July 2005/31

Core funding/operations

Consultation

Responses should be made by 30 November 2005

This is a consultation on our vision and plans for promoting better regulation for higher education institutions through a new accountability process. We aim to ease the accountability burden, concentrating it into an annual exchange of documents and dialogue – the concept of the 'single conversation'.

July 2005/**31**

Accountability for higher education institutions

Consultation on a new process

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

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Accountability for higher education institutions
Consultation on a new process

To	Heads of HEFCE-funded higher education institutions Other relevant stakeholders
Of interest to those responsible for	Senior management, Finance, Governance
Reference	2005/**31**
Publication date	July 2005
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Executive summary

Purpose

1. This is a consultation on our vision and plans for promoting better regulation for higher education institutions (HEIs) through a new accountability process linked to our assessment of institutional risk. We are seeking views on a number of proposals, which build on previous initiatives.

Key points

2. Our vision is that institutions should have such excellent governance and management processes that they can easily demonstrate to their stakeholders, including HEFCE, proper accountability for the use of public funds. The better these processes, the lighter will be the burden of providing assurance.

3. One key element is that as far as possible the accountability process between HEFCE and HEIs should be concentrated into an exchange of documents and dialogue during a specific period each year. This is the concept of the 'single conversation'.

4. Initial draft proposals have been shared with some of the sector's representative bodies and key stakeholders. The questions in this consultation, on which we are seeking views, are listed in Annex B.

5. Detailed proposals on developing certain aspects of the accountability process – for example, revising the Financial Memorandum between HEFCE and institutions – will be in a future consultation, after we have taken into account the sector's and other stakeholders' views on the principles set out here.

Action required

6. We invite comments on these proposals from institutions and other stakeholders, using the response form at Annex B. An electronic version of the form can be found on the web at www.hefce.ac.uk, with this document under Publications. Responses should be e-mailed to accountability@hefce.ac.uk by **30 November 2005.** Details of the final agreed process for accountability will be published early in 2006.

Introduction

Better regulation: the journey so far

7. We have been working to achieve better regulation for institutions for a number of years. This effort has been boosted in 2005 with the launch of the Higher Education Regulation Review Group (HERRG).

8. Our work in this area began in response to the 1997 report of the National Committee of Inquiry into Higher Education (the 'Dearing Report'). An attempt to quantify and assess the accountability burden in the higher education (HE) sector led to the 'Better Accountability for Higher Education' report in May 2000 (HEFCE 00/36). The costs in 2000 were assessed at £250 million for the whole sector, which largely related to three areas:

- teaching quality assessment
- research assessment
- bidding schemes (in particular, the Joint Infrastructure Fund was a major concern).

9. As a direct result of this work, we set up a group of stakeholders, the HE Forum, which examined the accountability report and oversaw a number of improvement projects. These included:

- fundamental changes to the teaching quality assessment regime
- a transition from bidding for particular schemes to conditional allocations, involving a less onerous demonstration of plans and output measures by institutions. This approach was adopted for the Joint Infrastructure Fund (which became the Science Research Investment Fund, SRIF), project capital allocations and Rewarding and Developing Staff in HE funding
- joint (rather than separate) schemes with the Teacher Training Agency, Department of Trade and Industry and the Home Office
- a change in our audit approach to respond proportionately to the risk level of individual institutions.

10. In 2002 the Government asked the Better Regulation Task Force (BRTF) to investigate higher education. The BRTF advises the Government and has established five principles of better regulation:

- proportionality
- accountability
- consistency
- transparency
- targeting.

11. The BRTF's report, based largely on interviews within the sector, identified a continuing problem with the accountability burden. We accepted the BRTF's recommendations, many of which were a continuation of existing efforts.

12. The Department for Education and Skills (DfES) then created the Better Regulation Review Group in 2003 to address the BRTF's recommendations. The BRRG's final report said that HEFCE and other public stakeholders need to be rigorous in justifying any new regulation, but also that institutions need to be more engaged in the regulatory process.

13. BRRG recommended the creation of a 'gatekeeper mechanism'. This led to the establishment of the Higher Education Regulation Review Group (HERRG) chaired by Dame Patricia Hodgson, with membership drawn from the HE sector (but not from HEFCE or other funders). HERRG began to meet in late 2004 and supports this consultation.

14. In line with HERRG's developing thinking, HEFCE's Board committed to further progress on reducing the accountability burden in December 2004. The work of HEFCE and HERRG has been informed by a follow-up study that reassessed the cost of accountability ('Better accountability revisited: review of accountability costs 2004' at www.hefce.ac.uk under Publications/R&D reports). This concluded that, as a result of the changes mentioned, costs had reduced by 25 per cent since the earlier review in 2000. In addition to bringing benefits to the sector, better regulation enables us to be more efficient.

The next stages of better regulation

15. When we next assess the cost of accountability in 2007, we aim to see a further real reduction in costs of 20 per cent. We intend to achieve this mainly by relying more on institutions' own accountability processes and using existing sources

of information wherever possible, rather than demanding detailed information and specifying standard formats. Some of the 'accountability burden' is merely the cost any organisation incurs in meeting its legal and social obligations, such as producing annual financial statements. Our aim is to avoid adding unnecessarily to these. Furthermore, while we cannot direct other stakeholders to change their requirements, we will work with them to apply the principles of better regulation and eliminate duplication of effort.

16. In summary, our vision is that institutions should have such excellent governance and management processes that they can easily demonstrate to their stakeholders proper accountability for the use of public funds. The better these processes, the lighter will be the burden of providing assurance.

The 'single conversation'

17. The main element of the simpler accountability process we hope to adopt is the single conversation between HEFCE and HEIs. At present, institutions provide information to us at several points throughout the year. Concentrating this activity into a short period each year should help minimise the regulatory impact. The timing is discussed in paragraphs 25 and 26.

18. The suggested elements of the single conversation include the following audit-related information:

- designated officer's annual assurance return for compliance with the Financial Memorandum
- audit report on the financial statements
- external audit management letter and the management response to it
- internal audit annual report
- audit committee annual report.

And, the following planning and performance information:

- financial statements, including the statement on internal control (supported, in respect of governance, by adoption of the Committee of University Chairmen (CUC) Governance Code of Practice)
- financial forecasts
- annual monitoring statement (reporting by exception)
- corporate planning statement
- Higher Education Students Early Statistics (HESES) data
- minimal additional data on the sustainability of research funding (see paragraphs 43-46)
- other reports and data considered by the institution to be relevant in demonstrating its performance, long-term viability, accountability and overall level of risk, such as performance indicators, benchmarking and other forms of evaluation, and governance and other self-evaluations.

19. We want to confine our information requests to the single conversation period, but from time to time there may need to be exceptions to this general principle.

20. We would review this information and give feedback, including an assessment of institutional risk, within two months of the submission date. For the great majority of institutions, our feedback would constitute a notification process, confirming that we consider them to be lower risk. In this situation there would be little or no follow-up action, and there would be no need to make further returns to us until the following year, except where an exceptional adverse event occurs. Where we assess an institution to be higher risk, there would be a negotiation process, including consideration of how to address the risks through the support strategy (see Annex A). Of course, in practice risks will be dealt with as they arise, so this accountability process is unlikely to involve surprises for either side.

Consultation question 1
Do you foresee any major difficulties in adopting the 'single conversation' accountability process?

Financial monitoring

21. HEFCE's financial monitoring of institutions has historically been based on collecting, analysing and reporting on three sets of data each year: the

audited financial statements (due at the end of December), the mid-year financial return (due in March), and the five-year financial forecasts (due at the end of July). We have used these returns to assess both the risks for individual institutions and the financial needs of the sector as a whole (for example, in submissions to government spending reviews).

22. The main source of information on financial performance will continue to be the financial statements. All similar organisations are required (by the Companies and Charities Acts, for example) to have audited accounts, and in that sense they cannot be considered part of the accountability burden imposed by HEFCE. The financial statements provide high quality data, of which we will continue to make maximum use.

23. We seek annual financial forecasts from institutions in the expectation that, as complex and diverse organisations, they would need to do such modelling to inform their strategic plans. In the past we have collected a large amount of data, but in recent years have looked more critically at our requirements. As a result the number of required data tables has been cut from 20 in 2001 to only six in 2005. We will keep this under review and align our needs more closely with those of institutions.

24. The proposed single conversation would allow us to collect the financial statements and financial forecasts together, and so eliminate one exchange entirely. We believe institutions will agree that discussions are more likely to be useful if past financial performance and future financial prospects are considered at the same time. Finalisation of accounts in a shorter period than the five months allowed at present would improve the currency of the data.

25. We propose that the common submission date should be 30 November, rather than separate deadlines at the end of July and December as at present. In the longer term we would like to move this to 31 October and will review the costs and benefits of doing so after two years. Our aim is to give feedback to institutions, including our risk assessment, within two months of the submission date (that is, by the end of January).

26. A further benefit of this timing is that institutions will no longer have to report the year just ending, so the forecasts would be reduced from five to four years. It would also allow institutions to report the current year budget more accurately. If institutions approve financial statements one month earlier than at present, some may need to reorganise their committee timetable. However, we hope managers and governors will see the benefit of reviewing more timely financial information.

27. The third financial return we have routinely collected is the mid-year financial return. This has been a relatively simple sub-set of the forecast, to which institutions have not particularly objected, and which has proved useful to us in updating our risk assessment. Nonetheless, HEFCE's Board, supported by HERRG, has decided we can dispense with this requirement for most institutions without undue risk, and this has been put into effect for 2005. In deciding this, we have assumed that institutions' adoption of the CUC Governance Code of Practice (or explanation of divergence from it) will provide further assurance about institutions' internal overview of financial management.

Consultation question 2

How soon will your institution be able to adopt the common submission date of 30 November for financial statements and forecasts?

Accountability and audit

28. Institutions are required to have their own internal and external audit arrangements, and until three years ago HEFCE auditors conducted three-yearly reviews of governance, management and audit arrangements at all institutions. We reviewed this process, and made these audits shorter, more focused and less frequent. Our approach has been to do a high level assessment of governance, management and audit arrangements in each institution every five years, though audits have been longer or more frequent where warranted by our risk assessment. Now in the fourth year of our review cycle, we believe there is scope to make our audit work even more proportionate to risk.

29. The majority of institutions are not at high risk, meaning that we can rely on a comprehensive and consistently reliable set of audit, governance and other assurances, and assess their current control arrangements to be at least 'satisfactory'. For these institutions we would instead have a much shorter, periodic 'assurance dialogue', where a HEFCE assurance consultant would meet the designated officer, auditors and audit committee chair to discuss the reports provided by the institution and the evidence underlying them. Where an institution is at higher risk, or where the assurances prove unreliable, we would need to seek additional assurances or revert to more conventional audits.

30. The new assurance dialogue would form part of the single conversation, possibly once every three years for most institutions, and take place between November and February. We need to finalise how we will do this but expect each dialogue to involve no more than one day of our assurance consultant's time in an institution.

31. The audit reports we require each year, as mentioned in paragraph 18, are: the designated officer's annual assurance return for compliance with the Financial Memorandum; the audit report on the financial statements; external audit management letter and the management response to it; statement on internal control supported, in respect of governance, by adoption of the CUC Code; internal audit annual report; and audit committee annual report.

32. These assurances and reports must give us confidence that in HEIs:

- our conditions of grant are being met
- long-term institutional viability is being secured
- internal control, corporate governance and risk management can be relied upon
- value for money is being pursued
- our funding and other public money is being used for the purposes intended
- high standards of propriety are being set and maintained.

33. We can only rely on the work of auditors whose quality is satisfactory. For external auditors this means they should be qualified under the Companies Act. We continue to monitor the content and quality of their management letters, and will do follow-up work where this is not satisfactory. For internal auditors we do our own reviews or rely on other assessments we find acceptable.

34. For the past two years, in order to be transparent, we have reported back to institutions on our assessment of their compliance with the audit and accountability framework. We will continue to do this and will integrate this communication, from 2006, with the broader risk assessment notification to all institutions.

Consultation question 3

Do you agree that where the audit and governance assurances are reliable, direct audits by HEFCE should be replaced by a periodic assurance dialogue, which would form part of the single conversation?

Institutional risk and the support strategy

35. The financial monitoring and audit processes we have discussed are major elements of our overall assessment of the risk for institutions. Other factors we take into account include student recruitment and retention, physical infrastructure, incidents of public interest disclosure and fraud. As stewards of public funds and to protect the public interest, we must assess the potential risks to funding and to the achievement of public policy objectives. We are currently reviewing how we assess risk, to improve the quality, reliability and efficiency of our processes. Having made those assessments, we must communicate them to each institution. In 2005 we have begun to do this, firstly by starting a formal dialogue with the small number of institutions we consider to be higher risk. From 2006 we will communicate our assessments to each institution.

36. When we assess an institution to be lower risk, we wish to recognise this by reducing its regulatory burden. The assurance dialogue is an example of how we would do this in the area of audit. For

special funding we are already moving toward reporting by exception. Long-term we expect our capital funding regime to be informed by how effectively an institution's infrastructure is managed. Similarly, the self-assessment process for people management (HEFCE 2004/43) is designed to provide us with sufficient assurance to enable us to move Rewarding and Developing Staff in HE funding fully into the core teaching grant, thereby removing separate accountability. We will continue to look for other ways in which lower risk institutions can enjoy greater freedom from regulation.

37. When we assess an institution to be higher risk we need to respond appropriately, to protect the public interest, as the DfES, the Treasury and National Audit Office would expect of us. The basis on which we will act is set out in our support strategy (see Annex A). We have already taken, or have considered taking, such actions with institutions in difficulty, and all are within our existing powers. These actions represent a 'menu' from which we would select and agree actions to support institutions in the future.

Consultation question 4
In what ways do you think institutions presenting lower risks to public funding should enjoy greater freedom from regulation?

Consultation question 5
Do you agree that the support strategy (see Annex A) appropriately describes the ways in which HEFCE needs to engage more actively with institutions at higher risk?

Other forms of engagement between HEFCE and institutions

Data collection and data audit

38. We require data from institutions to inform our funding decisions, and try to rely on data collected by the sector through the Higher Education Statistics Agency (HESA) as far as possible, though at present we also use other sources, notably the HESES return. This is a count and estimate of student numbers early in the academic year. Since HESES is an important return for the allocation of funding, it is subject to verification and validation, and to cyclical audit by HEFCE. The scope and approach of the data audit work is to be reviewed by independent consultants in 2005-06, and following this we expect future audits to become more targeted (that is, more focused on the risk of error or misstatement). The review will also consider to what extent institutions' own external or internal auditors, rather than HEFCE, can provide the necessary assurance about accuracy and completeness. One consideration will be the cost to institutions of such audits.

39. One problem in relying on HESA student data is that it is retrospective, and so does not lend itself to being used where recent, or even forecast, data are required. The current review of the funding of teaching may generate a new approach, with greater reliance being placed on HESA, and so the need for forecast data may lessen. In the meantime, if the single conversation process is adopted, we would like to integrate it with data collection. The current HESES return date (of 1 December) is consistent with the return date of 30 November for information in the single conversation.

Consultation question 6
Should an institution's own auditors, rather than HEFCE, provide assurance about student data returns?

Capital funding

40. A large amount of capital funding continues to be made available by the Treasury and the DfES to improve the sector's physical infrastructure. Clearly we need to allocate this funding effectively and demonstrate to Government that the money has been well used; this necessitates some form of accountability. Most capital funding currently comes through two initiatives – project capital and SRIF – by way of conditional allocations. We have been streamlining our capital funding processes for a number of years, and a web-based application process is now being implemented. We are also working to minimise our requirements for data and other information.

41. HEFCE regional consultants engage with institutions through their strategic planning process, including plans for capital expenditure. They work with institutions on developing bids to our Strategic Development Fund, which often have a capital element and may link to bids for additional student numbers. Regional consultants also play a role in assessing project capital and SRIF proposals for fit with institutions' mission and support for long-term sustainability.

42. We would like to develop more radical funding arrangements for capital funding, including providing a sustained flow of funding with minimal strings attached. This requires us to work with institutions to obtain assurance about the effectiveness of estates management. We are seeking to build a model that uses estates management statistics and information from, for example, the interactive benchmarking tool that we are making available. We are continuing to develop our thinking in this area and will share it with the sector as our internal and Board discussions proceed. This would in time be integrated with the single conversation, and use much of the information currently provided.

Research funding and sustainability

43. Our financial monitoring has always included an assessment of financial viability. We have been working recently with the Treasury, the Office of Science and Technology and DfES, in the Funders' Forum, to develop a broader assessment of institutional sustainability. The Treasury is continuing to provide substantial additional funding to HE to support the delivery of research (including SRIF). In return it asked the Funders' Forum to confirm that providers of research are, over time, maintaining themselves in a sustainable way. The Forum was mindful of the work that has already gone into the Transparent Approach to Costing (TRAC), and opted for a monitoring process at institutional level which draws largely on data already available to the Council.

44. There are two elements to the sustainability monitoring process: an institutional framework and a set of 'trigger metrics'. The framework is essentially a statement endorsed by the governing body to explain how and why it considers the institution to be sustainable. This will require institutions to consider their key resources – money, people, equipment and buildings – and how these are planned and applied in a changing environment. In this context, sustainability does not necessarily mean preserving current activities, but rather the need to plan and manage key resources to at least maintain the institution's capacity to respond appropriately to future demands. We will provide more guidance shortly on the framework – which will not be prescriptive. The framework will need to embrace the infrastructure strategy, and that will inform the revised capital funding arrangements discussed above.

45. The trigger metrics that are being developed across the key resource areas are designed to confirm that the framework is being achieved or to highlight inconsistencies where it is not. We will monitor these metrics alongside our other financial monitoring processes, and the conclusions will be fed back through the single conversation process, if agreed, from 2006 onwards. To create a complete set of metrics we will need to ask institutions for a small amount of data; details will be provided in due course.

46. The Treasury expects that the sustainability monitoring arrangements will be adopted as soon as possible. We will therefore need to see institutions' initial sustainability frameworks by 30 November 2005. We will also compute and monitor the trigger metrics, largely on the basis of existing data, by 30 September 2005. We will report our conclusions to the Funders' Forum in January 2006 and to the Treasury in April, in order to inform the 2006 Spending Review. From 2006, the sustainability monitoring will be integrated into the single conversation, if that is agreed as the way forward in this consultation exercise.

Special funding

47. Special funding describes all funding outside the core block grant. In addition to some unique streams of funding that apply to only a few HEIs, special funding is designed to promote change and meet specific HE strategic aims. Our approach to this funding over the years has reduced HE burdens

as we have moved from bidding processes to conditional funding. An independent assessment by staff seconded from KPMG in 2004 found that overall our administration of special funding was generally in line with the principles of good regulation (as set out in paragraph 10). We put further improvements in place following the KPMG review. The Board has now agreed that in future there should be no more than eight institutional special funding streams at any one time, and that in the medium term this might be reduced further to six. In addition, each should have a minimum level of funding over its lifetime of £5 million.

48. We have been considering our approach to monitoring special funding and have decided that as far as possible this will be done through annual monitoring statements (AMS). We have also reviewed the AMS, and to improve efficiency now have reporting by exception, where institutions confirm delivery against agreed objectives. Only where these are not met do institutions have to provide substantial data and explanations.

49. The format of the 2005 AMS requirements is set out in Circular letter 2005/20, which also specifies our requirements from annual corporate planning statements. Again, we have refined these over the years and now seek, briefly and in accordance with the institution's own needs, high level information on strategic priorities and progress against previously identified priorities.

Teaching quality assurance

50. We are required by statute to secure the assessment of the quality of the teaching and learning we fund, and we discharge this obligation primarily through the Quality Assurance Agency (QAA) and the publication of Teaching Quality Information. The quality assurance framework continues to develop and is not the subject of this consultation. The evolution of the framework has, however, already had a significant impact on the regulatory burden (see paragraph 9). This emphasises an institution's ability to manage its own quality assurance processes. As this consultation was in preparation, a joint HEFCE, Universities UK and Standing Conference of Principals review group was due to report on further improvements that might be made. In addition, in early 2005 the QAA was working with HERRG and other agencies such as OFSTED and the Adult Learning Inspectorate to develop a joint concordat on review arrangements, with a view to reducing the duplication of quality assessments.

Research assessment

51. The next Research Assessment Exercise (RAE) will be in 2008. Notwithstanding some criticism, our consultation with the sector confirmed an overwhelming preference for the RAE to continue. We have published a regulatory impact assessment (see paragraph 55) of the proposals for running the 2008 RAE (at www.rae.ac.uk under Publications). Our approach to the RAE balances the intention of minimising burden and cost with the need for a method of assessment sophisticated enough to ensure fairness. Given previous consultations on the RAE, it is not part of this consultation exercise.

HEFCE regional teams' contact with institutions

52. Our frontline contact with institutions is the regional teams, led by a regional consultant. The regional teams are responsible for managing HEFCE's relationship with institutions and dealing with issues as they arise. Their focus is on strategic engagement, keeping us up to date with developments in institutions and progress on the delivery of strategic plans. They also work to see how institutional missions collectively fit with our strategic priorities, and provide input to our policy process about the needs of institutions.

53. This mode of institutional contact differs markedly from the approaches adopted in Wales and Scotland, where the funding councils – both senior officers and Board members – have formal visits to all institutions over a cycle of around two years. The purpose of these visits is to meet senior managers and members of the governing body, and to discuss the strategic direction and major developments. Without doubt such close engagement brings many benefits, but the number of institutions would preclude this in England, and we are not convinced many institutions would think it desirable.

54. The work of regional teams can make a significant contribution to the accountability process, and it would make sense for regional team contact and visits to contribute to and align with the single conversation, if adopted. In-depth conversations about accountability and risk would only take place if particular problems or issues arose from the information or assurances provided. However, we would wish to maintain regular contact with institutions to make it easier for us to deal with major issues as they arise. Such contact would also inform our understanding of developments in the sector and ensure the delivery of our strategic priorities, whether nationally (for example, research and strategically important subjects) or regionally.

Regulatory impact assessments

55. In all our work, we try to minimise the regulatory impact. Following our initial accountability review in 2000 (HEFCE 00/36) we developed an accountability scorecard to assess the burden associated with policy proposals, and this has now evolved into a 'regulatory impact assessment'. As we have discussed, our RAE proposals have been subject to a major regulatory impact assessment, and we will do the same as we review our approach to the funding of teaching. The Board now requires all policy proposals to include an explanation of the regulatory impact.

Sector consultations

56. During the two reviews on the accountability burden, some institutions said that the number and style of consultations undertaken by HEFCE was in itself burdensome. We are obliged to consult when we impose conditions on our grants; and the 2003 White Paper 'The future of higher education' raised a number of significant issues on which we wanted to consult the sector. However, we are aware of concerns in this area, and in 2004 we undertook only four consultations. The Board agreed a more streamlined approach to consultations at its April 2005 meeting, and we are following good practice as set out by the Cabinet Office.

Review of good practice guidance

57. HEFCE and other bodies have produced a considerable volume of good practice guidance in recent years, across all aspects of higher education. We accept that the status of some of this has not always been clear and that we have not systematically deleted items from the 'catalogue' when they have become redundant or obsolete. We are aware that our guidance is sometimes seen as more mandatory than advisory and concede this may reflect the way we have used it. We are committed to reviewing this catalogue and have started by considering how we identify, promote and disseminate good practice.

Co-ordinating with other regulators

58. In discussing how to develop better regulation, we have referred to other agencies and regulators, but have not yet arrived at a common approach. We intend to set up a working group with other stakeholders, investors and regulators across the public sector, to ensure that progress is made on all fronts. We want to minimise the risk that dismantling regulation in one area is offset by 'regulatory creep' in another.

59. HERRG's work embraces a number of bodies that have an interest in HE and it will ensure that we are all working to the same better regulation principles. Through this consultation we would like to secure agreement in principle from all relevant public bodies to HEFCE's accountability framework and risk assessment model, and for them to base their own risk-based requirements on it. We will need to work with these bodies to ensure they can rely on our system, and we will seek to incorporate their requirements.

Consultation question 7
Should all public sector investors and stakeholders in HE work together to use HEFCE's accountability framework and risk assessment model?

Revision of the Financial Memorandum

60. Our Financial Memorandum with institutions is due for review in 2006. Given these proposed changes to accountability, we would like the new memorandum to place greater emphasis on

corporate governance and management arrangements in institutions, as well as incorporating the new accountability process. In so doing we will ensure consistency with 'Accountability and Audit: HEFCE Code of Practice' (HEFCE 2004/27), so that the relationship and obligations between HEFCE and institutions are clearly stated.

61. We are likely to consult on a number of provisions in the Financial Memorandum, including the rules governing solvency, deficits, reserves and borrowing. There will be a separate consultation on this early in 2006.

Office for Fair Access

62. The Office for Fair Access (OFFA) is not part of HEFCE but a separate non-departmental public body established by the DfES. We support OFFA's aims, though when it was being established we expressed the view to Government that it would increase the accountability burden. We have worked with the DfES to minimise this. OFFA is now operational and has engaged with its important task of approving access agreements produced by HEIs. We expect that once all the initial access agreements are in place, OFFA's work could be streamlined and aligned with HEFCE's monitoring work. In the longer term the opportunity may arise to reconsider the roles of, and relationship between, HEFCE and OFFA.

Annex A

HEFCE support strategy: information for HEIs and HEFCE's related bodies

Introduction

1. This strategy sets out how we will engage with HEIs and with our related bodies (RBs)[1] when we perceive there to be significant risks to HEFCE's functions or interests. We have a risk assessment system that identifies when HEIs and RBs are at risk.

2. The principles underlying our support strategy are that we will:

a. Respect the independence of HEIs and the formal status of each related body: the operation of our support strategy in exceptional cases underwrites the independence of institutions when they are not at risk.

b. Only seek to intervene when necessary.

c. Be open in our risk assessment and our requirements.

d. Ensure our involvement is proportionate to the risks.

e. End our involvement as soon as possible.

Risk assessment

3. We will seek to engage with an HEI or RB when we assess that it is either at immediate risk or, of slightly less concern, is likely to be at risk in the near future. Our experience has shown that, typically, we identify new 'immediate' concerns very rarely (usually no more than one or two cases per year) and risks 'in the near future' also infrequently (usually fewer than ten cases per year). An organisation would fall into one of these categories if there was (or had been):

- a significant deterioration in the financial position
- a potential deterioration in the financial position arising out of the relationship between the HEI and its changing market
- significant under-recruitment
- serious concerns over the reliability/use made of the institution's systems of financial control
- deteriorating assessments of academic quality (teaching or research)
- high or declining rates of student non-continuation, and/or non-completion
- serious concerns about management and governance capability
- serious concerns about the management and sustainability of the organisation's infrastructure
- serious concerns about the overall market position and strategic direction
- non-compliance with the Financial Memorandum – including the requirements to use funds for the purposes intended, and to meet the Audit Code and Accounts Direction requirements for audit and corporate governance reporting.

The support strategy

4. Having determined that an organisation meets one or more of these criteria and that we need to intervene to protect the public interest, we will first notify the organisation of our assessment and discuss it with them. This contact will be at the level of designated officer in the case of an HEI and at the level of chief executive in the case of an RB. We will then tailor and agree a support strategy that meets the unique circumstances of the case based on the approach summarised in Table 1. (In exceptional circumstances, we may need to agree a different approach with an HEI or RB.)

5. Our contact will be led by the director responsible for dealings with the HEI or RB, but with day-to-day management assigned clearly to a relevant senior manager. This will be the HEFCE regional consultant (relationship manager in the case of an RB) or HEFCE assurance consultant, depending on the circumstances. In exceptional cases, the chief executive will become involved. All cases will be overseen by the audit committee and reported to the HEFCE Board.

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1 Agreed after internal consultation and legal advice by HEFCE's audit committee in June 2004.

Table 1 **HEFCE support strategy for HEIs and related bodies at risk**

HEFCE will take or consider the following actions	If the HEI or RB is at immediate risk:	If the HEI or RB is likely to be at risk in the near future:
• At governor and senior manager level		
To establish and maintain a dialogue with senior management	YES	YES
To consider whether HEFCE is confident that the designated officer is meeting Financial Memorandum requirements	To be considered in the light of management response to risk assessment	NO
To notify change of HEFCE risk assessment to the governing body	YES	YES
To establish and maintain a dialogue with the governing body	YES	NO
To seek observer status at governing body or audit committee meetings	To be considered if risks threaten viability; or if we lack confidence in response	NO
To request the appointment of interim managers (or secondments from HEFCE)	YES: if management capacity needs to be augmented to mitigate risks to HEFCE interests	NO
To require specific assurances that the risks are being addressed	YES	YES
• Regarding information and audit		
To require additional information, reports and data relating to the risks	YES	YES
To require that information, etc, be audited before submission	YES	To be considered if a particular report will help to avoid further deterioration
To request changes to internal or external audit arrangements	To be considered if poor audit work has failed to identify major risks	NO
To undertake or commission audit investigations	To be considered where we need direct or independent assessments of risks and action plans	To be considered if this will prevent further deterioration
• Regarding planning and strategy		
To require a tailored recovery or action plan	YES	To be considered if this will prevent further deterioration
To enter into a dialogue about possible changes to strategic plans, including market share/market position aspirations	To be considered if risk is associated with market position or strategy	NO
To consider whether risks lead to collaborative opportunities with other HEIs/RBs	To be considered, eg if risks threaten viability that might be mitigated by collaboration with other HEIs	NO
• Regarding funding		
To consider re-profiling of grant	To be considered if cash flow is critical	To be considered if easing cash flow will avoid further deterioration
To consider whether available special funding streams are appropriate	To be considered, eg if special funding that addresses risks also serves regional strategy	NO
To attach special conditions of grant	To be considered, in particular whether any of the requirements in this support strategy should be mandatory	NO
To apply a funding penalty or withdraw funding	Only in extreme circumstances and then proportionately	NO
To deny access to funding streams	To be considered where risks suggest an HEI would be unable to apply particular funds effectively	To be considered where risks suggest an HEI would be unable to apply particular funds effectively
• As risks decline		
To notify improvements in our risk assessment	YES	YES
To remove special conditions and requirements	YES	YES

Annex B

Issues for consultation and response form

Completed forms should be e-mailed to accountability@hefce.ac.uk no later than 30 November 2005.

We will publish an analysis of responses to the consultation. Additionally, all responses may be disclosed on request, under the terms of the Freedom of Information Act. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. This includes information provided in response to a consultation. We have a responsibility to decide whether any responses, including information about your identity, should be made public or treated as confidential. We can refuse to disclose information only in exceptional circumstances. This means responses to this consultation are unlikely to be treated as confidential except in very particular circumstances. Further information about the Act is available at www.informationcommissioner.gov.uk

Name ....

☐ Individual response

☐ Response on behalf of (name of institution or organisation)

....

Consultation questions

1. Do you foresee any major difficulties in adopting the 'single conversation' accountability process?
2. How soon will your institution be able to adopt the common submission date of 30 November for financial statements and financial forecasts?
3. Do you agree that where the audit and governance assurances are reliable, direct audits by HEFCE should be replaced by a periodic 'assurance dialogue', which would form part of the single conversation?
4. In what ways do you think institutions presenting lower risks to public funding should enjoy greater freedom from regulation?
5. Do you agree that the support strategy (see Annex A) appropriately describes the ways in which HEFCE needs to engage more actively with institutions at higher risk?
6. Should an institution's own auditors, rather than HEFCE, provide assurance about student data returns?
7. Should all public sector investors and stakeholders in HE work together and use HEFCE's accountability framework and risk assessment model?

List of abbreviations

AMS	Annual monitoring statement
BRTF	Better Regulation Task Force
CUC	Committee of University Chairmen
DfES	Department for Education and Skills
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HERRG	Higher Education Regulatory Review Group
HESA	Higher Education Statistics Agency
HESES	Higher Education Students Early Statistics survey
QAA	Quality Assurance Agency for Higher Education
RAE	Research Assessment Exercise
RB	Related body
SRIF	Science Research Investment Fund

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