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The University
of Manchester

The University of Manchester

Financial Statements

for the year ended 31 July 2009



Contents

Chairman's Foreword	1	Financial Statements for the year ended 31 July 2009	12
Review of the year by Professor Alan Gilbert, President and Vice-Chancellor	2	<i>Statement of principal accounting policies</i>	12
Financial review by Marianne McKenzie, Director of Finance	4	<i>Consolidated Income and Expenditure account</i>	16
Corporate governance statement	6	<i>Statement of consolidated historical cost surpluses and deficits</i>	17
Statement of the Board of Governors' responsibilities	10	<i>Statement of consolidated total recognised gains and losses</i>	17
Independent auditors' report to the Board of Governors of The University of Manchester	11	<i>Balance sheets</i>	18
		<i>Consolidated cash flow statement</i>	19
		<i>Notes to the financial statements</i>	20

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FICChemE, FIMA, FEng (leaver 30 May 2009)

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FICE, MIMStructE, MIFireE
(Acting, appointed 1 June 2009)

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Life Sciences

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FMedSci, FRS (retired 31 August 2008)

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(appointed 1 September 2008)

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(stood down 30 August 2009)

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Chairman's Foreword

I am pleased to provide a Foreword for The University of Manchester Financial Statements for the year ended 31st July 2009 and the operational and financial review of the year.

As you will see from the Foreword and Review of the Year by the President and Vice-Chancellor, the University performed exceptionally well in the 2008 Research Assessment Exercise and continues to make excellent progress towards its overarching goal of repositioning the University as one of the top universities in the world.

I am particularly pleased that the 2008/09 financial statements not only meet the important target set by the Board of Governors of showing an elimination of the operational deficit that emerged in 2007, but we have in fact delivered an operating surplus.

Having said that, the external funding environment going forward looks increasingly bleak. The Board of Governors has already begun to discuss with the President and Vice-Chancellor, and his senior team, how this University will respond to the emerging public funding stringency.

In this new economic environment maintaining strategic direction and pursuing the ambitious goals identified in the Manchester 2015 Agenda will be vital but challenging. However we will also be presented with new opportunities.

I am confident that we can achieve our goals and take advantage of those opportunities if we continue to demonstrate the prudent financial management and the forward strategic planning that we have shown in recent years. This is what we intend to do.

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

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

These Financial Statements cover the fifth year since the University was established under Royal Charter on 1 October 2004. Looking forward, the University faces the sobering reality of having to prepare for a considerably more challenging external operating environment in the years ahead; in retrospect, however, it can simultaneously take pride in the good progress that has been made in the relatively benign operating environment that UK higher education has experienced since 2004.

As a matter of fact, the new University has fully resolved all the major issues arising from the "merger" of the Victoria University of Manchester and the University of Manchester Institute of Science and Technology (UMIST) on 1 October 2004. In saying that, we do not wish to discount the continuing problems of financial control we face in relation to the systems, processes and accountability structures with which the new University replaced the legacy systems of the two predecessor universities. Instead, we regard it as important to emphasise the reality that the new institution has developed its own institutional identity, culture, structures and management arrangements, establishing itself in the landscape of UK higher education as a major "new" player already firmly entrenched in the top five of the UK's research universities.

The most re-assuring measure of our progress was the University's performance in the independent Research Assessment Exercise (RAE) conducted by the Higher Education Funding Councils and announced in December 2008.

The University's performance was outstanding. Two-thirds of our research was judged to be "world-leading" or "internationally excellent". Some universities give priority to one or other of a number of *research productivity* measures, including research-income-per-researcher. We regard such measures as secondary, both for strategic and methodological reasons. From the outset, the new University of Manchester has instead chosen Key Performance Indicators (KPIs) measuring *research power* as its primary criteria of progress as a research-led institution. Accordingly, it has given priority to maximising the sheer scale of high quality research it contributes to total national and international research output.

On that basis, RAE2008 clearly positioned the University alongside Oxford, Cambridge and London as one of the UK's premier research universities. Many of us had thought that this RAE may have come a little too early to demonstrate the impact of the dramatic changes that have taken place here since the merger; thankfully, we were overly pessimistic – and the evidence of Manchester's research quality and research power was a conspicuous feature of the RAE results.

The University is deeply concerned about evidence of patchy and often poor performance in its delivery of undergraduate education. Some parts of the University are exemplary in

the quality of the undergraduate learning experience they provide; others fall far short of the standards that students have a right to expect. Following the completion of a "root and branch" review of undergraduate education in 2007, the University has devoted considerable time and energy over the past year to the implementation of a major teaching and learning reform agenda. We have made major strides in making *Blackboard*, a state-of-the-art online learning environment, available to all our students and we have begun construction of a "Learning Commons", major new student learning facility at the heart of the campus.

Despite these recent initiatives, Manchester is still ranked embarrassingly low in terms of overall student satisfaction in the 2009 National Student Survey (NSS). This is not a uniquely Manchester problem, although it is magnified for us by the sheer scale of our undergraduate activities. We are now proceeding to make further radical changes in order to offer students more purposeful curricula, better e-learning support and a re-personalisation of the student learning experience more generally. No activity has higher priority for the University than securing major improvements in the Manchester undergraduate learning environment, and we are mobilising students and staff at all levels of the institution around this challenge. Much remains to be done in these efforts to transform student learning, but there does seem to be an emerging consensus about their supreme importance.

In terms of the University's financial health, we took a prudent but significant financial risk by pursuing a highly ambitious strategy over the first three or four years of the new university. In particular, we inherited a structural deficit of around £10 million from the Manchester merger of two legacy administrations, together with an industrial agreement not to undertake any merger-related rationalisation for at least two years after 1 October 2004. At the same time, we invested substantially in the strengthening of our research profile over the period 2004-07, when gearing-up for the 2008 RAE.

We also embarked on a capital programme unprecedented in scale in UK higher education, and invested substantially in providing the new University with finance, HR and student records management information systems. Most notable among these achievements, perhaps, is the fact that, less than six years out from the merger, a capital programme of £403 million has been

brought in virtually on time and on budget, with further projects amounting to £48 million currently under construction.

Having endorsed those initiatives, the Board of Governors gave their full support to senior managers across the University as they tackled the resulting deficit during 2007/08. In embarking on our deficit-elimination strategies early in 2007, the over-riding imperative was to return a surplus – both pre- and post-exceptionals – by the end of the 2008-09 financial year. Both the Board and Senior Management regarded that as a non-negotiable target. It is therefore with considerable relief and genuine pride that we can report in the 2008-09 Financial Statements that the University has fully implemented its 2007 deficit-elimination plan, and produced an operating surplus somewhat higher than we had expected at this stage.

As the External Auditors have pointed out, substantial improvements are still required in the University's financial control environment, reflecting an array of systems, process and attitudinal problems. The University acknowledges that these issues have to be tackled as a matter of the highest priority. In tackling them, we recognise that we may have to review and re-centralise some financial functions currently managed at faculty and School levels in our highly devolved institutional structures. Not to have secured major improvements in the control environment by the time of the next external audit will represent a serious management failure.

Looking forward, the severe public funding stringency foreshadowed in this document last year now looks unavoidable, whichever Party wins the forthcoming General Election. While it is still not possible to predict the precise level or timing of any reductions in public funding – both of which will only become clear only after the Election – the Board of Governors has endorsed management proposals as to how the University should respond to emerging public funding stringency.

With Board approval, a process of horizon scanning, scenario modeling and contingency planning has been in train for much of 2009. A Report from the President and Vice-Chancellor to the Board in July 2009, entitled *Guiding The University of Manchester Through Uncertainty*, set out the approach that the University is adopting to scoping the external environment, framing planning assumptions and developing



contingency plans in anticipation of major public funding austerity over the next few years.

The contingency plans being developed will necessarily remain flexible into the autumn of 2010 because the planning assumptions upon which they are based will remain conjectural until a new Government spells out its detailed plans for public expenditure. But by 15 December 2009 we will have developed *base case* scenarios (built around planning assumptions projecting the most probable funding outcomes), *best case* scenarios (reflecting the most optimistic outcomes) and *worst case* scenarios derived from our most pessimistic assumptions about the severity of public funding cuts for universities. These will form the basis of detailed contingency plans designed to ensure that the University will be in a position, whatever the circumstances that emerge in future years, (i) to continue operating the University in surplus and (ii) to retain a capacity to invest strategically in our *Manchester 2015 Agenda*.

To secure those outcomes, the University is continuing policies in place since early 2007 to (i) drive growth in discretionary income, (ii) manage pay and non-pay costs and (iii) secure efficiencies in space and key processes. In relation to expenditure, the University's policy into the foreseeable future will be to intervene as decisively as necessary to ensure that total expenditure does not increase more rapidly than income, and to ensure that the University continues to operate in surplus, whatever the scale of public funding stringency.

A Board of Governors' Monitoring Group charged with the responsibility of liaising closely with Senior Management as contingency plans are developed and, as appropriate, implemented, will be meeting shortly for the first time, and frequently thereafter.

The qualification, "as appropriate", is important. Contingency plans are not statements of what the University is intending to do in future. All such planning is hypothetical. The actual future, as it unfolds, is almost certain to develop in ways unanticipated in any of the contingencies we currently are modelling. Good managers always model future decisions hoping and expecting never to have to deal with worst case scenarios, just as they try to anticipate opportunities knowing that many will never eventuate. The emerging funding environment in the UK may be much more benign than some of us are expecting. We hope so. But the truth is that while worst case scenarios rarely materialise, prudent contingency planning demands that we plan for the worst while hoping for the best.

Whatever the severity of problems imposed by the external funding environment, it is imperative that the University maintains strategic focus. Over the past few months, we have been revising our *Manchester 2015 Strategic Plan* to take account of the progress that we have made so far and to clarify our Goals and Objectives now that we are at the midpoint of our journey between 2004 and 2015. The new document has been approved by the Board of Governors and will be circulated widely in December 2009.

Maintaining strategic direction in an environment of public funding stringency unparalleled in the UK in peacetime will be the major challenge for the University over the next five years, and probably for longer. But the background against which the University will tackle such challenges is one of pleasing progress since October 2004. Our task now is to ensure that the vision, enthusiasm and good governance that has distinguished our first five years endures unabated as we go forward.

Key Performance Indicators

1. It is disappointing to report that The University of Manchester slipped one place from 40th to 41st in the 2009 "Academic Rankings of World Universities" produced by the Shanghai Jiao Tong University. This is the first time that this University has dropped in this annual international league table. The University moved up eight places in the previous year and no other institution amongst the top 100 has risen as quickly or as far as this University since 2004. Moreover, differences in performance between universities become progressively more pronounced towards the top of the ranking and progress becomes increasingly challenging.
2. Growth in Total Audited Research Expenditure – Total Audited Research Expenditure¹ in 2007-08 (latest available figure) was £389.6 million, an increase of 4.7 per cent on the previous year
3. Growth in international student fee income – International student fee income (full and part-time) increased by £14.8 million (20.6 per cent) during 2008-09
4. Net Liquidity Expenditure Cover² – Closing liquid balances were sufficient to provide 87 days expenditure³ cover
5. External Borrowing as a Percentage of Total Income – External borrowing reduced from 30.2 per cent of total income (like-for-like basis) to 26.8 per cent
6. Operating Surplus/(Deficit)⁴ as a Percentage of Income – Improved from 0.03 per cent in 2007-08 to 2.22 per cent in 2008-09 on a like-for-like basis.

Professor Alan Gilbert
President and Vice-Chancellor

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 £167.8m (2008: £94.5m) include the net cash balance and short term investments.

³ Expenditure of £705.5m (2008: £657.1m) 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 and exceptional items.

Financial review

by Marianne McKenzie, Director of Finance

The financial strategy for The University of Manchester over the past three years has been, firstly to return to surplus, and then continue to grow the surplus to sustainable levels, whilst maintaining high levels of strategic investment.

Income and Expenditure Review

I am pleased to present my report on the University's financial results for 2008/09.

The operating surplus before exceptional items now reported of £16.8m, compared with £0.2m for 2007/08, is well ahead of expectations and confirms the University's successful delivery of its financial plan. In addition to the significant improvement in operating results, available cash resources (inclusive of short term investments) at July 2009 increased by £73.4m to £167.8m. The University continues to strengthen its financial position even in this period of economic downturn.

Income

Total income for the University of £754.6m has grown by £70.5m (10.3%) which exceeds prior year growth of 7.2%.

Funding Council grants were up by £15.3m (8.0%). Inflation on the core teaching grant was £3.0m (3.2%) which fell short of sector inflation. However, additional income of £1.2m was received in respect of additional student numbers in Medicine and Chinese and Japanese studies. Research funding increased by £5.3m with additional income to support the growth in cancer research conducted by the Paterson Institute, one of the UK's leading cancer research centres and now part of the Manchester Cancer Research Centre. An increase in the release of deferred capital grants of £4.3m included £2.9m accelerated depreciation on the Faraday Building which has reached the end of its economic life, and full year releases on new buildings opened during the last financial year.

Tuition fees increased by £37.1m (22.0%). This increase included £11.0m arising from the third year of additional fees for home students. In addition, it was also a record year for student recruitment with 32,302 full time students, an increase of 1,310 (4.1%) on the prior year. Particularly pleasing was the continued growth in international student fee income which grew by £12.9m (19.8%) for full time students and £14.8m (20.6%) in total. Manchester Business School Worldwide saw continued growth in online learning programmes with £2.6m (34.0%) growth in student fees.

Research grants and contracts returned to growth in the year, up 8.9%, to £191.3m.

Within the Faculty of Medical and Human Sciences year-on-year research growth of 18.8% was a significant achievement. This included the cancer research undertaken by the Paterson Institute which increased by 16.7%, together with substantial growth in Translational Medicine and Community Based Medicine.

Manchester's position as a world-leading research

centre in the field of Nuclear Science was confirmed earlier this year when a consortium of Serco, Battelle and the University took over the running of the UK National Nuclear Laboratory (NNL). The Lab will play a central role in cleaning up the UK's nuclear waste legacy and developing a 21st Century capacity for civil nuclear power generation that is likely to prove vital in the transition to a sustainable low-carbon economy.

In the field of health care, the University's research strength was recognised by the Government earlier this year when the Manchester Academic Health Science Centre (MAHSC) – a new partnership between The University of Manchester and six local NHS trusts – was awarded official national status. We are one of just five national centres, and the only one outside London and Cambridge. MAHSC will play a key role in ensuring that advances in medical science are more rapidly translated into improvements in patient care and wellbeing.

Endowment and investment income fell by £0.2m from the prior year. Despite the fall in the capital value of endowments, income streams held steady. There was a significant increase in donation income of £4.7m including £1.5m from the Government matched funding scheme. Generous donations were also received in support of the Sustainable Consumption Institute and the Brooks World Poverty Institute. Despite the difficult economic conditions, exits were achieved on spinout companies, realising in total £2.1m of profit on disposal, an increase of £1.1m from the prior year.

However these positive results were offset by £2.8m lower income from cash deposits due to much weaker interest rates, and £2.0m lower FRS17 net return on pension schemes. In 2007/8 other interest receivable included £0.7m relating to a VAT refund.

Expenditure

Total expenditure increased by 7.9%. Of this, staff costs increased by £17.9m (4.5%). This was well below the rate of sector inflation and included an FRS17 pension cost reduction of £3.3m. Underlying staff costs were very tightly managed during the year and ended the year well below budget expectations. The staff cost ratio to income continued to reduce and ended the year at 54.6% versus 57.6% last year.

Other operating expenses increased by £30.1m (12.0%). This increase included increases of £10.1m due to growth in research activity, student bursaries/scholarships of £6.9m and a number of one off costs. These included £4.5m demolition costs for Moberly Tower, £2.5m write down of the University's cash deposits with Heritable Bank, and £1.5m building dilapidations provision.

Depreciation has increased year-on-year by £5.5m. This was driven by the full year depreciation on University Place and the Alan Turing Buildings, together with £2.9m accelerated depreciation on the Faraday Building which has reached the end of its useful life and has been vacated.

Balance Sheet Review

The University closed the year with net assets of £593.8m, a fall of £39.3m (6.2%) after taking account of a pension deficit of £87.1m, which increased by £74.7m in the year. The year end cash position improved by £73.4m, with closing short term cash and investments of £167.8m.

Fixed Assets

Tangible asset additions of £50.8m included £17.9m on equipment, £10.0m for a major refurbishment of Stopford building and £5.0m completion costs for Alan Turing building. In addition, a schedule of capital maintenance works is in progress (£4.8m incurred during the year). The current allocation of HEFCE capital funding is being applied principally to the building of a Learning Commons on the site of the old Moberly Tower, and a new 'fit for purpose' building for the School of Chemical Engineering and Analytical Science.

Endowment Assets

Overall endowment assets have reduced by £10.5m (7.6%). Income of £1.1m was reinvested together with £2.7m of new funds. However depreciation of assets was £14.0m (11.2%) during the year due to the continuing difficulties in world stock markets.

Over the two year period, the University has now lost £25.4m from the value of its endowments as a result of stock market deterioration. Since the year end the markets have strengthened and some £12.1m of value has been recovered as at 30 September 2009.

Current Assets

Debtors have reduced by £17.1m. The prior year included an accrued VAT refund under the Lennartz process of £4.8m which was received during the year. For 2008/9, increased late cash receipts on bank statements amounting to £5.3m were recognised.

Creditors have increased by £28.6m. Trade creditors have increased by £4.1m, with the remaining increase due to high year end accruals for the Moberly demolition, building completion costs, building dilapidation costs, and provision for VAT Lennartz repayments.

Short-term investments

The increase in short-term investments of £63.2m reflects the high cash generation in



the period. The closing liquidity position of £167.8m was sufficient to cover 87 days expenditure (2007/8: 53 days).

Net Cash

Cash reserves have increased by £73.4m (including short-term deposits) primarily due to favourable movements in working capital and advance receipts of capital funding from HEFCE.

Risks and Uncertainties

Last year we reported on the risks arising from the escalating costs of our defined benefit pension schemes. The significant increase in the FRS17 deficit position to £87.1m reflected in these accounts, confirms these concerns. The University of Manchester Superannuation Scheme (UMSS) was subject to full actuarial valuation at 31 July 2007. The valuation negotiations with the Scheme Trustees are now agreed in principle and the final documentation is in the process of completion. Employer contributions to this scheme were increased from 1 August 2009 from 18.75% to 19.75%. It has been agreed that the deficit position at 31 July 2007 could be recovered through future investment performance, with no requirement for additional past service contributions. However, we anticipate a very significant deterioration in the funding position of this scheme when the next full actuarial valuation falls due at 31 July 2010. The financial risks associated with UMSS and USS (University Superannuation Scheme), which are our two main defined benefit schemes, remain significant. The University monitors its pension schemes closely and regularly reassesses the financial risk, ensuring that financial plans make full provision for pension liabilities.

Similarly, last year we expressed concern about the economic downturn and the potential impact on international fee income. In the year,

we have seen strong growth in international income believed to be driven partly by the counter cyclical nature of higher education and the weak sterling exchange rate. However, international fee income remains a long term risk for this University and for the sector as a whole.

We were concerned about the impact of the disruption in financial markets on our endowment portfolio and indeed we have experienced significant depreciation in value during the year although dividend income has held up. This remains a risk and we plan a thorough review of our investment strategy in 2009/10.

We were optimistic about the outcomes of the recent Research Assessment Exercise (RAE), the mechanism by which HEFCE assesses the quality of research undertaken and drives the allocation of HEFCE research income to institutions. However, there have been changes in the underlying methodology for funding distribution throughout the sector. Despite excellent results, these changes have had adverse financial implications for Manchester with funding for the 2009/10 year reduced by £0.7m. Disappointingly, most of the best-performing universities in RAE2008 have also experienced comparable or worse funding outcomes.

Concerns about the economy and the potential impact on the HE sector have increased since last year. During the year HEFCE announced cut backs in funding which are already impacting the budget year 2009/10. The sector is in a period of high uncertainty when many Government funded income streams could be at risk, yet the sector has a costly infrastructure which will not respond easily to swift changes in market conditions.

In 2007/8, the University invested £5.0m with Heritable Bank (a subsidiary of Landsbanki) which went into administration on 7 October 2008. A first payment of £0.8m was received on 30th July

2009, with confirmation that a second tranche will be paid in December 2009. A 50% provision has been made against these funds following an assessment of recoverability based on correspondence with the administrators.

Going concern

The University ended the year with cash resources of £167.8m. The budget for 2009/10 continues to generate a surplus, and cash forecasts for 2009/10 and 2010/11 demonstrate adequate available financial resources. In addition the majority of the University's external funding (96%) is long-term in nature. On the basis of this, 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

The improved financial outturn for the University is well ahead of expectations and we are delivering what is required to achieve a sustainable financial model whilst maintaining strategic investment and momentum. However, the deepening concerns around future funding risks, and the impact of the economic downturn on our pension commitments, lead us to be very cautious about our ability to continue to grow surpluses at the rate initially envisaged in our financial plans. We are fortunate to be entering this most difficult period with improved cash balances and an improved financial control environment, although much work remains in this area.

Mrs Marianne McKenzie
Director of Finance

Corporate governance statement

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

Introduction

Currently, the University operates under the terms of a Royal Charter granted in 2004. Under the Charities Act 2006, the University is considered an exempt charity and it is anticipated that HEFCE will be formally appointed as Principal Regulator, in order to promote compliance with charity law, in November or December 2009. The University enjoys substantial autonomy to determine and direct its own affairs, and, in particular, has the freedom to determine the scope of its teaching and research activity. However, universities receive a significant element of their funding from public funds allocated principally through the Higher Education Funding Councils and the Research Councils. The conditions attached to grants from the Higher Education Funding Council for England (HEFCE) are set down in a Financial Memorandum between HEFCE and the University.

The University of Manchester, like other public bodies, has a duty to conduct its affairs in a responsible and transparent way, and to take into account in so doing the requirements of funding bodies, the standards in public life enunciated by the Nolan Committee (in 1996) and recommendations arising from the Dearing Inquiry into Higher Education (in 1997). The University's corporate governance arrangements have been established in such a way as to conform with these duties, and, where appropriate, are also informed by the guidance on good practice in university governance offered by the Committee of University Chairmen (most recently in February 2009).

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

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

Summary of the University's Structure of Corporate Governance

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

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

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

The Board has appointed an **Audit Committee**, a **Finance Committee**, a **Risk Committee**, a **Remuneration Committee** and a **Nominations Committee**, which report directly to it, and has also established processes which ensure both that it is kept regularly advised on the strategic and policy elements of estates, personnel and health and safety issues, and that it can act effectively and in an informed way with respect to these matters when it is required to do so. In the

context of institutional governance, and in line with the most recent advice and guidance produced by the Turnbull Committee (that is, 'Turnbull 2'), the Audit Committee has a particularly important function in expressing opinions and giving assurances to the Board relating to its review of the effectiveness of the University's arrangements for risk management, control and governance. (The risk management element of this role includes the review of the processes which lead to the statement on internal control in the Annual Accounts.) In accordance with 'Turnbull 2', the Committee will also, whenever appropriate, provide explicit confirmation to the Board that necessary actions have been, or are being, taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of internal control.

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

The **Senate**, the University's principal academic authority, is ultimately responsible for the promotion of research and for teaching and examination arrangements. It is the final arbiter on purely academic matters, and it is this autonomy of academic governance which sets higher education institutions apart from other corporate entities. To be effective, the process of academic governance must be subject to self-regulation by the academic community within the institution and be protected from other influences. A large number of the statutory powers reserved to Senate are 'regulatory' in nature and control the academic business of the University. When



AV Hill building

the academic decisions of the Senate carry resource implications of any sort, the approval of the Board is also required. In practice, matters such as the resourcing of academic plans and strategic planning are considered by the Planning and Resources Committee. The Senate has 66 members including, *ex officio*, those having academic management responsibilities centrally and in the Faculties, members (professorial and non-professorial) elected by the Faculties, and student representatives.

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

The **Alumni Association** is the body of the University's graduates, and has the function of promoting fellowship among graduates and helping them to keep in touch with the University by providing opportunities to take an interest in its development and ongoing activities. General Meetings of the Association

are held annually, and the business between Annual General Meetings is conducted by an elected committee. Elections are held at AGMs of twenty members to serve on the General Assembly and of one person for nomination to serve on the Board.

The members of the General Assembly and the Alumni Association, together with all members of paid University staff eligible to hold superannuable appointments (c. 11,500) form the constituency for the election of the **Chancellor** who is the ceremonial Head of the University presiding over meetings of the General Assembly and over congregations of the University for the conferment of degrees.

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

The function of the University'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**, 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 receive a reminder in the papers for each meeting of the need to declare any interest they may have in relation to the specific business to be transacted.

Statement on Risk Management

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

Corporate governance statement *continued*



Alan Turing building

Accounts Direction, has been adopted by the Board as the basis for evaluating the University's systems of internal control and for reviewing its effectiveness.

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

The risk management objectives of the University listed below are based on the overarching policy to adopt best practice in the identification, evaluation and cost-effective control of risks in order that the risks associated with the University's strategy, as set out in its Strategic Plan *'Towards Manchester 2015'* and the latest version of the plan *'Advancing Manchester 2015'*, which was approved by the Board on 5 October 2009, are eliminated and/or reduced to an acceptable level. The policy includes the following key actions:

- the integration of risk awareness into the culture of the University;
- the management of risk in accordance with best practice;
- the anticipation and appropriate response to risks emerging/associated with changing social, environmental and legislation requirements; and

- the reduction of the costs of risk by taking appropriate steps to mitigate injury and damage to individuals and assets of the University.

The objectives are being achieved by:

- A framework which assists the management of the University in the identification of the key risks inherent in the delivery of the University's strategy;
- the review of the framework by a Risk Committee of the Board;
- identification by senior management of systems to assist in achieving appropriate compliance;
- the evaluation of risks inherent in all plans and proposals, including the identification of the steps that would be required to mitigate, eliminate and control such risks;
- the adoption and dissemination, on a continual basis, of risk awareness/management training; and
- the preparation of contingency plans in areas where there is potential for an occurrence having a catastrophic effect on the University and its business capability.

In addition to the above, the Board and the senior management of the University undertake a number of actions, including:

- a Planning and Accountability Conference is held each February/March to review the strategic plans and direction of the University, thereby allowing the Board to review performance and raise questions, arising from the key performance indicators, with the senior management of the University;

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

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

- a Risk Committee of the Board;
- a Risk Management Policy;
- a Risk Management Framework and process, including guidance;
- a high-level risk register derived from the University's strategy document, *'Towards Manchester 2015'*;

- resources to support the risk management process, including the appointment of a Head of Compliance and Risk and the designation of an Associate Vice-President for Compliance (who provide direct advice to senior officers of the University and report to each meeting of the Board of Governors);
- a University Emergency Incident Plan, which includes major incident reporting and monitoring;
- a clearly articulated governance framework for the oversight of a best-practice approach to Health and Safety;
- Health and Safety policies, procedures and guidance;
- a Risk and Emergency Management Group (as a sub-group of the Planning and Resources Committee), to ensure:
 - that policies and procedures are in place in the main operational areas of the University to develop an awareness of the need for risk management, in order to eliminate, mitigate, control or accept risks facing those areas;
 - that such policies and procedures are operating in the most effective and efficient manner through a process of monitoring and audit, and that appropriate assurance as to compliance with the University's regulatory framework is secured;
 - that key areas of activity involving Emergency Management Planning and the operational management of Health and Safety meet legislative requirements and are based on best practice;
 - that roles and responsibilities include matters in respect of risk and related management, and that such matters are unambiguously developed to minimise the emergence of risks;
 - that mechanisms are in place for staff to be adequately trained in areas of risk management;
 - that the University actively promotes best practice in the management and control of risk; and
 - that cost-effective systems are in place to address business continuity and disaster recovery.
- the regular review of major incidents at each meeting of the Risk and Emergency Management Group.

The Board's review of effectiveness of the system of internal control continues to be informed by all these processes, and by comments made by the external auditors in their management letter and by internal audit reports.

Report on Corporate Governance over 2008/09

The assurance provided by the risk management process over 2008/09 is exemplified by the following:

- The completion of Phase Two of the University's Capital Plan, representing a combined Phase One and Phase Two capital expenditure budget of over £400 million.
- The University has continued to direct efforts to improve financial controls across the University. Progress on this is acknowledged by the University's internal auditors but, in their opinion, there are still problems within the devolved financial control framework in some Faculties and Schools. Management have set specific objectives to address these problems and these include the need to ensure staff members have the appropriate financial knowledge and expertise, reviewing roles, responsibilities and structures and the requirement to deliver improvements in reporting systems.
- The University, working with the internal auditors, have conducted a number of corporate level reviews over the year and has continued to embed an efficient and effective risk management framework. A Data Assurance review has been completed and there has been a continued focus on the development of the key institutional systems and the associated controls. Audits have also been undertaken on Payroll and a number of the main financial processes from both a central and devolved perspective. Usage of the Frequent travellers' credit card was examined and reviewed and has led to better arrangements and the introduction of stronger controls. In addition, the number of authorised signatories has been reduced across Schools and Faculties and the Professional Support Services. A review of the process for supporting philanthropic giving identified significant opportunities for improvement of controls and effectiveness and a fundamental review of IT Security was conducted following a significant data security breach in the Faculty of Life Sciences. This IT Security review prompted the introduction of new policies, staff training, awareness-raising, and will see the establishment of a specific role to support Information Security Management across the University and its processes for records management, data handling and the usage of data systems.
- At the beginning of the year, the University, in partnership with Deloitte LLP, undertook a review of its procurement and payment processes. This review made a range of recommendations, which are being implemented across the University, and which are aimed at strengthening the control environment and improving the

purchasing experience both for requestors of goods and services and for its suppliers. The University undertook to strengthen its control processes across the procurement process, including on-line purchase requisitioning and order approval, and centralised invoice processing. Suppliers have been notified of the requirement to be in receipt of a purchase order in advance of supplying goods or services. New Supplier controls have been tightened which should deliver higher levels of contract compliance and improvements in value for money. It is anticipated that the resultant increase in visibility and reporting of financial commitments will support the budget holders in managing their resources.

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.



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



Jean McFarlane building

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 2009 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 consolidated net cash flow to movements in net debt and the related notes 1 to 39. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Board of Governors and auditors

The Board of Governors' responsibilities for preparing the Annual Report and the financial statements in accordance with the University's statute, the Statement of Recommended Practice on 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 Board of Governors' responsibilities.

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

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 on Accounting for Further and Higher Education. We also report whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and with the funding agreement with the Training and Development Agency for Schools.

We also report if, in our opinion, the information given in the Review of the Year including the Financial Review is not consistent with the financial statements, if the University has not kept adequate accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the 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.

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 Board of Governors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- (a) the financial statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2009 and of the surplus of the Group for the year then ended;
- (b) the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;
- (c) in all material respects income from Higher Education Funding Council for England and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received; and
- (d) in all material respects income 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 for Schools.



Deloitte LLP

Chartered Accountants and Statutory Auditors
Manchester, United Kingdom
30 November, 2009

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), and on a going concern basis. As set out in the Financial Review on page 4, the Board of Governors are assured that, based on the University's financial position and cash flow forecast for a period of 12 months from the date of signing these financial statements and taking account of the uncertainties brought about by the current economic environment, it is appropriate to prepare the financial statements on a going concern basis. The accounting policies detailed below have been applied consistently.

Basis of accounting

Modified historical cost basis

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

Basis of consolidation

The consolidated financial statements include the financial statements of the University and subsidiary undertakings for the financial year to 31 July, as disclosed in note 13. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Intra-group transactions are eliminated on consolidation. The consolidated financial statements include the University's share of the profits and net assets of material associated undertakings over which the University has a significant but not dominant influence.

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

Recognition of income

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

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

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

Income from research grants and contracts and other services rendered is included according to the degree of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. Any payments received in advance of such performance are recognised on the balance sheet as liabilities.

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

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

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

Accounting for Charitable donations

(a) Unrestricted donations

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

(b) Endowment funds

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

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

(c) Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the expected useful life of the related asset. Where the asset is not depreciated, the deferred capital grant is released immediately to the income and expenditure account.



Martin Harris Centre

(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. 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 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.

Statement of the principal accounting policies *continued*



Arthur Lewis building

(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 intangible assets are amortised over their estimated useful 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.

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

For the remaining three schemes, assets are included at market value, measured on a bid price basis where applicable, and scheme liabilities are measured on an actuarial basis

using the projected unit method; these liabilities are discounted at the current rate of return on AA rated corporate bonds. The post-retirement benefit surplus or deficit is included on the University's balance sheet. 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 Section 506(1) of the Income and Corporation Taxes Act 1988 (ICTA 1988). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any commercial organisation.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the entity an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

Financial instruments

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

Cash flows and liquid resources

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

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

Provisions and contingent liabilities

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

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

Agency arrangements

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

Consolidated Income and Expenditure account for the year ended 31 July 2009

	Notes	2009 £000	2008 £000
Income			
Funding body grants	1	206,761	191,488
Tuition fees and education contracts	2	205,845	168,706
Research grants and contracts	3	191,335	175,744
Other income	4	129,591	126,904
Endowment and investment income	5	21,108	21,281
Total income		754,640	684,123
Expenditure			
Staff costs	6	412,049	394,167
Other operating expenses	7(b)	281,426	251,348
Depreciation	11	32,363	26,835
Interest and other finance costs	8	12,054	11,566
Total expenditure		737,892	683,916
Surplus on continuing operations after depreciation of tangible fixed assets at cost/valuation and before taxation and exceptional items		16,748	207
Share of operating surpluses/(deficits) in associates		7	(63)
Taxation	9	(117)	9
Surplus on continuing operations after depreciation of fixed assets at cost/valuation and taxation and before exceptional items		16,638	153
Minority interest in subsidiary undertakings' results for the year	26	153	91
Surplus before exceptional items		16,791	244
Exceptional items	10	-	(17,651)
Surplus/(deficit) on continuing operations after depreciation of fixed assets at cost/valuation, taxation and exceptional items		16,791	(17,407)
Surplus for the year transferred to accumulated income in endowment funds	23	(750)	(463)
Surplus/(deficit) for the year retained within general reserves	24	16,041	(17,870)

All material items of income and expenditure arise from continuing operations.

The surplus/(deficit) for the year retained within general reserves is attributable to the following:

	2009 £000	2008 £000
University	15,456	(17,484)
Group undertakings	585	(386)
	16,041	(17,870)

Statement of consolidated historical cost surpluses and deficits for the year ended 31 July 2009

	Notes	2009 £000	2008 £000
Surplus/(deficit) on continuing operations before taxation		16,908	(17,416)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	25	13	13
Valuation gains realised on disposal of fixed asset investments	25	-	1,157
Historical cost surplus/(deficit) for the year before taxation		16,921	(16,246)
Historical cost surplus/(deficit) for the year after taxation		16,804	(16,237)

Statement of consolidated total recognised gains and losses for the year ended 31 July 2009

	Notes	2009 £000	2008 £000
Surplus/(deficit) on continuing operations after depreciation of assets at cost/valuation, disposal of assets and taxation		16,041	(17,870)
Unrealised (deficit)/surplus on revaluation of fixed asset investments	25	(1,461)	7,636
Net endowment income retained in the year	23	432	463
New endowments and dividends reinvested	23	3,056	6,292
Net depreciation of endowment assets including reinvested profits on sales	23	(14,028)	(11,324)
Actuarial (loss)/gain recognised in respect of pension schemes	34(a)	(79,144)	2,637
Total recognised losses relating to the year		(75,104)	(12,166)
Reconciliation			
Opening reserves and endowments		280,438	292,604
Total recognised losses for the year		(75,104)	(12,166)
Closing reserves and endowments		205,334	280,438

Balance sheets as at 31 July 2009

	Notes	Consolidated		University	
		2009 £000	Restated 2008 £000	2009 £000	Restated 2008 £000
Fixed assets					
Tangible assets	11	675,504	658,118	640,370	621,595
Intangible assets	12	4	57	-	-
Investments	13	33,159	33,756	36,771	37,846
Total fixed assets		708,667	691,931	677,141	659,441
Endowment assets	14	127,327	137,867	127,327	137,867
Current assets					
Stock		1,371	1,635	1,335	1,541
Debtors: amounts falling due within one year	15	84,961	102,053	84,713	103,772
Debtors: amounts falling due after more than one year	16	69	277	10,265	9,280
Investments	17	149,531	86,349	149,531	86,349
Cash at bank and in hand		23,027	16,936	9,696	8,473
Total current assets		258,959	207,250	255,540	209,415
Creditors: amounts falling due within one year	18	(217,576)	(188,988)	(206,968)	(182,840)
NET CURRENT ASSETS		41,383	18,262	48,572	26,575
TOTAL ASSETS LESS CURRENT LIABILITIES		877,377	848,060	853,040	823,883
Creditors: amounts falling due after more than one year	19	(194,285)	(199,568)	(194,285)	(199,565)
Provisions for liabilities	21	(2,214)	(2,979)	(1,644)	(2,543)
NET ASSETS EXCLUDING PENSION LIABILITIES		680,878	645,513	657,111	621,775
Net pension liabilities	34(a)	(87,088)	(12,430)	(87,088)	(12,430)
NET ASSETS INCLUDING PENSION LIABILITIES		593,790	633,083	570,023	609,345
Deferred capital grants	22	388,337	352,373	368,006	331,585
Endowment funds					
Expendable endowments	23	20,057	19,991	20,057	19,991
Permanent endowments	23	107,270	117,876	107,270	117,876
Total endowment funds		127,327	137,867	127,327	137,867
Reserves					
Income and expenditure account excluding pension reserve	24	149,734	138,166	151,554	140,571
Pension reserve	24	(87,088)	(12,430)	(87,088)	(12,430)
Income and expenditure account including pension reserve		62,646	125,736	64,466	128,141
Revaluation reserve	25	15,361	16,835	10,224	11,752
Total reserves		78,007	142,571	74,690	139,893
Minority interests	26	119	272	-	-
TOTAL FUNDS		593,790	633,083	570,023	609,345

The Financial Statements on pages 16 to 49 were approved by the Board of Governors of The University of Manchester on 27 November 2009 and were signed on its behalf by:



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



Professor Alan Gilbert
President and Vice-Chancellor



Mrs Marianne McKenzie
Director of Finance

Consolidated cash flow statement for the year ended 31 July 2009

	Notes	2009 £000	2008 £000
Net cash inflow/(outflow) from operating activities	27	67,212	(13,304)
Returns on investments and servicing of finance	28	6,768	5,481
Taxation	9	-	(69)
Capital expenditure and financial investment	29	6,787	(35,785)
Management of liquid resources	30	(51,732)	48,533
Financing	31	(4,421)	5,637
Increase in cash in the year		24,614	10,493

Reconciliation of consolidated net cash flow to decrease/(increase) in net debt for the year ended 31 July 2009

	Note	2009 £000	2008 £000
Increase in cash in the year	32	24,614	10,493
Cash inflow/(outflow) from liquid resources	32	51,732	(48,533)
Change in debt resulting from cash flows	32	4,421	(5,637)
Movement in net debt in year		80,767	(43,677)
Net debt at beginning of year	32	(100,004)	(56,327)
Net debt at end of year	32	(19,237)	(100,004)

Notes to the financial statements

1	Funding body grants	Consolidated	
		2009 £000	2008 £000
	Recurrent grants		
	Higher Education Funding Council - Teaching	98,339	94,409
	Higher Education Funding Council - Research	82,246	76,994
	Higher Education Funding Council - Other	7,698	6,639
	Training and Development Agency	2,582	2,423
	Teaching Grant - Strategically Important and Vulnerable Subjects	1,860	1,860
	Specific Grants		
	Special Initiatives	4,739	4,214
	Deferred Capital Grants released in year:		
	Buildings	8,035	4,362
	Equipment	1,262	587
		206,761	191,488
2	Tuition fees and education contracts	Consolidated	
		2009 £000	2008 £000
	Fees in respect of:		
	Full-time home and EU students	70,446	56,213
	Full-time international students	78,322	65,403
	Part-time students	17,083	14,080
	Short course fees	22,360	15,855
	Other teaching contract courses - core activities	15,784	15,744
	Research training support grants	1,850	1,411
		205,845	168,706
3	Research grants and contracts	Consolidated	
		2009 £000	2008 £000
	Research Councils	80,587	75,404
	UK based charities	43,358	40,929
	UK central government, hospitals and health authorities	34,787	31,229
	UK industry and commerce	13,436	11,659
	Overseas	18,579	14,239
	Other sources	588	2,284
		191,335	175,744
4	Other income	Consolidated	
		2009 £000	2008 £000
	Residences, catering and conferences	45,412	46,843
	Premises	3,471	2,296
	Academic departments	27,369	24,136
	Academic services	2,238	2,799
	Continuing education and training	1,108	5,102
	Administration and central services	2,286	5,112
	Services rendered	4,193	5,109
	Health authorities	23,489	22,149
	Other general income - University only	6,459	3,507
	Use of sports facilities	906	933
	Other general income - subsidiary undertakings	5,610	3,693
	Profit on disposal of tangible fixed assets	54	-
	Manchester University Press	1,853	1,732
	Release of deferred capital grants from non-funding body sources	5,143	3,493
		129,591	126,904

5 Endowment and investment income	Consolidated	
	2009 £000	2008 £000
Income from expendable endowments (note 23)	570	516
Income from permanent endowments (note 23)	3,451	3,269
Income from donations	9,173	4,511
Income from short term investments	3,628	6,410
Dividends from general fund investments	566	740
Surplus on disposal of fixed asset investments	2,062	941
Net return on pension schemes (note 34)	1,293	3,327
Other interest receivable	365	1,567
	21,108	21,281

6 Staff costs	Consolidated	
	2009 £000	2008 £000
Wages and salaries	336,129	321,012
Social security costs	28,143	28,724
Pension costs	47,777	44,431
	412,049	394,167

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 £4.9m for the year ended 31 July 2009 (2008: £4.4m).

As set out in note 34, 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 pensions costs include both the employee and employer elements of the USS and UMSS pension contributions.

Staff numbers	Consolidated	
	2009 Numbers	2008 Numbers
Academic - teaching and research	1,884	1,950
Academic - teaching only	383	358
Research	1,797	1,809
Administrative and management	1,223	1,363
Clerical and secretarial	1,574	1,505
Academic support	1,262	1,231
Craft / Manual	924	906
Other	294	362
Total number of staff	9,341	9,484

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	
	Number of Employees 2009	Number of Employees 2008
£100,001 - £110,000	25	19
£110,001 - £120,000	16	13
£120,001 - £130,000	11	4
£130,001 - £140,000	3	3
£140,001 - £150,000	1	1
£150,001 - £160,000	7	6
£160,001 - £170,000	2	2
£170,001 - £180,000	1	2
£200,001 - £210,000	1	1
£260,001 - £270,000	-	1
£270,001 - £280,000	1	-
	68	52

Emoluments of the President and Vice-Chancellor

	Consolidated	
	2009 £000	2008 £000
Salary	281	277
Benefits in kind	14	14
	295	291
Pension contributions	39	37

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

7 (a) Analysis of expenditure by activity

	Staff Costs £000	Other operating expenses £000	Depreciation £000	Interest payable £000	Consolidated 2009 £000	2008 £000
Academic departments	226,056	86,973	3,648	-	316,677	302,022
Academic services	27,216	18,701	88	-	46,005	42,429
Research grants and contracts	84,798	56,797	3,666	-	145,261	140,571
Residences, catering and conferences	12,966	24,372	33	2,455	39,826	36,761
Premises	22,482	40,025	23,781	9,628	95,916	76,005
Administration and central services	13,655	12,535	93	-	26,283	26,095
Staff and student facilities	9,446	7,769	-	-	17,215	15,791
General educational expenditure	4,314	17,087	1	-	21,402	15,951
Other services rendered	4,593	7,040	-	-	11,633	9,068
Other activities	4	-	8	-	12	11
Total University	405,530	271,299	31,318	12,083	720,230	664,704
Subsidiary undertakings	6,519	10,127	1,045	(29)	17,662	19,212
Total	412,049	281,426	32,363	12,054	737,892	683,916

7 (b) Analysis of other operating expenses

	Consolidated 2009 £000	2008 £000
Equipment purchases and maintenance	33,221	31,050
Estate repairs and maintenance	15,994	14,906
Consumables and laboratory expenditure	25,436	25,855
Catering supplies	5,535	5,150
Library and publications	7,201	6,643
Professional and other fees	43,538	42,632
Travel and subsistence	15,266	14,456
Printing, stationery and office expenses	12,422	11,972
Fellowships, scholarships and prizes	52,123	41,892
Recruitment, training and welfare	5,166	4,585
Heat, light, water and power	19,140	16,801
Rent, rates and insurance	15,055	15,561
Grants to student union	1,363	1,345
Auditors' remuneration in respect of audit services	176	282
Auditors' remuneration in respect of non audit services	909	393
Other expenditure	18,782	6,611
Subsidiary undertakings other operating expenditure	10,099	11,214
	281,426	251,348

Other operating expenses includes:

External auditors' remuneration in respect of audit services:

- PricewaterhouseCoopers LLP (University audit)	-	210
- PricewaterhouseCoopers LLP (Group audit)	-	9
- Grant Thornton UK LLP	-	9
- Deloitte LLP	176	33
- Other	-	21
	176	282

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

- PricewaterhouseCoopers LLP	-	94
- KPMG LLP	-	182
- Deloitte LLP taxation services	400	117
- Deloitte LLP consultancy services	509	-
	909	393

The prior year comparative for external auditors' remuneration in respect of audit and non-audit services comprises a number of different providers as the University had appointed several different firms to audit its subsidiaries. For the current year, Deloitte LLP were appointed auditors to the University and all subsidiaries.

Operating Lease rentals:

Land and Buildings	6,308	7,161
Other	1,201	1,187

Notes to the financial statements *continued*

8 Interest and other finance costs	Consolidated	
	2009 £000	2008 £000
Bank and other loans wholly repayable within five years	31	168
Bank and other loans not wholly or partly repayable within five years	10,954	11,364
Other interest payable	1,069	-
Pension finance cost	-	34
	12,054	11,566

9 Taxation	Consolidated	
	2009 £000	2008 £000
Current tax		
UK Corporation tax of 28% (2008: 29.33%) on surplus/(deficit) for the year	(17)	78
Deferred tax		
Origination and reversal of timing differences	134	(87)
Total tax charge/(credit)	117	(9)
Tax paid in year	-	69

10 Exceptional items	Consolidated	
	2009 £000	2008 £000
Income		
Surplus on sale of business	-	3,195
Expenditure		
Early retirement/voluntary severance	-	(20,846)
	-	(17,651)

The exceptional income for the prior year relates to the sale of the trade and trading assets of Weston Hotel and Conference Centre.

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

11 Tangible fixed assets

	Freehold Land and Buildings £000	Lease Premium £000	Assets under construction £000	Fixtures, Fittings, Tools and Equipment £000	Total £000
a) Consolidated					
Cost					
At beginning of year	650,936	-	69,225	171,621	891,782
Additions at cost	5,882	-	30,296	14,618	50,796
Transfers between categories	50,994	-	(55,743)	4,383	(366)
Disposals	(696)	-	-	(5,070)	(5,766)
At year end	707,116	-	43,778	185,552	936,446
Depreciation					
At beginning of year	101,413	-	-	132,251	233,664
Charge for the year	20,440	-	-	11,923	32,363
Disposals	(119)	-	-	(4,966)	(5,085)
At year end	121,734	-	-	139,208	260,942
Net Book Value					
At year end	585,382	-	43,778	46,344	675,504
At beginning of year	549,523	-	69,225	39,370	658,118
b) University					
Cost					
At beginning of year	606,754	5,400	69,952	168,862	850,968
Additions at cost	5,879	-	30,298	14,386	50,563
Transfers between categories	50,994	-	(55,743)	4,383	(366)
Disposals	-	-	-	(5,070)	(5,070)
At year end	663,627	5,400	44,507	182,561	896,095
Depreciation					
At beginning of year	97,640	740	-	130,993	229,373
Charge for the year	19,653	74	-	11,591	31,318
Disposals	-	-	-	(4,966)	(4,966)
At year end	117,293	814	-	137,618	255,725
Net Book Value					
At year end	546,334	4,586	44,507	44,943	640,370
At beginning of year	509,114	4,660	69,952	37,869	621,595

Transfers between categories includes £0.4m net cost of properties reclassified to fixed asset investments.

Included in Freehold Land and Buildings are buildings which were revalued to £13.3m, with accumulated depreciation of £6.4m (2008: £6.1m). These buildings have a net book value of £6.9m at 31 July 2009. The historical cost of these buildings is £11.8m and accumulated depreciation is £5.9m, giving a net book value on an historical cost basis of £5.9m (2008: £6.2m).

Land and buildings with a net book value of £16.6m (2008: £17.6m) are the subject of security granted in respect of certain bank loans as disclosed in note 20 to the financial statements.

At 31 July 2009, freehold land and buildings included £4.4m (2008: £4.4m) in respect of freehold land which is not depreciated.

Notes to the financial statements *continued*

11 Tangible fixed assets

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. Included within fixtures, fittings and equipment are heritage assets with cost value of £0.8m (2008: £0.3m). These comprise in the main a collection of art work purchased by the Whitworth Art Gallery and books held by John Rylands University Library. Heritage assets held at cost or valuation are not depreciated due to their indeterminate economic life and high residual value.

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

	Goodwill Consolidated £000
Cost	
At beginning of year and at year end	94
Amortisation	
At beginning of year	37
Charge in year	53
At year end	90
Net book value	
At year end	4
At beginning of year	57

There are no intangible assets within the University.

13 Investments within fixed assets

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Movement in the year				
Balance at beginning of year	33,756	26,047	37,846	33,016
Additions	906	823	74	62
Disposals	(42)	(316)	-	(250)
Amounts provided on unquoted shares during the year	-	(745)	-	(2,230)
Net transfers (to)/from tangible fixed assets	-	(428)	366	(428)
Transfer from current asset investments	-	739	-	739
Net (depreciation)/appreciation including reinvested profits on sales	(1,461)	7,636	(1,515)	6,937
Balance at year end	33,159	33,756	36,771	37,846
Analysis of closing balance				
Other fixed interest securities	1,706	1,983	1,706	1,983
UK industrial and commercial securities	5,414	5,880	5,414	5,880
Overseas industrial and commercial securities	3,835	3,582	3,835	3,582
Investment properties and property unit trusts	12,401	12,945	12,401	12,945
Cash instruments	994	881	994	881
Cash held with investment managers	180	869	180	868
Bank and building society deposits	158	-	158	-
Interests in subsidiary undertakings (note 13a)	-	-	8,086	7,710
Interests in associated undertakings (note 13b)	7,344	7,287	-	-
Loan to Sugden Sports Trust	-	-	3,705	3,705
Other investments	1,003	205	168	168
Unquoted shares	124	124	124	124
Total investments within fixed assets	33,159	33,756	36,771	37,846
Investments at cost	17,182	16,318	29,244	28,814

The investment properties totalling £11.3m (2008: £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 2009 by senior management at The University of Manchester which indicated no material differences.

Notes to the financial statements *continued*

13 Investments within fixed assets (continued)

a) Investments in subsidiary undertakings

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

Directly owned Indirectly owned	Group	University		Description
	Holding %	2009 £	2008 £	
Manchester Innovation Holdings Limited	100	4,143,092	4,143,092	Holding company
Manchester Innovation Limited	100	-	-	Owns and operates a biotech incubator building
Manchester Technology Developments Limited	100	-	-	Not trading
Control Technology Centre Limited	100	-	-	Not trading
The Manchester Incubator Company Limited	100	-	-	Owns and operates a biotech incubator building
UMIST Ventures Limited	100	3,336,153	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	-	-	Not trading
The University of Manchester Venture Fund Management Limited	100	5,135	5,135	Fund Management
UMIST Ventures Fund (General Partner) Limited	100	-	-	Dormant
UMIST Ventures Fund (Carried Interest Partner) Limited	100	-	-	Dormant
Internet Facilitators Limited	-	-	-	Provision of facilities for internet services - sold August 2007
Manchester Informatics Limited	100	100	100	Provision of consultancy services
Visual Automation Limited	100	2	2	Provision of consultancy services
Flow Science Limited	100	-	-	Dissolved 6 August 2008
Manchester Technology Fund Limited	100	50,000	50,000	Fund Management
The University of Manchester Intellectual Property Limited	100	50,000	50,000	Management of intellectual property
UMIP UPF Limited	100	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	Incorporated 18 July 2008, dormant
The University of Manchester Incubator Company Limited	100	1	1	Management of University Incubator Buildings
MBS Incubator Limited	56	-	-	Provision of business support services
MBSI Portfolio Limited	100	-	-	Owns and sells shares in incubator companies
Dryden Street Nursery Limited (CLG)	50	-	-	Management of Dryden Street Nursery
Dryden Street Partnership	50	366,000	-	Ownership of Dryden Street Nursery building
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
		8,086,206	7,710,206	

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

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

All the subsidiary undertakings are incorporated in England and Wales.

13 Investments within fixed assets (continued)

b) Investments in associated undertakings

The University and Group had the following associated undertakings as at 31 July 2009

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

The associated companies are accounted for using the equity method.

Notes to the financial statements *continued*

14 Endowment assets	Consolidated		University	
	2009 £000	2008 £000	2009 £000	2008 £000
Movement in the year				
Balance at beginning of year	137,867	142,436	137,867	142,436
New endowments including unreleased income earned on capital	3,488	6,755	3,488	6,755
Net depreciation including reinvested profits on sales	(14,028)	(11,324)	(14,028)	(11,324)
Balance at year end	127,327	137,867	127,327	137,867
Analysis of closing balance				
British government securities	-	438	-	438
Other fixed interest securities	15,627	17,703	15,627	17,703
UK industrial and commercial securities	49,073	53,056	49,073	53,056
Overseas industrial and commercial securities	34,847	32,163	34,847	32,163
Property unit trusts	9,494	14,241	9,494	14,241
Hedge funds	119	-	119	-
Cash instruments	1,724	1,265	1,724	1,265
Cash held with investment managers	1,661	7,052	1,661	7,052
Bank and building society deposits and uninvested bank balances	14,782	11,949	14,782	11,949
Total endowment assets	127,327	137,867	127,327	137,867
Endowment assets at cost	105,152	101,664	105,152	101,664
15 Debtors: amounts falling due within one year				
	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Trade debtors	20,982	26,659	17,108	22,124
Accrued income on research grants and contracts	35,634	42,004	35,634	42,004
Prepayments and accrued income	28,345	32,985	29,814	31,318
Amounts due from subsidiary companies	-	-	2,157	7,939
Amounts due from associate companies and spin outs	-	405	-	387
Balance at year end	84,961	102,053	84,713	103,772
16 Debtors: amounts falling due after more than one year				
	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Loan to University of Manchester Students' Union	69	98	69	98
Amounts due from subsidiary companies	-	-	10,196	9,003
Amounts due from associate companies and spin outs	-	179	-	179
Balance at year end	69	277	10,265	9,280
17 Investments within current assets				
	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Bank deposits repayable after due notice	128,281	76,549	128,281	76,549
Bank deposits repayable on demand	21,250	9,800	21,250	9,800
Balance at year end	149,531	86,349	149,531	86,349

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 2009 the weighted average interest rate of these fixed rate deposits was 1.07% (2008: 5.54%) per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 66 days (2008: 64 days).

18 Creditors: amounts falling due within one year	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Bank overdraft	4,714	8,796	4,714	8,796
Bank loans (note 20a)	6,026	5,164	6,026	5,164
Loans other than bank loans (note 20a)	1,706	1,706	-	-
Trade creditors	17,782	13,675	16,053	12,789
Obligations under hire purchase contracts (note 20b)	4	4	-	-
Social security and other taxation payable	18,749	10,292	18,537	9,930
Amounts owed to group undertakings	-	-	560	3,419
Other creditors	22,200	16,837	21,522	14,447
Deferred income on research grants and contracts	47,922	50,674	47,922	50,674
Accruals and deferred income	98,473	81,840	91,634	77,621
Balance at year end	217,576	188,988	206,968	182,840

19 Creditors: amounts due after more than one year	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Bank loans (note 20a)	83,581	89,565	83,581	89,565
Loans other than bank loans (note 20a)	110,704	110,000	110,704	110,000
Obligations under hire purchase contracts (note 20b)	-	3	-	-
Balance at year end	194,285	199,568	194,285	199,565

20 Borrowings	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
a) Bank and other loans				
Bank and other loans are repayable as follows:				
In one year or less	7,732	6,870	6,026	5,164
Between one and two years	6,281	5,993	6,281	5,993
Between two and five years	19,754	19,163	19,754	19,163
In five years or more	168,250	174,409	168,250	174,409
	202,017	206,435	200,311	204,729
Included within creditors: amounts falling due within one year	(7,732)	(6,870)	(6,026)	(5,164)
	194,285	199,565	194,285	199,565

Secured bank loans

Bank loans with an interest rate of LIBOR plus 0.9%, repayable by instalments falling due between 2009 and 2010 totalling £0.4m (2008: £0.8m) 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 2009 and 2010 totalling £0.5m (2008: £0.9m) are secured on the Manchester School of Management Building.

Bank loans with an interest rate of 9.6%, repayable by instalments falling due between 2009 and 2021 totalling £23.2m (2008: £24.0m) are secured on various student residences.

Bank Loans with an interest rate of 8.4%, repayable by instalments falling due between 2009 and 2017 totalling £1.5m (2008: £1.6m) are secured on Ronson Hall.

Bank Loans with an interest rate of LIBOR plus spread, repayable by instalments falling due between 2009 and 2014 totalling £4.7m (2008: £5.6m) are secured by an all monies guarantee (see note 37).

Unsecured bank and other loans

Bank loans with an interest rate of 6.1%, repayable by instalments falling due between 2009 and 2026 totalling £17.4m (2008: £17.9m).

Bank Loans with an interest rate of 5.2%, repayable by instalments falling due between 2009 and 2019 totalling £21.9m (2008: £23.9m).

Bank loans with an interest rate of 5.2%, repayable by instalments falling due between 2010 and 2022 totalling £20.0m (2008: £20.0m).

Other loans with an interest rate of 5.04%, repayable by one repayment falling due in 2046 totalling £100.0m (2008: £100.0m).

Other loans with an interest rate of 0%, repayable by one repayment falling due in 2014 totalling £10.0m (2008: £10.0m).

Other loans with an interest rate of 6.50%, repayable by one repayment falling due in 2009 totalling £1.7m (2008: £1.7m).

Other loans with an interest rate of 0%, being a revolving fund for green initiatives only repayable on cessation of investment activities, totalling £0.7m (2008: £nil).

b) Hire purchase loans	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Hire purchase loans are repayable as follows:				
In one year or less	4	4	-	-
Between one and two years	-	3	-	-
	4	7	-	-

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

Notes to the financial statements *continued*

21 Provisions for liabilities

a) Consolidated

	Early retirement / voluntary severance £000	Other taxes £000	Dilapidation provision £000	Deferred tax £000	Total £000
Balance at beginning of year (restated)	2,193	350	-	436	2,979
Utilised during the year	(2,705)	(350)	-	-	(3,055)
Charged to income and expenditure account	609	-	1,547	134	2,290
Balance at year end	97	-	1,547	570	2,214

Deferred tax

The elements of deferred tax are as follows:

	2009	2008
	£000	£000
Difference between accumulated depreciation and capital allowances	555	594
Other timing differences	15	(158)
Balance at year end	570	436

b) University

	Early retirement / voluntary severance £000	Other taxes £000	Dilapidation provision £000	Total £000
Balance at beginning of year (restated)	2,193	350	-	2,543
Utilised during the year	(2,705)	(350)	-	(3,055)
Charged to income and expenditure account	609	-	1,547	2,156
Balance at year end	97	-	1,547	1,644

The prior year figures have been restated to reflect the movement of the Enhanced Pension Scheme provision of £2.3m, in respect of future enhanced retirement benefits in relation to the Greater Manchester Pension Fund, from provisions for liabilities to the Greater Manchester Pension Fund pension liability (note 34e).

Early retirement and voluntary severance scheme

The early retirement/voluntary severance scheme provision is in respect of future committed payments due to employees at the balance sheet date.

Other taxes

This provision was in respect of VAT due in relation to the Weston Building and this liability was settled during the year.

Dilapidation provision

This provision is in respect of costs associated with the rectification work for a leased building.

22 Deferred capital grants

a) Consolidated

	Funding Council £000	Other grants £000	Total £000
Balance at beginning of year			
Buildings	205,693	128,168	333,861
Equipment	7,092	11,220	18,312
Donated assets	-	200	200
Total	212,785	139,588	352,373
Grants received/receivable			
Buildings	34,954	9,392	44,346
Equipment	390	8,679	9,069
Donated assets	-	1,133	1,133
Total received	35,344	19,204	54,548
Released to Income and Expenditure			
Buildings	8,035	4,059	12,094
Equipment	1,262	4,748	6,010
Donated assets	-	480	480
Total released	9,297	9,287	18,584
Balance at year end			
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

b) University

	Funding Council £000	Other grants £000	Total £000
Balance at beginning of year			
Buildings	205,693	107,380	313,073
Equipment	7,092	11,220	18,312
Donated assets	-	200	200
Total	212,785	118,800	331,585
Grants received/receivable			
Buildings	34,954	9,392	44,346
Equipment	390	8,679	9,069
Donated assets	-	1,133	1,133
Total received	35,344	19,204	54,548
Released to Income and Expenditure			
Buildings	8,035	3,602	11,637
Equipment	1,262	4,748	6,010
Donated assets	-	480	480
Total released	9,297	8,830	18,127
Balance at year end			
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

Notes to the financial statements *continued*

23 Endowments

Consolidated and University	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2009 Total £000	2008 Total £000
Balance at beginning of year						
Capital	15,861	90,685	106,546	18,053	124,599	129,631
Accumulated income	-	11,330	11,330	1,938	13,268	12,805
	15,861	102,015	117,876	19,991	137,867	142,436
New endowments	17	927	944	1,738	2,682	5,903
Dividends reinvested	35	226	261	44	305	389
Depreciation of endowment assets	(1,614)	(10,380)	(11,994)	(2,034)	(14,028)	(11,324)
University of Manchester contribution	-	69	69	-	69	-
Purchase of tangible assets from endowment funds	-	(318)	(318)	-	(318)	-
Investment income	394	3,057	3,451	570	4,021	3,785
Expenditure for year	(394)	(2,625)	(3,019)	(252)	(3,271)	(3,322)
Balance at year end	14,299	92,971	107,270	20,057	127,327	137,867
Representing:						
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
Total	14,299	92,971	107,270	20,057	127,327	137,867

There are no restricted permanent endowments which have a deficit on their accumulated income balances. Any deficits in existence as at 31 July 2008 have since been cleared either from investment income or a contribution from the University's own funds (£69,000).

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 2009 £000	Opening accumulated income £000	Investment income £000	Expenditure £000	Closing accumulated income £000	Date received
Hallsworth Fund	15,915	770	549	(780)	539	1944
Simon Fund	8,837	554	310	(391)	473	1943
Oncology department fund	7,828	126	261	(226)	161	1975
John Rylands general library fund	4,234	622	162	(67)	717	1972
John Rylands research institute fund	3,900	843	160	(60)	943	1972
Student Services Centre - prize and scholarship fund	4,269	(54)	140	-	86	2001
National fund for research into crippling diseases	3,295	92	111	(121)	82	1974
Dr Mont Follick professorship in phonetics	2,349	280	88	(121)	247	1962
BNFL permanent endowment	2,247	-	73	-	73	2008
BNFL expendable endowment	2,247	-	73	-	73	2008
Simon Fund (special) 1960	2,022	-	-	-	-	1960
Frederick Craven Moore Fund	1,964	202	72	(27)	247	1975
Research office - postgraduate prize and scholarship fund	1,009	484	52	(70)	466	2001
Hulme Trust	1,325	-	-	-	-	1881
Edmonds' Bequest	1,454	-	-	-	-	2008
	62,895	3,919	2,051	(1,863)	4,107	

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

23 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.

John Rylands general library fund

This expendable endowment is to support the running of the John Rylands library.

John Rylands research institute fund

This restricted permanent endowment is to support the activities of the John Rylands Research Institute.

Student Services Centre - prize and scholarship fund

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

National fund for research into crippling diseases

This restricted 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.

Research office - postgraduate prize and scholarship fund

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

Hulme Trust

This unrestricted 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.

Edmonds' Bequest

This expendable endowment is used to support research into Parkinson's disease.

Notes to the financial statements *continued*

24 Movement on General reserves

	Consolidated		University	
	2009 £000	Restated 2008 £000	2009 £000	Restated 2008 £000
Income and Expenditure account				
Balance at beginning of year	138,166	156,342	140,571	157,891
Surplus/(deficit) retained for the year	16,041	(17,870)	15,456	(17,484)
Transfer from revaluation reserve	13	1,170	13	1,170
Pension scheme transferred from subsidiary	-	-	-	470
Transfer pension surplus to pension reserve	(4,486)	(1,476)	(4,486)	(1,476)
Balance at year end	149,734	138,166	151,554	140,571
Pension reserve				
Balance at beginning of year	(12,430)	(16,543)	(12,430)	(16,073)
Pension scheme transferred from subsidiary	-	-	-	(470)
Actuarial (loss)/gain on pension schemes	(79,144)	2,637	(79,144)	2,637
Surplus retained within reserves	4,486	1,476	4,486	1,476
Balance at year end	(87,088)	(12,430)	(87,088)	(12,430)

The prior year figures have been restated to reflect the movement of the Enhanced Pension scheme provision of £2.3m, in respect of future enhanced retirement benefits in relation to the Greater Manchester Pension Fund, from the income and expenditure reserve to the pension reserve.

25 Revaluation reserve

a) Consolidated

	Land and buildings £000	Investments within fixed assets £000	Total £000
Revaluations			
At beginning of year	678	16,355	17,033
Revaluation in year	-	(1,461)	(1,461)
At year end	678	14,894	15,572
Contribution to depreciation			
At beginning of year	198	-	198
Transfer to income and expenditure account	13	-	13
At year end	211	-	211
Revaluation reserve			
At year end	467	14,894	15,361
At beginning of year	480	16,355	16,835

b) University

	Land and buildings £000	Investments within fixed assets £000	Total £000
Revaluations			
At beginning of year	678	11,272	11,950
Revaluation in year	-	(1,515)	(1,515)
At year end	678	9,757	10,435
Contribution to depreciation			
At beginning of year	198	-	198
Transfer to income and expenditure account	13	-	13
At year end	211	-	211
Revaluation reserve			
At year end	467	9,757	10,224
At beginning of year	480	11,272	11,752

26 Minority interests

	Consolidated	
	2009 £000	2008 £000
At beginning of year	272	399
Minority interest in subsidiary undertakings' results for the year	(153)	(91)
Minority interest's share of subsidiaries disposed of	-	(36)
At year end	119	272

27 Reconciliation of operating surplus/(deficit) to net cash inflow/(outflow) from operating activities	Consolidated	
	2009	2008
	£000	£000
Surplus on continuing operations after depreciation of fixed assets at cost/valuation and disposal of fixed asset investments and before exceptional items and taxation	16,908	235
Exceptional items (note 10)	-	(17,651)
Surplus/(deficit) on continuing operations after depreciation of fixed assets at cost/valuation, disposal of fixed asset investments and exceptional items and before taxation	16,908	(17,416)
Depreciation	32,363	26,835
Amortisation of goodwill	53	9
Loss on disposal of intangible assets	-	195
Deferred capital grants released to income	(18,584)	(11,289)
Investment income	(17,388)	(18,773)
Transfers to endowments	(750)	(463)
(Surplus)/loss on disposal of fixed assets	(54)	978
Surplus on disposal of business	-	(3,195)
Surplus on disposal of fixed asset investments	(2,062)	(941)
Interest payable	12,054	11,566
Interest receivable	(365)	(1,567)
Difference between pension charge and cash contributions	(4,486)	1,824
Minority interests	(153)	36
Decrease in stocks	264	267
Decrease in long term debtors	208	75
Decrease in debtors due within one year	17,422	4,129
Increase in creditors	32,681	5,041
Decrease in provisions	(899)	(10,615)
Net cash inflow/(outflow) from operating activities	67,212	(13,304)
28 Returns on investments and servicing of finance	Consolidated	
	2009	2008
	£000	£000
Income from endowments	4,021	3,785
Income from short term investments	3,628	6,410
Income from donations	9,173	4,511
Dividend income from general fund investments	566	740
Other interest received	365	1,567
Interest paid	(10,985)	(11,532)
Net cash inflow from returns on investments and servicing of finance	6,768	5,481
29 Capital expenditure and financial investment	Consolidated	
	2009	2008
	£000	£000
Purchase of tangible fixed assets	(49,663)	(90,181)
Net acquisition of fixed asset investments	(906)	(2,682)
Net acquisition of endowment assets	(655)	(21,311)
Receipts from sale of tangible fixed assets	300	-
Receipts from sale of fixed asset investments	2,262	20,362
Receipts from sale of endowment assets	-	15,606
Deferred capital grants received	53,415	35,665
Endowments received	2,034	6,756
Net cash inflow/(outflow) from capital expenditure and financial investment	6,787	(35,785)
30 Management of liquid resources	Consolidated	
	2009	2008
	£000	£000
(Placements)/withdrawals on deposit	(51,732)	48,533
Net cash (outflow)/inflow from management of liquid resources	(51,732)	48,533

Notes to the financial statements *continued*

31 Financing

	Consolidated	
	2009	2008
	£000	£000
New bank loans	704	10,000
Bank loan repayments	(5,122)	(4,288)
Capital element of hire purchase repayments	(3)	(75)
Net cash (outflow)/inflow from financing	(4,421)	5,637

32 Analysis of changes in net debt

	Consolidated			
	1 August 2008	Cash flows	Non-cash changes	31 July 2009
	£000	£000	£000	£000
Bank overdraft	(8,796)	4,082	-	(4,714)
Cash at bank	16,936	6,091	-	23,027
Bank deposits repayable on demand	9,800	11,450	-	21,250
Uninvested bank balances - fixed asset investments (note 13)	-	158	-	158
Endowment asset investments (note 14)	11,949	2,833	-	14,782
	29,889	24,614	-	54,503
Debt due within one year	(6,870)	5,122	(5,984)	(7,732)
Debt due after one year	(199,565)	(704)	5,984	(194,285)
Hire purchase amounts due within one year	(4)	3	(3)	(4)
Hire purchase amounts due after one year	(3)	-	3	-
Bank deposits repayable after due notice	76,549	51,732	-	128,281
Net debt	(100,004)	80,767	-	(19,237)

33 Cash flow relating to exceptional items

Operating cash flows include an outflow of £2.2m (2008: £31.9m) in respect of expenditure incurred as a result of the early retirement/voluntary severance scheme referred to within note 10.

34 Pension Schemes

a) Pension schemes - summary

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

	Consolidated		University	
	2009	Restated 2008	2009	Restated 2008
	£000	£000	£000	£000
Balance sheet - Pension scheme deficits				
University of Manchester Superannuation Scheme	(58,500)	1,284	(58,500)	1,284
Greater Manchester Pension Fund	(27,793)	(13,643)	(27,793)	(13,643)
Manchester Innovation Limited Group Pension Scheme	(795)	(71)	(795)	(71)
	(87,088)	(12,430)	(87,088)	(12,430)
Statement of consolidated total recognised gains and losses - Actuarial (losses)/gains				
University of Manchester Superannuation Scheme	(64,380)	13,689	(64,380)	13,689
Greater Manchester Pension Fund	(13,955)	(11,378)	(13,955)	(11,378)
Manchester Innovation Limited Group Pension Scheme	(809)	326	(809)	326
	(79,144)	2,637	(79,144)	2,637

34 Pension schemes (continued)

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

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 employee's 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 include both the employee and employer elements of the pension contributions; and
- Employers' contribution percentage rates represent only the employers' 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 University 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 total pension cost for The University of Manchester was £34.9m (2008: £28.2m). This includes £3.8m (2008: £2.4m) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14% 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 1999. It was assumed that salary increases would be 6.0% per annum (plus an additional allowance for increases in salary due to age and promotion in line with recent experience) and the valuation rate of return would be 8.0% per annum. It was assumed that the cost of pension increases in the scheme would continue to be met directly from the Exchequer and therefore there was no need to make any assumptions about pension increases for the purposes of this valuation.

The contribution rate payable by the University during the year ended 31 July 2009 was equal to 14% of the total pensionable salaries, in accordance with the conclusion of the Government Actuary's report on the scheme.

The total pension cost for the University of Manchester was £2.6m (2008: £2.6m). This includes £0.2m (2008: £0.3m) outstanding contributions at the balance sheet date.

Notes to the financial statements *continued*

34 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 2009 on an FRS 17 basis by a qualified independent actuary. The 2007 full actuarial valuation has been approved in principle by the University and the Trustee but has not yet been formally signed. The major assumptions used by the actuary (in nominal terms) 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 7.20% assumption as at 31 July 2009.

Weighted average assumptions used to determine benefit obligations at:

	2009	2008
Rate of increase in salaries	4.60%	4.70%
Rate of increase of pensions in payment and deferred pensions	3.60%	3.70%
Discount rate	5.90%	6.50%
Inflation assumption	3.60%	3.70%

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

	2009
Rate of increase in salaries	4.70%
Expected long term return on plan assets	7.06%
Discount rate	6.50%

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

	2009	Female
	Male	
Member age 62 (current life expectancy)	23.2	25.7
Member age 42 (life expectancy at age 62)	25.2	27.6

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

	2009	2009	2008	2008	2007	2007
		£000		£000		£000
Equities	8.00%	121,812	8.00%	141,959	7.40%	139,290
Bonds	6.30%	109,631	5.60%	103,711	5.50%	117,882
Property	7.50%	12,181	7.90%	20,802	7.40%	24,927
Total market value of assets		243,624		266,472		282,099
Actuarial value of liability		(302,124)		(265,188)		(296,602)
Net pension (liability)/asset		(58,500)		1,284		(14,503)

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

	2009	2008
	£000	£000
Current service cost	8,960	10,638
Past service cost	32	-
Total operating charge	8,992	10,638

Analysis of net return on pension scheme

	2009	2008
	£000	£000
Expected return on pension scheme assets	19,028	18,699
Interest on pension liabilities	(17,340)	(16,386)
Net return	1,688	2,313

34 Pension schemes (continued)

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

Analysis of amount recognised in statement of consolidated total recognised gains and losses (STRGL)	2009 £000	2008 £000
Actual return less expected return on scheme assets	(47,964)	(36,764)
Experience gains and losses on liabilities	5,000	(1,736)
Changes in assumptions	(21,416)	52,189
Actuarial (loss)/gain recognised in STRGL	(64,380)	13,689
Reconciliation of fair value of employer assets		
	2009 £000	2008 £000
Opening fair value of employer assets	266,472	282,099
Expected return on assets	19,028	18,699
Contributions by the employer	11,900	10,423
Contributions by members	3,270	3,459
Actuarial losses	(47,964)	(36,764)
Estimated benefits paid	(9,082)	(11,444)
Closing fair value of employer assets	243,624	266,472
Reconciliation of defined benefit obligation		
	2009 £000	2008 £000
Opening defined benefit obligation	265,188	296,602
Current service cost	8,960	10,638
Past service cost	32	-
Interest cost	17,340	16,386
Contributions by members	3,270	3,459
Actuarial losses/(gains)	16,416	(50,453)
Estimated benefits paid	(9,082)	(11,444)
Closing defined benefit obligation	302,124	265,188

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 has paid contributions at the rate of 18.75% of members' pensionable pay over the year to 31 July 2009. With effect from 1 August 2009 the University contributions have increased to 19.75%.

A bank guarantee facility of £40.0m has been given by one of the University's bankers in favour of UMSS Limited as trustee of the University of Manchester Superannuation Scheme. The guarantee expires on 31 March 2010. This guarantee is secured on a number of properties.

History of experience gains and losses

	Year ended 31 July				
	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	(302,124)	(265,188)	(296,602)	(262,885)	(237,403)
Fair value of scheme assets	243,624	266,472	282,099	257,472	225,796
(Deficit)/surplus in the scheme	(58,500)	1,284	(14,503)	(5,413)	(11,607)
Difference between expected and actual return on scheme assets:					
Amount (£000)	(47,964)	(36,764)	4,714	12,877	21,279
Percentage of scheme assets	(20%)	(14%)	2%	5%	9%
Experience gains and losses on scheme liabilities:					
Amount (£000)	5,000	(1,736)	-	(2,622)	8,764
Percentage of scheme liabilities	2%	(1%)	0%	(1%)	4%

Notes to the financial statements *continued*

34 Pension schemes (continued)

e) Greater Manchester Pension Fund ('GMPF')

The GMPF is a final salary defined benefit scheme and a separate fund within the local government pension scheme (LGPS) which is 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 March 2007 and updated to 31 July 2009 on an FRS 17 basis by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	2009	2008
Rate of increase in salaries	5.20%	5.30%
Rate of increase in pensions in payment and deferred pensions	3.70%	3.80%
Discount rate applied to scheme liabilities	6.00%	6.70%
Inflation assumption	3.70%	3.80%
Expected return on assets	6.60%	7.00%

The mortality assumptions used as at 31 July 2009 are as follows:

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

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

The prior year figures have been restated to reflect the movement of the Enhanced Pension Scheme provision of £2.3m, in respect of future enhanced retirement benefits in relation to the Greater Manchester Pension Fund, from provisions for liabilities to net pension liabilities.

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

	2009	2009		Restated 2008		Restated 2007
		£000	2008	£000		£000
Equities	7.30%	49,621	7.80%	46,718	8.00%	50,583
Bonds	5.30%	9,649	5.70%	12,367	5.20%	12,855
Property	5.30%	4,135	5.70%	6,122	6.00%	7,911
Cash	4.30%	5,513	4.80%	6,542	5.10%	7,690
Total market value of assets		<u>68,918</u>		71,749		79,039
Actuarial value of scheme liability		<u>(96,711)</u>		(85,392)		(80,609)
Net pension liability		<u>(27,793)</u>		(13,643)		(1,570)

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

	2009	Restated 2008
	£000	£000
Current service cost	1,546	1,574
Past service cost	(218)	1,449
Total operating charge	<u>1,328</u>	<u>3,023</u>

Analysis of net return on pension scheme

	2009	2008
	£000	£000
Expected return on pension scheme assets	5,019	5,564
Interest on pension liabilities	(5,391)	(4,550)
Net (charge) / return	<u>(372)</u>	<u>1,014</u>

34 Pension schemes (continued)

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

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

	2009 £000	2008 £000
Actual return less expected return on scheme assets	(5,895)	(11,425)
Experience gains and losses on liabilities	-	(2,897)
Changes in assumptions	(8,060)	2,944
Actuarial loss recognised in STRGL	(13,955)	(11,378)

Reconciliation of fair value of employer assets

	2009 £000	2008 £000
Opening fair value of employer assets	71,749	79,039
Expected return on assets	5,019	5,564
Contributions by members	585	563
Contributions by the employer	1,505	1,314
Actuarial losses	(5,895)	(11,425)
Estimated benefits paid	(4,045)	(3,306)
Closing fair value of employer assets	68,918	71,749

Reconciliation of defined benefit obligation

	2009 £000	Restated 2008 £000
Opening defined benefit obligation	85,392	80,609
Current service cost	1,546	1,574
Interest cost	5,391	4,550
Contributions by members	585	563
Actuarial losses/(gains)	8,060	(47)
Past service costs	(218)	1,449
Estimated benefits paid	(4,045)	(3,306)
Closing defined benefit obligation	96,711	85,392

Analysis of the defined benefit obligation

	2009 £000	2008 £000
Present value of unfunded liabilities	2,386	2,301
Present value of funded liabilities	94,325	83,091
Closing defined benefit obligation	96,711	85,392

The University has paid contributions at the rate of 16.8% of members' pensionable pay over the year to 31 July 2009. It was agreed with the Trustees that contributions for the following year would remain at that level.

History of experience gains and losses

	Year ended 31 July				
	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	(96,711)	(85,392)	(80,609)	(82,726)	(76,458)
Fair value of scheme assets	68,918	71,749	79,039	72,527	66,002
Deficit in the scheme	(27,793)	(13,643)	(1,570)	(10,199)	(10,456)
Difference between expected and actual return on scheme assets:					
Amount (£000)	(5,895)	(11,425)	2,265	3,342	7,852
Percentage of scheme assets	(8.6%)	(15.9%)	2.9%	4.6%	11.9%
Experience gains and losses on scheme liabilities:					
Amount (£000)	-	(2,897)	1	(79)	(283)
Percentage of scheme liabilities	0.0%	(3.4%)	0.0%	(0.1%)	(0.4%)

Notes to the financial statements *continued*

34 Pension schemes (continued)

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

The MILGPS is a final salary defined benefit scheme. All existing employees of Manchester Innovation Limited are members of The University of Manchester Superannuation Scheme ('UMSS'). From 1 June 2003, all active members participating in the MILGPS transferred to UMSS. The deferred members remain within MILGPS.

A full valuation of the scheme was carried out as at 1 September 2008 (currently in draft), which has been updated to 31 July 2009 by a qualified actuary.

The market assumptions used in this valuation were:

	2009	2008
Rate of increase in pensions in payment and deferred pensions	5.00%	5.00%
Discount rate applied to scheme liabilities	5.90%	6.50%
Inflation assumptions	3.60%	3.80%
Expected return on plan assets	5.60%	5.39%

The mortality assumptions used are as follows:

	2009	2008
Assumed life expectancy in years on retirement at 62		
Retiring today		
Males	26.5	26.3
Females	28.7	29.3
Retiring in 20 years		
Males	28.8	26.3
Females	30.0	29.3

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

	2009	2009				
		£000	2008	2008	2007	2007
				£000		£000
Investment in bonds	5.50%	663	-	-	-	-
Investment in unithised pension policy	5.75%	1,031	5.75%	1,329	5.50%	1,265
Other	3.50%	16	4.50%	538	4.50%	446
Total market value of assets		<u>1,710</u>		<u>1,867</u>		<u>1,711</u>
Actuarial value of liability		<u>(2,505)</u>		<u>(1,938)</u>		<u>(2,181)</u>
Net pension liability		<u>(795)</u>		<u>(71)</u>		<u>(470)</u>

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

	2009	2008
	£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 other pension finance interest

	2009	2008
	£000	£000
Expected return on pension scheme assets	103	92
Interest on pension liabilities	(126)	(126)
Net charge	<u>(23)</u>	<u>(34)</u>

34 Pension schemes (continued)

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

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

	2009 £000	2008 £000
Actual return less expected return on pension scheme assets	(345)	(43)
Experience gains and losses on liabilities	(24)	(1)
Changes in assumptions	(440)	370
Actuarial (loss)/gain recognised in STRGL	<u>(809)</u>	<u>326</u>

Reconciliation of fair value of employer assets

	2009 £000	2008 £000
Opening fair value of employer assets	1,867	1,711
Expected return on assets	103	92
Contributions by the employer	111	110
Actuarial losses	(345)	(43)
Estimated benefits paid	(26)	(3)
Closing fair value of employer assets	<u>1,710</u>	<u>1,867</u>

Reconciliation of defined benefit obligation

	2009 £000	2008 £000
Opening defined benefit obligation	1,938	2,181
Current service cost	3	3
Interest cost	126	126
Actuarial losses/(gains)	464	(369)
Estimated benefits paid	(26)	(3)
Closing defined benefit obligation	<u>2,505</u>	<u>1,938</u>

History of experience gains and losses

	2009 £000	Year ended 31 July			
	2008 £000	2007 £000	2006 £000	2005 £000	
Present value of defined benefit obligations	(2,505)	(1,938)	(2,181)	(2,747)	(2,836)
Fair value of scheme assets	1,710	1,867	1,711	1,662	1,296
Deficit in the scheme	<u>(795)</u>	<u>(71)</u>	<u>(470)</u>	<u>(1,085)</u>	<u>(1,540)</u>
Difference between expected and actual return on scheme assets:					
Amount (£000)	(345)	(43)	82	78	70
Percentage of scheme assets	(20%)	(2%)	5%	5%	5%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(24)	(1)	(32)	47	(122)
Percentage of scheme liabilities	(1%)	0%	(1%)	2%	(4%)

Notes to the financial statements *continued*

35 Capital commitments	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Commitments for future capital expenditure:				
Authorised not contracted	62,730	142,348	62,730	142,348
Contracted not provided	6,668	22,522	6,668	22,522
	69,398	164,870	69,398	164,870

36 Operating lease commitments

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

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Land and Buildings				
Expires within one year	1,756	472	1,756	472
Expires between two and five years	3,723	2,184	3,723	2,822
Expires after more than five years	2,211	3,307	2,211	3,307
	7,690	5,963	7,690	6,601
Other				
Expires within one year	223	215	223	215
Expires between two and five years	716	787	716	787
Expires after more than five years	3	38	3	38
	942	1,040	942	1,040
TOTAL	8,632	7,003	8,632	7,641

37 Contingent liabilities

	Consolidated		University	
	2009	2008	2009	2008
	£000	£000	£000	£000
Undrawn investment commitments	6,240	7,020	6,240	-
Bank guarantees	40,175	41,191	40,175	41,191
All monies guarantee	4,722	-	4,722	-
	51,137	48,211	51,137	41,191

A commitment of up to £7.8m (2008: £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 £1.6m (2008: £0.8m) has been invested in the Fund.

The bank guarantees of £0.2m (2008: £1.2m) relate to specific research and non research projects.

A bank guarantee facility of £40.0m (2008: £40.0m) has been given by one of the University's bankers in favour of UMSS Limited as trustee of The University of Manchester Superannuation Scheme. The guarantee expires on 31 March 2010 and is secured on a number of properties.

A bank loan totalling £4.7m is secured by an all monies guarantee.

38 Related party transactions

The operating statements of the University include transactions with related parties. In accordance with FRS 8 'Related Party Transactions' these are disclosed where members of The University of Manchester's Board of Governors disclose an interest in a body with whom the University undertakes transactions which are considered material to the University's Financial Statements and/or the other party. Due to the nature of the University's operations and the composition of the Board, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of Board may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

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

The University has taken advantage of the exemption within FRS 8 and has not disclosed transactions with other group entities where it holds 100% of the voting rights. Included within the financial statements are the following transactions with related parties:

	Income within the University £000	Expenditure within the University £000	Balance due to/(from) the University £000
Central Manchester University Hospitals NHS Foundation Trust	19,515	(4,329)	1,056
Turley Associates Limited	-	(22)	-
UK EPSRC	36,605	(1)	(1,455)
Imperial College London	631	(735)	61
Manchester City Council	176	(1,628)	(645)
Alzheimer's Society	81	(1)	18
European Commission	7,841	(16)	415
Students' Union	159	(1,469)	21
One Central Park	84	(322)	-
Ministry of Defence	968	-	2
Northwest Regional Development Agency	12,778	-	-
Uniac	4	(465)	-
	78,842	(8,988)	(527)

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.

Turley Associates Limited

Turley Associates Limited are a town planning and urban design consultancy operating throughout Britain. They have undertaken professional work for the University's Estates Directorate as part of the planning process for our capital programme. The employees of Turley Associates collectively own the company (through an Employee Benefit Trust). The Chairman of the company's Board of Directors is also a lay member of the University's Board of Governors.

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.

Notes to the financial statements *continued*

38 Related party transactions (continued)

Manchester City Council

The University is located within the City of Manchester, with the exception of a few outlying facilities such as Jodrell Bank. This has been the case since the University was founded. Many of the transactions with the City Council are estates related, such as business rates, rents and fees for planning applications. The University's academic sector also has some dealings, 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.

Alzheimer's Society

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

European Commission

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

Students' Union

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

One Central Park Limited

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

Ministry of Defence

The Ministry of Defence is the department of the UK Government responsible for the implementation of government defence policy and the operation of Her Majesty's Armed Forces. Its principal objectives are the defence of the United Kingdom and to strengthen international peace and security. The Ministry commissions significant expenditure on scientific research into defence technology. A member of the Board of Governors is, in his capacity as a member of the academic staff, a member of the Ministry of Defence's Scientific Advisory Council.

Northwest Regional Development Agency (NWDA)

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

Peel Holdings Group

The School of Engineering had a windtunnel facility at Barton Aerodrome in Salford. The airfield is operated by City Airport Ltd, part of the Peel Group. The facility is now closed, and the University is in negotiation with the landlords regarding possible dilapidation payments, for which a provision has been made in the accounts. A member of the Board of Governors is a director of several companies in the Peel Group.

Uniac

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

39 Amounts disbursed as agent (Consolidated and University)

a) Access Fund	2009	2008
	£000	£000
Balance unspent at beginning of year	148	147
Funding council grants	636	891
Interest earned	8	20
	<u>792</u>	<u>1,058</u>
Disbursed to students	(608)	(910)
Balance unspent at year end	<u>184</u>	<u>148</u>
b) Training and Development Agency for Schools (TDA)		
Student Training Bursaries	2009	2008
	£000	£000
Balance unspent at beginning of year	97	117
Funding council grants	2,354	2,496
Disbursed to students	(2,335)	(2,516)
Balance unspent at year end	<u>116</u>	<u>97</u>
Student Associates Scheme	2009	2008
	£000	£000
Balance unspent at beginning of year	8	(4)
Funding council grants	413	397
Paid out during the year	(421)	(385)
Balance unspent at year end	<u>-</u>	<u>8</u>
Minority Ethnic Recruitment	2009	2008
	£000	£000
Balance unspent at beginning of year	6	4
Funding council grants	6	12
Paid out during the year	(3)	(10)
Balance unspent at year end	<u>9</u>	<u>6</u>

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.

The University of Manchester
Oxford Road
Manchester
M13 9PL

tel +44 (0)161 306 6000
www.manchester.ac.uk

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