



The University of Manchester

Financial Statements

for the year ended 31 July 2010

Officers and Advisers

Officers

Chancellor

Tom Bloxham BA (Hons) MBE

Pro-Chancellor

Admiral Sir John Kerr, GCB, DL

President and Vice-Chancellor

Professor Alan D Gilbert, AO, MA, DPhil, FASSA
(retired 30 June 2010)

Professor Dame Nancy J Rothwell, BSc, PhD, DSc,
FRS, FMedSci (appointed 1 July 2010)

Deputy President

and Deputy Vice-Chancellor

Professor Dame Nancy J Rothwell, BSc, PhD, DSc,
FRS, FMedSci (leaver 30 June 2010)

Professor Rod W Coombs, BSc, MSc, PhD
(appointed 1 August 2010)

Chair of the Board of Governors and Pro-Chancellor

Norman B M Askew, BA

(stood down 31 August 2010)

Anil Ruia, OBE, JP, DL, LLB, ACA

(appointed 1 September 2010)

Registrar and Secretary

Albert H McMenemy, BA, LLB

Director of Finance

Marianne McKenzie, BA, ACA

(leaver 31 December 2009)

Robin Border (appointed as Interim Director of
Finance 15 February 2010, leaver 21 June 2010)

Stephen Mole, BSc, FCMA, PGCE
(appointed 21 June 2010)

Vice-Presidents (Policy)

Teaching and Learning

Professor Colin Stirling, BSc, PhD

Innovation and Economic Development

Professor Rod W Coombs, BSc, MSc, PhD

(leaver 31 July 2010)

Professor Luke Georghiou, BSc, PhD,

(appointed 1 October 2010)

Research

Professor Simon J Gaskell BSc PhD, CChem, FRSC
(leaver 30 September 2009)

Professor Rod W Coombs, BSc, MSc, PhD

(appointed 1 October 2009, leaver 31 July 2010)

Professor Luke Georghiou, BSc, PhD,

(appointed 1 October 2010)

Vice-Presidents and Deans of Faculties

Engineering and Physical Sciences

Professor Colin Bailey, BEng, PhD, CEng, FICE,
MIStructE, MIFireE

Humanities

Professor Alistair M Ulph, BPhil, MA

(retired 30 September 2010)

Professor Keith Brown, MA, PhD

(appointed 1 September 2010)

Life Sciences

Professor Martin J Humphries, BSc, PhD, FMedSci

Medical and Human Sciences

Professor R Alan North MBChB, PhD, DSc, FRCP,

FMedSci, FRS

Chairs of Committees of the Board of Governors

Chair of Audit Committee

Kathleen Tattersall, OBE, BA, MEd, FRSA

Chair of Finance Committee

Anil Ruia, OBE, JP, DL, LLB, ACA

(stood down 31 August 2010)

Dr Keith Lloyd BCom, PhD

(appointed 1 September 2010)

Chair of Risk Committee

Gillian Easson, MA

(stood down 30 August 2009)

Dr Sue Ion, OBE

(appointed 1 September 2009)

Chair of Remuneration Committee

Norman B M Askew, BA

(stood down 31 August 2010)

Anil Ruia, OBE, JP, DL, LLB, ACA

(appointed 1 September 2010)

Chair of Nominations Committee

Admiral Sir John Kerr, GCB, DL

Advisers

Bankers

Barclays Bank plc

National Westminster Bank plc

External Auditors

Deloitte LLP

Solicitors

Eversheds LLP

Pinsent Masons LLP

Mills & Reeve LLP

Membership of the Board of Governors

From 1 September 2010:

Professor Dame Nancy Rothwell,

BSc, PhD, DSc, FRS, FMedSci,

President and Vice-Chancellor

Sarah Wakefield, BA,

General Secretary of the Students' Union

Anil Ruia, OBE, JP, DL, LLB, ACA,

Chair of the Board of Governors

Gillian Easson, MA,

Deputy Chair of the Board of Governors

Stephen Dauncey, BSc, FCCA

Robert E Hough, DL, LLB

Dame Susan Ion, OBE, BSc, PhD, FEng,

FIMMM, FINucE

Councillor Mohammed Afzal Khan, CBE

Paul A Lee, DL, MA, LLM

Christine Lee-Jones, MA

Dr Keith Lloyd, BCom, PhD

Peter H Readle, BSc, MSc, CMathFIMA

Dr Brenda Smith, BA, MBA, ACA, DLitt

Dr John Stageman, PhD

Kathleen Tattersall, OBE, BA, MEd, FRSA

Gerry Yeung, OBE, BSc

Dr Stuart Allan, BSc, PhD

Professor Peter J Eccles, BA, PhD

Professor Colette Fagan, PhD

Professor Maggie B Gale, MA, PhD

Professor Luke Georghiou, BSc, PhD

Dr Anne McBride, MA, PhD, MCIPD

Professor Nancy Papalopulu, PhD

Debra J Dickson

Dr Andrew Walsh, BA, PGCE, MA, PhD

The following members stood down from the Board of Governors on 31 August 2009:

Professor Sir Robert Boyd MA, MB, BChem,

MSc, FRCP

Professor Sue Kimber, BA, MA, PhD

Professor Steve Williamson, DIC, FCGI, FIET, FEng

Professor Ivan Leudar, BSc, PhD

The following member stood down from the Board of Governors on 30 June 2010:

Professor Alan D Gilbert, MA, DPhil, AO, FASSA

President and Vice-Chancellor

The following members stood down from the Board of Governors on 31 August 2010:

Norman Askew, BA,

Chair of the Board of Governors

Councillor Roy B Walters, BEM, JP, LLD

John C McGuire

Dr Wiebke Brockhaus-Grand, BA, PhD

Dr Alison Qualtrough, MSc, PhD, FDS, MRD

The following member stood down from the Board of Governors on 30 September 2010:

Professor Luke Georghiou, BSc, PhD

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Chairman's Foreword

by Anil Ruia, Chair of the Board of Governors and Pro-Chancellor



I am pleased to provide a Foreword for this set of Financial Statements for The University of Manchester for the year ended 31 July 2010.

As you will see on the pages that follow, the University has enjoyed another very successful year and has consolidated its position as one of the world's most dynamic and ambitious research-intensive universities.

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

The realisation of such an ambitious goal will require sound finances and adequate resources to enable continuing investment in first-class staff and facilities even in the current economic circumstances.

As Nancy points out in her Review of the Year on the next page, the over-riding imperative for managing the finances of the University in 2009-10 has been to consolidate the financial position of the University by generating a surplus and I am delighted that these financial statements meet that important benchmark.

As a new Chairman of the Board of Governors, I would like to record my gratitude to my predecessor Norman Askew and the late Professor Alan Gilbert for their magnificent leadership and management of the University over its first six years and for the very sound financial position of the institution that they have handed on to Professor Dame Nancy Rothwell and me.

At the time of going to press, the precise funding position facing higher education in the UK remains unclear, but it is clear that we will face enormous financial pressures and uncertainty. In this environment, the kind of sound financial management and strategic leadership that have become a hallmark of this University over recent years will be more important than ever.

A handwritten signature in black ink, appearing to read 'Anil Ruia', with a long horizontal stroke extending to the right.

Anil Ruia
Pro-Chancellor and Chairman
of the Board of Governors.

Review of the Year

by Professor Dame Nancy Rothwell, President and Vice-Chancellor



These Financial Statements cover the sixth year of the University's existence and the first month or so of my tenure as President and Vice-Chancellor. I want to begin by paying tribute to my predecessor the late Alan Gilbert for his vision and outstanding contribution to the transformation of the University over our first six years. I am particularly grateful that he handed over to me a University that – as you can see by the performance recorded in this document - is in healthy shape. I welcome the opportunity to build on this legacy.

The core driver for all of our activities continues to be our "Manchester 2015 Agenda". I have been intimately involved in the development of this Agenda, so I feel close ownership. As you will see below, we continue to make good progress against many of the key performance measures outlined in this document, but I believe that now is the right time for us to look beyond 2015, and to identify the key priorities that will enable us to invest in the achievement of each of its three main goals.

The outstanding performance in the Research Assessment Exercise (RAE) 2008 helped to confirm the University's position as one of the UK's premier research institutions, alongside Oxford, Cambridge and the two leading London institutions. It is unfortunate that this strong performance did not (for any of the leading universities) translate into a significant boost in research funding, but it is clear that the University's research profile was considerably strengthened by its performance in RAE 2008.

During 2009-10, our Research Grant and Contract (RGC) income rose slightly by 1.7% to £194.6 million. Compared with some of the earlier annual RGC income growth, this is modest and in the future, RGC funding is likely to come under increasing pressure from public funding austerity, and strategies for significantly diversifying research funding streams, especially from non-government sources, will be essential.

Building on the results of the RAE, the University has developed and undertaken a detailed institutional Research Profiling Exercise (RPE) that has allowed us to build a detailed and authoritative understanding of the research strengths and weaknesses of the University. There has also been an improvement in the quality of research management data. As a result, we are better able to make informed strategic decisions about the kinds of investments in our research activities that are likely to have the greatest impact on our overall research performance and competitiveness.

We are using the intelligence gained for this exercise to develop a comprehensive research strategy which addresses how we can significantly increase the proportion of our research that is world-class and world-leading, recruit and grow more research "stars", attract and support outstanding postgraduate students, enhance interdisciplinary research and diversify research income. By numerous measures (RAE, our own RPE and citations), too much of our research is below internationally-recognised standards. This takes up staff time and valuable resource for no apparent value.

We are likely to be the very best in the world in only a small handful of research areas. But we must be amongst the best in many more areas, and these will change with time, so we need to monitor continuously our performance and external drivers. We face increasing pressures to undertake research that is of societal and economic benefit. This is important and is certainly a priority for us, but we will also rigorously defend the importance of fundamental research, scholarship, academic endeavour and discovery, unencumbered by expected outcomes, which is very much the domain of universities. An excellent example of the importance of this strategy is in the recent award of the Nobel Prize in physics to two of our staff.

A key focus during the past year has been the continued implementation of the Review of Undergraduate Education, initiated in mid-2007. It is clear that significant progress has already been made in implementing the recommendations of the Review. But some of the problems we are tackling remain stubbornly intractable. Thus the results of the most recent National Student Survey (NSS) show a minor improvement but not nearly enough progress. The changes we are introducing are being made with strong student support and we must now ensure effective implementation across the University. All of our staff must recognise the value and importance of students to this University.

Across the University, there is an increasing emphasis on the personalisation of the student experience, with a network of Academic Advisors now in place, and a formal resolution of Senate to ensure regular staff contact with individual students and to ensure good practice in the provision of “feedback” to students. We must now ensure that these important policy changes are adhered to and are effective. This re-personalisation of learning will be achieved in part through better use of online communication building on our major investment in the new Blackboard learning environment. But it will also mean face to face engagement of staff with students. Construction has also started on a Manchester “Learning Commons”, a major new student learning facility in the heart of the campus, which will be named in honour of Alan Gilbert in recognition of his commitment to this agenda.

The reality is that much of this activity will reap benefits in the medium to long-term. In the meantime, improving the student experience remains a major and urgent priority. We have made some progress, but we still have much to do. One of the ways that we are helping individual Schools to improve their performance in the National Student Survey is by sharing good practice and we have all followed closely the experience of the School of Electrical and Electronic Engineering, which launched a concerted effort to engage with students more effectively last year; as a result they improved their NSS score from 67% to 98% in just one year. At a University level, we are also exploring the possible reconfiguration of our student support services, the enhancement of the Manchester Leadership Programme and the establishment of an Undergraduate College in order to improve the student experience and develop a distinctive Manchester education.

This has been another good year for home and international student recruitment at the University, but it will become more difficult to maintain this performance as the Government’s response to Lord Browne’s Report heralds the arrival of an even more competitive marketplace in UK higher education. We will ensure that we maximise the recruitment potential of the powerful Manchester brand in this new marketplace, but we must also become more rigorous in the efficiency and effectiveness of our teaching. We have far too many courses that struggle to attract good applicants or are not valued by students, but take up precious staff time. We must change this. I am also committed to encouraging further student participation to ensure the vibrancy and success of our institution.

I am determined that “social responsibility” will be a defining feature of The University of Manchester brand, such that we will be not only a distinguished but also a distinctive University.

Key objectives here will be to build on our successes in public engagement and widening participation, to further develop research strengths in major societal issues and to broaden the student experience to include, for example, personal ethics, major societal issues and global challenges. We must be positioned as an international University, but we must not forget that our near community neighbours are facing some of the greatest deprivation in the UK. We need to engage them in “their” University.

Funding pressures will make it all too easy to focus our attention internally and take our eye off the bigger picture, i.e. the long-term future and the success of the University internationally. In considering our international strategy, I take pride in our enormous success in recruiting international students and our excellent interactions with our alumni. This success now needs to pervade all of our international activities. I have been leading a team of senior colleagues who are developing a clear international strategy to benchmark our activities and achievements against the best universities across the world, to focus our international partnerships, optimise student and staff recruitment and identify global funding opportunities.

In managing the finances of the University in 2009-10, the over-riding imperative has been to consolidate the financial position of the University by generating an operating surplus. Since embarking on our strategy to eliminate deficits early in 2007, this has been a major priority. I am therefore delighted that these financial statements not only fully meet that important priority, but indicate an operating surplus that leaves the University better placed than we had expected to be at this stage. I should point out, however, that it still does not meet the HEFCE recommendations and it is essential that we have strong cash reserves, especially given the economic climate.

I would like to record my gratitude to the Director of Finance and his team, to the five primary budget holders (the Vice-President / Deans and the Registrar & Secretary), and to senior academic and professional support managers across the University, for the contributions they continue to make to the sound financial management of the institution.

At the time of going to press, the precise funding position facing higher education in the UK remains unclear, but the Government’s response to Lord Browne’s Review of Student Fees and the implications of the Comprehensive Spending Review make it clear that the financial pressures we will face will be unprecedented. In this environment we must place even greater importance on increasing income from non-government sources, focus more than ever on strategic priorities and, wherever possible, make

ourselves more efficient. Our success will depend on identifying a clear set of priorities. We must resist the temptation to be good at everything or to resort to “cutting across the board”, but strive instead to be excellent in a smaller number of priority areas. I will insist that we maintain a capacity for strategic investment, particularly where this can distinguish the University and/or deliver income which we can reinvest in our strategic goals.



Professor Dame Nancy Rothwell
President and Vice-Chancellor

Key Performance Indicators

1. The University of Manchester slipped from 41st to 44th in the 2010 “Academic Rankings of World Universities” produced by the Shanghai Jiao Tong University. This is due to a drop in the Per Capita Performance measure. This has been a volatile measure and the drop may be due to a change in methodology or some wider data inconsistency.
2. Growth in Total Audited Research Expenditure – Total Audited Research Expenditure¹ in 2008-09 (latest available figure) was £404.9 million, an increase of 3.9% on the previous year.
3. Growth in international student fee income – International student fee income (full and part-time) increased by £15.7 million (18.2%) during 2009-10.
4. Net Liquidity Expenditure Cover² – Closing liquid balances were sufficient to provide 94 days expenditure³ cover.
5. External Borrowing as a Percentage of Total Income – External borrowing reduced from 26.8% of total income (like-for-like basis) to 24.8%.
6. Operating Surplus⁴ as a Percentage of Income – Improved from 2.22% in 2008-09 to 2.96% in 2009-10 on a like-for-like basis.

¹ Total Audited Research Expenditure is defined as research expenditure as calculated in the University’s Transparent Approach to Costing (TRAC) return.

² Closing liquid balances of £186.9m (2009: £167.8m) include the net cash balance and short term investments.

³ Expenditure of £723.7m (2009: £705.5m) is defined as total expenditure less depreciation.

⁴ Operating surplus is defined as the surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation.

Financial Review

by Stephen Mole, Director of Finance



Income and Expenditure Review

The operating surplus before transfer to endowments was £23.5m, compared with £16.8m for 2008-09. This was ahead of expectations and demonstrates the University's effective financial management and strengthening of its financial position despite the economic situation. The retained surplus of £23.2m compares with £16.0m in the previous year. Available cash resources (inclusive of short term investments) at July 2010 were £186.9m up from £167.8m in July 2009. Whilst a surplus of 2.9% is satisfactory, it is still below the HEFCE target of 4.0% and is insufficient to support the higher levels of long-term buildings maintenance expenditure that are needed and our investment in the student experience and research. Added to this it is essential that we have strong cash reserves given the economic climate.

Income

Total income for the University of £787.9m has increased by £33.3m (4.4%) from £754.6m in 2008-09.

Funding Council grants were up by £2.3m (1.1%). Inflation on the core teaching grant was £1.8m (1.9%).

Research funding increased by just £0.8m reflecting changes in methodology and the results of the Research Assessment Exercise. Release of deferred capital grants was £1.6m lower reflecting the large release relating to the Faraday building in 2008-09 partly offset by an increase on equipment due to new PSI lasers in Engineering and Physical Sciences.

Tuition fees increased by £21.9m (10.6%). It was another good year for student recruitment with 34,572 full time students, an increase of 7.0% on the prior year. Full-time international student fee income grew strongly to £93.4m (up by 19.2%) with numbers up 1,032 to 7,430 (16.1%). Manchester Business School

Worldwide (included within fees in respect of part time students) again grew strongly, up £2.7m (26.8%). Full-time home and EU student fee income grew to £80.3m (up by 13.9%) with student numbers up 1,238 to 27,142 (4.8%). The majority of this increase was within post graduate taught courses.

Research grants and contracts increased slightly by 1.7% to £194.6m. Most of the increase related to Medical and Human Sciences, with Engineering and Physical Sciences showing a small increase and Humanities and Life Sciences flat. The increase in Medical and Human Sciences includes £1.5m (13.6%) additional Cancer Research UK income within the Paterson Institute for Cancer Research.

Other income at £145.1m was up £15.6m, 12.0% on prior year. This increase includes £5.2m accelerated deferred capital grant releases following an assessment of the remaining useful economic life of certain assets. The remaining £10m increase is mainly additional income from health authorities and increased income in relation to student support costs.

Endowment and investment income at £11.4m was £9.7m lower than the prior year. Donation income was £3.9m lower in the period reflecting the large receipts in 2008-09 for the Brooks World Poverty Institute, the John Rylands University Library and other specific areas. Lower income was received on cash deposits (down £1.6m) reflecting a continuation of the low interest environment. There was no income from spinout exits in the year compared with £2.1m in 2008-09. There is a pension finance cost of £1.3m in the current year (within Interest and other finance costs) compared to a net return on pension schemes of £1.3m in 2008-09.

Expenditure

Total expenditure increased by £26.7m (3.6%). This included staff costs up by £22.8m (5.5%), driven by a £9.2m provision for an early retirement and voluntary severance scheme and higher pension costs. The staff cost ratio to income continued to reduce to 54.0% (excluding early retirement and voluntary severance scheme costs) compared with 54.6% in 2008-09 reflecting active vacancy management measures.

Other operating expenses reduced by £4.5m (1.6%) despite an increase in student bursaries/scholarships of £3.5m and additional estate and maintenance costs of £5.3m. Most other categories of expenditure reduced including utilities (£1.3m), consumables (£1.3m), equipment purchases (£1.8m), recruitment and training (£1.5m) and professional and other fees (£0.8m).

Depreciation increased from prior year by £8.5m to £40.8m including an accelerated depreciation charge on land and buildings and IT systems reflecting an expected economic life re-assessment, part matched by additional release of deferred capital grants.

Interest and other finance costs were just £0.1m lower at £12.0m.

Balance Sheet Review

The University closed the year with net assets of £677.1m, an increase of £83.3m (14.0%) after taking account of a pension deficit of £75.3m which decreased by £11.8m in the year. The year end cash position improved by £19.1m, with closing short term cash and investments of £186.9m.

Fixed Assets

Tangible fixed asset additions of £37.9m included £16.1m on equipment, £21.1m on buildings including capital maintenance works of £4.8m in the year and £0.7m of heritage assets. Work commenced on the new Alan Gilbert Learning Commons facility due for completion in 2012.

Fixed Asset Investments

Fixed asset investments increased by £57.5m including £55.0m cash invested longer term to generate better returns.

Endowment Assets

Overall endowment assets have increased by £17.0m (13.4%). This included appreciation in the value of the portfolio of £13.6m together with £3.4m of new funds. A better performance in world markets during the year led to the improvement in the value of endowments held.

Net Current Assets

Debtors have increased by £3.2m, trade debtors were up £1.9m and prepayments and accrued income (including accrued income on research grants and contracts) up £1.3m.

Creditors falling due within one year have increased by £12.4m; social security and other taxation payable up £0.3m, deferred research income up £11.0m, accruals and deferred income up £1.9m and other creditors up £5.4m offset by bank overdraft and loans down £6.2m.

Short-term investments

The increase in short-term investments of £18.8m reflects good cash generation in the year. The closing liquidity position of £186.9m was sufficient to cover 94 days expenditure (2008-09: 87 days).

Net Cash

Cash reserves have increased by £19.1m (including short-term deposits).

Risks and Uncertainties

The FRS17 pension deficit decreased in the year to £75.3m reflecting better returns on assets during the year. The University of Manchester Superannuation Scheme (UMSS) is in the process of its triennial actuarial valuation with

results expected early in calendar year 2011.

The trustees of the University Superannuation Scheme (USS) have recently approved amendments to the benefits and contributions required and this is under consultation with members. There are a number of significant changes including the proposal to index benefits using CPI rather than RPI which will reduce future liabilities. It is intended to make changes to the UMSS scheme and discussions have already commenced with trustees. However, defined benefit pension schemes remain a major risk for the University which monitors these schemes regularly and ensures financial plans make full provision for these liabilities.

International fee income remains strong, indeed showing growth in the year, but this remains a long term risk for the University in the light of economic changes and exchange rate movements.

Endowment investment performance has improved during the year but remains volatile as financial markets are still uncertain and the pace and sustainability of world economic recovery is variable. This area remains a risk and we will be reviewing our investment strategy during the coming year.

One of the biggest (if not the biggest) challenges to the University and the HE sector generally comes from the outcome of the Government Comprehensive Spending Review and the requirement to deliver significant savings over 5 years. The details are still to be finalised, though we do know that research funding will receive a 'flat cash' settlement over the period, although allowing for inflation this equates to a 10-15% cut and there is expected to be a cut of 40% in the HEFCE Higher Education grant excluding inflation. Whilst the Browne Review has recommended an increase in tuition fees, this still needs to be placed before Parliament. Even if the recommendations of the Browne Review are accepted by Parliament and implemented in full, they would not necessarily make up the gap in funding for a university such as ours, which believes in the principle of entry based on merit rather than ability to pay.

The University was already well advanced in contingency planning. In response to the cuts introduced by the last Government, the University introduced a number of measures, including an early retirement / voluntary severance scheme. This has now been extended through to the end of January 2011 and will be reviewed as more details of the HEFCE allocation and the new fees and bursaries regime become clear.

Going concern

The University ended the year with cash resources of £186.9m. The budget for 2010-11 continues to generate a surplus and forward cash forecasts demonstrate adequate available financial resources. All of the University's external funding is long-term in nature with 96.8% repayable beyond a year and 78.1% repayable beyond 5 years. On this basis, the Board of Governors are assured that the University has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the date of signature of these financial statements.

Conclusion

A satisfactory financial performance in 2009-10 but there remain significant challenges ahead with the required levels of savings that are being sought by Government in funding for the HE sector. At the same time the University needs to increase its long term maintenance expenditure to maintain and enhance the estate and invest further in the general infrastructure to maintain the University's position of excellence in research and higher learning.



Stephen Mole
Director of Finance

Public Benefit Statement



The University of Manchester is an exempt charity under the terms of the Charities Act 2006 and is responsible to HEFCE, its Principal Regulator, which is charged with monitoring its compliance with charity law obligations. The University is aware of its responsibilities as a charity to act for the public benefit and has had due regard to the Charity Commission's public benefit guidance. The objects of the University, as set out in the Royal Charter awarded in 2004, are "to advance education, knowledge and wisdom by research, scholarship, learning and teaching, for the benefit of individuals and society at large."

Further to this, the document 'Advancing the Manchester 2015 Agenda', the Strategic Plan of the University of Manchester, sets out our mission to make the University one of the top 25 universities in the world by 2015 and to remain thereafter a world-leader in the quality of the higher education we offer, the excellence and impact of the research we undertake and the value of the contributions we make to the economic, social and cultural life and environmental sustainability of the wider society.

Research

A specific goal of the "Manchester 2015 Agenda" is to make the University one of the 25 strongest research universities in the world by appointing and retaining world-leading researchers, producing research outcomes of the highest international significance and giving postgraduate research training, applied and translational research and knowledge transfer activities parity of esteem with fundamental and curiosity-driven research.

Although we value knowledge creation for its own sake, the benefits of our research to the local, national and international community are numerous. Local people benefit directly from the expertise of University-trained medical professionals working in health trusts, while on an international scale, our pioneering research around pressing issues, such as climate change and sustainable energy, global poverty and economics, and biomedical research, is helping to make a real difference to society.

The Sustainable Consumption Institute was established against the background of the

global threat from climate change and is researching major national and international issues associated with sustainability and encouraging consumers to adopt more sustainable lifestyles.

Through the Brooks World Poverty Institute, the University is committed to understanding and tackling the causes of poverty, and to offering high level training and skills development for professionals and volunteers engaged in tackling poverty and social disadvantage.

The Biomedical Imaging Institute has been established to promote the development and application of advanced imaging methods in biomedical science and the Manchester Cancer Research Centre aims to more than double the level of cancer-related research activity in Manchester over the coming years.

Throughout the University, we have developed various outreach projects and open events which enable us to transfer our research knowledge to the public. The University encourages the dissemination of research results as widely and as publicly as possible, especially to those who will benefit most from them. The Manchester Beacon for Public Engagement is a partnership between the universities of Salford, Manchester and Manchester Metropolitan University, the Museum of Science and Industry and Manchester Knowledge Capital. One of its principal aims is to create a culture where public engagement is encouraged, valued and supported.

The encouragement of enterprise is a critical part of the University's culture and the commercialisation and exploitation of our

intellectual property is a fundamental part of our activity. In the last five years alone we have created 20 new spin-out companies, created hundreds of jobs, and raised nearly £200million in capital for spin-out companies associated with the University.

Higher Learning

Another specific goal of the “Manchester 2015 Agenda” is to provide superb higher education to outstanding students from all backgrounds and to produce graduates distinguished around the world for their professional employability, leadership qualities and broad liberal education.

The University is firmly committed to being an open and accessible institution that pro-actively seeks out talented people capable of benefiting from higher education. Admissions processes are designed to identify exceptional national and international students, irrespective of background or financial situation.

Home and EU full time undergraduate students are able to defer the payment of tuition fees until after they start employment, when the fee and any maintenance loans are repaid gradually through the tax system. Some students may also be eligible to receive non-repayable grants from the government.

We know that many prospective students are deterred from seeking access to a university because of fear of student debt, or because of the opportunity costs of remaining out of the full-time workforce during their student years. The University has therefore invested a significant amount into merit-based and needs-focused bursary and scholarship programmes, with expenditure of £11.1m in 2009-10. Examples include the Manchester Guarantee Bursary, providing financial support of £1,250 per year for all UK students with residual household income of approximately £25,000 or less, and the Manchester Success Scholarships, providing up to £1,250 per year for UK students who gain three A grades at A level (or equivalent) who choose to study specified subject areas.

The University also offers Accommodation Awards, whereby the Trustees of a University Hall of Residence, Hulme Hall, meet the full accommodation costs for one year of a number of local students from less privileged backgrounds, who would otherwise be prevented from experiencing the residential aspect of university life.

International Equity and Merit Scholarships are also available to cover fees and/or living costs for students in developing countries who are studying courses that are likely to be of greatest

benefit to their home country. Scholarships also exist for students with asylum status, to enable these students to pay the equivalent of home rather than overseas tuition fees.

The University is committed to providing over 37,000 students with a world-class learning experience. The approach to education is designed to ensure that all Manchester graduates leave the University with advanced critical thinking, conceptual reasoning and analytical skills, mastery of a discipline, broad intellectual and cultural interests, advanced skills of written and verbal communication and a personal commitment to equality and diversity. In this way, the University is developing generations of students to become internationally mobile professionals who can serve as informed, thoughtful, globally responsible citizens making a social and economic contribution to society.

Students are provided with excellent facilities and support services, including well resourced libraries, recreational and sporting facilities, community volunteering programmes, careers and financial advice, counselling and healthcare services and disability support. There is a dedicated Disability Support Office that provides confidential advice and support to applicants and students with additional needs arising from a disability, a medical condition or specific learning difficulties.

The University is also committed to providing its students with the opportunity to develop key employability skills, for example by taking part in the Manchester Leadership Programme, which comprises two elements; a credit-rated Leadership in Action unit that enables students to explore the key leadership challenges facing 21st Century society, and an opportunity to contribute to the development of more sustainable communities through completing verified volunteering work. Since its inception in 2005, over two thousand students have joined the programme, completing over 87,000 hours of volunteering and providing over £500,000 financial benefit to the community.

Social Responsibility

The third specific goal of the “Manchester 2015 Agenda” is to make the University a force for good, locally, nationally and internationally, by bringing knowledge to bear on the great issues facing the world in the 21st century, and by producing graduates prepared to exercise social leadership and environmental responsibility.

The University is committed to raising awareness of the benefits of higher education through outreach activities that engage primary and secondary pupils and their teachers and parents,

and assist further education students wishing to progress to university.

To provide an insight into higher education for primary school pupils, the University provides hands-on roadshow activities at school sites, runs higher education awareness days on campus and runs a primary placement scheme where undergraduate students are placed in local primary schools as classroom assistants.

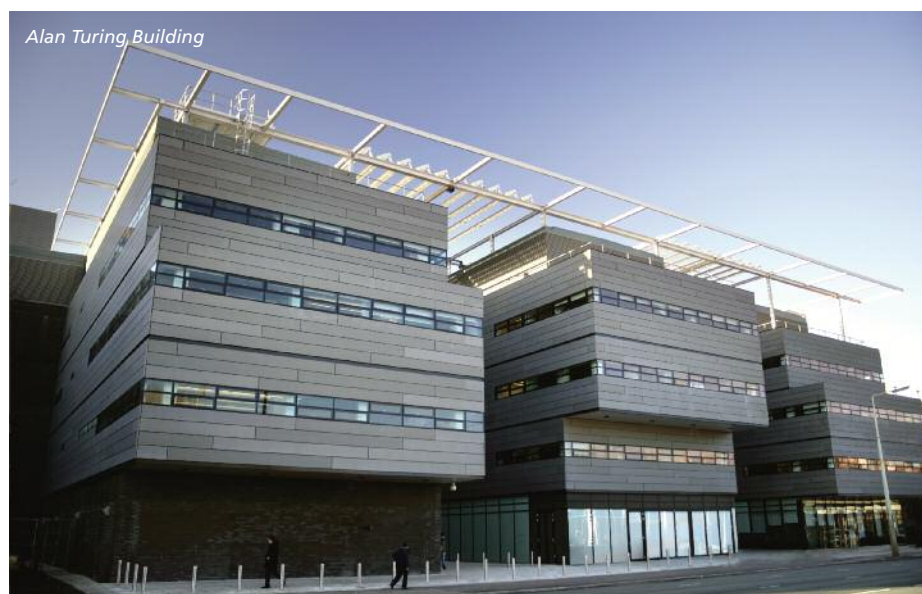
The University of Manchester Gateways Programme provides a series of academic skills enrichment and higher education awareness activities, as well as information, advice and guidance on course choices and careers, to local secondary school pupils from lower socio-economic groups. During 2009-10, over one thousand local learners took part in the programme, with 83.5% agreeing that “following their visit they had a better understanding of how university is different from school.”

Our flagship initiative, the Manchester Access Programme, supports outstanding Year 12 and 13 students from under represented groups in Greater Manchester to successfully progress into the University of Manchester and other research-intensive Universities. Of the 424 students who had completed the programme in the three years to 2009, 387 applied to the University of Manchester and 228 were accepted onto a course. Students who complete the programme and register as a student, receive the Manchester Achievement Scholarship, a £1,750 annual award.

The University accepts an important responsibility for enriching the cultural lives and scientific understanding of its local community. Specific importance is attached to the work of the Manchester Museum, Whitworth Art Gallery, John Rylands Library, Deansgate and Jodrell Bank Observatory in engaging with schoolchildren and people from under-represented groups. In 2009/10 the Manchester Museum and the Whitworth Art Gallery had over 35,000 structured contacts with school children and delivered various outreach programmes.

The University is committed to embedding the concept of sustainable development in all aspects of its education, research and engagement with the wider economy and society and, wherever possible, will seek to influence local, national and international debate and policies on sustainable development. There is a target to reduce the University’s absolute carbon footprint by at least 40% by 2020.

Corporate Governance Statement



The University of Manchester is a chartered corporation which came into existence on 1 October 2004. It was established by Royal Charter on 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 institution by means of The University of Manchester Act (2004).

As a recipient of substantial public funding and by virtue of its educational objectives it is considered an exempt charity, with the Higher Education Funding Council of England (HEFCE) acting as its Principal Regulator.

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 its funding bodies and the Governance Code of Practice published by the Committee of University Chairman (CUC). The University's corporate governance arrangements have been established in such a way as to meet these responsibilities and continue to comply with relevant provisions in the First (1995) and Second (1996) Reports of the Committee on Standards in Public Life.

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 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 University's Corporate Governance Framework

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.

The **Board of Governors**, is the University's governing body, and 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 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 at least five times in each academic year. Its membership of 25 has a majority of persons who are not employed by the University, known as 'lay' members, with the Chair of the Board of Governors (Mr Anil Ruia, OBE) being appointed from within this category of the membership. Members of the Senate, members of the support staff and a student representative also serve on the Board.

The Chair of the Board of Governors plays an important role in the governance of the University while working independently of its regular executive management. He is supported by the Deputy Chair (Mrs Gillian Easson). The current members of the Board of Governors are listed on the inner front cover.

The **Senate**, is responsible to the Board for the promotion of research and for monitoring standards in teaching. It acts as the University's principal academic authority. 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. A large number of the statutory powers reserved to Senate are 'regulatory' in nature and control the academic

business of the University. 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.

The Board of Governors has 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 **General Assembly** is the interface between the University and the wider community. It is a much larger body (200+ members) than the Board, and in common with it, has a majority of lay members. Lay members are drawn from a wide range of local, regional and national

interests, and together they offer 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 presents its achievements to its broader 'constituencies' and receives 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 promotes fellowship among graduates while 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, with its business between Annual General Meetings conducted by an elected committee. The Association is represented on the governing body and on the General Assembly.

The members of the General Assembly and the Alumni Association, together with all members of paid University staff eligible to hold superannuable appointments form the constituency for the election of the **Chancellor** (Tom Bloxham, CBE), 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** (Professor Dame Nancy Rothwell) is the chief executive officer and the principal academic and administrative officer of the University. In fulfilling 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 'accountable officer') to HEFCE for the use of the public funds the University receives. 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 in shaping its institutional ethos. The **Deputy President** and **Deputy Vice-Chancellor** (Professor Rod Coombs), **Vice-Presidents** and the senior administrative officers contribute in various ways to this work, collectively acting as the University's **Senior Executive**, but the ultimate executive responsibility rests with the President and Vice-Chancellor.

The function of the University's Professional Support Services is to support the primary

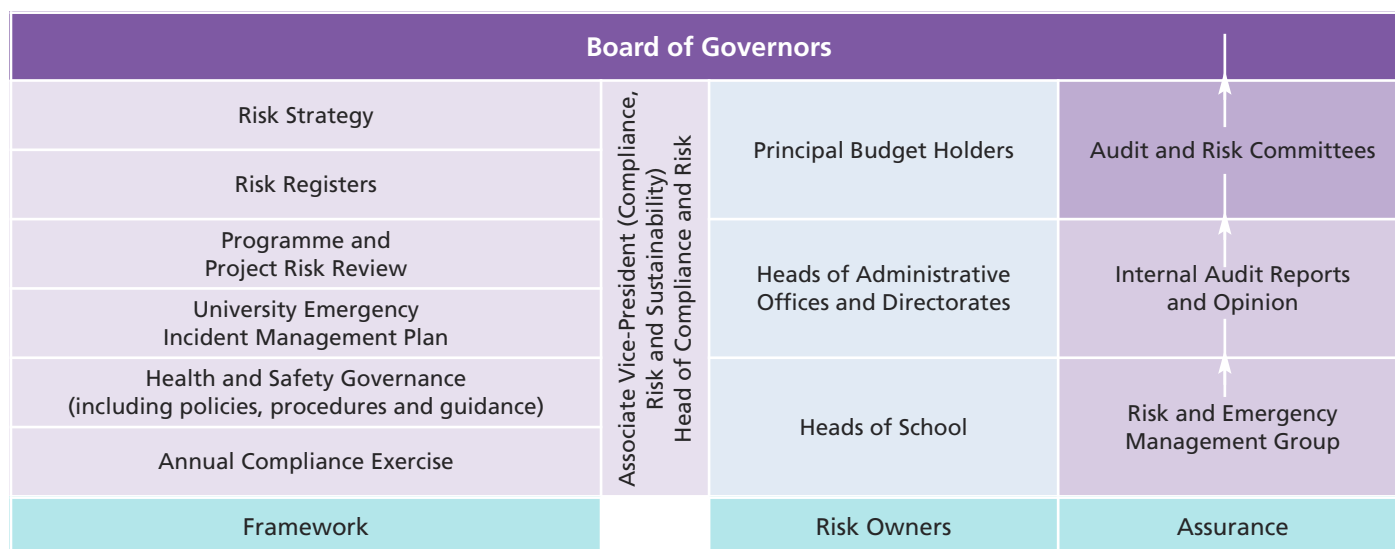
institutional objectives in respect of teaching and research, to oversee the discharge of the University's statutory and regulatory responsibilities and to implement the policy decisions of Senate and the Board. Through the provision of specialist expertise, it also contributes to and advises on the formulation of University policy. The Head of the Professional Support Services is the **Registrar and Secretary** (Mr Albert McMenemy), who is also the Secretary to the Board of Governors and 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. Schools also maintain registers of interest for their staff. Members of the Board and of its Committees 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.

Internal Control

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 CUC Guide 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 through the Financial Memorandum, has been adopted by the Board as the basis for evaluating the University's systems of internal control and for reviewing its effectiveness. The Audit Committee, on behalf of the Board, is ultimately responsible for the oversight of the University's review and monitoring of the system of internal control. The Board receives regular reports, at each meeting, from the Audit Committee on the internal control framework and from the Risk Committee on the steps being taken to manage risks across the University. The Audit Committee also receives 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.

Corporate Governance Statement *continued*



Financial Control

The Board of Governors is responsible for ensuring the economical, efficient and effective management of the University resources and expenditure, and for safeguarding its assets, including specific responsibility for the oversight of systems that prevent and detect fraud. It must ensure that the University uses public funds only for the purposes for which they were provided, and that those funds derived from HEFCE are used in accordance with the requirements of the Financial Memorandum.

The system of internal financial control provides for comprehensive financial planning processes, assessments of annual income, expenditure, capital and cash flow budgets in conjunction with the monthly review of financial results, the reporting of variances and the projection of out-turns.

The University sets out matters concerning the broad policies relating to financial control in its Financial Regulations. The Regulations are approved by the Board and apply to the University and all its related undertakings, and include all funds passing through University accounts. They encompass the University's processes to investigate fraud and other financial irregularities, budgeting and forecasting, the treatment of year-end balances and capital expenditure programmes and general issues with regard to the Accounts and Accounting returns of the University.

Risk Management

The system that has been adopted by the Board is designed to manage risk and to provide reasonable, but not absolute, assurance of

effectiveness. The Board recognises that some risks will always exist. The knowledge that such risks exist is itself a key element in the risk management process of the University. In addition, in order to exercise the responsibility associated with risk awareness/management, the necessary support, assistance and commitment of management has to be provided to all levels in the University. This commitment is critical in that all staff need both to be aware of the nature of the risks associated within their area of authority and to accept responsibility for their identification and their control.

The diagram above depicts the overall responsibility of the Board of Governors for the oversight of risk management within the University. The framework includes a risk strategy, risk registers (at School, Faculty and University level) and the governance of health and safety, and identifies primary risk owners. It is supported by a comprehensive assurance process, which reports through to the Audit Committee, on behalf of the Board of Governors.

The risk management objectives of the University outlined below are based on an 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 'Advancing 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 legislative 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.

A comprehensive Risk Management framework assists the management of the University in the identification of the key risks inherent in the delivery of the University's strategy. This is overseen by the Risk Committee of the Board, which works closely with the Audit Committee in order to gain the necessary assurances on the efficacy of the framework and relay them to the Board of Governors. The Board, through the Risk Committee, or through other ad-hoc due diligence groups, evaluates the risks inherent in all major plans and proposals, including the identification of the steps that would be required to mitigate, eliminate and control such risks. The University has also taken additional measures to support the risk management process, including the appointment of a Head of Compliance and Risk and the designation of an Associate Vice-President for Compliance, Risk and Sustainability (who provide direct advice to senior officers of the University and who both report regularly to the Board of Governors). They oversee 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.

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 of which the University's auditors are unaware; and each governor has 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.

A handwritten signature in black ink, appearing to read 'Anil Ruia'.

Mr Anil Ruia
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 2010 which comprise the consolidated income and expenditure account, the statement of consolidated historical cost surpluses and deficits, the statement of consolidated total recognised gains and losses, the consolidated and University balance sheets, the consolidated cash flow statement, the reconciliation of net cash flow to increase/(decrease) in net funds/(debt) and the related notes 1 to 38. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Board of Governors of the University, as a body, in accordance with the charter and statutes of the University. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Governors and auditors

The governing body's responsibilities for preparing the Annual Report and the financial statements in accordance with the University's statute, the Statement of Recommended Practice: Accounting for Further and Higher Education and other applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of the governing body's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respects, income has

been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England and with the funding agreement with the Training and Development Agency for Schools.

We also report if, in our opinion, the information given in the Chairman's Foreword, Review of the Year including the Financial Review, Public Benefit Statement, Corporate Governance Statement and the Statement of the Board of Governors' responsibilities is not consistent with the financial statements, if the University has not kept adequate accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. 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 further information outside the Annual Report.

We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements and of whether the accounting policies are appropriate to the group and University'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:

- the financial statements give a true and fair view of the state of affairs of the University and the group as at 31 July 2010 and of the surplus of the group for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects income from the funding council and the Training and Development Agency for Schools and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2010 have been applied only for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, dated June 2008 with the Higher Education Funding Council for England and the funding agreement with the Training and Development Agency.



Christopher Powell
(Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditors
Manchester, England

26 November, 2010

Financial Statements
for the year ended 31 July 2010

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.

The University's activities, together with the factors likely to affect its future development, performance and position are set out in the Director of Finance's Financial Review of the year which forms part of the Board of Governors' Report. The Board of Governors' Report also describes the financial position of the University, its cash flows, liquidity position and borrowing facilities; the University's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposure to credit risk and liquidity risk.

The Board of Governors has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

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.

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 12. 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. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account.

(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 where the accounting treatment is then the same as for grant funded tangible fixed assets. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account. 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. Normal trading transactions, that are not settled by the balance sheet date, 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 on a straight line basis 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) acquired since 1 August 2007 and 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.

Where heritage assets have not been capitalised, 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.

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 and

Statement of principal accounting policies *continued*

intangible assets are amortised over their estimated economic life 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 the UMIP Premier Fund are valued using accepted methodologies for venture capital investments. Investments held on a listed market are valued at their estimated realisable 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.

Investment properties are revalued annually to open market value. Surpluses or deficits on individual properties are transferred to the investment revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the income and expenditure account. Depreciation is not provided in respect of freehold investment properties, or in respect of leasehold investment properties where the unexpired term of the lease is more than 20 years. The Board of Governors consider that this accounting policy, which represents a departure from the statutory accounting rules, is necessary to provide a true and fair view as required under SSAP 19 Accounting for investment properties. The financial effect of the departure from the

statutory accounting rules cannot reasonably be quantified due to insufficient information on original cost.

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 funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. 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. Because of the mutual nature of the schemes, the schemes' assets are not hypothecated to individual institutions and scheme-wide contribution rates are set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the two schemes on a consistent and reasonable basis. Therefore, as required by 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. 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 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 Para 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) 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's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

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 fixed asset and 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 38 'Amounts disbursed as agent' and include Access Funds and Training Bursaries.

Consolidated income and expenditure account for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
Income			
Funding body grants	1	209,018	206,761
Tuition fees and education contracts	2	227,749	205,845
Research grants and contracts	3	194,603	191,335
Other income	4	145,147	129,591
Endowment and investment income	5	11,380	21,108
Total income		787,897	754,640
Expenditure			
Staff costs	6	434,826	412,049
Other operating expenses	7(b)	276,906	281,426
Depreciation	11	40,827	32,363
Interest and other finance costs	8	11,989	12,054
Total expenditure		764,548	737,892
Surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation		23,349	16,748
Share of operating surpluses in associates		11	7
Taxation	9	(100)	(117)
Surplus on continuing operations after depreciation of fixed assets at cost/valuation and taxation		23,260	16,638
Minority interest in subsidiary undertakings' results for the year	25	253	153
Surplus on continuing operations after depreciation of fixed assets at cost/valuation, taxation and minority interest		23,513	16,791
Surplus for the year transferred to accumulated income in endowment funds	22	(296)	(750)
Surplus for the year retained within general reserves	23	23,217	16,041
The surplus for the year retained within general reserves is attributable to the following:			
		2010 £000	2009 £000
University		21,943	15,456
Group undertakings		1,274	585
		23,217	16,041

Statement of consolidated historical cost surpluses and deficits for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
Surplus on continuing operations before taxation		23,613	16,908
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	24	229	13
Historical cost surplus for the year before taxation		<u>23,842</u>	<u>16,921</u>
Historical cost surplus for the year after taxation		<u>23,742</u>	<u>16,804</u>

Statement of consolidated total recognised gains and losses for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
Surplus on continuing operations after depreciation of assets at cost/valuation, disposal of assets and taxation		23,217	16,041
Unrealised deficit on revaluation of investment properties	24	(663)	-
Unrealised surplus/(deficit) on revaluation of fixed asset investments	24	877	(1,461)
Net endowment income retained in the year	22	282	432
New endowments and dividends reinvested	22	3,117	3,056
Net appreciation/(depreciation) of endowment assets including reinvested profits on sales	22	13,642	(14,028)
Actuarial gain/(loss) recognised in respect of pension schemes	33(a)	10,413	(79,144)
Total recognised profits/(losses) relating to the year		<u>50,885</u>	<u>(75,104)</u>
Reconciliation			
Opening reserves and endowments		205,334	280,438
Total recognised profits/(losses) for the year		50,885	(75,104)
Closing reserves and endowments		<u>256,219</u>	<u>205,334</u>

Balance sheets

as at 31 July 2010

	Notes	Consolidated		University	
		2010 £000	2009 £000	2010 £000	2009 £000
Fixed assets					
Goodwill	10	-	4	-	-
Tangible assets	11	671,963	675,504	637,385	640,370
Investments	12	90,666	33,159	92,305	36,771
Total fixed assets		762,629	708,667	729,690	677,141
Endowment assets	13	144,368	127,327	144,368	127,327
Current assets					
Stock		1,509	1,371	1,435	1,335
Debtors: amounts falling due within one year	14	88,156	84,961	87,627	84,713
Debtors: amounts falling due after more than one year	15	389	69	10,602	10,265
Investments	16	168,301	149,531	168,301	149,531
Cash at bank and in hand		18,639	23,027	5,738	9,696
Total current assets		276,994	258,959	273,703	255,540
Creditors: amounts falling due within one year	17	(229,967)	(217,576)	(219,617)	(206,968)
NET CURRENT ASSETS		47,027	41,383	54,086	48,572
TOTAL ASSETS LESS CURRENT LIABILITIES		954,024	877,377	928,144	853,040
Creditors: amounts falling due after more than one year	18	(190,119)	(194,285)	(188,413)	(194,285)
Provisions for liabilities	20	(11,446)	(2,214)	(10,776)	(1,644)
NET ASSETS EXCLUDING PENSION LIABILITIES		752,459	680,878	728,955	657,111
Net pension liabilities	33(a)	(75,337)	(87,088)	(75,337)	(87,088)
NET ASSETS INCLUDING PENSION LIABILITIES		677,122	593,790	653,618	570,023
Deferred capital grants	21	420,893	388,337	401,018	368,006
Endowment funds					
Expendable endowments	22	23,451	20,057	23,451	20,057
Permanent endowments	22	120,917	107,270	120,917	107,270
Total endowment funds		144,368	127,327	144,368	127,327
Reserves					
Income and expenditure account excluding pension reserve	23	171,842	149,734	172,159	151,554
Pension reserve	23	(75,337)	(87,088)	(75,337)	(87,088)
Income and expenditure account including pension reserve		96,505	62,646	96,822	64,466
Revaluation reserve	24	15,346	15,361	11,410	10,224
Total reserves		111,851	78,007	108,232	74,690
Minority interests	25	10	119	-	-
TOTAL FUNDS		677,122	593,790	653,618	570,023

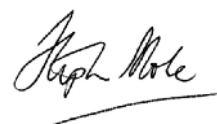
The Financial Statements on pages 18 to 53 were approved by the Board of Governors of The University of Manchester on 24 November 2010 and were signed on its behalf by:



Mr Anil Ruia
Chair of the Board of Governors and Pro-Chancellor



Professor Dame Nancy Rothwell
President and Vice-Chancellor



Mr Stephen Mole
Director of Finance

Consolidated cash flow statement for the year ended 31 July 2010

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	26	61,435	67,212
Returns on investments and servicing of finance	27	699	6,768
Taxation	9	-	-
Capital expenditure and financial investment	28	(37,951)	6,787
Management of liquid resources	29	7,844	(51,732)
Financing	30	(6,033)	(4,421)
Increase in cash in the year		<u>25,994</u>	<u>24,614</u>

Reconciliation of consolidated net cash flow to increase/(decrease) in net funds/(debt) for the year ended 31 July 2010

	Note	2010 £000	2009 £000
Increase in cash in the year	31	25,994	24,614
Cash (inflow)/outflow from liquid resources	31	(7,844)	51,732
Change in debt resulting from cash flows	31	6,033	4,421
Reclassification of debt to long term creditors	31	704	-
Movement in net funds/(debt) in year		<u>24,887</u>	<u>80,767</u>
Net debt at beginning of year	31	(19,237)	(100,004)
Net funds/(debt) at end of year	31	<u>5,650</u>	<u>(19,237)</u>

Notes to the financial statements

1 Funding body grants

	Consolidated	
	2010	2009
	£000	£000
Recurrent grants		
Higher Education Funding Council - Teaching	102,217	98,339
Higher Education Funding Council - Research	83,000	82,246
Higher Education Funding Council - Other	8,228	7,698
Training and Development Agency	2,883	2,582
Teaching Grant - Strategically Important and Vulnerable Subjects	-	1,860
Specific Grants		
Special Initiatives	5,029	4,739
Deferred Capital Grants released in year:		
Buildings	6,072	8,035
Equipment	1,589	1,262
	209,018	206,761

2 Tuition fees and education contracts

	Consolidated	
	2010	2009
	£000	£000
Fees in respect of:		
Full-time home and EU students	80,265	70,446
Full-time international students	93,371	78,322
Part-time students	19,250	17,083
Short course fees	18,209	22,360
Other teaching contract courses - core activities	15,635	15,784
Research training support grants	1,019	1,850
	227,749	205,845

3 Research grants and contracts

	Consolidated	
	2010	2009
	£000	£000
Research Councils	75,574	80,587
UK based charities	43,832	43,358
UK central government, hospitals and health authorities	39,494	34,787
UK industry and commerce	14,133	13,436
Overseas	20,469	18,579
Other sources	1,101	588
	194,603	191,335

Research grants and contracts income includes the release of deferred capital grants of £7.2m for the year ended 31 July 2010 (2009: £4.2m).

4 Other income

	Consolidated	
	2010	2009
	£000	£000
Residences, catering and conferences	46,163	45,412
Premises	2,634	3,471
Academic departments	31,477	27,369
Academic services	2,529	2,238
Continuing education and training	335	1,108
Administration and central services	2,384	2,286
Services rendered	4,314	4,193
Health authorities	28,167	23,489
Other general income - University only	7,764	6,459
Use of sports facilities	917	906
Other general income - subsidiary undertakings	6,373	5,610
Profit on disposal of tangible fixed assets	-	54
Manchester University Press	1,770	1,853
Releases of deferred capital grants from non-funding body sources	10,320	5,143
	145,147	129,591

5 Endowment and investment income

	Consolidated	
	2010	2009
	£000	£000
Income from expendable endowments (note 22)	507	570
Income from permanent endowments (note 22)	3,102	3,451
Income from donations	5,274	9,173
Income from short term investments	1,997	3,628
Dividends from general fund investments	454	566
Surplus on disposal of fixed asset investments	-	2,062
Net return on pension schemes (note 33a)	-	1,293
Other interest receivable	46	365
	11,380	21,108

6 Staff costs

	Consolidated	
	2010	2009
	£000	£000
Wages and salaries	332,153	336,129
Social security costs	28,434	28,143
Pension costs (note 33a)	65,010	47,777
Early retirement and voluntary severance scheme costs	9,229	-
	434,826	412,049

Clinical Excellence 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 £3.7m for the year ended 31 July 2010 (2009: £4.9m).

As set out in note 33, in June 2009 the University introduced a salary sacrifice arrangement, known as PensionChoice, for University employees who are members of the USS and UMSS pension schemes. Wages and salaries for USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff and the pension costs reflect the increased employer element of the USS and UMSS pension contributions.

The early retirement and voluntary severance scheme came into effect from 30 April 2010.

	Consolidated	
	2010	2009
	Numbers	Numbers
Academic - teaching and research	1,872	1,884
Academic - teaching only	436	383
Research	1,748	1,797
Administrative and management	1,265	1,223
Clerical and secretarial	1,588	1,574
Academic support	1,331	1,262
Craft / Manual	903	924
Other	253	294
Total number of staff	9,396	9,341

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 (other than the President and Vice-Chancellor), 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	
	2010	2009
	Number of	Number of
	Employees	Employees
£100,001 - £110,000	17	25
£110,001 - £120,000	16	16
£120,001 - £130,000	7	11
£130,001 - £140,000	6	3
£140,001 - £150,000	1	1
£150,001 - £160,000	3	7
£160,001 - £170,000	7	2
£170,001 - £180,000	1	1
£180,001 - £190,000	1	-
£200,001 - £210,000	2	1
£270,001 - £280,000	-	1
£280,001 - £290,000	1	-
	62	68

Emoluments of the President and Vice-Chancellor

	Consolidated	
	2010	2009
	£000	£000
Salary	279	281
Benefits in kind	14	14
	293	295
Pension contributions	39	39

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

Two Presidents served during the year ended 31 July 2010. The amount disclosed is the aggregate of their emoluments as President and Vice-Chancellor.

Termination payments totalling £0.4m were paid to individuals whose annual remuneration exceeded £100,000.

7(a) Analysis of expenditure by activity

	Staff Costs £000	Other operating expenses £000	Depreciation £000	Interest payable £000	Consolidated	
					2010 £000	2009 £000
Academic departments	237,991	86,244	4,239	-	328,474	316,677
Academic services	27,583	19,029	481	-	47,093	46,005
Research grants and contracts	85,225	57,697	6,669	-	149,591	145,261
Residences, catering and conferences	12,300	22,914	14	2,280	37,508	39,826
Premises	22,741	33,582	28,308	8,248	92,879	95,916
Administration and central services	14,622	13,951	174	1,308	30,055	26,295
Staff and student facilities	9,799	7,962	-	-	17,761	17,215
General educational expenditure	4,396	20,146	3	-	24,545	21,402
Other services rendered	3,908	4,426	4	-	8,338	11,633
Early retirement voluntary severance scheme	9,229	-	-	-	9,229	-
Total University	427,794	265,951	39,892	11,836	745,473	720,230
Subsidiary undertakings	7,032	10,955	935	153	19,075	17,662
Total	434,826	276,906	40,827	11,989	764,548	737,892

7(b) Analysis of other operating expenses

	Consolidated	
	2010 £000	2009 £000
Equipment purchases and maintenance	31,407	33,221
Estate repairs and maintenance	21,315	15,994
Consumables and laboratory expenditure	24,152	25,436
Catering supplies	5,349	5,535
Library and publications	8,162	7,201
Professional and other fees	42,734	43,538
Travel and subsistence	14,948	15,266
Printing, stationery and office expenses	12,336	12,422
Fellowships, scholarships and prizes	55,589	52,123
Recruitment, training and welfare	3,666	5,166
Heat, light, water and power	17,884	19,140
Rent, rates and insurance	14,337	15,055
Grants to student union	1,413	1,363
External auditors' remuneration in respect of audit services	367	176
External auditors' remuneration in respect of non audit services	490	909
Other expenditure	11,859	18,782
Subsidiary undertakings other operating expenditure	10,898	10,099
	276,906	281,426

Other operating expenses includes:

External auditors' remuneration in respect of audit services - Deloitte LLP:

- Amounts in respect of current year	323	176
- Amounts in respect of prior year	44	-
	367	176

External auditors' remuneration in respect of non-audit services:

- Deloitte LLP taxation services	210	400
- Deloitte LLP consultancy services	280	509
	490	909

Operating lease rentals:

Land and buildings	7,277	6,308
Other	1,577	1,201

Notes to the financial statements *continued*

8 Interest and other finance costs

	Consolidated	
	2010	2009
	£000	£000
Bank and other loans wholly repayable within five years	10	31
Bank and other loans not wholly or partly repayable within five years	10,518	10,954
Other interest payable	153	1,069
Pension finance cost (note 33a)	1,308	-
	<u>11,989</u>	<u>12,054</u>

9 Taxation

	Consolidated	
	2010	2009
	£000	£000
Current Tax		
UK Corporation tax of 28% (2009: 28%) on surplus for the year	-	(17)
Deferred tax		
Origination and reversal of timing differences	100	134
Total tax charge	<u>100</u>	<u>117</u>
Tax paid in year	<u>-</u>	<u>-</u>

10 Goodwill

	Consolidated
	£000
Cost	
At 1 August 2009	<u>94</u>
Amortisation	
At 1 August 2009	90
Charge in year	4
At 31 July 2010	<u>94</u>
Net book value	
At 31 July 2010	<u>-</u>
At 1 August 2009	<u>4</u>

There are no intangible assets within the University.

11 Tangible fixed assets

	Freehold land and buildings	Lease premium	Assets under construction	Fixtures, fittings, tools and equipment	Heritage assets	2010 Total
a) Consolidated	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 August 2009	707,116	-	43,778	184,743	809	936,446
Additions at cost / valuation	110	-	20,995	16,112	654	37,871
Transfers between categories	42,662	-	(47,345)	4,683	-	-
Disposals	(44)	-	-	(8,561)	-	(8,605)
At 31 July 2010	749,844	-	17,428	196,977	1,463	965,712
Depreciation						
At 1 August 2009	121,734	-	-	139,208	-	260,942
Charge for the year	23,352	-	-	17,475	-	40,827
Disposals	(24)	-	-	(7,996)	-	(8,020)
At 31 July 2010	145,062	-	-	148,687	-	293,749
Net book value						
At 31 July 2010	604,782	-	17,428	48,290	1,463	671,963
At 1 August 2009	585,382	-	43,778	45,535	809	675,504
b) University						
	Freehold land and buildings	Lease premium	Assets under construction	Fixtures, fittings, tools and equipment	Heritage assets	2010 Total
	£000	£000	£000	£000	£000	£000
Cost/valuation						
At 1 August 2009	663,627	5,400	44,507	181,752	809	896,095
Additions at cost / valuation	110	-	20,996	15,265	654	37,025
Transfers between categories	42,662	-	(47,345)	4,683	-	-
Disposals	(20)	-	-	(7,717)	-	(7,737)
At 31 July 2010	706,379	5,400	18,158	193,983	1,463	925,383
Depreciation						
At 1 August 2009	117,293	814	-	137,618	-	255,725
Charge for the year	22,581	74	-	17,237	-	39,892
Disposals	-	-	-	(7,619)	-	(7,619)
At 31 July 2010	139,874	888	-	147,236	-	287,998
Net book value						
At 31 July 2010	566,505	4,512	18,158	46,747	1,463	637,385
At 1 August 2009	546,334	4,586	44,507	44,134	809	640,370

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.

Included in Freehold land and buildings are buildings which were revalued to £13.3m, with accumulated depreciation of £6.7m (2009: £6.4m). These buildings have a net book value of £6.6m at 31 July 2010. The historical cost of these buildings is £11.8m and accumulated depreciation is £6.2m, giving a net book value on a historical cost basis of £5.6m (2009: £5.9m).

Land and buildings with a net book value of £16.0m (2009: £16.6m) are the subject of security granted in respect of certain bank loans as disclosed in note 19 to the financial statements.

At 31 July 2010, freehold land and buildings included £4.5m (2009: £4.4m) in respect of freehold land which is not depreciated.

Notes to the financial statements *continued*

11 Tangible fixed assets (continued)

Heritage assets

The University holds and maintains certain heritage assets, such as historic buildings and collections of art and other valuable artefacts of historical, scientific and artistic importance. The University conserves these assets and augments the collections where appropriate in order to enable use of the assets for teaching and research and access to the assets for engagement with members of the public. Further information on the University's policies regarding conservation, preservation, management and disposal of heritage assets can be found on the University's website <http://www.manchester.ac.uk/aboutus/structure/culturalassets/>.

Heritage assets acquired since 1 August 2007 and 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. These comprise in the main a collection of art work purchased by the Whitworth Art Gallery and books donated to the John Rylands University Library. Capitalised donated heritage assets have been valued internally on acquisition on the basis of knowledge and experience of similar assets. Heritage assets held at cost or valuation are not depreciated due to their indefinite life and high residual value. Amounts for the current year and previous two years are as follows:

	2010 £000	2009 £000	2008 £000
Cost or valuation at 1 August	809	409	-
Acquisitions purchased with donations	29	-	409
Value of acquisitions by donation	625	400	-
Total acquisitions capitalised	654	400	409
Cost or valuation at 31 July	1,463	809	409

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. All costs incurred in relation to preservation and conservation are expensed as incurred. Key heritage assets held by the University fall into the categories detailed below. Their total value for insurance purposes is £1,316m (2009: £1,316m).

Whitworth Art Gallery, 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, is a Grade 1 listed building and remains one of the most powerful radio telescopes in the world.

12 Investments within fixed assets

	Consolidated		University	
	2010 £000	2009 £000	2010 £000	2009 £000
Movement in the year				
Balance at 1 August	33,159	33,756	36,771	37,846
Additions	57,553	906	56,372	74
Disposals	(76)	(42)	(442)	-
Amounts provided on unquoted shares during the year	(184)	-	(1,582)	-
Net transfers from tangible fixed assets	-	-	-	366
Devaluation of investment properties	(663)	-	(663)	-
Net appreciation/(depreciation) of other investments within fixed assets including reinvested profits on sales	877	(1,461)	1,849	(1,515)
Balance at 31 July	90,666	33,159	92,305	36,771
Analysis of closing balance				
Other fixed interest securities	1,731	1,706	1,731	1,706
UK industrial and commercial securities	6,185	5,414	6,185	5,414
Overseas industrial and commercial securities	4,216	3,835	4,216	3,835
Property funds	1,274	1,056	1,274	1,056
Investment properties	10,682	11,345	10,682	11,345
Cash instruments	2,837	994	2,837	994
Cash held with investment managers	163	180	163	180
Long-term cash deposits	55,000	-	55,000	-
Bank and building society deposits	158	158	158	158
Interests in subsidiary undertakings (note 12a)	-	-	6,165	8,086
Interests in associated undertakings (note 12b)	6,383	7,344	70	-
Loan to Sugden Sports Trust	-	-	3,705	3,705
Other investments	2,037	1,003	119	168
Unquoted shares	-	124	-	124
Total investments within fixed assets	90,666	33,159	92,305	36,771
Investments at cost	74,659	17,182	85,174	29,244

The investment properties totalling £10.7m (2009: £11.3m) 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 was performed in accordance with the RICS Valuation Standards (6th Edition). The valuation has been updated to 31 July 2010 by senior management at The University of Manchester and the value has been revised downwards to £10.7m as a consequence.

Notes to the financial statements *continued*

12 Investments within fixed assets (continued)

a) Investments in subsidiary undertakings

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

	Group	University		Description
Directly owned	Holding	2010	2009	
Indirectly owned	%	£	£	
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 (MICL)	100	-	-	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	1,836,153	3,336,153	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	-	-	Dissolved 1 June 2010
The University of Manchester Venture Fund Management Limited	100	-	5,135	Dissolved 15 June 2010
UMIST Ventures Fund (General Partner) Limited	100	-	-	Dissolved 15 June 2010
UMIST Ventures Fund (Carried Interest Partner) Limited	100	-	-	Dissolved 15 June 2010
Manchester Informatics Limited	100	100	100	Provision of consultancy services
Visual Automation Limited	100	2	2	Provision of consultancy services
Manchester Technology Fund Limited	100	-	50,000	Ceased trading 31 July 2009
The University of Manchester Intellectual Property Limited	100	50,000	50,000	Management of intellectual property
UMIP UPF Limited	100	10,000	10,000	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	1,000	Dormant
The University of Manchester Incubator Company Limited	100	1	1	Ceased trading 1 May 2010 (trade transferred to MICL)
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
Dryden Street Partnership	50	-	366,000	Dissolved 31 July 2010
Sugden Sports Trust	50	-	-	Ownership of sports centre
UMIST Educational Trust	100	-	-	Rental of buildings
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	124,288	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
		<u>6,165,071</u>	<u>8,086,206</u>	

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.

12 Investments within fixed assets (continued)

b) Investments in associated undertakings

Movement in the year	Consolidated	
	2010 £000	2009 £000
Balance at 1 August	7,344	7,287
Share of profits	11	7
Disposals	-	(4)
Share of property (devaluations)/revaluations	(972)	54
Balance at 31 July	6,383	7,344

The University and Group had the following associated undertakings as at 31 July 2010

Name of associate	Class of share capital held	Proportion held by the University and Group	Share of net assets/ (liabilities)	Share of net assets/ (liabilities)	Nature of business
			2010 £000	2009 £000	
Manchester Science Park Limited Financial year end 31 December	£1 ordinary	28%	3,219	4,148	Ownership and management of buildings housing technology based businesses
One Central Park Limited Financial year end 31 July	£1 ordinary	20%	3,207	3,239	Ownership and management of buildings to operate education and incubation services
MNW Limited Financial year end 31 July	£1 ordinary	33%	-	-	Dissolved 26 May 2009
HPC-UK Ltd Financial year end 31 July	'B' £1 ordinary	33%	-	-	Dissolved 18 November 2008
The Corridor, Manchester Financial year end 31 March	CLG	33%	(43)	(43)	To maximise the economic potential of the City South area of Manchester
			6,383	7,344	

The associated companies are accounted for using the equity method. All associated companies were incorporated in the United Kingdom.

Notes to the financial statements *continued*

13 Endowment assets	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Movement in the year				
Balance at 1 August	127,327	137,867	127,327	137,867
New endowments including unreleased income earned on capital	3,399	3,488	3,399	3,488
Net appreciation/(depreciation) including reinvested profits on sales	13,642	(14,028)	13,642	(14,028)
Balance at 31 July	144,368	127,327	144,368	127,327
Analysis of closing balance				
Other fixed interest securities	16,037	15,627	16,037	15,627
UK industrial and commercial securities	55,832	49,073	55,832	49,073
Overseas industrial and commercial securities	39,170	34,847	39,170	34,847
Property	11,707	9,494	11,707	9,494
Hedge funds	134	119	134	119
Cash instruments	6,083	1,724	6,083	1,724
Cash held with investment managers	1,569	1,661	1,569	1,661
Bank and building society deposits and uninvested bank balances	13,836	14,782	13,836	14,782
Total endowment assets	144,368	127,327	144,368	127,327
Endowment assets at cost	108,551	105,152	108,551	105,152
14 Debtors: amounts falling due within one year	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Trade debtors	22,835	20,982	19,549	17,108
Accrued income on research grants and contracts	35,790	35,634	35,790	35,634
Prepayments and accrued income	29,462	28,345	30,512	29,814
Amounts due from subsidiary companies	-	-	1,776	2,157
Amounts due from associate companies and spin outs	69	-	-	-
Balance at 31 July	88,156	84,961	87,627	84,713
15 Debtors: amounts falling due after more than one year	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Loans to University of Manchester Students' Union	41	69	41	69
Amounts due from subsidiary companies	-	-	10,561	10,196
Amounts due from associate companies and spin outs	348	-	-	-
Balance at 31 July	389	69	10,602	10,265
16 Investments within current assets	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Bank deposits repayable after due notice	120,437	128,281	120,437	128,281
Bank deposits repayable on demand	47,864	21,250	47,864	21,250
Balance at 31 July	168,301	149,531	168,301	149,531

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 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 2010 the weighted average interest rate of these fixed rate deposits was 0.85% (2009: 1.07%) per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 76 days (2009: 66 days).

17 Creditors: amounts falling due within one year

	Consolidated		University	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank overdraft	-	4,714	-	4,714
Bank loans (note 19)	6,278	6,026	6,278	6,026
Loans other than bank loans (note 19)	-	1,706	-	-
Trade creditors	17,831	17,782	16,713	16,053
Obligations under hire purchase contracts	-	4	-	-
Social security and other taxation payable	18,995	18,749	18,844	18,537
Amounts owed to group undertakings	-	-	274	560
Other creditors	27,568	22,200	27,336	21,522
Deferred income on research grants and contracts	58,935	47,922	58,753	47,922
Accruals and deferred income	100,360	98,473	91,419	91,634
Balance at 31 July	229,967	217,576	219,617	206,968

18 Creditors: amounts due after more than one year

	Consolidated		University	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank loans (note 19)	77,300	83,581	77,300	83,581
Loans other than bank loans (note 19)	111,706	110,704	110,000	110,704
Other creditors due after more than one year	-	-	-	-
After five years	1,113	-	1,113	-
Balance at 31 July	190,119	194,285	188,413	194,285

19 Borrowings

	Consolidated		University	
	2010 £000	2009 £000	2010 £000	2009 £000
a) Bank and other loans				
Bank and other loans are repayable as follows:				
In one year or less	6,278	7,732	6,278	6,026
Between one and two years	6,310	6,281	6,310	6,281
Between two and five years	30,174	19,754	30,174	19,754
In five years or more	152,522	168,250	150,816	168,250
	195,284	202,017	193,578	200,311
Included within creditors: amounts falling due within one year	(6,278)	(7,732)	(6,278)	(6,026)
	189,006	194,285	187,300	194,285

Secured bank loans

Bank loans with an interest rate of LIBOR plus 0.9%, repayable by instalments falling due between 2010 and 2011 totalling £0.1m (2009: £0.4m) 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 2010 and 2011 totalling £0.1m (2009: £0.5m) are secured on the Manchester School of Management Building.

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2010 and 2021 totalling £22.2m (2009: £23.2m) are secured on various student residences.

Bank loans with an interest rate of 8.4%, repayable by instalments falling due between 2010 and 2017 totalling £1.3m (2009: £1.5m) are secured on Ronson Hall.

Bank loans with an interest rate of LIBOR plus spread, repayable by instalments falling due between 2010 and 2014 totalling £3.9m (2009: £4.7m) are secured on Booth Street car park.

Unsecured bank and other loans

Bank loans with an interest rate of 6.1%, repayable by instalments falling due between 2010 and 2026 totalling £16.8m (2009: £17.4m).

Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2010 and 2019 totalling £19.8m (2009: £21.9m).

Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2010 and 2022 totalling £19.4m (2009: £20.0m).

Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £100.0m (2009: £100.0m).

Other loans which are interest free and repayable by one repayment falling due in 2014 totalling £10.0m (2009: £10.0m).

Other loans with an interest rate of 6.5% repayable by one repayment falling due in 2018 totalling £1.7m (2009: £1.7m).

b) Hire purchase loans

Hire purchase loans are repayable as follows:

	Consolidated	
	2010 £000	2009 £000
In one year or less	-	4
	-	4

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

Notes to the financial statements *continued*

20 Provisions for liabilities

a) Consolidated

	Early retirement / voluntary severance £000	Dilapidation provision £000	Deferred tax £000	2010 Total £000
Balance at beginning of year	97	1,547	570	2,214
Utilised during the year	(97)	-	-	(97)
Charged to income and expenditure account	9,229	-	100	9,329
Balance at 31 July	9,229	1,547	670	11,446

Deferred tax

The elements of deferred tax are as follows:

	2010 £000	2009 £000
Difference between accumulated depreciation and capital allowances	729	555
Other timing differences	(59)	15
Balance at 31 July	670	570

b) University

	Early retirement / voluntary severance £000	Dilapidation provision £000	2010 Total £000
Balance at beginning of year	97	1,547	1,644
Utilised during the year	(97)	-	(97)
Charged to income and expenditure account	9,229	-	9,229
Balance at 31 July	9,229	1,547	10,776

Early retirement and voluntary severance scheme

The early retirement and voluntary severance scheme provision is in respect of future committed payments due to employees at the balance sheet date. The provision is expected to be settled within the next six months dependent upon the agreed departure date of the relevant employees. As the amount of the provision for each employee is already determined at the time of agreeing to the commitment, the amount of the final settlement is anticipated to be in line with the year end provision. As the scheme remains open until 31 January 2011 it is expected that there will be a further charge in 2010/11.

Dilapidation provision

This provision is in respect of costs associated with rectification work for a leased building. The provision is expected to be settled in the financial year ending 31 July 2011. The amount of the provision is still being negotiated with the landlord.

21 Deferred capital grants

	Funding Council £000	Other grants £000	2010 Total £000
a) Consolidated			
Balance at 1 August			
Buildings	232,612	133,501	366,113
Equipment	6,220	15,151	21,371
Donated assets	-	853	853
Total	238,832	149,505	388,337
Grants received/receivable			
Buildings	35,352	9,848	45,200
Equipment	129	11,879	12,008
Donated assets	-	550	550
Total received	35,481	22,277	57,758
Released to income and expenditure			
Buildings	6,072	9,150	15,222
Equipment	1,589	8,329	9,918
Donated assets	-	62	62
Total released	7,661	17,541	25,202
Balance at 31 July			
Buildings	261,892	134,199	396,091
Equipment	4,760	18,701	23,461
Donated assets	-	1,341	1,341
Total	266,652	154,241	420,893
b) University			
Balance at 1 August			
Buildings	232,612	113,170	345,782
Equipment	6,220	15,151	21,371
Donated assets	-	853	853
Total	238,832	129,174	368,006
Grants received/receivable			
Buildings	35,352	9,848	45,200
Equipment	129	11,879	12,008
Donated assets	-	550	550
Total received	35,481	22,277	57,758
Released to income and expenditure			
Buildings	6,072	8,694	14,766
Equipment	1,589	8,329	9,918
Donated assets	-	62	62
Total released	7,661	17,085	24,746
Balance at 31 July			
Buildings	261,892	114,324	376,216
Equipment	4,760	18,701	23,461
Donated assets	-	1,341	1,341
Total	266,652	134,366	401,018

Notes to the financial statements *continued*

22 Endowments

Consolidated and University	Unrestricted permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2010 Total £000	2009 Total £000
Balance at 1 August						
Capital	14,299	81,458	95,757	17,801	113,558	124,599
Accumulated income	-	11,513	11,513	2,256	13,769	13,268
	14,299	92,971	107,270	20,057	127,327	137,867
New endowments	-	1,010	1,010	1,582	2,592	2,682
Reclassification of endowment funds	(1,546)	1,546	-	-	-	-
Dividends reinvested	37	208	245	45	290	305
Appreciation/(depreciation) of endowment assets	1,679	10,132	11,811	1,831	13,642	(14,028)
University of Manchester contribution	-	235	235	-	235	69
Purchase of tangible assets from endowment funds	-	(14)	(14)	-	(14)	(318)
Investment income	413	2,689	3,102	507	3,609	4,021
Expenditure for year	(413)	(2,329)	(2,742)	(571)	(3,313)	(3,271)
Balance at 31 July	14,469	106,448	120,917	23,451	144,368	127,327
Representing:						
Capital	14,469	94,354	108,823	21,259	130,082	113,558
Accumulated income	-	12,094	12,094	2,192	14,286	13,769
Total	14,469	106,448	120,917	23,451	144,368	127,327

There are no restricted permanent endowments which have a deficit on their accumulated income balances.

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 2010 £000	Opening accumulated income £000	Investment income £000	Expenditure £000	Closing accumulated income £000	Date received
Hallsworth Fund	17,933	529	508	(535)	502	1944
Simon Fund	9,957	483	282	(377)	388	1943
Oncology department fund	8,820	161	250	(147)	264	1975
Student Services Centre - prize and scholarship fund	4,810	86	136	-	222	2001
John Rylands general library fund	4,771	717	135	(29)	823	1972
John Rylands research institute fund	4,394	943	125	(113)	955	1972
National fund for research into crippling diseases	3,713	82	105	(158)	29	1974
Dr Mont Follick professorship in phonetics	2,646	247	75	(142)	180	1962
BNFL permanent endowment	2,532	73	72	(29)	116	2008
BNFL expendable endowment	2,532	73	72	(54)	91	2008
Simon Fund (special) 1960	2,279	-	65	(65)	-	1960
Frederick Craven Moore Fund	2,213	247	63	(67)	243	1975
Hulme Trust	1,570	-	42	(42)	-	1881
Davies Chair in Entrepreneurship	1,543	30	36	-	66	2008
	69,713	3,671	1,966	(1,758)	3,879	

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

22 Endowments (continued)

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.

Oncology department fund

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

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. 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.

John Rylands general library fund

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

John Rylands research institute fund

This restricted permanent endowment is similarly constituted and again is to support the purchase of books for the library.

National fund for research into crippling diseases

This restricted permanent 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 permanent 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 restricted 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 permanent endowment established in 1960 put the income at the disposal of 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.

Hulme Trust

This unrestricted permanent 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.

Davies Chair in Entrepreneurship

This restricted permanent endowment was established to fund a Chair in Entrepreneurship at Manchester Business School.

Notes to the financial statements *continued*

23 Movement on general reserves

	Consolidated		University	
	2010 £000	2009 £000	2010 £000	2009 £000
Income and expenditure account				
Balance at beginning of year	149,734	138,166	151,554	140,571
Surplus retained for the year	23,217	16,041	21,943	15,456
Transfer from revaluation reserve	229	13	-	13
Transfer pension surplus to pension reserve	(1,338)	(4,486)	(1,338)	(4,486)
Balance at 31 July	171,842	149,734	172,159	151,554
Pension reserve				
Balance at beginning of year	(87,088)	(12,430)	(87,088)	(12,430)
Actuarial gain/(loss) on pension schemes	10,413	(79,144)	10,413	(79,144)
Surplus retained within reserves	1,338	4,486	1,338	4,486
Balance at 31 July	(75,337)	(87,088)	(75,337)	(87,088)

24 Revaluation reserve

a) Consolidated

	Land and buildings £000	Investment properties £000	Other investments within fixed assets £000	2010 Total £000
Revaluations				
At beginning of year	678	8,856	6,038	15,572
Revaluation in year	-	(663)	877	214
At 31 July	678	8,193	6,915	15,786
Contribution to depreciation				
At beginning of year	211	-	-	211
Transfer to income and expenditure account	-	-	229	229
At 31 July	211	-	229	440
Revaluation reserve				
At 31 July	467	8,193	6,686	15,346
At beginning of year	467	8,856	6,038	15,361

b) University

	Land and buildings £000	Investment properties £000	Other investments within fixed assets £000	2010 Total £000
Revaluations				
At beginning of year	678	8,856	901	10,435
Revaluation in year	-	(663)	1,849	1,186
At 31 July	678	8,193	2,750	11,621
Contribution to depreciation				
At beginning of year	211	-	-	211
Transfer to income and expenditure account	-	-	-	-
At 31 July	211	-	-	211
Revaluation reserve				
At 31 July	467	8,193	2,750	11,410
At beginning of year	467	8,856	901	10,224

25 Minority interests

	Consolidated	
	2010 £000	2009 £000
At beginning of year	119	272
Minority interest in subsidiary undertakings' results for the year	(253)	(153)
Minority interest's contribution to deficit	144	-
At 31 July	10	119

26 Reconciliation of operating surplus to net cash inflow from operating activities	Consolidated	
	2010	2009
	£000	£000
Surplus on continuing operations after depreciation of fixed assets at cost/valuation and disposal of fixed asset investments and before taxation	23,613	16,908
Depreciation	40,827	32,363
Amortisation of goodwill	4	53
Deferred capital grants released to income	(25,202)	(18,584)
Investment income	(11,334)	(17,388)
Transfers to endowments	(296)	(750)
Surplus on disposal of fixed assets	-	(54)
Surplus on disposal of fixed asset investments	-	(2,062)
Interest payable	10,681	12,054
Interest receivable	(46)	(365)
Difference between pension charge and cash contributions	(1,338)	(4,486)
Minority interests	(109)	(153)
(Increase)/decrease in stocks	(138)	264
(Increase)/decrease in long term debtors	(320)	208
(Increase)/decrease in debtors due within one year	(3,195)	17,422
Increase in creditors	18,972	32,681
Increase/(decrease) in provisions	9,316	(899)
Net cash inflow from operating activities	61,435	67,212
27 Returns on investments and servicing of finance	Consolidated	
	2010	2009
	£000	£000
Income from endowments	3,609	4,021
Income from short term investments	1,997	3,628
Income from donations	5,274	9,173
Dividend income from general fund investments	454	566
Other interest received	46	365
Interest paid	(10,681)	(10,985)
Net cash inflow from returns on investments and servicing of finance	699	6,768
28 Capital expenditure and financial investment	Consolidated	
	2010	2009
	£000	£000
Purchase of tangible fixed assets	(37,321)	(49,663)
Net acquisition of fixed asset investments	(57,553)	(906)
Net acquisition of endowment assets	(4,345)	(655)
Receipts from sale of tangible fixed assets	585	300
Receipts from sale of fixed asset investments	76	2,262
Deferred capital grants received	57,208	53,415
Endowments received	3,399	2,034
Net cash (outflow)/inflow from capital expenditure and financial investment	(37,951)	6,787
29 Management of liquid resources	Consolidated	
	2010	2009
	£000	£000
Withdrawals/(placements) on deposit	7,844	(51,732)
Net cash inflow/(outflow) from management of liquid resources	7,844	(51,732)

Notes to the financial statements *continued*

30 Financing

	Consolidated	
	31 July 2010 £000	31 July 2009 £000
New bank loans	-	704
Bank loan repayments	(6,029)	(5,122)
Capital element of hire purchase repayments	(4)	(3)
Net cash outflow from financing	(6,033)	(4,421)

31 Analysis of changes in net debt

	1 August 2009 £000	Consolidated		31 July 2010 £000
		Cash flows £000	Non-cash changes £000	
Bank overdraft	(4,714)	4,714	-	-
Cash at bank	23,027	(4,388)	-	18,639
Bank deposits repayable on demand	21,250	26,614	-	47,864
Uninvested bank balances - fixed asset investments (note 12)	158	-	-	158
Endowment asset investments (note 13)	14,782	(946)	-	13,836
	54,503	25,994	-	80,497
Bank deposits repayable after due notice	128,281	(7,844)	-	120,437
Debt due within one year	(7,732)	6,029	(4,575)	(6,278)
Debt due after one year	(194,285)	-	5,279	(189,006)
Hire purchase amounts due within one year	(4)	4	-	-
Net debt	(19,237)	24,183	704	5,650

32 Cash flow relating to exceptional items

Operating cash flows include an outflow of £nil (2009: £2.2m) in respect of expenditure incurred as a result of the previous early retirement/voluntary severance scheme that was treated as an exceptional item.

33 Pension Schemes

a) Pension schemes - summary

According to the requirements of FRS 17 'Retirement Benefits', the following pension scheme deficits, pension operating charges and actuarial gains/(losses) are included in the financial statements:

	Consolidated and University	
	2010	2009
	£000	£000
Balance sheet - Pension scheme deficits		
University of Manchester Superannuation Scheme	(50,710)	(58,500)
Greater Manchester Pension Fund	(23,883)	(27,793)
Manchester Innovation Limited Group Pension Scheme	(744)	(795)
	(75,337)	(87,088)
	2010	2009
	£000	£000
Statement of total recognised gains and losses - Actuarial gains/(losses)		
University of Manchester Superannuation Scheme	5,371	(64,380)
Greater Manchester Pension Fund	5,272	(13,955)
Manchester Innovation Limited Group Pension Scheme	(230)	(809)
	10,413	(79,144)
Consolidated income and expenditure account		
	2010	2009
	£000	£000
Pension costs (note 6)		
University of Manchester Superannuation Scheme	13,047	8,992
Greater Manchester Pension Fund	1,865	1,328
Manchester Innovation Limited Group Pension Scheme	3	3
Universities Superannuation Scheme	47,107	34,597
NHS Pension Scheme	2,988	2,857
	65,010	47,777
	2010	2009
	£000	£000
Pension finance cost (note 8) / Net return on pension schemes (note 5)		
University of Manchester Superannuation Scheme	(140)	1,688
Greater Manchester Pension Fund	(1,125)	(372)
Manchester Innovation Limited Group Pension Scheme	(43)	(23)
	(1,308)	1,293

The figures here include pension increases based on RPI. If CPI were to be used instead the impact would be a reduction in liabilities of £35m.

Notes to the financial statements *continued*

33 Pension schemes (continued)

a) Pension schemes - summary (continued)

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

In June 2009 the University introduced a salary sacrifice arrangement, known as PensionChoice, for University employees who are members of the USS and UMSS pension schemes. Members of these schemes may elect to give up a portion of their contractual gross pay equal to their employees' pension contribution. In return the University increases its contributions to cover both the employee and employer elements of the pension contribution.

The salary sacrifice arrangement is reported in the financial statements as follows:

- Wages and salaries for USS and UMSS members participating in PensionChoice reflect the reduced gross pay earned by staff.
- Pension costs and pension contributions to the USS and UMSS schemes reflect the increased employer element of the pension contributions.
- Employers contribution percentage rates represent only the employer's contribution rates specified by the scheme trustees and exclude employees contribution percentage rates.

b) Universities Superannuation Scheme ('USS')

The University of Manchester participates in the USS, a defined benefit scheme for academic and related employees of all pre-1992 UK Universities and some other employers. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme 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 in respect of the accounting period.

The last triennial actuarial valuation of the scheme was at 31 March 2008 and was carried out using the projected unit method. To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum, salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum. At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). Compared to the previous 12 months, the funding level has improved from 74% (as at 31 March 2009) to 91%.

The next formal triennial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently. Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

The total pension cost for the University of Manchester was £47.1m (2009: £34.6m). This includes £3.9m (2009: £3.8m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

c) NHS Pension Scheme ('NHSPS')

The University of Manchester also participates in the NHSPS which is 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 surplus 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 2004. It was assumed that the rate of real earnings growth would be 1.5% per annum (plus an additional allowance for increases in salary due to salary progression and promotion in line with recent experience) and the valuation rate of return would be 6.5% per annum.

The contribution rate payable by the University during the year ended 31 July 2010 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 £3.0m (2009: £2.8m). This includes £0.2m (2009: £0.2m) outstanding contributions at the balance sheet date.

33 Pension schemes (continued)

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

UMSS is a final salary defined benefit scheme in the UK which is contracted out of the State Second Pension (S2P). A full actuarial valuation was carried out at 31 July 2007 and updated to 31 July 2010 on an FRS 17 basis by a qualified independent actuary. A new triennial valuation is due based on the assets and liabilities as at 31 July 2010. However, as at the date of signing of the accounts, this valuation is still ongoing and has not yet been completed, therefore the valuation of the liability is based on the 2007 valuation adjusted for the latest assumptions. The major assumptions used by the actuary are detailed below:

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 7.37% assumption as at 31 July 2010.

Weighted average assumptions used to determine benefit obligations at 31 July 2010:

	2010	2009
Rate of increase in salaries	4.20%	4.60%
Rate of increase of pensions in payment and deferred pensions	3.20%	3.60%
Discount rate	5.50%	5.90%
Inflation assumption	3.20%	3.60%

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

	2010
Rate of increase in salaries	4.60%
Expected long term return on plan assets	7.20%
Discount rate	5.90%

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

	2010	
	Male	Female
Member age 62 (current life expectancy)	23.5	26.0
Member age 42 (life expectancy at age 62)	25.5	27.9

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

	2010	2010	2009	2009	2008	2008
		£000		£000		£000
Equities	8.25%	162,379	8.00%	121,812	8.00%	141,959
Bonds	5.80%	97,742	6.30%	109,631	5.60%	103,711
Property	8.25%	13,384	7.50%	12,181	7.90%	20,802
Total market value of assets		273,505		243,624		266,472
Actuarial value of liability		(324,215)		(302,124)		(265,188)
Net pension (liability)/asset		(50,710)		(58,500)		1,284

Analysis of the amount charged to operating surplus

	2010	2009
	£000	£000
Current service cost	13,035	8,960
Past service cost	12	32
Total operating charge	13,047	8,992

Analysis of pension finance cost / net return on pension scheme

	2010	2009
	£000	£000
Expected return on pension scheme assets	17,811	19,028
Interest on pension liabilities	(17,951)	(17,340)
Net (cost)/return	(140)	1,688

Notes to the financial statements *continued*

33 Pension Schemes (continued)

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

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

	2010	2009
	£000	£000
Actual return less expected return on scheme assets	5,253	(47,964)
Experience gains and losses on liabilities	-	5,000
Changes in assumptions	118	(21,416)
Actuarial gain/(loss) recognised in STRGL	5,371	(64,380)

Reconciliation of fair value of employer assets

	2010	2009
	£000	£000
Opening fair value of employer assets	243,624	266,472
Expected return on assets	17,811	19,028
Contributions by the employer	15,606	11,900
Contributions by members	790	3,270
Actuarial gains/(losses)	5,253	(47,964)
Estimated benefits paid	(9,579)	(9,082)
Closing fair value of employer assets	273,505	243,624

Reconciliation of defined benefit obligation

	2010	2009
	£000	£000
Opening defined benefit obligation	302,124	265,188
Current service cost	13,035	8,960
Past service cost	12	32
Interest cost	17,951	17,340
Contributions by members	790	3,270
Actuarial (gains)/losses	(118)	16,416
Estimated benefits paid	(9,579)	(9,082)
Closing defined benefit obligation	324,215	302,124

At the last full actuarial valuation of the scheme as at 31 July 2007, the value of the assets of the scheme was £283.7m and the value of the past service liabilities was £305.6m leaving a deficit of £21.9m. The assets therefore were sufficient to recover 92.3% of the benefits which had accrued to members' deficit after allowing for expected future increases in earnings. The University currently pays contributions at the rate of 19.75% of pensionable pay for members who do not participate in PensionChoice and 26% of pensionable pay for those that do. For those that do not participate in PensionChoice, member contributions are payable in addition at the rate of 6.25% of pensionable pay. No changes in contribution rates are expected for the year ending 31 July 2011 and total employer contributions are estimated at £15.7m.

A bank guarantee facility of £40m was given by one of the University's bankers in favour of UMSS Limited as trustee of the University of Manchester Superannuation Scheme. The guarantee expired on 31 March 2010. The University has now given the scheme direct security over a number of properties to the value of at least £40m.

History of experience gains and losses

	Year ended 31 July				
	2010	2009	2008	2007	2006
Present value of defined benefit obligations	(324,215)	(302,124)	(265,188)	(296,602)	(262,885)
Fair value of scheme assets	273,505	243,624	266,472	282,099	257,472
(Deficit)/surplus in the scheme	(50,710)	(58,500)	1,284	(14,503)	(5,413)
Difference between expected and actual return on scheme assets:					
Amount (£000)	5,253	(47,964)	(36,764)	4,714	12,877
Percentage of scheme assets	2%	(20%)	(14%)	2%	5%
Experience gains and losses on scheme liabilities:					
Amount (£000)	-	5,000	(1,736)	-	(2,622)
Percentage of scheme liabilities	0%	2%	(1%)	0%	(1%)

33 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 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.

A full actuarial valuation was carried out at 31 July 2008 and updated to 31 July 2010 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2010	2009
Rate of increase in salaries	4.10%	5.20%
Rate of increase in pensions in payment and deferred pensions	3.10%	3.70%
Discount rate applied to scheme liabilities	5.50%	6.00%
Inflation assumption	3.10%	3.70%
Expected return on assets	6.40%	6.60%

The mortality assumptions used as at 31 July 2010 are as follows:

Life expectancy is based on the PFA92 and PMA92 tables based on individual year of birth with improvements in line with the medium cohort and a 1% per annum underpin from 2007. Based on these assumptions, average future life expectancies at age 65 are:

- for current pensioners: 20.8 years for males and 24.1 years for females.
- for future pensioners: 22.8 years for males and 26.2 years for females.

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

	2010	2010		2009	2008	2008
		£000		£000	£000	£000
Equities	7.30%	53,956	7.30%	49,621	7.80%	46,718
Bonds	4.80%	11,730	5.30%	9,649	5.70%	12,367
Property	5.30%	4,692	5.30%	4,135	5.70%	6,122
Cash	4.40%	7,820	4.30%	5,513	4.80%	6,542
Total market value of assets		<u>78,198</u>		<u>68,918</u>		<u>71,749</u>
Actuarial value of scheme liability		<u>(102,081)</u>		<u>(96,711)</u>		<u>(85,392)</u>
Net pension liability		<u>(23,883)</u>		<u>(27,793)</u>		<u>(13,643)</u>

Analysis of the amount charged to operating surplus

	2010	2009
	£000	£000
Current service cost	1,854	1,546
Past service cost/(income)	11	(218)
Total operating charge	<u>1,865</u>	<u>1,328</u>

Analysis of pension finance cost

	2010	2009
	£000	£000
Expected return on pension scheme assets	4,502	5,019
Interest on pension liabilities	(5,627)	(5,391)
Net cost	<u>(1,125)</u>	<u>(372)</u>

Notes to the financial statements *continued*

33 Pension schemes (continued)

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

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

	2010 £000	2009 £000
Actual return less expected return on scheme assets	6,199	(5,895)
Changes in assumptions	(927)	(8,060)
Actuarial gain/(loss) recognised in STRGL	5,272	(13,955)

Reconciliation of fair value of employer assets

	2010 £000	2009 £000
Opening fair value of employer assets	68,918	71,749
Expected return on assets	4,502	5,019
Contributions by members	569	585
Contributions by the employer	1,438	1,505
Actuarial gains/(losses)	6,199	(5,895)
Estimated benefits paid	(3,428)	(4,045)
Closing fair value of employer assets	78,198	68,918

Reconciliation of defined benefit obligation

	2010 £000	2009 £000
Opening defined benefit obligation	96,711	85,392
Current service cost	1,854	1,546
Interest cost	5,627	5,391
Contributions by members	569	585
Contributions by the employer to unfunded scheme	(190)	-
Actuarial losses	927	8,060
Past service cost/(income)	11	(218)
Estimated benefits paid	(3,428)	(4,045)
Closing defined benefit obligation	102,081	96,711

Analysis of the defined benefit obligation

	2010 £000	2009 £000
Present value of unfunded liabilities	2,299	2,386
Present value of funded liabilities	99,782	94,325
Closing defined benefit obligation	102,081	96,711

The University has paid contributions at the rate of 16.8% of members' pensionable pay over the year to 31 July 2010. It was agreed with the Trustees that contributions for the following year would remain at that level.

History of experience gains and losses

	2010	2009	2008	2007	2006
Present value of defined benefit obligations	(102,081)	(96,711)	(85,392)	(80,609)	(82,726)
Fair value of scheme assets	78,198	68,918	71,749	79,039	72,527
Deficit in the scheme	(23,883)	(27,793)	(13,643)	(1,570)	(10,199)
Difference between expected and actual return on scheme assets:					
Amount (£000)	6,199	(5,895)	(11,425)	2,265	3,342
Percentage of scheme assets	7.9%	(8.6%)	(15.9%)	2.9%	4.6%
Experience gains and losses on scheme liabilities:					
Amount (£000)	-	-	(2,897)	1	(79)
Percentage of scheme liabilities	0.0%	0.0%	(3.4%)	0.0%	(0.1%)

33 Pension schemes (continued)

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

The MILGPS is a final salary defined benefit scheme. From 1 June 2003, all active members participating in the MILGPS transferred to UMSS. The deferred members remain within MILGPS.

A full actuarial valuation was carried out at 31 July 2008 and updated to 31 July 2010 on an FRS 17 basis by a qualified independent actuary. The market assumptions used in this valuation were:

	2010	2009
Rate of increase in pensions in payment and deferred pensions	5.00%	5.00%
Discount rate applied to scheme liabilities	5.50%	5.90%
Inflation assumptions	3.10%	3.60%
Expected return on plan assets	5.60%	5.60%

The mortality assumptions used are as follows:

	2010	2009
Assumed life expectancy in years on retirement at 62	26.7	26.5
Retiring today:		
Males	28.8	28.7
Females		
Retiring in 20 years:		
Males	28.9	28.8
Females	30.1	30.0

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

	2010	2010		2009	2009	2008	2008
		£000			£000		£000
Investment in bonds	5.50%	1,089	5.50%	663	-	-	
Investment in unitised with profits policy	5.75%	1,054	5.75%	1,031	5.75%	1,329	
Other	3.50%	9	3.50%	16	4.50%	538	
Total market value of assets		<u>2,152</u>		<u>1,710</u>		<u>1,867</u>	
Actuarial value of liability		<u>(2,896)</u>		<u>(2,505)</u>		<u>(1,938)</u>	
Net pension liability		<u>(744)</u>		<u>(795)</u>		<u>(71)</u>	

Analysis of the amount charged to operating surplus

	2010	2009
	£000	£000
Current service cost	<u>3</u>	<u>3</u>

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

Analysis of net charge to pension finance cost

	2010	2009
	£000	£000
Expected return on pension scheme assets	104	103
Interest on pension liabilities	<u>(147)</u>	<u>(126)</u>
Net charge	<u>(43)</u>	<u>(23)</u>

Notes to the financial statements *continued*

33 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)

	2010 £000	2009 £000
Actual return less expected return on pension scheme assets	51	(345)
Experience gains and losses on liabilities	(9)	(24)
Changes in assumptions	(272)	(440)
Actuarial loss recognised in STRGL	(230)	(809)

Reconciliation of fair value of employer assets

	2010 £000	2009 £000
Opening fair value of employer assets	1,710	1,867
Expected return on assets	104	103
Contributions by the employer	327	111
Actuarial gains/(losses)	51	(345)
Estimated benefits paid	(40)	(26)
Closing fair value of employer assets	2,152	1,710

Reconciliation of defined benefit obligation

	2010 £000	2009 £000
Opening defined benefit obligation	2,505	1,938
Current service cost	3	3
Interest cost	147	126
Actuarial losses	281	464
Estimated benefits paid	(40)	(26)
Closing defined benefit obligation	2,896	2,505

History of experience gains and losses

	2010	Year ended 31 July			
		2009	2008	2007	2006
Present value of defined benefit obligations	(2,896)	(2,505)	(1,938)	(2,181)	(2,747)
Fair value of scheme assets	2,152	1,710	1,867	1,711	1,662
Deficit in the scheme	(744)	(795)	(71)	(470)	(1,085)
Difference between expected and actual return on scheme assets:					
Amount (£000)	51	(345)	(43)	82	78
Percentage of scheme assets	2%	(20%)	(2%)	5%	5%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(9)	(24)	(1)	(32)	47
Percentage of scheme liabilities	0%	(1%)	0%	(1%)	2%

The University expects to contribute £325,000 (including £30,000 for expenses) to MILGPS in the year ending 31 July 2011.

34 Capital commitments

	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Commitments for future capital expenditure:				
Authorised not contracted	35,498	62,730	35,498	62,730
Contracted not provided	25,485	6,668	25,485	6,668
	<u>60,983</u>	<u>69,398</u>	<u>60,983</u>	<u>69,398</u>

35 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Land and buildings				
Expires within one year	1,605	1,756	1,605	1,756
Expires between two and five years	5,020	3,723	5,020	3,723
Expires after more than five years	1,232	2,211	1,337	2,211
	<u>7,857</u>	<u>7,690</u>	<u>7,962</u>	<u>7,690</u>
Other				
Expires within one year	232	223	232	223
Expires between two and five years	767	716	767	716
Expires after more than five years	17	3	17	3
	<u>1,016</u>	<u>942</u>	<u>1,016</u>	<u>942</u>
Total	<u>8,873</u>	<u>8,632</u>	<u>8,978</u>	<u>8,632</u>

36 Contingent liabilities

	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Undrawn investment commitments	5,070	6,240	5,070	6,240
Bank guarantees	230	40,175	-	40,175
All monies guarantee	3,863	4,722	3,863	4,722
	<u>9,163</u>	<u>51,137</u>	<u>8,933</u>	<u>51,137</u>

A commitment of up to £7.8m (2009: £7.8m) to invest in the UMIP Premier Fund has been given by UMIP UPF Limited, a wholly owned subsidiary of the University. To date £2.7m (2009: £1.6m) has been invested in the Fund. It is anticipated that the remainder of the investment commitment will be requested in tranches of £0.4m within the next three years.

Bank guarantees comprise £0.2m in the current year in relation to a bank overdraft guarantee. In the prior year £40.0m related to a bank guarantee facility in favour of UMSS Ltd, as trustee of UMSS, which expired on 31 March 2010 and £0.2m related to specific research and non research projects.

Notes to the financial statements *continued*

37 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 8 'Related Party Transactions' these are disclosed where members of the University of Manchester's Board of Governors 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 100% of the voting rights. Included within the financial statements are the following transactions with related parties:

	Income recognised in the financial statements £000	Expenditure recognised within the financial statements £000	Balance due to/(from) the University £000
Central Manchester University Hospitals NHS Foundation Trust	23,802	(3,078)	2,848
AstraZeneca	3,380	-	297
The Royal Society	1,619	(128)	(264)
Health & Safety Lab, HSE, Buxton	20	(618)	-
UK EPSRC	36,970	-	(640)
Imperial College London	280	(500)	158
Manchester City Council	567	(2,612)	(641)
European Commission	11,419	(18)	989
Students' Union	118	(39)	35
One Central Park	21	(313)	(67)
Manchester Science Park	19	(126)	(11)
Stockport NHS Foundation Trust	142	(77)	85
University of Central Lancashire (UCLAN)	5	(90)	-
UNISON	1	(174)	(2)
Uniac	-	(361)	(3)
Manchester Business School Incubator Ltd	5	-	-
Northwest Regional Development Agency	10,359	-	-
	88,727	(8,134)	2,784

Central Manchester University Hospitals NHS Foundation Trust

The University has a major Medical School, and so has very significant dealings with the Central Manchester University Hospitals NHS Foundation Trust (formerly 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.

AstraZeneca

A major pharmaceutical company, AstraZeneca plc discovers and develops new medicines and manufactures existing drugs. One Board member is a non-executive director of the company.

The Royal Society

The Royal Society is a Fellowship of the world's most distinguished scientists. Founded in 1660, it has three roles: as the UK academy of science promoting the natural and applied sciences, as a learned society, and as a funding agency. A Board member is one of the Royal Society's Vice-Presidents and a member of its Council.

37 Related party transactions (continued)

Health & Safety Lab, HSE, Buxton

The Health and Safety Laboratory (HSL) was originally set up to help the Health and Safety Executive minimise risks to people's health and safety at work. Today, the HSL also works with a wide range of other organisations, conducting research and development work. Its main location is near Buxton in Derbyshire. One Board member is a non-executive director of the HSL.

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 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.

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, for example, 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.

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 partly responsible for marketing and managing this facility.

Manchester Science Park

Manchester Science Park Ltd (msp) rents business accommodation to innovative companies in sectors such as ICT, biotechnology, industrial technologies and digital media. The company also offers business development support, including access to academic resources and a PR service. The University owns 28 per cent of the ordinary share capital, so it is classed as an associate undertaking.

Stockport NHS Foundation Trust

The Stockport NHS Foundation Trust provides acute hospital care for children and adults across Stockport and the High Peak area of Derbyshire. The Trust's major site is Stepping Hill Hospital, and it also runs two smaller hospitals in Stockport and a maternity unit in Buxton. Two members of the University's Governors serve on the Trust's Board, one as Vice-Chair.

Notes to the financial statements *continued*

37 Related party transactions (continued)

University of Central Lancashire (UCLAN)

Originally founded in 1828 and later known as Lancashire Polytechnic, this Higher Education institution became the University of Central Lancashire in 1992. The main campus is in Preston, with other sites in Burnley and West Cumbria. A member of the University of Manchester's Board is an Honorary Professor at UCLAN and also serves on that institution's Audit Committee.

UNISON

UNISON is the second largest trade union in the United Kingdom with over 1.3 million members, most of whom work in the public sector. UNISON is the main union at the University for staff who are not in academic or academic-related posts. One member of the Board of Governors is UNISON's National Representative for Higher Education in the North West.

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.

Manchester Business School Incubator Ltd

The principal activity of the company is the provision of management services and business support services to entrepreneurs and early stage businesses. The University of Manchester is the ultimate controlling party of Manchester Business School Incubator Ltd as it holds all of the A class ordinary shares which represents 56% of the total ordinary share capital.

Northwest Regional Development Agency (NWDA)

The North West Regional Development Agency is a public body that aims to stimulate economic growth and regeneration in this region. It has funded a significant part of the University's capital programme. Two members of the Board of Governors also served on the NWDA Board.

Board of Governors (Trustees') expenses

£36,000 was paid in expenses to ten members of the Board of Governors of the University during the year. Where the members are also employees of the University the amount includes expenses paid in relation to their employment.

38 Amounts disbursed as agent (Consolidated and University)

a) Access Fund	2010	2009
	£000	£000
Balance unspent at beginning of year	184	148
Funding Council grants	996	636
Interest earned	1	8
Disbursed to students	(830)	(608)
Balance unspent at year end	351	184

b) Training and Development Agency for Schools (TDA)	2010	2009
	£000	£000
Student Training Bursaries		
Balance unspent at beginning of year	116	97
Funding Council grants	2,350	2,354
Disbursed to students	(2,526)	(2,335)
Balance (prepaid) / unspent at year end	(60)	116
Student Associates Scheme		
Balance unspent at beginning of year	-	8
Funding Council grants	359	413
Paid out during the year	(359)	(421)
Balance unspent at year end	-	-
Minority Ethnic Recruitment		
Balance unspent at beginning of year	9	6
Funding Council grants	4	6
Paid out during the year	(13)	(3)
Balance unspent at year end	-	9

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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