MANCHESTER
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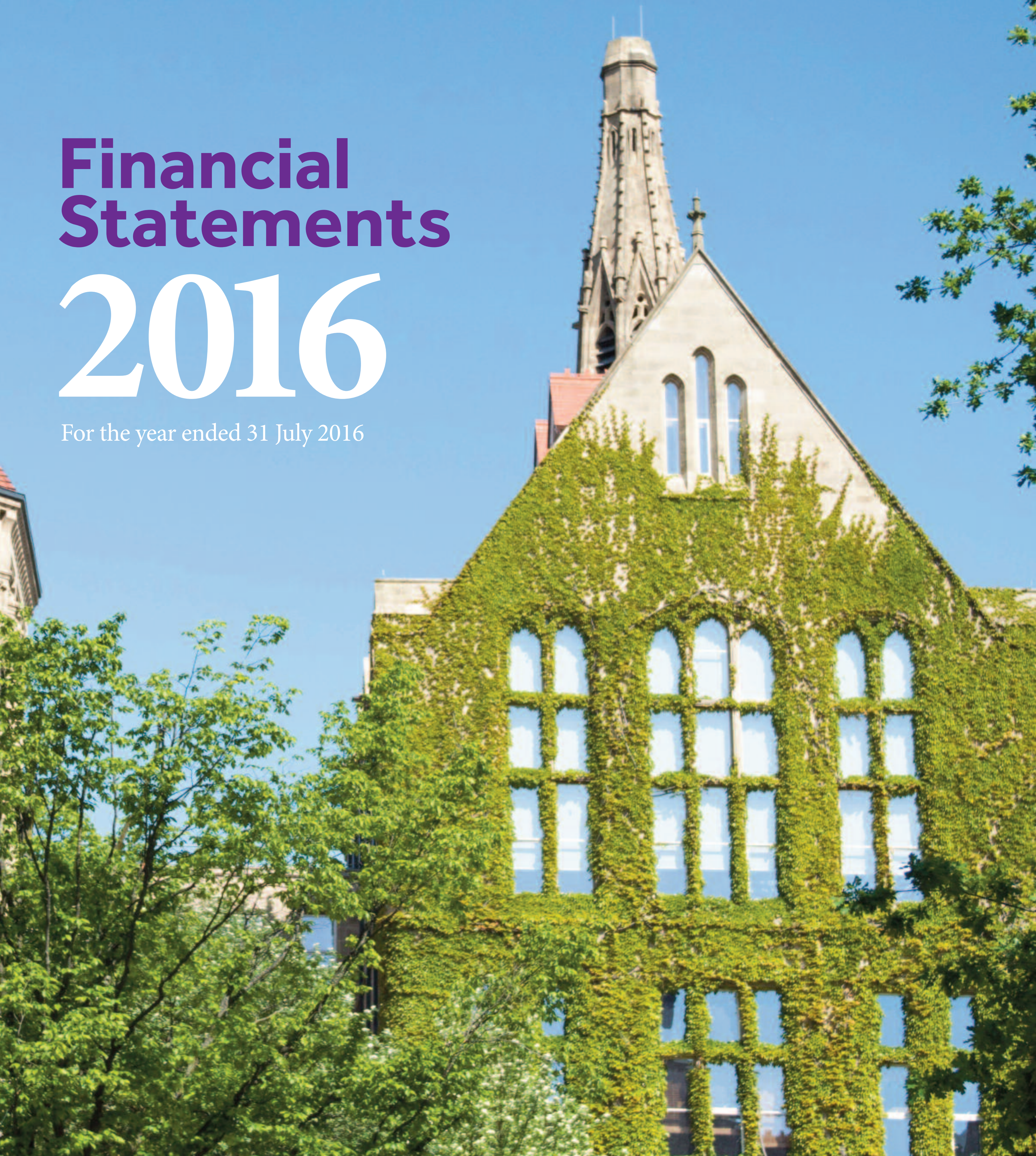
The University of Manchester

Financial Statements 2016

For the year ended 31 July 2016



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Pro-Chancellor
Mrs Gillian Easson, MA
President and Vice-Chancellor
Professor Dame Nancy J Rothwell, DBE, DL, BSc, PhD, DSc, FRS, FMedSci, FSB, FRCP(Hon), FIBiol, FRSA

Deputy President and Deputy Vice-Chancellor
Professor Colin Bailey, FREng, BEng, PhD, CEng, FIStructE, FICE, MIFireE

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Mr Edward M Astle, MA, MBA
(from 1 September 2016)

Deputy Chair of the Board of Governors
Dame Susan Ion, OBE, BSc, PhD, FEng, FIMMM, FINucE
(to 31 August 2018)

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Mr Will Spinks, BSc, Chartered MCIPD

Director of Finance
Mr Stephen Dauncey BSc, FCCA
(from 16 April 2016)
Mr Stephen Mole, BSc, PGCE, FCMA, CGMA
(to 15 April 2016)

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Professor Clive Agnew, BSc, PhD
Research and Innovation
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(to 18 January 2016)

Chair of Finance Committee
Dr John Stageman, OBE, PhD

Chair of Remuneration Committee
Mr Edward M Astle, MA, MBA
(from 1 September 2016)
Mr Anil Ruia, OBE, JP, DL, LLB, ACA
(to 31 August 2016)

Chair of Nominations Committee
Mrs Gillian Easson, MA

Chair of Staffing Committee
Mr Edward M Astle, MA, MBA

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From 1 September 2016

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Mr Edward M Astle, MA, MBA,
Deputy Chair of the Board of Governors
Dame Susan Ion, OBE, BSc, PhD, FRS, FEng, FIMMM, FINucE,
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Professor Dame Nancy Rothwell, FRS, FMedSci,
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Dr Caroline Jay, BA, MSc, PhD, CPsychol
Professor Silvia Massini, MSc, PhD
Professor Chris Taylor, OBE, BSc, PhD, FREng
Dr Christine Rogers, BSc, PhD
Mr Shumit Mandal (2019) BSc, MSc
Ms Rosalyn Webster (2019), BA, MA

The following were members of the Board of Governors in the previous academic year, to the dates shown:

Mr Anil Ruia, OBE, JP, DL, LLB, ACA,
(to 31 August 2016)
Mr Stephen Dauncey, BSc, FCCA
(to 18 January 2016)
Mrs Christine Lee-Jones, JP, DL, MA
(to 31 August 2016)
Professor Liz Sheffield, BSc, PhD
(to 31 August 2016)
Professor Mike Sutcliffe, CChem, CEng, FIChemE, FRSC (to 31 December 2015)
Ms Iram Kiani, BA (to 31 August 2016)
Dr Pamila Sharma, BSc, MSc, PGDip, PhD, MBiol (to 31 August 2016)

Chair's foreword

I am pleased to provide a foreword for this set of Financial Statements for The University of Manchester for the year ended 31 July 2016.

On the pages that follow you will see that the University is now required, under the new accounting standard for the sector, to include its pension deficits in the statement of comprehensive income. This resulted in a small 'total comprehensive income' being reported in the current year, compared with a significant loss in the restated prior year. Operating surplus, now used as an internal performance target, fell year on year, though in line with expectations due to the impact of pay inflation.

At the same time, the University continued to make good progress against our strategic goals, with particular successes in our research and social responsibility programmes. We had mixed success in learning and student experience; addressing this is a priority for the year ahead.

Looking ahead, the challenges and uncertainties facing the sector are increasing. The proposed changes to the governance of the higher education sector and the process and eventual outcome of the government's negotiations for the UK to leave the EU and further global uncertainty are likely to have a major impact on universities. The need to address ever-increasing global competition and the changing requirements of students will require sustained investment and innovation.

From my time on the Board of Governors – and now as its Chair – I know that the University can count on the highest calibre of strategic leadership and financial management. This gives me the confidence that we can navigate successfully through these uncertainties to deliver the ambitious goals of our Manchester 2020 strategy.

Edward Astle
Chair of the Board of Governors
and Pro-Chancellor

President and Vice-Chancellor's review of the year

These financial statements cover a year in which The University of Manchester performed well despite unprecedented uncertainty for the higher education sector. We made progress against many of our strategic targets, and these statements highlight these areas of success. There are, however, also areas where our performance needs to improve and where we will need to focus to overcome significant emerging challenges.

You will no doubt be familiar with the many political changes that happened during the financial year. We saw a historic referendum, in which the electorate voted to leave the EU. This has created uncertainty for higher education, the national economy and society more widely. As a global university, we know that world-class scholarship and research requires the flexible movement and exchange of staff, students and ideas to facilitate collaboration and partnerships within Europe and beyond. As such, we have formed a group of the University's Senior Leadership Team in order to address immediate and long-term concerns arising from the outcome.

In terms of the national landscape, it was announced that higher education – except research and science – will move from one government department (previously known as the Department for Business, Innovation and Skills) into another, the Department for Education. The higher education bill passed through its second reading in parliament, proposing changes to research funding, the dissolution of HEFCE, the formation of the Office for Students and proposals for the Teaching Excellence Framework.

Universities awaited the results of the Comprehensive Spending Review with trepidation. Overall budget cuts were much less than expected and the outcome for universities was considerably better than had been feared. However, we have seen erosion of several income streams and increased costs – notably including significant pension pressures. We will therefore be reviewing all targets and costs, while insisting on continuing investment, which is essential.

That said, we have maintained a relatively healthy financial position, which is once again a tribute to the dedicated and hard-working colleagues we have at the University. I am grateful to my senior colleagues, supported by the Director of Finance and his team, for their effective financial management. Their expertise will be vital as we tackle the uncertainties ahead.

Changes to the reporting mechanism this year – including pensions, capital grants, investments and fixed assets – mean there will be more volatility in our balance sheet going forward. Our reported total comprehensive income of £1 million was below expectations due to the pension deficit, which is now included in our accounts and which worsened significantly just after the EU referendum. Our operating surplus, however, relates only to cash and will give us a more stable comparison year on year. While our operating surplus fell by 21.4% to £35.6 million, this was expected due to the impact of pay inflation, along with increased ERVS costs.

Generating an operating surplus enables us to invest in our priority activities, which are driven by our Manchester 2020 strategic plan. We refreshed Manchester 2020 in October 2015, retaining the three core goals of world-class research, outstanding learning and student experience, and social responsibility, but also refocusing our vision, laying out our plans to be an innovative university that is adaptable and able to make tough choices in order to ensure we are well placed for the evolving higher education landscape.

As world-class research is a core goal, it was good to see us recognised internationally. The science journal *Nature* published a league table of 'rising stars', measuring the contribution of more than 8,000 global institutions to a selection of top science journals, which ranked us 18th in the world and 2nd in western Europe (behind only Oxford). And PitchBook, the private equity and venture capital research company, ranked us third in Europe for our entrepreneurial performance.

The value of research awards made to the University continued to grow, resulting in an increase in research income of 5% to £274 million. Among the headline awards coming through were a £5 million grant from the Engineering and Physical Sciences Research Council to investigate 2D materials for next-generation health-care technologies, £4 million from the Science and Technologies Facilities Council for particle physics research, and two government contracts totalling £8 million for the Connected Health Cities pilot. Throughout the year, many of our colleagues worked hard with local NHS partners on a bid for a Biomedical Research Centre for Greater Manchester and so we were delighted to learn in September that the National Institute for Health Research had approved £28.5 million of funding.

Our researchers made a number of important discoveries during the year, not least in cancer. One study into new scanning technology enabled local hospitals to reduce the radiation dose given to cancer patients by 30%. We continued to invest in the medical and human sciences, and formally opened the Stoller Biomarker Discovery Centre, an £18 million, state-of-the-art facility for analysing clinical samples to identify the unique markers of diseases. Following the devolution from central government of the region's health and social care budget, we announced that we would be part of Health Innovation Manchester, a unique partnership that will speed up the discovery, development and delivery of innovative solutions in Greater Manchester.

One of our energy researchers, Professor Barry Lennox, collected the prize for Best University Technology of the Year at the UK Energy Innovation Awards, while our work in advanced materials continued to attract national and international attention. We were awarded a Regius Professorship in Materials to mark the Queen's 90th birthday, to be held by Professor Phil Withers. Professor Dame Julia King was named as the independent chair of the Sir Henry Royce Institute for Advanced Materials, and more than 350 industry and academic representatives came together at the University in January for the Institute's first workshop. As the home of graphene, we were honoured to receive a visit by the President of China, Xi Jinping, to our National Graphene Institute.

In February we further cemented our place at the forefront of the fight against global inequalities. We formally launched the Global Development Institute, the largest research and teaching institute for development studies in Europe. As this Institute opened, another passed a milestone: the Manchester Institute of Biotechnology celebrated ten years of pioneering, interdisciplinary research in industrial biotechnology and related fields.

We continued to invest in providing an outstanding learning and student experience for our students. It was satisfying to see that graduate employment has improved steadily over the past five years. An analysis of graduates from each Russell Group institution showed that from 2013/14 to 2014/15 the University moved from 79% to 82% graduate employment. This means that we have moved from ranking 17th in the Russell Group to 11th. Additionally, the annual report by High Fliers Research showed that our graduates are the most targeted by the UK's top graduate employers.

However, it was disappointing to see that after a period of steady improvement in the National Student Survey, we dropped from an overall score of 86% satisfaction in 2015 to 85% in 2016. Some areas of the University achieved high scores and/or improved significantly, but in quite a number of subject areas satisfaction dropped markedly. We will be working across the University to improve our performance.

We enjoyed another strong year for student recruitment, with a 9.6% increase in tuition fee income to £424 million, driven in part by higher UK/EU student numbers and a continued growth in international student recruitment. It is very pleasing to see that Manchester continues to be a destination of choice for prospective students from across the globe, demonstrated by the 160 nationalities comprising our student population.

Our international reach also extends to our partnerships and exchange arrangements. Following on from our very successful funding for links with the University of Melbourne, Australia, we launched a new Manchester-Melbourne Research Fund. We also held discussions with senior staff at the A*STAR Research Institutes in Singapore about our current and potential future collaborations.

As the European City of Science in 2016, Manchester welcomed the continent's scientific community during July for the EuroScience Open Forum, or ESOF. We played a key role in this conference, which hosted more than 3,000 attendees from 83 countries, 700 speakers, 150 sessions and more than 400 science journalists and communicators. The week-long Science in the City festival that accompanied ESOF was also a huge success. Professor Danielle George's Robot Orchestra, built with the help of many local schoolchildren and engineers from Siemens, was particularly inspiring, with numerous events across the city for the public and particularly children. Our scientists took over Intu Trafford Centre for the first ever #scienceX show, and Jodrell Bank hosted the Bluedot festival of music, art and science, attended by more than 14,500 people over the weekend.

Jodrell was also the setting for a special series of the BBC's *Stargazing Live*, which included coverage of the British astronaut Tim Peake's historic spacewalk. It was a busy year for our other cultural institutions too. We heard the fantastic news of yet another prize for our art gallery, the Whitworth, which was named Large Visitor Attraction of the Year in the VisitEngland Awards. Manchester Museum opened a new space, The Study, and was awarded £5 million by the government for a new South Asia Gallery. As part of its Climate Control exhibition, the Museum hosted a prestigious lecture by the fashion designer and environmentalist Dame Vivienne Westwood.

As an institution committed to social responsibility, it was pleasing to see our efforts gain further national recognition during the year. The University's School Governor Initiative was honoured with a Queen's Anniversary Award for Voluntary Service, while our employment scheme The Works won the Social Impact prize at the 2016 *Guardian* Sustainable Business Awards. The Manchester Access Programme, meanwhile, welcomed its tenth cohort of talented young people from less advantaged backgrounds – a landmark for our flagship widening-participation scheme.

As we progress with our £1 billion Campus Masterplan, changes can be seen across campus. One of the most visible transformations followed the demolition of the bridge near the Precinct Centre, making the view up and down Oxford Road much clearer. Work continues apace on many projects, notably the Manchester Engineering Campus Development. The development, which will be on Booth Street East opposite the National Graphene Institute, will house our engineering activity. It will be longer than the height of Manchester's tallest building, the Beetham Tower, and have a floorspace equivalent to eleven football pitches.

A less visible, but no less significant, transformation came with the launch of a new structure for our University, which has reconstituted all academic activity around three Faculties: the Faculty of Science and Engineering, the Faculty of Humanities and the Faculty of Biology, Medicine and Health.

We need world-class facilities, but people are by far our greatest asset. It is due to the commitment and quality of our colleagues across the University that we have been able to maintain high levels of achievement in all our areas of activity. We were sorry to say goodbye to our outgoing Chancellor Tom Bloxham at the 2015 Foundation Day, at which we thanked him for his fantastic contribution to the University and installed Lemn Sissay as his successor.

Likewise, I would like to take this opportunity to thank Anil Ruia, the outgoing Chair of our Board of Governors, and Steve Mole, who retired after six years as Director of Finance, for their outstanding service. We welcome Edward Astle as the Board's new Chair – you can read his foreword on page 1 – and Stephen Dauncey as our new Director of Finance.

There is no doubt that the higher education sector faces significant challenges in terms of funding, changes to regulation, international student recruitment and 'Brexit'. We are developing plans for delivering a sustainable financial position that also allows us to make the necessary investments to achieve our Manchester 2020 ambitions. This will be an important area of focus over the coming academic year and is likely to require significant changes and some difficult choices.

As these financial statements demonstrate, Manchester is a university that has global scale, impact and reach. We will be adaptable in the face of future challenges and will continue to invest in meeting our goals.

Professor Dame Nancy Rothwell
President and Vice-Chancellor

(a) Total audited research expenditure is defined as research expenditure as calculated in the University's Transparent Approach to Costing (TRAC) return.

(b) Closing liquid balances of £428.6m (2014/15: £403.9m) include net cash balance and short-term investments (excludes endowments cash).

(c) Expenditure of £882.9m (2014/15: £941.3m) is defined as total expenditure less depreciation.

(d) Operating surplus is taken as the surplus as reported, adjusted for actuarial loss in relation to pension schemes, revaluation of USS deficit provision, impact of RDEC claim, capital income, deprecation, and gains on investments. (see page 13)

Key performance indicators

Ranked 35th in the world

The University of Manchester was ranked 35th in the Academic Rankings of World Universities produced by the Shanghai Jiao Tong University (2014/15: 41st).

Growth in research expenditure +15.9%

Total audited research expenditure[a] in 2014/15 (latest available figure) was £533.8m, an increase of 15.9% on the previous year.

Growth in international student income of £18.4m

International student fee income (full and part-time) increased by £18.4m (10.1%) during 2015/16.

Net liquidity expenditure cover 177[b] days

Closing liquid balances were sufficient to provide 177 days expenditure[c] cover (2014/15: 157 days).

External borrowing remained at 41.8%

External borrowing as a percentage of total income (like-for-like basis) remained at 41.8%.

Operating surplus[d] is 3.6%

Operating surplus as a percentage of income decreased from 4.5% in 2014/15 to 3.6% in 2015/16 on a like-for-like basis.

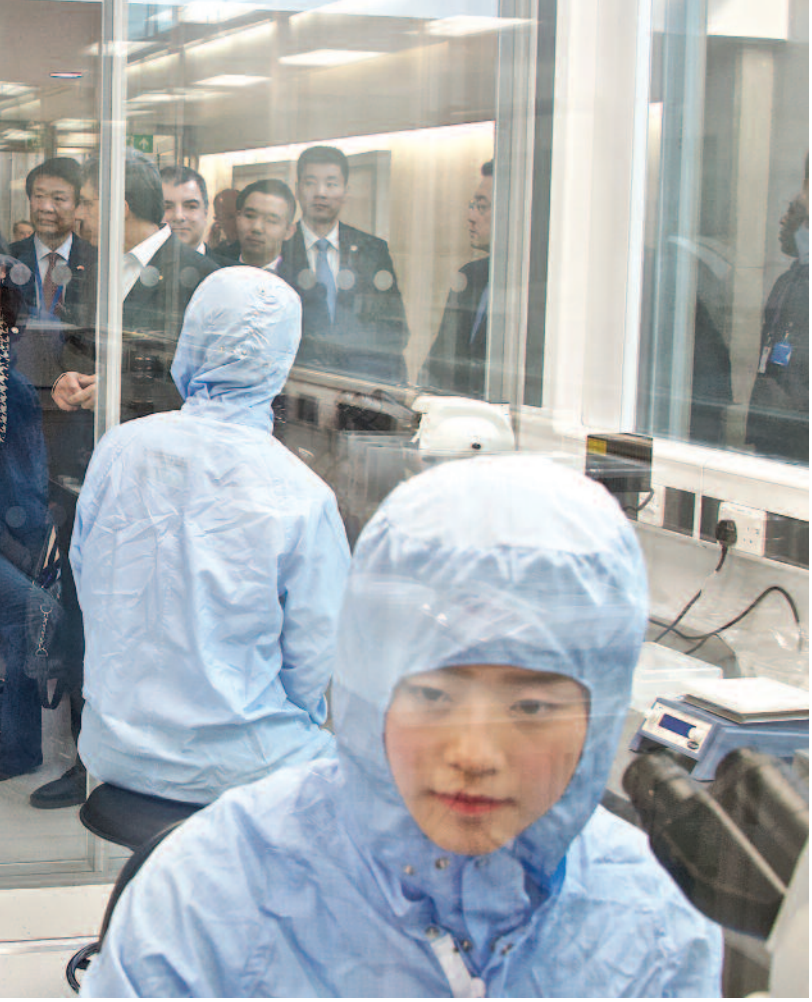
The year in pictures

1. State visit from China
President Xi Jinping of the People's Republic of China visited the National Graphene Institute in October to learn about the future graphene applications being developed in Manchester, in collaboration with the University's global industrial partners. President Xi's visit was the first time Manchester had ever welcomed a Chinese President.

2. A historic Foundation Day
Our Foundation Day in 2015 was particularly special as we installed our new Chancellor, Lemn Sissay, who also received an honorary doctorate. Professor Dame Nancy Rothwell used the occasion to launch our refreshed Manchester 2020 strategic plan, which builds on our original plan, but sets new, demanding targets that take account of the changes that have taken place over the past decade across society and the higher education sector, and recognises likely future challenges.

3. ESOF comes to Manchester
As the first UK city to be chosen as European City of Science, Manchester had the honour of hosting the EuroScience Open Forum (ESOF) in July, with the University as a key partner. Alongside the conference was the city-wide Science in the City festival, and the University was involved in many of the highlights, such the Bluedot festival at Jodrell Bank, headlined by Underworld, Caribou and Jean-Michel Jarre.

4. Estates transformation draws accolades
It was a year of successes for our Directorate of Estates and Facilities, as work progressed on our ten-year £1 billion Campus Masterplan. At its 2016 Higher Education Estates and Facilities Awards, the Association of University Directors of Estates presented Manchester's Diana Hampson with the Chair's Award for Long Term Contribution. Adam Woof, Operations Manager for the Chancellors Collection, was named Tourism Star of the Year at the Greater Manchester Tourism Awards, while the Whitworth was crowned Top Large Tourist Attraction at the same ceremony. The Whitworth was also named Building of the Year by the Greater Manchester Chamber of Commerce, with the Manchester Cancer Research Centre and the National Graphene Institute also on the shortlist. The University also won the HE Client of the Year Award at the Education Estates 2015 Awards.



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5. Biomarkers research centre opens
The University opened the Stoller Biomarker Discovery Centre, an £18 million lab complex to discover the clues to individuals' illnesses, in June. The Centre will identify the unique markers of diseases such as cancer or arthritis. It is funded by a philanthropic gift from the Stoller Charitable Trust and the Medical Research Council, and was developed in partnership with SCIEX.

6. Michael Wood traces China's history
Our Professor of Public History, Michael Wood returned to television screens in a new BBC2 series, *The Story of China*, in January. The six-part series, written and presented by Professor Wood, traced the development of Chinese civilisation over 4,000 years.

7. Global Development Institute launches
The Global Development Institute officially launched in February 2016, strengthening our commitment to addressing global poverty and inequality. This dedicated research and teaching institute is the largest of its kind in Europe.

8. Ten years of access to higher education
Our flagship widening-partnership scheme, the Manchester Access Programme (MAP), welcomed its tenth cohort of local sixth-formers, giving them a 'slice of university life', creating visions of an academic future and fostering their ambitions. Over the past decade, 1,600 of these youngsters have gained themselves a place at the University after completing MAP.


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9. Driving innovation for the health of the region
The University entered a deal in September 2015 with leaders across health-care research, academia and industry to harness the partner organisations' collective expertise to develop the infrastructure needed for clinical trials and health informatics. Health Innovation Manchester will speed up the discovery, development and delivery of innovative solutions to help improve the health of the almost 3 million people in Greater Manchester, and beyond.

10. Top employers target Manchester graduates
Manchester students graduate with skills and experiences beyond their degree – and these are qualities that are much in demand. In its annual survey, High Fliers Research revealed that the University is the most targeted by the UK's top graduate employers.

11.Benefiting the community and the environment
The Works, an employment centre in Moss Side set up by the University to help local people to find jobs at the university and further afield, won the Social Impact prize at the 2016 *Guardian* Sustainable Business Awards. The employment programme works with partners such as Manchester Growth Company to ensure sustainability and social responsibility are at the core of its activities.

12. Advanced materials receive royal approval
Her Majesty The Queen honoured the University by awarding a Regius Professorship as part of her 90th birthday celebrations. It has been given in recognition of the exceptional quality of our advanced materials research and teaching, which is regarded as among the best in the world. Our inaugural Regius Professor of Materials is Professor Phil Withers. We also announced Professor Dame Julia King as the independent chair of the Sir Henry Royce Institute for Advanced Materials, and welcomed 350 academics to the Institute's first workshop.

Financial review

Stephen Dauncey,
Director of Finance

Key highlights

	2015/16 £'000	2014/15 Restated £'000	2015/16 change %
Income excluding capital income	**923,356**	923,251	0.0%
Capital income*	**63,879**	73,584	(13.2%)
Total income	**987,235**	996,835	(1.0%)
Tuition fee income	**423,990**	386,732	9.6%
Research income excluding capital and RDEC income	**225,079**	218,052	3.2%
Research capital income	**38,800**	20,700	87.4%
RDEC income	**9,600**	22,200	(56.8%)
Total research income	**273,479**	260,952	4.8%
Operating surplus (see next table)	**35,595**	45,295	(21.4%)
Operating surplus as % of income	**3.6%**	4.5%	
Reported total comprehensive income**	**1,039**	(76,013)	(101.4%)
Net assets	**1,473,427**	1,472,418	0.1%
Cash and short term investments	**428,565**	403,880	6.1%
Operating cashflow	**109,723**	67,947	61.5%
Tangible fixed assets	**1,442,276**	1,402,875	2.8%
Heritage assets	**255,483**	255,053	0.2%
Pension deficit	**(369,938)**	(311,639)	18.7%
Borrowings	**(412,894)**	(416,530)	(0.9%)

** Capital income relates to funding received for capital expenditure. Capital income can be either HEFCE, research, or other funded.*
*** Total comprehensive income is the surplus/(deficit) for the year less the actuarial loss in respect of pension schemes.*

The financial statements have been prepared under FRS 102, which has required a restatement of the opening balance sheet and our financial performance in the year ended 31 July 2015. The adjustments required to the opening balance sheet are explained in note 33 in these financial statements. These changes make comparisons of this year's performance with the reported results of previous years more difficult.

The key changes in reporting relate to pensions, capital grants, investments and fixed assets. The new inclusion of the USS pension liabilities on the balance sheet, along with all pension movements now going through the statement of comprehensive income give a fuller understanding of the long term liabilities of the University, and the related cost. The total comprehensive income for the year (£1.0m) gives a fairer representation of the impact of challenges which we face in order to fund long term liabilities, whilst continuing to invest in facilities to enhance the student experience and deliver world class research. However, there is now an inherent volatility in our financial statements as movements in actuarial valuations will generate significant swings in the 'bottom line'.

These long term challenges are heightened by the uncertainty in the policy and economic environment following the results of the referendum on EU membership. Our own long term pension liabilities in relation to the UMSS pension scheme are based on a valuation as at 31 July 2016. The discount rates have fallen significantly as a result of the long term view of returns from gilts. The full impact on the larger combined USS pension scheme has yet to be reflected, as the valuation for funding purposes will take place in 2017 (impacting the 31 July 2018 financial statements), however indications are that our future surplus will be further reduced.

The changes in accounting policies brought about by the new reporting standard can be seen in a positive light in that the University, and the whole Higher Education sector, are now presenting returns which reflect the long term challenges.

Performance at an operational level needs to continue to grow to fund the investment required in order to achieve the University's strategic plan and vision (www.manchester.ac.uk/discover/vision).

A review of the progress against the strategic plan can be found at: www.manchester.ac.uk/discover/governance/corporate-documents.

Note: the graphs throughout this financial review show a 6 year trend. 2015 and 2016 are reported under the new FRS 102 standards, but the previous years (2011-2014) are not restated – they are based on UK GAAP reporting prior to FRS 102.

Income and expenditure review

The reported total comprehensive income for the year was £1.0m compared with a restated total comprehensive loss of £76.0m for 2014/15. The prior year restated deficit is high due to the impact of the triennial valuation of the USS pension scheme, resulting in a cost of £85m in 2014/15. The current year result of £1.0m was below expectations as the full impact of the EU referendum on the valuation of the UMSS pension deficit was not forecast. However, the surplus at an operating level (£35.6m) was in line with expectations, the drop from the previous year (£45.3m) being attributable to the impact of pay inflation along with increased early retirement and voluntary severance (ERVS) costs.

The operating surplus (as shown in the tables) is now used as an internal performance target as it eliminates the volatility associated with the changes in treatment, and/or disclosure of, capital grants, pensions and valuation of investments. Also, with cash becoming the prime internal measure, the impact of depreciation has been removed so that management decisions are based on directly controllable areas of activity, rather than non-cash accounting adjustments. The movement associated with a tax credit relating to research has also been eliminated for comparison purposes, as this is a non-recurring item.

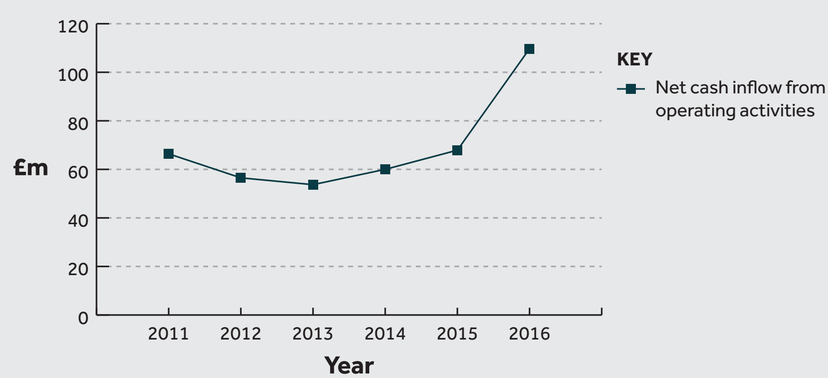
Available cash resources (inclusive of short term investments) at 31 July 2016 were £428.6m, up from £403.9m in the prior year, reflecting strong cash generation in the period. Operating cashflow in the year was £109.7m, compared with £67.9m in the prior year.

Income

Total income for the University decreased by £9.6m (1.0%) from £996.8m in the prior year to £987.2m in 2015/16, primarily due to a

Operating surplus	**2015/16**	**2014/15 Restated**
	£'000	**£'000**
Total comprehensive income as reported	**1,039**	(76,013)
Add back:		
Actuarial loss in respect of pension schemes	**58,727**	56,442
Triennial revaluation of USS deficit provision	**-**	85,350
Depreciation and amortisation	**60,231**	88,512
Less:		
RDEC income less associated tax	**(7,600)**	(17,300)
Capital income	**(63,879)**	(73,584)
Gains on investments	**(12,923)**	(18,112)
Operating surplus	**35,595**	45,295
Total comprehensive income as % of total income	**0.1%**	(7.6%)
Operating surplus as % of total income	**3.6%**	4.5%

Net cash inflow from operating activities



decrease in capital grant income received in the year. Excluding this, income was broadly in line with the prior year. Operating income held up strongly. The reductions in HEFCE quality related (QR) income and Research and Development Expenditure Credit (RDEC) rebates were offset by increased student fee income and research activity.

The funding mix continued to change as expected, with tuition fee income now accounting for 43% of total income (39% last year), due to another year of the new funding regime. HEFCE income is down to 13% from 17% last year, reflecting the changed funding regime.

Total research income (including capital income) as a % of total income has increased compared with the prior year, from 26% to 28%, reflecting an underlying increase in research activity. The opposite has occurred for other income, which now represents 14% of income, compared with 16% in the prior year.

Tuition fees
Tuition fees increased by £37.3m (9.6%) driven by the roll-through of students under the new fee regime, higher home student numbers and continued growth in international students. Total full-time home and international student numbers rose by 4.1% to 36,036. Full-time international student fee income again grew strongly to £179.4m (up by 12.6%).

Funding body grants
The recurrent grant has reduced by £22.1m (17.5%).

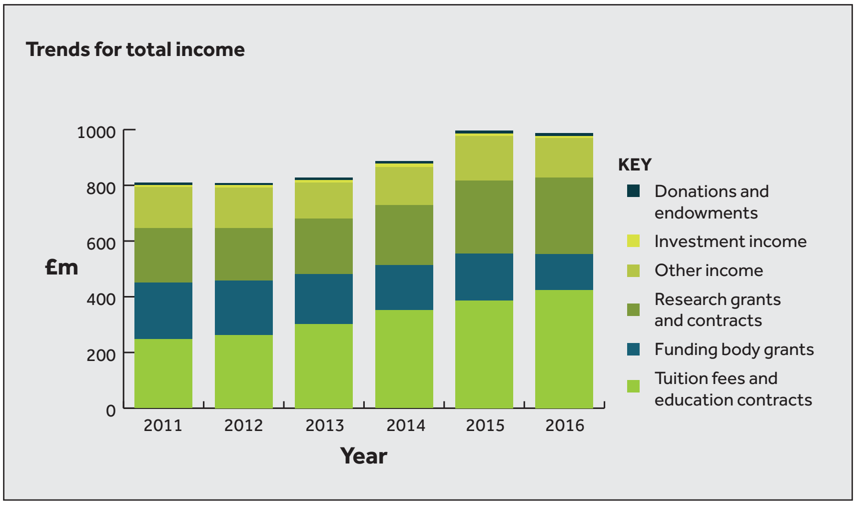
£14.3m of the decrease is in relation to lower HEFCE QR income and the remaining reduction reflects the continued change to the funding regime, as the block teaching grant is replaced by tuition fees

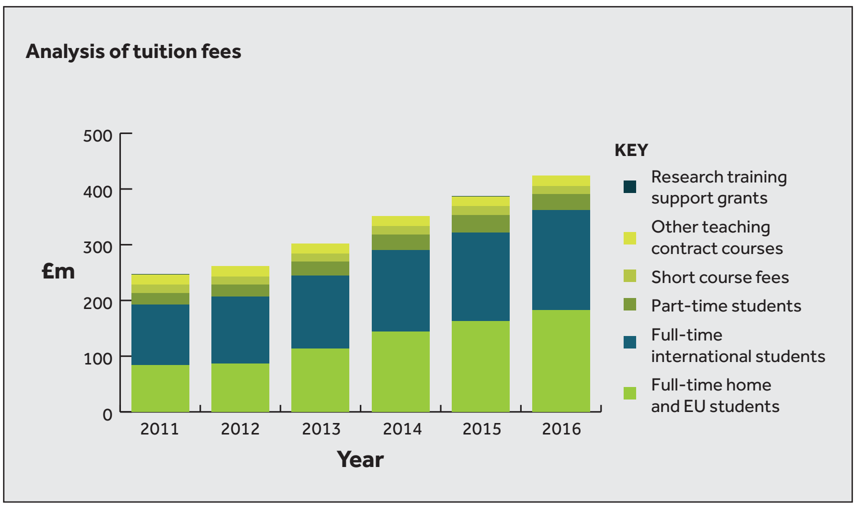
£13.4m lower capital grants from HEFCE were awarded than the prior year (down 41.5%).

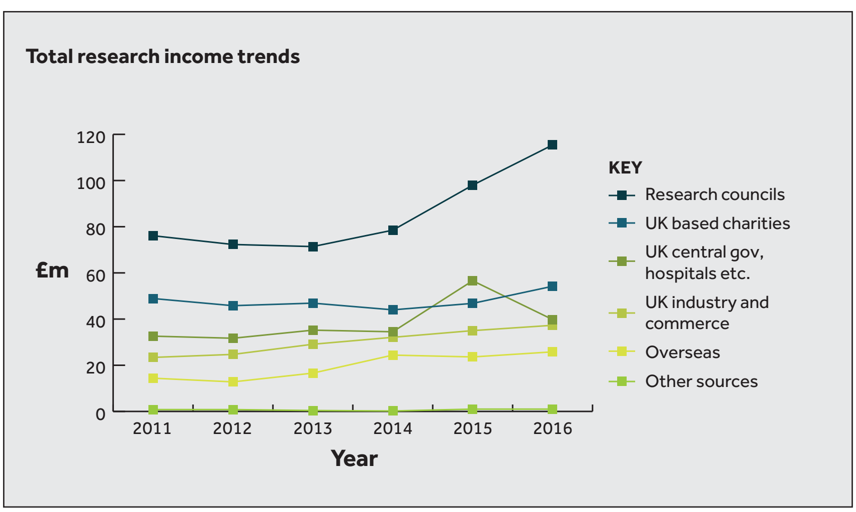
Research grants and contracts
Total research income increased by 4.8% to £273.5m which reflects the continuation of growth in the value of awards made to the University, showing the strength of the research delivery in the University.

However, this growth includes capital income which, by its nature, can be volatile as it is dependent on the timing of bringing large assets into use. Excluding both capital and RDEC income shows that underlying revenue research income has increased by £7.0m (3.2%) compared with the prior year.

The level of funding from the UK Research Councils was up £17.4m (17.8%) and income







from UK based charities was up £7.4m (15.8%). There was an increase of £2.3m (6.5%) to £37.3m from overseas sources. The income from UK government and health authorities declined by £16.8m (29.7%), due to the reduced RDEC receivable.

There has been no immediate impact of the EU referendum on the pipeline work being considered by the European granting bodies but the situation is being closely monitored.

Other income
Other income of £142.4m was £19.1m (11.8%) lower than last year. Again, this is primarily due to the volatility of capital grants. Excluding the capital element, other income is down £4.7m (3.3%).

Residential, catering and conference income has increased by £2.2m (4.4%), primarily reflecting the increased student numbers, along with some new catering outlets opened in the year. This is offset by lower grant and premises income.

Investment income
Investment income of £7.7m was £1.0m lower than the prior year, mainly due to lower dividend and endowment investment income. However capital growth was strong at £14.3m and this reflects the agreed investment strategy.

Expenditure
Total expenditure decreased by £86.6m (8.4%). The prior year included the impact of the triennial revaluation of the USS deficit contribution pension provision of £85.4m, a new liability introduced by FRS 102. Excluding this, the cost base is still lower than prior year, showing a decrease of £1.2m (0.1%).

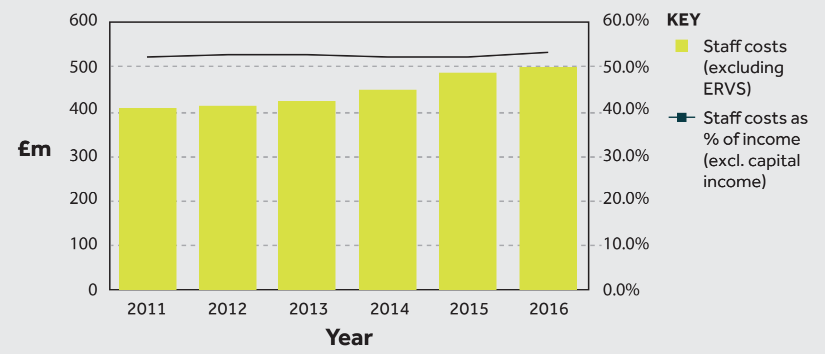
Underlying staff costs (excluding the costs of voluntary severance) were up by £10.8m (2.2%), due to cost of living and incremental inflation, along with strategic investments in new posts, partly offset by savings in relation to voluntary redundancy schemes and continuing active vacancy management measures.

There was a voluntary severance charge of £6.0m in the year compared with £0.5m in the previous year.

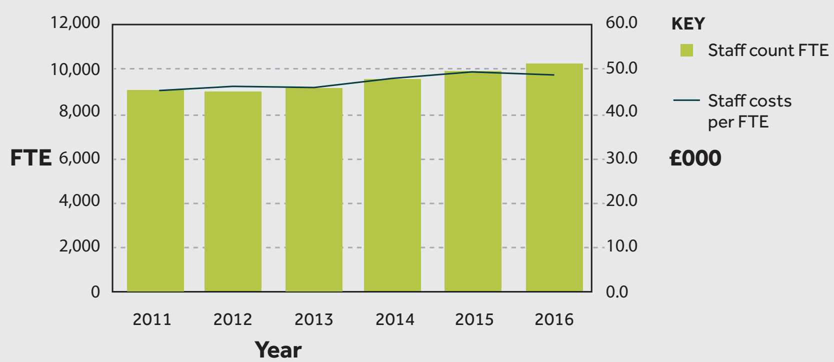
The underlying staff cost ratio to income (excluding capital income) was 54.0% compared with 52.8% in 2014/15. Staff costs per FTE are down 0.4% year on year.

Other operating expenses increased by £6.5m (1.9%) compared with the prior year. Expressed as a % of total income (excluding capital income), other operating expenses

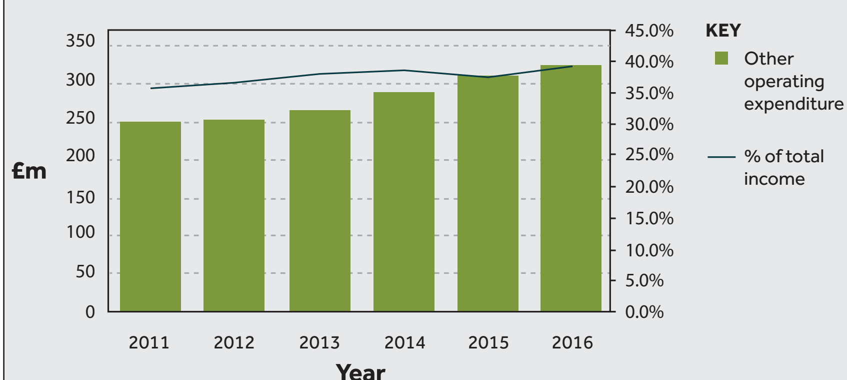
Staff costs (excluding ERVS) and staff costs as % of income (excluding capital income)



Staff FTEs and Average Staff Cost per FTE



Other operating expenditure as % of total income (excluding capital income)



have increased from 36.9% of income to 37.6% over the past year, reflecting continued investments, particularly in relation to student experience.

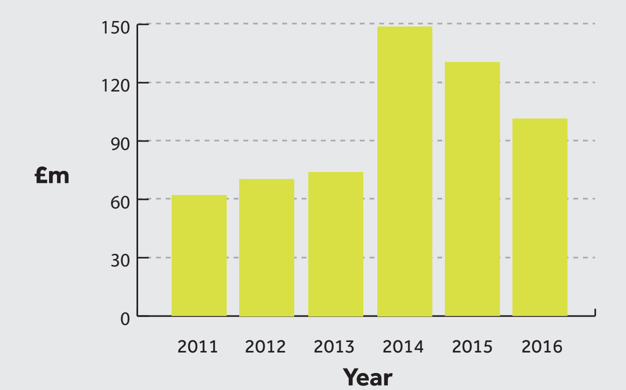
Depreciation and amortisation decreased compared with prior year by £28.3m. This is largely due to a one-off accelerated depreciation in prior year in relation to aligning research funded asset useful lives with the funding period.
Following the fixed asset revaluation, the related depreciation increase is £1.5m per annum. Depreciation is expected to increase in future years in line with the commissioning of land and buildings as a result of the University Capital Masterplan.

The increase in interest and other finance costs of £4.2m (16.1%) is primarily due to the charge in relation to the unwinding of the USS pension deficit funding.

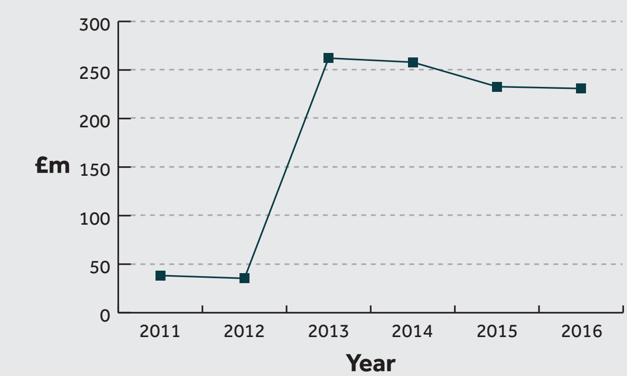
Balance sheet review
We used the opportunity of the adoption of FRS 102 to revalue our land and buildings, as well as our heritage assets, with the changes being reflected from 1 August 2014. This was a one-off exercise as the revaluations are treated as a deemed cost and there is no requirement to revalue on a regular basis. The revaluation more appropriately reflects the strength of the balance sheet and results in an uplift of £760m (£508m land and buildings, £252m heritage assets).
As a consequence of FRS 102, there was also a requirement to include the University's contractual commitment to settle the USS deficit (£150m at 31 July 2016). Deficits in relation to other University pension schemes (University of Manchester Superannuation Scheme and Greater Manchester Pension Fund) continue to be provided in full, consistent with previous years.

Fixed assets
Work in relation to the University Capital Masterplan continues, with additions of £102m during the year. This was lower than the £130m in prior year primarily due to the phasing of the capital programme, and the completion of some larger projects in the previous year (including the National Graphene Institute). Designs for the Manchester Engineering Campus Development (MECD) were progressed during the year, and the major construction activity focussed on the Alliance Manchester Business School.

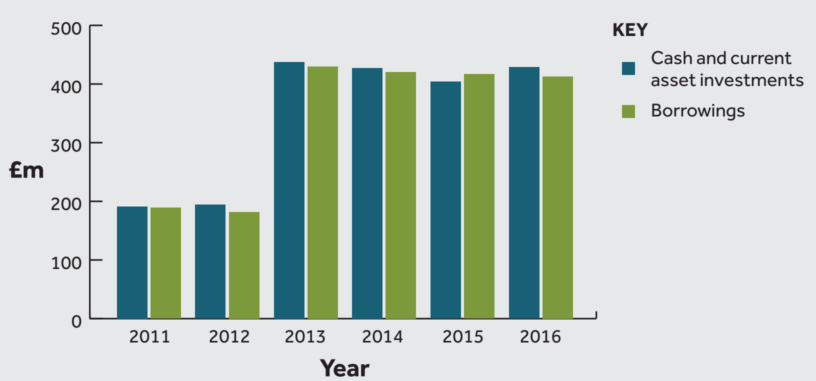
Capital expenditure



Net current assets
Note: bond issue in 2013



Cash vs Borrowings
Note: bond issue in 2013



Investments
Overall, fixed asset investments have increased by £17.2m, up 5.7%.

£14.3m relates, in the main, to the increase in the market value of the University's investment portfolio. The remainder of the movement relates to the investment of new monies in the portfolio.

The investment markets are still considered to be volatile, and this has been exacerbated by Brexit.

As noted in the previous year, we are continuing work to restructure our existing endowment funds into new trust funds. This project has the support of the Charity Commission and will result in a more flexible, sustainable structure for managing endowments which will benefit both students and research, whilst continuing to honour the wishes of the University's very generous donors.

Net current assets
Net current assets of £230.9m are in line with the prior year (£232.8m), representing a decrease of approximately 0.8%.

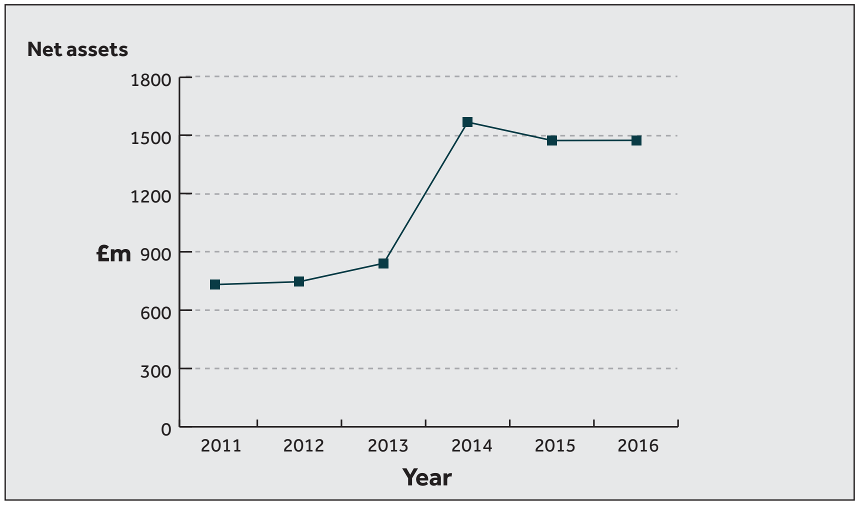
This indicates good management of working capital, especially as closing liquidity days are 214 days, up from 190 days in 2014/15.

Trade and other receivables are £9.6m (8.1%) lower than the prior year, primarily due to lower accrued income on research grants and contract.

Total payables (due in less than one year) are £17.3m higher than the prior year (5.9%), again, mostly in relation to deferred income from research and other funding. These changes are as a consequence of prompter invoicing from our funders.

Cash reserves (including current investment assets)
Cash reserves have increased by £24.7m (6.1%). The closing liquidity position of £428.6m was sufficient to cover 177 days of expenditure (2014/15: 157 days). This is despite capital expenditure (in cash terms) of £101.4m, and shows an improved position with regards to the management of working capital. This will become increasingly important as we face an uncertain economy over the next few years, along with the expected increase in capital expenditure as larger projects (eg MECD) really start to push forward.

Effective management of working capital also means that cash reserves remain strong against borrowings, and again, this will become more important than ever as we enter the volatility of the next few years.



Net assets
Net assets at £1,473.4m are up 0.1% on the prior year (£1,472.4m).

The step change compared with 2012/13 is due to the revaluation of land and buildings and heritage assets (£745m), offset by the USS deficit now brought onto the balance sheet (£152m). These significant changes are all as a result of the adoption of FRS 102.

Risks and uncertainties

Pensions
As already highlighted, there is now an inherent volatility in our financial statements as movements in actuarial valuations will generate significant swings in our reported Total Comprehensive Income.

Despite some changes already implemented in relation to the management of the pension deficit, our pension schemes remain a major risk for the University. The schemes will continue to be monitored regularly, and financial plans will need to include reasonable estimates for these liabilities and the consequent impact on the University cost base.

A failure to properly plan and account for likely changes could expose the University to unacceptably high costs.

Tuition fees and student recruitment
There is a risk in relation to student recruitment (particularly in relation to attracting international students). A small drop in numbers could potentially have a large impact on the University results. We do not wish to be overly dependent on certain markets and certain courses. This is regularly monitored through the University Intake Management Group, along with ongoing discussion at appropriate committee meetings and amongst the senior leadership team.

The international market is critical to our financial wellbeing and any limits to overseas student numbers may prevent access to this key market. Political pressures in respect of immigration control may have an impact. The University works closely with the UK Visas and Immigration Office.

There is also the threat of alternative provision for new entrants to the HE market place.

Future financial plans do not currently include any opportunity or upside in relation to the Teaching Excellence Framework and this opportunity needs to be assessed going forward.

Endowment and investment performance
Endowment and investment performance continues to remain a risk as financial markets are uncertain and as the pace and sustainability of world economic recovery is variable.

Capital spend and inflation
There is a risk around the Capital Masterplan, particularly given levels of inflation and contractor quotes which could come in higher than budget on major projects. The risk is under frequent review as the building industry shows continuing evidence of post-recession recovery, with associated impact on costs.

The capital budget is £110m in 2016/17 so any percentage inflation increase is significant and is a risk to our cash position. Projects and potential overspends are closely monitored via Project Committee Meetings, the University Capital Planning Sub-Committee and the Finance Committee.

Brexit
There are of course, and as already mentioned, risks associated with the exit from the EU following the referendum result.

The current financial uncertainty could lead to long term economic downturn which holds interest rates at historic low levels, weakens exchange rates, drives up inflation and worsens the pension deficit. This position will exaggerate more of the specific risk areas (eg Capital Masterplan and pensions).

The lack of clear policies regarding immigration status of EU students and staff presents a risk to income projections, along with research/teaching capacity and capability. The uncertainty relating to EU student fees and loans risks a drop in those students and related income. Leaving the EU risks the ability of the University to access future funding (specifically under Horizon 2020), and may also lessen the attractiveness of the University for international students.

An EU Group comprising senior members of the leadership team has been formed in order to address these concerns.

Pay
As always, we are at risk from the national pay award negotiations. Realistic estimations are included in financial plans, but forecasts need to be revised if final agreed pay awards differ considerably from the initial estimates.

Changes in the funding of Higher Education
Any changes to funding regimes, unexpected external pressures, UK government austerity measures etc could have an impact on the University's financial position. Contingency planning is carried out for various financial scenarios where possible.

Major changes in research funding and activity
The Government has committed to substantial reductions in public spending which could impact upon research funding. This would inevitably impact on the University, as a research-intensive institution.

Diversification of income and funding is therefore critical for the University and is constantly being explored. University goals and KPIs related to discretionary income are embedded in planning and operational performance review processes. There are clear targets to increase non-UK government income streams in the strategic plan.
A failure of strategic management of research activity may lead to reduced grant success and performance in assessments of research excellence, potentially leading to reduced availability of funding. The Research Strategy Group remains focussed on this risk, with research performance being regularly assessed.

Financial Instruments

Financial risk management objectives
The University's Treasury function monitors and manages the financial risks relating to our operations through internal risk reports, which analyse exposure by degree and magnitude of risks.

Compliance with policies and exposure limits is reviewed by Finance Committee on a regular basis. We do not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Price and interest rate risk
Price risk arises on financial instruments because of changes in, for example, commodity prices or equity prices. Listed investments with a fair value of £217m are exposed to price risk but this exposure is within the University's risk appetite.

We had £400m held to maturity investments on short and long term deposit. All deposits are subject to fixed interest rates and we are therefore not subject to any significant exposure to interest rates in relation to these financial assets.

Credit risk management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the University.

The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit ratings which have been assigned by international credit rating agencies. Our exposure, and the credit ratings of our counterparties, are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by Finance Committee at least annually.

Trade receivables consist of a large number of customers, spread across diverse sectors, populations and geographical areas.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Board of Governors, which has built an appropriate liquidity risk management framework for the management of the University's short, medium and long-term funding and liquidity management requirements.

We manage liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of certain financial assets and liabilities.

Going concern
The University ended the year with cash resources of £428.6m. The budget for 2016/17 continues to show a surplus albeit at levels lower than the last few years, and forward cash forecasts demonstrate adequate available financial resources.

All of the University's external funding is long-term in nature with 99.1% repayable beyond 1 year and 95.5% repayable beyond 5 years. No material uncertainties that cast significant doubt about the ability of the University to continue as a going concern for the foreseeable future have been identified by the Board of Governors.

Reviews of our financial sustainability going forward are ongoing. Any concerns identified will be brought to the attention of the Board of Governors as soon as possible.

Conclusion

As mentioned at the beginning of this financial review, the University's total comprehensive income for the year was below expectations primarily due to the effects of the EU referendum results on the valuation of the pension deficit.

The surplus at an operating level was, however, in line with expectations, and presents a fair position of the challenges we face in order to fund long term liabilities, whilst continuing to invest in facilities to enhance the student experience and deliver world class research.

Performance at an operational level needs to continue to grow to fund both the required investment and the potential growth of liabilities, as well as ensuring that the University has the facilities to compete with the best in the world in years ahead.

The University and public benefit

Introduction

The University of Manchester has exempt charity status derived from the Charities Act 1993 and is responsible to HEFCE, its principal regulator, which is charged with monitoring compliance with charity law obligations. The University, through its governing body, the Board of Governors, is aware of its responsibilities as a charity to act for the public benefit across all of its activities and has had due regard to the latest version of the Charity Commission's public benefit guidance (issued September 2013, updated September 2014). The objects of the University, as set out in the Royal Charter awarded in 2004, are "to advance education, knowledge and wisdom by research, scholarship, learning and teaching, for the benefit of individuals and society at large."

Strategic ambition

The University's Strategic Plan Manchester 2020 sets out our mission to be ranked as one of the world's leading universities by 2020, where all students enjoy a rewarding educational and wider experience, a place where the highest academic values and educational innovation are cherished, where research prospers and makes a real difference, and where the fruits of scholarship resonate throughout society.

Access to world-leading learning

We are committed to being an open, meritocratic institution that proactively seeks out people capable of benefiting from higher education, minimises barriers to their participation and contributes to the expansion of higher education opportunities, locally, nationally and internationally.

The University is committed to providing all of our students with an outstanding learning and student experience. We ensure that all of our graduates leave with advanced critical thinking, conceptual reasoning and analytical skills, mastery of a discipline, broad intellectual and cultural interests, advanced written and verbal communication and a personal commitment to equality and diversity. The University is developing generations of students to become internationally mobile professionals who can serve as informed, thoughtful, globally responsible citizens, equipped to make a valuable social and economic contribution to society. We train large numbers of health, community and public sector professionals who continue to provide public benefit in their working lives beyond graduation.

The University is committed to improving the student experience for all of our students. Within the National Student Survey (NSS), the University had increased overall student satisfaction by 7% over the last several years, to 86% in 2015. This was a major achievement and can be attributed to developments in teaching and learning in the classroom and the laboratory, and to some major University-wide initiatives, including the University College and Alan Gilbert Learning Commons. In 2016 the overall score for the University fell slightly to 85% and we will be working with colleagues to understand the areas of low student satisfaction and to develop plans for the start of the new academic year.

An analysis of the percentage of graduates from each Russell Group institution that are in a positive destination 6 months after graduating shows that from 2013/14 to 2014/15 the University has moved from a level of 79% to 82%, for graduate employment.

The University aims to ensure that financial issues do not present an obstacle for learners to access the full student experience. Approximately a third of all our students will receive bursaries of up to £2,500 per year – and around 250 Widening Participation students will receive the University's targeted Undergraduate Access Scholarship in each year.

By supporting access, assisting student success, progression and employability the University seeks to address the specific challenges which students from widening participation backgrounds often face in making the transition to university study and subsequent employment. The University's Access Agreement with the Office for Fair Access (OFFA) provides detailed information on the University's commitment to all students, regardless of background or financial considerations.

The University of Manchester currently performs towards the top of the English Russell Group for the proportion of students entering the University from disadvantaged backgrounds, and has set targets to continue this year-on-year increase. In addition to targets relating to students entering the University, the institution has set targets to improve the continuation rate of students from low household incomes and narrow any gap between Widening Participation and non-Widening Participation students achieving successful employability outcomes.

Our latest data indicates that 29.1% of students under the new fees regime were from low income households of less than £25,000 per annum, placing us joint 5th in the English Russell Group. Only a handful of Russell Group institutions exceed their institutional benchmark for low participation neighbourhoods and disability – and Manchester is one of them: we admit and support students on the basis of academic ability, not their ability to pay.

The University is committed to raising awareness of the benefits of higher education through outreach activities that engage primary and secondary pupils and their teachers and parents, and assist further education students wishing to progress to university.

To provide an insight into higher education for primary school pupils, we take roadshows out to schools, run higher education awareness days on campus and run a literacy programme supported by student volunteers. The Children's University of Manchester website provides interactive learning modules for primary pupils to engage them with a range of subject areas and information about higher education. The website had 1,493,064 visitors in 2015/16.

Our flagship initiative, the Manchester Access Programme (MAP), supports outstanding Year 12 and 13 students from under-represented groups in Greater Manchester to progress successfully into The University of Manchester and other research-intensive universities. From 2005 to entry in 2016, 1,604 MAP students have been successful in gaining a place at The University of Manchester. In addition, many MAP students have also progressed to courses at other highly-selective, research-intensive universities.

The University is also committed to providing our students with volunteering opportunities to develop key employability skills via the Manchester Leadership Programme. This enables students to gain a greater understanding of what it means to be a responsible global citizen, through a hands-on programme of academic events and community activities. 998 students took part in MLP in 2015/16 and since the programme was established we estimate that MLP students have contributed over £1.8m to the local economy through their volunteering work.

Our local communities in Greater Manchester have some of the lowest progression rates into higher education in the UK. Greater Manchester Higher has been developed as a new collaborative Network promoting the opportunities for schools to engage with the outreach activities offered by local higher education (HE) providers. The partnership is a part of the National Networks for Collaborative Outreach (NNCO) scheme, which will deliver a nationally coordinated approach to working with schools, universities and colleges to help people access Higher Education. During 2015/16 1,603 pupils aged between 12 and 15 visited the universities in the partnership, participating in events on campus. In addition, staff and student ambassadors delivered outreach activities in schools to over 10,000 learners, their parents and carers.

Research, public policy, and wider influence

At The University of Manchester we conduct a wide range of high-quality research that is rivalled by few other universities, as demonstrated by our submission to the Research Excellence Framework 2014.

In the 2014 Research Excellence Framework exercise, 83% of our research activity was judged to be 'world-leading' (4*) or 'internationally excellent' (3*), and we were ranked in fifth place in terms of research power (calculated by grade point average times number of staff submitted or by 4*/3* times number of staff submitted). We had one of the broadest submissions of any university in the UK, with research evaluated in 35 discipline areas.

The University of Manchester's research beacons are examples of pioneering discoveries, interdisciplinary collaboration and cross-sector partnerships that are tackling some of the biggest questions facing the planet.

The University is at the forefront of tackling global inequalities – from poverty to social justice, from living conditions to equality in the workplace. We are improving understanding of the world and changing it for the better. We seek to guide governments and policymakers towards new approaches to tackling poverty in countries such as Zimbabwe, Bangladesh and Tanzania and the University has been part of the response effort in significant global humanitarian crises in the Philippines, Gaza and Sierra Leone.

The University's work on Advanced Materials, will allow people to work in the most demanding environments, on the frontiers of the energy sector or inside the human body. This research is seeking to lead the way by developing innovative solutions to some of the world's most critical problems. The University is recognised as the global knowledge base in graphene and 2D materials, with more than 230 dedicated researchers, two Nobel laureates and more than £170 million of investment. We've been chosen to host the forthcoming £235 million Sir Henry Royce Institute for Advanced Materials Research and the University's £64 million partnership with BP has established us as a leading hub for advanced materials expertise.

In terms of health, our research into cancer is a key weapon in our fight against cancer. Survival rates from the disease have doubled in the last 40 years in the UK. The University's approach to cancer research spans the full spectrum of combating the disease, from early diagnosis to help for carers. This includes:

- Breakthroughs include clinical trials with AstraZeneca for anastrozole, which prevents relapses in breast cancer.
- We are partners in the Manchester Cancer Research Centre with the Christie NHS Foundation Trust and Cancer Research UK – a £28.5m building opened in 2015.
- Six NHS trusts work with us as part of the Manchester Academic Health Science Centre.

The University is also leading the European renaissance in industrial biotechnology, finding sustainable alternatives to the finite resources needed to manufacture products that we use every day. We have a grant portfolio in industrial biotechnology worth more than £100 million and partnerships with leading companies – including GlaxoSmithKline, Shell, Unilever and Pfizer – drive the creation of new bio-based chemicals.

From the sustainability of sources to meeting the demands of urban communities, the world faces some big questions on energy. We are finding the solutions that will allow us to continue to heat our homes, light our buildings and travel more efficiently. We have £75 million of energy projects, covering generation, storage, systems and use. Our Dalton Nuclear Institute is the UK's most advanced academic centre for nuclear R&D and high-level skills development.

Our history of intellectual property commercialisation spans more than 25 years, during which time we've generated more than 100 spin-out companies. Since 2004 our commercialisation activities have contributed £500 million to the UK economy. The benefits of our research to local, national and international communities are numerous - we have University-trained medical professionals working in local NHS Trusts, whilst on an international scale our pioneering research around global issues, such as climate change and sustainable energy, poverty and economics, and biomedical research, is helping to influence public policy and make a real difference to society.

The Global Development Institute was officially launched in February 2016 strengthening our commitment to addressing global poverty and inequality. This dedicated research and teaching institute is the largest of its kind in Europe.

The University also entered a deal in September 2015 with leaders across health-care research, academia and industry to harness the partner organisations' collective expertise to develop the infrastructure needed for clinical trials and health informatics. Health Innovation Manchester will speed up the discovery, development and delivery of innovative solutions to help improve the health of the almost three million people in Greater Manchester, and beyond.

Throughout the University, we have developed outreach projects and open events which enable us to transfer our research knowledge to the public. The University encourages the dissemination of research results as widely and as publicly as possible, especially to those who will benefit most from them.

Businesses that engage with the University see economic and social benefits, including improved competitiveness, productivity, job creation and the opening up of new markets. Research at The University of Manchester makes a positive impact on society, addressing key challenges such as inequalities, cancer, climate change and energy. By engaging communities with our research, we share our knowledge, expertise and skills. The encouragement of enterprise is a critical part of our culture and the commercialisation and exploitation of our intellectual property is a fundamental part of our activity. New jobs have been created, many processes improved and valuable new products have been developed which have been sold here and abroad.

Social responsibility, cultural impact and environmental sustainability

The University has embedded social responsibility within its research and learning activities. Our strategic vision commits the University to encompass sustainability, ethics and integrity; to find solutions to global challenges, engage with the public, support the community and to promote equality and diversity.

The *Just Greater Manchester* signature programme, which aims to address inequalities in the city-region through research, was launched in November 2014. This engaged more than 2,500 national and regional researchers, policy makers and stakeholders.

Skills and employment levels in some of our local communities are among the lowest in the UK. Our University is helping to address this through our leadership of 'The Works' – an innovative employment and training initiative at the heart of our local communities in Moss Side and Ardwick. This programme is transforming the life chances of local residents in some of the most disadvantaged areas of the UK. It seeks to provide opportunities and support to jobseekers including pre-recruitment training and job matching to local employers, including the University. 2,941 people have been supported into work since 2011, totalling £44m of economic value.

Also part of our social responsibility goals, the 'School Governor Initiative' remains the fastest growing initiative of its kind in the UK, engaging increasing numbers of alumni and winning the Times Higher Education Outstanding Contribution to the Local Community award (the second year in a row for the University). In the previous year, 514 staff and alumni who are school governors gave 6,492 days supporting 243,450 learners.

The University accepts an important responsibility for enriching the cultural lives and scientific understanding of its local community. Specific importance is attached to the work of the Manchester Museum, Whitworth Art Gallery, John Rylands Library, Deansgate and Jodrell Bank Discovery Centre in engaging with schoolchildren and people from under-represented groups. The University's Cultural Institutions and Library form an integral part of our approach to engage young people and communities with forms of higher learning. They work actively with schools, colleges and prospective students of higher education through their own educational programmes which are developed and led by specialist staff. Our Cultural Explorers Programme has engaged around 1,000 of our most local nine year old school children with our four cultural institutions: the Whitworth Art Gallery, the Manchester Museum, the University of Manchester Library, and the Jodrell Bank Discovery Centre. The total number of visits to our cultural institutions for 2015/16 was 1,245,236 (Manchester Museum (411,365), the Whitworth (440,596), John Rylands Library Deansgate (219,691) and Jodrell Bank Discovery Centre (173,584 - including attendance at the Bluedot festival featuring music, science, technology and the arts).

The University is also gaining recognition as a sector leader with its responsible approach to procurement. This aligns spending with the University's Goal 3 (Social Responsibility) ensuring that environmental and social factors are included, where appropriate, as part of the overall value for money assessment. The University was amongst the first to receive external recognition for achieving Level 4 on the Flexible Framework, which measures sustainable procurement practices, and has energised others to achieve this recognition. We launched an innovative supplier engagement tool in 2015, which has now been taken up widely across the sector, allowing meaningful dialogue to be had with suppliers on a range of issues. We have been engaging with suppliers for over twelve months to review their approached to environmental and issues and to help develop them. Our good practice in this area was specifically recognised as contributing to the University's improved position in the Stonewall Workplace Equality Index Top 100. Since July 2016 we have actively engaged with 439 suppliers. Of these 382 (87%) fall within the SME category and of those domiciled within the UK nearly a third (31.7%) are based in the North West of England with 10.7% (41) having a Manchester postcode. This has helped us to introduce approaches to encourage local and SME suppliers in bidding for work at the University particularly through the £1bn Capital Masterplan Partnership Framework which is entering its second year of operation.

Finally, the University remains committed to operating as a sustainable and socially responsible institution, minimising the impact of its own activities on the environment. Manchester 2020 has a clear focus on sustainability to "prioritise processes that support positive environmental behaviour and decision making." The University is seeking to drive a culture change through individual and team action. Working with colleagues across the University, the Furniture Recycling Centre (FRC) enables reuse across the University and beyond. Total savings for 2015/16 were approx. £295.6K (£180.4K University of Manchester and £115.2K Charity), diverting 81 tonnes of waste from landfill, which also saved approx. £12,150 in disposal costs. The University supports active travel, which contributes to health and wellbeing. Over 60% of University staff members travel to work sustainably, with 21% walking or cycling. 96% of our students travel sustainably, with 37% walking or cycling. In addition, the University's Bicycle Users' Group (UMBUG) is the biggest in the HE sector with over 1,200 members and UMRun is the first employer run-commute group established outside of London.

Corporate governance statement

The University of Manchester is an independent corporation which came into existence on 1 October 2004. It was established by Royal Charter on the dissolution of the Victoria University of Manchester and the University of Manchester Institute of Science and Technology (UMIST), both of whose rights, properties, assets and obligations were transferred to the institution by means of The University of Manchester Act (2004).

As a recipient of substantial public funding and by virtue of its educational objectives, it is considered an exempt charity under Schedule 2 of the Charities Act 1993, with the Higher Education Funding Council for England (HEFCE) acting as its Principal Regulator.

The University of Manchester, like other public bodies, has a duty to conduct its affairs in a responsible and transparent way, and to take into account the requirements of its funding bodies and the Governance Code of Practice published by the Committee of University Chairs (CUC). The University's corporate governance arrangements were established in such a way as to meet these responsibilities and continue to comply with relative provisions in the First and Second Reports of the Committee on Standards in Public Life. The CUC Code was revised and published in December 2014, and the University's governing body, the Board of Governors, reviewed its operations against the new Code in March 2015, in order to ensure all relevant provisions are addressed in its governance arrangements.

In addition, the University corporately, through its arrangements for governance, is committed in a demonstrable way to the principles of academic freedom and equality of opportunity, which are embodied in its Charter and Statutes.

The University's Corporate Governance Framework

The Charter and Statutes provide for and empower 'authoritative bodies' within the University, each of which has a distinct role to play in its structure of governance.

The **Board of Governors**, is the University's governing body, and carries the ultimate responsibility for the University'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 by officers, is consistent with corporate objectives and is within the bounds of accepted good practice. The Board meets formally at least five times in each academic year. Its membership of 25 has a majority of persons who are not employed by the University, known as 'lay' members. The Chair of the Board of Governors, Mr Edward Astle, is appointed by the Board of Governors from within the lay category of the membership and took up his role on 1 September 2016. Mr Astle has succeeded Mr Anil Ruia, who served as the Chair of the Board of Governors between 1 September 2010 and 31 August 2016. Members of the Senate, members of the support staff and a student representative also serve on the Board.

The Chair of the Board of Governors plays an important role in the governance of the University while working independently of its regular executive management. He is supported by a Deputy Chair, Dame Sue Ion. The current members of the Board of Governors are listed at the front of this report.

A review of the effectiveness of the Board of Governors was undertaken in autumn 2011 by an independent HE consultant, Dr David Fletcher. His report found that "the University has in place a comprehensive framework and structure of governance which conforms to sector best practice". The review found the governing body sound on monitoring and assurance but with scope to extend its strategic involvement and impact, and through its Chair, the Board has continued to routinely review the report's recommendations in order to improve its operation and effectiveness. Under the direction of the Chair, a follow-up internal review of effectiveness was conducted over 2014-15 and the Board has since that time overseen the implementation of the recommendations made within this review. Under the direction of its new Chair, the Board of Governors will conduct an independent Board review of effectiveness over 2016-17.

In January 2016, HEFCE completed an Assurance Review of the University. The aim of the review was to examine how the University exercises accountability for the public funding which it receives. The report was based on the most recently submitted annual accountability returns, the minutes of the Board, and Audit and Finance Committee meetings in the twelve months prior to the Assurance Review and interviews with governors and executives on 26 January 2016. In their final report HEFCE concluded that they were able to place reliance on the University's accountability information and made only minor observations in respect of our reporting and also highlighted some areas of good practice.

The **Senate** is responsible to the Board for the promotion of research and for monitoring standards in teaching. It acts as the University's principal academic authority. It is the final arbiter on purely academic matters, and it is this autonomy of academic governance which sets higher education institutions apart from other corporate entities. A large number of the statutory powers reserved to Senate are 'regulatory' in nature and control the academic business of the University. The Senate has 70 members drawn from four categories of membership. Across categories 1 and 2, a third of these are designated *ex-officio* and reserved for those with academic management responsibilities centrally and in the faculties, the remaining two-thirds are elected academic members (professorial and non-professorial). Categories 3 and 4 are made up of co-opted and student representatives. Following on from the most recent independent review of the effectiveness of the Board of Governors, the University completed a review of the effectiveness of Senate during spring 2013.

The Board of Governors has an **Audit Committee**, a **Finance Committee**, a **Remuneration Committee**, a **Staffing Committee** and, jointly with the **General Assembly**, a **Nominations Committee**, which report directly to it. The Board has also established processes which ensure both that it is kept regularly advised on the strategic and policy elements of estates, personnel and health and safety issues, and that it can act effectively and in an informed way with respect to these matters when it is required to do so. In the context of institutional governance, the **Audit Committee** has a particularly important function in expressing opinions and giving assurances to the Board relating to its review of the effectiveness of the University's arrangements for risk management, control and governance. The risk management element of this role includes the review of the processes which lead to the statement on internal control in the financial statements. The 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 the review of the effectiveness of internal control. The Committee also receives regular reports on any cases raised under the University's whistleblowing procedures, and on the University's data protection and cyber security work.

The **Finance Committee** is primarily responsible for oversight of the University's financial strategy and its financial viability, the preparation of the financial statements, oversight of the University subsidiary companies and the management of capital projects and of University investments. It considers and forwards to the Board the University's long-term financial plans, recommendations concerning borrowing, University budgets, and the financial plans and forecasts provided to regulators.

The **Nominations Committee**, chaired by the Pro-Chancellor, Mrs Gillian Easson, recognises the continuing need to appoint new people with a record of achievement, within or outside their substantive careers, which can be applied in a variety of ways to the University's benefit to the Board of Governors and to the General Assembly. At the same time, the Committee has endeavoured to ensure that the overall range of expertise across categories of lay membership continues to reflect the needs and aspirations of the University, as well as helping to fulfil the requisite responsibilities for proper institutional governance, and to ensure that the overall lay membership of both the Board of Governors and the General Assembly is representative of the diversity of the University and of the communities served by it. The nominations it brings forward in any year are therefore informed by the existing skills and diversity mix of both bodies and seek to ensure appropriate levels of representation. The Committee accepts the expectations concerning equality and diversity in the CUC Code of Governance and appreciates that board diversity, in particular, promotes more constructive and challenging dialogue.

The **Remuneration Committee** provides a comprehensive report of its activity to the Board of Governors in July of each year. This provides information on its role, remit, and its working methods as well as a summary of the decisions it has taken and the conclusions of the salary review undertaken for senior staff. The University is aware of the need to balance the challenging financial climate, the external perception of senior salaries and the University's ability to pay with the need to recognise the contribution and performance of individuals and retain its best staff, and this informed the Committee's decision-making over 2015-16.

The **Staffing Committee** is established by the Board under Ordinance to give full and proper consideration to any proposals notified to it to dismiss members of staff on grounds of redundancy. For each instance, appropriate information is provided to the Committee to allow it to reach a reasoned assessment of the proposal and to consider alternative strategies for the resolution of the circumstances leading to the proposal. Its recommendations are then passed to the full Board of Governors for approval.

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

The Safety, Health and Environment Committee (SHE), is the University's principal committee responsible for the management of Health and Safety, and environmental and sustainability considerations. A report on the key issues it considers and its minutes are presented directly to the Board of Governors at each meeting.

The **General Assembly** is the interface between the University and the wider community. It is a much larger body (200+ members) than the Board, and in common with it, has a majority of lay members. Lay members are drawn from a wide range of local, regional and national interests, and together they offer the University a wealth of experience and expertise from differing perspectives. The main purpose of the General Assembly is to act as a two-way channel of communication through which the University presents its achievements to its broader 'constituencies' and receives feedback and advice on matters relating to University business. It also includes University staff, alumni and students within its membership.

The **Alumni Association** is the body of the University's graduates, and promotes fellowship among graduates while helping them to keep in touch with the University by providing opportunities to take an interest in its development and ongoing activities. General Meetings of the Association are held regularly, with its business between General Meetings conducted by an elected committee. The Association is represented on the governing body and on the General Assembly.

The members of the General Assembly and the Alumni Association, together with all members of paid University staff eligible to hold superannuable appointments, form the constituency for the election of the Chancellor, who is the ceremonial Head of the University, presiding over meetings of the General Assembly and over congregations of the University for the conferment of degrees. An election to appoint a new Chancellor of the University was held in spring 2015 and Mr Lemn Sissay, MBE, took up the role in August 2015, replacing Mr Tom Bloxham, CBE, who had held office since August 2008.

The **President and Vice-Chancellor** (Professor Dame Nancy Rothwell) is the chief executive officer and the principal academic and administrative officer of the University. In fulfilling these functions the President and Vice-Chancellor has overall responsibility for the executive management of the University and for its day-to-day direction, being accountable to the Board of Governors for the exercise of these responsibilities and (as the designated 'accountable officer') to HEFCE for the use of the public funds the University receives. As the chief executive officer of the University, 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 **Deputy President and Deputy Vice-Chancellor** (Professor Colin Bailey), the **Vice-Presidents**, the **Registrar, Secretary and Chief Operating Officer** (Mr Will Spinks) and the senior administrative officers contribute in various ways to this work, collectively acting as the University's Senior Leadership Team, but the ultimate executive responsibility rests with the President and Vice-Chancellor.

The function of the University's Professional Support Services is to support the primary institutional objectives in respect of teaching and research, to oversee the discharge of the University's statutory and regulatory responsibilities and to implement the policy decisions of Senate and the Board. Through the provision of specialist expertise, it also contributes to and advises on the formulation of University policy. The Head of the Professional Support Services is the **Registrar, Secretary and Chief Operating Officer**, who is also clerk to the governing body and responsible for the provision of secretariat support to the governing body, its subcommittees, the General Assembly and Senate.

The University maintains a Register of Interests of members of the Board of Governors and for members of the Senior Leadership Team, which may be consulted by arrangement with the Registrar, Secretary and Chief Operating Officer. Schools and Directorates also maintain registers of interest for their staff. Members of the Board and of its Committees receive a reminder in the papers for each meeting of the need to declare any interest they may have in relation to the specific business to be transacted.

Internal Control

The duties conferred upon the Board of Governors by the University's Charter and Statutes require it to institute and maintain a sound system of internal control. This is designed to support the achievement by the University of its aims and objectives and, at the same time, safeguard public and other funds and assets for which the University is responsible. In that context, the Board is satisfied that the University complies with those provisions of the CUC Guide on the financial aspects of corporate governance which are applicable in a higher education institution. Guidance provided by the Turnbull Committee on a risk management approach to internal control of institutional activity, as mediated by HEFCE through its Memorandum of Assurance and Accountability, has been adopted by the Board as the basis for evaluating the University's systems of internal control and for reviewing its effectiveness. The Audit Committee, on behalf of the Board, is ultimately responsible for the oversight of the University's review and monitoring of the system of internal control. The Board receives regular reports, at each meeting, from the Audit Committee on the steps being taken to manage risks across the University. The Audit Committee also receives regular reports from the internal auditors (the Universities Internal Audit Consortium, Uniac), which include the internal auditors' independent opinion on the adequacy and effectiveness of the University's system of internal control, together with any recommendations for improvement.

Financial Control

The Board of Governors, both directly and through its Finance and Audit Committees, is responsible for ensuring the economical, efficient and effective management of the University resources and expenditure, and for safeguarding its assets, including specific responsibility for the oversight of systems that prevent and detect fraud. It must ensure that the University uses public funds only for the purposes for which they were provided, and that those funds derived from HEFCE are used in accordance with the requirements of the Memorandum of Assurance and Accountability. It is supported in this work through the external auditors (EY LLP) and the University's internal auditors and whose work is overseen by the Audit Committee.

The system of internal financial control provides for comprehensive financial planning processes, assessments of annual income, expenditure, capital and cash flow budgets in conjunction with the monthly review of financial results, the reporting of variances and the projection of outturns.

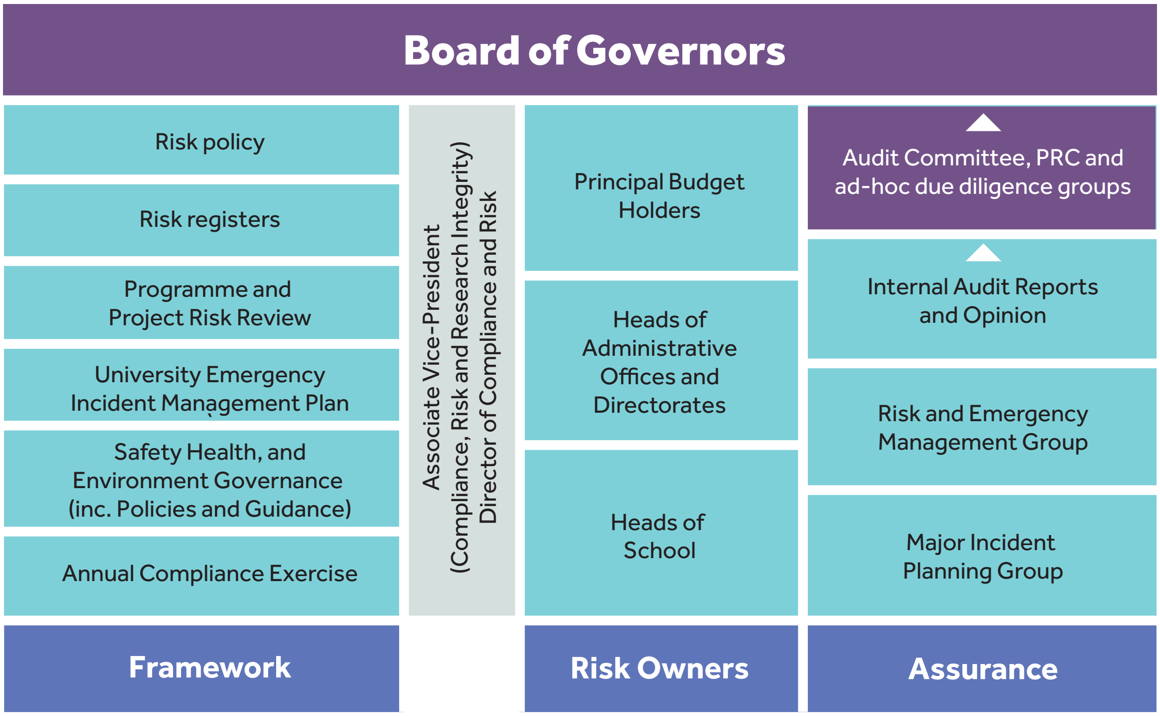
The University sets out matters concerning the broad policies relating to financial control in its Financial Regulations. The Regulations are approved by the Board and apply to the University and all its related undertakings, and include all funds passing through University accounts. They encompass the University's processes to investigate fraud and other financial irregularities, budgeting and forecasting, the treatment of year end balances and capital expenditure programmes and general issues with regard to the accounts and accounting returns of the University.

Value for Money

The University strives to apply value for money considerations to all its processes and activities, and this is supported by strong awareness and vigilance across the senior management team. The Audit Committee receives an Annual Report on the University's Procurement activity, including a specific report from the Head of Procurement on the University's efforts to secure value for money. The University is also undertaking further work, in partnership with other universities to benchmark costs. The Audit Committee also receives a comprehensive report on the Transparent Approach to Costings (TRAC) analysis undertaken by the University in January of each year. In addition, every internal audit review undertaken and submitted to the Audit Committee makes specific observations and judgements concerning the value for money demonstrated and a separate report on Value for Money will be returned to HEFCE in December 2016.

Risk Management

A comprehensive Risk Management framework, defined in the University's Risk Management Policy, assists the management of the University in the identification of the key risks inherent in the delivery of the University's strategy. This is overseen by the Audit Committee in order to gain the necessary assurances on the efficacy of the framework and relay them to the Board of Governors. The Board, through the Audit Committee, PRC, and/or where appropriate through other ad-hoc due diligence groups, evaluates the risks inherent in all major plans and proposals, including the identification of the steps that would be required to mitigate, eliminate and control such risks. The University has also taken additional measures to support the risk management process, including the appointment of a Director of Compliance and Risk and the designation of an Associate Vice-President for Compliance, Risk and Research Integrity (who provide direct advice to senior officers of the University and, in addition, the Director of Compliance and Risk provides a report to the Board of Governors, on behalf of the President and Vice-Chancellor, at each meeting). They oversee the adoption and dissemination, on a continual basis, of risk awareness/management training and the preparation of contingency plans in areas where there is a potential for an occurrence having a catastrophic effect on the University and its business capability. The Risk Register is reviewed by the Audit Committee on a routine basis, and is presented to the Board of Governors at regular intervals.



The diagram above depicts the overall responsibility of the Board of Governors for the oversight of risk management within the University. The framework includes a risk policy, risk registers (at School, Faculty, PSS and University level) and the governance of health and safety, and identifies primary risk owners. It is supported by a comprehensive assurance process, which reports through to the Audit Committee, on behalf of the Board of Governors.

The risk management objectives of the University outlined below are based on an overarching policy to adopt best practice in the identification, evaluation and cost-effective control of risks in order that the risks associated with the University's strategy, as set out in its Manchester 2020, are eliminated and/or managed down to an acceptable level. The policy includes the following key actions:

- the integration of risk awareness into the culture of the University;
- the management of risk in accordance with best practice;
- the anticipation and appropriate response to risks emerging/associated with changing social, environmental and legislation requirements; and
- the reduction of the costs of risk by taking appropriate steps to mitigate injury and damage to individuals and assets of the University.

Modern slavery and human trafficking statement

This statement is made in accordance with section 54(1) of the Modern Slavery Act 2015 and constitutes our slavery and human trafficking statement for the financial year ending 31 July 2016.

We are a UK Higher Education Institute which provides a wide range of teaching, research and related activities. We are based in Manchester but are involved across the globe. We have 42,900 students registered on courses in the UK and across the world. We employ 12,125 people and had an income of £1.01 billion for the financial year ending 31 July 2015.

More information about us and our activities is available here:
http://www.manchester.ac.uk/

Our Policies

We are committed to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business. As part of this commitment we have adopted an Anti-Slavery and Human Trafficking Policy.

This demonstrates our zero-tolerance approach to modern slavery and determination to behave ethically and with integrity in all our business dealings and relationships. We are committed to transparency in what we do and expect the same from our contractors, suppliers and other business partners, and their supply chains.

We have updated our terms and conditions of business, to require compliance with this policy and the Modern Slavery Act 2015.

Our Supply Chains

We purchase works, goods and services from a wide range of suppliers and across a number of categories and are committed to acquiring these in a responsible manner.
In order to meet our obligations under the act we have adopted a single mechanism that allows us to engage directly with every one of our existing suppliers to identify their awareness of modern slavery and human trafficking. The same process is used for all new suppliers.

We have categorised our supply chain in order to target our activities where it will have the most impact. We have reviewed our supply base to identify those that are high risk in terms of the potential for slavery and human trafficking. All of our suppliers have been assessed based on a mix of environmental, economic and social (including slavery and human trafficking) factors. We will focus our efforts on supply partners that have high risk scores in this exercise and also suppliers in the following areas (if not already captured): agriculture, hospitality, construction and staff agencies, to promote best practice throughout our supply chains.

We are reviewing use of relevant standards to provide assurance on labour practices for applicable products and processes. In some very high risk category areas (such as clothing) we use external agencies to provide assurance on supply chain practice, and will continue to assess the suitability of external validation in other areas as well.

The revision of procurement documentation and processes to align them with our policy and the Modern Slavery Act 2015 is underway and will continue to ensure that they keep pace with any developments in this sphere.

We will continue to work with our sector colleagues to share best practice and keep up to date on slavery and human trafficking considerations within the supply chain.

Our People

There is a clear chain of accountability in this area; overall responsibility rests with the Board of Governors who have devolved day to day responsibility for implementing and monitoring the University's approach to the Director of Finance.

We are keen to ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and are committed to raise awareness amongst all staff about this. In particular we will stress the need for operational practice to match the expectations in this area. We will engage widely with staff on the issue during the coming year and will investigate the need for additional training for certain categories of staff.

Initial training on slavery and human trafficking has been provided for procurement professionals and further training is planned during the coming twelve months.

Guidance on slavery and human trafficking for internal purchasers and staff involved in purchasing from high risk categories is in preparation.

Statement of the Board of Governors' responsibilities for the year ending 31 July 2016

In accordance with the Royal Charter, the Board of Governors of The University of Manchester ('the Board') is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of The University of Manchester and which enable it to ensure that the financial statements are 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 2015, and applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102, as well as reflecting current best practice in public sector corporate governance. In addition, under the terms and conditions of a Financial Memorandum agreed with HEFCE in respect of The University of Manchester, the Board, through its designated office-holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the institutional surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board has to ensure that:

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

The Board has taken reasonable steps to:

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

The governors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the University's auditor is unaware; and each governor has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the University's auditors are aware of that information.

The Board of Governors are responsible for the maintenance and integrity of the corporate and financial information included on the University's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Mr Edward Astle
Chair of the Board of Governors
and Pro-Chancellor

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 2016 which comprise the Statement of Principal Accounting Policies, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Reserves, Consolidated and University Balance Sheets, Consolidated Statement of Cash Flows and the related notes 1 to 33. 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), including FRS102, the Financial Reporting Standard applicable to the UK and Republic of Ireland.

This report is made solely to the Board of Governors as a body in accordance with the Charters and Statutes of the University. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditors' 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 Council and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.
This includes an assessment of: whether the accounting policies are appropriate to the Group's and the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Governors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information contained in the financial statements as a whole to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the University and of the Group as at 31 July 2016 and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS102, the Financial Reporting Standard applicable to the UK and Republic of Ireland; and
- have been properly prepared in accordance with 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:

- funds for specific purposes and from other restricted funds administered by the University have, in all material respects, been applied only for the purposes for which they were received; and
- income has, in all material respects, been applied in accordance with the Financial Memorandum with Higher Education Funding Council for England; and
- the requirements of the Higher Education Funding Council for England's accounts direction have been met.

Ernst and Young LLP

Ernst & Young LLP
Statutory auditor
Manchester
24 November 2016

Financial Statements

For the year ended 31 July 2016

Statement of principal accounting policies

1. Basis of preparation

These 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 Memorandum of Assurance and Accountability agreed with HEFCE, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2015) and in accordance with Financial Reporting Standard (FRS) 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of the applicable UK laws and accounting standards.

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 and liquidity risks are set out on page 18.

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.

**Transition to FRS 102
and the 2015 FE HE SORP**

The University is preparing its financial statements in accordance with FRS 102 and the 2015 FE HE SORP for the first time and consequently has applied the first time adoption requirements. An explanation of how the transition to these new accounting standards has affected the reported financial position and financial performance of the consolidated results of the University is provided in note 33.

Application of first time adoption grants certain exemptions from the full requirements of FRS 102 and the 2015 FE HE SORP in the transition period. The following exemptions have been taken into these financial statements:
Fair value or revaluation as deemed cost – as at 1 August 2014, fair value has been used as the deemed cost for certain land and buildings and heritage assets.

In addition the University has taken the exemption Under 1.12 (b) of FRS 102 to not produce a cash flow statement for the University as it is the ultimate parent entity.

2. Basis of Accounting

The financial statements have been prepared under the historical cost convention, with the exception of:

- Certain investment properties which have been revalued to fair value as at the year ended 31 July 2016.
- Financial instruments at fair value in accordance with FRS 102.

These financial statements are presented in pounds sterling (rounded to £'000) because that is the currency of the primary economic environment in which the University operates.

3. Basis of Consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2016. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income and expenditure from the date of acquisition, being the date on which the Group obtains control of the entity, or up to the date of disposal. Intra-group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure of The University of Manchester Students' Union as the University does not exert control or dominant influence over policy decisions.

Associated companies and joint ventures are accounted for using the equity method.

4. Income recognition

Income from the sale of goods or services is credited to the consolidated statement of comprehensive income when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the statement of comprehensive income over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Grant funding
Grant funding including funding council block grants, research grants from government sources and grants (including research grants) from non government sources are recognised as income when the University is entitled to the income and performance related conditions have been met. The University has elected to recognise income from government grants under the performance model, and therefore income received in advance of any performance related condition being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Capital grants
Capital grants are recognised in income when the University is entitled to the funds subject to any performance related conditions being met.

Donations and endowments
Donations and endowments without performance related conditions are non exchange transactions. Donations and endowments with donor imposed restrictions are recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the income.

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

There are four main types of donations and endowments identified within reserves:

1. Restricted donations – the donor has specified that the donation must be used for a particular objective.

2. 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 University.

3. Restricted expendable endowments - the donor has specified a particular restriction in respect of the endowment and the endowment may be spent in full.

4. 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.

Donations of fixed assets are included within income. The income recognised is valued using a reasonable estimate of their gross value or the amount actually realised. Donated tangible fixed assets are valued and accounted for as fixed assets under the appropriate fixed asset category.

5. 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 University's share is eliminated.

6. Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised within surplus before tax in the statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income.

7. Tangible fixed assets

Tangible fixed assets are stated at cost or, in the case of certain land and buildings and heritage assets, at deemed cost, less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that had been revalued to fair value on or prior to the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Where parts of a tangible fixed asset have different useful lives, they are accounted for as separate items of fixed assets (component accounting).

Land and buildings
Land and buildings are stated at cost or at deemed cost.

Where a property comprises two or more major components with substantially different useful economic lives (UELs), each component is accounted for separately and depreciated over its individual UEL. Expenditure relating to subsequent replacement of components is capitalised as incurred.

Major enhancements to existing buildings at a cost of more than £150,000 are capitalised and depreciated over their expected UEL, or less if the leasehold is shorter.

Depreciation is charged by component on a straight line basis over the estimated useful economic life of each component.

Useful economic lives for individual components of land and buildings are as follows:

Property portfolio as at 31 July 2014	Years
Structure (academic, research, residential)	100 - 200
Structure (sport, recreational, administrative)	20 – 50
Fit-out (academic, research, residential)	25 – 50
Fit-out (sport, recreational, administrative)	2 – 20
Mechanical and electrical services	10 – 35
New Builds	**Years**
Structure	100
Fit-out	30
Mechanical and electrical services	20
Enhancements	**Years**
Structure	50
Fit-out	30
Mechanical and electrical services	20

Freehold land is not depreciated. Leasehold land is depreciated over the life of the lease where the lease is for less than 50 years

Buildings under construction are included at cost, based on the value of architect's certificates and other costs incurred at 31 July 2016. They are not depreciated until they are brought into use.

Equipment
Individual items of equipment and groups of functionally dependent items costing more than £50,000 are capitalised at cost. All other items are written off to the income and expenditure account in the year of acquisition.

Computer equipment consists of long-lived capital assets that normally are technological in nature and are the basis of the University's information/connectivity infrastructure which exceed the £50,000 threshold. External specialist cost to bring the equipment into use will be considered as part of the asset. This includes all hardware, software, and cabling associated with University-wide systems.

Capitalised equipment is depreciated on a straight line basis over its expected useful economic life, generally assumed to be 3 years. Equipment acquired for a specific funded project is depreciated over the project life.

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.

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.

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

8. Heritage assets

Heritage assets are stated at cost or deemed cost. Works of art and other valuable artefacts valued over £50,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost 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. The assets are subject to an annual impairment review in accordance with applicable accounting standards.

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

9. Leases

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease.

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

Leased assets acquired by way of finance lease are depreciated over the duration of the lease.

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

10. Goodwill

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.

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

11. Intangible assets

Purchased Software Costs
Software costs are capitalised if externally purchased software and the wholly attributable external implementation costs as set out below exceed the £50,000 threshold.

External costs, associated with the application development and implementation phases are capitalised. This may involve the acquisition of computer equipment or third party software.

Costs to develop or obtain software that allows for access or conversion of old data by new information systems are also capitalised.

Training costs are not implementation costs and are expensed as incurred.

External costs in respect of upgrades and enhancements will be capitalised only if the expenditure results in additional functionality.

Internally-developed software and web-development costs
Design and content costs relating to the development of internal software and 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 general use of the institution and its staff are written off as incurred.

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

12. Subsidiary undertakings, associate undertakings and joint ventures

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

The University accounts for its share of joint ventures using the equity method. The University accounts for its share of transactions from joint operations and jointly controlled assets in the statement of comprehensive income.

13. Investment properties

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services.

Investment properties are measured initially at cost and subsequently at fair value with movements recognised within surplus before tax in the statement of comprehensive income. Investment properties are not depreciated but are revalued or reviewed annually according to market conditions as at 31 July each year.

14. Financial instruments

The University has chosen to apply the provisions of sections 11 and 12 of FRS 102 in full. Financial assets and financial liabilities are recognised in the University's balance sheet when the University becomes a party to the contractual provisions of the instrument. 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.

The University's financial assets and liabilities all meet the criteria for basic financial instruments prescribed within FRS102 Section 11.8. All financial assets and liabilities are initially recognised at the transaction price plus any additional directly attributable transaction costs. They are subsequently measured as follows:

Investments
Investments within the scope of Section 11 of FRS 102 (therefore excluding investments in subsidiaries, associates and joint ventures) are recognised initially at fair value which is normally the transaction price (but excludes any transaction costs, where the investment is subsequently measured at fair value

through the statement of comprehensive income). Subsequently, they are measured at fair value if the investment is publicly traded or their fair value can otherwise be measured reliably with the changes in fair value recognised in the statement of comprehensive income. All other investments are measured at cost less impairment.

Short term debtors and creditors
Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the statement of comprehensive income in other operating expenses.

Loan notes
Loan notes which are basic financial instruments are initially recorded at the transaction price, net of transaction costs. Subsequently, they are measured at amortised cost using the effective interest method. Loan notes that are receivable within one year are not discounted.

15. 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.

16. Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they a re in practice available within 24 hours without penalty.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value. Deposit investments are deemed to be cash equivalents if they have a maturity of three months or less from the date of acquisition.

17. Provisions, contingent liabilities and contingent assets

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.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the balance sheet but are disclosed in the notes.

18. Accounting for retirement benefits

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 defined benefit schemes which are externally 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 102.

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which the University pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income in the periods during which services are rendered by employees.

Defined benefit plans
UMSS and GMPF schemes are accounted for as defined benefit plans under FRS 102. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Under defined benefit plans the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that returns on assets set aside to fund the benefits will differ from expectations) are borne in substance by the University.

The University should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Multi-employer pension schemes
Of the four 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 102, these schemes are accounted for as if they are defined contribution plans. As a result, the amount charged to the statement of comprehensive income represents the contributions payable to the scheme in respect of the accounting period. As a contractual commitment is in place with USS to fund past deficits on the scheme, a liability is recorded within provisions in accordance with FRS 102.

19. Employment benefits

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

20. Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011. It is therefore a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010 and 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) or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to fixed assets is included in their cost.

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

21. Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax in the future, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. 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.

22. Reserves

Reserves are classified as restricted or unrestricted.

Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund as the University must hold the fund to perpetuity.

Other restricted reserves include balances through which the donor or funder has designated a specific purpose and therefore the University is restricted in the use of these funds.

23. 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 statement of comprehensive income. Details are disclosed within note 32 'Amounts disbursed as agent' and include Access Funds and Training Bursaries.

24. Significant estimates and judgements

In the process of applying these accounting policies, the University is required to make certain estimates, judgements and assumptions that management believe are reasonable based on the information available. These are reviewed on a regular basis by the University's senior management team. Significant estimates and material judgements used in the preparation of the financial statements are as follows:

Recoverability of debtors
The provision for doubtful debts is based on our estimate of the expected recoverability of those debts. Assumptions are made based on the level of debtors which have defaulted historically, coupled with current economic knowledge. The provision is based on the current situation of the customer, the age profile of the debt and the nature of the amount due.

Investment properties
Valuations are undertaken every five years by an independent external team of chartered surveyors. This is then updated annually by senior management based on the current tenant rents and an estimate of the rental yield going forward.

Impairments
Management make judgements as to whether any indicators of impairment are present for any of the University's assets.

Provisions
Management apply judgement to arrive at the best estimate for any obligation required. The amount recognised as a provision is management's best estimate of the present value of the amount required to settle the obligation. To arrive at this amount management assess the likelihood and extent of any future settlement and make judgements based on these.

Taxation
The University establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

Retirement benefit obligations
The University operates within four pension schemes. Two of these schemes are accounted for as defined benefit schemes. These are the University of Manchester Pension Scheme (UMSS) and the Greater Manchester Pension Fund (GMPF). Actuarial valuations are carried out as determined by the trustees annually. Pension costs under FRS 102 are based upon the latest actuarial valuation, which is based on assumptions agreed by management following actuarial advice. These assumptions are documented within note 25.

The University also operates within two defined benefit schemes which are accounted for as defined contribution schemes, the Universities Superannuation Scheme (USS) and the NHS pension scheme (NHSP). These are accounted for as defined contribution schemes as insufficient information is available to identify the Universities share of the underlying assets and liabilities.

As the University is contractually bound to make deficit recovery payments to USS, this is recognised as a liability on the balance sheet. The USS deficit recovery plan defines the deficit payment required as a percentage of future salaries until 2031. These contributions will be reassessed within each triennial valuation of the scheme. The provision is based on management's estimate of expected future salary inflations, changes in staff numbers and the prevailing discount rate.

Consolidated statement of comprehensive income

Year ended 31 July 2016

	Notes	Consolidated Year ended 31 July 2016 £'000	Consolidated Year ended 31 July 2015 £'000	University Year ended 31 July 2016 £'000	University Year ended 31 July 2015 £'000
Income					
Tuition fees and education contracts	1	**423,990**	386,732	**404,708**	366,112
Funding body grants	2	**129,587**	168,492	**129,587**	168,492
Research grants and contracts	3	**273,479**	260,952	**273,479**	260,922
Other income	4	**142,396**	161,483	**144,873**	168,900
Investment income	5	**7,731**	8,772	**8,197**	9,291
Total income before donations and endowments		**977,183**	986,431	**960,844**	973,717
Donations and endowments	6	**10,052**	10,404	**10,052**	10,404
Total income		**987,235**	996,835	**970,896**	984,121
Expenditure					
Staff costs	7	**504,679**	488,437	**492,151**	475,320
Change in USS deficit recovery plan	7	-	85,350	**-**	85,323
Other operating expenses	8	**347,622**	341,099	**346,627**	345,234
Depreciation and amortisation	11 & 12	**60,231**	88,512	**59,172**	87,441
Interest and other finance costs	9	**30,640**	26,392	**30,527**	26,281
Total expenditure		**943,172**	1,029,790	**928,477**	1,019,599
Surplus/(deficit) before other gains/(losses) and share of operating surplus of associates		**44,063**	(32,955)	**42,419**	(35,478)
Gain/(loss) on disposal of fixed assets		**3,949**	-	**4,428**	-
Gain/(loss) on investments (including investment properties)		**12,923**	18,112	**13,402**	17,389
Share of operating surplus in associates	15	**807**	343	**-**	-
Surplus/(deficit) before tax		**61,742**	(14,500)	**60,249**	(18,089)
Taxation	10	**(2,006)**	(5,076)	**(1,986)**	(4,938)
Surplus/(deficit) after tax		**59,736**	(19,576)	**58,263**	(23,027)
Non controlling interest in subsidiary undertakings for the year		**30**	5	**-**	-
Surplus/(deficit) for the year		**59,766**	(19,571)	**58,263**	(23,027)
Other comprehensive income/(loss)					
Actuarial loss in respect of pension schemes	25	**(58,727)**	(56,442)	**(58,727)**	(56,442)
Total comprehensive income/(loss) for the year		**1,039**	(76,013)	**(464)**	(79,469)
Endowment comprehensive income for the year		**11,692**	14,626	**11,692**	14,626
Restricted comprehensive income for the year		**5,085**	-	**5,085**	-
Unrestricted comprehensive income for the year		**(15,738)**	(90,639)	**(17,241)**	(94,095)
		1,039	(76,013)	**(464)**	(79,469)

All items of income and expenditure relate to continuing activities

Consolidated statement of changes in reserves

Year ended 31 July 2016

(a) Consolidated

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 August 2015	185,133	7,500	1,279,566	1,472,199	219	1,472,418
Surplus/(deficit) from the income and expenditure statement	11,692	15,763	32,311	59,766	(30)	59,736
Other comprehensive income	-	-	(58,727)	(58,727)	-	(58,727)
Release of restricted funds spent in year	-	(10,678)	10,678	-	-	-
Total comprehensive income for the year	11,692	5,085	(15,738)	1,039	(30)	1,009
Balance at 31 July 2016	**196,825**	**12,585**	**1,263,828**	**1,473,238**	**189**	**1,473,427**

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 August 2014	170,507	7,500	1,370,205	1,548,212	224	1,548,436
Surplus/(deficit) from the income and expenditure statement	14,626	6,408	(40,605)	(19,571)	(5)	(19,576)
Other comprehensive income	-	-	(56,442)	(56,442)	-	(56,442)
Release of restricted funds spent in year	-	(6,408)	6,408	-	-	-
Total comprehensive income for the year	14,626	-	(90,639)	(76,013)	(5)	(76,018)
Balance at 31 July 2015	**185,133**	**7,500**	**1,279,566**	**1,472,199**	**219**	**1,472,418**

(b) University

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 August 2015	185,133	7,500	1,242,799	1,435,432	-	1,435,432
Surplus/(deficit) from the income and expenditure statement	11,692	15,763	30,808	58,263	-	58,263
Other comprehensive income	-	-	(58,727)	(58,727)	-	(58,727)
Release of restricted funds spent in year	-	(10,678)	10,678	-	-	-
Total comprehensive income for the year	11,692	5,085	(17,241)	(464)	-	(464)
Balance at 31 July 2016	**196,825**	**12,585**	**1,225,558**	1,434,968	-	1,434,968

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 August 2014	170,507	7,500	1,336,894	1,514,901	-	1,514,901
Surplus/(deficit) from the income and expenditure statement	14,626	6,408	(44,061)	(23,027)	-	(23,027)
Other comprehensive income	-	-	(56,442)	(56,442)	-	(56,442)
Release of restricted funds spent in year	-	(6,408)	6,408	-	-	-
Total comprehensive income for the year	14,626	-	(94,095)	(79,469)	-	(79,469)
Balance at 31 July 2015	**185,133**	**7,500**	**1,242,799**	**1,435,432**	**-**	**1,435,432**

Balance sheet as at 31 July 2016

	Notes	Consolidated 2016 £'000	Consolidated 2015 £'000	University 2016 £'000	University 2015 £'000
Non current assets					
Intangible assets and goodwill	11	**2,512**	2,328	**2,509**	1,834
Tangible fixed assets	12	**1,442,276**	1,402,875	**1,399,694**	1,359,395
Heritage assets	13	**255,483**	255,053	**255,483**	255,053
Investments	14	**319,157**	301,933	**317,561**	299,858
Investments in associates	15	**5,198**	4,391	**-**	-
		2,024,626	1,966,580	**1,975,247**	1,916,140
Current assets					
Stock		**1,674**	1,408	**1,620**	1,360
Trade and other receivables	16	**108,614**	118,240	**128,229**	135,808
Investments	17	**324,906**	330,000	**324,906**	330,000
Cash and cash equivalents		**103,659**	73,880	**78,065**	53,943
		538,853	523,528	**532,820**	521,111
Less: Payables: amounts falling due within one year	18	**(307,989)**	(290,721)	**(293,385)**	(277,182)
Net current assets		**230,864**	232,807	**239,435**	243,929
Total assets less current liabilities		**2,255,490**	2,199,387	**2,214,682**	2,160,069
Payables: amounts falling due after more than one year	19	**(411,069)**	(414,294)	**(409,363)**	(412,588)
Provisions					
Pension provisions	21	**(369,938)**	(311,639)	**(369,882)**	(311,580)
Other provisions	21	**(1,056)**	(1,036)	**(469)**	(469)
Total net assets		**1,473,427**	1,472,418	**1,434,968**	1,435,432
Restricted reserves					
Income and expenditure reserve - endowment reserve	22	**196,825**	185,133	**196,825**	185,133
Income and expenditure reserve - restricted reserve	23	**12,585**	7,500	**12,585**	7,500
Unrestricted reserves					
Income and expenditure reserve - unrestricted		**1,263,828**	1,279,566	**1,225,558**	1,242,799
		1,473,238	1,472,199	**1,434,968**	1,435,432
Non controlling interests		**189**	219	**-**	-
Total reserves		**1,473,427**	1,472,418	**1,434,968**	1,435,432

The financial statements were approved by the Governing Body on 23 November 2016 and were signed on its behalf on that date by:

Mr Edward Astle
Chair of the Board of Governors and Pro-Chancellor

Professor Dame Nancy Rothwell
President and Vice-Chancellor

Mr Stephen Dauncey
Director of Finance

Consolidated statement of cash flows

Year ended 31 July 2016

	Notes	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Cash flow from operating activities			
Surplus/(deficit) for the year		**59,766**	(19,571)
Adjustment for non-cash items			
Depreciation	12	**59,175**	87,821
Amortisation of intangible assets	11	**1,056**	691
Gain on investments		**(12,923)**	(18,112)
(Increase)/decrease in stock		**(267)**	65
Decrease/(increase) in debtors	16	**9,626**	(26,462)
Increase in creditors	18-19	**47,974**	22,259
(Decrease)/increase in pension provision	21	**(428)**	83,362
Increase in other provisions	14/21	**608**	1,275
Receipt of donated equipment		**(437)**	(660)
Share of operating surplus in associate	15	**(807)**	(343)
Non controlling interest in subsidiary undertakings		**(30)**	(5)
Adjustment for investing or financing activities			
Investment income		**(7,731)**	(8,772)
Interest payable		**18,816**	19,475
New endowments		**(152)**	(175)
(Profit)/loss on sale of fixed assets		**(3,949)**	683
Capital grant income		**(63,863)**	(73,584)
Assets transferred to other operating expenditure		**3,289**	-
Net cash inflow from operating activities		**109,723**	67,947
Cash flows from investing activities			
Proceeds from sales of fixed assets		**4,456**	-
Disposal of non current asset investments		**829**	-
Capital grant receipts		**31,400**	40,400
Withdrawal of deposits		**5,094**	-
Investment income		**7,731**	8,772
Payments made to acquire fixed assets		**(101,436)**	(130,468)
Payments made to acquire investments		**(5,718)**	(1,177)
New deposits		**-**	(142)
		(57,644)	(82,615)
Cash flows from financing activities			
Interest paid		**(18,816)**	(19,141)
Interest element of finance lease rental payments		**-**	(334)
Capital element of finance lease rental payments		**-**	(616)
Endowment cash received		**152**	2,125
Repayments of long-term loans		**(3,636)**	(3,987)
		(22,300)	(21,953)
(Decrease)/increase in cash and cash equivalents in the year		**29,779**	(36,621)
Cash and cash equivalants at beginning of the year		**73,880**	110,501
Cash and cash equivalants at the end of the year		**103,659**	73,880

Notes to the financial statements

Year ended 31 July 2016

1 Tuition fees and education contracts

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Full-time home and EU students	**182,538**	162,610	**182,538**	162,610
Full-time international students	**179,401**	159,264	**179,401**	159,264
Part-time students	**28,715**	30,761	**10,869**	11,777
Short course fees	**14,983**	16,714	**14,983**	16,714
Other teaching contract courses	**18,012**	16,932	**16,576**	15,296
Research training support grants	**341**	451	**341**	451
	423,990	386,732	**404,708**	366,112

2 Funding body grants

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Recurrent grant				
Higher Education Funding Council - recurrent	**104,219**	126,272	**104,219**	126,272
Higher Education Funding Council - capital	**18,941**	32,359	**18,941**	32,359
Other recurrent grants	**1,972**	2,229	**1,972**	2,229
Specific grants				
Special initiatives	**4,455**	7,632	**4,455**	7,632
	129,587	168,492	**129,587**	168,492

3 Research grants and contracts

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Research councils	**115,420**	97,978	**115,420**	97,978
UK based charities	**54,178**	46,790	**54,178**	46,790
UK central government, hospitals and health authorities	**39,814**	56,596	**39,814**	56,596
UK industry and commerce	**25,775**	23,627	**25,775**	23,597
Overseas	**37,282**	35,004	**37,282**	35,004
Other sources	**1,010**	957	**1,010**	957
	273,479	260,952	**273,479**	260,922

The above includes £38.8m (2015: £20.7m) relating to income recognised relating to capital additions.

4 Other income

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Residences, catering and conferences	**52,997**	50,749	**50,711**	48,814
Other capital income	**6,138**	20,525	**6,138**	20,525
Other grants	**31,550**	33,976	**31,550**	33,976
Income from supply of goods and services	**19,186**	20,558	**21,709**	20,715
Premises income	**5,734**	6,558	**2,983**	4,109
Consultancy	**4,351**	4,413	**4,351**	4,413
Other	**22,440**	24,704	**27,431**	36,348
	142,396	161,483	**144,873**	168,900

Notes to the financial statements (continued)

Year ended 31 July 2016

5 Investment income

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Interest from short-term investments	**4,368**	4,171	**4,834**	4,690
Dividend income	**583**	665	**583**	665
Endowment income	**2,384**	3,456	**2,384**	3,456
Investment income	**396**	480	**396**	480
	7,731	8,772	**8,197**	9,291

6 Donations and endowments

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
New endowments	**152**	175	**152**	175
Donations	**9,900**	10,229	**9,900**	10,229
	10,052	10,404	**10,052**	10,404

7 Staff costs

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Staff costs :				
Wages and salaries	**381,433**	370,006	**371,131**	358,964
Social security costs	**34,260**	31,574	**33,569**	30,982
Other pension costs	**82,984**	86,321	**81,568**	84,838
Early retirement and voluntary severance (ERVS) scheme costs	**6,002**	536	**5,883**	536
	504,679	488,437	**492,151**	475,320
Change in USS deficit recovery plan	**-**	85,350	**-**	85,323

As a result of the triennial valuation of the USS at 31 March 2014, the University agreed the level of employer contributions required towards the correction of the deficit in the defined benefit section of the USS and this resulted in a significant increase in the provision required.

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 £4.0m for the year ended 31 July 2016 (2015: £4.0m).

	Consolidated		University	
Average staff numbers :	**No.**	No.	**No.**	No.
Academic	**2,644**	2,542	**2,644**	2,542
Research	**1,960**	1,952	**1,960**	1,952
Administrative and management	**1,652**	1,647	**1,297**	1,238
Clerical and secretarial	**1,717**	1,620	**1,684**	1,588
Technical	**2,198**	2,154	**2,198**	2,154
Total number of staff	**10,171**	9,915	**9,783**	9,474

The number of staff disclosed relate to full time equivalents.

7 Staff costs (continued)

Remuneration of higher paid staff (other than the President and Vice-Chancellor), excluding employer's pension contributions and any ERVS costs, 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		University	
	2016 Number of Employees	2015 Number of Employees	**2016 Number of Employees**	2015 Number of Employees
£100,001 - £110,000	**49**	45	**49**	45
£110,001 - £120,000	**42**	51	**42**	50
£120,001 - £130,000	**43**	43	**42**	43
£130,001 - £140,000	**23**	21	**23**	21
£140,001 - £150,000	**13**	6	**12**	6
£150,001 - £160,000	**6**	7	**6**	6
£160,001 - £170,000	**6**	6	**6**	6
£170,001 - £180,000	**3**	6	**3**	5
£180,001 - £190,000	**7**	5	**6**	4
£190,001 - £200,000	**2**	3	**1**	2
£200,001 - £210,000	**2**	2	**2**	2
£220,001 - £230,000	**1**	-	**1**	-
£300,001 - £310,000	**1**	-	**1**	-
£350,001 - £360,000	**-**	1	**-**	1
£380,001 - £390,000	**1**	-	**1**	-
	199	196	**195**	191

	Consolidated and University	
	Year ended 31 July 2016	Year ended 31 July 2015
Emoluments of the President and Vice-Chancellor:	**£'000**	£'000
Salary	**259**	252
Benefits	**4**	4
Pension contributions taken as cash	**12**	-
Pension contributions to USS	**29**	40
	304	296

The Chair of the Board of Governors and Pro-Chancellor for 2015-16 has waived his right to fees in respect of the year.
No termination payments were paid to individuals whose annual remuneration exceeded £100,000.

	Consolidated and University	
	Year ended 31 July 2016	Year ended 31 July 2015
	£'000	£'000
Amount of expenses claimed by members of the Board of Governors during the year	**20**	34
Number of members of the Board of Governors claiming expenses	**14**	17

Key management personnel

Key management personnel are the members of the senior leadership team as defined in the corporate governance statement on page 24. Compensation paid to key management personnel (including the President and Vice-Chancellor) within the year was as follows:

Consolidated and University	
Year ended 31 July 2016	Year ended 31 July 2015
£'000	£'000
2,326	2,069

Notes to the financial statements (continued)

Year ended 31 July 2016

8 Analysis of other operating expenses	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Academic and related expenditure	78,251	81,679	78,251	81,679
Central administration and services	99,458	93,817	98,866	96,257
Premises	61,823	63,147	59,604	61,051
Residences, catering and conferences	20,201	19,982	25,731	25,022
Research grants and contracts	72,802	70,252	72,802	70,252
Other expenses	15,087	12,222	11,373	10,973
	347,622	341,099	346,627	345,234

	Consolidated	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Included within operating expenses are the following costs:		
Fees payable to the University's auditor for the audit of the University and its subsidiaries' annual accounts	209	220
Non audit fees payable to the University's auditor	23	41
Total fees	232	261

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.

9 Interest and other finance costs	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000
Bank loans	5,953	6,281	5,953	6,281
Other loans	12,863	12,860	12,750	12,750
Finance leases	-	334	-	334
Interest on net defined benefit pension liability	5,746	4,353	5,746	4,353
Unwinding of USS pension deficit funding	6,078	2,564	6,078	2,563
	30,640	26,392	30,527	26,281

10 Taxation

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Recognised in the statement of comprehensive income				
Current tax				
Current tax	**1,986**	4,938	**1,986**	4,938
Current tax expense	**1,986**	4,938	**1,986**	4,938
Deferred tax				
Origination and reversal of timing differences	**20**	138	**-**	-
Deferred tax expense	**20**	138	**-**	-
Total tax expense	**2,006**	5,076	**1,986**	4,938
Tax paid in year	**-**	-	**-**	-

Factors affecting the tax charge:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	Consolidated		University	
	Year ended 31 July 2016 £'000	Year ended 31 July 2015 £'000	**Year ended 31 July 2016 £'000**	Year ended 31 July 2015 £'000
Surplus/(deficit) before taxation	**61,742**	(14,500)	**60,249**	(18,089)
Surplus multiplied by the standard rate of corporation tax in the UK of 20.00% (2015: 20.67%)	**12,349**	(2,997)	**12,050**	(3,739)
Effect of:				
(Surplus)/deficit falling within charitable exemption	**(10,128)**	8,327	**(10,128)**	8,327
Effect of change in corporation tax rate	**64**	350	**64**	350
Other differences attributable to subsidiaries	**(299)**	(742)	**-**	-
Deferred tax movement	**20**	138		
Total tax expense	**2,006**	5,076	**1,986**	4,938

11 Intangible assets and goodwill

	Consolidated		University	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Cost				
At 1 August 2015	**4,056**	3,275	**3,517**	3,064
Reclassification	**517**	453	**534**	453
Additions at cost	**1,256**	328	**1,256**	-
Disposals	**(1,351)**	-	**(872)**	-
At 31 July 2016	**4,478**	4,056	**4,435**	3,517
Amortisation				
At 1 August 2015	**1,728**	1,037	**1,683**	1,005
Reclassification	**54**	-	**64**	-
Amortisation	**1,056**	691	**1,051**	678
Disposals	**(872)**	-	**(872)**	-
At 31 July 2016	**1,966**	1,728	**1,926**	1,683
Net book value				
At 31 July 2016	**2,512**	2,328	**2,509**	1,834

The amortisation period is 5 years

12 Tangible fixed assets (a) Consolidated	Freehold land and buildings £'000	Lease premium £'000	Assets under construction £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost					
At 1 August 2015	1,337,028	-	42,912	268,473	**1,648,413**
Transferred to other operating expenditure	-	-	(3,283)	(11)	**(3,294)**
Transfer to intangibles - software	-	-	(367)	(150)	**(517)**
Additions at cost	8,171	-	63,312	30,875	**102,358**
Transfers between categories	2,087	-	(8,031)	5,944	**-**
Disposals	-	-	-	(21,430)	**(21,430)**
At 31 July 2016	1,347,286	-	94,543	283,701	**1,725,530**
Depreciation					
At 1 August 2015	26,251	-	-	219,287	**245,538**
Transferred to other operating expenditure	-	-	-	(3)	**(3)**
Transfer to intangibles - software	-	-	-	(54)	**(54)**
Charge for the year	34,304	-	-	24,871	**59,175**
Disposals	-	-	-	(21,402)	**(21,402)**
At 31 July 2016	60,555	-	-	222,699	**283,254**
Net book value					
At 31 July 2016	**1,286,731**	**-**	**94,543**	**61,002**	**1,442,276**
At 1 August 2015	1,310,777	-	42,922	49,176	**1,402,875**

12 Tangible fixed assets (b) University	Freehold land and buildings £'000	Lease premium £'000	Assets under construction £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost					
At 1 August 2015	1,290,436	5,400	42,929	263,956	**1,602,721**
Transferred to other operating expenditure	-	-	(3,283)	-	**(3,283)**
Transfer to intangibles - software	-	-	(384)	(150)	**(534)**
Additions at cost	8,171	-	63,312	30,718	**102,201**
Transfers between categories	2,087	-	(8,031)	5,944	**-**
Disposals	-	-	-	(21,430)	**(21,430)**
At 31 July 2016	1,300,694	5,400	94,543	279,038	**1,679,675**
Depreciation					
At 1 August 2015	25,584	1,258	-	216,484	**243,326**
Transfer to intangibles - software	-	-	-	(64)	**(64)**
Charge for the year	33,637	74	-	24,410	**58,121**
Disposals	-	-	-	(21,402)	**(21,402)**
At 31 July 2016	59,221	1,332	-	219,428	**279,981**
Net book value					
At 31 July 2016	**1,241,473**	**4,068**	**94,543**	**59,610**	**1,399,694**
At 1 August 2015	1,264,852	4,142	42,929	47,472	**1,359,395**

12 Tangible fixed assets (continued)

The University and its subsidiaries have revalued some of its land and buildings on a fair value basis as at 31 July 2014, taking advantage of the transitional provisions of FRS 102 section 35.10. The University appointed Gerald Eve LLP, an independent external valuer which is regulated by the Royal Institution of Chartered Surveyors. The valuation was performed in accordance with the RICS Valuation – Professional Standards April 2015. In accordance with the FRS 102 transitional provisions these revised values are now used as the deemed cost of certain land and buildings going forward. The impact of the valuation is set out in note 33 to these financial statements.

At 31 July 2016, freehold land and buildings included £217.0m (2015: £217.0m) in respect of freehold land which is not depreciated.

13 Heritage assets

The University has revalued some of its heritage assets on a fair value basis as at 31 July 2014, taking advantage of the transitional provisions of FRS 102 section 35.10. The University appointed Sothebys, an independent external valuer. In accordance with the FRS 102 transitional provisions these revised values are now used as the deemed cost of certain heritage assets going forward. The impact of the valuation is set out in note 33 to these financial statements. Previously heritage assets acquired since 1 August 2007 and valued at over the capitalisation threshold had been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. Capitalised donated heritage assets had 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.

Movement on heritage assets during 2015/16 was as follows:

	Consolidated and University Cost £'000
At 1 August 2015	255,053
Additions	430
Disposals	-
At 31 July 2016	255,483

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 on a cost-benefit basis. 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 £1,385m.

1/Nature of assets held

Whitworth Art Gallery

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.

Manchester Museum

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.

John Rylands Library Deansgate

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 more than a million ancient books and manuscripts, including the oldest known piece of the New Testament, first editions by William Shakespeare and medieval manuscripts.

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. It is still in operation as a working telescope.

Tabley House

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.

Notes to the financial statements (continued)

Year ended 31 July 2016

13 Heritage assets (continued)

2/Policy for management, preservation, aquisition and disposal of assets

The collections are managed by dedicated directors at each site. They are supported by a team of highly skilled and experienced curators who have responsibility over specialised areas of the collections.

The condition of the assets is maintained through a programme of effective collection care to reduce damage and deteriation by reducing risk from physical damage (including handling), theft and vandalism, fire and water/flood, innapropriate relative humidity and temperature, light, pollutants and museum pests. A rolling programme of remedial conservation is ongoing to stabilise assets which may be deteriorating over time.

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/visitor-attractions/.

Each site maintains extensive databases which itemise the assets held, and online databases of the assets held at The Manchester Museum, The Whitworth Art Gallery and John Rylands Library are freely available to the general public.

For more details of the collection held at:

- The Manchester Museum, please see	www.museum.manchester.ac.uk/collection
- The John Rylands Library, please see	www.library.manchester.ac.uk/search-resources/guide-to-special-collections
- The Whitworth Art Gallery, please see	www.whitworth.manchester.ac.uk/collection

Public access to the collections is delivered in a variety of ways:

Gallery displays and a combination of permanent and temporary exhibitions at each site.
Education and outreach activities such as school trips.
Access by researchers and interested groups/individuals by arrangement.
Loans out to UK and international museums and galleries, or other venues.

The directors at each site, in partnership with their curators, are responsible for the identification and purchase of further items to further enhance the cultural value of the collections to both students and the wider general public.

The University recognises the cultural value of the collections to the general public, and at present has no plans to dispose of any of the collection.

14 Non current investments

Analysis of closing balance	Consolidated 2016 £'000	Consolidated 2015 £'000	University 2016 £'000	University 2015 £'000
Interest in subsidiary undertakings (14a)	**-**	-	**3,947**	3,947
Investment properties (14b)	**8,826**	10,196	**8,826**	10,196
Investments carried at fair value through the statement of comprehensive income (14c)	**222,208**	206,619	**216,665**	200,597
Investments carried at amortised cost (14d)	**85,000**	85,000	**85,000**	85,000
Investments held at cost less impairment (14e)	**3,123**	118	**3,123**	118
	319,157	301,933	**317,561**	299,858

Movement in year

Consolidated	Investment in subsidiary undertakings £'000	Investment properties £'000	Investments carried at fair value £'000	Investments carried at amortised cost £'000	Investments held at cost less impairment £'000	Total £'000
At 1 August 2015	-	10,196	206,619	85,000	118	**301,933**
Additions	-	-	2,125	-	3,593	**5,718**
Disposals	-	-	(829)	-	-	**(829)**
Revaluation of investment properties	-	(1,370)	-	-	-	**(1,370)**
Net appreciation of investment portfolio and other listed investments	-	-	14,293	-	-	**14,293**
Impairment in the year	-	-	-	-	(588)	**(588)**
At 31 July 2016	**-**	**8,826**	**222,208**	**85,000**	**3,123**	**319,157**

University	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2015	3,947	10,196	200,597	85,000	118	**299,858**
Additions	300	-	2,125	-	3,593	**6,018**
Disposals	-	-	(829)	-	-	**(829)**
Share of profit in the year	-	-	-	-	-	**-**
Share of associate property revaluations	-	-	-	-	-	**-**
Revaluation of investment properties	-	(1,370)	-	-	-	**(1,370)**
Net appreciation of investment portfolio	-	-	14,772	-	-	**14,772**
Impairment in the year	(300)	-	-	-	(588)	**(888)**
At 31 July 2016	**3,947**	**8,826**	**216,665**	**85,000**	**3,123**	**317,561**

Notes to the financial statements (continued)

Year ended 31 July 2016

14 Investments within fixed assets (continued)

(a) Interests in subsidiary undertakings

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

	Group	University		
Directly owned	**Holding**	**2016**	2015	**Description**
Indirectly owned	**%**	**£**	£	
Graphene Enabled Systems Limited	100	**-**	-	Assisting the commercialisation of Graphene through spin out companies
Manchester Innovation Holdings Limited	100	**-**	-	Struck off 16 June 2015
Manchester Innovation Limited	100	**-**	-	Construction of a biotech incubator building
The University of Manchester Innovation Centre Limited	100	**50,000**	50,000	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	**1**	1	Provision of staff to sister companies
Visual Automation Limited	100	**2**	2	Dissolved 5 October 2016
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	**2**	185	Dormant
The University of Manchester Car Parks Limited	100	**2**	96	Maintenance and running of car park facilities
The University of Manchester Licensing Company Limited	100	**1,000**	1,000	Dormant
Sugden Sports Trust	50	**-**	-	Ownership of sports centre
Loan to Sugden Sports Trust		**3,706,000**	3,706,000	
Vumpine Limited	50	**50**	50	Dormant
UMSS Limited	100	**2**	2	To undertake the duty of trustee of UMSS
The University of Manchester 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
UoM Singapore PTE Ltd	100	**5,260**	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
		3,946,609	3,946,886	

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, which has a financial year end of 31 March.

14 Investments within fixed assets (continued)

(b) Investment properties

The investment properties currently totalling £8.8m (2015: £10.2m) were revalued on an open market basis as at 31 July 2015 by an external valuer, Edward Symmons LLP which is regulated by the Royal Institution of Chartered Surveyors. The valuation was performed in accordance with the RICS Valuation - Professional Standards 2014. The valuation has been updated as at 31 July 2016 by senior management at the University and the value was revised from £10.2m down to £8.8m as a consequence.

	Consolidated		University	
(c) Investments carried at fair value through the statement of comprehensive income	**2016**	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Listed investments	**216,665**	200,597	**216,665**	200,597
Other investments	**5,543**	6,022	**-**	-
	222,208	206,619	**216,665**	200,597
(d) Investments carried at amortised cost				
Long-term cash deposits and uninvested bank balances	**85,000**	85,000	**85,000**	85,000
	85,000	85,000	**85,000**	85,000
(e) Investments held at cost less impairment				
Other investments	**3,123**	118	**3,123**	118
	3,123	118	**3,123**	118

15 Investments in associates

Movement in year	Consolidated	
Investments carried at fair value	**2016**	2015
	£'000	£'000
Balance at 1 August	**4,391**	4,048
Share of operating surplus	**807**	343
Balance at 31 July	**5,198**	4,391

The Group had the following associated undertakings as at 31 July 2016:

Name of associate	**Class of share capital held**	**Proportion held by the University and Group**	**Share of net assets/(liabilities)** 2016 £'000	Share of net assets/(liabilities) 2015 £'000
Manchester Science Partnerships Limited Financial year end 31 December	£1 ordinary	12.2%	**5,241**	4,434
The Corridor, Manchester Financial year end 31 March	CLG	33%	**(43)**	(43)
			5,198	4,391

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

Notes to the financial statements (continued)
Year ended 31 July 2016

16 Trade and other receivables	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Trade receivables	**38,867**	38,128	**37,321**	36,815
Other receivables	**3,185**	4,851	**2,706**	4,851
Accrued income on research grants and contracts	**36,978**	44,261	**36,978**	44,261
Prepayments and other accrued income	**29,584**	30,968	**28,338**	28,906
Amounts due from subsidiary companies	**-**	-	**22,886**	20,975
Amounts due from associate companies and spin outs	**-**	32	**-**	-
Balance at 31 July	**108,614**	118,240	**128,229**	135,808

Included within the above is £14k (2015: £50k) relating to debtors due in over 1 year.

17 Current investments	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Deposits maturing:				
Between three months and one year	**324,906**	330,000	**324,906**	330,000
Balance at 31 July	**324,906**	330,000	**324,906**	330,000

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority with more than three months maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

At 31 July 2016 the weighted average interest rate of these fixed rate deposits was 0.93% per annum (2015: 0.87%) and the remaining weighted average period for which the interest rate is fixed on these deposits was 140 days (2015: 130 days). The fair value of these deposits was not materially different from the book value.

18 Payables: amounts falling due within one year	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Bank and other loans (note 20)	**3,811**	3,724	**3,811**	3,724
Trade payables	**30,271**	28,287	**28,399**	27,036
Social security and other taxation payable	**11,987**	11,796	**11,231**	11,246
Amounts owed to group undertakings	**-**	-	**1,605**	872
Other payables	**28,473**	24,284	**27,262**	22,828
Deferred income on research	**109,578**	102,395	**109,578**	102,395
Accruals and other deferred income	**123,869**	120,235	**111,499**	109,081
Balance at 31 July	**307,989**	290,721	**293,385**	277,182

19 Payables: amounts falling due after more than one year

	Consolidated		University	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Bank loans	14,181	17,992	14,181	17,992
Other loans	394,902	394,814	393,196	393,108
Other payables	1,986	1,488	1,986	1,488
Balance at 31 July	411,069	414,294	409,363	412,588

20 Borrowings

	Consolidated		University	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Unsecured borrowings at amortised cost:				
Bond	293,704	293,626	293,704	293,626
Bank loans	17,992	21,716	17,992	21,716
Other loans	101,198	101,188	99,492	99,482
	412,894	416,530	411,188	414,824
Analysis of unsecured loans:				
Due within one year or on demand	3,811	3,724	3,811	3,724
Due between one and two years	3,902	3,811	3,902	3,811
Due between two and five years	10,883	12,663	9,177	10,957
Due in five years or more	394,298	396,332	394,298	396,332
	412,894	416,530	411,188	414,824

Bond

In July 2013 an unsecured fixed rate public bond was issued for the sum of £300 million over a 40 year term with a coupon rate of 4.25%. It is listed on the London Stock Exchange. There are no capital payments to be made over the term, with the bond maturing in 2053.

The bond transaction costs of £7.5m are amortised over the life of the bond and charged to interest costs.

The University may, at its option, redeem some or all of the bond at the Redemption Price together with interest accrued to the date of redemption. The 'Redemption Price' shall be the higher of (a) the principal amount of the bond to be redeemed and (b) the product of the principal amount of the bond to be redeemed and the sum of the Gross Redemption Yield (4.25% Treasury Stocks due December 2055) and 0.15%.

Unsecured bank and other loans

Bank loans with an interest rate of 5.15%, repayable by instalments falling due between 2016 and 2019 totalling £7.3m (2015: £9.4m)

Bank loans with an interest rate of 5.21%, repayable by instalments falling due between 2016 and 2022 totalling £10.7m (2015: £12.3m)

Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £99.5m (2015: £99.5m).

Other loans with an interest rate of 6.5%, repayable by one repayment falling due in 2018 totalling £1.7m (2015: £1.7m).

Notes to the financial statements (continued)

Year ended 31 July 2016

21 Provisions for liabilities

(a) Consolidated

	Obligation to fund deficit on USS pension	Defined benefit obligations (note 25)	Total pensions provisions	Other provisions	Deferred tax	2016 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at beginning of year	152,010	159,629	311,639	469	567	**312,675**
Utilised during the year	(5,116)	(25,523)	(30,639)	-	-	**(30,639)**
Charged/(credited) to the statement of comprehensive income	3,491	85,447	88,938	-	20	**88,958**
Balance at 31 July	**150,385**	**219,553**	**369,938**	**469**	**587**	**370,994**

(b) University

	Obligation to fund deficit on USS pension	Defined benefit obligations (note 25)	Total pensions provisions	Other provisions	Deferred tax	2016 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at beginning of year	151,951	159,629	311,580	469	-	**312,049**
Utilised during the year	(5,113)	(25,523)	(30,636)	-	-	**(30,636)**
Charged/(credited) to the statement of comprehensive income	3,491	85,447	88,938	-	-	**88,938**
Balance at 31 July	**150,329**	**219,553**	**369,882**	**469**	**-**	**370,351**

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation (15 years) in assessing the value of this provision.

Deferred tax (consolidated)

The elements of deferred tax are as follows:	2016	2015
	£'000	£'000
Difference between accumulated depreciation and capital allowances	**487**	467
Other timing differences	**100**	100
Balance at 31 July	**587**	567

22 Endowment reserves (consolidated and university)

Restricted net assets relating to endowments are as follows:

	Restricted permanent endowments £'000	Unrestricted permanent endowments £'000	Expendable endowments £'000	2016 Total £'000
Balances at 1 August 2015				
Capital	134,214	17,390	19,569	**171,173**
Accumulated income	12,209	-	1,751	**13,960**
	146,423	17,390	21,320	**185,133**
New endowments	100	52	-	**152**
Reclassification of endowments	(448)	-	448	**-**
Investment income	1,888	245	251	**2,384**
Expenditure from capital and income	(2,518)	(245)	(478)	**(3,241)**
	(978)	52	221	**(705)**
Increase in market value of investments	9,555	1,265	1,577	**12,397**
Balance at 31 July 2016	155,000	18,707	23,118	**196,825**
Represented by:				
Capital	143,224	18,707	21,302	**183,233**
Accumulated income	11,776	-	1,816	**13,592**
	155,000	18,707	23,118	**196,825**

The following assets are currently held relating to endowments:

Non current asset investments held at fair value:				
Investments	112,942	14,752	15,404	**143,098**
Property	18,647	2,435	2,543	**23,625**
Cash	23,411	1,520	5,171	**30,102**
	155,000	**18,707**	**23,118**	**196,825**

Major endowments

There are no charitable funds that are over 5% of net assets. Set out below are details of material charitable funds

	Capital value at 31 July 2016 £'000	Opening accumulated income £'000	Investment income £'000	Expenditure from income £'000	**Closing accumulated income £'000**	Date received
Significant funds and charities with income above £100,000						
Hallsworth fund	**25,310**	465	332	(578)	**219**	1944
Simon fund	**14,003**	356	184	(307)	**233**	1943
Oncology department fund	**12,404**	101	163	(192)	**72**	1975
Funds and charities with income below £100,000						
Fellowships and scholarships (161 funds)	**28,987**	3,372	379	(595)	**3,156**	
Prize funds (202 funds)	**6,196**	943	81	(66)	**958**	
Chairs and lectureships (76 funds)	**35,976**	1,887	451	(420)	**1,918**	
Other (311 funds)	**60,357**	6,836	794	(594)	**7,036**	
	183,233	**13,960**	**2,384**	**(2,752)**	**13,592**	

Notes to the financial statements (continued)
Year ended 31 July 2016

22 Endowment Funds (continued)

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 £100,000 per annum.

All endowment 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, and Engineering Research Scholarships. 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. The management and administration of this Fund is run by the Simon Committee which is appointed as trustee by the Board of Governors.

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

23 Restricted reserves (consolidated and university)

Reserves with restrictions are as follows:	Capital grants unspent £'000	Other Restricted Funds/ Donations £'000	2016 Total £'000
Balance at 1 August 2015	6,408	1,092	**7,500**
New grants	15,763	-	**15,763**
Capital grants utilised	(10,558)	-	**(10,558)**
Expenditure	-	(120)	**(120)**
Balance at 31 July 2016	**11,613**	**972**	**12,585**

24 Financial instruments

	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Financial assets				
Financial assets at fair value through statement of consolidated income:				
Listed investments	**216,665**	200,597	**216,665**	200,597
Other investments	**5,543**	6,022	**-**	-
Financial assets that are equity instruments measured at cost less impairment:				
Other investments	**3,123**	118	**3,123**	118
Financial assets that are debt instruments measured at amortised cost:				
Loan notes	**85,000**	85,000	**85,000**	85,000
Trade and other receivables	**42,052**	43,011	**62,913**	62,641
	352,383	334,748	**367,701**	348,356
Financial liabilities measured at amortised cost				
Loans	**412,894**	416,530	**411,188**	414,824
Trade and other payables	**60,730**	54,059	**59,252**	52,224
	473,624	470,589	**470,440**	467,048

25 Pension schemes

Different categories of staff were eligible to join one of four different schemes:
- Universities Superannuation Scheme (USS)
- University of Manchester Superannuation Scheme (UMSS)
- Greater Manchester Pension Fund (GMPF)
- National Health Service Pension Scheme (NHSPS).

According to the requirements of FRS 102 (28), the net pension costs within the year and movement within the pension schemes in the year are as follows:

	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Statement of comprehensive income - net pension cost in year				
USS (including change in provision for USS deficit recovery plan)	**57,965**	150,762	**57,936**	150,731
UMSS	**19,569**	16,331	**19,569**	16,331
GMPF	**1,405**	1,423	**1,405**	1,423
NHSPS	**2,312**	2,467	**2,312**	2,467
Other	**10**	-	**10**	-
	81,261	170,983	**81,232**	170,952

	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Other comprehensive income - actuarial loss in respect of pension schemes				
University of Manchester Superannuation Scheme	**(53,508)**	(49,894)	**(53,508)**	(49,894)
Greater Manchester Pension Fund	**(5,219)**	(6,548)	**(5,219)**	(6,548)
	(58,727)	(56,442)	**(58,727)**	(56,442)

	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Balance sheet - pension scheme deficits (note 21)				
University of Manchester Superannuation Scheme	**(195,747)**	(141,121)	**(195,747)**	(141,121)
Greater Manchester Pension Fund	**(23,806)**	(18,508)	**(23,806)**	(18,508)
	(219,553)	(159,629)	**(219,553)**	(159,629)

25 Pension schemes (continued)

(a) The Universities Superannuation Scheme

The Universities Superannuation Scheme (USS) is the main scheme covering most academic and academic-related staff, which provides benefits based on career average pensionable salary. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Limited.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual universities and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other universities' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 102(28), accounts for the scheme as if it were a defined contribution scheme.

As a result of the triennial valuation of the USS at 31 March 2014 the University agreed the level of employer contributions required towards the correction of the deficit in the defined benefit section of the USS. The provision for the USS deficit recovery plan is shown in note 21.

As a result, the amount charged to the income and expenditure account represents both the contributions payable to the scheme in respect of the accounting period along with a provision for the deficit recovery plan. The total cost charged to the statement of comprehensive income (including the exceptional increase in the provision for the deficit recovery plan in the prior year (note7)) is £60.6m (2015: £150.8m). Actual total contributions paid, including deficit contributions, are £65.7m (2015:£65.4m).

The latest available full actuarial valuation of the scheme was at 31 March 2014 ("the valuation date"), which was carried out using the projected unit method.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

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

	2016	2015
Discount rate	3.6%	3.3%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Pension increase (CPI)	2.2%	2.2%

The main demographic assumptions used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	98% of SN1A ("light") YoB tables - No age rating
Female members' mortality	99% of SN1A ("light") YoB tables - rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	2016	2015
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
Females currently aged 45 (years)	28.8	28.7

The funding position of the scheme has since been updated on an FRS 102 basis:

	2016	2015
Scheme assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%

25 Pension schemes (continued)

(b) NHS Pension Scheme

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.

The NHS Pension Scheme is a defined benefit public service pension scheme, which operates on a pay-as-you-go basis. A new reformed scheme was introduced on 1 April 2015 that calculates pension benefits based on career average earnings. Transitional arrangements permit individuals who on 1 April 2012 were within ten years of normal pension age to continue participating in the old 'final salary' NHS Pension Scheme arrangements (the 1995 and 2008 sections).

The scheme is not designed to be run in a way that would enable members to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

An HM Treasury pension scheme valuation for funding purposes was carried out as at March 2012. The Scheme Regulations have been changed to allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate. The contribution rate payable by the University during the year ended 31 July 2016 was equal to 14.3% 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 £2.3m (2015: £2.5m).

Notes to the financial statements (continued)

Year ended 31 July 2016

25 Pension schemes (continued)

(c) University of Manchester Superannuation Scheme

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 2013 and this most recent full valuation showed a deficit of £121.3m. The University has agreed with the trustees that it will eliminate the deficit over a period of 15 years and 2 months from 31 July 2013 by the payment of annual contributions of £6.0m per annum in respect of the deficit. In addition and in accordance with the actuarial valuation, the University has agreed to pay contributions at the rate of 19.75% of pensionable pay for members who do not participate in PensionChoice and 19.75% of pensionable pay plus the appropriate member rate for those that do. Members who do not participate in PensionChoice pay contributions at the rate of 7.50% of pensionable pay forthe Final Salary section or 6.50% for the CARE section.

The best estimate of contributions to be paid by the University and its subsidiaries to the scheme for the year commencing 1 August 2016 is £23.6m.

The full actuarial valuation was updated to 31 July 2016 on an FRS 102 (28) basis by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are detailed below:

	2016	2015
Discount rate	**2.60%**	3.70%
Inflation (RPI)	**2.90%**	3.30%
Inflation (CPI)	**1.90%**	2.30%
Salary growth	**2.40% for the first 4 years then 3.40% thereafter**	2.50% for the first 4 years then 4.05% thereafter
Allowance for revaluation of deferred pensions of RPI or 5% if less	**2.90%**	3.30%
Allowance for revaluation of deferred pensions of CPI or 5% if less	**1.90%**	2.30%
Allowance for pension in payment increases of RPI or 5% if less	**2.80%**	3.20%
Allowance for pension in payment increases of RPI or 5% if less	**1.80%**	2.20%
Allowance for commutation of pension for cash at retirement	**No allowance**	No allowance

The mortality assumptions adopted at 31 July 2016 imply the following life expectancies:

	Life expectancy at age 62 Years
Male retiring in 2016	24.9
Female retiring in 2016	27.1
Male retiring in 2036	26.8
Female retiring in 2036	29.0

The mortality assumptions are identical to those used in the prior year.

The assets and liabilities within the scheme at 31 July were as follows:

	2016 £'000	2015 £'000	2014 £'000
Equities	**188,409**	169,616	150,323
Bonds	**192,257**	170,402	164,048
Property	**117,973**	99,045	87,450
Fair value of scheme assets	**498,639**	439,063	401,821
Present value of defined benefit obligation	**(694,386)**	(580,184)	(496,979)
Deficit in the scheme	**(195,747)**	(141,121)	(95,158)

The pension scheme has not invested any of the University's own financial instruments or in properties or other assets used by the group.

25 Pension schemes (continued)

The amounts recognised in the statement of comprehensive income are analysed as follows:

	2016	2015
	£'000	£'000
Recognised in statement of comprehensive income:		
Current service cost	**18,499**	15,402
Expenses	**1,070**	929
Total operating charge	**19,569**	16,331
Net interest cost	**5,147**	3,925
Total recognised in surplus/(deficit) for the year	**24,716**	20,256
Taken to other comprehensive income:		
Return on scheme assets (excluding amounts included in net interest cost)	**33,882**	10,489
Remeasurements - changes in demographic and financial assumptions	**(87,390)**	(60,383)
Total amount recognised in other comprehensive income	**(53,508)**	(49,894)

Reconciliation of opening and closing balances of the defined benefit obligation	**2016**	2015
	£'000	£'000
At start of year	**580,184**	496,979
Current service cost	**18,499**	15,402
Expenses	**1,070**	929
Interest expense	**21,563**	21,401
Contributions by scheme participants	**805**	846
Actuarial losses	**87,390**	60,383
Benefits paid	**(15,125)**	(15,756)
At end of year	**694,386**	580,184

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

At start of year	**439,063**	401,821
Interest income	**16,416**	17,476
Actuarial gains	**33,882**	10,489
Contributions by the University and subsidiaries	**23,598**	24,187
Contributions by scheme participants	**805**	846
Benefits paid	**(15,125)**	(15,756)
At end of year	**498,639**	439,063

The actual return on the scheme assets over the year ended 31 July 2016 was £50.3m.

Notes to the financial statements (continued)
Year ended 31 July 2016

25 Pension Schemes (continued)

(d) 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 2013 and this most recent full valuation showed a deficit of £1.3m for all members. The University currently pays contributions at a rate of 22.9% of pensionable pay and annual additional contributions towards the deficit of £684k. These contributions remain unchanged for the year commencing 1 August 2016.

The best estimate of contributions to be paid by the University and its subsidiaries to the scheme for the year commencing 1 August 2016 is £1.8m. As the scheme triennual valuation as at 31 March 2016 is currently underway it is likely there will be a change in contributions from April 2017

The full actuarial valuation was updated to 31 July 2016 on an FRS 102 (28) basis by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are detailed below:

	2016	2015
Discount rate	**2.60%**	3.70%
Inflation (RPI)	**2.90%**	3.30%
Inflation (CPI)	**1.90%**	2.30%
Salary growth	**3.00%**	3.50%
Pension increase rate	**1.90%**	2.30%

The mortaility assumptions adopted at 31 July 2016 imply the following life expectancies:

	Life expectancy at age 65
	Years
Male future pensioners	24.0
Female future pensioners	26.6
Male current pensioners	21.4
Female current pensioners	24.0

The mortality assumptions are identical to those used in the prior year.

The assets and liabilities within the scheme at 31 July were as follows:

	2016	2015	2014
	£'000	£'000	£'000
Fair value of scheme assets	**107,984**	98,653	94,063
Present value of defined benefit obligation	**(131,790)**	(117,161)	(106,644)
Deficit in the scheme	**(23,806)**	(18,508)	(12,581)

The split of assets by type is as follows:

	2016	2015	2014
	%	%	%
Equities	**73%**	71%	71%
Bonds	**17%**	18%	18%
Property	**5%**	7%	6%
Cash	**5%**	4%	5%

The pension scheme has not invested any of the University's own financial instruments or in properties or other assets used by the group.

The amounts recognised in the group statement of comprehensive income and expenditure are analysed as follows:

	2016	2015
	£'000	£'000
Recognised in statement of comprehensive income:		
Current service cost	1,380	1,311
Past service cost	25	112
Total operating charge	1,405	1,423
Net interest cost	599	428
Total recognised in surplus/(deficit) for the year	2,004	1,851

The current service cost includes an allowance for administration expenses of 0.2% of payroll

	2016	2015
Taken to other comprehensive income:		
Return on scheme assets (excluding amounts included in net interest cost)	8,074	2,423
Remeasurements - changes in demographic and financial assumptions	(14,866)	(9,681)
Other experience	1,573	710
Total amount recognised in other comprehensive income	(5,219)	(6,548)

Reconciliation of opening and closing balances of the defined benefit obligation

	2016	2015
	£'000	£'000
At start of year	117,161	106,644
Current service cost	1,380	1,311
Past service cost	25	112
Interest expense	4,206	4,434
Contributions by scheme participants	317	356
Contributions by the employer to the unfunded scheme	(174)	(188)
Actuarial losses	13,293	8,971
Benefits paid	(4,418)	(4,479)
At end of year	131,790	117,161

Analysis of defined benefit obligation

	2016	2015
Present value of funded liabilities	129,757	115,086
Present value of unfunded liabilities	2,033	2,075
	131,790	117,161

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

	2016	2015
At start of year	98,653	94,063
Interest income	3,607	4,006
Actuarial gains	8,074	2,423
Contributions by the University	1,751	2,284
Contributions by scheme participants	317	356
Benefits paid	(4,418)	(4,479)
At end of year	107,984	98,653

The actual return on the scheme assets over the year ended 31 July 2016 was 12.0%

Notes to the financial statements (continued)

Year ended 31 July 2016

26 Reconciliation of cash flow to the balance sheet

	At 1 August 2015 £'000	Cash Flows £'000	Non-Cash Changes £'000	At 31 July 2016 £'000
Cash and cash equivalents	73,880	29,779	-	**103,659**
	73,880	29,779	-	**103,659**

27 Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2016:

	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Authorised not contracted for	**767,330**	752,158	**767,330**	752,158
Contracted not provided	**113,364**	67,535	**113,364**	67,535
	880,694	819,693	**880,694**	819,693

28 Lease obligations

	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Future minimum rentals payable under non-cancellable operating leases are as follows:				
Within one year	**1,483**	5,331	**104**	4,353
In two to five years	**9,759**	4,716	**9,737**	4,716
Over five years	**1,364**	614	**1,364**	614
	12,606	10,661	**11,205**	9,683

29 Contingent liabilities

	Consolidated		University	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
Guarantees				
Bank guarantee	**230**	230	**-**	-
	230	230	**-**	-

The bank guarantee relates to a guarantee given by UMIST Ventures Ltd (a wholly owned subsidiary) in respect of one of the University's spin-outs.

30 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS102 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 FRS102 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 the University recognised within the financial statements	Balance due from the University recognised within the financial statements
	£'000	£'000	£'000	£'000
Higher Education Funding Council for England	129,672	0	-	-
MRC (Medical Research Council)	35,657	75	177	61
Cancer Research UK	26,928	1	71	-
Central Manchester University Hospitals NHS Foundation Trust	11,315	7,860	1,743	1,690
AstraZeneca UK Ltd	7,015	-	678	-
Univeristy of Manchester Students' Union	228	2,736	34	9
Imperial College	1,666	967	717	79
BP plc (BP International Ltd)	2,622	-	0	-
Royal Society	2,241	59	5	3
UCL (University College London)	784	560	56	10
Department of Energy and Climate Change (DECC)	999	220	-	-
British Telecommunications (BT)	24	881	-	33
Building Design Partnership (BDP)	-	621	-	-
The Northern Consortium (NCUK)	50	460	6	-
Royal Academy of Engineering	506	1	2	-
University of Essex	480	5	83	-
Manchester Central Convention Centre	-	471	-	19
UNIAC	1	441	-	-
Office for Nuclear Regulation (ONR)	184	-	-	-
Ernst & Young	3	171	-	-
Department for Education (DfE)	-	173	-	-
Royal Northern College of Music (RNCM)	76	86	-	-
Royal Society of Chemistry	50	89	40	-
Association of Heads of University Administration	116	1	1	-
Fairhurst Design Group	-	104	-	7
Genesis Breast Cancer Prevention Charity	90	-	13	-
University of Central Lancashire (UCLAN)	27	61	6	-
Barclays Bank plc	79	-	5	-
University and Colleges Union (UCU)	-	65	-	-
Manchester International Festival Board	-	63	-	-
Oldham Council	56	3	7	-
Nuffield College, Oxford University	-	53	-	1
BGT Materials Ltd (BGT)	729	-	-	-
	221,598	**16,227**	**3,644**	**1,912**

30 Related party transactions (continued)

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.

Medical Research Council (MRC)

The Medical Research Council aims to improve human health through world-class medical research. They support research across the biomedical spectrum and in all major disease areas. One governor chairs the MRC Major Awards Committee.

Cancer Research UK

Cancer Research UK provides research funding into cancer and promotes public awareness of the disease. One governor acts as an ambassador for the charity.

Central Manchester University Hospitals NHS Foundation Trust

The Trust is based on Oxford Road, adjacent to the University campus. It runs the Manchester Royal Infirmary, Royal Eye Hospital, St Mary's and the Dental Hospital. It works closely with the University in the teaching of medical students, as well as research. One governor is a non-executive director of the Trust.

AstraZeneca PLC

AstraZeneca is a global integrated biopharmaceutical public limited company. One governor is an employee of the company, and another governor and two senior managers of the University have declared they are former employees and members of the AstraZeneca pension fund.

University of Manchester Students' Union (UMSU)

The UMSU represents and supports students, and runs a wide range of services and entertainments. A charity and a company limited by guarantee, it has close links to the University, who contribute to the Union's running costs. The Chair of Trustees and General Secretary is an ex-officio member of the Board of Governors, while one of the senior managers is a member of the Union Appointments Panel.

Imperial College London

Imperial College London is a university specialising in teaching and research in science, engineering and medicine. One governor is a visiting professor, while another governor is a member of the Grantham Institute for Climate Change, which forms part of the College.

BP plc

BP is a major company involved in oil and natural gas exploration, field development and production. The company also has a division focused on fuels, lubricants and petrochemicals. One governor is employed by the company, while a senior manager chairs the BP - International Centre for Advanced Materials (ICAM) governing board.

The Royal Society

The Royal Society is a fellowship of many of the world's most distinguished scientists. Its purpose is to recognise, promote, and support excellence in science and to encourage the development and use of science for the benefit of humanity. One governor is a member of the Society's Council.

UCL (University College London)

Founded in 1826, UCL is one of the leading higher education establishments in the UK and a college of the University of London. One governor is a member of UCL Energy Institute, International Advisory Board. One governor was a member of UCL Energy Institute's International Advisory Board.

Department of Energy and Climate Change

The Department of Energy and Climate Change (DECC) was the UK Government department for energy and climate change. One governor was a member of the DECC Scientific Advisory Group.

British Telecommunications (BT)

BT is the UK's largest telecommunications company, providing broadband, landline, mobile phone and TV services. One governor is a a non-executive director of the BT Equality of Access Board.

Building Design Partnership (BDP)

BDP is a major international and interdisciplinary practice of architects, designers, engineers and urbanists. One governor has declared BDP as a client.

NCUK (The Northern Consortium)

NCUK was formed in 1987 by eleven leading UK universities to deliver student transfer programmes in Malaysia. They offer "pathway programmes" to students who wish to study at undergraduate and postgraduate level in the UK and globally. One senior manager is Chair of the Trustees for NCUK

Royal Academy of Engineering

The Royal Academy of Engineering provides leadership and promotes excellence across all fields of engineering. One governor is Chair of the Academy's MacRobert Committee, whilst a senior manager chairs a panel of the Academy's Membership Committee.

University of Essex

Based near Colchester, the University of Essex operates the Essex Business School, which undertakes teaching and research in business related subjects. One governor is an advisor to the Essex Business School.

Manchester Central Convention Centre

The Manchester Central Convention Centre, formerly known as GMEX, is a major conference venue located in Manchester City Centre. One governor has declared the Centre as a client.

UNIAC

UNIAC is a shared internal audit service owned by a consortium of higher education institutions, including the University of Manchester. One governor is a member of the UNIAC board.

Office for Nuclear Regulation (ONR)

The Office for Nuclear Regulation is the body responsible for regulation of nuclear safety and security across the UK. One governor is a member of the ONR Technical Advisory Panel.

Ernst and Young

EY are a major provider of accountancy services. A senior manager has declared that a family member works for the company.

Department for Education (DfE)

The Department for Education is responsible for education, children's services, higher and further education policy, apprenticeships and skills. One governor has declared the DfE as a client.

Royal Northern College of Music

The RNCM is one of the leading music schools in the UK. A senior member of the University management team funds an annual prize at the College.

Royal Society of Chemistry

The RSC is the professional body for chemical scientists in the UK. Two governors declared that they were members of the Society.

Association of Heads of University Administration

The Association of Heads of University Administration (AHUA) is the representative body for senior University managers in the United Kingdom. One of the senior managers is a member of the AHUA Executive

Fairhurst Design Group

The Fairhust Design Group is a design company specialising in Architecture, Interior Design and related services. One governor has declared that their spouse is employed by the company.

Genesis Breast Cancer Prevention Charity

The Genesis Appeal is a Charity specialising in breast cancer research. One governor is a trustee of the Charity.

University of Central Lancashire (UCLAN)

The University is based in Preston and offers a range of under and post graduate degrees and undertakes research. One governor is a visiting professor and a member of the institution's Audit Committee.

Barclays Bank

Barclays are a British banking and financial services company. One governor is a former employee and personal pensioner of the bank, while a senior manager is an investor with Barclays Wealth.

University and College Union (UCU)

The UCU represents academic and professional staff in universities. Two governors have declared that they are members of the Union.

Manchester International Festival (MIF)

The MIF is a biennial festival of original, new works of art and special events. One governor is a member of the Festival's Board.

Oldham Metropolitan Borough Council

Oldham Council provide a full range of local government services in Oldham and nearby communities. One governor has declared the Council as a client.

Nuffield College, Oxford University

Nuffield College is part of Oxford University. One governor has declared that he is an associate member of the College

BGT Materials

BGT Materials Limited (BGT) is dedicated to the development of graphene technologies. A senior manager has been the chair of the company.

Trustees' Expenses

£19,986 was paid in expenses to members of the Board of Governors of the University during the year (2015: £34,583). Where Trustees are also employees of the University the amount includes expenses paid in relation to their employment.

Notes to the financial statements

Year ended 31 July 2016

31 Events after the reporting period

No events after the reporting period have had a material impact on the financial statements as presented.

32 Amounts disbursed as agent (consolidated and university)

(a) Access Fund	2016 £'000	2015 £'000
Balance unspent at beginning of year	-	87
Disbursed to students	-	(87)
Balance unspent at year end	-	-

(b) The National College for Teaching and Leadership (formerly the Training and Development Agency for Schools (TDA))

Student Training Bursaries	2016 £'000	2015 £'000
Balance unspent at beginning of year	321	119
Funding Council grants	3,360	3,606
Disbursed to students	(3,574)	(3,404)
Balance unspent at year end	107	321

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 statement of comprehensive income.

33 Transition to FRS 102 and the 2015 SORP

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the updated FE HE SORP. The accounting policies have been applied in preparing the financial statements for the year ended 2016 and the comparative information for the year ended 2015 and in the preparation of an opening FRS 102 balance sheet at 1 August 2014. In preparing its FRS 102, 2015 SORP based balance sheet , the University has adjusted amounts reported previously in financial statements which had been prepared in accordance with old UK accounting standards including in accordance with 2007 SORP. An explanation of how the transition to FRS 102 and the SORP has affected the University's financial position and financial performance is set out in the following tables.

Reconciliation of reserves		**Consolidated 1 August 2014**			**Consolidated 31 July 2015**	
Non current assets	**2007 SORP £'000**	**effect of transition £'000**	**FRS 102 £'000**	**2007 SORP £'000**	**effect of transition £'000**	**FRS 102 £'000**
Intangible assets and goodwill	-	2,238	2,238	-	2,328	2,328
Fixed assets	858,142	503,290	1,361,432	900,682	502,193	1,402,875
Heritage assets	-	254,261	254,261	-	255,053	255,053
Investments	123,365	161,755	285,120	127,856	174,077	301,933
Associates	4,048	-	4,048	4,391	-	4,391
Endowment assets	174,291	(174,291)	-	188,931	(188,931)	-
Current assets						
Stock	1,473	-	1,473	1,408	-	1,408
Trade and other receivables	91,984	(206)	91,778	117,431	809	118,240
Investments	399,416	13,083	412,499	363,068	(33,068)	330,000
Cash and cash equivalents	28,001	-	28,001	24,680	49,200	73,880
Less: Creditors: amounts falling due within one year	(262,886)	(38,585)	(301,471)	(285,860)	(4,861)	(290,721)
Total assets less current liabilities	1,417,834	721,545	2,139,379	1,442,587	756,800	2,199,387
Creditors: amounts falling due after more than one year	(418,169)	-	(418,169)	(414,294)	-	(414,294)
Provisions						-
Pension provisions	(107,739)	(64,096)	(171,835)	(159,629)	(152,010)	(311,639)
Other provision	(429)	-	(429)	(1,036)	-	(1,036)
Total net assets	891,497	657,449	1,548,946	867,628	604,790	1,472,418
Deferred capital grants	495,953	(495,953)	-	475,605	(475,605)	-
Endowment funds						
Expendable	19,881	(19,881)	-	25,020	(25,020)	-
Permanent	154,410	(154,410)	-	163,911	(163,911)	-
Total endowment funds	174,291	(174,291)	-	188,931	(188,931)	-
Restricted reserves						
Income and expenditure reserve-endowment reserve	-	170,507	170,507	-	185,133	185,133
Income and expenditure reserve-restricted reserve	-	48,029	48,029	-	7,500	7,500
	-	218,536	218,536	-	192,633	192,633
Unrestricted reserves						
Income and expenditure reserve	204,767	1,125,419	1,330,186	183,090	1,096,476	1,279,566
Revaluation reserve	16,262	(16,262)	-	19,783	(19,783)	-
	221,029	1,109,157	1,330,186	202,873	1,076,693	1,279,566
Non controlling Interest	224	-	224	219	-	219
Total reserves	891,497	657,449	1,548,946	867,628	604,790	1,472,418

Notes to the financial statements

Year ended 31 July 2016

33 Transition to FRS 102 and the 2016 SORP (continued)

Reconciliation of total comprehensive income for the year ended 31 July 2015		**Consolidated**	
	UK GAAP	**Effect of transition**	**FRS 102**
	£'000	**£'000**	**£'000**
Income			
Tuition fees and education contracts	407,165	(20,433)	386,732
Funding body grants	166,497	1,995	168,492
Research grants and contracts	262,419	(1,467)	260,952
Other income	147,459	14,024	161,483
Investment income	26,166	(17,394)	8,772
Total income before other grants and donations	1,009,706	(23,275)	986,431
Donations and other grant income	-	10,404	10,404
Total income	1,009,706	(12,871)	996,835
Expenditure			
Staff costs	482,977	5,460	488,437
Triennial revaluation of USS deficit provision	-	85,350	85,350
Other operating expenses	367,192	(26,093)	341,099
Depreciation and amortisation	87,934	578	88,512
Interest and other finance costs	19,475	6,917	26,392
Total expenditure	957,578	72,212	1,029,790
Gain on investments (including investment properties)	-	18,112	18,112
Share of operating surplus in associates	82	261	343
Surplus before tax	52,210	(66,710)	(14,500)
Taxation	(5,076)	-	(5,076)
Surplus after tax	47,134	(66,710)	(19,576)
Non controlling interest	5	-	5
Surplus for the year	47,139	(66,710)	(19,571)
Other Comprehensive income			
Actuarial loss in respect of pension schemes	-	(56,442)	(56,442)
Total comprehensive income for the year	47,139	(123,152)	(76,013)

Notes to the reconciliation of surplus/(deficit)

The impact of the transition on the University net assets position at 31 July 2014 was an increase of £627.6m, and the impact on University total comprehensive income for the year ended 31 July 2015 was a reduction of £123.5m.

Holiday pay accrual

Under previous accounting standards, there was no requirement to account for holiday entitlement which had accrued but had yet to be taken.

Under FRS 102 and the new SORP, the Group is required to accrue for all short-term compensated absences as holiday entitlement earned but not taken at the date of the statement of financial position.

The impact is to increase accruals by £8.4m at 1 August 2015 and to increase staff costs in the statement of comprehensive income and expenditure by £0.5m

Defined benefit pension schemes

There is a presentation change under FRS 102 and the new SORP whereby the net interest on the net defined benefit pension liability is presented in the statement of comprehensive income using the liability discount rate. Under previous accounting standards the interest on the expected return on net assets was calculated using an expected asset return discount rate. This had no impact on reserves on transition but affects the allocation of interest costs between the profit and loss account and actuarial losses within other comprehensive income, the adjustment being £12.1m.

Multi Employer defined benefit pension schemes

Under the previous accounting standards, there was no requirement to account for agreements to fund pension scheme deficits as obligations.

Under FRS 102 and the new SORP, any such agreement to fund pension scheme deficits must be accounted for in full and discounted to present value. This has caused an additional provision of £152.0m as at 1 August 2015 and an additional charge of £87.9m in the year ended 31 July 2015. Due to size of the adjustment as a result of the triennial actuarial valuation, the cost is shown separately on the face of the statement of comprehensive income.

Revaluation of tangible fixed assets and heritage assets

The University has taken advantage of the transitional provision under FRS 102 Section 35.10 to revalue certain items of property, plant and equipment and certain heritage assets to their fair value at the transition date. The University has elected to use these values as deemed cost going forward.

Both revaluations were undertaken by external valuers details of which are included in notes 12 and 13. The impact has been to increase tangible fixed assets net book value by £508.0m and heritage assets by £251.6m.

Intangible assets

Under previous UK accounting standards software costs were included in tangible fixed assets. FRS 102 requires these costs, where capitalised, to be included within intangible assets. As at 1 August 2014, capitalised software costs with a net book value of £2.3m were transferred from tangible to intangible assets. As there was no change in the amortisation period for these software costs this did not give rise to any adjustment to the results for the year ended 31 July 2015.

Income recognition of capital grants

Under previous accounting standards, capital grants used to fund tangible fixed assets were amortised over the life of the relevant asset acquired. Under FRS 102 the Unversity has elected to recognise all grants on a performance basis and therefore recognises the grant income once all the conditions of the grant had been met. The impact has been to reduce deferred capital grants by £496.0m as at 1 August 2014 and £475.6m as at 31 July 2015. Any deferred capital grants are now recognised within creditors and not as part of net funds. The impact for the year ended 31 July 2015 has been to increase income by £13.5m.

Under previous accounting standards, investments were held at cost less impairment. Under FRS 102 these have been adjusted to fair value. This has resulted in a £0.5m increase in the value of investments as at 31 July 2014 and a £1.3m increase as at 31 July 2015.

Taxation

There has been no impact on current and deferred tax provisions or charges as a consequence of the transition to FRS 102 and the 2015 SORP.

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Created by the Division of Communications and Marketing

Royal Charter Number RC000797
M1695 11.16