

September 2012/23

Core funding/operations

Request for information

This document asks higher education institutions to send us their annual accountability returns for 2011-12.

Returns should be made in
December 2012 and July 2013

Annual accountability returns 2012

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Annual accountability returns 2012

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	2012/23
Publication date	September 2012
Enquiries to	HEFCE higher education policy advisers (on annual monitoring and data returns) HEFCE assurance consultants (for financial and audit accountability returns) There are searchable contact details for HEFCE staff at www.hefce.ac.uk/contact/stafflist/ .

Executive summary

Purpose

1. This document asks higher education institutions (HEIs) to send us their annual accountability returns for 2012. 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 financial performance, financial sustainability, risk management, control and governance, value for money, 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 consultation with the sector, through the British Universities Finance Directors Group, we have made the decision to continue with dual submission dates in the future in respect of the financial tables and commentary. Therefore, the following requirements will apply:

a. HEIs will be required to submit, by Monday 3 December, updated financial tables showing the actual performance and position for 2011-12, and an updated forecast for 2012-13, along with a commentary that explains any significant changes from the data submitted in the June 2012 forecasts.

b. HEIs will be required to submit, by Wednesday 31 July 2013, financial tables showing the updated forecast for 2012-13 and forecasts for 2013-14, 2014-15 and 2015-16, along with a full commentary that answers the questions specified in paragraph 58.

By exception, we may request that some institutions submit full forecasts in December, but this will be discussed with any institutions affected in advance of the submission date.

5. We require that 2012 annual accountability returns are approved by the governing body prior to submission – this includes the returns submitted in December 2012 as well as the financial forecasts and commentary that will be submitted in July 2013. If this creates difficulties for HEIs we request that they contact their HEFCE assurance consultant to discuss. As a minimum we will expect HEIs to provide a draft of the financial forecast tables by the due date.

6. 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. Until a new letter is issued HEIs can assume that the last risk assessment letter is still valid. We remind all HEIs of their obligation, under the Financial Memorandum with HEFCE, that they should inform us of any material adverse change in their circumstances (see 'Model Financial Memorandum between HEFCE and institutions', HEFCE 2010/19).

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

Annual assurance return Annual monitoring statement (AMS) Signed audited financial statements Financial results and updated forecast tables for 2012-13 Commentary: explanation of significant variances between the current and June 2012 submissions Audit committee annual report External audit management letter and management responses Internal audit annual report Value for money report (optional)	3 December 2012
Higher Education Students Early Statistics Survey (HESES) 2012-13 return	11 December 2012
Transparent Approach to Costing (TRAC) return	31 January 2013
Forecast tables to 2015-16 Financial commentary	31 July 2013

8. This publication gives guidance on the returns that are to be submitted to us: by 3 December 2012; 31 January 2013 (in the case of TRAC); and 31 July 2013 (in the case of financial forecasts and commentary). 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.

9. Detailed guidance on the requirements of the HESES return is provided in a separate HEFCE publication, 'HESES12: Higher Education Students Early Statistics Survey 2012-13' (expected to be published by the end of September 2012). Please note that HEFCE has issued advanced notification of changes to the HESES return for 2012-13 ('Early

notification of planned changes to HESES and HEIFES and implications for 2012-13 student number control', HEFCE Circular letter 15/2012).

10. 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.

Action required

11. The returns must be submitted by the deadlines shown in paragraph 7 **via the new secure area of the HEFCE web-site** (this can be accessed from the annual accountability returns section of the HEFCE web-site – see paragraph 17j). The required documents are:

- scanned PDF copy of the 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 with and make an annual return directly to the Charity Commission)
- completed AMS template
- scanned PDF copy of the signed audited financial statements
- completed financial results and forecast tables (see paragraphs 51-54 for details of when each part of these returns is due)
- financial commentary (for which detailed questions are provided in paragraph 58 and an optional template is provided in Annex C)
- audit committee annual report
- external audit management letter and management responses (combined in a single document)
- internal audit annual report
- value for money report (optional)
- completed TRAC return reporting for 2011-12.

12. Templates for the AMS, financial tables and TRAC return will be available by early October 2012. We will write to heads of finance and our AMS contacts in each HEI at the beginning of October with details on how to access the templates and how to return information to us.

13. Templates for the financial forecast tables for the July submission will be made available in early May 2013. We will write to the heads of finance in each HEI at the beginning of May with details on how access to the template and how to return information to us.

Introduction

14. 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 2012.

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

16. The various returns cover 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.

17. Please note the following changes and/or areas of interest in this year's guidance:

a. We require the submission of the 2012 annual accountability returns to be approved by the governing body – this includes the returns submitted in December 2012 as well as the financial forecasts and commentary that will be submitted in July 2013. If this creates difficulties for institutions we request that they contact their HEFCE assurance consultant to discuss (for contact details see www.hefce.ac.uk/contact/stafflist/).

b. The financial information completed for 2011-12 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.

c. Following recent discussions with the British Universities Finance Directors Group (BUFDG), we have made the decision to continue with dual submission dates in the future in respect of the financial tables and commentary. Therefore, the following requirements will apply:

- i. Institutions will be required to submit, by Monday 3 December, the financial tables showing the actual performance and position for 2011-12, and updated forecast for 2012-13 along with a commentary that explains any material changes from the data submitted in the June 2012 forecasts.
- ii. Institutions will be required to submit, by Wednesday 31 July 2013, financial tables showing the updated forecast for 2012-13 and forecasts for 2013-14, 2014-15 and 2015-16, along with a full commentary that answers the questions specified in paragraph 58.

By exception, we may request that some institutions submit full forecasts in December, but this will be discussed with any institutions affected in advance of the submission date.

d. The financial forecasts should include the institution's best estimates for the forecast period. We recognise that this return is a snapshot at a point in time and therefore request that if anything significant changes in your performance relative to forecast, you notify HEFCE through the material adverse change procedure outlined in the Financial Memorandum (FM) (HEFCE 2010/19, paragraph 18)¹. Further guidance on what should be reported to HEFCE is noted in paragraph 35 of the current document.

e. The financial commentary to be submitted on 31 July 2013 contains specific questions to which we require HEIs' responses (paragraph 58). Annex C presents a 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. We expect the financial commentary to include discussion of all of the questions in paragraph 58.

f. The student numbers returned in the financial forecast tables should be consistent with how HEIs return student number data to HESA (www.hesa.ac.uk).

g. Table 7 in the financial forecast tables 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 2012) and any additional borrowings drawn down or agreed at 31 October 2012. We use these data to calculate the annual revisions to the borrowing consent limits and to understand the borrowing behaviour in the sector. Therefore it is important that the information includes all of the loans and that the ASC is calculated correctly (this includes both the interest **and** capital elements of the loans). Guidance on calculating the ASC of long-term borrowing is provided in Annex F of the FM.

h. For funds monitored through the annual monitoring statement (AMS), we specify that the amount of any underspend must be stated.

i. This year's AMS also includes questions about the impact of the funding reforms, such as student application behaviours, which we are asking on behalf of the Department for Business, Innovation and Skills (BIS). The background to these questions is described in paragraphs 44-47.

j. The annual accountability return documents must be submitted via **the new secure area of the HEFCE web-site** (this can be accessed from the annual accountability returns section of the HEFCE web-site from the end of September 2012²).

¹ All HEFCE publications can be found online at www.hefce.ac.uk/pubs/

² At www.hefce.ac.uk/whatwedo/reg/assurance/accountabilityframework/annualaccountabilityreturn/

18. 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. Until a new letter is issued HEIs can assume that the last risk assessment letter is still valid. We remind all HEIs of their obligation, under the FM, that they should inform us of any material adverse change in circumstances.

19. We will primarily use the information collected to:

- a. Monitor the use of our funds for the purposes intended.
- b. Assess compliance with the FM.
- 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 (HE) sector.

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

Annual assurance return Annual monitoring statement (AMS) Signed audited financial statements Financial results and updated forecast tables for 2012-13 Commentary: explanation of significant variances between the current and June 2012 submissions Audit committee annual report External audit management letter and management responses Internal audit annual report Value for money report (optional)	3 December 2012
Higher Education Students Early Statistics Survey (HESES) 2012-13 return	11 December 2012
Transparent Approach to Costing (TRAC) return	31 January 2013
Forecast tables to 2015-16 Financial commentary	31 July 2013

21. Templates for the AMS, financial tables and Transparent Approach to Costing (TRAC) return will be available by early October 2012. We will write to heads of finance and our AMS contacts in each HEI at the beginning of October with details on how to access the templates and how to return information to us. Templates for the financial forecast tables for the July submission will be made available in early May 2013. We will write to the

heads of finance in each HEI at the beginning of May with details on how to access the template and how to return information to us.

22. This publication gives guidance on all the annual returns apart from the HESES return. Detailed guidance on the requirements of the HESES return is provided in a separate HEFCE publication ('HESES12: Higher Education Students Early Statistics Survey 2012-13', expected to be published by the end of September 2012).

23. Since June 2010, HEFCE has been the principal regulator of the HEIs in England that are exempt from registration with the Charity Commission. This requires the regular monitoring of those HEIs as charities. The Accounts Direction to higher education institutions for 2011-12 financial statements (HEFCE Circular letter 20/2011) set out the reporting requirements for exempt charity HEIs. These are included in paragraph 50 of this guidance, for ease of accessing the information. Further guidance on reporting and on HEFCE's responsibilities as principal regulator is available in Annex H of the Financial Memorandum and at www.hefce.ac.uk/whatwedo/reg/charityreg/. Annex H of the FM includes the requirement for HEIs to update the charity information gateway pages on their web-sites by 31 January 2013.

The future context

24. Our January 2012 grant letter from BIS³ set out that HEFCE would distribute £3.8 billion for teaching in the financial year 2012-13 and specified £2.9 billion as an indicative level of funding for financial year 2013-14. Future years' funding is still to be confirmed but we note that, even with the transition to student loans for most teaching funds, HEFCE will still be a significant funder of HE in terms of teaching, research and other funding (such as HEIF and research capital).

25. The Government's response to Lord Browne's report on higher education funding and student finance⁴ signalled that the Government would set some new directions for HE. The Government's overall thinking and plans for HE are specified in more detail in the HE White Paper⁵ and subsequent technical consultation⁶, and in the Government's response to the consultations that was published in June 2012⁷. For the time being, BIS expects HEFCE to continue to perform its current role on its existing statutory basis.

³ This can be read in full at www.hefce.ac.uk/news/newsarchive/2012/name.69495.en.html

⁴ The Independent Review of Higher Education Funding and Student Finance, led by Lord Browne, was tasked with making recommendations to Government on the future of fees policy and financial support for undergraduate and postgraduate students. Its final report, 'Securing a sustainable future for higher education in England' (October 2010), is available at <http://hereview.independent.gov.uk/hereview/report/>

⁵ The June 2011 White Paper, 'Higher education: students at the heart of the system' is available at <http://discuss.bis.gov.uk/hereform/>

⁶ The 'BIS Technical Consultation – a new, fit-for-purpose regulatory framework for the Higher Education sector' is available at <http://discuss.bis.gov.uk/hereform/technical-consultation/>

⁷ 'Government response – Consultations on: Students at the heart of the system; A new fit for purpose regulatory framework for higher education' is available at www.bis.gov.uk/assets/biscore/higher-education/docs/g/12-890-government-response-students-and-regulatory-framework-higher-education

26. In April 2012, BIS wrote to the chair of the HEFCE Board, outlining the plans for a further core and margin exercise for 2013-14 (see www.hefce.ac.uk/news/newsarchive/2012/name,72760,en.html). We expect institutions to include their assumptions about future funding in their forecasts and to detail these in the accompanying financial commentary.

27. The White Paper heralded a period of significant change in the way teaching and learning are funded and overseen. Alongside the consultation on the White Paper, HEFCE has run consultations on funding for teaching and student number allocation in 2012-13 ('Teaching funding and student number controls: Consultation on changes to be implemented in 2012-13', HEFCE 2011/20) and future years ('Student number controls and teaching funding: Consultation on arrangements for 2013-14 and beyond', HEFCE 2012/04). The outcomes of these consultations have been published ('Teaching funding and student number controls from 2012-13: summary of responses to consultation and decisions made', HEFCE Circular letter 26/2011, and 'Student number controls and teaching funding in 2013-14 and beyond: Summary of responses to consultation and decisions made', HEFCE 2012/19), and HEIs should ensure that they consider these when preparing their assumptions and developing their financial forecasts for submission on 3 December 2012 and 31 July 2013.

28. In June 2012, BIS wrote to the chairs of the HEFCE and Student Loans Company (SLC) Boards setting out the next steps in the Government's higher education reform programme (see www.hefce.ac.uk/news/newsarchive/2012/name,73166,en.html). It asks HEFCE, in its lead oversight role, to work with the SLC and other sector bodies to ensure that the reforms are implemented in a timely and efficient way.

29. We note that the transition to the new funding regime will bring some challenges and new risks, for example increased cash flow and working capital management risks arising from the change from HEFCE's monthly profile of grant payment to the SLC's profile of three payments per year. HEIs should ensure that they have sufficient financial flexibility and capacity to adapt to the change in funding payment profiles. There are also uncertainties around the impact of higher tuition fees on demand for HE from students, with possible impacts on overall recruitment as well as differential impacts likely at an institutional level. We expect HEIs to be modelling the potential impacts of these, and other, factors as part of their ongoing scenario planning and to consider mitigating actions that could be taken if necessary in response.

Pilot exercise on sustainability metrics and going concern

30. The Financial Sustainability Strategy Group (FSSG) published a report in June 2011 titled 'Assessing the sustainability of higher education institutions'⁸. A recommendation of the report was that governing bodies in UK HEIs should make an annual sustainability assurance report to their respective funding councils. Currently 18 institutions are piloting a draft Annual Sustainability Assurance Report with a view to presenting it to their governing bodies during their autumn cycle of meetings. Further work has now been agreed and will be undertaken by sub-groups set up within the pilot on the following topics:

⁸ Available at www.hefce.ac.uk/whatwedo/lgm/trac/tracforseniormanagers/

- a. Non-financial key performance indicators (KPIs) and assessments.
- b. Financial KPIs, earnings before interest, tax, depreciation and amortisation and 'going concern' status.
- c. Required surplus and replacement of the TRAC Return for Financing and Investment.
- d. Interaction with institutional boards and governors.

31. HEFCE will consider the findings of this important piece of work as they emerge. We will assess the implications for our ongoing monitoring of financial sustainability, taking into account the needs of all our stakeholders, once a final evaluation of the pilot exercise has been completed.

32. HEFCE's Accounts Direction to higher education institutions for 2012-13 financial statements and revised Accounts Direction for 2011-12 (HEFCE Circular letter 21/2012) states that, as the final recommendations of Lord Sharman's inquiry on going concern and liquidity risk were not reported until June 2012, the sector will not be required to implement them in its 2011-12 audited financial statements. This FSSG's pilot exercise (discussed above) will take into account any response from the Financial Reporting Council following Lord Sharman's final report, and this will inform any going concern disclosure to be required across the sector in 2012-13 audited financial statements.

Guidance

Annual assurance return

33. The purpose of this return is to confirm that the HEI's accountable officer has met their obligations to HEFCE under the FM (HEFCE 2010/19, paragraphs 12-27). We are requesting completion of Annex E of the FM.

34. The return should cover the period to the financial year-end (31 July 2012) 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. In all cases the return should normally be approved by the governing body as the trustees of the HEI.

35. The FM requires that the institution inform us of any change in its circumstances which – in the judgement of the accountable officer and in agreement with the governing body – is a material adverse change, as well as any significant developments that could impact on the mutual interests of the institution and HEFCE (HEFCE 2010/19, paragraph 18). Annex B paragraphs 14-17 of the FM provide more details of this process and an

indicative, but not exhaustive, list of what should be reported to HEFCE. In signing part 1 of the annual assurance return, the accountable officer is declaring that any such events have been notified to HEFCE. These include but are not limited to:

- a. Any financial loss or reduction in income or working capital which is significant enough in the accountable officer's judgement to materially impact on the financial outturn or the cash position.
- b. Any new decision to invest or expend funds which in the accountable officer's judgement will have a material impact on the forecast position as reported to HEFCE in the most recent annual accountability exercise.
- c. Any new or changed risks which in the accountable officer's judgement are significant enough to affect the institution's future sustainability.
- d. Any theft, fraud, loss of charity assets or other irregularity that meets one or more of the following conditions:
 - i. Where the sums of money involved are, or are potentially, in excess of £25,000 (this figure aligns with reporting requirements for charities and we will keep it under review and notify changes through our annual accounts direction).
 - ii. Where the particulars of the fraud, theft, loss of charity assets or other irregularity may reveal a systemic weakness of concern beyond the institution, or are novel, unusual or complex.
 - iii. Where there is likely to be public interest because of the nature of the fraud, theft, loss of charity assets or other irregularity, or the people involved.

There may be cases of fraud, theft, loss of charity assets or other impropriety or irregularity, that fall outside this definition. In these cases or any others, HEIs can seek advice or clarification from their HEFCE assurance consultant (for contact details see www.hefce.ac.uk/contact/stafflist/). In view of the public interest, HEIs should normally notify the police of suspected or actual fraud. Where the police are not notified, management should advise the institution's audit committee of the reason.

36. Part 2 of the return seeks assurance about the conduct of the institution as a charity, including the reporting of serious incidents other than those covered by Part 1. HEIs that have 'paragraph 28' connected exempt charities have undertaken to maintain up-to-date records of those charities and to make information about them available to HEFCE on request. We consider that undertaking to be covered by the assurances in Part 2.

37. In addition, 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/pubs alongside this document, or from the secure area of the HEFCE web-site in October 2012.

38. The completed and signed return should be scanned and then submitted via the secure area of the HEFCE web-site as a PDF document.

Annual monitoring statement

39. The AMS was developed to monitor the use of special initiative funding outside the main teaching and research funding allocation. As in previous years the AMS will monitor the spending of HEIs awarded funding as Higher Education Innovation Funding (HEIF). Also as previously the AMS asks about compliance with equality legislation, and additionally for 2012 the use of both CIF2 (for all HEIs), and (for HEIs in receipt of it) funding awarded in 2010-11 for strategically important and vulnerable subjects (SIVS) and museums and galleries. We are no longer asking for HEIs to update on the use of monies awarded under CIF1 or under the University Modernisation Fund. Information on the use of monies awarded under the transformational strand of the first phase of the Revolving Green Fund will now be collected outside the AMS.

40. This year's AMS also includes questions about the impact of the funding reforms, such as student application behaviours, which we are asking to fulfil our obligations to advise BIS. The background to these questions is described in paragraphs 44-47.

41. 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 re-profile payments .

42. We are requesting information on activities running from 1 August 2011 to 31 July 2012. Although the questions will ask HEIs to report against the position at 31 July 2012, we expect HEIs to provide details on any significant changes after that date, 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.

43. Annex A includes the sample AMS for the 2012 return; the actual AMS template for completion will be supplied in early October 2012.

The impact of the funding reforms

44. HEFCE has been asked to report to BIS by December 2012 on the initial impact that the funding reforms have had on students and HEIs. The primary objective of the report will be to establish a robust, accurate and transparent evidence base, enriched by contextual information and intelligence, which will enable us to make a thorough and well-balanced assessment of the impact of the reforms on students (to include all types, modes and levels) and HEIs, and on the sector as a whole.

45. The timing of the request in December presents an issue in terms of how much information and data will be available to inform our advice to BIS; therefore we will be producing a follow-up report in March 2013, which will draw on additional data and evidence that will become available after December. Meanwhile we are seeking to collect emerging data and intelligence directly from HEIs via the AMS process to help us better understand the impact of the new funding arrangements, in their broadest sense, on students and HEIs.

46. The responses to these questions will help to inform the advice we will provide to BIS in the March report and it will therefore be an important opportunity for institutions to provide an evidence base for government policy.

47. We will value your HEI's views on whether the funding reforms have had any impact (intended or unintended), what that impact has been on student behaviour when applying to your HEI, and on your HEI's approach to such changes. We also ask for a view on what you see as opportunities or threats arising from the changes.

Audited financial statements

48. We ask HEIs to send us, via the secure area of the HEFCE web-site, one scanned PDF of their complete financial statements that has been signed by all the relevant parties. The financial statements shall be signed by the accountable officer and by the chair or one other member of the governing body appointed by that body.

49. HEIs are required to follow the latest version of the 'Statement of recommended practice: accounting for further and higher education'⁹ (SORP) in preparing their financial statements. HEIs should also comply with 'HEFCE's Accounts Direction to higher education institutions for 2011-12 financial statements and revised Accounts Direction for 2010-11' (HEFCE Circular letter 20/2011) and 'HEFCE's Accounts Direction to higher education institutions for 2012-13 financial statements and revised Accounts Direction for 2011-12' (HEFCE Circular letter 21/2012). The audited financial statements should, as a minimum, include:

- a. An operating and financial review that should provide an overview of the institution's finances and operations including (an extract from the SORP 2007 is provided below):
 - i. The development, performance and operation of the business and operation of the HEI during the financial year.
 - ii. The position of the HEI at the end of the year.
 - iii. The main trends and factors underlying the development, performance and position of the business of the HEI and its academic performance during the financial year.
 - iv. The main trends and factors which are likely to affect the HEI's future development, performance and position.

It should follow best practice as set out in the Reporting Statement 'The Operating and Financial Review' issued by the Accounting Standards Board in January 2006. The 2007 SORP contains a more detailed description of what is required, and HEIs should comply with the SORP reporting requirements in this regard.

- b. A statement on internal control (corporate governance). In formulating their statements, HEIs should refer to best practice guidance, including guidance from the Institute of Chartered Accountants in England and Wales and BUFDG. As a minimum these disclosures should include an account of how the following broad principles of corporate governance have been applied:

- i. The identification and management of risk should be an ongoing process linked to the achievement of institutional objectives.

⁹ The latest version (2007) is available from www.universitiesuk.ac.uk/Publications/Pages/Default.aspx

- ii. The approach to internal control should be risk-based, including an evaluation of the likelihood and impact of risks becoming a reality.
 - iii. Review procedures must cover business, operational and compliance as well as financial risk.
 - iv. Risk assessment and internal control should be embedded in ongoing operations.
 - v. The governing body or relevant committee should receive regular reports during the year on internal control and risk.
 - vi. The principal results of risk identification and evaluation, and management review of its effectiveness, should be reported to, and reviewed by, the governing body.
 - vii. The governing body acknowledges that it is responsible for ensuring that a sound system of control is maintained, and that it has reviewed the effectiveness of the above process.
 - viii. Where appropriate, details of actions taken or proposed, to deal with significant internal control issues should be set out.
- c. A report in the corporate governance statement of their annual audited financial statements that the institution has had regard to the voluntary Committee of University Chairs (CUC) Governance Code of Practice contained in 'Guide for Members of Higher Education Governing Bodies in the UK: Incorporates the Governance Code of Practice and General Principles' (HEFCE 2009/14). Where an HEI's practices are not consistent with particular provisions of the Code an explanation should be published in that statement. Adoption of the CUC Governance Code of Practice, with the principles of the Code adapted as appropriate to each HEI's character, is an important factor in enabling HEFCE to rely on self-regulation within HEIs and hence minimise the accountability burden.
- d. The external auditors shall report whether in all material respects:
- i. The financial statements give a true and fair view of the state of the HEI's affairs, and of its income and expenditure, recognised gains and losses, and statement of cash flow for the year. They should take into account relevant statutory and other mandatory disclosure and accounting requirements, and HEFCE requirements.
 - ii. The financial statements have been properly prepared in accordance with the SORP on accounting in further and higher education, sections 495 and 496 of the Companies Act 2006 (where the HEI is incorporated under the Companies Act), and any other legislative or regulatory requirements.
 - iii. Funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation.
 - iv. Funds provided by HEFCE have been applied in accordance with the FM and any other terms and conditions attached to them. In particular, auditors

should have regard to the specific requirements of the FM, such as compliance with the short-term and long-term borrowing conditions.

- e. Disclosures and reporting required to meet the institution's charitable obligations (see HEFCE 2010/19 Annex H for details).

50. New reporting requirements for HEIs that are exempt charities have been included in the Accounts Direction for 2011-12. Guidance about these requirements is available at www.hefce.ac.uk/whatwedo/reg/charityreg/. For ease of reference the main requirements for 2011-12 are listed below:

- a. The exempt or registered charitable status of the HEI.
- b. The trustees who served at any time during the financial year and until the date the financial statements were formally approved.
- c. A statement that the trustees of the charity have had regard to the Charity Commission's guidance on public benefit.
- d. A report on how during the year the HEI has delivered its charitable purposes for the public benefit.
- e. Information about payments to or on behalf of trustees, including: expenses; payments to trustees for serving as trustees (and waivers of such payments); and related party transactions involving trustees.

- f. Details of HEIs 'paragraph 28' linked charities:

For each 'paragraph 28' charity that has income in the year of £100,000 or more:

- i. The name and charitable purpose.
- ii. The opening balance, income and expenditure for the year, and closing balance.

For all other 'paragraph 28' charities:

- iii. An analysis into appropriate groups (for example: prize funds, bursary/scholarship funds, research support funds) stating the number of entities in each group.
- iv. For each group: the aggregate opening balances, income and expenditure for the year, and closing balances. (Note: the terms 'opening' and 'closing' balance should be interpreted as total reserves where the paragraph (w) charity is an operating charity.)

A possible (non-mandatory) layout for these linked charity disclosures is available in the guidance referred to above.

Financial results and forecast tables

51. Following consultation with the sector, through BUFDG, we have made the decision to continue with dual submission dates in the future in respect of the financial tables and commentary. Therefore, the following requirements will apply:

a. Institutions will be required to submit, by Monday 3 December, the financial tables showing the actual performance and position for 2011-12 and updated forecast for 2012-13, along with a commentary that explains any material changes from the data submitted in the June 2012 forecasts

b. Institutions will be required to submit, by Wednesday 31 July, financial tables showing the updated forecast for 2012-13 and forecasts for 2013-14, 2014-15 and 2015-16, along with a full commentary that answers the questions specified in paragraph 58.

By exception, we may request that some institutions submit full forecasts in December, but this will be discussed with any institutions affected in advance of the submission date.

52. The forecasts should present the HEI's strategic plan in financial terms, 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.

53. We recognise that these returns are snapshots at a point in time and therefore request that, if anything significant changes in your performance relative to budget/forecast, then you should notify HEFCE through the material adverse change procedure outlined in the FM (HEFCE 2010/19, paragraph 18).

54. In developing the financial forecasts, HEIs must take account of the changing funding environment, their own plans regarding fee levels, and assumptions about the impact of these on demand.

55. We require the December 2012 and July 2013 submissions of the 2012 annual accountability returns to be **approved by the governing body**. If this creates difficulties for institutions we request that they contact their HEFCE assurance consultant to discuss.

Financial commentary on past performance and future prospects

56. The commentary that should be submitted as part of the December 2012 annual accountability return should explain any material variances between the 2011-12 audited performance and position relative to the June 2012 forecast and any changes in the forecast for 2012-13. It is part of the overall financial return, explaining the 2012-13 forecast financial performance in the context of recent 2011-12 financial results.

57. A full financial commentary is required to be submitted 31 July 2013. As far as is still relevant, 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. 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 58 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.**

58. As for the previous year's submission, the questions in the financial commentary are as follows:

1	Explain how the institution is ensuring its sustainability, including the institution's strategy, quality of teaching and research, management of its key risks and investment in its estates and infrastructure.
2	Explain the assumptions about student recruitment over the period of the forecasts, including how the institution is mitigating any risk and what scenario planning or sensitivity analysis has been undertaken.
3	Explain significant movements (± 10 per cent in any one year) on the income and expenditure account and material changes on the balance sheet (including the detail on any material exceptional items).
4	Explain the key assumptions made in developing the financial forecasts.

59. Where the commentary outlined above has not been provided to a satisfactory level of detail, or if the information provided 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.

60. We expect the full financial commentary to be submitted by 31 July 2013 to include discussion of **all of the questions** in paragraph 58.

Audit committee annual report

61. As stated in the Audit Code of Practice (Annex B to HEFCE 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 2011-12 and include any significant issues (including its consideration of the 2011-12 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.

62. The audit committee annual report must include the committee's conclusions 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.

63. 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 2010-11 and 2011-12)
- the internal auditors' annual report (for both 2010-11 and 2011-12)
- 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.

64. 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

65. External auditors should report to those charged with governance at each HEI (that is, the governing body and/or audit committee) by way of an annual management letter and, if necessary, an audit issues memorandum that highlights any significant accounting and control issues arising from the audit. The HEI's management should provide written responses to any recommendations made or issues raised and these must be submitted to HEFCE.

66. **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** – these should all be submitted **as a single document**.

Internal audit annual report

67. The internal audit annual report should relate to the financial year 2011-12 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.

68. 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.

69. 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.

Value for money report

70. Following the Public Accounts Committee (PAC) hearing into 'Regulating financial sustainability in higher education' and the subsequent report¹⁰, and given the current economic environment, there is increased focus on VFM for public funds provided in the HE sector, and for the student in return for the fee paid. In addition, Universities UK (UUK) published a report¹¹ on 15 September 2011 noting that efficiency and effectiveness are key priorities for the UK higher education sector, but that universities must continue to demonstrate good value for money in the new funding environment. We note that more than half of institutions submitted their annual VFM reports as part of their 2011 annual accountability return, as requested (this was not a mandatory return).

71. Therefore, HEIs are asked to submit an annual VFM report via the secure area of the HEFCE web-site by 3 December 2012 – this is not a mandatory requirement, but is intended to be a non-burdensome way of addressing the concerns raised during the PAC discussions. If provided, the report should provide commentary on how the HEI delivers economy, efficiency and effectiveness, in other words how the HEI makes the best use of the resources it has available to achieve the desired output and maximise the benefit of that output.

72. As this is optional, there is no prescribed format for this report and we are happy to accept an annual report produced for internal purposes, provided this is reviewed by the governing body (either by the board of governors or audit committee). Good practice around VFM activity and reporting may be found at www.hefce.ac.uk/whatwedo/reg/assurance/guidance/strategicmanagement/ under 'Value for money'.

Transparent Approach to Costing return

73. In the HE White Paper, HEFCE is asked to consult with the sector on radically streamlining the reporting requirements of TRAC. This consultation will take place in autumn 2012.

74. To aid the understanding of TRAC results the TRAC Development Group have approved some small presentational changes to the 'Institutional results' table and Tables (A) and (C) in the annual TRAC return for 2011-12. These changes will help governors and external stakeholders more easily identify the gap between institutions' full economic costs and the actual recovery of costs, sometimes referred to as the sustainability gap.

75. HEIs are asked to submit an annual TRAC return via the secure area of the HEFCE web-site (see paragraph 76) by 31 January 2013. Although the deadline for submission is

¹⁰ Available at www.publications.parliament.uk/pa/cm201012/cmselect/cmpublic/914/91402.htm

¹¹ 'Efficiency and effectiveness in higher education: A report by the Universities UK Efficiency and Modernisation Task Group', available at www.universitiesuk.ac.uk/Publications/Documents/2011/EfficiencyinHigherEducation.pdf

31 January 2013, 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 2013.

76. Note that in addition to submission of the completed Excel file, a copy of the return, which **must be signed by the head of institution**, should be scanned and submitted to us as a PDF file via the secure area of the HEFCE web-site. Details of how to do this will be sent to the HEI's director or head of finance by letter.

77. 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.

78. 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 HEIs to explain data that fall outside the parameters set in the return, and any unusual material movements when comparing 2011-12 with 2010-11 outputs as shown in the summary worksheet.

79. 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/whatwedo/lqm/trac/).

80. In reporting these data, the head of the institution should review the return for reasonableness and confirm compliance with all TRAC requirements. This includes the requirement for a committee of the HEI's board to specifically confirm compliance with the statement of requirements (the committee should have a lay member majority). Annual TRAC figures and an analysis of the year-on-year changes in the figures (including the full economic costing rates) should also be presented to this board committee before they are reported. Where the timing of the board committee meeting makes this difficult, delegated authority for 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.

81. The 2012 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) during October 2012. Your institution's individualised template for completion of the TRAC data return should be downloaded and submitted via the secure area of the HEFCE web-site. Details of how to access the secure area of the HEFCE web-site will be sent to the HEI's director or head of finance.

82. We will report to BIS on the sector aggregate TRAC return data, which we expect to publish. For further information about the TRAC reporting requirements, contact your HEFCE assurance consultant (for contact details see www.hefce.ac.uk/contact/stafflist/).

For further advice the TRAC Support Unit (tel 0115 935 3400, e-mail trachelpdesk@kpmg.co.uk) has responsibilities in the following areas:

- provision of the TRAC Helpdesk
- policy research and support to the FSSG 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.

Higher Education Students Early Statistics Survey

83. All HEIs must complete the annual survey of students on recognised HE courses. Detailed guidance on this return ('HESES12: Higher Education Students Early Statistics Survey 2012-13', expected to be published by the end of September 2012) will be available at www.hefce.ac.uk/pubs.

84. The HESES return should be uploaded to the secure area of the HEFCE web-site by noon on 11 December 2012. Workbooks will be available for HEIs in November.

Submission of the returns

85. The returns should be submitted as follows.

Electronic copies of the following should be submitted via the secure area of the HEFCE web-site by **Monday 3 December 2012**:

- 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
- signed audited financial statements
- completed financial results and updated forecast tables to 2012-13
- commentary that explains the material changes from the data submitted in June 2012 forecasts
- audit committee annual report
- external audit management letter and management responses
- internal audit annual report
- value for money report (optional).

Electronic copies of the following should be submitted via the secure area of the HEFCE web-site by **Wednesday 31 July 2013**:

- completed forecast tables to 2015-16

- full financial commentary.

Further information on this process will be sent to heads of finance and AMS contacts in October 2012. The submission of the TRAC return is outlined in paragraphs 73-82.

86. The specific reporting requirements for the HESES return will be published in a separate HEFCE publication.

Feedback

87. 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. This risk letter may contain comment on instances of non-compliance with the FM, Audit Code of Practice, the CUC Governance Code of Practice and relevant charities legislation. 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. 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. Until a new letter is issued HEIs can assume that the last risk assessment letter is still valid.

88. In addition to the risk letter, we will publish our assessment of the financial health of the sector. The relevant publication for the 2011 returns is 'Financial health of the higher education sector: 2010-11 financial results and 2011-12 forecasts' (HEFCE 2012/05).

Freedom of information

89. 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 institutions' financial and strategic planning or where the release of information could result in anti-competitive behaviour. For further information about the Act, including the particular circumstances when information may be withheld, see www.ico.gov.uk under Freedom of Information Act.

Queries

90. HEIs should address questions about completing the AMS and HESES returns to their HEFCE higher education policy adviser. Questions about the other accountability returns should be addressed to their HEFCE assurance consultant or adviser (for contact details see www.hefce.ac.uk/contact/stafflist/).

Annex A Sample annual monitoring statement 2012

This annex is for reference only. Templates for the AMS will be available in early October 2012. We will write to our AMS contacts in each higher education institution (HEI) before then with details on how to access the templates and how to return information to us.

Higher education in further education colleges

1. If you have indirect funding agreements with further education colleges (sometimes known as 'franchise agreements' or 'franchises'), and validate provision at further education colleges, please indicate what changes you have made to these arrangements for:
 - **franchised places** in the past year and what changes you intend to make in the coming year (for example, how many more/fewer places you franchise)
 - whether you have increased/decreased the number of institutions or programmes that you **validate**
 - where possible, please give **reasons** for any changes.If you do not have an indirect funding agreement with a further education college please state 'not applicable'.

Higher education in other providers

2. If you have **indirect funding agreements** with other providers¹² (including a connected institution arrangement¹³), please indicate:
 - the changes you have made to these arrangements in the past year and those you intend to make in the coming year (for example, how many more/fewer places you franchise)
 - where possible, please give reasons for any changes.If you do not have an indirect funding agreement with another provider, please state 'not applicable'.

3. If you **validate** provision at other providers, please indicate:
 - whether you have increased/decreased the number of institutions or programmes that you validate

¹² Other provider: an institution that is not an HEI or further education college supported by public funds.

¹³ Connected institution: an organisation receiving HEFCE grant funding from an HEI to which it is accountable but operating independently from that HEI. Information about the conditions for the use of Council funds in respect of a connected institution can be read in '[Model Financial Memorandum between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions](#)' HEFCE 2010/19, paragraph 36.

- where possible, please give reasons for any changes.
If you do not validate provision at other providers, please state 'not applicable'.

Higher Education Innovation Funding 2011-15

4. For 2011-12 your HEI received £XXXX in HEIF. Did any funds remain unspent at the end of AY 2011-12?

Response Yes/No

If 'yes' please explain the reasons for this, in not more than 200 words. (This should include any spending since 31 July 2012.)

5. Have you made changes to your spend in AY 2011-12 compared to how you projected that allocation of funds in Table B of your HEIF 2011-15 institutional knowledge exchange (KE) strategy? If so please provide updated information in the 'HEIF' spreadsheet on the extranet and provide a brief explanation of the reasons for the change in the text box below.

Do not include any under-spends from HEIF 4.

We will still need to approve the re-profiling of under-spends annually, so changing the profile in Table B alerts us that you may seek approval for a re-profile, but does not constitute HEFCE approval for this.

6. Please provide a summary (250 words maximum) of the key achievements of the year linked to HEIF 2011-15 formula funding, referring to both wider activity and the area(s) of expertise you identified in question 13 (key areas of strength/particular focus) of your institutional KE strategy. Please note that in parallel with the AMS we will approach the case study contact from your strategy for an up to date case study of success. You may want to include some reference to the case study being provided in the answer to this question.

7. Looking more narrowly at performance in terms of Higher Education – Business and Community Interaction (HE-BCI) survey income metrics (collaborative research, contract research, consultancy, equipment & facilities, regeneration and intellectual property) please comment (in not more than 500 words) on¹⁴:

- any major changes (plus or minus) to the income metrics that are a significant focus of your overall KE strategy/plan for the use of HEIF (please comment particularly on your latest HE-BCI data, such as 2011-12 if that is to hand)
- any action that you are taking, particularly related to the use of HEIF, in consequence¹⁵.

8. Have you faced any significant changes (from the response you gave in your HEIF 2011-15 strategy, question 11) to the barriers and enablers affecting the delivery of your KE strategy? If yes please provide brief details in the text box below (maximum 250 words).

9. In your KE strategy you identified XXXXX as your institutional contact for case study information. If this has changed, please give new contact details in the text box. We

¹⁴ This is in line with our approach set out in [HEFCE 2011/16](#) where we are asking for more detailed funding and outputs information. This information will enable us to respond, at sector-wide level, to the Government's agenda to improve efficiency and effectiveness and to demonstrate the value for money delivered by HEIF. The evidence we request in the templates primarily focuses on outputs from the HE-BCI survey that are quantitative and collected consistently across the HE sector. We will use responses to add a qualitative view from across the sector to the quantitative evidence we provide to Government on aggregate institutional performance using HE-BCI metrics. We recognise that HE-BCI does not capture all KE performance/targets, and we can use your responses in this regard.

¹⁵ For example, if you have a major focus in your institution on expanding consultancy activity with small and medium enterprises (SMEs), you might comment if your income is increasing in that area, and on actions you may be taking to accelerate this further (such as putting more HEIF into consultancy support or academic training). If income is decreasing, you may be investing more but seeking new approaches, or re-prioritising to other areas.

We are also likely to approach at least a sample of HEIs with significant changes in their HE-BCI income metrics (up or down) in spring 2013 to discuss in more depth the reasons for success or challenges facing delivery.

need an up to date contact so we can involve your institution in the compilation of case studies and other materials to promote your work and that of the whole sector.

Equality and diversity monitoring

10. Have you made progress or met your objectives from last year as set out in your 2011-12 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 2012-13.

Capital funding

Your HEI is receiving capital funding under the Capital Investment Fund (CIF) phase 2. Please explain, in a maximum of 250 words how your institution has invested, or proposes to use the CIF 2 funding (both teaching and research capital) over the financial years to 2014-15 inclusive and what benefits have so far been achieved through that funding. We will be particularly interested to learn how the monies are being used in reducing carbon emissions and improving space usage.

HEFCE funding for university museums and galleries

15. For 2011-12 your HEI received museums and galleries funding to support one, or a number of, museum(s). For each funded museum, where available, please provide the following information: number of HE visits; number of further education (FE) visits; number of HEI courses drawing on the collection; number of loans made (including number of items and whether national or international); percentage of collection documented; number of web-site visits; number of exhibitions; number of pupils on school visits; number of public events; number of visitors.

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

16. Your institution was awarded funding for SIVS students in May 2010 and we asked for early evidence of progress in the AMS for 2010. We are now asking for information to monitor this initiative both at programme level (to assess whether the increase in recruitment to the specific programmes we supported has occurred) and at a broader level (i.e. to assess overall increases in SIVS disciplines in your institution).

17. Did you recruit additional numbers of SIVS students for which you were awarded funding in 2010-11?

Response Yes/No

If No, has your institution done so since? (If 'yes', please state 'not applicable')

18. If your institution has increased or sustained numbers in cognate disciplines (such as other price group B subjects), please describe in the text box below the position with recruitment in 2011-12 in respect of these courses. (Were the numbers sustained? Did the numbers revert to the levels prior to the award of funding? Has the position become too complicated by fees and funding changes to take a view?) If your institution has not increased or sustained numbers in cognate disciplines, please state 'not applicable'.

Impact of the new funding arrangements on students and institutions

19. What are your institution's views on whether the funding reforms have had any impact (intended or unintended), and what that impact has been, on student behaviour when applying to your institution. For example have there been: late changes to students accepting offers; changes to the clearing process including the use of insurance choices;

changes in early retention and withdrawal patterns; differences in the subject choices students are making; evidence that the bursary packages are having an effect; a change in the student population from mature, part time, students etc?

20. What has been your institution's approach to: (for example) changes to courses on offer, and to offer-making, marketing strategies, enhancements to the student experience; new partnership arrangements; changes affecting staff etc? Will or how might this approach change again for academic year 2013-14, when the attainment threshold for not being part of the student number control moves to ABB+ ?

21. We are also interested in your views on:

- the three main benefits to your institution from the changes to the funding arrangements and how significant these are

- the three main risks for your institution following these changes and whether these are of significant concern.

Annex B Financial results and forecast tables 2012: 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 those 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 2007¹⁶. The financial information should therefore comply with all Financial Reporting Standards (FRSs) effective as at 31 July 2012. 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' 2011-12 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.

¹⁶ The latest version (2007) is available from www.universitiesuk.ac.uk under Publications.

Tables to be completed

6. The tables submitted in December will cover a three-year period and in July a six-year period, each 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	ASC of long-term borrowings
Table 8	Net liquidity

7. A sample of the financial tables to be completed in December can be found in Annex D. We will write to heads of finance in October 2012 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 be consistent with accounting policies adopted in HEIs' 2011-12 financial statements. The actual outturn for 2010-11 and 2011-12 entered in the tables should be consistent with the audited financial statements (restated if appropriate). The forecast figures for 2012-13 to 2015-16 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 2011-12 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 in December 2012.

Guidance on Table 1a

11. This section provides guidance 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 Finance Statistics Return.

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 2011-12 grant tables.

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 HEFCE grants that have not been dealt with in the sub-headings 1a and 1b. Release of deferred capital grant from HEFCE should be included in Sub-heading 1f.

Sub-heading 1d: Teaching Agency funding

15. This should include all funding provided by the Teaching Agency (or the former Training and Development Agency for Schools) 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) 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, the Teaching Agency 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 higher education (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 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 or who have a contract of employment with the institution. This should include any severance costs (where these are not treated as exceptional items under 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. The data requested should also be included within other operating expenses (Table 1 Heading 8). The items of data to be returned are:

Subheading 1a: Operating leases and other long-term operating expense commitments

33. This should include the expenditure incurred in the year on operating leases and other long-term operating commitments.

Subheading 1b: Annual contract cost of PFI deals

34. This should include the annual contract cost of private finance initiative (PFI) deals.

Subheading 1c: Maintenance expenditure

35. This should include all expenditure incurred in the year on the maintenance of premises (excluding the pay of staff involved, whose costs will be returned under Staff costs in Table 1b). It should cover expenditure to keep premises in good repair, and to replace and or maintain existing systems.

Guidance on Table 6: Student number forecasts

36. Student numbers should be returned as FTEs for both full-time and part-time numbers. **The population of students returned in the table should be consistent with the population returned in student number data to the Higher Education Statistics Agency (www.hesa.ac.uk)**. These data will be used to provide context to the other financial tables and will not be used for funding purposes.

37. For each of the forecast years, three columns must be completed: 'Home and EU Old-regime', 'Home and EU New-regime' and 'Island and overseas'. The Home and EU columns should include both HEFCE-fundable and non-fundable students. For the definition of old-regime and new-regime please see Annex Q of the Higher Education Students Early Statistics Survey (HESES) <http://www.hefce.ac.uk/pubs/year/2011/201127/>; or as subsequently revised in HEFCE Circular letter 15/2012 ('Early notification of planned changes to HESES and HEIFES and implications for 2012-13 student number control').

38. Postgraduate research students do not need to be categorised between Old-regime and New-regime. All postgraduate research students should be returned under the 'Old-regime' column.

39. Student numbers should be returned by mode (Full-time, Sandwich year-out and Part-time) and level (Undergraduate, Postgraduate taught and Postgraduate research). Sandwich year-out students should be included within the full-time numbers. Undergraduate numbers should also include foundation degree.

40. Student numbers relating to franchised-out provision, Teaching Agency and NHS students should all be included within the totals.

Guidance on Table 7: Annualised servicing costs (ASC) of long-term borrowing

41. This table is used to review compliance with the Financial Memorandum in relation to the level of 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 2012) and any additional borrowings drawn down or agreed at 31 October 2012. We use these data to calculate the annual revisions to the borrowing consent limits and to understand the borrowing behaviour in the sector. Therefore, **it is important that the information includes all of the loans and that the ASC is calculated correctly (this includes both the capital and interest elements of the loans)**. Guidance on calculating the ASC of long-term borrowing is provided in Annex F of the FM (HEFCE 2010/19).

42. The first section of the table requires HEIs to input information about the level of borrowings as at 31 July 2012. 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 2012. If you have any queries about how to complete this table, then please contact your HEFCE assurance consultant or assurance adviser (see www.hefce.ac.uk/contact/stafflist/).

43. The table has been pre-filled with the information input by HEIs to the 2011 financial results and forecasts 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.

44. 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

45. This table is used to review compliance with the FM 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.

46. 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 2011 to 31 October 2012, you should give the highest negative level in the final column of this table.

Public funding assumptions

47. 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 uncertainty about the likely levels of public funding to be available in future years.

48. HEFCE's grant letter to HEIs in July 2012 announced the level of funding for the academic year 2012-13, 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.

49. Paragraphs 24-29 of the main document provide the context that HEIs themselves should use in their future financial plans. We expect HEIs' financial forecasts to be realistic about 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 higher education institutions (HEIs). Although compliance was improved in the 2010 and 2011 annual accountability returns, there is still further improvement necessary to ensure that all HEIs provide all of the requested information. To help HEIs meet our requirements, this annex provides optional templates for HEIs to complete.

We recognise, however, that HEIs 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 HEIs will be followed up by reviewers of the return.

Template for December 2012 submission

1	Explain any material variances between the 2011-12 audited performance and position relative to the June 2012 forecast.
2	Explain any material changes in the forecast for 2012-13.

Template for July 2013 submission

1	Explain how the institution is ensuring its sustainability, including the institution's strategy, quality of teaching and research, management of its key risks and investment in its estates and infrastructure.
2	Explain the assumptions about student recruitment over the period of the forecasts, including how the institution is mitigating any risk and what scenario planning or sensitivity analysis has been undertaken.
3	Explain significant movements (± 10 per cent in any one year) on the income and expenditure account and material changes on the balance sheet (including the detail on any material exceptional items).
4	Explain the key assumptions made in developing the financial forecasts.

Annex D Sample financial tables for submission in December

This annex is for reference only and may be downloaded from the HEFCE web-site alongside this document under Publications. Templates will be available to download from the secure area of the HEFCE web-site in early October 2012.

Annex E Annual assurance return template

This annex is available for download alongside this document on the HEFCE web-site under Publications.

List of abbreviations

AMS	Annual monitoring statement
ASC	Annualised servicing cost
BIS	Department for Business, Innovation and Skills
BUFDG	British Universities Finance Directors Group
CIF	Capital Investment Framework
CUC	Committee of University Chairs
FM	Financial Memorandum
FRS	Financial Reporting Standard
FSSG	Financial Sustainability Strategy Group
FTE	Full-time equivalent
HE	Higher education
HE-BCI	Higher Education – Business and Community Interaction
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIF	Higher Education Innovation Funding
HESA	Higher Education Statistics Agency
HESES	Higher Education Students: Early Statistics (survey)
KE	Knowledge exchange
KPI	Key performance indicator
PAC	Public Accounts Committee
PFI	Private Finance Initiative
RCUK	Research Councils UK
SFA	Skills Funding Agency
SIVS	Strategically important and vulnerable subjects
SLC	Student Loans Company
SORP	Statement of recommended practice
TRAC	Transparent Approach to Costing
TRAC(T)	TRAC for teaching
UUK	Universities UK
VFM	Value for Money