The University of Manchester

Financial Statements

for the year ended 31 July 2008

Contents

Officers and advisers

Officers

Co-Chancellor
Anna Ford, BA(Econ), DpAdultEd, LLD
(retired 31 July 2008)

Co-Chancellor
Sir Terry Leahy, BSc (retired 31 July 2008)

Chancellor
Mr Tom Bloxham, MBE
(appointed 1 August 2008)

Pro-Chancellor
Admiral Sir John Kerr, GCB, DL

President and Vice-Chancellor
Professor Alan D Gilbert,
AO, MA, DPhil, FASSA

Deputy President and Deputy Vice-Chancellor
Professor Dame Nancy J Rothwell,
BSc, PhD, DSc, FRS, FMedSci

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
Marianne McKenzie, BA, ACA

Vice-Presidents (Policy)

Teaching and Learning
Professor Robert W Munn,
BSc, PhD, DSc, CChem, CPhys, FRSC, FInstP
(retired 31 October 2007)

Professor Colin Sterling, BSc, PhD
(appointed 1 April 2008)

Innovation and Economic Development
Professor Rod W Coombs, BSc, MSc, PhD

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

Vice-President
Professor David Gordon,
MA, MB, BChir, FRCP, FMedSci
(retired 31 May 2008)

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CBE, BSc, MA, PhD, FIChemE, FIMA, FREng

Humanities
Professor Alistair M Ulph, BPhil, MA

Life Sciences
Professor R Alan North,
MB, ChB, PhD, DSc, FRS
(retired 31 August 2008)

Professor Martin Humphries,
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(appointed 1 September 2008)

Medical and Human Sciences
Professor R Alan North,
MB, ChB, PhD, DSc , FRS

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Kathleen Tattersall, OBE, BA, MEd, FRSA

Chair of Finance Committee
Nigel A L Llewellyn, MA, FCA, FRSA
(retired 30 September 2007)

Anil Ruia, OBE, JP, DL, LLB, ACA
(appointed 1 October 2007)

Chair of Risk Committee
Gillian Easson, MA

Chair of Remuneration Committee
Norman B M Askew, BA

Chair of Nominations Committee
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External Auditors
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Solicitors
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Pinsent Masons LLP
DLA Piper UK LLP

Chairman's Foreword

I am pleased to provide a Foreword for The University of Manchester Financial Statements for the year ended 31 July 2008 and the operational and financial review of the year.

As you will see from the Review of the Year from the President and Vice-Chancellor, the University continues to make excellent progress towards many of the goals identified in the *Manchester 2015 Agenda*, our strategic plan for repositioning the University as one of the top universities in the world.

It is particularly noteworthy that this forward strategic momentum has been maintained over the past year at the same time that decisive action has been taken to eliminate the planned, but nevertheless substantial, deficit with which we began the year.

The goals identified in the *Manchester 2015 Agenda* are ambitious, but nevertheless realistic, although the emerging global economic circumstances will make the financing of these ambitions even more difficult over the next few years.

I am, however, confident that we will meet these goals and I am greatly encouraged by the prudent financial management and forward strategic planning demonstrated by the senior management and University staff over the past year.

Norman Askew

Pro-Chancellor and
Chairman of the Board of Governors

Review of the year
by Professor Alan Gilbert, President and Vice-Chancellor

As I observed in introducing last year's Financial Statements, while the journey to 2015 was never going to be easy, The University of Manchester was, as the 2006-07 financial year drew to a close, at perhaps the most testing stage of its entire strategic agenda. The focus of our activities was no longer dominated by the exuberant growth and exciting initiatives characteristic of the period immediately following the dissolution of The Victoria University of Manchester and UMIST in October 2004 and the simultaneous establishment of the new University of Manchester - the so called Manchester "merger". While determined to maintain the strategic momentum of the University towards its ambitious goals, we have in the past year been in the process of undertaking the more mundane and often difficult challenge of eliminating a substantial operating deficit.

The deficit had not emerged unplanned. Two key strategic decisions – neither taken lightly and both still highly sensible in retrospect – had combined to create a substantial deficit of around £30 million at the point where the University began to take robust, systematic measures to eliminate it. The first of these strategic decisions (without which the merger may not have occurred) had been to enter into an industrial agreement to delay for at least two years after October 2004 tackling the duplication in staffing which arises from any merger. This meant that the University carried a £10 million structural deficit into 2007. The second of the key strategic decisions had been to invest heavily in a build up of research staff and research-support staff as a means of placing the new University in a strong competitive research position prior to the 2008 Research Assessment Exercise (RAE).

Within the context of the University's overall operating budget of around £700 million, the deficit was deemed to be manageable. Indeed, the deficit-funding of post-merger initiatives was adopted as a necessary means of launching our *Manchester 2015 Agenda* (see www.manchester.ac.uk/2015), an ambitious strategic plan for capitalising fully on the momentum generated by the 2004 merger.

But as the window of opportunity for influencing the 2008 RAE closed during 2007, and the two-year moratorium on merger-related staffing adjustments ended, tackling the deficit became a priority. Only by getting the University into operating surplus would we be able to maintain the strategic momentum required to realise our longer term strategies.

The 2007-08 financial year has consequently been dominated by the systematic implementation of an *Action Plan* for bringing the University Budget into surplus without vitiating the major strategic progress that the new University has already made. The Plan, approved by the Board of Governors in February 2007, provided for very robust financial measures, ranging from a major Early Retirement and Voluntary Severance (ERVS) Scheme, tight vacancy management and stringent non-pay cost controls, to initiatives designed to generate increased revenue. The objectives were (i) to bring the University's financial running rate into balance by July 2008, and (ii) to secure the basis for generating surplus budgets beginning in 2008-09.

Because the University was in the midst of the largest capital programme in UK higher education history, 2007 was also a year in which we executed plans for disposing of properties surplus to the University's long-term requirements. Such disposals had been envisaged from the outset as a necessary element in funding the capital programme While the necessary disposals were completed and brought to account prior to the end of the 2006-07 financial year, at a peak in the UK property market, the University did envisage further disposals as a means of augmenting funding for future capital projects. This was provided for in the 2007-08 Budget, but not undertaken once property prices fell, creating a significant post-exceptionals impact in our end of year Financial Statement.

The first part of the Action Plan has nevertheless been fully successful. The target of a balanced financial running rate by July 2008 has been reached, and the University has adopted a 2008-09 budget providing for a surplus, both pre and post-exceptionals.

A major continuing imperative will be to maintain the prudent financial controls introduced over the past year, including regular monthly oversight of payroll costs, a continued emphasis on securing efficiency dividends in relation to costs of administration, procurement, energy and other functions, a maintenance of tight vacancy management and careful oversight of the recurrent costs associated with the University's ongoing capital programme.

A second imperative going forward will be to invest both time and resources in the pursuit of our *Manchester 2015 Agenda*. It is good to be able to report that the successful management of the post-merger deficit has, up to the end of July 2008, been achieved without any major perturbation to the strategic direction of the University.

Current forecasts for financial markets, financial institutions and the wider economy more generally have become major issues for all organisations, both in relation to the management of financial risk and the maintenance of strategic momentum. The University of Manchester is no exception. We must anticipate a far tighter public funding environment into the foreseeable future. Research Councils are likely to face difficult choices about reducing the range and/or quantity of university-based research activity they can support. Trusts and charities dependent upon generating income from endowments and philanthropy may face even more serious disruption of their normal level of research support. Fee-based income may be affected by emerging financial constraints on individuals and families, internationally as well as in the UK.

These and other risks will need careful, informed management in the years ahead, and will make strategic management and strategic choices all the more difficult. The University is nevertheless determined to continue to plan, prioritise and invest strategically.

Key strategic developments in 2007-08 have included:

1 The virtual completion of Phase Two of the University's 2004-15 capital programme, amounting (together with Phase One) to £400 million worth of vital new and refurbished building stock, with the entire development to date being brought in more or less on time and (remarkably) slightly below budget. Phase One of the Programme was the £254 million "Project Unity" Plan for capital expenditure on a series of approved projects determined prior to 1 October 2004, but in many cases commenced and completed thereafter. Phase Two encompassed a further £151 million of capital expenditure driven by the rapid expansion of the University's teaching and research activities and the strategic necessity pursuant to our 2015 ambitions to replace sub-optimal infrastructure with state-of-the-art facilities. Phase Three will cover the four-year period, 2008-12.

2 The meeting of the intermediate strategic target of making at least three "iconic appointments" (Nobel Laureates or persons of equivalent standing in disciplines not eligible for Nobel awards), by the end of 2007. The University had in fact made four such appointments by December 2007.

3 The launch of a major "root and branch" review of undergraduate education in 2007, and the beginning of the challenging process of implementing recommendations designed to transform the Manchester undergraduate experience by enriching student learning and creating innovative new learning environments (both real and virtual) for all our students. Implementing the review will be a non-negotiable imperative for the University over the next few years.

4 Continued improvement in the University's position in the Jiao Tong (Shanghai) "World University Rankings", which has been identified since the merger in 2004 as the most reliable available indicator of our competitive position as an international research institution. The Jiao Tong Index uses commonly adduced criteria of research performance to rank the world's top 500 universities. In the highly competitive world of higher education, many of the universities ranked in the top 100 in 2004 have slipped down rather than improved their positions in the intervening years, and in adopting the Index, The University of Manchester risked the same fate. In fact, the University has improved its position every year, including a substantial improvement of eight places this year, from 48th to the 40th in the world. No top 100 university of 2004 has moved up the Table to anything like the same extent.

5 While profoundly committed to fundamental research, the University has, since its inception, sought to place an equal weight on knowledge and technology transfer. In this context, the most important development in 2007-08 was the launch of a unique £50 million venture fund which will provide the opportunity to invest in opportunities generated by technology research at the University.

Implementing our *2015 Agenda* was always going to be challenging, and emerging global economic circumstances seem certain to make the financing of ambitious aspiration ever harder over the next few years. There will be a premium on heightened levels of efficiency, effectiveness and disciplined prioritisation. The commitment, creativity and hard work with which the University community has accepted the robust challenges of deficit-reduction over the past year will stand us in good stead in this new environment, as will the remarkable progress the University has made since October 2004. I am delighted to have this opportunity to thank my colleagues for this achievement.

Alan Gilbert

Professor Alan Gilbert
President and Vice-Chancellor

Key Performance Indicators

1. **Benchmarking against Shanghai Jiao Tong (Shanghai) "World University Rankings"**

   Improved from 48th to 40th in world ranking between 2007 and 2008.

2. **Growth in Total Audited Research Expenditure**

   Total Audited Research Expenditure in 2006-07 (latest available figure) was £372.2m, an increase of 7% on the previous year.

3. **Growth in international student fee income**

   International student fee income (full and part-time) increased by £9.5m (16.5%) during 2007-08.

4 **Net Liquidity Expenditure Cover**

   Closing liquid balances were sufficient to provide 53 days expenditure cover.

5. **External Borrowing as a Percentage of Total Income**

   External borrowings reduced from 31.5% of total income (like-for-like basis) to 30.2%.

6. **Operating Surplus/(Deficit) as a Percentage of Income**

   Improved from (4.32%) 2006-07 to 0.03% 2007-08 on a like-for-like basis.

Financial review

Income and Expenditure Review

The financial strategy for The University of Manchester has been to eliminate the underlying operating deficit of £27.5m at the end of 2006-07 and position the University to deliver growing surplus results from 2008-09 onwards.

An operating surplus of £0.2m is now reported, demonstrating a dramatic turnaround in the underlying financial position. The post-exceptional result of £17.9m deficit includes £20.8m exceptional costs for the Early Retirement Voluntary Severance Scheme, which is now closed.

The budget for the financial year 2008-09 is set to deliver the targeted return to surplus, and continuous growth in surpluses is projected in the five-year financial plan.

Income

Total income for the University has grown by £31.7m (4.9%). However, the prior year income included £15.1m surplus on disposal of fixed asset investments (now restated within endowment and investment income in line with the revised SORP). Like-for-like income growth of £46.8m (7.2%) was achieved.

Funding Council grants were up by £9.3m (5.1%). This increase includes additional funding for subjects designated as strategically important and vulnerable (£1.9m), additional student numbers in Medicine and Chinese and Japanese studies (£1.5m) and increasing release of deferred capital grants as partly funded buildings came on stream (£1.3m).

Tuition fees increased by £31.0m (22.5%). This included strong growth in full time international students' fees, up £8.6m (15.1%). Manchester Business School Worldwide Ltd became a wholly owned subsidiary of The University of Manchester during the year. It operates blended learning courses internationally and it was the main factor behind the substantial growth in part time student income.

Research grants and contracts are up £2.1m (1.2%). This contrasts with a number of years of rapid growth. A contributory factor has been a reclassification of £5.6m of grant income related to the Newborn Hearing Screening Programme. Previously included in University income, this funding is now routed via the NHS. In addition, the £25m of funding from Tesco to establish a Sustainable Consumption Institute, which we reported last year, has taken longer than anticipated to set up. Other factors, ranging from the scheduling of grant applications prior to the 2008 Research Assessment Exercise (RAE) to the impact of particular deficit-reduction strategies, may also have been important.

Endowment and investment income on a like-for-like basis is up £5.7m (36.5%). This is principally due to an improved liquidity position with average balances up £65m, and higher average interest rates achieved (£3.1m) together with increased donations (£1.5m).

Expenditure

Total expenditure increased by £19.1m (2.9%). Of this, staff costs increased by £6.3m (1.6%) despite salary inflation of over 5%. This was the direct result of the deficit reduction plan, which overall resulted in a reduction of around 1,000 staff. Staff costs as a percentage of income have dropped to 57.6% from 60.9% (on a like-for-like basis) and as a percentage of total expenditure have dropped to 57.6% from 58.3%. This has been achieved largely by eliminating duplication in staffing within the Administration, arising from the merger.

Other operating expenses are up £7.9m (3.2%), including increases in utilities of £2.9m, and student bursaries/scholarships of £4.7m.

Depreciation has increased by £4.8m year on year, principally due to the completion of several major building projects.

Balance Sheet Review

The University closed the year with net assets of £633.1m, an increase of £12.1m (1.9%), after taking account of a £10.1m pension deficit. The year end cash position remained strong with short term cash and investments of £94.5m.

Fixed Assets

Tangible asset additions amounted to £90.2m. The year saw the completion of the flagship University Place, which is now the primary reception point for Student Services; final phases of Michael Smith (Life Sciences) and AV Hill (Life and Medical and Human Sciences) Buildings. In addition Phase 1 of the Public Realm development has had a significant impact on the overall appearance of the campus.

A further allocation of £96m has been agreed by HEFCE and will fund further developments. Fixed asset investments increased by £7.7m primarily as a result of investment property revaluations.

Endowment Assets

The University reinvested £0.9m of income and received new endowment funds of £5.9m, including a £5m endowment from BNFL, for the development of nuclear research, and to support the international reputation of the UK's nuclear research base. Overall, the endowment investment portfolio suffered value erosion as a result of world stock market performance. Some £13.1m (11.3%) was eroded during 2007-08, with continuing deterioration since the year end.

Current Assets

Debtors have reduced by £23.9m. Prior year included accrued income of £18.9m relating to the disposal of the Tabley Estate. This was settled shortly after the 2006-07 year end.

Investments

The reduction in investments of £38.7m is due to the release of funds earmarked for the capital programme. The closing liquidity position of £94.5m was sufficient to cover 53 days expenditure.

Net Cash

The net cash outflow of £13.3m was driven by exceptional payments of £31.9m for Early Retirement and Voluntary Severance. Financial projections for 2008/09 target the University to return to a positive cash generative position. During the year a £10m interest free grant was received from HEFCE, repayable in 2014. This had been agreed to support the costs of restructuring the post merger University. External borrowings of £206.4m are 30.2% of income (prior year 31.5% of like-for-like income)

Risks and Uncertainties

There are a number of risks that could have an impact on the University's position. These risks are routinely monitored and appropriate actions taken.

A number of key financial risks are currently facing the University as well as the wider higher education sector. In October 2008, the final pay award in a 3 year nationally negotiated settlement had been linked to RPI, which peaked at 5% at the trigger date of September 30th. Since staff costs are 57.6% of our total expenditure and since the related income streams have not inflated at this level, tight management of staff costs is required. Similarly, the threatened escalation of costs of direct benefit pension schemes is a further risk requiring management.

Following the current disruption in financial markets, concerns are raised both in terms of the impact on international fee income and in the availability of research funding. The reduction in value of our endowment investment portfolios has been significant. The lower interest rate environment will also impact income and pensions

The University invested £5m in Heritable Bank (a subsidiary of Landsbanki) which went into administration on 7 October 2008. The recoverability of this sum is uncertain.

Conclusion

The University has clearly demonstrated its ability significantly to shift its financial model over a short period, and is on track to reach the desired sustainable financial model, whilst continuing to invest strongly in its strategic developments. We are, however, aware of the increasing financial challenges facing the higher education sector and will maintain the strong financial controls required to manage through what are bound to be difficult times.

M McKenzie

Mrs Marianne McKenzie
Director of Finance

Corporate governance statement

Introduction

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.

The statement on corporate governance is divided into three parts. The first part provides a framework statement on the structure of corporate governance within the University. The second part outlines the University's approach to risk management and the maintenance of a sound system of internal control. The third part cites examples in the financial year in question that provide assurances regarding the effectiveness of the University's corporate governance framework.

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 Annual Accounts.) 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. 11,500) 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 **Deputy President** and **Vice-Chancellor**, **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.

Corporate governance statement *continued*

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/March 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 appointment of a Head of Risk and Compliance and the designation of an Associate Vice-President for Compliance and Risk Management (who provide direct advice to senior officers of the University and report 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; 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 Board's review of effectiveness of the system of internal control continues to be informed by all these processes, and by comments made by the external auditors in their management letter and by internal audit reports.

Report on Corporate Governance over 2007-08

The assurance provided by the risk management process over 2007-08 is exemplified by the following:

- The imminent completion of Phase Two of the University's Capital Plan, representing a combined Phase One and Phase Two capital expenditure budget of £400 million, brought in slightly below budget and more or less on time.
- The continued success in attracting high-quality staff to the institution, including the meeting of the strategic target of at least three Nobel Laureate (or equivalent) staff by the end of 2007;
- The successful implementation over the last 18 months of an Action Plan for eliminating a budget deficit built up by planned pre-RAE expenditure in 2004-06. The Plan focused on a number of specific tasks, including the major Early Retirement and Voluntary Severance Scheme, tight vacancy management, the efficient management of non-pay costs, initiatives to generate additional recurrent income and the successful completion of a number of planned capital divestments. Alongside these tasks, the University also introduced better forward estimates of costs and income and made significant improvements to the management of its cash flow. The Plan has been implemented successfully, with the University's operational running rate reaching balance by July 2008, and the adoption of a University Budget for 2008-09 providing for a surplus both pre- and post-exceptionals.
- As part of these cost reduction strategies, major efforts have been made to improve financial controls across the institution. The University's internal auditors have noted that internal control improved substantially during 2007-08, and that the further embedding of good practice in relation to financial controls remained desirable, particularly at Faculty and School levels.
- In parallel with the bedding-down of the merger, the new University committed itself to introduce a comprehensive suite of management information systems covering finance, HR, student records and on-line learning. After a difficult period in 2006-07 during which complex problems arose in migrating legacy data from the essentially incompatible management information systems of the two merging universities, all the new systems are working effectively in 2008 and significant benefits realisation is already being achieved.

Statement of the Board of Governors' responsibilities

In accordance with the Royal Charter, 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 Financial Memorandum agreed with HEFCE, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007, and applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice), 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.

The governors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information that has not been brought to the attention of the University's auditors; and, so far as they are each aware, have taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the University's auditors are aware of that information.

The maintenance and integrity of The University of Manchester 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Norman Askew

Mr Norman Askew
Chair of the Board of Governors
and Pro-Chancellor

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

We have audited the financial statements of The University of Manchester for the year ended 31 July 2008 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, and the related notes. These financial statements have been prepared under the accounting policies set out in therein.

Respective responsibilities of the Board of Governors and auditors

The Board of Governors' responsibilities for preparing the financial statements in accordance with 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 Governors' 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 Charters and Statutes of the University. 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 (HEFCE) and with the funding agreement with the Training and Development Agency for Schools. 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 contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements within it. The other information comprises only the 'Review of the Year by the President and Vice-Chancellor', the 'Financial Review' by the Director of Finance, 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.

The maintenance and integrity of The University of Manchester 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Board of Governors 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 2008, and of the deficit of expenditure over income, 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, and the Training and Development Agency for Schools and 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 (2006/24) with the Higher Education Funding Council for England and the funding agreement with the Training and Development Agency for Schools.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

21 November 2008

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 the Higher Education Funding Council for England (HEFCE), the Financial Memorandum agreed with HEFCE, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The accounting policies detailed below have been applied consistently.

Basis of accounting

Modified historical cost basis

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

This is the first year that the revised SORP has applied to the University's financial statements. As a result, amendments to disclosure and presentation have been made to comply with the revised SORP. Where appropriate, prior year comparatives have been amended. In addition, the 'Amendment to FRS 17: Retirement Benefits' has been applied for the first time. Further details are provided below.

Change in accounting policies

The revised SORP has introduced revised requirements in relation to the accounting for endowments and donations. This change in accounting policy has given rise to a prior year adjustment totalling £3,089,000 as at 31 July 2006. This prior year adjustment comprises an adjustment to reflect receipts previously accounted for as endowments which now meet the definition of donations and these total £1,963,000. The prior year adjustment also comprises an amount of £1,126,000 of accumulated income that has been released to the income and expenditure account that relates to unrestricted permanent endowments previously treated as restricted. The effect has been to reduce endowment assets and funds by £3,089,000 and to increase the University's current asset investments and income and expenditure account within general reserves by the same amount.

As a result of the first time adoption of the 'Amendment to FRS 17: Retirement Benefits', the investment assets of defined benefit schemes are now required to be valued at bid price as opposed to mid price. As this constitutes a change in accounting policy, this has been accounted for as a prior year adjustment. The effect has been to increase the pension schemes' liabilities by £1,362,000 as at 31 July 2006 and a further £319,000 as at 31 July 2007 and also to increase the pension reserve deficit within general reserves by the same amounts.

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. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation. The consolidated financial statements include the University's share of the profits and net assets of material associated undertakings over which the University has a significant but not dominant influence.

In accordance with FRS 2, The University of Manchester Students' Union has not been consolidated because the University does not control its activities.

Recognition of income

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

Non-recurrent grants from HEFCE or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised to income in line with depreciation over the life of the asset for which the grant was awarded.

Student fee income is credited to the income and expenditure account over the year in which it is earned. Where the amount of the tuition fee is reduced by a discount for prompt payment, income is shown net of the discount. Bursaries and scholarships are accounted for as expenditure and not deducted from income.

Income from research grants and contracts and other services rendered is included according to the degree of 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. Any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met. In many cases recognition is directly related to expenditure incurred for specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments. Other donations are recognised by inclusion as other income in the income and expenditure account.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments after the result for the year has been struck. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

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

Accounting for Charitable donations

(a) Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

(b) Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution [SORP para 144]
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income [SORP para 143, 147]
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective [SORP para 144]

(c) Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the expected useful life of the related asset.

(d) Gifts in kind, including donated tangible fixed assets

Gifts in kind are included as a donation in other income using a reasonable estimate of their gross value or the amount actually realised. Donated tangible fixed assets, with the exception of land, are valued and accounted for as fixed assets under the appropriate fixed asset category. The same amount is credited to deferred capital grants with the accounting treatment then following that for grant funded tangible fixed assets. Land donated for use by the University is valued, and the associated credit is taken to the income and expenditure account as a donation in other income.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated. Unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity, the part relating to the Institution's share is eliminated.

Foreign currency translations

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 taken to the income and expenditure account in the period in which they arise.

Tangible fixed assets

(a) Land and buildings

Land and buildings are stated at cost. Buildings are depreciated over their expected useful lives of 50 years and leasehold buildings over the life of the lease. Land is not depreciated.

Buildings under construction are included at cost, based on the value of architects' certificates and other costs incurred at 31 July. 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

Individual items of equipment and groups of functionally dependant items costing more than £25,000 are capitalised at cost. All other items are written off to the income and expenditure account in the year of acquisition. Capitalised equipment is depreciated over its expected useful economic life as follows:

Boilers, building plant and scientific equipment	- 10 years
Mainframe computers and proprietary software	- 5 years
Computer software	- 8 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 relevant 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) 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.

(e) Maintenance

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

(f) Assets held for resale

Tangible fixed assets surplus to requirements are held at the lower of cost and net realisable value.

(g) Heritage Assets

Works of art and other valuable artefacts (heritage assets) valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable.

Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

Heritage assets that are not readily realisable are not capitalised but the details of the nature and age of these assets are disclosed.

Leases

Finance leases which transfer substantially all the benefits and risks of ownership of an asset to the University, are treated as if the asset had been purchased outright. The 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 over the shorter of lease term or the useful economic life of an equivalent owned asset. 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 charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure on a straight line basis over the relevant lease term.

Statement of principal accounting policies *continued*

Goodwill and intangible assets

Goodwill arising on consolidation is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill is amortised over its estimated economic life. Where goodwill and intangible assets are regarded as having limited useful economic lives, they are amortised over those lives up to a maximum of 20 years. Impairment tests are carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment. Where there is impairment in the carrying value of goodwill, the loss is incurred in the results for the period.

Positive purchased goodwill is capitalised and classified as an asset on the balance sheet.

Website development costs

Design and content costs relating to the development of websites to support specific teaching or training courses, or for specific research projects, as well as design and content costs for websites that are for the general use of the institution and its staff, are written off as incurred to the income and expenditure account.

Investments

(a) Fixed asset investments

Listed investments and properties held as fixed asset investments are stated at market value. Investments in companies set up so as to exploit university intellectual property are carried at the lower of cost and net realisable value. Other investments are stated at the lower of cost and market value.

Appreciation/depreciation in the market value of investments within fixed assets is added to or subtracted from the revaluation reserve, via the statement of total recognised gains and losses. A diminution in value is charged to the income and expenditure account, to the extent that it is not covered by a previous revaluation surplus. On the disposal of fixed asset investments, any accumulated surplus brought forward is transferred from the revaluation reserve to the income and expenditure account as a reserve movement.

Certain fixed asset investments are held within investment portfolios managed by independent fund managers. The portfolios are revalued at the balance sheet date through the revaluation reserve. Transactions within the portfolios are not accounted for separately. Realised gains and losses are recognised only on withdrawal of funds from the portfolios.

(b) Subsidiary and associated undertakings

In the consolidated financial statements, investments in associated undertakings are stated at the University's share of their net assets. Investments in associated and subsidiary undertakings are stated at cost less provision for impairment in the University's balance sheet.

(c) Current asset investments

Current asset investments are carried at the lower of cost and net realisable value.

(d) Endowment assets

Endowment asset investments are carried at market value.

Appreciation/depreciation in the market value of endowment assets and any gain or loss on disposal is added to or subtracted from the endowment funds concerned and is not brought into the income and expenditure account, but reported through the statement of total recognised gains and losses.

Certain endowment asset investments are held within investment portfolios managed by independent fund managers. Transactions within the portfolios are not accounted for separately. Realised gains and losses are only added to or subtracted from the endowment funds on withdrawal of funds from the portfolios.

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 four principal schemes for the University's staff are the Universities' Superannuation Scheme ('USS'), the NHS Pension scheme ('NHSPS'), The University of Manchester Superannuation Scheme ('UMSS') and the Greater Manchester Pension Fund ('GMPF'). All four 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 five schemes are defined benefit schemes, which are externally funded. With the exception of NHSPS, each fund has a full valuation every three years carried out by professionally qualified independent actuaries.

Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of FRS 17.

Of the five schemes, USS and NHSPS are both multi-employer schemes. It is not possible to identify the assets and liabilities of the two schemes which are attributable to the University. Therefore, in accordance with FRS 17, these schemes are accounted for as if they are defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

For the remaining three schemes, assets are included at market value, measured on a bid price basis where applicable,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 included only 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 income and expenditure 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 Income and Corporation Taxes Act 1988 (ICTA 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 ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

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 entity 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. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. 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. Deferred tax assets and liabilities are not discounted.

Financial instruments

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Cash flows 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 as cash to the University within 24 hours without penalty. No other 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 and contingent liabilities

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.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; and an inability to measure the economic outflow.

Agency arrangements

Where the University receives and disburses funds as paying agent on behalf of a funding body for which the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction, then the related income and expenditure is excluded from the consolidated income and expenditure account. Details are disclosed within note 40 'Funds held by the University which are excluded from the income and expenditure account' and include Access Funds and Training Bursaries.

Consolidated income and expenditure account
for the year ended 31 July 2008

	Notes	Consolidated 2008 £000	Restated 2007 £000
Income			
Funding body grants	1	**191,488**	182,237
Tuition fees and education contracts	2	**168,706**	137,682
Research grants and contracts	3	**175,744**	173,606
Other income	4	**126,904**	128,209
Endowment and investment income	5	**21,281**	30,686
Total income		**684,123**	652,420
Expenditure			
Staff costs	6	**394,167**	387,884
Other operating expenses	7(b)	**251,348**	243,404
Depreciation	11	**26,835**	22,059
Interest and other finance costs	8	**11,566**	11,477
Total expenditure		**683,916**	664,824
Surplus/(deficit) on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation and exceptional items		**207**	(12,404)
Share of operating (deficits)/surpluses in associates		**(63)**	2
Taxation	9	**9**	(100)
Surplus/(deficit) on continuing operations after depreciation of fixed assets at cost/valuation and taxation and before exceptional items		**153**	(12,502)
Minority interest in subsidiary undertakings' results for the year	26	**91**	-
Surplus/(deficit) before exceptional items		**244**	(12,502)
Exceptional items	10	**(17,651)**	16,588
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation, taxation and exceptional items		**(17,407)**	4,086
Surplus for the year transferred to accumulated income in endowment funds	23	**(463)**	(744)
(Deficit)/surplus for the year retained within general reserves	24	**(17,870)**	3,342

All material items of income and expenditure arise from continuing operations

The prior year figures have been restated to reflect the revised requirements of the new SORP 2007: Accounting for Further and Higher Education. (see note 5)

The (deficit)/surplus for the year retained within general reserves is attributable to the following:	2008 £000	2007 £000
University	**(17,484)**	855
Group undertakings	**(386)**	2,487
	(17,870)	3,342

Statement of consolidated historical cost surpluses and deficits
for the year ended 31 July 2008

	Notes	2008 £000	Restated 2007 £000
(Deficit)/surplus on continuing operations before taxation		**(17,416)**	4,186
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	25	**13**	13
Valuation gains realised on disposal of fixed asset investments	25	**1,157**	21,399
Historical cost (deficit)/surplus for the year before taxation		**(16,246)**	25,598
Historical cost (deficit)/surplus for the year after taxation		**(16,237)**	25,498

Statement of consolidated total recognised gains and losses
for the year ended 31 July 2008

	Notes	2008 £000	Restated 2007 £000
(Deficit)/surplus on continuing operations after depreciation of assets at cost/valuation, disposal of assets and taxation		**(17,870)**	3,342
Unrealised surplus on revaluation of fixed asset investments	25	**7,636**	8,146
Endowment income retained in the year	23	**463**	744
New endowments and dividends reinvested	23	**6,292**	647
Net depreciation of endowment assets including reinvested profits on sales	23	**(11,324)**	11,182
Actuarial gain/(loss) recognised in respect of pension schemes	34(a)	**2,637**	(1,598)
Total recognised (losses)/gains relating to the year		**(12,166)**	22,463
Prior year adjustments	24	**1,408**	
Total gains recognised since last published financial statements		**(10,758)**	
Reconciliation			
Opening reserves and endowments		**292,604**	270,141
Total recognised (losses)/gains for the year		**(12,166)**	22,463
Closing reserves and endowments		**280,438**	292,604

The prior year figures have been restated to reflect the revised requirements of the new SORP 2007: Accounting for Further and Higher Education and also to reflect the revised requirements of FRS 17 whereby pension scheme assets should be valued at the bid price and not mid price.

Balance sheets
as at 31 July 2008

		Consolidated		University	
			Restated		Restated
		2008	2007	2008	2007
	Notes	£000	£000	£000	£000
Fixed assets					
Tangible assets	11	658,118	595,322	621,595	558,056
Intangible assets	12	57	260	-	-
Investments	13	33,756	26,047	37,846	33,016
Total fixed assets		691,931	621,629	659,441	591,072
Endowment assets	14	137,867	142,436	137,867	142,436
Current assets					
Stock		1,635	1,902	1,541	1,822
Debtors: amounts falling due within one year	15	102,053	125,858	103,772	125,516
Debtors: amounts falling due after more than one year	16	277	352	9,280	8,203
Investments	17	86,349	125,082	86,349	125,082
Cash at bank and in hand		16,936	11,511	8,473	4,323
Total current assets		207,250	264,705	209,415	264,946
Creditors: amounts falling due within one year	18	(188,988)	(179,509)	(182,840)	(176,373)
NET CURRENT ASSETS		18,262	85,196	26,575	88,573
TOTAL ASSETS LESS CURRENT LIABILITIES		848,060	849,261	823,883	822,081
Creditors: amounts falling due after more than one year	19	(199,568)	(197,300)	(199,565)	(195,122)
Provisions for liabilities and charges	21	(5,280)	(16,726)	(4,844)	(16,204)
NET ASSETS EXCLUDING PENSION LIABILITIES		643,212	635,235	619,474	610,755
Net pension liabilities	34(a)	(10,129)	(14,235)	(10,129)	(13,765)
NET ASSETS INCLUDING PENSION LIABILITIES		633,083	621,000	609,345	596,990
Deferred capital grants	22	352,373	327,997	331,585	306,751
Endowment funds					
Expendable endowments	23	19,991	18,748	19,991	18,748
Permanent endowments	23	117,876	123,688	117,876	123,688
Total endowment funds		137,867	142,436	137,867	142,436
Reserves					
Income and expenditure account excluding pension reserve	24	135,865	154,034	138,270	155,583
Pension reserve	24	(10,129)	(14,235)	(10,129)	(13,765)
Income and expenditure account including pension reserve		125,736	139,799	128,141	141,818
Revaluation reserve	25	16,835	10,369	11,752	5,985
Total reserves		142,571	150,168	139,893	147,803
Minority interests	26	272	399	-	-
TOTAL FUNDS		633,083	621,000	609,345	596,990

The prior year figures have been restated to reflect the revised requirements of the new SORP 2007: Accounting for Further and Higher Education and also the revised requirements of FRS 17.

The Financial Statements on pages 12 to 51 were approved by the Board of Governors of The University of Manchester on 20 November 2008 and were signed on its behalf by:

Norman Askew   Alan Gilbert   M McKenzie

Mr Norman Askew
Chair of the Board of Governors and Pro-Chancellor

Professor Alan Gilbert
President and Vice-Chancellor

Mrs Marianne McKenzie
Director of Finance

Consolidated cash flow statement
for the year ended 31 July 2008

	Notes	2008 £000	2007 £000
Net cash outflow from operating activities	27	**(13,304)**	(1,681)
Returns on investments and servicing of finance	28	**5,481**	(997)
Taxation		**(69)**	-
Capital expenditure and financial investment	29	**(35,785)**	21,629
Management of liquid resources	30	**48,533**	(37,855)
Financing	31	**5,637**	18,448
Increase/(decrease) in cash in the year		**10,493**	(456)

Reconciliation of net cash flow to increase in net debt for the year ended 31 July 2008

	Notes	2008 £000	2007 £000
Increase/(decrease) in cash in the year	32	**10,493**	(456)
Cash (outflow)/inflow from liquid resources	32	**(48,533)**	37,855
Change in debt resulting from cash flows	32	**(5,637)**	(18,448)
Movement in net debt in year		**(43,677)**	18,951
Net debt at beginning of year	32	**(56,327)**	(75,278)
Net debt at end of year	32	**(100,004)**	(56,327)

Notes to the financial statements

1 Funding body grants

	Consolidated 2008 £000	2007 £000
Recurrent grants		
Higher Education Funding Council - Teaching	**94,409**	89,080
Higher Education Funding Council - Research	**76,994**	74,319
Higher Education Funding Council - Other	**6,639**	6,326
Training and Development Agency	**2,423**	2,345
Teaching Grant - Strategically Important and Vulnerable Subjects	**1,860**	-
Specific grants		
Special Initiatives	**4,214**	6,495
Deferred capital grants released in year		
Buildings	**4,362**	3,050
Equipment	**587**	622
	191,488	182,237

2 Tuition fees and education contracts

	Consolidated 2008 £000	2007 £000
Fees in respect of:		
Full-time home and EU students	**56,213**	43,605
Full-time international students	**65,403**	56,820
Part-time students	**14,080**	5,134
Short course fees	**15,855**	15,393
Other teaching contract courses - core activities	**15,744**	13,225
Research training support grants	**1,411**	3,505
	168,706	137,682

3 Research grants and contracts

	Consolidated 2008 £000	2007 £000
Research Councils	**75,404**	74,137
UK based charities	**40,929**	37,175
UK central government, hospitals and health authorities	**31,229**	33,240
UK industry and commerce	**11,659**	12,555
Overseas	**14,239**	13,847
Other sources	**2,284**	2,652
	175,744	173,606

4 Other income

	Consolidated 2008 £000	2007 £000
Residences, catering and conferences	**46,843**	45,559
Premises	**2,296**	4,079
Academic departments	**24,136**	18,568
Academic services	**2,799**	1,923
Continuing education and training	**5,102**	2,101
Administration and central services	**5,112**	6,698
Services rendered	**5,109**	9,683
Health authorities	**22,149**	18,420
Other general income - University only	**3,507**	4,020
Use of sports facilities	**933**	845
Other general income - subsidiary undertakings	**3,693**	10,352
Profit on disposal of tangible fixed assets	**-**	842
Manchester University Press	**1,732**	1,718
Releases of deferred capital grants from non-funding body sources	**3,493**	3,401
	126,904	128,209

5 Endowment and investment income

	Consolidated 2008 £000	Restated 2007 £000
Income from expendable endowments (note 23)	**516**	505
Income from permanent endowments (note 23)	**3,269**	3,320
Income from donations	**4,511**	3,014
Income from short term investments	**6,410**	3,305
Dividends from general fund investments	**740**	1,270
Surplus on disposal of fixed asset investments	**941**	15,100
Net return on pension schemes	**3,327**	3,836
Other interest receivable	**1,567**	336
	21,281	30,686

The prior year figures have been restated to reflect the revised requirements of the new SORP 2007: Accounting for Further and Higher Education. The change relates to the revised classification of endowments between unrestricted permanent, restricted permanent and restricted expendable.

6 Staff costs

	Consolidated 2008 £000	2007 £000
Wages and salaries	**321,012**	317,014
Social security costs	**28,724**	27,417
Other pension costs	**44,431**	43,453
	394,167	387,884

Distinction Awards paid to NHS Consultants employed on joint contracts between the NHS and the University are not borne by the University and are excluded from the above analysis. These amount to £4,411,000 for the year ended 31 July 2008 (2007: £3,645,000).

	Consolidated 2008 Numbers	2007 Numbers
Staff numbers		
Academic - teaching and research	**1,950**	1,958
Academic - teaching only	**358**	347
Research	**1,809**	1,768
Administrative and management	**1,363**	1,467
Clerical and secretarial	**1,505**	1,621
Academic support	**1,231**	1,289
Craft / Manual	**906**	897
Other	**362**	427
Total number of staff	**9,484**	9,774

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

Notes to the financial statements *continued*

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.

	Consolidated	
	2008	2007
	Number of employees	Number of employees
£100,001 - £110,000	**19**	27
£110,001 - £120,000	**13**	4
£120,001 - £130,000	**4**	1
£130,001 - £140,000	**3**	6
£140,001 - £150,000	**1**	3
£150,001 - £160,000	**6**	1
£160,001 - £170,000	**2**	1
£170,001 - £180,000	**2**	1
£200,001 - £210,000	**1**	1
£230,001 - £240,000	**-**	1
£250,001 - £260,000	**-**	1
£260,001 - £270,000	**1**	-
£300,001 - £310,000	**-**	1
£310,001 - £320,000	**1**	-
	53	48

Emoluments of the President and Vice-Chancellor	Consolidated	
	2008	2007
	£000	£000
Salary	**277**	260
Benefits in kind	**14**	14
	291	274
Pension contributions	**37**	34

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

7 (a) Analysis of Expenditure by Activity

	Staff costs	Other operating expenses	Depreciation	Interest payable	Consolidated 2008	Consolidated Restated 2007
	£000	£000	£000	£000	**£000**	£000
Academic departments	217,600	80,578	3,844	-	**302,022**	289,163
Academic services	25,805	16,549	75	-	**42,429**	46,347
Research grants and contracts	80,620	56,309	3,642	-	**140,571**	141,026
Residences, catering and conferences	12,245	21,894	15	2,607	**36,761**	39,197
Premises	20,392	28,870	17,832	8,911	**76,005**	62,455
Administration and central services	13,010	12,601	484	-	**26,095**	32,383
Staff and student facilities	8,825	6,966	-	-	**15,791**	15,066
General educational expenditure	3,937	12,014	-	-	**15,951**	12,912
Other services rendered	4,789	4,279	-	-	**9,068**	8,861
Other activities	11	-	-	-	**11**	662
Total University	**387,234**	**240,060**	**25,892**	**11,518**	**664,704**	648,072
Subsidiary undertakings	6,933	11,288	943	48	**19,212**	16,752
Total	**394,167**	**251,348**	**26,835**	**11,566**	**683,916**	664,824

7 (b) Analysis of other operating expenses

	Consolidated 2008	Consolidated Restated 2007
	£000	£000
Equipment purchases and maintenance	**31,050**	33,797
Estate repairs and maintenance	**14,906**	18,038
Consumables and laboratory expenditure	**25,855**	24,705
Catering supplies	**5,150**	5,057
Library and publications	**6,643**	7,234
Professional and other fees	**42,632**	40,314
Travel and subsistence	**14,456**	13,940
Printing, stationery and office expenses	**11,972**	13,025
Fellowships, scholarships and prizes	**41,892**	37,208
Recruitment, training and welfare	**4,585**	4,411
Heat, light, water and power	**16,801**	13,873
Rent, rates and insurance	**15,561**	14,126
Grants to student union	**1,345**	1,345
Auditors' remuneration in respect of audit services	**282**	248
Auditors' remuneration in respect of non-audit services	**393**	550
Other expenditure	**6,611**	6,449
Subsidiary undertakings - other operating expenditure	**11,214**	9,084
	251,348	243,404
Other operating expenses includes:		
External auditors' remuneration in respect of audit services:		
- PricewaterhouseCoopers LLP (University audit)	**210**	147
- PricewaterhouseCoopers LLP (Group audit)	**9**	24
- KPMG LLP	**-**	1
- Grant Thornton UK LLP	**9**	1
- Deloitte & Touche LLP	**33**	30
- Other	**21**	45
	282	248
External auditors' remuneration in respect of non-audit services:		
- PricewaterhouseCoopers LLP	**94**	14
- KPMG LLP	**182**	459
- Deloitte & Touche LLP	**117**	61
- Other	**-**	16
	393	550
Operating lease rentals:		
Land and buildings	**7,161**	4,159
Other	**1,187**	1,639

The prior year figures have been restated to reflect the revised requirements of the new SORP 2007: Accounting for Further and Higher education. The change relates to the revised presentation of expenditure by activity and other operating expenses.

Notes to the financial statements *continued*

8 Interest and other finance costs

	Consolidated 2008 £000	2007 £000
Bank and other loans wholly repayable within five years	**168**	115
Bank and other loans not wholly or partly repayable within five years	**11,364**	11,314
Pension finance cost	**34**	48
	11,566	11,477

9 Taxation

	Consolidated 2008 £000	2007 £000
Current Tax		
UK Corporation tax of 29.33% (2007: 30%) on surplus for the year	**78**	138
Deferred tax		
Origination and reversal of timing differences	**(87)**	(38)
Total tax	**(9)**	100
Tax paid in year	**69**	-

10 Exceptional items

	Consolidated 2008 £000	2007 £000
Income		
Surplus on disposal of tangible fixed assets	**-**	30,597
Surplus on sale of business	**3,195**	-
	3,195	30,597
Expenditure		
Early retirement/voluntary severance	**(20,846)**	(14,009)
	(17,651)	16,588

The exceptional income for the current year relates to the sale of the trade and trading assets of Weston Hotel and Conference Centre. The prior year relates to the disposal of the Weston Hotel and Conference Centre buildings and of the Weston and Chandos Halls of Residence.

The exceptional expenditure for the current and prior year relates to the early retirement/voluntary severance scheme that came into effect two years after the merger between The Victoria University of Manchester and UMIST. This scheme ceased with effect from 1 December 2007.

11 Tangible fixed assets

a) Consolidated	Freehold Land and Buildings £000	Lease Premium £000	Assets under construction £000	Fixtures, Fittings, and Equipment £000	Total £000
Cost/valuation					
At beginning of year	542,178	-	95,595	168,456	806,229
Additions at cost	13,516	-	68,517	8,148	90,181
Transfers between categories	95,281	-	(94,887)	34	428
Disposals	(39)	-	-	(5,017)	(5,056)
At year end	650,936	-	69,225	171,621	891,782
Depreciation					
At beginning of year	86,947	-	-	123,960	210,907
Charge for the year	14,531	-	-	12,304	26,835
Disposals	(65)	-	-	(4,013)	(4,078)
At year end	101,413	-	-	132,251	233,664
Net Book Value					
At year end	**549,523**	**-**	**69,225**	**39,370**	**658,118**
At beginning of year	455,231	-	95,595	44,496	595,322

b) University	Freehold Land and Buildings £000	Lease Premium £000	Assets under construction £000	Fixtures, Fittings and Equipment £000	Total £000
Cost/valuation					
At beginning of year	497,923	5,400	96,320	165,528	765,171
Additions at cost	13,516	-	68,519	7,286	89,321
Transfers between categories	95,315	-	(94,887)	-	428
Disposals	-	-	-	(3,952)	(3,952)
At year end	606,754	5,400	69,952	168,862	850,968
Depreciation					
At beginning of year	83,898	666	-	122,551	207,115
Charge for the year	13,742	74	-	12,076	25,892
Disposals	-	-	-	(3,634)	(3,634)
At year end	97,640	740	-	130,993	229,373
Net Book Value					
At year end	**509,114**	**4,660**	**69,952**	**37,869**	**621,595**
At beginning of year	414,025	4,734	96,320	42,977	558,056

Transfers between categories includes £0.4million net cost of properties reclassified from fixed asset investments.

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 subject to the requirement to test assets for impairment.

Land and buildings with a net book value of £17.6million (2007: £18.3million) are the subject of security granted in respect of certain bank loans as disclosed in note 20 to the financial statements.

At 31 July 2008, freehold land and buildings included £4.4million (2007: £4.4million) in respect of freehold land which is not depreciated.

Notes to the financial statements *continued*

11 Tangible fixed assets (continued)

Heritage assets

Included within fixtures, fittings and equipment are heritage assets at a cost of £0.3million. These comprise in the main a collection of art work purchased by the Whitworth Art Gallery. Heritage assets held at cost or valuation are not depreciated due to their indeterminate economic life and high residual value.

The University also holds heritage assets that are not capitalised as, due to their unique nature, reliable information on cost or valuation is not readily available. This is owing to the lack of information on original purchase cost and the fact that these assets are not readily realisable. These collections are therefore not reported as assets in the balance sheet, other than recent purchases which are reported at cost. All costs incurred in relation to preservation and conservation are expensed as incurred. Key heritage assets held by the University fall into the following categories:

Whitworth Art Gallery, The Manchester Museum and Manchester Medical Museum

Whitworth Art Gallery houses and displays collections including flat textiles ranging from 3rd Century AD to the present day; 17th century to modern day wallpapers; selections of prints, pre-1880 watercolours and modern art and sculpture collections. The Manchester Museum houses and displays various artefacts and fossils, in particular it has a substantial collection of ancient Egyptian artefacts as part of its archaeology collection. It also houses and displays collections in the fields of botany, anthropology and palaeontology as well as collections of rocks and minerals for example. The Manchester Medical Museum houses and displays past medical and nursing equipment, instruments and apparatus and some archival material.

Historic buildings: John Rylands library Deansgate and Tabley House

John Rylands library at Deansgate, Manchester is a Grade 1 listed building from the late 1800s styled in Victorian Gothic architecture. The building also houses and displays a rare collection of ancient books and manuscripts, including the oldest known piece of the New Testament and medieval manuscripts. The University also owns Tabley House, an 18th century Palladian mansion in Cheshire. The house is let on a long-lease of 125 years to a third party. Part of the house is open to the public and houses and displays various painting and furniture collections from that era.

Jodrell Bank

The University owns the 76 metre Lovell Telescope sited at Jodrell Bank in Cheshire. It was built in 1957 and remains one of the most powerful radio telescopes in the world.

12 Intangible assets

	Goodwill Consolidated £000	University £000
Cost		
At beginning of year	403	-
Additions	1	-
Disposals	(310)	-
At year end	94	-
Amortisation		
At beginning of year	143	-
Disposals	(115)	-
Charge in year	9	-
At year end	37	-
Net book value		
At year end	**57**	-
At beginning of year	260	-

13 Investments within fixed assets

	Consolidated		University	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Movement in the year				
Balance at beginning of year	**26,047**	72,470	**33,016**	83,520
Additions	**823**	60	**62**	-
Disposals	**(316)**	(54,278)	**(250)**	(54,256)
Amounts provided on unquoted shares during the year	**(745)**	(351)	**(2,230)**	(10)
Net transfers (to)/from tangible fixed assets	**(428)**	-	**(428)**	-
Transfer from current asset investments	**739**	-	**739**	-
Net (depreciation)/appreciation including reinvested profits on sales	**7,636**	8,146	**6,937**	3,762
Balance at year end	**33,756**	26,047	**37,846**	33,016
Analysis of closing balance				
Other fixed interest securities	**1,983**	1,989	**1,983**	1,989
UK industrial and commercial securities	**5,880**	6,317	**5,880**	6,317
Overseas industrial and commercial securities	**3,582**	4,025	**3,582**	4,025
Property	**12,945**	5,000	**12,945**	5,000
Cash Instruments	**881**	68	**881**	68
Cash held with investment managers	**869**	98	**868**	98
Asset disposal proceeds receivable	**-**	1,670	**-**	1,670
Interests in subsidiary undertakings (note 13a)	**-**	-	**7,710**	9,849
Interests in associated undertakings (note 13b)	**7,287**	6,585	**-**	-
Loan to Sugden Sports Trust	**-**	-	**3,705**	3,705
Other investments	**205**	171	**168**	171
Unquoted shares	**124**	124	**124**	124
Total investments within fixed assets	**33,756**	26,047	**37,846**	33,016
Investments at cost	**16,318**	14,311	**28,814**	27,534

The asset proceeds receivable in the prior year relate to the sale of Tabley Estate. The proceeds were received on 8 August 2007.

The investment properties were revalued on an open market basis as at 31 July 2008 by an external valuer, GVA Grimley Ltd which is registered with the Royal Institution of Chartered Surveyors. The valuation has been performed in accordance with the RICS Valuation Standards (6th Edition).

The investment properties that have been revalued comprise retail units within the Precinct Centre, Thorncliffe House, Horniman House and Ladybarn House. Their original cost is £2.5 million and they have been revalued at £11.3 million, therefore increasing the revaluation reserve by £8.8 million cumulative.

Notes to the financial statements *continued*

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 2008 £	2007 £	Description
Manchester Innovation Holdings Limited	100	**4,143,092**	4,143,092	Holding company
Manchester Innovation Limited	100	**-**	-	Construction of a biotech incubator building
Manchester Technology Developments Limited	100	**-**	-	Not trading
Control Technology Centre Limited	100	**-**	-	Not trading
The Manchester Incubator Company Limited	100	**-**	-	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	**3,336,153**	5,538,100	Holding company
UVL Investments Limited	100	**-**	-	Holding of investments in spin off companies
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	**-**	-	Not trading
The University of Manchester Venture Fund Management Ltd	100	**5,135**	5,135	Fund Management
UMIST Ventures Fund (General Partner) Limited	100	**-**	-	Dormant
UMIST Ventures Fund (Carried Interest Partner) Limited	100	**-**	-	Dormant
Internet Facilitators Limited	-	**-**	70	Provision of facilities for internet services - sold August 2007
Manchester Informatics Limited	100	**100**	100	Provision of consultancy services
Manpharm Limited	-	**-**	1	Dissolved 19 February 2008
Visual Automation Limited	100	**2**	2	Provision of consultancy services
Flow Science Limited	100	**-**	-	Dissolved 6 August 2008
Manchester Technology Fund Limited	100	**50,000**	50,000	Fund Management
The University of Manchester Intellectual Property Limited	100	**50,000**	50,000	Management of intellectual property
UMIP UPF Limited	100	**-**	-	Investment in the UMIP Premier Fund
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 Licensing Company Limited	100	**1,000**	-	Incorporated 18 July 2008
The University of Manchester Incubator Company Limited	100	**1**	1	Management of University Incubator Buildings
MBS Incubator Limited	56	**-**	-	Provision of business support services
MBSI Portfolio Limited	100	**-**	-	Owns and sells shares in incubator companies
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)	-	**-**	-	Dissolved 27 March 2007
Vumpine Limited	50	**50**	50	Dormant
UMSS Limited	100	**2**	2	To undertake the duty of trustee of UMSS
MBS Worldwide Limited (formerly BME Limited)	100	**124,288**	62,144	Provision of distance learning
The University of Manchester Ophthalmic Services Limited	100	**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	**-**	-	Dissolved 7 September 2006
		7,710,206	9,849,080	

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.

All subsidiary undertakings prepare statutory accounts to the same year end date as the University.

13 Investments within fixed assets (continued)

b) Investments in associated undertakings

The University and Group had the following associated undertakings as at 31 July 2008:

Name of associate	Class of share capital held	Proportion held by the University	Proportion held by the Group	Share of net assets/ (liabilities) 2008 £000	Nature of business
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	28%	28%	4,139	Ownership and management of buildings housing technology based businesses
One Central Park Limited Financial year end 31 July	£1 ordinary	20%	20%	3,187	Ownership and management of buildings to operate education and incubation services
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%	-	Support for the next super computer
Oxford Road Corridor Development Partnership Financial year end 31 March	CLG	33%	33%	(43)	Incorporated 2 July 2007
				7,287	

The associated companies are accounted for using the equity method.

Two associates have a different year end from the University because of the requirements of the other shareholders of those associates.

Notes to the financial statements *continued*

14 Endowment assets

	Consolidated 2008 £000	Consolidated Restated 2007 £000	University 2008 £000	University Restated 2007 £000
Movement in the year				
Balance at beginning of year	**142,436**	129,863	**142,436**	129,863
New endowments including unreleased income earned on capital	**6,755**	1,391	**6,755**	1,391
Disposals	**-**	(16,313)	**-**	(16,313)
Net (depreciation)/appreciation including reinvested profits on sales	**(11,324)**	27,495	**(11,324)**	27,495
Balance at year end	**137,867**	142,436	**137,867**	142,436
Analysis of closing balance				
British government securities	**438**	338	**438**	338
Other fixed interest securities	**17,703**	15,871	**17,703**	15,871
UK industrial and commercial securities	**53,056**	51,003	**53,056**	51,003
Overseas industrial and commercial securities	**32,163**	32,404	**32,163**	32,404
Property	**14,241**	16,510	**14,241**	16,510
Cash Instruments	**1,265**	535	**1,265**	535
Cash held with investment managers	**7,052**	794	**7,052**	794
Bank and building society deposits and uninvested bank balances	**11,949**	11,468	**11,949**	11,468
Endowment asset disposal proceeds receivable	**-**	13,513	**-**	13,513
Total endowment assets	**137,867**	142,436	**137,867**	142,436
Endowment assets at cost	**101,664**	97,999	**101,664**	97,999

The prior year figures have been restated as a result of a prior year adjustment to reflect the revised requirements of the SORP 2007 in relation to endowments. This prior year adjustment has reduced endowment assets by £3,089,000 and further details are given in note 23.

15 Debtors: amounts falling due within one year

	Consolidated 2008 £000	Consolidated 2007 £000	University 2008 £000	University 2007 £000
Trade debtors	**26,659**	28,997	**22,124**	28,732
Accrued income on research grants and contracts	**42,004**	49,593	**42,004**	49,593
Prepayments and accrued income	**32,985**	47,268	**31,318**	45,807
Amounts due from subsidiary companies	**-**	-	**7,939**	-
Amounts due from associate companies and spin outs	**405**	-	**387**	1,384
Balance at year end	**102,053**	125,858	**103,772**	125,516

16 Debtors: amounts falling due after more than one year

	Consolidated 2008 £000	Consolidated 2007 £000	University 2008 £000	University 2007 £000
Loan to University of Manchester Students' Union	**98**	122	**98**	122
Amounts due from subsidiary companies	**-**	-	**9,003**	7,851
Amounts due from associate companies and spin outs	**179**	230	**179**	230
Balance at year end	**277**	352	**9,280**	8,203

17 Investments

	Consolidated 2008 £000	Consolidated Restated 2007 £000	University 2008 £000	University Restated 2007 £000
Bank deposits repayable after due notice	**76,549**	106,532	**76,549**	106,532
Bank deposits repayable on demand	**9,800**	18,550	**9,800**	18,550
Balance at year end	**86,349**	125,082	**86,349**	125,082

The prior year figures have been restated as a result of a prior year adjustment to reflect the revised requirements of the SORP 2007 in relation to endowments. This prior year adjustment has increased University current asset investments by £3,089,000 and further details are given in note 23.

Deposits with more than 24 hours maturity at the balance sheet date are held with banks and building societies, all of which operate in the London market and the majority are licensed by the FSA. The interest rates for these deposits are fixed for the duration of the deposit at the time of placement.

At 31 July 2008, the weighted average interest rate of these fixed rate deposits was 5.54% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 64 days. The fair value of these deposits was not materially different from the book value.

18 Creditors: amounts falling due within one year

	Consolidated 2008 £000	Consolidated 2007 £000	University 2008 £000	University 2007 £000
Bank overdraft	**8,796**	4,475	**8,796**	4,475
Bank loans (note 20)	**5,164**	3,489	**5,164**	3,391
Loans other than bank loans (note 20)	**1,706**	-	**-**	-
Trade creditors	**13,675**	15,679	**12,789**	15,173
Obligations under hire purchase contracts	**4**	17	**-**	-
Social security and other taxation payable	**10,292**	10,326	**9,930**	9,946
Amounts owed to group undertakings	**-**	-	**3,419**	1,376
Other creditors	**16,837**	13,475	**14,447**	12,420
Deferred income on research grants and contracts	**50,674**	58,409	**50,674**	58,409
Accruals and deferred income	**81,840**	73,639	**77,621**	71,183
Balance at year end	**188,988**	179,509	**182,840**	176,373

19 Creditors: amounts due after more than one year

	Consolidated 2008 £000	Consolidated 2007 £000	University 2008 £000	University 2007 £000
Bank loans (note 20)	**89,565**	95,528	**89,565**	95,122
Loans other than bank loans (note 20)	**110,000**	101,706	**110,000**	100,000
Obligation under hire purchase contracts	**3**	65	**-**	-
Deferred grant income	**-**	1	**-**	-
Balance at year end	**199,568**	197,300	**199,565**	195,122

20 Borrowings

a) Bank and other loans

	Consolidated 2008 £000	Consolidated 2007 £000	University 2008 £000	University 2007 £000
Bank and other loans are repayable as follows:				
In one year or less	**6,870**	3,489	**5,164**	3,391
Between one and two years	**5,993**	6,488	**5,993**	4,718
Between two and five years	**19,163**	18,449	**19,163**	18,228
In five years or more	**174,409**	172,297	**174,409**	172,176
	206,435	200,723	**204,729**	198,513
Included within creditors: amounts falling due within one year	**(6,870)**	(3,489)	**(5,164)**	(3,391)
	199,565	197,234	**199,565**	195,122

Secured bank loans

Bank loans with an interest rate of LIBOR plus 0.9%, repayable by instalments falling due between 2008 and 2010 totalling £0.8 million (2007: £1.1m) are secured on the Manchester School of Management Building.

Euro bank loans with an interest rate of Euro LIBOR plus 0.9%, repayable by instalments falling due between 2008 and 2010 totalling £0.9 million (2007: £1.0m) are secured on the Manchester School of Management Building.

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2008 and 2021 totalling £24 million (2007: £24.7m) are secured on various student residences.

Bank Loans with an interest rate of 8.4%, repayable by instalments falling due between 2008 and 2017 totalling £1.6 million (2007: £1.8m) are secured on Ronson Hall.

In 2007, bank loans with an interest rate of Base rate plus 1.5%, repayable by instalments falling due between 2007 and 2013 totalling £0.5 million were secured on the assets of Internet Facilitators Limited (a subsidiary). This subsidiary was sold on 3 August 2007.

Unsecured bank and other loans

Bank loans with an interest rate of 6.1%, repayable by instalments falling due between 2008 and 2026 totalling £17.9 million (2007: £18.4m).

Bank Loans with an interest rate of 5.2%, repayable by instalments falling due between 2008 and 2019 totalling £23.9 million (2007: £25.0m).

Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2010 and 2022 totalling £20.0 million (2007: £20.0m).

Bank Loans with an interest rate of LIBOR plus spread, repayable by instalments falling due between 2008 and 2014 totalling £5.6 million (2007: £6.5m).

Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £100.0 million (2007: £100.0m).

Other loans with an interest rate of 0%, repayable by one repayment falling due in 2014 totalling £10.0 million (2007: £nil).

Other loans with an interest rate of 6.50%, repayable by one repayment falling due in 2008 totalling £1.7 million (2007: £1.7m).

Notes to the financial statements *continued*

20 Borrowings (continued)

	Consolidated		University	
	2008	2007	**2008**	2007
b) Hire purchase loans	**£000**	£000	**£000**	£000
Hire purchase loans are repayable as follows:				
In one year or less	**4**	17	**-**	-
Between one and two years	**3**	65	**-**	-
	7	82	**-**	-

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

21 Provisions for liabilities and charges

a) Consolidated	**Early retirement/ voluntary severance £000**	**Other taxes £000**	**Enhanced pension scheme £000**	**Deferred tax £000**	**Total £000**
Balance at beginning of year	13,263	633	2,308	522	16,726
Utilised during the year	(31,916)	-	(185)	(86)	(32,187)
Transfer from/(to) income and expenditure account	20,846	(283)	178	-	20,741
Balance at year end	**2,193**	**350**	**2,301**	**436**	**5,280**

Deferred tax

The elements of deferred tax are as follows:	**2008**	2007
	£000	£000
Difference between accumulated depreciation and capital allowances	**594**	692
Other timing differences	**(158)**	(170)
Balance at year end	**436**	522

b) University	**Early retirement/ voluntary severance £000**	**Other taxes £000**	**Enhanced pension scheme £000**	**Total £000**
Balance at beginning of year	13,263	633	2,308	16,204
Utilised during the year	(31,916)	-	(185)	(32,101)
Transfer from/(to) income and expenditure account	20,846	(283)	178	20,741
Balance at year end	**2,193**	**350**	**2,301**	**4,844**

Early retirement and voluntary severance scheme
The early retirement/voluntary severance scheme provision is in respect of future committed payments due to employees at the balance sheet date which are due to be paid in early 2008-09.

Other taxes
This provision is in respect of VAT due in relation to the Weston Building. In the previous year it also included a provision for Stamp Duty Land Tax liabilities which has been subsequently established as not payable.

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

The assumptions for calculating the provision are as follows:

	2008	2007
	£000	£000
Discount rate	**6.7%**	5.8%
Inflation	**3.8%**	3.3%

The mortality assumption for the current year is that life expectancy is in line with PMA/PFA 92 tables projected to calendar year 2017. This is the same basis that was used in the most recent funding valuation of the Greater Manchester Pension Fund as at 31 March 2007.

22 Deferred capital grants

a) Consolidated	Funding Council £000	Other grants Restated £000	Total Restated £000
Balance at beginning of year			
Buildings	190,015	132,723	322,738
Equipment	2,733	2,213	4,946
Donated assets	-	313	313
Total	192,748	135,249	327,997
Grants received/receivable			
Buildings	20,052	(435)	19,617
Equipment	4,808	11,240	16,048
Donated Assets	-	-	-
Total	24,860	10,805	35,665
Released to income and expenditure			
Buildings	4,374	4,120	8,494
Equipment	449	2,233	2,682
Donated assets	-	113	113
Total	4,823	6,466	11,289
Balance at year end			
Buildings	205,693	128,168	333,861
Equipment	7,092	11,220	18,312
Donated assets	-	200	200
Total	**212,785**	**139,588**	**352,373**

b) University	Funding Council £000	Other grants Restated £000	Total Restated £000
Balance at beginning of year			
Buildings	190,015	111,477	301,492
Equipment	2,733	2,213	4,946
Donated assets	-	313	313
Total	192,748	114,003	306,751
Grants received/receivable			
Buildings	20,052	(435)	19,617
Equipment	4,808	11,240	16,048
Donated assets	-	-	-
Total	24,860	10,805	35,665
Released to income and expenditure			
Buildings	4,374	3,662	8,036
Equipment	449	2,233	2,682
Donated assets	-	113	113
Total	4,823	6,008	10,831
Balance at year end			
Buildings	205,693	107,380	313,073
Equipment	7,092	11,220	18,312
Donated assets	-	200	200
Total	**212,785**	**118,800**	**331,585**

Other grants within deferred capital grants have been restated to include donated assets in accordance with SORP 2007. These were previously included within the revaluation reserve. There is no impact on the income and expenditure account as a result of this restatement.

Notes to the financial statements *continued*

23 Endowments

Consolidated and University	Unrestricted Permanent Restated £000	Restricted Permanent Restated £000	Total Permanent Restated £000	Restricted Expendable Restated £000	2008 Total Restated £000	2007 Total Restated £000
Restated Balances						
Capital	17,277	95,603	**112,880**	16,751	**129,631**	117,802
Accumulated income	-	10,808	**10,808**	1,997	**12,805**	12,061
At 1 August restated	17,277	106,411	**123,688**	18,748	**142,436**	129,863
New endowments	49	3,264	**3,313**	2,590	**5,903**	647
Dividends reinvested	52	291	**343**	46	**389**	-
(Depreciation)/appreciation of endowment assets	(1,517)	(8,473)	**(9,990)**	(1,334)	**(11,324)**	11,182
Investment income	276	2,993	**3,269**	516	**3,785**	3,825
Expenditure for year	(276)	(2,471)	**(2,747)**	(575)	**(3,322)**	(3,081)
Balance at year end	**15,861**	**102,015**	**117,876**	**19,991**	**137,867**	**142,436**
Representing:						
Capital	15,861	90,685	**106,546**	18,053	**124,599**	129,631
Accumulated Income	-	11,330	**11,330**	1,938	**13,268**	12,805
Total	**15,861**	**102,015**	**117,876**	**19,991**	**137,867**	**142,436**

The prior year figures and current and prior year disclosures have been restated to reflect the revised requirements of the new SORP 2007: Accounting for Further and Higher Education. The change relates to the revised classification of endowments between unrestricted permanent, restricted permanent and restricted expendable and the enhanced definitions of these categories. This change in accounting policy has given rise to a prior year adjustment totalling £3,089,000 which comprises an amount of £1,963,000 of non-restricted donations previously accounted for as endowments and also accumulated income of £1,126,000 in respect of unrestricted endowments previously treated as restricted.

Set out below are details of material charitable funds that are over 1% of the value of total endowment funds.

	Capital value at 31 July 2008 £000	Opening accumulated income £000	Investment income £000	Expenditure £000	Closing accumulated income £000	Date received
Hallsworth Fund	**17,681**	823	593	(646)	**770**	1944
Simon Fund	**9,817**	559	327	(332)	**554**	1943
Oncology department fund	**8,696**	135	276	(285)	**126**	1975
John Rylands general library fund	**4,704**	817	179	(374)	**622**	1972
John Rylands research institute fund	**4,332**	681	162	-	**843**	1972
Student Services Centre - prize and scholarship fund	**4,742**	(201)	147	-	**(54)**	2001
National fund for research into crippling diseases	**3,661**	107	118	(133)	**92**	1974
Dr Mont Follick professorship in phonetics	**2,609**	333	94	(147)	**280**	1962
BNFL permanent endowment	**2,496**	-	-	-	**-**	2008
BNFL expendable endowment	**2,496**	-	-	-	**-**	2008
Simon Fund (special) 1960	**2,267**	-	78	(51)	**27**	1960
Frederick Craven Moore Fund	**2,182**	131	73	(2)	**202**	1975
Research office - postgraduate prize and scholarship fund	**1,121**	445	53	(14)	**484**	2001
Hulme Trust	**1,453**	-	2	(31)	**(29)**	1881
	68,257	3,830	2,102	(2,015)	**3,917**	

The capital is invested through investment managers. The value is stated inclusive of investment growth/diminution.

Hallsworth Fund
This restricted permanent endowment is to assist and advance the study of Political Economy by the establishment of Research Fellowships and Visiting Professorships. It also provides resources to assist projects of research in Political Economy and the publication of books and documents in that field. The original governing document of this endowment was altered by the Charity Commission in 1998. The management and administration of this Fund is run by the Hallsworth Committee which is appointed as trustee by the Board of Governors.

Simon Fund
This restricted permanent endowment, operated by the Simon Fund Committee, primarily funds the appointment of Fellowships and Visiting Professorships in the field of Social Sciences; Professorial Industrial and Professorial Fellowships; Engineering Research Scholarships and a grant for entertainment to academic departments and Halls of Residence. Its purpose is also to promote research and teaching in the Social Sciences and a substantial portion of the income is to be used for Senior Fellowships. It also funds various ad hoc projects approved by the Simon Fund Committee.

23 Endowments (continued)

Oncology department fund
This restricted permanent endowment is used to fund a Chair in Oncology, the donor being the Cancer Research Campaign.

John Rylands general library fund
This expendable endowment is used to support the purchase of books for the John Rylands library.

John Rylands research institute fund
This restricted endowment is similarly constituted and again is to support the purchase of books for the library.

Student Services Centre - prize and scholarship fund
This expendable endowment was set up by the Charity Commissioners in 2001 following the merger of a number of small endowments which could no longer be used. It was split 75% this Fund and 25% the Postgraduate Prize and Scholarship Fund (see below). The object of the charity is to further the education of students attending The University of Manchester by the award of prizes, scholarships or other suitable reward.

National fund for research into crippling diseases
This restricted endowment was established in 1974 with the receipt of funds from the National Fund for Research into Crippling Diseases with the purpose of establishing a Chair of Preventative Paediatric Research. Since then, the income has continued to support this field of medical research.

Dr Mont Follick professorship in phonetics
This restricted endowment was established in 1962 under the Will of the late Dr Mont Follick. Its purpose is to fund a Chair of Comparative Philology.

British Nuclear Fuels Ltd (BNFL) permanent endowment
This permanent endowment from BNFL is to support a series of Chair (professorial) appointments in nuclear research.

British Nuclear Fuels Ltd (BNFL) expendable endowment
This expendable endowment is to provide infrastructure support for the BNFL Chair appointments for a period of no less than 15 years.

Simon Fund (special) 1960
This unrestricted endowment established in 1960 put the income at the disposal of the Chairman of Council, the Treasurer, Lord Simon of Wythenshawe and the Vice-Chancellor for such purposes as they shall from time to time determine for the general benefit of the University.

Frederick Craven Moore Fund
This restricted endowment was established in 1975 under the Will of Mrs Marjory Moore for the advancement of clinical medicine by research and teaching. The income is used to fund Fellowships for research in clinical medicine, scholarships for study or research in clinical medicine and grants in aid of research in clinical medicine and in support of the study and teaching of clinical medicine.

Research office - postgraduate prize and scholarship fund
This expendable endowment was set up by the Charity Commissioners in 2001 following the merger of a number of small endowments. It was split 75% Prize and Scholarship Fund (see above) and 25% this Fund. The object of the charity is to further the education of students attending The University of Manchester by the award of prizes, scholarships or other suitable reward.

Hulme Trust
This unrestricted endowment funded by the Hulme Trust Estates (Educational) charity can be spent at the discretion of the Vice-Chancellor and for the general purposes of the University.

The following restricted permanent charitable funds currently show a deficit on their accumulated income balances as a consequence of expenditure exceeding the income earned to date on these endowments. Expenditure on these funds has been halted until such time as sufficient income has been earned to ensure it is enough to cover twelve months' planned expenditure.

Charitable funds	**Capital £000**	**Accumulated income balance £000**
H Raby bequest fund 1987	273	(3)
Zochonis fellowship in aids research 1990	67	(29)
Zochonis student education fund (1987)	52	(2)
Geigy Scholarship	46	(1)
Alice Platt exhibition fund	44	(8)
Joseph Greenall Harrison scholarship	39	(5)
Pain relief fellowship	37	(4)
TY Shen Fund	19	(4)
Edmund Roscoe Scholarship in history	15	(10)
Politics international peace lecture fund	12	(1)
Jessie Ormerod scholarship	10	(1)
Whitworth Art Gallery fund	274	(4)
Whitworth Art Gallery Trust fund	1,069	(15)
Staff pension fund	30	(1)
LS Wassermann anatomy research	6	(4)
WW Smith fund (1975) for mechanical engineering	42	(7)
GMC exhibition fund	42	(2)
Other charitable funds with debit balances of <£500	65	(1)
	2,142	(102)

Notes to the financial statements *continued*

24 Movement on General reserves

	Consolidated		University	
		Restated		Restated
	2008	2007	**2008**	2007
Income and Expenditure account	**£000**	£000	**£000**	£000
Balance at beginning of year	**154,034**	127,524	**155,583**	131,500
Prior year adjustment	**-**	3,089	**-**	3,089
Balance at beginning of year - as restated	**154,034**	130,613	**155,583**	134,589
(Deficit)/surplus retained for the year	**(17,870)**	3,342	**(17,484)**	855
Transfer from revaluation reserve	**1,170**	21,643	**1,170**	21,643
Pension scheme transferred from subsidiary	**-**	-	**470**	-
Add back pension deficit	**(1,469)**	(1,564)	**(1,469)**	(1,504)
Balance at year end	**135,865**	154,034	**138,270**	155,583
Pension reserve				
Balance at beginning of year	**(14,235)**	(12,839)	**(13,765)**	(11,754)
Prior year adjustment	**-**	(1,362)	**-**	(1,362)
Balance at beginning of year - as restated	**(14,235)**	(14,201)	**(13,765)**	(13,116)
Pension scheme transferred from subsidiary	**-**	-	**(470)**	-
Actuarial gain/(loss) on pension schemes	**2,637**	(1,598)	**2,637**	(2,153)
Deficit retained within reserves	**1,469**	1,564	**1,469**	1,504
Balance at year end	**(10,129)**	(14,235)	**(10,129)**	(13,765)

Prior year adjustments:

Income and expenditure account

The prior year adjustment arises from the revised requirements of SORP 2007 in relation to the accounting requirements for endowments and donations. This change in accounting policy has given rise to a prior year adjustment as at 31 July 2006 totalling £3,089,000 which comprises an amount of £1,963,000 of non-restricted donations previously accounted for as endowments and also accumulated income of £1,126,000 in respect of unrestricted endowments previously treated as restricted. This change in accounting policy has not given rise to any changes to the income and expenditure account for the year ended 31 July 2007.

Pension reserve:

The prior year adjustment is in relation to the revised requirements of FRS 17 whereby pension scheme assets should be valued at the bid price and not mid price. The impact is to increase the pension scheme deficits by £1,362,000 for the UMSS and GMPF schemes combined as at 31 July 2006 and by a further £319,000 as at 31 July 2007.

The total net impact of these two prior year adjustments is to increase general reserves by £1,408,000 for the year ended 31 July 2007 and £1,727,000 for the year ended 31 July 2006.

25 Revaluation reserve

a) Consolidated	Donated assets Restated £000	Land and buildings £000	Investments within fixed assets £000	Total £000
Revaluations				
At beginning of year	-	678	9,876	10,554
Revaluation in year	-	-	7,636	7,636
Transfer to income and expenditure account on disposal	-	-	(1,157)	(1,157)
At year end	-	678	16,355	17,033
Contribution to depreciation				
At beginning of year	-	185	-	185
Transfer to income and expenditure account	-	13	-	13
At year end	-	198	-	198
Revaluation reserve				
At year end	**-**	**480**	**16,355**	**16,835**
At beginning of year	-	493	9,876	10,369

b) University	Donated assets Restated £000	Land and buildings £000	Investments within fixed assets £000	Total £000
Revaluations				
At beginning of year	-	678	5,492	6,170
Revaluation in year	-	-	6,937	6,937
Transfer to income and expenditure account on disposal	-	-	(1,157)	(1,157)
At year end	-	678	11,272	11,950
Contribution to depreciation				
At beginning of year	-	185	-	185
Transfer to income and expenditure account	-	13	-	13
At year end	-	198	-	198
Revaluation reserve				
At year end	**-**	**480**	**11,272**	**11,752**
At beginning of year	-	493	5,492	5,985

The revaluation reserve has been restated to exclude donated assets in accordance with SORP 2007. These are now included within deferred capital grants. There is no impact on the income and expenditure account as a result of this restatement.

26 Minority interests

	Consolidated 2008 £000	Consolidated 2007 £000
At beginning of year	**399**	132
Minority interest in subsidiary undertakings' results for the year	**(91)**	-
Minority interests not previously consolidated	**-**	298
Minority interest's share of subsidiaries disposed of	**(36)**	(31)
At year end	**272**	399

Notes to the financial statements *continued*

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

	Consolidated 2008 £000	2007 £000
Surplus/(deficit) on continuing operations after depreciation of fixed assets at cost/valuation and before exceptional items and taxation	235	(12,402)
Exceptional items (note 10)	(17,651)	16,588
(Deficit)/surplus on continuing operations after depreciation of fixed assets at cost/valuation and exceptional items and before taxation	(17,416)	4,186
Depreciation	26,835	22,059
Amortisation of goodwill	9	75
Loss on disposal of intangible assets	195	-
Deferred capital grants released to income	(11,289)	(13,687)
Investment income	(18,773)	(13,980)
Transfers to endowments	(463)	(744)
Deficit/(surplus) on disposal of fixed assets	978	(31,145)
Surplus on disposal of business	(3,195)	-
Surplus on disposal of fixed asset investments	(941)	(15,100)
Interest payable	11,566	11,477
Interest receivable	(1,567)	(336)
Difference between pension charge and cash contributions	1,824	2,224
Minority interests	36	308
Decrease/(increase) in stocks	267	(165)
Decrease/(increase) in long term debtors	75	(138)
Decrease in debtors due within one year	4,129	6,539
Increase in creditors	5,041	18,214
(Decrease)/increase in provisions	(10,615)	8,532
Net cash outflow from operating activities	(13,304)	(1,681)

28 Returns on investments and servicing of finance

	Consolidated 2008 £000	Restated 2007 £000
Income from endowments	3,785	3,825
Income from short term investments	6,410	3,305
Income from donations	4,511	3,014
Dividend income from general fund investments	740	-
Other interest received	1,567	336
Interest paid	(11,532)	(11,477)
Net cash inflow/(outflow) from returns on investments and servicing of finance	5,481	(997)

29 Capital expenditure and financial investment

	Consolidated 2008 £000	2007 £000
Purchase of tangible fixed assets	(90,181)	(139,258)
Intangible assets	-	(170)
Net acquisition of fixed asset investments	(2,682)	(60)
Net acquisition of endowment assets	(21,311)	(265)
Receipts from sale of tangible fixed assets	-	48,803
Receipts from sale of fixed asset investments	20,362	50,221
Receipts from sale of endowment assets	15,606	-
Deferred capital grants received	35,665	61,252
Endowments received	6,756	1,106
Net cash (outflow)/inflow from capital expenditure and financial investment	(35,785)	21,629

30 Management of liquid resources

	Consolidated 2008 £000	2007 £000
Withdrawals/(placements) on deposit	48,533	(37,855)
Net cash inflow/(outflow) from management of liquid resources	48,533	(37,855)

31 Financing

	Consolidated 2008 £000	2007 £000
New loans	**10,000**	20,471
Capital repayments	**(4,288)**	(2,123)
Capital element of hire purchase repayments	**(75)**	100
Net cash inflow from financing	**5,637**	18,448

32 Analysis of changes in net debt

Consolidated	Restated 1 August 2007 £000	Cash flows £000	Non-cash changes £000	31 July 2008 £000
Bank overdraft	(4,475)	(4,321)	-	**(8,796)**
Cash at bank	11,511	5,425	-	**16,936**
Bank deposits repayable on demand	-	9,800		**9,800**
Uninvested bank balances - fixed asset investments (note 13)	98	(98)	-	**-**
Endowment asset investments (note 14)	12,262	(313)	-	**11,949**
	19,396	10,493	-	**29,889**
Debt due within one year	(3,489)	3,882	(7,263)	**(6,870)**
Debt due after one year	(197,234)	(9,594)	7,263	**(199,565)**
Hire purchase amounts due within one year	(17)	13	-	**(4)**
Hire purchase amounts due after one year	(65)	62	-	**(3)**
Bank deposits repayable after due notice	125,082	(48,533)	-	**76,549**
Net debt	**(56,327)**	**(43,677)**	-	**(100,004)**

The prior year figures have been restated as a result of a prior year adjustment to reflect the revised requirements of the SORP 2007 in relation to endowments. This prior year adjustment has increased University current asset investments by £3,089,000 and reduced endowment asset investments by the same amount.

33 Cash flow relating to exceptional items

Operating cash flows include an outflow of £31.9million (2007:£6.0million) in respect of expenditure incurred as a result of the early retirement / voluntary severance scheme as referred to within note 10.

Included within capital expenditure and financial investment cash flows are cash receipts of £nil (2007: £46.3million) in relation to disposal proceeds of certain fixed assets as referred to within note 10.

34 Pension Schemes

a) Pension schemes - summary
According to the requirements of FRS 17 'Retirement Benefits', the following pension scheme surpluses/(deficits) and actuarial (losses)/gains are included in the financial statements:

	Consolidated 2008 £000	Consolidated 2007 Restated £000	University 2008 £000	University 2007 Restated £000
Balance sheet - Pension scheme surpluses/(deficits)				
University of Manchester Superannuation Scheme	**1,284**	(14,503)	**1,284**	(14,503)
Greater Manchester Pension Fund	**(11,342)**	738	**(11,342)**	738
Manchester Innovation Limited Group Pension Scheme	**(71)**	(470)	**(71)**	-
	(10,129)	(14,235)	**(10,129)**	(13,765)
Statement of total recognised gains and losses - Actuarial (losses)/gains				
University of Manchester Superannuation Scheme	**13,689**	(10,357)	**13,689**	(10,357)
Greater Manchester Pension Fund	**(11,378)**	8,204	**(11,378)**	8,204
Manchester Innovation Limited Group Pension Scheme	**326**	555	**326**	-
	2,637	(1,598)	**2,637**	(2,153)

The prior year pension scheme deficits and actuarial (losses)/ gains have been restated in accordance with the revised requirements of FRS 17 whereby pension scheme assets should be valued at the bid price and not mid price. The impact is to increase pension scheme deficits by £1,362,000 for the UMSS and GMPF schemes combined for the year ended 31 July 2006 and a further £319,000 as at 31 July 2007. This is recorded as an adjustment to the actuarial (losses)/gains within the Statement of total recognised gains and losses.

Notes to the financial statements *continued*

34 Pension schemes (continued)

The four principal pension schemes for the University's staff are the Universities' Superannuation Scheme, the NHS Pension 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.

b) 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 fund administered by the trustee, Universities Superannuation Scheme Limited. It is not possible for each member institution to identify its share of the underlying assets and liabilities of the scheme and therefore, as required by FRS 17, contributions to the scheme are accounted for as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. 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), the rates of increase in salary and pensions and the assumed rates of mortality. 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.

Standard mortality tables were used as follows:

Pre-retirement mortality - PA92 rated down 3 years

Post-retirement mortality - PA 92(c=2020) for all retired and non-retired members

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males - 19.8 years

Females - 22.8 years

At the last full actuarial valuation of the scheme as at 31 March 2005, 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.

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS 17 basis, using a AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The employer contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but it was agreed that the University contribution rate would be maintained at 14% of salaries.

Surpluses or deficits which arise at future valuations may impact on the University'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 University of Manchester was £28.5 million (2007: £27.8 million). This includes £3.6 million (2007: £3.7 million) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14% of pensionable salaries.

34 Pension schemes (continued)

c) NHS Pension Scheme ('NHSPS')

The University of Manchester also participates in the NHSPS which is externally funded and contracted out of the State Second Pension (S2P). The notional assets of NHSPS are assessed by the Government Actuary and the benefits are underwritten by the Government. There are no underlying assets. 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 published actuarial valuation of the scheme was at 31 March 1999. It was assumed that salary increases would be 6.0% per annum (plus an additional allowance for increases in salary due to age and promotion in line with recent experience) and the valuation rate of return would be 8.0% per annum. It was assumed that the cost of pension increases in the scheme would continue to be met directly from the Exchequer and therefore there was no need to make any assumptions about pension increases for the purposes of this valuation.

The contribution rate payable by the University during the year ended 31 July 2008 was equal to 14% of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the scheme.

The total pension cost for The University of Manchester was £2.6million (2007: £2.6 million). This includes £0.4million (2007: £0.3million) outstanding contributions at the balance sheet date.

d) University of Manchester Superannuation Scheme ('UMSS')

UMSS is a final salary 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 2007 and updated to 31 July 2008 by a qualified independent actuary. The major assumptions used by the actuary (in nominal terms) are detailed below:

The asset values are now valued at bid price instead of mid price in accordance with the revised requirements of FRS 17. This has been accounted for as a prior year adjustment, thereby restating the value of the scheme assets for the prior years. The change in basis of valuation is reported through the reconciliation of the fair value of assets as an actuarial loss and amounts to £998,000 as at 31 July 2006 and a further £286,000 for the year ended 31 July 2007.

To develop the expected long-term rate of return on assets assumptions, the University considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumptions for the portfolio. This resulted in the selection of the 7.06% assumption as at 31 July 2008.

Notes to the financial statements *continued*

34 Pension schemes (continued)

d) University of Manchester Superannuation Scheme ('UMSS') (continued)

Weighted average assumptions used to determine benefit obligations at:

	2008	2007
Rate of increase in salaries	**4.70%**	4.30%
Rate of increase of pensions in payment and deferred pensions	**3.70%**	3.30%
Discount rate	**6.50%**	5.50%
Inflation assumption	**3.70%**	3.30%

Weighted average assumptions used to determine net pension cost for year ended:

	2008
Rate of increase in salaries	**4.30%**
Expected long term return on plan assets	**6.60%**
Discount rate	**5.50%**

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	2008	
	Male	**Female**
Member age (current life expectancy)	**23.1**	**25.6**
Member age 42 (life expectancy at age 62)	**25.1**	**27.5**

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

	2008	**2008 £000**	2007	Restated 2007 £000	2006	Restated 2006 £000
Equities	**8.00%**	**141,959**	7.40%	139,290	7.30%	124,817
Bonds	**5.60%**	**103,711**	5.50%	117,882	5.10%	110,822
Property	**7.90%**	**20,802**	7.40%	24,927	7.30%	21,833
Total market value of assets		**266,472**		282,099		257,472
Actuarial value of liability		**(265,188)**		(296,602)		(262,885)
Total surplus/(deficit) in the scheme		**1,284**		(14,503)		(5,413)
Related deferred tax asset		**-**		-		-
Net pension asset/(liability)		**1,284**		(14,503)		(5,413)

Analysis of the amount charged to operating surplus/(deficit)

	2008 £000	2007 £000
Current service cost	**10,638**	11,499
Total operating charge	**10,638**	11,499

Analysis of net return on pension scheme

	2008 £000	2007 £000
Expected return on pension scheme assets	**18,699**	16,540
Interest on pension liabilities	**(16,386)**	(13,539)
Net return	**2,313**	3,001

34 Pension schemes (continued)

d) University of Manchester Superannuation Scheme ('UMSS') (continued)

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

	2008	2007
	£000	£000
Actual return less expected return on scheme assets	(36,764)	4,714
Experience gains and losses on liabilities	(1,736)	-
Changes in assumptions	52,189	(15,071)
Actuarial gain/(loss) recognised in STRGL	13,689	(10,357)

Reconciliation of fair value of employer assets

	2008	Restated 2007
	£000	£000
Opening fair value of employer assets	282,099	257,472
Expected return on assets	18,699	16,459
Contributions by the employer	10,423	9,765
Contributions by members	3,459	2,925
Actuarial (losses)/gains	(36,764)	4,714
Estimated benefits paid	(11,444)	(9,236)
Closing fair value of employer assets	266,472	282,099

Reconciliation of defined benefit obligation

	2008	2007
	£000	£000
Opening defined benefit obligation	296,602	262,885
Current service cost	10,638	11,499
Interest cost	16,386	13,539
Contributions by members	3,459	2,925
Actuarial (losses)/gains	(50,453)	14,990
Estimated benefits paid	(11,444)	(9,236)
Closing defined benefit obligation	265,188	296,602

The updated actuarial valuation at 31 July 2007 showed an increase in the deficit from £4.4 million to £13.2 million. The University has paid contributions at the rate of 18.75% of members' pensionable pay over the year to 31 July 2008. Contributions are expected to remain at this level pending completion of the Trustee's formal actuarial valuation as at 31 July 2007.

A bank guarantee facility of £40m has been given by one of the University's bankers in favour of UMSS Limited as trustee of The University of Manchester Superannuation Scheme. The guarantee expires on 31 March 2010. After the balance sheet date this guarantee was secured on a number of properties.

History of experience gains and losses

	Year ended 31 July				
	2008	2007	2006	2005	2004
Difference between expected and actual return on scheme assets:					
Amount (£000)	(36,764)	4,714	12,877	21,279	673
Percentage of scheme assets	(14%)	2%	5%	9%	0%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(1,736)	-	(2,622)	8,764	-
Percentage of scheme liabilities	(1%)	0%	(1%)	4%	0%

Notes to the financial statements *continued*

34 Pension schemes (continued)

e) Greater Manchester Pension Fund ('GMPF')

The GMPF is a final salary defined benefit scheme and 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 Metropolitan Borough Council.

The asset values are now valued at bid price instead of mid price in accordance with the revised requirements of FRS 17. This has been accounted for as a prior year adjustment, thereby restating the value of the scheme assets for the prior years. The change in basis of valuation is reported through the reconciliation of the fair value of assets as an actuarial loss and amounts to £364,000 as at 31 July 2006 and a further £33,000 for the year ended 31 July 2007.

A full actuarial valuation was carried out at 31 March 2007 and updated to 31 July 2008 by a qualified independent actuary. The major assumptions used by the actuary are set out below (in nominal terms). As the fund is a multi-employer scheme, the University has less influence over the assumptions used.

	2008	2007
Rate of increase in salaries	**5.30%**	4.80%
Rate of increase in pensions in payment and deferred pensions	**3.80%**	3.30%
Discount rate applied to scheme liabilities	**6.70%**	5.80%
Inflation assumption	**3.80%**	3.30%
Expected return on assets	**7.00%**	7.10%

The mortality assumptions used as at 31 July 2008 are as follows:

Life expectancy is based on the PFA92 and PMA92 tables projected to calendar year 2033 for non pensioners and 2017 for pensioners.
Based on these assumptions, average future life expectancies at age 65 are:

- for current pensioners: 19.6 years for males and 22.5 years for females.
- for future pensioners: 20.7 years for males and 23.6 years for females.

The assets of the GMPF scheme attributable to the University and the expected rates of return were:

	2008	**2008 £000**	2007	Restated 2007 £000	2006	Restated 2006 £000
Equities	**7.80%**	**46,718**	8.00%	50,583	7.70%	47,871
Bonds	**5.70%**	**12,367**	5.20%	12,855	4.70%	12,314
Property	**5.70%**	**6,122**	6.00%	7,911	5.70%	6,944
Cash	**4.80%**	**6,542**	5.10%	7,690	4.80%	5,398
Total market value of assets		**71,749**		79,039		72,527

	2008 £000	2007 £000	2006 £000
Market value of assets	**71,749**	79,039	72,527
Actuarial value of scheme liability	**(83,091)**	(78,301)	(80,230)
Total (deficit)/surplus in the scheme	**(11,342)**	738	(7,703)
Related deferred tax asset	**-**	-	-
Net pension (liability)/asset	**(11,342)**	738	(7,703)

Analysis of the amount charged to operating surplus/(deficit)

	2008 £000	2007 £000
Current service cost	**1,581**	2,140
Past service cost	**1,449**	146
Curtailments and settlements	**-**	24
Total operating charge	**3,030**	2,310

34 Pension schemes (continued)

e) Greater Manchester Pension Fund ('GMPF') (continued)

Analysis of net return on pension scheme

	2008 £000	2007 £000
Expected return on pension scheme assets	5,564	4,926
Interest on pension liabilities	(4,550)	(4,091)
Net return	1,014	835

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

	2008 £000	2007 £000
Actual return less expected return on scheme assets	(11,822)	2,232
Experience gains and losses on liabilities	(2,897)	1
Changes in assumptions	3,341	5,971
Actuarial (loss)/gain recognised in STRGL	(11,378)	8,204

Reconciliation of fair value of employer assets

	2008 £000	Restated 2007 £000
Opening fair value of employer assets	79,436	72,527
Expected return on assets	5,564	4,926
Contributions by members	563	653
Contributions by the employer	1,314	1,712
Actuarial (losses)/gains	(11,822)	2,232
Estimated benefits paid	(3,306)	(3,011)
Closing fair value of employer assets	71,749	79,039

Reconciliation of defined benefit obligation

	2008 £000	2007 £000
Opening defined benefit obligation	78,301	80,230
Current service cost	1,581	2,140
Interest cost	4,550	4,091
Contributions by members	563	653
Actuarial losses	(47)	(5,972)
Past service costs	1,449	146
Curtailments and settlements	-	24
Estimated benefits paid	(3,306)	(3,011)
Closing defined benefit obligation	83,091	78,301

The University has paid contributions at the rate of 15.5% of members' pensionable pay to 31 March 2008 and 16.8% thereafter. It was agreed with the Trustees that contributions for the following year would remain at that level.

History of experience gains and losses

	Year ended 31 July				
	2008	2007	2006	2005	2004
Difference between expected and actual return on scheme assets:					
Amount (£000)	(11,822)	2,265	3,342	7,852	1,961
Percentage of scheme assets	(16.5%)	2.9%	4.6%	11.9%	3.4%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(2,897)	1	(79)	(283)	25
Percentage of scheme liabilities	(0.1%)	(0.1%)	(0.1%)	(0.4%)	0.0%

Notes to the financial statements *continued*

34 Pension schemes (continued)

f) Manchester Innovation Limited Group Pension Scheme ('MILGPS')

The MILGPS is a final salary defined benefit scheme. 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.

With effect from 1 August 2007 The University of Manchester became the principal employer of the scheme and Manchester Innovation Limited ceased to be a participating employer.

The investments held by the scheme do not have separate mid and bid prices and therefore no restatement of the asset values is required in order to comply with the revised requirements of FRS 17.

A full valuation of the scheme was carried out as at 1 September 2005, which has been updated to 31 July 2007 by a qualified actuary.

The market assumptions used in this valuation were:

	2008	2007
Rate of increase in pensions in payment and deferred pensions	**5.00%**	5.00%
Discount rate applied to scheme liabilities	**6.50%**	5.80%
Inflation assumptions	**3.80%**	3.40%
Expected return on plan assets	**5.39%**	5.24%

The mortality assumptions used are as follows:

Assumed life expectancy in years on retirement at 62	**2008**	2007
Retiring today		
Males	**26.3**	26.3
Females	**29.3**	29.3
Retiring in 20 years		
Males	**26.3**	26.3
Females	**29.3**	29.3

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

	2008	**2008 £000**	2007	2007 £000	2006	2006 £000
Investment in unitised pension policy	**5.75%**	**1,329**	5.50%	1,265	5.75%	1,308
Other	**4.50%**	**538**	4.50%	446	4.50%	354
Total market value of assets		**1,867**		1,711		1,662
Actuarial value of liability		**(1,938)**		(2,181)		(2,747)
Total deficit in the scheme		**(71)**		(470)		(1,085)
Related deferred tax asset		**-**		-		-
Net pension liability		**(71)**		(470)		(1,085)

Analysis of the amount charged to operating surplus/(deficit)

	2008 £000	2007 £000
Current service cost	**3**	3
Total operating charge	**3**	3

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

	2008 £000	2007 £000
Expected return on pension scheme assets	**92**	88
Interest on pension liabilities	**(126)**	(135)
Net return	**(34)**	(47)

34 Pension schemes (continued)

f) Manchester Innovation Limited Group Pension Scheme ('MILGPS') (continued)

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

	2008 £000	2007 £000
Actual return less expected return on pension scheme assets	**(43)**	82
Experience gains and losses on liabilities	**(1)**	(32)
Changes in assumptions	**370**	505
Actuarial gain recognised in STRGL	**326**	555

Reconciliation of fair value of employer assets

	2008 £000	2007 £000
Opening fair value of employer assets	**1,711**	1,662
Expected return on assets	**92**	88
Contributions by the employer	**110**	111
Actuarial (losses)/gains	**(43)**	82
Estimated benefits paid	**(3)**	(232)
Closing fair value of employer assets	**1,867**	1,711

Reconciliation of defined benefit obligation

	2008 £000	2007 £000
Opening defined benefit obligation	**2,181**	2,747
Current service cost	**3**	3
Interest cost	**126**	136
Actuarial losses	**(369)**	(473)
Estimated benefits paid	**(3)**	(232)
Closing defined benefit obligation	**1,938**	2,181

History of experience gains and losses

	Year ended 31 July				
	2008	2007	2006	2005	2004
Difference between expected and actual return on scheme assets:					
Amount (£000)	**(44)**	82	78	70	(38)
Percentage of scheme assets	**2%**	5%	5%	5%	(3%)
Experience gains and losses on scheme liabilities:					
Amount (£000)	**(1)**	(32)	47	(122)	124
Percentage of scheme liabilities	**0%**	(1%)	2%	(4%)	5%

Notes to the financial statements *continued*

35 Capital commitments	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Commitments for future capital expenditure:				
Authorised not contracted	**142,348**	-	**142,348**	-
Contracted not provided	**22,522**	90,034	**22,522**	89,284
	164,870	90,034	**164,870**	89,284

36 Operating lease commitments	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Land and Buildings				
Expires within one year	**472**	4,330	**472**	4,330
Expires between two and five years	**2,184**	285	**2,822**	285
Expires after more than five years	**3,307**	1,756	**3,307**	1,756
	5,963	6,371	**6,601**	6,371
Other				
Expires within one year	**215**	432	**215**	432
Expires between two and five years	**787**	1,020	**787**	1,020
Expires after more than five years	**38**	-	**38**	-
	1,040	1,452	**1,040**	1,452
TOTAL	**7,003**	7,823	**7,641**	7,823

37 Contingent liabilities	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Undrawn investment commitments	**7,020**	-	**-**	-
Bank guarantees	**41,191**	41,191	**41,191**	41,191
	48,211	41,191	**41,191**	41,191

A commitment of up to £7.02 million to invest in the UMIP Premier Fund has been given by UMIP UPF Limited, a wholly owned subsidiary of the University.

The bank guarantees of £1.19 million (2007: £1.19 million) relate to specific research and non research projects.

A bank guarantee facility of £40 million (2007: £40 million) has been given by one of the University's bankers in favour of UMSS Limited as trustee of The University of Manchester Superannuation Scheme. The guarantee expires on 31 March 2010. After the balance sheet date this guarantee was secured on a number of properties.

38 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 disclose 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. Due to the nature of the University's operations and the composition of the Board, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of Board may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

An updated register of the interests of the members of the Board of Governors is maintained.

The University has taken advantage of the exemption within FRS 8 and has not disclosed transactions with other group entities where it holds more than 90% of the voting rights. 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
Central Manchester and Manchester Children's Hospital NHS Trust	16,634	(2,596)	1,126
UK EPSRC	36,093	-	(213)
Imperial College London	-	(246)	(39)
Manchester City Council	282	(1,579)	(535)
Alzheimer's Society	170	-	15
European Commission	5,457	(2)	518
Students' Union	-	(66)	(28)
One Central Park	-	(219)	(65)
UNIAC	1	(808)	(33)
	58,637	**(5,516)**	**746**

Central Manchester and Manchester Children's Hospital NHS Trust
The University has a major Medical School, and so has very significant dealings with the Central Manchester and Manchester Children's Hospital NHS Trust, which incorporates several major teaching hospitals in central Manchester. The close relationship between the University and the predecessors of the Trust dates back over 100 years. Many staff, including senior consultants, work for both organisations, so to simplify payroll arrangements they are employed by one body, and salary costs are recharged. In the majority of cases, staff are employed by the University, and a proportion of their pay costs are recharged to the Trust. There are many other transactions between the two bodies, for example related to shared accommodation and the sale and purchase of laboratory supplies. One member of the Board of Governors is also a Trust member.

UK EPSRC
The Engineering and Physical Sciences Research Council (EPSRC) is the UK Government's leading funding agency for research and training in engineering and the physical sciences. A member of the Board of Governors is also a member of the EPSRC Council. The EPSRC deals with all UK universities that undertake research in these areas. The transactions relate to its funding of a significant proportion of the University's academic research, especially in the Faculty of Engineering and the Physical Sciences. Like all UK universities, the University has a long standing relationship with EPSRC.

Imperial College London
Imperial College London (ICL) is a science-based institution with a focus on teaching and research. It has many dealings with this University for the sale and purchase of laboratory supplies, publications etc. Again, these links have existed for many years. A member of the Board of Governors is a Visiting Professor at Imperial College.

Notes to the financial statements *continued*

38 Related party transactions (continued)

Manchester City Council

The University is located within the City of Manchester, with the exception of a few outlying facilities such as Jodrell Bank. This has been the case since the University was founded. Many of the transactions with the City Council are estates related, such as business rates, rents and fees for planning applications. The University's academic sector also has some dealings, e.g. links with the City Council's Education Department. Under University Statute IX, the City Council can appoint two members to the University's General Assembly, one of whom is also a member of the Board of Governors.

Alzheimer's Society

The Alzheimer's Society is a registered charity, which works to improve the quality of life of people affected by dementia. Among its activities, the Society funds research into dementia, by tackling questions related to the causes of dementia, investigating good practice in care and treatment, and pursuing a cure. Some of this work is undertaken by the University. A member of the University's Board of Governors is also a member of the Society's Audit Committee.

European Commission

The European Commission is the main executive body of the European Union (EU). Its activities include funding significant regional development programmes, the European Social Fund (ESF) and European Regional Development Fund (ERDF), as well as a wide range of research into issues such as transport, health and the environment. The University undertakes a number of ESF and ERDF funded programmes, as well as other research work for the Commission. A member of the Board of Governors is, in his capacity as a member of the academic staff, an advisor to the Commission and chairs a High-level Expert Group on Rationales for the European Research Area.

Students' Union

University Statute XVII requires that there shall be a Students' Union at the University. The University contributes towards the Union's running costs, and there are also transactions relating to the buildings occupied by the Union. Under Statute VI, the Board of Governors must include an officer of the Students' Union. This is currently the Union's General Secretary. This arrangement is long standing, although the individual concerned changes annually.

One Central Park Limited

One Central Park, on Oldham Road, Manchester, is a business park dedicated to the development of new business enterprises delivered by the local community. One Central Park Limited is a 20% owned associate of the University. The company owns a building in the park, which is part occupied by the University. A wholly owned subsidiary of the University, Manchester Incubator Company Limited, is responsible for marketing and managing part of this facility.

UNIAC

The University Internal Audit Consortium (Uniac) is the body appointed by the Board of Governors on the recommendation of the Audit Committee to act as the University's internal auditors. Uniac is a consortium made up of Manchester and several other universities where it acts as the internal auditors, so it is partly owned by the University. A member of the Board of Governors is also Chair of the Uniac Board, which comprises representatives of the member universities.

39 Post Balance Sheet Events

Following the balance sheet date Heritable Bank, an Icelandic bank was placed into administration. The University has outstanding deposits with Heritable Bank of £5 million of which £2 million had been placed prior to the balance sheet date. The timing and recoverability of these deposits are not known. As the conditions which caused Heritable Bank's inability to repay customer deposits did not exist at the year end, no provision is required against the amounts deposited with Heritable Bank at the year end.

Fixed asset investments held within investment portfolios were measured at the year end in accordance with the requirements of the SORP and other relevant accounting standards. Since the year end, due to the exceptional financial climate, there have been significant and abnormal movements in the market values of listed investments. As at 31 October 2008, the listed investments were valued at £117 million, representing a reduction in value of £16 million. Approximately 10% of this relates to the University's own investments and 90% relates to endowment assets.

40 Amounts disbursed as agent (Consolidated and University)

a) Access Fund

	2008 £000	2007 £000
Balance unspent at beginning of year	147	62
Funding council grants	891	952
Interest earned	20	15
	1,058	1,029
Disbursed to students	(910)	(882)
Balance unspent at year end	148	147

b) Training and Development Agency for Schools (TDA)

Student Training Bursaries

	2008 £000	2007 £000
Balance unspent at beginning of year	117	69
Funding council grants	2,496	2,721
Disbursed to students	(2,516)	(2,673)
Balance unspent at year end	97	117

Student Associates Scheme

	2008 £000	2007 £000
Balance unspent at beginning of year	(4)	114
Funding council grants	397	316
Paid out during the year	(385)	(434)
Balance unspent at year end	8	(4)

Minority Ethnic Recruitment

	2008 £000	2007 £000
Balance unspent at beginning of year	4	5
Funding council grants	12	9
Paid out during the year	(10)	(10)
Balance unspent at year end	6	4

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.

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