



2004 financial statements

The Victoria University of Manchester

2004
financial
statements



THE UNIVERSITY
of MANCHESTER

2004 financial statements



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Financial Report for the Year Ended 31 July 2004

Overview

The Victoria University of Manchester's consolidated results for the year to 31 July 2004 can be summarised as follows:

	2004 £'000s	2003 £'000s Restated
Income	386,908	364,872
Expenditure	(373,565)	(334,749)
Operating Surplus - continuing operations	13,343	30,123
Exceptional Item	(8,243)	(169)
Other Items	1,282	(2086)
Surplus	6,382	27,868

The 2003 figures have been re-stated, as is explained more fully on page 12, in order to comply with the latest Statement of Recommended Practice (SORP) for Higher Education dated July 2003 in respect of the treatment of endowment income and also to conform with reclassifications adopted this year.

2003/04 was the last full year of operation for the Victoria University of Manchester and the underlying operating surplus of £13.3m equates to 3.4% of income, which is a very satisfactory result. The previous year had benefited from a number of non-recurrent items, as noted, in the 2003 financial statements, which boosted the surplus by £12.4m. Without those, the true operating surplus for this year is just slightly below last year.

On 1 October 2004 the new University of Manchester was established and all the assets and liabilities of this institution and University of Manchester Institute of Science and Technology (UMIST) were transferred to the new body by Act of Parliament. The Exceptional Item in the 2004 accounts relates to a wide range of expenditure that has been incurred to date in bringing these two institutions together. The healthy state of the finances at the Victoria University of Manchester has been a major contributor to giving the new University a positive start.

Income and Expenditure

All elements of income have increased, year on year. Research Grants and Contracts showed particularly strong growth, at 10% up, and income from overseas students, transfers from endowments, and NHS contracts all contributed to the good result. Income included £1.5m from the sale of part of the University's shareholding in Neutec Pharma Ltd, a highly successful spin-out company.

Within expenditure, staff costs have increased by £20.8m representing a 10% increase. However, when viewed against a 6% rise in activity overall, and a 3.44% pay settlement, it is not an unreasonable increase. Research staff, in particular, have a big influence on the pay bill with the large increase in research grant activity making an immediate impact on research staff costs. Other operating expenditure has increased by 14.8%. Part of this is for the same reason as staff costs, but last year's figure was reduced by £7.9m as a result in a change of accounting treatment for estates projects costs. If this figure is added back, the increase falls to 7.8%, which is in line with the growth in activity.

Exceptional Item

A total of nearly £10m was spent in the year by the Victoria University of Manchester and UMIST in support of the transition from the two old universities to the new one. The bulk of this, £8.2m, was spent by this institution and this amount has been agreed by the Auditors as an Exceptional Item.

Balance Sheet

As a result of prudent financial management during a period of major investment, the University's net assets have increased by £24m during the financial year. The growth is more than accounted for by the rise in the value of tangible fixed assets, which now have a net book value of over £200m. Despite the demands of the capital expenditure programme, the University has not needed to take on any additional external borrowings this year which reflects the strength of its investment assets.

The level of endowments held by the University has increased by £3.7m and stands at £95m.

The increase in total funds of £24.7m is reported in detail in the Statement of Total Recognised Gains and Losses of the Financial Statements.

Investment Performance

The University operated four investment portfolios during the year, with a combined value of over £100m. One of them, the Hallsworth Investment Fund was established in 2002/03 following the sale of Great Common Farm. The annualised total returns on the investments and cash held in these funds for the 12 months ended 30 June 2004 (the comparable valuation period of the WM Fund, which is used as a benchmark) show that there has been a recovery in Stock Markets, and are as follows:

General Fund	11.8%
Consolidated Fund	10.8%
Simon Fund	12.4%
Hallsworth Fund	12.2%

These returns are close to the WM 2000 Pension Fund benchmark which came out at 12.3% for the same period.

As mentioned above, the Hallsworth Fund came into existence in 2002/03 and its performance cannot yet be measured over the longer term. However, the returns for the other funds for the five year period to 30 June 2004, shown below, demonstrate that the University continues to outperform the WM average return of -1%.

General Fund	1.0%
Consolidated Fund	0.7%
Simon Fund	0.9%

Capital Developments

The University has continued with its large capital expenditure programme which will be of lasting benefit to the infrastructure of the organisation. Expenditure other than on equipment during 2003/04 amounted to approximately £35m. All the Projects, whether underway or planned, have been incorporated into a Capital Development Programme for the new University of Manchester.

Conclusion

All members of staff can be very proud of the financial base that the University contributes to the new institution.

Geoff Hope-Terry

Finance Director of The University of Manchester

Formerly Finance Director of The Victoria University of Manchester

8 December 2004

The Victoria University of Manchester was a chartered corporation, having received its Royal Charter from the Privy Council, initially in 1880 as the Victoria University, and subsequently in 1903 as the Victoria University of Manchester. The University operated under the terms of a Supplemental Charter granted in 1973, and it was also an exempt charity under Section 3 of the Charities Act 1993. As such, the University enjoyed substantial autonomy to determine and direct its own affairs, and in particular had the freedom to determine the scope of its teaching and research activity.

Universities receive a substantial element of their funding from public funds allocated principally through the Higher Education Funding Councils (HEFCs). The conditions attached to grants from the Funding Council are set down in a Financial Memorandum between the University and HEFCE (the Funding Council for England).

The University, like other public bodies, had a duty to conduct its affairs in a responsible and transparent way, and to take into account in so doing the requirements of funding bodies, the standards in public life enunciated by the Nolan Committee and the recommendations of the Dearing Inquiry into Higher Education, informed by the subsequent guidance offered by the Committee of University Chairmen. The University had conducted a review, and had implemented the outcomes, of its corporate governance arrangements in the light of these Reports.

In addition, the University corporately, through its arrangements for governance, was committed in a demonstrable way to the principles of academic freedom and equality of opportunity which were embodied in its Charter and Statutes.

Council was satisfied that, insofar as they could be applied to an institution of higher education, the University complied with the provisions of the Combined Code of Best Practice on the financial aspects of corporate governance. However, the University was committed to exhibiting best practice in all aspects of corporate governance. Guidance provided by the Turnbull Committee on a risk management approach to internal control of institutional activity, to the extent set out in the HEFCE Accounts Direction for 2000-01 (re-stated for 2001-02, 2002-03 and for 2003-04), had been adopted by Council as the basis for evaluating the University's system of internal control and for reviewing its effectiveness. The duties conferred upon Council (as Governing Body) by the University's Charter and Statutes required it to institute and maintain a sound system of internal control that supported the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it was responsible. The system adopted by Council was designed to manage rather than eliminate such risks, and could therefore only provide reasonable, and not absolute, assurance of effectiveness. Council recognised that some risks would always exist and would never be eliminated. However, the knowledge that such risks exist is, of itself, a key element in the risk management process of the University. It was further recognised that to exercise the responsibility

associated with risk awareness/ management the necessary support, assistance and commitment of the management at all levels in the University would be required and provided. This commitment was key as all staff should have been aware of the nature of the risks associated with their area of authority and accept responsibility for their identification and where possible their control. In exercising this responsibility the necessary support, assistance and commitment of the senior management of the University would be provided. The risk management objectives of the University were:

- to integrate risk awareness into the culture of the University;
- to manage risk in accordance with best practice;
- to consider legal compliance as the minimum standard;
- to anticipate and respond to the risks associated with changing social, environmental and legislative requirements; and,
- to reduce the cost of risk by taking appropriate steps to mitigate injury and damage to individuals and the assets of the University.

The objectives set out above were achieved by:

- the establishment of a framework and through a Risk Management Group to act in an advisory capacity for all staff;
- the evaluation of risks inherent in all plans and proposals including the identification of steps that would be required to mitigate, eliminate or control such risks;
- the adoption and dissemination on a continual basis of risk awareness/ management training; and,
- the preparation of contingency plans in areas where there was a potential for an occurrence having a catastrophic effect on the institution and its business capability.

Furthermore, Council and the senior management of the University had agreed that a number of processes be established. In particular, those established by Council include:

- a meeting, at least annually, to review and monitor the strategic plans and direction for the University. Specific strategic initiatives in the context of the overall Corporate Plan are considered/monitored as required;
- regular reports to be received from the Audit Committee concerning internal control, including progress reports on key projects, and from the Risk Management Group on the steps being taken to manage risks across the University;
- the Audit Committee to receive regular progress reports from the Head of the Internal Audit Service, which include his/her independent opinion on the adequacy and effectiveness of the University's system of internal control, with any recommendations for improvement; and,
- reports on internal control activities by major budget holders and project managers normally to be evaluated and reported on by the Internal Audit Service.

Council had also:

- established a system of key performance and risk indicators;
- drawn up and recorded the key risks facing the University in order to ensure that actions to manage them had been and would continue to be developed; and,
- adopted a risk management framework to underpin the risk management policy already in place, and details of this framework had been circulated to all University staff.

Council's review of the effectiveness of the system of internal control was informed by all these processes, and by comments made by the external auditors in their management letter and by internal audit reports.

Following agreement by Council the University had:

- continued to cascade risk awareness across the University; and,
- recognised, during the 2003-04 financial year, that the focus of attention had moved, on an accelerating basis, from the existing University to the new institution. But that Council had been made aware of the key risks in respect of Project Unity through the production of reports during the year, which had been used to monitor the risk management processes that had been embedded within Project Unity.

Council noted that the transitional arrangements that had been identified, monitored and would be adopted in the new institution would address risk management needs to ensure continued compliance with the Accounts Direction issued by HEFCE.

Summary of the Victoria University of Manchester's Structure of Corporate Governance

The University's overarching mission was the pursuit of excellence through the advancement of research, scholarship, teaching and learning. International quality research together with high quality teaching, spanning a wide spectrum of disciplines, were regarded as the central elements of its overall activity, and academic and financial strategic planning was focused on the continuing achievement of this mission.

The Charter and Statutes provided for and empowered a number of 'authoritative bodies' within the University, each of which had a distinct role to play in the structure of governance. These included:

The Council, as the University's Governing Body, carried the ultimate responsibility for the University's overall strategic direction and for the management of its finances, property and affairs generally, including the employment arrangements for all staff. It met three or four times in each academic year. The membership of 30 had a majority of persons who held no paid appointment in the University (the lay members). The Officers of the Council (Chairman, Deputy Chairman and Treasurer) were appointed from within this category of the membership. Members of the Senate (see below), members of the support staff and students were also on the Council. A Nominations Committee made recommendations to the Court (see below) in respect of vacancies occurring in the lay category of Council membership and in the co-opted category of Court membership, and to the Council in respect of vacancies in the category of Court members appointed by the Council.

Council appointed an Audit Committee, a Finance Committee, a Risk Management Group and a Remuneration Committee, which reported directly to it, and also established committees which advised it on the strategic and policy elements of estates, personnel and health and safety issues, and which also acted with delegated authority in respect of defined matters within their remits. It was a specific role of Council to satisfy itself that work being undertaken on its behalf, whether by committees or by officers, was consistent with corporate objectives and was within the bounds of accepted good practice.

The Senate, the University's principal academic authority, was ultimately responsible for academic strategy, teaching and examination arrangements, and for the promotion of research. It was the final arbiter on purely academic matters, and it was this autonomy of academic governance which set higher education institutions (especially pre-1992 universities) apart from other corporate entities. To be effective, the process of academic governance had to be subject to self-regulation by the academic community within the institution and be protected from other influences. A large number of the statutory powers reserved to Senate were 'regulatory' in nature and control the academic business of the University. However, regulatory functions had to be carried out within clearly defined policy frameworks, which themselves had to be underpinned by a corporate academic mission. This was Senate's business, as were the academic plans which supported the achievement of the mission, but the planning strategies which were developed to implement academic plans, as well as having academic rationale, had also to conform to the overall institutional strategy. Although this was underpinned by academic considerations, it also had financial, physical and personnel elements which were the ultimate responsibility of the Council as Governing Body. Thus, if the academic decisions of the Senate carried resource implications of any sort, the approval of the Council was also required. In practice, matters such as the resourcing of academic plans and strategic planning were considered by a Planning and Academic Development Committee established jointly by Senate and Council. The Senate had 110 members including ex officio those having academic management responsibilities centrally and in the faculties, members (professorial and non-professorial) elected by the Faculty Boards, and student representatives.

The impact of the University on the City of Manchester and the region was considerable. It was a broad one, covering not only the measurable elements of finance and employment generation, but also the wider cultural aspects of local and regional life. This level of activity and influence brought with it responsibilities to local and regional communities which had to be recognised and assessed in the context of the fulfilment of the primary purposes of higher education institutions. Thus provision was made within the arrangements for governance for the involvement of independent or 'lay' members (i.e. those who held no paid appointment in the University) in the work of the Council (as has been mentioned) and of the Court, which was the body providing the interface between the University and the wider community. It was a much larger body (240+ members) than the Council, and both the Court and Council were constituted so as to have a majority of lay members, those on the Council being drawn from amongst those on the Court. Lay members were drawn from a wide range of local, regional and national interests, with particular attention being paid to the importance of strong and effective links with industry and commerce, and together they contributed to the University a wealth of experience and expertise from differing perspectives. Court was the forum where legitimate interests in the affairs of the University could be heard, and was the medium through which the University could present itself and its achievements to its broader 'constituencies'. It had no executive authority in an operational sense, but it did enjoy important rights of scrutiny which provided the checks and balances on how the University functioned and how it deployed its resources. Court also included University staff and students within its membership.

The Assembly comprised all members of paid University staff eligible to hold superannuable appointments (c.6,500), and had the purpose of fostering communication between the various groups of staff in the University, and between Assembly and other authoritative bodies. It held two meetings per year, at which the Vice-Chancellor presided, and the business between meetings was conducted by an elected Committee of up to thirty members. These committee members also served on the Court, and from this group the Court elected three members to membership of the Council.

The Convocation was the body of the University's graduates and had the function of promoting fellowship amongst graduates and helping them to keep in touch with the University by providing opportunities to take an interest in its development and on-going activities. Meetings were held twice a year and the business between meetings was conducted by an elected Committee. A separate election of thirty members to serve on the Court was also held, and from amongst the lay element of these members, two persons were appointed by the Court to serve on the Council.

The members of the Court, the Assembly and the Convocation together formed the constituency for the election of the Chancellor who was the ceremonial Head of the University, presiding over meetings of the Court and over congregations of the University for the Conferment of Degrees.

The Vice-Chancellor was the chief executive officer and the principal academic and administrative officer of the University. In fulfilment of these functions the Vice-Chancellor had overall responsibility for the executive management of the University and for its day-to-day direction, being accountable to the Council for the exercise of these responsibilities and (as the designated Accounting Officer) to the Funding Council for the use of the public funds which had been allocated. In this capacity the Vice-Chancellor could be summoned to appear before the Public Accounts Committee of the House of Commons. As the chief executive officer of the University, the Vice-Chancellor exercised considerable influence on the development of institutional policy and strategy, the identification and planning of new developments and the shaping of institutional ethos. The Pro-Vice-Chancellors and the senior administrative officers all contributed in various ways to this aspect of the work, in particular acting as a Senior Management Team, but the ultimate executive responsibility rested with the Vice-Chancellor.

The function of the University administration was to support the University's primary objectives in respect of teaching and research and to implement the policy decisions of Senate and Council. Through the provision of specialist expertise, it also contributed to and advised on the formulation of University policy. The head of the administration was the Registrar and Secretary, who was the Secretary to the Council and was also responsible for providing secretarial services for the Court, the Senate and the Assembly.

The University maintained a Register of Interests of Members of the Council and of the Senior Officers, which could be consulted by arrangement with the Registrar and Secretary. Members of Council received a reminder in the papers for each meeting of the need to declare any interest they may have had in relation to the specific business to be transacted.

Going Concern Statement

After making enquiries, Council had a reasonable expectation that Victoria University of Manchester had adequate resources to continue in operational existence. However, on 30 September 2004, following the Royal Assent being granted to the University of Manchester Act, Victoria University of Manchester ceased to operate as an individual entity. All of its assets and liabilities were merged with UMIST, to create a new, chartered University of Manchester, which formally came into existence on 1 October 2004. For this reason, it continued to adopt the going concern basis in preparing accounts.

The Higher Education Funding Council for England (HEFCE) has agreed that these statements could be approved by the Board of Governors of the new University of Manchester, following the dissolution of the Victoria University of Manchester's Council.

Statement of Responsibilities of The Victoria University of Manchester's Council

In accordance with the Royal Charter, the Council of The Victoria University of Manchester was responsible for the administration and management of the affairs of The Victoria University of Manchester and was required to present audited Financial Statements for each financial year.

The Council was responsible for keeping proper accounting records, which disclosed with reasonable accuracy at any time the financial position of The Victoria University of Manchester, and enabled it to ensure that the Financial Statements were prepared in accordance with the Royal Charter, the Statement of Recommended Practice, Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of The Victoria University of Manchester, the Council, through its designated office holder, was required to prepare Financial Statements for each financial year which gave a true and fair view of the state of affairs of The Victoria University of Manchester and of the surplus or deficit and cash flows for that year.

In causing the Financial Statements to be prepared, the Council had to ensure that:

- suitable accounting policies were selected and applied consistently;
- judgements and estimates were made that were reasonable and prudent;
- applicable accounting standards had been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements were prepared on the going concern basis unless it was inappropriate to presume that The Victoria University of Manchester would continue in operation. The Council was satisfied that the University had adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis continued to be adopted in the preparation of the Financial Statements.

The Council had taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England and the Teacher Training Agency were used only for the purposes for which they had been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time have prescribed;
- ensure that there were appropriate financial and management controls in place to safeguard public funds from other sources;
- safeguard the assets of The Victoria University of Manchester and to prevent and detect fraud; and
- secure the economical, efficient and effective management of The Victoria University of Manchester's resources and expenditure.

Similar responsibilities are now held by the Board of the new University of Manchester, which has assumed the responsibilities of the Council of the Victoria University of Manchester in regard to these Financial Statements.

Auditors' Report to the Board of Governors of The University of Manchester

We have audited the financial statements on pages 12 to 37, which have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in accordance with the accounting policies set out on pages 10 and 11.

This report is made solely to the Board of Governors of the new University of Manchester in accordance with section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board and Auditors

As described on page 8, the Victoria University of Manchester's Council was responsible for ensuring that financial statements were prepared in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Higher Education Funding Council for England and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received, and whether income has been applied in accordance with the statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, and with the Funding Agreement with the Teacher Training Agency.

We also report to you if, in our opinion, the Financial Report is not consistent with the Financial Statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for audit.

We have also, at the request of the Board, reviewed whether the statement on page 8 reflects the University's compliance with the relevant provisions of the Combined Code specified for our review in so far as they apply to the Higher Education sector, and we report if it does not. We are not required to consider whether the statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Financial Report and consider the implications for our report if we become suspicious of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- (i) the financial statements give a true and fair view of the state of affairs of the University and the Group at 31 July 2004 and of the surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education;
- (ii) in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes have been applied for the purposes for which they were received;
- (iii) in all material respects, income has been applied in accordance with the Statutes and where appropriate, with the Financial Memoranda (00/25 and 03/54) with the Higher Education Funding Council for England and the Teacher Training Agency.

KPMG LLP
Chartered Accountants and Registered Auditors

8 December 2004

Statement of Principal Accounting Policies

Basis of preparation

The Financial Statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting in Further and Higher Education Institutions and in accordance with applicable accounting standards. They conform to guidance from the Funding Council.

Basis of accounting

The Financial Statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and investments.

Basis of consolidation

The consolidated Financial Statements include the financial statements of the University and all subsidiary undertakings for the financial year to 31 July. In accordance with FRS2, the student union has not been consolidated because the University does not control its activities.

Recognition of income

Income from research grants and contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. All income from investments within current assets is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments is credited to income and expenditure account on a receivable basis. Any income earned in excess of that applied to the specific purpose is transferred from the income and expenditure account to the balance sheet after the result for the year has been struck.

Recurrent grants from the Funding Council are recognised in the period in which they are receivable.

Non-recurrent grants from the Funding Council or other bodies received in respect of acquisition of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

All other income is credited to the income and expenditure account in the period in which it is earned.

Maintenance of premises

The University has a ten-year rolling long-term plan, which forms the basis of the ongoing maintenance of the estate. The cost of long-term maintenance is charged to the income and expenditure account as incurred.

The cost of other routine maintenance is charged to the income and expenditure account as incurred over the lifetime of the project.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Pension schemes

The University participates in two major pension schemes. Retirement benefits for academic and academic related staff are provided by the Universities Superannuation Scheme (USS) and for all other staff by the University of Manchester Superannuation Scheme (UMSS). These are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of pensions over the employees' working lives with the University in such a way that the pension cost is a substantially level percentage of present and future pensionable payroll. Variations from regular costs are spread over the expected average remaining working lifetime of members of the schemes after making allowances for further withdrawals. The contributions are determined by qualified actuaries on the basis of triennial valuations, using the projected unit method.

Tangible fixed assets

a) Land and buildings

Land and buildings are included in the balance sheet at historical cost except for the revaluation of a small element of assets and are depreciated over their expected useful economic life to the University of 50 years. Leasehold land and buildings are amortised over the period of the lease.

Where land and buildings are acquired or built with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of those costs.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred by year end.

b) Major Enhancements

Major enhancements to existing buildings, which are over and above health and safety requirements, are capitalised and depreciated over their expected useful economic life to the University of 20 years.

Where enhancements are undertaken with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

c) Equipment

Equipment costing less than £25,000 per individual item or group of related items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised at cost. Capitalised equipment is depreciated over its expected useful economic life as follows:

Equipment, furniture - 4 years
and motor vehicles

Equipment acquired - 3 years
for research purposes

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment.

Investments

Investments within fixed assets that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment in their value. Those that are listed on a recognised stock exchange are carried at market value.

Investments that form part of endowment assets are included in the balance sheet at market value.

Investments within current assets are included in the balance sheet at the lower of their original cost and net realisable value.

Appreciation/depreciation in the market value of investments within fixed assets is added to or subtracted from the revaluation reserve and any profit or loss on realisation is brought into the income and expenditure account.

Appreciation/depreciation in the market value of endowment assets and any profit or loss on realisation is added to or subtracted from the capital funds concerned and is not brought into the income and expenditure account.

Tangible donated assets

Tangible donated assets are capitalised at market value and depreciated in full in the year of receipt.

Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Restructuring costs

The University continues to operate a voluntary severance and early retirement scheme. Costs are provided for in full from the date applications to the scheme are agreed by the Early Retirement Committee.

Taxation

The University is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly the University is potentially exempt from taxation in respect of income and capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax.

The University's commercial activities, which generally are contained within its subsidiary undertakings, are subject to taxation under the ICTA 1988 above and the Capital Gains Taxation Act 1992. The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Liquid resources

Liquid resources include sums on short-term deposit with recognised banks and building societies and government securities.

Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Income and Expenditure Account - Year Ended 31 July 2004

	Note	Consolidated		University	
		2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Income					
Funding council grants	1	118,837	114,486	118,837	114,486
Tuition fees and education grants and contracts	2	86,011	79,193	86,011	79,193
Research grants and contracts	3	89,311	80,803	89,311	80,505
Other operating income	4	86,972	83,129	82,170	81,566
Endowment and investment income	5	7,565	7,261	7,482	7,221
Less: share of joint venture's income		(1,788)	-	-	-
Total Income		386,908	364,872	383,811	362,971
Expenditure					
Staff costs	6	217,577	196,794	216,261	195,604
Depreciation	10	12,694	12,655	12,360	12,278
Other operating expenses	7	139,511	121,475	138,079	121,896
Interest payable	8	3,783	3,825	3,776	3,809
Total Expenditure		373,565	334,749	370,476	333,587
Surplus after depreciation of fixed assets at valuation, and before taxation, exceptional items and transfers in respect of specific endowments - continuing operations					
Share of joint venture		13,343	30,123	13,335	29,384
		33	-	-	-
		13,376	30,123	13,335	29,384
Tax	9	(243)	(182)	-	-
Exceptional items		(8,243)	(169)	(8,243)	(169)
Transfers in respect of specific endowments	23	1,492	(1,904)	1,492	(1,904)
Surplus on continuing operations after depreciation of assets at valuation, taxation, exceptional items and transfers in respect of specific endowments		6,382	27,868	6,584	27,311

The exceptional item in the Income and Expenditure Account above, relates to expenditure incurred directly on Project Unity, which saw the Victoria University of Manchester and UMIST come together to form the new University of Manchester with effect from 1 October 2004.

The prior year income and expenditure account, balance sheet, cash flow statement and related notes have been restated to take account of the change in Statement of Recommended Practice (SORP), which required the income from specific endowments to be credited to the income and

expenditure account on a receivable basis. This means that any income earned in excess of that applied to the specific purpose is transferred from the income and expenditure account to the balance sheet after the result for the year has been struck. In addition there have been certain reclassifications to conform with classifications adopted this year.

These movements have not affected the surplus for the year as reported in the prior year financial statements.

Statement of Historical Cost Surpluses and Deficits - Year Ended 31 July 2004

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Surplus before taxation, exceptional items and transfers in respect of specific endowments - continuing operations	13,343	30,123	13,335	29,384
Share of joint venture	33	-	-	-
Difference between the historic cost depreciation of the assets and the actual charge for the year calculated on the assets at the revalued amount	13	13	13	13
Historical cost surplus for the year before taxation and exceptional items	13,389	30,136	13,348	29,397
Historical cost surplus for the year after taxation, exceptional items and transfers in respect of specific endowments	6,395	27,881	6,597	27,324

Statement of Total Recognised Gains and Losses - Year Ended 31 July 2004

	Note	Consolidated		University	
		2004 £000	2003 £000	2004 £000	2003 £000
Surplus on continuing operations after depreciation of assets at valuation, taxation, exceptional items and transfers in respect of specific endowments		6,382	27,868	6,584	27,311
Prior year restatement		-	(1,627)	-	370
Deferred capital grants received but not released in year	22	14,584	18,638	14,672	18,728
Net appreciation of endowment assets including reinvested profits on sales	23	2,163	11,751	2,163	11,751
Revaluation of investments within fixed assets	24	20	3,189	20	3,189
New endowments less realisations	23	3,039	920	3,039	920
Specific and General endowment income:					
Received	23	3,152	3,516	3,152	3,516
Released to income and expenditure account	23	(4,644)	(1,927)	(4,644)	(1,927)
Total recognised gains relating to the year		24,696	62,328	24,986	63,858

Balance Sheet as at 31 July 2004

	Note	Consolidated		University	
		2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Fixed Assets					
Tangible assets	10	205,453	173,186	193,426	165,393
Investments	11	45,869	45,392	45,867	45,288
Investments in subsidiary undertakings	12	-	-	5,653	5,653
		251,322	218,578	244,946	216,334
Investment in Joint Venture					
Share of gross assets	13	1,099	-	-	-
Share of gross liabilities	13	(1,004)	-	-	-
		95	-	-	-
Endowment Assets					
Cash at bank	14	15,073	15,916	15,073	15,916
Other investments	14	80,763	76,210	80,763	76,210
		95,836	92,126	95,836	92,126
Debtors: due after more than 1 year					
	15	8,425	8,272	10,810	8,272
		355,678	318,976	351,592	316,732
Current Assets					
Stocks		1,518	1,507	1,518	1,486
Debtors due within one year	16	53,486	55,210	53,124	55,245
Investments within current assets	17	73,413	74,482	73,413	74,482
Cash at bank and in hand		5,122	2,078	3,689	899
		133,539	133,277	131,744	132,112
Creditors: due within 1 year					
	18	(79,777)	(67,579)	(76,045)	(66,348)
NET CURRENT ASSETS					
		53,762	65,698	55,699	65,764
TOTAL ASSETS LESS CURRENT LIABILITIES					
		409,440	384,674	407,291	382,496
Creditors: due after more than 1 year					
	19	(45,323)	(46,798)	(45,301)	(46,794)
Provisions for liabilities and charges					
	21	(7,238)	(5,693)	(5,271)	(3,969)
TOTAL NET ASSETS					
		356,879	332,183	356,719	331,733
Deferred Capital Grants					
	22	102,712	88,128	98,638	83,966
Endowments					
Specific	23	90,275	86,786	90,275	86,786
General	23	5,561	5,340	5,561	5,340
		95,836	92,126	95,836	92,126
Reserves					
Revaluation Reserve	24	7,413	7,406	7,413	7,406
General Reserve	25	150,918	144,523	154,832	148,235
		158,331	151,929	162,245	155,641
TOTAL FUNDS					
		356,879	332,183	356,719	331,733

As agreed by the Higher Education Funding Council for England, the Financial Statements were approved by the Board of Governors of the new University of Manchester on behalf of the Council of the Victoria University of Manchester which no longer exists.

Cash Flow Statement for the Year Ended 31 July 2004

	Note	Consolidated		University	
		2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Cash flow from operating activities	26	20,638	18,026	15,994	16,787
Returns on investments and servicing of finance	27	4,167	5,329	4,091	5,333
Capital expenditure and financial investment	28	(22,504)	(28,223)	(18,038)	(26,503)
Management of liquid resources	29	1,069	8,819	1,069	8,271
Financing	30	(598)	(1,863)	(598)	(1,863)
Increase in cash in the year		2,772	2,088	2,518	2,025

Reconciliation of net cash flow to increase in net funds for the year ended 31 July 2004

	Note	Consolidated		University	
		2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Increase in cash in the year		2,772	2,088	2,518	2,025
Cash outflow from liquid resources	29	(1,069)	(8,819)	(1,069)	(8,271)
Change in debt resulting from cash flows	30	598	1,863	598	1,863
Movement in net funds in the year	31	2,301	(4,868)	2,047	(4,383)
Net funds at 1 August		45,232	50,100	44,053	48,436
Net funds at 31 July	31	47,533	45,232	46,100	44,053

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Notes to the Accounts

1. Funding Council grants

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Recurrent grant - teaching	58,783	60,622	58,783	60,622
Recurrent grant - research	43,244	36,453	43,244	36,453
Recurrent grant - other	8,294	8,960	8,294	8,960
Special Initiatives	5,576	5,866	5,576	5,866
Releases of deferred capital grants	1,475	1,008	1,475	1,008
Teacher Training Agency - recurrent grant	1,465	1,577	1,465	1,577
	118,837	114,486	118,837	114,486

2. Tuition fees and education contracts

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Full-time students	25,083	23,603	25,083	23,603
Full-time students charged overseas fees	29,358	25,388	29,358	25,388
Part-time students	5,360	6,727	5,360	6,727
Short course fees	11,694	10,445	11,694	10,445
Other teaching contract courses – core activities	12,692	11,418	12,692	11,418
Research training support grants	1,824	1,612	1,824	1,612
	86,011	79,193	86,011	79,193

3. Research grants and contracts

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Research Councils	30,777	28,238	30,777	28,064
UK based charities	22,336	21,160	22,336	21,160
UK central government, hospitals and health authorities	18,171	13,562	18,171	13,525
UK industry and commerce	4,394	4,404	4,394	4,339
Overseas	8,266	7,587	8,266	7,565
Other sources	1,130	1,148	1,130	1,148
Releases of deferred capital grants	4,237	4,704	4,237	4,704
	89,311	80,803	89,311	80,505

4. Other operating income

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Services rendered	13,821	12,107	14,112	12,472
Residences, catering and conferences	27,623	25,628	27,623	25,628
Health authorities	6,670	6,316	6,670	6,316
Release of deferred capital grants	1,378	1,868	1,288	1,778
Academic departments	7,592	8,716	7,592	8,716
Academic services	3,987	3,792	3,987	3,792
Dividends from general fund investments	1,349	1,410	1,349	1,410
Manchester Business School	1,289	1,028	1,289	1,028
Manchester University Press	1,569	1,727	1,569	1,727
Commercial lettings	1,158	286	1,158	286
Premises	491	521	491	521
Continuing educating and training	4,526	4,706	4,526	4,706
Use of sports facilities	538	514	538	514
Administration and central services	6,368	7,070	6,368	7,070
Profits on sale of properties	-	3,335	-	3,335
Other general income	3,105	1,479	3,610	2,267
Subsidiary undertakings - other general income	4,018	2,521	-	-
Profit on disposal of subsidiaries	1,490	105	-	-
	86,972	83,129	82,170	81,566

5. Endowment and investment income

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Transferred from specific endowments (note 23)	2,909	3,582	2,909	3,582
Income from general endowments (note 23)	243	249	243	249
Income from short term investments	3,328	3,809	3,279	3,798
Surplus/(deficit) on realisation of long-term investments	964	(778)	964	(807)
Other interest receivable	121	399	87	399
	7,565	7,261	7,482	7,221

Notes to the Accounts (continued)

6. Staff costs

Wages and salaries
Social security costs
Other pension costs

Consolidated		University	
2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
184,114	172,208	182,997	171,167
14,317	12,338	14,213	12,220
19,146	12,248	19,051	12,217
217,577	196,794	216,261	195,604
2,473	2,156	2,473	2,156

Distinction Awards paid by the University to NHS Consultants employed on joint contracts between the NHS and the University but not borne by the University.

Staff Numbers

Academic
Research
Technical
Administrative and other related
Other including clerical and manual

Total number of staff

Consolidated		University	
2004 Numbers	2003 Numbers	2004 Numbers	2003 Numbers
1,410	1,372	1,410	1,372
1,081	1,068	1,081	1,068
516	499	495	499
1,212	1,148	1,192	1,086
2,296	2,305	2,296	2,305
6,515	6,392	6,474	6,330

Remuneration of higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment were within the following ranges:

£50,000 - £60,000
£60,001 - £70,000
£70,001 - £80,000
£80,001 - £90,000
£90,001 - £100,000
£100,001 - £110,000
£110,001 - £120,000
£120,001 - £130,000
£130,001 - £140,000
£140,001 - £150,000
£150,001 - £160,000
£160,001 - £170,000
£170,001 - £180,000

Consolidated		University	
Number of Employees 2004	Number of Employees 2003	Number of Employees 2004	Number of Employees 2003
164	158	160	157
90	84	90	84
8	55	68	55
30	29	30	29
14	28	14	28
24	11	24	10
3	12	3	12
13	7	13	7
8	9	8	9
8	1	8	1
2	1	2	1
-	-	-	-
1	-	1	-

Emoluments of the Vice-Chancellor

Salary
Benefits in kind

2004 £000	2003 £000
164	156
9	11
173	167

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to the USS in respect of the Vice-Chancellor are paid at the same rates as for other staff and amounted to £25,359 (2002/03 - £21,840).

7. Other operating expenses

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Academic departments	39,415	36,317	39,456	36,358
Central libraries and information services	5,355	5,393	5,355	5,393
Central computers and computer networks	3,093	2,447	3,093	2,470
Other academic services	965	631	965	631
Administration and services	5,924	5,820	5,925	6,048
External auditors' remuneration	65	61	60	57
External auditors' remuneration - non-audit services	226	304	164	274
Internal audit - subscription to consortium	62	125	62	125
General educational expenditure	6,740	5,873	6,740	5,873
Staff and student facilities	3,183	2,703	3,183	2,703
Rents and rates	2,461	2,452	2,807	2,452
Heat, light, water and power	3,209	3,116	3,209	3,116
Repairs and general maintenance	16,451	8,236	16,451	8,276
Other premises expenditure	2,446	2,525	2,576	2,650
Residences and catering operations	12,060	12,041	12,060	12,041
Research grants and contracts	31,350	24,830	31,350	24,507
Other services rendered	3,928	4,090	4,009	4,090
Other operating expenditure	882	3,525	614	4,832
Subsidiary undertakings - other operating expenditure	1,696	986	-	-
	139,511	121,475	138,079	121,896

8. Interest payable

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Bank and other loans wholly repayable within five years	7	16	-	-
Loans not wholly repayable within five years	3,776	3,809	3,776	3,809
	3,783	3,825	3,776	3,809

9. Taxation

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Deferred tax	243	182	-	-

Notes to the Accounts (continued)

10. Tangible fixed assets

a) Consolidated

Valuation / Cost

At 1 August 2003	120,591	-	92,589	64,618	277,798
Additions at cost	-	-	35,768	9,259	45,027
Disposals	-	-	-	(295)	(295)

At 31 July 2004	120,591	-	128,357	73,582	322,530
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Depreciation

At 1 August 2003	50,523	-	4,304	49,785	104,612
Charge for the year	2,273	-	2,601	7,820	12,694
Disposals	-	-	-	(229)	(229)

At 31 July 2004	52,796	-	6,905	57,376	117,077
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Net Book Value

At 1 August 2003	70,068	-	88,285	14,833	173,186
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At 31 July 2004

67,795	-	121,452	16,206	205,453
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b) University

Valuation / Cost

At 1 August 2003	108,636	5,400	90,872	63,293	268,201
Additions at cost	-	-	31,243	9,216	40,459
Disposals	-	-	-	(295)	(295)

At 31 July 2004	108,636	5,400	122,115	72,214	308,365
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Depreciation

At 1 August 2003	49,414	370	4,304	48,720	102,808
Charge for the year	2,031	74	2,601	7,654	12,360
Disposals	-	-	-	(229)	(229)

At 31 July 2004	51,445	444	6,905	56,145	114,939
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Net Book Value

At 1 August 2003	59,222	5,030	86,568	14,573	165,393
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At 31 July 2004

57,191	4,956	115,210	16,069	193,426
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11 Investments within fixed assets

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Movement in the year				
Balance at 1 August	45,392	46,106	45,288	45,978
Additions	7,013	5,695	7,013	5,595
Disposals	(7,215)	(5,343)	(7,113)	(5,219)
Amounts provided on unquoted shares during the year	(347)	(3,434)	(347)	(3,434)
Net appreciation including reinvested profits on sales	1,026	2,368	1,026	2,368
Balance at 31 July	45,869	45,392	45,867	45,288

Analysis of closing balance

British government securities	2,041	-	2,041	-
Other fixed interest securities	7,023	9,524	7,023	9,524
UK industrial and commercial securities	25,664	25,006	25,662	25,006
Overseas industrial and commercial securities	6,870	6,752	6,870	6,752
Unquoted shares	337	268	337	164
Property	3,288	3,290	3,288	3,290
Uninvested bank balances	646	552	646	552
Total investments within fixed assets	45,869	45,392	45,867	45,288
Investments at cost	43,875	43,050	43,875	43,050

12 Investment in subsidiary undertakings

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Balance at 1 August	-	-	5,653	5,643
Additions	-	-	-	10
Balance at 31 July	-	-	5,653	5,653

13 Investment in joint venture

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Share of turnover of joint venture	1,788	-	-	-
Share of surplus after depreciation of fixed assets at valuation and before taxation and exceptional items	33	-	-	-
Share of assets:				
Fixed assets	111	-	-	-
Current assets	988	-	-	-
Share of liabilities due within one year	(405)	-	-	-
Share of liabilities due after one year	(599)	-	-	-
Share of net assets	95	-	-	-

Subsidiary Undertakings Comprise:

Manchester Innovation Holdings Limited

Manchester Innovation Holdings Limited acts as a holding company for its group which, in turn, provides the means for the University's resources, projects and expertise to be exploited commercially for the benefit of the University. Manchester Innovation Holdings Limited and its subsidiary companies made a consolidated profit of £48k for the year ended 31 July 2004 (2003: profit £387k). At 31 July 2004 the consolidated net assets of Manchester Innovation Holdings Limited were £1,229k (2003: net assets £1,180k).

Internet Facilitators Limited

The University owns 100% of the issued ordinary share capital of Internet Facilitators Limited (book value £1). This company was set up to provide facilities for Internet service providers.

Manchester Informatics Limited

The University owns 100% of the issued ordinary share capital of Manchester Informatics Limited (book value £100). This company was set up to provide computer consultancy services and for the selling of computer software.

Manpharm Limited

The University owns 100% of the issued ordinary share capital of Manpharm Limited (book value £1). This company was set up to provide services to the pharmaceutical industry.

Visual Automation Limited

The University owns 100% of the issued ordinary share capital of Visual Automation Limited (book value £2). This company was set up to supply goods and services in the field of image analysis and computer vision.

Flow Science Limited

The University owns 100% of the issued ordinary share capital of Flow Science Limited (book value £10,000). This company was set up to perform consultancy and provide and operate facilities in relation to fluid flow and other related aspects of science and engineering.

Manchester Technology Fund Limited

The University owns 75% of the issued ordinary share capital of Manchester Technology Fund Limited (book value £75). The company, which was incorporated on 1 March 1999 has been established to manage a £6million seed capital fund on behalf of the University and UMIST, who are the fund holders.

The University of Manchester Foundation Limited

The University of Manchester Foundation Limited is a company limited by guarantee, and also a registered charity (Charity Number 1074006). The aim of the Foundation is to advance the education of the public, particularly by the promotion and maintenance of the work of the University of Manchester. The Foundation made a loss for the year of £141k (2003: profit £76k), and its net assets at 31 July 2004 were £321k (2003: £462k).

14 Endowment assets

Movement in year

Balance at 1 August
 Additions including unreleased income earned on capital
 Disposals (see note 23)
 Appreciation including reinvested profits on sales

Balance at 31 July

Analysis of closing balance

British government securities
 Other fixed interest securities
 UK industrial and commercial securities
 Overseas industrial and commercial securities
 Property
 Bank and building society deposits
 Uninvested bank balances

Total Endowment Assets

Investments at cost

	Consolidated		University	
	2004	Restated 2003	2004	Restated 2003
	£000	£000	£000	£000
Balance at 1 August	92,126	77,864	92,126	77,864
Additions including unreleased income earned on capital	1,547	2,891	1,547	2,891
Disposals (see note 23)	-	(380)	-	(380)
Appreciation including reinvested profits on sales	2,163	11,751	2,163	11,751
Balance at 31 July	95,836	92,126	95,836	92,126
Analysis of closing balance				
British government securities	4,142	253	4,142	253
Other fixed interest securities	15,388	19,332	15,388	19,332
UK industrial and commercial securities	50,646	46,558	50,646	46,558
Overseas industrial and commercial securities	10,178	9,660	10,178	9,660
Property	409	407	409	407
Bank and building society deposits	11,247	12,705	11,247	12,705
Uninvested bank balances	3,826	3,211	3,826	3,211
Total Endowment Assets	95,836	92,126	95,836	92,126
Investments at cost	75,581	71,430	75,581	71,430

15 Debtors : amounts due after more than 1 year

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Loan to Manchester University Students Union	180	202	180	202
Loan to Campus Ventures Limited	350	350	350	350
Provision for loan to Campus Ventures Limited	(350)	-	(350)	-
Loan to Manchester Innovation Limited	-	-	2,385	-
UMSS prepayment	8,245	7,720	8,245	7,720
Balance at 31 July	8,425	8,272	10,810	8,272

16 Debtors : amounts falling due within 1 year

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Debtors	43,131	40,846	42,567	40,337
Amounts owed by subsidiary undertakings	-	-	-	48
Prepayments and accrued income	10,355	14,364	10,557	14,860
Balance at 31 July	53,486	55,210	53,124	55,245

17 Investments within current assets

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Bank deposits repayable after due notice	85,232	85,550	85,232	85,550
Bank deposits repayable on demand	3,900	5,400	3,900	5,400
Total bank deposits and money on short-term loan	89,132	90,950	89,132	90,950
Endowment funds received but not yet invested, included as endowment assets	(3,826)	(3,211)	(3,826)	(3,211)
Endowment revenue balances included as endowment assets	(11,247)	(12,705)	(11,247)	(12,705)
Uninvested bank balances	(646)	(552)	(646)	(552)
Bank deposits and money on short term loan included as investments within current assets	73,413	74,482	73,413	74,482

18 Creditors : amounts falling due within 1 year

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Bank loans	904	599	904	599
Obligations under hire purchase contracts	31	-	-	-
Creditors	33,383	20,958	29,734	19,567
Amounts owed to subsidiary undertakings	-	-	318	-
Social security and other taxation payable	5,806	5,203	5,696	5,207
Accruals and deferred income	39,137	39,826	38,877	39,982
Bank overdrafts	516	993	516	993
Balance at 31 July	79,777	67,579	76,045	66,348

Notes to the Accounts (continued)

19 Creditors : amounts due after more than 1 year

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Bank loans in respect of:				
Student accommodation	25,934	26,410	25,934	26,410
Capital development	19,367	19,794	19,367	19,794
Obligation under hire purchase contracts	20	-	-	-
Deferred grant income	2	594	-	590
Balance at 31 July	45,323	46,798	45,301	46,794

20 Borrowings

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Bank loans are repayable as follows ;				
In one year or less	904	599	904	599
Between one and two years	1,018	970	1,018	970
Between two and five years	3,720	3,376	3,720	3,376
In five years or more	40,563	41,858	40,563	41,858
	46,205	46,803	46,205	46,803

21 Provisions for liabilities and charges

a) Consolidated

	Restated	Utilised	Transfer from	
	Balance		income and	Balance
	at 1 August	in year	expenditure	at 31 July
	£000	£000	account	£000
Early retirement scheme	1,595	(1,453)	5,129	5,271
Other	2,374	(2,374)	-	-
Deferred tax (see below)	1,724	-	243	1,967
	5,693	(3,827)	5,372	7,238

Deferred tax

The elements of deferred tax are as follows:

Difference between accumulated depreciation and capital allowances

Other timing differences

Balance at 31 July

	Restated
	2003
	£000
	2,241
	(517)
	1,724

b) University

	Balance	Utilised	Transfer from	
			income and	Balance
	at 1 August	in year	expenditure	at 31 July
	£000	£000	account	£000
Early retirement scheme	1,595	(1,453)	5,129	5,271
Other	2,374	(2,374)	-	-
	3,969	(3,827)	5,129	5,271

22 Deferred capital grants

a) Consolidated

At 1 August 2003

	Funding Council £000	Other grants and benefactions £000	Total £000
Buildings	23,522	61,292	84,814
Equipment	1,151	2,163	3,314
Total	24,673	63,455	88,128

New Grants Received

Buildings	8,923	9,281	18,204
Equipment	41	3,428	3,469
Total	8,964	12,709	21,673

Grant income released to Income and Expenditure

Buildings	1,239	1,759	2,998
Equipment	708	3,383	4,091
Total	1,947	5,142	7,089

At 31 July 2004

Buildings	31,206	68,814	100,020
Equipment	484	2,208	2,692
Total	31,690	71,022	102,712

b) University

At 1 August 2003

	Funding Council £000	Other grants and benefactions £000	Total £000
Buildings	23,522	57,130	80,652
Equipment	1,151	2,163	3,314
Total	24,673	59,293	83,966

New Grants Received

Buildings	8,923	9,281	18,204
Equipment	41	3,428	3,469
Total	8,964	12,709	21,673

Grant income released to Income and Expenditure

Buildings	1,239	1,671	2,910
Equipment	708	3,383	4,091
Total	1,947	5,054	7,001

At 31 July 2004

Buildings	31,206	64,740	95,946
Equipment	484	2,208	2,692
Total	31,690	66,948	98,638

Notes to the Accounts (continued)

23 Endowments

Consolidated and University

	Specific Endowments £000	General Endowments £000	Total £000
At 1 August 2003	86,786	5,340	92,126
Additions	2,913	126	3,039
Net appreciation of endowment assets including reinvested profit on sales	2,068	95	2,163
Income for the year	2,909	243	3,152
Income released to income and expenditure account	(4,401)	(243)	(4,644)
At 31 July 2004	90,275	5,561	95,836

24 Revaluation reserve

Consolidated and University

	Land and Buildings £000	Investment within fixed assets £000	Total £000
Revaluations			
At 1 August 2003	678	6,861	7,539
Revaluation in year	-	20	20
At 31 July 2004	678	6,881	7,559
Contribution to depreciation			
At 1 August 2003	133	-	133
Released in year	13	-	13
At 31 July 2004	146	-	146
Revaluation reserve			
At 1 August 2003	545	6,861	7,406
At 31 July 2004	532	6,881	7,413

25 Movement on general reserves - income and expenditure account

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Balance at 1 August 2003	144,523	118,269	148,235	120,541
Prior year restatement	-	(1,627)	-	370
Restated balance at 1 August 2003	144,523	116,642	148,235	120,911
Surplus on continuing operations after depreciation of assets at valuation, taxation, exceptional items and transfers in respect of specific endowments	6,382	27,868	6,584	27,311
Release from revaluation reserve	13	13	13	13
Balance at 31 July 2004	150,918	144,523	154,832	148,235

Notes to the Accounts (continued)

26 Reconciliation of operating surplus to net cash inflow from operating activities

Surplus on continuing operations after depreciation of assets at valuation, taxation, exceptional items and transfers in respect of specific endowments.

Depreciation

Deferred capital grants released to income

Investment income

Loss / (profit) on sale of fixed assets

Interest payable

Interest receivable

Increase in share of net assets of joint venture

(Increase) / decrease in stocks

(Increase) / decrease in long term debtors

Decrease / (increase) in debtors due within one year

Increase in creditors

Increase / (decrease) in provisions

Net cash inflow from operating activities

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
	6,382	27,868	6,584	27,311
Depreciation	12,694	12,655	12,360	12,278
Deferred capital grants released to income	(7,089)	(7,580)	(7,001)	(7,490)
Investment income	(9,885)	(5,357)	(9,836)	(6,744)
Loss / (profit) on sale of fixed assets	66	(3,335)	66	(3,335)
Interest payable	3,783	3,825	3,776	3,809
Interest receivable	(121)	-	(87)	-
Increase in share of net assets of joint venture	(95)	-	-	-
(Increase) / decrease in stocks	(11)	125	(32)	146
(Increase) / decrease in long term debtors	(503)	97	(2,888)	97
Decrease / (increase) in debtors due within one year	2,074	(8,528)	2,471	(8,384)
Increase in creditors	11,798	1,796	9,279	2,639
Increase / (decrease) in provisions	1,545	(3,540)	1,302	(3,540)
Net cash inflow from operating activities	20,638	18,026	15,994	16,787

27 Returns from investments and servicing of finance

Income from endowments

Income from short-term investments

Dividend income from general fund investments

Other interest received

Interest paid

Net cash inflow from returns on investments and servicing of finance

	Consolidated		University	
	2004 £000	2003 £000	2004 £000	2003 £000
Income from endowments	3,152	3,516	3,152	3,516
Income from short-term investments	3,328	3,810	3,279	3,798
Dividend income from general fund investments	1,349	1,429	1,349	1,429
Other interest received	121	399	87	399
Interest paid	(3,783)	(3,825)	(3,776)	(3,809)
Net cash inflow from returns on investments and servicing of finance	4,167	5,329	4,091	5,333

28 Capital expenditure and financial investment

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Fixed assets acquired	(52,040)	(62,788)	(47,472)	(61,068)
Endowment assets purchased	(19,648)	(18,640)	(19,648)	(18,640)
Receipts from sale of fixed assets	7,215	8,670	7,113	8,670
Receipts on sale of endowment assets	17,257	17,397	17,257	17,397
Deferred capital grants received	21,673	26,218	21,673	26,218
New endowments received net of realisations	3,039	920	3,039	920
Net cash outflow from capital expenditure and financial investment	(22,504)	(28,223)	(18,038)	(26,503)

29 Management of liquid resources

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Net movement on deposits	1,069	8,819	1,069	8,271
Net cash inflow from management of liquid resources	1,069	8,819	1,069	8,271

30 Financing

	Consolidated		University	
	2004 £000	Restated 2003 £000	2004 £000	Restated 2003 £000
Capital repayments on debt due after more than one year	(598)	(1,863)	(598)	(1,863)
Net cash outflow from financing	(598)	(1,863)	(598)	(1,863)

Notes to the Accounts (continued)

31 Analysis of changes in net funds

a) Consolidated	Restated		
	At 1 Aug	Cash	At 31 July
	2003	Flows	2004
	£000	£000	£000
Bank overdraft	(993)	477	(516)
Cash at bank	2,078	3,044	5,122
Short term deposits repayable on demand	5,400	(1,500)	3,900
Other short term deposits	69,082	431	69,513
Uninvested bank balances - Endowment assets	3,211	615	3,826
Uninvested bank balances - Fixed asset investments	552	94	646
Unspent income balances from endowment assets	12,705	(1,458)	11,247
Debt due within one year	(599)	(305)	(904)
Debt due after one year	(46,204)	903	(45,301)
	45,232	2,301	47,533

b) University

b) University	Restated		
	At 1 Aug	Cash	At 31 July
	2003	Flows	2004
	£000	£000	£000
Bank overdraft	(993)	477	(516)
Cash at bank	899	2,790	3,689
Short term deposits repayable on demand	5,400	(1,500)	3,900
Other short term deposits	69,082	431	69,513
Uninvested bank balances – Endowment assets	3,211	615	3,826
Uninvested bank balances – Fixed asset investments	552	94	646
Unspent income balanced from endowment assets	12,705	(1,458)	11,247
Debt due within one year	(599)	(305)	(904)
Debt due after one year	(46,204)	903	(45,301)
	44,053	2,047	46,100

32 Pension schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Manchester Superannuation Scheme (UMSS).

The University Superannuation Scheme (USS)

The Victoria University of Manchester participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State-Earnings Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus/deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The employer contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total USS pension cost for the University was £14,836k (2003:£12,248k).

Notes to the Accounts (continued)

UMSS University of Manchester Superannuation Scheme

UMSS is a defined benefit scheme in the UK. A full actuarial valuation was carried out at 31 July 2001 and updated to 31 July 2004 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	At year-end 31/7/2004	At year-end 31/7/2003	At year-end 31/7/2002
Rate of increase in salaries	3.80%	3.50%	3.40%
Rate of increase of pensions in payment	2.80%	2.50%	2.40%
Rate of increase of pensions in deferment	2.80%	2.50%	2.40%
Discount rate	5.70%	5.30%	5.90%
Inflation assumption	2.80%	2.50%	2.40%

	At year-end 31/7/2004	At year-end 31/7/2004	At year-end 31/7/2003	At year-end 31/7/2003	At year-end 31/7/2002	At year-end 31/7/2002
		£000		£000		£000
Equities	7.8%	144,030	7.80%	127,736	7.90%	116,630
Bonds	5.70%	40,164	5.30%	43,848	5.90%	47,554
Property	7.80%	7,972	7.80%	7,281	7.90%	9,372
Total market value of assets		192,166		178,865		173,556
Actuarial value of liability		(195,882)		(186,318)		
Total deficit in the scheme		(3,716)		(7,453)		
Effect of surplus cap		-		-		
Deficit in the scheme		(3,716)		(7,453)		
Related deferred tax asset/(liability)		-		-		
Net pension liability		(3,716)		(7,453)		

FRS 17 Retirement Benefits

Under the transitional arrangements of FRS17, no provision has been made by the University for its share of the deficit of the scheme. If provision were to be made, the following entries would be required:

Balance sheet presentation

	At year-end 31/7/2004	At year-end 31/7/2003
	£000	£000
Net assets excluding pension liability	348,634	324,463
Pension liability	(3,716)	(7,453)
Net assets including pension liability	344,918	317,010

Reserves note

	At year-end 31/7/2004	At year-end 31/7/2003
	£000	£000
Income and Expenditure reserve excluding pension liability	142,673	136,803
Pension reserve	(3,716)	(7,453)
Income and Expenditure reserve	138,957	129,350

Analysis of the amount charged to operating profit

	At year-end 31/7/2004	At year-end 31/7/2003
	£000	£000
Service cost	7,886	7,337
Past service cost	-	-
Total operating charge	7,886	7,337

Analysis of net return on pension scheme

	At year-end 31/7/2004	At year-end 31/7/2003
	£000	£000
Expected return on pension scheme assets	12,847	12,574
Interest on pension liabilities	(9,964)	(9,074)
Net return	2,883	3,500

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	At year-end 31/7/2004	At year-end 31/7/2003
	£000	£000
Actual return less expected return on assets	673	(2,213)
Experience gains and losses on liabilities	-	-
Changes in assumptions	3,757	(22,313)
Actuarial gain/(loss) recognised in STRGL	4,430	(24,526)
Adjustment due to surplus cap	-	-
Net gain/(loss) recognised	4,430	(24,526)

Movement in (deficit)/surplus during the year

	Year to 31/7/2004	Year to 31/7/2003
	£000	£000
(Deficit)/surplus in scheme at beginning of year	(7,453)	20,909
Movement in year		
Current service cost	(7,886)	(7,337)
Contributions	4,310	1
Past service costs	-	-
Other finance income	2,883	3,500
Actuarial gain/(loss)	4,430	(24,526)
Deficit in scheme at end of the year	(3,716)	(7,453)

The updated actuarial valuation at 31 July 2004 showed a decrease in the deficit from £7.5 million to £3.7 million. The University has paid contributions at the rate of 10% of members' Pensionable Pay over the year to 31 July 2004. It has been agreed with the Trustees that contributions for the next year will remain at that level. The contribution rate will be reviewed following the results of the formal actuarial valuation as at 31 July 2004.

Notes to the Accounts (continued)

History of experience gains and losses

Difference between expected and actual return on scheme assets:

amount (£000)

percentage of scheme assets

Experience gains and losses on scheme liabilities

amount (£000)

percentage of scheme liabilities

Total amount recognised in statement of total recognised gains and losses:

amount (£000)

Percentage of scheme liabilities

	Financial year ending in		
	2004	2003	2002
	673	(2,213)	(40,670)
	0%	-1%	-23%
	-	-	4,131
	0%	0%	3%
	4,430	(24,526)	(36,539)
	2%	-13%	-24%

33 Capital commitments - consolidated

Commitments contracted at 31 July

2004	2003
£000	Restated £000
37,220	43,500

34 Related party transactions

The operating surplus of the University includes the following transactions with related parties. In accordance with Financial Reporting Statement 8 these are included where members of the Victoria University of Manchester's Council disclosed an interest in a body with whom the University undertakes transactions which are material to the University's Financial Statements and/or the other party. Included within the income and expenditure account are sales to and purchases from:

- Central Manchester Healthcare Trust of £7.8m and £1.7m respectively
- UMIST of £2m and £2m respectively
- Salford Royal Hospital of £1.7m and £1.6m respectively
- Astra Zeneca of £0.1m income

35 Excluded funds held by the University

Access Fund

Unspent balance brought forward

Funding Council grants

Interest earned

Disbursed to students

Balance unspent at 31 July

2004	2003
£000	Restated £000
-	60
928	852
8	9
(860)	(921)
76	-

TTA Training Bursaries

Unspent balance brought forward

Funding Council grants

Disbursed to students

Balance unspent at 31 July

2004	2003
£000	Restated £000
81	103
1,894	1,925
(1,942)	(1,947)
33	81

Definition of terms

The definitions, which follow, have been adopted for the purposes of this statement.

1. **Accounts** comprise the income and expenditure account (including footnotes), the balance sheet, the cash flow statement and the statement of total recognised gains and losses.
2. **Capital grants** are grants which have been specifically identified by the grantor to be used for the purchase, construction or development of assets.
3. **Deferred capital grants** are capital grants where an asset purchased with such a grant has been capitalised. The deferred capital grant related to the asset is included in the balance sheet and released to income and expenditure account over the life of the asset to which it relates.
4. **General endowments** are those bequests and gifts where the use of the capital and income, or only the income, is for general purposes of the University.
5. **General income** is that which can be applied to any activity of the University at the discretion of the University. Examples of such income are Funding Council recurrent grant, students' tuition fees and income from general endowments.
6. **Endowment assets** are those investments held for endowment funds where the income and/or the capital of the funds require to be used for specific or general purposes of the University as determined by the terms of the endowment.
7. **Financial statements** comprise the accounts, the statement of accounting policies and the notes to the accounts.
8. **Fixed assets** are those assets intended to be held for use on a continuing basis in the activities of the University.
9. **Investments within current assets** are investments other than investments within fixed assets or endowment asset investments.
10. **Investments within fixed assets** are those investments intended to be held for use on a continuing basis in the activities of the University. An investment is classified as a fixed asset only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.
11. **Joint venture** is a contractual arrangement between two or more parties to undertake common objectives.
12. **Revaluation reserve** is the sum of unrealised amounts arising from the revaluation of the University's assets.
13. **Reports and financial statements** comprise the financial statements, a statement of corporate governance, a statement of the responsibilities of Council, the Auditors' report and the Financial report.
14. **Specific endowments** are those bequests and gifts where the use of the capital and income, or only the income, is for a specific purpose or activity so designated by the donor and which can only be used for that purpose or activity.
15. **Specific income** is that which can only be applied to a specific purpose or activity so designated by the grantor or donor. Examples of such income are funding council grants for specific purposes, research grants and some contracts and income from specific endowments.
16. **Subsidiary undertaking** is analogous to that as defined in the Companies Act and Financial Reporting Standard 2 and is a body corporate or partnership or unincorporated association carrying on a trade or business with or without a view to profit, and that is controlled by the University.



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