MANCHESTER
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The University of Manchester

Financial Statements 2017

For the year ended 31 July 2017

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Pro-Chancellor
Mrs Gillian Easson, MA
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Deputy President and Deputy Vice-Chancellor
Professor Colin Bailey, FREng, BEng, PhD, CEng, FIStructE, FICE, MIFireE (until 31 July 2017)
Professor Luke Georghiou, BSc, PhD (from 1 August 2017)

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Director of Finance
Mr Stephen Dauncey BSc, FCCA

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Research and Innovation
Professor Luke Georghiou, BSc, PhD (until 31 July 2017)
Research
Professor Colette Fagan BA, MSc, PhD (from 2 October 2017)
Social Responsibility
Professor James Thompson (from 1 September 2017)

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Biology, Medicine and Health
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Dr John Stageman, OBE, PhD

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

Chair of Nominations Committee
Mrs Gillian Easson, MA

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

Membership of the Board of Governors

From 1 September 2017

Category 1: Ex-officio members
Professor Dame Nancy Rothwell, DBE, DL, BSc, PhD, DSc, FRS, FMedSci, FSB, FRCP(Hon), FIBiol, FRSA, President and Vice-Chancellor
Mr Alex Tayler BA, General Secretary of the Students' Union

Category 2: Lay members
Ms Dapo Ajayi, BPharm
Mr Edward M Astle, MA, MBA, Chair
Mr Gary Buxton, BA, MBE
Mr Michael Crick, BA
Mr Colin Gillespie, BSc, FCA
Dame Susan Ion, OBE, BSc, PhD, FRS, FEng, FIMMM, FINucE, Deputy Chair
Mr Paul Lee, DL, MA, LLM
Dr Neil McArthur, MBE, CEng, FIMechE, FIET
Ms Isabelle Perrett, MA
Mr Robin Phillips, BA
Mr Andrew Spinoza, BA, MCIPR
Dr John Stageman, OBE, PhD
Dr Dame Angela Strank, BSc, PhD
Mr Nick Hillman, MA

Category 3: Members of the Senate
Professor Aneez Esmail, MFPHM, MRCGP, FRCP, PhD
Professor Colette Fagan BA, MSc, PhD
Professor Danielle George, MBE, BSc, PhD
Dr Reinmar Hager MSc, PhD
Dr Caroline Jay BA, MSc, PhD, CPsychol
Professor Silvia Massini, Laurea, MSc, PhD
Professor Nalin Thakkar, BDS, MSc, PhD, FRCPath

Category 4: Members of staff other than research or academic staff
Mr Shumit Mandal BSc
Ms Rosalyn Webster BA, MA

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

Ms Naa Acquah BA, General Secretary of the Students' Union (31 August 2017)
Professor Cathy McCrohan, MA, DPhil (31 August 2017)
Dr Christine Rogers, BSc, PhD (31 August 2016)
Professor Chris Taylor, OBE, BSc, PhD, FREng (31 August 2017)

Chair's foreword

On the pages that follow, you will see that the University is currently in a reasonably healthy financial position, albeit with significant challenges ahead. The University has also continued to make progress against our ambitious strategic goals, and where further progress is required – for example in the quality of our research, the student experience and the effectiveness and efficiency in some areas – firm actions are in hand.

These are uncertain times for higher education institutions. The University must navigate challenges created by greater global competition for students, ongoing uncertainty around student fee levels, the need to replace research funding from EU-based sources and further increases in costs arising from inflation, among others. At the same time, however, opportunities have emerged. The University has a key role to play in the region's health-care innovation as the Greater Manchester Combined Authority takes on its devolved powers, and its research strengths in areas such as advanced materials, including graphene, fit well with the national aims to rebalance the economy.

Given the challenges facing the sector, along with increased public scrutiny and the new regulatory structures, good governance is as important as sound strategy and financial performance. You will see from our Corporate Governance Statement that the external board evaluation which we commissioned during the year was very positive about our governance processes, and the University is already well down the track in implementing the review's specific recommendations. You will also see additional information about the disciplined approach we have taken to senior remuneration over recent years.

As it looks to both meet these challenges and seize these opportunities, the institution is fortunate to be able to count on the highest calibre of strategic leadership and financial management, and on behalf of the Board I would like to thank the President and Vice-Chancellor, the Senior Leadership Team and all academic and support staff for their hard work over the past year.

I believe that these financial statements provide evidence that the University, through its strategy, financial performance and governance, has the adaptability, resilience and foresight to achieve its ambitions, and thus to grow its contribution to the north-west and the nation's economies, and to the wider reputation of the UK's world-class higher education sector.

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

President and Vice-Chancellor's review of the year

The year covered by these financial statements saw The University of Manchester maintain a reasonably healthy position against a backdrop of national and international uncertainty for the sector. It was also a time for reflection on our own priorities and plans, with difficult decisions required in order to mitigate future challenges and stay on track for our ambitious Manchester 2020 targets.

This was another year of political change and uncertainty – in the UK, Europe and indeed across the globe. Brexit continued to be a dominant topic of debate at home, as Article 50, which formally starts the process for the UK to leave the European Union (EU), was triggered. As yet, we are unaware of impacts on grant income (our European funding is increased), and while applications from non-UK EU students were down by about 5% on last year, they are about the same as the previous year. The government provided assurances that EU students starting their studies in 2018/19 will be treated as UK students, which is very welcome, although the position thereafter is likely to change.

We also had qualified assurances that the full costs of Horizon 2020 grant funding will be met by the government, if the UK becomes ineligible to participate – though it is hoped that universities will reach a situation where we can participate in EU funding schemes. The Prime Minister announced an additional £2bn per annum funding for research and development by the end of this parliament.

The 2017 general election resulted in a minority Conservative government and consequently some of the key policies relating to higher education have not progressed into the government's legislative framework, though student funding, which was prominent at the time of the election, continues to be at the forefront of public debate, as does value for money. More locally, events were overshadowed by the tragic attack at the Manchester Arena. The University was shocked and horrified by the incident and stands firm with our fellow citizens.

Politically, there were a number of changes impacting the city region. We welcomed a new metropolitan mayor for Greater Manchester, Andy Burnham, who will lead the region's combined authority following the devolution of some powers. Sir Howard Bernstein retired as Chief Executive of Manchester City Council and Head of Paid Service for the Greater Manchester Combined Authority. We hope to enjoy similarly strong relationships with Joanne Roney and Eamonn Boylan, replacing Sir Howard in those respective roles.

We were delighted to announce that Sir Howard would become an honorary Professor of Politics at our University and will also have an advisory role on government interactions, health-care delivery, devolution, culture and international links. And as an institution committed to the establishment of the Northern Powerhouse, we were pleased to welcome one of its champions, George Osborne, as honorary Professor of Economics.

The University's vision, set out on the Manchester 2020 strategic plan, is to be a world-leading institution, with a reputation based on academic excellence. It was therefore pleasing to see our improved showing in the Academic Ranking of World Universities, rising from 41st to 35th position – the highest ranking we had ever achieved – and in the QS World University Rankings, jumping from 33rd to 29th.

Our financial position improved on an operational level, which is 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. Our operating surplus increased to £63.8m from £33.5m in the previous year.

However, we have had to take some difficult decisions in order to meet our ambitions for the future. We must improve the quality of our research and student experience in some areas and ensure the financial sustainability of the University. Realising these ambitions will require a capacity to invest in our strategic priorities.

Detailed plans commenced to deliver a significant growth in funds from distance learning, philanthropy, research and grant recovery, international student recruitment, and savings across the Professional Support Services (PSS). However, we recognised that further action is necessary to improve the quality of our research, reduce student numbers on some programmes to improve the student experience, and improve our effectiveness and efficiency in some areas. Proposals at Faculty level include a review of the current School structure within the Faculty of Science and Engineering.

The Board of Governors approved proposals from the senior staff of the University to begin consultation with the trade unions in relation to reductions of up to 171 posts. Following the consultation process and detailed discussions with the staff involved, the University has met its objectives and the schemes are now closed. We fully recognise that this has brought challenges to the collegiate nature of our University and uncertainties for many staff. We will use our best endeavours to safeguard the core mission of the University and its integrity as a collegiate community.

World-class research is a core goal of the University and it was pleasing to see our impact, notably in innovation. Data from the Higher Education Funding Council for England indicated that the University is ranked top for the number of spin-out companies in the UK. We also climbed to 87th place in the world in the Reuters Top 100 Most Innovative Universities as a result of the high commercial impact of our patents.

The University was heavily involved in the Science and Innovation Audit for Greater Manchester and Cheshire East, which describes the region's strengths in these areas, the opportunities for growth and our plans for major developments. This was submitted to the Department for Business, Energy and Industrial Strategy for further discussion. We also began to bring together research relevant to Brexit from across the University and hence provide policy advice and briefings. We established a new Europe Group as part of our international strategy.

While income from research grants and contracts fell from £273m to £262m, this reflected some expected volatility and awards have shown sustained growth of 12–13% for the last two financial years. We welcomed news of some significant investment, notably in the area of health. Manchester has been awarded a National Institute of Health Research Biomedical Research Centre. The award of £28.5m over five years makes it the largest centre outside the south-east.

In partnership with The Christie NHS Foundation Trust, we won £39m of funding from Cancer Research UK and the Department of Health for our Cancer Research UK Manchester Centre, one of only two UK 'major centres'. Further funding of £2.75m is planned for an Experimental Cancer Medicine Centre from Cancer Research UK and the National Institute for Health Research, which will help train the next generation of cancer researchers.

The Wellcome Centre for Cell-Matrix Research was renewed with funding of almost £5m over the next five years. This is one of a small number of centres funded by Wellcome and has been funded continuously for the past 25 years. Highlights in other areas included the Graphene Engineering Innovation Centre's awards totalling £10m from national and local government, and our Alliance Manchester Business School 's award of £9.7m through the Higher Education Funding Council for England (HEFCE) managed UK Research Partnership Investment Fund.

Cancer is one of the University's five research beacons (alongside advanced materials, energy, global inequalities and industrial biotechnology) and so it was a coup to appoint Professor Rob Bristow, one of the world's leading prostate cancer experts. Professor Bristow will lead our cancer research strategy and direct the Manchester Cancer Research Centre.

It was also an eventful year in the area of advanced materials. The Henry Royce Institute, the national hub for advanced materials research with its centre at Manchester, announced Andrew Hosty, a leading materials scientist and engineer, as Chief Executive. In addition, a study published by our researchers demonstrated the real-world potential of graphene-oxide membranes to provide clean drinking water for millions – a breakthrough that could lead to affordable desalination technology.

Our energy experts presented at the Astana Expo and at the IEEE PES Powertech Conference, hosted on campus, while our Humanitarian and Conflict Response Institute entered a partnership with Médecins Sans Frontières in order to teach the leading humanitarians of tomorrow. A team led by our biotechnology experts won a €5m award to develop a new antibiotic to combat the highly resilient MRSA superbugs.

Another of our core goals is an outstanding learning and student experience. We remained the most popular campus-based university in the UK and saw income from tuition fees increase by 5.9% overall. This was also the first year of the Teaching and Excellence Framework (TEF), a national framework that aims to recognise and reward excellence in teaching and learning. We were given a silver award, commended for course design that provides excellent stretch in a research environment, excellent opportunities for students to increase their employability, and our major investment in physical learning and teaching spaces and in digital learning resources, among others.

We pay close attention to the results of the National Student Survey (NSS) as this tells us what students think of their experience with us. This year the response rate was below the 50% threshold for publication of results. This and other measures of student success (retention, degree attainment and employability) are issues that we have been addressing as a matter of urgency.

The Destinations of Leavers from Higher Education survey showed that 94% of our UK, full-time, first-degree graduates were working or studying after six months, and that 82.5% were in graduate-level jobs and/or study. We were also ranked 24th in the *Times Higher Education* Global University Employability Ranking.

It was also pleasing to see that two of our students picked up top prizes in the Undergraduate Awards in November 2016, a global award often referred to as the junior Nobel Prize. Another 11 Manchester students were highly commended.

We launched a new campaign called Stellify to promote some of Manchester's most exciting and transformational student experiences. In the first week of the academic year, 5,000 first-year undergraduates took part in the Sustainability Challenge – the first step towards the Manchester Leadership Award and an introduction to the outstanding research, innovative teaching and social responsibility agenda of the University.

Social responsibility is, of course, one of our core goals and there was much on which to report during the year. We launched the biggest environmental sustainability initiative in higher education, 10,000 Actions, which enables every member of staff to take positive action on environmental sustainability. For this, and the student-focused Sustainability Challenge, the University was awarded a bronze Carbon Literate Organisation award. Manchester Museum, part of the University, won a gold in the same awards.

We made improvements in a number of areas of environmental sustainability, such as reducing energy and water use and our carbon footprint, but we also saw an increase in the number of air flights taken by staff and have much to do to reach our ambitious carbon footprint targets.

More than 1.2 million people visited our cultural institutions: Manchester Museum, the Whitworth, The John Rylands Library and Jodrell Bank Discovery Centre. The second bluedot festival took place, bringing 16,000 people to Jodrell Bank for a festival of art and science, and 2,000 of our neighbours attended our inaugural Community Festival. We also took science on the road: the Robot Orchestra, built by schoolchildren under the direction of Professor Danielle George, performed as part of the Manchester Science Festival, while our scientists took over the Intu Trafford Centre, engaging the public during #ScienceX.

We celebrated a number of anniversaries, including ten years of our Manchester Access Programme, which has now recruited over 1,800 students from disadvantaged backgrounds to the University and has raised over £6m in donor funding. It was also the tenth anniversary of our Equity and Merit Scholarship Scheme which, supported by the generosity of our donors, has helped more than 200 very talented students from some of the world's poorest countries to study at the University. The Confucius Institute, our partnership with the Office of Chinese Language Council International (Hanban) and Beijing Normal University, also celebrated reaching the ten-year milestone.

We continued to progress with our Campus Masterplan, though with major pressure on capital projects and great uncertainty in the market, we paused a small number of projects. We will review these regularly while other approved major projects progress as planned.

The formal ground-breaking ceremony took place for the extension to the Schuster Building, which was completed in November 2017. Work continued on our new Manchester Engineering Campus Development (MECD), which we showcased to the Duke and Duchess of Cambridge in October. Our royal guests placed objects into a time capsule and unveiled a plaque, both of which will be displayed in MECD when it is opened.

Our buildings are nothing without our people. We were relieved to hear that everyone was safe and no one was injured as a result of a major fire at the Paterson Building, which houses staff in the Cancer Research UK Manchester Institute and other researchers from the University and The Christie. We have made good progress in salvaging equipment and data and finding an alternative location for staff and students. I have been so impressed by the huge commitment of so many staff involved, who have worked far beyond what we could normally expect of them.

We took actions to promote equality, diversity and inclusion, such as renewing our 'We Get It' programme with the Students' Union to signal zero tolerance in the University of any form of bullying, harassment or discrimination.

We received our highest ever response rate to our biennial staff survey, which showed that 93% of respondents believe the University is a good place to work and 91% are proud to work here. I appreciate, however, that the survey took place before announcements proposing changes in staffing. One area of focus will be to help staff to prepare for and cope with change.

There were many good news stories relating to our staff, notably an MBE for Steve Grant, Assistant Director of Human Resources, for leading our outstanding local employment and skills initiative, The Works, and the *Times Higher Education* Award for Outstanding Research Supervisor, won by Professor Alys Young from the School of Health Sciences.

We were sorry to say some goodbyes. Professor Colin Bailey joined Queen Mary University of London after 15 years at Manchester, serving in many senior roles and contributing to many great successes. Dr Maria Balshaw left her role at the Whitworth to direct the Tate. I wish to thank them both for their outstanding contributions to our University's fortunes.

There were also some notable moves internally. Professor Luke Georghiou, previously Vice-President for Research and Innovation, replaces Professor Bailey as Deputy President and Deputy Vice-Chancellor, and Professor Colette Fagan succeeds Professor Georghiou as Vice-President for Research. Professor James Thompson has been appointed as Vice-President for Social Responsibility. I am delighted that we can call on such respected and talented minds to help us move forward.

The year covered by these financial statements brought challenges for the higher education sector and for society in general. Our University is not immune to these pressures. We remain, however, committed to achieving our ambitions for the future. We believe that we must be bold, decisive and resilient as we move towards 2020.

Professor Dame Nancy Rothwell
President and Vice-Chancellor

Key performance indicators

Growth in research expenditure[1] -2.2%

Total audited research expenditure in 2015/16 (latest available figure) was £506.0m, a decrease of 2.2% on the previous year. This reflects the level of awards in previous years, due to the lag between grant award and the associated research activity. Research expenditure is expected to increase in future based on the growth in awards during the last two years.

Growth in international student income of £12.9m

International student fee income (full and part-time) increased by £12.9m (6.4%) during 2016/17.

External borrowing decreased to 40.4%

External borrowing as a percentage of income has reduced from 41.8% to 40.4%.

Operating surplus[2] is 6.3%

Operating surplus as a percentage of income increased from 3.4% in 2015/16 to 6.3% in 2016/17 on a like-for-like basis.

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

2 *Operating surplus is taken as the surplus reported, adjusted for actuarial gains or losses in respect of pension schemes, revaluation of the Universities Superannuation Scheme (USS) deficit provision, Research and Development Expenditure Credit (RDEC) claims, capital income, depreciation and gains on investments (see page 14).*

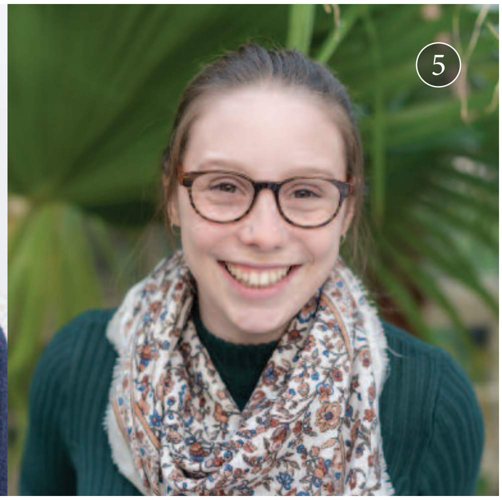
The year in pictures

1. Five thousand students – one grand challenge
In one of the largest projects ever undertaken by university students, thousands of first-years at Manchester took part in our Sustainability Challenge in the first week of term. The one-day challenge was a complex one – to work with people they had never met before to deliver a huge new campus in the fictional city of Millchester, incorporating cost savings and energy efficiency, while paying attention to the needs of the local community.

2. Duke and Duchess of Cambridge visit campus
During a royal visit to the city in October 2016, The Duke and Duchess of Cambridge visited the National Graphene Institute (NGI) at Manchester. Following their tour of the NGI, The Duke and Duchess continued on to the site of the Manchester Engineering Campus Development, where they unveiled a plaque and sealed a time capsule.

3. Chief Executive appointed at the Henry Royce Institute
In November 2016 the Henry Royce Institute announced that Andrew Hosty, a leading materials scientist and engineer, will join as Chief Executive. The Institute aims to be a world-leading centre for advanced materials research and commercialisation.
It will have its hub at Manchester and spokes at the founding partners, comprising the universities of Sheffield, Leeds, Liverpool, Cambridge, Oxford and Imperial College London, as well as the Culham Centre for Fusion Energy and the National Nuclear Laboratory.

4. Manchester is first carbon-literate university – and museum – in the world
In November 2016 The University was awarded a bronze Carbon Literate Organisation award for its 10,000 Actions project, which is the UK's biggest sustainability initiative for staff, asking every member of staff to take part in collective, measurable improvement towards sustainability. Manchester Museum, part of the University, won a gold award as the great majority of staff have undertaken carbon literacy training and the institution has written carbon literacy into its review and performance processes.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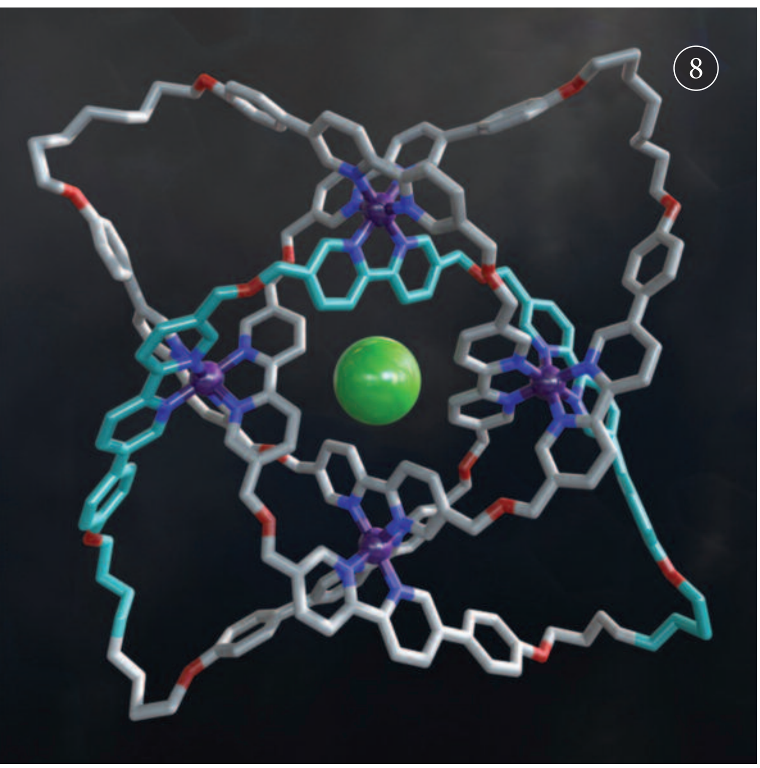


5. Manchester students win 'junior Nobel Prize'
Two students from The University of Manchester scooped top prizes in the Undergraduate Awards in November 2016, a global award often referred to as the junior Nobel Prize. Jamie Hargreaves and Natalia Beghin won 'Global Winner' awards in the Mathematics & Physics and Politics & International Relations respectively, while 11 other Manchester students were highly commended.

6. Manchester set to get around £42m boost for cancer research
Cancer Research UK announced in December 2016 that it planned to invest around £39m over the next five years into the Cancer Research UK Manchester Centre, a partnership between Cancer Research UK, The University of Manchester and The Christie NHS Foundation Trust. The grant will fund groundbreaking work as part of the development of a unique chain of cutting-edge research hubs around the UK focusing on translational research. A further £2.75m investment is planned for the Manchester Experimental Cancer Medicine Centre, from Cancer Research UK and the National Institute for Health Research.

7. Manchester researchers map out the city's diverse language landscape
A team of researchers from the University embarked on a project to map multilingual signs around the city, in an effort to raise awareness of its language diversity, it was reported in December 2016. The team carried out their survey with the help of students and members of the public, using a specially developed smartphone app called LinguaSnapp to take pictures of signs and record their location and other details. The images were uploaded on to an online map, which can be seen at www.linguasnapp.manchester.ac.uk.

8. Manchester scientists tie the tightest knot ever achieved
Our scientists produced the most tightly knotted physical structure ever known – an achievement which has the potential to create a new generation of advanced materials. As reported in January 2017, the researchers, led by Professor David Leigh in Manchester's School of Chemistry, developed a way of braiding multiple molecular strands enabling tighter and more complex knots to be made than has previously been possible.

9. A decade of Equity and Merit Scholarships

In March 2017 we celebrated ten years of the Equity and Merit Scheme, which awards master's scholarships to exceptional individuals from some of the world's poorest countries. There have been 206 scholars to date, each of whom was selected for both their academic excellence and their commitment to the economic and social development of their home communities. The scholarships are co-funded by the University and the generosity of our donors.

10. Graphene sieve turns seawater into drinking water

A study published by our researchers in April 2017 demonstrated the real-world potential of graphene-oxide membranes to provide clean drinking water for millions of people who struggle to access adequate clean water sources. The 'graphene sieve' filters common salts from water to make it safe to drink – a breakthrough that could lead to affordable desalination technology.

11. World-leading clinician-scientist to head cancer research in Manchester
In May 2017 it was announced that Professor Rob Bristow, one of the world's leading prostate cancer experts, had been appointed by the University to lead our cancer research strategy and to be the new Director of the Manchester Cancer Research Centre.

12. A helping hand to previously homeless local people
Two people who have experienced homelessness found work with the University this year. John and Frezghi were helped back into employment by The Works, the University's jobs and skills initiative, after the University signed up to the Manchester Homelessness Charter in November 2016.

Financial review

Stephen Dauncey,
Director of Finance

Key highlights	2016/17	2015/16 Restated	2016/17 change
	£'000	£'000	%
Income excluding capital income	**957,702**	923,356	3.7%
Capital income*	**51,294**	63,879	(19.7%)
Total income	**1,008,996**	987,235	2.2%
Total income includes:			
Tuition fee income	**449,172**	423,990	5.9%
Underlying research income (ie excluding capital and RDEC income)	**237,888**	225,079	5.7%
Research capital income	**24,229**	38,800	(37.6%)
RDEC income	**-**	9,600	
Total research income	**262,117**	273,479	(4.2%)
Operating surplus (see next table)	**63,889**	33,502	90.7%
Operating surplus as % of income	**6.3%**	3.4%	
Reported total comprehensive income/(deficit)**	**94,906**	(1,054)	
Net assets	**1,614,543**	1,519,826	6.2%
Cash and short term investments	**385,616**	428,565	(10.0%)
Operating cashflow	**93,856**	109,723	(14.5%)
Tangible fixed assets	**1,506,070**	1,442,276	4.4%
Heritage assets	**256,039**	255,483	0.2%
Pension deficit	**(285,716)**	(323,539)	(11.7%)
Borrowings	**(407,469)**	(412,894)	(1.3%)

** 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 plus the actuarial gain or less the actuarial loss in respect of pension schemes.*

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 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."

This financial review includes references to the impact of our investments in these areas. These statements form our public benefit statement. This is the second set of financial statements prepared under FRS102 and therefore comparison with performance in 2015/16 is valid. However the standard does give an inherent volatility given the treatment required for capital grants and pensions.

Total comprehensive income has increased from (£1.1m) to £94.9m.

This strong accounting performance is largely due to the deficit relating to the University of Manchester Superannuation Scheme (UMSS) and Greater Manchester Pension Fund (GMPF) pensions not being as large as previously assumed and charges made in previous years have been reversed in the revaluation year. The accounting treatment for all pension schemes continues to cause volatility in results and the cost of ongoing accrual rates for these defined benefit schemes is a significant risk to the ongoing sustainability of the sector as a whole.

A prior year adjustment has been made to restate the pension provision related to the Universities Superannuation Scheme (USS) deficit and the associated staff and interest costs. It was identified that the obligation to fund the USS deficit had been overstated due to the use of an incorrect contributions value in the calculation. This contributions value erroneously included employee salary sacrifice contributions. The adjustment made has reduced the provision by £48.5m as at 1 August 2015. For the year ended 31 July 2016, staff costs and interest have been adjusted by a total of £2.1m in both the Consolidated and University Statements of comprehensive income. This has resulted in a restatement of the consolidated surplus of £1.0m to a deficit of (£1.1m). The provision has been reduced by a total of £46.4m as at 31 July 2016 thereby increasing consolidated net assets from £1,473.4m to £1,519.8m.

Total income increased by £21.8m to £1,009.0m in 2016/17. The growth excluding capital income was £34.3m (3.7%), being driven primarily by both teaching and underlying research income. The decrease in capital income reported this year is mainly due to the timing of externally funded capital research projects, as capital income has increased by £6.0m in cash terms. The mix of funding sources remains broadly constant, with tuition fee income accounting for 45% of income and research grants and contracts 26%.

In addition, performance at an operational level has improved. 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 of capital grants, pensions and valuation of investments. Also, with cash being 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 the prior year tax credit relating to research has also been eliminated for comparison purposes, as this is a non-recurring item.

In order to maintain our underlying performance and provide the investment required for a sustainable future, the University has established five key programmes which balance income growth and cost effectiveness.

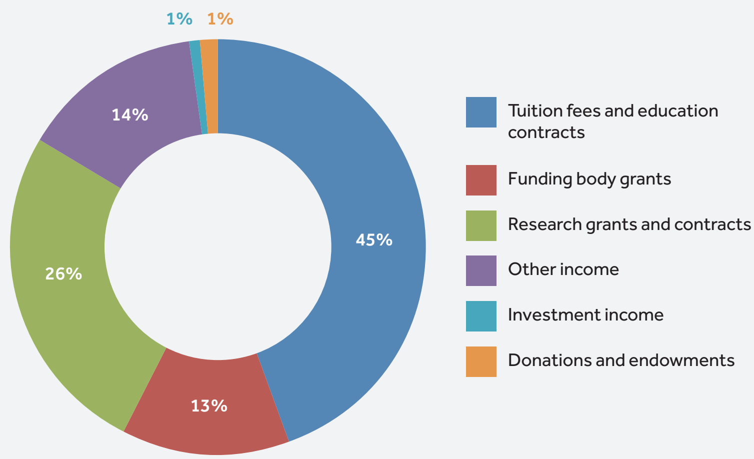
These programmes have accountable senior owners and were designed to meet the risks and uncertainties as understood in late 2016. The policy uncertainties have recently increased given the current discussions relating to student fees. The financial model of a research intensive University requires contributions generated from non-publicly-funded teaching to be used to support research, this has a benefit to students as it leads to research lead teaching. However, there are considerable pressures on the research side of the operation as funders are not required to contribute a full economic cost and the level of support given by Government through the quality related research (QR) funding has not increased in line with activity. In general, the risks that face the sector are increasing and innovative approaches will be required to achieve a sustainable future.

2. Operating Surplus: Income and expenditure review

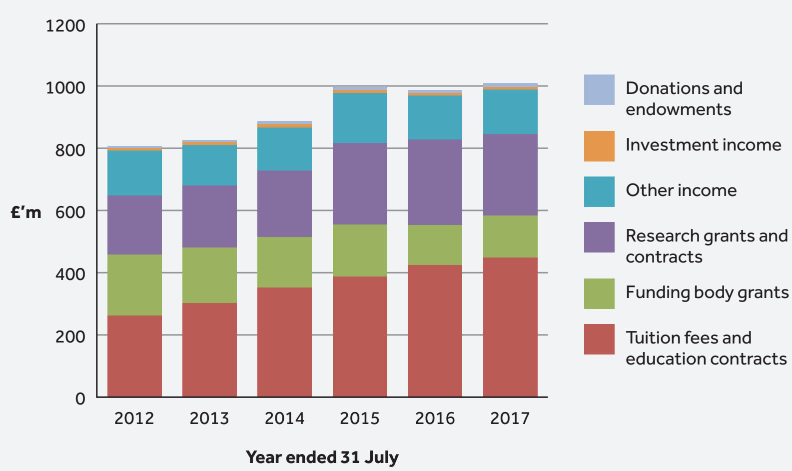
Operating surplus has increased by £30.4m compared to 2015/16, due to both teaching and underlying research activity. Our international tuition fee income continues to show strong growth and revenue research income from the majority of funding sources is increasing. This growth is only partially offset by increases in other operating expenditure and staff costs, leading to a higher operating surplus of 6.3%. This level of operating surplus meets our target of 5% - 7% for financial sustainability.

Operating surplus	2016/17 £'000	2015/16 Restated £'000
Total comprehensive income as reported	94,906	(1,054)
Add back:		
Depreciation and amortisation	83,421	60,231
Less:		
RDEC income less associated tax	-	(7,600)
Capital income	(51,294)	(63,879)
Gains on investments	(31,784)	(12,923)
Actuarial (gain)/loss in respect of pension schemes	(31,360)	58,727
Operating surplus	63,889	33,502
Operating surplus as % of total income	6.3%	3.4%

2016/17 income split



Income streams



3. Teaching and Learning
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 seek to 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.

Tuition fee income

Overall tuition fee income has grown by £25.2m (5.9%), with strong growth in full time international student fee income of £15.0m (8.4%). The proportion of full time home/EU to international students has remained relatively consistent, with home/EU students at 71% and international at 29%.

Full time student income accounts for 90% of our total fee income with a relatively even split between home/EU and international. NHS funded nursing and midwifery fees are now reported within full time home and EU student income.

Our plans for the next five years include introducing a significant number of new Distance Learning programmes, which will change the shape of our student population. This will increase the number of students studying on a part time basis, and will expand our reach internationally. The University's Global Centres will be a key asset in delivering this growth, providing access to a number of transnational markets.

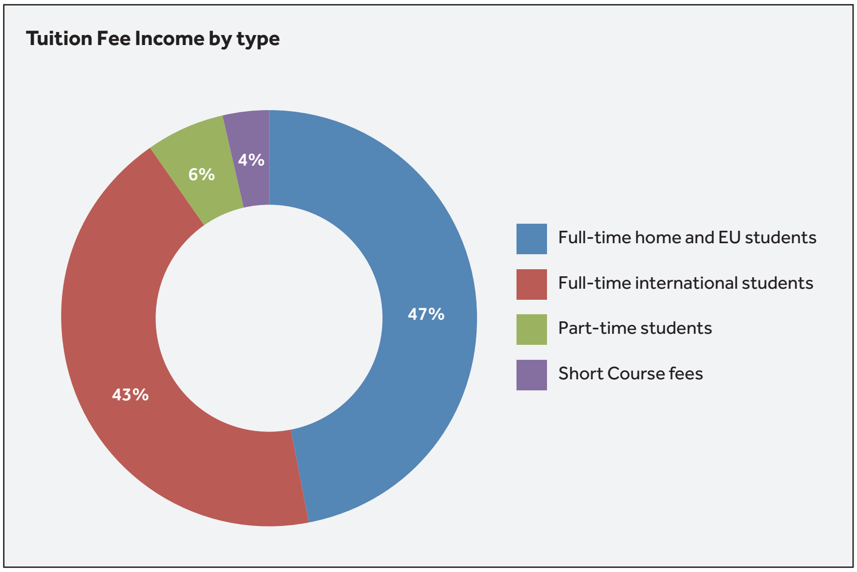
Funding body grants

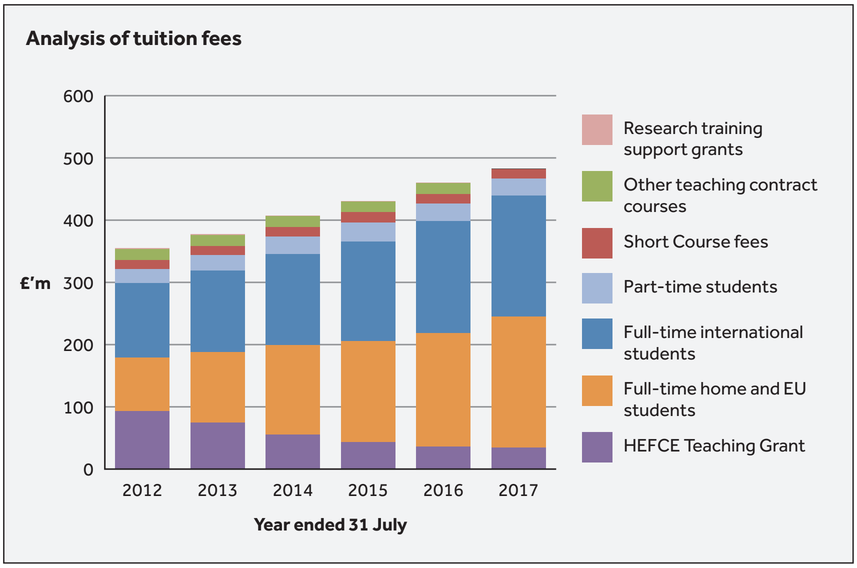
The reduction of £1.2m in our Higher Education Funding Council Recurrent grant is mainly due to a decrease in teaching funding as the block teaching grant continues to be replaced by tuition fees. Special Initiatives funding also fell by £1.0m compared to 2015/16 mainly due to the HEFCE Funded Postgraduate Support Scheme coming to an end.

Investment in teaching and learning

Our Campus Masterplan continues, with significant investment in delivering an outstanding student experience. 2016/17 has seen a move from design to development for MECD, which will include extensive University-wide teaching and learning facilities to support the needs of tomorrow's students. Phase 1 of the Fallowfield student residences project has been approved this year, and will support the student experience by providing high-quality units. 2016/17 has also seen continued development of the Alliance Manchester Business School and the associated Executive Education centre. Donation income includes £5.0m related to this development.

This year our IT expenditure includes £5.9m for the Student Lifecycle Project, of which £1.9m is within tangible fixed assets. This project will result in improved student-related systems and processes. It will deliver benefit for students and their experience at Manchester, and for staff in relation to improved systems and working practices. We also spent £1.3m on our existing student systems, to ensure that we maintain good quality services through the student journey from admissions to teaching and exams.





We consistently invest in financial support for our students; with an annual spend on student support via fee discounts and bursaries in the region of £80m.

Teaching risks

Our future financial plan had included increases in home/EU fee levels, as a result of the TEF which allowed for increases. There is a high level of policy uncertainty around fees and we have therefore prepared scenario plans around this assumption and it will be reviewed during this year's planning cycle. The market for international students remains competitive, but our sustained growth in 2016/17 supports our future plans to grow international student income. Market demand from international students can be volatile and difficult to predict, especially for certain post-graduate taught programmes. Home Office policy changes may also present a threat to international student recruitment. Our future plans do not assume any impact on fee income as a result of Brexit, as it is assumed that any decline in EU student numbers will be matched by an increase in either home or international student numbers. We will continue to model different outcomes relating to these risks during our planning process and we will be placing greater emphasis on the use of market intelligence in the coming year.

Teaching impact

In 2016, the University's overall student satisfaction, as measured in the National Student Survey, fell for the first time in several years (by 1% to 85%). In 2017, the students' union boycotted the NSS, so the University's response rate (at 48%) was below the 50% threshold required for publication; a further seven Russell Group universities also failed to meet the threshold for public dissemination of results. The University is working with the Students Union to identify alternate means of analysing student feedback from relevant cohorts. Over the past year, the University has continued its work to understand and address known areas of low student satisfaction and an example of this is its £25m investment in the Student Lifecycle Project with the aim of improving processes across all aspects of the student journey from application to graduation.

An analysis of the percentage of graduates that are in a positive destination six months after graduating shows that from 2013/14 to 2015/16 the University has moved from a level of 79% to 82.5%, 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 £2,000 per year – and around 220 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. 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 28.6% of students under the new fees regime were from low income households of less than £25,000 per annum, placing us joint third in the English Russell Group.

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 1,136,509 visitors in 2016/17.

Our flagship initiative, the Manchester Access Programme (MAP), supports outstanding Year 12 and 13 students from under-represented groups in Greater Manchester and with no immediate family history of participation in higher education to progress successfully into The University of Manchester and other research-intensive Universities. From 2005 to entry in 2017, 1,804 MAP students have been successful in gaining a place at The University of Manchester (250 new students were admitted in 2016/17). In addition, many MAP students have also progressed to courses at other highly-selective, research-intensive universities. The University has also developed an online version of MAP to support widening participation from outside Greater Manchester. For 2017 entry, 69 students have been accepted through the Manchester Distance Access Scheme.

The University is also committed to providing our students with volunteering opportunities to develop key employability skills via the Manchester Leadership Programme (MLP). 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. 700 students took part in MLP in 2016/17 and since the programme was established we estimate that MLP students have contributed over £1.9m 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. Initially established as one of HEFCE's National Networks for Collaborative Outreach, Greater Manchester Higher is now tasked with delivering the HEFCE funded National Collaborative Outreach Programme targeted at young people in areas of low progression to higher education. During 2016/17 1,200 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 9,000 learners, their parents and carers.

4. World-class Research

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.

Research income

Research income accounts for a significant portion of our total income (26%), reflecting the University's core goal of world-class research. Total research income has reduced by £11.4m year on year, however this includes a £14.6m drop in capital grant funding which tends to be volatile, and 2015/16 included a £9.6m Research and Development Expenditure Credit (RDEC) no longer available after that year.

Excluding capital income and RDEC, underlying revenue research income is up £12.9m (5.7%) to £237.9m, reflecting our success in continuing to grow the value of research grant awards. The sources of revenue research funding have remained relatively consistent year on year, and we have seen growth in income from UK Research Councils (10%), UK Government (10%) and UK Charities (4%). Income from UK Industry and commerce fell by £1.0m, reflecting the challenge of securing commercial contracts, and this is an area that we intend to develop strategically.

Following a dip in research awards (excluding capital) in 2015, awards have shown sustained growth of 12-13% for the last two financial years, with the highest value of research awards for the University being achieved in 2017. This is positive and is an indication of the strength of research activity within the University. We aim to continue on this trajectory and will see further growth in our underlying research income as the value of these awards start to flow through.

Research capital income has reduced by £14.6m, demonstrating the volatility that was anticipated following implementation of FRS 102. The recognition of capital income is dependent on the timing of bringing large assets into use. Capital income reported in 2015/16 was higher due to the recognition of a high level of funding relating to the MRC funded Clinical Proteomics and Single Cell Research Centres and the National Graphene Institute.

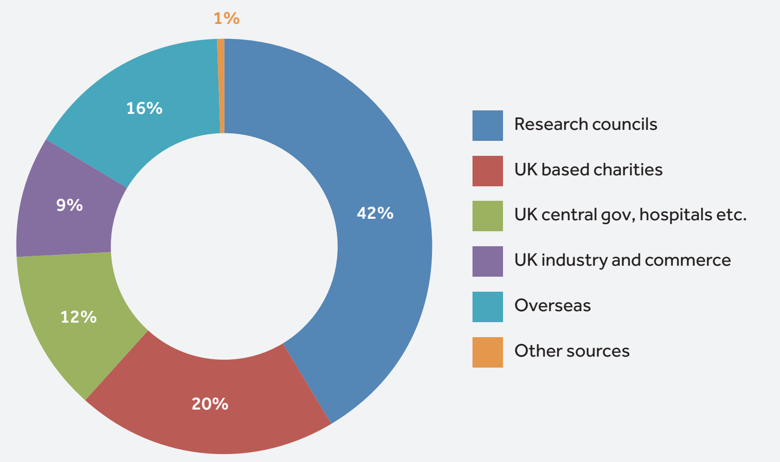
In 2016/17, we continued to grow our research capability in line with our research beacons, with capital grants recognised in year relating to 'Advanced Materials' including the Henry Royce Institute and the Graphene Engineering Innovation Centre. We also opened the Dementias Platform UK, PET/MRI scanning facilities funded by the MRC. In addition to these externally funded projects, other developments within the Campus Masterplan will support continued growth in research, for example the Manchester Engineering Campus Development and Alliance Manchester Business School.

In parallel to growing our research income, we have set internal targets as part of the Manchester 2020 Programme, to ensure that our costs are recovered from funders. These targets will drive recovery of an appropriate level of overhead costs, to ensure the financial sustainability of our research activities.

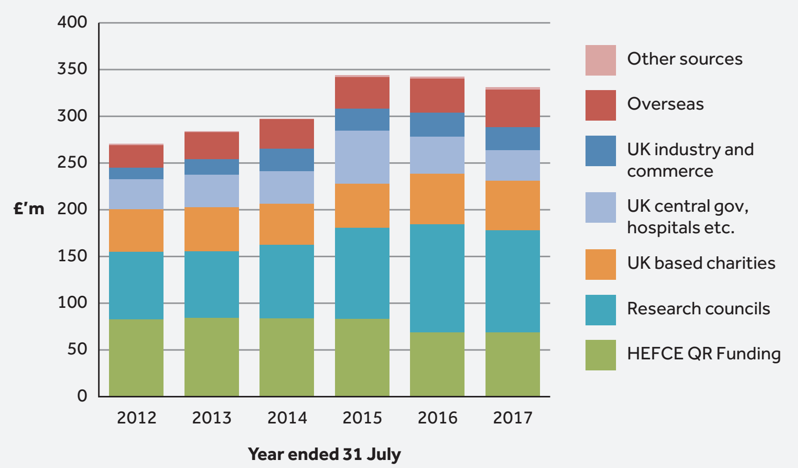
Research risks

The UK research funding landscape is changing as a result of the Higher Education and Research Act 2017, with the seven existing UK Research Councils being merged into the new UK Research & Innovation (UK RI) organisation. It is unclear whether this will impact on our research income, but our current plans assume that funding will continue on the same basis as today. We do not anticipate growth in the overall funding available from RCUK, but our five year projections assume a growth in income from increased share of these funds. This is supported by the increase in our share in recent years. The research funding model across the sector does not allow for the recovery of the full cost of research and level of government support for research via HEFCE research funding has been eroded in real terms over the last few years. This limits our ongoing ability to invest in our research infrastructure.

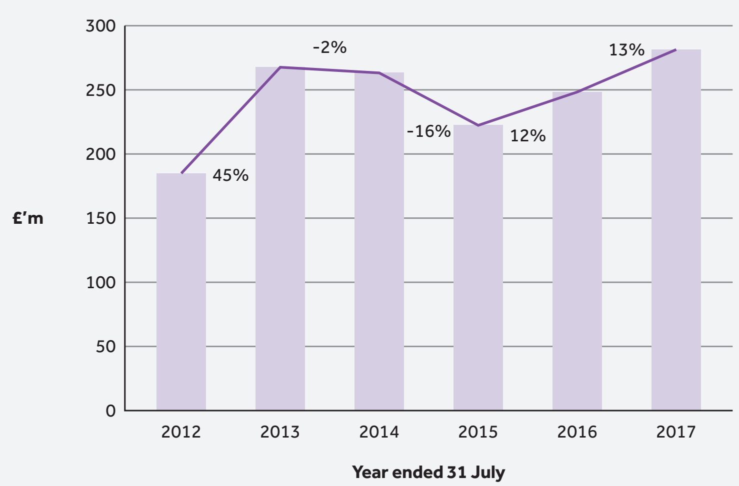
Research Income by Funding Type



Analysis of research income



Research Awards (excluding capital)



Brexit continues to pose a threat to our EU funding, however our assumption for planning purposes is that this will be replaced by other funding sources, for example the industrial strategy.

Research impact

The University of Manchester's research beacons (comprising advanced materials, cancer, energy, global inequalities and industrial biotechnology – see www.manchester.ac.uk/beacons) are examples of pioneering discoveries, interdisciplinary collaboration and cross-sector partnerships that are tackling some of the biggest questions facing the planet. We have almost 900 research partnerships with public, private and third-sector organisations.

The University is at the forefront of tackling global inequalities, with 335 of our staff working in this area – 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. Our Global Development Institute, which officially launched in February 2016, is the largest dedicated research and teaching institute of its kind in Europe.

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 250 dedicated researchers, two Nobel laureates and more than £170m of investment. We have been chosen to host the forthcoming £235m Henry Royce Institute and the University's £64m 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 the fight against the disease. 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. 1,500,000 women have benefitted from breast cancer therapy developed by our researchers.

- 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.

- In 2016 Cancer Research UK announced plans to invest £39m in the Cancer Research UK Manchester Centre and, with the National Institute for Health Research, £2.75m in the Manchester Experimental Cancer Medicine 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 £100m 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 650 staff researching energy solutions for the future and £75m of energy projects, covering generation, storage, systems and use. Our Dalton Nuclear Institute is the UK's most advanced academic centre for nuclear research and development and high-level skills development.

Our history of intellectual property commercialisation spans more than 25 years, during which time we have generated more than 100 spin-out companies, concluded over 300 technology licences and won several national awards for our social enterprise activities. Since 2004 our commercialisation activities have contributed £500m 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 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.

The Greater Manchester conurbation has some of the poorest areas in the country, with persistent inequalities of treatment, opportunities and experiences of different social groups. A growing programme of research is aiming to address inequalities in Greater Manchester and maximise the benefits for the city region from our research through collaboration and engagement with the public and policymakers to address issues of equality and fairness. This includes £987,000 invested in a Greater Manchester Inclusive Growth Analysis Unit, with £400,000 of this coming from a partnership with the Joseph Rowntree Foundation. This programme has engaged stakeholders to ensure that poverty reduction is central to the growth and devolution agendas in Greater Manchester and examples of activity include a Greater Manchester Fair Growth conference with the Greater Manchester Combined Authority, the development of reports on inclusive growth and a Human Development Index for Greater Manchester.

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.

4. Social Responsibility

We have placed public benefit at the centre of our strategy by being the only University in the UK to position social responsibility as a core strategic goal. Our strategic vision commits us to make a difference to the social and environmental wellbeing of our communities and wider society through our teaching, research and public events and activities. We therefore position social responsibility in terms of: (i) research with impact, where we are committed to the discovery of new knowledge and its application to improving the world; (ii) socially responsible graduates, where we want to ensure we recruit and nurture future citizens and leaders of tomorrow; (iii) engaging our communities, where we actively engage and involve the public, creating benefits for the University and wider society; (iv) responsible processes, where our processes and policies aim to balance efficiency with opportunities to create social, economic and environmental benefit; and (v) environmental sustainability, where our vision is to use our full range of knowledge and influence to support a world that is environmentally sustainable.

Social responsibility investment

Our strategic goal of social responsibility includes engaging with our communities and our cultural institutions play a major part in delivering this activity. Our balance sheet shows that the value of our Heritage Assets is £256m, with a value for insurance purposes of £1.4bn. In 2016/17 we had additions of £0.3m, which related to two new art works for the Whitworth.

Our social responsibility agenda includes a commitment to investing in widening participation; in 2016/17 our predicted investment in this activity is just over £25m. We are delivering on environmental sustainability, with savings annually through power management and pull print systems, and investment in energy saving technologies.

The University continues to lead the sector through its responsible procurement approach. This ensures that our spending fits within the University's Goal 3 (Social Responsibility) and that environmental and social factors are fully considered, where appropriate, as part of a wide value for money assessment. The University has been recognised, and verified through an independent expert panel, as operating at Level 5 on the Flexible Framework; this provides assurance that sustainable procurement practices are embedded within business as usual. We are the first HEI to be able to claim this and our achievement has set a benchmark within the sector.

Our innovative supplier engagement tool continues to deliver evidenced based information about our supply chain. In July 2017 we published a report on the first 1,000 suppliers to complete this tool illustrating how our suppliers are contributing to our objectives and the impact that our expenditure has within the wider economy:

documents.manchester.ac.uk/display.aspx?DocID=32762

We now have actively engaged with 1,371 suppliers through our on-line tool. Of these 1,219 (89%) fall within the SME category and of those domiciled within the UK over a third (35.4%) are based in the North West of England with 66.6% (267) having a Greater Manchester postcode. We continue to encourage local and SME suppliers in bidding for work at the University particularly through the £1bn Capital Masterplan Partnership Framework where a number of projects have now started to take shape. Following Manchester's lead the tool has now been adopted by 3 regional consortia and 40 individual HEI's. Over 3,000 suppliers have engaged with the tool, and with our Head or Procurement now chairing a sector wide Responsible Procurement Group, provides an opportunity for the sector to highlight its achievements in this area.

The University uses a number of different means, including benchmarking relative to other institutions, to understand the efficiency and effectiveness of its professional support service delivery. As a result of these efforts and in line with strategic ambitions, we have identified areas where investment is needed to support the delivery of more effective services. In addition, we have also set a goal of achieving costs savings of £15m in other areas through targeted initiatives under the Manchester 2020 Programme.

Social responsibility impact

Across 'research with impact', the University is tackling some of the world's greatest challenges through our investment in research. As referred to above, these are exemplified by our five research beacons, where we are providing innovative research breakthroughs and impact.

Across 'socially responsible graduates', we are ensuring the students we educate represent the widest variety of backgrounds and develop not only academic and professional skills, but also a sense of ethical, social and environmental responsibility towards the societies they serve. Locally, the work of the Manchester Access Programme is referred to above. Worldwide, we support Masters students from some of the world's least developed countries – Uganda, Tanzania, Rwanda and Bangladesh – to undertake a Manchester study programme at no cost, to support the development of their countries. In the past year 16 full-time campus students and 10 distance learning students benefited from this Equity and Merit Scholarship Scheme.

Upon arrival at Manchester, all new students are supported to 'do more and be more' during their time at Manchester through our Stellify initiative. This encourages students to consider their place in the world and how they can make a difference. In 2016/17 examples of impact include 4,945 year-one students taking part in a sustainability challenge and 748 students taking part in externally-verified volunteering activities that benefit wider society.

Across 'engaging our communities', the University accepts an important responsibility for enriching the cultural lives and scientific understanding of its local community and wider society. Specific importance is attached to the work of the Manchester Museum, the Whitworth, John Rylands Library and Jodrell Bank Discovery Centre in engaging with schoolchildren and people from under-represented groups. The total number of visits to our cultural institutions for 2016/17 was over 1.2 million (Manchester Museum (471,958), the Whitworth (332,529), John Rylands Library (264,449) and Jodrell Bank Discovery Centre (179,000 – including attendance at the Bluedot festival featuring music, science, technology and the arts). Our Cultural Explorers Programme for these four institutions also engaged nearly 1,000 of our most local nine year old school children in a common out-of-school learning programme.

We encourage staff to support the educational achievement of pupils in state schools and to this end encourage them to volunteer as School Governors. Our multi-award winning School Governor Initiative is the largest in the UK. In the previous year, 610 staff and alumni who are school governors gave 7,320 days supporting 274,500 learners. We also organize annual Community Festival, Science Spectacular Event and ScienceX events which engaged more than 5,000 members of the local community with our research and teaching during 2016/17.

Across 'responsible processes' we aim to benefit society through our employment practices and procurement activities. 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 – a unique and award-winning facility in British higher education based in the heart of our local communities. This provides opportunities and support to jobseekers including pre-recruitment training and job matching to local employers, including to the University. A total of 3,226 people have been supported into work since 2011 through this initiative, bringing £47m of economic value to the region.

We are keen to ensure that opportunities for women and Black, Asian and Minority Ethnic (BAME) staff to progress into and through the University are measured and have a number of initiatives to improve representation of these groups of staff. The proportion of female academics at senior lecturer and above remained at 31% in 2016/17 compared with 22% in 2007/08. This compares to a female lecturer pool of 44%. The proportion of ethnic minority staff at Grade 6 and above in the Professional Support Services who are BAME remained at 8% in 2016/17, whereas the proportion of BAME employed in professional occupations in the UK was 14%. The proportion of BAME staff who were senior lecturers, readers and professors across all Faculties in 2016/17 remained at 10%, whereas the BAME lecturer pool was 18%. After some improvement since 2008/09 this has plateaued of late and remains an area of focus for the University. In comparison to other Russell Group institutions the University has above average representation of BAME staff in both academic and professional and support services roles.

Across 'environmental sustainability' the University is using its full range of knowledge and influence to support a world that is environmentally sustainable. Through our research we are at the forefront of tackling key global challenges such as climate change, population growth, rapid urbanisation, overconsumption, food and water security, loss of biodiversity and pollution. We are equipping all students with knowledge and experience to positively contribute to our world as professionals and citizens of tomorrow through formal study programmes and extra-curricular initiatives such as our Ethical Grand Challenges, which is offered to all 8,000 new undergraduate students.

We have ensured our organisational processes, such as our £1bn campus development programme, procurement, and energy and resource management, are creating opportunities for the efficient use of natural resources, with the additional benefits of financial savings and an environment that enhances health and wellbeing. For example, our re-use scheme for students 'Give It, Don't Bin It' led to students donating 6,125 bags of unwanted clothes, shoes, books, electrical appliances and crockery which would otherwise have gone to landfill. This also led to an equivalent of £85,750 worth of donations to British Heart Foundation.

Over 60% of University staff members travel to work sustainably, with 26% walking or cycling. 98% of our students travel sustainably, with 46% walking or cycling. In addition, the University's Bicycle Users' Group (UMBUG) is the biggest in the HE sector with over a thousand members and UMRun is the first employer run-commute group established outside of London. We are also engaging with staff, students and alumni to embed a culture of environmental sustainability, and partnering with people and organisations in pursuit of shared goals around sustainability. For example we support our community of over 10,000 staff through the 10,000 Actions initiative, which engaged 46% of staff in more than 25,000 actions on sustainability, winning the world's first Carbon Literate Organisation award and a Sustainability Award from the Association of University Directors of Estates (AUDE).

5. Financial Management and Risks

Staff costs

Staff costs are the single most significant element of our expenditure and account for 53% of our cost base. Total staff costs excluding early retirement and voluntary severance (ERVS) scheme costs have increased by £12.2m, a growth of 2.4% since 2015/16. Staff numbers have increased by 200, of which 73 are academic posts and the remainder largely in non-technical support staff. We have also seen the expected inflation due to cost of living and incremental awards. Increased National Insurance contributions have also impacted on our expenditure, with the removal of the 'contracted out' category in April 2016 showing a full year effect in this year's costs.

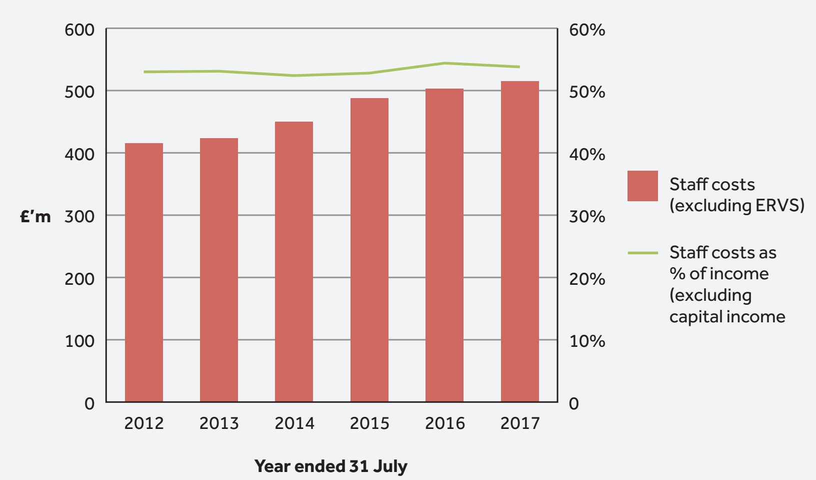
Staff costs risks

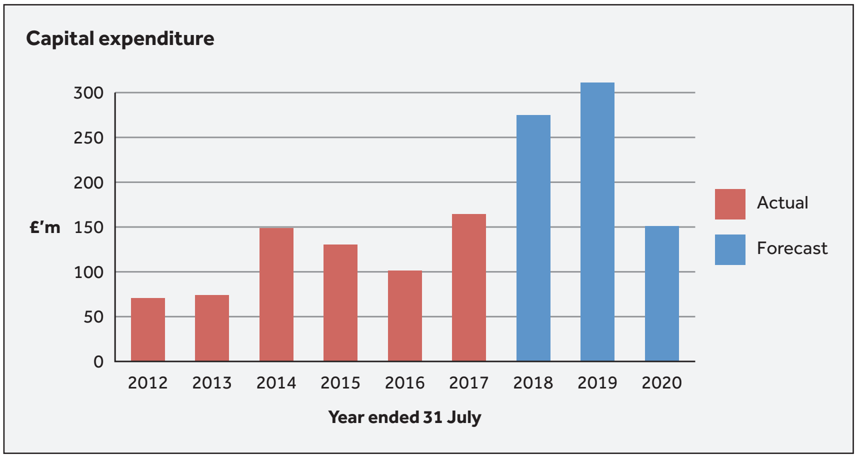
As staff costs are over 50% of our expenditure, our assumptions relating to pay inflation are a key input into our forecasts. The University's costs are subject to national pay award negotiations and incremental progression and our forward plans are based on our best view of future awards. These assumptions are revised as part of our annual planning cycle, as any change can have a significant impact on our future expenditure. As already highlighted, there is an ongoing 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 pension deficits, our pension schemes remain a major risk for the University. The schemes continue to be monitored regularly particularly as USS and UMSS are currently finalising their triennial actuarial review and discussions on future contribution and deficit repayment levels are underway.

Financial plans 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 and cash outflows.

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





Capital

The value of our tangible fixed assets has increased 4.4%, including additions of £151.5m in 2016/17. The increase in capital expenditure from the prior year of £62.7m reflects our continued investment in the Capital Masterplan. We are projecting a substantial increase in expenditure over the next two years, as our major construction projects move from design and development to the build phase.

Depreciation and amortisation have increased by £23.2m in 2016/17. This is in part due to accelerated depreciation on existing student residences as a result of revised timing for the Fallowfield Development project phases two and three. It also reflects commissioning of the Clinical Proteomics Centre in June 2016 and other assets commissioned during 2016/17 as part of the University's Capital Masterplan. We expect to see an increase in our depreciation charges over the next three years, in line with completion of key Masterplan projects.

Capital risks

There is pressure on our capital budgets in future years due to inflation in the building industry. If contractor quotes for our major projects come in over budget, this could present a challenge to maintaining our cash position. As we progress through the Capital Masterplan, an increasing number of projects will be contracted, reducing the risk of increased costs. This risk is being monitored by the University's Capital Planning Sub-Committee, Finance Sub-Committee and Finance Committee with support from the University Estates and Finance teams.

Cash and liquidity and Investments

Cash reserves are at £385.6m, a decrease of £42.9m compared with prior year. This represents sufficient cover for 157 days of expenditure, a decrease from 177 days in 2015/16. The reduction in cash reflects our continued investment in the Capital Masterplan with expenditure (in cash terms) of £164.1m, an increase of £62.7m compared with 2015/16.

We are planning for continued investment in our Manchester 2020 strategy, and we continue to place a strong emphasis on managing the cash position as well as operating surplus. We have established a Manchester 2020 Programme Office to coordinate and manage the delivery of a portfolio of projects in order to enable us to realise our ambitions for excellence in teaching and learning and research, underpinned by long term financial sustainability. Our strategic themes include significant growth in funds from distance learning, philanthropy, research cost recovery, international student fee income, alongside efficiency and effectiveness projects across the University.

Endowment and investment performance continues to remain a risk. Financial markets are uncertain as the pace and sustainability of world economic recovery is variable and the outcomes of the Brexit negotiations still unknown.

Financial Instruments

Financial risk management

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.

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 and banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of certain financial assets and liabilities.

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 £250.6m are exposed to price risk but this exposure is within the University's risk appetite.

We had £335.0m of 'held to maturity' (ie fixed term) investments on short and long term deposit and £90.5m in liquidity funds. 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.

Going concern

The University ended the year with cash resources of £385.6m. The budget for 2017/18 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 99.0% repayable beyond 1 year and 96.5% 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 on-going. Any concerns identified will be brought to the attention of the Board of Governors as soon as possible.

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 of 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 M 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. The President and Vice-Chancellor, 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 on the contents page.

The Board commissioned an independent review of governance in 2016/17; the review was undertaken by Mr John Lauwerys, former Registrar and Secretary at the University of Southampton and a Senior Associate with the Leadership Foundation. The review included a desk based scrutiny of key documents, including the report of the previous externally facilitated review undertaken in 2011, attendance by Mr Lauwerys at Board and Board Committee meetings, an e-survey of Board members and individual face to face meetings between Mr Lauwerys and current Board members (as well as members of the Executive and some past Board members).

The review, which was presented to the Board in March 2017, concluded that the University is effectively governed, that the Board is very well chaired, that members of the Board have an extensive and impressive range of skills and experience and without exception display enthusiastic commitment. The report includes a number of recommendations for change some of which would require change to Statutes (and thus Privy Council approval) before implementation; the Board will be giving further consideration to these changes early in 2017/18. Other changes regarding the conduct of business and presentation of information to the Board have either already been implemented or will be introduced in 2017/18.

The most recent HEFCE Assurance Review, carried out in January 2016, concluded that HEFCE were able 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, 2 and 3, a third are designated *ex-officio* positions 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 4 and 5 are made up of co-opted and student representatives.

At its meeting in November 2016, the Board of Governors considered a report setting out the basis for its assurances concerning the oversight of the academic experience and the setting and maintenance of standards, as part of the Annual Assurance Return to HEFCE. The Board confirmed that on the basis of the information presented and the additional reporting undertaken through the year;

- it had received and discussed a report and accompanying action plan relating to the continuous improvement of the student academic experience and student outcomes. This included evidence from internal periodic review processes, which fully involve students and include embedded external peer or professional review;
- the methodologies used as a basis to improve the student academic experience and student outcomes were robust and appropriate; and
- the standards of awards for which the University is responsible have been appropriately set and maintained.

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 section headed risk management below provides further detail on the role of the committee in relation to risk oversight and assurance, including regular scrutiny of the institutional Risk Register and Risk Maps, and commissioning of "deep dive" reviews. As part of this process both the Committee and the Board reflected on the key risks facing the University, this enabled the identification of some additional risks and opportunities facing the University which informed further iterations of the Risk Register and Risk Maps (for example, in relation to the "DevoManchester" initiative, extending and developing existing student recruitment markets and issues arising from the opening of the market to new providers, with different, innovative or flexible, models of delivery).

The Audit Committee will also, whenever appropriate, provide explicit confirmation to the Board that necessary actions have been, or are being taken to remedy any significant failings or weaknesses identified from 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's 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 refresh membership of both the Board of Governors and the General Assembly. The Committee endeavours to ensure a broad and complementary range of skills, expertise and experience across categories of lay membership reflecting the needs and aspirations of the University and thus ensuring good and effective institutional governance. The Committee also endeavours to ensure that 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 the Committee brings forward in any year are therefore informed by the existing skills and diversity mix of both bodies in order 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 independent review of governance referred to above includes recommendation for changes to the composition of the Committee which will require amendments to Statutes (and thus Privy Council approval) and, again, this will be considered early in 2017/18.

The **Remuneration Committee** (established in accordance with the principles of the Higher Education Code of Governance published by the Committee of University Chairs) 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 Remuneration Committee report for the year ended 31 July 2017 is on page 26.

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 2016/17. The University is cognisant of the advice and guidance issued by HEFCE on remuneration of senior staff in June 2017, including the need to consider remuneration in the context of charity law and to have regard to the "Good Pay Guide for Charities and Social Enterprises" guidance for charities issued by the Association of Chief Executives of Voluntary Organisations. The University is compliant with HEFCE senior pay accounts disclosure requirements and, through the work of the Committee, will ensure that it takes account of the recently issued guidance.

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 regularly to the Board of Governors.

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 independent review of governance suggested a review of the role of the General Assembly and this will be given consideration in 2017/18.

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. The role is currently held by Mr Lemn Sissay, MBE, who took up the role in August 2015.

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 until 31 July 2017; Professor Luke Georghiou from 1 August 2017), 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 (PSS) 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

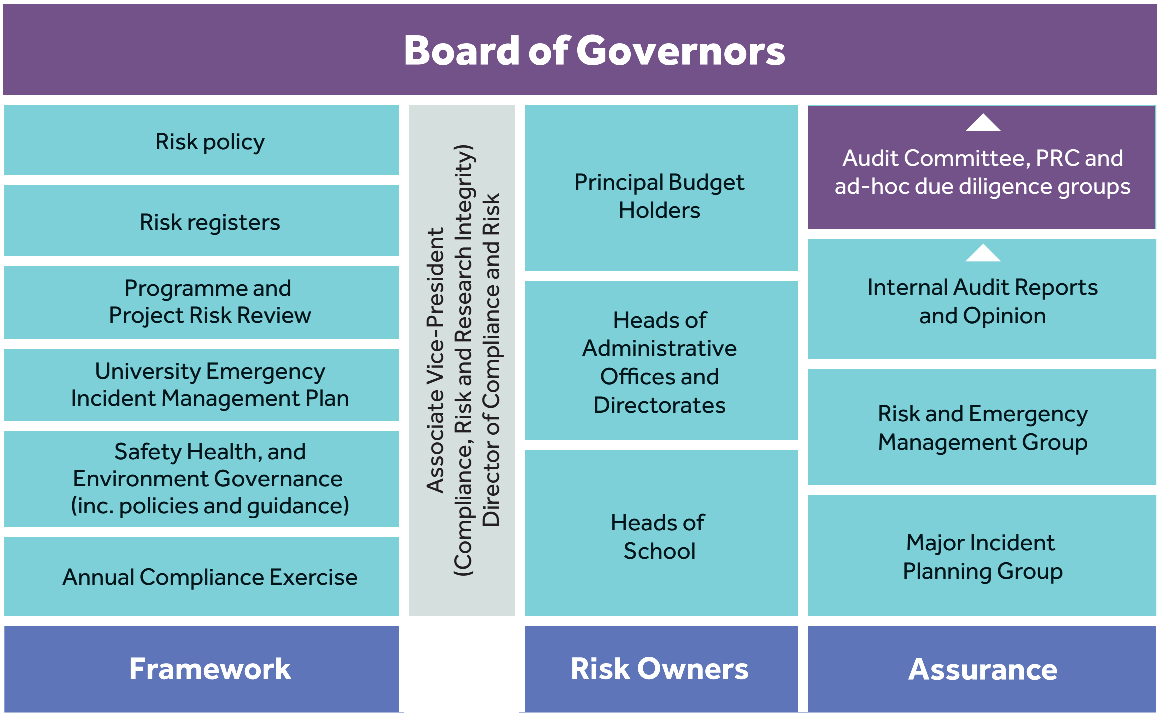
The Board of Governors, both directly and through its Finance and Audit Committees, is responsible for ensuring the economical, efficient and effective management of the University resources and expenditure, and for safeguarding its assets, including specific responsibility for the oversight of systems 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, Ernst & Young LLP (EY), 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 out-turns.

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 Costing (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 annual efficiency return, setting out efficiencies realised in 2016/17 will be submitted to HEFCE by 31 January 2018.

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. When reviewing the Risk Register, the Committee identifies areas for more in-depth "deep dive" reviews as set out above.

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 and maps (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 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.

Remuneration Committee report for the year to 31 July 2017

This new report within the University's financial statements covers the following topics:

- The responsibilities of the Remuneration Committee
- The remuneration policies that the Committee operates for the Senior Leadership Team and other Senior Managers

The Remuneration Committee and its remit

The membership of the Committee is:

Mr Edward M Astle (The Chair of the Board of Governors)

Mr Colin Gillespie

Dr Dame Angela Strank

Dr John Stageman

The President and Vice-Chancellor (except in relation to matters affecting the remuneration of the President and Vice-Chancellor)

Secretary: Registrar, Secretary and Chief Operating Officer (except in relation to matters affecting the remuneration for the Senior Leadership team).

The Director of Human Resources is adviser to the Committee which can, if it wishes, call upon external advisers as appropriate.

Key decisions taken in 2016/2017

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.

Against this background, the University continued its policy of limiting increases for senior managers within the same budgets used for all other staff. Consequently:

- For those senior staff not eligible to receive the nationally negotiated cost of living award, the budget set was the nationally negotiated pay award level plus the average percentage increase in salary budgets for incremental progression for all staff. For 2016/17 the budget totalled 3% of the relevant senior staff salaries. This was underspent with just over 2% being awarded.
- For those senior staff eligible to receive the nationally negotiated cost of living award, the budget set was the average percentage in salary budgets for incremental progression for all staff.

To assist it in these tasks, the Committee received:

- Disclosure of the President and Vice-Chancellor's salary;
- the Committee of University Chairs (CUC) report on Vice-Chancellor's pay;
- performance report from the President and Vice-Chancellor on the Deputy President and Deputy Vice-Chancellor; the Vice-Presidents and Deans; the Policy Vice-Presidents and the Registrar, Secretary and Chief Operating Officer;
- a summary report from the University's Senior Salary Review Group covering proposals for salary awards to be applied to academic related Grade 9 staff;
- a report from the Director of Human Resources on national pay trends as background data.
- an evaluation of the Vice-Chancellor's performance.

The evaluation of the President and Vice-Chancellor's performance includes an assessment from each Board member and a formal review of individual performance by the Chair of the Board based on these inputs. The Chair circulates a summary of the review to the Board. The review includes an assessment of the overall performance of the University (based on Annual Performance Review and Stocktake reports) and in future years will be supported by a 360 degree appraisal of the President and Vice-Chancellor.

Remuneration Policy for the Senior Leadership Team (2016/17)

The Remuneration Committee is directly responsible for setting the remuneration of the Senior Leadership Team reporting directly to the President and Vice-Chancellor.

Recommendations for other Senior Managers including the Director of Human Resources and the Director of Finance are made via the Senior Salaries Review Group (SSRG) and reported to and approved by the Remuneration Committee.

The Key Management Personnel, as referred to in note 7 of the financial statements, comprises all the Senior Leadership Team.

Senior Leadership Team *(reporting directly to the President and Vice-Chancellor)*

Name	Role
Professor Dame Nancy J Rothwell	President & Vice-Chancellor
Professor Colin Bailey	Deputy President & Deputy Vice-Chancellor
Professor Ian Greer	Vice-President & Dean of Biology, Medicine and Health
Professor Keith Brown	Vice-President & Dean of Humanities
Professor Martin Schröder	Vice-President & Dean of Science and Engineering
Professor Luke Georghiou	Policy Vice-President for Research and Innovation
Professor Clive Agnew	Policy Vice-President for Teaching, Learning and Students
Mr Will Spinks	Registrar, Secretary and Chief Operating Officer

Elements of Remuneration for the Senior Leadership Team and other Senior Managers

The table below shows the elements of remuneration for the Senior Leadership Team and other Senior Managers, the reasons for their inclusion and the way they operate. This approach has been adopted now for the past three years for the Senior Leadership Team and the approach for grade 9 academic senior staff has been effective from October 2012.

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Base salary			
Supports the recruitment and retention of Senior Leaders with the experience and skills required to deliver the University's strategic plan "Manchester 2020". Salary increases whether consolidated or non-consolidated provide an opportunity to recognise outstanding individual contributions by Senior Leaders.	Base salary, paid monthly, reflects the size of the role (based on Hay evaluation) and its responsibilities, individual performance assessed annually and the skills and experience of the individual. Increases to the President and Vice-Chancellor's base salary are approved by the Remuneration Committee. For all other members of the Senior Leadership Team except the Directors of HR and Finance, recommendations for base pay increases are made by the President & Vice-Chancellor and approved by the Remuneration Committee. Increases are effective from 1 April. The Registrar, Secretary & Chief Operating Officer makes recommendations to the Senior Salaries Review Group (SSRG) for the Directors of HR and Finance. Subsequently reported to and approved by the Remuneration Committee. A national pay increase is effective from 1 August and any other performance increase is effective from 1 October. Base pay increases can be either consolidated (a permanent increase to base salary which is pensionable) or non-consolidated. Non-consolidated increases are not pensionable and are paid as a lump sum shortly after they are awarded.	Increases to base salary are determined annually taking into account: • Individual performance • The scope of the role • Pay levels in comparable organisations • The levels of base salary increases for the staff of the University generally • The financial position of the University and the available budget for increases • Any retention issues In benchmarking base salaries the Committee considers two comparator points being: • The Upper Decile of the Russell Group; and • The median of the Industrial and Service Sector with a range of 80%-120%. The Upper Decile of the Russell Group is considered appropriate on the basis that the University is a large and complex institution with an ambitious agenda. The Director of Human Resources provides the Committee with a report on salary trends across a range of sectors as background information.	An individual's skills and experience in the role is one of the factors considered when setting base salary levels. Outstanding individual contributions are, from time to time, recognised through increases to base salary. In particular this may be through the award of a non-consolidated increase to base salary. Any such payments are funded from the agreed budget.
Pension			
Supports recruitment and retention of Senior Leaders in line with market practice in the University sector. Provides flexibility for those who have reached HMRC limits for pension saving.	In general, members of the Senior Leadership Team will be members of an appropriate pension arrangement. This will usually be the Universities Superannuation Scheme (USS) but may be the NHS Pension Scheme where appropriate. Where staff may be affected by the HMRC limits for pension saving, the University may pay a cash allowance (in line with the contributions the University would have made to the Scheme at no additional cost) in lieu of pension provision. This is dealt with on a case by case basis. Any cash allowance is subject to income tax and NI deductions.	The USS is a hybrid scheme and the NHS Pension Scheme is a defined benefit scheme. The cost to the University of providing the benefits varies depending on the actuarial position of the Scheme. The University currently contributes 18% of base salary to USS (inclusive of 2.1% deficit payment) and 14.3% of base salary to the NHS Pension Scheme.	None applicable.

Element How element supports our strategy	Operation	Maximum potential value	Performance conditions and assessment
Benefits			
To attract and retain Senior Leaders by providing benefits in line with market practice in the University sector.	In line with all employees, a small range of benefits are available including life cover (which is automatic as it is linked to the pension scheme) and sick pay (six months full pay and six months half pay). The President and Vice-Chancellor receives private medical insurance and the use of the official University residence (taxable benefits).	The University bears the cost of providing benefits.	None applicable.

Remuneration for other employees

All employees of the University receive a base salary, benefits consistent with those available to the Senior Leadership Team and other Senior Managers, and are eligible to participate in the University's pension arrangements.

The base salary levels for the Senior Leadership Team reflect their position as some of the most senior employees of the University and are therefore higher than most staff of the University.

In addition to receiving the annual cost of living award, Grade 9 academic related staff's salaries are reviewed October 1st against performance and contribution. Any increases takes into account the level of the annual cost of living award and the University's ability to pay, together with any market/retention issues. Such awards can either be consolidated and therefore pensionable or non-consolidated and non-pensionable. Grades 1-8 staff receive an annual cost of living award and are eligible for incremental progression. In addition they may be nominated once a year for an award under the University's Recognising Exceptional Performance policy. Awards can be non-consolidated or a further incremental point.

The University uses the Higher Education Role Evaluation (HERA) model to evaluate roles in grades 1 to 8. This translates into a 51 point pay spine with identified grade boundaries defining the minimum and maximum salary for each grade and the incremental progression points. The average salary across all staffing groups (academic and PSS) is £39,084 per annum and the President and Vice-Chancellors salary (without pension supplement) is £260,399 per annum. The President and Vice-Chancellor's salary is 16.9 times greater than £15,420 per annum, which is the lowest point on the University's pay spine, for 2016/17 and 7.4 times greater than the median salary for all staff which is £34,956 per annum for 2016/17. The median has been calculated using salary data at 1 May 2017, excluding subsidiaries. The University monitors any increase in the minimum wage level proposed by the Living Wage Foundation and will adjust relevant salary points on its 51 point pay spine to meet the minimum proposed.

Approach to recruitment remuneration

Overall, the University aims to recruit Senior Leaders using remuneration packages that are market-competitive and consistent with the existing remuneration structure. In doing so, the University seeks to pay no more than necessary to attract talented individuals to join the University.

Newly recruited Senior Leaders are eligible to receive the same remuneration elements as existing Senior Leaders as set out in the policy table above, namely:

- Salary – set at an appropriate level taking into account the experience and quality of the candidate
- Pension

The University does not expect to make special recruitment arrangements outside the standard policy, but may do so in exceptional circumstances in order to secure the appointment of the right candidate.

Senior Leaders' service contracts and notice periods

The service contracts and notice periods of the Senior Leadership Team who were in office during the financial year ended 31 July 2017 and who report directly to the Vice-Chancellor are as follows:

Role	Terms	Names
President and Vice-Chancellor	Employed on a seven year fixed term contract which is renewable and is subject to six month notice period.	Professor Dame Nancy J Rothwell
Deputy President and Deputy Vice-Chancellor	Employed on a five year fixed term contract which is renewable and is subject to a three month notice period.	Professor Colin Bailey
Vice-Presidents and Deans	Appointed usually for a fixed five year term of office which is renewable and on completion remain employed as professors by the University but return to previous role. Subject to three month notice periods.	Professor Keith Brown Professor Ian Greer Professor Martin Schröder
Policy Vice-Presidents	Appointed on rolling three year contracts. Generally subject to a three month notice period. On completion remain employed as a professor.	Professor Luke Georghiou Professor Clive Agnew
Registrar, Secretary and Chief Operating Officer	Employed on permanent contracts and subject to a three month notice period.	Mr Will Spinks

Policy on termination payments

For the academic roles it is usual for the individual to return to their previous role as a Professor when they complete their term as a member of the Senior Leadership Team. In such cases, their base salary is reviewed at that time and may be adjusted where necessary to reflect their ongoing responsibilities. No additional payments are made in respect of stepping down from the Senior Leadership Team.

The University's overarching aim is to treat departing Senior Leaders fairly, taking into account the circumstances of their departure, but always taking care to ensure that the interests of the University are considered and that there are no rewards for failure.

Senior Leaders are entitled to be paid their Base Salary and contractual benefits (including pension contributions) during the notice period. The University has the discretion to pay these as a lump sum benefit in lieu of notice.

In general, no additional payments are made to remunerate Senior Leaders when their employment terminates. If in exceptional circumstances a settlement agreement is needed the Committee may make payments it considers reasonable in settlement of potential legal claims (eg unfair dismissal). It may include in such payments reasonable reimbursements of legal fees in connection with such agreements.

Consideration of conditions elsewhere in the University

The Remuneration Committee is responsible for setting the remuneration of the Senior Leadership Team and approves the base salaries suggested by the Senior Salaries Review Group for professorial staff in the top two professorial zones and Grade 9 academic related staff. When considering base salary increases for senior staff, the Committee takes careful account of the level of salary increases across the University in general, and the financial position of the University including the budget available for such increases.

History of President and Vice-Chancellor's remuneration

The table below shows the base pay of the President and Vice-Chancellor over the last five years.

Year (ending 31 July)	Base pay
2017	£260,399
2016	£260,399
2015	£256,399
2014	£252,399
2013	£247,450

Note: From 1 April 2016 the President and Vice-Chancellor was in receipt of a supplement in lieu of the employer pension contribution and from 1 September 2017 the President and Vice-Chancellor elected not to receive a pension supplement.

Statement of implementation of Remuneration Policy in 2017/18

The Committee intends that remuneration arrangements for 2017/2018 will be operated in line with the policy set out above.

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 2017. This is our second statement under the Act and provides an overview of our continuing progress in this area.

We are a UK Higher Education Institution which provides a wide range of teaching, research and related activities. We are based in Manchester but are a global institution. We have 40,490 students registered on courses in the UK and across the world. We employ 12,470 people (total headcount) and had an income of £1,009m for the financial year ending 31 July 2017.

More information about us and our activities is available here: 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 in place an Anti-Slavery and Human Trafficking Policy: documents.manchester.ac.uk/list.aspx

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

These set out 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. To this end we have joined TISC Report (tiscreport.org) the world's largest open data repository of Modern Slavery and Human Trafficking Statements.

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 helped to develop, in partnership with NETpositive Futures, an on-line assessment tool that allows us to engage directly with all of our suppliers to identify their awareness of modern slavery and human trafficking. We have contacted every one of our suppliers (of which we have over 8,000) to ask about impacts arising from their business activities, including slavery within their supply chains, and providing an opportunity for them to tell us how they are addressing these issues. The same process is used for all new suppliers. In July we published a report on the impact of this data at which time 1,000 of our suppliers had completed this exercise: www.procurement.manchester.ac.uk/procurementexcellence.
To date nearly 1,400 of our suppliers have accessed this tool, and we are using the insights this provides to ensure that we recognise, encourage and support good supply chain practice.

We manage our suppliers using a category management model so that we can understand and manage risks within specific categories. Our supply chain risk is assessed using the UN Marrakech approach and we are focussing on categories and commodities that score highly on this and in addition suppliers in the following areas (if not already captured): agriculture, hospitality, construction and staff agencies. Using this approach means we can target our limited resources to understand and promote best practice throughout all tiers of our supply chains. We are updating our on-line resources for suppliers and are planning a modern slavery training session for SME's over the coming year.

Good supply chain practice has been embedded within our £1bn Construction Partnership Framework to highlight slavery issues alongside our three partnership contractors through the Considerate Constructors Scheme (CCS). On our largest project, the Manchester Engineering Campus Development, our contractor is supporting the CCS's 'Spotlight on Illegal Workers' campaign, in collaboration with the Home Office Immigration Enforcement Department based in Manchester. This work is helping The Home Office establish contacts in the North West Construction Industry as part of a campaign to educate and tackle the problem of illegal workers on North West construction sites.

The revision of our procurement documentation and processes is continual to ensure that they keep pace with developments in this area. Underpinning this has been our adoption of the Flexible Framework[1] as a means of embedding sustainable and responsible procurement practices. Our success in this area has recently been recognised, through independent validation that we are the first HEI in the UK to be operating at the highest level (Level 5) on this framework: www.procurement.manchester.ac.uk/procurementexcellence

We make use of a number of external standards and agencies to provide assurance on labour practices for applicable products and processes. We have maintained Fairtrade status since 2005 and affiliated with the Worker Rights Consortium in 2015. These provide independent sureties on supply chain practice, and we continue to assess the suitability of external validation in other areas as well.

We are active with our sector colleagues sharing best practice and keeping up to date on slavery and human trafficking considerations within the supply chain. Our Head of Procurement chairs a recently established sector wide Responsible Procurement Group whose remit includes modern slavery. The University is also taking a lead with like-minded public and private sector organisations within Greater Manchester to share ideas and experiences to tackle trafficking and its impacts within our immediate region.

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.

Staff awareness and engagement on this issue remains a priority. As part of our Strategic Vision one of our three core goals concerns social responsibility. In November 2016 we launched a staff engagement tool to assist staff understanding of sustainability issues and to support them to commit to this: 10,000 Actions (www.socialresponsibility.manchester.ac.uk/signature-programmes/10000-actions/). Every member of staff was involved in this initiative. Responsible Purchasing is one of the six themes within this encouraging those staff who purchase, as part of their duties, to consider what they buy and how they buy it. On selecting this theme they are directed to specific guidance on our purchasing web-pages including detailed information on slavery and human trafficking. More than 4,500 purchasing actions have been committed to and analysis of our web-page traffic indicates that the information on our modern slavery webpages has been widely consulted.

A useful by-product of this initiative has been to bring together academic and professional staff in new ways allowing for joint consideration of modern slavery and human trafficking issues. Information sharing between our professional procurement function and academic researchers in the Alliance Manchester Business School and the School of Law has suggested a number of possible collaborations. The opportunity to combine research alongside practical delivery towards important global challenges are unique to universities and underline the key role that our staff can make across a range of activities (including trafficking and slavery) awareness that make a positive contribution to society.

Specific training has been undertaken by our procurement professionals. Each of them has completed the CIPS Ethical Procurement and Supply course. In addition all have either completed, or are scheduled to complete, a four week on-line course developed by a leading expert on contemporary slavery.

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

[1] *The Flexible Framework is a self-assessment mechanism, developed by DEFRA, that allows organisations to measure and monitor their progress on sustainable procurement over time: www.gov.uk/government/publications/sustainable-procurement-in-government-guidance-to-the-flexible-framework*

Engaging our staff

Staff awareness and engagement on modern slavery remains a priority. In November 2016 the University launched 10,000 Actions, a staff engagement tool, to assist staff understanding of sustainability issues. This is in line with our University's third core goal, Social Responsibility.

Responsible Purchasing is one of six themes in the tool, encouraging staff who purchase, as part of their duties, to consider what and how they buy things. They are also directed to specific guidance on our purchasing web pages including detailed information on slavery and human trafficking.

Our staff

12,315 Staff with access to guidance on modern slavery

1,447 Action plans created by staff

53% Order things for themselves or on behalf of other members of staff.

64% Care about where the things we use come from

42% Request or authorise goods and services

Staff priorities

34,614 Actions committed to by staff

4,511 Related to responsible purchasing

Over 13% Of all actions committed to in the tool!

All 3 procurement issues were in the top 7 most selected issues from a possible 21 issues on the tool

Our web pages

Data accessed from 2016/17 financial year

41,741 Number of page views

4,336 Number of internal users accessing pages

67% Page views are from staff

2.55 Number of clicks to find info they need

2:21 Spent on pages

Modern Slavery page

2:14 Spent on page

976 Page views

Staff commitments

21% Make a conscious effort to choose fairly traded or ethically sourced products

8% Ensure equipment is replaced (if needed) with an energy efficient model

Next steps...

- Provide further support to staff, developing additional guidance
- Further engage with staff to strengthen awareness of issues

Engaging our suppliers

All 8,000 of our suppliers have been invited to access our Supplier Engagement Tool and complete a sustainability action plan. To create a plan, they select issues apparent in their organisation, including those around modern slavery. Achievable actions are then suggested on the Tool to aid them in developing responsible practice and processes within their organisation.

The data collected from our suppliers' action plans provide us with a rich source of information to integrate into our future plans for development and improvement in the Central Procurement Office. This infographic shows what this data tells us about our suppliers and what they are doing to combat modern slavery.

Our Supplier Tool

As of 31/07/2017 we know that:

- **17%** suppliers have a head office outside the UK
- **1,323** suppliers have engaged with the Tool
- **1,066** suppliers have completed sustainability action plans
- **22%** suppliers have >25% of goods/services they provide sourced outside of Europe
- **33%** suppliers have a CSR or lead on sustainability in their business

(CSR refers to Corporate Social Responsibility)

Modern Slavery Data

- **91%** businesses are aware of the Modern Slavery Act
- **4%** Only 4% businesses felt modern slavery is an issue for them
- **70%** businesses selecting this as an issue are SME
- **36%** businesses selecting this issue have >25% of goods/services sourced from outside Europe
- **18%** businesses who selected this issue have a head office outside the UK
- **44%** businesses who selected this issue have a CSR or lead on sustainability

Supplier Action Plans

(Number)

	In progress	Completed	Not started	With evidence
Develop a code of conduct which prohibits the use of forced or trafficked labour	12	9	31	9
Publish your 'Modern Slavery Act Transparency Statement'	9	7	36	8
Provide training for staff on modern slavery	11	3	36	8
Engage with your suppliers on modern slavery	10	6	32	7

Our High Risk Groups

(Number)

	Estates and buildings	Computer Supplies and Services	Catering Supplies and Services
Number of registered suppliers in each group	94	86	81
Recognise modern slavery is an issue for their business	6%	6%	6%

Supplier Actions

We will be verifying all our suppliers comply with the Modern Slavery Act 2015 and auditing our higher risk suppliers against our predetermined criteria

Staff have received training on identification and the signs of slavery and human trafficking

We have updated our conditions of purchase to bring clarity on our expectations for suppliers in prevention of modern slavery

Next steps...

- We will drive to further embed understanding of modern slavery amongst colleagues and create guidance to support this
- We will connect with our high risk suppliers to verify whether their low engagement with MSA is correct. We will incite them to improve if so.
- We will develop networks regionally and nationally to improve approaches to working with suppliers

Statement of the Board of Governors' responsibilities for the year ending 31 July 2017

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 Memorandum of Assurance and Accountability 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 Memorandum of Assurance and Accountability 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 Memorandum of Assurance and Accountability 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 M Astle
Chair of the Board of Governors and Pro-Chancellor

Independent Auditor's Report to the Board of Governors of The University of Manchester

Opinion

In our opinion:

- The University of Manchester's group financial statements and University financial statements (the "financial statements") give a true and fair view of the state of the group's and of the university's affairs as at 31 July 2017, and of the surplus of the group's and the university's income over expenditure and the Group's cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, relevant legislation and HEFCE requirements.

We have audited the financial statements of The University of Manchester which comprise:

Group	University
Consolidated balance sheet as at 31 July 2017	Balance sheet as at 31 July 2017
Consolidated statement of comprehensive income and expenditure for the year then ended	Statement of comprehensive income and expenditure for the year then ended
Consolidated statement of changes in reserves for the year then ended	University statement of changes in reserves for the year then ended
Consolidated statement of cash flows for the year then ended	Related notes 1 to 33 to the financial statements, including a statement of principal accounting policies
Related notes 1 to 33 to the financial statements, including a statement of principal accounting policies	

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 FRS 102 "The financial reporting standard applicable in the UK and Republic of Ireland."

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and University in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters to which the ISAs(UK) require us to report to you where:

- the Board of Governors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Board of Governors has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the University's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Risk of fraud in revenue recognition • Risk of error in accounting for the pension schemes and the USS deficit liability
Audit scope	• We performed an audit of the complete financial information of one component. • The component where we performed full audit procedures accounted for 98.8% of Total Income, 100% of Surplus before tax and 98% of Total assets.
Materiality	• Overall Group materiality of £9.9m which represents 1% of Total income.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of fraud in revenue recognition *Refer to the Statement of Principal Accounting policies (page 44) and Notes 1, 2, 3 and 4 of the Financial Statements.* In considering the different revenue streams of the University we identified that the significant risk is restricted to: • Capital grant income - as judgement is used to determine which period the award should be recognised. The income is recognised when the University has satisfied performance conditions specified within the grant award; • Research income – as the University has more than 3,000 active projects and administration of research grants can be resource intensive with the potential for significant claw-back of funding where audit requirements are not adhered to. Judgement is required in determining whether accrued income is receivable; • 'Other' income - the number and size of the income streams creates a perceived opportunity for manipulation and override of controls by management; and • Tuition fee income (overseas students) - the higher and variable fees charged to overseas students result in inherently more judgement being applied in determining the amount and timing of income recognition.	We reconciled the HEFCE grant income recognised in the financial statements to the award announcement and confirmed the clawback position as appropriate; We performed substantive analytical review procedures relating to tuition fee income, corroborating the level of income to student numbers. For overseas students these procedures were supported by substantive testing of a sample of student fees, including agreement to a schedule of applicable charges and the student records system; 'Other' income streams were split out into separate identifiable types and testing was carried out based on consideration of the assessed risk in each area. Testing included sample testing of individual transactions to supporting records and substantive predictive analytical review of income from residences; For income from research and non-research projects, we followed a tailored approach in order to test the revenue recognition and verify the related project balances (accrued income): We assessed and tested the design and implementation of controls in respect of project review and reconciliation, noting continuing improvement in the monthly review processes performed by the faculties. We tested a sample of capital grants recognised in the year to ensure performance conditions had been met; We supplemented our income statement testing with related balance sheet procedures, testing cut-off at year end and verifying the existence of debtors at the Balance Sheet date; and In addition, we focussed our journal entry testing on manual entries posted to increase revenue. We performed full scope audit procedures over this risk area in one location, which covered 98.8% of the risk amount.	Testing completed did not identify any material misstatements from revenue and expenditure recognition. Overall our audit procedures did not identify any material issues or unusual transactions to indicate any misreporting of the University's financial position and results for the year. We concluded that income reported in the consolidated statement of comprehensive income had been recognised on an appropriate basis.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of error in accounting for the pension schemes and the USS deficit liability		
The University accounts for its participation in The University of Manchester Superannuation Scheme (UMSS) and the Great Manchester Pension Fund (GMPF) in accordance with defined benefit accounting. As at the 31 July 2016, there was a £220m obligation recognised in the balance sheet in respect of these schemes. Participation in the Universities Superannuation Scheme (USS) and the NHS Pension Scheme (NHSPS) is accounted for as defined contribution schemes as insufficient information is available to identify universities' share of the underlying assets and liabilities. A liability is recognised in the balance sheet for the University's commitment under the USS Deficit Reduction Plan. As at 31 July 2016, there was a £150m liability recognised in the balance sheet in respect of USS. There is judgement to be applied to the valuation of the USS provision, in particular through the selection of the appropriate discount rates applied to future cash flows, salary inflation assumptions and staff changes.	We engaged EY internal actuarial specialists to review the key assumptions underpinning the pension scheme valuations and those used in calculating the USS deficit provision. The key assumptions were identified as being: • Discount rate • Inflation • Salary and pension increases • Mortality Assumptions were considered in relation to the market data used by the actuary and the methodologies applied to derive the financial assumptions to determine if the data and methodologies were appropriate, robust and were applied in accordance with accounting standards. These assumptions were found to be in line with expectations and within an acceptable range; Accounting entries and disclosures in note 25 to the group financial statements were tested and agreed to supporting documentation and the requirements of FRS102 and SORP; We reconciled the actuarial reports to the accounting entries included in the financial statements; We agreed the USS deficit provision to the output of the model provided by the British Universities Finance Directors Group (BUFDG). In reviewing this, we also confirmed inputs to the model to supporting records; and We considered the impact of a prior year restatement of the USS pension deficit provision that was identified by management during preparation of the financial statements for the year ended 31 July 2017: Management identified that the provision for the prior year was incorrect due to the inclusion of employee salary sacrifice deductions in the calculation. The impact of the error was to overstate the University's commitment under the Deficit Reduction Plan meaning the associated liability recorded in the balance sheet was overstated. Management recalculated the liability as at 31 July 2016 and found it to be £46m lower than the amount recorded and have included a prior year adjustment and supporting disclosure within the financial statements. We discussed these findings with management and agree with their view that this is an error that required a prior year adjustment. We tested the adjustments made to the financial statements and associated disclosures. This has included testing the revised inputs to the deficit calculation model for consistency to supporting records. We have concluded that the restatement and associated disclosures are fairly stated.	The pension fund liabilities as at 31 July 2017 disclosed in the financial statements are consistent with the actuarial reports provided by the pension fund actuaries. The pension fund transactions for the year have been appropriately accounted for and disclosed under FRS102 and SORP requirements. The USS deficit and prior year adjustment are fairly stated. We have not been made aware of any concerns relating to the administration of the pension funds.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Risk of impairment and appropriate recognition of Property, Plant and Equipment (PPE)		
The University has a significant estate, including a major property portfolio and is in the process of implementing its £1bn "Campus Masterplan" programme. The aim of which is to ensure that its estate meets the demands of its current and future student population. The continuing need to invest in new assets and maintain the existing portfolio, requires ongoing investment and creates a number of financial statement risks. The University's Campus Masterplan and decision to change the use of space creates the risk of the impairment of surplus assets. In line with its infrastructure strategy, the University has continued to progress a number of staged disposals as part of its development projects, the timing of which, impacts the recording of impairments in the statements of accounts.	We discussed the approach to impairment assessment with management; We reviewed minutes of the Capital Planning Sub-committee meetings to identify if there have been any indicators of impairment; We considered any impairment of any identified underutilised, excess and/or inadequate properties; We tested a sample of amounts capitalised during the period to supporting evidence to ensure that the treatment was appropriate; We tested the maintenance of the fixed asset register, including reconciliation to general ledger; and We considered the appropriateness of the related disclosures in note 12 of the Group financial statements.	During the year the University has impaired assets by £11m. We have considered the basis for these impairments and tested the calculations with no issues to report. We have not identified any significant findings regarding the accounting treatment applied to PPE and conclude that the year-end balance is fairly stated and disclosures are appropriate.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

The group's subsidiaries are described in Note 14 to the financial statements. We view the University and each of the subsidiaries as being individual components as each has its own processes and controls.

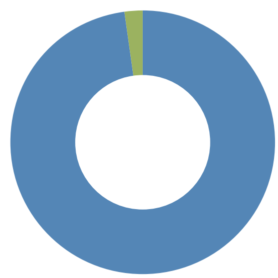
In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we performed an audit of the complete financial information of the University ("full scope component") based on its size or risk characteristics. Except as explained below, we did not perform any audit procedures in respect of the other components because we did not consider there to be any accounts that had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. This was consistent with the approach that we followed in the previous year.

The reporting component where we performed audit procedures accounted for 98.8% (2016: 98.3%) of the Group's Total income, 100% (2016: 97.5%) of the Group's Surplus before tax and 98% (2016: 97.8%) of the Group's Total assets.

Of the remaining 21 components that together represent 1.2% of the Group's Total income, none are individually greater than 1% of the Group's Total income. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group financial statements.

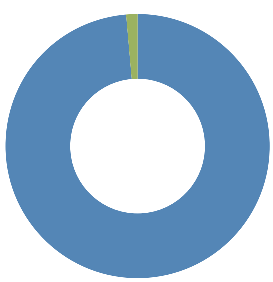
The charts below illustrate the coverage obtained from the work performed by our audit teams.

Total assets



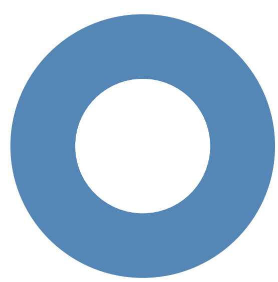
Full scope components **98%**
Specific scope components **0%**
Other procedures **2%**

Total income



Full scope components **98.8%**
Specific scope components **0%**
Other procedures **1.2%**

Surplus before tax



Full scope components **100%**
Specific scope components **0%**
Other procedures **0%**

Involvement with component teams
All audit work performed for the purposes of the audit was undertaken by the Group audit team.

An overview of the scope of our audit

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit strategy and scope. In assessing the risk of material misstatement to the financial statements, we focus audit effort towards higher risk areas, such as management judgements and estimates and balances that are considered significant based on value and complexity. We ensure that our audit provides adequate assurance of these significant accounts identified.

The audit team follows a programme of work to ensure we have obtained an understanding of the entity-level controls of the Group and the Group's system, including documentation and walking through key financial systems which assisted us in identifying and assessing risks of material misstatement due to fraud and error, as well as assisting us in determining the most appropriate audit strategy.

The University prepares group financial statements, consolidating subsidiary entities which we also audit and issue an opinion on. We have audited the group financial statements, including the relevant elements of the group entities for group consolidation purposes.

We were provided with sufficient access to the University to ensure appropriate audit procedures could be completed.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £9.5m (2016: £10.1m), which is 1% (2016: 1%) of Total income. We believe that Total income provides us with a reasonable basis for determining materiality as this is the most relevant performance measure to the users of Higher Education financial statements.

Our initial materiality was based on forecast income. Actual materiality was £0.4m higher than our initial materiality. We adjusted performance materiality applied in performing our audit procedures.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our planning materiality, namely £7.5m (2016: £7.6m). We have set performance materiality at this percentage based on our assessment of the overall control environment and our experience of audit differences arising during previous audits. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.5m (2016: £0.5m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included pages 1 to 34 of the Financial Statements 2017 including the Chair's foreword, Review of the year, Key performance indicators, Financial review, The University and public benefit, Corporate governance statement, Remuneration Committee Report and Modern slavery and human trafficking statement, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions applied to them; and
- the requirements of the HEFCE's Accounts Direction to higher education institutions for 2016/17 financial statements have been met.

Responsibilities of the Board of Governors

As explained more fully in the Statement of the Board of Governors' responsibilities statement set out on page 36, the Board of Governors is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance, and for such internal control as the Board of Governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Governors is responsible for assessing the Group and University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or the University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are the Memorandum of Assurance and Accountability from HEFCE and the Higher Education Act 2004.

- We understood how The University of Manchester is complying with those frameworks by the oversight of those charged with governance (ie considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity's performance and profitability), the culture of honesty and ethical behaviour and whether a strong emphasis is placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by management's journal entries or bias in the use of judgments and estimates.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of General Counsel, inspecting the work performed by internal audit, reading the minutes of the Finance Committee, Board of Governors and Audit Committee, testing manual journal entries and testing estimates for unexpected changes in assumptions.

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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation of the audit committee, we were appointed as auditors by the Board of Governors and signed an engagement letter dated 23 April 2015. We were appointed to audit the financial statements for the year ending 31 July 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 3 years, covering the years ending 2015 to 2017.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the University and we remain independent of the Group and the University in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee

Ernst and Young LLP

Ernst & Young LLP
Birmingham
23 November 2017

The maintenance and integrity of The University of Manchester web site is the responsibility of the Board of Governors; 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 web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial Statements

For the year ended 31 July 2017

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 21.

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.

In the year ended 31 July 2017 the prior year was restated as the obligation to fund the USS deficit was previously overstated due to the use of an incorrect contributions value in the calculation.This is explained in full in note 33.

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 2017.
- Financial instruments are stated at fair value in accordance with FRS 102.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the University operates.

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.

3. Basis of Consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2017.
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 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 Consolidated Statement of 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, grants (including research grants) from non government sources are recognised as income when the University is entitled to the income and any performance related conditions have been met. 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. For donations with restrictions, 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 objective other than the purchase or construction of tangible fixed assets, and the University can convert the donated sum into income.

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 Institution'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.

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	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 2017. 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 its expected useful life which ordinarily equates to the term of the project.

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.

Borrowing costs
Borrowing costs are recognised as expenditure in the year in which they are incurred. The University has opted not to capitalize borrowing costs.

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 the general use of the institution and its staff are written off as incurred.

Impairment
A review for impairment of an intangible asset is carried out if events or changes in circumstances indicate that the value of the intangible asset amount 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 the 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 Universities 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.

Loans 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 are 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'). USS is a hybrid scheme whilst the other three schemes are defined benefit schemes. All 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 FRS102.

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 income statement 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 FRS102. 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 FRS102, 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 FRS102.

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 expenditure (revenue and capital) is included in the costs of such expenditure. 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 either as a permanently restricted fund where the University must hold the fund to perpetuity or as an expendable endowment where the capital can be spent.

Other restricted reserves include balances through which the donor 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 Statement of comprehensive income. Details are disclosed within note 32 'Amounts disbursed as agent'.

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 and liabilities 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 FRS102 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 schemes which are accounted for as a defined contribution schemes, the Universities Superannuation Scheme ('USS') and the NHS pension scheme ('NHSPS'). These are accounted for as a defined contribution schemes as insufficient information is available to identify the University's 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 inflation, changes in staff numbers and the prevailing rate of discount.

Consolidated statement of comprehensive income

Year ended 31 July 2017

	Notes	Consolidated Year ended 31 July 2017 £'000	Consolidated Year ended 31 July 2016 Restated £'000	University Year ended 31 July 2017 £'000	University Year ended 31 July 2016 Restated £'000
Income					
Tuition fees and education contracts	1	**449,172**	423,990	**432,314**	404,708
Funding body grants	2	**133,890**	129,587	**133,890**	129,587
Research grants and contracts	3	**262,117**	273,479	**262,117**	273,479
Other income	4	**143,561**	142,396	**147,745**	144,873
Investment income	5	**7,543**	7,731	**7,819**	8,197
Donations and endowments	6	**12,713**	10,052	**12,713**	10,052
Total income		**1,008,996**	987,235	**996,598**	970,896
Expenditure					
Staff costs	7	**516,748**	508,712	**504,378**	496,184
Other operating expenses	8	**353,999**	347,622	**352,851**	346,627
Depreciation and amortisation	11 & 12	**83,421**	60,231	**82,331**	59,172
Interest and other finance costs	9	**26,306**	28,700	**26,212**	28,587
Total expenditure		**980,474**	945,265	**965,772**	930,570
Surplus before other gains and share of operating surplus of associates		**28,522**	41,970	**30,826**	40,326
Gain on disposal of fixed assets		**1,548**	3,949	**-**	4,428
Gain on investments (including investment properties)		**31,784**	12,923	**33,243**	13,402
Share of operating surplus in associate	15	**1,616**	807	**-**	-
Surplus before tax		**63,470**	59,649	**64,069**	58,156
Taxation	10	**(113)**	(2,006)	**-**	(1,986)
Surplus after tax		**63,357**	57,643	**64,069**	56,170
Non controlling interest in subsidiary undertakings for the year		**189**	30	**-**	-
Surplus for the year		**63,546**	57,673	**64,069**	56,170
Other comprehensive income/(loss)					
Actuarial gain/(loss) in respect of pension schemes	25	**31,360**	(58,727)	**31,360**	(58,727)
Total comprehensive income/(loss) for the year		**94,906**	(1,054)	**95,429**	(2,557)
Endowment comprehensive income for the year		**25,372**	11,692	**25,372**	11,692
Restricted comprehensive income for the year		**18,360**	5,085	**18,360**	5,085
Unrestricted comprehensive income/(loss) for the year		**51,174**	(17,831)	**51,697**	(19,334)
		94,906	(1,054)	**95,429**	(2,557)

All items of income and expenditure relate to continuing activities

Consolidated statement of changes in reserves

Year ended 31 July 2017

(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 1st August 2016 as previously reported	196,825	12,585	1,263,828	1,473,238	189	1,473,427
Prior year adjustment - see note 33	-	-	46,399	46,399	-	46,399
Balance at 1st August 2016 restated	196,825	12,585	1,310,227	1,519,637	189	1,519,826
Surplus from the income and expenditure statement	25,372	20,006	18,168	63,546	(189)	63,357
Other comprehensive income	-	-	31,360	31,360	-	31,360
Release of restricted funds spent in year	-	(1,646)	1,646	-	-	-
Total comprehensive income for the year	25,372	18,360	51,174	94,906	(189)	94,717
Balance at 31 July 2017	**222,197**	**30,945**	**1,361,401**	**1,614,543**	**-**	**1,614,543**

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st August 2015 as previously reported	185,133	7,500	1,279,566	1,472,199	219	1,472,418
Prior year adjustment - see note 33	-	-	48,492	48,492	-	48,492
Balance at 1st August 2015 restated	185,133	7,500	1,328,058	1,520,691	219	1,520,910
Surplus from the income and expenditure statement	11,692	15,763	32,311	59,766	(30)	59,736
Prior year adjustment - see note 33	-	-	(2,093)	(2,093)	-	(2,093)
Other comprehensive income	-	-	(58,727)	(58,727)	-	(58,727)
Release of restricted funds spent in year	-	(10,678)	10,678	-	-	-
Total comprehensive income/(loss) for the year	11,692	5,085	(17,831)	(1,054)	(30)	(1,084)
Balance at 31 July 2016	**196,825**	**12,585**	**1,310,227**	**1,519,637**	**189**	**1,519,826**

(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 1st August 2016 as previously reported	196,825	12,585	1,225,558	1,434,968	-	1,434,968
Prior year adjustment - see note 33	-	-	46,399	46,399	-	46,399
Balance at 1st August 2016 restated	196,825	12,585	1,271,957	1,481,367	-	1,481,367
Surplus from the income and expenditure statement	25,372	20,006	18,691	64,069	-	64,069
Other comprehensive income	-	-	31,360	31,360	-	31,360
Release of restricted funds spent in year	-	(1,646)	1,646	-	-	-
Total comprehensive income for the year	25,372	18,360	51,697	95,429	-	95,429
Balance at 31 July 2017	**222,197**	**30,945**	**1,323,654**	**1,576,796**	**-**	**1,576,796**

	Income and expenditure account			Total excluding non controlling interest	Non controlling interest	Total
	Endowment	Restricted	Unrestricted			
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1st August 2015 as previously reported	185,133	7,500	1,242,799	1,435,432	-	1,435,432
Prior year adjustment - see note 33	-	-	48,492	48,492	-	48,492
Balance at 1st August 2015 restated	185,133	7,500	1,291,291	1,483,924	-	1,483,924
Surplus from the income and expenditure statement	11,692	15,763	30,808	58,263	-	58,263
Prior year adjustment - see note 33	-	-	(2,093)	(2,093)	-	(2,093)
Other comprehensive income	-	-	(58,727)	(58,727)	-	(58,727)
Release of restricted funds spent in year	-	(10,678)	10,678	-	-	-
Total comprehensive income/(loss) for the year	11,692	5,085	(19,334)	(2,557)	-	(2,557)
Balance at 31 July 2016	**196,825**	**12,585**	**1,271,957**	**1,481,367**	**-**	**1,481,367**

Balance sheet as at 31 July 2017

	Notes	Consolidated 2017 £'000	Consolidated 2016 Restated £'000	University 2017 £'000	University 2016 Restated £'000
Non current assets					
Intangible assets and goodwill	11	**2,590**	2,512	**2,590**	2,509
Fixed assets	12	**1,506,070**	1,442,276	**1,468,153**	1,399,694
Heritage assets	13	**256,039**	255,483	**256,039**	255,483
Investments	14	**351,145**	319,157	**347,302**	317,561
Investments in associates	15	**7,923**	5,198	**1,109**	-
		2,123,767	2,024,626	**2,075,193**	1,975,247
Current assets					
Stock		**1,601**	1,674	**1,555**	1,620
Trade and other receivables	16	**105,090**	108,614	**127,623**	128,229
Investments	17	**250,000**	324,906	**250,000**	324,906
Cash and cash equivalents		**135,616**	103,659	**109,835**	78,065
		492,307	538,853	**489,013**	532,820
Less: Payables: amounts falling due within one year	18	**(309,203)**	(307,989)	**(295,807)**	(293,385)
Net current assets		**183,104**	230,864	**193,206**	239,435
Total assets less current liabilities		**2,306,871**	2,255,490	**2,268,399**	2,214,682
Payables: amounts falling due after more than one year	19	**(405,459)**	(411,069)	**(405,457)**	(409,363)
Provisions					
Pension provisions	21	**(285,716)**	(323,539)	**(285,677)**	(323,483)
Other provisions	21	**(1,153)**	(1,056)	**(469)**	(469)
Total net assets		**1,614,543**	1,519,826	**1,576,796**	1,481,367
Restricted reserves					
Income and expenditure reserve - endowment reserve	22	**222,197**	196,825	**222,197**	196,825
Income and expenditure reserve - restricted reserve	23	**30,945**	12,585	**30,945**	12,585
Unrestricted reserves		**-**		**-**	
Income and expenditure reserve - unrestricted reserve		**1,361,401**	1,310,227	**1,323,654**	1,271,957
		1,614,543	1,519,637	**1,576,796**	1,481,367
Non controlling Interests		**-**	189	**-**	-
Total reserves		**1,614,543**	1,519,826	**1,576,796**	1,481,367

The financial statements were approved by the Governing Body on 22 November 2017 and were signed on its behalf on that date by:

Mr Edward M 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 2017

	Notes	Year ended 31 July 2017 £'000	Year ended 31 July 2016 £'000
Cash flow from operating activities			
Surplus for the year		**63,546**	57,673
Adjustment for non-cash items			
Depreciation	12	**81,406**	59,175
Amortisation of intangible assets	11	**2,015**	1,056
Gain on investments		**(31,784)**	(12,923)
Decrease/(increase) in stock		**73**	(267)
Decrease in debtors	16	**3,524**	9,626
Increase in creditors	18-19	**25,136**	47,974
(Decrease)/increase in pension provision	21	**(6,463)**	1,665
(Decrease)/increase in other provisions	14 & 21	**(243)**	608
Receipt of donated equipment		-	(437)
Share of operating surplus in associate	15	**(1,616)**	(807)
Non controlling interest		**(189)**	(30)
Adjustment for investing or financing activities			
Investment income	5	**(7,543)**	(7,731)
Interest payable		**18,899**	18,816
New endowments	6	**(2,127)**	(152)
Profit on sale of fixed assets		**(1,548)**	(3,949)
Capital grant income		**(51,294)**	(63,863)
Assets transferred to other operating expenditure	11-12	**2,064**	3,289
Net cash inflow from operating activities		**93,856**	109,723
Cash flows from investing activities			
Proceeds from sales of fixed assets		**5,604**	4,456
Disposal of non current asset investments		**2,357**	829
Capital grant receipts		**37,351**	31,400
Withdrawal of deposits		**74,906**	5,094
Investment income		**7,543**	7,731
Payments made to acquire fixed assets		**(164,133)**	(101,436)
Payments made to acquire investments		**(3,330)**	(5,718)
Net cash outflow from investing activities		**(39,702)**	(57,644)
Cash flows from financing activities			
Interest paid		**(18,742)**	(18,816)
Interest element of finance lease rental payment		**(157)**	-
Endowment cash received		**2,127**	152
Repayments of long-term loans	20	**(5,425)**	(3,636)
Net cash outflow from financing activities		**(22,197)**	(22,300)
Increase in cash and cash equivalents in the year		**31,957**	29,779
Cash and cash equivalents at beginning of the year		**103,659**	73,880
Cash and cash equivalents at end of the year		**135,616**	103,659

Notes to the financial statements

Year ended 31 July 2017

1 Tuition fees and education contracts

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Full-time home and EU students	**210,975**	182,538	**210,975**	182,538
Full-time international students	**194,388**	179,401	**194,388**	179,401
Part-time students	**26,992**	28,715	**10,902**	10,869
Short course fees	**15,832**	14,983	**15,832**	14,983
Other teaching contract courses	**768**	18,012	**-**	16,576
Research training support grants	**217**	341	**217**	341
	449,172	423,990	**432,314**	404,708

2 Funding body grants

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Recurrent grant				
Higher Education Funding Council - recurrent	**103,034**	104,219	**103,034**	104,219
Higher Education Funding Council - capital	**25,160**	18,941	**25,160**	18,941
Other recurrent grants	**2,254**	1,972	**2,254**	1,972
Specific grants				
Special initiatives	**3,442**	4,455	**3,442**	4,455
	133,890	129,587	**133,890**	129,587

3 Research grants and contracts

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Research councils	**108,763**	115,420	**108,763**	115,420
UK based charities	**53,137**	54,178	**53,137**	54,178
UK central government, hospitals and health authorities	**32,709**	39,814	**32,709**	39,814
UK industry and commerce	**24,831**	25,775	**24,831**	25,775
Overseas	**41,420**	37,282	**41,420**	37,282
Other sources	**1,257**	1,010	**1,257**	1,010
	262,117	273,479	**262,117**	273,479

The above includes £24.2m (2016: £38.8m) relating to income recognised in respect of capital additions.

Included within the above is £141.5m (2016: 155.2m) of income from UK government sources. There are no significant unfulfilled conditions or contingencies relating to government income recognised. The University has not benefitted from any other government assistance.

4 Other income

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Residences, catering and conferences	**54,217**	52,997	**52,380**	50,711
Other grants	**36,060**	31,550	**36,059**	31,550
Income from supply of goods and services	**17,235**	19,186	**19,352**	21,709
Income from reimbursed salary costs	**13,109**	13,269	**13,109**	13,269
Premises income	**6,064**	5,734	**3,277**	2,983
Consultancy	**3,586**	4,351	**3,586**	4,351
Other capital income	**1,905**	6,138	**1,905**	6,138
Other	**11,385**	9,171	**18,077**	14,162
	143,561	142,396	**147,745**	144,873

Included within the above is £44.5m (2016: 48.5m) of income from UK government sources. There are no significant unfulfilled conditions or contingencies relating to government income recognised. The University has not benefitted from any other government assistance.

Notes to the financial statements (continued)

Year ended 31 July 2017

5 Investment income

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Interest from short-term investments	**4,510**	4,368	**4,438**	4,834
Dividend income	**421**	583	**421**	583
Endowment income	**2,600**	2,384	**2,600**	2,384
Investment income	**12**	396	**360**	396
	7,543	7,731	**7,819**	8,197

6 Donations and endowments

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
New endowments	**2,127**	152	**2,127**	152
Donations	**10,586**	9,900	**10,586**	9,900
	12,713	10,052	**12,713**	10,052

7 Staff costs

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Staff Costs:				
Wages and salaries	**387,832**	381,433	**377,685**	371,131
Social security costs	**40,435**	34,260	**39,615**	33,569
Pension costs	**86,604**	87,017	**85,201**	85,601
Early retirement and voluntary severance (ERVS) scheme costs	**1,877**	6,002	**1,877**	5,883
	516,748	508,712	**504,378**	496,184

The 2016 Consolidated and University pension costs have been restated as explained in note 33.

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 and from the analysis of remuneration of higher paid staff. These amount to £3.8m for the year ended 31 July 2017 (2016: £4.0m).

Termination benefits amounting to £2.2m were paid to members of staff who left the University or its subsidiaries for the year ended 31 July 2017 (2016: £5.9m)

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

	Consolidated		University	
	2017	2016	**2017**	2016
Average staff numbers :	**No.**	No.	**No.**	No.
Academic	**2,717**	2,644	**2,717**	2,644
Research	**1,957**	1,960	**1,957**	1,960
Administrative and management	**1,510**	1,652	**1,366**	1,297
Clerical and secretarial	**2,032**	1,717	**1,800**	1,684
Technical	**2,155**	2,198	**2,155**	2,198
Total number of staff	**10,371**	10,171	**9,995**	9,783

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, was within the ranges set out below. Of these staff, 88 staff held clinical roles in 2016/17 (2015/16: 84 staff). Payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment are excluded from remuneration.

	Consolidated		University	
	2017 Number of Employees	2016 Number of Employees	**2017 Number of Employees**	2016 Number of Employees
£100,001 - £110,000	**53**	49	**53**	49
£110,001 - £120,000	**50**	42	**48**	42
£120,001 - £130,000	**41**	43	**40**	42
£130,001 - £140,000	**31**	23	**30**	23
£140,001 - £150,000	**10**	13	**10**	12
£150,001 - £160,000	**5**	6	**5**	6
£160,001 - £170,000	**9**	6	**9**	6
£170,001 - £180,000	**3**	3	**3**	3
£180,001 - £190,000	**5**	7	**5**	6
£190,001 - £200,000	**4**	2	**3**	1
£200,001 - £210,000	**4**	2	**3**	2
£220,001 - £230,000	**1**	1	**1**	1
£250,001 - £260,000	**1**	-	**1**	-
£260,001 - £270,000	**1**	-	**1**	-
£300,001 - £310,000	**-**	1	**-**	1
£350,001 - £360,000	**1**	-	**1**	-
£380,001 - £390,000	**-**	1	**-**	1
£410,001 - £420,000	**1**	-	**1**	-
	220	199	**214**	195

	Consolidated and University	
	2017	2016
Emoluments of the President and Vice-Chancellor:	**£'000**	£'000
Salary	**260**	259
Benefits	**4**	4
Pension contributions taken as cash	**36**	12
Pension contributions to USS	**6**	29
	306	304

The President and Vice-Chancellor's salary was 7.4 times greater than the median salary for all staff which was £34,956 per annum for 2016/17 (calculated using salary data as at 1 May 2017, excluding subsidiaries).

The Chair of the Board of Governors and Pro-Chancellor for 2016/17 has waived his right to fees in respect of the year.

No termination payments were paid to individuals whose annual remuneration exceeded £100,000.

	2017	2016
	£'000	£'000
Amount of expenses claimed by members of the Board of Governors during the year	**18**	20
Number of members of the Board of Governors claiming expenses	**15**	14

Key management personnel

Key management personnel are the members of the senior leadership team as defined in the Renumeration Committee report on page 26.

Compensation paid to key management personnel (including the President and Vice-Chancellor) within the year was as follows:

Consolidated and University	
2017	2016
£'000	£'000
2,214	2,326

Notes to the financial statements (continued)
Year ended 31 July 2017

8 Analysis of other operating expenses

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Academic and related expenditure	**89,226**	78,251	**89,226**	78,251
Central administration and services	**91,125**	99,458	**93,355**	98,866
Premises	**62,370**	61,823	**61,933**	59,604
Residences, catering and conferences	**20,721**	20,201	**26,361**	25,731
Research grants and contracts	**76,576**	72,802	**76,576**	72,802
Other expenses	**13,981**	15,087	**5,400**	11,373
	353,999	347,622	**352,851**	346,627

	Consolidated	
	2017	2016
	£'000	£'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	**188**	209
Non audit fees payable to the University's auditor	**45**	23
Total fees	**233**	232

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.

Lease payments recognised as an expense in the year amounted to £13.9m for the group (2016: £12.8m)

9 Interest and other finance costs

	Consolidated		University	
	2017	2016 Restated	**2017**	2016 Restated
	£'000	£'000	**£'000**	£'000
Bank loans	**858**	5,953	**858**	5,953
Other loans	**17,884**	12,863	**17,790**	12,750
Finance leases	**157**	-	**157**	-
Interest on net defined pension liability	**5,630**	5,746	**5,630**	5,746
Interest on USS pension deficit funding	**1,777**	4,138	**1,777**	4,138
	26,306	28,700	**26,212**	28,587

The 2016 Consolidated and University unwinding of the USS pension deficit funding has been restated as explained in note 33.

10 Taxation

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Recognised in the statement of comprehensive income				
Current tax				
Current tax	**17**	1,986	**-**	1,986
Current tax expense	**17**	1,986	**-**	1,986
Deferred tax				
Origination and reversal of timing differences	**96**	20	**-**	-
Deferred tax expense	**96**	20	**-**	-
Total tax expense	**113**	2,006	**-**	1,986
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	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Surplus before taxation	**63,470**	59,649	**64,069**	58,156
Surplus multiplied by the standard rate of corporation tax in the UK of 19.67% (2016: 20%)	**12,485**	11,930	**12,602**	11,631
Effect of:				
Surplus falling within charitable exemption	**(12,602)**	(9,709)	**(12,602)**	(9,709)
Effect of change in corporation tax rate	**-**	64	**-**	64
Other differences attributable to subsidiaries	**134**	(299)	**-**	-
Deferred tax movement	**96**	20	**-**	-
Total tax expense	**113**	2,006	**-**	1,986

The University is an exempt charity within the meaning of Part 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 UK Corporation Tax in respect of income or capital gains received within categories covered by 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.

11 Intangible assets and goodwill

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Cost				
At 1 August 2016	**4,478**	4,056	**4,435**	3,517
Reclassification	**-**	517	**-**	534
Assets transferred to other operating expenditure	**(71)**	-	**(71)**	-
Additions at cost	**2,164**	1,256	**2,164**	1,256
Disposals	**(379)**	(1,351)	**(379)**	(872)
At 31 July 2017	**6,192**	4,478	**6,149**	4,435
Depreciation and amortisation				
At 1 August 2016	**1,966**	1,728	**1,926**	1,683
Reclassification	**-**	54	**-**	64
Amortisation	**2,015**	1,056	**2,012**	1,051
Disposals	**(379)**	(872)	**(379)**	(872)
At 31 July 2017	**3,602**	1,966	**3,559**	1,926
Net book value				
At 31 July 2017	**2,590**	2,512	**2,590**	2,509

The amortisation period is 5 years

Notes to the financial statements (continued)

Year ended 31 July 2017

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 2016	1,347,286	-	94,543	283,701	**1,725,530**
Transferred to other operating expenditure	-	-	(1,993)	-	**(1,993)**
Transfer to heritage assets	-	-	(272)	-	**(272)**
Additions at cost	8,360	-	131,937	11,224	**151,521**
Transfers between categories	12,358	-	(19,775)	7,417	**-**
Disposals	(13,634)	-	-	(11,024)	**(24,658)**
At 31 July 2017	1,354,370	-	204,440	291,318	**1,850,128**
Depreciation					
At 1 August 2016	60,555	-	-	222,699	**283,254**
Charge for the year	55,704	-	-	25,702	**81,406**
Disposals	(9,656)	-	-	(10,946)	**(20,602)**
At 31 July 2017	106,603	-	-	237,455	**344,058**
Net book value					
At 31 July 2017	**1,247,767**	**-**	**204,440**	**53,863**	**1,506,070**
At 1 August 2016	1,286,731	-	94,543	61,002	**1,442,276**

(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 2016	1,300,694	5,400	94,543	279,038	**1,679,675**
Transferred to other operating expenditure	-	-	(1,993)	-	**(1,993)**
Transfer to heritage assets	-	-	(272)	-	**(272)**
Additions at cost	10,945	-	131,937	9,632	**152,514**
Transfers between categories	12,358	-	(19,775)	7,417	**-**
Disposals	(11,049)	-	-	(10,721)	**(21,770)**
At 31 July 2017	1,312,948	5,400	204,440	285,366	**1,808,154**
Depreciation					
At 1 August 2016	59,221	1,332	-	219,428	**279,981**
Charge for the year	55,036	74	-	25,209	**80,319**
Disposals	(9,656)	-	-	(10,643)	**(20,299)**
At 31 July 2017	104,601	1,406	-	233,994	**340,001**
Net book value					
At 31 July 2017	**1,208,347**	**3,994**	**204,440**	**51,372**	**1,468,153**
At 1 August 2016	1,241,473	4,068	94,543	59,610	**1,399,694**

12 Tangible fixed assets (continued)

The University and its subsidiaries 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.

At 31 July 2017, freehold land and buildings included £217.7m (2016: £217.0m) in respect of freehold land which is not depreciated.

As a result of the fire at the Paterson Building, there has been a write off of land and buildings with a net book value of £1.4m and equipment with a net book value of £0.1m in the year.

13 Heritage assets

The University 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. Heritage assets held at cost or valuation are not depreciated due to their indefinite life and high residual value.

Movement on heritage assets during 2016/17 was as follows:

	Consolidated and University £'000
Cost	
At 1st August 2016	255,483
Transfer from assets under construction	272
Additions	284
Disposals	-
At 31 July 2017	256,039

The transfer from assets under construction relates to works of art that had not yet been commissioned at 31 July 2016.

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

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 for example.

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 2017

13 Heritage assets (continued)

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, inappropriate 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/discover/open-public/.

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.

14 Non current investments

Analysis of closing balance	Consolidated 2017 £'000	Consolidated 2016 £'000	University 2017 £'000	University 2016 £'000
Interest in subsidiary undertakings (14a)	**-**	-	**241**	3,947
Investment properties (14b)	**8,308**	8,826	**8,308**	8,826
Investments carried at fair value through the Statement of comprehensive income (14c)	**254,714**	222,208	**250,630**	216,665
Investments carried at amortised cost (14d)	**85,000**	85,000	**85,000**	85,000
Investments held at cost less impairment (14e)	**3,123**	3,123	**3,123**	3,123
	351,145	319,157	**347,302**	317,561

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 2016	-	8,826	222,208	85,000	3,123	**319,157**
Additions	-	-	2,035	-	186	**2,221**
Disposals	-	-	(1,831)	-	(526)	**(2,357)**
Revaluation of investment properties	-	(518)	-	-	-	**(518)**
Net appreciation of investment portfolio and other listed investments	-	-	32,302	-	-	**32,302**
Release of impairment provision in the year	-	-	-	-	340	**340**
At 31 July 2017	**-**	**8,308**	**254,714**	**85,000**	**3,123**	**351,145**

University	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2016	3,947	8,826	216,665	85,000	3,123	**317,561**
Additions	-	-	2,035	-	186	**2,221**
Disposals	(3,706)	-	(1,831)	-	(526)	**(6,063)**
Revaluation of investment properties	-	(518)	-	-	-	**(518)**
Net appreciation of investment portfolio	-	-	33,761	-	-	**33,761**
Release of impairment provision in the year	-	-	-	-	340	**340**
At 31 July 2017	**241**	**8,308**	**250,630**	**85,000**	**3,123**	**347,302**

Notes to the financial statements (continued)
Year ended 31 July 2017

14 Investments within fixed assets (continued)

(a) Interests in subsidiary undertakings

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

	Group Holding %	University 2017 £	2016 £	Description
Graphene Enabled Systems Limited	100	-	-	Assisting the commercialisation of graphene through spin out companies
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	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	2	Dissolved 28 February 2017
The University of Manchester Car Parks Limited	100	2	2	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 - Trust in process of being dissolved
Loan to Sugden Sports Trust		-	3,706,000	
Vumpine Limited	50	50	50	Dormant
UMSS Limited	100	2	2	To undertake the duty of trustee of UMSS
University of Manchester Worldwide Limited (formerly MBS Worldwide Limited)	100	124,288	124,288	Provision of distance learning
Manchester Business School (Shanghai) Limited	100	-	-	Consultancy and management services
Manchester Business School America Inc	100	-	-	Provision of distance learning
Manchester Business School PTE Ltd	100	-	-	Provision of distance learning
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
		240,607	3,946,609	

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 The University of Manchester Worldwide Limited.

All subsidiary undertakings prepare statutory accounts to the same year end date as the University.

The Sugden Sports Centre is in the process of being dissolved and the loan has been repaid. The sports centre land and buildings have been transferred to the University and Manchester Metropolitan University in equal shares and held as a jointly controlled asset by the two institutions.

14 Investments within fixed assets (continued)

(b) Investment properties

The investment properties currently totalling £8.3m (2016: £8.8m) 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. This valuation has been updated as at 31 July 2017 by senior management at the University and the value was revised from £10.2m down to £8.3m as a consequence.

	Consolidated		University	
(c) Investments carried at fair value	**2017**	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Listed investments	**250,630**	216,665	**250,630**	216,665
Other investments	**4,084**	5,543	**-**	-
	254,714	222,208	**250,630**	216,665
(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 carried at cost less impairment				
Other investments	**3,123**	3,123	**3,123**	3,123
	3,123	3,123	**3,123**	3,123

15 Investments in associates

Movement in year	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
At 1 August 2016	**5,198**	4,391	**-**	-
Additions at cost	**1,109**	-	**1,109**	-
Share of operating surplus	**1,616**	807	**-**	-
At 31 July 2017	**7,923**	5,198	**1,109**	-

The Group had the following associated undertakings as at 31 July 2017

Name of associate	**Class of share capital held**	**Proportion held by the University and Group**	**Share of net assets 2017 £'000**	Share of net assets 2016 £'000
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	12.2%	**6,814**	5,241
The Corridor, Manchester Financial year end 31 March	CLG	33%	**-**	(43)
NorthWest EHealth Ltd	£1 ordinary	40%	**1,109**	-
			7,923	5,198

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 2017

16 Trade and other receivables	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Trade receivables	**39,183**	38,867	**37,948**	37,321
Other receivables	**3,619**	3,185	**2,869**	2,706
Accrued income on research grants and contracts	**28,784**	36,978	**28,784**	36,978
Prepayments and other accrued income	**33,504**	29,584	**32,632**	28,338
Amounts due from subsidiary companies	**-**	-	**25,390**	22,886
Balance at 31 July	**105,090**	108,614	**127,623**	128,229

Included in the above is £15.2m (2016: £13.9m) relating to University only debtors due in over one year. There are no debtors due in over one year on a consolidated basis in both the current and prior year.

17 Current investments	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Deposits maturing:				
Between three months and one year	**250,000**	324,906	**250,000**	324,906

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 2017 the weighted average interest rate of these fixed rate deposits was 0.87% per annum (2016: 0.93%) and the remaining weighted average period for which the interest rate is fixed on these deposits was 170 days (2016: 140 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	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Bank and other loans (note 20)	**3,902**	3,811	**3,902**	3,811
Trade payables	**31,941**	30,271	**29,882**	28,399
Social security and other taxation payable	**12,721**	11,987	**12,381**	11,231
Amounts owed to group undertakings	**-**	-	**318**	1,605
Other payables	**26,585**	28,473	**25,199**	27,262
Deferred income on research	**107,557**	109,578	**107,557**	109,578
Accruals and other deferred income	**126,497**	123,869	**116,568**	111,499
Balance at 31 July	**309,203**	307,989	**295,807**	293,385

19 Payables: amounts falling due after more than one year

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Bank loans	**10,279**	14,181	**10,279**	14,181
Other loans	**393,288**	394,902	**393,288**	393,196
Other payables	**1,892**	1,986	**1,890**	1,986
	405,459	411,069	**405,457**	409,363

20 Borrowings

	Consolidated		University	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Unsecured borrowings at amortised cost:				
Bond	**293,786**	293,704	**293,786**	293,704
Bank loans	**14,181**	17,992	**14,181**	17,992
Other loans	**99,502**	101,198	**99,502**	99,492
	407,469	412,894	**407,469**	411,188

Analysis of unsecured loans:				
Due within one year or on demand	**3,902**	3,811	**3,902**	3,811
Due between one and two years	**3,998**	3,902	**3,998**	3,902
Due between two and five years	**6,281**	10,883	**6,281**	9,177
Due in five years or more	**393,288**	394,298	**393,288**	394,298
	407,469	412,894	**407,469**	411,188

Bond

In July 2013 an unsecured fixed rate public bond was issued for the sum of £300m 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 2017 and 2019 totalling £5.2m (2016: £7.3m).
Bank loans with an interest rate of 5.21%, repayable by instalments falling due between 2017 and 2022 totalling £9.0m (2016: £10.7m).
Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £99.5m (2016: £99.5m).
Other loans with an interest rate of 6.5%, repayable by one repayment falling due in 2018 totalling £nil (2016: 1.7m).

	Amount	Term	Interest rate	Borrower
	£'000		%	
Bank Loans				
European Investment Bank	5,208	2019	5.15 (Fixed)	University
European Investment Bank	8,973	2022	5.21 (Fixed)	University
	14,181			

Notes to the financial statements (continued)

Year ended 31 July 2017

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**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1st August 2016 as previously reported	150,385	219,553	369,938	469	587	**370,994**
Prior year adjustment - see note 33	(46,399)	-	(46,399)	-	-	**(46,399)**
Balance at 1st August 2016 restated	103,986	219,553	323,539	469	587	**324,595**
Utilised during the year	(5,936)	(27,318)	(33,254)	-	-	**(33,254)**
Charged/(credited) to the Statement of comprehensive income	(4,479)	(90)	(4,569)	-	97	**(4,472)**
Balance at 31 July	**93,571**	**192,145**	**285,716**	**469**	**684**	**286,869**

(b) University	**Obligation to fund deficit on USS pension**	**Defined benefit obligations (note 25)**	**Total pensions provisions**	**Other provisions**	**Deferred tax**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 August 2016 as previously reported	150,329	219,553	369,882	469	-	**370,351**
Prior year adjustment - see note 33	(46,399)	-	(46,399)	-	-	**(46,399)**
Balance at 1 August 2016 restated	103,930	219,553	323,483	469	-	**323,952**
Utilised during the year	(5,936)	(27,318)	(33,254)	-	-	**(33,254)**
Charged/(credited) to the Statement of Comprehensive Income	(4,462)	(90)	(4,552)	-	-	**(4,552)**
Balance at 31 July	**93,532**	**192,145**	**285,677**	**469**	**-**	**286,146**

The brought forward obligation to fund the deficit on the Universities Superannuation Scheme (USS) pension scheme has been restated as explained in note 33.

The obligation to fund the past deficit on the 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 in assessing the value of this provision.

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the obligation to fund the USS deficit. The sensitivity of the principal assumptions used to measure the USS defcit provision are set out below:

Change in assumptions at 31 July 2017	**Approximate impact**
0.1% pa decrease in discount rate	£711k increase in liability
0.1% pa increase in salary inflation	£700k increase in liability
0.1% increase in staff changes	£718k increase in liability

Deferred tax (consolidated)

	2017	2016
The elements of deferred tax are as follows:	**£'000**	£'000
Difference between accumulated depreciation and capital allowances	**487**	487
Other timing differences	**100**	100
Balance at 31 July	**587**	587

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	2017 Total £'000
Balances as at 1 August 2016				
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**
New endowments	73	53	2,001	**2,127**
Reclassification of endowments:				
Capital	(21,755)	(7,737)	29,492	**-**
Accumulated income	(4,207)	-	4,207	**-**
Investment income	1,751	159	690	**2,600**
Expenditure from capital and income	(1,716)	(159)	(6,861)	**(8,736)**
	(25,854)	(7,684)	29,529	**(4,009)**
Increase in market value of investments	23,446	3,071	2,864	**29,381**
Balances at 31 July 2017	152,592	14,094	55,511	**222,197**
Represented by:				
Capital	144,688	14,094	48,994	**207,776**
Accumulated income	7,904	-	6,517	**14,421**
	152,592	**14,094**	**55,511**	**222,197**
The following assets are currently held relating to endowments:				
Non current asset investments held at fair value				
Investments	117,291	11,426	39,717	**168,434**
Property	16,521	1,609	5,594	**23,724**
Cash	18,717	1,053	10,179	**29,949**
	152,529	14,088	55,490	**222,107**
Endowment income received not yet invested (see note below)	63	6	21	**90**
	152,592	**14,094**	**55,511**	**222,197**

Due to the level of new endowment monies received, during the latter months of 2016/17, it was decided that the monies would be invested in 2017/18.

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 2017 £'000	Opening accumulated income £'000	Income from merged funds £'000	Dividend income £'000	Expenditure from income £'000	Closing accumulated income £'000	Date received
Significant funds and charities with income above £100,000							
Hallsworth Fund	**29,407**	219	-	365	(246)	**338**	1944
Simon Fund	**16,264**	233	-	202	(246)	**189**	1943
Oncology department fund	**14,407**	72	-	179	(134)	**117**	1975
University of Manchester Student Support Fund	**11,848**	-	2,322	147	-	**2,469**	Various
Funds and charities with income below £100,000							
Fellowships and scholarships (24 funds)	**23,286**	1,366	-	280	(225)	**1,421**	
Prize funds (7 funds)	**2,565**	151	-	32	(32)	**151**	
Chairs and lectureships (10 funds)	**27,803**	823	-	352	(756)	**419**	
Other (48 funds)	**82,102**	4,019	4,387	1,044	(131)	**9,319**	
	207,682	**6,883**	**6,709**	**2,601**	**(1,770)**	**14,423**	

Notes to the financial statements (continued)

Year ended 31 July 2017

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.

The University has recently restructured its endowment funds with the aim to maximise the effective use of charitable resources. This has led to the formation of new charitable Trusts

As part of the restructure the aim was to ensure that for every endowment that is merged, the spirit and intent of the original gift was maintained.

The Whitworth Art Gallery expendable endowment fund (capital and accumulated income) has been transferred in full to fund the Whitworth capital project.

Hallsworth Fund

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

Simon Fund

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

Oncology Department Fund

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

University of Manchester Student Support Fund

This restricted expendable fund is one of the new merged funds resulting from the recent endowment funds restructure. The fund consolidated 318 separate endowment funds, each of which had the aim to support the University of Manchester students.

23 Restricted reserves (consolidated and university)

Reserves with restrictions are as follows:	Capital grants unspent £'000	Other restricted funds/ donations £'000	2017 Total £'000
Balance as at 1st August 2016	11,613	972	**12,585**
New grants	20,880	-	**20,880**
New donations	-	91	**91**
Reclassification to general reserves	-	(866)	**(866)**
Capital grants utilised	(1,725)	-	**(1,725)**
Expenditure	-	(20)	**(20)**
Balance as at 31 July 2017	**30,768**	**177**	**30,945**

24 Financial instruments

Categories of financial instruments	Consolidated 2017 £'000	Consolidated 2016 £'000	University 2017 £'000	University 2016 £'000
Financial assets				
Financial assets at fair value through Statement of consolidated income				
Listed investments	**250,630**	216,665	**250,630**	216,665
Other investments	**4,084**	5,543	**-**	-
Financial assets that are equity instruments measured at cost less impairment				
Other investments	**3,123**	3,123	**3,123**	3,123
Financial assets that are debt instruments measured at amortised cost				
Loan notes	**85,000**	85,000	**85,000**	85,000
Trade and other receivables	**42,802**	42,052	**66,207**	62,913
	385,639	352,383	**404,960**	367,701
Financial liabilities measured at amortised cost				
Loans	**407,469**	412,894	**407,469**	411,188
Trade and other payables	**60,418**	60,730	**57,289**	59,252
	467,887	473,624	**464,758**	470,440

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 FRS102 (28), the net pension costs within the year, and movement within the pension schemes in the year are as follows:

	Consolidated 2017 £'000	Consolidated 2016 £'000	University 2017 £'000	University 2016 £'000
Statement of comprehensive income - net pension cost in year				
USS (including change in provision for USS deficit recovery plan)	**59,067**	61,998	**58,993**	61,969
UMSS	**24,123**	19,569	**24,123**	19,569
GMPF	**1,517**	1,405	**1,517**	1,405
NHSPS	**2,424**	2,312	**2,424**	2,312
Other	**69**	10	**10**	10
	87,200	85,294	**87,067**	85,265

	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Other comprehensive income - actuarial loss in respect of pension schemes				
University of Manchester Superannuation Scheme	**23,566**	(53,508)	**23,566**	(53,508)
Greater Manchester Pension Fund	**7,794**	(5,219)	**7,794**	(5,219)
	31,360	(58,727)	**31,360**	(58,727)

	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Balance sheet - pension scheme deficits (note 21)				
University of Manchester Superannuation Scheme	**(175,957)**	(195,747)	**(175,957)**	(195,747)
Greater Manchester Pension Fund	**(16,188)**	(23,806)	**(16,188)**	(23,806)
	(192,145)	(219,553)	**(192,145)**	(219,553)

The USS net pension cost has been restated as explained in note 33

Notes to the financial statements (continued)

Year ended 31 July 2017

25 Pension schemes (continued)

(a) The Universities Superannuation Scheme (USS)

The USS is the main scheme covering most academic and academic-related staff, which provides benefits based on career average pensionable salary, up to a cap, above which benefits are based on defined contributions. 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, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period. As shown in note 25 the total cost charged to the consolidated Statement of comprehensive income in relation to these contributions is £59,067,000 (2016: £61,998,000) including PensionChoice (see note 7) and including the change in provision for the USS deficit recovery plan.

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.

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 deficit reduction payments is shown in note 21. This provision has been restated as explained in note 33.

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 £41.6bn and the value of the scheme's technical provisions was £46.9bn indicating a shortfall of £5.3bn. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

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

	2017	2016
Discount rate	**2.6%**	3.6%
Pensionable salary growth	**n/a**	n/a
Pension increase (CPI)	**2.4%**	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:

	2017	2016
Males currently aged 65 (years)	**24.4**	24.3
Females currently aged 65 (years)	**26.6**	26.5
Males currently aged 45 (years)	**26.5**	26.4
Females currently aged 45 (years)	**29**	28.8

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

	2017	2016
Scheme assets	**£60.0bn**	£49.8bn
Total scheme liabilities	**£77.5bn**	£58.3bn
FRS 102 total scheme deficit	**£17.5bn**	£8.5bn
FRS 102 total funding level	**77%**	85%

25 Pension schemes (continued)

(b) NHS Pension Scheme (NHSPS)

The University of Manchester also participates in the NHSPS which is contracted out of the State Second Pension (S2P). The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the Government.

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 2017 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 £2.4m (2016: £2.3m).

Notes to the financial statements (continued)

Year ended 31 July 2017

25 Pension schemes (continued)

(c) University of Manchester Superannuation Scheme (UMSS)

UMSS is a defined benefit scheme in the UK which is contracted out of the State Second Pension (S2P). A new Career Average Revalued Earnings (CARE) section of UMSS was introduced to new joiners from 1 April 2012. Existing members at 1 April 2012 were able to continue in the Final Salary section of the scheme, but also had a one-off opportunity to switch to the new CARE section of UMSS, on 1 April 2012, for future pension build up.

A full actuarial valuation was carried out at 31 July 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 2017 is £26.0m.

The full actuarial valuation was updated to 31 July 2017 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:

	2017	2016
Discount rate	**2.60%**	2.60%
Inflation (RPI)	**3.20%**	2.90%
Inflation (CPI)	**2.20%**	1.90%
Salary growth	**3.10% for the first year, then 3.40% for the next two years and then 3.65% thereafter**	2.40% for the first 4 years then 3.40% thereafter
Allowance for revaluation of deferred pensions of RPI or 5% if less	**3.20%**	2.90%
Allowance for revaluation of deferred pensions of CPI or 5% if less	**2.20%**	1.90%
Allowance for pension in payment increases of RPI or 5% if less	**3.10%**	2.80%
Allowance for pension in payment increases of RPI or 5% if less	**2.10%**	1.80%
Allowance for commutation of pension for cash at retirement	**No allowance**	No allowance

The mortality assumptions adopted imply the following life expectancies:

	2017	2016
	Life expectancy at age 62 Years	Life expectancy at age 62 Years
Male retiring in 2017	**24.6**	24.9
Female retiring in 2017	**26.5**	27.1
Male retiring in 2037	**25.8**	26.8
Female retiring in 2037	**27.8**	29.0

The assets and liabilities within the scheme at 31 July were as follows:	**2017**	2016	2015
	£'000	£'000	£'000
Equities	**215,350**	188,409	169,616
Bonds	**220,460**	192,257	170,402
Property	**119,220**	117,973	99,045
Fair value of scheme assets	**555,030**	498,639	439,063
Present value of defined benefit obligation	**(730,987)**	(694,386)	(580,184)
Deficit in the scheme	**(175,957)**	(195,747)	(141,121)

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 group statement of comprehensive income and expenditure are analysed as follows:

	2017 £'000	2016 £'000
Recognised in Statement of comprehensive income:		
Current service cost	**22,915**	18,499
Expenses	**1,208**	1,070
Total operating charge	**24,123**	19,569
Net interest cost	**5,068**	5,147
Total recognised in surplus for the year	**29,191**	24,716
Taken to other comprehensive income:		
Return on scheme assets (excluding amounts included in net interest cost)	**34,319**	33,882
Experience gains and losses	**22,342**	-
Remeasurements - changes in demographic and financial assumptions	**(33,095)**	(87,390)
Total amount recognised in other comprehensive income	**23,566**	(53,508)

Reconciliation of opening and closing balances of the defined benefit obligation	2017 £'000	2016 £'000
At start of year	**694,386**	580,184
Current service cost	**22,915**	18,499
Expenses	**1,208**	1,070
Interest expense	**18,149**	21,563
Contributions by scheme participants	**821**	805
Actuarial losses	**10,753**	87,390
Benefits paid	**(17,245)**	(15,125)
At end of year	**730,987**	694,386

Reconciliation of opening and closing balances of the fair value of scheme assets	2017 £'000	2016 £'000
At start of year	**498,639**	439,063
Interest income	**13,081**	16,416
Actuarial gains	**34,319**	33,882
Contributions by the University and subsidiaries	**25,415**	23,598
Contributions by scheme participants	**821**	805
Benefits paid	**(17,245)**	(15,125)
At end of year	**555,030**	498,639

The actual return on the scheme assets over the year ended 31 July 2017 was £47.4m.

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the UMSS pension liability. The sensitivity of the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2017	**Approximate impact**
0.1% pa decrease in discount rate	2% or £14.6m increase in liability
0.1% pa increase in inflation linked assumptions	2% or £14.6m increase (of inflation linked liabilities)
One year increase in life expectancy	2% or £14.6m increase in liability

Notes to the financial statements (continued)

Year ended 31 July 2017

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 2016 and this most recent full valuation showed a deficit of £1,371m for all members and a funding level of 93%. The University currently pays contributions at a rate of 22.9% of pensionable pay and annual additional contributions towards the deficit of £708k for 2016/17, £729k 2017/18, £750k 2018/19 and £771k for 2019/20. The contribution rate of 22.9% remain unchanged for the year commencing 1 August 2017.

The best estimate of contributions to be paid by the University and its subsidiaries to the scheme for the year commencing 1 August 2017 is £1.9m.

The full actuarial valuation was updated to 31 July 2017 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:

	2017	2016
Discount rate	**2.60%**	2.60%
Inflation (RPI)	**3.20%**	2.90%
Inflation (CPI)	**2.20%**	1.90%
Salary growth	**3.60%**	3.00%
Pension increase rate	**2.20%**	1.90%

The mortality assumptions adopted imply the following life expectancies:

	2017	2016
	Life expectancy at age 65 Years	Life expectancy at age 65 Years
Male future pensioners	**23.7**	24.0
Female future pensioners	**26.2**	26.6
Male current pensioners	**21.5**	21.4
Female current pensioners	**24.1**	24.0

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

	2017	2016	2015
	£'000	£'000	£'000
Fair value of scheme assets	**117,287**	107,984	98,653
Present value of defined benefit obligation	**(133,475)**	(131,790)	(117,161)
Deficit in the scheme	**(16,188)**	(23,806)	(18,508)

The split of assets by type is as follows:

	2017	2016	2015
Equities	**72%**	73%	71%
Bonds	**16%**	17%	18%
Property	**6%**	5%	7%
Cash	**6%**	5%	4%

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:

	2017	2016
Recognised in statement of comprehensive income:	£'000	£'000
Current service cost	1,455	1,380
Past service cost	62	25
Total operating charge	1,517	1,405
Net interest cost	562	599
Total recognised in surplus for the year	2,079	2,004

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

Taken to other comprehensive income:		
Return on scheme assets (excluding amounts included in net interest cost)	8,968	8,074
Remeasurements - changes in demographic and financial assumptions	(9,031)	(14,866)
Other experience	7,857	1,573
Total amount recognised in other comprehensive income	7,794	(5,219)

	2017	2016
Reconciliation of opening and closing balances of the defined benefit obligation	£'000	£'000
At start of year	131,790	117,161
Current service cost	1,455	1,380
Past service cost	62	25
Interest expense	3,336	4,206
Contributions by scheme participants	299	317
Contributions by the employer to the unfunded scheme	(138)	(174)
Actuarial losses	1,174	13,293
Benefits paid	(4,503)	(4,418)
At end of year	133,475	131,790
Analysis of defined benefit obligation		
Present value of funded liabilities	131,542	129,757
Present value of unfunded liabilities	1,933	2,033
	133,475	131,790
Reconciliation of opening and closing balances of the fair value of scheme assets		
At start of year	107,984	98,653
Interest income	2,774	3,607
Actuarial gains	8,968	8,074
Contributions by the University	1,765	1,751
Contributions by scheme participants	299	317
Benefits paid	(4,503)	(4,418)
At end of year	117,287	107,984

The actual return on the scheme assets over the year ended 31 July 2017 was 12.5%

Sensitivity analysis

As set out in the accounting policies, there are some critical judgements made in estimating the GMPF pension liability. The sensitivity of the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2017	**Approximate impact**
0.5% pa decrease in discount rate	11% or £14.m increase in liability
0.5% pa increase in salary increase rate	2% or £2.4m increase in liability
0.5% pa increase in pension increase rate	9% or £11.5m increase in liability

The principal demographic assumption is the longevity assumption (ie member life expectancy). For sensitivity purposes it is estimated that a one year increase in life expectancy would increase the University's liability by around 3% - 5%.

Notes to the financial statements (continued)

Year ended 31 July 2017

26 Reconciliation of cash flow to the balance sheet

	At 1 August 2016 £'000	Cash Flows £'000	Non-Cash Changes £'000	At 31 July 2017 £'000
Cash and cash equivalents	103,659	31,957	-	135,616
	103,659	31,957	-	135,616

27 Capital and other commitments

Provision has not been made for the following capital commitments at 31 July 2017:

	Consolidated		University	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Authorised not contracted for	762,389	767,330	762,389	767,330
Contracted not provided	71,337	113,364	71,337	113,364
	833,726	880,694	833,726	880,694

28 Lease obligations

	Consolidated			
			2017	2016
	Land & buildings £'000	Other leases £'000	Total £'000	£'000
Payable during the year	12,842	1,070	13,912	12,786
Future minimum lease payments due:				
Not later than 1 year	12,979	892	13,871	1,483
Later than 1 year and not later than 5 years	15,601	2,978	18,579	9,759
Later than 5 years	9,559	465	10,024	1,364
Total lease payments due	38,139	4,335	42,474	12,606

29 Contingent liabilities

	Consolidated		University	
	2017 £'000	2016 £'000	2017 £'000	2016 £'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.

During the financial year, the University has initiated an insurance claim in respect of the fire which took place at the Paterson Building on 26 April 2017. The building is leased from the Christie NHS Foundation Trust. The full value of the claim has not yet been determined. Due to this uncertainty no provision and no gain or loss has been recognised during the financial year.

30 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 102 these are disclosed where members of the University of Manchester's Board of Governors disclose an interest in a body with whom the University undertakes transactions which are considered material to the University's financial statements and/or the other party. Due to the nature of the University's operations and the composition of the Board, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of Board may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

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

The University has taken advantage of the exemption within FRS 102 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
MRC (Medical Research Council)	16,031	31	2	-
Central Manchester University Hospitals NHS Foundation Trust	11,044	4,656	1,297	408
Bruntwood	250	13,397	-	369
Salford Royal NHS Foundation Trust	6,543	2,610	1,732	456
GlaxoSmithKline plc (GSK) / GlaxoSmithKline (R&D)	6,797	2	-	70
University of Liverpool	2,988	2,774	167	290
AstraZeneca UK	3,544	-	620	-
The Royal Society	2,841	53	15	4
BP plc	2,313	-	18	-
Imperial College London	910	1,333	411	217
UCL (University College London)	1,207	971	113	200
University of Newcastle upon Tyne (Newcastle University)	570	1,052	62	-
TeachFirst (or Teach First)	1,575	-	179	-
BT	-	1,079	-	11
King's College London	306	714	129	
Department for Business, Innovation and Skills	751	-	-	-
The Northern Consortium (NCUK)	45	456	1	-
UNIAC	1	418	-	-
Office for Nuclear Regulation (ONR)	417	-	76	-
Find a Better Way (UK Registered Charity No. 1140911)	380	-	88	-
Building Design Partnership (BDP)	-	247	-	1
University of Cumbria	242	1	38	-
Department of Energy and Climate Change (DECC)	-	227	-	-
Royal Society of Chemistry	104	78	2	2
Ernst & Young LLP (EY)	2	153	-	-
Transport for Greater Manchester (TfGM)	-	147	-	11
Department for Business, Energy and Industrial Strategy (BEIS)	122	-	-	-
University of Central Lancashire (UCLAN)	31	79	9	7
Association of Heads of University Administration	107	1	9	-
	59,121	**30,479**	**4,968**	**2,046**

Notes to the financial statements (continued)

Year ended 31 July 2017

30 Related party transactions (continued)

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 member of the Board of Governor chairs the MRC Major Awards Committee.

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 member of the Board of Governors is a non-executive director of the Trust.

Bruntwood

Bruntwood is a property company offering office space, serviced offices, retail space and virtual offices. One member of the Board of Governors has declared Bruntwood as a client.

Salford Royal NHS Foundation Trust

The Trust is based in Salford, a few miles from the University, where it provides NHS hospital services. It works closely with the University in the teaching of medical students. One member of the Board of Governors has declared the Trust as a client.

GlaxoSmithKline (GSK)

GSK is a major pharmaceutical company. One member of the Board of Governors acts as a consultant for the company.

University of Liverpool

The University of Liverpool is a research university. One member of the Board of Governors is a member of an Institute of that university.

AstraZeneca PLC

AstraZeneca is a global integrated biopharmaceutical company. One member of the Board of Governors is an employee of the company, and another member of the Board and a member of the Senior Leadership Team have declared they are former employees and members of the AstraZeneca pension fund.

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 member of the Board of Governors is a member of the Society's Council.

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 member of the Board of Governors is employed by the company, while a member of the Senior Leadership Team chaired the BP - International Centre for Advanced Materials (ICAM) governing board .

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 member of the Board of Governors is a member of the Grantham Institute for Climate Change, which forms part of the College.

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 member of the Board of Governors is a member of UCL Energy Institute, International Advisory Board.

University of Newcastle upon Tyne

The University of Newcastle upon Tyne is a university in the North East of England. One member of the Board of Governors chairs a unit there.

Teach First

Teach First is a social enterprise which aims to address educational disadvantage. One member of the Board of Governors is the organisation's Executive Director of Human Resources.

BT

BT is the UK's largest telecommunications company, providing broadband, landline, mobile phone and TV services. One member of the Board of Governors is a Non-Executive Director of the BT Equality of Access Board.

King's College, London

King's College London is a research university and a college of the University of London. One member of the Senior Leadership Team is an external subject advisor at the college.

Department for Business, Innovation and Skills

The Department for Business, Innovation and Skills (BIS) and the Department of Energy and Climate Change (DECC) have merged to form the Department for Business, Energy and Industrial Strategy (BEIS). One member of the Board of Governors has declared BIS as a client.

The Northern Consortium (NCUK)

NCUK was formed by eleven leading UK universities to deliver student transfer programmes in Malaysia. They offer "pathway programmes" to students who wish to study in the UK and globally. One member of the Senior Leadership Team is Chair of Trustees for the NCUK.

UNIAC

UNIAC is a shared internal audit service owned by a consortium of higher education institutions, including the University of Manchester. One member of the Senior Leadership Team 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 member of the Board of Governors is a member of the ONR Technical Advisory Panel.

Find a Better Way

Find a Better Way is a charity which develops innovative methods of clearing mines around the world. One member of the Board of Governors is co-Chair of the charity's Board of Trustees.

Building Design Partnership (BDP)

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

University of Cumbria

The University of Cumbria is a university based in Carlisle, with other campuses across Cumbria. One member of the Board of Governors is an honorary Professor there.

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 member of the Board of Governors was a member of the DECC Scientific Advisory Group.

Royal Society of Chemistry (RSC)

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

Ernst & Young LLP (EY)

EY are a major provider of accountancy services. A member of the Senior Leadership Team has declared that a family member works for the company.

Transport for Greater Manchester

Transport for Greater Manchester (TfGM) is the public body responsible for co-ordinating transport services throughout Greater Manchester. One member of the Board of Governors has declared TfGM as a client.

Department for Business, Energy and Industrial Strategy (BEIS)

The Department for Business, Energy and Industrial Strategy brings together responsibilities for business, industrial strategy, science, innovation, energy, and climate change. One member of the Board of Governors is a member of the BEIS Scientific Advisory Group.

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 member of the Board of Governors is a visiting professor and a member of the institution's Audit Committee.

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 member of the Senior Leadership Team is a member of the AHUA Executive.

Doubtful debts

At 31 July 2017 £93,302 is provided aginst doubtful debts with the above related parties, and in the year this resulted in £47,874 being charged to the Statement of comprehensive income.

Members of the Board of Governors' Expenses

£18,136.12 was paid in expenses to members of the Board of Governors of the University during the year (2016: £19,986). Where members of the Board are also employees of the University the amount includes expenses paid in relation to their employment.

Notes to the financial statements (continued)

Year ended 31 July 2017

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)

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

Student Training Bursaries	**2017**	2016
	£'000	£'000
Balance unspent at beginning of year	**107**	321
Funding Council grants	**3,771**	3,360
Disbursed to students	**(3,672)**	(3,574)
Balance unspent at year end	**206**	107

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 Prior Year Adjustment

It has been identified that the obligation to fund the USS deficit has been previously overstated due to the use of an incorrect contributions value in the calculation. This contributions value erroneously included employee salary sacrifice contributions. A prior year adjustment has therefore been made to restate this provision. The adjustment made has reduced the provision by £48.5m as at 1 August 2015 on both a University only and Consolidated basis. For the year ended 31 July 2016, staff costs have increased by £4.0m and interest and other finance costs have decreased by £1.9m in both the Consolidated and University Statements of comprehensive income. The University deficit has therefore increased from £0.5m to £2.6m and changing the Consolidated surplus of £1.0m to a deficit of £1.1m. The provision has been reduced by a total of £46.4m as at 31 July 2016 thereby increasing University only net assets from £1,435.0m as previously stated to £1,481.4m and Consolidated net assets from £1,473.4m to £1,519.8m.

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