Financial review

Operational and financial overview

The University of Manchester has exempt charity status derived from the Charities Act 1993 and is responsible to the Office for Students, 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 overview includes references to the impact of our investments in these areas. These statements form our public benefit statement.

Total comprehensive income has increased from £94.9m to £102.2m. The impact of actuarial gains from our UMSS and GMPF pension schemes is reflected in these figures, with a total of £59.2m gain this year, compared to £31.4m in the prior year. Excluding the effect of these accounting adjustments, the 2017/18 surplus of £43.1m, is £20.5m lower than in 2016/17 demonstrating that this has been a challenging year.

A key measure of our financial sustainability is our cash position, which is closely managed as part of our financial performance and planning process. The cash generated by operating activities has declined and the cash and other liquid funds balance has reduced by £70.3m in line with expectations, with the main driver being the planned investment in our estate. We expect this investment to continue for a further two years, as we complete a number of large projects including Manchester Engineering Campus Development and Alliance Manchester Business School.

Financial overview and key highlights

Key Highlights	**2017/18 £000**	**2016/17 £000**	**2017/18 change %**
Income excluding capital income	**975,606**	957,702	1.9%
Capital income *	**83,554**	51,294	62.9%
Total income	**1,059,160**	**1,008,996**	**5.0%**
Tuition fee income	**462,845**	**449,172**	**3.0%**
Research income excluding capital	**241,211**	237,888	1.4%
Research capital income	**57,503**	24,229	137.3%
Total research income	**298,714**	**262,117**	**14.0%**
Operating surplus (see next table)	**25,060**	**63,889**	**(60.8%)**
Operating surplus as % of income	**2.4%**	6.3%	
Reported total comprehensive income**	**102,225**	**94,906**	**7.7%**
Net assets	**1,716,768**	1,614,543	6.3%
Cash and short term investments	**315,284**	385,616	(18.2%)
Operating cashflow	**92,254**	93,856	(1.7%)
Tangible fixed assets	**1,656,531**	1,506,070	10.0%
Heritage assets	**257,239**	256,039	0.5%
Pension deficit	**(221,669)**	(285,716)	(22.4%)
Borrowings	**(403,663)**	(407,469)	(0.9%)

**Capital income relates to funding received for capital expenditure. Capital income can be either HEFCE/OFS, Research, or other funded.*
*** Total comprehensive income is the surplus for the year plus the actuarial gain in respect of pension schemes.*

Stephen Dauncey,
Director of Finance

Key Financial Risks

Home tuition fees are under review and there are barriers to international fee growth

There is significant risk to the sector in relation to undergraduate fees and numbers. The Augar review of post-18 education may impact on tuition fee income across the sector. We expect home undergraduate fees to remain at £9,250 in the short term, in line with our financial plans. The major risks to our plans to grow international student fee income are dependence on tuition fee price growth; reliance on postgraduate taught students and the political climate surrounding the immigration status of students.

Pensions uncertainty may result in additional cost and industrial action

There is uncertainty about pension obligations, in particular for the USS pension scheme, where there is likely to be an increase in contributions and a revised deficit valuation. These changes would result in a one off non-cash impact on the surplus. It is likely that this will be reported in 2018/19 but it will not be recognised until a value can be calculated based on an agreed contract. The proposed changes in pension contributions and benefits have resulted in industrial action during 2017/18. The risk of future industrial action remains.

Given the impact and volatility on pensions on the University's risks and financial performance a detailed explanation is provided below.

Staff costs must be managed and balanced with income growth

The University has limited influence over the continued growth in wages and salaries, as this is driven by contractual increments and the national pay award. Staff costs must be managed in an environment where income growth is challenging. Projects to improve the efficiency of teaching, research and support services are being progressed to balance cost growth with income.

Research cost recovery improvements are needed to ensure sustainability

A key factor of our strategy to increase research income is via initiatives to improve cost recovery. This is increasingly difficult to achieve and presents a risk for the sector, with full economic cost pricing proving hard to obtain from funders. Research funding in an increasingly multinational context continues to be highly competitive.

Pensions

The challenge of accounting for pensions, their valuation and management of the associated liabilities presents a significant risk to the sector.

USS pension scheme

This year has seen increased uncertainty in relation to the University Superannuation Scheme (USS) pension scheme, with the University and College Union (UCU) Higher Education committee rejecting a proposal presented by USS, Universities UK and UCU in March 2018. The University currently pays 18% of relevant staff pay costs into the multi-employer scheme. The planning assumptions are that this will increase given the March proposal was based on a 19.3% contribution rate. The rejection of the negotiated changes to the scheme was followed by industrial action by members of the UCU across a number of institutions including the University of Manchester. A Joint Expert Panel (JEP) was established and tasked with assessing the 2017 valuation and agreeing the principles for the future valuation of the USS scheme. The panel reported its conclusions on 13 September 2018 and associated consultations are ongoing.

Due to the ongoing process in respect of the March 2017 valuation, a new Schedule of Contributions has not been agreed at the year end. USS recent announcements indicate that the trustees feel the need to raise the deficit contribution level. The proposed change in employer contributions to meet the deficit is from 2.1% to 6% of relevant staff pay (this is part of the overall contribution figure). There is clearly a risk that the University (and all other participating employers) will become contractually committed to pay a higher employer deficit contribution rate but, under accounting standards, this cannot be accounted for at 31 July 2018 as no contractual commitment is in place. A 1% increase in employer contributions (for whatever reasons) would result in a charge to the University's total comprehensive income of £37.7m.

University of Manchester Superannuation Scheme

The University currently makes contributions of 19.75% of relevant staff pay plus an annual payment of £6m to this scheme which is operated for all staff not eligible to join USS. The annual payment is detailed in a schedule of contributions agreed with the trustees and is designed to address the deficit position. The result of the valuation process as at 31 July 2016 was such that the cost of future accrual was not sustainable and the University has been in consultation with all current and eligible staff members on benefit changes.

This year, our total comprehensive income includes an actuarial gain of £59.2m arising primarily from the year end valuation of the UMSS scheme which was undertaken solely for accounting purposes. This valuation is in accordance with strict requirements under accounting standards which differ from those of the scheme specific triennial actuarial valuation. This gain of £59.2m is made up of £39m for asset returns and £22m arising from changes in assumptions for discount rate, inflation and mortality. Due to the size of the UMSS scheme assets and liability (£608.8m and £741.6m respectively as at 31 July 2018) any percentage swing in assumptions has a material impact. The most significant factors are the discount rate and inflation rate. A movement of 0.1% in either of these assumptions has been estimated to give rise to a £15m movement in the liability.

1. Operating surplus and income review

Operational performance

At an operational surplus level the University's performance again demonstrates the challenging environment for Higher Education institutions. Operating surplus is our key measure of financial performance internally and has declined by £38.8m with a reduction from 6.3% of income to 2.4%. This measure excludes non-cash items which are outside of the University's direct control such as changes in the market value of investments (£12.9m) and actuarial gains and losses related to the UMSS and GMPF pension schemes (£59.2m), capital income (£83.6m) and depreciation (£78.4m) are also removed, as the accounting treatment under FRS 102 can cause significant volatility in the accounts, masking the underlying performance.

The decline in operating surplus is a product of continuing growth in staff costs whilst the external environment prevents a rise in the Home Undergraduate Tuition fee and many research funders will not pay the full costs incurred by the University. Concurrently the University is investing in order to increase and diversify its income streams.

In 2017/18, our staff numbers increased and we are spending a higher proportion of our income on staff costs (54.4% of income excluding capital compared to 53.9% in 2016/17). The University has limited influence over the continued growth in wages and salaries, as this is driven by contractual increments and the national pay award. We have also seen a £4.4m increase in Voluntary Severance costs as a result of our strategic initiatives.

We have also seen an increase in our other operating expenditure from 37.0% to 39.8% of our income (excluding capital), driven in part by a number of strategic investments. These include IT spend of £1.1m to reduce the risk of cyber attacks and to support our students and staff.

Our programme of activities to drive a sustainable financial future is being driven by the University's executive. A number of these projects are focussed on income generation, and include the launch of new transnational education programmes during 2018/19. Research income is being targeted via initiatives to improve cost recovery, however this objective is increasingly difficult to achieve with full economic cost pricing proving hard to obtain from funders. Consequently a cross subsidy is required from international teaching income. Research funding continues to be highly competitive, despite additional UK government funding and European funding. The impact of Brexit remains an unknown but is a major risk to the University on a number of fronts.

The funding landscape in Higher Education changed in April 2018, with the 10 previous public bodies responsible for Higher Education being reduced to two: the Office for Students (OfS) and UK Research and Innovation (UKRI). The responsibility for governance and oversight of funding for higher education, previously held by HEFCE, has been transferred to these new organisations. The Office for Students brings a new perspective to teaching funding, with a regulatory role on behalf of students in addition to being responsible for administering central funding. It is anticipated this will bring an increased focus on value for money, sustainability and competition.

To address these challenges and ensure financial sustainability, we are further developing our programme initiatives to improve efficiency and increase income, using internal and external benchmarking to shape an action plan spanning many areas of our operations.

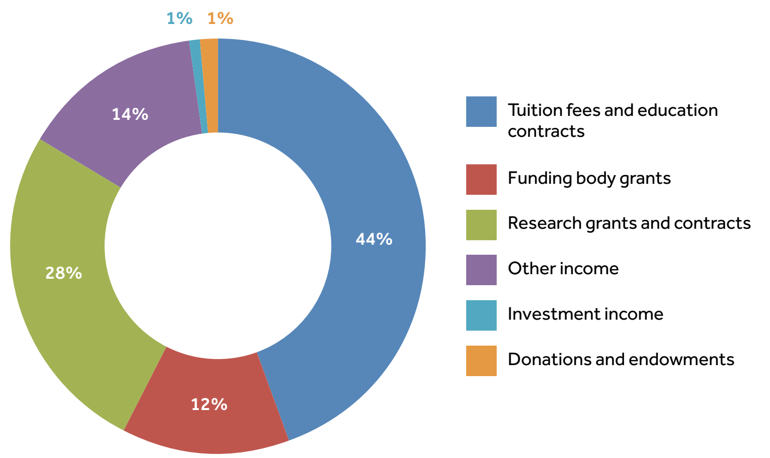
During 2019/20, we will be updating our vision out to 2030, to address the opportunities and challenges higher education and our own University will face in the coming years. As we develop this strategy, we will be putting in place financial plans to support this vision whilst ensuring financial sustainability.

Total income

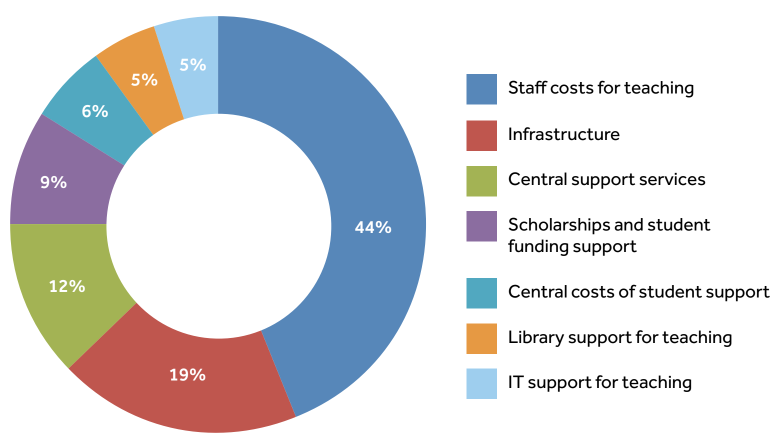
Total income increased to £1,059.2m, a growth of 5%. Excluding capital income of £83.6m, our income growth was £17.9m (1.9%) mainly driven by additional tuition fee income from international students. Our capital income has increased by £32.3m this year due to a number of major capital projects in research including the Henry Royce Institute and the Graphene Engineering Innovation Centre. Our two major sources of income are tuition fees (44%) and research grants and contracts (28%), which is very similar to the ratio in recent years.

Operating surplus	**2017/18 £'000**	**2016/17 £'000**
Total comprehensive income as reported	**102,225**	94,906
Add back:		
Depreciation and amortisation	**78,438**	83,421
Less:		
Capital income	**(83,554)**	(51,294)
Gains on investments	**(12,883)**	(31,784)
Actuarial gain in respect of pension schemes	**(59,166)**	(31,360)
Operating surplus	**25,060**	63,889
Operating surplus as % of total income	**2.4%**	6.3%

2017/18 income split



What is the £9,250 tuition fee spent on?



2. Teaching and Learning

Teaching income

Income from tuition fees has increased by 3.0% to £462.8m in 2017/18. Our full time home/EU tuition fee income remained static with small increases across a wide range of programmes being offset by a reduction in undergraduate intake in the Faculty of Humanities. This is in line with our strategy to raise the quality of our undergraduate students via a higher entry tariff. International tuition fee growth continues to be strong with a 3.5% increase in 2017/18 driven by both increased student intake and fee inflation. A number of part time programmes have seen increases in income this year, in particular the Global MBA and MSc and CPD courses in the Faculty of Biology, Medicine and Health. Income from the Global MBA programme is now reported within the University rather than the University of Manchester Worldwide Ltd subsidiary, resulting in an additional £17.8m of University income. Our desire to diversify income is being supported by our Executive Education Centre, University Language Centre and Centre for Pharmacy Postgraduate Education, which have increased our short course income by £3.6m.

Over the past 12 months, progress has been made in the expansion of online, blended, transnational education through structural changes relating to the University of Manchester Worldwide and the increased utilisation of the global centres. Programmes have now been launched through the Dubai centre in a blended format and routes will be progressed in Asia during 2018/19. This is in conjunction with the development of a number of new programmes which will be designed for various modes of delivery, ahead of launch in 2019/20. New programmes will be aligned with the University's key teaching strengths and Research Beacons.

Teaching value for money

The University is committed to providing clarity about how we use student income to deliver a high quality student experience. This matches the expectation of the Office for Students in holding the sector to account regarding choice, competition, transparency and value for money. Analysis of our 2016/17 income from home and EU undergraduate students shows that almost half of the £9,250 tuition fee (44%) was spent on teaching salaries and administrative support for teaching. A significant proportion (19%) was invested in our estate and buildings to ensure that we have excellent facilities and buildings for learning. Our teaching and learning activities can only be delivered with the support of central services, which account for 12% of the tuition fee. These services include the areas of social responsibility, compliance and risk management, finance and human resources

The remainder of the fee is used to support scholarships and bursaries (9%); centralised students support services (for example, disability support and the careers service) (6%); libraries (5%) and teaching-related IT (5%).

Our analysis shows that the £9,250 tuition fee is being fully utilised for activities relating to undergraduate teaching and learning. Any reduction in the fee would impact on the quality of the teaching and learning experience or would require the University to subsidise our home and EU undergraduate education via other income sources or to make efficiency savings.

Investments in teaching

Our capital masterplan has seen significant investment in our estate to support teaching and learning. The Alliance Manchester Business School (AMBS) and Executive Education Centre are approaching completion and the Manchester Engineering Campus Development (MECD) is progressing well. These projects account for £93.1m of capital expenditure during the year, an investment which will deliver outstanding facilities for teaching and learning. A further £19.3m of our capital spend during 2017/18 was to continue development of our new Fallowfield student residences. A fundamental objective is to improve the student experience. The Fallowfield development is now being completed by Vinci UK who have been appointed to complete the work after the liquidation of the original contractor, Carillion.

We have continued to invest in our Student Lifecycle Project with £14.4m of investment (£5.6m intangible capital software and £8.8m revenue expenditure). The project will benefit both staff and students by providing improved systems and effective processes. We have invested £1.7m in the My Manchester digital platform and £0.7m of endowment funds to upgrade teaching rooms across the University.

Our widening participation activities are a key part of our social responsibility strategy, and the most recent data (2016/17) indicates that we spent in the region of £25m on these activities.

Teaching risks

There is significant risk in relation to home undergraduate tuition fees and student numbers. The Augar review of post-18 education may result in changes to fees and funding for home undergraduates and we are modelling a number of scenarios to assess the potential impact. The analysis above indicates that the £9,250 fee is fully spent supporting the provision of undergraduate education; a reduction in fee could impact on the quality and sustainability of these programmes.

International full-time fees make up 44% of our tuition fee income and are driving tuition fee growth. The inclusion of students in UK immigration targets represents a risk to further growth with the Migration Advisory Committee recently advising the Home Office that there is not a clear case to support a change in policy. The income generated from international student tuition fees is dependent on high numbers of post-graduate taught students. The demand for these programmes can be volatile and we are looking to mitigate this risk in future years by rebalancing between undergraduate and postgraduate students.

Our plans to expand online, blended, transnational education are progressing, with assumptions for future growth included in our financial projections. The risk in terms of the speed and scale of this expansion is being monitored and managed by the University of Manchester Worldwide leadership team.

Teaching impact

Through our work to support access, student success, progression and employability the University proactively seeks to address the specific challenges which students from widening participation backgrounds often

face in making the transition to university study and subsequent employment. In 2017 we concluded a review of our widening participation activity and developed a set of principles to underpin our future priorities and investment. These were reflected in our recent Access and Participation Plan with the Office for Students (OfS), providing detailed information on the University's responsibility to all students, regardless of background or financial considerations.

Parts of Greater Manchester have some of the lowest progression rates into higher education in the UK and we are committed to addressing this through the delivery of longer term outreach work and targeted pre-16 activities with the most able, disadvantaged students. To illustrate this, during 2017/18, 90 pupils participated in the Primary Literacy Scheme, 405 attended a Primary Awareness Day and there were 745,934 users of The Children's University of Manchester website. In addition, 1,453 secondary school pupils participated in our Manchester Gateways Programme. The University is part of Greater Manchester Higher (GMH), originally a HEFCE-funded National Network for Collaborative Outreach, which delivers a programme of activities to target learners, including specific target groups such as care experienced and disabled students. During 2017/18, 1,198 pupils aged between 12 and 15 visited one of the partner universities, participating in events on campus. In addition, staff and student ambassadors achieved over 25,000 engagements with learners in schools. Our commitment in this area is further emphasised by a strategic partnership with The Brilliant Club supporting attainment raising and widening access to highly selective universities, and since we began our partnership in 2014/15 there has been a total of 78 tutor placements in schools working with 851 pupils in receipt of Pupil Premium funding or Free School Meals.

Our post-16 work enables prospective higher education students to find out about studying at The University of Manchester and other research-intensive institutions. In 2017/18 we developed Access Manchester, a coherent framework and website for our range of widening access programmes, which students and their key influencers can easily understand.

Our flagship initiative, the Manchester Access Programme (MAP), supports outstanding Year 12/13 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. MAP is now firmly embedded in the work of the University-from 2005 to entry in 2018, over 1,900 MAP students have been successful in gaining a place at the University. In addition, many MAP students have also progressed to courses at other highly-selective, research-intensive universities. We have also expanded our online Manchester Distance Access Scheme (MDAS), a national widening access programme for students who have been made an offer from the University. Students complete an academic piece of work related to the subject they plan to study at degree level and in 2018, 156 students successfully completed MDAS.

Since 2011, the University has provided admissions decision-makers with supplementary data to allow them to put the achievements of each individual applicant into context. Indeed, as a University we perform towards the top of the English Russell Group for the proportion of entrants from disadvantaged backgrounds. The latest HESA Performance Indicator Data for 2016/17 shows 7.9% of our entrants (410 students) were from POLAR3 Low Participation Neighbourhoods (LPNs), performing above the average for the English Russell Group of 6.5%. We also have a high proportion of entrants from lower socio-economic backgrounds at 22.8%, above the English Russell Group average of 20.4%. We recognise that some applicants may have previously faced social, socio-economic or educational disadvantages. From entry 2019, in order to ensure that all applicants with the potential to succeed have equal opportunities through our selection process, we will strengthen our use of contextual data and make contextually flagged students an offer of one A-level grade lower (or equivalent) than the standard offer for their course, if they place Manchester as their firm choice.

In 2018, the University's overall undergraduate student satisfaction, as measured in the National Student Survey (NSS), in keeping with a slight national decline in NSS outcomes, was 83% with a response rate of 50%. This followed the non-publication of our NSS results in 2017, when the University's response rate (at 48%) was below the threshold required for publication. Over the last year the University has emphasised its commitment to enhance student satisfaction with continued development of our online support (My Learning Experience), promotion of interdisciplinary learning and student choice (University College for Interdisciplinary Learning) and opportunities to engage beyond the curriculum (Stellify). We have also invested in the Student Lifecycle Project with the aim of improving processes across all aspects of the student journey from application to graduation.

Our capital programme will also support our students, with new facilities for teaching and learning within the new Alliance Manchester Business School and Manchester Engineering Campus Development and new student residences in Fallowfield.

Non-continuation at the University is low with only 3.8% of all entrants no longer in HE by 2016/17 (of entrants in 2015/16). In 2016/17, 4.1% of our young entrants from LPNs were no longer in HE and compares to an England average of 8.7%. Our data for 2016/17 indicates that 29.2% of our undergraduate students were from low income households of less than £25,000 per annum. The University is committed to ensuring 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 200 Widening Participation students will receive the University's targeted Undergraduate Access Scholarship in each year.

Over the past six years, the University has seen significant improvement in its Destination of Leavers from Higher Education (DLHE) data. This analyses the percentage of graduates in graduate-level work and/or further study six months after graduating; the University's positive graduate destination rate has improved from 71.9% in 2011/12 to 80.7% in 2016/17. The 2016/17 figure represented an overall decrease of 1.8% from the previous year (despite improvements is some areas) , although it is important to note that a different collection methodology was used for 2016/17 data and from next year a new, Graduate Outcomes survey will look at students fifteen months after graduation.

Behind the headlines, in 2016/17 there was an increase of 3.4% in terms of progression to further study over the previous year, the biggest such increase in the Russell Group; a decrease in levels of unemployment (-1.1%); and our graduates reported feeling very well prepared for employment, placing us sixth in the Russell Group on this measure.

A key ambition of the University is to promote a 21st century, interdisciplinary approach to learning and scholarship through our University College for Interdisciplinary Learning (UCIL). UCIL offers credit-bearing course units that contribute to a student's degree programme. Units bridge disciplines, with many focused on complex challenges of now and the future such as global conflict, sustainability, leadership & enterprise, mental health, food security and the impact of artificial intelligence. UCIL has developed rigorous and innovative platforms and models for teaching, learning and assessment, from face-to-face, through blended, to interactive online learning. Units are delivered by pan-University teams of world-leading academics. Students from across the University study together, bringing their own subjects' academic perspectives to an issue. In this way, they develop new ways of thinking that equip them for a rapidly changing world. They acquire key employability skills such as team-working, cultural awareness, problem-solving, critical analysis, adaptability and resilience. In 2017/18 1,553 students drawn from all faculties completed a UCIL unit.

3. World-class Research

Research income

Total research income has grown by 14.0% to £298.7m, mainly driven by increased capital income. Research income accounts for 28.2% of our total income, supporting our position as a research intensive University.

Underlying research revenue income excluding capital has grown by £3.3m (1.4%), which is lower than the growth seen in recent years. A significant factor impacting on our research income this year has been the delays and lower activity on research projects following the fire in April 2017 at the Paterson Building. The University is now working in partnership with The Christie and Cancer Research UK to replace the Paterson building with an integrated state of the art cancer research facility.

Funding from industry and commerce has also fallen this year, reflecting the end of the Salford Lung study, a large, successful research project funded by Glaxo Smith Kline (GSK).

Our funding from UK Research Councils has grown by £14.5m in the year, mainly driven by capital income relating to the Henry Royce Institute (£25.5m). The Henry Royce Institute will be the UK national centre for research and innovation of advanced materials, showcasing our position as a world-leader in developing new and existing materials and supporting the University's 'Advanced Materials' research beacon. It operates on a 'hub and spoke' model, with the 'hub' at The University of Manchester and with 'spokes' at the founding partners, initially comprising the universities of Sheffield, Leeds, Liverpool, Cambridge, Oxford and Imperial College London, as well as the UK Atomic Energy Authority and the National Nuclear Laboratory.

There was also growth in capital income from UK based charities, mainly due to additional funding for the Cancer Research UK Manchester Institute. Our research funding from international sources has seen a significant increase due to capital income for the Graphene Engineering Innovation Centre funded by the Abu Dhabi Future Energy Company PJSC.

In addition to these research funded facilities, the University's capital developments for MECD and AMBS will support continued world-class research. This year we commenced internally funded investment in the Research Lifecycle project, with the objective of improving our systems and processes related to research. We have also invested in data storage to support research, funded by endowments.

The value of our research awards has grown over the last two years, however in 2017/18 we have seen a slight downturn of 2.5%. This indicates an increasingly competitive market for research funding, with the impact of Brexit uncertain.

Funding body grants

Income from funding bodies was £127.1m, a decrease of £6.8m compared to the prior year. Our funding in 2016/17 included significant contributions for two large building projects which are now in use (the Graphene Engineering Innovation Centre and Schuster Building Annexe). Our capital grants for 2017/18 include £4.3m of UK Research Partnership Investment Fund income to support the Alliance Manchester Business School development. There was also a £0.9m increase in funding for Special Initiatives over a number of projects with the largest being from the Industrial Strategy National Productivity Investment Fund.

Research England has taken on the role previously performed by HEFCE in allocating funding for research in England. This role encompasses ensuring the sustainability of the Higher Education research base in England, managing the UK Research Partnership Investment Fund and administering Higher Education Innovation Funding.

Research risks

An element of the uncertainty around the future of research funding in the UK has been resolved given no immediate financial impact has been experienced following the creation of UKRI and Research England. Our future plans assume that we will grow our share of the income available from these sources. The research funding model presents a risk to the sustainability of research intensive Universities, with funders not required to pay the full economic cost for research. The result is that international tuition fee income has to be used to subsidise research. Whilst this has the benefit to students of enabling research-led teaching, it restricts our ability to invest in research infrastructure and staffing.

We are progressing our internal initiatives to improve our research cost recovery, however this continues to be challenging with increased pressure from funders to reduce costs and match their equipment funding with internal funds.

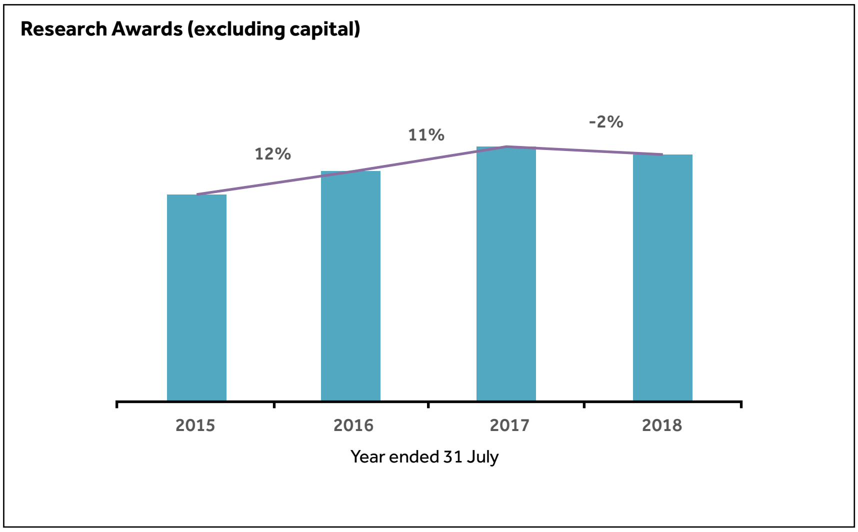
Research impact

The University of Manchester's five research beacons, comprising Advanced Materials, Cancer, Energy, Global Inequalities and Industrial Biotechnology – see www.manchester.ac.uk/beacons - are examples of our 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 more than 300 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 is the largest dedicated research and teaching institute of its kind in Europe. Our Humanitarian and Conflict Response Institute is the most significant teaching and research institute in the UK for humanitarian studies and one of the top five worldwide.

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 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 300 dedicated researchers, two Nobel laureates and more than £195m of investment. We have been chosen to host the national £235m Henry Royce Institute (due to open in 2020) and the University's $100m partnership with BP has created in Manchester an international hub for advanced materials expertise.

Our health research includes cancer research where we are making a leading contribution 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. Our breakthroughs include clinical trials with AstraZeneca for Anastrozole, which prevents relapses in breast cancer. More than 1.5 million women have benefitted from breast cancer therapy developed by our researchers. We are partners in the Manchester Cancer Research Centre (MCRC) with the Christie NHS Foundation Trust and Cancer Research UK and six NHS trusts work with us as part of the Manchester Academic Health Science Centre. Following the 2017 fire at the Paterson Research Building, the MCRC partners agreed to financially support a £100-£150m new research facility which will be completed in 2021. It aims to deliver the scale and diversity of infrastructure for the next 15-20 years to enable recruitment of additional world-class researchers, break down barriers between cancer research sectors and help to drive further research/clinical integration.



In 2016, Manchester was awarded £28.5m of National Institute for Health Research Funding towards the NIHR Biomedical Research Centre which is driving forward pioneering research into new tests and treatments for a number of diseases including cancer. In 2018 a Manchester health consortium including The University of Manchester was awarded £6.8m to develop an Innovate Manchester Advanced Therapy Centre Hub (iMATCH) which will focus on cellular therapies for a wide range of illnesses, including cancer.

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 £110m 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. We are part of the SUPERGEN UK Centre for Marine Energy Research and lead on two projects. Our Dalton Nuclear Institute is the UK's most advanced academic centre for nuclear research and development and high-level skills development. The launch in July 2018 of our Manchester Environmental Research Institute further strengthens our capabilities and contribution to the challenges of developing sustainable energy sources.

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.

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 over £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.

The University has had a particularly successful year in business engagement which has included regaining first position in the value of research contracts from UK firms and second position in the value of all collaborative research with business. Examples of the latter have included securing four Prosperity Partnerships, flagship projects for the Industrial Strategy, in collaboration with Unilever, BP, Astra Zeneca and Akzo Nobel. We rose nine places to 7th in Europe and 3rd in the UK in the main ranking table in this domain, *Reuters listing of Europe's Most Innovative Universities* based on factors such as patents filed and cited, collaboration with industry in research publications and journal articles published.

The year also saw the successful launch of the Scale Up Forum by the Alliance Manchester Business School, a peer-to-peer network catering for some of the fastest-growing firms in the Greater Manchester region. Work with SMEs has also been enhanced by new Knowledge Transfer Partnerships (KTP), a prestigious Innovate UK scheme supporting projects which engage a researcher to develop an innovation for a company. Projects have ranged from combating insurance fraud using machine learning techniques through to development of revolutionary graphene-soled running shoes. The University has the highest number of KTPs in England. Our success in business engagement creates an environment for student enterprise to flourish, for example through our competitions, Venture Further and the Eli and Britt Harari Graphene Enterprise Awards.

4. Social Responsibility

The strategic priority we give to social responsibility is unique among British universities. Social responsibility describes the way we make a difference to the social and environmental wellbeing of society through our research, teaching, activities and operations. Our work on social responsibility activity has five priorities: research with impact; socially responsible graduates; engaging our communities; responsible processes; and environmental sustainability.

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 producing innovative research breakthroughs that are making a lasting difference to the world.

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 on the Manchester Access Programme is referred to above. Worldwide, we support Master's 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 2017/18 examples of impact include 4,757 first year students taking part in a sustainability challenge, 1,350 second year students undertaking a new online social justice challenge and 972 students taking part in externally-verified volunteering activities that benefit wider society.

Across 'engaging our communities', the University invests significant resources in its publicly-accessible cultural institutions to engage and inspire local communities and wider society with science, heritage, literature, the arts and wider culture. We have heritage assets of £257m on our balance sheet, with our total heritage assets valued at £1.4bn for insurance purposes. This year saw the addition of three new artworks donated to the Whitworth, with a combined value of £1.2m. 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 2017/18 was 1,310,714 (Manchester Museum (527,046), the Whitworth (292,189), John Rylands Library (302,309) and Jodrell Bank Discovery Centre (189,170 – including attendance at the award-winning 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, 905 staff and alumni who are school governors gave 10,860 days supporting 407,250 learners. We also organize a Community Festival, a Science Spectacular event and a ScienceX showcase in a local shopping centre which engaged more than 7,000 members of the local community with our research and teaching during 2017/18.

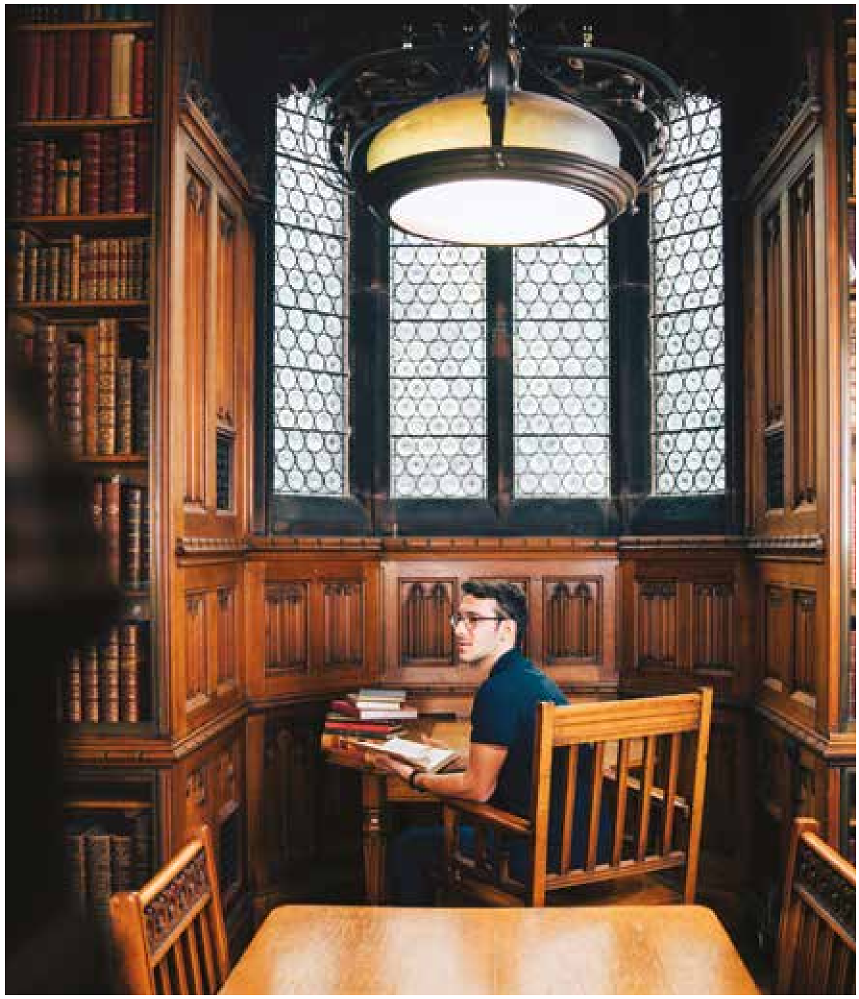
Across 'responsible processes' we aim to use our position as a key anchor institution in the city region to benefit society through our significant business operations such as employment and procurement. Skills and employment levels in our local communities are lower than average in the UK. Our University is helping to address this through our leadership of The Works – an award-winning and unique facility in British higher education based in the heart of our local community. This provides opportunities and support to jobseekers including pre-recruitment training and job matching to local employers, including to the University. Since 2011 The Works has supported 4,153 people back into work, creating £61 million of economic value to the region. We have also recruited 54 new apprentices at the University this year.

We signed up to the United Nations-supported Principles for Responsible Investment (PRI), becoming the first English Russell Group University to join the organisation.

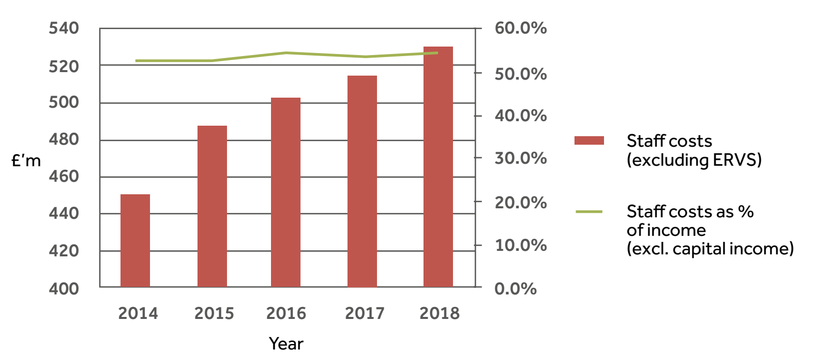
We are keen to ensure that opportunities for women and Black, Asian and Minority Ethnic (BAME) staff to progress into and through the University are measured and have a number of initiatives to improve representation of these groups of staff. The proportion of female academics at senior lecturer and above remained at 31% in 2017/18 compared with 22% in 2007/08. This compares to a female lecturer pool of 45%. The proportion of ethnic minority staff at Grade 6 and above in the Professional Support Services who are BAME remained at 8% in 2017/18, 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 2017/18 was 11%, whereas the BAME lecturer pool was 19%. 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. We were also recognised as Greater Manchester's leading employer for LGBT-inclusivity in the annual Stonewall index.

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



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



financial savings and an environment that enhances health and wellbeing.

Over 60% of University staff members travel to work sustainably, with 26% walking or cycling. 97% of our students travel sustainably, with 46% walking or cycling. In addition, the University's Bicycle Users' Group (UMBUG) is one of 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 55% of staff in more than 36,000 actions on sustainability, winning the world's first Carbon Literate University award and a Sustainability Award from the Association of University Directors of Estates (AUDE).

5. Financial Management and Risks

Staff costs

Staff costs including ERVS have increased by £20.7m during 2017/18. The main driver of this increase is inflationary pay awards and increments and this is the first year when we have experienced the full impact of the Apprenticeship Levy (£1.2m). The M2020 strategic initiatives have resulted in a reduction in headcount in a number of areas with a significant increase in ERVS costs from £1.9m in 2016/17 to £6.3m. Pensions costs included with staff costs have grown by £5.0m, driven by additional USS and UMSS contributions and an increase in UMSS service costs due to a higher RPI assumption. Staff costs excluding ERVS costs as a percentage of our income (excluding capital income) have increased from 53.9% to 54.4%, indicating that staff costs have grown more quickly than income.

Capital investments

In 2017/18, we have seen significant progress across our capital masterplan, resulting in an increase of £150.5m in our tangible fixed assets at the year end. This investment is across a number of building projects to support our teaching and research, including Manchester Engineering Campus Development, Alliance Manchester Business School, Henry Royce Institute, Graphene Engineering Innovation Centre and Fallowfield student residences.

Capital risks

Last year we highlighted a risk relating to inflation on capital costs, however as the majority of projects within the Capital Masterplan are now under contract, this risk has been significantly mitigated. The collapse of Carillion in January 2018 has reduced confidence in the construction industry and has resulted in reduced competition in the market. All risks relating to capital are monitored by the University's Capital Planning Sub-Committee and Finance Sub-Committee with support from the University Estates and Finance teams. Recommendations from the sub-committees are reviewed for approval by Finance Committee.

The University's Board of Governors has approved a proposal to seek a corporate partner to develop its North Campus site in Manchester city centre into a world-class innovation district over the next 20 years. The plan is to develop the site into an exciting research and business campus, where the world's most valuable ideas will be transformed into reality. The development is projected to generate growth over the next 20 years or more for the local economy and is projected to create up to 6,000 jobs. It will also help to ensure the long-term financial strength of the University by delivering a continuing future income stream for investment in the University's educational and research activities.

Cash and liquidity and investments

Cash reserves are at £315.3m, a net reduction of £70.3m compared with prior year. This has resulted in a decrease in liquidity days from 157 in 2016/17 to 121 in 2017/18. The major cash outflow during the year has been the planned investment in our Capital Masterplan with cash expenditure on fixed assets of £236.7m compared to £164.1m last year.

Our financial planning places a strong focus on maintaining a sustainable cash position. For planning purposes we have prepared a number of scenarios to highlight areas of risk and identify mitigating actions.

Endowment and investment performance continues to remain a risk with returns dependent on volatile financial markets notably due to the unknown impact of Brexit.

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 our exposure is to counterparties 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 £318.1m are exposed to price risk but this exposure is within the University's risk appetite.

The University had £280.0m held to maturity investments on short and long term deposit and £25.1m in money market funds. All deposits are subject to fixed interest rates and we are therefore not subject to any significant exposure to fluctuating rates.

Going Concern

The University ended the year with cash resources of £315.3m. The budget for 2018/19 continues to show a surplus albeit at levels lower than the recent past. 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 one year and 97.5% repayable beyond five 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 immediately.