54,972	3,112	1,247	(1,407)	2,952	
Funds and charities with income below £100,000						
Fellowships and scholarships (152 funds)	16,712	2,886	378	(292)	2,972	
Prize funds (201 funds)	4,405	952	70	(163)	859	
Chairs and lectureships (74 funds)	27,165	2,029	612	(851)	1,790	
Other (441 funds)	42,244	5,307	794	(1,468)	4,633	
	145,498	**14,286**	**3,101**	**(4,181)**	13,206	

The University has one linked (paragraph (w)) charity which is The Friends of the Whitworth. Its income is less than £0.1m per annum. The capital is invested through investment managers.

22 Endowments (continued)

Hallsworth Fund

This restricted permanent endowment is to assist and advance the study of Political Economy by the establishment of Research Fellowships and Visiting Professorships. It also provides resources to assist projects of research in Political Economy and the publication of books and documents in that field. The original governing document of this endowment was altered by the Charity Commission in 1998. The management and administration of this Fund is run by the Hallsworth Committee which is appointed as trustee by the Board of Governors.

Simon Fund

This restricted permanent endowment, operated by the Simon Fund Committee, primarily funds the appointment of Fellowships and Visiting Professorships in the field of Social Sciences, Professorial Industrial and Professorial Fellowships, Engineering Research Scholarships and a grant for entertainment to academic departments and Halls of Residence. Its purpose is also to promote research and teaching in the Social Sciences and a substantial portion of the income is to be used for Senior Fellowships. It also funds various ad hoc projects approved by the Simon Fund Committee.

Oncology department fund

This restricted permanent endowment is used to fund a Chair in Oncology, the donor being the Cancer Research Campaign.

Student Services Centre - prize and scholarship fund

This expendable endowment was set up by the Charity Commissioners in 2001 following the merger of a number of small endowments which could no longer be used. It was split 75% this Fund and 25% the Postgraduate Prize and Scholarship Fund. The object of the charity is to further the education of students attending the University of Manchester by the award of prizes, scholarships or other suitable reward.

John Rylands general library fund

This expendable endowment is to support the purchase of books for the John Rylands library.

John Rylands research institute fund

This restricted permanent endowment is similarly constituted and is also to support the purchase of books for the library.

National fund for research into crippling diseases

This restricted permanent endowment was established in 1974 with the receipt of funds from the National Fund for Research into Crippling Diseases with the purpose of establishing a Chair of Preventative Paediatric Research. Since then, the income has continued to support this field of medical research.

Dr Mont Follick professorship in phonetics

This restricted permanent endowment was established in 1962 under the Will of the late Dr Mont Follick. Its purpose is to fund a Chair of Comparative Philology.

British Nuclear Fuels Ltd (BNFL) permanent endowment

This restricted permanent endowment from BNFL is to support a series of Chair (professorial) appointments in nuclear research.

British Nuclear Fuels Ltd (BNFL) expendable endowment

This expendable endowment is to provide infrastructure support for the BNFL Chair appointments for a period of no less than 15 years.

Simon Fund (special) 1960

This unrestricted permanent endowment established in 1960 put the income at the disposal of Chairman of Council, the Treasurer, Lord Simon of Wythenshawe and the Vice-Chancellor for such purposes as they shall from time to time determine for the general benefit of the University.

Frederick Craven Moore Fund

This restricted endowment was established in 1975 under the Will of Mrs Marjory Moore for the advancement of clinical medicine by research and teaching. The income is used to fund Fellowships for research in clinical medicine, scholarships for study or research in clinical medicine and grants in aid of research in clinical medicine and in support of the study and teaching of clinical medicine.

Hulme Trust

This unrestricted permanent endowment funded by the Hulme Trust Estates (Educational) charity can be spent at the discretion of the Vice-Chancellor and for the general purposes of the University.

Davies Chair in Entrepreneurship

This restricted permanent endowment was established to fund a Chair in Entrepreneurship at Manchester Business School.

23 Movement on general reserves

	Consolidated 2011 £000	Consolidated 2010 £000	University 2011 £000	University 2010 £000
Income and expenditure account				
Balance at beginning of year	171,842	149,734	172,159	151,554
Surplus retained for the year	54,825	23,217	56,653	21,943
Transfer from revaluation reserve	26	229	26	-
Transfer pension surplus to pension reserve	(14,818)	(1,338)	(14,818)	(1,338)
Balance at 31 July	211,875	171,842	214,020	172,159
Pension reserve				
Balance at beginning of year	(75,337)	(87,088)	(75,337)	(87,088)
Actuarial (loss)/gain on pension schemes	(26,472)	10,413	(26,472)	10,413
Surplus retained within reserves	14,818	1,338	14,818	1,338
Balance at 31 July	(86,991)	(75,337)	(86,991)	(75,337)

24 Revaluation reserve

(a) Consolidated

	Land and buildings £000	Investment properties £000	Other investments within fixed assets £000	2011 Total £000
Revaluations				
At beginning of year	678	8,193	6,915	15,786
Revaluation in year	-	317	1,351	1,668
At 31 July	678	8,510	8,266	17,454
Contribution to depreciation				
At beginning of year	211	-	229	440
Transfer to income and expenditure account	26	-	-	26
At 31 July	237	-	229	466
Revaluation reserve				
At 31 July	**441**	**8,510**	**8,037**	**16,988**
At beginning of year	467	8,193	6,686	15,346

(b) University

	Land and buildings £000	Investment properties £000	Other investments within fixed assets £000	2011 Total £000
Revaluations				
At beginning of year	678	8,193	2,750	11,621
Revaluation in year	-	317	1,027	1,344
At 31 July	678	8,510	3,777	12,965
Contribution to depreciation				
At beginning of year	211	-	-	211
Transfer to income and expenditure account	26	-	-	26
At 31 July	237	-	-	237
Revaluation reserve				
At 31 July	**441**	**8,510**	**3,777**	**12,728**
At beginning of year	467	8,193	2,750	11,410

25 Minority interests

	Consolidated 2011 £000	Consolidated 2010 £000
At beginning of year	10	119
Minority interest in subsidiary undertakings' results for the year	64	(253)
Minority interest's contribution to deficit	(6)	144
At 31 July	68	10

26 Reconciliation of operating surplus to net cash inflow from operating activities

	Consolidated 2011 £000	Consolidated 2010 £000
Surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation	54,090	23,613
Depreciation	43,842	40,827
Amortisation of goodwill	-	4
Deferred capital grants released to income	(25,522)	(25,202)
Investment income	(11,692)	(11,334)
Transfers from/(to) endowments	845	(296)
Loss on disposal of fixed assets	544	-
Surplus on disposal of fixed asset investments	(170)	-
Interest payable	10,326	10,681
Interest receivable	(530)	(46)
Difference between pension charge and cash contributions	(14,818)	(1,338)
Minority interests	58	(109)
Increase in stocks	(6)	(138)
Decrease/(increase) in long term debtors	36	(320)
Increase in debtors due within one year	(1,547)	(3,195)
Increase in creditors	15,833	18,972
(Decrease)/increase in provisions	(4,878)	9,316
Net cash inflow from operating activities	66,411	61,435

27 Returns on investments and servicing of finance

	Consolidated 2011 £000	Consolidated 2010 £000
Income from endowments	3,101	3,609
Income from short term investments	3,713	1,997
Income from donations	4,463	5,274
Dividend income from general fund investments	415	454
Other interest received	530	46
Interest paid	(10,326)	(10,681)
Net cash inflow from returns on investments and servicing of finance	1,896	699

28 Capital expenditure and financial investment

	Consolidated 2011 £000	Consolidated 2010 £000
Purchase of tangible fixed assets	(62,111)	(37,321)
Net acquisition of fixed asset investments	(31,803)	(57,553)
Net acquisition of endowment assets	(987)	(4,345)
Receipts from sale of tangible fixed assets	8	585
Receipts from sale of fixed asset investments	170	76
Deferred capital grants received	35,643	57,208
Endowments received	1,656	3,399
Net cash outflow from capital expenditure and financial investment	(57,424)	(37,951)

29 Management of liquid resources

	Consolidated 2011 £000	Consolidated 2010 £000
(Placements)/withdrawals on deposit	(35,058)	7,844
Net cash (outflow)/inflow from management of liquid resources	(35,058)	7,844

30 Financing

	Consolidated 2011 £000	2010 £000
Bank loan repayments	(6,278)	(6,029)
Capital element of hire purchase repayments	-	(4)
Net cash outflow from financing	(6,278)	(6,033)

31 Analysis of changes in net debt

	Consolidated 1 August 2010 £000	Cash flows £000	Non-cash changes £000	31 July 2011 £000
Cash at bank	18,639	350	-	18,989
Bank deposits repayable on demand (note 16)	47,864	(31,314)	-	16,550
Uninvested bank balances - fixed asset investments (note 12)	158	(158)	-	-
Endowment asset investments (note 13)	13,836	669	-	14,505
	80,497	(30,453)	-	50,044
Bank deposits repayable after due notice (note 16)	120,437	35,058	-	155,495
Debt due within one year (note 19)	(6,278)	6,278	(7,310)	(7,310)
Debt due after one year (note 19)	(189,006)	-	7,310	(181,696)
Net debt	5,650	10,883	-	16,533

32 Pension Schemes

(a) Pension schemes - summary

According to the requirements of FRS 17 'Retirement Benefits', the following pension scheme deficits, pension operating charges and actuarial (losses)/gains are included in the financial statements:

	Consolidated and University 2011 £000	2010 £000
Balance sheet - Pension scheme deficits		
University of Manchester Superannuation Scheme	(73,794)	(50,710)
Greater Manchester Pension Fund	(12,780)	(23,883)
Manchester Innovation Limited Group Pension Scheme	(417)	(744)
	(86,991)	(75,337)

	2011 £000	2010 £000
Statement of total recognised gains and losses - Actuarial (losses)/gains		
University of Manchester Superannuation Scheme	(26,713)	5,371
Greater Manchester Pension Fund	207	5,272
Manchester Innovation Limited Group Pension Scheme	34	(230)
	(26,472)	10,413

Consolidated income and expenditure account

	2011 £000	2010 £000
Pension costs (note 6)		
University of Manchester Superannuation Scheme	14,275	13,047
Greater Manchester Pension Fund	(9,309)	1,865
Manchester Innovation Limited Group Pension Scheme	3	3
Universities Superannuation Scheme	48,011	47,107
NHS Pension Scheme	2,796	2,988
	55,776	65,010

	2011 £000	2010 £000
Net return on pension schemes (note 5) / Pension finance cost (note 8)		
University of Manchester Superannuation Scheme	2,379	(140)
Greater Manchester Pension Fund	100	(1,125)
Manchester Innovation Limited Group Pension Scheme	(29)	(43)
	2,450	(1,308)

32 Pension schemes (continued)

(a) Pension schemes - summary (continued)

The four principal pension schemes for the University's staff are the Universities' Superannuation Scheme (USS), the NHS Pension Scheme, the University of Manchester Superannuation Scheme (UMSS) and the Greater Manchester Pension Fund (GMPF). In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme (MILGPS).

In June 2009 the University introduced a salary sacrifice arrangement, known as PensionChoice, for University employees who are members of the USS and UMSS pension schemes. Members of these schemes may elect to give up a portion of their contractual gross pay equal to their employees' pension contribution. In return the University increases its contributions to cover both the employee and employer elements of the pension contribution.

The salary sacrifice arrangement is reported in the financial statements as follows:

- Wages and salaries for USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff.

- Pension costs and pension contributions to the USS and UMSS schemes reflect the increased employer element of the pension contributions.

- Employers contribution percentage rates represent only the employer's contribution rates specified by the scheme trustees and exclude employees contribution percentage rates.

(b) Universities Superannuation Scheme ('USS')

The University of Manchester participates in the USS, a defined benefit scheme for academic and related employees of all pre-1992 UK Universities and some other employers. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The last triennial actuarial valuation of the scheme was at 31 March 2008 and was carried out using the projected unit method. To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum, salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum. At the valuation date, the value of the assets of the scheme was £28,842.6m and the value of the scheme's technical provisions was £28,135.3m indicating a surplus of £707.3m. The assets were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2011 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700m). Compared to the previous 12 months, the funding level has improved from 91% (as at 31 March 2010) to 98%.

The next formal triennial valuation will be as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently. Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

The total pension cost for the University of Manchester was £48.0m (2010: £47.1m). This includes £4.3m (2010: £3.9m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

32 Pension schemes (continued)

(c) NHS Pension Scheme ('NHSPS')

The University of Manchester also participates in the NHSPS which is contracted out of the State Second Pension (S2P). The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the Government. There are no underlying assets. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is therefore equal to the contributions payable to the scheme for the year.

The latest published actuarial valuation of the scheme was at 31 March 2004. It was assumed that the rate of real earnings growth would be 1.5% per annum (plus an additional allowance for increases in salary due to salary progression and promotion in line with recent experience) and the valuation rate of return would be 6.5% per annum.

The contribution rate payable by the University during the year ended 31 July 2011 was equal to 14% of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the scheme.

The total pension cost for the University of Manchester was £2.8m (2010: £3.0m). This includes £0.3m (2010: £0.2m) outstanding contributions at the balance sheet date.

32 Pension schemes (continued)

(d) University of Manchester Superannuation Scheme ('UMSS')

UMSS is a final salary defined benefit scheme in the UK which is contracted out of the State Second Pension (S2P). A full actuarial valuation was carried out at 31 July 2010 and updated to 31 July 2011 on an FRS 17 basis by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are detailed below.

To develop the expected long-term rate of return on assets assumptions, the University considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumptions for the portfolio. This resulted in the selection of the 7.10% assumption as at 31 July 2011.

Weighted average assumptions used to determine benefit obligations at 31 July 2011:

	2011	2010
Rate of increase in salaries	4.50%	4.20%
Rate of increase of pensions in payment and deferred pensions	3.50%	3.20%
Discount rate	5.40%	5.50%
Inflation assumption	3.50%	3.20%

Weighted average assumptions used to determine net pension cost for year ended:

	2011	2010
Rate of increase in salaries	4.20%	4.60%
Expected long term return on plan assets	7.37%	7.20%
Discount rate	5.50%	5.90%

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	2011	
	Male	Female
Member age 62 (current life expectancy)	25.2	27.4
Member age 42 (life expectancy at age 62)	27.6	29.9

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

	2011	2011 £000	2010	2010 £000	2009	2009 £000
Equities	7.90%	145,829	8.25%	162,379	8.00%	121,812
Bonds	5.70%	116,348	5.80%	97,742	6.30%	109,631
Property	7.90%	55,232	8.25%	13,384	7.50%	12,181
Total market value of assets		317,409		273,505		243,624
Actuarial value of liability		(391,203)		(324,215)		(302,124)
Net pension liability		(73,794)		(50,710)		(58,500)

Analysis of the amount charged to operating surplus

	2011 £000	2010 £000
Current service cost	14,000	13,035
Past service cost	275	12
Total operating charge	14,275	13,047

Analysis of net return on pension scheme/pension finance cost

	2011 £000	2010 £000
Expected return on pension scheme assets	20,194	17,811
Interest on pension liabilities	(17,815)	(17,951)
Net return/(cost)	2,379	(140)

32 Pension Schemes (continued)

(d) University of Manchester Superannuation Scheme ('UMSS') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2011 £000	2010 £000
Actual return less expected return on scheme assets	23,043	5,253
Experience gains and losses on liabilities	(5,229)	-
Changes in assumptions	(44,527)	118
Actuarial (loss)/gain recognised in STRGL	(26,713)	5,371

Reconciliation of fair value of employer assets

	2011 £000	2010 £000
Opening fair value of employer assets	273,505	243,624
Expected return on assets	20,194	17,811
Contributions by the employer	15,525	15,606
Contributions by members	941	790
Actuarial gains	23,043	5,253
Benefits paid	(15,799)	(9,579)
Closing fair value of employer assets	317,409	273,505

Reconciliation of defined benefit obligation	2011 £000	2010 £000
Opening defined benefit obligation	324,215	302,124
Current service cost	14,000	13,035
Past service cost	275	12
Interest cost	17,815	17,951
Contributions by members	941	790
Actuarial losses/(gains)	49,756	(118)
Estimated benefits paid	(15,799)	(9,579)
Closing defined benefit obligation	391,203	324,215

At the last full actuarial valuation of the scheme as at 31 July 2010, the value of the assets of the scheme was £273.5m and the value of the past service liabilities was £324.2m leaving a deficit of £50.7m. The assets therefore were sufficient to recover 84.4% of the benefits which had accrued to members' deficit after allowing for expected future increases in earnings. The University currently pays contributions at the rate of 19.75% of pensionable pay for members who do not participate in PensionChoice and 26% of pensionable pay for those that do. For those that do not participate in PensionChoice, member contributions are payable in addition at the rate of 6.25% of pensionable pay. The employer will also pay £1.125m quarterly in arrears, starting on 31 October 2011.

A bank guarantee facility of £40m was given by one of the University's bankers in favour of UMSS Limited as trustee of the University of Manchester Superannuation Scheme. The guarantee expired on 31 March 2010. The University has now given the scheme direct security over a number of properties to the value of at least £40m.

History of experience gains and losses

	Year ended 31 July				
	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(391,203)	(324,215)	(302,124)	(265,188)	(296,602)
Fair value of scheme assets	317,409	273,505	243,624	266,472	282,099
(Deficit)/surplus in the scheme	(73,794)	(50,710)	(58,500)	1,284	(14,503)
Difference between expected and actual return on scheme assets:					
Amount (£000)	23,043	5,253	(47,964)	(36,764)	4,714
Percentage of scheme assets	7%	2%	(20%)	(14%)	2%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(5,229)	-	5,000	(1,736)	-
Percentage of scheme liabilities	1%	0%	2%	(1%)	0%

32 Pension schemes (continued)

(e) Greater Manchester Pension Fund ('GMPF')

The GMPF is a final salary defined benefit scheme and a separate fund within the local government pension scheme (LGPS) which is contracted out of the State Second Pension (S2P). The LGPS is regulated by statute, with separate regulations for England and Wales and for Scotland. The benefits of LGPS funds are determined nationally by regulation and meet the definition of a defined benefit scheme. LGPS is a funded scheme, with some 100 separate funds administered locally by administering bodies. Each fund has many employing authorities. The LGPS is not therefore a national multi-employer scheme, but each separate LGPS fund is a multi-employer scheme. The University of Manchester is a member of one of these funds, the GMPF, which is administered by Tameside Metropolitan Borough Council.

A full actuarial valuation was carried out at 31 July 2008 and updated to 31 July 2011 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2011	2010
Rate of increase in salaries	4.70%	4.10%
Rate of increase in pensions in payment and deferred pensions	2.70%	3.10%
Discount rate applied to scheme liabilities	5.40%	5.50%
Inflation assumption	2.70%	3.10%
Expected return on assets	6.20%	6.40%

The expected return on assets is based on the long-term future expected investment return for each asset class at the begining of the period.

The mortality assumptions used as at 31 July 2011 are as follows:

Life expectancy is based on the PFA92 and PMA92 tables based on individual year of birth with improvements in line with the medium cohort and a 1% per annum underpin from 2007. Based on these assumptions, average future life expectancies at age 65 are:

- for current pensioners: 20.1 years for males and 22.9 years for females.
- for future pensioners: 22.5 years for males and 25.0 years for females.

The assets of the GMPF scheme attributable to the University and the expected rates of return were:

	2011	2011 £000	2010	2010 £000	2009	2009 £000
Equities	7.00%	57,415	7.30%	53,956	7.30%	49,621
Bonds	4.60%	16,042	4.80%	11,730	5.30%	9,649
Property	5.10%	4,222	5.30%	4,692	5.30%	4,135
Cash	4.00%	6,755	4.40%	7,820	4.30%	5,513
Total market value of assets		84,434		78,198		68,918
Actuarial value of scheme liability		(97,214)		(102,081)		(96,711)
Net pension liability		(12,780)		(23,883)		(27,793)

Analysis of the amount charged to operating surplus

	2011 £000	2010 £000
Current service cost	1,496	1,854
Past service (income)/cost	(10,805)	11
Total operating (income)/charge	(9,309)	1,865

The past service income of £10.8m relates to the change from RPI to CPI for pension increases. This change has been accounted for on this basis as a constructive obligation for this change has arisen due to government communications of the basis of pension increases.

Analysis of net return on pension scheme/pension finance cost

	2011 £000	2010 £000
Expected return on pension scheme assets	4,932	4,502
Interest on pension liabilities	(4,832)	(5,627)
Net return/(cost)	100	(1,125)

32 Pension schemes (continued)

(e) Greater Manchester Pension Fund ('GMPF') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2011 £000	2010 £000
Actual return less expected return on scheme assets	207	6,199
Changes in assumptions	-	(927)
Actuarial gain recognised in STRGL	207	5,272

Reconciliation of fair value of employer assets

	2011 £000	2010 £000
Opening fair value of employer assets	78,198	68,918
Expected return on assets	4,932	4,502
Contributions by members	518	569
Contributions by the employer	1,297	1,438
Actuarial gains	3,481	6,199
Estimated benefits paid	(3,992)	(3,428)
Closing fair value of employer assets	84,434	78,198

Reconciliation of defined benefit obligation

	2011 £000	2010 £000
Opening defined benefit obligation	102,081	96,711
Current service cost	1,496	1,854
Interest cost	4,832	5,627
Contributions by members	518	569
Contributions by the employer to unfunded scheme	(190)	(190)
Actuarial losses	3,274	927
Past service (income)/cost	(10,805)	11
Estimated benefits paid	(3,992)	(3,428)
Closing defined benefit obligation	97,214	102,081

Analysis of the defined benefit obligation

	2011 £000	2010 £000
Present value of unfunded liabilities	2,115	2,299
Present value of funded liabilities	95,099	99,782
Closing defined benefit obligation	97,214	102,081

The University has paid contributions at the rate of 16.8% of members' pensionable pay over the year to 31 July 2011. It was agreed with the Trustees that contributions for the following year would remain at that level.

History of experience gains and losses

	Year ended 31 July				
	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(97,214)	(102,081)	(96,711)	(85,392)	(80,609)
Fair value of scheme assets	84,434	78,198	68,918	71,749	79,039
Deficit in the scheme	(12,780)	(23,883)	(27,793)	(13,643)	(1,570)
Difference between expected and actual return on scheme assets:					
Amount (£000)	207	6,199	(5,895)	(11,425)	2,265
Percentage of scheme assets	0%	8%	(9%)	(16%)	3%
Experience gains and losses on scheme liabilities:					
Amount (£000)	-	-	-	(2,897)	1
Percentage of scheme liabilities	0%	0%	0%	(3%)	0%

32 Pension schemes (continued)

(f) Manchester Innovation Limited Group Pension Scheme ('MILGPS')

The MILGPS is a final salary defined benefit scheme. From 1 June 2003, all active members participating in the MILGPS transferred to UMSS. The deferred members remain within MILGPS.

A full valuation of the scheme was carried out as at 1 September 2008, which has been updated to 31 July 2011 by a qualified actuary.

The market assumptions used in this valuation were:

	2011	2010
Rate of increase in pensions in payment and deferred pensions	5.00%	5.00%
Discount rate applied to scheme liabilities	5.50%	5.90%
Inflation assumptions	3.60%	3.60%
Expected return on plan assets	5.60%	5.60%

The expected returns on plan assets have been based on the current split by investment sector of the assets of the scheme, using average expected returns on each sector.

The mortality assumptions used are as follows:

Assumed life expectancy in years on retirement at 62	2011	2010
Retiring today:		
Males	26.8	26.7
Females	28.9	28.8
Retiring in 20 years:		
Males	29.0	28.9
Females	30.1	30.1

The assets of the scheme and the expected rates of return were:

	2011	2011 £000	2010	2010 £000	2009	2009 £000
Investment in bonds	5.50%	1,495	5.50%	1,089	5.50%	663
Investment in unitised with profits policy	5.75%	989	5.75%	1,054	5.75%	1,031
Other	3.50%	-	3.50%	9	3.50%	16
Total market value of assets		2,484		2,152		1,710
Actuarial value of liability		(2,901)		(2,896)		(2,505)
Net pension liability		(417)		(744)		(795)

Analysis of the amount charged to operating surplus

	2011 £000	2010 £000
Current service cost	3	3

As no further benefits are accruing under the scheme, the service costs shown represent the expenses paid to Aviva for running the scheme over the year.

Analysis of net charge to pension finance cost

	2011 £000	2010 £000
Expected return on pension scheme assets	124	104
Interest on pension liabilities	(153)	(147)
Net cost	(29)	(43)

32 Pension schemes (continued)

(f) Manchester Innovation Limited Group Pension Scheme ('MILGPS') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2011 £000	2010 £000
Actual return less expected return on pension scheme assets	107	51
Experience gains and losses on liabilities	(73)	(9)
Changes in assumptions	-	(272)
Actuarial gain/(loss) recognised in STRGL	34	(230)

Reconciliation of fair value of employer assets

	2011 £000	2010 £000
Opening fair value of employer assets	2,152	1,710
Expected return on assets	124	104
Contributions by the employer	325	327
Actuarial gains	107	51
Estimated benefits paid	(224)	(40)
Closing fair value of employer assets	2,484	2,152

Reconciliation of defined benefit obligation

	2011 £000	2010 £000
Opening defined benefit obligation	2,896	2,505
Current service cost	3	3
Interest cost	153	147
Actuarial losses	73	281
Estimated benefits paid	(224)	(40)
Closing defined benefit obligation	2,901	2,896

History of experience gains and losses

	Year ended 31 July				
	2011	2010	2009	2008	2007
Present value of defined benefit obligations	(2,901)	(2,896)	(2,505)	(1,938)	(2,181)
Fair value of scheme assets	2,484	2,152	1,710	1,867	1,711
Deficit in the scheme	(417)	(744)	(795)	(71)	(470)
Difference between expected and actual return on scheme assets:					
Amount (£000)	107	51	(345)	(43)	82
Percentage of scheme assets	4%	2%	(20%)	(2%)	5%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(73)	(9)	(24)	(1)	(32)
Percentage of scheme liabilities	3%	0%	(1%)	0%	(1%)

The University expects to contribute £325,000 (including £30,000 for expenses) to MILGPS in the year ending 31 July 2012.

33 Capital commitments

	Consolidated 2011 £000	Consolidated 2010 £000	University 2011 £000	University 2010 £000
Commitments for future capital expenditure:				
Authorised not contracted	46,999	35,498	46,999	35,498
Contracted not provided	36,779	25,485	36,779	25,485
	83,778	60,983	83,778	60,983

34 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Consolidated 2011 £000	Consolidated 2010 £000	University 2011 £000	University 2010 £000
Land and buildings				
Expires within one year	2,008	1,605	2,008	1,605
Expires between two and five years	4,835	5,020	4,835	5,020
Expires after more than five years	967	1,232	1,059	1,337
	7,810	7,857	7,902	7,962
Other				
Expires within one year	568	232	568	232
Expires between two and five years	195	767	195	767
Expires after more than five years	99	17	99	17
	862	1,016	862	1,016
Total	8,672	8,873	8,764	8,978

35 Contingent liabilities

	Consolidated 2011 £000	Consolidated 2010 £000	University 2011 £000	University 2010 £000
Undrawn investment commitments	3,900	5,070	3,900	5,070
Bank guarantees	230	230	-	-
All monies guarantee	3,005	3,863	3,005	3,863
	7,135	9,163	6,905	8,933

A commitment of up to £7.8m (2010: £7.8m) to invest in the UMIP Premier Fund has been given by UMIP UPF Limited, a wholly owned subsidiary of the University. To date £3.9m (2010: £2.7m) has been invested in the Fund. It is anticipated that the remainder of the investment commitment will be requested in tranches of £0.4m within the next three years.

Bank guarantees comprise £0.2m (2010: £0.2m) in relation to a bank overdraft guarantee.

The all monies guarantee relates to a bank loan which is due to be repaid in 2014 (see note 19).

36 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 8 'Related Party Transactions' these are disclosed where members of the University of Manchester's Board of Governors disclose an interest in a body with whom the University undertakes transactions which are considered material to the University's Financial Statements and/or the other party. Due to the nature of the University's operations and the composition of the Board, 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 Board may have an interest. All transactions involving organisations in which a member of Board 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.

An updated register of the interests of the members of the Board of Governors is maintained.

The University has taken advantage of the exemption within FRS 8 and has not disclosed transactions with other group entities where it holds 100% of the voting rights. Included within the financial statements are the following transactions with related parties:

	Income recognised within the financial statements	Expenditure recognised within the financial statements	Balance due to/(from) the University recognised within the financial statements
	£000	£000	£000
Biotechnology and Biological Sciences Research Council (BBSRC)	18,201	-	1,701
Central Manchester University Hospitals NHS Foundation Trust	13,410	(5,680)	588
North West Regional Development Agency	9,801	-	-
European Commission	8,837	-	821
Astra Zeneca	3,106	-	131
The Royal Society	2,155	(54)	374
Imperial College London	212	(426)	-
Alzeimer's Society	175	-	-
Manchester City Council	160	(2,220)	(762)
Students' Union	137	(1,447)	91
Stockport NHS Foundation Trust	55	(82)	(1)
University of Central Lancashire (UCLAN)	20	(53)	3
Health & Safety Lab, HSE, Buxton	9	(26)	-
UNISON	6	(166)	-
One Central Park	4	(295)	(68)
Manchester Science Park	1	(126)	(1)
Uniac	1	(293)	-
	56,290	(10,868)	2,877

Biotechnology and Biological Sciences Research Council (BBSRC)

The BBSRC funds research in biotechnology and biological sciences, including stem cell biology, brain function and behaviour, nanotechnology and e-science. One governor is a member of the BBSRC's Council.

Central Manchester University Hospitals NHS Foundation Trust

The University has a major Medical School, and so has very significant dealings with the Central Manchester University Hospitals NHS Foundation Trust (formerly the Central Manchester and Manchester Children's Hospital NHS Trust), which incorporates several major teaching hospitals in central Manchester. The close relationship between the University and the predecessors of the Trust dates back over 100 years. Many staff, including senior consultants, work for both organisations, so to simplify payroll arrangements they are employed by one body, and salary costs are recharged. In the majority of cases, staff are employed by the University, and a proportion of their pay costs are recharged to the Trust. There are many other transactions between the two bodies, for example related to shared accommodation and the sale and purchase of laboratory supplies. One member of the Board of Governors is also a Trust member.

North West Regional Development Agency (NWDA)

The North West Regional Development Agency is a public body that aims to stimulate economic growth and regeneration in this region. It has funded a significant part of the University's capital programme. Two members of the Board of Governers also served on the NWDA Board.

European Commission

The European Commission is the main executive body of the European Union (EU). Its activities include funding significant regional development programmes, the European Social Fund (ESF) and European Regional Development Fund (ERDF), as well as a wide range of research into issues such as transport, health and the environment. The University undertakes a number of ESF and ERDF funded programmes, as well as other research work for the Commission. A member of the Board of Governors is, in his capacity as a member of the academic staff, an advisor to the Commission and chairs a High-level Expert Group on Rationales for the European Research Area.

AstraZeneca

A major pharmaceutical company, AstraZeneca plc discovers and develops new medicines and manufactures existing drugs. One Board member is a non-executive director of the company.

36 Related party transactions (continued)

The Royal Society

The Royal Society is a Fellowship of the world's most distinguished scientists. Founded in 1660, it has three roles: as the UK academy of science promoting the natural and applied sciences, as a learned society, and as a funding agency. A Board member is one of the Royal Society's Vice-Presidents and a member of its Council.

Imperial College London

Imperial College London (ICL) is a science-based institution with a focus on teaching and research. It has many dealings with this University for the sale and purchase of laboratory supplies, publications etc. Again, these links have existed for many years. A member of the Board of Governors is a Visiting Professor at Imperial College.

Alzheimer's Society

The Alzheimer's Society is a charity that provides information and support to people with Alzheimer's Disease and their families, as well as funding research into the condition. One governor is a member of the Society's Audit Committee.

Manchester City Council

The University is located within the City of Manchester, with the exception of a few outlying facilities such as Jodrell Bank. This has been the case since the University was founded. Many of the transactions with the City Council are estates related, such as business rates, rents and fees for planning applications. The University's academic sector also has some dealings, for example, links with the City Council's Education Department. Under University Statute IX, the City Council can appoint two members to the University's General Assembly, one of whom is also a member of the Board of Governors.

Students' Union

University Statute XVII requires that there shall be a Students' Union at the University. The University contributes towards the Union's running costs, and there are also transactions relating to the buildings occupied by the Union. Under Statute VI, the Board of Governors must include an officer of the Students' Union. This is currently the Union's General Secretary. This arrangement is long standing, although the individual concerned changes annually.

Stockport NHS Foundation Trust

The Stockport NHS Foundation Trust provides acute hospital care for children and adults across Stockport and the High Peak area of Derbyshire. The Trust's major site is Stepping Hill Hospital, and it also runs two smaller hospitals in Stockport and a maternity unit in Buxton. Two members of the University's Governors serve on the Trust's Board, one as Vice-Chair.

University of Central Lancashire (UCLAN)

Originally founded in 1828 and later known as Lancashire Polytechnic, this Higher Education institution became the University of Central Lancashire in 1992. The main campus is in Preston, with other sites in Burnley and West Cumbria. A member of the University of Manchester's Board is an Honorary Professor at UCLAN and also serves on that institution's Audit Committee.

Health & Safety Lab, HSE, Buxton

The Health and Safety Laboratory (HSL) was originally set up to help the Health and Safety Executive minimise risks to people's health and safety at work. Today, the HSL also works with a wide range of other organisations, conducting research and development work. Its main location is near Buxton in Derbyshire. One Board member is a non-executive director of the HSL.

UNISON

UNISON is the second largest trade union in the United Kingdom with over 1.3 million members, most of whom work in the public sector. UNISON is the main union at the University for staff who are not in academic or academic-related posts. One member of the Board of Governors is UNISON's National Representative for Higher Education in the North West.

One Central Park Limited

One Central Park, on Oldham Road, Manchester, is a business park dedicated to the development of new business enterprises delivered by the local community. One Central Park Limited is a 20% owned associate of the University. The company owns a building in the park, which is part occupied by the University. A wholly owned subsidiary of the University, The University of Manchester Innovation Centre Limited, is partly responsible for marketing and managing this facility.

Manchester Science Park

Manchester Science Park Ltd rents business accommodation to innovative companies in sectors such as ICT, biotechnology, industrial technologies and digital media. The company also offers business development support, including access to academic resources and a PR service. The University owns 27% of the ordinary share capital, so it is classed as an associate undertaking.

Uniac

The University Internal Audit Consortium (Uniac) is the body appointed by the Board of Governors on the recommendation of the Audit Committee to act as the University's internal auditors. Uniac is a consortium made up of Manchester and several other universities where it acts as the internal auditors, so it is partly owned by the University. A member of the Board of Governors is also Chair of the Uniac Board, which comprises representatives of the member universities.

Trustees' Expenses

£16,008 was paid in expenses to members of the Board of Governers of the University during the year (2010: £36,000). Where Trustees are also employees of the University the amount includes expenses paid in relation to their employment.

37 Amounts disbursed as agent (Consolidated and University)

(a) Access Fund

	2011 £000	2010 £000
Balance (prepaid)/unspent at beginning of year	351	184
Funding Council grants	353	996
Interest earned	1	1
Disbursed to students	(421)	(830)
Balance unspent at year end	284	351

(b) Training and Development Agency for Schools (TDA)

Student Training Bursaries	2011 £000	2010 £000
Balance (prepaid)/unspent at beginning of year	(60)	116
Funding Council grants	2,350	2,350
Disbursed to students	(2,178)	(2,526)
Balance unspent/(prepaid) at year end	112	(60)

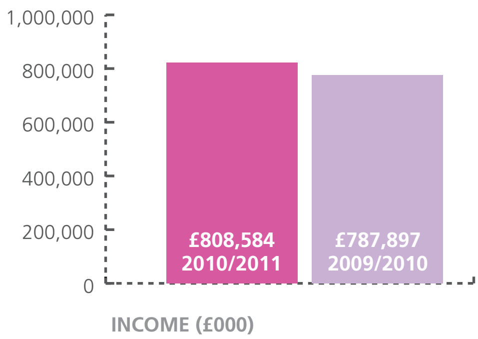
Student Associates Scheme	2011 £000	2010 £000
Balance unspent at beginning of year	-	-
Funding Council grants	103	359
Paid out during the year	(100)	(359)
Balance unspent at year end	3	-

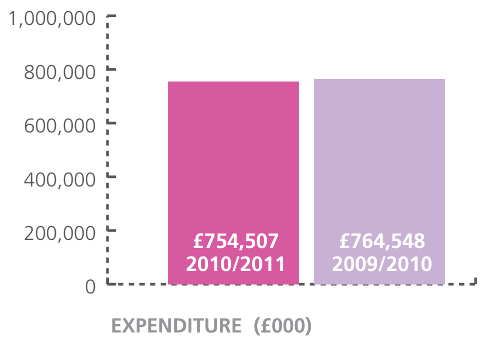
Minority Ethnic Recruitment	2011 £000	2010 £000
Balance unspent at beginning of year	-	9
Funding Council grants	-	4
Paid out during the year	-	(13)
Balance unspent at year end	-	-

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

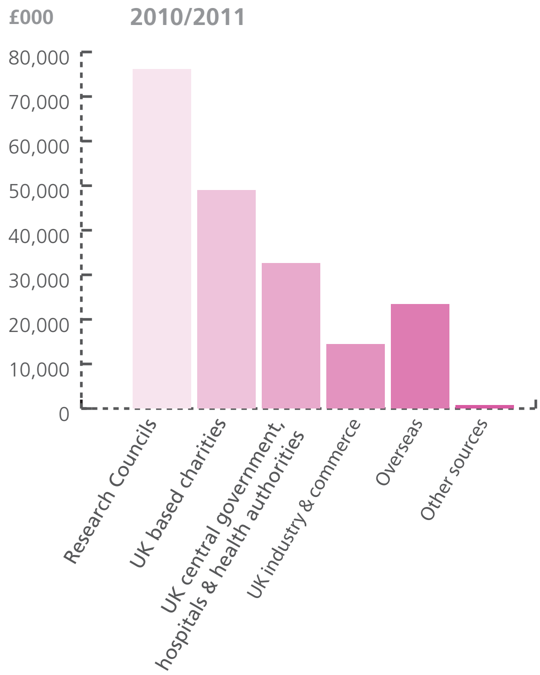
AT A GLANCE

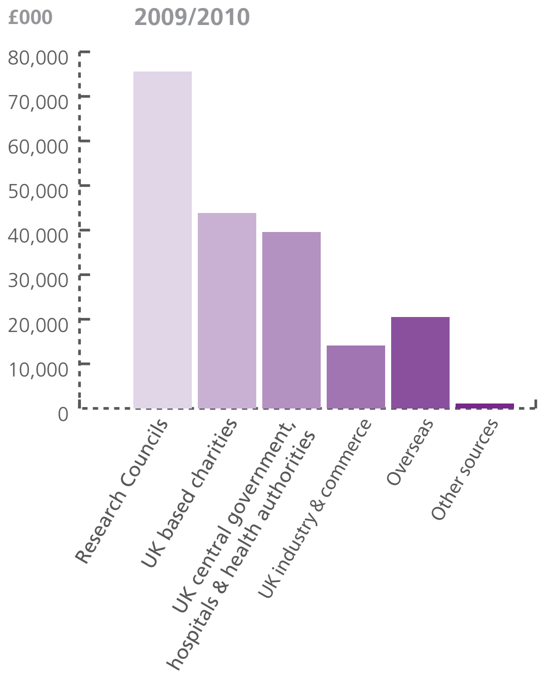
INCOME AND EXPENDITURE



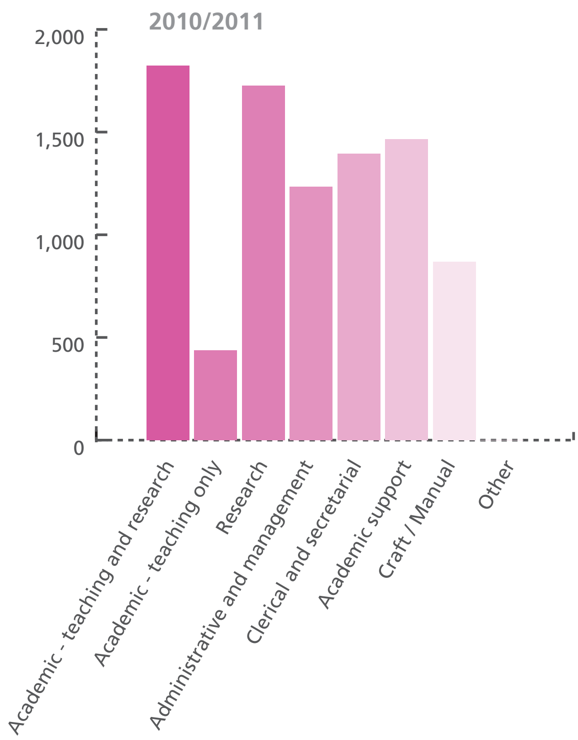


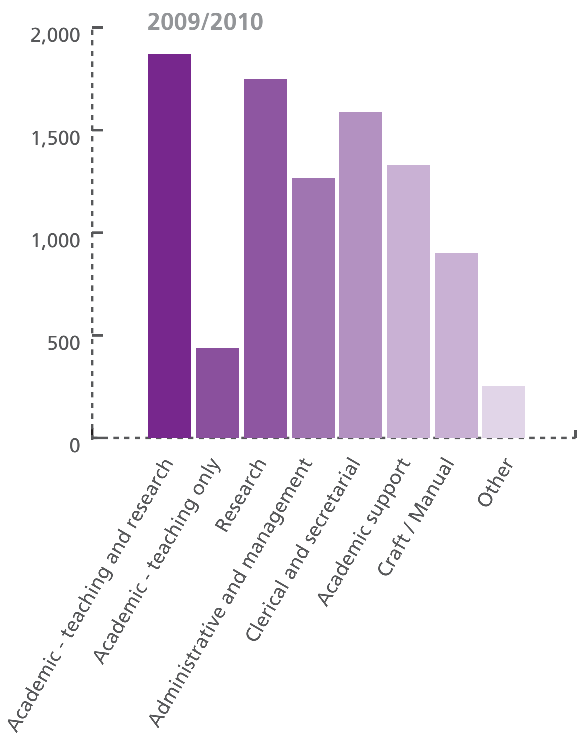
RESEARCH GRANTS AND CONTRACTS





STAFF NUMBERS





Independent auditor's report

to the Board of Governors of The University of Manchester

We have audited the financial statements of The University of Manchester for the year ended 31 July 2012 which comprise the consolidated income and expenditure account, the statement of consolidated historical cost surpluses and deficits, the statement of consolidated total recognised gains and losses, the consolidated and university balance sheets, the consolidated cash flow statement, the reconciliation of consolidated net cash flow to movements in net funds and the related notes 1 to 37. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the governing body in accordance with the charter and statutes of the university. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it 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 board of governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the governing body and auditor

As explained more fully in the Statement of the Board of Governors' Responsibilities, the governing body is responsible for the preparation of the financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the University and the group's affairs as at 31 July 2012 and of the group's surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education.

Opinion on other matters prescribed by the Higher Education Funding Council for England Audit Code of Practice

In our opinion:

- in all material respects, income from the funding council, the Training and Development Agency for Schools and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2012 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2012 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, with the funding council, the funding agreement with the Training and Development Agency for Schools and the funding agreement with the Learning and Skills Council.

Matter on which we are required to report by exception

We have nothing to report in respect of the following matter where the Higher Education Funding Council for England Audit Code of Practice requires us to report to you if, in our opinion:

- the Statement of Internal Control (included as part of the Corporate Governance Statement) is inconsistent with our knowledge of the University.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, England
30 November 2012

Financial Statements

for the year ended 31 July 2012

Statement of principal accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with the Royal Charter, the Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the Financial Memorandum agreed with HEFCE, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies detailed below have been applied consistently throughout the year and the preceding year.

The University's activities, together with the factors likely to affect its future development, performance and position are set out in the Director of Finance's Financial Review of the year which forms part of the Board of Governors' Report. The Board of Governors' Report also describes the financial position of the University, its cash flows, liquidity position and borrowing facilities; the University's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposure to credit risk and liquidity risk.

The Board of Governors has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Basis of accounting

Modified historical cost basis

The Financial Statements are prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets and investments.

Basis of consolidation

The consolidated financial statements include the financial statements of the University and subsidiary undertakings for the financial year to 31 July, as disclosed in note 12. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation. The consolidated financial statements include the University's share of the profits and net assets of material associated undertakings over which the University has a significant but not dominant influence.

In accordance with FRS 2, The University of Manchester Students' Union has not been consolidated because the University does not control its activities.

Recognition of income

Recurrent grants from HEFCE are recognised in the year for which they are receivable.

Non-recurrent grants from HEFCE or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised to income in line with depreciation over the life of the asset for which the grant was awarded.

Student fee income is credited to the income and expenditure account over the year in which it is earned. Where the amount of the tuition fee is reduced by a discount for prompt payment, income is shown net of the discount. Bursaries and scholarships are accounted for as expenditure and not deducted from income.

Income from research grants and contracts and other services rendered is included according to the degree of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. Any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met. In many cases recognition is directly related to expenditure incurred for specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments. Other donations are recognised by inclusion as other income in the income and expenditure account.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments after the result for the year has been struck. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

All other income is credited to the income and expenditure account in the year in which it is earned.

Accounting for Charitable donations

(a) Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

(b) Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution [SORP para 144].

2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income [SORP para 143, 147].

3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective [SORP para 144].

(c) Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the expected useful life of the related asset. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account.

(d) Gifts in kind, including donated tangible fixed assets

Gifts in kind are included as a donation in other income using a reasonable estimate of their gross value or the amount actually realised. Donated tangible fixed assets, with the exception of land, are valued and accounted for as fixed assets under the appropriate fixed asset category. The same amount is credited to deferred capital grants where the accounting treatment is then the same as for grant funded tangible fixed assets. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account. Land donated for use by the University is valued, and the associated credit is taken to the income and expenditure account as a donation in other income.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated. Normal trading transactions, that are not settled by the balance sheet date, are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity, the part relating to the Institution's share is eliminated.

Foreign currency translations

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 year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are taken to the income and expenditure account in the period in which they arise.

Tangible fixed assets

(a) Land and buildings

Land and buildings are stated at cost except where revalued prior to the implementation of FRS 15 'Tangible Fixed Assets'. Buildings are depreciated over their expected useful lives of 50 years and leasehold buildings over the life of the lease. Land is not depreciated.

Buildings under construction are included at cost, based on the value of architects' certificates and other costs incurred at 31 July. They are not depreciated until they are brought into use.

Major enhancements to existing buildings at a cost of more than £150,000 are capitalised where appropriate and depreciated over their expected useful economic life to the University of 20 years, or less if the leasehold is shorter.

Certain fixed assets were revalued prior to the implementation of FRS 15 'Tangible fixed assets'. The transitional rules set out in FRS 15 have been applied and accordingly the book values at implementation have been retained.

(b) Equipment

Individual items of equipment and groups of functionally dependant items costing more than £25,000 are capitalised at cost. All other items are written off to the income and expenditure account in the year of acquisition. Capitalised equipment is depreciated on a straight line basis over its expected useful economic life as follows:

Boilers, building plant and scientific equipment	- 10 years
Mainframe computers and proprietary software	- 5 years
Computer software	- 8 years
Motor vehicles and other general equipment	- 4 years
Equipment acquired for specific research projects	- project life (generally 3 years)

(c) Grant-funded tangible fixed assets

Where tangible fixed assets within the categories (a) and (b) above are purchased with the aid of specific grants they are capitalised and depreciated in line with the relevant accounting policy. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful life of the related asset.

(d) Impairment

A review for impairment of a tangible fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the tangible fixed asset may not be recoverable.

(e) Maintenance

The full costs of repairs and routine corrective maintenance on tangible fixed assets are charged against revenue in the year in which they are incurred.

(f) Assets held for resale

Tangible fixed assets surplus to requirements are held at the lower of cost and net realisable value.

(g) Heritage assets

Works of art and other valuable artefacts (heritage assets) acquired since 1 August 2007 and valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable.

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

Where heritage assets have not been capitalised, details of the nature and age of these assets are disclosed.

Leases

Finance leases which transfer substantially all the benefits and risks of ownership of an asset to the University, are treated as if the asset had been purchased outright. The fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. Depreciation on leased assets is charged to income and expenditure over the shorter of lease term or the useful economic life of an equivalent owned asset. The excess of lease payments over recorded lease obligations is treated as a finance charge and amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure on a straight line basis over the relevant lease term.

Goodwill and intangible assets

Goodwill arising on consolidation is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill and intangible assets are amortised over their estimated economic life up to a maximum of 20 years. Impairment tests are carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment. Where there is impairment in the carrying value of goodwill, the loss is incurred in the results for the period.

Positive purchased goodwill is capitalised and classified as an asset on the balance sheet.

Website development costs

Design and content costs relating to the development of websites to support specific teaching or training courses, or for specific research projects, as well as design and content costs for websites that are for the general use of the institution and its staff are written off as incurred to the income and expenditure account.

Investments

(a) Fixed asset investments

Listed investments and properties held as fixed asset investments are stated at market value. Investments in the UMIP Premier Fund are valued using accepted methodologies for venture capital investments. Investments held on a listed market are valued at their estimated realisable value. Investments in companies set up so as to exploit university intellectual property are carried at the lower of cost and net realisable value. Other investments are stated at the lower of cost and market value.

Investment properties are revalued annually to open market value. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the income and expenditure account. Depreciation is not provided in respect of freehold investment properties, or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years. The Board of Governors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 Accounting for investment properties. The financial effect of the departure from the statutory accounting rules cannot reasonably be quantified due to insufficient information on original cost.

Appreciation / depreciation in the market value of investments within fixed assets is added to or subtracted from the revaluation reserve, via the statement of total recognised gains and losses. A diminution in value is charged to the income and expenditure account, to the extent that it is not covered by a previous revaluation surplus. On the disposal of fixed asset investments, any accumulated surplus brought forward is transferred from the revaluation reserve to the income and expenditure account as a reserve movement.

Certain fixed asset investments are held within investment portfolios managed by independent fund managers. The portfolios are revalued at the balance sheet date through the revaluation reserve. Transactions within the portfolios are not accounted for separately. Realised gains and losses are recognised only on withdrawal of funds from the portfolios.

(b) Subsidiary and associated undertakings

In the consolidated financial statements, investments in associated undertakings are stated at the University's share of their net assets. Investments in associated and subsidiary undertakings are stated at cost less provision for impairment in the University's balance sheet.

(c) Current asset investments

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

(d) Endowment assets

Endowment asset investments are carried at market value. Appreciation/depreciation in the market value of endowment assets and any gain or loss on disposal is added to or subtracted from the endowment funds concerned and is not brought into the income and expenditure account, but reported through the statement of total recognised gains and losses.

Certain endowment asset investments are held within investment portfolios managed by independent fund managers. Transactions within the portfolios are not accounted for separately. Realised gains and losses are only added to or subtracted from the endowment funds on withdrawal of funds from the portfolios.

Stocks

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

Pension schemes

The four principal schemes for the University's staff are the Universities' Superannuation Scheme ('USS'), the NHS Pension scheme ('NHSPS'), the University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). All four schemes are contracted out of the State Second Pension ('S2P'). In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme ('MILGPS'). All five schemes are defined benefit schemes which are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. With the exception of NHSPS, each fund has a full valuation every three years carried out by professionally qualified independent actuaries.

Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of FRS 17.

Of the five schemes, USS and NHSPS are both multi-employer schemes. Because of the mutual nature of the schemes, the schemes' assets are not hypothecated to individual institutions and scheme-wide contribution rates are 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 two schemes on a consistent and reasonable basis. Therefore, as required by FRS 17, these schemes are accounted for as if they are defined contribution schemes. 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.

For the remaining three schemes, assets are included at market value, measured on a bid price basis where applicable, and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on AA rated corporate bonds. The post-retirement benefit surplus or deficit is included on the University's balance sheet. Surpluses are included only to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the income and expenditure account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised in the statement of total recognised gains and losses.

Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 (formerly Schedule 2 of the Charities Act 1993) and is considered to pass the tests set out in Paragraph 1 of Schedule 6 to the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 of the Corporation Tax Act 2009 (CTA 2009) and Sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the entity an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Financial instruments

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available as cash to the University within 24 hours without penalty. No other investments, however liquid, are included as cash.

Liquid resources include term deposits, government securities, loan stock, and other instruments held as part of the University's treasury management activities. They exclude any assets held within fixed asset and endowment asset investments.

Provisions and contingent liabilities

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

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; and an inability to measure the economic outflow.

Agency arrangements

Where the University receives and disburses funds as paying agent on behalf of a funding body for which the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction, then the related income and expenditure is excluded from the consolidated income and expenditure account. Details are disclosed within note 37 'Amounts disbursed as agent' and include Access Funds and Training Bursaries.

Consolidated income and expenditure account

For the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Income			
Funding body grants	1	**196,466**	203,221
Tuition fees and education contracts	2	**262,075**	247,275
Research grants and contracts	3	**188,019**	196,242
Other income	4	**145,524**	147,004
Endowment and investment income	5	**15,227**	14,842
Total income		**807,311**	808,584
Expenditure			
Staff costs	6	**420,677**	420,232
Other operating expenses	7(b)	**286,053**	280,107
Depreciation	11	**41,421**	43,842
Interest and other finance costs	8	**10,006**	10,326
Total expenditure		**758,157**	754,507
Surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation		**49,154**	54,077
Share of operating (losses)/surpluses in associates	12(b)	**(766)**	77
Taxation	9	**238**	(110)
Surplus on continuing operations after depreciation of fixed assets at cost/valuation and taxation		**48,626**	54,044
Minority interest in subsidiary undertakings' results for the year	25	**(67)**	(64)
Surplus on continuing operations after depreciation of fixed assets at cost/valuation, taxation and minority interest		**48,559**	53,980
Surplus for the year transferred from accumulated income in endowment funds	22	**264**	845
Surplus for the year retained within general reserves	23	**48,823**	54,825

The surplus for the year retained within general reserves is attributable to the following:

	2012 £000	2011 £000
University	**46,670**	56,653
Group undertakings	**2,153**	(1,828)
	48,823	54,825

Statement of consolidated historical cost surpluses and deficits

For the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Surplus on continuing operations before taxation		48,321	54,090
Realisation of property revaluation gains	24	287	-
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	24	13	26
Historical cost surplus for the year before taxation		48,621	54,116
Historical cost surplus for the year after taxation		48,859	54,006

Statement of consolidated total recognised gains and losses

For the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Surplus on continuing operations after depreciation of assets at cost/valuation, disposal of assets and taxation		48,823	54,825
Unrealised (deficit)/surplus on revaluation of investment properties	24	(833)	317
Unrealised (deficit)/surplus on revaluation of fixed asset investments	24	(978)	1,351
Net endowment expenditure in the year	22	(351)	(956)
New endowments and dividends reinvested	22	854	2,612
Net (depreciation)/appreciation of endowment assets including reinvested profits on sales	22	(5,539)	12,680
Actuarial loss recognised in respect of pension schemes	32(a)	(27,906)	(26,472)
Total recognised surplus relating to the year		14,070	44,357
Reconciliation			
Opening reserves and endowments		300,576	256,219
Total recognised gains for the year		14,070	44,357
Closing reserves and endowments		314,646	300,576

Balance sheets

As at 31 July 2012

	Notes	Consolidated 2012 £000	Consolidated 2011 £000	University 2012 £000	University 2011 £000
Fixed assets					
Goodwill	10	-	-	-	-
Tangible assets	11	719,173	687,813	685,689	654,273
Investments	12	122,469	122,149	121,431	123,041
Total fixed assets		841,642	809,962	807,120	777,314
Endowment assets	13	153,668	158,704	153,668	158,704
Current assets					
Stock		1,509	1,515	1,459	1,447
Debtors: amounts falling due within one year	14	89,794	92,183	89,546	93,319
Debtors: amounts falling due after more than one year	15	290	353	13,096	11,882
Investments	16	169,123	172,045	169,123	172,045
Cash at bank and in hand		24,987	18,989	8,581	3,984
Total current assets		285,703	285,085	281,805	282,677
Creditors: amounts falling due within one year	17	(250,285)	(246,832)	(237,124)	(235,767)
NET CURRENT ASSETS		35,418	38,253	44,681	46,910
TOTAL ASSETS LESS CURRENT LIABILITIES		1,030,728	1,006,919	1,005,469	982,928
Creditors: amounts falling due after more than one year	18	(173,530)	(182,809)	(171,824)	(181,103)
Provisions for liabilities	20	(1,701)	(5,461)	(1,159)	(4,681)
NET ASSETS EXCLUDING PENSION LIABILITIES		855,497	818,649	832,486	797,144
Net pension liabilities	32(a)	(109,269)	(86,991)	(109,269)	(86,991)
NET ASSETS INCLUDING PENSION LIABILITIES		746,228	731,658	723,217	710,153
Deferred capital grants	21	431,490	431,014	412,624	411,692
Endowment funds					
Expendable endowments	22	24,968	26,175	24,968	26,175
Permanent endowments	22	128,700	132,529	128,700	132,529
Total endowment funds		153,668	158,704	153,668	158,704
Reserves					
Income and expenditure account excluding pension reserve	23	255,370	211,875	255,362	214,020
Pension reserve	23	(109,269)	(86,991)	(109,269)	(86,991)
Income and expenditure account including pension reserve		146,101	124,884	146,093	127,029
Revaluation reserve	24	14,877	16,988	10,832	12,728
Total reserves		160,978	141,872	156,925	139,757
Minority interests	25	92	68	-	-
TOTAL FUNDS		746,228	731,658	723,217	710,153

The Financial Statements on pages 21 to 61 were approved by the Board of Governors of The University of Manchester on 29 November 2012 and were signed on its behalf by:

Mr Anil Ruia
Chair of the Board of Governors and Pro-Chancellor

Professor Dame Nancy Rothwell
President and Vice-Chancellor

Mr Stephen Mole
Director of Finance

Consolidated cash flow statement

For the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Net cash inflow from operating activities	26	56,472	66,411
Returns on investments and servicing of finance	27	3,011	1,896
Taxation	9	-	-
Capital expenditure and financial investment	28	(48,978)	(57,424)
Cash inflow before management of liquid resources		10,505	10,883
Management of liquid resources	29	12,772	(35,058)
Financing	30	(7,648)	(6,278)
Increase/(decrease) in cash in the year		15,629	(30,453)

Reconciliation of consolidated net cash flow to increase in net funds

For the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Increase/(decrease) in cash in the year	31	15,629	(30,453)
Cash (outflow)/inflow from liquid resources	31	(12,772)	35,058
Change in debt resulting from cash flows	31	7,648	6,278
New finance lease	31	(2,290)	-
Movement in net funds in year		8,215	10,883
Net funds at beginning of year	31	16,533	5,650
Net funds at end of year	31	24,748	16,533

Notes to the financial statements

1 Funding body grants

	Consolidated 2012 £000	2011 £000
Recurrent grants		
Higher Education Funding Council - Teaching	**92,722**	97,054
Higher Education Funding Council - Research	**82,528**	83,161
Higher Education Funding Council - Other	**6,876**	7,572
Training and Development Agency	**2,396**	2,700
Specific grants		
Special initiatives	**3,412**	3,406
Deferred capital grants released in year:		
Buildings	**7,150**	7,738
Equipment	**1,382**	1,590
	196,466	203,221

2 Tuition fees and education contracts

	Consolidated 2012 £000	2011 £000
Fees in respect of:		
Full-time home and EU students	**86,675**	84,226
Full-time international students	**119,737**	107,805
Part-time students	**22,273**	21,432
Short course fees	**14,254**	15,001
Other teaching contract courses - core activities	**18,506**	17,914
Research training support grants	**630**	897
	262,075	247,275

3 Research grants and contracts

	Consolidated 2012 £000	2011 £000
Research Councils	**72,343**	76,140
UK based charities	**45,767**	48,937
UK central government, hospitals and health authorities	**31,667**	32,628
UK industry and commerce	**12,819**	14,383
Overseas	**24,666**	23,386
Other sources	**757**	768
	188,019	196,242

Research grants and contracts income includes the release of deferred capital grants of £9.0m for the year ended 31 July 2012 (2011: £9.6m).

4 Other income

	Consolidated 2012 £000	2011 £000
Residences, catering and conferences	**47,760**	47,052
Premises	**2,963**	2,962
Academic departments	**36,710**	35,753
Academic services	**2,251**	2,101
Continuing education and training	**164**	77
Administration and central services	**7,892**	4,877
Services rendered	**4,744**	4,098
Health authorities	**19,732**	23,505
Other general income - University only	**6,754**	8,951
Use of sports facilities	**1,035**	1,162
Other general income - subsidiary undertakings	**7,243**	7,906
Manchester University Press	**1,912**	1,897
Releases of deferred capital grants from non-funding body sources	**6,364**	6,663
	145,524	147,004

5 Endowment and investment income

	Consolidated 2012 £000	2011 £000
Income from expendable endowments (note 22)	**490**	397
Income from permanent endowments (note 22)	**2,549**	2,704
Income from donations	**4,302**	4,463
Income from short term investments	**5,011**	3,713
Dividends from general fund investments	**360**	415
Surplus on disposal of fixed asset investments	**677**	170
Net return on pension schemes (note 32a)	**1,533**	2,450
Other interest receivable	**305**	530
	15,227	14,842

6 Staff costs

	Consolidated 2012 £000	2011 £000
Wages and salaries	**319,479**	325,039
Social security costs	**26,938**	27,229
Pension costs (note 32a)	**69,062**	55,776
Early retirement and voluntary severance scheme costs (note 20)	**5,198**	12,188
	420,677	420,232

Clinical Excellence Awards paid to NHS Consultants employed on joint contracts between the NHS and the University are not borne by the University and are excluded from the above analysis. These amount to £4.4m for the year ended 31 July 2012 (2011: £4.7m).

As set out in note 32, in June 2009 the University introduced a salary sacrifice arrangement, known as PensionChoice, for University employees who are members of the USS and UMSS pension schemes. Wages and salaries for USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff and the pension costs reflect the increased employer element of the USS and UMSS pension contributions.

There are two early retirement and voluntary severance schemes included in the above figures. The first came into effect from 30 April 2010 and concluded 31 January 2011. The second came into effect from 1 May 2011 and concluded 30 September 2011 with the exception of certain specific areas.

Staff numbers	Consolidated 2012 Numbers	2011 Numbers
Academic - teaching and research	**1,876**	1,824
Academic - teaching only	**442**	437
Research	**1,740**	1,725
Administrative and management	**1,303**	1,322
Clerical and secretarial	**1,385**	1,395
Academic support	**1,446**	1,466
Craft / manual	**796**	869
Total number of staff	**8,988**	9,038

The staff numbers disclosed above relate to full-time equivalents.

6 Staff costs (continued)

Remuneration of higher paid staff (other than the President and Vice-Chancellor), excluding employer's pension contributions, was within the ranges set out below. Payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment are included within remuneration.

	Consolidated	
	2012 Number of Employees	2011 Number of Employees
£100,001 - £110,000	**28**	32
£110,001 - £120,000	**23**	9
£120,001 - £130,000	**9**	9
£130,001 - £140,000	**7**	8
£140,001 - £150,000	**4**	1
£150,001 - £160,000	**5**	6
£160,001 - £170,000	**4**	2
£170,001 - £180,000	**3**	4
£180,001 - £190,000	**1**	1
£200,001 - £210,000	**1**	3
£280,001 - £290,000	**1**	2
£290,001 - £300,000	**1**	-
£300,001 - £310,000	**1**	-
	88	77

Emoluments of the President and Vice-Chancellor	Consolidated	
	2012 £000	2011 £000
Salary	**245**	245
Benefits in kind	**3**	3
	248	248
Pension contributions	**39**	39

The Chair of the Board of Governors and Pro-Chancellor has waived his right to fees in respect of the year.
No termination payments were paid to individuals whose annual remuneration exceeded £100,000.

7(a) Analysis of expenditure by activity

	Staff Costs	Other operating expenses	Depreciation	Interest payable	Consolidated 2012	2011
	£000	£000	£000	£000	£000	£000
Academic departments	237,446	91,661	4,886	-	333,993	329,035
Academic services	23,327	18,202	25	-	41,554	44,511
Research grants and contracts	84,945	54,688	10,870	-	150,503	151,642
Residences, catering and conferences	5,918	23,324	37	2,051	31,330	36,330
Premises	20,188	38,316	24,502	7,833	90,839	93,262
Administration and central services	17,393	9,342	-	11	26,746	13,787
Staff and student facilities	9,789	7,871	-	-	17,660	16,946
General educational expenditure	4,237	23,611	3	-	27,851	27,038
Other services rendered	2,531	3,273	37	-	5,841	7,078
Early retirement and voluntary severance scheme costs	4,938	121	-	-	5,059	12,188
Total University	**410,712**	**270,409**	**40,360**	**9,895**	**731,376**	731,817
Subsidiary undertakings	9,965	15,644	1,061	111	26,781	22,690
Total	**420,677**	**286,053**	**41,421**	**10,006**	**758,157**	754,507

7(b) Analysis of other operating expenses

	Consolidated 2012	2011
	£000	£000
Equipment purchases and maintenance	35,317	29,411
Estate repairs and maintenance	20,104	24,689
Consumables and laboratory expenditure	30,247	31,600
Catering supplies	5,155	4,754
Library and publications	8,742	8,147
Professional and other fees	40,093	40,295
Travel and subsistence	14,768	15,006
Printing, stationery and office expenses	12,504	12,304
Fellowships, scholarships and prizes	56,610	55,522
Recruitment, training and welfare	8,221	4,359
Heat, light, water and power	16,664	14,567
Rent, rates and insurance	16,015	13,852
Grants to student union	1,413	1,413
External auditor's remuneration in respect of audit services	263	228
External auditor's remuneration in respect of non audit services	548	471
Other expenditure	3,745	9,675
Subsidiary undertakings other operating expenditure	15,644	13,814
	286,053	280,107

The analysis of auditor's remuneration is as follows:

	2012	2011
	£000	£000
Fees payable to the University's auditor for the audit of the University's annual accounts	219	195
Fees payable to the University's auditor and its associates for other services to the Group		
The audit of the University's subsidiaries pursuant to legislation	44	33
Total audit fees	263	228
Other services pursuant to legislation	-	19
Tax services	190	246
Consultancy services	358	206
Total non-audit fees	548	471

There is also £468k (2011: £633k) of fees payable to the University's auditor included within tangible fixed asset additions, for property consultancy services received.

The disclosures above are for the Group. The University is not required, in its individual financial statements, to disclose separately information about fees for non-audit services provided to the University because the consolidated financial statements are required to disclose such fees on a consolidated basis.

8 Interest and other finance costs

	Consolidated 2012 £000	Consolidated 2011 £000
Bank and other loans wholly repayable within five years	**36**	40
Bank and other loans not wholly repayable within five years	**9,848**	10,174
Finance leases	**11**	-
Other interest payable	**111**	112
	10,006	10,326

9 Taxation

	Consolidated 2012 £000	Consolidated 2011 £000
Current Tax		
UK Corporation tax of 25.33% (2011: 27.33%) on surplus for the year	**-**	-
Deferred tax		
Origination and reversal of timing differences	**(238)**	110
Total tax (credit)/charge	**(238)**	110
Tax paid in year	**-**	-

10 Goodwill

	Consolidated £000
Cost	
At 1 August 2011 and at 31 July 2012	94
Amortisation	
At 1 August 2011 and at 31 July 2012	94
Net book value	
At 1 August 2011 and at 31 July 2012	-

There are no other intangible assets within the University.

11 Tangible fixed assets

(a) Consolidated	Freehold land and buildings £000	Lease premium £000	Assets under construction £000	Fixtures, fittings tools and equipment £000	Heritage assets £000	2012 Total £000
Cost/valuation						
At 1 August 2011	763,657	-	49,550	198,891	1,677	**1,013,775**
Additions at cost	(5,337)	-	65,555	12,448	160	**72,826**
Transfers between categories	40,430	-	(45,593)	5,163	-	**-**
Disposals	-	-	-	(5,360)	-	**(5,360)**
At 31 July 2012	798,750	-	69,512	211,142	1,837	**1,081,241**
Depreciation						
At 1 August 2011	164,174	-	-	161,788	-	**325,962**
Charge for the year	21,433	-	-	19,988	-	**41,421**
Disposals	-	-	-	(5,315)	-	**(5,315)**
At 31 July 2012	185,607	-	-	176,461	-	**362,068**
Net book value						
At 31 July 2012	**613,143**	**-**	**69,512**	**34,681**	**1,837**	**719,173**
At 1 August 2011	599,483	-	49,550	37,103	1,677	**687,813**

(b) University	Freehold land and buildings £000	Lease premium £000	Assets under construction £000	Fixtures, fittings tools and equipment £000	Heritage assets £000	2012 Total £000
Cost/valuation						
At 1 August 2011	720,192	5,400	50,280	195,985	1,677	**973,534**
Additions at cost	(5,337)	-	65,555	11,443	160	**71,821**
Transfers between categories	40,430	-	(45,593)	5,163	-	**-**
Disposals	-	-	-	(5,360)	-	**(5,360)**
At 31 July 2012	755,285	5,400	70,242	207,231	1,837	**1,039,995**
Depreciation						
At 1 August 2011	158,217	962	-	160,082	-	**319,261**
Charge for the year	20,666	74	-	19,620	-	**40,360**
Disposals	-	-	-	(5,315)	-	**(5,315)**
At 31 July 2012	178,883	1,036	-	174,387	-	**354,306**
Net book value						
At 31 July 2012	**576,402**	**4,364**	**70,242**	**32,844**	**1,837**	**685,689**
At 1 August 2011	561,975	4,438	50,280	35,903	1,677	**654,273**

The negative additions to freehold land and buildings relate to the late receipt of VAT refunds from HMRC.

The transitional rules set out in FRS 15 'Tangible Fixed Assets' have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained subject to the requirement to test assets for impairment.

Included in Freehold land and buildings are buildings which were revalued to £13.4m, with accumulated depreciation of £7.2m (2011: £7.0m). These buildings have a net book value of £6.2m at 31 July 2012. The historical cost of these buildings is £12.0m and accumulated depreciation is £6.3m, giving a net book value on a historical cost basis of £5.7m (2011: £5.5m).

Land and buildings with a net book value of £9.6m (2011: £10.1m) are the subject of security granted in respect of certain bank loans as disclosed in note 19 to the financial statements.

At 31 July 2012, freehold land and buildings included £4.4m (2011: £4.5m) in respect of freehold land which is not depreciated.

Consolidated fixtures, fittings and equipment include assets held under finance leases as follows:

	Year Ended 31 July 2012 £'000	Year Ended 31 July 2011 £'000
Cost	**2,290**	-
Accumulated depreciation	**229**	-
Charge for year	**229**	-

11 Tangible fixed assets (continued)

Heritage assets

The University holds and maintains certain heritage assets, such as historic buildings and collections of art and other valuable artefacts of historical, scientific and artistic importance. The University conserves these assets and augments the collections where appropriate in order to enable use of the assets for teaching and research and access to the assets for engagement with members of the public. Further information on the University's policies regarding conservation, preservation, management and disposal of heritage assets can be found on the University's website http://www.manchester.ac.uk/aboutus/structure/visitor-attractions/.

Heritage assets acquired since 1 August 2007 and valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. These comprise in the main works of art purchased by the Whitworth Art Gallery and books donated to the John Rylands University Library. Capitalised donated heritage assets have been valued internally on acquisition on the basis of knowledge and experience of similar assets. Heritage assets held at cost or valuation are not depreciated due to their indefinite life and high residual value. Amounts for the current year and previous four years are as follows:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Cost or valuation at 1 August	**1,677**	**1,463**	**809**	**409**	**-**
Acquisitions purchased with donations	60	214	29	-	409
Value of acquisitions by donation	100	-	625	400	-
Total acquisitions capitalised	160	214	654	400	409
Cost or valuation at 31 July	**1,837**	**1,677**	**1,463**	**809**	**409**

The University also holds heritage assets that are not capitalised as, due to their unique nature, reliable information on cost or valuation is not readily available. This is owing to the lack of information on original purchase cost and the fact that these assets are not readily realisable. All costs incurred in relation to preservation and conservation are expensed as incurred. Key heritage assets held by the University fall into the categories detailed below. Their total value for insurance purposes is £1,335m (2011: £1,324m).

Whitworth Art Gallery, Manchester Museum and Manchester Medical Museum
Whitworth Art Gallery houses and displays collections including flat textiles ranging from 3rd Century AD to the present day; 17th century to modern day wallpapers; selections of prints, pre-1880 watercolours and modern art and sculpture collections. The Manchester Museum houses and displays various artefacts and fossils, in particular it has a substantial collection of ancient Egyptian artefacts as part of its archaeology collection. It also houses and displays collections in the fields of botany, anthropology and palaeontology as well as collections of rocks and minerals for example. The Manchester Medical Museum houses and displays past medical and nursing equipment, instruments and apparatus and some archival material.

Historic buildings: John Rylands Library Deansgate and Tabley House
John Rylands Library at Deansgate, Manchester is a Grade 1 listed building from the late 1800s styled in Victorian Gothic architecture. The building also houses and displays a rare collection of ancient books and manuscripts, including the oldest known piece of the New Testament and medieval manuscripts. The University also owns Tabley House, an 18th century Palladian mansion in Cheshire. The house is let on a long-lease of 125 years to a third party. Part of the house is open to the public and houses and displays various painting and furniture collections from that era.

Jodrell Bank
The University owns the 76 metre Lovell Telescope sited at Jodrell Bank in Cheshire. It was built in 1957, is a Grade 1 listed building and remains one of the most powerful radio telescopes in the world.

12 Investments within fixed assets

	Consolidated		University	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Movement in the year				
Balance at 1 August	**122,149**	90,666	**123,041**	92,305
Additions	**3,293**	31,645	**2,210**	30,403
Disposals and investments written off	**(1,015)**	(500)	**(5,457)**	(1,055)
Amounts provided on unquoted shares during the year	**(303)**	(1,217)	**(818)**	(398)
Release of provisions on investments written off	**156**	500	**4,051**	1,055
Transfer investment properties to current assets	**-**	(613)	**-**	(613)
(Devaluation)/revaluation of investment properties	**(1,048)**	317	**(833)**	317
Net depreciation of other investments within fixed assets including reinvested profits on sales	**(763)**	1,351	**(763)**	1,027
Balance at 31 July	**122,469**	122,149	**121,431**	123,041
Analysis of closing balance				
Other fixed interest securities	**2,596**	1,864	**2,596**	1,864
UK Index Linked	**2,170**	-	**2,170**	-
UK industrial and commercial securities	**5,445**	7,153	**5,445**	7,153
Overseas industrial and commercial securities	**3,995**	5,155	**3,995**	5,155
Other Investments - Pooled Funds	**2,117**	-	**2,117**	-
Property funds	**-**	1,396	**-**	1,396
Investment properties	**9,553**	10,386	**9,553**	10,386
Cash instruments	**1,883**	1,969	**1,883**	1,969
Cash held with investment managers	**59**	54	**59**	54
Long-term cash deposits	**85,000**	85,000	**85,000**	85,000
Interests in subsidiary undertakings (note 12a)	**-**	-	**4,790**	6,170
Interests in associated undertakings (note 12b)	**5,803**	6,784	**-**	70
Loan to Sugden Sports Trust	**-**	-	**3,705**	3,705
Other investments	**3,848**	2,388	**118**	119
Total investments within fixed assets	**122,469**	122,149	**121,431**	123,041
Investments at cost	**107,469**	105,191	**111,275**	114,522

The investment properties totalling £9.6m (2011: £10.4m) were revalued on an open market basis as at 31 July 2008 by an external valuer, GVA Grimley Ltd which is registered with the Royal Institution of Chartered Surveyors. The valuation was performed in accordance with the RICS Valuation Standards (6th Edition). The valuation has been updated to 31 July 2012 by senior management at The University of Manchester and the value was revised downwards to £9.6m as a consequence.

As a result of an independent review of the University's investment strategy, in March 2012 the investment portfolio of one of the University's two main investment managers was transferred to the other investment manager. Where possible the portfolio was integrated into existing funds / portfolios. If this was not possible, then the investments were sold and reinvested as appropriate. The transfer amounted to £3.7m and is not considered to be a disposal.

Notes to the financial statements (continued)

12 Investments within fixed assets (continued)

(a) Investments in subsidiary undertakings

At year end, investments in subsidiary undertakings after provisions comprise:

	Group	University		
Directly owned	**Holding**	**2012**	2011	**Description**
Indirectly owned	**%**	**£**	£	
Manchester Innovation Holdings Limited	100	**3,599,100**	4,143,092	Holding company
Manchester Innovation Limited	100	**-**	-	Construction of a biotech incubator building
Manchester Technology Developments Limited	100	**-**	-	Dissolved 23 August 2011
Control Technology Centre Limited	100	**-**	-	Dissolved 7 December 2010
The University of Manchester Innovation Centre Limited	100	**1**	1	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	**500,001**	1,836,153	Holding company
UVL Investments Limited	100	**-**	-	Dissolved 4 September 2012
Fusion (LP One) Limited	100	**-**	-	Dissolved 20 March 2012
Fusion (LP Two) Limited	100	**-**	-	Dissolved 20 March 2012
Fusion (LP Three) Limited	100	**-**	-	Dissolved 20 March 2012
Fusion (LP Four) Limited	100	**-**	-	Dissolved 20 March 2012
Manchester Informatics Limited	100	**-**	100	Dissolved 10 April 2012
Visual Automation Limited	100	**2**	2	Provision of consultancy services
Manchester Technology Fund Limited	100	**-**	-	Dissolved 23 August 2011
The University of Manchester I3 Limited	100	**50,000**	50,000	Management of intellectual property
UMIP UPF Limited	100	**10,000**	10,000	Investment in the UMIP Premier Fund
The University of Manchester Conferences Limited	100	**2**	2	Management of conference facilities
Systemcost Trading Limited	100	**185**	185	Design and construction company
The University of Manchester Car Parks Limited	100	**96**	96	Maintenance and running of car park facilities
The University of Manchester Licensing Company Limited	100	**1,000**	1,000	Dormant
The University of Manchester Incubator Company Limited	100	**-**	-	Dissolved 23 August 2011
MBS Incubator Limited	56	**-**	-	Dissolved 1 November 2011
MBSI Portfolio Limited	100	**-**	-	Dissolved 8 November 2011
Dryden Street Nursery Limited (CLG)	100	**-**	-	Ceased trading 31 July 2012
Sugden Sports Trust	50	**-**	-	Ownership of sports centre
UMIST Educational Trust	100	**-**	-	Ceased trading 31 March 2012
Vumpine Limited	50	**50**	50	Dormant
UMSS Limited	100	**2**	2	To undertake the duty of trustee of UMSS
MBS Worldwide Limited	100	**124,288**	124,288	Provision of distance learning
Manchester Business School (Shanghai) Limited	100	**-**	-	Consultancy and management services
Manchester Business School America Inc	100	**-**	-	Provision of distance learning
Manchester Business School PTE Ltd	100	**-**	-	Provision of distance learning
The University of Manchester Ophthalmic Services Limited	100	**-**	100	Dissolved 17 July 2012
UoM Singapore PTE Ltd	100	**5,260**	5,260	Teaching of Nursing degrees in Singapore
2-Dtech Ltd	100	**500,000**	-	Graphene supply and consultancy
The University of Manchester (CLG)	100	**-**	-	Dormant
Owens College (CLG)	100	**-**	-	Dormant
Owens College Manchester (CLG)	100	**-**	-	Dormant
Manchester University (CLG)	100	**-**	-	Dormant
UMIST (CLG)	100	**-**	-	Dormant
		4,789,987	6,170,331	

Certain subsidiary undertakings above are shown as having nil cost of investment. In each case these are either indirectly owned as indicated, are limited by guarantee ('CLG') or are Trusts.

Where applicable, the 'Group holding' is equivalent to the proportion of voting rights and shares held.

All the subsidiary undertakings are incorporated in England and Wales, with the exception of UoM Singapore PTE Ltd and the subsidiaries of MBS Worldwide Limited.

All subsidiary undertakings prepare statutory accounts to the same year end date as the University with the exception of Sugden Sports Trust and UMIST Educational Trust, which have a financial year end of 31 March.

12 Investments within fixed assets (continued)

(b) Investments in associated undertakings

Movement in the year	Consolidated 2012 £000	2011 £000
Balance at 1 August	6,784	6,383
Share of profits	23	77
Loss on dilution of shareholding	(789)	-
Share of property (devaluations)/revaluations	(215)	324
Balance at 31 July	5,803	6,784

The University and Group had the following associated undertakings as at 31 July 2012:

Name of associate	Class of share capital held	Proportion held by the University and Group	Share of net assets/ (liabilities) 2012 £000	Share of net assets/ (liabilities) 2011 £000
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	19.78%	2,730	3,663
One Central Park Limited Financial year end 31 July	£1 ordinary	20%	3,116	3,164
The Corridor, Manchester Financial year end 31 March	CLG	33%	(43)	(43)
			5,803	6,784

The associated companies are accounted for using the equity method. All associated companies were incorporated in the United Kingdom.

13 Endowment assets

	Consolidated 2012 £000	Consolidated 2011 £000	University 2012 £000	University 2011 £000
Movement in the year				
Balance at 1 August	**158,704**	144,368	**158,704**	144,368
New endowments including unreleased income earned on capital	**503**	1,656	**503**	1,656
Net (depreciation)/appreciation including reinvested profits on sales	**(5,539)**	12,680	**(5,539)**	12,680
Balance at 31 July	**153,668**	158,704	**153,668**	158,704
Analysis of closing balance				
Other fixed interest securities	**20,729**	15,984	**20,729**	15,984
UK Index Linked	**17,138**	-	**17,138**	-
UK industrial and commercial securities	**43,642**	61,558	**43,642**	61,558
Overseas industrial and commercial securities	**31,937**	44,276	**31,937**	44,276
Other Investments - Pooled Funds	**16,724**	-	**16,724**	-
Commodities	**57**	-	**57**	-
Property	**40**	11,865	**40**	11,865
Hedge funds	**134**	140	**134**	140
Cash instruments	**8,394**	9,817	**8,394**	9,817
Cash held with investment managers	**587**	559	**587**	559
Bank and building society deposits and uninvested bank balances	**14,286**	14,505	**14,286**	14,505
Total endowment assets	**153,668**	158,704	**153,668**	158,704
Endowment assets at cost	**110,710**	110,207	**110,710**	110,207

As a result of an independent review of the University's investment strategy, in March 2012 the investment portfolio of one of the University's two main investment managers was transferred to the other investment manager. Where possible the portfolio was integrated into existing funds / portfolios. If this was not possible, then the investments were sold and reinvested as appropriate. The transfer amounted to £29.2m and is not considered to be a disposal.

14 Debtors: amounts falling due within one year

	Consolidated 2012 £000	Consolidated 2011 £000	University 2012 £000	University 2011 £000
Trade debtors	**35,497**	27,549	**34,603**	25,506
Accrued income on research grants and contracts	**27,199**	29,459	**27,199**	29,459
Prepayments and accrued income	**26,910**	32,631	**26,403**	32,697
Current assets held for sale	**-**	2,480	**-**	2,480
Amounts due from subsidiary companies	**-**	-	**1,216**	3,177
Amounts due from associate companies and spin outs	**188**	64	**125**	-
Balance at 31 July	**89,794**	92,183	**89,546**	93,319

Current assets held for sale in the prior year represented the book value of a property which was previously held partly in Tangible fixed assets and partly in Fixed asset investments. The sale was agreed before year end and contracts exchanged soon after the year end.

15 Debtors: amounts falling due after more than one year

	Consolidated 2012 £000	Consolidated 2011 £000	University 2012 £000	University 2011 £000
Loans to University of Manchester Students' Union	**68**	67	**68**	67
Amounts due from subsidiary companies	**-**	-	**13,028**	11,815
Amounts due from associate companies and spin outs	**222**	286	**-**	-
Balance at 31 July	**290**	353	**13,096**	11,882

16 Investments within current assets

	Consolidated 2012 £000	Consolidated 2011 £000	University 2012 £000	University 2011 £000
Bank deposits repayable after due notice	**142,723**	155,495	**142,723**	155,495
Bank deposits repayable on demand	**26,400**	16,550	**26,400**	16,550
Balance at 31 July	**169,123**	172,045	**169,123**	172,045

Deposits with more than 24 hours maturity at the balance sheet date are held with banks and building societies, all of which operate in the London market and are licensed by the FSA. The interest rates for these deposits are fixed for the duration of the deposit at the time of placement.

At 31 July 2012 the weighted average interest rate of these fixed rate deposits was 1.46% (2011: 1.2%) per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 122 days (2011: 76 days).

17 Creditors: amounts falling due within one year

	Consolidated		University	
	2012	2011	2012	2011
	£000	£000	£000	£000
Bank loans (note 19)	6,581	6,310	6,581	6,310
Loans other than bank loans (note 19)	4,000	1,000	4,000	1,000
Trade creditors	34,363	26,337	32,928	24,906
Obligations under finance leases	650	-	650	-
Social security and other taxation payable	10,070	19,899	9,694	19,229
Amounts owed to group undertakings	-	-	179	84
Other creditors	27,257	21,038	26,768	20,538
Deferred income on research grants and contracts	67,886	69,509	67,720	69,509
Accruals and deferred income	99,478	102,739	88,604	94,191
Balance at 31 July	250,285	246,832	237,124	235,767

18 Creditors: amounts due after more than one year

	Consolidated		University	
	2012	2011	2012	2011
	£000	£000	£000	£000
Bank loans (note 19)	60,409	70,990	60,409	70,990
Loans other than bank loans (note 19)	110,706	110,706	109,000	109,000
Other creditors due after more than one year:				
Obligations under finance leases due within one to five years	1,302	-	1,302	-
After five years	1,113	1,113	1,113	1,113
Balance at 31 July	173,530	182,809	171,824	181,103

19 Borrowings

	Consolidated		University	
	2012	2011	2012	2011
Bank and other loans	£000	£000	£000	£000
Bank and other loans are repayable as follows:				
In one year or less	10,581	7,310	10,581	7,310
Between one and two years	10,864	10,580	10,864	10,580
Between two and five years	21,389	25,244	21,389	25,244
In five years or more	138,862	145,872	137,156	144,166
	181,696	189,006	179,990	187,300
Included within creditors: amounts falling due within one year	(10,581)	(7,310)	(10,581)	(7,310)
	171,115	181,696	169,409	179,990

Secured bank loans

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2012 and 2021 totalling £19.9m (2011: £21.1m) are secured on various student residences.

Bank loans with an interest rate of 8.4%, repayable by instalments falling due between 2012 and 2017 totalling £1m (2011: £1.1m) are secured on Ronson Hall.

Bank loans with an interest rate of LIBOR plus spread, repayable by instalments falling due between 2012 and 2014 totalling £2.1m (2011: £3.0m) are secured by an all monies guarantee (see note 35).

Unsecured bank and other loans

Bank loans with an interest rate of 6.1%, repayable by instalments falling due between 2012 and 2026 totalling £15.5m (2011: £16.2m).
Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2012 and 2019 totalling £15.6m (2011: £17.7m).
Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2012 and 2022 totalling £16.8m (2011: £18.1m).
Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £100m (2011: £100m).
Other loans which are interest free and repayable by instalments falling due between 2012 and 2014 totalling £9m (2011: £10m).
Other loans with an interest rate of 6.5%, repayable by one repayment falling due in 2018 totalling £1.7m (2011: £1.7m).

20 Provisions for liabilities

(a) Consolidated

	Early retirement/ voluntary severance £000	Deferred tax £000	2012 Total £000
Balance at beginning of year	4,681	780	**5,461**
Utilised during the year	(8,720)	-	**(8,720)**
Charged/(credited) to income and expenditure account	5,198	(238)	**4,960**
Balance at 31 July	**1,159**	**542**	**1,701**

Deferred tax
The elements of deferred tax are as follows:

	2012 £000	2011 £000
Difference between accumulated depreciation and capital allowances	**457**	804
Other timing differences	**85**	(24)
Balance at 31 July	**542**	780

(b) University

	Early retirement/ voluntary severance £000	2012 Total £000
Balance at beginning of year	4,681	**4,681**
Utilised during the year	(8,452)	**(8,452)**
Charged to income and expenditure account	4,930	**4,930**
Balance at 31 July	1,159	**1,159**

Early retirement and voluntary severance scheme
The early retirement and voluntary severance scheme provision is in respect of future committed payments due to employees at the balance sheet date. The provision is expected to be settled within the next six months dependent upon the agreed departure date of the relevant employees. As the amount of the provision for each employee is already determined at the time of agreeing to the commitment, the amount of the final settlement is anticipated to be in line with the year end provision.

21 Deferred capital grants

(a) Consolidated	Funding Council £000	Other grants £000	2012 Total £000
Balance at 1 August 2011			
Buildings	274,421	134,810	409,231
Equipment	3,170	17,399	20,569
Donated assets	-	1,214	1,214
Total	277,591	153,423	431,014
Grants received/receivable			
Buildings	10,218	3,231	13,449
Equipment	1,200	9,114	10,314
Donated assets	-	630	630
Total received	11,418	12,975	24,393
Released to income and expenditure			
Buildings	7,150	5,398	12,548
Equipment	1,382	9,780	11,162
Donated assets	-	207	207
Total released	8,532	15,385	23,917
Balance at 31 July 2012			
Buildings	277,489	132,643	410,132
Equipment	2,988	16,733	19,721
Donated assets	-	1,637	1,637
Total	**280,477**	**151,013**	**431,490**

(b) University	Funding Council £000	Other grants £000	2012 Total £000
Balance at 1 August 2011			
Buildings	274,421	115,488	389,909
Equipment	3,170	17,399	20,569
Donated assets	-	1,214	1,214
Total	277,591	134,101	411,692
Grants received/receivable			
Buildings	10,218	3,231	13,449
Equipment	1,200	9,114	10,314
Donated assets	-	630	630
Total received	11,418	12,975	24,393
Released to income and expenditure			
Buildings	7,150	4,942	12,092
Equipment	1,382	9,780	11,162
Donated assets	-	207	207
Total released	8,532	14,929	23,461
Balance at 31 July 2012			
Buildings	277,489	113,777	391,266
Equipment	2,988	16,733	19,721
Donated assets	-	1,637	1,637
Total	**280,477**	**132,147**	**412,624**

22 Endowments

Consolidated and University	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2012 Total £000	2011 Total £000
Balance at 1 August						
Capital	15,924	104,981	**120,905**	24,593	**145,498**	130,082
Accumulated income	-	11,624	**11,624**	1,582	**13,206**	14,286
	15,924	116,605	**132,529**	26,175	**158,704**	144,368
New endowments	42	400	**442**	358	**800**	2,630
Reclassification of endowment funds (capital)	-	(34)	**(34)**	34	**-**	-
Reclassification of endowment funds (accumulated income)	-	115	**115**	(115)	**-**	-
Dividends reinvested	7	45	**52**	10	**62**	106
Depreciation of endowment assets	(612)	(4,031)	**(4,643)**	(896)	**(5,539)**	12,680
University of Manchester withdrawal	-	(7)	**(7)**	(1)	**(8)**	(124)
Purchase of tangible assets from endowment funds	-	(10)	**(10)**	(77)	**(87)**	(111)
Investment income	338	2,211	**2,549**	490	**3,039**	3,101
Expenditure from accumulated income	(338)	(1,955)	**(2,293)**	420	**(1,873)**	(3,946)
Expenditure from capital	-	-	**-**	(1,430)	**(1,430)**	-
Balance at 31 July	**15,361**	**113,339**	**128,700**	**24,968**	**153,668**	**158,704**
Representing:						
Capital	15,361	101,361	**116,722**	22,669	**139,391**	145,498
Accumulated income	-	11,978	**11,978**	2,299	**14,277**	13,206
Total	**15,361**	**113,339**	**128,700**	**24,968**	**153,668**	**158,704**

Included within endowments are a number of permanent funds with a combined deficit of accumulated income of £0.1m at 31 July 2012. The University monitors these funds and expects them to return to an accumulated income position over future years.

Set out below are details of material charitable funds that are over 1% of the value of total endowment funds.

	Capital value at 31 July 2012 £000	Opening accumulated income £000	Investment income £000	Expenditure £000	**Closing accumulated income £000**	Date received
Hallsworth Fund *	**18,709**	415	412	(504)	**323**	1944
Simon Fund *	**10,376**	216	229	(271)	**174**	1943
Oncology department fund *	**9,191**	176	203	(277)	**102**	1975
Student Services Centre - prize and scholarship fund *	**5,012**	340	111	(1)	**450**	2001
John Rylands general library fund *	**4,972**	742	110	(133)	**719**	1972
John Rylands research institute fund *	**4,579**	1,063	100	-	**1,163**	1972
National fund for research into crippling diseases	**3,869**	7	85	(67)	**25**	1974
Dr Mont Follick professorship in phonetics	**2,758**	93	61	(54)	**100**	1962
BNFL permanent endowment	**2,638**	118	58	(74)	**102**	2008
BNFL expendable endowment	**2,390**	(4)	58	(54)	**-**	2008
Simon Fund (special) 1960	**2,375**	-	52	(52)	**-**	1960
Frederick Craven Moore Fund	**2,306**	249	51	(82)	**218**	1975
Davies Chair in Entrepreneurship	**2,072**	95	46	(50)	**91**	2008
Hulme Trust	**1,711**	-	37	(37)	**-**	1881
The Ted and Pat Smith Prize	**1,527**	-	13	-	**13**	2011
	74,485	**3,510**	**1,626**	**(1,656)**	**3,480**	
Significant funds and charities with income above £100,000						
See asterixed funds above	**52,839**	2,952	1,165	(1,186)	**2,931**	
Funds and charities with income below £100,000						
Fellowships and scholarships (155 funds)	**16,359**	2,972	356	(197)	**3,131**	
Prize funds (202 funds)	**4,516**	859	79	(106)	**832**	
Chairs and lectureships (75 funds)	**27,375**	1,790	576	(622)	**1,744**	
Other (309 funds)	**38,302**	4,633	863	143	**5,639**	
	139,391	**13,206**	**3,039**	**(1,968)**	**14,277**	

The University has one connected institution which, under paragraph 28 of Schedule 3 to the Charities Act 2011, is exempt from registration with the Charity Commission. This connected institution is the Friends of the Whitworth and its income is less than £0.1m per annum.

The capital is invested through investment managers.

Hallsworth Fund
This restricted permanent endowment is to assist and advance the study of Political Economy by the establishment of Research Fellowships and Visiting Professorships. It also provides resources to assist projects of research in Political Economy and the publication of books and documents in that field. The original governing document of this endowment was altered by the Charity Commission in 1998. The management and administration of this Fund is run by the Hallsworth Committee which is appointed as trustee by the Board of Governors.

Simon Fund
This restricted permanent endowment, operated by the Simon Fund Committee, primarily funds the appointment of Fellowships and Visiting Professorships in the field of Social Sciences, Professorial Industrial and Professorial Fellowships, Engineering Research Scholarships and a grant for entertainment to academic departments and Halls of Residence. Its purpose is also to promote research and teaching in the Social Sciences and a substantial portion of the income is to be used for Senior Fellowships. It also funds various ad hoc projects approved by the Simon Fund Committee.

Oncology department fund
This restricted permanent endowment is used to fund a Chair in Oncology, the donor being the Cancer Research Campaign.

Student Services Centre - prize and scholarship fund
This expendable endowment was set up by the Charity Commissioners in 2001 following the merger of a number of small endowments which could no longer be used. It was split 75% this Fund and 25% the Postgraduate Prize and Scholarship Fund. The object of the charity is to further the education of students attending the University of Manchester by the award of prizes, scholarships or other suitable reward.

John Rylands general library fund
This expendable endowment is to support the purchase of books for the John Rylands library.

John Rylands research institute fund
This restricted permanent endowment is similarly constituted and is also to support the purchase of books for the library.

National fund for research into crippling diseases
This restricted permanent endowment was established in 1974 with the receipt of funds from the National Fund for Research into Crippling Diseases with the purpose of establishing a Chair of Preventative Paediatric Research. Since then, the income has continued to support this field of medical research.

Dr Mont Follick professorship in phonetics
This restricted permanent endowment was established in 1962 under the Will of the late Dr Mont Follick. Its purpose is to fund a Chair of Comparative Philology.

British Nuclear Fuels Ltd (BNFL) permanent endowment
This restricted permanent endowment from BNFL is to support a series of Chair (professorial) appointments in nuclear research.

British Nuclear Fuels Ltd (BNFL) expendable endowment
This expendable endowment is to provide infrastructure support for the BNFL Chair appointments for a period of no less than 15 years.

Simon Fund (special) 1960
This unrestricted permanent endowment established in 1960 put the income at the disposal of Chairman of Council, the Treasurer, Lord Simon of Wythenshawe and the Vice-Chancellor for such purposes as they shall from time to time determine for the general benefit of the University.

Frederick Craven Moore Fund
This restricted endowment was established in 1975 under the Will of Mrs Marjory Moore for the advancement of clinical medicine by research and teaching. The income is used to fund Fellowships for research in clinical medicine, scholarships for study or research in clinical medicine and grants in aid of research in clinical medicine and in support of the study and teaching of clinical medicine.

Davies Chair in Entrepreneurship
This restricted permanent endowment was established to fund a Chair in Entrepreneurship at Manchester Business School.

Hulme Trust
This unrestricted permanent endowment funded by the Hulme Trust Estates (Educational) charity can be spent at the discretion of the Vice-Chancellor and for the general purposes of the University.

The Ted and Pat Smith Prize
This restricted permanent endowment is used to support undergraduate studentships and/or bursaries in engineering and science with a preference for the materials field.

23 Movement on general reserves

	Consolidated 2012 £000	Consolidated 2011 £000	University 2012 £000	University 2011 £000
Income and expenditure account				
Balance at beginning of year	211,875	171,842	214,020	172,159
Surplus retained for the year	48,823	54,825	46,670	56,653
Transfer from revaluation reserve	300	26	300	26
Transfer pension surplus to pension reserve	(5,628)	(14,818)	(5,628)	(14,818)
Balance at 31 July	255,370	211,875	255,362	214,020
Pension reserve				
Balance at beginning of year	(86,991)	(75,337)	(86,991)	(75,337)
Actuarial loss on pension schemes	(27,906)	(26,472)	(27,906)	(26,472)
Surplus retained within reserves	5,628	14,818	5,628	14,818
Balance at 31 July	(109,269)	(86,991)	(109,269)	(86,991)

24 Revaluation reserve

(a) Consolidated

	Land and buildings £000	Investment properties £000	Other investments within fixed assets £000	2012 Total £000
Revaluations				
At beginning of year	678	8,510	8,266	17,454
Revaluation in year	-	(833)	(978)	(1,811)
Transfer to general reserve on disposal	(287)	-	-	(287)
At 31 July	391	7,677	7,288	15,356
Contribution to depreciation				
At beginning of year	237	-	229	466
Transfer to income and expenditure account	13	-	-	13
At 31 July	250	-	229	479
Revaluation reserve				
At 31 July	**141**	**7,677**	**7,059**	**14,877**
At beginning of year	441	8,510	8,037	16,988

(b) University

	Land and buildings £000	Investment properties £000	Other investments within fixed assets £000	2012 Total £000
Revaluations				
At beginning of year	678	8,510	3,777	12,965
Revaluation in year	-	(833)	(763)	(1,596)
Transfer to general reserve on disposal	(287)	-	-	(287)
At 31 July	391	7,677	3,014	11,082
Contribution to depreciation				
At beginning of year	237	-	-	237
Transfer to income and expenditure account	13	-	-	13
At 31 July	250	-	-	250
Revaluation reserve				
At 31 July	**141**	**7,677**	**3,014**	**10,832**
At beginning of year	441	8,510	3,777	12,728

25 Minority interests

	Consolidated 2012 £000	Consolidated 2011 £000
At beginning of year	68	10
Minority interest in subsidiary undertakings' results for the year	67	64
Minority interest's contribution to deficit	(43)	(6)
At 31 July	92	68

26 Reconciliation of operating surplus to net cash inflow from operating activities

	Consolidated	
	2012	2011
	£000	£000
Surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation	**48,321**	54,090
Depreciation	**41,421**	43,842
Deferred capital grants released to income	**(23,917)**	(25,522)
Investment income	**(12,712)**	(11,692)
Transfers from endowments	**264**	845
Loss on disposal of fixed assets	**45**	544
Surplus on disposal of fixed asset investments	**(677)**	(170)
Interest payable	**10,006**	10,326
Interest receivable	**(305)**	(530)
Difference between pension charge and cash contributions	**(5,628)**	(14,818)
Minority interests	**24**	58
Decrease/(increase) in stocks	**6**	(6)
Decrease in long term debtors	**63**	36
Decrease/(increase) in debtors due within one year	**2,389**	(1,547)
(Decrease)/increase in creditors	**(468)**	15,833
Decrease in provisions	**(2,360)**	(4,878)
Net cash inflow from operating activities	**56,472**	66,411

27 Returns on investments and servicing of finance

	Consolidated	
	2012	2011
	£000	£000
Income from endowments	**3,039**	3,101
Income from short term investments	**5,011**	3,713
Income from donations	**4,302**	4,463
Dividend income from general fund investments	**360**	415
Other interest received	**305**	530
Interest paid	**(10,006)**	(10,326)
Net cash inflow from returns on investments and servicing of finance	**3,011**	1,896

28 Capital expenditure and financial investment

	Consolidated	
	2012	2011
	£000	£000
Purchase of tangible fixed assets	**(70,536)**	(62,111)
Acquisition of fixed asset investments	**(3,293)**	(31,803)
Net acquisition of endowment assets	**(722)**	(987)
Receipts from sale of tangible fixed assets	**-**	8
Receipts from sale of fixed asset investments	**677**	170
Deferred capital grants received	**24,393**	35,643
Endowments received	**503**	1,656
Net cash outflow from capital expenditure and financial investment	**(48,978)**	(57,424)

29 Management of liquid resources

	Consolidated	
	2012	2011
	£000	£000
Withdrawals/(placements) on deposit	**12,772**	(35,058)
Net cash inflow/(outflow) from management of liquid resources	**12,772**	(35,058)

30 Financing

	Consolidated 2012 £000	2011 £000
Bank loan repayments	**(7,310)**	(6,278)
Capital element of finance lease repayments	**(338)**	-
Net cash outflow from financing	**(7,648)**	(6,278)

31 Analysis of changes in net debt

Consolidated

	1 August 2011 £000	Cash flows £000	Non-cash changes £000	31 July 2012 £000
Cash at bank	18,989	5,998	-	**24,987**
Bank deposits repayable on demand (note 16)	16,550	9,850	-	**26,400**
Endowment asset investments (note 13)	14,505	(219)	-	**14,286**
	50,044	15,629	-	**65,673**
Bank deposits repayable after due notice (note 16)	155,495	(12,772)	-	**142,723**
Debt due within one year (note 19)	(7,310)	7,310	(10,581)	**(10,581)**
Debt due after one year (note 19)	(181,696)	-	10,581	**(171,115)**
Finance leases (notes 17 and 18)	-	338	(2,290)	**(1,952)**
Net funds	**16,533**	**10,505**	**(2,290)**	**24,748**

32 Pension Schemes

(a) Pension schemes - summary

According to the requirements of FRS 17 'Retirement Benefits', the following pension scheme deficits, pension operating charges and actuarial (losses)/gains are included in the financial statements:

	Consolidated and University 2012 £000	2011 £000
Balance sheet - Pension scheme deficits		
University of Manchester Superannuation Scheme	**(92,902)**	(73,794)
Greater Manchester Pension Fund	**(15,224)**	(12,780)
Manchester Innovation Limited Group Pension Scheme	**(1,143)**	(417)
	(109,269)	(86,991)

	2012 £000	2011 £000
Statement of total recognised gains and losses - Actuarial (losses)/gains		
University of Manchester Superannuation Scheme	**(24,645)**	(26,713)
Greater Manchester Pension Fund	**(2,225)**	207
Manchester Innovation Limited Group Pension Scheme	**(1,036)**	34
	(27,906)	(26,472)

Consolidated income and expenditure account

	2012 £000	2011 £000
Pension costs (note 6)		
University of Manchester Superannuation Scheme	**14,192**	14,275
Greater Manchester Pension Fund	**1,586**	(9,309)
Manchester Innovation Limited Group Pension Scheme	**4**	3
Universities Superannuation Scheme	**50,663**	48,011
NHS Pension Scheme	**2,617**	2,796
	69,062	55,776

	2012 £000	2011 £000
Net return on pension schemes (note 5)		
University of Manchester Superannuation Scheme	**1,462**	2,379
Greater Manchester Pension Fund	**82**	100
Manchester Innovation Limited Group Pension Scheme	**(11)**	(29)
	1,533	2,450

32 Pension schemes

(a) Pension schemes - summary (continued)

The four principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS), the NHS Pension Scheme, the University of Manchester Superannuation Scheme (UMSS) and the Greater Manchester Pension Fund (GMPF). In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme (MILGPS).

In June 2009 the University introduced a salary sacrifice arrangement, known as PensionChoice, for University employees who are members of the USS and UMSS pension schemes. Members of these schemes may elect to give up a portion of their contractual gross pay equal to their employees' pension contribution. In return the University increases its contributions to cover both the employee and employer elements of the pension contribution.

The salary sacrifice arrangement is reported in the financial statements as follows:
- Wages and salaries for USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff.
- Pension costs and pension contributions to the USS and UMSS schemes reflect the increased employer element of the pension contributions.
- Employers contribution percentage rates represent only the employer's contribution rates specified by the scheme trustees and exclude employees contribution percentage rates.

(b) Universities Superannuation Scheme ('USS')

The University of Manchester participates in the USS, a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The last triennial actuarial valuation of the scheme was at 31 March 2011. This was the second 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 the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter. At the valuation date, the value of the assets of the scheme was £32,433.5m and the value of the scheme's technical provisions was £35,343.7m indicating a shortfall of £2,910.2m. The assets were therefore sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

32 Pension schemes (continued)

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries. Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

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

New Entrants
Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age
The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement
Flexible Retirement options were introduced.

Member contributions increased
Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost sharing
If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap
For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

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

The total pension cost for the University of Manchester was £50.7m (2011: £48.0m). This includes £4.6m (2011: £4.3m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

(c) NHS Pension Scheme ('NHSPS')

The University of Manchester also participates in the NHSPS which is contracted out of the State Second Pension (S2P). The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the Government. There are no underlying assets. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account is therefore equal to the contributions payable to the scheme for the year.

The latest published actuarial valuation of the scheme was at 31 March 2004. It was assumed that the rate of real earnings growth would be 1.5% per annum (plus an additional allowance for increases in salary due to salary progression and promotion in line with recent experience) and the valuation rate of return would be 6.5% per annum.

The contribution rate payable by the University during the year ended 31 July 2012 was equal to 14% of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the scheme.

The total pension cost for the University of Manchester was £2.6m (2011: £2.8m). This includes £0.4m (2011: £0.3m) outstanding contributions at the balance sheet date.

(d) University of Manchester Superannuation Scheme ('UMSS')

UMSS is a defined benefit scheme in the UK which is contracted out of the State Second Pension (S2P). A new Career Average Revalued Earnings (CARE) section of UMSS was introduced to new joiners from 1 April 2012. Existing members at 1 April 2012 were able to continue in the Final Salary section of the scheme, but also had a one-off opportunity to switch to the new CARE section of UMSS, on 1 April 2012, for future pension build up. A full actuarial valuation was carried out at 31 July 2010 and updated to 31 July 2012 on an FRS 17 basis by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are detailed below:

To develop the expected long-term rate of return on assets assumptions, the University considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumptions for the portfolio. This resulted in the selection of the 6.33% assumption as at 31 July 2012.

Weighted average assumptions used to determine benefit obligations at 31 July 2012:	**2012**	2011
Rate of increase in salaries	**3.70%**	4.50%
Rate of increase of pensions in payment and deferred pensions (RPI)	**2.70%**	3.50%
Rate of increase of pensions in payment and deferred pensions (CPI)	**1.80%**	n/a
Discount rate	**4.40%**	5.40%
Inflation assumption (RPI)	**2.70%**	3.50%
Inflation assumption (CPI)	**1.80%**	n/a

Weighted average assumptions used to determine net pension cost for year ended:	**2012**	2011
Rate of increase in salaries	**4.50%**	4.20%
Expected long term return on plan assets	**7.09%**	7.37%
Discount rate	**5.40%**	5.50%

Weighted average life expectancy for mortality tables used to determine benefit obligations at:	**2012**	
	Male	**Female**
Member age 62 (current life expectancy)	**25.3**	**27.5**
Member age 42 (life expectancy at age 62)	**27.7**	**30.0**

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

	2012	**2012 £000**	2011	2011 £000	2010	2010 £000
Equities	**7.50%**	**129,364**	7.90%	145,829	8.25%	162,379
Bonds	**4.70%**	**138,313**	5.70%	116,348	5.80%	97,742
Property	**7.50%**	**61,132**	7.90%	55,232	8.25%	13,384
Total market value of assets		**328,809**		317,409		273,505
Actuarial value of liability		**(421,711)**		(391,203)		(324,215)
Net pension liability		**(92,902)**		(73,794)		(50,710)

Analysis of the amount charged to operating surplus

	2012 £000	2011 £000
Current service cost	**14,067**	14,000
Past service cost	**125**	275
Total operating charge	**14,192**	14,275

Analysis of net return on pension scheme

	2012 £000	2011 £000
Expected return on pension scheme assets	**22,399**	20,194
Interest on pension liabilities	**(20,937)**	(17,815)
Net return	**1,462**	2,379

32 Pension schemes (continued)

(d) University of Manchester Superannuation Scheme ('UMSS') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2012 £000	2011 £000
Actual return less expected return on scheme assets	(5,825)	23,043
Experience gains and losses on liabilities	(826)	(5,229)
Changes in assumptions	(17,994)	(44,527)
Actuarial loss recognised in STRGL	**(24,645)**	**(26,713)**

Reconciliation of fair value of employer assets

	2012 £000	2011 £000
Opening fair value of employer assets	317,409	273,505
Expected return on assets	22,399	20,194
Contributions by the employer	18,267	15,525
Contributions by members	894	941
Actuarial (losses)/gains	(5,825)	23,043
Benefits paid	(24,335)	(15,799)
Closing fair value of employer assets	**328,809**	**317,409**

Reconciliation of defined benefit obligation

	2012 £000	2011 £000
Opening defined benefit obligation	391,203	324,215
Current service cost	14,067	14,000
Past service cost	125	275
Interest cost	20,937	17,815
Contributions by members	894	941
Actuarial losses	18,820	49,756
Estimated benefits paid	(24,335)	(15,799)
Closing defined benefit obligation	**421,711**	**391,203**

At the last full actuarial valuation of the scheme as at 31 July 2010, the value of the assets of the scheme was £273.5m and the value of the past service liabilities was £324.2m leaving a deficit of £50.7m. The assets therefore were sufficient to recover 84.4% of the benefits which had accrued to members' deficit after allowing for expected future increases in earnings. The University currently pays contributions at the rate of 19% (19.75% until 1 April 2012) of pensionable pay for members who do not participate in PensionChoice and 26% of pensionable pay for those that do. For those that do not participate in PensionChoice, member contributions are payable in addition at the rate of 7% (6.25% until 1 April 2012) of pensionable pay. The employer also pays £1.125m quarterly in arrears, which started on 31 October 2011. With effect from 1 April 2012 pensions in payment and deferred pensions increase at a rate based on CPI as opposed to RPI (but still capped at 5%). This has reduced the service cost for the year ended 31 July 2012 by £0.7m.

The University has given the scheme direct security over a number of properties to the value of at least £35m (2011: £40m).

History of experience gains and losses

	Year ended 31 July				
	2012	2011	2010	2009	2008
Present value of defined benefit obligations	(421,711)	(391,203)	(324,215)	(302,124)	(265,188)
Fair value of scheme assets	328,809	317,409	273,505	243,624	266,472
(Deficit)/surplus in the scheme	(92,902)	(73,794)	(50,710)	(58,500)	1,284
Difference between expected and actual return on scheme assets:					
Amount (£000)	(5,825)	23,043	5,253	(47,964)	(36,764)
Percentage of scheme assets	(2%)	7%	2%	(20%)	(14%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	(826)	(5,229)	-	5,000	(1,736)
Percentage of scheme liabilities	0%	(1%)	0%	2%	(1%)

(e) Greater Manchester Pension Fund ('GMPF')

The GMPF is a final salary defined benefit scheme and a separate fund within the local government pension scheme (LGPS) which is contracted out of the State Second Pension (S2P). The LGPS is regulated by statute, with separate regulations for England and Wales and for Scotland. The benefits of LGPS funds are determined nationally by regulation and meet the definition of a defined benefit scheme. LGPS is a funded scheme, with some 100 separate funds administered locally by administering bodies. Each fund has many employing authorities. The LGPS is not therefore a national multi-employer scheme, but each separate LGPS fund is a multi-employer scheme. The University of Manchester is a member of one of these funds, the GMPF, which is administered by Tameside Metropolitan Borough Council.

A full actuarial valuation was carried out at 31 March 2010 and updated to 31 July 2012 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2012	2011
Rate of increase in salaries	3.70%	4.70%
Rate of increase in pensions in payment and deferred pensions	1.80%	2.70%
Discount rate applied to scheme liabilities	4.40%	5.40%
Inflation assumption (CPI)	1.80%	2.70%
Expected return on assets	6.50%	6.20%

The expected return on assets is based on the long-term future expected investment return for each asset class at the beginning of the period.
The mortality assumptions used as at 31 July 2012 are as follows:

Life expectancy is based on the fund's VitaCurves with improvements in line with the medium cohort and a 1% per annum underpin from 2010. Based on these assumptions, average future life expectancies at age 65 are:
- for current pensioners: 20.1 years for males and 22.9 years for females.
- for future pensioners: 22.5 years for males and 25.0 years for females.

The assets of the GMPF scheme attributable to the University and the expected rates of return were:

	2012	2012 £000	2011	2011 £000	2010	2010 £000
Equities	7.50%	55,347	7.00%	57,415	7.30%	53,956
Bonds	4.70%	17,611	4.60%	16,042	4.80%	11,730
Property	7.50%	4,193	5.10%	4,222	5.30%	4,692
Cash	2.80%	6,709	4.00%	6,755	4.40%	7,820
Total market value of assets		83,860		84,434		78,198
Actuarial value of scheme liability		(99,084)		(97,214)		(102,081)
Net pension liability		(15,224)		(12,780)		(23,883)

Analysis of the amount charged to operating surplus

	2012 £000	2011 £000
Current service cost	1,510	1,496
Past service cost/(income)	76	(10,805)
Total operating charge/(income)	1,586	(9,309)

The past service income of £10.8m in 2011 relates to the change from RPI to CPI for pension increases. This change has been accounted for on this basis as a contructive obligation for this change has arisen due to government communications of the basis of pension increases.

Analysis of net return on pension scheme

	2012 £000	2011 £000
Expected return on pension scheme assets	5,151	4,932
Interest on pension liabilities	(5,069)	(4,832)
Net return	82	100

Notes to the financial statements (continued)

32 Pension schemes (continued)

(e) Greater Manchester Pension Fund ('GMPF') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2012 £000	2011 £000
Actual return less expected return on scheme assets	(2,225)	207
Actuarial (loss)/gain recognised in STRGL	(2,225)	207

Reconciliation of fair value of employer assets

	2012 £000	2011 £000
Opening fair value of employer assets	84,434	78,198
Expected return on assets	5,151	4,932
Contributions by members	420	518
Contributions by the employer	1,094	1,297
Actuarial (losses)/gains	(2,975)	3,481
Estimated benefits paid	(4,264)	(3,992)
Closing fair value of employer assets	83,860	84,434

Reconciliation of defined benefit obligation

	2012 £000	2011 £000
Opening defined benefit obligation	97,214	102,081
Current service cost	1,510	1,496
Interest cost	5,069	4,832
Contributions by members	420	518
Contributions by the employer to unfunded scheme	(191)	(190)
Actuarial (gains)/losses	(750)	3,274
Past service cost/(income)	76	(10,805)
Estimated benefits paid	(4,264)	(3,992)
Closing defined benefit obligation	99,084	97,214

Analysis of the defined benefit obligation

	2012 £000	2011 £000
Present value of unfunded liabilities	2,141	2,115
Present value of funded liabilities	96,943	95,099
Closing defined benefit obligation	99,084	97,214

The University has paid contributions at the rate of 16.8% of members' pensionable pay over the year to 31 July 2012.
It was agreed with the Trustees that contributions for the following year would remain at that level.

History of experience gains and losses

	Year ended 31 July				
	2012	2011	2010	2009	2008
Present value of defined benefit obligations	(99,084)	(97,214)	(102,081)	(96,711)	(85,392)
Fair value of scheme assets	83,860	84,434	78,198	68,918	71,749
Deficit in the scheme	(15,224)	(12,780)	(23,883)	(27,793)	(13,643)
Difference between expected and actual return on scheme assets:					
Amount (£000)	(2,225)	207	6,199	(5,895)	(11,425)
Percentage of scheme assets	(3%)	0%	8%	(9%)	(16%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	-	-	-	-	(2,897)
Percentage of scheme liabilities	0%	0%	0%	0%	(3%)

(f) Manchester Innovation Limited Group Pension Scheme ('MILGPS')

The MILGPS is a final salary defined benefit scheme. From 1 June 2003, all active members participating in the MILGPS transferred to UMSS. The deferred members remain within MILGPS.

A preliminary actuarial valuation of the scheme was carried out as at 1 September 2011, which has been updated to 31 July 2012 by a qualified actuary.

The market assumptions used in this valuation were:

	2012	2011
Rate of increase in pensions in payment and deferred pensions	**5.00%**	5.00%
Discount rate applied to scheme liabilities	**4.40%**	5.50%
Inflation assumptions (RPI)	**2.70%**	3.60%
Expected return on plan assets	**4.41%**	5.60%

The expected returns on plan assets have been based on the current split by investment sector of the assets of the Scheme, using average expected returns on each sector.

The mortality assumptions used are as follows:

Assumed life expectancy in years on retirement at 62	**2012**	2011
Retiring today:		
Males	**27.3**	26.8
Females	**29.4**	28.9
Retiring in 20 years:		
Males	**30.7**	29.0
Females	**32.6**	30.1

The assets of the scheme and the expected rates of return were:

	2012	**2012**	2011	2011	2010	2010
		£000		£000		£000
Investment in bonds	**4.00%**	**1,982**	5.50%	1,495	5.50%	1,089
Investment in unitised with profits policy	**5.25%**	**986**	5.75%	989	5.75%	1,054
Other	**3.50%**	**18**	3.50%	-	3.50%	9
Total market value of assets		**2,986**		2,484		2,152
Actuarial value of liability		**(4,129)**		(2,901)		(2,896)
Net pension liability		**(1,143)**		(417)		(744)

Analysis of the amount charged to operating surplus	**2012**	2011
	£000	£000
Current service cost	**4**	3

As no further benefits are accruing under the scheme, the service costs shown represent the expenses paid to Aviva for running the scheme over the year.

Analysis of net charge to pension finance cost

	2012	2011
	£000	£000
Expected return on pension scheme assets	**148**	124
Interest on pension liabilities	**(159)**	(153)
Net cost	**(11)**	(29)

32 Pension schemes (continued)

(f) Manchester Innovation Limited Group Pension Scheme ('MILGPS') (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2012 £000	2011 £000
Actual return less expected return on pension scheme assets	44	107
Experience gains and losses on liabilities	56	(73)
Changes in assumptions	(1,136)	-
Actuarial (loss)/gain recognised in STRGL	(1,036)	34

Reconciliation of fair value of employer assets

	2012 £000	2011 £000
Opening fair value of employer assets	2,484	2,152
Expected return on assets	148	124
Contributions by the employer	325	325
Actuarial gains	44	107
Benefits paid	(15)	(224)
Closing fair value of employer assets	2,986	2,484

Reconciliation of defined benefit obligation

	2012 £000	2011 £000
Opening defined benefit obligation	2,901	2,896
Current service cost	4	3
Interest cost	159	153
Actuarial losses	1,080	73
Estimated benefits paid	(15)	(224)
Closing defined benefit obligation	4,129	2,901

History of experience gains and losses

	Year ended 31 July				
	2012	2011	2010	2009	2008
Present value of defined benefit obligations	(4,129)	(2,901)	(2,896)	(2,505)	(1,938)
Fair value of scheme assets	2,986	2,484	2,152	1,710	1,867
Deficit in the scheme	(1,143)	(417)	(744)	(795)	(71)
Difference between expected and actual return on scheme assets:					
Amount (£000)	44	107	51	(345)	(43)
Percentage of scheme assets	1%	4%	2%	(20%)	(2%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	56	(73)	(9)	(24)	(1)
Percentage of scheme liabilities	1%	(3%)	0%	(1%)	0%

The University expects to contribute £443,600 (including £30,000 for expenses) to MILGPS in the year ending 31 July 2013.

33 Capital commitments

	Consolidated		University	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Commitments for future capital expenditure:				
Authorised not contracted	**78,491**	46,999	**78,491**	46,999
Contracted not provided	**31,175**	36,779	**31,175**	36,779
	109,666	83,778	**109,666**	83,778

34 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Consolidated		University	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Land and buildings				
Expires within one year	**1,697**	2,008	**1,697**	2,008
Expires between two and five years	**4,839**	4,835	**4,839**	4,835
Expires after more than five years	**964**	967	**1,056**	1,059
	7,500	7,810	**7,592**	7,902
Other				
Expires within one year	**206**	568	**206**	568
Expires between two and five years	**407**	195	**407**	195
Expires after more than five years	**9**	99	**9**	99
	622	862	**622**	862
Total	**8,122**	8,672	**8,214**	8,764

35 Contingent liabilities

	Consolidated		University	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Undrawn investment commitments	**2,340**	3,900	**2,340**	3,900
Bank guarantees	**230**	230	**-**	-
All monies guarantee	**2,146**	3,005	**2,146**	3,005
	4,716	7,135	**4,486**	6,905

A commitment of up to £7.8m (2011: £7.8m) to invest in the UMIP Premier Fund has been given by UMIP UPF Limited, a wholly owned subsidiary of the University. To date £5.5m (2011: £3.9m) has been invested in the Fund. It is anticipated that the remainder of the investment commitment will be requested in tranches of £0.4m within the next three years.

Bank guarantees comprise £0.2m (2011: £0.2m) in relation to a bank overdraft guarantee.

The all monies guarantee relates to a bank loan which is due to be repaid in 2014 (see note 19).

36 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 8 'Related Party Transactions' these are disclosed where members of the University of Manchester's Board of Governors disclose an interest in a body with whom the University undertakes transactions which are considered material to the University's Financial Statements and/or the other party. Due to the nature of the University's operations and the composition of the Board, 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 Board may have an interest. All transactions involving organisations in which a member of Board 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.

An updated register of the interests of the members of the Board of Governors is maintained.

The University has taken advantage of the exemption within FRS 8 and has not disclosed transactions with other group entities where it holds 100% of the voting rights. Included within the financial statements are the following transactions with related parties:

	Income recognised within the financial statements	Expenditure recognised the financial statements	Balance due to/(from) the University recognised within the financial statements
	£000	**£000**	**£000**
Higher Education Funding Council for England	196,749	-	-
Biotechnology and Biological Sciences Research Council (BBSRC)	18,029	128	241
Central Manchester University Hospitals NHS Foundation Trust	13,877	5,316	22
Wellcome Trust	10,131	1	929
North West Regional Development Agency	4,730	-	-
Astra Zeneca	3,168	-	829
The Royal Society	1,092	30	(230)
Imperial College London	385	360	220
Manchester City Council	212	2,125	(1,656)
Students' Union	130	54	17
Royal Academy of Engineering	104	-	13
Alzheimer's Society	99	-	16
Royal Northern College of Music	66	34	(1)
Stockport Metropolitan Borough Council	37	24	(1)
Horserace Betting Levy Board	33	-	-
University of Central Lancashire (UCLAN)	18	74	1
Westinghouse	12	-	(1)
The Physiological Society	12	-	1
UNISON	11	140	-
Walton Centre for Neurology and Neurosurgery NHS Foundation Trust	11	-	-
One Central Park	4	219	(2)
Stockport NHS Foundation Trust	3	33	1
Health & Safety Lab, HSE, Buxton	-	23	(1)
Manchester Science Park	-	125	(11)
	248,913	**8,686**	**387**

Higher Education Funding Council for England
The Higher Education Funding Council for England distributes public money for higher education to universities and colleges in England. HEFCE also monitors that universities are financially healthy, courses are good quality, and access arrangements are fair. One governor is a member of the HEFCE Board, and another sits on a HEFCE Committee.

Biotechnology and Biological Sciences Research Council (BBSRC)
The BBSRC funds research in biotechnology and biological sciences, including stem cell biology, brain function and behaviour, nanotechnology and e-science. One governor is a member of the BBSRC’s Council.

Central Manchester University Hospitals NHS Foundation Trust
The University has a major Medical School, and so has very significant dealings with the Central Manchester University Hospitals NHS Foundation Trust (formerly the Central Manchester and Manchester Children’s Hospital NHS Trust), which incorporates several major teaching hospitals in central Manchester. The close relationship between the University and the predecessors of the Trust dates back over 100 years. Many staff, including senior consultants, work for both organisations, so to simplify payroll arrangements they are employed by one body, and salary costs are recharged. In the majority of cases, staff are employed by the University, and a proportion of their pay costs are recharged to the Trust. There are many other transactions between the two bodies, for example related to shared accommodation and the sale and purchase of laboratory supplies. One member of the Board of Governors is also a Trust member.

Wellcome Trust
The Wellcome Trust is a global charitable foundation who seek to achieve improvements in human and animal health by supporting research in biomedical subjects and the medical humanities. One Governor serves on the management committee of a Wellcome Trust funded facility, and another is on the Trust's Fellowship Interviews Committee.

North West Regional Development Agency (NWDA)
The North West Regional Development Agency was a public body that aimed to stimulate economic growth and regeneration in this region. It funded a significant part of the University's capital programme. Two members of the Board of Governers served on the NWDA Board. The NWDA ceased operations on 31st March 2012 and was abolished formally on 1st July.

AstraZeneca
A major pharmaceutical company, AstraZeneca plc discovers and develops new medicines and manufactures existing drugs. One Board member is a non-executive director of the company.

The Royal Society
The Royal Society is a Fellowship of the world's most distinguished scientists. Founded in 1660, it has three roles: as the UK academy of science promoting the natural and applied sciences, as a learned society, and as a funding agency. A Board member is one of the Royal Society's Vice-Presidents and a member of its Council.

Imperial College London
Imperial College London (ICL) is a science-based institution with a focus on teaching and research. It has many dealings with this University for the sale and purchase of laboratory supplies, publications etc. Again, these links have existed for many years. A member of the Board of Governors is a Visiting Professor at Imperial College.

Manchester City Council
The University is located within the City of Manchester, with the exception of a few outlying facilities such as Jodrell Bank. This has been the case since the University was founded. Many of the transactions with the City Council are estates related, such as business rates, rents and fees for planning applications. The University's academic sector also has some dealings, for example, links with the City Council's Education Department. Under University Statute IX, the City Council can appoint two members to the University's General Assembly, one of whom is also a member of the Board of Governors.

Students' Union
University Statute XVII requires that there shall be a Students' Union at the University. The University contributes towards the Union's running costs, and there are also transactions relating to the buildings occupied by the Union. Under Statute VI, the Board of Governors must include an officer of the Students' Union. This is currently the Union's General Secretary. This arrangement is long standing, although the individual concerned changes annually.

Royal Academy of Engineering
The Royal Academy for Engineering aims to advance and promote excellence in engineering by providing analysis and policy support, leading on engineering education and investing in research. One governor is a fellow of the Academy.

Alzheimer's Society
The Alzheimer's Society is a charity that provides information and support to people with Alzheimer's Disease and their families, as well as funding research into the condition. One governor is a member of the Society's Audit Committee.

Royal Northern College of Music
The Royal Northern College of Music (RNCM) is a conservatoire on Oxford Road, Manchester. One senior officer of the University supports financially a prize for RNCM students.

Stockport Metropolitan Borough Council
Stockport Council provide a full range of local government services in Stockport and nearby communities. One governor has declared that her husband is a member of the Council and serves in an executive role.

Horserace Betting Levy Board
The HBLB is a statutory body operating under the Betting, Gaming and Lotteries Act 1963. It collects a statutory levy from the horseracing business of bookmakers and the Tote which it distributes for the improvement of horseracing, horse breeding and veterinary science and education. One governor serves as Chairman of the HBLB.

University of Central Lancashire (UCLAN)
Originally founded in 1828 and later known as Lancashire Polytechnic, this Higher Education institution became the University of Central Lancashire in 1992. The main campus is in Preston, with other sites in Burnley and West Cumbria. A member of the University of Manchester's Board is an Honorary Professor at UCLAN and also serves on that institution's Audit Committee.

Westinghouse
The Westinghouse Electric Company provides fuel, services, technology, plant design, and equipment for the commercial nuclear electric power industry. One governor is a consultant to the company.

36 Related party transactions (continued)

The Physiological Society
Founded in 1876, the Physiological Society's members have made significant contributions to knowledge of biological systems and the treatment of disease. The Society promotes physiology and organises scientific meetings, offers grants for research, collaboration and travel, and publishes two scientific journals. One governor is a member of the Society.

UNISON
UNISON is the second largest trade union in the United Kingdom with over 1.3 million members, most of whom work in the public sector. UNISON is the main union at the University for staff who are not in academic or academic-related posts. One member of the Board of Governors is a UNISON member and served as a shop steward.

Walton Centre for Neurology and Neurosurgery NHS Foundation Trust
The Walton Centre in Liverpool is the only integrated Neurosciences Trust in the UK providing diagnostic and treatment services. The Centre also conducts research in all areas of clinical neurosciences. A governor is a non-executive director of the Centre.

One Central Park Limited
One Central Park, on Oldham Road, Manchester, is a business park dedicated to the development of new business enterprises delivered by the local community. One Central Park Limited is a 20% owned associate of the University. The company owns a building in the park, which is part occupied by the University. A wholly owned subsidiary of the University, The University of Manchester Innovation Centre Limited, is partly responsible for marketing this facility.

Stockport NHS Foundation Trust
The Stockport NHS Foundation Trust provides acute hospital care for children and adults across Stockport and the High Peak area of Derbyshire. The Trust's major site is Stepping Hill Hospital, and it also runs two smaller hospitals in Stockport and a maternity unit in Buxton. Two members of the University's Governors serve on the Trust's Board, one as Vice-Chair.

Health & Safety Lab, HSE, Buxton
The Health and Safety Laboratory (HSL) was originally set up to help the Health and Safety Executive minimise risks to people's health and safety at work. Today, the HSL also works with a wide range of other organisations, conducting research and development work. Its main location is near Buxton in Derbyshire. One Board member is a non-executive director of the HSL.

Manchester Science Park
Manchester Science Park Ltd rents business accommodation to innovative companies in sectors such as ICT, biotechnology, industrial technologies and digital media. The company also offers business development support, including access to academic resources and a PR service. The University owns 19.78% of the ordinary share capital, so it is classed as an associate undertaking.

Trustees' Expenses
£31,622 was paid in expenses to members of the Board of Governors of the University during the year (2011: £16,008). Where Trustees are also employees of the University the amount includes expenses paid in relation to their employment.

37 Amounts disbursed as agent (Consolidated and University)

(a) Access Fund

	2012 £000	2011 £000
Balance unspent at beginning of year	**284**	351
Funding Council grants	**363**	353
Interest earned	**1**	1
Disbursed to students	**(401)**	(421)
Balance unspent at year end	**247**	284

(b) Training and Development Agency for Schools (TDA)

Student Training Bursaries	2012 £000	2011 £000
Balance unspent/(prepaid) at beginning of year	**112**	(60)
Funding Council grants	**1,122**	2,350
Disbursed to students	**(1,227)**	(2,178)
Balance unspent at year end	**7**	112

Student Associates Scheme	2012 £000	2011 £000
Balance unspent at beginning of year	**3**	-
Funding Council grants		103
Paid out during the year	**(3)**	(100)
Balance unspent at year end	**-**	3

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

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