

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

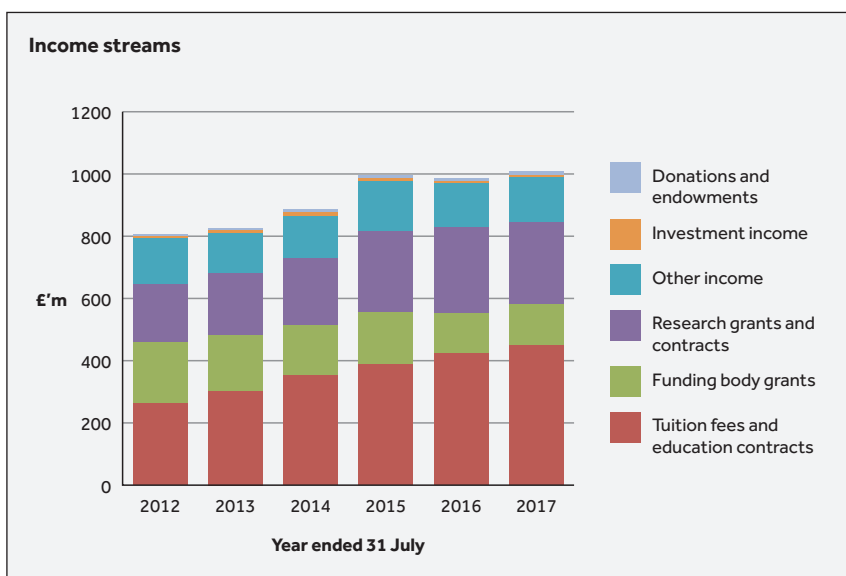
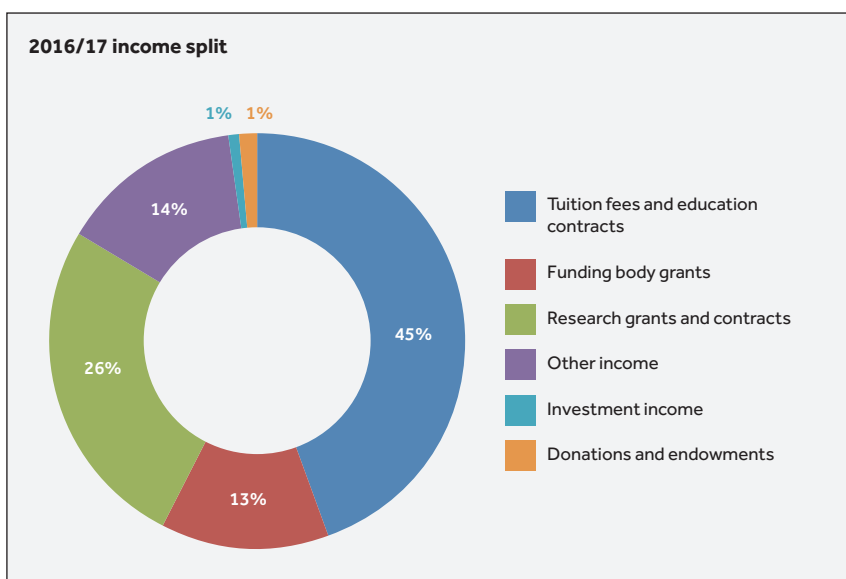
Operating surplus has increased by £30.4m compared to 2015/16, due to both teaching and underlying research activity. Our international tuition fee income continues to show strong growth and revenue research income from the majority of funding sources is increasing. This growth is only partially offset 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.

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.

Operating surplus	2016/17	2015/16
	£'000	Restated £'000
Total comprehensive income as reported	94,906	(1,054)
<i>Add back:</i>		
Depreciation and amortisation	83,421	60,231
<i>Less:</i>		
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%



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.

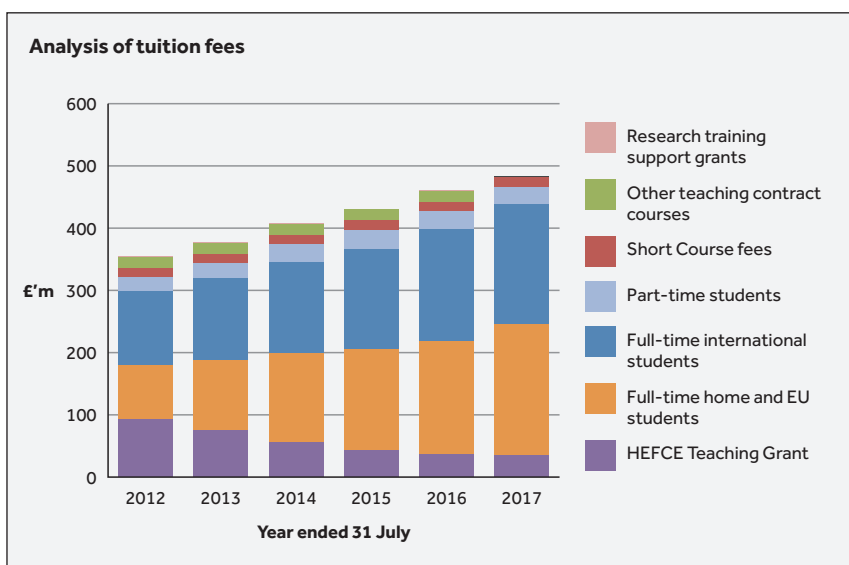
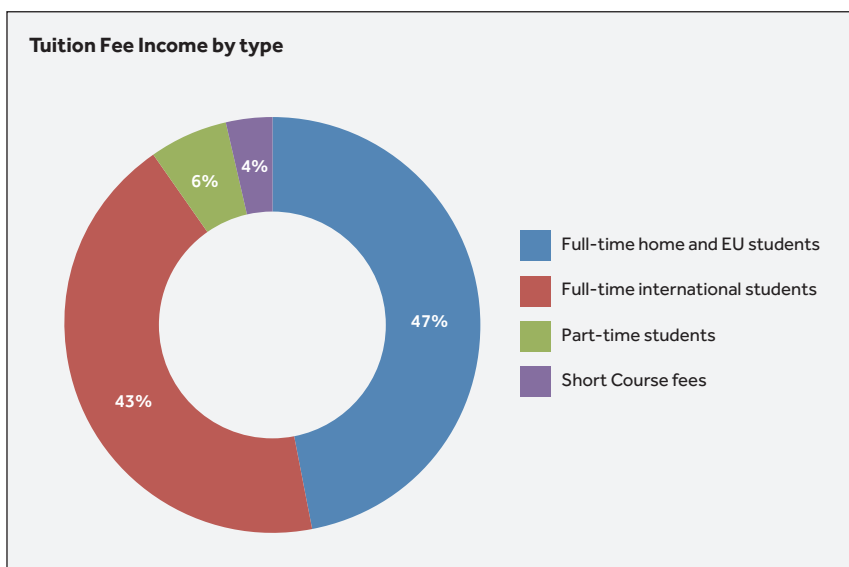
Funding body grants

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.

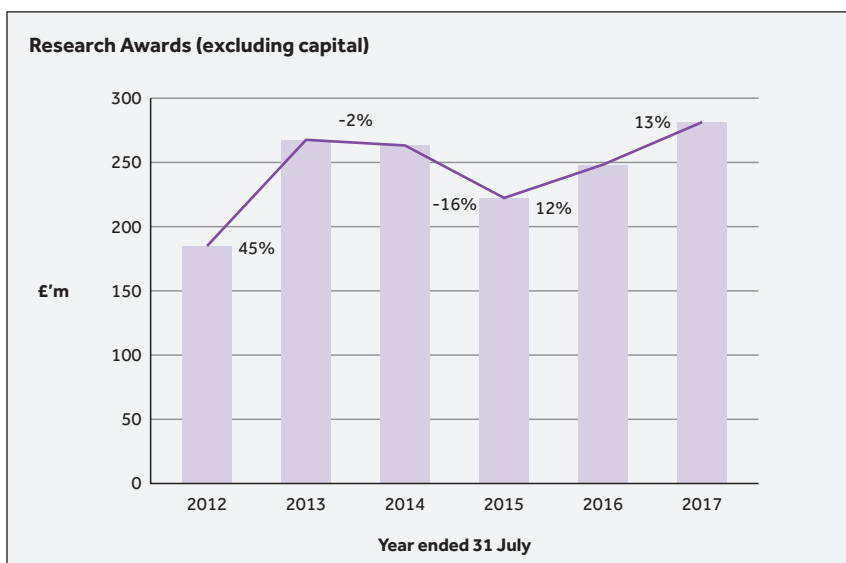
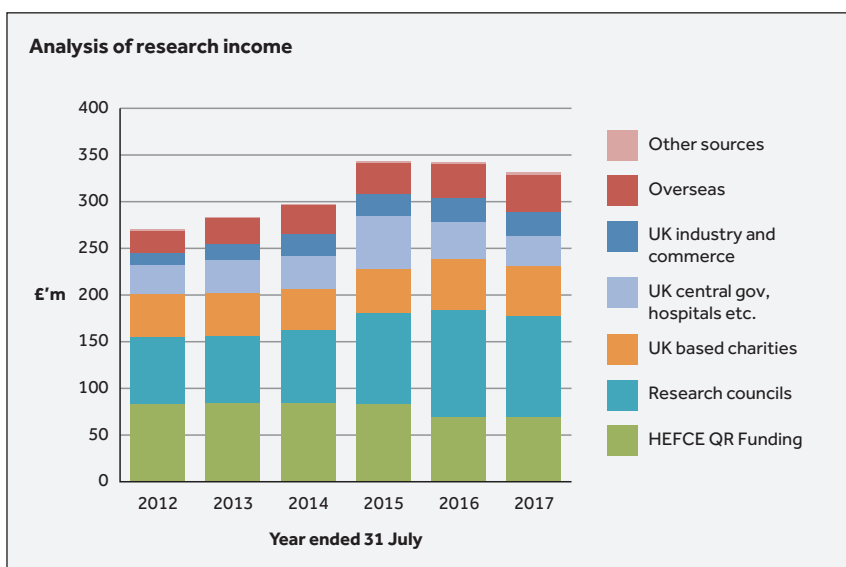
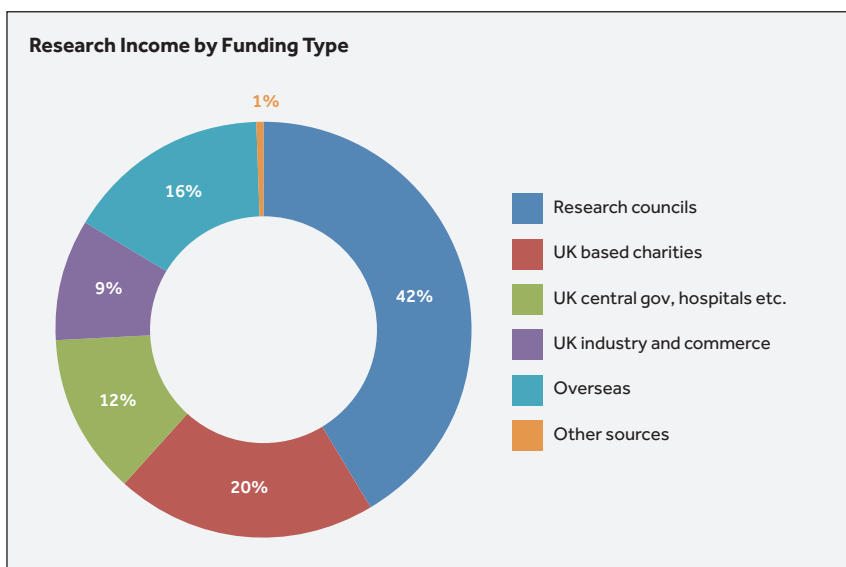
Research capital income has reduced by £14.6m, demonstrating the volatility that was anticipated following implementation of FRS 102. The recognition of capital income is dependent on the timing of bringing large assets into use. Capital income reported in 2015/16 was higher due to the recognition of 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.



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 of 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

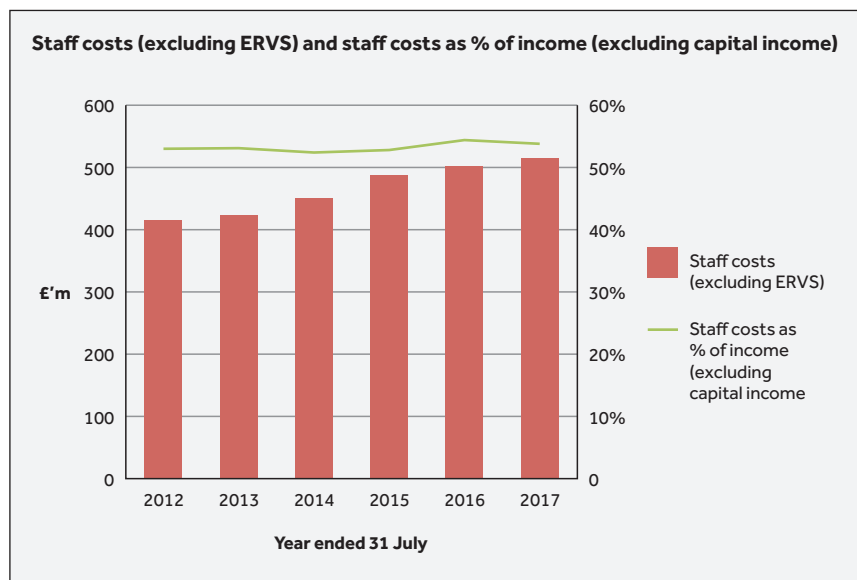
remainder largely in non-technical support staff. We have also seen the expected inflation due to cost of living and incremental awards. Increased National Insurance contributions have also impacted on our expenditure, with the removal of the 'contracted out' category in April 2016 showing a full year effect in this year's costs.

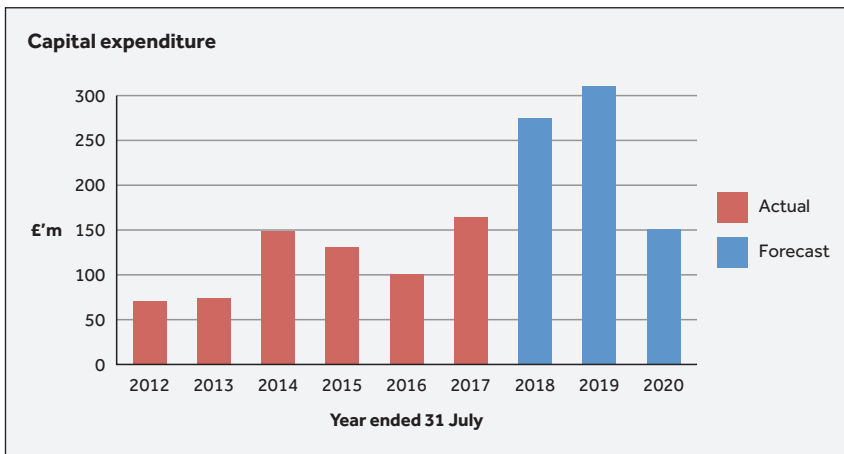
Staff costs risks

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.





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.