

September 2014/20

Core funding/operations

Request for information

This document asks higher education institutions to send us their annual accountability returns for 2014.

Returns should be made in December 2014 and in January, February and July 2015

Annual accountability returns 2014

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Annual accountability returns 2014

To	Heads of HEFCE-funded higher education institutions
Of interest to those responsible for	Audit, Estates, Finance, Governance, Management, Planning, Student data, Research data
Reference	2014/20
Publication date	September 2014
Enquiries to	HEFCE higher education policy advisers (on data returns). HEFCE assurance consultants (for financial and audit accountability returns). AMS helpdesk (for annual monitoring), tel 0117 931 7309, e-mail ams@hefce.ac.uk . There are searchable contact details for HEFCE staff at www.hefce.ac.uk/contact/stafflist/ .

Executive summary

Purpose

1. This document asks higher education institutions (HEIs) to send us their annual accountability returns for 2014. The accountability returns are a significant part of the way in which HEIs can demonstrate accountability for the public funds distributed to them.

Key points

2. The various returns cover financial performance, financial sustainability, risk management, control and governance, value for money, the management and quality assurance of data, and opportunities and challenges for institutions. In addition to the documentation requested in the annual process itself, we will also consider other sources of assurance such as:

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

3. We will primarily use the information collected to:

- monitor the use of our funds for the purposes intended
- assess compliance with the Financial Memorandum (Memorandum of assurance and accountability from 1 August 2014)
- largely determine our risk assessments of each HEI

- form a basis for discussion with HEIs about their progress in key areas, their priorities for strategic development, and their current and future performance.
 - identify issues and developments across and within parts of the higher education sector, anticipate change and develop well-informed policy responses where necessary
 - inform our advice to the Secretary of State and the Department for Business, Innovation and Skills (BIS) on the provision of higher education in England.
4. We have made some changes to our requirements. See paragraph 16 for details.

Efficiency and value for money

5. HEFCE has been asked to work with BIS and Treasury ministers, the Research Councils and vice chancellors to build on the Diamond and Wakeham reviews to drive further and faster improvements in efficiency. Universities must continue to demonstrate good value for money and one way in which they can do so is share their annual value for money (VFM) reports with HEFCE. Therefore, HEIs are asked to submit an annual VFM report as part of the annual accountability returns in December. This is not a mandatory requirement, but we strongly encourage HEIs to submit this information to help provide a better evidence base of VFM activities in the sector. This reporting is intended as a non-burdensome opportunity to demonstrate the value for money institutions provide to students and the taxpayer.

Feedback following our review of the returns

6. We will share broad findings in a number of ways – for example, in our sector-wide report on our analysis of the financial health of the sector, and in our annual report on higher education in England. We may also use this information internally for other analyses relating to our functions, and such analyses may be shared with other public bodies (including BIS) as the need arises.

7. Following our review of the returns we will notify each HEI of our risk assessment through a letter to the chair of the governing body and the HEI's accountable officer usually during April or May 2015. This is an annual process but we may revisit an HEI's overall risk assessment at any time if there is a significant change in its circumstances. Until a new letter is issued, an HEI can assume that its last risk assessment letter is still valid.

Material adverse changes

8. We remind all HEIs of their obligation, under the Memorandum of assurance and accountability with HEFCE, that they should inform us of any material adverse change in their circumstances (see 'Memorandum of assurance and accountability between HEFCE and institutions', HEFCE 2014/12, paragraph 57).

Action required

9. The following requirements will apply.
- a. HEIs must submit, by **Monday 1 December 2014**, updated financial tables showing the actual performance and position for 2012-13 (pre-filled) and 2013-14,

along with a commentary that explains any significant changes from the data submitted in the July 2014 forecasts.

b. HEIs must submit, by **Friday 31 July 2015**, financial tables showing the probable results for 2014-15 and forecasts for 2015-16, 2016-17 and 2017-18, along with a full commentary that answers the questions specified.

We may exceptionally request that some institutions submit full forecasts in December, but this will be discussed with any institutions affected before the submission date.

10. More detailed guidance on the main documents to be returned is given at Annex A. Templates for the Annual Monitoring Statement (Annex B) and financial tables (see Annex C guidance) will be available by early October 2014. Templates for the financial commentary are given in Annex D. The template for the Annual Assurance Return is given at Annex E, with guidance at Annex F. Annex G gives information about where guidance on the HESES return may be found. The template for the Transparent Approach to Costing return will be available by early October 2014 (see Annex H).

11. We will write to the accountable officer, heads of finance and our Annual Monitoring Statement contacts in each HEI at the beginning of October with details on how to access the templates and return information to us.

12. Templates for the financial forecast tables for the July 2015 submission will be made available in April 2015. We will write to the heads of finance in each HEI in April with further guidance and details of how to access the template and return information to us.

Introduction

13. HEFCE takes assurance from a suite of accountability returns, including audited financial statements, financial forecasts and independent audit reports, which must be submitted to HEFCE under the terms of the Financial Memorandum. These provide HEFCE with a view of each higher education institution's (HEI's) risk management, control and governance, financial sustainability, arrangements for promoting value for money (VFM) and managing and quality assuring data. By using information and assurances, many of which are needed by the HEI for internal management and assurance purposes, HEFCE is able to minimise its audit requirements and reduce the burden of data returns.

14. Table A gives the annual accountability returns required together with their approval levels and submission dates. All the returns listed are to be submitted electronically via the secure area of the HEFCE web-site. It is good practice to inform the governing body of the schedule of annual accountability returns made to HEFCE.

Table A: Annual accountability returns

Return	Approval Level	Submission date
Annual assurance return	Accountable officer (for Part 1) Governing body (for Part 2).	1 December 2014
Signed audited financial statements	Governing body	
Financial results tables for 2013-14 Commentary: explanation of any significant variances between the current and July 2014 submissions	Governing body	
Audit committee annual report	Governing body	
External audit management letter and management responses	Reported to audit committee	
Internal audit annual report	Reported to audit committee	
Value for money report (optional)	Governing body or audit committee	
Annual sustainability assessment (optional)	Governing body	

Annual monitoring statement (AMS)	Accountable officer	3 December 2014
Higher Education Students Early Statistics Survey (HESES) 2014-15 return	Accountable officer	Noon 9 December 2014
Transparent Approach to Costing (TRAC) return	Governing body committee	30 January 2015 , although earlier returns would be appreciated.
Transparent Approach to Costing for (Teaching) return	Accountable officer	27 February 2015 , although earlier returns would be appreciated.
Financial forecast tables to 2017-18 Financial commentary	Governing body	31 July 2015

15. If the timetable creates difficulties for HEIs, we ask that they discuss the reasons with their HEFCE assurance consultant (for contact details see www.hefce.ac.uk/contact/stafflist/).

16. Please note the following changes and areas of interest in this year's guidance

a. **(New)** For the returns for the 2013-14 financial year the Financial memorandum (HEFCE 2010/19) will have applied¹. The Memorandum of assurance and accountability (HEFCE 2014/12) has applied since 1 August 2014, and should be taken into consideration when approving the annual accountability returns.

b. **(New)** With effect from 2013-14, compliance with the Concordat to support research integrity is a condition of HEFCE grant for all institutions eligible to receive HEFCE research funding (see 'Compliance with the Concordat to support research integrity', HEFCE Circular letter 21/2013). For 2013-14 only, in recognition that some institutions may require a period of time to achieve compliance, institutions receiving research grants from HEFCE may provide assurance either of their compliance, or that they are working towards compliance, with the Concordat. In the Annual assurance return (see Annex E), the accountable officer is asked to confirm whether the institution has been able to comply with the research integrity concordat in 2013-14 and to the date of the return (or if not, whether it has been working towards compliance).

c. **(New)** In line with our intention to reduce burden where possible, the financial tables in the December 2014 return will only include the actual data for 2012-13 and 2013-14. If there are material changes to the 2014-15 forecasts from

¹ HEFCE publications are available online at www.hefce.ac.uk/pubs/.

those submitted in July 2014, the relevant information and explanation in the commentary should be included.

d. **(New)** Streamlined guidance for the TRAC was published by the TRAC Development Group in August². This will apply for reporting from the academic year 2014-15 onwards, but institutions, may if they wish, adopt the new TRAC guidance early.

e. **(Revised)** Table 7 in the December return financial tables is used to review compliance with the Memorandum of assurance and accountability in relation to the level of financial commitments. This table should provide information on the financial commitments (including those not yet drawn down), defined as those that are or will be on balance sheet in accordance with accounting standards.

17. This publication gives guidance on all the annual returns apart from the HESES and HESA returns. Detailed guidance on the requirements of the HESES and HESA returns will be provided in a separate HEFCE publication ('HESES14: Higher Education Students Early Statistics survey 2014-15', expected to be published by the end of October 2014).

The impact of funding reforms and future context

18. Our February 2014 grant letter from BIS³ stated that HEFCE would distribute £4.04 billion funding for teaching, research, access, innovation and capital in the financial year 2014-15, and specified £3.96 billion as an indicative level of funding for the financial year 2015-16. (These figures exclude additional funding of £50 million for the National Scholarship Programme in 2014-15 and for postgraduate support in 2015-16.)

19. The Chancellor announced in the Autumn Statement that the Government would provide a maximum of 30,000 additional full-time student places in the academic year 2014-15 for HEFCE-funded institutions, and remove student number controls altogether for the academic year 2015-16 for publicly funded institutions. Although additional funding was made available for this growth in numbers (both through HEFCE funding and student finance), the level of HEFCE teaching grant is actually reducing because of general financial pressures on public finances. Details of this was provided in March 2014 in 'Recurrent grants and student number controls for 2014-15' (HEFCE 2014/05⁴).

20. HEFCE will continue to monitor the impacts of the Government's policy and funding reforms, as well as wider issues and developments affecting higher education in England. This will inform our advice to the Secretary of State on the provision of higher education in England and will help us to anticipate change and develop well informed policy responses where necessary.

Efficiency and value for money

21. BIS has noted the need for the sector to make greater progress in delivering efficiencies and that students will expect value for the fees they pay. HEFCE has been

² Available online at www.hefce.ac.uk/whatwedo/lgm/finsustain/trac/

³ Available online at www.hefce.ac.uk/news/newsarchive/2014/news85409.html

⁴ Available online at www.hefce.ac.uk/pubs/year/2014/201405.

asked to work with BIS and Treasury ministers, the Research Councils and vice-chancellors to build on the Diamond and Wakeham reviews to drive further and faster improvements in efficiency. HEFCE is also working with Professor Sir Ian Diamond and Universities UK on the latest review of efficiency in higher education institutions. In this context, universities must continue to demonstrate good value for money and one way in which they can do so is share their annual VFM reports with HEFCE.

22. HEIs are therefore strongly encouraged to submit an annual VFM report as part of the annual accountability returns in December. This is not a mandatory requirement, but this information will help provide a better evidence-base of VFM activities being undertaken in the sector. The VFM reporting is intended as a non-burdensome opportunity to demonstrate the value for money institutions provide to students and the taxpayer. HEFCE will not publish any individual reports but may use aggregated and anonymised information in reports, publications and policy making. Further details and guidance on the VFM reports are provided in Annex A.

Annual sustainability assessment (ASSUR) by institutional governing bodies

23. The Sustainability Metrics Steering Group recently agreed that for the 2013-14 financial year:

- ASSUR reporting would be requested on a voluntary basis for a second year
- the margin for sustainability and investment would be collected on a voluntary basis in the 2013-14 TRAC return.

24. The Financial Sustainability Strategy Group recently issued an update on the ASSUR project and next steps, and plans to issue further communications in respect of the ASSUR in the autumn⁵.

Feedback

25. For HEIs about which we have no major concerns or queries – the great majority – the main outcome will be a letter updating our risk assessment of the HEI and data that benchmark financial performance against the whole sector. This risk letter may contain comment on instances of non-compliance with the Financial Memorandum, the Audit Code of Practice, the Committee of University Chairs' Governance Code of Practice and relevant charities legislation. We may also use the risk letter to draw attention to areas of financial performance or other matters about which we are concerned. These are intended to highlight issues and risks to the HEI. Following our review of the returns we will notify each HEI of our risk assessment through a letter to the chair of the governing body and head. This is an annual process but we may revisit an HEI's overall risk assessment at any time if there is a significant change in its circumstances. Until a new letter is issued, an HEI can assume that its last risk assessment letter is still valid.

26. In addition to the risk letter, we will publish our assessment of the financial health of the sector. The relevant publication for the 2013 returns is 'Financial health of the higher

⁵ See 'Annual sustainability assessment by institutional governing bodies (6 August 2014)', available online at www.hefce.ac.uk/whatwedo/lqm/finsustain/current/.

education sector: 2012-13 financial results and 2013-14 forecasts' (HEFCE 2014/02)⁶. We will also publish our annual report on higher education in England.

Freedom of information

27. Information submitted to HEFCE may be disclosed on request, under the terms of the Freedom of Information Act 2000. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. We have a responsibility to decide whether any responses should be made public or treated as confidential. We may refuse to disclose information in exceptional circumstances, for example where disclosure of information would prejudice commercial interests, such as institutions' financial and strategic planning, or where the release of information could result in anti-competitive behaviour. For further information about the Act, including the particular circumstances when information may be withheld, see www.ico.gov.uk under 'Freedom of Information'.

Queries

28. HEIs should address questions about completing the AMS to the AMS helpdesk (tel 0117 931 7309, e-mail ams@hefce.ac.uk) and about HESES returns to their HEFCE higher education policy adviser. Questions about their other accountability returns should be addressed to their HEFCE assurance consultant or adviser (for contact details see www.hefce.ac.uk/contact/stafflist/).

⁶ Available online at www.hefce.ac.uk/pubs/year/2014/201402/.

Glossary

AMS	Annual Monitoring Statement
ASSUR	Annual Sustainability Assurance report
BIS	Department for Business, Innovation and Skills
CIF	Capital Investment Framework
CUC	Committee of University Chairs
EBITDA	Earnings before interest, tax, depreciation and amortisation
EU	European Union
FRS	Financial Reporting Standard
FSSG	Financial Sustainability Strategy Group
FTE	Full-time equivalent
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
HEIF	Higher Education Innovation Funding
HESA	Higher Education Statistics Agency
HESES	Higher Education Students Early Statistics Survey
MSI	Margin for sustainability and investment
PFI	Private Finance Initiative
PGR	Postgraduate research
PGT	Postgraduate teaching
RFI	Return for Finance and Investment
SFA	Skills Funding Agency
SORP	Statement of Recommended Practice
TRAC	Transparent Approach to Costing
UG	Undergraduate
UKPRN	UK Provider Reference Number
VFM	Value for money