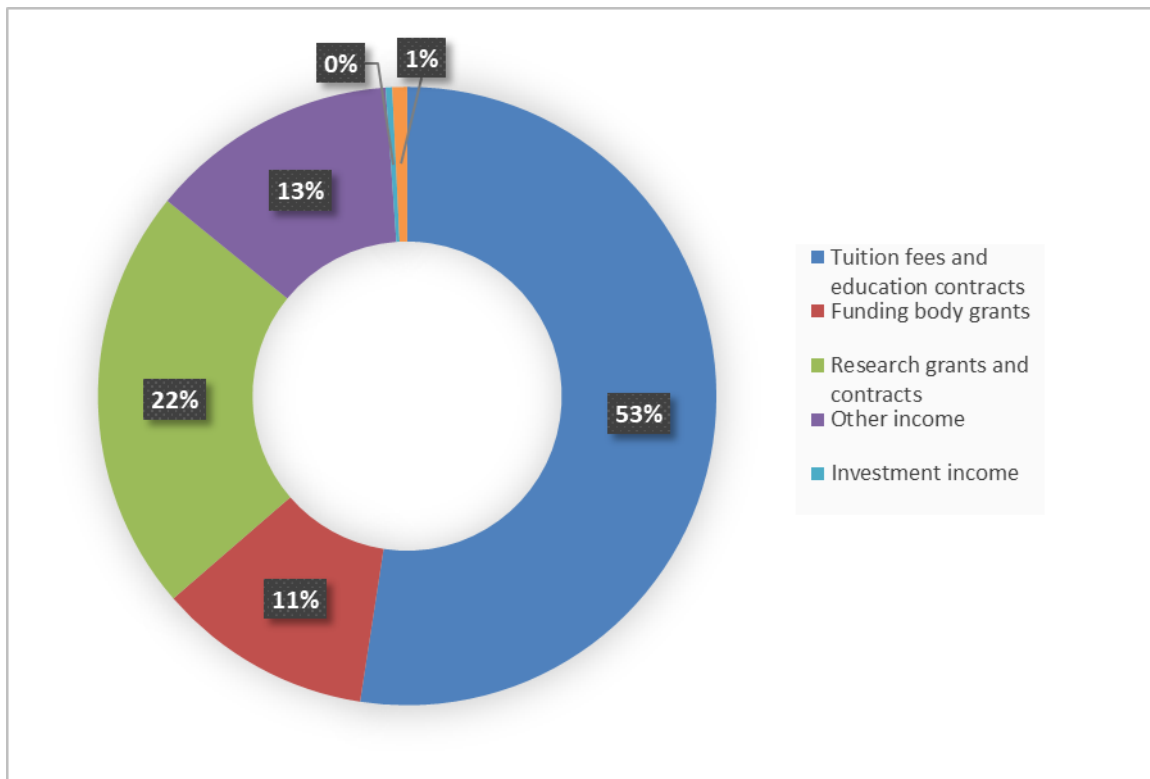


SUMMARY EXPLANATION OF OUR UNIVERSITY'S FINANCIAL PERFORMANCE 2021/22

INCOME WHERE OUR MONEY COMES FROM



In 2021/22 total income increased by £116.8m to £1,217.1m, an increase of 10.6%.

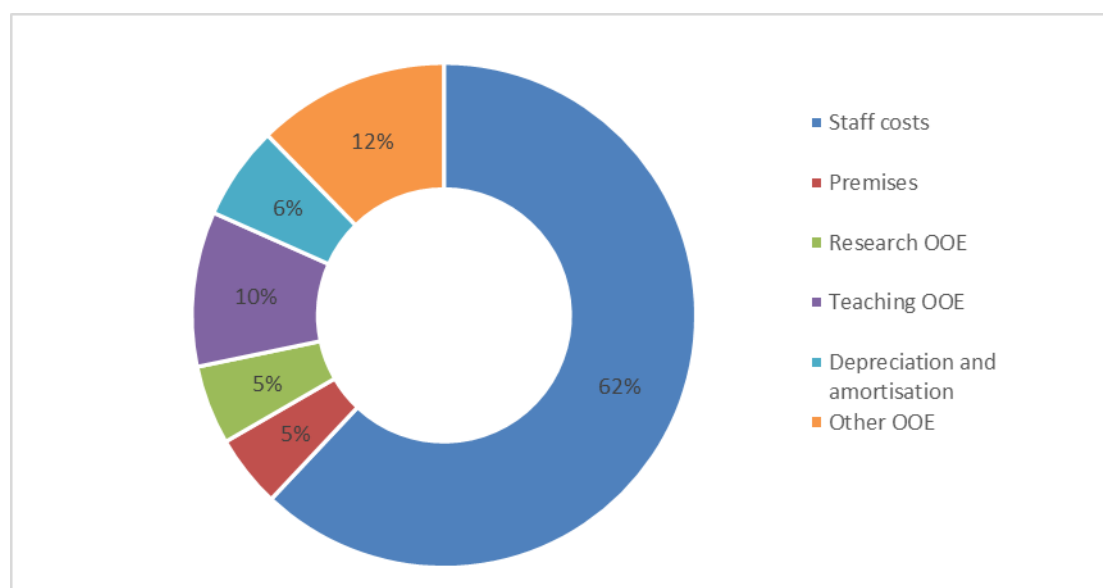
53% of our income comes from tuition fees and education contracts, and in 2021/22 this increased by 10.4% to £638.2m. Full-time Home and EU student income has increased marginally by £2.5m to £226.5m in 2021/21. Full-time international student fee income has increased by £50.5m to £356.2m in 2021/22, representing growth of 16.5%. This reflects the increased attractiveness of both the University and the UK as a place to study, partly due to the impact of the two-year post-study working visa and the post-pandemic increase in students able and willing to travel for study. Fees from international students represent 29.3% of total income (2020/21: 27.8%) and 55.8% of total tuition fees.

22% of our income comes from research grant and contract income. In 2021/22 this increased by 14.2% to £270.6m. Underlying research income (this excludes research *capital income* which is grant income for the purchase of equipment over £50k) has increased this year by £27.7m to £251.6m, a 12.5% increase. This reflects an increase in the research project portfolio across all areas.

During the year income from residences, catering, car parking and conferences (classified as other income) recovered to near pre-pandemic income levels.

See the Glossary at the end of this document for an explanation of terms in italics

EXPENDITURE WHERE THE MONEY IS SPENT



During 2021/22 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 invested in 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, automatic pay increments and increased pension costs. In 2021/22 staff costs (excluding the significant USS pension adjustment) have increased by 2.4% to £597.3m.

Our President and Vice-Chancellor has not accepted any increases in her salary for the sixth year running (since 2016). The Senior Leadership Team's expenses, which have been incurred while on University business, can be found on the University website.

Academic and related expenditure, premises costs and research grant expenditure have increased year-on-year due to the lifting of pandemic restrictions. Residences, catering and conferences costs have also increased due to the impact of increased student numbers and greater on-campus activity.

PENSIONS

We recognise how important pensions are to our staff. We want to ensure the contributions for both our staff and the University remain at affordable levels. Many staff, especially younger ones, are opting out of the USS pension (nationally approximately 20% of all 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 University is supportive of efforts to create a low-cost option, better sustainability of the USS pension and revised governance which a joint working group of UUK, UCU and USS is currently exploring.

Pension adjustments make a major impact on our Financial Statements, but do not affect our cash position or *operating surplus*. The Financial Statements show *pension provisions* totalling £412m comprising £327m in respect of USS, £84m in respect of the University of Manchester Superannuation Scheme (UMSS), and £1m in respect of the Greater Manchester Pension Fund (GMPF).

Following the finalisation of the USS 2020 *actuarial valuation*, the 2021/22 *operating surplus* has been impacted by a one-off non-cash charge of £219.5 million. This is primarily a consequence of the extension of the USS deficit repayment plan by a further ten years for which the University must make provision.

See the Glossary at the end of this document for an explanation of terms in italics

FUNDING OUR CAMPUS MASTERPLAN AND CAPITAL EXPENDITURE

Our *capital income* decreased in value by 14% to £37m from 2020/21. The decrease is due to a number of major capital projects which received *capital income* in prior years that have now been completed.

The major capital cash outflow during the year continued to be on planned investment in our Campus Masterplan, notably Manchester Engineering Campus Development (MECD). In 2021/22 there has been a further £29.7m spend on MECD, £54.0m on the redevelopment of Paterson building adjacent to The Christie hospital and £17.5m on capital equipment. The teaching facilities within MECD are now open. This modern space is proving extremely popular with students and now having a transformative impact on teaching and learning on campus.

See the Glossary at the end of this document for an explanation of terms in italics

CHALLENGES IN 2022/23 AND BEYOND

We continue to face financial uncertainty. Whilst the impact of the pandemic has eased, there still remains a financial risk should there be another significant wave this Winter. However, this risk is considered much reduced.

Other global challenges have come to the forefront. The Russian invasion of Ukraine has further exacerbated issues the UK was already experiencing as a result of Brexit and the global pandemic, including disrupted supply chains, more volatile commodity prices and higher transportation and shipping costs.

The significant impact on energy costs has led to yet further general inflation increases. Whilst a lower value pound makes the UK an attractive place for international students, it drives up the cost of its imports and will further increase general inflation. All of these factors put further pressure on staff and pay inflation in the sector.

In addition, recent financial market turbulence has negatively impacted the value of the pound and gilt rates have risen significantly. The University is currently sheltered from the impact of interest rate rises as its long-term debt interest rates are fixed. The University's revolving credit facility is a floating rate but the University currently has no need to use the facility.

We continue to make significant investment in our IT infrastructure, developing our flexible learning capability and more generally investment in our processes and various transformation projects. However the level of investment required is significantly beyond the cash we have available or can generate from any future surpluses, especially when these will be eroded by inflation and the significant underfunding of research.

International full-time fees make up an increasing proportion of our tuition fee income, even at a time of home undergraduate growth. International student numbers are reliant on students from a

relatively small number of countries and so investment plans are in development to attract students from a broader range of countries in order to mitigate the risk of geopolitical disruption.

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 home student fee and the impact of the inflation on the University's cost base. This places significant challenges to our financial sustainability and our five-year plan.

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 is our total result as reported in the University Financial Statements and includes all items of income and expenditure, including various accounting entries that relate to pensions. All universities are required to report in the same format.

OPERATING SURPLUS is income from ongoing activities (such as tuition fees, funding body grants, research grants and contracts, investment income and other sources) less expenditure from ongoing activity (staff costs, other operating expenses, depreciation, interest and other finance costs). In the Statement of Comprehensive Income and Expenditure this is the line titled 'surplus before other gains and losses and share of operating surplus of associates.'

ADJUSTED OPERATING SURPLUS excludes significant one-off items such as the current year £219.5m pension charge in relation to USS.

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 refers to the reduction in the cost of the intangible assets (e.g. IT software) over their lifespan.

CAPITAL INCOME relates to external grant funding the University may receive for the purchase of equipment that is over £50,000 or towards buildings.

CAPITAL EXPENDITURE is the money that the University spends on acquiring and improving **FIXED ASSETS** (see below).

FIXED ASSETS comprise new land and buildings, enhancements to existing buildings costing more than £150,000 and equipment costing more than £50,000.

ACTUARIAL GAIN/LOSS comprises the difference between the assumptions used in setting the previous pension 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 is a liability (amount owed) recognised within the University's Statement of Financial Position, relating to an obligation to fund a pension scheme deficit.