

September 2010/25

**Core funding/operations**

**Request for information**

Returns should be made in  
December 2010

This document asks higher education  
institutions to send us their annual  
accountability returns for 2009-10.

# Annual accountability returns 2010

## Contents

Executive summary	2
Introduction	5
Guidance	
Annual assurance return	7
Annual monitoring statement	8
Corporate planning statement	8
Audited financial statements	9
Financial results and forecast tables	9
Financial commentary on past performance and future prospects	10
Audit committee annual report	11
External audit management letter	11
Internal audit annual report	12
Transparent approach to costing (TRAC) return	12
Higher Education Students Early Statistics Survey	14
Research Activity Survey	14
Submission of the returns	14
Annex A Sample annual monitoring statement 2010	16
Annex B Financial results and forecast tables: guidance notes	19
Annex C Financial commentary template	26
Annex D Sample financial tables 2010	See separate PDF file
Annex E Annual assurance return template	See separate Word file
List of abbreviations	28

## Annual accountability returns 2010

To	Heads of HEFCE-funded higher education institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Audit, Estates, Finance, Governance, Management, Planning, Student data, Research data
Reference	2010/25
Publication date	September 2010
Enquiries to	HEFCE higher education policy advisers (on annual monitoring and corporate planning statements and data returns) HEFCE assurance consultants or assurance advisers (for financial and audit accountability returns) Contact details for HEFCE staff are listed at <a href="http://www.hefce.ac.uk">www.hefce.ac.uk</a> under About us/Contact us.

### Executive summary

#### Purpose

1. This document asks higher education institutions (HEIs) to send us their annual accountability returns for 2010. The accountability returns form a significant way in which HEIs can demonstrate accountability for the public funds distributed to them.

#### Key points

2. The accountability returns enable HEFCE to reassess HEIs' overall risk assessments and to ensure that HEIs are meeting their accountability responsibilities.

3. The various returns cover corporate strategy, financial performance, financial sustainability, risk management, control and governance, value for money (VFM), and the management and quality assurance of data. In addition to the documentation requested in the annual process itself (as detailed below), we will also consider other sources of assurance.

4. Following our review of the returns we will notify each HEI of our risk assessment through a letter to the chair of the governing body and head of HEI. This is an annual process, but we may revisit an HEI's overall risk assessment at any time if there is a significant change in circumstances. We also remind all HEIs of their obligation, under the Financial Memorandum with HEFCE, that they should inform us of any material adverse change in circumstances.

5. The documents to be sent to us, and their submission dates, are as follows:

Annual assurance return Annual monitoring statement (AMS) Corporate planning statement (CPS) Audited financial statements Financial results and forecast tables Financial commentary on past performance and future prospects Audit committee annual report External audit management letter and management responses Internal audit annual report	1 December 2010
HESES return	9 December 2010
Research Activity Survey (RAS)	14 December 2010
Transparent Approach to Costing (TRAC) return	31 January 2011

6. This publication gives guidance on the returns that are to be submitted to us by 1 December 2010 and, in the case of TRAC, by 31 January 2011. Note that this guidance lays out the minimum requirements for submission, and we request that HEIs provide all of the requested information in the return; for example, please ensure that your financial commentary answers all of the questions in the guidance. Detailed guidance on the requirements of the HESES and RAS returns are provided in separate HEFCE publications.

7. We will primarily use the information collected to:

- a. Monitor the use of our funds for the purposes intended.
- b. Assess compliance with the Financial Memorandum. A new edition of the Financial Memorandum has been issued (HEFCE 2010/19) and is effective from 1 August 2010. Although the relevant period for the annual accountability return is 2009-10, during which the previous Financial Memorandum (HEFCE 2008/19) was in effect, we would welcome early adoption of the revised Financial Memorandum.
- c. Form a basis for discussion with HEIs about their progress in key areas, their priorities for strategic development, and their current and future performance.
- d. Largely determine our risk assessments of each HEI.
- e. Identify trends across the sector and advise the Secretary of State for Business, Innovation and Skills on the needs and development of the higher education sector.

### **Action required**

8. The returns must be submitted by the deadlines shown in paragraph 5 as scanned PDF copies via the HEFCE extranet. The required documents are as follows:

- completed annual assurance return (Annex E) with part 1 signed by the accountable officer and part 2 signed by an appropriately authorised trustee (note: part 2 is not required from HEIs that are either not a charity or are registered and

make an annual return directly to the Charity Commission). Please note that we are requesting electronic submission of a PDF copy of the signed completed annual assurance return

- completed AMS template
- CPS
- signed audited financial statements
- completed financial results and forecast tables
- financial commentary on past performance and future prospects (for which detailed questions are provided in paragraph 38 and an optional template is provided in Annex C)
- audit committee annual report
- external audit management letter and management responses
- internal audit annual report.

Templates for the AMS and financial tables will be available by the end of September 2010. We will write to heads of finance and our AMS contacts in each HEI at the end of September with details on how to access the templates and how to return information to us.

## Introduction

9. Higher education institutions (HEIs) are required to send us their annual accountability returns. These form a significant part of the way in which HEIs can demonstrate accountability for the public funds distributed to them. This document requests the returns for 2010.

10. The accountability returns enable us to refresh our overall risk assessments of HEIs and to ensure that HEIs are meeting their accountability requirements.

11. The various returns cover corporate strategy, financial performance, financial sustainability, risk management, control and governance, value for money (VFM), and the management and quality assurance of data. In addition to the documentation requested in the annual process itself (as detailed below), we will also consider other sources of assurance such as:

- HEFCE assurance reviews
- HEFCE data audits and reconciliation of data from Higher Education Students Early Statistics (HESES) returns and the Higher Education Statistics Agency (HESA)
- reviews by the Quality Assurance Agency for Higher Education and the Office for Standards in Education
- the Capital Investment Framework (CIF) and Estate Management Statistics.

12. Please note the following changes or areas of interest in the guidance:

a. A revision of the Financial Memorandum has been published (HEFCE 2010/19) and is effective from 1 August 2010. Although the relevant period for the annual accountability return is 2009-10, during which the previous Financial Memorandum (HEFCE 2008/19) was in effect, we welcome early adoption of the revised Financial Memorandum.

b. The annual assurance return (Annex E) has changed to reflect HEFCE's new role as principal regulator of HEIs that are exempt charities.

c. We require electronic submission (a scanned PDF file) of the signed completed annual assurance return (Annex E) via the HEFCE extranet. A paper copy is no longer required.

d. The financial information completed for 2009-10 in the financial results and forecast tables should be consistent with both the audited financial statements and the data returned to the HESA Finance Statistics Return (FSR).

e. Financial forecasts should take into account the 2010 Comprehensive Spending Review, outcomes of the Independent Review of Higher Education Funding and Student Finance (the Browne Review) and any mitigating actions HEIs are planning to take.

f. Due to the uncertainties around the outcomes of the 2010 Comprehensive Spending Review and the Browne Review, we may request revised forecasts sometime after December if we determine that their impact make this necessary.

g. The financial commentary contains specific questions to which we require HEIs' responses (paragraph 38). Annex C presents an optional template for this, but we are happy to accept the HEI's own format where this information is available from documents produced for internal use and provided all of the questions are answered.

h. For funds monitored through the AMS, we now specify that the amount of any underspend must be stated.

i. Questions about Centres for Excellence in Teaching and Learning (CETLs), the Teaching Quality Enhancement Fund (TQEF), CIF, and the impact of economic downturn have all been removed from this year's AMS. Where relevant the information captured by these questions will be requested outside the annual accountability return process.

13. Following the review of the returns we will notify each HEI of our risk assessment through a letter to the chair of the governing body and head of HEI. This is an annual process, but we may revisit an HEI's overall risk assessment at any time if there is a significant change in circumstances. We also remind all HEIs of their obligation, under the Financial Memorandum with HEFCE (HEFCE 2008/19 and 2010/19), that they should inform us of any material adverse change in circumstances. We hope HEIs will meet the requirements of the new Financial Memorandum, but recognise that retrospective compliance may not be possible.

14. We will primarily use the information collected to:

- a. Monitor the use of our funds for the purposes intended.
- b. Assess compliance with the Financial Memorandum.
- c. Form a basis for discussion with HEIs about their progress in key areas, their priorities for strategic development and their current and future performance.
- d. Largely determine our risk assessments of each HEI.
- e. Identify trends across the sector and advise the Secretary of State for Business, Innovation and Skills on the needs and development of the higher education sector.

15. The documents to be sent to us, and their submission dates, are as follows:

Annual assurance return Annual monitoring statement (AMS) Corporate planning statement (CPS) Audited financial statements Financial results and forecast tables Financial commentary on past performance and future prospects Audit committee annual report External audit management letter and management responses Internal audit annual report	1 December 2010
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Transparent Approach to Costing (TRAC) return	31 January 2011

Templates for the AMS and financial tables will be available by the end of September 2010. We will write to heads of finance and our AMS contacts in each HEI at the end of September with details on how to access the templates and how to return information to us

16. This publication gives guidance on the returns that are to be submitted to us by 1 December 2010 and on submission of the TRAC return. Detailed guidance on the requirements of the HESES and RAS returns will be provided in separate HEFCE publications.

17. On 1 June 2010, HEFCE became the principal regulator of those HEIs in England that are exempt charities. This is a new legal obligation which includes the need for regular monitoring of HEIs as charities. The revised annual accounts direction for 2009-10 (HEFCE Circular letter 19/2010) sets out new reporting requirements for those HEIs. Further guidance on these reporting requirements and on HEFCE's responsibilities as principal regulator is available on our web-site: [www.hefce.ac.uk/charityreg](http://www.hefce.ac.uk/charityreg).

## Guidance

### Annual assurance return

18. The purpose of this return is to confirm that the HEI's accountable officer has met their obligations to HEFCE under the Financial Memorandum (HEFCE 2008/19 and 2010/19, see paragraph 12). We are requesting completion of Annex E of the 2010 edition of the Financial Memorandum (HEFCE 2010/19) as this is the version in effect at the time of signature, but we will accept Annex E of HEFCE 2008/19. The main difference between the two is the reference to new charities legislation in the 2010 version.

19. The return should cover the period to the financial year-end (31 July 2010) but should also report on any issues that have occurred since then. The return is in two parts:

a. Part 1 should be signed by the head of the HEI as the accountable officer. No other signatory is acceptable since the accountable officer responsibility cannot be delegated.

b. Part 2 is not required from HEIs that are either not a charity or are registered with and make an annual return directly to the Charity Commission. For all other HEIs, part 2 should be signed by the accountable officer, unless they are not a trustee, in which case it should be signed by an appropriately authorised trustee. This means that the return should normally have been approved by the governing body as the trustees of the HEI.

20. In signing this return the accountable officer is confirming that the HEI has returned all the relevant accountability returns and that these are accurate, adhere to the published requirements and have been through the appropriate approval process. The return to be completed, Annex E, may be downloaded from [www.hefce.ac.uk](http://www.hefce.ac.uk) alongside this document under Publications, or from the HEFCE extranet after September.

21. The completed and signed return should be scanned and then submitted via the HEFCE extranet as a PDF document.



## **Annual monitoring statement**

22. The AMS monitors the use of special initiative funding outside of the main teaching and research funding allocation. As part of our commitment to reduce the burden on HEIs, we generally only ask for reporting on areas where HEIs have not met their planned targets.

23. Each HEI should provide assurance on the use of special initiative funding for 2009-10 and report any underspend. We also request information on equality and diversity to fulfil our statutory duty under the Race Relations (Amendment) Act 2000, the Disability Discrimination Act 2005 and the Equality Act 2006.

24. Some HEIs received funds to support movement of student numbers into strategically important and vulnerable subjects (SIVS). We request information on this activity from the time the awards were announced in June 2010 to the time of submission of the return (by December 2010). For all other activity we are requesting information on activities running from 1 August 2009 to 31 July 2010. While the questions will ask HEIs to report against the position at 31 July 2010, we expect HEIs to provide details on any significant changes since then, which should be described in the appropriate text box. This is to make sure that we are working with the most up-to-date information when reviewing the returns.

25. Although this is an annual process, the general condition of HEFCE funding still applies: we do not fund ahead of need. If expenditure on any project has slipped substantially, please contact us immediately to discuss whether it is appropriate to suspend payments temporarily.

26. As part of our consultation 'Higher education in further education colleges' (HEFCE 2006/48) we proposed that indirect funding agreements should be long-term associations between member institutions and should provide security of funding and student numbers over an agreed period, typically a minimum of three years, to support a more strategic approach. The proposal received extremely strong support, both from further education colleges and HEIs. HEFCE is interested in knowing how widely the proposal has been adopted, and in the AMS we ask whether security of funding and student numbers is provided for the recommended three-year minimum. Where this is not the case, we request further details.

27. Annex A includes the sample AMS for the 2010 return; the actual AMS template for completion will be supplied in September.

## **Corporate planning statement**

28. One purpose of the annual accountability process is to review an HEI's performance and risk position as a whole. The CPS is the opportunity for HEIs to provide us with a strategic update that provides the context in which to understand the other returns more fully and to help understand the progress towards delivery of the strategic plan and aims for the year ahead.

29. In the CPS we request an update on the HEI's activities across the full range of its strategic priorities as identified in its corporate plan, including progress against key performance targets. Information need not be limited to activities funded by HEFCE, but

may include any area of strategic importance to the HEI. Areas that HEIs may wish to cover in the CPS include:

- governance and management
- new academic developments
- research
- estates
- sustainable development
- regional activities.

30. There is no prescribed format for the CPS, although we would expect most returns to be an 'executive summary'-style review of the year. Indeed, it may be a document already produced for the HEI's own planning purposes and may be relatively brief.

31. We would encourage HEIs to think about key opportunities and barriers to success in the year ahead. In doing so we would expect HEFCE Strategic Development Fund proposals to be flagged, as well as large-scale capital projects.

32. In addition to the annual CPS returns we are aware that institutions regularly update their strategic plans. It is helpful for HEIs to send HEFCE strategic plans when they are revised, even when this is outside of the annual accountability process.

### **Audited financial statements**

33. HEIs are required to follow the latest version of the 'Statement of recommended practice: accounting for further and higher education'<sup>1</sup> in preparing their financial statements. HEIs should also comply with our most recent annual accounts direction (HEFCE Circular letter 19/2010). Following our appointment on 1 June 2010 as principal regulator of those HEIs that are exempt charities we issued a revised accounts direction for 2009-10 to require additional disclosures in the financial statements and related reports. These cover the charitable status and trustees of the HEI, how it has delivered its charitable purposes for the public benefit, and information about financial transactions with trustees. Guidance about these new requirements is available on our web-site at [www.hefce.ac.uk/charityreg](http://www.hefce.ac.uk/charityreg).

34. We ask HEIs to send us, via the extranet, **one** scanned PDF of their complete financial statements that has been **signed** by the all the relevant parties. The accountable officer and the chair of the board of governors must sign the audited financial statements.

### **Financial results and forecast tables**

35. The financial tables should include the actual figures from the two most recent sets of audited financial statements, together with forecasts for the following four years. These should represent the HEI's strategic plan in financial terms. The forecasts should be based on realistic assumptions and be consistent with the accounting treatment in the financial statements. Annex B includes further guidance on completing the tables.

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<sup>1</sup> The latest version (2007) is available from [www.universitiesuk.ac.uk](http://www.universitiesuk.ac.uk) under Publications.

36. In developing the financial forecasts, HEIs must take account of the outcome of the 2010 Spending Review that will be announced in October. HEIs should also form their own view on the implications of the Browne review and specify the assumptions regarding this in their financial commentary. Due to the uncertainties around the outcomes of the 2010 Spending Review and the Browne Review, we may request revised forecasts sometime after December if we determine that their impact make this necessary.

### **Financial commentary on past performance and future prospects**

37. The financial commentary is an integral part of the overall financial return, explaining forecast financial performance in the context of recent financial results. We would expect the commentary to be consistent with the operating and financial review in the audited financial statements, in respect of both past performance and future prospects. In addition to aiding our understanding of each HEI's specific circumstances, the commentaries (taken together) will further our understanding of the sector as a whole and facilitate our positioning of the sector for the next round of the spending review. In order to help HEIs in responding to all of the required questions in this section, we have provided a template for completion in Annex C. Use of the template is optional: the commentary may instead be a document already produced by an HEI for its own planning purposes. However, it is expected that HEIs will address **all** of the questions in paragraph 38 regardless of the format used for the commentary. **The governing body should discuss and approve the financial tables and commentary before they are submitted to us.**

38. Following discussion with some finance directors, we have amended the questions in the financial commentary, as follows:

1	Explain how the HEI is ensuring its sustainability, including investment in its estates and infrastructure
2	What are the principal risks to the HEI's financial health and sustainability over the forecast period, and how is the HEI responding to these?
3	What scenario planning has been undertaken in relation to the financial position over the forecast period? What actions has the HEI taken / does it plan to take to address the impacts of any reductions in income streams?
4	What VFM initiatives has the HEI implemented in the past 12 months? (If the HEI produces a VFM report that contains this information, we would be pleased to receive this in response to this question)
5	How is the HEI seeking funding / refinancing of significant loan repayments during the forecast period? Do you envisage any significant liquidity issues over the forecast period?
6	Explain the assumptions made in developing the financial forecasts, including any significant movements in the forecast of student numbers
7	Explain significant movements ( $\pm 10$ per cent in any one year) on the income and expenditure account and material changes on the balance sheet (including detail on any material exceptional items)

39. We expect the financial commentary to include discussion of all of the questions in paragraph 38. Where this has not been provided to a satisfactory level of detail, or if it is not consistent with the operating and financial review, we will follow up with the relevant contacts at the HEI to obtain the required information.

### **Audit committee annual report**

40. As stated in the Audit Code of Practice (Annex B to HEFCE 2008/19 and 2010/19) the HEI's audit committee must produce an annual report for the governing body and the accountable officer. The audit committee annual report should cover the financial year 2009-10 and include any significant issues (including its consideration of the 2009-10 financial statements, and internal and external audit reports) up to the date of preparation of the report. The audit committee annual report should normally be considered by the governing body before the annual financial statements are signed.

41. The audit committee annual report must include the committee's opinion on the adequacy and effectiveness of the HEI's arrangements for the following:

- risk management, control and governance
- economy, efficiency and effectiveness (VFM)
- management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies (note that this refers to all data submitted including franchised arrangements).

We require the three opinions to be included in the report; omission of an opinion or failure to support the opinion with reference to evidence is likely to be followed up in the risk letter or through other HEFCE contact. These opinions should be based on the information presented to the committee.

42. The report is likely to record the work of the committee over a period of 15 or 16 months, and consider the following:

- the external auditors' management letter (for both 2008-09 and 2009-10)
- the internal auditors' annual report (for both 2008-09 and 2009-10)
- the committee's consideration of the performance of the internal and external audit services
- any VFM work
- any HEFCE assurance service or other relevant evaluation.

43. The report might also identify any key issues for the HEI arising out of its activity over the year. This would include any fraud or other serious incidents.

### **External audit management letter**

44. External auditors should report to each HEI by way of a management letter (or audit issues memorandum) that highlights any significant accounting and control issues arising from the audit. Where issues are communicated through more than one report (for example, a separate report covering information technology audits or governance issues or a separate report detailing management's responses), the additional reports should also be

submitted to HEFCE. Further, the HEI's management should provide written responses to any recommendations made or issues raised and these must be submitted to HEFCE.

### **Internal audit annual report**

45. The internal audit annual report should relate to the financial year 2009-10 and include any significant issues up to the date of preparing the report that affect the opinion. This should be addressed to the governing body and the accountable officer, and should be considered by the audit committee.

46. The internal audit annual report should include the internal auditor's opinion on the adequacy and effectiveness of the HEI's arrangements for:

- risk management, control and governance
- economy, efficiency and effectiveness.

We require both opinions to be included in the report; omission of an opinion or failure to support an opinion with evidence is likely to be followed up in the risk letter or through other HEFCE contact.

47. These opinions should be placed into their proper contexts: that is, the work undertaken has been based on the agreed audit strategy and on the areas reviewed in the year, as well as incorporating knowledge of areas audited in previous years (including from a previous auditor). Internal audit performance measures should be provided, including coverage achieved against the original audit plan. The annual report should also draw attention to any significant audit recommendations which the internal audit service considers have not received adequate management attention.

### **Transparent approach to costing (TRAC) return**

48. HEIs are asked to submit an annual TRAC return via the HEFCE extranet (see paragraph 54) by Monday 31 January 2011. Although the deadline for submission is 31 January, earlier returns would be appreciated. A separate letter will be issued in respect of the TRAC for Teaching (TRAC-T) return, which is required by 28 February 2011.

49. Note that in addition to submission of the completed Excel file, a copy of the return, signed by the head of institution, should also be scanned and submitted to us as a PDF file via the HEFCE extranet. A paper copy is no longer required. Details of how to do this will be sent to the HEI's director or head of finance by letter.

50. The template incorporates in a single return:

- a. The annual TRAC reporting requirements.
- b. The charge-out rates for research collected on behalf of Research Councils UK (RCUK), which will be used by RCUK and institutions for benchmarking purposes.

51. To help improve the quality of data submitted, automatic and self-validation checks are incorporated within the return. We also request a written commentary from institutions to explain data that falls outside the parameters set in the return and any material unusual movements when comparing their 2009-10 data with 2008-09.

52. The TRAC pages on our web-site provide an update on guidance and development of TRAC methodology and remind institutions of the key issues ([www.hefce.ac.uk/trac](http://www.hefce.ac.uk/trac)). TRAC update no 5 ([www.jcpsg.ac.uk/guidance/revisions/](http://www.jcpsg.ac.uk/guidance/revisions/)) contains some key changes which affect the way the Return for Financing and Investment (RFI) and the block grant research income from the funding councils is reported in the annual return. Institutions should also note the changes to TRAC guidance in respect of the allocation of costs and income for postgraduate research activity given in update no 5.

53. In reporting these data, the head of the institution must review the return for reasonableness, confirm compliance with all TRAC requirements and that the institution's finance (or equivalent) committee of the board has specifically confirmed compliance with the statement of requirements. Annual TRAC figures and an analysis of the year-on-year changes in the figures (including the full economic costing (fEC) rates) should also be presented to this committee before they are reported. Where the timing of the board committee meeting makes this difficult, Chairman's Action, or approval by a management committee, can be used prior to submission, to confirm compliance. Presentation to an appropriate board committee after submission should then follow. Responsibility for confirming compliance still rests with the board committee. Any areas of non-compliance should be immediately addressed and, where this is not possible, an action plan drawn up to address these areas in a reasonable timescale.

54. The 2010 versions of the sample TRAC return form in PDF format, and the income allocation guidance and schedule (Annex 16), will be available to download from the TRAC Guidance web-pages ([www.jcpsg.ac.uk/guidance/annexes.htm](http://www.jcpsg.ac.uk/guidance/annexes.htm)) during September. Your institution's individualised template for completion of the TRAC data return should be downloaded and submitted via the HEFCE extranet. Details of how to access the extranet will be sent to the HEI's director or head of finance.

55. We will report to the Department for Business, Innovation and Skills on the sector aggregate TRAC return data, which we expect to publish. We also anticipate publishing some institutional-level detail.

56. For further information about the TRAC reporting requirements, contact your HEFCE assurance consultant. Details of all HEFCE contacts for your institution are on our web-site under About us/Contact us. For further advice the TRAC Support Unit has responsibilities in the following areas:

- provision of the TRAC Helpdesk (covering all aspects of the TRAC guidance, annual TRAC, TRAC(T) and TRAC EC-FP7)
- policy research and support to the Financial Sustainability Strategy Group and the TRAC Development Group; TRAC Guidance research and development
- communication with the sector on TRAC
- support for the TRAC Self Help groups
- promulgation of TRAC among the sector's stakeholders.

The Support Unit can be contacted via e-mail ([trachelpdesk@kpmg.co.uk](mailto:trachelpdesk@kpmg.co.uk)) or phone (tel 0115 935 3400).

## Higher Education Students Early Statistics Survey

57. All HEIs must complete the annual survey of students on recognised higher education courses. Detailed guidance on this return will shortly be available as a separate publication on the HEFCE web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), under Publications ('HESES10: Higher Education Students Early Statistics Survey 2010-11', HEFCE 2010/26).

58. The HESES return should be uploaded to the HEFCE extranet by noon on Thursday 9 December 2010. Workbooks will be available for HEIs in November.

## Research Activity Survey

59. The Research Activity Survey asks HEIs to update information on their research activity. Detailed guidance on this return is available as a separate publication on the HEFCE web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), under Publications ('Research Activity Survey 2010', HEFCE 2010/28).

60. The RAS return should be uploaded to the HEFCE extranet by noon on Tuesday 14 December 2010. Workbooks will be available for HEIs in November.

## Submission of the returns

61. The returns should be submitted as follows.

Electronic copies of the following should be submitted via the HEFCE extranet by **Wednesday 1 December 2010**:

- completed annual assurance return (Annex E) with part 1 signed by the accountable officer and part 2 signed by an appropriately authorised trustee (note: part 2 is not required from HEIs that are either not a charity or are registered and make an annual return directly to the Charity Commission)
- completed AMS template
- CPS
- signed audited financial statements
- completed financial results and forecast tables
- financial commentary on past performance and future prospects
- audit committee annual report
- external audit management letter and management responses
- internal audit annual report.

Further information on this process will be sent to heads of finance and AMS contacts in September 2010. The submission of TRAC return is outlined in paragraphs 48 and 49.

62. The specific reporting requirements for the HESES and RAS returns will be published in separate HEFCE publications.

## **Feedback**

63. The main purpose of asking for submission of accountability returns once a year is to simplify the accountability process. For HEIs about which we have no major concerns or queries – the great majority – the main outcome will be a letter updating our risk assessment of the HEI and data that benchmark financial performance against the whole sector. The risk letter may contain comment on instances of non-compliance with the Financial Memorandum, Audit Code of Practice and the Committee of University Chairs (CUC) Governance Code of Practice. We may also use the risk letter to draw attention to areas of financial performance or other matters over which we have concern. These are intended to be helpful in highlighting issues and risks to the HEI.

64. In addition to the risk letter, we will publish an outcomes document reporting on our review of the returns. This will include our assessment of the financial health of the sector and will provide feedback, at a sector level, on the accountability returns themselves. The publication for the 2009 returns (HEFCE 2010/20) is available on the HEFCE web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), under Publications.

## **Freedom of information**

65. Information submitted to HEFCE may be disclosed on request, under the terms of the Freedom of Information Act 2000. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. We have a responsibility to decide whether any responses should be made public or treated as confidential. We may refuse to disclose information in exceptional circumstances, for example where disclosure of information would prejudice commercial interests such as future financial projections. For further information about the Act, including the particular circumstances when information may be withheld, see [www.ico.gov.uk](http://www.ico.gov.uk) under Freedom of Information Act.

## **Queries**

66. HEIs should address questions about completing the AMS, CPS, HESES and RAS returns to their HEFCE higher education policy adviser. Questions about the other accountability returns should be addressed to their HEFCE assurance consultant or adviser. HEFCE contacts for each HEI are at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Contact us.



## **Annex A**

### **Sample annual monitoring statement 2010**

This annex is for reference only. Templates for the AMS will be available by the end of September 2010. We will write to our AMS contacts in each HEI at the end of September with details on how to access the templates and how to return information to us.

#### **Higher education in further education colleges**

1. Do your indirect funding agreements (sometimes known as 'franchise agreements' or 'franchises') with further education colleges provide security of funding and student numbers for a minimum of three years?

Response Yes/No

If 'no', please give further details.

#### **Overseas Research Students Awards Scheme**

2. Have you adhered to the objectives of the Overseas Research Students Awards Scheme (ORSAS) for 2009-10 as set out in the terms of funding (HEFCE Circular letter 21/2005)?

Response Yes/No

3. Funding for ORSAS ends in July 2011, and any sums unspent at that stage are likely to be reclaimed by HEFCE. For 2009-10 you received £XXXX for ORSAS. Did any funds remain unspent at the end of AY 2009-10?

Response Yes/No

If 'yes' please include the following in your response:

- a. How much was unspent as at 31 July 2010?
- b. Please explain the reasons for this in not more than 100 words.
- c. What steps are you taking to address the underspend during 2010-11? (This should include any spending since 31 July 2010.)

#### **Higher Education Innovation Fund round four**

4. Have you made progress as planned in 2009-10 towards delivering the activities and outcomes you set out in your Higher Education Innovation Fund round four (HEIF 4) strategy?

Response Yes/No

If 'no' please explain the reasons for this, in not more than 100 words

5. Funding for HEIF 4 ends in July 2011, and we reserve the right to reclaim substantial unspent sums. For 2009-10 you received £XXXX for HEIF 4. Did any funds remain unspent at the end of AY 2009-10?

Response Yes/No

If 'yes' please explain the reasons for this, in not more than 100 words. (This should include any spending since 31 July 2010.)

6. Please provide a summary (250 words maximum) of the key achievements of the year linked to HEIF formula funding, referring to flagship projects identified in your institutional strategy.

7. Our overview of HEIF 4 strategies (HEFCE 2008/35) identified that the major external risks to delivery of HEIs' knowledge exchange (KE) strategies came from changes in external demand and related income (from businesses, public services and so on), and external sources of support for KE (such as EU sources or Regional Development Agencies). These risks have continued to be significant due to the impacts of the recession on the private sector, and now impacts of reductions in public spending and new regional and local arrangements. There may also be changes in 'core' HE funding streams that may impact on KE strategies and their use of HEIF funds. Please give details of increased risks that have already materialised following reductions in funding and income.

8. Please also give details of anticipated risks in the coming year.

9. Please also give details of changes you may be making to your KE and planned use of HEIF in the light of risks that have already materialised or may be anticipated.

### **Equality and diversity monitoring**

10. Have you made progress or met your objectives from last year as set out in your 2009-10 equality action plan?

Response Yes/No

11. Please describe, in no more than 250 words, what progress you have made in meeting those objectives.

12. If you have encountered any difficulty in meeting those objectives, please give further details including any barriers to implementation.

13 Please highlight any particular achievements.

14 Please briefly describe your key equality objectives and/or actions for 2010-11.

**Revolving Green Fund (transformational strand)**

15. Your higher education institution was awarded funding under the transformational strand of the Revolving Green Fund in March 2009. Have you made progress as planned in 2009-10 towards implementing the project, and is the project due to be completed on the agreed date?

Response Yes/No

If 'yes' please give further details, in not more than 100 words.

**Support for moving full-time undergraduate numbers into strategically important and vulnerable subjects (SIVS) in 2010-11**

16. Your higher education institution was awarded funding to support the movement of full-time undergraduate numbers into SIVS in 2010-11. Can you confirm that the movement of numbers into the eligible programme(s), as detailed in the award letter dated 27 May 2010, has taken place?

Response Yes/No

If 'no', please give further details.

## **Annex B**

### **Financial results and forecast tables 2010: guidance**

#### **Approach to forecasting**

1. We recognise that higher education institutions (HEIs) may produce a number of different scenarios relating to their future financial position. The forecasts submitted to us should be the forecasts that provide the most likely outcome (that is to say, the most realistic). Within the financial commentary provided alongside the financial tables we would expect comments on the likelihood of the forecast position materialising, and presentation and discussion of other possible scenarios.

#### **Accounting conventions**

2. The main financial tables follow the format of the 'Statement of recommended practice: accounting for further and higher education' (SORP) introduced from 1 August 2007<sup>2</sup>. The financial information should therefore comply with all Financial Reporting Standards (FRSs) effective as at 31 July 2010. In particular, HEIs should apply the definition of terms in the SORP when completing the return and be consistent with the accounting policies used in HEIs' 2009-10 financial statements.

#### **Consolidation**

3. The financial tables should cover the HEI and all its subsidiary undertakings. If an HEI has subsidiary undertakings, the financial tables should be consolidated in accordance with FRS 2 'Accounting for subsidiary undertakings'. Students' unions should be consolidated in the forecasts where this is the approach used in the HEI's financial statements.

#### **Joint venture entities and associates**

4. An entity (as defined by FRS 9) in which an HEI holds an interest on a long-term basis, and is jointly controlled by the HEI, should be accounted for using the gross equity method. FRS 9 requires the equity method to be used when consolidating associates. The income and expenditure table and balance sheet include the relevant lines that HEIs with joint venture entity and associate interests will need to complete. In case of any ambiguity, HEIs should be consistent with the way they treat joint venture entities in their audited financial statements.

#### **FRS 17 (Retirement benefits)**

5. For the purposes of the financial forecasts, HEIs are asked to include the pension asset or liability on the balance sheet for each year. We recognise that forecasting future pension values is difficult; however, we would expect HEIs to reflect the current economic conditions within their forecasts. Any assumptions made in the forecasts should be noted in the commentary.

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<sup>2</sup> The latest version (2007) is available from [www.universitiesuk.ac.uk](http://www.universitiesuk.ac.uk) under Publications.

## Tables to be completed

6. The tables cover a six-year period starting with the two most recent years' audited financial statements. They comprise the following tables:

Financial indicators table	Key financial indicators (automated)
Table 1	Income and expenditure account
Table 1a	Analysis of income
Table 1b	Analysis of staff costs
Table 2	Balance sheet
Tables 3 and 4	Cash flow
Table 5	Supporting data
Table 6	Student number forecasts
Table 7	Annualised servicing costs of long-term borrowings
Table 8	Net liquidity

7. A sample of the financial tables can be found in Annex D. We will write to heads of finance by the end of September 2010 with details of how to access and return the tables.

### Financial indicators table

8. The first table is an automated table that is calculated from the data in the income and expenditure and balance sheet forecasts. The financial indicators used in this table help to show a trend of financial performance for each HEI. We expect that HEIs will comment on the trends of these indicators and any significant assumptions within the supporting commentary.

### Guidance on Tables 1,2,3 and 4

9. Tables 1, 2, 3 and 4 are standard financial tables that should be completed in accordance with the SORP and consistent with accounting policies adopted in HEIs' 2009-10 financial statements. The actual outturn for 2008-09 and 2009-10 entered in the tables should be consistent with the audited financial statements (restated if appropriate). The forecast figures for 2010-11 to 2013-14 should be based on an assessment of the most realistic assumptions over the forecast period and should be consistent with the HEI's strategic plan and with the most recent operating and financial review in the audited financial statements. Headings 1-6 and Heading 9 in Table 1 are automatically completed from Tables 1a and 1b and do not require input.

10. As well as returning information to HEFCE, all institutions must submit financial information for 2009-10 to the Higher Education Statistics Agency (HESA). The return to HESA (Finance Statistics Return) is based on the annual audited financial statements and, as such, should be consistent with both the audited statements and the data returned to HEFCE.

## **Guidance on Table 1a**

11. Guidance is provided for some of the sub-headings on Table 1a. The information returned should be consistent with the HEI's audited financial statements and the HESA FSR.

### Sub-heading 1a: HEFCE teaching grant

12. This heading should contain the actual or expected total recurrent teaching funding from HEFCE. This should include the elements of funding as shown in Table A of the 2009-10 grant letter.

### Sub-heading 1b: HEFCE research grant

13. This heading should contain the actual or expected total recurrent research funding from HEFCE.

### Sub-heading 1c: HEFCE other grants

14. Amounts under this sub-heading should be any other grants that have not been dealt with in the above sub-heads. Release of deferred capital grant from HEFCE should be included in Sub-heading 1f.

### Sub-heading 1d: TDA funding

15. This should include all funding provided by the Training and Development Agency for Schools (TDA) apart from the release of any deferred capital grant.

### Sub-heading 1e: SFA funding

16. This should include all funding provided by the Skills Funding Agency (SFA) (previously the Learning and Skills Council) apart from the release of any deferred capital grant.

### Sub-heading 1f: Release of deferred capital grants

17. Amounts under this sub-heading should relate to a specific capital grant that has been used to purchase a capitalised asset. The release will be over the life of the asset and will offset the depreciation charge on those assets. This should include the release of deferred capital grants from HEFCE, TDA and SFA.

## Heading 2: Tuition fees and education contracts

18. This should include all fee income, including short courses, self-financing full-cost courses funded by private/non-private sources and support grants in respect of all and only those students on courses for which fees are charged. It should include income arising from courses provided for other bodies where the HEI charges either a block fee to cover a specified number of students or a fee per individual student.

19. Sub-headings 2a-2d should cover fee income from Home and EU domiciled students on HE courses. The fee income should be split by mode and level.

### Sub-heading 2d: Home and EU domicile fees paid by the Department of Health

20. This should include income relating to teaching contracts from the NHS.

Sub-heading 2e: Overseas students

21. This heading should include HE course fee income from those students whose permanent or home address prior to entry is outside the UK and the EU.

Sub-heading 2f: Other fees and support grants

22. This heading should include fee income in respect of non-credit bearing courses, further education courses and research training support grants.

Sub-heading 3a: BIS Research Councils

23. This should include all research grants and contracts income (including tuition fees for studentships associated with the contract) from Research Councils under the Department for Business, Innovation and Skills (BIS). Research income from the British Academy and the Royal Society should also be included here.

Sub-heading 3b: UK-based charities

24. This should include all research grants and contracts income from charitable foundations, charitable trusts and so on, based in the UK, which are registered with the Charity Commission.

Sub-heading 3c: Other research grants and contracts

25. This should include all research grants and contracts that are not covered by headings 3a and 3b.

Sub-heading 4a: Other services rendered

26. This should include income in respect of services rendered to outside bodies, including the supply of goods and consultancies.

Sub-heading 4b: Residences and catering operations

27. This should include the income from residences, catering and conference operations.

Sub-heading 4c: Income from health and hospital authorities (excluding teaching contracts for student provision)

28. This should include income received from UK health and hospital authorities for the funding of any employees of the institution, including posts in academic teaching, except for those relating to the provision of services rendered which should be recorded under Sub-heading 4a and except for research which should be included under Heading 3. Income for teaching contracts should be returned as fee income under Heading 2.

Sub-heading 4d: Other operating income

29. This should include all other operating income not covered by Headings 4a-c.

Heading 5: Endowment and investment income

30. This should include: income from specific endowment asset investment; general endowment asset investments; other investment income and other interest receivable.

### **Guidance on Table 1b**

31. Staff costs should cover all staff for whom the institution is liable to pay Class 1 National Insurance contributions and/or who have a contract of employment with the institution. This should include any severance costs (where they are not treated as exceptional items Table 1 Heading 18) and these costs should be returned under Sub-heading 5, Other staff related costs. This table should be completed so as to be consistent with how information is disclosed in the notes of the audited financial statements. Staff numbers should be all staff (academic and others) and be returned as full-time equivalent (FTE) numbers.

### **Guidance on Table 5: Supporting data**

32. This table asks for data on miscellaneous items to support the information supplied in the other tables.

### **Guidance on Table 6: Student number forecasts**

33. Student numbers should be returned as FTEs for both full-time and part-time numbers. The numbers returned should be consistent with how HEIs return student number data to the Higher Education Statistics Agency. The information will be used to provide context to the other financial tables and will not be used for funding purposes.

34. For each year, two columns must be completed: 'Home and EU' (both fundable and non-fundable) and 'Island and overseas'. Student numbers relating to franchised-out provision, TDA and NHS students should be included within the totals.

### **Guidance on Table 7: Annualised servicing costs of long-term borrowing**

35. This table is used to review compliance with the Financial Memorandum in relation to the level of annualised servicing costs (ASC) of long-term financial commitments. This table should provide information on the ASC of all long-term borrowings in place at the year-end (31 July 2010) and any additional borrowings drawn down or agreed at 31 October 2010. The data returned will enable us to update long-term borrowing thresholds to take account of latest audited total income and ASC figures. Guidance on calculating the ASC of long-term borrowing is provided in Annex F of the Financial Memorandum (HEFCE 2008/19 and 2010/19).

36. The first section of the table requires HEIs to input information about the level of borrowings as at 31 July 2010. The total loans outstanding as at that date should agree with the audited balance sheet total long-term and short-term borrowings. The second section should record information about any additional borrowings agreed and/or drawn down before 31 October 2010.

37. The table has been pre-filled with the information input by HEIs to last year's financial statements return. However, loans from last year's return with nil outstanding or listed as repaid/expired have been deleted. Where any other information is incorrect, please overwrite the amended details, giving the reason in the far right-hand column (column O in the spreadsheet) using the drop-down menu. If the reason is not available in the drop-down menu, please select 'Other' and provide an explanation in the commentary.



38. Where loans have terminated, delete the loan and select the reason (for example repaid or expired) using the drop-down menu (and provide further explanation in the commentary if necessary). Where there are new borrowings these should be added by selecting 'New loan' in the far right-hand column (column O).

#### **Guidance on Table 8: Net liquidity**

39. This table is used to review compliance with the Financial Memorandum in relation to the level of short-term financial commitments. This table should provide the level of 'net liquidity', giving details of net cash, deposits and overdrafts (as defined in FRS 1 [Revised 1996]: Cash Flow Statements) and other current asset investments.

40. If the HEI had negative net cash (where cash in hand and deposits repayable on demand, as defined by FRS 1, are exceeded by bank overdrafts that are repayable on demand), for more than 35 consecutive days during the period 1 November 2009 to 31 October 2010, you should give the highest negative level in the final column of this table.

#### **Public funding assumptions**

41. HEIs are expected to include, within their financial tables, any HEFCE or other public funding that has already been announced. In relation to future revenue and capital funding, HEIs will need to make assumptions about the level of funding that might be available. We appreciate that there is currently a lot of uncertainty about the likely levels of public funding to be available in future years.

42. HEFCE's grant letter to HEIs in July 2010 announced the level of funding for the academic year 2010-11, and HEIs have also received correspondence about the level of capital funding available during this year. For future years HEIs should include their own assumptions, and be clear about those in the commentary. The following paragraph provides some context on the overall economy and public finance position.

43. In June 2010, the Office for Budget Responsibility reported that, without action to reduce the deficit, total government debt would rise to 74 per cent of Gross Domestic Product by 2014-15. Therefore, the Government announced an accelerated plan to reduce the deficit in the June 2010 Emergency Budget. Among the measures introduced is a proposed average 25 per cent real-terms cut to government departmental budgets over the next four years<sup>3</sup>. At present the details of how these will impact individual government departments, and particularly HE, have yet to be determined; however, it is clear that the budget announcement will have a significant impact on the level of public spending. The outcome of the 2010 Spending Review is due to be published on 20 October 2010, and this is likely to provide more clarity about the levels of HEFCE and other public funding available over the three years from April 2011. HEIs must take account of the outcome of the 2010 Spending Review in their financial forecasts. HEIs should also form their own view on the implications of the Browne review and specify the assumptions regarding this in their financial commentary.

44. Paragraphs 41-43 provide the context that institutions themselves should use in their future financial plans. We expect institutions' financial forecasts to be realistic about

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<sup>3</sup> For full details see [www.hm-treasury.gov.uk/junebudget\\_documents.htm](http://www.hm-treasury.gov.uk/junebudget_documents.htm)

the level of public funding available, and the underlying assumptions to be explained in the financial commentary.

## Annex C

### Financial commentary template

As noted in 'Annual accountability returns: outcomes for 2009' (HEFCE 2010/20), the questions to be addressed in the financial commentary have not always been fully answered by institutions. To help institutions meet our requirements, this annex provides an optional template for HEIs to complete.

We recognise, however, that institutions produce reports internally for management as well as for their governing body and its committees. Where the HEI already produces internal documentation that addresses all of the questions, we are happy to continue to receive the information in the institution's own format. Similarly, where specific questions may be answered by reference to other parts of the annual accountability return, please reference that document, rather than providing duplicate information.

Note that questions that are unanswered by institutions will be followed up by reviewers of the annual accountability return.

1	Explain how the HEI is ensuring its sustainability, including investment in its estates and infrastructure
2	What are the principal risks to the HEI's financial health and sustainability over the forecast period, and how is the HEI responding to these?
3	What scenario planning has been undertaken in relation to the financial position over the forecast period? What actions has the HEI taken / does it plan to take to address the impacts of any reductions in income streams?
4	What VFM initiatives has the HEI implemented in the past 12 months? (If the HEI produces a VFM report that contains this information, we would be pleased to receive this in response to this question)
5	How is the HEI seeking funding / refinancing of significant loan repayments during the forecast period? Do you envisage any significant liquidity issues over the forecast period?
6	Explain the assumptions made in developing the financial forecasts, including any significant movements in the forecast of student numbers
7	Explain significant movements ( $\pm 10$ per cent in any one year) on the income and expenditure account and material changes on the balance sheet (including detail on any material exceptional items)

## **Annex D**

### **Sample financial tables**

This annex is for reference only and may be downloaded from the HEFCE web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), alongside this document under Publications. Templates will be available to download from the HEFCE extranet at the end of September 2010.

## **Annex E**

### **Annual assurance return template**

This annex is available for download alongside this document on the HEFCE web-site under Publications. Note that this document has changed from the format used last year; please ensure that you submit the correct version.

## List of abbreviations

<b>AMS</b>	Annual monitoring statement
<b>ASC</b>	Annualised servicing cost
<b>AY</b>	Academic year
<b>BIS</b>	Department for Business, Innovation and Skills
<b>CIF</b>	Capital Investment Framework
<b>CPS</b>	Corporate planning statement
<b>FRS</b>	Financial Reporting Standard
<b>FSR</b>	Finance Statistics Return (to HESA)
<b>FTE</b>	Full-time equivalent
<b>HEFCE</b>	Higher Education Funding Council for England
<b>HEI</b>	Higher education institution
<b>HEIF</b>	Higher Education Innovation Fund
<b>HESA</b>	Higher Education Statistics Agency
<b>HESES</b>	Higher Education Students: Early Statistics (survey)
<b>KE</b>	Knowledge exchange
<b>ORSAS</b>	Overseas Research Students Awards Scheme
<b>RAS</b>	Research Activity Survey
<b>SFA</b>	Skills Funding Agency
<b>SORP</b>	Statement of Recommended Practice
<b>TDA</b>	Training and Development Agency for Schools
<b>TRAC</b>	Transparent Approach to Costing
<b>VFM</b>	Value for money