OUR UNIVERSITY'S FINANCIAL PERFORMANCE 2017/18

The University has published its 2017/18 Financial Statements which you can find in full on the University website. Here are some of the headline messages to give you a better insight into how our University is funded, where we invest our income and the risks and challenges ahead.

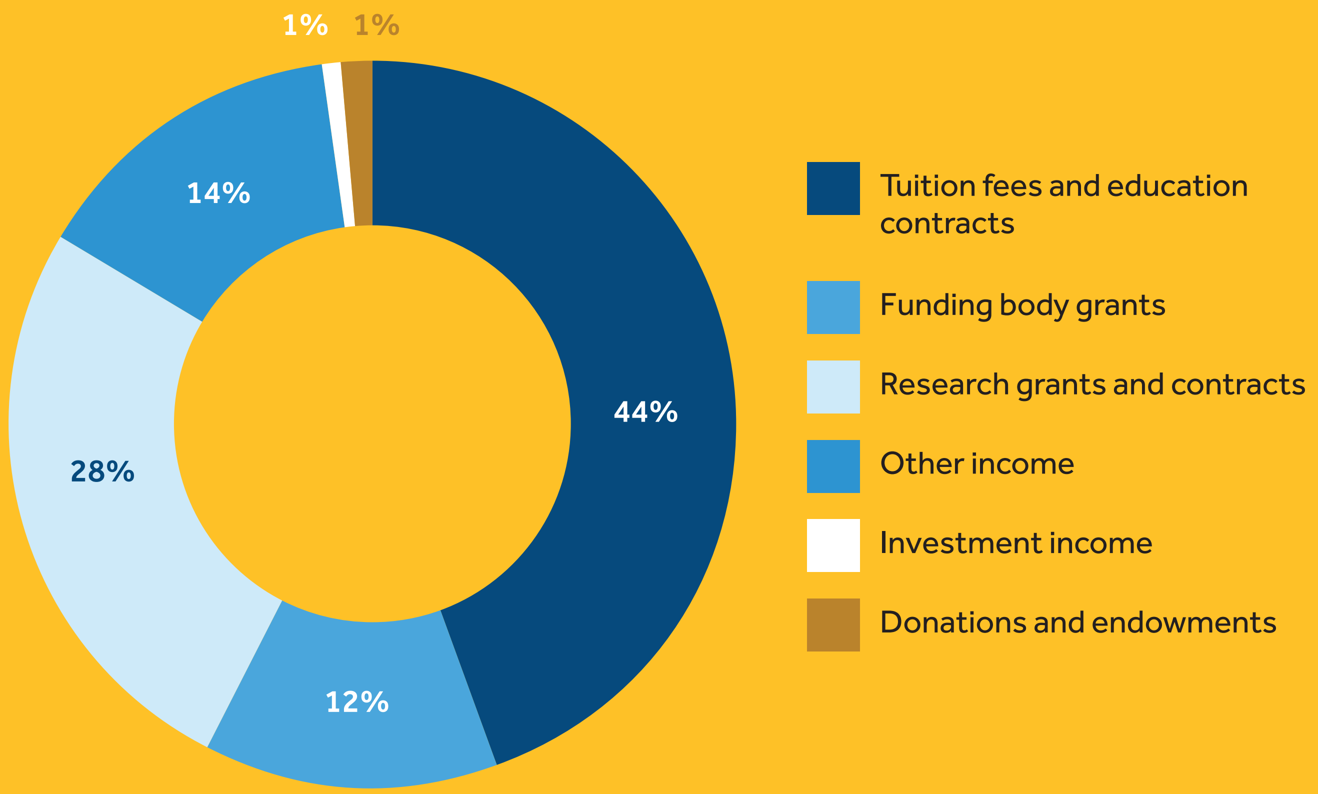
Our University's financial objectives are to achieve long-term financial sustainability in order to invest in our strategic goals within the current challenging environment by:

- achieving year-on-year income growth;
- delivering an operating surplus to reinvest in our University.

2017/18 was a challenging year for the higher education sector and while our University continues to make strategic progress, our financial performance deteriorated compared to 2016/17.

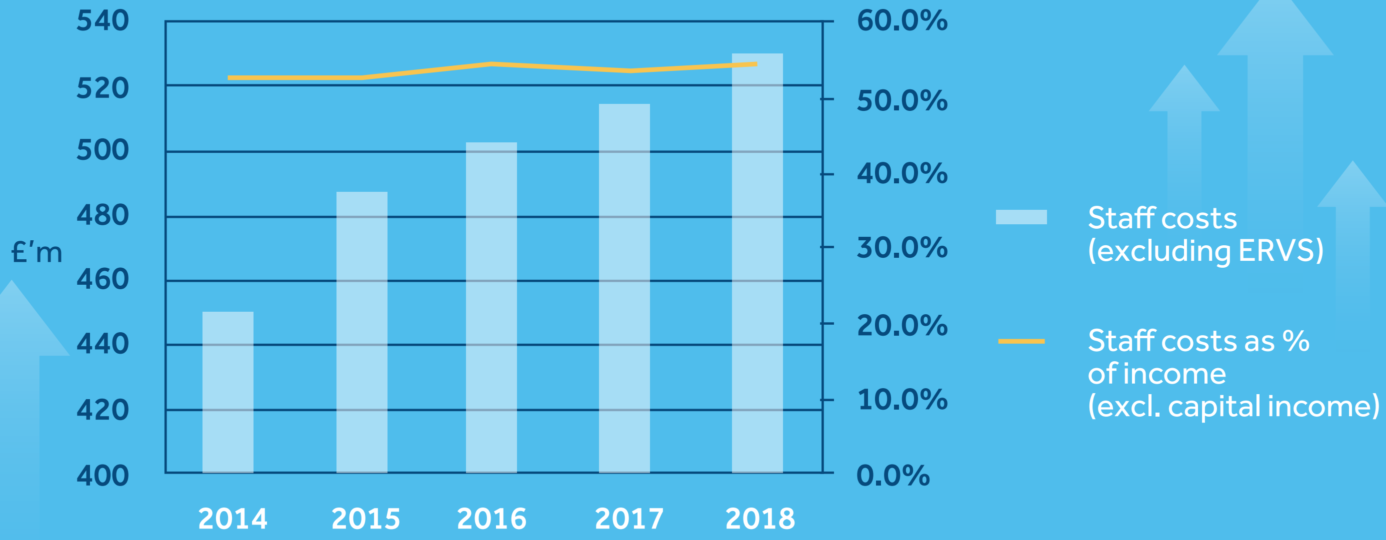
INCOME

WHERE OUR MONEY COMES FROM



- In 2017/18 our total income increased to £1,059.2m – a growth of 5% (our turnover is comparable to the combined income of Manchester City and Manchester United football clubs). Excluding capital income of £83.6m, our income growth was £17.9m (1.9%) and was mainly driven by additional fee income from international students.
- 44% of our income comes from tuition fees and education contracts and in 2017/18 this rose by 3% to £462.8m. Full-time home/EU tuition fee income remained static. International tuition fee growth continued to be strong with a £7.4m or 3.5% increase driven by both increased student intake and fee inflation.
- 28% of our income comes from research grant and contract income and in 2017/18 this grew by £36.6m or 14% to £298.7m. However, excluding research capital income (a more insightful measure due to income recognition), research growth was 1.4%.
- Our capital income increased in 2017/18 by £32.3m or 62.9% to £83.6m, due to a number of major capital-funded projects in research including the Henry Royce Institute for Advanced Materials and the Graphene Engineering and Innovation Centre.

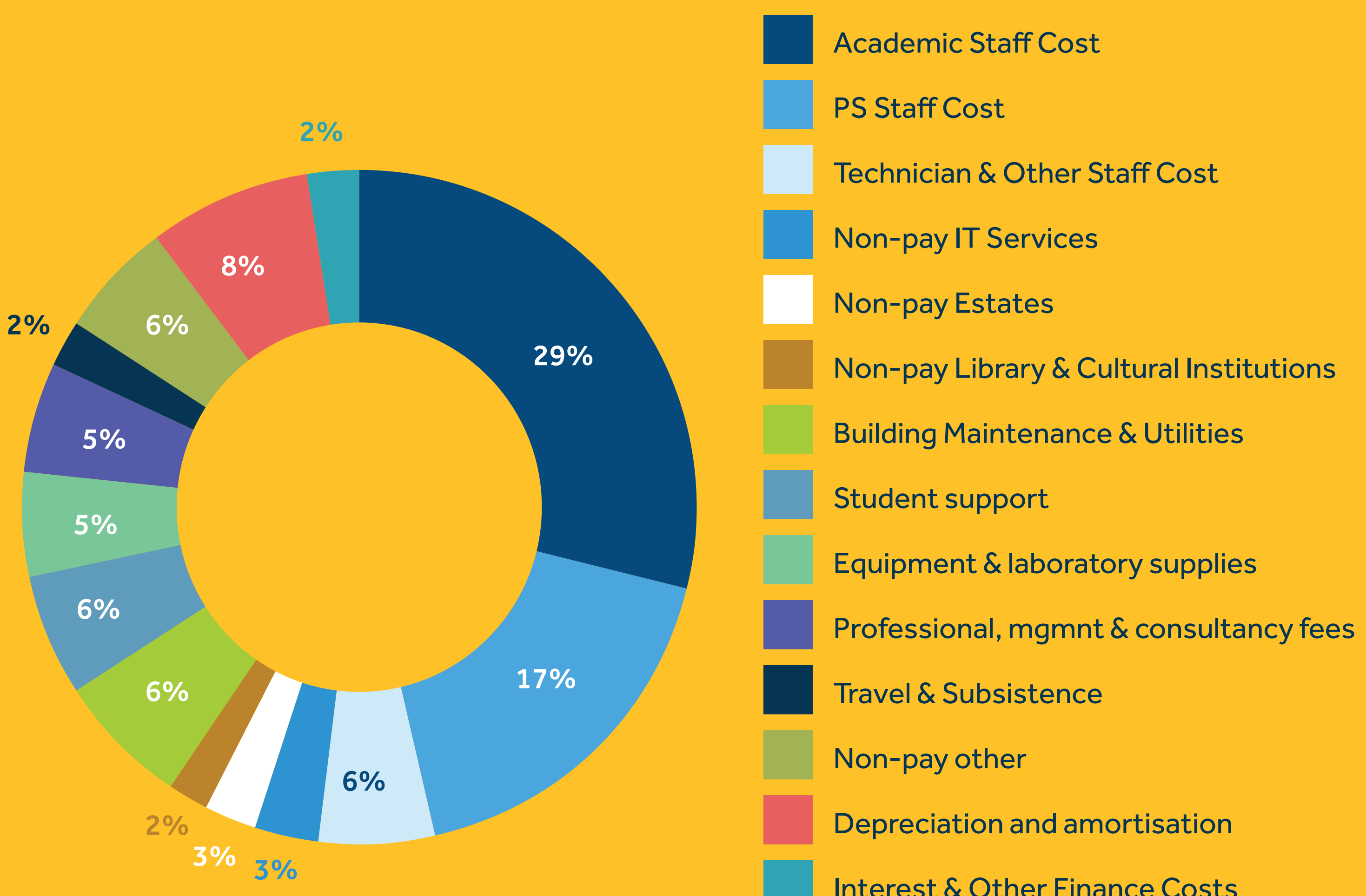
EXPENDITURE
WHERE THE MONEY IS SPENT



- The largest proportion of our income is spent on our staff. Staff costs (excluding early retirement and voluntary severance (ERVS) costs) were £531m in 2017/18. This was an increase from 53.9% to 54.4% of income in 2017/18. The graph above shows the rate of growth in staff costs as a percentage of income.
- The combined effect of any increase in base pay and the incremental pay increase is that the average pay increase for colleagues would be 3.5%, slightly above the Retail Price Index.
- Pension costs have grown by £5m driven by additional Universities Superannuation Scheme (USS) and University of Manchester Superannuation Scheme (UMSS) contributions and an increase in UMSS service costs.
- Details of senior leadership pay are included on pages 28 and 29 of the Financial Statements. Our President and Vice-Chancellor has not accepted any increases in her base salary since 2016 and her base salary currently stands at £260,399. A *Times Higher Education* survey published in January 2018 reported that the average salary for a Russell Group Vice-Chancellor was almost £332,000.

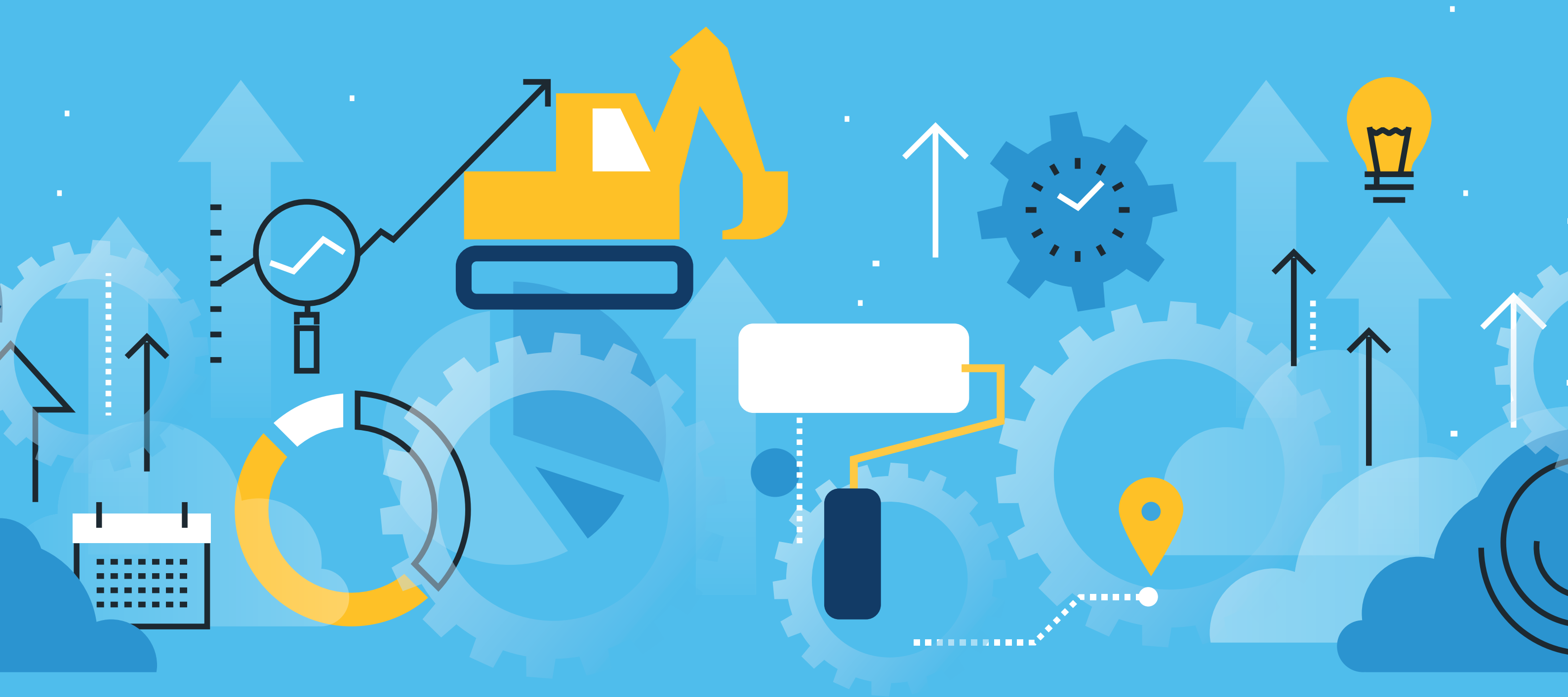
EXPENDITURE

WHERE THE MONEY IS SPENT



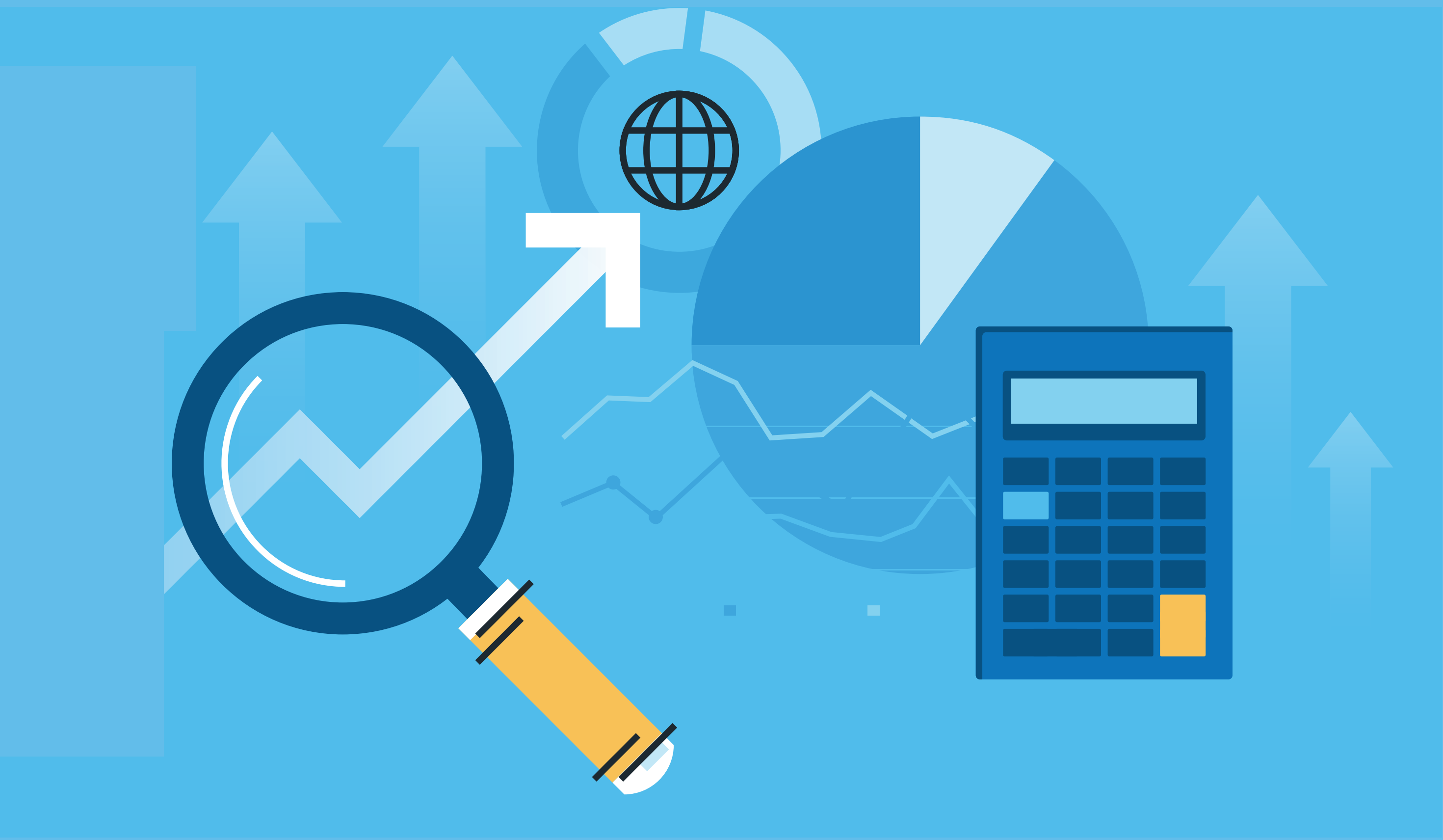
- **There has been an increase in our other operating expenditure from 37% to 39.8% of income due to investments such as £1.1m to reduce the risk of cyber-attacks and investment in support for our students and staff.**
- **During 2017/18 we invested a further £14.4m in our Student Lifecycle Project. The project will benefit both staff and students by providing improved systems and effective processes.**

OUR
OPERATING SURPLUS 2017/18



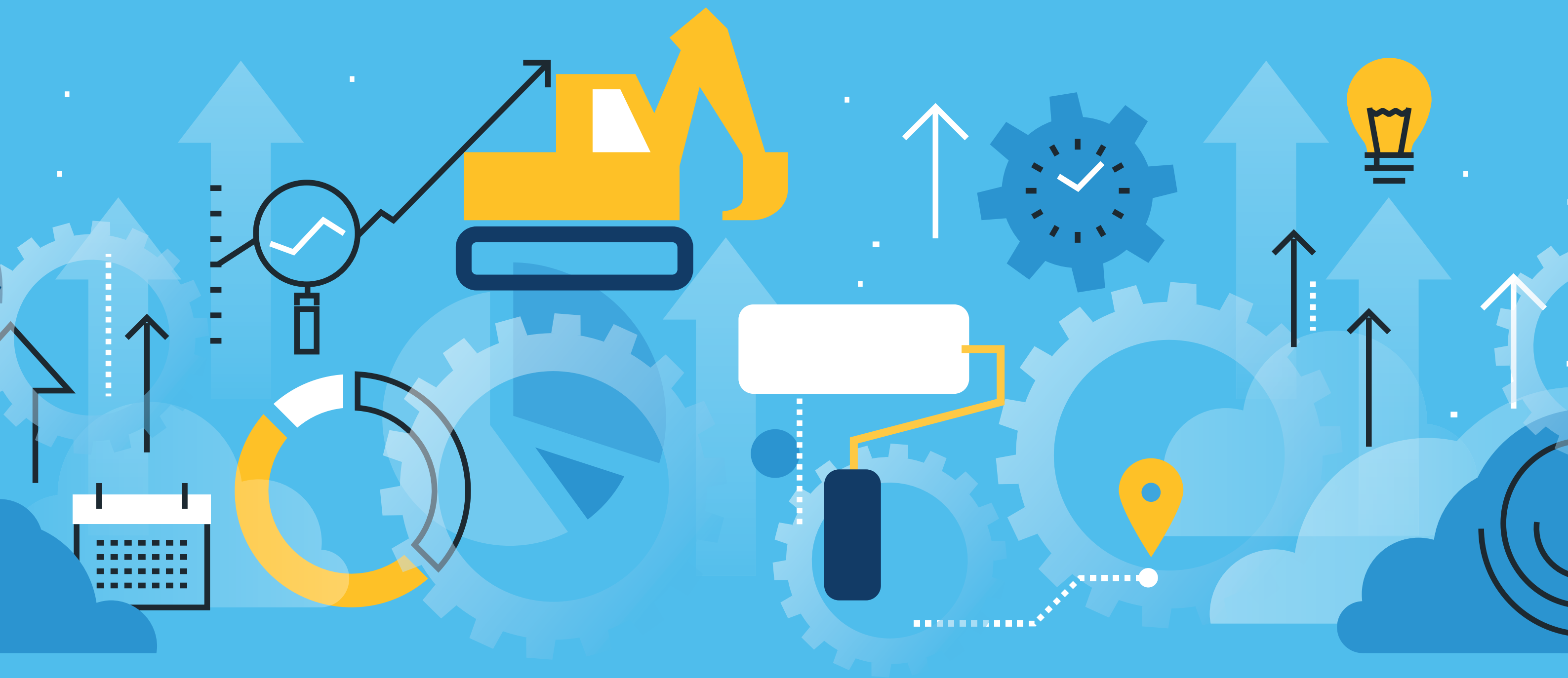
- We target an operating surplus to re-invest into our University of between 5–7% of income per year.
- In 2017/18 our surplus was £25.1m (2.4% of income) compared to £63.9m (6.3%) in 2016/17. This drop in surplus was due to:
  - income levels being below expectations, eg the external environment prevents a rise in the home undergraduate tuition fee;
  - inflationary pressure on operating costs;
  - growth in staff numbers coupled with increments and the nationally negotiated annual pay award;
  - our strategic direction for excellence means that we target improved student entry tariffs;
  - research funders not covering the full costs of research incurred. We recover only about 75% of our full costs (similar to all research intensive universities) and as such we subsidise our research. This subsidy is from the surplus generated by international student fee income. We have an ongoing programme established to improve research recovery such that we achieve a benchmarked recovery rate in the top quartile of our peers.

ACCOUNTING SURPLUS



- While our underlying surplus was disappointing, one-off 'accounting' entries inflated our total comprehensive income for the year to £102.2m.
- An actuarial gain against pensions of £59.2m was recognised at year end. This arose primarily from the year-end market valuation and markets continue to be extremely volatile. It is important to note that this actuarial gain has no impact on the cash position of our University.
- Similarly, we recognised a £12.9m gain on investments, primarily endowments. Again this was an accounting 'book' entry which does not affect the cash position of the University and is volatile given market performance.

FUNDING
OUR CAMPUS MASTERPLAN



We are in the middle of an ambitious ten-year plan to create an inspiring and progressive environment that will benefit both staff and students, now and in the future. Many of our new buildings, like the Graphene Engineering and Innovation Centre and the Henry Royce Institute for Advanced Materials, are completely funded by external sources. Others, like our Alliance Manchester Business School redevelopment and the Schuster Extension, are funded through a combination of external and internal finance.

In 2017/18 we invested over £500m in our staff while our capital plans saw an investment of £200m.

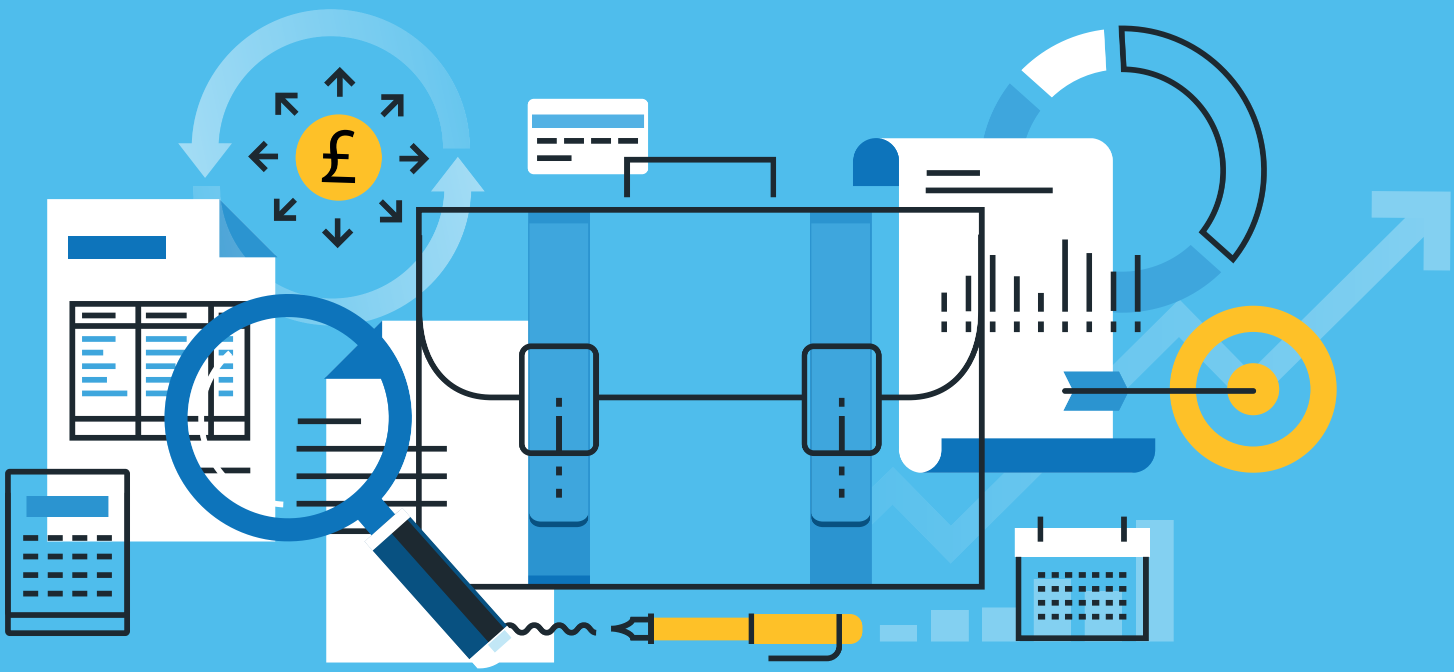
The costs of delivering the Manchester Engineering Campus Development (MECD) are estimated to be half of the projected costs of remaining on North Campus for even another ten years. Moving to MECD will reduce our running costs and carbon footprint, as well as bringing all our students together onto one campus. The move will also free up considerable land holdings, enabling the University to play a significant role in the future economic success of the city by developing the North Campus site into a world-class innovation district over the next 20 years.

In 2017/18 as a consequence of this investment we saw an increase of £150.5m in our tangible fixed assets at the year end.

WHAT
ARE WE DOING TO GENERATE HIGHER LEVELS OF INCOME?

- Increase and diversify our online blended learning offering through The University of Manchester Worldwide
- Increase recovery of research costs
- Increase income from international tuition fees by diversifying our courses and targeting new markets
- Increase philanthropic giving towards planned activities therefore reducing the call on University funds
- Deliver savings across the Professional Services through improving efficiency and effectiveness

WHAT
FINANCIAL RISKS AND UNCERTAINTIES DO WE FACE?



- The issues around pensions are still unresolved. An additional 1% increase in USS employer contributions would increase our pension fund liability by £37.7m per year. The risk of industrial action still remains.
- Our University has limited influence over the continued growth in wages and salaries which are driven by increments and the nationally negotiated annual 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.
- The outcomes of the Augar Review are expected in January 2019 and significant changes to tuition fees and student recruitment would have serious impacts on our income
- Uncertainties around the impact of Brexit on things like economic growth, EU staff and students, exchange rates and import duties
- Uncertainties in the financial markets can affect our investment performance
- Changes in research funding, activity and performance
- Improved higher education offerings in some of our key international markets could impact on international student recruitment