

The University of Manchester

# Financial statements

For the year ended 31 July 2006





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## Chairman's Foreword

**Norman Askew**



I am pleased to provide a Foreword for this second set of financial statements for The University of Manchester.

As you will see on the pages that follow, the University has enjoyed another very successful year and has consolidated its position as one of the top research-intensive universities in the UK and is increasingly being viewed as a major player on the world stage.

Our annual programme of Operational and Performance Reviews has revealed reassuring evidence of progress towards many of the goals identified in the *Manchester 2015 Agenda*, our strategic plan for repositioning The University of Manchester as one of the top 25 universities in the world over the next decade.

The realisation of such an ambitious aim does, of course, require investment in first-class facilities and the recruitment of world-leading scholars and this is reflected in the consolidated results and our willingness to authorise up-front expenditure in advance of accruing the future benefits from this investment.

Some of those benefits are already being realised as evidenced by the growth in income for a second year arising from research grants and contracts. There has also been a healthy growth in income from other activities by academic and administrative departments and from investments and donations.

On the other hand, there has also been a significant increase in some expenditure items, such as energy costs. The real challenge over the next few years will be to control these costs through more efficient and effective management and to grow our sources of discretionary income so that we can sustain this ambitious programme of investment.

We still have much work to do to realise the *Manchester 2015* ambition, but I am greatly encouraged by the tremendous start that has been made in just two years by all sections of the campus community.

A handwritten signature in black ink, which appears to read "Norman Askew". The signature is fluid and cursive, with a prominent loop at the end.

Norman Askew  
Pro-Chancellor and Chairman  
of the Board of Governors

## Officers and advisers

### Officers

#### Co-Chancellor

Anna Ford, BA(Econ), DpAdultEd, LLD

#### Co-Chancellor

Sir Terry Leahy, BSc

#### Pro-Chancellor

Admiral Sir John Kerr, GCB, DL

#### President and Vice-Chancellor

Professor Alan D Gilbert, MA, DPhil, FASSA

#### Chair of the Board of Governors and Pro-Chancellor

Norman B M Askew, BA

#### Registrar and Secretary

Albert H McMenemy, BA, LLB

#### Director of Finance

Geoffrey Hope-Terry, FCCA

### Vice-Presidents (Policy)

#### Vice-President

Professor David Gordon, MA, MB, BChir, FRCP, FMedSci

#### Vice-President (Teaching and Learning)

Professor Robert W Munn, BSc, PhD, DSc, CChem, CPhys, FRSC, FlntP

#### Vice-President (Innovation and Economic Development)

Professor Rod W Coombs, BSc, MSc, PhD

#### Vice-Presidents (Research)

Professor Dame Nancy J Rothwell, PhD, DSc, FRS, FMedSci

Professor Simon J Gaskell, BSc, PhD, CChem, FRSC

### Vice-Presidents and Deans of Faculties

#### Engineering and Physical Sciences

Professor John D Perkins, BSc, MA, PhD, FICChemE, FIMA, FREng

#### Humanities

Professor Alistair M Ulph, BPhil, MA

#### Life Sciences

Professor R Alan North, MB, ChB, PhD, DSc, FRS

#### Medical and Human Sciences

In an acting capacity:  
Professor R Alan North, MB, ChB, PhD, DSc, FRS

### Chairs of Committees of the Board of Governors

#### Chair of Audit Committee

Kathleen Tattersall, OBE, BA, MEd, FRSA

#### Chair of Finance Committee

Nigel A L Llewellyn, MA, FCA, FRSA

#### Chair of Risk Committee

Gillian Easson, MA

#### Chair of Remuneration Committee

Norman B M Askew, BA

#### Chair of Nominations Committee

Admiral Sir John Kerr, GCB, DL

### Advisers

#### Bankers

Barclays Bank plc  
National Westminster Bank plc

#### External Auditors

PricewaterhouseCoopers LLP

#### Solicitors

Eversheds LLP  
Pinsent Masons  
DLA Piper Rudnick Gray Cary

## Review of the year

It has been another productive year for the University. I am pleased to report significant progress towards the goals identified in the *Manchester 2015 Agenda*, our ambitious strategic plan for repositioning The University of Manchester over the next decade as one of the world's leading institutions of higher learning. To read the strategic plan, please visit our website at [www.manchester.ac.uk/aboutus](http://www.manchester.ac.uk/aboutus).

The University continues to be one of the largest employers in Greater Manchester with more than 11,000 members of staff (headcount) in 2005/06, more than 5,000 of whom were academic and research staff. It registered 35,655 students, 26,460 undergraduates and 9,195 postgraduates, who study a wider variety of academic subjects than is available in any other UK university. The annual financial impact on the region is in excess of £1.4 billion and our alumni now number 198,000 in 197 countries.

Building on our first full year results in 2004/05 this review highlights some of our major activities and achievements and outlines the progress made towards our stated strategic goals.

In the past year, there has been further reassuring recognition of the strength of the new University in terms of student application rates and our position in the Jiao Tong Shanghai international ranking of universities, the most credible ranking process currently available. In November 2005, we were named the UK's 'Higher Education Institution of the Year' at the inaugural Times Higher Awards.

Evidence of progress towards the goals laid out in the *Manchester 2015 Agenda* is perhaps best illustrated in relation to research activity. We have recruited many virtuoso researchers, and attracted record levels of external funding and research council scholarships. We have also begun to witness the impact that our Research Institutes are having in fields as diverse as health sciences, poverty reduction and nuclear science.

In January 2006 we assumed responsibility for the activities of the Paterson Institute for Cancer Research and established the Manchester Cancer Research Centre (MCRC). The MCRC will work in close partnership with the Christie Hospital NHS Trust and Cancer Research UK to consolidate the largest cancer research centre in Europe. Its overall aim is to expand our basic research efforts and to foster translational research to promote better and more specific therapies for cancer patients.

In November 2005 we appointed Nobel Laureate Professor Joseph Stiglitz to lead the Brooks World Poverty Institute (BWPI), a multidisciplinary centre of global excellence researching poverty, poverty reduction, inequality and growth. Graduate Rory Brooks and his wife Elizabeth have generously agreed to support the BWPI with a gift of £1.3 million over the next three years. Rory has been a long-term supporter of the University and his donation will represent one of the largest gifts in support of poverty research in Europe. For the first time in more than half a century Manchester now has a Nobel Laureate on its staff. This is visible progress towards one of the key performance indicators set out in *Manchester 2015*. Such appointments are not seen as an end in themselves, but as a powerful expression of intent designed to make the new University a beacon attracting virtuoso scholars at all levels of career development.

In the field of teaching and learning, we signed a pioneering partnership agreement with the Open University (OU) that will enable students at Manchester to benefit from the latest technologies and pedagogic innovations developed by the OU to enhance student learning. The partnership also promises to provide an unparalleled platform for launching new joint e-learning courses around the world.

Our students – and the local community – are also benefiting from the Manchester Leadership Programme (MLP), which was launched in early 2005 to encourage students to get involved with the local community, whilst boosting their leadership skills and personal development. It attracted 75 students in the first year, with a further 300 set to take part in 2006/07. I believe that the MLP can become one of the defining characteristics of our graduates, contributing to a value-added process that will not only make them more sought after than ever by employers, but also more informed citizens of the world, ready to help build sustainable civil societies wherever they choose to live and work.

The University has demonstrated a pioneering approach in the field of knowledge and technology transfer with one of the country's most generous and forward-thinking policies on Intellectual Property. The successful float of Renovo Ltd, one of our spin-off companies, and the sale of another, NeuTec Pharma for £305 million, of which the University's share generated a surplus in the year of £7 million, demonstrate the enormous potential benefits for society, academic colleagues, the University and our business partners that can flow from the successful commercialisation of knowledge technologies and products developed in the University's laboratories.

I am pleased to report that our ambitious £620 million Capital Development Programme continues to be delivered on time and on budget with the Core Technology Facility, the Manchester Interdisciplinary Biocentre and a new multi-storey car park opening within the past few months. A host of other new and refurbished buildings and laboratories will open over the next twelve months, transforming the campus and the city's skyline.

As with all strategies, the *Manchester 2015 Agenda* is only of value if it is translated into the kinds of operational objectives, targets, priorities and performance measures that can inform day-to-day decision-making. To this end, the University's strategic plan is underpinned by a framework of agreed key performance indicators. Each year a series of Operational Performance Reviews is carried out; one for each of the University's four faculties, the administration, its library and its cultural assets. A detailed 'Stock-Take' Report is produced in which the University management:

- (i) accounts to its Board of Governors on the University's performance against plan over the previous academic year; and
- (ii) reports on priorities for the current and forthcoming year, making recommendations for the fine-tuning of the University's strategic plan as appropriate.

Together these processes and evaluations inform a Planning and Accountability Conference, held in February each year, at which the University's Senior Executive reports to the Board of Governors on the progress made over the previous 12 months.

The final 'Stock-Take' Report for the academic year 2004/05 was published in 2006 (see [www.manchester.ac.uk/aboutus](http://www.manchester.ac.uk/aboutus)). The Report for 2005/06 will be published in the Spring 2007 and will be available on the same website.

The task of transforming a very good institution into a great international centre of learning, scholarship, research and community engagement was the defining idea behind the creation of The University of Manchester in 2004. It was never going to be an easy task, but I am delighted with the progress that we have made to date. I would like to pay tribute to all the University's staff for the enthusiasm with which they have embraced this ambitious vision. I am also grateful to the Board of Governors for the faith that they have shown in the University's leadership team and to our partners in the city and the wider region for their continued support and encouragement.



Professor Alan Gilbert  
President and Vice-Chancellor

## New £25 million Biotech Facility

A new £25 million facility, which will be a "hothouse" for new treatments for diseases such as HIV and cancer, was officially opened by Science and Innovation Minister Lord Sainsbury in June 2005.

The Core Technology Facility provides specialist accommodation for biotech companies, as well as laboratories for

academic staff from the Faculties of Life Sciences and Medical and Human Sciences. The University of Manchester Incubator Company Limited (UMIC), which manages a portfolio of business incubators, launched the development funded by the University, the North West Development Agency and the European Regional Development Fund.



## Game on!



During August, the University delivered a day of sport and activity for young people from local communities. The event, christened Game On!, is the first stage of a sustainable project set up by the University's SPORT department and Directorate of Human Resources.

The initiative will provide sporting opportunities for young people living in the local area, and will continue with after school and school holiday coaching sessions.

## Unsung landmark

Jodrell Bank, the UK's national radio astronomy observatory and part of the University's School of Physics and Astronomy, has been named as the winner in a BBC online competition to find the UK's greatest 'Unsung Landmark'.

The contest asked visitors to the BBC website to choose their favourite from eight landmarks nominated by the public and Jodrell Bank came out on top.





## Higher Education Institution of the Year

The University was named Higher Education Institution of the Year at the inaugural Times Higher Awards 2005.

Announcing the award, the Prime Minister, Tony Blair, said: "Manchester has impressed the whole Higher Education sector by its successful merger last year with UMIST. But what particularly impressed the judges was how, under the leadership of Vice-Chancellor Alan Gilbert, Manchester's vision for the

future and determination to reinvigorate itself to become one of the top research universities in the world has enthused both staff and students."

The awards were organised by the Times Higher Education Supplement and the ceremony was held at London's Dorchester Hotel in November 2005.

[www.manchester.ac.uk/aboutus/facts/award](http://www.manchester.ac.uk/aboutus/facts/award)



## Nobel Laureate Chairs World Poverty Institute

Nobel Laureate Professor Joseph E Stiglitz was appointed to chair the University's Brooks World Poverty Institute in November. The Institute will generously be funded by £1.3 million over the next three years from the Rory and Elizabeth Brooks Foundation. Mr Brooks, former Chairman of the Alumni Association, is a long-term supporter of the University and previously funded a Chair in Enterprise.



## Environmental Sustainability Pledge

The University has signed the international Talloires Declaration, a commitment to environmental sustainability in higher education. The Declaration brings together more than 300 higher education institutions in 40 countries. It provides an action plan for the incorporation of environmental sustainability into teaching, research, operations and outreach activities.

On signing the Declaration, President and Vice-Chancellor Professor Alan Gilbert said: "This commits the University, as a corporate citizen and as an educational institution to

responsible practice in relation to sustainability."

An example of the University's commitment to sustainability is the new £25 million AMPPS (Astronomy, Mathematics, Physics and Photon Science) Building, now nearing completion at the heart of the campus. The building, which incorporates photovoltaic panels and a solar shading array, will become one of the most sustainable buildings in the region.

[www.ulsf.org](http://www.ulsf.org)

## Financial review

The University of Manchester's consolidated results for the 12 months to 31 July 2006 show a deficit of £20.7 million. The Board of Governors had decided previously to support the University's ambitious *Manchester 2015 Agenda* by authorising up-front expenditure in advance of accruing the future revenue benefits from these investments.

The results can be summarised as follows:

	2006	2005
	£000	£000
Income	588,167	539,980
Expenditure	(611,284)	(541,044)
<b>Operating deficit</b>	<b>(23,117)</b>	<b>(1,064)</b>
Exceptional items	4,729	(8,883)
Other Items	(2,270)	95
<b>Deficit</b>	<b>(20,658)</b>	<b>(9,852)</b>

### Income

Total income for the University has increased by £48.2 million (8.9%), from the 2005 base, and all income streams have increased.

Funding Council grants were up by 5.9% (£9.7 million), higher than the budgeted figure, whilst tuition fees and education contracts increased by 3.3% (£3.9 million), in line with expectations.

Income from research grants and contracts grew by 12% for the second year running, giving an increase of £30.4 million from the 2004 merged figures of the legacy institutions. This growth is not yet reflected in the overhead contribution rate which, at 11.6%, remains below the expected budgetary figure, but the Full Economic Costing initiative should help the University to increase this level.

Other operating income includes revenue from residences, catering, and conferences, as well as income generated by academic departments and administrative services. This total has increased by 14.3% (£16.3 million), this year.

Endowment and investment income in total has changed little since last year, but this masks the underlying movements. Good performance in the investment markets has given rise to strong growth in the income from specific and general endowments. However, the demands of the University's capital development programme have drawn some funds away from short term investments, during the year, and income from this source is down. Finally, there has been a strong and welcome rise in the income received from donations, which are also included in this figure.

### Expenditure

Total expenditure increased by 13.0% (£70.2 million) with staff costs increasing by 12.2% (£37.7 million), reflecting the increased activity described above.

Staff costs increases are in line with growth in income, particularly the rise in research grants and contracts. In addition, the University has implemented improved terms and conditions for staff with the introduction of a 35 hour week and a single pay spine, over and above a 3% pay award. Pension contributions have also been increased to both the University of Manchester Pension Scheme (UMSS) and the Greater Manchester Pension Fund (GMPF).

Other operating expenses have gone up by 15.7% (£31.8 million) and have been particularly affected by increases of £8.7 million year on year in utility charges, largely energy costs. The increase in research activity has also impacted on the level of expenditure incurred.

A decision was taken shortly before year end to incur costs of £2.6 million in making a partial repayment of a high fixed-interest rate loan. This action will benefit future years by reducing annual recurrent expenditure by £900,000 but has impacted adversely on current year results.

### Exceptional items

Exceptional items comprise a £6.8 million capital gain from the sale of the University's holding in NeuTec Pharma plc, a former spin out company, offset by £2 million which is the final element of the merger costs relating to the bringing together of the two former institutions.

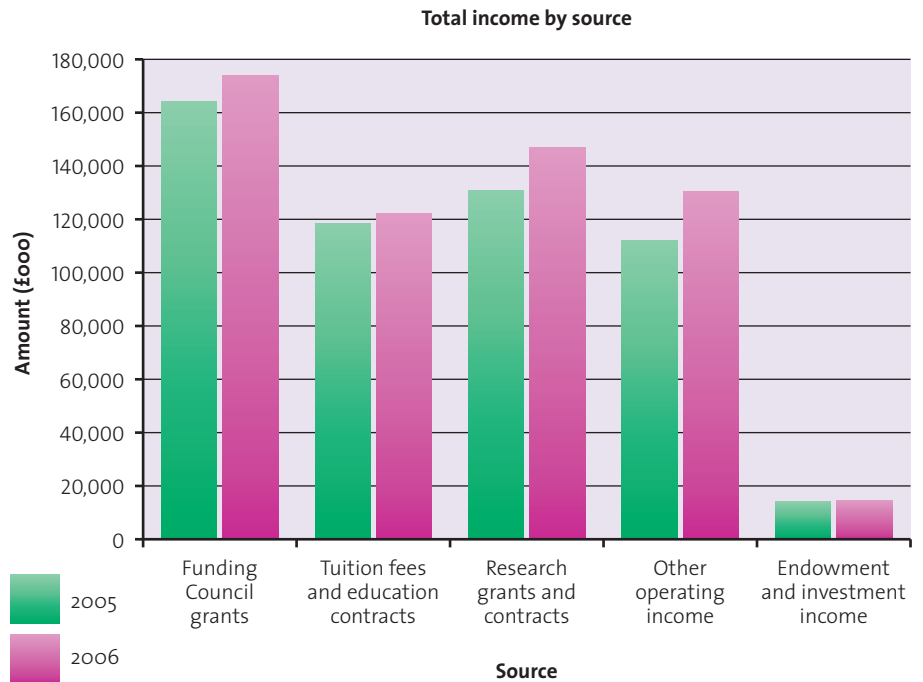
In summary, the result for the year was broadly in line with budgetary expectations and the original 'Project Unity' business plan.

## Analysis of income sources and expenditure categories

### Sources of income

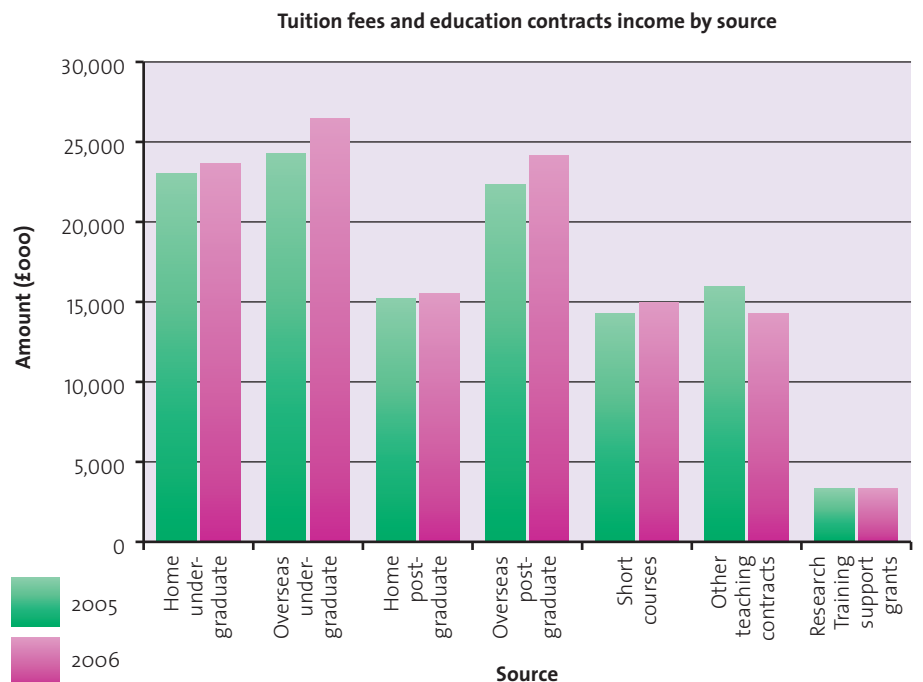
#### 1. Total income by source

- **Funding Council grants** – grants, recurrent and specific, received from Government funding bodies, for example the Higher Education Funding Council for England and the Training and Development Agency for Schools
- **Tuition fees and education contracts** – tuition fee income received from various sources, for example students, local education authorities and short courses
- **Research grants and contracts** – income from sponsors in relation to the University's research activity
- **Other operating income** – all other income earned by the University, for example residences, catering and conferences
- **Endowment and investment income** – endowments are bequests and gifts, where the use of the capital and income, or only the income, is for general or specific purposes of the University. The income is dividends and interest earned on endowments.



#### 2. Tuition fees and education contracts income by source

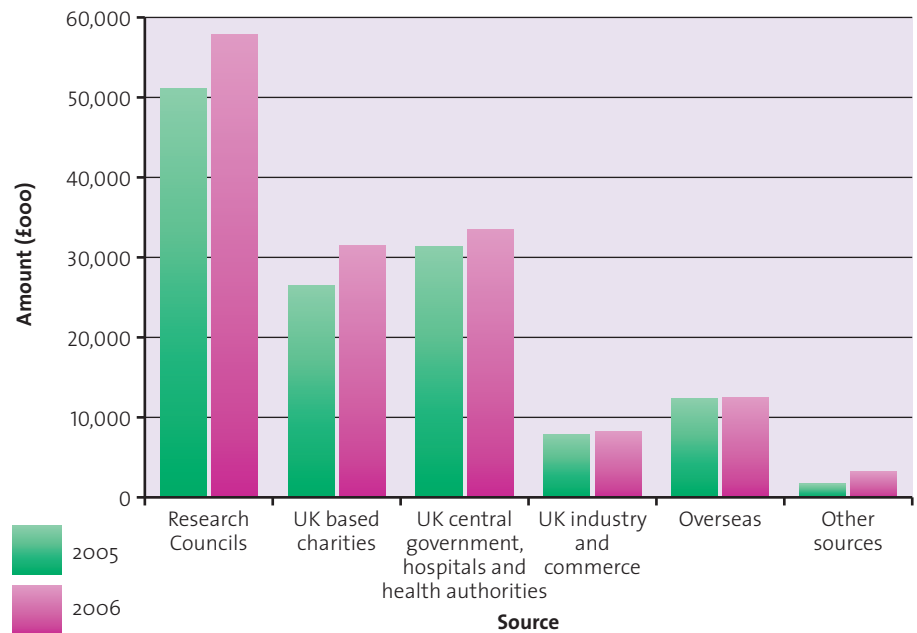
- **Home undergraduate** – UK and EU students undertaking a Bachelor of Arts or Science degree
- **Overseas undergraduate** – non-EU students undertaking a Bachelor of Arts or Science degree
- **Home postgraduate** – UK and EU students undertaking postgraduate teaching courses or research
- **Overseas postgraduate** – non-EU students undertaking postgraduate teaching courses or research
- **Short courses** – non-credit bearing courses, for example continuing education and training courses
- **Other teaching contracts** – fee income from other teaching contracts, including £13 million from the strategic health authority for teaching undergraduate nursing students
- **Research Training support grants** – grants to support research training.



### 3. Research grants and contracts income by source

- **Research Councils** – public funds received from the main subject based/academic based Research Councils as part of the Government's dual support funding for research, for example Medical Research Council, Engineering and Physical Sciences Research Council
- **UK based charities** – income for projects sponsored by UK based charities, for example Wellcome Trust, British Heart Foundation
- **UK central government, hospitals and health authorities** – income for projects sponsored by government bodies, for example NHS and Office of the Deputy Prime Minister
- **UK industry and commerce** – contracts entered into with companies and other organisations from across industry groups
- **Overseas** – income from the European Union, including the European Commission, and other overseas companies and organisations
- **Other sources** – income from sponsors not covered in the above categories, for example Royal Pharmaceutical Society.

Research grants and contracts by sources

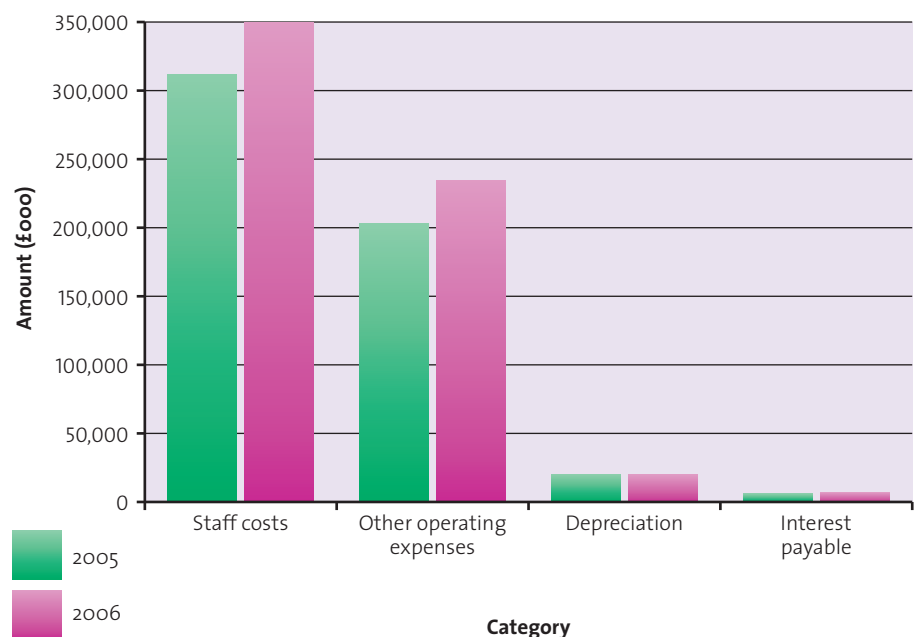


### Expenditure by category

#### 1. Total expenditure by category

- **Staff costs** – expenditure incurred on staff salaries and wages, including employers' national insurance and superannuation contributions
- **Other operating expenses** – all other non-pay expenditure incurred by the University
- **Depreciation** – allocation of the cost of an asset over its useful life. The depreciation charge in the financial statements is the charge for that particular year
- **Interest payable** – interest payable on external borrowings and bank overdrafts.

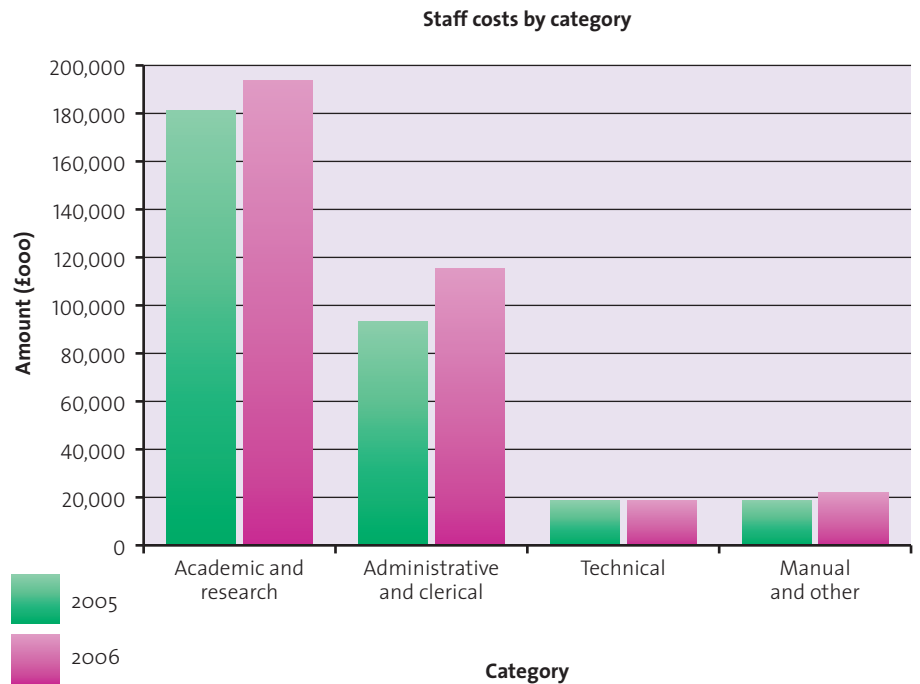
Total expenditure by category



## 2. Staff costs by category

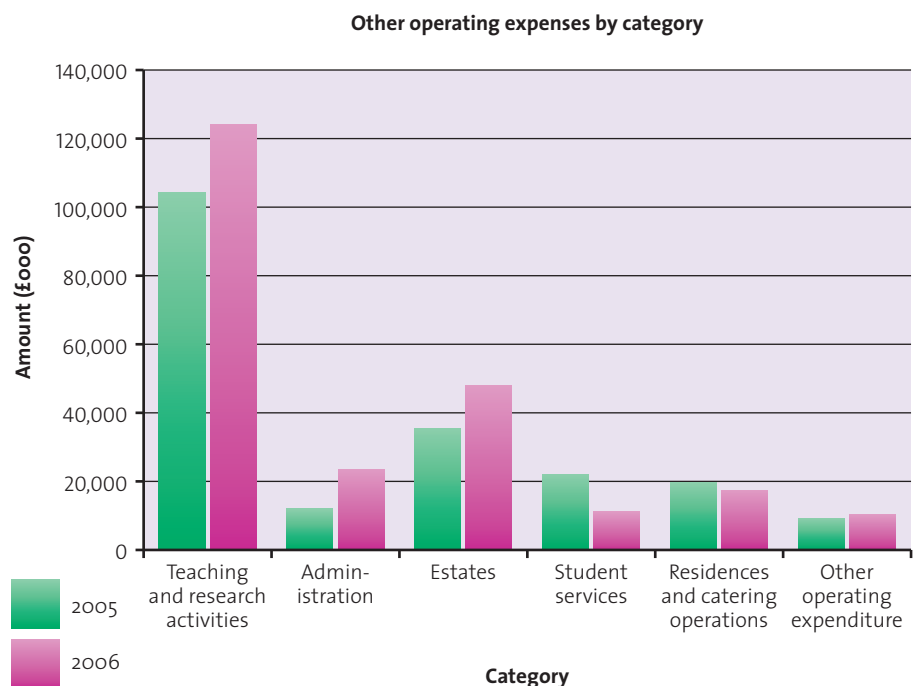
The University employs over 11,000 staff (headcount), across a range of academic and support roles.

- **Academic and research** – costs relating to academic and research staff, for example lecturers and research associates
- **Administrative and clerical** – costs relating to administrative and clerical staff, for example Heads of Faculty Administration, HR and finance, clerks and secretarial staff
- **Technical** – costs relating to technical staff, for example laboratory technicians and audio technicians
- **Manual and other** – costs relating to manual and other staff, for example security staff, porters and gallery attendants.



## 3. Other operating expenses by category

- **Teaching and research activities** – expenditure incurred by academic departments in all aspects of teaching and research activities
- **Administration** – expenditure incurred in the administrative operation of the University, for example central computer support, alongside other University-wide costs, which include legal fees, recruitment and removal expenses, insurance, subscriptions and grants to the Students' Union
- **Estates** – expenditure incurred in relation to the upkeep and function of the estate, for example repairs, maintenance, rates and utilities
- **Student services** – expenditure incurred in the provision of student services, for example library and information services. This category also includes expenditure on the University's cultural assets, such as the Whitworth Art Gallery and the Manchester Museum
- **Residences and catering operations** – expenditure incurred in the running of halls of residences and catering outlets
- **Other operating expenditure** – all other



## Balance sheet review

### Balance sheet review

The net assets of the University stand at £531.9 million, an increase of £72.7 million over the previous year. This figure is after taking into account a pension deficit of £12.8 million, in accordance with FRS17 'Retirement benefits' which was adopted in 2005.

### Fixed assets

The net book value of land and buildings, including assets under construction, increased to £449 million reflecting the progress on the University's ambitious capital development programme. There has been expenditure of £126 million in the year under review, which has been funded through a combination of external borrowings, capital grants and cash balances.

### Endowment assets

The University's endowments assets have increased by £10.2 million over the year, and the portfolio has been re-aligned following the appointment of new external Investment Managers from June 2006. Blackrock Investment Management (UK) Ltd (formerly Merrill Lynch Investment Management) and Franklin Templeton Ltd are now responsible for 80% and 20% of the funds, respectively, and have been set stretching targets for returns in future years.

## Current Assets

### Debtors

Whilst the total of outstanding debtors has increased significantly year on year, the element relating to trade debts has gone up by just £2 million. The larger increases are due to increased research activity, £8 million, and other grants owed by HEFCE and other funding bodies of £14 million.

### Investments

Short-term investments have increased by £44.9 million at the year end, largely as a result of the draw down of a £100 million loan during the year. These borrowings are part of the funding package for the capital development programme (see below).

### Creditors

Creditors falling due within one year are £64.7 million higher than 2005, largely relating to accrued expenditure and deferred income in respect of the on-going capital programme.

Amounts due after more than one year have increased by £93 million, as a result of the £100 million additional loan. This was arranged via a Private Placement at an interest rate of 5.04%, and is repayable by one payment in 2046.

### Deferred capital grants

Deferred capital grants continue to grow in line with the capital development programme.

### Revaluation reserve

Revaluation reserve has reduced, slightly, over the year due to the realisation of part of the investment portfolio on transfer to the new investment managers.

## Investment Performance

The University operates a long-term investment portfolio. The total return of the quoted assets and cash held in the portfolio for the year 1 August 2005 to 31 July 2006 was 14.7%.

The performance of the portfolio is benchmarked against a blended benchmark consisting of:

UK Equities	50%
Overseas Equities	15%
UK Gilts	20%
UK Property	15%

The total return for this benchmark in the year to 31 July 2006 was 13.6%.

Geoffrey Hope-Terry  
Director of Finance

## Corporate governance statement

The University of Manchester is a chartered corporation which formally came into existence on 1 October 2004. It was created upon the dissolution of The Victoria University of Manchester and The University of Manchester Institute of Science and Technology (UMIST), both of whose rights, properties, assets and obligations were transferred to the new, merged institution by means of The University of Manchester Act 2004.

Currently, the University operates under the terms of a Royal Charter granted in 2004, and it is also an exempt charity under Section 3 of the Charities Act 1993. The University enjoys substantial autonomy to determine and direct its own affairs, and, in particular, has the freedom to determine the scope of its teaching and research activity. However, universities receive a significant element of their funding from public funds allocated principally through the Higher Education Funding Councils and the Research Councils. The conditions attached to grants from the Higher Education Funding Council for England (HEFCE) are set down in a Financial Memorandum between HEFCE and the University.

The University of Manchester, like other public bodies, has 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 (in 1996) and recommendations arising from the Dearing Inquiry into Higher Education (in 1997). The University's corporate governance arrangements have been established in such a way as to conform with these duties, and, where appropriate, are also informed by the guidance on good practice in university governance offered by the Committee of University Chairmen (most recently in 2004).

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

### Summary of the University's Structure of Corporate Governance

The University's overarching Mission is to make the institution, already an internationally distinguished centre of research, innovation, learning and scholarly inquiry, one of the leading universities in the world by 2015.

The Charter and Statutes provide for and empower 'authoritative bodies' within the University, each of which has a distinct role to play in the structure of governance. These include:

The **Board of Governors**, which, as the University's governing body, carries 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 is also a specific role of the Board to satisfy itself that work being undertaken on its behalf, whether by committees or by officers, is consistent with corporate objectives and is within the bounds of accepted good practice. The Board meets formally four or five times in each academic year. Its membership of 25 has a majority of persons who are not employed by the University (the 'lay' members), with the Chairman being appointed from within this category of the membership. Members of the Senate (see below), members of the support staff and a student also serve on the Board. A Nominations Committee (see below) makes recommendations to the General Assembly (see below) in respect of vacancies occurring in the category of co-opted General Assembly membership, and to the Board of Governors with respect to vacancies occurring in the lay category of Board membership and in the category of General Assembly lay membership appointed by the Board.

The Board has appointed an **Audit Committee**, a **Finance Committee**, a **Risk Committee**, a **Remuneration Committee** and a **Nominations Committee**, which report directly to it, and has also established processes which ensure both that it is kept regularly advised on the strategic and policy elements of estates, personnel and health and safety issues, and that it can act effectively and in an informed way with respect to these matters when it is required to do so. In the context of institutional governance, and in line with the most recent advice and guidance produced by the Turnbull Committee (that is, 'Turnbull 2'), the Audit Committee has a particularly important function in expressing opinions and giving assurances to the Board relating to its review of the effectiveness of the University's arrangements for risk management, control and governance. (The risk management element of this role includes the review of the processes which lead to the statement on internal control in the financial statements.) In accordance with 'Turnbull 2', the Committee will also, whenever appropriate, provide explicit confirmation to the Board that necessary actions have been, or are being, taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of internal control.

The **Planning and Resources Committee** (PRC), which is chaired by the President and Vice-Chancellor and includes in its membership the Vice-Presidents, the Registrar and Secretary and the Director of Finance, is the key central management committee. PRC serves as the primary source of advice to the Board of Governors on matters relating to the development and allocation of the University's resources, on strategic planning issues and on the financial, educational and research performance of the University against agreed goals and targets. Additionally, in consultation with other relevant committees, it develops, for approval by the Board, the University's annual planning, budgeting performance evaluation and accountability cycle, annual revisions of the University's Strategic Plan and an annual University Budget.

The **Senate**, the University's principal academic authority, is ultimately responsible for the promotion of research and for teaching and examination arrangements. It is the final arbiter on purely academic matters, and it is this autonomy of academic governance which sets higher education institutions apart from other corporate entities. To be effective, the process of academic governance must 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 are 'regulatory' in nature and control the academic business of the University. When the academic decisions of the Senate carry resource implications of any sort, the approval of the Board is also required. In practice, matters such as the resourcing of academic plans and strategic planning are considered by the Planning and Resources Committee. The Senate has 66 members including, *ex officio*, those having academic management responsibilities centrally and in the Faculties, members (professorial and non-professorial) elected by the Faculties, and student representatives.

Provision is made within the arrangements for governance for the involvement of independent or 'lay' members not only in the work of the Board of Governors (as has been mentioned) but also in that of the **General Assembly**, which is the body providing the interface between the University and the wider community. It is a much larger body (200+ members) than the Board, and both the Board and General Assembly are constituted so as to have a majority of lay members. Lay members are drawn from a wide range of local, regional and national interests, and together they contribute to the University a wealth of experience and expertise from differing perspectives. The main purpose of the General Assembly is to act as a two-way channel of communication through which the University both presents itself and its achievements to its broader 'constituencies' and receives from them feedback and advice on matters relating to University business. It also includes University staff and students within its membership.

The **Alumni Association** is the body of the University's graduates, and has the function of promoting fellowship among graduates and helping them to keep in touch with the University by providing opportunities to take an interest in its development and ongoing activities. General Meetings of the Association are held annually, and the business between Annual General Meetings is conducted by an elected committee. Elections are held at AGMs of twenty members to serve on the General Assembly and of one person for nomination to serve on the Board.

The members of the General Assembly and the Alumni Association, together with all members of paid University staff eligible to hold superannuable appointments (c.10,500) form the constituency for the election of the **Chancellor** who is the ceremonial Head of the University presiding over meetings of the General Assembly and over congregations of the University for the conferment of degrees.

The **President and Vice-Chancellor** is the chief executive officer and the principal academic and administrative officer of the University. In fulfilment of these functions the President and Vice-Chancellor has overall responsibility for the executive management of the University and for its day-to-day direction, being accountable to the Board of Governors for the exercise of these responsibilities and (as the designated Accounting Officer) to HEFCE for the use of the public funds which have been allocated. In this capacity the President and Vice-Chancellor can be summoned to appear before the Public Accounts Committee of the House of Commons. As the chief executive officer of the University, the President and Vice-Chancellor exercises primary influence on the development of institutional policy and strategy, the identification and planning of new developments and the shaping of institutional ethos. The **Vice-Presidents** and the senior administrative officers all contribute in various ways to this aspect of the work, in particular acting as a **Senior Executive**, but the ultimate executive responsibility rests with the President and Vice-Chancellor.

The function of the University Administration is to support the primary institutional objectives in respect of teaching and research and to implement the policy decisions of Senate and the Board. Through the provision of specialist expertise, it also contributes to and advises on the formulation of University policy. The Head of the Administration is the **Registrar and Secretary**, who is the Secretary to the Board of Governors and is also responsible for providing secretarial services for the General Assembly and Senate.

The University maintains a Register of Interests of members of the Board of Governors, which may be consulted by arrangement with the Registrar and Secretary. Members of the Board receive a reminder in the papers for each meeting of the need to declare any interest they may have in relation to the specific business to be transacted.

## Statement on Risk Management

The duties conferred upon the Board of Governors by the University's Charter and Statutes require it to institute and maintain a sound system of internal control which both supports the achievement by the University of its aims and objectives and safeguards public and other funds and assets for which it is responsible. In that context, the Board is satisfied that the University complies with those provisions of the Combined Code of Best Practice on the financial aspects of corporate governance which are applicable in a higher education institution. Guidance provided by the Turnbull Committee on a risk management approach to internal control of institutional activity, as mediated by HEFCE in Accounts Direction, has been adopted by the Board as the basis for evaluating the University's systems of internal control and for reviewing its effectiveness.

The system that has been adopted by the Board is designed to manage risk and to provide reasonable, but not absolute, assurance of effectiveness. The Board recognises that some risks will always exist. The knowledge that such risks exist is itself a key element in the risk management process of the University. In addition, in order to exercise the responsibility associated with risk awareness/management, the necessary support, assistance and commitment of management has to be provided to all levels in the University. This commitment is critical in that all staff need both to be aware of the nature of the risks associated within their area of authority and to accept responsibility for their identification and their control.

The risk management objectives of the University listed below are based on the overarching policy to adopt best practice in the identification, evaluation and cost-effective control of risks in order that the risks associated with the University's strategy, as set out in its Strategic Plan [*'Towards Manchester 2015'*], are eliminated and/or reduced to an acceptable level. The policy includes the following key actions:

- the integration of risk awareness into the culture of the University;
- the management of risk in accordance with best practice;
- the anticipation and appropriate response to risks emerging/associated with changing social, environmental and legislation requirements; and
- the reduction of the costs of risk by taking appropriate steps to mitigate injury and damage to individuals and assets of the University.



The objectives are being achieved by:

- the establishment of a framework which assists the management of the University in the identification of the key risks inherent in the delivery of the University's strategy;
- the review of the framework by a Risk Committee of the Board;
- identification by senior management of systems to assist in achieving appropriate compliance;
- the evaluation of risks inherent in all plans and proposals, including the identification of the steps that would be required to mitigate, eliminate and 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 is a potential for an occurrence having a catastrophic effect on the University and its business capability.

In addition to the above, the Board and the senior management of the University have agreed that a number of actions be taken, including:

- a Planning and Accountability Conference to be held each February to review the strategic plans and direction of the University, thereby allowing the Board to review performance and raise questions, arising from the key performance indicators, with the senior management of the University;
- regular reports, at each meeting of the Board, to be received from the Audit Committee concerning internal control, including progress reports on key projects, and from the Risk Committee on the steps being taken to manage risks across the University;
- the Audit Committee to receive regular reports from the Head of the Internal Audit Service, which include the internal auditors' independent opinion on the adequacy and effectiveness of the University's system of internal control, together with any recommendations for improvement;
- the adoption of a Risk Management Framework to underpin the Risk Management Policy already in place, details of which have been circulated to University staff;
- key risks facing the University to be drawn up and recorded, in order to ensure that actions to manage them have been, and will continue to be, developed; and
- the establishment, where necessary, of ad hoc due diligence groups for key projects.

In summary, the following components of a robust approach to risk management have been, and continue to be, developed. The components are:

- a Risk Committee of the Board;
- a Risk Management Policy;
- a Risk Management Framework and process, including guidance;
- a high-level risk register derived from the University's strategy document, *'Towards Manchester 2015'*;
- resources to support the risk management process, including the identification of a University Risk Officer and the designation of an Associate Vice-President for Compliance and Risk Management (who provides direct advice to senior officers of the University and reports to each meeting of the Board of Governors);
- a University Emergency Incident Plan, which includes major incident reporting and monitoring;
- a clearly articulated governance framework for the oversight of a best-practice approach to Health and Safety;
- Health and Safety policies, procedures and guidance;
- a Risk and Emergency Management Group (as a sub-group of the Planning and Resources Committee), to ensure:
  - that policies and procedures are in place in the main operational areas of the University to develop an awareness of the need for risk management, in order to eliminate, mitigate, control or accept risks facing those areas;
  - that such policies and procedures are operating in the most effective and efficient manner through a process of monitoring and audit, and that appropriate assurance as to compliance with the University's regulatory framework is secured;
  - that key areas of activity involving Emergency Management Planning and the operational management of Health and Safety meet legislative requirements and are based on best practice;
  - that roles and responsibilities include matters in respect of risk and related management, and that such matters are unambiguously developed to minimise the emergence of risks;
  - that mechanisms are in place for staff to be adequately trained in areas of risk management;

- that the University actively promotes best practice in the management and control of risk, including its reduction, transfer (sharing), toleration or termination; and

- that cost-effective systems are in place to address business continuity and disaster recovery.

- the appointment of external monitors for the University's Capital Development Programme, who report on a regular basis to the Finance and the Planning and Resources Committees; and
- regular review of major incidents at each meeting of the Risk and Emergency Management Group.

The success of the risk management process in 2005-06 is exemplified by the following:

- the steps introduced by the senior management, discussed at the Board, to mitigate adverse effects on students, and thus the potential for reputational damage to the University, arising from the recent industrial action in the University sector;
- ensuring the steady progress of the University's Capital Development Programme;
- the mitigation of adverse effects from the loss of two legacy brands, particularly for student recruitment, and the establishment of a new identity; and
- the success in attracting high-quality staff to the institution.

The Board's review of 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.

## Statement of the Board of Governors' responsibilities

In accordance with the Royal Charter and the 1992 Further and Higher Education Act, the Board of Governors of The University of Manchester ('the Board') is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of The University of Manchester and which enable it to ensure that the financial statements are prepared in accordance with the Royal Charter, the Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the Statement of Recommended Practice: Accounting for Further and Higher Education, and applicable UK law and accounting standards, as well as reflecting current best practice in public sector corporate governance. In addition, under the terms and conditions of a Financial Memorandum agreed with HEFCE in respect of The University of Manchester, the Board, through its designated office-holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the institutional surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable UK law and accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going-concern basis unless it is inappropriate to presume that The University of Manchester will continue in operation. The Board is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason the going-concern basis continues to be adopted in the preparation of the financial statements.

The Board has taken reasonable steps to:

- ensure that funds from HEFCE and the Training and Development Agency for Schools are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and any other terms and conditions which HEFCE may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds from other sources;
- safeguard the assets of The University of Manchester and to prevent and detect fraud; and
- secure the economical, efficient and effective management of The University of Manchester's resources and expenditure.

## Independent auditors' report to the Board of Governors of the University of Manchester

We have audited the financial statements ('the financial statements') of The University of Manchester for the year ended 31 July 2006 which comprise the Consolidated Income and Expenditure Account, the Group and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Statement of Principal Accounting Policies and the related notes. These financial statements 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 in the Statement of Principal Accounting Policies.

### Respective responsibilities of the Board of Governors and auditors

The Board of Governor's responsibilities for preparing the financial statements in accordance with the Royal Charter of the University, the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Board of Governor's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Board of Governors of the University in accordance with the Charter and Statutes of the University and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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: Accounting for Further and Higher Education. We report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, 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 our audit.

We read the other information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the review of the year, the financial review and the corporate governance statement.

We also review the statement of internal control included as part of the corporate governance statement and comment if the statement is inconsistent with our knowledge of the University and group. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Code of Practice. 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 governing body 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 2006, and of the deficit of income over expenditure, recognised gains and losses and cashflows for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- ii. in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- iii. in all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Manchester

### Notes

- a) The maintenance and integrity of the University of Manchester's website is the responsibility of the Board of Governors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Statement of principal accounting policies

### Basis of preparation

The financial statements have been prepared in accordance with the Royal Charter, the Accounts Direction issued by HEFCE, the Financial Memorandum agreed with HEFCE, the Statement of Recommended Practice: Accounting for Further and Higher Education and applicable United Kingdom law and accounting standards. The accounting policies detailed below have been applied consistently.

### Basis of accounting

#### (a) Modified historical cost basis

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

#### (b) Merger accounting

The accounts have been prepared under merger accounting principles as set out in FRS 6 'Acquisitions and Mergers', in relation to the merger on 1 October 2004 of The Victoria University of Manchester and The University of Manchester Institute of Science and Technology (UMIST) into the new University of Manchester. Under merger accounting the results and cash flows of the two entities have been combined from the beginning of the financial year in which the merger occurred, ie the financial year to 31 July 2005, and for all prior periods. The income and expenditure account, balance sheet and cash flow comparative figures have all been stated on the combined basis.

The principal components of the prior year income and expenditure account and statement of total recognised gains and losses, analysed between the parties to the merger up to the date of merger and the merged entity after the merger date are shown in note 40 'Merger accounting'.

### Basis of consolidation

The consolidated financial statements include the financial statements of the University and subsidiary undertakings for the financial year to 31 July, as disclosed in note 13. In accordance with FRS 2, the University of Manchester Students' Union has not been consolidated because the University does not control its activities. Associated undertakings have been consolidated using equity accounting, and joint ventures have been consolidated using gross equity accounting.

### Recognition of income

Recurrent grants from HEFCE are recognised in the year in which they are receivable.

Non-recurrent grants from HEFCE or other bodies received in respect of acquisition of fixed assets are treated as deferred capital grants and

amortised to income in line with depreciation over the life of the assets.

Income from tuition fees is included in the year in which it is earned.

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 year 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 specific endowments in the balance sheet after the result for the year has been struck.

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

### Foreign currencies

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 either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

### Tangible fixed assets

#### (a) Land and buildings

Land and buildings are stated at cost. Land and buildings are depreciated over their expected useful lives of 50 years, and leasehold buildings over the life of the lease.

Buildings under construction are included at cost, based on the value of architects' certificates and other costs incurred at year end. They are not depreciated until they are brought into use.

Major enhancements to existing buildings at a cost of more than £150,000 are capitalised where appropriate and depreciated over their expected useful economic life to the University of 20 years, or less if the leasehold is shorter.

Certain fixed assets were revalued prior to the implementation of FRS 15 'Tangible fixed assets'. The transitional rules set out in FRS 15 have been applied, and accordingly the book

values at implementation have been retained.

#### (b) 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:

Boilers, building plant and scientific equipment - 10 years

Main frame computers and proprietary software - 5 years

Motor vehicles and other general equipment - 4 years

Equipment acquired for specific research projects - project life (generally 3 years)

#### (c) Grant-funded tangible fixed assets

Where tangible fixed assets within the categories (a) and (b) above are purchased with the aid of specific grants they are capitalised and depreciated in line with the accounting policy. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful life of the related asset.

#### (d) Tangible donated fixed assets

Tangible donated fixed assets are capitalised at market value with the corresponding amount being credited to the revaluation reserve. The assets are depreciated over their estimated useful lives, generally consistent with the lives detailed above. A corresponding amount is released each year from the revaluation reserve to credit general reserves.

#### (e) Impairment

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

#### (f) Maintenance

The full cost of repairs and routine corrective maintenance on tangible fixed assets are charged against revenue in the year in which they are incurred.

## Statement of principal accounting policies (continued)

### Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. Depreciation on leased assets is charged to income and expenditure on that same basis as for owned fixed assets. The excess of lease payments over recorded lease obligations is treated as a finance charge and amortised over each lease term to give a constant rate of change on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure evenly over the period of the relevant lease.

### Goodwill and intangible assets

Goodwill arising on consolidation is capitalised and taken to the income and expenditure account over its useful life.

Intangible assets are recorded at cost, and amortised over their expected useful life.

### Investments and endowment assets

Investments within fixed assets are carried at historical cost, valuation or market value, less any provision for impairment in their value. Endowment asset investments are carried at market value. Current asset investments and investments in companies set up so as to exploit University intellectual property are carried at the lower of 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 endowment funds concerned and is not brought into the income and expenditure account.

### 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.

### Pension schemes

The three principal schemes for the University's staff are the Universities' Superannuation Scheme ('USS'), the University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). All three schemes are contracted out of the State Second Pension ('S2P'). In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme ('MILGPS'). All four schemes are defined benefit schemes which are externally funded. Each fund has a full valuation every three years carried out by professionally qualified independent actuaries. A small number of staff remain in other pension schemes.

Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of FRS17, except for the USS, a multi-employer scheme, for which contributions are charged directly to the income and expenditure account as if the scheme were a defined contribution scheme. The remaining schemes' assets are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on AA rated corporate bonds. The post-retirement benefit surplus or deficit is included on the University's balance sheet, net of the related amount of deferred tax. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. The current service cost and any past service costs are included in the profit and loss account within operating expenses and the expected return on the schemes' assets, net of the impact of the unwinding of the discount on scheme liabilities, is included within other finance income. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised, net of the related deferred tax, in the statement of total recognised gains and losses.

### Taxation status

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 Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 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 subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Cash flow and liquid resources

Cash flows comprise increases or decreases in cash in hand, deposits repayable on demand, and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

Liquid resources include term deposits, government securities, loan stock, and other instruments held as part of the University's treasury management activities. They exclude any assets held within endowment asset investments.

### 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.

### Agency arrangements

The University acts as an agent for the collection and subsequent payment of Access Funds and Training Bursaries. The related income and expenditure is excluded from the consolidated income and expenditure account. Details are disclosed within note 38 'Funds held by the University which are excluded from the income and expenditure account'.

## Consolidated income and expenditure account for the year ended 31 July 2006

	Notes	Consolidated	
		2006 £000	2005 £000
<b>Income</b>			
Funding Council grants	1	173,990	164,263
Tuition fees and education contracts	2	122,344	118,440
Research grants and contracts	3	146,787	130,882
Other operating income	4	130,352	114,061
Endowment and investment income	5	14,694	14,158
Less: share of joint venture's income		-	(1,824)
<b>Total income</b>		<b>588,167</b>	539,980
<b>Expenditure</b>			
Staff costs	6	349,530	311,796
Other operating expenses	7	234,606	202,792
Depreciation	11	19,904	20,166
Interest payable	8	7,244	6,290
<b>Total expenditure</b>		<b>611,284</b>	541,044
<b>Deficit on continuing operations after depreciation of fixed assets at cost/valuation</b>		<b>(23,117)</b>	(1,064)
Share of operating deficit in joint venture		-	(16)
Share of operating surplus in associated undertakings		352	18
<b>Deficit on continuing operations after depreciation of fixed assets at cost/valuation and before exceptional items and taxation</b>		<b>(22,765)</b>	(1,062)
Exceptional items	10	4,729	(8,883)
<b>Deficit on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation</b>		<b>(18,036)</b>	(9,945)
Taxation	9	(538)	109
<b>Deficit on continuing operations after depreciation of fixed assets at cost/valuation, exceptional items and taxation</b>		<b>(18,574)</b>	(9,836)
Minority interest in subsidiary undertakings' losses for the year	26	27	-
Transfers to accumulated income within specific endowments	23	(2,111)	(16)
<b>Deficit for the year transferred to general reserves</b>	25	<b>(20,658)</b>	(9,852)

The consolidated income and expenditure account is in respect of continuing activities.

## Consolidated statement of historical cost surpluses and deficits for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Deficit on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation</b>		<b>(18,036)</b>	(9,945)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	24	<b>380</b>	192
<b>Historical cost deficit for the year before taxation</b>		<b>(17,656)</b>	(9,753)
<b>Historical cost deficit for the year retained after taxation, exceptional items and transfers in respect of specific endowments</b>		<b>(20,278)</b>	(9,660)

## Consolidated statement of total recognised gains and losses for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Deficit for the year retained within general reserves</b>		<b>(20,658)</b>	(9,852)
Unrealised surplus on revaluation of donated assets	24	-	165
Unrealised (deficit)/surplus on revaluation of investments within fixed assets	24	<b>(2,304)</b>	18,552
Net appreciation of endowment assets including reinvested profits on sales	23	<b>8,000</b>	23,048
New endowments less realisations	23	<b>130</b>	1,088
Specific and general endowment income received	23	<b>5,650</b>	3,585
Specific and general endowment income released to income and expenditure account	23	<b>(3,539)</b>	(3,569)
Actuarial gain/(loss) recognised in the pension scheme	34	<b>8,091</b>	(8,416)
<b>Total recognised (losses)/gains relating to the year</b>		<b>(4,630)</b>	24,601
<b>Reconciliation</b>			
<b>Opening reserves and endowments</b>		<b>276,296</b>	251,695
Total recognised (losses)/gains for the year		<b>(4,630)</b>	24,601
<b>Closing reserves and endowments</b>		<b>271,666</b>	276,296

## Balance Sheets as at 31 July 2006

	Notes	Consolidated		University	
		2006 £000	2005 £000	2006 £000	2005 £000
<b>Fixed assets</b>					
Tangible assets	11	495,631	366,388	459,204	339,227
Intangible assets	12	165	83	-	-
Investments	13	72,470	71,361	83,520	80,339
		<b>568,266</b>	437,832	<b>542,724</b>	419,566
<b>Endowment assets</b>	14	<b>132,952</b>	122,711	<b>132,952</b>	122,711
<b>Current assets</b>					
Stocks		1,737	1,745	1,649	1,732
Debtors: amounts falling due within one year	15	120,460	96,186	124,150	93,532
Debtors: amounts falling due after more than one year	16	214	410	9,317	8,395
Investments	17	84,138	39,285	84,138	39,285
Cash at bank and in hand		14,284	5,422	3,855	1,528
		<b>220,833</b>	143,048	<b>223,109</b>	144,472
<b>Creditors: amounts falling due within one year</b>	18	<b>(188,478)</b>	(123,772)	<b>(185,339)</b>	(120,429)
<b>NET CURRENT ASSETS</b>		<b>32,355</b>	19,276	<b>37,770</b>	24,043
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>733,573</b>	579,819	<b>713,446</b>	566,320
<b>Creditors: amounts falling due after more than one year</b>	19	<b>(180,244)</b>	(87,339)	<b>(178,528)</b>	(87,339)
<b>Provisions for liabilities and charges</b>	21	<b>(8,573)</b>	(11,055)	<b>(8,013)</b>	(10,572)
<b>NET ASSETS EXCLUDING PENSION DEFICIT</b>		<b>544,756</b>	481,425	<b>526,905</b>	468,409
<b>Pension deficit</b>	34	<b>(12,839)</b>	(22,234)	<b>(11,754)</b>	(21,156)
<b>NET ASSETS INCLUDING PENSION DEFICIT</b>		<b>531,917</b>	459,191	<b>515,151</b>	447,253
<b>Deferred capital grants</b>	22	<b>260,119</b>	182,927	<b>238,424</b>	165,859
<b>Endowments</b>					
Specific endowments	23	125,002	115,384	125,002	115,384
General endowments	23	7,950	7,327	7,950	7,327
		<b>132,952</b>	122,711	<b>132,952</b>	122,711
<b>Reserves</b>					
Revaluation reserve	24	24,029	26,713	24,029	26,713
General reserve excluding pension deficit		101,846	104,638	107,992	110,814
Pension deficit		12,839	22,234	11,754	21,156
General reserve including pension deficit	25	114,685	126,872	119,746	131,970
<b>Total reserves</b>		<b>138,714</b>	153,585	<b>143,775</b>	158,683
<b>Minority interests</b>	26	<b>132</b>	(32)	-	-
<b>TOTAL FUNDS</b>		<b>531,917</b>	459,191	<b>515,151</b>	447,253

The financial statements on pages 18 to 52 were approved by the Board of Governors of The University of Manchester on 18 December 2006 and were signed on its behalf by:

Mr Norman Askew  
Chair of the Board of Governors

Professor Alan Gilbert  
President and Vice-Chancellor

Mr Geoffrey Hope-Terry  
Director of Finance



## Consolidated cash flow statement for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Cash outflow from operating activities</b>	27	<b>(10,356)</b>	(8,030)
Returns on investments and servicing of finance	28	<b>2,402</b>	4,210
Taxation		<b>(461)</b>	-
Acquisitions and disposals	39	<b>5,404</b>	-
Capital expenditure and financial investment	29	<b>(40,084)</b>	(65,274)
Management of liquid resources	30	<b>(44,853)</b>	38,114
Financing	31	<b>92,949</b>	22,459
<b>Increase/(decrease) in cash in the year</b>		<b>5,001</b>	(8,521)

### Reconciliation of net cash flow to increase in net debt for the year ended 31 July 2006

	Notes	2006 £000	2005 £000
<b>Increase/(decrease) in cash in the year</b>		<b>5,001</b>	(8,521)
Cash outflow/(inflow) from liquid resources	30	<b>44,853</b>	(38,114)
Change in debt resulting from cash flows	31	<b>(92,949)</b>	(22,459)
Movement in net debt in year		<b>(43,095)</b>	(69,094)
Net (debt)/funds at beginning of year	32	<b>(32,183)</b>	36,911
<b>Net debt at year end</b>	32	<b>(75,278)</b>	(32,183)

## Notes to the financial statements

### 1 Funding Council grants

	Consolidated	
	2006	2005
	£000	£000
Recurrent grant - teaching	84,475	83,633
Recurrent grant - research	68,931	60,609
Recurrent grants - other	7,553	9,145
Special Initiatives	8,156	6,300
Training and Development Agency for Schools - recurrent grant	2,350	1,768
Releases of deferred capital grants from Funding Council sources	2,525	2,808
	<b>173,990</b>	164,263

### 2 Tuition fees and education contracts

	Consolidated	
	2006	2005
	£000	£000
Fees in respect of:		
Full-time students charged home fees	33,246	32,448
Full-time students charged overseas fees	49,448	45,885
Part-time students	7,350	6,542
Short course fees	14,964	14,284
Other teaching contract courses - core activities	13,913	15,973
Research training support grants	3,423	3,308
	<b>122,344</b>	118,440

### 3 Research grants and contracts

	Consolidated	
	2006	2005
	£000	£000
Research Councils	57,851	51,143
UK based charities	31,507	26,541
UK central government, hospitals and health authorities	33,536	31,350
UK industry and commerce	8,232	7,851
Overseas	12,449	12,307
Other sources	3,212	1,690
	<b>146,787</b>	130,882

### 4 Other operating income

	Consolidated	
	2006	2005
	£000	£000
Residences, catering and conferences	43,335	39,060
Premises	2,822	197
Use of sports facilities	142	603
Academic departments	17,179	10,557
Academic services	2,360	5,339
Continuing education and training	1,796	3,227
Administration and central services	17,121	9,043
Services rendered	12,360	14,840
Health authorities	9,388	9,002
Other general income	11,780	11,531
Subsidiary undertakings - other general income	6,695	4,545
Profit on disposal of subsidiaries	3	501
Manchester University Press	1,651	1,658
Releases of deferred capital grants from non-Funding Council sources	2,102	2,613
Dividends from general fund investments	1,618	1,345
	<b>130,352</b>	114,061

## 5 Endowment and investment income

	Consolidated	
	2006	2005
	£000	£000
Income from specific endowments (note 23)	5,344	3,333
Income from general endowments (note 23)	306	252
Income from donations	2,600	468
Income from short term investments	1,906	5,449
Surplus on realisation of long term investments	-	1,266
Pension finance interest	4,156	3,243
Other interest receivable	382	147
	<b>14,694</b>	<b>14,158</b>

## 6 Staff costs

	Consolidated	
	2006	2005
	£000	£000
Wages and salaries	287,549	260,923
Social security costs	24,089	21,413
Other pension costs	37,892	29,460
	<b>349,530</b>	<b>311,796</b>
Distinction Awards paid to NHS Consultants employed on joint contracts between the NHS and the University not borne by the University and excluded from the above analysis.	4,466	3,596

	Consolidated	
	2006	2005
	Numbers	Numbers
<b>Staff numbers</b>		
Academic - teaching & research	1,914	1,614
Academic - teaching only	381	317
Research	1,552	1,504
Administrative and management	1,444	1,303
Clerical and secretarial	1,598	1,622
Academic support	1,212	1,224
Craft / Manual	905	925
Other	446	447
<b>Total number of staff</b>	<b>9,452</b>	<b>8,956</b>

The staff numbers disclosed above relate to full-time equivalents.

### Prior year restatement

The 2005 staff numbers have been restated to take account of 99 members of staff omitted from the staff numbers previously reported in the financial statements for the year ended 31 July 2005.

## 6 Staff costs (continued)

Remuneration of higher paid staff, excluding employer's pension contributions, was within the ranges set out below. Payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment are included within remuneration. Remuneration excludes Distinction Awards paid to NHS Consultants.

	Consolidated Number of Employees 2006	Number of Employees 2005 Restated
£70,000 - £80,000	154	172
£80,001 - £90,000	79	41
£90,001 - £100,000	30	18
£100,001 - £110,000	12	6
£110,001 - £120,000	2	4
£120,001 - £130,000	6	4
£130,001 - £140,000	2	3
£140,001 - £150,000	2	-
£150,001 - £160,000	1	1
£160,001 - £180,000	-	-
£180,001 - £190,000	2	-
£190,001 - £200,000	-	1
£200,001 - £230,000	-	-
£230,001 - £240,000	1	-
£240,001 - £250,000	-	1
£250,001 - £260,000	1	-

### Emoluments of the President and Vice-Chancellor

	Consolidated 2006 £000	2005 £000
Salary	254	246
Benefits in kind	14	10
	<b>268</b>	<b>256</b>

The emoluments of the President and Vice-Chancellor include a payment in respect of pension contributions of £31,000 (2005 - £30,000). The University does not pay any other pension contributions on behalf of the President and Vice-Chancellor.

The Vice-Chancellors of the legacy universities retired from their posts on 30 September 2004. The emoluments of the Vice-Chancellor of The Victoria University of Manchester for the 2 months to 30 September 2004 of £54,000 comprised salary £47,000, benefits in kind £2,000 and pension contributions of £5,000. The emoluments of the Vice-Chancellor of UMIST for the 2 months to 30 September 2004 of £25,000 comprised salary £22,000 and pension contributions of £3,000.

The Chair of the Board of Governors and Pro-Chancellor has waived his right to fees in respect of the year.

## 7 Other operating expenses

	Consolidated	
	2006	2005
	£000	£000
Academic expenditure	72,868	53,314
Central libraries and information services	5,355	7,045
Central computers and computer networks	4,646	4,224
Other academic services	1,564	1,540
Administration and central services	7,925	7,302
Auditors' remuneration: external audit fees	80	83
- PricewaterhouseCoopers LLP (University audit)	9	5
- PricewaterhouseCoopers LLP (Group)	2	-
- KPMG LLP	5	-
- Grant Thornton UK LLP	44	114
- Other	42	74
Auditors' remuneration: non-audit services	106	57
- PricewaterhouseCoopers LLP	10	10
- KPMG LLP	411	100
- Grant Thornton UK LLP	7,638	8,553
Internal auditors' remuneration	4,275	4,879
General educational expenditure	7,504	3,837
Staff and student facilities	14,888	6,270
Rents and rates	18,700	20,726
Heat, light, water and power	6,784	4,676
Repairs and general maintenance	17,444	19,706
Other premises expenditure	51,315	51,022
Residences and catering operations	3,621	4,491
Research grants and contracts	2,600	-
Other services rendered	1,669	2,287
Costs of early repayment of high fixed-interest rate loan	5,101	2,477
Other operating expenditure	234,606	202,792
Subsidiary undertakings - other operating expenditure	1,731	1,532
Amounts paid under operating leases (included within the relevant categories above)		

## 8 Interest payable

	Consolidated	
	2006	2005
	£000	£000
Bank and other loans wholly repayable within five years	133	11
Bank and other loans not wholly repayable within five years	7,111	6,279
	7,244	6,290

## 9 Taxation

	Consolidated	
	2006	2005
	£000	£000
Deferred tax	537	(115)
Corporation tax on current year profits of subsidiary companies	(1)	4
Corporation tax on previous year profits of subsidiary companies	2	2
	538	(109)

## 10 Exceptional items

	Consolidated	
	2006	2005
	£000	£000
<b>Expenditure</b>		
Merger costs	765	7,699
Voluntary severance	1,278	7,408
<b>Income</b>	2,043	15,107
Profit on disposal of tangible fixed assets	-	(2,455)
Profit on disposal of fixed asset investments	(6,772)	(3,769)
	(6,772)	(6,224)
	(4,729)	8,883

The exceptional expenditures detailed above were incurred as a result of the merger between The Victoria University of Manchester and UMIST.

## 11 Tangible fixed assets

a) Consolidated	Land and buildings £000	Lease premium £000	Assets under construction £000	Equipment £000	Total £000
<b>Cost/valuation</b>					
At beginning of year	303,189	-	102,670	134,244	540,103
Additions at cost	5,224	-	120,811	23,112	149,147
Transfers between categories	128,872	-	(128,872)	-	-
Disposals	-	-	-	-	-
At year end	437,285	-	94,609	157,356	689,250
<b>Depreciation</b>					
At beginning of year	75,465	-	-	98,250	173,715
Charge for the year	7,253	-	-	12,651	19,904
Disposals	-	-	-	-	-
At year end	82,718	-	-	110,901	193,619
<b>Net book value</b>					
<b>At year end</b>	<b>354,567</b>	<b>-</b>	<b>94,609</b>	<b>46,455</b>	<b>495,631</b>
At beginning of year	227,724	-	102,670	35,994	366,388
<b>b) University</b>					
	Land and buildings £000	Lease premium £000	Assets under construction £000	Equipment £000	Total £000
<b>Cost/valuation</b>					
At beginning of year	291,234	5,400	81,248	132,529	510,411
Additions at cost	-	-	116,616	22,696	139,312
Transfers between categories	102,533	-	(102,533)	-	-
Disposals	-	-	-	-	-
At year end	393,767	5,400	95,331	155,225	649,723
<b>Depreciation</b>					
At beginning of year	73,831	518	-	96,835	171,184
Charge for the year	6,839	74	-	12,422	19,335
Disposals	-	-	-	-	-
At year end	80,670	592	-	109,257	190,519
<b>Net book value</b>					
<b>At year end</b>	<b>313,097</b>	<b>4,808</b>	<b>95,331</b>	<b>45,968</b>	<b>459,204</b>
At beginning of year	217,403	4,882	81,248	35,694	339,227

The transitional rules set out in FRS 15 'Tangible Fixed Assets' have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

Buildings with a cost of some £217 million (2005 - £143 million) and net book value of £187 million (2005 - £132 million) have been funded by Her Majesty's Treasury. Should these particular buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with HEFCE. The balance at 31 July 2006 relating to Treasury interests will be extinguished over 10 years. Amounts in relation to grants received after 31 July 2006 will be extinguished over 15 years, in line with recent Treasury guidance.

Land and buildings with a net book value of £22.3 million are the subject of security granted in respect of certain bank loans as disclosed in note 20 to the financial statements.

## 12 Intangible assets

### Consolidated

#### Cost

At beginning of year	
Additions	
Negative goodwill released to income and expenditure account (note 39)	
Disposals	

At year end

#### Amortisation

At beginning of year	
Disposals	
Charge in year	

At year end

#### Net book value

##### At year end

At beginning of year

The negative goodwill of £3,209,000 arose upon the acquisition of the Paterson Institute for Cancer Research (refer to note 39).

<b>Goodwill</b>	
Consolidated	University
£000	£000
92	-
(3,068)	(3,209)
3,209	3,209
-	-
233	-
9	-
-	-
59	-
68	-
<b>165</b>	<b>-</b>
83	-

## 13 Investments within fixed assets

### Movement in the year

Balance at beginning of year				
Additions				
Disposals				
Amounts provided on unquoted shares during the year				
Net appreciation including reinvested profits on sales				

### Balance at year end

#### Analysis of closing balance

British government securities				
Other fixed interest securities				
UK industrial and commercial securities				
Overseas industrial and commercial securities				
Unquoted shares				
Property				
Uninvested bank balances				
Interests in subsidiary undertakings (note 13a)				
Interest in joint venture				
Interests in associated undertakings (note 13b)				
Loan to Sugden Sports Trust				
Other investments				
Loans to associated undertakings				

### Total investments within fixed assets

#### Investments at cost

Consolidated		University	
2006	2005	2006	2005
£000	£000	£000	£000
71,361	50,372	80,339	59,769
20,080	11,489	24,363	11,544
(23,165)	(9,430)	(23,161)	(9,392)
(392)	(1,151)	(2,058)	(1,151)
4,586	20,081	4,037	19,569
<b>72,470</b>	<b>71,361</b>	<b>83,520</b>	<b>80,339</b>
-	2,084	-	2,084
6,802	7,431	6,802	7,431
33,000	30,519	32,999	30,518
14,247	9,431	14,247	9,431
124	124	124	270
15,264	14,945	15,264	14,945
328	644	328	644
-	50	9,859	11,297
-	73	-	-
2,357	2,031	146	-
-	3,719	3,719	3,719
348	307	32	-
-	3	-	-
<b>72,470</b>	<b>71,361</b>	<b>83,520</b>	<b>80,339</b>
<b>47,130</b>	<b>45,963</b>	<b>60,391</b>	<b>59,981</b>

### 13 Investments within fixed assets (continued)

#### a) Investments in subsidiary undertakings

At year end, investments in subsidiary undertakings after provisions comprise:

Directly owned Indirectly owned	Group Holding %	University 2006 £	2005 £	Description
Manchester Innovation Holdings Limited	100	4,143,092	5,143,092	Holding company
Manchester Innovation Limited	100	-	-	Construction of a biotech incubator building
Vuman Technology Services Limited	100	-	-	Company wound up 9 May 2006
Manchester Technology Developments Limited	100	-	500,000	Holding company
Control Technology Centre Limited	100	-	-	Control technology
The Manchester Incubator Company Limited	100	-	-	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	5,538,100	5,538,100	Holding company
UVL Investments Limited	100	-	-	Assisting academics to secure research grants
Fusion (LP One) Limited	100	-	-	Not trading
Fusion (LP Two) Limited	100	-	-	Not trading
Fusion (LP Three) Limited	100	-	-	Not trading
Fusion (LP Four) Limited	100	-	-	Not trading
UVL Management Services Limited	100	-	-	Provision of management services
Advanced Hall Sensors Limited	52	-	-	Manufacture of hall effect sensors
The University of Manchester Venture Fund Management Limited (formerly UMIST Ventures Fund Management Limited)	100	5,135	5,000	Fund management
UMIST Ventures Fund (General Partner) Limited	100	-	-	Dormant company
UMIST Ventures Fund (Carried Interest Partner) Limited	100	-	-	Dormant company
Internet Facilitators Limited	100	1	1	Provision of facilities for internet services
Manchester Informatics Limited	100	100	100	Provision of consultancy services
Manpharm Limited	100	1	1	Provision of consultancy services
Visual Automation Limited	100	2	2	Provision of consultancy services
Flow Science Limited	100	10,000	10,000	Provision of consultancy services
Manchester Technology Fund Limited	100	50,000	50,000	Fund Management
The University of Manchester Foundation (CLG)	100	-	-	Company wound up 20 December 2005
The University of Manchester Intellectual Property Limited	100	50,000	50,000	Management of intellectual property
The University of Manchester Conferences Limited	100	2	2	Management of conference facilities
Systemcost Trading Limited	100	185	185	Design and construction company
The University of Manchester Car Parks Limited	100	96	96	Maintenance and running of car park facilities
The University of Manchester Incubator Company Limited	100	1	1	Management of University Incubator Buildings
MBS Incubator Limited	59	-	51	Provision of business support services
MBSI Portfolio Limited	100	-	-	Dormant company
Dryden Street Nursery Limited (CLG)	50	-	-	Management of Dryden Street Nursery
Sugden Sports Trust	50	-	-	Ownership of sports centre
UMIST Educational Trust	100	-	-	Rental of buildings
The Incubation Partnership Limited (CLG)	50	-	-	Dormant company
Vumpine Limited	50	50	50	Dormant company
UMSS Limited	100	2	2	To undertake the duty of trustee of UMSS
BME Limited	50	62,144	-	Provision of distance learning
The University of Manchester Ophthalmic Services Limited	100	100	-	Provision of NHS eye tests
The University of Manchester (CLG)	100	-	-	Dormant
Owens College (CLG)	100	-	-	Dormant
Owens College Manchester (CLG)	100	-	-	Dormant
Manchester University (CLG)	100	-	-	Dormant
UMIST (CLG)	100	-	-	Dormant
Campus Ventures Limited (CLG)	50	-	-	Company wound up 7 September 2006
		<b>9,859,011</b>	<b>11,296,683</b>	

Certain subsidiary undertakings above are shown as having nil cost of investment. In each case these are either indirectly owned as indicated, are limited by guarantee ('CLG') or are Trusts.

Where applicable, the 'Group holding' is equivalent to the proportion of voting rights and shares held.

All the subsidiary undertakings are incorporated in England and Wales.



### 13 Investments within Fixed Assets (continued)

#### b) Investment in associated undertakings

The University and Group had the following associated undertakings as at 31 July 2006:

Name of associated undertaking	Class of share capital held	Proportion held by the University	Proportion held by the Group	Share of net assets/ (liabilities) 2006 £000	Nature of business
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	28%	28%	2,552	Assisting in the location and development of technology based businesses
One Central Park Limited Financial year end 31 July	£1 ordinary	20%	20%	(171)	Ownership and management of business park
MNW Limited Financial year end 31 July	£1 ordinary	33%	33%	4	Promotion of Manchester, Nottingham and Warwick Universities in Korea
HPC-UK Ltd Financial year end 31 July	'B' £1 ordinary	33%	33%	(28)	Support for the next super computer
EDEC Multimedia Limited Financial year end 30 September	£1 ordinary	25%	25%	-	Property management
				<u>2,357</u>	

The associated undertakings are accounted for using the equity method.

#### 14 Endowment assets

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
<b>Movement in the year</b>				
Balance at beginning of year	122,711	98,559	122,711	98,559
Additions including unreleased income earned on capital	2,241	1,104	2,241	1,104
Disposals	(1,207)	-	(1,207)	-
Net appreciation including reinvested profits on sales	9,207	23,048	9,207	23,048
<b>Balance at year end</b>	<b>132,952</b>	122,711	<b>132,952</b>	122,711
<b>Analysis of closing balance</b>				
British government securities	-	4,027	-	4,027
Other fixed interest securities	13,867	16,844	13,867	16,844
UK industrial and commercial securities	66,050	61,948	66,050	61,948
Overseas industrial and commercial securities	28,496	14,690	28,496	14,690
Property	10,029	9,240	10,029	9,240
Bank and building society deposits	13,813	11,664	13,813	11,664
Uninvested bank balances	697	4,298	697	4,298
<b>Total endowment assets</b>	<b>132,952</b>	122,711	<b>132,952</b>	122,711
<b>Endowment assets at cost</b>	<b>80,133</b>	76,685	<b>80,133</b>	76,685

#### 15 Debtors: amounts falling due within one year

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Trade debtors	34,571	32,564	33,694	31,113
Accrued income on research grants and contracts	41,124	33,208	41,124	33,208
Prepayments and accrued income	44,492	30,151	41,715	27,477
Amounts owed by group undertakings	273	263	7,617	1,734
<b>Balance at year end</b>	<b>120,460</b>	96,186	<b>124,150</b>	93,532

#### 16 Debtors: amounts falling due after more than one year

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Loan to University of Manchester Students' Union	189	185	189	185
Loans to other group companies	-	-	9,103	7,985
Amounts owed by associated undertakings	25	225	25	225
<b>Balance at year end</b>	<b>214</b>	410	<b>9,317</b>	8,395

#### 17 Investments

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank deposits repayable after due notice	66,138	25,535	66,138	25,535
Bank deposits repayable on demand	18,000	13,750	18,000	13,750
<b>Balance at year end</b>	<b>84,138</b>	39,285	<b>84,138</b>	39,285

**18 Creditors: amounts falling due within one year**

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank overdraft	6,181	4,088	6,181	5,582
Bank loans (note 20)	2,109	2,049	2,109	2,049
Trade creditors	10,872	10,193	10,022	10,193
Obligations under hire purchase contracts	4	20	-	-
Social security and other taxation payable	8,883	7,911	8,517	7,775
Amounts owed to group undertakings	17	95	1,548	860
Other creditors	15,761	17,873	14,973	14,718
Deferred income on research grants and contracts	39,114	32,603	39,114	32,603
Accruals and deferred income	105,537	48,940	102,875	46,649
<b>Balance at year end</b>	<b>188,478</b>	<b>123,772</b>	<b>185,339</b>	<b>120,429</b>

**19 Creditors: amounts due after more than one year**

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank loans (note 20)	78,528	87,339	78,528	87,339
Loans other than bank loans (note 20)	101,705	-	100,000	-
Obligation under hire purchase contracts	11	-	-	-
<b>Balance at year end</b>	<b>180,244</b>	<b>87,339</b>	<b>178,528</b>	<b>87,339</b>

**20 Borrowings**

**a) Bank and other loans**

Bank and other loans are repayable as follows:

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
In one year or less	2,109	2,049	2,109	2,049
Between one and two years	3,395	2,355	3,395	2,355
Between two and five years	14,685	14,591	14,685	14,591
In five years or more	162,153	70,393	160,448	70,393
	<b>182,342</b>	<b>89,388</b>	<b>180,637</b>	<b>89,388</b>
Included within creditors: amounts falling due within one year	(2,109)	(2,049)	(2,109)	(2,049)
	<b>180,233</b>	<b>87,339</b>	<b>178,528</b>	<b>87,339</b>

**Secured bank loans**

Bank loans with an interest rate of 13.7%, repayable by instalments falling due between 2006 and 2014 totalling £6.7 million, are secured on the Weston Building and the Charles Street multi-storey car park.

Bank loans with an interest rate of base rate plus 0.9%, repayable by instalments falling due between 2006 and 2010 totalling £2.6 million, are secured on the Manchester School of Management Building.

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2006 and 2021 totalling £25.4 million, are secured on various student residences.

Bank loans with an interest rate of 8.4%, repayable by instalments falling due between 2006 and 2017 totalling £2.0 million, are secured on Ronson Hall.

**Unsecured bank and other loans**

Bank loans with an interest rate of 6.1% are repayable by instalments falling due between 2006 and 2026 totalling £18.9 million.

Bank loans with an interest rate of 5.2% are repayable by instalments falling due between 2008 and 2019 totalling £25.0 million.

Other loans with an interest rate of 5.04% are repayable by one repayment in 2046 totalling £100 million.

## 20 Borrowings (continued)

### b) Hire purchase loans

Hire purchase loans are repayable as follows:

In one year or less

Between one and two years

Consolidated		University	
2006	2005	2006	2005
£000	£000	£000	£000
4	20	-	-
11	-	-	-
<b>15</b>	<b>20</b>	<b>-</b>	<b>-</b>

The hire purchase borrowings are secured on the assets to which they relate.

## 21 Provisions for liabilities and charges

### a) Consolidated

	Early retirement £000	VAT £000	Enhanced pension scheme £000	Deferred tax £000	Total £000
Balance at beginning of year	8,362	-	2,210	483	11,055
Utilised during the year	(3,482)	-	-	(1)	(3,483)
Transfer from income and expenditure account	357	280	286	78	1,001
<b>Balance at year end</b>	<b>5,237</b>	<b>280</b>	<b>2,496</b>	<b>560</b>	<b>8,573</b>

### Deferred tax

The elements of deferred tax are as follows:

Difference between accumulated depreciation and capital allowances

Other timing differences

### Balance at year end

2006	2005
£000	£000
730	620
(170)	(137)
<b>560</b>	<b>483</b>

### b) University

	Early retirement £000	VAT £000	Enhanced pension scheme £000	Total £000
Balance at beginning of year	8,362	-	2,210	10,572
Utilised during the year	(3,482)	-	-	(3,482)
Transfer from income and expenditure account	357	280	286	923
<b>Balance at year end</b>	<b>5,237</b>	<b>280</b>	<b>2,496</b>	<b>8,013</b>

### Early retirement scheme

The early retirement scheme provision is in respect of future payments to employees that were committed at the balance sheet date.

### VAT provision

This provision is in respect of VAT due in relation to the Weston Building.

### Enhanced pension scheme

The enhanced pension scheme provision is in respect of future enhanced retirement benefits in relation to the Greater Manchester Pension Fund.

### Prior year restatement

£8,362,000 included in other creditors as at 31 July 2005 has been reclassified from creditors due within one year to provisions for early retirement. The cash flow statement has been amended to reflect this movement, resulting in an increase in 'movement in provisions' for the year ended 31 July 2005 of £2,389,000, with a corresponding decrease in 'movement in creditors' (refer to note 27).

## 22 Deferred capital grants

### a) Consolidated

	Funding Council £000	Other grants £000	Total £000
<b>Balance at beginning of year</b>			
Buildings	66,792	105,830	172,622
Equipment	3,918	6,387	10,305
Total	70,710	112,217	182,927
<b>Grants received/receivable</b>			
Buildings	65,808	16,991	82,799
Equipment	787	3,164	3,951
Total	66,595	20,155	86,750
<b>Released to income and expenditure</b>			
Buildings	1,699	1,373	3,072
Equipment	826	5,660	6,486
Total	2,525	7,033	9,558
<b>Balance at year end</b>			
Buildings	130,901	121,448	252,349
Equipment	3,879	3,891	7,770
<b>Total</b>	<b>134,780</b>	<b>125,339</b>	<b>260,119</b>

### b) University

	Funding Council £000	Other grants £000	Total £000
<b>Balance at beginning of year</b>			
Buildings	66,792	88,762	155,554
Equipment	3,918	6,387	10,305
Total	70,710	95,149	165,859
<b>Grants received/receivable</b>			
Buildings	65,808	12,275	78,083
Equipment	787	3,164	3,951
Total	66,595	15,439	82,034
<b>Released to income and expenditure</b>			
Buildings	1,699	1,284	2,983
Equipment	826	5,660	6,486
Total	2,525	6,944	9,469
<b>Balance at year end</b>			
Buildings	130,901	99,753	230,654
Equipment	3,879	3,891	7,770
<b>Total</b>	<b>134,780</b>	<b>103,644</b>	<b>238,424</b>

## 23 Endowments

<b>Consolidated and University</b>	<b>Specific endowments £000</b>	<b>General endowments £000</b>	<b>Total £000</b>
<b>Balance at beginning of year</b>	115,384	7,327	122,711
New endowments less realisations	99	31	130
Net appreciation of endowment assets including reinvested profit on sales	7,408	592	8,000
Income for the year	5,344	306	5,650
Income released to income and expenditure account	(3,233)	(306)	(3,539)
<b>Balance at year end</b>	<b>125,002</b>	<b>7,950</b>	<b>132,952</b>
<b>Representing:</b>			
Fellowships and scholarship funds	27,192	-	27,192
Prize funds	1,510	-	1,510
Chairs and lectureship funds	59,086	-	59,086
Other funds	37,214	7,950	45,164
<b>Total</b>	<b>125,002</b>	<b>7,950</b>	<b>132,952</b>

## 24 Revaluation reserve

<b>Consolidated and University</b>	<b>Donated assets £000</b>	<b>Land and buildings £000</b>	<b>Investments within fixed assets £000</b>	<b>Total £000</b>
<b>Revaluations</b>				
At beginning of year	3,158	678	25,433	29,269
Revaluation in year	-	-	(2,304)	(2,304)
At year end	3,158	678	23,129	26,965
<b>Contribution to depreciation</b>				
At beginning of year	2,397	159	-	2,556
Released in year	367	13	-	380
At year end	2,764	172	-	2,936
<b>Revaluation reserve At year end</b>	<b>394</b>	<b>506</b>	<b>23,129</b>	<b>24,029</b>
At beginning of year	761	519	25,433	26,713

**25 Movement on general reserves  
- Income and expenditure account**

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Balance at beginning of year	<b>126,872</b>	144,948	<b>131,970</b>	149,439
Deficit retained for the year	<b>(20,658)</b>	(9,852)	<b>(20,500)</b>	(9,734)
Release from revaluation reserve	<b>380</b>	192	<b>380</b>	192
Actuarial gain/(loss) on pension scheme	<b>8,091</b>	(8,416)	<b>7,896</b>	(7,927)
<b>Balance at year end</b>	<b>114,685</b>	126,872	<b>119,746</b>	131,970

**26 Minority interests**

	Consolidated	
	2006 £000	2005 £000
At beginning of year	<b>(32)</b>	303
Minority interest in subsidiary undertakings' losses for the year	<b>(27)</b>	-
Minority interests not previously consolidated	<b>191</b>	-
Minority interest's share of loss on disposals	-	(335)
<b>At year end</b>	<b>132</b>	(32)

**27 Reconciliation of operating deficit to net cash outflow from operating activities**

**Deficit on continuing operations after depreciation of fixed assets at cost/valuation and before exceptional items and taxation**

Exceptional items (note 33)

**Deficit on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation**

Depreciation

Amortisation of goodwill

Release of negative goodwill

Loss on disposal of intangible assets

Deferred capital grants released to income

Investment income

Transfers to endowments

Loss on disposal of fixed assets

Interest payable

Interest receivable

Difference between pension charge and cash contributions

Minority interests

Decrease in stocks

Decrease in long term debtors

Increase in debtors due within one year

Increase in creditors

(Decrease)/increase in provisions

**Net cash outflow from operating activities**

Consolidated	
2006	2005
£000	£000
<b>(22,765)</b>	(1,062)
<b>(2,043)</b>	(15,107)
<b>(24,808)</b>	(16,169)
<b>19,904</b>	20,166
<b>59</b>	9
<b>(3,209)</b>	-
<b>-</b>	590
<b>(9,558)</b>	(8,894)
<b>(10,820)</b>	(8,634)
<b>(2,111)</b>	(16)
<b>-</b>	447
<b>7,244</b>	6,290
<b>(382)</b>	(147)
<b>(1,304)</b>	(172)
<b>191</b>	-
<b>8</b>	17
<b>196</b>	131
<b>(17,176)</b>	(16,009)
<b>33,577</b>	10,919
<b>(2,167)</b>	3,442
<b>(10,356)</b>	(8,030)

**28 Returns on 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	
2006	2005
£000	£000
<b>5,650</b>	3,585
<b>1,906</b>	5,449
<b>1,708</b>	1,319
<b>382</b>	147
<b>(7,244)</b>	(6,290)
<b>2,402</b>	4,210

**29 Capital expenditure and financial investment**

Purchase of tangible fixed assets

Intangible assets

Purchase of fixed asset investments

Purchase of endowment assets

Receipts from sale of tangible fixed assets

Receipts from sale of fixed asset investments

Receipts from sale of endowment assets

Deferred capital grants received

Endowments received

**Net cash outflow from capital expenditure and financial investment**

Consolidated	
2006	2005
£000	£000
<b>(149,147)</b>	(98,516)
<b>(141)</b>	-
<b>(20,080)</b>	(11,489)
<b>(66,665)</b>	(22,985)
<b>-</b>	3,136
<b>29,937</b>	13,199
<b>59,433</b>	19,009
<b>106,449</b>	31,284
<b>130</b>	1,088
<b>(40,084)</b>	(65,274)



### 30 Management of liquid resources

	Consolidated	
	2006	2005
	£000	£000
(Placements on)/withdrawals from deposits	<b>(44,853)</b>	38,114
<b>Net cash (outflow)/inflow from management of liquid resources</b>	<b>(44,853)</b>	<b>38,114</b>

### 31 Financing

	Consolidated	
	2006	2005
	£000	£000
Increase in borrowings	<b>101,720</b>	25,000
Capital repayments	<b>(8,751)</b>	(2,510)
Capital element of hire purchase repayments	<b>(20)</b>	(31)
<b>Net cash inflow from financing</b>	<b>92,949</b>	<b>22,459</b>

### 32 Analysis of changes in net debt

	Consolidated			
	1 August 2005	Cash flows	Non-cash	31 July 2006
	£000	£000	changes	£000
			£000	
Bank overdraft	(4,088)	(2,093)	-	<b>(6,181)</b>
Cash at bank	5,422	8,862	-	<b>14,284</b>
Uninvested bank balances - fixed asset investments (note 13)	644	(316)	-	<b>328</b>
Endowment asset investments (note 14)	15,962	(1,452)	-	<b>14,510</b>
	17,940	5,001	-	<b>22,941</b>
Debt due within one year	(2,049)	2,049	(2,109)	<b>(2,109)</b>
Debt due after one year	(87,339)	(95,003)	2,109	<b>(180,233)</b>
Hire purchase amounts due within one year	(20)	20	(4)	<b>(4)</b>
Hire purchase amounts due after one year	-	-	(11)	<b>(11)</b>
Current asset investments	39,285	44,853	-	<b>84,138</b>
Net debt	<b>(32,183)</b>	<b>(43,080)</b>	<b>(15)</b>	<b>(75,278)</b>

### 33 Cash flow relating to exceptional items

Operating cash flows include an outflow of £2.0 million in respect of expenditure incurred as a result of the merger as detailed in note 10.

Included with capital expenditure and financial investment cash flows are cash receipts of £6.8 million in relation to disposal proceeds on the sale of certain fixed asset investments.

### 34 Pension schemes

The three principal pension schemes for the University's staff are the Universities' Superannuation Scheme, the University of Manchester Superannuation Scheme and the Greater Manchester Pension Fund. In addition, the University runs a closed scheme, the Manchester Innovation Limited Group Pension Scheme.

#### a) Universities' Superannuation Scheme ('USS')

The University of Manchester participates in the USS, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). 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 deficit for the year in the income and expenditure account is therefore equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2005. 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 4.5% per annum, salary increases would be 3.9% per annum and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum and pensions would increase by 2.9% 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 £21,740 million and the value of the past service liabilities was £28,308 million leaving a deficit of assets of £6,568 million. The assets therefore were sufficient to cover 77% 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 14.3% of salaries but it was agreed that the institution contribution rate would be maintained at 14% of salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the institution was £25.4 million (2005: £23.2 million). This includes £3.2 million (2005: £2.2 million) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

### 34 Pension schemes (continued)

#### b) University of Manchester Superannuation Scheme ('UMSS')

UMSS is a defined benefit scheme in the UK which is externally funded and contracted out of the State Second Pension (S2P). A full actuarial valuation was carried out at 31 July 2004 and updated to 31 July 2006 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2006 %	2005 %	2004 %
Rate of increase in salaries	3.70%	3.50%	3.80%
Rate of increase of pensions in payment and deferred pensions	2.70%	2.50%	2.80%
Discount rate applied to scheme liabilities	5.10%	5.00%	5.70%
Inflation assumption	2.70%	2.50%	2.80%

The assets of the scheme and the expected rates of return were:	2006 %	2006 £000	2005 %	2005 £000	2004 %	2004 £000
Equities	7.30%	125,815	7.30%	170,482	7.80%	144,030
Bonds	5.10%	110,822	5.00%	41,069	5.70%	40,164
Property	7.30%	21,833	7.30%	15,152	7.80%	7,972
Total market value of assets		<u>258,470</u>		226,703		192,166
Actuarial value of liability		<u>(262,885)</u>		(237,403)		(195,882)
Total deficit in the scheme		<u>(4,415)</u>		(10,700)		(3,716)
Related deferred tax asset		-		-		-
<b>Net pension liability</b>		<u><b>(4,415)</b></u>		<u>(10,700)</u>		<u>(3,716)</u>

#### Analysis of the amount charged to operating deficit

	2006 £000	2005 £000
Current service cost	10,062	6,894
Past service cost	281	596
<b>Total operating charge</b>	<u><b>10,343</b></u>	<u>7,490</u>

#### Analysis of net return on pension scheme

	2006 £000	2005 £000
Expected return on pension scheme assets	15,713	14,114
Interest on pension liabilities	<u>(12,007)</u>	<u>(11,213)</u>
<b>Net return</b>	<u><b>3,706</b></u>	<u>2,901</u>

### 34 Pension schemes (continued)

	2006 £000	2005 £000
<b>Analysis of amount recognised in statement of total recognised gains and losses (STRGL)</b>		
Actual return less expected return on scheme assets	<b>12,898</b>	21,279
Experience gains and losses on liabilities	<b>(2,622)</b>	8,764
Changes in assumptions	<b>(5,361)</b>	(37,392)
<b>Actuarial gain/(loss) recognised in STRGL</b>	<b>4,915</b>	(7,349)

	2006 £000	2005 £000
<b>Movement in deficit during the year</b>		
Deficit in scheme at beginning of year	<b>(10,700)</b>	(3,716)
Current service cost	<b>(10,062)</b>	(6,894)
Contributions	<b>8,007</b>	4,954
Past service cost	<b>(281)</b>	(596)
Other finance income	<b>3,706</b>	2,901
Actuarial gain/(loss)	<b>4,915</b>	(7,349)
<b>Deficit in scheme at year end</b>	<b>(4,415)</b>	(10,700)

The updated actuarial valuation at 31 July 2006 showed a decrease in the deficit from £10.7 million to £4.4 million. The University has paid contributions at the rate of 15% of members' pensionable pay over the year to 31 July 2006. It has been agreed with the Trustees that contributions from 1 August 2006 will be increased to 17.5% of members' pensionable pay.

#### History of experience gains and losses

	2006	Year ended 31 July			
		2005	2004	2003	2002
Difference between expected and actual return on scheme assets:					
Amount (£000)	<b>12,898</b>	21,279	673	(2,213)	(40,670)
Percentage of scheme assets	<b>5%</b>	9%	0%	-1%	-23%
Experience gains and losses on scheme liabilities:					
Amount (£000)	<b>(2,622)</b>	8,764	-	-	4,131
Percentage of scheme liabilities	<b>-1%</b>	4%	0%	0%	3%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	<b>4,915</b>	(7,349)	4,430	(24,526)	(36,539)
Percentage of scheme assets	<b>2%</b>	-3%	2%	-13%	-24%

### 34 Pension schemes (continued)

#### c) Greater Manchester Pension Fund ('GMPF')

The GMPF is a separate fund within the local government pension scheme (LGPS) which is externally funded and contracted out of the State Second Pension (S2P). The LGPS is regulated by statute, with separate regulations for England and Wales and for Scotland. The benefits of LGPS funds are determined nationally by regulation and meet the definition of a defined benefit scheme. LGPS is a funded scheme, with some 100 separate funds administered locally by administering bodies. Each fund has many employing authorities. The LGPS is not therefore a national multi-employer scheme, but each separate LGPS fund is a multi-employer scheme. The University of Manchester is a member of one of these funds, the GMPF, which is administered by Tameside District Council.

A full actuarial valuation was carried out at 31 March 2004 and updated to 31 July 2006 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2006	2005	2004
Rate of increase in salaries	4.60%	4.30%	4.40%
Rate of increase in pensions in payment and deferred pensions	3.10%	2.80%	2.90%
Discount rate applied to scheme liabilities	5.10%	5.00%	5.80%
Inflation assumption	3.10%	2.80%	2.90%

The assets of the GMPF scheme as a whole and the expected rates of return were:	2006	2006	2005	2005	2004	2004
		£000		£000		£000
Equities	7.70%	5,515,700	7.30%	5,043,000	7.90%	4,190,000
Bonds	4.70%	1,408,100	4.70%	1,188,000	5.40%	1,019,000
Property	5.70%	794,000	5.40%	684,000	6.70%	618,100
Cash	4.80%	617,300	4.50%	595,000	4.50%	359,000
<b>Total market value of assets</b>		<b>8,335,100</b>		<b>7,510,000</b>		<b>6,186,100</b>

The following data about the GMPF refers in each case to the University's estimated proportionate interest of 0.9% in that scheme

	2006	2005	2004
	£000	£000	£000
Market value of assets	72,891	66,002	57,819
Actuarial value of scheme liability	(80,230)	(74,009)	(65,289)
Actuarial value of unfunded liability	-	(2,449)	(2,271)
Total deficit in the scheme	(7,339)	(10,456)	(9,741)
Related deferred tax asset	-	-	-
<b>Net pension liability</b>	<b>(7,339)</b>	<b>(10,456)</b>	<b>(9,741)</b>

#### Analysis of the amount charged to operating deficit

	2006	2005
	£000	£000
Current service cost	2,001	1,539
Past service cost	137	256
Curtailments and settlements	-	20
<b>Total operating charge</b>	<b>2,138</b>	<b>1,815</b>

#### Analysis of net return on pension scheme

	2006	2005
	£000	£000
Expected return on pension scheme assets	4,263	4,108
Interest on pension liabilities	(3,813)	(3,898)
<b>Net return</b>	<b>450</b>	<b>210</b>

### 34 Pension schemes (continued)

#### c) Greater Manchester Pension Fund ('GMPF') (continued)

<b>Analysis of amount recognised in statement of total recognised gains and losses (STRGL)</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Actual return less expected return on scheme assets	<b>3,342</b>	7,852
Experience gains and losses on liabilities	<b>207</b>	(283)
Changes in assumptions	<b>(2,778)</b>	(8,147)
Correction of prior year error in calculating net pension liabilities	<b>2,210</b>	-
<b>Actuarial gain/(loss) recognised in STRGL</b>	<b>2,981</b>	(578)

<b>Movement in deficit during the year</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Deficit in scheme at beginning of year	<b>(10,456)</b>	(9,741)
Current service cost	<b>(2,001)</b>	(1,539)
Contributions	<b>1,632</b>	1,283
Contributions in respect of unfunded benefits	<b>192</b>	185
Past service cost	<b>(137)</b>	(256)
Other finance income	<b>450</b>	210
Impact of settlements and curtailments	-	(20)
Actuarial gain/(loss)	<b>2,981</b>	(578)
<b>Deficit in scheme at year end</b>	<b>(7,339)</b>	(10,456)

The updated actuarial valuation at 31 July 2006 showed a decrease in the deficit from £10.5 million to £7.3 million. The University has paid contributions at the rate of 13.6% of members' pensionable pay over the nine months to 31 March 2006 and 15.5% over the three months to 31 July 2006. It was agreed with the Trustees that contributions for the following year would remain at that level.

#### History of experience gains and losses

	2006	Year ended 31 July			
		2005	2004	2003	2002
Difference between expected and actual return on scheme assets:					
Amount (£000)	<b>3,342</b>	7,852	1,961	23	(9,596)
Percentage of scheme assets	<b>5%</b>	12%	3%	0%	-19%
Experience gains and losses on scheme liabilities					
Amount (£000)	<b>(79)</b>	(283)	25	105	2,228
Percentage of scheme liabilities	<b>0%</b>	0%	0%	0%	4%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	<b>2,981</b>	(578)	1,909	(6,706)	(8,488)
Percentage of scheme assets	<b>4%</b>	-1%	3%	-11%	-17%

### 34 Pension schemes (continued)

#### d) Manchester Innovation Limited Group Pension Scheme ('MILGPS')

All existing employees of Manchester Innovation Limited are members of the University of Manchester Superannuation Scheme ('UMSS'). From 1 June 2003, the employees participating in the MILGPS transferred to UMSS. The MILGPS is deferred for the purposes of ex-employees.

An interim valuation of the scheme was carried out as at 1 September 2004, which has been updated to 31 July 2006 by a qualified actuary.

The market assumptions used in this valuation were:	2006 %	2005 %	2004 %
Rate of increase in pensions in payment and deferred pensions	5.00%	5.00%	5.00%
Discount rate applied to scheme liabilities	5.10%	5.10%	5.70%
Inflation assumptions	3.10%	2.70%	2.90%

The assets of the scheme and the expected rates of return were:

	2006	2006 £000	2005	2005 £000	2004	2004 £000
Investment in unitised pension policy	5.75%	1,308	5.75%	1,274	6.00%	1,305
Other	4.50%	354	5.75%	22	6.00%	22
Total market value of assets		1,662		1,296		1,327
Actuarial value of liability		(2,747)		(2,836)		(2,322)
Total deficit in the scheme		(1,085)		(1,540)		(995)
Related deferred tax asset		-		462		299
<b>Net pension liability</b>		<b>(1,085)</b>		<b>(1,078)</b>		<b>(696)</b>

#### Analysis of the amount charged to operating deficit

	2006 £000	2005 £000
Current service cost	3	3
Past service cost	-	-
<b>Total operating charge</b>	<b>3</b>	<b>3</b>

As no further benefits are accruing under the scheme, the service costs shown represent the expenses paid to Norwich Union for running the scheme over the year.

#### Analysis of net charge to other pension finance interest

	2006 £000	2005 £000
Expected return on pension scheme assets	81	74
Interest on pension liabilities	(148)	(127)
<b>Net charge</b>	<b>(67)</b>	<b>(53)</b>

### 34 Pension schemes (continued)

#### d) Manchester Innovation Limited Group Pension Scheme ('MILGPs') (continued)

<b>Analysis of amount recognised in statement of total recognised gains and losses (STRGL)</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Actual return less expected return on pension scheme assets	78	70
Experience gains and losses on liabilities	47	(122)
Changes in assumptions	70	(437)
<b>Actuarial gain/(loss) recognised in STRGL</b>	<b>195</b>	(489)

#### Movement in deficit during the year

	<b>2006</b>	2005
	<b>£000</b>	£000
Deficit in scheme at beginning of year	<b>(1,540)</b>	(995)
Current service cost	<b>(3)</b>	(3)
Contributions	<b>330</b>	-
Past service cost	-	-
Other finance income	<b>(67)</b>	(53)
Actuarial gain/(loss)	<b>195</b>	(489)
<b>Deficit in scheme at year end</b>	<b>(1,085)</b>	(1,540)

#### History of experience gains and losses

	<b>2006</b>	Year ended 31 July			
		2005	2004	2003	2002
Difference between expected and actual return on scheme assets:					
Amount (£000)	<b>78</b>	70	(38)	202	(173)
Percentage of scheme assets	<b>5%</b>	5%	-3%	13%	-11%
Experience gains and losses on scheme liabilities:					
Amount (£000)	<b>47</b>	(122)	124	2	11
Percentage of scheme liabilities	<b>2%</b>	-4%	5%	0%	0%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	<b>195</b>	(489)	287	(411)	(270)
Percentage of scheme assets	<b>7%</b>	-17%	12%	-15%	-11%

#### e) Pension schemes - summary

The implementation of FRS 17 'Retirement Benefits' resulted in the pension scheme deficits and actuarial gains/(losses) being included in the financial statements as follows:

	Consolidated		University	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>£000</b>	£000	<b>£000</b>	£000
<b>Balance sheet - Pension scheme deficits</b>				
University of Manchester Superannuation Scheme	<b>(4,415)</b>	(10,700)	<b>(4,415)</b>	(10,700)
Greater Manchester Pension Fund	<b>(7,339)</b>	(10,456)	<b>(7,339)</b>	(10,456)
Manchester Innovation Limited Group Pension Scheme	<b>(1,085)</b>	(1,078)	-	-
	<b>(12,839)</b>	(22,234)	<b>(11,754)</b>	(21,156)
<b>Statement of total recognised gains and losses - Actuarial gains/(losses)</b>				
University of Manchester Superannuation Scheme	<b>4,915</b>	(7,349)	<b>4,915</b>	(7,349)
Greater Manchester Pension Fund	<b>2,981</b>	(578)	<b>2,981</b>	(578)
Manchester Innovation Limited Group Pension Scheme	<b>195</b>	(489)	-	-
	<b>8,091</b>	(8,416)	<b>7,896</b>	(7,927)



### 35 Capital commitments

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Commitments for future capital expenditure: Contracted not provided	<b>162,220</b>	65,520	<b>162,220</b>	65,520

### 36 Contingent liabilities

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Bank guarantees	<b>667</b>	748	<b>667</b>	748
Contested assessment for VAT on construction costs	-	345	-	345
	<b>667</b>	1,093	<b>667</b>	1,093

The VAT on construction costs is likely to be paid, therefore the amount falling due has been provided in full (refer to note 21).

### 37 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 8 'Related Party Transactions' these are disclosed where members of the University of Manchester's Board of Governors disclosed an interest in a body with whom the University undertakes transactions which are considered material to the University's financial statements and/or the other party. The University has taken advantage of the exemption within FRS 8 and has not disclosed transactions with other group entities. Included within the financial statements are the following transactions with related parties:

	Income within the University £000	Expenditure within the University £000	Balance due to/(from) the University £000
Christie Hospital NHS Trust	1,883	956	1,653
Manchester Science Park Limited	305	3	245
Siemens plc	-	441	(11)
UK EPSRC	279	-	274
Dryden Street Nursery Limited	-	30	(16)
Marketing Manchester	36	6	1
Amicus	-	14	-
University of Manchester Students' Union	29	-	5

A block grant of £1.3 million was paid to the University of Manchester Students' Union during the year ended 31 July 2006.

A grant of £40,000 was paid to the Contact Theatre during the year ended 31 July 2006.

Note 39 details an acquisition from the Christie Hospital NHS Trust.

**38 Funds held by the University which are excluded from the income and expenditure account**

	<b>2006</b>	2005
	<b>£000</b>	£000
<b>Access Fund</b>		
Balance unspent at beginning of year	<b>90</b>	76
Funding Council grants	<b>1,213</b>	1,225
Interest earned	<b>12</b>	18
	<b>1,315</b>	1,319
Disbursed to students	<b>(1,253)</b>	(1,229)
<b>Balance unspent at year end</b>	<b>62</b>	90
<b>TDA Training Bursaries</b>		
	<b>2006</b>	2005
	<b>£000</b>	£000
Balance unspent at beginning of year	<b>61</b>	104
Funding Council grants	<b>2,117</b>	1,942
Disbursed to students	<b>(2,109)</b>	(1,985)
<b>Balance unspent at year end</b>	<b>69</b>	61
<b>Student Associates Scheme</b>		
	<b>2006</b>	2005
	<b>£000</b>	£000
Balance unspent at beginning of year	<b>119</b>	92
Funding Council grants	<b>315</b>	158
Paid out during the year	<b>(320)</b>	(131)
<b>Balance unspent at year end</b>	<b>114</b>	119
<b>Minority Ethnic Recruitment</b>		
	<b>2006</b>	2005
	<b>£000</b>	£000
		Restated
Balance unspent at beginning of year	<b>3</b>	4
Funding Council grants	<b>15</b>	11
Paid out during the year	<b>(13)</b>	(12)
<b>Balance unspent at year end</b>	<b>5</b>	3

Funding Council grants are available solely for students. The University acts only as a paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

### 39 Acquisitions

On 1 January 2006 The University of Manchester acquired the Paterson Institute for Cancer Research, from the Christie Hospital NHS Trust, for consideration of £1.

The fair values of the assets and liabilities acquired were as follows:

	2006 £000
Debtors	30
Cash	5,404
Creditors	(1,155)
Deferred income	(1,070)
Net assets acquired	3,209
Cash consideration	-
Negative goodwill	3,209

The acquisition generated negative goodwill as shown which has been released in full to the income and expenditure account during the year.

Since acquisition, income of £4.8 million which included a release of the acquired £1.1 million of deferred income, together with matching expenditure of £4.8 million, have been recorded in the consolidated income and expenditure account, which therefore reflected a break-even position in regard to the Paterson Institute for Cancer Research before the release of negative goodwill.

### 40 Merger accounting

On 1 October 2004, The University of Manchester ('UoM') was established under Royal Charter. Under the University of Manchester Act 2004, the assets and liabilities of the two predecessor organisations, The Victoria University of Manchester ('VUM') and UMIST were transferred and those bodies dissolved. For the first two months of the comparative year covered by these financial statements (that is, from 1 August to 30 September 2004), VUM and UMIST operated separately under the terms of their respective Royal Charters, and, in each case, with a Council exercising the statutory powers and functions of institutional governing body. During this period also, a Company Limited by Guarantee, established jointly by the Councils of VUM and of UMIST, was acting as the legal embodiment of the then putative new institution and, under powers delegated to it from time to time by the Councils, was authorised to make appointments and enter into contracts, undertakings and arrangements in the name of The University of Manchester.

#### Basis of accounting

The Board of Governors considered the criteria set out in FRS 6 'Acquisitions and Mergers' that require the use of merger accounting and are satisfied that the circumstances that relate to dominant influence have been fully considered and that merger accounting is the most appropriate accounting treatment to be adopted.

Under merger accounting the results and cash flows of the two entities were combined from the beginning of the financial year in which the merger occurred, i.e. the financial year to 31 July 2005, and for all prior periods.

The purpose of this note is to show the effects of combining the two predecessor organisations to form the new University of Manchester for the consolidated income and expenditure account (a), the consolidated statement of historical cost profits and losses (b), the consolidated statement of total recognised gains and losses (c) and the consolidated balance sheet (d).

The results for VUM and UMIST for the two months ended 30 September 2004, i.e. up to the date of merger, are disclosed separately in notes (a) to (c) and are combined with the 10 months ended 31 July 2005 for UoM post merger to form the comparative results disclosed for UoM for the 12 months ended 31 July 2005 throughout the financial statements.

#### 40 Merger accounting (continued)

##### a) Consolidated income and expenditure account

	<b>12 months to 31 July 2005</b>	10 months to 31 July 2005	2 months to 30 September 2004	
	<b>UoM £000</b>	UoM £000	VUM £000	UMIST £000
Income	<b>539,980</b>	464,877	56,384	18,719
Expenditure	<b>541,042</b>	450,900	67,434	22,708
<b>(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation</b>	<b>(1,062)</b>	13,977	(11,050)	(3,989)
Exceptional items	<b>(8,883)</b>	(7,403)	(1,235)	(245)
<b>(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation</b>	<b>(9,945)</b>	6,574	(12,285)	(4,234)
Tax	<b>109</b>	91	13	5
<b>(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation, exceptional items and taxation</b>	<b>(9,836)</b>	6,665	(12,272)	(4,229)
Minority interests in surplus for the year	-	-	-	-
Transfers (to)/from accumulated income within specific endowments	<b>(16)</b>	(13)	(3)	-
<b>(Deficit)/surplus for the year transferred to general reserves</b>	<b>(9,852)</b>	6,652	(12,275)	(4,229)

##### b) Consolidated statement of historical cost surpluses and deficits

	<b>12 months to 31 July 2005</b>	10 months to 31 July 2005	2 months to 30 September 2004	
	<b>VUM £000</b>	UMIST £000	UoM £000	UMIST £000
<b>(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation</b>	<b>(9,945)</b>	(4,234)	6,574	(12,285)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	<b>192</b>	30	160	2
<b>Historical cost (deficit)/surplus for the year before taxation</b>	<b>(9,753)</b>	(4,204)	6,734	(12,283)
<b>Historical cost (deficit)/surplus for the year retained after taxation, exceptional items and transfers in respect of specific endowments</b>	<b>(9,660)</b>	(4,199)	6,812	(12,273)

**40 Merger accounting (continued)**

**c) Consolidated statement of total recognised gains and losses**

	<b>12 months to 31 July 2005</b>	10 months to 31 July 2005	2 months to 30 September 2004	
	<b>UoM £000</b>	UoM £000	VUM £000	UMIST £000
<b>(Deficit)/surplus for the year retained within general reserves</b>	<b>(9,852)</b>	6,652	(12,275)	(4,229)
Unrealised surplus on revaluation of donated assets	<b>165</b>	165	-	-
Unrealised surplus on revaluation of investments within fixed assets	<b>18,552</b>	16,870	1,682	-
Net appreciation of endowment assets including reinvested profits on sales	<b>23,048</b>	18,760	4,288	-
New endowments less realisations	<b>1,088</b>	910	178	-
Specific and general endowment income received	<b>3,585</b>	2,987	598	-
Specific and general endowment income released to income and expenditure account	<b>(3,569)</b>	(2,832)	(595)	(142)
Actuarial (loss)/gain recognised in the pension scheme	<b>(8,416)</b>	(8,416)	-	-
<b>Total recognised gains/(losses) relating to the year</b>	<b>24,601</b>	35,096	(6,124)	(4,371)
<b>Reconciliation</b>				
<b>Opening reserves and endowments</b>	<b>251,695</b>	241,200	244,789	6,906
Total recognised gains/(losses) for the year	<b>24,601</b>	35,096	(6,124)	(4,371)
<b>Closing reserves and endowments</b>	<b>276,296</b>	276,296	238,665	2,535

#### 40 Merger accounting (continued)

##### d) Consolidated balance sheet

###### Fixed assets

Tangible assets  
Intangible assets  
Investments

	At 30 September 2004		
	UoM £000	VUM £000	UMIST £000
<b>Fixed assets</b>			
Tangible assets	293,710	213,266	80,444
Intangible assets	93	-	93
Investments	52,262	49,266	2,996
	<b>346,065</b>	262,532	83,533
<b>Endowment assets</b>	<b>102,886</b>	100,305	2,581
<b>Current assets</b>			
Stocks	2,012	1,935	77
Debtors: amounts falling due within one year	61,052	47,722	13,330
Debtors: amounts falling due after more than one year	889	528	361
Investments	73,636	69,229	4,407
Cash at bank and in hand	14,725	4,712	10,013
	<b>152,314</b>	124,126	28,188
<b>Creditors: amounts falling due within one year</b>	<b>(129,634)</b>	(92,628)	(37,006)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>	<b>22,680</b>	31,498	(8,818)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>471,631</b>	394,335	77,296
<b>Creditors: amounts falling due after more than one year</b>	<b>(63,348)</b>	(44,858)	(18,490)
<b>Provisions for liabilities and charges</b>	<b>(2,710)</b>	(435)	(2,275)
<b>NET ASSETS EXCLUDING PENSION DEFICIT</b>	<b>405,573</b>	349,042	56,531
<b>Pension deficit</b>	<b>(14,153)</b>	(4,412)	(9,741)
<b>NET ASSETS INCLUDING PENSION DEFICIT</b>	<b>391,420</b>	344,630	46,790
<b>Deferred capital grants</b>	<b>150,252</b>	105,965	44,287
<b>Endowments</b>			
Specific endowments	97,325	94,744	2,581
General endowments	5,561	5,561	-
	<b>102,886</b>	100,305	2,581
<b>Reserves</b>			
Revaluation Reserve	9,817	9,095	722
General Reserve	128,497	129,265	(768)
	<b>138,314</b>	138,360	(46)
<b>Minority interests in subsidiary companies</b>	<b>(32)</b>	-	(32)
<b>TOTAL FUNDS</b>	<b>391,420</b>	344,630	46,790



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