

# Annual report and accounts

2012-13

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HIGHER EDUCATION *hefce*  
FUNDING COUNCIL FOR ENGLAND



# Higher Education Funding Council for England

## Annual report and accounts 2012-13

Presented to Parliament pursuant to Schedule 1, paragraph 16 of the Further and Higher  
Education Act 1992

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# Higher Education Funding Council for England

## Annual report and accounts 2012-13

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# Chair's foreword

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In 2012-13, the first year of the new funding arrangements for higher education in England, HEFCE maintained its focus on our core principles of opportunity, choice and excellence. We implemented a number of changes to the student number control to help deliver the Government's aims of increased dynamism and student choice. We met the transitional costs of students recruited prior to August 2012, and supported the Government's priorities for educational provision and activity that cannot be covered by student fee income alone, including high-cost subjects at undergraduate and postgraduate level; other strategically important and vulnerable subjects; student outreach, retention and disability; and specialist institutions.

We kept a sharp eye on the impact of the funding reforms on students, the sector and the wider public. While it is premature to draw firm conclusions at this early stage, a number of issues are surfacing, most notably around the marked decline in part-time recruitment. There are also concerns about postgraduate numbers. We will continue to monitor them closely, and to take action where required.

The Government's Industrial Strategy identifies education, research and the information economy as key priorities for economic growth, and the work of universities and colleges underpins key industries and technologies which are vital to the economic success of the country. In 2012-13 HEFCE provided significant funding to support this activity through the UK Research Partnership Investment Fund, additional funding for knowledge exchange, and our Catalyst Fund.

We further developed our student interest role, set out in the Government's 2011 higher education White Paper, and our student interest strategic statement, published in February 2013, outlines the principles which will guide our work in this area.

In September 2012, we re-launched the Unistats website with the Key Information Set, which enables prospective students, their parents and advisers to compare reliable data about higher education courses in the UK. The web-site has received over three million hits so far. We are planning a major review of information about higher education next year as part of our commitment to ensuring that students have access to high-quality and relevant information about their studies.

In consultation with the sector, we developed a more risk-based system of quality assurance which aims to improve transparency and safeguard the interests of students. And we continued to work with our partners on the Regulatory Partnership Group on the development of a new operating framework for higher education within the existing legislative framework.

I am proud of what HEFCE has achieved this year, and I pay tribute to the hard work and dedication of HEFCE staff. I would also like to thank the HEFCE Board for their consistently excellent contributions, and effective governance of HEFCE as amply demonstrated in the annual Board effectiveness review exercise.

Over the coming year, HEFCE will continue to work closely with students, the sector, Government and higher education organisations to maintain and build upon the success of higher education in England. Our shared aim is an internationally respected higher education system which advances knowledge, promotes social and economic growth, and inspires students and the wider community.



**Tim Melville-Ross CBE**  
Chair

Higher Education Funding Council for England  
29 April 2013

# About HEFCE

The Higher Education Funding Council for England (HEFCE) is a public sector body which distributes money to universities and colleges in England. We invest on behalf of students and the public to promote opportunity, choice and excellence in teaching, research and knowledge exchange. We ensure effective financial stewardship of our funding to maintain the confidence of Parliament, students and the public, and we encourage and support the positive contribution that higher education (HE) makes to the economy and society.

HEFCE was established by the Further and Higher Education Act 1992. We are a non-departmental public body (NDPB). We work within a policy framework set by the Secretary of State for Business, Innovation and Skills, but we are independent of Government.

## What we do

- We fund universities and colleges (including further education colleges) for higher education teaching, research, knowledge exchange, and related activities.
- We monitor the financial and managerial health of universities and colleges to ensure that the funds we distribute are properly accounted for and provide value for money.
- We ensure that the quality of teaching in higher education is assessed.
- We support the development of higher education by funding specific initiatives and providing best practice guidance.
- We help Government to manage the level of entrants to higher education.
- We provide the Secretary of State for Business, Innovation and Skills with information and advice on higher education, and in particular
  - on the overall performance and sustainability of the HE sector
  - on applications for designation for university title, eligibility for student support, and eligibility for direct funding.
- We promote and work to protect the interests of students (including past and prospective students) in higher education in England.

During the financial year 2012-13 we distributed £5.75 billion in public money. Most of this was used to support teaching and research in universities and colleges. The remainder funded innovation and knowledge exchange work, projects to improve the efficiency and sustainability of the higher education estate, and key national activities such as Jisc.

# Summary of our achievements in 2012-13

HEFCE's approach to our work is set out in our strategy statement and business plan<sup>1</sup>. Three key principles – of **opportunity**, **choice** and **excellence** in higher education – underpin all our activities:

**Opportunity:** people with the potential to benefit from higher education should have the opportunity to do so, regardless of their income or background. This encourages a higher education offer that is socially and culturally distinctive, and creates a diverse student population that is essential to vibrant intellectual enquiry and a resilient knowledge economy.

**Choice:** HEFCE will support a higher education sector that offers a diverse, flexible range of provision, embracing all academic disciplines and building on the wide range of qualifications currently available through full- or part-time study and accelerated learning. Potential students should have access to the information they need to make informed choices about what, where and how to study.

**Excellence:** higher education in England has an excellent international reputation. We need to maintain and build on this reputation. This means a renewed commitment to high-quality provision that gives the best possible student experience and which helps improve social mobility. We will continue to promote world-leading research through the dual-support system, and to fund high-performance knowledge exchange activity.

Over the past year HEFCE has continued to support the core academic activities of **education**, **research** and **knowledge exchange**. These are the essential elements of a successful higher education system. They contribute to social mobility and a strong economy, and they enrich individual lives. They are interdependent, and HEFCE's remit allows us to ensure that our work in each area is coordinated and complementary.

The ways we support these activities – our practices – include an emphasis on high-quality **information**; a proportionate approach to **regulation**; **investment** for public benefit; and a commitment to working in **partnership** with Government, students, universities and colleges, and other national agencies. Our role in safeguarding the collective interests of students runs through all of our work.

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<sup>1</sup> [www.hefce.ac.uk/about/howweoperate/](http://www.hefce.ac.uk/about/howweoperate/)



# Education

Higher learning has intrinsic value, supporting personal and intellectual development for individuals. When we are inspired to explore and enquire about the world around us, our lives become richer. Those who have developed enquiring minds, as well as specific skills, enter the world of employment more able to innovate, make improvements, and deliver good products and services. Higher education in all its forms – from part-time, work-based learning to full-time doctoral study – is crucial to a knowledge-based economy and to long-term prosperity. Equally vital is ensuring that all those who have the potential to participate in higher education are able to do so and are supported towards successful outcomes.

Our work is guided by the pursuit of opportunity, choice and excellence in higher education. Over the last year, we have made targeted investments in the student and public interest, we have provided clear and relevant information to students, we have supported greater dynamism and choice by allocating student numbers to a wider group of providers, and we have continued to work with our partners to ensure that students have a high quality educational experience. We have also continued to support widening participation and enhance student retention through funding and other measures. Working with the Office for Fair Access (OFFA) we have delivered to Government an interim report on the development of a national strategy for access and student success. In the new higher fees environment we have also been developing our approach towards working with and through partners in support of the collective student interest.

## Student places and high grades policy

The Government continues to require HEFCE to play its part in the close control of student support costs. At the same time, the Government wishes to increase student choice and to support a more diverse higher education sector. We must therefore maintain overall control of student numbers while promoting dynamism in the sector.

The Government asked us to run a second 'core and margin' exercise in 2013-14, to allocate 5,000 student places to those institutions that charge lower fees while meeting thresholds for the quality of their provision and showing evidence of demand. The majority of places were allocated by formula to institutions currently funded by HEFCE, with a smaller number of places allocated through a bidding process. Bids were invited from all publicly funded further education colleges (FECs) that did not already have full-time undergraduate provision funded by HEFCE. Following the bidding process, places were allocated to 20 FECs that will as a result have a student number control allocation from HEFCE from academic year 2013-14. We are supporting these colleges' transition into the HEFCE-funded sector, including through introductory events and support from our institutional teams. In line with guidance from the Department for Business, Innovation and Skills (BIS), we were able to create and allocate the additional 5,000 places without making a corresponding reduction to other institutions' allocations of student numbers.

Students with certain high grades are exempt from the student number control. For the 2013-14 academic year the Government decided to lower the high grade threshold to include students achieving ABB at A-level or certain other qualifications treated as equivalent for the purpose of implementing the policy. Universities and colleges can enrol as many of these students as they

wish. We have established a High Grades Policy Working Group, with membership from a range of both HE and school organisations and representative bodies, to advise HEFCE on the future implementation of the policy.

When implementing these government policies we are providing appropriate protection for specialist institutions that admit students on the basis of audition or portfolio. We have guaranteed a minimum core allocation of student numbers for the most selective institutions, to ensure they continue to be able to offer fair access to those applying with qualifications not covered by the high grades policy. We have also allowed all institutions limited scope to recruit above their student number allocation without incurring a penalty.

## **Focusing HEFCE funding for teaching on priority areas**

Following the new finance arrangements for teaching at undergraduate level in England from 2012-13, we are implementing a revised method of funding for 2013-14 and beyond. This will continue to reflect government priorities, use funding in the public interest and support a smooth transition to the new finance arrangements (the new student fees regime). The new approach ensures that we continue to provide support for widening participation, disability, retention, high-cost subjects, strategic and vulnerable subjects, and flexible provision. We are also maintaining funding for postgraduate study.

We undertook a light-touch review of institution-specific funding in summer 2012, inviting institutions to submit a case for future funding. The outcomes of this review were announced in April 2013.

## **Assuring quality and standards in higher education**

HEFCE works with the Quality Assurance Agency for Higher Education (QAA) to ensure that quality and standards in higher education are rigorously assessed.

In the period covered by this report, QAA reviews of universities and colleges have been expanded to include a new judgement on how institutions manage the quality of their public information.

Over the past year, QAA review processes have identified numerous examples of good practice in universities and colleges as well as areas for development or improvement. In order to support sector-wide enhancement, QAA has now launched a Good Practice Knowledgebase, which allows users to search for such examples of institutional good practice<sup>2</sup>.

We have been working closely with the QAA as it updates the UK Quality Code for HE, which universities and colleges draw on to inform their own respective policies for maintaining academic standards and quality.

### **A more proportionate approach**

In 2012, in consultation with the sector, we developed the key features of a revised approach to quality assurance. This approach will be more risk-based, and aims to improve transparency and reduce unnecessary burden by focusing the efforts of the QAA where they will have most impact. It also aims to ensure that the needs of students continue to be protected and promoted. The QAA is currently developing the operational details of the approach in further consultation with the sector.

Student members of review teams will continue to play a key role in all the QAA's review processes. They bring valuable perspectives to discussions with higher education institutions. Students feel that their participation helps to make their voices heard. They also say that it provides them with a useful insight into the review process, and helps them to understand what their universities and colleges are doing to support them.

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<sup>2</sup> The Good Practice Knowledgebase can be accessed at [www.qaa.ac.uk/ImprovingHigherEducation/GoodPractice/pages/default.aspx](http://www.qaa.ac.uk/ImprovingHigherEducation/GoodPractice/pages/default.aspx)

### **Risk-based quality assurance – key features of the approach**

- Support for a universal system, designed to maintain the reputation of UK higher education.
- Increased transparency – QAA to publish a rolling programme of reviews on its web-site.
- The frequency, nature and intensity of QAA reviews will be tailored to the circumstances of individual providers.
- A fully integrated method – home and collaborative provision to be reviewed together.
- Reduction in unnecessary burden, including an end to mid-cycle reviews.
- Providers with a strong track record will be reviewed less frequently (six years) than other providers (four years).
- Continued application and promotion of the QAA's concerns scheme.
- QAA to take greater account of publicly available data and information in its review methods.
- A continued focus on enhancement and student engagement.

Next steps towards implementation in 2013-14:

- The QAA is due to publish a revised handbook for this more risk-based review method in summer 2013.
- HEFCE will commission an independent evaluation of the revised approach in 2015-16, once it has been in operation for two years.

## **Supporting continuous improvement of teaching**

HEFCE remains committed to ensuring that universities and colleges deliver high-quality education. We do this by supporting continuous improvement in education in all its forms. We are a major funder of the Higher Education Academy and work with it to help ensure it supports disciplines and institutions, including by funding the increasingly praised National Teaching Fellowship Scheme which we initiated several years ago. We also work with the National Union of Students (NUS), QAA and other partners to support enhancements to the student experience. One distinctive feature of current work in this area is funding for enhanced usage of educational technology.

### **Learning technologies**

We continue to invest in programmes that seek to embed a strategic approach to using technology to provide a high-quality learning experience, and which look to adopt a more 'open' approach to education.

'Changing the Learning Landscape' is a partnership between the Leadership Foundation for Higher Education, the Higher Education Academy, Jisc, the NUS and the Association for Learning Technology. The programme aims to make a positive impact on students' learning and prospects, on institutional and systemic practice, and on collaboration and partnership across and between universities and colleges.

Open educational resources (OER) are digital materials that can be re-used for teaching, learning and research, made freely available through open licences. The open educational resources initiative, led jointly by Jisc and the Higher Education Academy on behalf of HEFCE, is now completing its third and final phase. A vast range of materials is now openly available for use worldwide, supporting students in choosing courses, educators in sourcing the best quality materials to use in teaching, and institutions in making a case for the quality and applicability of their provision.

## Enhancing information to support student choice

Students and prospective students need accurate, accessible information in order to make informed choices about what and where to study. Provision of such information is a key priority for Government and the higher education sector. Over the past year we have worked with students, the sector and our partners to extend and improve the availability of information about universities and colleges and their courses. We remain conscious that enhanced advice and guidance needs to be part of this picture.

### The Unistats web-site and the Key Information Set

Working with partners across the UK we launched a new version of the Unistats web-site in September 2012. This contains the Key Information Set (KIS), a standardised set of information about higher education courses in the UK. KIS is designed to enable prospective students and their advisers to compare reliable data about courses. Institutions' web-sites all link to the site. The site has been carefully designed with the needs of its users in mind. Early feedback and usage statistics show that it is popular with prospective students and that people are using it alongside other information sites when thinking about higher education courses.

#### Unistats user statistics since launch (September 2012 to March 2013)

- Total number of times a page on the web-site is viewed: 3,214,068
- Total number of visits to the site: 279,516
- Total number of individuals visiting the site ('unique') Visits: 144,042
- Average number of times a page is viewed per visit: 11.50
- Average duration of visit: 8 minutes 10 seconds
- Most popular search terms: psychology, economics, law, history, medicine and English.

### The information needs of taught postgraduate students

In June 2011 the Government asked HEFCE to consider the information needs of taught postgraduates. We commissioned two independent research studies to investigate these needs, including whether they might be met, at least in part, by a survey in the style of the National Student Survey (NSS).

The research found that prospective postgraduates find it difficult to access information, and would be interested in an information portal where they can have interaction and contact with other students. It also concluded that an NSS-style survey would not meet their needs because it would not provide the course-specific information at the data threshold levels used in the NSS, nor would it provide the desired contextualised information. We are now developing guidance for institutions on how to help meet the information needs of postgraduate taught students as well as developing a 'tool-kit' for prospective students to help them understand and use the information that is available.

## Review of the provision of information about higher education

From next year HEFCE will be working with a range of HE stakeholders across the UK to consider how the various elements which provide information about HE fit together to inform student choice and enhance the quality of provision. Our aim is to establish a sound evidence base and agree principles on which to build, wherever possible, a coherent framework for information about HE across the UK.

## National Student Survey

The latest (2012) NSS headline results revealed that students' overall satisfaction in England increased from 83 per cent in 2011 to 84 per cent (this is the combined rate for higher education institutions (HEIs) and FECs). Overall satisfaction for part-time students studying in English HEIs increased from 88 per cent to 90 per cent.

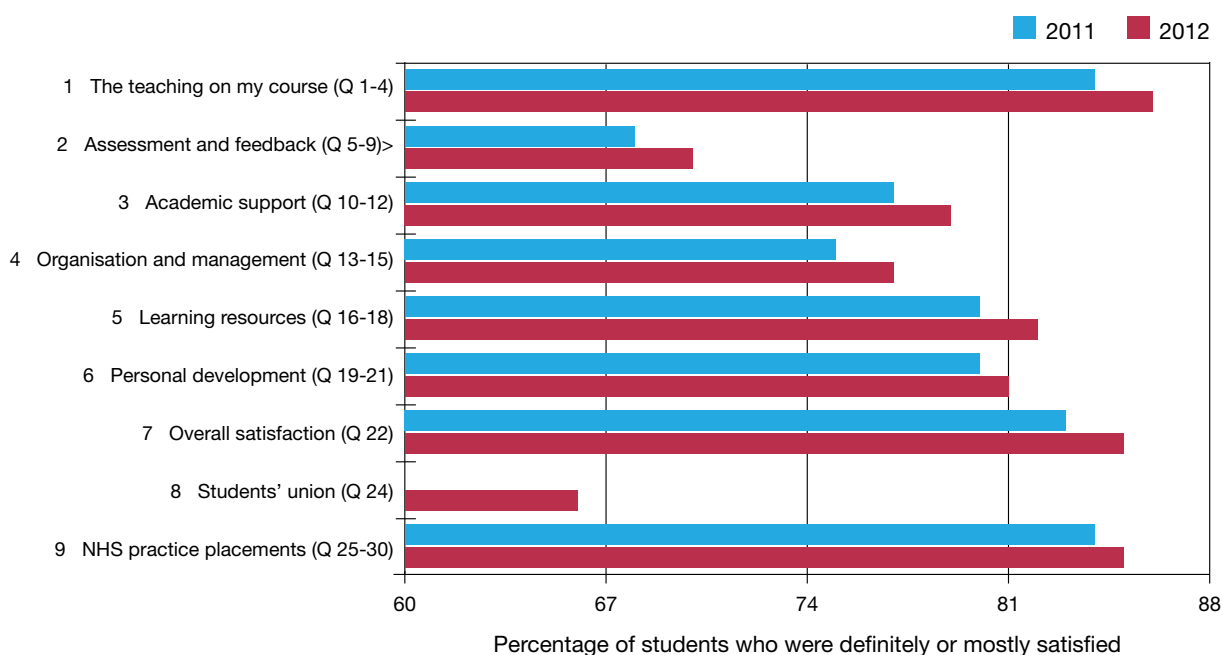
In each of the six main categories of the survey, satisfaction improved since 2011. The areas on which students consistently express the lowest level of satisfaction – within the 'Assessment and feedback' category – have improved, with the overall scale for combined HEIs and FECs in England increasing from 68 per cent in 2011 to 71 per cent.

A new question was added in 2012 on satisfaction with the institution's students' union. This was introduced following research into what information students want to access on the Unistats web-site. Almost two-thirds (65 per cent) of students at English HEIs or FECs were satisfied with their students' union. However, a large proportion of the remaining respondents neither agreed nor disagreed that they were satisfied.

The NSS, conducted by Ipsos MORI, received responses from over 245,000 English final year undergraduates from a sample size of over 366,000, an increase of around 18,000 responses from the 2011 survey. The overall UK response rate was 67 per cent, a record for the survey in its eight years of existence.

## 2012 National Student Survey results for the UK

The percentages show students who were definitely or mostly satisfied in response to the questions in the survey (Note 4).



## National Scholarship Programme

The National Scholarship Programme (NSP) aims to benefit eligible students from households with a residual income of £25,000 or less through the provision of fee waivers, institutional services and cash awards. HEFCE administers the programme on behalf of the Government.

The Government provided £50 million for the programme in 2012-13, the programme's first year of operation. All participating institutions (participation is compulsory for those with an access agreement) contribute an element of match funding, which for most institutions is 1:1 or 50 per cent for those without an access agreement. Each full-time equivalent student that met the national income criteria and satisfied additional institutional criteria received a minimum £3,000 award. Early indications through in-year monitoring show that approximately 35,000 students will benefit from an NSP award in academic year 2012-13.

The Government's contribution rises to £100 million in 2013-14 and £150 million in 2014-15. The programme is subject to formative evaluation in parallel with its operation, and the evaluation has just entered its second year. Following the first year of evaluation, and based on advice from the Ministerial NSP Steering Group, the way the programme will operate in 2014-15 will change. The major change is to a new method for allocating government funding so that it better aligns with the principle that funding should be more focused on institutions that have a higher proportion of students from low income backgrounds. Other changes mean that part-time students may access the full range of NSP benefits and that institutions without an access agreement for 2014-15 will no longer be expected to offer an institutional financial contribution in match funding. The guidance setting out the changes is available at [www.hefce.ac.uk/pubs/year/2013/201302/](http://www.hefce.ac.uk/pubs/year/2013/201302/)

## National strategy for access and student success

In May 2012 HEFCE and OFFA were asked by Ministers to work together to develop a national strategy for access and student success. In response we committed to providing an evidence-based account of how widening participation practice has evolved to respond to the needs of learners, and how it delivers optimal interventions in terms of time, place, stage, duration and effectiveness. Our aim is to develop a strategy which will ensure that those with the ability to benefit from higher education will have equal opportunity to participate and succeed regardless of gender, age, disability, ethnicity or background through:

- maximising government and institutional investment
- minimising any unintended overlap of funding
- Identifying any gaps where more effort should be focused.

HEFCE and OFFA submitted an interim report to Ministers in January 2013. The report reviews some of the evidence currently available of what works to widen participation; gives an early assessment of how investment in widening participation has delivered change; and suggests what more can be done to maximise the impact of investment in widening participation in HE in the future.

The interim report stated that progress made in widening participation needs to be taken in context. There have been significant changes across all parts of the education sector that may impact on widening participation into the future. These include the reforms within HE itself, for example student number controls, higher tuition fees (albeit with a progressive loan and repayment system) and a much more diverse and competitive sector as well as those in other education sectors such as Level 3 qualification reform and changes to provision of information, advice and guidance. The strategy will need to take account of all these factors and more.



The final strategy will be delivered to Ministers in autumn 2013 and will address the identified strategic priorities. Development of the national strategy is under way and will draw on in-house and commissioned research; roundtable discussions and consultation with experts and stakeholders; and measures taken to align and integrate key HEFCE and OFFA processes.

The exchange of letters between HEFCE, OFFA and Ministers regarding the development of the national strategy is on the HEFCE web-site at [www.hefce.ac.uk/news/newsarchive/2012/name,76065,en.html](http://www.hefce.ac.uk/news/newsarchive/2012/name,76065,en.html)

## Collective student interest

Following the Government's Higher Education White Paper in 2011, which set out a role for HEFCE as 'the student champion', we initiated a process of development and consultation which culminated in the publication of our student interest strategic statement in February 2013. The statement sets out how we will act in the student interest and the principles which will guide and underpin our work.

HEFCE has always been committed to working in the best interests of students, and the strategic statement identifies areas in which we have already been actively protecting and promoting the student interest. Since August 2010 the NUS president has been an observer at the HEFCE Board, and more recently we have approved revised terms of reference for each of our strategic committees to include representatives of the student body as members (our Teaching Quality and Student Experience Committee, and the Widening Participation and Student Opportunity Committee have benefitted from having NUS officers as members for many years). We are seeking to reflect students' interests in a more comprehensive way within all of our policy development. A first step has been to include the student interest in our policy impact assessment process, and we are seeking ways to engage with students more effectively during the policy development process. The strategic statement also sets out areas in which we expect to become more active, as well as areas in which we expect to work with and through others. We are developing closer relations with the NUS and other bodies that represent students, and our work to ensure that the student voice and the perspectives of students are heard within HEFCE will become increasingly important.

For more on our strategic statement on the collective student interest, see the HEFCE web-site at [www.hefce.ac.uk/about/howweoperate/si/](http://www.hefce.ac.uk/about/howweoperate/si/)

# Research

The UK is a world leader in terms of quantity and quality of published research outputs. 2012 saw HEFCE sustain its investment in research within HEIs across a broad range of fields, while targeting our funding more selectively on the very highest quality research. We will maintain these levels of investment in 2013-14. In February 2013, we announced research funding allocations for the 2013-14 academic year of £1,558 million in total. This is the same cash level of funding that we have allocated for the past two years, and HEFCE continues to be the single biggest funder of HEI research in England. The largest element of our research funding, at just over £1 billion, will be allocated by reference to research activity assessed as being of either internationally excellent or world leading in quality, the latter funded at three times the rate of the former. We have allocated £198 million to incentivise institutions to undertake research funded by charitable sources, and a further £64 million to encourage institutions to undertake research commissioned by business. We will also continue to support research degrees in 2013-14 by allocating £240 million to support the costs of supervising postgraduate research students.

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## Research Excellence Framework

Following publication of the final assessment criteria in January 2012, further activity has been undertaken to prepare for submissions to the 2014 Research Excellence Framework (REF).

As part of HEFCE's commitment to supporting and promoting equality and diversity in research careers, all institutions submitting to the REF are required to develop, document and apply a code of practice on the fair and transparent selection of staff for their REF submissions. All codes of practice were submitted in 2012. They were reviewed by the REF Equality and Diversity Advisory Panel (EDAP) which identified the need for a number of them to be revised. Following these revisions, all codes have now been approved by HEFCE and the other UK funding bodies.

The online system via which institutions will make their submissions to the REF, was launched in January 2013 following a pilot phase in late 2012. It was agreed with publishers that outputs published online would be made freely available to REF panels for the purposes of the assessment.

Institutions completed a survey of submission intentions in late 2012, and this information will be used by the REF team to help plan the assessment phase of the exercise. The survey indicated that UK institutions plan to submit the research outputs of an increased number (3.6 per cent) of academic staff for assessment compared with the previous cycle of assessment which ended in 2008. The survey also provided an insight into the diversity of the positive impacts arising from HE research that are being documented and submitted as part of the assessment process.

During 2013 further preparations will be made for the assessment phase of the exercise. Additional assessors, including users of research, will be appointed to all the REF panels. Arrangements will be put in place to collect all submitted research outputs that are not published electronically, and IT systems will be developed to support panel members.



## UK Research Reserve

In July 2008 HEFCE awarded £9.8 million from the Strategic Development Fund (SDF) for a five-year UK Research Reserve (UKRR) programme, following a two-year pilot exercise. UKRR is a shared national initiative to:

- secure the long-term retention, storage and availability of low-use printed research journals
- provide a collaborative strategy for more efficient use of resources across the sector
- enhance access to information resources for the researcher.

The project is led by Imperial College London and the British Library.

To date, UKRR has processed 66 km of material in terms of shelf space in HE libraries, and delivered the Integrated Request Management and Delivery System (IRMDS). This system is a significant modernisation on and improvement of the British Library's remote document supply service.

In December 2012, a 12-month extension was granted to the UKRR programme, funded by the project's underspend. The extension should enable the programme team to achieve its target of releasing 100 km of shelf space through de-duplication of rarely used journals, saving the HE sector up to £29 million in capital spend. It will also enable the programme team to further develop a sustainable model for systematic and coordinated collection management after the end of the funding period.

## Open access

HEFCE supports the principle that the dissemination of research findings and outputs is an essential and integral part of any high-quality research process. It is our policy that all research arising from HEFCE funding should be as widely and freely accessible as the available channels for dissemination permit. Following publication of the Finch report<sup>3</sup> last summer, and the Government's endorsement of its recommendations, we published a statement<sup>4</sup> on our intentions for implementing our policy on open access and for a sector-wide consultation. We have worked with our research funding partners when developing our consultation proposals, and we issued an informal letter in February seeking advice on the implementation of our open access requirement in the next REF. A formal consultation on specific proposals is due to be published later in 2013.

## Research integrity

We are committed to ensuring that UK research maintains the highest standards. In 2012, together with Universities UK, Research Councils UK, the Wellcome Trust and government departments, we published a statement on standards and integrity in UK research<sup>5</sup>. This concordat on research integrity sets out five commitments that assure Government, the wider public and the international community that the highest standards of rigour and integrity will continue to underpin research in the UK. We recently consulted on implementing the

<sup>3</sup> Report of the Working Group on Expanding Access to Published Research Findings – the Finch Group Research Information Network. [www.researchinfonet.org/international/](http://www.researchinfonet.org/international/)

<sup>4</sup> [www.hefce.ac.uk/news/newsarchive/2012/statementonimplementingopenaccess/](http://www.hefce.ac.uk/news/newsarchive/2012/statementonimplementingopenaccess/)

<sup>5</sup> 'Concordat to Support the Career Development of Researchers' [www.vitae.ac.uk/policy-practice/505181/Concordat-to-Support-the-Career-Development-of-Researchers.html](http://www.vitae.ac.uk/policy-practice/505181/Concordat-to-Support-the-Career-Development-of-Researchers.html)

concordat<sup>6</sup>. The consultation invited comments on whether compliance should become a mandatory requirement for institutions, and how this might best be implemented. Responses are due to be considered by the Board in April 2013. Decisions of the Board will then inform any necessary changes to HEFCE's Financial Memorandum. We anticipate that such changes will take effect from academic year 2013-14.

## Research careers

As part of our work to support research careers, we seek to promote equality and diversity among research staff. In 2011 we began to fund the Every Researcher Counts project, through which a suite of materials was developed by Vitae to ensure that, in relation to research staff, equality and diversity issues are understood, visible and prioritised in higher education institutions. We will continue to fund Vitae – the national organisation for championing the personal, professional and career development of researchers – through its transition to become a self-sustaining organisation to support research staff.

## Senior Clinical Lectureship Awards

2012 saw the third and final round of the Senior Clinical Lectureship Awards for Nurses, Midwives, Allied Health Professionals and Healthcare Scientists, a scheme funded by HEFCE and local NHS trusts to support the careers of health professionals. The awards represent the pinnacle of the Clinical Academic Training Programme, which supports individuals committed to developing a career combining research and clinical practice. Six awards were offered by HEFCE in the third and final round, each valued at £250,000 to cover 50 per cent of the award-holder's salary for a period of five years.

The award-holders are due to commence their awards by 31 July 2013. This will take the total number of such awards funded by HEFCE to 12 over the three-year period.

### UK Research Partnership Investment Fund

High-quality research and knowledge exchange are essential to keep the UK at the forefront of the global knowledge economy. In 2012, the Government allocated a total of £300 million in additional funding through the UK Research Partnership Investment Fund (UKRPIF). The fund supports major infrastructure projects in universities and colleges undertaking world-leading research. By stimulating university-business collaboration in key industries, it strengthens the contribution of higher education to economic growth. The fund, which is administered by HEFCE, will announce its second round of allocations after the HEFCE Board in April 2013. Successful bidders thus far include:

- The University of Surrey, with industry partners Vodafone, Telefonica, Huawei, AIRCOM International, Fujitsu, Samsung, Sony and Rohde-Schwarz, will build an international centre for future generation mobile broadband internet and communications research. The creation of the 5G Centre will provide a real-time experimental facility for testing and optimising advanced technologies. It will underpin the development of new mobile broadband internet products and services, with inputs to standardisation and radio regulatory bodies, in the emerging 5G arena.
- The University of Birmingham and Rolls Royce will establish a world-leading interdisciplinary research centre for casting research for components such as turbine blades. The centre will also become a new source of highly trained and developed engineers, from apprenticeships to postdoctoral fellows, for the future.

<sup>6</sup> [www.hefce.ac.uk/pubs/year/2012/201232/](http://www.hefce.ac.uk/pubs/year/2012/201232/)

# Knowledge exchange

Knowledge exchange is the range of interactions between HE and business, the public and third sectors and wider society, by which knowledge, expertise and assets are put to use to achieve economic and social impact: for example, through the commercialisation of new knowledge; the delivery of professional training, consultancy and services; the support of entrepreneurship; and activities intended to have social benefits.

HEFCE announced funding of £150 million per annum over the period 2011-12 to 2014-15 for universities and colleges to help with economic recovery and growth, and to contribute to wider society. In an increasingly knowledge-based world our universities and colleges support our economy and society with their research, ideas and expertise.

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THIRD PARTY RIGHTS OR  
OTHER LEGAL ISSUES

## Funding for knowledge exchange

HEFCE's funding for knowledge exchange through Higher Education Innovation Funding (HEIF) provides incentives and support for universities and colleges to work with business and community partners. A comprehensive evaluation<sup>7</sup> in 2009 of the achievements from knowledge exchange funding found that, on average, an investment of £1 in knowledge exchange activities by HEFCE produced a return of £5. Evidence published in April 2012 suggests that the return is as high as £6, and more than double that for high-performing HEIs<sup>8</sup>. In recognition of the impact of this funding, the Government has continued the previous cash level of investment in knowledge exchange of £150 million per year, committing funds for four years (to 2015).

Knowledge exchange funding is allocated by a formula using earned income as a proxy for impact and for the institution's performance in terms of delivering benefit for the economy and society. In the most recent period of funding (2011-2015), HEFCE responded to the Government's wish to reward high performance by focusing the formula entirely on income and introducing a cut-off point to allocations, so that only universities and colleges that exceed a threshold through their metrics can receive funding. We assess HEIs' progress in delivering their strategies via annual monitoring statements, and their progress in delivering against higher levels of performance via annual data returns on knowledge exchange to the Higher Education Statistics Agency (HESA) in the Higher Education – Business and Community Interaction (HE-BCI) Survey. In the mostly recently published data, the HE-BCI Survey for 2010-11, total knowledge exchange income to HEIs in England increased by 5 per cent over the previous year. Income from large businesses, in particular, increased over the previous year, in spite of the economic downturn.

Recognising the importance of the contribution of universities to economic growth, the Government provided an additional £6 million for the highest-performing HEIs in knowledge exchange in 2012-13 to create further impact. We are committed to continuing this support (see the later text box on the HEFCE approach to economic growth).

<sup>7</sup> 'Evaluation of the effectiveness and role of HEFCE/OSI third stream funding', HEFCE 2009/15.

<sup>8</sup> Strengthening the Contribution of English Higher Education Institutions to the Innovation System: Knowledge Exchange and HEIF Funding, published by PACEC at [www.pacec.co.uk/index.php/higher-education](http://www.pacec.co.uk/index.php/higher-education)

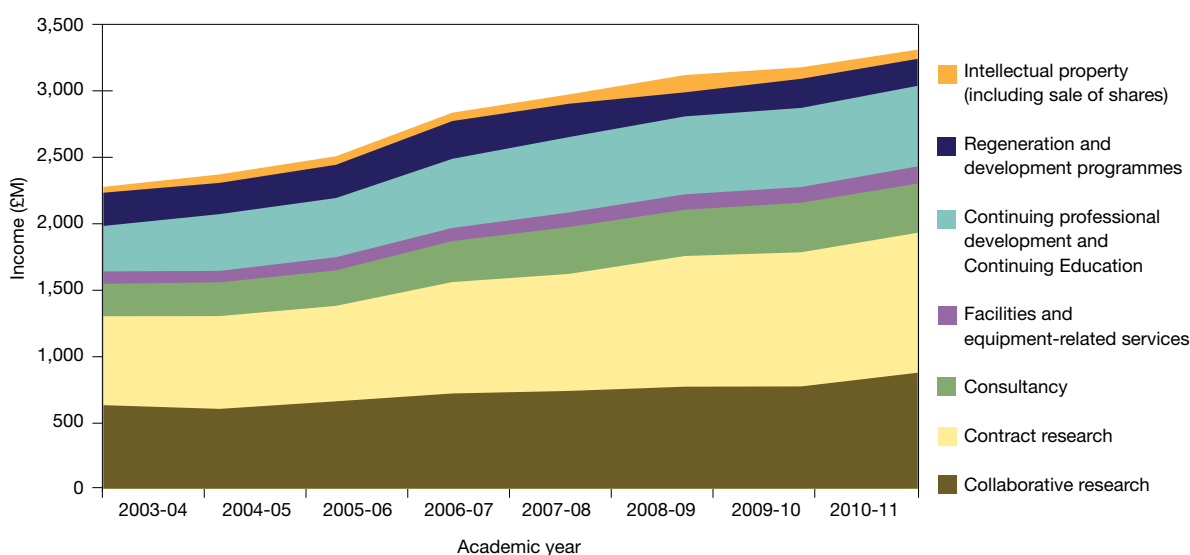
## Embedding knowledge exchange in institutions' missions

Knowledge exchange in the HE sector has matured to a point where it is embedded in most institutions' missions. It is up to individual institutions to determine the most effective ways to interact with their chosen partners in business or wider society, and these partners may be locally, regionally, nationally or globally based (and are often drawn from across all four groups).

Support for staff and student entrepreneurship is an important facet of knowledge exchange activity, including development of social enterprises. In recognition of the importance of social entrepreneurship to delivering the full potential of HE for the benefit of the economy and society, we are investing £2 million in a further programme to embed social entrepreneurship support within HEIs (see box below).

Knowledge exchange activity provides an important source of income for institutions, as illustrated by the graph.

### Selected HE-BCI income streams 2003-04 to 2010-11 (real terms)<sup>9</sup>



## National Centre for Universities and Business

In February 2012, Sir Tim Wilson published a review of business-university collaboration in England. The review highlighted a significant improvement in the level and quality of such collaboration during the last decade, achieved through Government long-term support including HEFCE funding. The Government subsequently responded to the review in June, in which it endorsed that significant progress has been made, and that HE is a significant economic asset. Its response noted, for example, that the World Economic Forum's latest Global Competitiveness rankings puts the UK at number two in the world for university-business collaboration in research and development.

<sup>9</sup> The annual HE-BCI survey examines the exchange of knowledge between universities and the wider world, and informs the strategic direction of knowledge exchange activity that funding bodies and higher education institutions in the UK undertake. Data for academic year 2011-12 will be made available later in 2013.

One major development emerging from the review is the new National Centre for Universities and Businesses (NCUB), which is being taken forward by the Council for Industry and Higher Education with the support of HEFCE and the Government. The establishment of NCUB is being overseen by a high-level strategic steering group of vice-chancellors and senior business executives. The aim is that NCUB will operate UK-wide, supported by a partnership of funders and university and business leaders, and will focus on illuminating good practice in HE-business collaboration and improving the evidence base for policy and practice.

### **HEFCE/UnLtd Social Entrepreneurship Awards Scheme**

With UnLtd, we are working with 56 HEIs to establish an effective system for the development and growth of social entrepreneurship and social venture activity within the HE sector. The Social Entrepreneurship Awards Scheme aims to ensure that students and staff in HEIs who wish to start up and scale up social ventures will be adequately supported by their HEIs, and as a result bring about positive social change in their communities. The programme is building the capacity for social enterprise support across the sector through:

- a learning and knowledge network
- giving prospective social entrepreneurs in HEIs skills and confidence to develop their social ventures
- providing access to pro bono support from business and the professions.

The programme builds on the success of a £1 million pilot programme, which supported over 200 prospective social ventures in the HE sector. One of these, Festaxi, provides on-site taxi services at festivals using golf buggies with eco-friendly engines. The taxi service is free for anyone with a mobility problem and provides emergency transport service for people injured at the events. Other users pay for their journey, and this generates sufficient income to cover all costs involved. Another project, GiveMeTap, was founded by a student at Manchester University: this has become the UK's first water refill network where cafes and restaurants can attract customers by offering people free tap water. GiveMeTap uses the profits from selling reusable bottles (which themselves are more environmentally friendly than plastic water bottles) to fund sustainable water, sanitation and irrigation projects in Africa.

# Activities which span our priorities

## Strategically important and vulnerable subjects

Our new policy (adopted in 2012) on strategically important and vulnerable subjects (SIVS) gives us greater flexibility to respond to risks faced by particular subjects. As well as continuing funding for high-cost subjects such as science and engineering, for specialist institutions, and for postgraduate taught programmes, we are addressing a number of subject risks through specific, tailored interventions. In the face of concerns about the health of modern foreign languages (MFL) provision for example, we are continuing to fund demand-raising activity until 2015-16, and we will allocate a tuition-fee supplement for students on study or work years abroad from 2014-15. We have joined with the Nuffield Foundation and the Economic and Social Research Council in a £15 million investment to address issues around skills in quantitative social sciences. As part of a rolling programme of monitoring subject health, we have begun to publish comprehensive data sets on subject supply and demand, and these will be updated annually.

## Postgraduate study

As part of the wider changes to HE funding and regulation, the Government asked us to review participation at postgraduate level. Postgraduate policy is now a cross-cutting theme extending across HEFCE's policy interests. We are maintaining our postgraduate funding levels, and have initiated projects to provide evidence to inform both our own policy and future funding, and Government and universities on their plans. These include research into the use of the Transparent Approach to Costing (TRAC) to identify postgraduate taught costs and a study of the information needs of taught postgraduates, which will result in guidance for students and institutions. We are analysing data to investigate how and when graduates transition to postgraduate study, and how to identify and address fair access issues for postgraduates. We are undertaking a pilot survey of final year undergraduates, linked to the 2013 NSS, to investigate intentions after graduation, including attitudes to postgraduate study. We will publish an annual update on our web-site on this work. We will seek opportunities to engage with the HE sector further on this issue as our work progresses.

## Supporting economic growth

HEFCE recognises the importance of economic growth and recovery to the country, and fully supports higher education's contribution to this agenda. HEFCE's core roles of providing recurrent funding, undertaking regulation and providing information are the main ways it supports universities and colleges to help with the Government's growth plan and developing industrial strategy. HEFCE also provides investment in such activity via its Catalyst Fund. In November 2012 we issued a call for proposals to the fund that focus on economic growth, and expect to invest in at least £50 million of new projects that address key priorities of universities as local economic anchors, support innovation-led growth in key industrial sectors, and stimulate entrepreneurship and promote employability. We are also investing for growth through the UK Research Partnership Investment Fund and by providing higher allocations of knowledge exchange funds to high performers.

# Information

## Redesigning the data and information landscape

HEFCE took part in a project to review and re-design the arrangements for the collection, sharing and dissemination of data and information about the HE system, which was initiated by the Regulatory Partnership Group and led by HESA. The purpose was to develop arrangements to ensure the collection of accurate data in a timely manner, which can then be used for a variety of purposes. An HE Data and Information Improvement Programme is proposed to ensure that new arrangements are kept under review and updated as necessary.

## Developing evidence of the impact of the reforms

In March 2013, we published 'Higher education in England – impact of the 2012 reforms'. This report provides an overview of higher education in England, considering the effects of the recent changes to higher education funding and regulation on students and HE providers. It is the first of an annual series of reports which we hope will stimulate thought, discussion and positive action to further enhance higher education in England.

The report concluded that it is not yet possible to determine the full impact of the reforms, but that a number of important issues have emerged, including a dramatic decline in the number of entrants to part-time courses over the past two years.

# Regulation

## Developing a new operating framework

We are designing an operating framework that describes the arrangements for funding and regulating the English HE sector, and how they are changing in response to the Government's White Paper proposals. The framework will set out the roles of the HE regulatory bodies and how those bodies work with HE providers of all types to ensure best use of public investment in HE. This work is being carried out at the request of the Regulatory Partnership Group.

The instruments and agreements that define the formal relationships between the regulatory bodies, and between the regulatory bodies and providers, will be appended to the framework including the successor to HEFCE's Financial Memorandum. The framework will define the accountability requirements for HE providers in order to protect the student and the public interest. These will include meeting the requirements of QAA, OFFA, HESA and the Office of the Independent Adjudicator. It is intended that the operating framework will be published by 1 August 2013.

## Course designation

As part of the Government's wish to make the HE sector more diverse and responsive to students, we have provided factual advice to BIS on providers of HE that are not funded by HEFCE but that wish to have their courses designated so that students attending them become eligible for student support funds. Our advice has focused on the financial sustainability, management and governance of such alternative providers of HE, based on the limited information available to BIS. We have also provided advice to BIS on the development of a new course designation process in which HEFCE will play a key advisory and administrative role.



## University title

Over the last year, we have provided advice to BIS on HEFCE-funded providers of HE that wish to apply for university title, and helped BIS to develop its application process for this purpose. Providers were previously required to have at least 4,000 students enrolled to be eligible for university title, but in 2012 the Government reduced this requirement to 1,000 students. We have also provided advice to BIS on applications from non-HEFCE-funded providers that wish to include 'university' as part of a company name.

## Charity regulation

2012-13 was our second full year as principal regulator<sup>10</sup> of the 110 HEIs that are exempt charities. The work involves monitoring their compliance with the additional reporting obligations introduced in 2010, on an annual basis. This is largely carried out as part of the annual accountability cycle. Institutions are required to report to us any serious incidents (including those that involve loss of charitable assets, harm to beneficiaries or the reputation of the institution itself). In 2012-13, as in the previous year, most reported incidents involved financial fraud. We worked closely with the Charity Commission throughout the year. In his review of charity law published in June 2012, Lord Hodgson commended HEFCE's initiative in providing public access to information about HEIs as charities via our web-site:

[www.hefce.ac.uk/whatwedo/reg/charityreg/highereducationinstitutionsascharities/](http://www.hefce.ac.uk/whatwedo/reg/charityreg/highereducationinstitutionsascharities/)

# Investment

## Catalyst Fund

We launched the Catalyst Fund in August 2012. The fund focuses on innovative projects with potential for wider benefit which address key HEFCE and government priorities, including managing transition to the new student fees regime. It has an annual budget of £45 million per annum. Early funded projects include £4.9 million for the development of a Centre of Excellence for Veterinary Research and Education at the University of Surrey, which it is hoped will train veterinary leaders of the future.

HEFCE issued a call for proposals focusing on economic growth in November 2012, and made £50 million available from the fund to support these activities.

## Revolving Green Fund

Since 2009 successive rounds of the Revolving Green Fund have helped to reduce greenhouse gas emissions by providing recoverable grants for small-scale energy efficiency projects and supporting larger exemplar renewables and retrofits. A further £20 million is being made available for the third round of the fund, and a bidding process was launched in November.

## Voluntary giving

In September we published the report 'Review of Philanthropy in UK Higher Education'<sup>11</sup>. This highlighted the progress made over the past decade in attracting philanthropic giving to universities and colleges, and set out the challenge to be addressed if the recent rate of progress is to be sustained. The Board strongly endorsed its findings, and we are actively working with others to implement the report's recommendations.

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<sup>10</sup> As principal regulator HEFCE has the duty to do all it reasonably can to promote compliance with the law by the trustees of all English HEIs that are exempt charities, when managing the administration of their respective HEIs.

<sup>11</sup> [www.hefce.ac.uk/pubs/rereports/philanthropyreview](http://www.hefce.ac.uk/pubs/rereports/philanthropyreview)



## Investing for the future

We have invested in a third phase of work, led by the Employers Pension Forum, to assess the higher education sector's needs in relation to pension provision. The aim is to ensure the long-term sustainability of pensions in HE and to provide HEIs with a range of options for the pensions they offer.

A review of the information requirements of stakeholders and scheme members has been undertaken, web pages have been established and a communications forum set up. Further work has been undertaken on self-administered trusts (SATs) and on the options for more flexibility and choice in the current public sector pension arrangements in the sector (mainly with reference to TPS and LGPS). This work will contribute to a reappraisal of the sector's pension strategy to be completed during 2013.

## Partnership

### Relationships with universities and colleges

With such significant change within the HE system, and complexity in the management and operation of funding and student numbers within HEIs, the work of our institutional teams becomes ever more important. These three teams engage directly with institutions to understand their particular needs and circumstances, and to reconcile these with the broader context of the HE system and policies.

Aside from regular engagement on HE policy issues, our institutional teams have throughout the year paid particular attention to understanding how student recruitment has been affected by the new fee system. The teams gave support and advice to over 60 further education colleges receiving HEFCE student numbers for the first time under the core and margin policy.

When London Metropolitan University's licence to recruit overseas students was revoked in August 2012, we worked to mitigate the effects on current and prospective students: this culminated in the setting up of a taskforce that instigated a support fund for affected students.

### Regulatory Partnership Group

In September 2011, together with colleagues in the Student Loans Company, we invited sector organisations with oversight responsibilities to begin to meet regularly to discuss the strategic and operational issues arising from the introduction of the new arrangements for student funding in England. The group meets four times a year, and observers represent students and providers of higher education. The group is overseeing, as far as possible within their statutory roles, the implementation of the Government's vision that was outlined in the 2011 White Paper, 'Students at the Heart of the System', and the development of the new operating framework discussed in the Regulation section. The operating framework will set out how (and how far within existing legislation) HEFCE and its partners can protect students' interests, make good use of public investment and protect the HE sector's reputation. The way data and information about the HE system is collected, shared and disseminated is being reviewed and redesigned to function within the new operating framework, and current data collection systems will be streamlined. As part of its work the Regulatory Partnership Group has taken the opportunity to examine the impact within the higher education system of changing corporate forms and structures.

## Partnerships for leadership and governance development

We have continued to work in partnership with the Committee of University Chairs on developing governance so that governing bodies can provide strategic direction and monitoring for universities and colleges. We also work with and through the Leadership Foundation for Higher Education, which facilitates the Governor Development Programme.

## Partnerships for shared services and efficiency

When universities and colleges share services, these activities often attract Value Added Tax (VAT), and the payment of this tax can have the effect of eliminating the savings to be made by sharing the services. To address this problem the Government has implemented a cost-sharing exemption under EU legislation, and we are preparing guidance for the sector on how to take advantage of this change by establishing cost sharing groups.

In 2010 £20 million from our University Modernisation Fund was allocated to supporting universities and colleges in delivering efficiencies through shared services and collaborative procurement. During the first year of the funding, savings of £15 million were achieved. We anticipate that in the second year further savings will ensure that the £20 million invested sees a positive return which will continue into future years.

We are in the early stages of developing a programme of work to support the sector in building on the recommendations of Professor Sir Ian Diamond's review of efficiency and effectiveness in HE. During 2011-12 nine projects were selected to follow up on these recommendations with support from the Innovation and Transformation Fund, which we jointly fund with the Leadership Foundation for Higher Education. The projects cover areas such as procurement, benchmarking, and shared services in support functions.

## Reshaping JISC

JISC was originally formed as an advisory committee to the UK higher education funding bodies to provide leadership in the innovative use of information and communications technology (ICT) to support education, research and institutional effectiveness. More recently, it was funded by all of the UK further and higher education funding bodies (including BIS and the Research Councils). As the major funding contributor, HEFCE treated JISC as a special form of related body. Over many years JISC developed a significant degree of autonomy with its own governance structure and provided an important shared service for the sector, not least in procuring the highly regarded JANET network for further and higher education institutions.

A 2010 HEFCE-led review chaired by Sir Alan Wilson ('Review of the Joint Information Systems Committee: Report to HEFCE by the JISC Review Group') recognised JISC as an invaluable national resource, and recommended rationalisation of the breadth and complexity of JISC's activities, including in its structure, processes and governance arrangements. The implementation of recommendations was complex, affecting a wide range of areas. As part of this, on 1 December 2012 JISC became Jisc, a registered charity and company limited by guarantee, which made the organisation a separate legal entity. Following this change, HEFCE will treat Jisc as a normal related body, which will provide assurance to our stakeholders of our commitment to supporting Jisc in its provision of ICT-related services to the education and research communities across the UK.

# Delivering the plan

All that we have achieved in the last year has been thanks to the expertise, talent and motivation of our staff. To be effective we need to be responsive to, and trusted by, our stakeholders. To attain this we rely on everyone in the organisation to be proactive, and committed to high performance and continuous improvement. We aspire to empower and appreciate each other and operate to the principles of fairness and integrity at all times.

Our People Strategy<sup>12</sup> affirms our commitment to high performance and continuous improvement. It helps us to ensure that our people are supported to do their jobs to the best of their ability.

Over 70 per cent of staff completed our annual staff survey, run by Best Companies. As a result of those responses, we were placed 83th in the Sunday Times 100 Best Not-for-profit Companies (which includes public sector organisations), and maintained our Best Companies accreditation for staff satisfaction. We scored positively across all eight areas of the survey, but overall our results show that staff satisfaction has reduced slightly since the last survey. Although small, this is the fourth successive year of decline. We showed particularly strong results for the 'leadership' and 'giving something back' categories, reflecting our continued high level of commitment to social responsibility. Our biggest decline and lowest scoring category is 'fair deal', reflecting staff dissatisfaction with pay and benefits.

We believe that a diverse and inclusive organisational culture – one in which everyone feels valued and can learn or work to their full potential – makes for a more effective and productive workforce. This applies both within HEFCE and in the higher education sector. It also contributes to a better functioning society.

## Staffing and sickness

On the census date of 31 March 2013, HEFCE employed 240 full-time equivalent staff (269 headcount).

We continue to monitor sickness absence as a useful indicator of staff wellbeing. Our sickness absence remains relatively low. In 2012-13 we lost 1,457 working days to sickness, an average of 5.4 days per person. This is a slight increase from 5.2 days per person in 2011-12. The level compares favourably to an average of 9.1 days for government public service bodies and 7.1 days for private sector services<sup>13</sup>. 35 per cent of absence (512 days) was due to long-term sickness<sup>14</sup>, accounting for 11 individuals.

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<sup>12</sup> [www.hefce.ac.uk/about/staff/peopledevelopments/](http://www.hefce.ac.uk/about/staff/peopledevelopments/)

<sup>13</sup> Source 'Absence management: annual survey report', Chartered Institute of Personnel and Development, 2011.

<sup>14</sup> Defined as more than a month off work at any one time.

## Equality and diversity

HEFCE's Equality and Diversity Scheme (HEFCE 2012/03) sets out how equality and diversity are promoted through HEFCE's three key roles: as a funder and regulator; as a protector of students' interests; and as an employer.

During the year every institution wishing to participate in the Research Excellence Framework submitted a Code of Practice to an Equality and Diversity Advisory Panel to ensure the necessary standards of transparency and fairness were achieved.

We provided funding for projects promoting equality through the Leadership, Governance and Management Fund, such as promoting positive gender outcomes in higher education through active workload management. We also provide funding for, and work in partnership with, the Equality Challenge Unit (which works to advance equality and diversity across the HE sector) and relevant sector agencies. The Athena SWAN Charter, which recognises commitment to advancing women's careers in higher education in science, technology, engineering, maths and medicine (STEMM) and is managed by the Equality Challenge Unit, saw an increase in the number of award-holding institutions from 87 in 2011 to 124 in 2012, and its 85th member institution was welcomed to the charter. Research has been commissioned to evaluate the effectiveness and impact of the charter, and pilot projects have begun to explore an extension of the Athena SWAN charter methodology beyond STEMM subjects and gender equality to non-STEMM subjects and race equality.

We have also worked with the Higher Education Academy and the ECU on a black and minority ethnic (BME) degree attainment summit programme, which conducted research with staff and students. Work in this area continues, and will be incorporated into the national strategy for access and student success, alongside consideration of access and success for students from all equality-protected groups.

# Corporate social responsibility

We are committed to acting in a socially responsible way, and encourage our stakeholders to do likewise. Corporate social responsibility (CSR) means that we take account of the impact of our work on the economy, society and the environment.

In terms of the environment, we continue to be certified to ISO 14001, an international environmental management system standard. We also hold the Carbon Trust Standard, which certifies that an organisation has reduced its carbon emissions and is committed to making further reductions. In 2012 we received a West of England Carbon Challenge Award for reducing our carbon emissions by 17 per cent between 2010 and 2011. In 2013 we have commissioned an environmental assessment for the fit-out of our new London office from the Royal Institution of Chartered Surveyors. And HEFCE is participating in the NUS Green Impact scheme, which will enable our staff to develop their knowledge of CSR with the support of students from the University of the West of England.

In terms of our commitments to society, we published a new equality scheme in January 2012: as with the previous scheme it sets out HEFCE's approach to both its own staff and its role in relation to universities and colleges. The 2012 scheme extends its scope to the nine characteristics now covered by equality legislation. Also we support efforts of staff to undertake volunteering activities, such as by offering flexible working hours.

Our 2011-2015 CSR policy, published in August 2012, sets out our overall aims, objectives and targets covering operations at our offices, as well as the influence we have on the higher education sector. Annual CSR reports describe activities and our progress against a range of targets, including performance data for energy, travel, waste and water.

Our annual CSR reports, policy and action plan can be found at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About HEFCE/How we operate/Corporate social responsibility.

# Our strategic risks

In December 2011, our Board agreed a new register of HEFCE's key strategic risks. This register of risks is structured to reflect the themes of our business plan for 2011-2015 (HEFCE 2011/34). These are the main risks we face, that, if they came to pass, would have the greatest material effect on the functioning of HEFCE and/or the higher education system as a whole.

By considering such risks we can assess the continuing viability of our strategy and business plan against changes in circumstance, and make adjustments when necessary. This does not mean we expect the risks to materialise – instead it indicates that these are areas of risk which we need to be aware of and to consider how to respond to in order to perform our role effectively.

Risk no.	Risk area	Main risk
1.	Student support	The cost of student support and/or tuition fee loans prompts Government to make reductions to direct public funding for higher education.
2.	Collective student interest	The higher education system does not meet the interests of students.
3.	Public interest	Public investment in the higher education system does not benefit the public to the degree that might reasonably be expected.
4.	Reputation of higher education	There is a decline in the overall reputation of English higher education nationally and internationally.
5.	Investment	Private and/or public investment in higher education is insufficient to sustain a diverse and high quality sector that can meet the needs of the economy, students and the policy aims of Government.
6.	Institutional sustainability	Disorderly institutional failure exceeds our capacity to protect the interests of students and the public.
7.	Regulatory partnership	Failures of coordination between the higher education regulatory bodies result in failures within the system and a loss in the confidence of Government, students and the wider public.
8.	Economic and social impact	Higher education does not adequately contribute to economic and social prosperity.
9.	Transition	The complexity of the higher education reforms, the number and heterogeneity of the actors who have to respond to them, and/or an exacting timetable result in disorderly transition.
10.	Policy and processes	HEFCE fails to develop, implement and monitor key policies and processes effectively and efficiently to achieve the intended outcomes.

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11.	Regulation	HEFCE's regulatory activity is not transparent, accountable, proportionate, consistent, targeted and/or effective.
12.	HEFCE reputation	HEFCE's reputation is damaged as a result of action, inaction or a lack of understanding, for example in fulfilling its responsibilities to promote the student interest.
13.	People	HEFCE does not have the necessary human resources or skills to carry out its role.

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## Key performance targets

As the financial year 2012-13 was a year of substantial change for HEFCE and for higher education, it was agreed that the requirement to report on key performance targets would be paused, and instead HEFCE's performance would be assessed by measuring progress against activities specified in the White Paper and grant letters. A new set of key performance targets for HEFCE has now been developed, and will come into effect in financial year 2013-14.

# Sustainability report

## Sustainability report for 2012-13

We have gathered data on our environmental performance annually for the past 11 years; 2012-13 data will be published in detail in our 2012-13 Corporate Social Responsibility report. Our governance processes for management of sustainability performance follow the guidance provided by HM Treasury: 'Public Sector Annual Reports: Sustainability Reporting Guidance for 2012-13 Reporting'.

In addition to the proposed minimum reporting requirements (Scope 1 and 2) of carbon emissions, waste and finite resource consumption, we report on Scope 3 emissions arising from all business travel that is under our budgetary control. Our reporting policy follows the spirit of the Prince's 'Connected Reporting Framework', whose principle is that environmental sustainability and more conventional financial information should be presented together in a clear and concise manner.

This is the fourth year in which we have reported on environmental sustainability in our annual report. In this section we include data only on non-financial CSR indicators. The data are provisional: we are currently awaiting end-of-year data from a number of suppliers which we will use to reconcile against our own records and meter readings. The results of this reconciliation exercise will inform the detailed analysis of 2012-13 data to be published in our next CSR report.

Our analysis of data follows Defra reporting guidelines, which are set out in 'Greening Government commitments: operations and procurement' (updated Defra, July 2011). During 2011-12 we revised the targets we set in our 2011-2015 CSR policy. We may revise them again before 2015 if we exceed expectations.

A CSR steering group oversees all aspects of our sustainability management and reporting, and it reviews the quality of data and data processes every three years. The most recent review took place during 2012-13. The results of the review indicated that HEFCE collects a comprehensive set of data, with appropriate targets and suitable reporting processes. The review noted improvements in data accuracy since the previous review, as well as mature and established data collection systems leading to the vast majority of the data being accurate and robust. A number of its recommendations regarding improvement in clarity and minor inaccuracies have been implemented in analysis of the latest data, and we will implement the rest of the recommendations in next year's report.

## Greenhouse gas emissions

Our target is to reduce our greenhouse gas emissions from energy use on our estate and through business transport by 25 per cent by 2015-16 against a baseline level in 2009-10. In the same period we plan to reduce our emissions from domestic air travel by 20 per cent.

In implementing the recommendations of the triennial review of our CSR data and processes mentioned above we have recalculated our greenhouse gas emissions for earlier years. We have restated below our energy and business travel emissions data for 2010-11 and 2011-12 now that we have all of the information for these years.

Total emissions in 2012-13 increased by 7 per cent by comparison with the previous year. Within this overall increase, emissions from energy use increased by 10 per cent while emissions from business travel remained at the 2011-12 level. We have undertaken analysis to

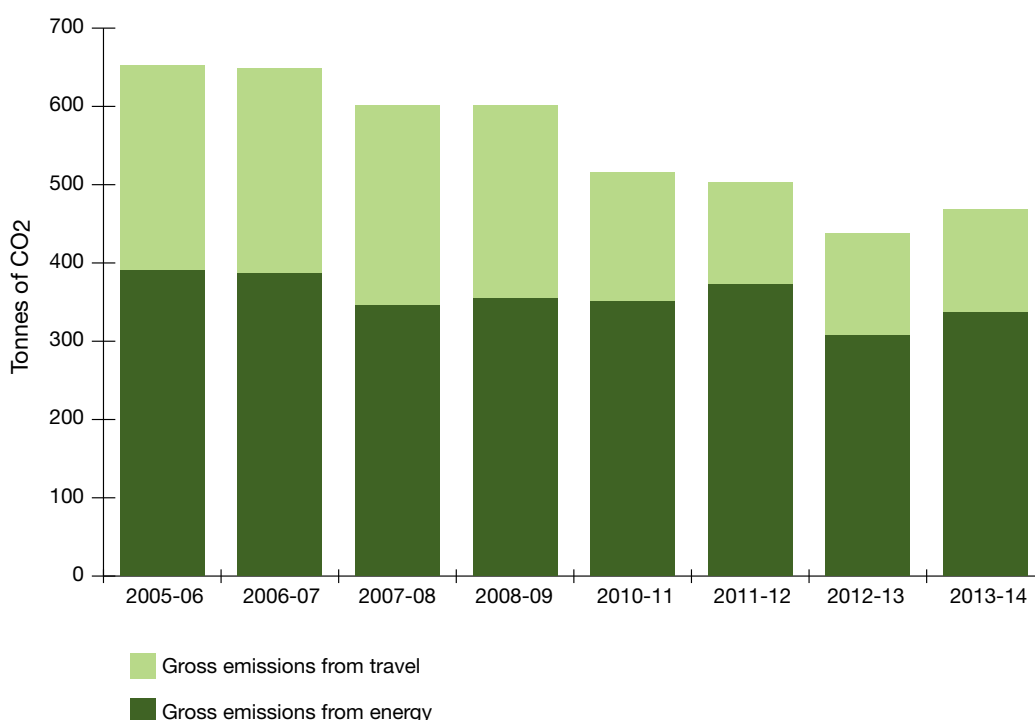


adjust our energy consumption in 2012-13 to account for variations in demand for heating energy according to how cold the weather was. The analysis indicates that the increase in our emissions from energy use can largely be attributed to non-typical weather conditions and lower-than-average outside air temperatures generating an increased requirement for heating. This includes additional energy generated from electric-powered sources required to heat areas of our building that are not heated by gas central heating. Prior to 2012-13, total emissions have decreased progressively in the time we have been reporting them, and for these reasons we believe we remain in a good position to meet our target.

Carbon emissions from business travel on domestic flights were 6.6 tonnes in the baseline year, 6.1 tonnes in 2010-11, 7.2 tonnes in 2011-12 and 7.8 tonnes in 2012-13. Air travel activity overall increased significantly in 2011-12 largely due to travel incurred as part of the Research Excellence Framework, and remains at a similar level in 2012-13 for the same reason.

<b>Tonnes of CO<sub>2</sub></b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Total gross emissions* for scopes 1 and 2	390	387	346	355	351	373	307	337
Gross emissions attributable to Scope 3, business travel	263	262	256	246	165	130	131	131
<b>Total emissions</b>	<b>653</b>	<b>649</b>	<b>602</b>	<b>601</b>	<b>516</b>	<b>503</b>	<b>438</b>	<b>468</b>

\* We do not take into account net emissions for use of renewable tariffs and carbon offsets.



## Waste

Our target is to reduce the total quantity of waste material we generate on our estate by 25 per cent by 2015-16 against a baseline level in 2009-10. However, it should be noted that our 2009-10 baseline data are likely to be lower than the actual quantities of waste material generated. Analysis of waste materials which were recycled at source in 2009-10 necessarily relies on a number of assumptions regarding the weights of these materials. Many of these assumptions became redundant in 2010-11 and later data on account of improvements in the detail of the information supplied to us by our recycling providers. As such we believe that there has been a marked improvement in the robustness and accuracy of the most recent three years of data relating to waste material.

Landfill waste remains higher than that reported for the baseline year, but total waste arising in 2012-13 was lower than in all other previous years, except 2009-10 and 2011-12. With the exception of 2010-11, we have increased the mass of waste materials which we have recycled at source over the duration of reporting. In 2012-13 we recycled 79.80 per cent of waste materials at source.

Tonnes	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total waste	58.26	50.07	57.48	53.95	33.10	48.74	37.79	41.04
Waste to landfill*	38.26	32.59	40.23	23.43	5.90	6.68	8.21	8.29
Waste recycled at source	19.99	17.49	17.25	30.51	27.20	42.06	29.58	32.75
<b>Percentage of total waste recycled at source</b>	<b>34.31</b>	<b>34.93</b>	<b>30.01</b>	<b>56.55</b>	<b>82.18</b>	<b>86.29</b>	<b>78.27</b>	<b>79.80</b>

\* Assumes the provider recycles none.



## Finite resource consumption

This report on water and energy consumption combines available data for our main Bristol office and our London office, which was until April 2013 located in Centre Point. We gather accurate data on gas and electricity consumption for both sites, but the minor contribution made by water and heating oil consumption at Centre Point is based on data estimates supplied by the landlord.

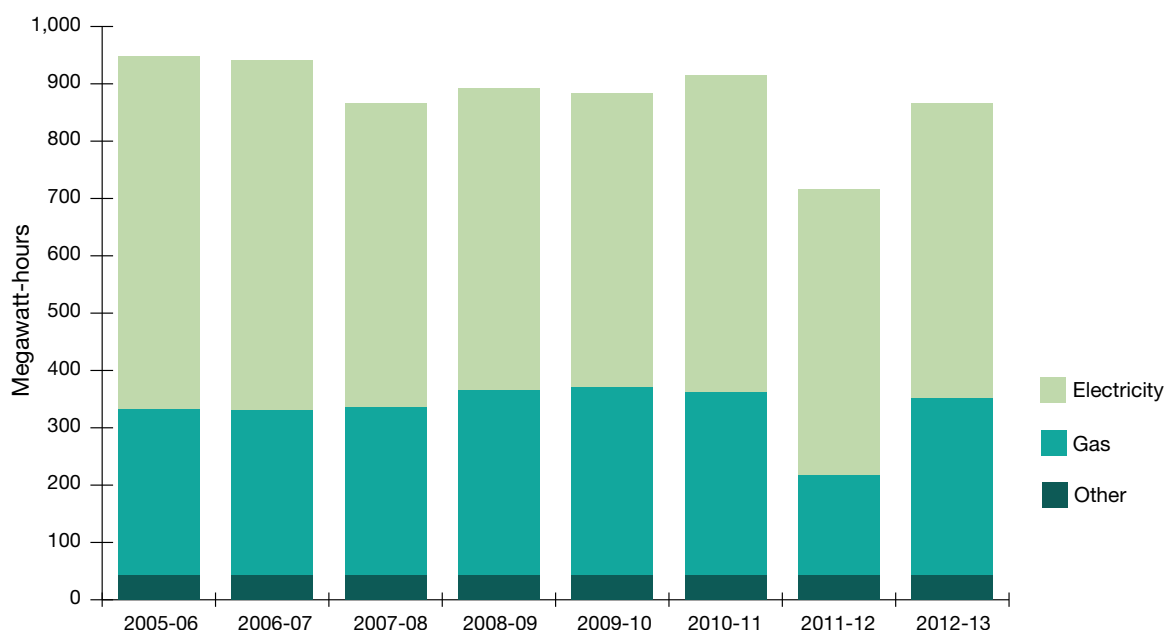
We have adopted a new five-year target to reduce water consumption compared to the baseline year of 2009-10. Consumption is reported per full-time equivalent (FTE) staff. The latest figures show that this target has been achieved and that our water consumption per staff FTE in 2012-13 was lower than at any other point in the last 11 years.

There was an increase in carbon emissions from energy use by comparison with 2011-12, resulting from increased levels of consumption of electricity and, in particular, gas in our offices. As stated earlier, we attribute much of this increase to lower-than-average outside air temperatures generating a requirement for heating energy, and note that both energy consumption and emissions remain below the baseline levels in 2009-10.

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Cubic meters</b>								
Water*	14.74	6.53	5.99	5.40	6.92	6.94	7.06	5.11
<b>Megawatt-hours</b>								
Electricity	616	612	531	527	513	553	500	513
Gas	289	287	292	322	328	318	174	309
Other**	43	43	43	43	43	43	43	43
<b>Total energy</b>	<b>949</b>	<b>941</b>	<b>866</b>	<b>891</b>	<b>884</b>	<b>913</b>	<b>717</b>	<b>865</b>

\* Consumption per staff FTE.

\*\* Estimated consumption of heating oil at our London office.



## Gross expenditure attributable to energy consumption

Under HM Treasury guidance on Sustainability Reporting in the Public Sector, from 2011-12 we have been required to report on gross expenditure attributable to energy consumption through utilities and official business travel. There is no expenditure under the Carbon Reduction Commitment (CRC) Energy Efficient Scheme, because our annual energy use falls below the compliance threshold for the scheme. The cost of gas in 2011-12 and 2012-13 takes into account HM Revenue and Customs climate change levy and the increase in the gas unit charge. Our gross expenditure attributable to waste disposal has been quantified and reported on in 2012-13 for the first time.

	2010-11	£000 2011-12	2012-13
<b>Utilities</b>			
Electricity	58	57	60
Gas	10	9	14
Water	4	5	5
	<b>72</b>	<b>71</b>	<b>79</b>
<b>Business travel</b>			
Car	20	16	18
Taxis	38	34	31
Rail	319	343	351
Air	22	18	29
	<b>399</b>	<b>411</b>	<b>429</b>
<b>Waste disposal</b>			
Waste sent to landfill			3
Waste recycled			9
			<b>13</b>

## Accounting policies for non-financial data

Our policy is to restate data for earlier years where there have been significant changes in accounting assumptions in primary data or conversion factors. In 2011-12 there have been three restatements.

Total greenhouse gas emissions (GHGE) are calculated following guidance published by Defra, using current conversion factors for the reporting year and conversion factors applicable in the baseline year where different. Grid rolling averages are used to calculate GHGE from electricity consumption data. There is no agreed level of data materiality. The CSR steering group aims to increase data accuracy and reduce assumptions every year. All our data assumptions are declared.

In 2011-12 we applied assumptions to our energy, waste and business travel primary data leading to estimated accounting error margins of less than 10 per cent. These margins arise from cost proxy estimates on 73 per cent of our business travel emissions, sample estimates on our landfill and recycled paper waste disposal, and estimates of water and heating oil consumption at our London office.

# HEFCE's structure

## HEFCE Board

HEFCE's Board is responsible for the strategic direction of the organisation. Board members are appointed by the Secretary of State for Business, Innovation and Skills, normally for periods of two or three years. Board members bring a variety of knowledge and experience from a range of backgrounds, including higher education and industry. With the exception of the Chief Executive, Board members are non-executive.

In 2012-13, membership of the Board was:

### Chair

Tim Melville-Ross CBE

### Chief Executive (and Accounting Officer)

Sir Alan Langlands

### Members

Professor Madeleine Atkins CBE, Vice-Chancellor, Coventry University

Rob Douglas, Business Advisor, Douglas Associates Ltd

Professor Anne Greenough, Head of the School of Medicine, King's College London

Professor Ruth Farwell, Vice-Chancellor, Buckinghamshire New University

Professor Malcolm Grant, President and Provost, University College London

René Olivieri, Chair, former Chief Executive, Blackwell Publishing

Professor Shirley Pearce, Vice-Chancellor, Loughborough University

Mark Robson, Head of Monetary and Financial Statistics, Bank of England

Hugh Ross, Director, Hehir-Ross Partnership

Anil Ruia, Director, Wrengate Ltd; Chair, University of Manchester

Dr Suzy Walton, Deputy Chairman of the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA), the University of Westminster and the Internet Watch Foundation

Sara Weller, Non Executive Director (Lloyds Bank, United Utilities)

John Widdowson CBE, Principal, New College, Durham

Board members who retired during 2012-13:

Alastair Balls, Chairman, Centre for Life

HEFCE Board meetings are attended by an Assessor from BIS, and Observers from the Scottish Funding Council; the National Union of Students; the Department for Employment and Learning, Northern Ireland; the Higher Education Funding Council for Wales; and the Training and Development Agency for Schools.

There is information on each Board member and their interests at

[www.hefce.ac.uk/about/staff/board/](http://www.hefce.ac.uk/about/staff/board/)

## HEFCE committees

A number of standing and advisory committees and working groups advise the chief executive and the Board on specific issues. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work. Current membership of these committees is on our web-site at [www.hefce.ac.uk/about/staff/committees/](http://www.hefce.ac.uk/about/staff/committees/)

## HEFCE Executive

The HEFCE Executive is responsible for HEFCE's management and operation.

It is made up of the Chief Executive, the three Directors, three Associate Directors, and the Head of Organisational Development. The Head of Finance, the Head of Assurance, the Head of Corporate Communications, and the Head of Analytical Services also attend Executive meetings to discuss specific issues as relevant.

Further information on the HEFCE Executive and staff is available at [www.hefce.ac.uk/about/staff/](http://www.hefce.ac.uk/about/staff/)

## Further information

### HEFCE strategy statement and business plan

HEFCE's strategy statement gives a high-level overview of our objectives. Our business plan provides more detail on our objectives and activities. Further information can be found at: [www.hefce.ac.uk/about/howweoperate/](http://www.hefce.ac.uk/about/howweoperate/)

### Students and potential students

HEFCE distributes money to English universities and colleges. We do not fund individual students. Information on sources of financial support for students and potential students is on our web-site: [www.hefce.ac.uk/faq/informationforstudents/](http://www.hefce.ac.uk/faq/informationforstudents/)

### Frequently asked questions

Answers to frequently asked questions can be found at: [www.hefce.ac.uk/FAQ/](http://www.hefce.ac.uk/FAQ/)

# Accounts

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## Financial results for 2012-13

### Funding and expenditure in year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £5,769 million of grant and grant in aid from BIS (2011-12: £6,814 million). Grant in aid is treated as financing and taken directly to reserves. HEFCE's total income, received from other bodies for their contribution towards various initiatives for 2012-13 was £2 million (2011-12: £4 million).

The overall reduction in HEFCE resource primarily relates to the reduction in recurrent teaching funding which reflects the anticipated increase in graduate contributions. Government reforms of higher education financing mean that in future much more income for institutions is expected to come through students' tuition fees and much less through HEFCE block grants. The cost of tuition fees is to be met (for most undergraduates) through the availability of loans, which will generally be repayable after the student has finished their studies. The reductions to HEFCE grant contribute to meeting the cost to government of providing these loans.

Total expenditure in year was £5,782 million (2011-12: £6,847 million). Of this £21 million (2011-12: £21 million) relates to the administration costs we incur in managing and distributing grant funding to the sector. £5,753 million (2011-12: £6,817 million) relates to grants payable to institutions and others, paid under our strategic aims as follows:

We aim to provide as much of our funding as is possible through the core/block grant for teaching and research, as the most efficient means of distributing funding to the sector. This is in line with our financial strategy, which presents us with a framework for securing sufficient resources to deliver our strategic objectives, applying those funds to deliver those objectives, and ensuring that we deliver outcomes that represent value for money. All of this is to be achieved within an environment of sound internal controls and management of key risks.

In addition to the core/block grant, special funding and earmarked capital is provided for specific purposes and to promote change that cannot easily be achieved through other routes. We have taken steps to ensure that most of our earmarked capital is allocated by formula, and to rationalise the number of special funding programmes wherever possible and where this does not impact on outcomes in the sector. For 2012-13, the total allocated as special funding has decreased year-on-year and we now distribute less than 3 per cent of total grant in this way.

### Savings and efficiency

HEFCE is actively engaged in helping secure efficiencies over the next spending review period, through its own work and through contributing to the overall strategy of the Corporate Services Portfolio.



In working with BIS towards this agenda we are actively migrating to centrally-sourced contracts wherever possible (for example, moving our travel and hotel provider to one recommended by the Government Procurement Service).

In terms of our 'internal' efficiencies HEFCE has identified savings and efficiencies which are built into our budget going forward and which will result in real cashable savings (including for example savings and cost-avoidance from moving our London base to shared government estate, ICT savings from pan-government contracts). Such efficiency programmes will continue over coming years, and will encompass on-going pay restraint as advised by BIS; tighter cost controls; reduced investment in property; commissioning fewer policy development reports; best use of estate through co-location with OFFA (in Bristol) and the Student Loans Company (in London); and reductions in the administrative costs relating to specific aspects of our procurement, shared services and access and widening participation activity.

The Spending Review set challenging efficiency targets for all departments and public sector bodies over the four year period from 2011, and we expect to make further contributions in the coming financial years to the Department's overall real terms reductions in administrative budgets by 2014-15. We believe that continued emphasis on the actions we have in hand already to manage our costs should be sufficient to operate within our administration cost budgets.

### **Balances at year end**

At 31 March 2013 HEFCE's Statement of Financial Position shows net liabilities of £113 million (*2012: £95 million*). This reflects the inclusion of liabilities falling due in future years (mainly HEFCE's provision for Inherited Staff Liabilities as disclosed at note 12) which will be met from BIS' future sponsorship and which does not affect HEFCE's 'going concern' status.

In resource terms we aim to distribute all funding received from BIS in year. Our Financial Memorandum (FM) with BIS recognises that it may not always be possible to match receipts and payments exactly within year, and allows a cash carry-forward of up to 2 per cent of total grant in aid received. At 31 March 2013 our cash balance was £31 million (*£33 million in 2012*). The change in cash balance reflects a movement in working capital.

### **Payment of creditors**

We are fully committed to the prompt payment of suppliers and aim to pay all valid invoices as soon as possible. We support the Better Payment Practice Code (available at [www.payontime.co.uk/companies](http://www.payontime.co.uk/companies)) which targets payment within 30 days, and monitor our performance in-year against this target. In 2012-13 we met this target for 99 per cent of invoices (*2011-12: 98 per cent*).

We also monitor our performance against a 10 day payment measure and aim to sustain or move as closely as possible to this measure wherever possible. HEFCE's performance against this new prompt payment measure is currently 91 per cent (compared with 92 per cent in 2012). During 2012-13 we will look to improve performance, with the aim of moving towards a five day payment measure, currently 78 per cent (*2011-12: 82 per cent*), balancing this against the impact on our resources and the need to maintain effective internal controls.

At year end our trade payables balance (that is to say, the amount owing to our suppliers) was £0.7 million (*2012: £0.8 million*). Comparing this balance with the aggregate amount invoiced by suppliers in year (£30 million) and expressing this as a number of days gives an indication of the average time we take to pay our bills: for the year ended 31 March 2013 our figure for 'creditor days' was 8.5 days (*2012: 10.8 days*).

## Preparation of the annual report and accounts

Our annual report and accounts are prepared in accordance with a direction given by the Secretary of State with the approval of the Treasury, in pursuance of paragraph 16(1) of Schedule 1 of the Further and Higher Education Act 1992.

The annual report and accounts were scrutinised by the Audit Committee on 25 April 2013 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2012-13. The Audit Committee is a standing committee of the HEFCE Board. It advises the Board and the Chief Executive as the Accounting Officer. The Committee's chair, is appointed by the Board and the members who have no executive responsibility for management of HEFCE or its funding activities, go through an internal appointment process and are appointed via the Appointments Committee, which are then ratified by the Board. Membership during the year was as follows:

### **Chair (from 1 January 2013)**

**Hugh Ross\*** Director of the Hehir-Ross Partnership

### **Chair (to 31 December 2012)**

**Rob Douglas, CBE\*** Business Advisor, Douglas Associates Limited

### **Members**

**Professor Madeleine Atkins\*, CBE** Vice Chancellor, University of Coventry

**Stephen Dexter** (to 30 April 2012) Former Partner, Grant Thornton UK LLP

**John Harley** (from 1 July 2012) Deputy Chair, University of Brighton

**Margaret Pratt** Freelance Consultant

**Clifford Shanbury** (from 1 July 2012) Former Audit Partner, Grant Thornton

**Dr Ruth Thompson** (from 1 July 2012) Governor, Birkbeck College, University of London and Staffordshire University

**Frank Toop** University Secretary, City University

**Dr Suzy Walton\*** (from 1 December 2012) Deputy Chair of the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA), the University of Westminster and the Internet Watch Foundation

**Alison Woodhams** (to 31 July 2012) Director of Finance, University College London

\* Audit Committee members who are also HEFCE Board members

The purpose of the Committee is to advise and support the Board and the Accounting Officer by giving them independent assurance as to the effectiveness of the Council's internal control, corporate governance and risk management. In particular, the Committee will recommend the audited accounts to the Board, and give a formal opinion on the adequacy of internal control. Consistent with HEFCE's responsibilities in the HE sector, this remit extends to assurance to the Board about internal control, corporate governance and risk management by institutions and related bodies receiving funding from HEFCE ('funded institutions').

The duties of the Audit Committee are to:

1. Consider the adequacy of corporate governance, risk management and internal control within HEFCE and in HEIs through reviewing:

- The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
  - The planned activity of internal and external audit designed to (inter alia) assess the systems operated by HEFCE and HEIs to achieve effective corporate governance, risk management and internal control.
  - The annual results of internal and external audit activity, in HEFCE and in the HE sector.
  - The adequacy of HEFCE management and institutional responses to issues identified by audit activity.
  - Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector.
2. On the basis of the above consideration, advise the HEFCE Board and the Accounting Officer on:
- The effectiveness of risk management in HEFCE and in the HE sector.
  - The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
  - The scope and effectiveness of the work carried out by HEFCE's Assurance Service. This will include planning, operation and follow-up work, and the Assurance Service annual report.
  - The criteria for the selection and appointment of HEFCE's internal audit service, including assessing the adequacy of the resources available for the work required.
  - Any reports from the National Audit Office and the BIS Audit Service, including the response to any management letters.
  - The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
  - The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

The full terms of reference for the Audit Committee can be found on our web-site under About HEFCE/Our staff and structure.

### **External audit information**

So far as the Accounting Officer is aware, there is no relevant audit information of which HEFCE's external auditor is unaware. The Accounting Officer has taken all the steps he ought to have taken to make himself aware of any relevant audit information and to establish that HEFCE's external auditor is aware of that information.

### **Audit of the accounts**

The Comptroller and Auditor General is the appointed statutory auditor of HEFCE's account. The audit fee for the financial year 2012-13 is £59,000. There was no other work for which a fee was payable.

### **Going concern**

The statement of financial position at 31 March 2013 shows net liabilities of £112 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grants-in-aid from HEFCE's sponsoring department, BIS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need. Recurrent and capital resources for 2012-13, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in the department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the department's future sponsoring and future parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on the 'going-concern' basis.

*Sir Alan Langlands  
Chief Executive and Accounting Officer  
Higher Education Funding Council for England  
29 April 2013*

# Remuneration report

Part one (unaudited)

## Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2012-13 were:

**Tim Melville-Ross CBE**, HEFCE Chair and Chair of the Remuneration Committee

**Shirley Pearce** (from December 2012) HEFCE Board member

**Sara Weller** HEFCE Board member

**Alastair Balls CB** (to November 2012) HEFCE Board member

The Chief Executive normally attends meetings.

The terms of reference for the Remuneration Committee are to:

- make recommendations to the Board on the terms and conditions of employment of the Chief Executive
- support the Chair in monitoring the performance of the Chief Executive and in assessing his entitlement to performance-related pay
- agree the terms and conditions of employment of other directors
- carry out an annual review of the remuneration of directors
- review the aims of pay remits, which seek authority from the BIS for the nature and scale of pay awards to Council staff, delegating the details to the Chief Executive.

These terms of reference were reviewed in May 2011.

## Remuneration arrangements

The Chief Executive's salary and non-consolidated performance pay are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Committee.

The aim is to enable us to recruit, retain and motivate a highly talented and experienced person who is capable of fulfilling the role. Normally, salary reviews take account of market pay data and the Government's decisions on the recommendations of the Senior Salaries Review Body. However, in 2012-13 Chief Executives of NDPBs were subject to a pay freeze. The level of non-consolidated performance pay (up to a maximum of 10 per cent of basic salary) relates to achievement of the Chief Executive's agreed objectives and is paid in the following financial year. In 2011-12, Sir Alan Langlands requested that no non-consolidated performance pay was paid to him. Non-consolidated performance pay for all staff was limited to 4 per cent of the total pay bill.

Working within the context of the annual Treasury pay guidance and pay remit process, the pay system for the Deputy Chief Executive, and Directors aims to enable us to recruit, retain, and motivate highly talented people to lead on specific areas in HEFCE's strategic plan, and to work together with the Chief Executive to lead the organisation.

Normally, the Committee reviews the basic salary for each post holder, taking account of advice from the Chief Executive based on:

- job size, as measured by HEFCE's job evaluation system
- market pay, and pay movement data gathered from comprehensive reviews covering the wider economy, the HE sector, the public sector, and the senior civil service
- performance, taking account of delivery of objectives, feedback from third parties, 360-degree feedback, and a self-assessment by the individual
- affordability, based on the Treasury pay guidance and approved remit and acceptability to HEFCE and our stakeholders.

However, in 2012-13 these post holders (and all staff at HEFCE earning more than £58,201) were also subject to a pay freeze.

The assessment of individual and collective performance for the purpose of determining non-consolidated performance pay for 2012-13 took account of delivery of objectives, feedback from third parties, 360-degree feedback, and a self assessment by the individual.

### **Contracts**

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Business, Innovation and Skills. Sir Alan Langlands was appointed for a five year term which began in April 2009 and his contract stipulates a 12-month notice period. Contracts for directors are open-ended and their notice period is six months.

Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination.

It was announced on 25 March 2013 that Sir Alan Langlands will be taking up the post of Vice-Chancellor at University of Leeds with effect from 1 October 2013.

### **Membership of the Board**

The Board consists of 12 to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, our Board members are appointed by the Secretary of State usually for a period of three years. They are appointed on the basis of their expertise in education, or their experience in industry or the professions. Candidates are identified by the Department, in consultation with us, mainly from responses to advertisements placed by the BIS in the national and educational press. Members can be reappointed subject to appraisal by the Chair.

The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State.

Part two (audited)

### **HEFCE Chair**

Remuneration of the Chair is decided by the Department for Business, Innovation and Skills. The HEFCE Chair receives a salary but does not participate in the Council's pension scheme. The position is for two days per week.

The total salary for **Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2013, was £47,350 (2011-12: £47,350).

It was announced at HEFCE's annual conference on 18 April 2013, that Tim Melville-Ross' contract as Chair has been extended until 31 December 2016

### HEFCE Chief Executive

The Chief Executive's salary and non-consolidated performance bonus are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Remuneration Committee as described above.

The total emoluments including taxable benefits for **Sir Alan Langlands**, HEFCE Chief Executive are shown in the following table.

<b>Chief Executive's remuneration</b>			
		<b>Year ended 31 March 2013</b>	Year ended 31 March 2012
		£	£
Salary paid in year	a	<b>230,000</b>	230,000
Taxable benefits	b	<b>8,386</b>	3,478
Employer's pension contributions	c	<b>5,813</b>	36,800
		<b>240,577</b>	<b>270,278</b>

a Sir Alan Langlands has requested that no non-consolidated performance pay was paid to him since 2009-10.

Non-consolidated performance pay for 2012-13 is not determined until after year-end and is not included here.

b Taxable benefits in kind paid in 2012-13 relate to occasional provision of overnight accommodation in Bristol, travel to HEFCE's Bristol office (assessed for tax purposes as the permanent workplace). The increase in cost relates to a new travel allowance paid in 2012-13. The value is calculated at year end.

c Sir Alan Langlands is a member of the Universities Superannuation Scheme. Reduction in pension contributions reflects cessation of payments to USS, replaced by contributions to life assurance/death in service benefit.

### Board members' remuneration

		<b>Year ended 31 March 2013</b>		Year ended 31 March 2012	
		£		£	
Professor Madeleine Atkins		<b>5,000</b>	#	5,000	*
Alastair Balls CB (to November 2012)		<b>3,333</b>	#	5,000	#
Rob Douglas CBE		<b>5,000</b>		5,000	
Professor Ruth Farwell		<b>5,000</b>		5,000	
Professor Malcolm Grant CBE		<b>5,000</b>	#	5,000	*
Professor Anne Greenough		<b>5,000</b>	#	2,917	*
Dame Patricia Hodgson (to September 2011)		-		2,500	
René Olivieri		<b>5,000</b>	#	5,000	#
Professor Shirley Pearce		<b>5,000</b>		5,000	*
Mark Robson (from July 2012)		<b>3,750</b>		-	
Hugh Ross		<b>5,000</b>		2,500	*
Anil Ruia OBE		<b>5,000</b>		5,000	



Ed Smith (to May 2011)	-		833
Dr Suzy Walton (from December 2012)	1,666		-
Sara Weller	5,000		3,750 *
Professor Paul Wellings (to November 2011)	-		3,333
John Widdowson CBE	5,000	#	5,000 *
Professor Sir Tim Wilson (to July 2011)	-		1,666
	<b>63,749</b>		<b>62,500</b>

All Board members are eligible to receive an annual honorarium of £5,000. The honorarium is not pensionable. During 2011-12 some members were paid directly by their place of employment, with subsequent reimbursement by HEFCE and thus incurred VAT where appropriate. These members are indicated by \* in the table above. From 2012-13 onwards all members are paid their honorarium direct to them via payroll, except those members who have elected to have their honorarium paid direct to a registered charity. These members are indicated by # in the above table.

<b>Senior employees' salaries and non-consolidated performance pay</b>						
	<b>Year ended 31 March 2013</b>			<b>Year ended 31 March 2012</b>		
	<b>Salary</b>	<b>Non-cons</b>	<b>Total</b>	<b>Salary</b>	<b>Non-cons</b>	<b>Total</b>
<b>Sir Alan Langlands,</b> Chief Executive	230-235	-	230-235	230-235	-	230-235
<b>Steve Egan,</b> Deputy Chief Executive and Director – Finance and Corporate Resources	120-125	10-15	135-140	120-125	10-15	135-140
<b>Heather Fry,</b> Director – Education, Participation and Students	100-105	5-10	110-115	100-105	5-10	110-115
<b>David Sweeney,</b> Director – Research, Innovation and Skills	110-115	5-10	120-125	110-115	5-10	120-125
<b>Band of Highest Paid Director's Total Remuneration (£000s)</b>	230-235			230-235		
<b>Median Total Remuneration Ratio</b>	£33,757			£33,423		
	6.9			7.0		

Non-consolidated performance pay relates to performance in the previous financial year as it is not determined until after year-end.

The remuneration shown includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the

directors received any taxable benefits during the financial year 2012-13, apart from the Chief Executive as stated above.

There were no exit packages paid to senior HEFCE employees in the financial year 2012-13.

As part of Central Government's commitment to increase transparency and accountability, HEFCE is reporting the median earnings of its workforce and the ratio between this and the earnings of its Chief Executive. The disclosure will also allow some comparability over time and across the public sector and private sector, where similar disclosures of Chief Executive remuneration and pay multiples are made.

<b>Senior employees' pensions</b>					
	<b>Accrued pension at pension age as at 31 March 2013 and related lump sum £000</b>	Real increase in pension and related lump sum at pension age £000	<b>CETV at 31 March 2013 £000</b>	CETV at 31 March 2012* or start date £000	Real increase in CETV £000
<b>Sir Alan Langlands</b> , Chief Executive					
Pension	<b>25-30</b>	(0-2.5)	<b>671</b>	616	37
Lump sum	<b>75-80</b>	(0-2.5)			
<b>Steve Egan</b> <sup>2</sup> , Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	<b>55-60</b>	5-7.5	<b>1,173</b>	1,015	0
Lump sum	<b>175-180</b>	15-17.5			
<b>Heather Fry</b> <sup>1</sup> , Director – Education and Participation					
Pension	<b>35-40</b>	0-2.5	<b>993</b>	890	71
Lump sum	<b>115-120</b>	5-7.5			
<b>David Sweeney</b> <sup>1</sup> , Director – Research Innovation and Skills					
Pension	<b>60-65</b>	0-2.5	<b>1,500</b>	1,357	96
Lump sum	<b>180-185</b>	0-2.5			

\* This figure will be different from the closing figure in last year's accounts as the actuarial factors used in the calculation of the Cash Equivalent Transfer Values (CETV) were changed during 2012.

<sup>1</sup> Both Heather Fry and David Sweeney are members of the Universities Superannuation Scheme.

<sup>2</sup> Steve Egan is a member of the civil service pension scheme.

### Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for **classic** and 3.5% and 5.9% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

### **Universities Superannuation Scheme**

Certain staff transferring from HE institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. HEFCE is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis. USS members pay contributions of 6.35 per cent of pensionable earnings. The rate of employers' contributions is 16 per cent. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

In accordance with HM Treasury guidance HEFCE has accounted for both Civil Service and USS pensions as if they were defined contribution schemes.

### **Cash Equivalent Transfer Value**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits

valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## **Statement of HEFCE's and the Chief Executive's responsibilities**

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury has directed the Higher Education Funding Council for England (HEFCE) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of HEFCE and of its net resource outturn, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the Secretary of State for Business, Innovation and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the annual accounts; and.
- Prepare the annual accounts on a going concern basis.

The Accounting Officer of Department of Business, Innovation and Skills has designated the Chief Executive as Accounting Officer of HEFCE. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HEFCE's assets, are set out in Managing Public Money published by the HM Treasury.

# HEFCE Governance Statement 2012-13

## Scope of responsibility

As Accounting Officer, I am accountable to the Secretary of State for the Department for Business Innovation and Skills (BIS) and the Permanent Secretary of BIS as its Accounting Officer in respect of my responsibility for maintaining sound systems of governance, risk management and internal control for the Higher Education Funding Council for England ('HEFCE' or the 'Council'). These systems support the achievement of our policies and strategic objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Treasury guidance 'Managing Public Money'. I am also responsible for using the public funds and assets assigned to HEFCE economically, efficiently and effectively. I also acknowledge my responsibilities in respect of the funds provided to the Council which are allocated to higher and further education institutions and others for education, research and associated purposes.

## Governance Framework

The HEFCE Board comprises 12-15 members appointed by the Secretary of State for Business Innovation and Skills in accordance with the requirements of the Further and Higher Education Act 1992. The Board is supported by Audit, Remuneration and Appointments Committees, as well as strategic advisory committees covering areas of higher education policy which are important to HEFCE's remit. In response to the reforms in higher education, we reviewed the scope, structure and terms of reference of our strategic advisory committees during 2012-13. The most significant change was a merger of two existing committees to form the Research and Knowledge Exchange Strategic Advisory Committee. We have retained three committees with remits covering teaching, quality and the student experience, widening participation and student opportunity, and leadership, governance and management. Following an internal review, we have also updated the terms of reference of our Appointments Committee to streamline how the Committee operates in practice. The Board is also supported by two other advisory committees: the Joint Advisory Committee for Church Universities and Colleges and the UK Healthcare Education Advisory Committee. Attendance at Board and Committee meetings is consistently high; the Board and Audit Committee attendance for the year was 88% and 84% respectively. The background and registered interests of Board and Audit Committee members are published on our web-site. Following a survey of members in late 2011, we published information about the diversity characteristics of our Board and its committees on our web-site during 2012-13. The Board has an independent procedure for hearing complaints against decisions of the Executive, the Complaints Panel, which did not meet in 2012-13. Further details about our committees and other corporate governance information are available at <http://www.hefce.ac.uk/abouthefce/staff/>.

During the year, we agreed a new framework document which describes the formal relationship between HEFCE and BIS. This replaces the former Financial Memorandum and Management Statement. It sets out the terms and conditions subject to which HEFCE will use the grants made available by Parliament for the higher education sector. It includes a description of my responsibilities as HEFCE Accounting Officer, as well as the responsibilities of the HEFCE Board and its Chair. It may be found on our website at: <http://www.hefce.ac.uk/about/intro/wip/ourrelationshiptogroupment/>.

The Council continues to seek out and adopt good governance practices. The Board has carried out an annual effectiveness review, comprising an appraisal of the Board in early 2013 by the Chair through discussions with members, a review of the Chair's performance by the Chair of the Audit Committee involving discussions with members, and a management-led review of governance risks and an updated review of governance practice, by comparing our practices with the corporate governance codes for listed companies and central government departments. The assessment process to consider HEFCE's governance risks was observed by our Head of Internal Audit, which contributed to the independent assurance in his annual report for 2012-13 that HEFCE has an effective framework of risk management, internal control and corporate governance. Our review against the corporate governance codes concluded there has been a high level of compliance with relevant parts of both the FRC Code and the Government's Corporate Governance Code in 2012-13. This annual effectiveness review was discussed at the Board's annual strategy and planning day in March 2013. Overall, the Board was content with its effectiveness and governance practices. The most significant issue arising concerned the importance of continuing to respond flexibly to the changes in the higher education operating environment.

The Board has established an Audit Committee whose remit includes both HEFCE itself and HEFCE's assurance work with the higher education (HE) sector. At the year end, the Committee had its full complement of eight members, three of whom were drawn from the Board. The Chair, who is always an independent (non-HE sector) member of the Board, changed during the year. The Committee meets four times a year in the presence of the internal and external auditors. The Committee discussed HEFCE's developing approach to the management and reporting of its strategic risks at each meeting, including through consideration of detailed reports on individual risks. The Chair of the Committee presents a report to the Board after each meeting and minutes of each meeting are available to Board members. In 2012-13, the Committee carried out a review of its own effectiveness through consideration of a comparison of its remit and work against the principles and good practice described in the HM Treasury Audit Committee Handbook. This review demonstrated a high degree of compliance with those principles and good practice, with no significant issues arising. The Committee provides the Board with an annual report, which incorporates the Committee's opinion on governance, internal control and risk management. The Committee's opinion for 2012-13 is as follows:

#### **HEFCE Audit Committee opinion to the Board 2012-13**

Having taken account of:

- Our work throughout the year
- Assurances received through the Committee's discussions on the process for managing and reviewing the Council's strategic risks
- Assurances provided by management on matters of risk and control generally
- The formal opinions of the Head of Internal Audit on:
  - the effectiveness of the Council's framework for corporate governance, internal control and risk management;
  - the governance statement; and
  - value for money
- The formal opinions of the Head of Assurance on the sector's institutions and related

bodies, including on value for money

- The report on our work as the principal regulator of exempt charity HEIs
- The formal opinion on the accounts and the management report of the external auditors following the audit of the accounts.

It is the opinion of the Audit Committee that the Council's arrangements for its own corporate governance, internal control, risk management and value for money are sound.

We are satisfied that, at the present time, the Council also has appropriate arrangements in place for oversight of institutional risk and regularity in the higher education sector, including risk management, internal control, corporate governance and value for money in the organisations we fund. However, we recognise that the environment in which HEFCE operates remains uncertain and that, without the clarity of legislation, the Council is having to adapt aspects of its business to respond to a more complex system of higher education funding. This creates pressure on resources and we continue to express our concern about any possible effect on the Council's ability to carry out its existing and new remits effectively.

We are satisfied that the accounts can be relied upon, that the Accounting Officer is entitled to rely on the assurances he has received from Internal Audit and Assurance, that the Governance Statement meets government requirements and that we recommend approval by the Board of the 2012-13 accounts .

In accordance with good practice, we provide an annual summary of progress and issues arising with our information security obligations to the Audit Committee, particularly those connected to the implementation of the recommendations of the Government's Security Policy Framework. In 2012-13, there were no incidents or losses of data that required a report to the Information Commissioner's Office.

The Teaching, Quality and the Student Experience Committee (TQSE) provides an annual statement incorporating assurance to the Board on the Council's work in meeting its statutory obligation to ensure that provision is made to assess the quality of education in funded institutions. HEFCE contracts with the Quality Assurance Agency for Higher Education (QAA) for this purpose. In 2012-13, this was a positive statement, which highlighted the following key issues:

#### **TQSE summary opinion**

The Quality Assurance System operated satisfactorily for the financial year 2012-13.

The QAA delivered its contractual outputs effectively for the financial year 2012-13 and has continued to safeguard and support the academic standards and quality of higher education in the sector.

The relationship between HEFCE and the QAA remains professional and robust. Information sharing and joint working between our two organisations is constructive, particularly in terms of the further development of the quality assurance arrangements.

Under the Charities Act 2011, HEFCE is the principal regulator of all the higher education institutions (HEIs) that are exempt charities. We have agreed a Memorandum of



Understanding with the Charity Commission to assist us in meeting our obligations and we report to them annually on our work. We have continued to exercise our statutory duty to 'promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity'. For example, as part of our cyclical assurance work we monitor compliance with charity-related information disclosure requirements. We also follow-up reported 'serious incidents' as appropriate and regularly provide advice to the HE sector on issues connected to their charitable obligations. We also consider and, if necessary, pursue charity-related public interest disclosures and other issues with institutions that have exempt charity status. There were no significant issues arising in 2012-13 requiring regulatory intervention from either HEFCE or the Charity Commission in respect of our principal regulator obligations.

We work in partnership with many other organisations to help us deliver our objectives. The Chairs of HEFCE and the Student Loans Company co-chair a 'Regulatory Partnership Group' for this purpose. This Group enables a number of national agencies, including sector bodies and the National Union of Students, to discuss issues of common interest, so enabling us all to provide advice to Government on the development of its policies for higher education. For further information, see <http://www.hefce.ac.uk/about/intro/wip/rpg/>.

We also work with organisations that we describe as 'related bodies', including the Quality Assurance Agency, the Equality Challenge Unit, Jisc, the Leadership Foundation for Higher Education and the Higher Education Academy. The activities of each related body in some way contribute to the achievement of our objectives, and it is on this basis that their oversight is assigned to specific directorates within our structure. Accountability for our funding is secured through the operation of our Related Bodies Corporate Framework, and specific accountability arrangements will normally be described in a funding agreement, a service-level agreement or a memorandum of understanding. The funding arrangements for such bodies are subject to regular review. As described further below, working with the other UK funders of higher and further education, we transferred the business of the former 'Joint Information Systems Committee' to a separate independent legal entity (Jisc) on 1 December 2012. For further information on our related bodies, see <http://www.hefce.ac.uk/about/intro/wip/partners/relatedbodies/>.

We have regular interaction with the Department for Business Innovation and Skills (BIS), including through the Joint Accountability Group which specifically reviews HEFCE performance. The BIS grant letter to HEFCE for 2012-13 welcomed the strategic statement and business plan that the Council had developed and set out the expectation for HEFCE to operate on the basis of these documents ahead of finalising a new set of performance targets in autumn 2012. This new set of key performance targets was confirmed to us in a letter from the Minister for Universities and Science in December 2012.

### **The risk and control framework**

HEFCE operates a system of internal control that is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council's policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and

economically. In the context of our changing risk environment as discussed further below, the system of internal control has been in place in the Council for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **Approach to risk management**

The Council's long-standing approach to risk management is set out in an Assurance Framework, which was approved by the Board in May 2007. The Assurance Framework, which is an element in our overall Accountability Framework, explains HEFCE's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in HEFCE's strategic and operational planning processes. We have committed to reviewing this Assurance Framework in light of the changes we have made and are making to our risk management system.

As a public body, our approach to handling risk takes account of the delivery of the Government's priorities and objectives for HE. These priorities and objectives were clarified in the Government's June 2012 response to the consultation on its 2011 HE White Paper and separate Technical Consultation, and in a letter to HEFCE and the Student Loans Company (SLC) of 13 June 2012 (published at <http://www.hefce.ac.uk/news/newsarchive/2012/name,73166,en.html>). In this respect, apart from continuing to carry out its traditional funding-related functions, HEFCE has assumed its leading oversight role and supported the delivery of the HE reform programme in various ways, such as working on key projects with the other sector bodies participating in the Regulatory Partnership Group and by providing a report to BIS with our initial assessment on the impact of the new funding arrangements on students and institutions in December 2012 and March 2013. One of the key requests of the Government is for the preparation of a national strategy for access and student success jointly with the Office for Fair Access (OFFA) by autumn 2013. This is currently under development.

We have also undertaken considerable work on the development of our approach to funding for learning and teaching, and the operation of student number controls, as well as preparing for the assessment phase of the Research Excellence Framework. Following the Government's decision to fund teaching at English HE providers through increased tuition fees for students with effect from autumn 2012, HEFCE's allocation of teaching grant to institutions is being reduced. To help us implement the funding changes, and accompanying policy developments, we undertook a two-stage consultation with interested stakeholders, initially on interim arrangements for 2012-13 and subsequently on our approach to student number controls and funding for 2013-14 and beyond. We are about to consult on further iterations of our approach to controlling student numbers from 2014-15 onwards. We are now in the process of implementing a new system with the following key objectives: investing to ensure a high-quality student experience; supporting institutions in adjusting to the new tuition fee and related funding arrangements and student number controls; and minimising the administrative burden placed on institutions arising from the changes, while focusing on Government priorities. We have had three internal audits connected to this work to ensure robust project and risk management arrangements are in place. Further information may be found at: <http://www.hefce.ac.uk/whatwedo/lt/> .

The majority of HEFCE's £1.6bn of research funding is distributed on the basis of research quality, taking into account the volume and relative cost of research in different areas. Research quality is periodically assessed on a UK-wide basis. On behalf of the four UK higher education funding bodies, HEFCE manages each assessment exercise, overseen by a steering group. The current exercise, known as the Research Excellence Framework (REF), is due for completion in 2014 and will inform our research funding from 2015-16 onwards. The outcomes of previous exercises have proved to be of significant interest to the HE community within the UK and beyond. Key parts of our approach to managing the risks to this high profile exercise are to thoroughly plan for the exercise and report on progress and risks systematically to the Steering Group, and to ensure stakeholder confidence through consultation and regular discussion of the issues arising with institutions and other affected parties. We have had four internal audits connected to the REF to ensure robust project and risk management arrangements are in place. Further information may be found at: <http://www.ref.ac.uk/> .

Following the Board's approval of a new risk register comprising 13 high-level strategic risks in December 2011, we have been gradually making thorough assessments of each risk and further developing our risk management processes. In doing so, we recognise that we have constrained ability to mitigate many of them, especially where they deal with the systemic issues facing the HE sector (and which are relevant to us in our need to understand systemic risk in the sector). They also link to the objectives described in our strategic statement and updated business plan, and the specific risks facing HEFCE as an organisation. While all of our risks have internal and external facing elements, the risks with a primarily external focus cover risk in the areas of: student support; the collective student interest; the public interest in HE; the reputation of HE; investment in HE; institutional sustainability; regulatory partnership; economic and social impact of HE; and transition through the HE reforms. In all of these areas, we are partially reliant on the mitigating activities of others to manage the risk effectively. The risks with a primarily internal focus cover risk in the areas of: HEFCE policy and processes; HEFCE regulatory activity; HEFCE reputation; and HEFCE's people. Our strategic risk register is available at:

<http://www.hefce.ac.uk/about/standards/howweareaccountableforthefundsweadminister/riskman/>.

The risk assessments are drawn together by a part-time risk co-ordinator, who is supported by the senior management sponsor of each risk and a separate risk group. The assessments of the 13 strategic risks are based on an in-depth exploration of relevant issues, and rely on contributions from across the organisation, including discussions with directors, associate directors and the Head of Organisational Development at HEFCE Executive meetings. Furthermore, we have taken regular advice from our Audit Committee on the design of our risk assessment, monitoring and reporting processes during the year. These maturing processes and the assessments they produce can expect to remain subject to further development during 2013-14, including the incorporation of more quantitative indicators in due course. These processes and resources will help to ensure that we capture the wide range of information we need about our strategic risks in an effective way, so we can report on this to the Audit Committee and the Board, allowing decision-making in response to risk to be enhanced. A review of the risk register as a whole is planned for 2013-14 to ensure that we continue to recognise and focus on the most appropriate risks for us as an organisation.

In recognising 13 high level risks, I accept that the Council should respond to these as effectively as possible, even though we have only limited influence in mitigating some of them. We work closely with a wide range of stakeholders, including universities, colleges and Government, to raise awareness of risk issues and, where necessary, to develop responses to risk. While the mix of our risks is challenging, tolerable and well-balanced, the residual risks are relatively high. This is partly because we are largely reliant on the HE sector and others to help us mitigate them. Our risk appetite for our strategic risks is often also dependent on Government risk appetite as we implement Government policy. Our risk appetite for many of our subsidiary operational risks remains relatively low, reflecting our desire to protect our credibility as a reliable, consistent and effective funder and regulator. Through the broader 13 risks on our risk register, we continue to develop a stronger sense of how we might grasp opportunities offered by the environment in which we operate.

We report to the Board three times each year on our operational performance by reference to the key activities described in our business plan that are directly connected to the delivery of our strategic objectives. We now report separately to the Board three times each year on our strategic risks, reporting on up to three risks in detail and all other risks in summary. These risk reports and the underlying processes to support them are discussed by the Audit Committee prior to their submission to the Board. This provides the opportunity for the Audit Committee to challenge the senior management risk owners on the risk management process. In addition, as for many years, all relevant Board papers include comments on the strategic and key operational risk implications arising from the issues discussed in the paper.

The above mentioned internal risk group and part-time risk co-ordinator role continue to support senior management and staff in monitoring and reporting on risks. To supplement these resources, all staff have access to intranet-based tools and guidance, as well as training, coaching and mentoring in risk management, partly through our approach to promoting project management and also through internal audit, acting in its advisory role. We plan to update these resources in 2013-14, once the detailed first assessment of all 13 risks has been completed.

HEFCE also has many operational risk assessments in place that support the strategic risk management process. In five key areas of our business (finance, governance, information technology, human resources and analytical services), we have adopted the 'control risk self assessment' approach to risk management, whereby the operational risk assessments are subject to a formal process of review at least once each year, culminating in a report to management or the Board on the outcome. Independent assurance on the quality of these assessment processes is regularly obtained from internal audit. We have also carried out an internal audit review of some aspect of our risk management system every year since 2001-02, which provides not just an assessment of the quality of the processes we use but positively contributes to the development of those processes.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks I am supported in this process by my Deputy Chief Executive, directors and senior management team. My review is also informed by the work of the internal auditors and the executive managers within HEFCE who have responsibility for

the development and maintenance of the control framework in their areas of responsibility, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, including on any action taken to address weaknesses and ensure continuous improvement of the system.

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. It must also take into account the funds provided by the Council which are transmitted to legally independent and autonomous higher and further education institutions and related bodies for education, research and associated purposes. The Council's accountability framework therefore needs to encompass our internal operational and financial controls, and our controls in relation to higher and further education institutions and related bodies. The accountability framework consists of policies, procedures, monitoring and approaches to communication, which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. In particular, all institutions and related bodies funded by the Council are required to comply with a financial memorandum or other form of agreement. These documents are designed to help us secure accountability and regularity for the public funds provided to them, partly by requiring various accountability returns to be provided to us for review, including the annual accounts. Reviewing this information forms part of our work to ensure the protection of the public investment in institutions and other organisations, which includes seeking assurance that the public funds provided to institutions and others have been used for the purposes for which they were intended.

The Government has decided that its HE reforms should be delivered by administrative means and not by introducing legislation until the impact of the reforms is better known, which generates many challenges and risks for HEFCE and its HE sector partners and stakeholders. As the quantum of our funding for higher education teaching reduces in response to the introduction of higher tuition fees, our accountability relationship with institutions we fund will gradually change until the funding of students under the previous approach ceases. In their letter of 13 June 2012, the Secretary of State and the Minister asked HEFCE and the SLC to develop a successor to the Financial Memorandum we have with institutions. A key issue is to minimise as far as possible the uncertainty surrounding the accountability of institutions for the increased levels of income they are receiving through student loans. The terms and conditions we can currently place on the grants we provide to institutions will remain effective for at least the next two years, but they will diminish in their effectiveness thereafter, particularly for some institutions with specific characteristics.

Our internal control system is also subject to regular review and monitoring by the Deputy Chief Executive and directors, who are responsible for the management and oversight of most of the strategic risks. The documented assurance I receive about the management of these risks is substantially derived from the risk reports to the Board, as well as through the Audit Committee's advice on the associated risk management processes. As well as the annual reports from the Head of Assurance (which incorporates a report on our role as a charity principal regulator) and the Head of Internal Audit, I also receive an annual opinion from the Audit Committee on our internal control framework and from the Teaching, Quality,

and the Student Experience Committee on our statutory obligation connected to teaching quality. In addition, I exchange letters with the Skills Funding Agency each year in order to obtain assurance about the regularity of the use of HEFCE funds by further education colleges.

Each of the key annual controls (the financial statements and the external auditors report and comments thereon, and annual reports on Assurance and Institutional Risk and Internal Audit) has been considered by the Audit Committee with onward reports to the Board. I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on its implications. Where issues have arisen, action has been taken or is planned.

During the year, our control systems (which cover our internal controls and the risk management system for institutions and related bodies) have identified a small number of issues that required specific actions to manage the associated risks. Where significant, these issues are reported to the Audit Committee under an agreed protocol and/or recorded in the individual assurance statements referred to above. There were no significant weaknesses in our internal controls in 2012-13 that warrant disclosure here. We have adapted our governance and management structures in response to the Government reforms of HE, for example, in the review of our committee structure and in the creation of a 'student opportunity' team. If the Government legislates and makes changes to our remit in the future, further changes in the design and operation of our internal control system are likely to prove necessary and may do so even in the absence of legislation as the new higher education policy environment matures.

The most significant other issues and developments connected to our internal control system arising during 2012-13 are as follows:

- i. HEFCE continues to discuss with the Government how best to implement its various policy proposals for HEFCE and the HE sector. This includes responding to the introduction of higher tuition fees and related changes to higher education funding, which began to take effect in earnest in 2012-13 and will continue to affect HEFCE for several years to come. In December 2012, we provided the Secretary of State with a confidential initial assessment of how the new funding arrangements are affecting students and institutions and published a further assessment in March 2013. The key messages from these assessments were connected with student recruitment in 2012-13 (including the impact of the student number control – see below), the institutional response to the reforms, the financial consequences for the government and institutions, and the impact on various aspects of the public interest in higher education.
- ii. One of the key risks facing HEFCE relates to the control of student numbers, as over-recruitment by HE institutions and other providers of higher education can have consequences for other areas of higher education funding. The Government has regularly stressed the importance of HEFCE doing all it can to control student numbers. In the absence of legislation to give HEFCE increased powers in this area, this will be increasingly difficult to achieve, although the financial support for old regime students will continue for all students recruited before higher fees came into effect in autumn 2012 and will continue until they have completed their programmes of study, during which conditions of grant will remain in place. The indications are that, for 2012-13, recruitment was lower than expected, resulting in a lowering of the pressure on the

Government's HE budget for the time being. Nevertheless, the risk of over-recruitment could re-emerge in the medium term.

- iii. A supplementary risk connected to the Government's HE reforms has emerged during the year. Some stakeholders have expressed concerns about and challenged our implementation of the high grades policy, which is designed to promote institutional competition for certain groups of students. Working with BIS and others, we are responding to those concerns and will continue to develop our approach to implementing this policy. A working group, chaired by a Board member, has been established to provide advice on the issues arising.
- iv. On 29 August 2012, the UK Border Agency (UKBA) revoked the Tier 4 licence of London Metropolitan University (LMU). Tier 4 licences are required by HEI sponsors in order that they may recruit and teach overseas (non-EU) students. The Secretary of State asked HEFCE to establish a Task Force to support the LMU students affected by this decision and, with the support of LMU, the UKBA and others, we have successfully helped the affected students entitled to study in the UK to find suitable, alternative courses so that they can continue their studies. We have also successfully managed the (up to) £2m support fund established by the Secretary of State to ensure that the affected students are not left 'out-of-pocket' by additional costs arising from the UKBA decision. This incident may have resulted in reputational damage to the HE sector and we have taken steps to ensure all affected parties are aware of the many issues arising from what has happened.
- v. HEFCE's capacity and capability to continue to perform as an effective organisation which meets the expectations of its stakeholders remains at some risk by the constraints imposed on administration costs (real-terms savings of 16 per cent over the four years 2011-12 to 2014-15) and the impact of other Government spending controls. These incorporate a requirement to minimise consultancy, information technology, facilities management and marketing expenditure, and to minimise staff costs, including a two-year pay freeze (three years for senior staff), with continuing constraints thereafter. We have been successful in obtaining BIS permission to recruit a number of front-line staff from outside the Civil Service. While this has helped to ease the organisational stress we faced in previous years, we still have concerns about our continued ability to do everything that the Government asks of us to our normal high standards.
- vi. On 1 December 2012, the former Joint Information Systems Committee (JISC) became a separate legal entity, which implements a key recommendation in the Wilson review commissioned by the HEFCE Board, working with all of JISC's funders. A small number of HEFCE staff were transferred to the new company under TUPE arrangements. The new organisation, Jisc, is a company limited by guarantee and a charity, owned by HE and FE sector representative bodies. Jisc has been formed as a small group of companies, with most operational activity being carried out by a wholly-owned subsidiary of Jisc. HEFCE will continue to be the largest UK funder of Jisc for the foreseeable future. A funding agreement is in place to secure accountability for the funds provided. In conjunction with most other UK funders of Jisc, HEFCE has established a new part-time liaison post to provide a collective 'intelligent customer' role for our relationship with Jisc, to replace the HEFCE staff that carried out this role previously but who have transferred to the new company.

- vii. In line with the controls placed on IT spending in the public sector, the Cabinet Office Minister was invited to approve the full business case for the procurement to replace the Joint Academic Network (JANET), the UK's research and education network. Approval was provided in July 2012. This essential upgrade will help UK higher education to retain its world-leading competitive edge, particularly in research. As the contract providing best value for money was for a 10-year arrangement, which covers more than one spending review period, I provided a letter of support to HM Treasury as part of the approval process.
- viii. More than 99% of the grant-in-aid received from BIS is passed on in the form of grants to HE institutions and other organisations. Most of this is distributed by formulae based on activity levels, cost and (in some areas) performance. We have a range of accountability mechanisms in place to secure accountability for this funding, which includes governance, financial health and risk assessments of funded organisations. Our Board and Audit Committee regularly receive reports on these assessments, for which we operate an institutional risk system. Using this system, we assess and monitor the overall risk profile of each HE institution and related body, and, where appropriate, implement support strategies in relation to institutions in difficulty. The reports to the Board and Audit Committee include information about the effects of the current economic climate on the HE sector and our response to this. The system regularly evolves in response to the changing risk environment. Based on our assessments of the annual accounts of HEIs for 2011-12, the sector as a whole is in a sound financial position and, with only a small and reducing number of institutions facing risks to their short to medium term financial sustainability, the sector presents a relatively low risk profile at this point in time. While our resources to manage this work is sufficient at current levels of activity and risk, the new fees and funding regime present a range of uncertainties for institutions that require us to both continually monitor the evolving HE environment and keep the levels of resource for this work under regular review. Further details about how our institutional risk system and assurance mechanisms work may be found on our website at <http://www.hefce.ac.uk/whatwedo/reg/assurance/>.
- ix. Our work has been extended this year to providing advice to the Secretary of State on applications received by BIS from alternative providers of higher education seeking university title. In addition we have also provided support to BIS as they develop a new system for designating courses at alternative providers who wish their students to access the publicly supported grants and loans system. In November 2012, BIS consulted on the application of student number controls with this group of providers. Our response acknowledged that, both with our role in assessing applications and if the consultation proposals are implemented, students studying at these alternative providers will be better protected than previously, but that they will still have a lower level of protection compared with students studying at institutions regulated by HEFCE. Our response also highlighted the risks and complexities in operating a student number control for this group of providers especially as the consultation included little detail. BIS published its response to the consultation on 27 March 2013, and we are now working with them to introduce a new course designation system to begin in late spring 2013.
- x. Our accountability relationships with the institutions and related bodies we fund require them to advise us of material adverse events, serious incidents and significant frauds. We have received 26 such notifications during the year, based on the institution's own



view of what they should report to us. The most common incident was for supplier payment frauds, which resulted in losses in some cases and full recovery in others. In no case did the incident reported result in a change to an institution's funding. We work with the organisations affected to manage any issues arising and provide lessons learned advice to the sector as a whole when we consider this will be of value.

- xi. HEFCE seeks value for money (VFM) through all of its activities. Internal audit carries out work on VFM within HEFCE each year, both as a specific annual exercise and as part of its other work where relevant. A positive statement on VFM is included in the Head of Internal Audit's annual opinion. We review the annual audit committee reports of funded HE institutions, which are required to incorporate a statement on VFM. The Head of Assurance has provided a positive statement on this in his annual report.
- xii. We successfully retained the following international standards in the year: the environmental system standard, ISO 14001; the Carbon Trust Standard; the information security standard (for our ITS team), ISO27001; and the health & safety standard, OHSAS18001.

In addition to the above, we are required by BIS to comment on the following issues in this statement:

- i. We continue to maintain information security and assurance arrangements that meet the requirements of the HMG Security Policy Framework issued by the Cabinet Office. Our work and annual return in this area has been reviewed by internal audit. Progress with this work is also reported to our Audit Committee annually, which has its own obligations in this area. We have experienced no reportable losses of personal data in this period.
- ii. We support the Government's 'Transparency Agenda', which seeks to make more government data available and accessible to the public. We already publish a great deal of information on our website, and are planning to include a data section in future. We specifically publish the structural and expenditure data at <http://www.hefce.ac.uk/about/howweoperate/transparencydata/> . For the benefit of current and prospective students, we have published the outcomes of the National Student Survey for many years. A key transparency advance made this year following much work with the HE sector, was the publication of the 'Key Information Set' on the Unistats website at <http://unistats.direct.gov.uk/find-out-more/key-information-set> , which provides a range of information of value to prospective students. The data underlying this site has been made freely available to other organisations.
- iii. Following a central Government request for all public bodies to review the tax arrangements for how they pay their public sector appointees (including Board members), senior staff and other individuals paid on an individual basis, I confirm that all relevant payments are made through the payroll.
- iv. A new requirement introduced by BIS with effect from December 2012 is that the Director of Finance should review and sign off monthly data sets of accounts payable transactions and to make a compliance statement to this effect. Through this report, I confirm that the Deputy Chief Executive (who is Director of Finance and Corporate Resources) has overseen a process that reviews the monthly data sets before they are made publicly available.

I have been advised on the implications of the result of the review of effectiveness of the system of governance, including internal control and risk management, by the Board's Audit Committee and there is a plan in place to address any weaknesses arising and ensure continuous improvement.

I have considered the evidence provided with regards to the production of the annual Governance Statement. The conclusion of my review is that HEFCE's overall governance and internal control structures have been appropriate for HEFCE's business and that they operated satisfactorily throughout 2012-13.

Sir Alan Langlands  
Chief Executive and Accounting Officer  
Higher Education Funding Council for England  
29 April 2013

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2013 under the Further and Higher Education Act 1992. The financial statements comprise; the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Higher Education Funding Council for England, the Chief Executive and auditor**

As explained more fully in the Statement of HEFCE's and the Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Further and Higher Education Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the Audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to HEFCE's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HEFCE; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## **Opinion on Regularity**

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## **Opinion on financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2013 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and Secretary of State directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State for Business, Innovation and Skills under the Further and Higher Education Act 1992; and
- the information given in the sections entitled HEFCE'S structure, Financial results for 2012-13, and Preparation of the annual report and accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### **Report**

I have no observations to make on these financial statements.

*Amyas CE Morse  
Comptroller and Auditor General  
National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP*

*1 May 2013*

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

	Note	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Expenditure</b>			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	3	5,662,434	6,709,794
Other ring-fenced allocations	3	90,635	107,300
Changes in provision	12	7,045	8,513
		5,760,114	6,825,607
Council administration costs			
Staff costs	4	12,366	11,944
Non-pay administration costs	5	9,072	9,093
Depreciation	7	73	39
Changes in provision	12	(14)	28
		21,497	21,104
Total expenditure		5,781,611	6,846,711
<b>Income</b>	6	(1,774)	(4,084)
<b>Net operating costs for the year ended 31 March 2013</b>		5,779,837	6,842,627
<b>Other Comprehensive Expenditure</b>			
Net gain on:			
revaluation of Property, Plant and Equipment	7	(1)	
revaluation on provision due to change in discount rate	12	6,767	0
<b>Net expenditure for the year transferred to reserves</b>		5,786,603	6,842,627

All HEFCE operations are continuing.

The notes on pages 69 to 95 form part of these accounts.

## Statement of Financial Position as at 31 March 2013

	Note	As at 31 March 2013 £000	As at 31 March 2012 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	96	47
Recoverable grants falling due after one year	9a	44,024	39,798
Trade and other receivables due after one year	9b	16,250	17,563
		<b>60,370</b>	<b>57,408</b>
<b>Current assets</b>			
Recoverable grants falling due within one year	9a	12,623	10,471
Trade and other receivables due within one year	9b	14,182	48,903
Cash and cash equivalents	10	31,174	32,794
		<b>57,979</b>	<b>92,168</b>
<b>Total assets</b>		<b>118,349</b>	<b>149,576</b>
<b>Current liabilities</b>			
Trade and other payables	11	(3,323)	(2,428)
Provisions for liabilities and charges within one year	12	(25,923)	(27,300)
<b>Total assets less current liabilities</b>		<b>89,103</b>	<b>119,848</b>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges after one year	12	(202,010)	(215,134)
<b>Total assets less total liabilities</b>		<b>(112,907)</b>	<b>(95,286)</b>
<b>Taxpayers' equity</b>			
Revaluation reserve		7	6
General reserve		(112,914)	(95,292)
		<b>(112,907)</b>	<b>(95,286)</b>

An explanation of the negative balance is covered in Note 1 Accounting Policies under Going Concern.

The financial statements on pages 65 to 68 were approved by the Board on 29 April 2013 and were signed on its behalf by;

*Sir Alan Langlands*  
*Chief Executive and Accounting Officer*  
*Higher Education Funding Council for England*

*The notes on pages 69 to 95 form part of these accounts.*

## Statement of Cash Flows for the year ended 31 March 2013

	<i>Note</i>	<b>Year ended 31 March 2013 £000</b>	Year ended 31 March 2012 £000
<b>Cash flows from operating activities</b>			
Net expenditure		<b>(5,779,837)</b>	<b>(6,842,627)</b>
Adjustment for non-cash transactions	5,7,12	<b>7,094</b>	8,580
Decrease in receivables	9b	<b>36,034</b>	34,035
(Decrease) in payables	11	<b>895</b>	<b>(6,666)</b>
Use of provisions	12	<b>(28,289)</b>	<b>(28,794)</b>
<b>Net cash outflow from operating activities</b>		<b>(5,764,103)</b>	<b>(6,835,472)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	<b>(121)</b>	<b>(44)</b>
<b>Cash flows from financing activities</b>			
Grants from sponsoring department	2	<b>5,768,982</b>	6,814,423
(Increase) in recoverable grants	9a	<b>(6,378)</b>	<b>(3,635)</b>
Net (decrease) in cash for the year		<b>(1,620)</b>	<b>(24,728)</b>
<b>Net financing</b>			
Cash and cash equivalents at the beginning of the period	10	<b>32,794</b>	57,522
Net (decrease) in cash and cash equivalents in the period	10	<b>(1,620)</b>	<b>(24,728)</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>31,174</b>	<b>32,794</b>

The notes on pages 69 to 95 form part of these accounts.

## Statement of Changes in Taxpayers Equity for the year ended 31 March 2013

	Note	General Reserve £000	Revaluation Reserve £000	Total Reserves £000
<b>Changes in Taxpayers' Equity 2011-12</b>				
Balance as at 1 April 2011		(67,088)	6	(67,082)
Grant from sponsoring department	2	6,814,423		6,814,423
Comprehensive expenditure for the year		(6,842,627)		(6,842,627)
Decrease in provision				0
Movement in reserves			0	0
Balance as at 31 March 2012		(95,292)	6	(95,286)
<b>Changes in Taxpayers' Equity 2012-13</b>				
Balance as at 1 April 2012		(95,292)	6	(95,286)
Grant from sponsoring department	2	5,768,982		5,768,982
Comprehensive expenditure for the year		(5,786,604)	1	(5,786,603)
<b>Balance as at 31 March 2013</b>		<b>(112,914)</b>	<b>7</b>	<b>(112,907)</b>

### General Reserve

This reserve consists of programme and administration funding (GIA) from the Department, and the net expenditure relating to programme and administration costs.

### Revaluation Reserve

The revaluation reserve relates to revaluation of tangible fixed assets.

*The notes on pages 69 to 95 form part of these accounts.*



## Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

## Accounting convention

The accounts are prepared under the historical cost convention, modified by revaluation of IT assets. The currency used to prepare the accounts is sterling, and are rounded to the nearest £1,000.

## Consolidation

HEFCE contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the Higher Education (HE) sector as a whole, rather than with the intention of making a long-term investment. A full list of related bodies is given in note 15 of the accounts.

These related bodies are examined both individually and in aggregate, to assess whether they meet the requirements for consolidation in line with IFRS and the FReM. For each body the level of HEFCE influence is considered, together with the materiality of the grant funding given during the financial year.

For the financial year ended 31 March 2013 HEFCE considers that where related bodies do meet the criteria for a subsidiary, joint venture or associate under IFRS, none are accounted for as such on the basis of materiality.

## Going concern

The statement of financial position at 31 March 2013 shows net liabilities of £113 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future funding from HEFCE's sponsoring department, the Department for Business, Innovation and Skills (BIS). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Funding for 2013-14, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

## Financial instruments

IFRS 7 and International Accounting Standards (IAS) 32 and 39 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure. As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity or interest rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

Assets and liabilities that meet the definition of financial instruments are accounted for under IAS 32, IAS 39 and IFRS 7. Trade receivables and payables are measured at cost on the basis that this is a reasonable approximation of fair value.

During the course of its business, HEFCE may on occasion make loans to Higher Education Institutions these are disclosed in Note 9a.

Loans are disclosed at cost as the discounted cashflows would not be materially different from cost.

## Grants from the Department for Business, Innovation and Skills

All grant in aid from BIS is treated as financing as it is a contribution from controlling parties giving rise to a financial interest. It is recorded as financing in the cash flow statement and credited to the general reserve.

BIS also provides grants for Access to Learning Funds, National Scholarship Programme, and Voluntary Giving. These grants are accounted for as financing and credited to the general reserve, and are disclosed in the accounts as 'other ring-fenced allocations'.

### Income

Income received from other sources, including income from the Office for Fair Access (OFFA) in respect of services provided under a service level agreement covering financial, payroll, IT and other office services, is accounted for on the accruals basis.

### Joint initiatives and national programmes which benefit the higher education sector in the UK

For those joint activities that meet the definition of jointly owned operations under IAS 31, HEFCE is required to show only its share of the income and expenditure for both programme and administration costs within these accounts.

### Leases

Under IAS 17 leases are reviewed against key indicators to determine whether they are finance or operating leases. HEFCE's leases do not transfer the risks and rewards incidental to ownership of an asset to HEFCE, and as such are classified as operating leases. Rentals payable for operating leases are charged to the Statement of Comprehensive Net Expenditure when they fall due.

### Non current assets

Property, plant and equipment are capitalised where the costs for an individual asset, or group of functionally interdependent assets, exceeds £10,000. On initial recognition, assets are measured at cost. IT assets are revalued each year based on indices produced by the Office for National Statistics. Given their low value, depreciated historic cost is used as a proxy for fair value for the other categories of property, plant and equipment.

Depreciation is shown on all non current assets, at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

Leasehold improvements	10 years *
Fixtures, fittings and furniture	5 years
Office equipment	4 years
Computer equipment	3 years

\*or the remaining term of the lease, whichever is less.

A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

### Payment of grants

#### Grants

Grants are recognised at the payment dates agreed with the organisations concerned. Most grants are paid on agreed profiles, and as such no financial year end accruals are expected for these streams of expenditure.

The exceptions to this are;

pre-2012-13 academic year holdback of institutional basic grant arising from revised student numbers, where a debt arises at the point where there is sufficient certainty on the revised numbers, and future profile payments will be adjusted when there is sufficient certainty over the value of the resulting funding adjustment. Sufficient certainty is where the HEFCE Chief Executive approves the funding adjustment. These adjustments could result in a net receivable or payable balance at year end. The period over which a holdback recovery is made can be up to five years. And;

student number control grant adjustments, the grant funding pot is based on an estimated student number control and institutions are encouraged not to over-recruit. If an institution over-recruits, HEFCE will seek to implement grant reductions, on instructions from BIS. Any funding which is recovered through this route would be either recycled to the sector or returned to BIS.

#### Recoverable grants

These are funds provided to institutions on an individual basis to support the initial costs of a specific project; these are then recovered' via an adjustment to its future funding.

Recoverable grants are classed as loans. They are recognised as receivables and disclosed as financial instruments in the notes to the accounts to reflect the nature of the transaction and ensure consistency across BIS.

## Pensions

HEFCE employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is a multi-employer defined benefit scheme treated for accounting purposes, in accordance with the FReM, as a defined contribution scheme. Some senior managers transferring to HEFCE from universities, are covered by the provisions of the Universities Superannuation Scheme (USS), which is also a defined benefit scheme treated for accounting purposes as a defined contribution scheme. These schemes are described in more detail in the remuneration report.

## Provisions for liabilities and charges

Provisions are recognised when HEFCE has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In accordance with IAS 37 provisions are discounted to their net present value where material.

## Segmental reporting

The FReM directs public bodies to meet the requirements of IFRS 8 to report information concerning operating segments where the criteria under IFRS 8 are met. HEFCE considers its activities contribute to a single mission operating within the same business environment and there are no separable operating segments. As a result HEFCE does not report by operating segments.

## Staff costs and secondments

Staff on secondment (including those seconded on a fixed-term basis to OFFA) normally continue to be paid by HEFCE. The reimbursement of costs for seconded staff is netted off against staff costs in note 4 of the accounts.

## Taxation

HEFCE's income generating activities are not intended to produce surpluses, and therefore considered as not liable for corporation tax. Most of HEFCE's activities are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment.

## IFRS issued but not effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. As at 31 March 2013 the following IFRS, none of which will be material to HEFCE's annual accounts, have been issued but are not effective:

IAS 1 - Presentation of financial statements (other comprehensive income) - effective date July 2012

IFRS 9 - Financial Instruments - effective date January 2015

IFRS 10 (Consolidated Financial Statements), 11 (Joint Arrangements), 12 (Disclosure of Interests in Other Entities), IAS 27 (Separate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures) - effective date January 2014

IFRS 13 - Fair Value Measurement - effective date January 2013 (not yet EU adopted)

IAS 16 - Property, Plant and Equipment - effective date January 2013

IAS 32 - Financial Instruments: Presentation - effective date January 2013

IAS 17 replacement - leases - ongoing review

In preparing these accounts HEFCE makes certain judgements on key areas of income, expenditure, assets and liabilities.

In particular, the provision for Inherited Staff Liabilities is, by its very nature, an estimation. The value of the provision is derived from an actuarial valuation of a sample of the underlying population, and is updated periodically. Note 12 to the accounts gives further details of the provision and our assumptions.

The other area of significant judgement is in the recognition of programme holdback as pre-paid grant. This relates to adjustments to payment of grant funding to HEIs where student numbers fall outside a standard percentage threshold, adjustments arising from data audits or adjustments via HESA-HESES reconciliations.

HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Further details are given in Note 1 (Accounting Policies) and Note 9b Trade and other receivables).

HEFCE has powers under the Further and Higher Education Act 1992 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met. In exercising these powers the Board may in some cases decide not to seek recoveries from institutions for periods prior to a certain year. In such cases the decision is taken on an individual basis with due regard to the overall financial position of the institution and the circumstances giving rise to a potential recovery.

## 2 HM Government grants received

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Programmes</b>		
Grant in aid for recurrent expenditure in HE	5,409,271	6,420,346
Grant in aid for capital expenditure in HE	250,647	263,769
	<b>5,659,918</b>	<b>6,684,115</b>
<b>Other ring-fenced allocations</b>		
Grant for Access to Learning Funds	36,324	39,985
Grant for ITT bursaries	0	7,000
Grant for voluntary giving	2,000	61,000
Grant for National Scholarship Programme - BIS	50,000	0
	<b>88,324</b>	<b>107,985</b>
<b>Administration costs</b>		
Grant in aid from BIS for HEFCE administration costs	20,740	22,323
<b>Total grant and grant in aid received</b>	<b>5,768,982</b>	<b>6,814,423</b>

This note shows the total grant and grant in aid received from the Department for Business, Innovation and Skills (BIS) during the year. Grant and grant in aid is paid from the Department's resource accounts and is taken to the general reserve.

HEFCE is advised of its total funding in the annual grant letter from the Secretary of State. As well as setting out the details of the funding made available to HEFCE the letter outlines the main policy areas and strategic objectives within which HEFCE is expected to operate.

The grant letter is available on our web-site [www.hefce.ac.uk](http://www.hefce.ac.uk) under What we do/Funding and Investment.

HEFCE receives grant in aid for programmes and administration costs expenditure, and ring-fenced grant funding for other specific purposes. In the analysis above, grant funding is shown as 'Other ring-fenced allocations' (previously 'Access and hardship funds').

### 3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Recurrent grant <sup>a</sup></b>		
Learning, Teaching & Student Choice	3,705,162	4,581,292
Research	1,568,951	1,632,899
	5,274,113	6,214,191
<b>Non-recurrent grant <sup>b</sup></b>		
Learning, Teaching & Student Choice	67,436	103,254
Research	188,720	213,950
Investment	130,321	177,284
Partnership	958	764
Information	886	351
	388,321	495,603
<b>Total recurrent and non-recurrent grant</b>	5,662,434	6,709,794
Other ring-fenced allocations <sup>c</sup>	90,635	107,300
<b>Total grant</b>	5,753,069	6,817,094

In line to the change to HEFCE's strategic role to emphasise the three key principles of opportunity, choice and excellence in higher education, this analysis of grant expenditure now reflects HEFCE's updated principles and objectives as published in the business plan for 2011-15 (HEFCE 2011/34, updated November 2011 see HEFCE 2011/34), available to view at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications. This change has also resulted in the reclassification and restatement of prior comparatives.

The Board certifies that government grants have been used by HEFCE only for approved purposes.

- a Recurrent grant** - the grant allocated to institutions as a block grant, analysed across teaching and research in line with the way the grant is announced.
- b Non-recurrent grant** - this is a summary of the grant expenditure on special funding programmes and earmarked capital. A detailed analysis of non-recurrent grant expenditure by strategic aim is provided at Appendix 1 to the Accounts.
- c Other ring-fenced allocations** - this relates to grant administered on behalf of the government and covers Access to Learning Funds, National Scholarship Programme and voluntary giving. HEFCE distributes this funding, which is granted by BIS for specific purposes.

## 4 Staff costs

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Staff with a permanent UK employment contract with HEFCE</b>		
Salaries	8,972	8,998
National Insurance contributions	807	809
Pension costs	1,650	1,651
	<b>11,429</b>	<b>11,458</b>
Costs of employing contract, agency and temporary staff	937	486
	<b>12,366</b>	<b>11,944</b>
	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Pension costs</b>		
Civil Service Pensions	1,599	1,572
Universities Superannuation Scheme	51	79
	<b>1,650</b>	<b>1,651</b>

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation.

For the financial year 2012-13 all staff on a salary of less than £58,200 received an average 1% pay increase. Staff on a salary above £58,201 were subject to a further year of a pay freeze. All members of staff are eligible for a non-consolidated performance-related payment related to individuals' performance against objectives. Annual settlements are awarded from 1 August each year and relate to individuals' performance from the previous financial year.

Four members of staff on the HEFCE payroll are seconded on a fixed-term basis to the Office For Fair Access (OFFA). The reimbursement of costs from OFFA is netted off against expenditure in the statements shown above.

There were no exit packages paid to HEFCE staff during the financial year 2012-13.

The Council contributes to two pension schemes, Civil Service Pensions (PCSPS) and the Universities Superannuation Scheme (USS). The USS is a multi-employer defined pension scheme, for more information on this scheme refer to Remuneration Report page 47.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HEFCE is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2013. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

## Staff costs (continued)

For 2012-13, employers' contributions of £1,598,747 were payable to the PCSPS (2011-12 £1,571,546) at one of four rates in the range 16.7 to 24.3 per cent (2011-12: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £25,827 (2011-12: £12,319) were paid to 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent (2011-12: 3.0 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay, and contribute a further 0.8 per cent of pensionable pay to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

	Year ended 31 March 2013 FTE	Year ended 31 March 2012 FTE
<b>Staff numbers</b>		
Finance & Corporate Resources	119	146
Institutional & Policy	88	64
Shared Resource	18	24
	<b>225</b>	234
Average number of contract, agency and temporary staff	29	15
	<b>254</b>	249

This note shows the average Full Time Equivalent (FTE) number of staff employed excluding the Chair.

The split of staff numbers has been reclassified to fit in with HEFCE's internal reporting.

Full Time Equivalent are classed as those staff who are employed on either permanent HEFCE contracts or fixed term contracts and paid directly from HEFCE payroll, including those on maternity leave. The staff numbers do not include any outward seconded staff.

Although the FTE for Chair is excluded from the above staff numbers, his costs are included within staff costs.



## 5 Other administration costs

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Non-pay administration costs</b>		
Policy Development	2,218	1,944
Staff related and general administrative expenditure	1,350	1,253
Rental payments under other operating leases	1,114	1,136
Premises costs	1,458	751
Office costs	589	864
Board and committee members' fees and expenses	127	176
Audit fee	59	62
Rental payments under plant and machinery operating leases	42	60
<b>HEFCE Administration costs</b>	<b>6,957</b>	<b>6,246</b>
	<hr/>	<hr/>
Administration costs for JISC-related activities*	2,115	2,847
<b>Total Administration costs</b>	<b>9,072</b>	<b>9,093</b>
	<hr/>	<hr/>

The analysis of expenditure shown above reflects the in-year management accounting process whereby HEFCE monitors and reports on its administration costs. **Staff related and general administrative expenditure** includes costs of recruitment, training and staff travel. **Policy Development costs** includes research and evaluation and other consultancy-related expenditure. **Premises costs** includes expenditure on rates, heat and light, building maintenance, equipment and furniture. **Premises costs** also include the costs of refurbishing our new London offices. These costs do not meet the criteria for capitalisation as the refurbishment entailed painting and decorating only, there was no significant re-structure work undertaken. **Office costs** include IT costs, catering and room hire, telecommunications, stationery and publications.

\*Administration costs for JISC-related activities relate to staff pay costs, office costs and T&S costs for staff employed at King's College and University of Bristol. From 1 December 2012 JISC became its own separate legal entity, therefore included in the above are the costs relating to 1 April to 30 November period.

## 6 Income

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Programmes</b>		
Income receivable from other funding councils:		
Department for Employment and Learning in Northern Ireland	54	561
Higher Education Funding Council for Wales	177	781
Scottish Funding Council	395	781
Other programme income	485	1,349
	1,111	3,472
<b>Administration</b>		
Income receivable from other funding councils:		
Department for Employment and Learning in Northern Ireland	217	207
Higher Education Funding Council for Wales	37	39
Scottish Funding Council	90	94
Receipts from the Office for Fair Access for services provided under the service level agreement	181	146
Income from conferences	20	19
Income from other activities	118	107
	663	612
<b>Total income</b>	<b>1,774</b>	<b>4,084</b>

HEFCE receives income from other funding councils and associated organisations in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector within the whole UK. These initiatives and national programmes do not meet the definition of jointly owned operations under IAS 31, and are therefore shown above.

As well as funding their share of the programme costs of these national programmes, the other funding councils share the costs incurred by HEFCE in managing and administering these programmes.

## 7 Property, Plant and Equipment

	Leasehold improvements	Furniture and fittings	Information Technology	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2012	16	18	105	139
Revaluation	0	0	1	1
Additions	0	0	121	121
Disposals	(6)	0	(27)	(33)
At 31 March 2013	10	18	200	228
<b>Depreciation</b>				
At 1 April 2012	16	11	65	92
Charge for period	0	7	66	73
Revaluation	0	0	0	0
Disposals	(6)	0	(27)	(33)
At 31 March 2013	10	18	104	132
<b>Net book value</b>				
At 31 March 2013	0	0	96	96

<b>Cost or valuation</b>				
At 1 April 2011	16	18	81	115
Revaluation	0	0	0	0
Additions	0	0	44	44
Disposals	0	0	(20)	(20)
At 31 March 2012	16	18	105	139
<b>Depreciation</b>				
At 1 April 2011	16	7	50	73
Charge for period	0	4	35	39
Revaluation	0	0	0	0
Disposals	0	0	(20)	(20)
At 31 March 2012	16	11	65	92
<b>Net book value</b>				
At 31 March 2012	0	7	40	47

This note shows the capitalised value of HEFCE's property, plant and equipment. HEFCE's office premises at Bristol and London are rented under operating leases and are disclosed in note 13 to the accounts.

**Embedded instruments in trade receivables/payables.** The fair value of an asset (or liability) may change when the carrying cost is affected by derivatives designed to hedge the forward cost of any contract for sale.

This could imply a financial risk to HEFCE. We have reviewed the balances of our supplier contracts for the financial year to 31 March 2013. We have found no evidence of material change in the fair value of current assets/liabilities.

As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

During the course of its business, HEFCE may on occasion make loans to Higher Education Institutions these are disclosed in Note 9a. HEFCE does not consider these to be a risk as repayments are deducted from future funding at source.

## 9a Recoverable grants

	<b>As at 31 March 2013 £000</b>	As at 31 March 2012 £000
<b>Recoverable grants</b>		
Balances as at 1 April	50,269	46,634
Advanced during the year	16,958	12,164
Recovered during the year	(10,580)	(8,529)
Balances as at 31 March	<u>56,647</u>	<u>50,269</u>
	<b>As at 31 March 2013 £000</b>	As at 31 March 2012 £000
<b>Balances at 31 March</b>		
Within one year	12,623	10,471
After one year	44,024	39,798
	<u>56,647</u>	<u>50,269</u>

The HEFCE Board has agreed the principles for providing recoverable grants. It has been agreed with BIS that the recoverable grants be reclassified as loans, and HEFCE has adjusted its accounting policy accordingly. This reclassification has made no impact on how they are treated.

These recoverable grants are provided within the total budgets of the following programmes:

- Poor estates
- Revolving Green Fund
- Strategic Development Fund
- Employer Engagement

None of the above recoverable grants are interest bearing. Recoverable grants are only provided for projects which meet the criteria for the particular programme. Amounts provided are within the total funding for the programme approved by the Board. Recoverable grants are normally for three to five years, but can be made for up to 10 years.

As at 31 March 2013, 17 organisations (2012: 18) had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £45,743,846 (2012: £46,739,649).

## 9b Trade and other receivables

	As at 31 March 2013 £000	As at 31 March 2012 £000
<b>Receivables due within one year</b>		
Programme prepayments	13,470	47,213
Programme receivables	254	1,148
Trade prepayments	237	347
Trade receivables	221	195
	<b>14,182</b>	<b>48,903</b>
<b>Receivables due after one year</b>		
Programme prepayments	16,250	17,563
	<b>30,432</b>	<b>66,466</b>
<b>Intra-government balances</b>		
Other central government bodies	372	1,285
Local authorities	0	0
NHS Trusts	0	0
Public corporations and trading funds	0	0
Balances with other government bodies	<b>372</b>	<b>1,285</b>
Balances with non-government bodies	<b>30,060</b>	65,181
<b>Total as per receivables' notes</b>	<b>30,432</b>	<b>66,466</b>

**Programme prepayments** relate to recovery of grant funding (or 'holdback') due from institutions. This relates to adjustments to payment of grant funding to HEIs (non-government bodies) where student numbers fall outside a standard percentage threshold, adjustments arising through data audits or through HESA-HESES reconciliation. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Discussions around data and possible recovery of grant funding happen on a continuous basis as a result of the data collection and audit programmes that run each year. Consequently, at year end, there may be continuing data audits or investigations where the outcomes, and any potential holdback, are not yet certain. Such amounts are not included within the above balances.

**Programme receivables** include contributions to national initiatives due from other funding councils. Contributions to HEFCE's administration costs for managing and administering these initiatives are included under **trade receivables**.

## 10 Cash and cash equivalents

	<b>As at 31 March 2013 £000</b>	As at 31 March 2012 £000
<b>Cash held under Government Banking Service</b>		
Balance at 1 April 2012	32,791	57,481
Net change in cash and cash equivalent balances	(1,618)	(24,690)
Balance at 31 March 2013	<u>31,173</u>	<u>32,791</u>
<b>Cash held under commercial banks and cash in hand</b>		
Balance at 1 April 2012	3	41
Net change in cash and cash equivalent balances	(2)	(38)
Balance at 31 March 2013	<u>1</u>	<u>3</u>
 Total cash and cash equivalents	 <u><u>31,174</u></u>	 <u><u>32,794</u></u>

	<b>Year ended 31 March 2013 £000</b>	Year ended 31 March 2012 £000
<b>Programme funds</b>		
Grant received	5,748,242	6,792,100
2 per cent thereof	114,965	135,842
Balances at year end	27,714	28,337
<b>Administration</b>		
Grant received	20,740	22,323
2 per cent thereof	415	446
Balances at year end	3,461	4,457

The framework document between HEFCE and BIS advises a minimum working balance consistent with the efficient operation of HEFCE. HEFCE's balances relate to timing differences in the payment of expenditure committed in 2012-13 academic year.

Since 2009 HEFCE has banked with the Government Banking Services (GBS). This is a Government-wide banking service provided jointly by Citibank and Royal Bank of Scotland, and overseen centrally by the GBS team, ultimately controlled by HM Treasury. HEFCE does not earn any interest on any balances held in GBS accounts.

## 11 Trade and other payables

	As at 31 March 2013 £000	As at 31 March 2012 £000
<b>Amounts falling due within one year</b>		
Trade payables	717	784
Administration accruals	486	1,309
Tax and social security	20	25
Programme payables	2,100	310
	<b>3,323</b>	<b>2,428</b>
<b>Intra-government balances</b>		
Other central government bodies	191	184
Local authorities	0	0
NHS Trusts	0	0
Public corporations and trading funds	0	0
Balances with other government bodies	0	0
	<b>191</b>	<b>184</b>
Balances with non-government bodies	<b>3,132</b>	2,244
<b>Total as per payables' notes</b>	<b>3,323</b>	<b>2,428</b>

**Trade payables** refers to non-pay administration expenditure.

**Administration accruals** contains staff annual leave accrual which is included to reflect the requirements of IAS 19.

The **tax and social security** payable is the element of VAT charged to OFFA on the HEFCE service level agreement, which is then paid to HM Revenue and Customs (HMRC). The agreement is charged quarterly and the VAT owing to HMRC for the quarter to 31 March is accrued.

**Programme payables** include claims received but not yet paid for capital projects where funding is granted on submission of a claim or profile.



## 12 Provisions for liabilities and charges

	Inherited staff liabilities £000	Admin provisions £000	Total  £000
<b>Provisions</b>			
Balance of provision at 1 April 2011	262,202	485	262,687
Provision utilised in year	(28,757)	(37)	(28,794)
Increase in provision	1,171	14	1,185
Unwinding of discount	7,342	14	7,356
Balance of provision at 31 March 2012	<u>241,958</u>	<u>476</u>	<u>242,434</u>

<b>Provision utilised in year</b>	<b>(28,270)</b>	<b>(29)</b>	<b>(28,299)</b>
<b>Increase/(Decrease) in provision</b>	<b>270</b>	<b>(37)</b>	<b>233</b>
<b>Unwinding of discount</b>	<b>6,775</b>	<b>13</b>	<b>6,788</b>
<b>Change in provision due to change in discount rate</b>	<b>6,767</b>	<b>10</b>	<b>6,777</b>
<b>Balance of provision at 31 March 2013</b>	<b><u>227,500</u></b>	<b><u>433</u></b>	<b><u>227,933</u></b>

### Analysis of expected timing of discounted flows

In the remainder of the Spending			
Review period to 2013	25,892	31	25,923
Between 2013 and 2018	100,612	402	101,014
Between 2019 and 2029	86,788		86,788
Thereafter	14,208		14,208
	<u>227,500</u>	<u>433</u>	<u>227,933</u>

HEFCE has three provisions as at 31 March 2013 (2012: three), one for **inherited staff liabilities** one for **early retirement costs** and one for **dilapidation costs**.

Provisions are discounted to net present value using the appropriate HM Treasury discount rate.

**Inherited staff liabilities** are certain staff-related commitments of HEIs that were previously Local Authority (LA) maintained. These liabilities were transferred from LAs to HEIs on incorporation and the Education Reform Act 1988 gave powers to the Polytechnics and Colleges Funding Council (PCFC) to reimburse institutions and LAs for such liabilities. Upon its formation HEFCE assumed the PCFC's main responsibilities and now provides funding for reimbursements as follows:

- early retirement or redundancy compensation payments
- protection of salary
- pension increases under the Local Government Superannuation Scheme for former non-teaching staff of institutions formerly funded by the PCFC.

HEFCE has provided for these ongoing reimbursements. As the provision estimate is based on a sample and uses various assumptions, the valuation obtained may vary from that which would be obtained if the data of all pension scheme members was made available to allow a full actuarial valuation. An independent review is undertaken periodically in order to verify the reasonableness of the provision. The latest review was carried out in 2010-11.

Current assumptions mean we expect payments to continue until at least 2035.

The provision value is an estimate based upon a sample of the underlying population, projected payments, mortality rates and other actuarial assumptions. The main assumptions used in the latest review were as follows:

- net real discount rate of 1.8 per cent per annum
- mortality based on PA92 year of birth tables
- payments based on 14 per cent early retirement compensation and 86 per cent pensions
- members with early retirement compensation have an average age of 78.4 years
- members with pension compensation have an average age of 79.1 years
- membership is 79 per cent male and 21 per cent female
- benefits contain a 50 per cent spouse's pension
- discount rate used for 31 March 2013 - 2.35 per cent

### Administration cost provisions

HEFCE has provided for **early retirement costs** relating to two members of staff (2012 two).

The balance of the provision for early retirement costs as at 31 March 2013 is £94,000 (2012: £124,000). Payments will continue until 2016.

HEFCE has also provided for the **dilapidation costs** for Northavon House in advance of the operating lease ending in 2015. There are no dilapidation costs to HEFCE when the operating lease at Centrepoint ended on 31 March 2013.

The balance of the provision for dilapidation costs as at 31 March 2013 is £339,000.

## 13 Commitments under leases

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Obligations under operating leases comprise:</b>		
<b>Buildings</b>		
Not later than one year	1,141	1,134
Later than one year and not later than five years	2,624	2,423
	<u>3,765</u>	<u>3,557</u>
<b>Other</b>		
Not later than one year	32	29
Later than one year and not later than five years	23	21
	<u>55</u>	<u>50</u>

This note shows HEFCE's future commitments under operating leases.

HEFCE leases its office buildings in Bristol and London. The Council's lease on its offices at Northavon House in Bristol expires on 24 December 2015. The Council's lease on its offices at Centrepoint in London expired on 31 March 2013. HEFCE now occupy new offices at Finlaison House with an initial 5 year lease due to expire 31 March 2018.

Operating leases shown in the **Other** category relate to the rental of office equipment.

## 14 Financial commitments and contingent liabilities as at end of period

	<b>As at 31 March 2013 £000</b>	As at 31 March 2012 £000
<b>Commitments</b>		
Grant committed for the period April to July	<b>1,776,030</b>	2,170,007
Grant committed for the next academic year	<b>4,472,000</b>	5,300,000
Grant committed for following academic years	<b>72,520</b>	36,391

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Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July).

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2013-14 academic year (HEFCE 2013/05) is available on HEFCE's web-site at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

The figure under 'grant committed for following academic years' shows funding allocated to individual institutions for payment from August 2014 onwards. This is mainly non-recurrent special funding for longer term capital programmes which is announced over spending review periods.

As at 31 March 2013 there were no contingent liabilities (2012: *nil*).

## 15 Payments to related bodies

	Year ended 31 March 2013 £000	Year ended 31 March 2012 £000
<b>Related bodies</b>		
British Universities Film and Video Council (BUFVC)	633	974
Equality Challenge Unit (ECU)	1,255	587
Foundation Degree Forward (FDF)	0	894
Higher Education Academy (HEA)	12,887	17,453
Higher Education Policy Institute (HEPI)	0	41
Higher Education Statistics Agency (HESA)	0	20
Quality Assurance Agency for Higher Education (QAA)	4,409	4,862
Research Information Network (RIN)	0	864
Leadership Foundation for Higher Education (LFHE)	1,332	1,146
JISC Content Procurement Company (JCPC), trading as JISC Collections	1,810	3,724
JNT Association trading as JANET UK	29,119	46,690
JISC Services Management Company, trading as JISC Advance	11,060	14,500
Jisc	24,877	0
	<b>87,382</b>	<b>91,755</b>

The term 'related body' describes an entity that is not a higher education institution or further education college, whose mission and activities are congruent with the broad strategic objectives of HEFCE and with whom HEFCE has a formal grant-funding relationship (or in the case of QAA, where the organisation is delivering a statutory function to HEFCE).

The relationship is governed by a funding agreement which sets out the terms and conditions of the grant, though it is important to note that the services of related bodies are received by the HE sector in general, not by HEFCE itself.

HEFCE has no power of control over most related bodies, who are legally owned by sector representative bodies such as Universities UK and Guild HE, and who are independent of HEFCE in terms of corporate governance and operational management. From 1 December 2012 JISC (now known as Jisc) became its own separate legal entity, and thus its relationship to HEFCE changed to related body. All of the other "JISC" associates ceased their relationship with HEFCE which now only has a relationship with Jisc.

In financial terms these related bodies are immaterial to HEFCE and so are not consolidated into HEFCE's accounts, in line with our accounting policies (see note 1). Similarly, the requirement under the FReM to provide information under the Companies Act 2006 does not apply on the grounds of materiality.

It should be noted that HEFCE ceased funding HEPI in 31 July 2011.

For certain related bodies, grants are paid to the host organisation, rather than directly to the related body:

- Funding to the Research Information Network is paid via the British Library.
- Funding to Foundation Degree Forward is paid via the University of Staffordshire

Further information on related bodies can be found at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About HEFCE/ Working in Partnership/Related Bodies.

## 16 Events after the Reporting Period

There have been no events after the statement of financial position date and up to the date the accounts were authorised for issue requiring an adjustment to the financial statements. The date the accounts were authorised for issue is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

## 17 Related party transactions

	Year ended 31 March 2013 £000
<b>Grant funding to institutions and other organisations</b>	
● University of Brighton: <b>John Harley*</b> , Deputy Chair	45,026
● Birkbeck College, University of London: <b>Dr Ruth Thompson*</b> , Governor	29,913
● Bromley College: <b>Frank Toop*</b> , Chair of Audit Committee	67
● Buckinghamshire New University: <b>Professor Ruth Farwell</b> , Vice-Chancellor.	16,812
● Cambridge University: <b>Professor Shirley Pearce</b> , Council member	190,324
● City University: <b>Frank Toop*</b> , University Secretary.	29,175
● Council for Industry and Higher Education: <b>Professor Madeleine Atkins</b> , Trustee	451
● Coventry University: <b>Professor Madeleine Atkins</b> , Vice-Chancellor.	45,905
● New College, Durham: <b>John Widdowson</b> , Principal.	3,348
● Goldsmiths College: <b>Frank Toop*</b> , member of the Audit Committee.	21,651
● Institute of Education: <b>Clifford Shanbury*</b> , Lay Member	13,890
● Kings College London: <b>Professor Anne Greenough</b> , Head of School of Medicine	133,486
● University College, London: <b>Professor Malcolm Grant</b> , President and Provost; and <b>Alison Woodhams*</b> , Director of Finance.	192,423
● London Business School: <b>Professor Malcolm Grant</b> , Governor	6,776
● London Metropolitan University: <b>Mark Robson</b> , Vice-Chairman	34,311
● Loughborough University: <b>Professor Shirley Pearce</b> , Vice Chancellor	57,970
● University of Manchester: <b>Anil Ruia</b> , Chair of Board of Governors.	181,459
● University of Newcastle: <b>Rob Douglas</b> , Advisory board member of Business School.	96,390
● University of Northampton: <b>Margaret Pratt*</b> , Governor.	21,892
● Staffordshire University: <b>Dr Ruth Thompson*</b> , Governor	42,285
● University of Westminster: <b>Dr Suzy Walton</b> , Deputy Chair	47,202

In the course of allocating funding during the year, HEFCE entered into material transactions with these organisations to which people who had been Board members, Audit Committee members, and senior employees during the year, shown above are related parties. HEFCE has had no material transactions with companies whose directors are closely associated with it. In this context, closely associated refers to Board members, Audit Committee members, or directors. These individuals may have other relationships through family members who are employees or students in institutions funded by HEFCE, or through membership of governing bodies. Details of relationships are held in HEFCE's register of interest and available on our web-site at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Board.

HEFCE is a non-departmental public body sponsored by BIS. BIS is regarded as a related party, as are sister funding bodies including the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Teaching Agency, and the Skills Funding Agency.

The University of the West of England is regarded as a related party as they own Northavon House in Bristol. HEFCE lease this building at an annual commercial rental of £887,090. During the financial year 2012-13 the University of the West of England received £53,075,418 of funding.

Included in the above figure paid to Kings College London is £1,867,227 which is the contribution towards the administration costs of the JISC-related activity.

There was one material outstanding balance at the end of 31 March 2013 relating to a recoverable grant of £7m with University of Manchester.

\* HEFCE Audit Committee member only.

## Appendix 1 Analysis of non-recurrent grant by strategic aim: unaudited

	Total for year ended 31 March 2013 £000	Total for year ended 31 March 2012 £000
<b>Learning, Teaching &amp; Student Choice</b>		
Capital for learning and teaching	32,296	43,069
Higher Education Academy*	10,842	15,059
Capital for further education colleges	3,526	3,000
Quality assurance (inc QAA*)	7,164	8,131
Employer Engagement/ECIF	9,040	10,801
Open education resource	1,559	2,538
National Teaching Fellowships	1,049	1,579
Strategically Important Vulnerable Subjects (SIVS)	1,000	0
Changing the Learning Landscape	377	0
Supporting Professionalism in Administration	334	0
Aimhigher (and associated initiatives)	149	18,083
Foundation degrees (inc FDF)	100	994
	<b>67,436</b>	<b>103,254</b>
<b>Research</b>		
Capital for research	177,871	201,205
Museums, galleries and collections	10,422	10,495
Research Information Network* (RIN)	44	864
Research Excellence Framework	383	1,386
	<b>188,720</b>	<b>213,950</b>
<b>Investment</b>		
Strategic Development Fund & Catalyst fund	37,922	87,821
JISC (inc BUFVC, JCPC and JANET UK)	73,892	67,245
London	15,693	15,574
Leadership, Governance and Management Fund	478	1,688
Revolving Green Fund	(3,189)	2,789
Leadership Foundation for Higher Education*	955	1,067
Equal Opportunities (funded via ECU)	1,251	576
Procurement initiatives	1,891	209
Higher education regional associations	144	163
Management costs for capital	20	220
Social Entrepreneurship	1,264	0
Other minor or finishing initiatives	0	(68)
	<b>130,321</b>	<b>177,284</b>
<b>Partnership</b>		
International Initiatives	520	605
Policy ongoing services	438	112
Higher Education Policy Institute	0	47
	<b>958</b>	<b>764</b>
<b>Information</b>		
Promoting Efficiencies	886	351
	<b>886</b>	<b>351</b>
<b>Total funding for initiatives</b>	<b>388,321</b>	<b>495,603</b>



The analysis on the previous page gives a breakdown of HEFCE's non-recurrent grant expenditure as shown in note 3 to the accounts.

HEFCE aim to provide as much as possible of funding for learning and teaching and research through the core/block grant. Further non-recurrent funding, in the form of earmarked capital and special funding, is provided for specific purposes and to promote change that cannot easily be achieved through other routes.

### **Earmarked capital**

In 2012-13 HEFCE allocated a total of £251 million for earmarked capital grants. Most of the earmarked capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund. Capital funding under these two streams for 2011 to 2015 was announced in 'Capital Investment Fund 2: capital allocations for Learning and teaching 2012-13; capital allocations for research 2011-15 (HEFCE 2011/08).

### **Special funding**

HEFCE allocate a small proportion of total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through the recurrent funding methods (such as support for national facilities). In 2012-13 HEFCE allocated a total of £144 million for special funding.

Pages 80 to 81 give a brief explanation of each programme.

## Learning, Teaching and Student Choice

### Capital for learning and teaching

Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure. This encompasses the HE in FECs Development Fund and funding for expansion of places in medical school.

**Higher Education Academy.** Funding for the Higher Education Academy to develop as a major resource for the sector to support quality enhancement, professional development and dissemination of good practice.

**Quality assurance.** Funding to secure the assessment of the quality of education provided by individual institutions.

**Open education resource.** Capital funding to support the development of on-line learning.

**Employer engagement.** Funding to support co-funded workforce development; to appreciate the requirements of the employers, and the general employability skills that are increasingly wanted in the workplace; to provide and adapt courses swiftly in response.

### National Teaching Fellowship Scheme (NTFS).

The NTFS recognised and rewards individual practitioners who have demonstrated excellence in learning and teaching.

### Strategically Important and Vulnerable

**Subjects.** HEFCE has agreed to co-fund, over a five year period, Centres of Excellence in undergraduate teaching of Quantitative Methods (QM).

**Changing the Learning Landscape.** A new programme of activity aimed at consolidating and maximising the value of the Open Education Resource capital programme.

### Supporting professionalism in admissions.

Funding to support the continuing development of fair admissions and good practice in admissions, student recruitment and widening participation across the sector.

## Research

**Capital for research.** Distribution of earmarked funding to assist with improving the infrastructure for research and knowledge transfer.

**Museums, galleries and collections.** Funding to support museums and galleries in the sector where the cost of stewardship goes beyond what universities could be expected to meet from mainstream funding for teaching and research.

**Research information resources.** A joint initiative with the Research Councils and the British Library to create a new national framework for UK research information provision.

**Research Excellence Framework (REF).** Funding for the new system for assessing the quality of research in the UK higher education institutions to be completed in 2014.

### High Performance Computing (HPC)

**Capital.** Funding to be invested in the SuperJANET 6 upgrade as part of a wider investment in high performance computing.

## Investment

### **Strategic Development/Catalyst Fund.**

The Strategic Development Fund was set up in 2003 to support change and innovation in the sector. This will be replaced by the Catalyst Fund from 2012-13 which will support two broad streams of activity: managing transition and promoting and enhancing activities for the public benefit.

**JISC-related activities.** Recurrent and capital funding to support strategic guidance, advice and opportunities in the use of information and communications technology in the higher education.

**London.** Targeted funding to support specific national facilities in London.

**Revolving green fund.** Funding to enable HEIs to overcome initial capital costs in order to implement sustainable development, undertaking projects which reduce greenhouse gas emissions. This involves the recycling of funds, and in some years this could lead to more funding being received back than paid out.

**Leadership governance and management fund.** Funding for projects that develop the application of good management practice in the higher education sector.

### **Procurement initiatives.**

Promotion of effective procurement and increased collaboration within the higher education sector. This includes shared services.

**Leadership Foundation for Higher Education (LFHE).** A resource to develop world-class programmes for leaders, governors and managers in higher education.

**Equal opportunities.** Funding for the Equality Challenge Unit (ECU) to support the work of HEIs in improving equal opportunities for their staff and to provide a sector-level view of progress.

**Higher education regional associations.** Funding towards the costs of the HE regional associations - which are membership organisations that represent HEIs in the regions.

## Partnership

**International initiatives.** Funding for specific projects to assist promotion of UK higher education overseas.

**Policy Ongoing Services.** Funding that contributes to the delivery of services directly to HEIs or other HE sector bodies (e.g hosting the KIS database).

**Higher Education Policy Institute (HEPI).** The institute is a company limited by guarantee whose function is to consider, develop, and promulgate policy advice and related matters in the field of UK higher education.

## Information

**Promoting efficiency.** Funding to support various initiatives to promote efficiency in the sector, including our costing and pricing activities, the Innovation and Transformation Fund and our ongoing support to the HE better regulation review group.

**Other minor or finishing initiatives.** Residual funding for a number of small initiatives including estates good practice, golden hellos for staff in specific subjects, Public Private Partnerships and Private Finance Initiatives.



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