MANCHESTER 1824
The University of Manchester

OUR UNIVERSITY'S FINANCIAL PERFORMANCE 2019/20

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Our University has published its 2019/20 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 we are funded, where we invest our income and the financial opportunities and challenges ahead.

This was an exceedingly challenging and unusual year for our University, with COVID-19 having a major impact on all aspects of activity. Consequently we have reported, a very small operating surplus of £5.2m (0.5% of income) compared to £50.0m (4.6% of income) as recalculated for 2018/19. We now calculate our operating surplus after *depreciation*, *amortisation* and *capital income*, to give a more accurate picture. This is significantly lower than previous years and far too low to meet our current needs and invest in our future ambitions, but is very much better than we had feared.

We were quick to respond to mitigate the potential loss of income from tuition fees, research and other income streams due to COVID-19, and the very significant additional costs of COVID-19. In spring 2020 we instigated measures to make significant savings. This including halting all capital building projects that were not in contract, permitting only essential non-pay expenditure, furloughing staff where eligible and introducing a range of voluntary measures to save pay costs. Temporary savings were also made as a consequence of many activities on campus ceasing during COVID-19 related restrictions and some planned expenditure was deferred. In other cases we spent more than planned. This included additional expenditure on student support and improved provision of online learning.

Even prior to the pandemic we needed to generate a larger surplus to reinvest in our core activities. This remains the case. We continue to face significant financial uncertainty around leaving the EU, the continuing issues around the funding of pensions in the higher education sector, the very major costs of giving students full rent rebates if they do not return to our residences and significant additional support for student wellbeing and mental health. The pandemic continues to disrupt activity and many of our costs continue to rise while our core income streams (UK fees and research grants and contracts) decline in real terms. We did make major non-pay savings because most activities on campus ceased, though many of these costs are deferred to later and will need to be met in future years.

Looking to the year ahead and beyond, whilst we met or exceeded our student recruitment targets, the full picture remains unclear. We have to consider the impact of dropout rates, increased costs for bursaries, pensions, rent rebates and the reduction in income from many sources.

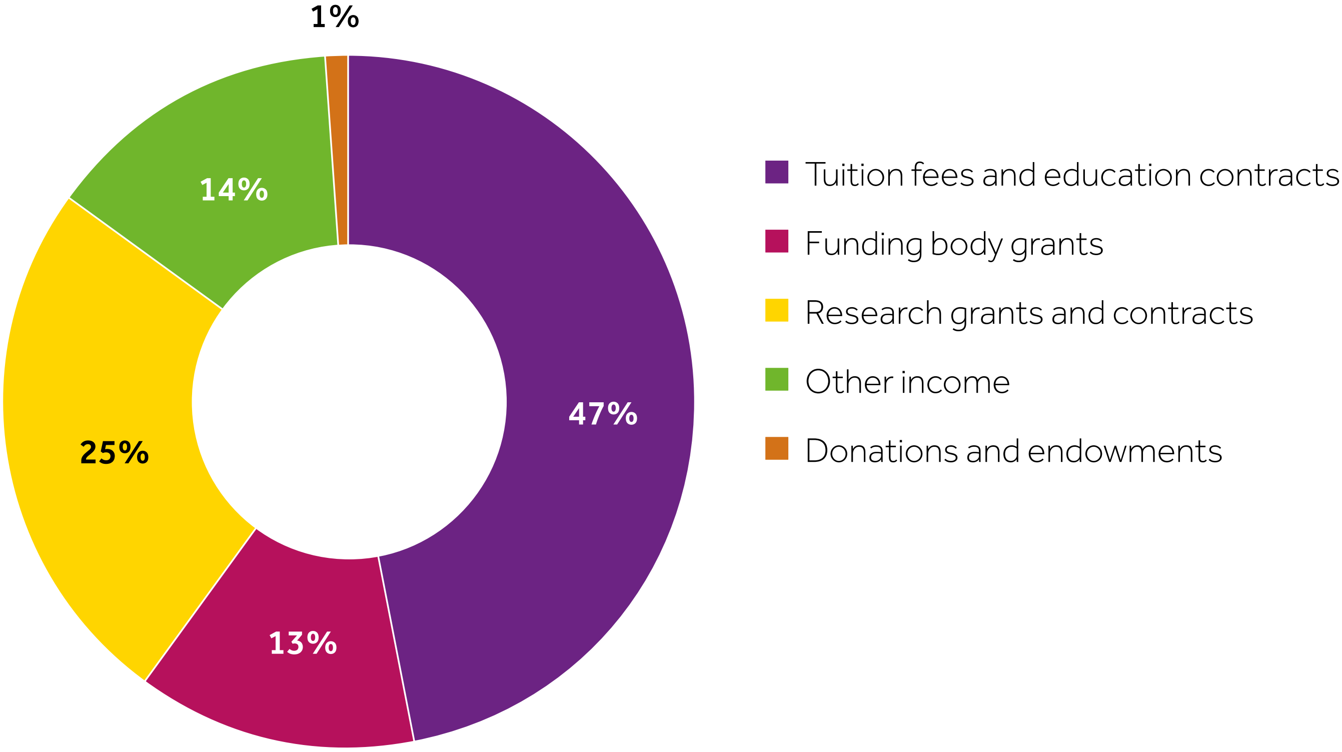
We continue to operate safely and sustainably in these challenging times.

Professor Dame Nancy Rothwell,
President and Vice-Chancellor

Robert Fraser, Chief Financial Officer

See the Glossary on page 8 for an explanation of terms in italics.

INCOME WHERE OUR MONEY COMES FROM



In 2019/20 our total income decreased to £1,064m - a decline of 3.1% (our turnover is comparable to the combined income of Manchester City and Manchester United football clubs). Excluding *capital income* of £54.0m (£88.1m in 2018/19), our income was consistent with the prior year.

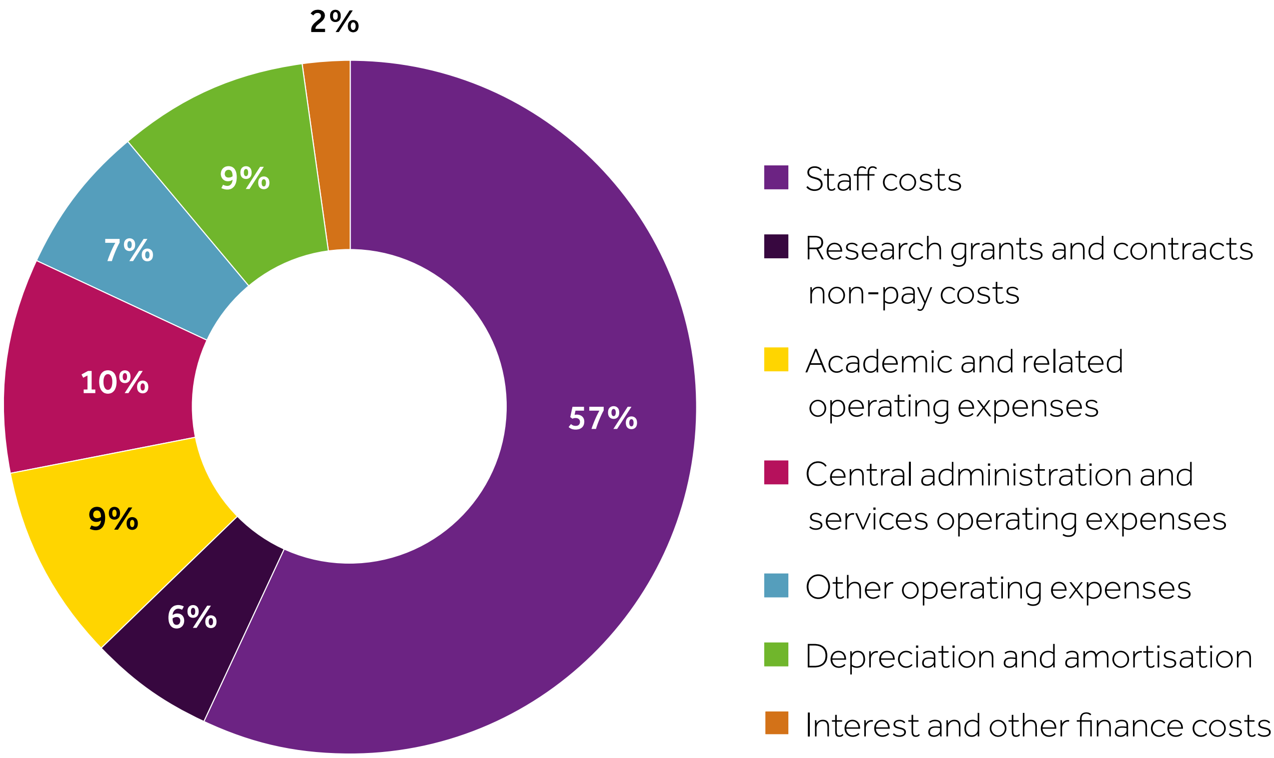
47.4% of our income comes from tuition fees and education contracts, and in 2019/20 this rose by 4.5% to £504.9m. Full-time Home/EU tuition fee income has remained fairly static at £205.7m because fees have remained constant for several years. Full-time International tuition fee growth continued to be strong with a £25.7m (11.4%) increase driven by both increased student intake and fee inflation.

24.9% of our income comes from research grant and contract income. In 2019/20 this fell by £58.8m (18.2%) to £264.7m as most research had to be suspended during the lockdown period. However, excluding research capital income (a more insightful measure as it removes grant income received for the purchase of equipment over £50k), research income decrease was 9.9%.

Due to COVID-19 restrictions we saw declines in income from residences, catering, car parking and conferences in the latter part of the financial year. In the Financial Statements this is classified in other income.

See the Glossary on page 8 for an explanation of terms in italics.

EXPENDITURE WHERE THE MONEY IS SPENT



During 2019/20 we continued to invest in supporting our three goals of research and discovery; teaching and learning; and social responsibility.

The largest proportion of our income is spent on our staff, who support the delivery of these core goals. Our staff costs have grown significantly over recent years due primarily to inflationary pay awards and increased pension costs.

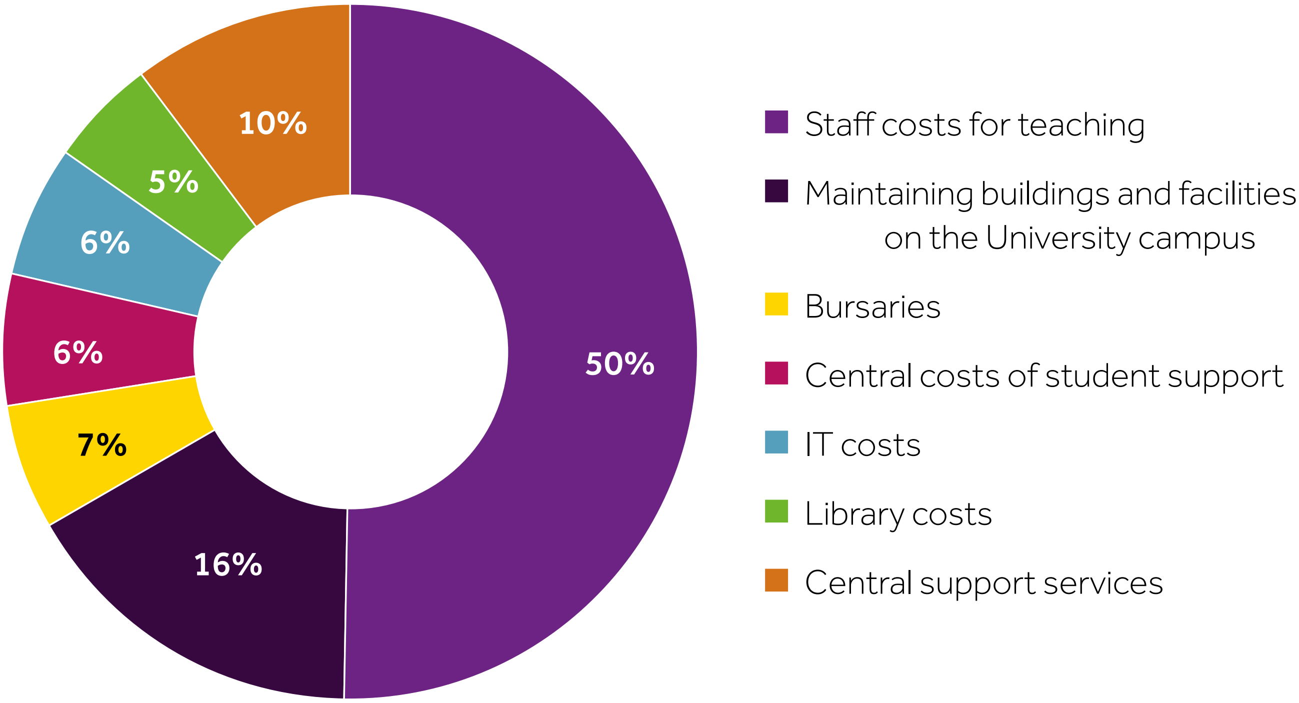
In 2019/20 the percentage of our income spent on staff costs rose from 55.7% in 2018/19 to 57.5% 2019/20 (excluding capital and voluntary severance costs). Staff costs have continued to grow more quickly than income, exacerbated in 2020 by a reduction in income in key areas due to the impact of COVID-19.

Our President and Vice-Chancellor has not accepted any increases in her base salary since 2016. The Senior Leadership Team took a temporary voluntary 20% pay cut as a result of the COVID-19 pandemic.

The Senior Leadership Team's expenses which have been incurred while on University business can be found on the University **website**.

In responding to the pandemic our University invested significant amounts in extending postgraduate research students and post-doctoral researchers, providing IT equipment for students and staff, and contributing to the student hardship fund (in addition to many generous donors). In addition to this, more was spent on providing student support and improved provision of online learning, although we also made temporary savings because most activities on campus had ceased.

WHAT IS THE TUITION FEE SPENT ON?



In 2019/20 50% of the Home/EU undergraduate tuition fee was spent on teaching salaries and Professional Services support for teaching. This represents a 2% increase on the proportion spent in 2018/19.

16% was invested in maintaining our estate and buildings to ensure that we offer excellent facilities.

All of our students benefit from a range of services and support which are provided centrally and account for 16%. These include things like providing our support for careers, mental health and wellbeing.

11% is spent on our libraries and IT provision which both make a significant contribution to the student experience.

7% is spent on funding bursaries and other activities to improve access for all to a University of Manchester education.

To put this into context, the student fee has remained static, meaning the percentage of income we received from it has seen a real-term decline, whilst our pay and non-pay cost have seen larger than inflation rises.

PENSIONS

Whilst our *operating surplus* decreased by £45m, our *total comprehensive income* has increased from £111.6m deficit to a surplus of £135.2m. This is because we have had to include an accounting credit of £115.3m, mainly as a result of changes to the Universities Superannuation Scheme (USS) in 2019/20, compared with a charge of £143.3m in 2018/19. This year there was also an *actuarial gain* relating to other pension schemes of £15.5m compared to a loss last year of £35.3m.

Further details on the impact of pensions are on page 12 of the Financial Statements. The most significant impact for our University was the national actuarial valuation of the USS as at 31 March 2018, which revealed a £3.6bn deficit in respect of benefits earned to that date. Like all USS employers, we agreed a Schedule of Contributions - payments we make towards the scheme deficit recovery plan as well as towards the cost of current pensions being earned. The deficit contribution rate decreased to 2% from 1 October 2019 to 30 September 2021 and will then increase to 6% until March 2028, unless the March 2020 valuation is agreed with a different financial requirement for meeting the deficit. This contrasted with a previously agreed deficit rate of 5% until 31 March 2034, which applied in the previous year. As a consequence of the change in deficit contributions, the required provision reduced, resulting in an accounting credit. Deficit recovery contributions are included in the overall contributions paid to USS.

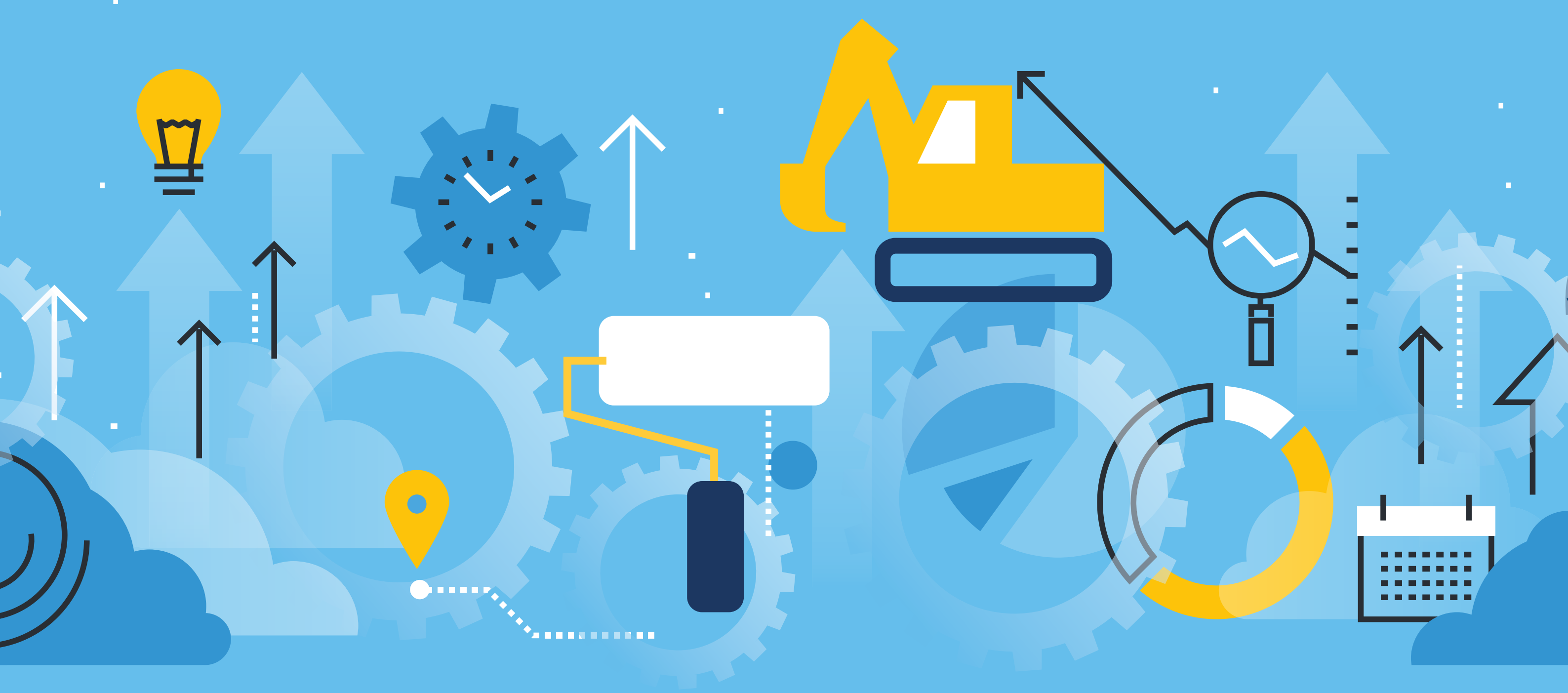
At the point of writing, we are waiting to receive the initial outcome of the March 2020 valuation. The USS trustee has indicated that an increase in the contribution rate for employers and members is likely, in order to maintain the current benefit promise and to meet the deficit. Dialogue will continue between the USS trustee, UUK and UCU during 2021 to agree contribution requirements and to conclude the valuation.

We recognise how important pensions are to our staff and are deeply concerned about how we manage this deficit. In particular we have noticed that many staff, especially younger staff, are opting out of the USS pension (nationally approximately 20% of all people who qualify). This is of concern because USS provides not only a pension on retirement, but also support in the event of disability, and payment to families in the event of what is termed 'death in service'.

The Financial Statements also show a *pension provision* of £110.7m, in respect of the University of Manchester Superannuation Scheme (UMSS), and £20.1m in respect of the Greater Manchester Pension Fund (GMPF). The University has an ongoing commitment to make payments to clear the UMSS deficit at a rate of £6.4m (increasing by inflation) per year.

See the Glossary on page 8 for an explanation of terms in italics.

FUNDING
OUR CAMPUS MASTERPLAN AND CAPITAL EXPENDITURE



Our *capital income* decreased by 38.7% to £54.0m. The decrease is due to a number of major capital projects which received capital income in prior years that have now been completed, as well as suspending purchasing funded research equipment during lockdown.

Campus masterplan and maintenance activity were impacted as a result of the closure of non-essential facilities on campus due to COVID-19. Activity on masterplan projects did continue all the way through lockdown, however, this was at lower levels than expected. Moreover, capital spend was paused or deferred where not under contract. However, in order to retain an attractive and fully functioning estate suitable for delivering our goals we will need to continue investing in the campus. As such these projects are on pause rather than being cancelled.

The major cash outflow during the year continues to be planned investment in our Campus Masterplan, notably Manchester Engineering Campus Development (MECD), with cash expenditure on fixed assets of £179.3m.

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CHALLENGES IN 2020/21 AND BEYOND

We continue to face significant financial uncertainty as the pandemic disrupts activity. In the longer term, like all universities in the UK, we face a structural deficit due to the underfunding of research, funding the USS pension deficit, a decline in real terms of the student fee and larger than inflationary rises in pay and non-pay costs. This places significant challenges to our financial sustainability and our five year plan.

During the current financial year we expect further declines in income from residences, catering, car parking and conferences. Until national and local restrictions are lifted we do not anticipate a significant upturn.

A key 2020/21 challenge is the risk of students not completing their studies and/or deferring as a consequence of facing further national and local restrictions. Research income and the cost recovery on research is even more challenging as funders, especially charities, have scaled back on research funding.

There is still uncertainty following the UK withdrawal from the EU. We will be able to participate in Horizon funding, which is very positive for our European research collaborations. We still await details on the Turing scheme intended as a replacement for Erasmus+. 10.8% of our staff and 7.5% of our students are EU citizens and 8% of our research funding is from the European Commission. We continue to **recognise, value and support our European staff**, students and partners at this time of uncertainty.

This financial year we continue to invest in making our University COVID safe, providing additional support for students and taking on extra teaching staff in areas where we have increased student numbers due to the changes in grading of A-levels.

We have made an ongoing commitment to support PhD students where their progress has been disrupted by the pandemic. We also continue to invest significant amounts on developing our blended learning programme. This was already high on our University's agenda but development has proceeded at pace in response to the pandemic.

Since the year end, should it be required, the University has secured access to short-term borrowing facilities out to March 2022 comprising the Bank of England COVID Corporate Financing Facility (CCFF). The University has completed a bank financing exercise to secure a three-year club Revolving Credit Facility (RCF) of £250m. This facility will provide the additional financial flexibility to weather the challenges listed above, should it be needed.

There are positive signs amongst the challenges and our ambitions are undiminished. Following the UCAS deadline we have seen an increase in student applications (home and overseas) for study in 2021/22 and non-continuation of our current students is low. Our research is helping to understand COVID-19 and by investing in our core activities this will allow us to deliver on our ambitions, and support the economic and social recovery from the pandemic; locally, nationally and globally.

While much remains uncertain, and we must continue to learn and be agile in how we prioritise, we are sure that our vision and strategic plan sets out a clear path towards renewed strength and greater successes.

GLOSSARY OF FINANCIAL TERMS

This document aims to provide an overview of a complex set of financial accounts and wherever possible clear and simple language has been used. There are, however, a small number of financial or accounting terms which have been used, so here is a glossary to help aid your understanding of these.

TOTAL COMPREHENSIVE INCOME

This is our total result as reported in the University Financial Statements and includes all items of income and expenditure. All universities are required to report in the same format.

OPERATING SURPLUS

Operating surplus is the *total comprehensive income* of the University, adjusted to remove items which are outside of the University's normal operations or outside of the University's direct control. A table showing how our operating surplus is defined can be found on page 14 of the Financial Statements. It excludes significant one-off items (such as the £115.3m pension credit), actuarial gains and losses on pension schemes, market value changes on our investments and any gains on disposal of our fixed assets. This is because these items are not reflective of our underlying financial performance.

DEPRECIATION

Depreciation refers to the reduction in the cost of the tangible fixed assets over their lifespan which is proportionate to the use of the asset in that specific year.

AMORTISATION

Amortisation refers to the reduction in the cost of the intangible assets over their lifespan.

CAPITAL INCOME

This is in relation to external grant funding the University may receive for the purchase of equipment that is over £50,000 or towards buildings.

CAPITAL EXPENDITURE

The money that the University spends on acquiring and maintaining fixed assets, including new land and buildings, enhancements to existing buildings costing more than £150,000 and equipment costing more than £50,000.

ACTUARIAL GAIN/LOSS

Actuarial gains and losses comprise the difference between the assumptions used in setting the previous provision and actual experience or subsequent changes to those assumptions. A gain occurs if the future amount expected to be paid is less than previously estimated. A loss occurs if the future amount expected to be paid is higher than previously estimated.

ACTUARIAL VALUATION

An *actuarial valuation* is a type of appraisal of a pension fund's assets and liabilities, using investment, economic and demographic assumptions to determine the funded status of a pension scheme.

PENSION PROVISION

A *pension provision* is a liability (amount owed) recognised within the University's Statement of Financial Position, relating to an obligation to fund a pension scheme deficit.