

September 2011/28

**Core funding/operations**

**Request for information**

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This document asks higher education institutions to send us their annual accountability returns for 2010-11.

Returns should be made in  
December 2011 and June 2012

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# Annual accountability returns 2011

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# Annual accountability returns 2011

To	Heads of HEFCE-funded higher education institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Audit, Estates, Finance, Governance, Management, Planning, Student data, Research data
Reference	2011/28
Publication date	September 2011
Enquiries to	HEFCE higher education policy advisers (on annual monitoring and data returns)  HEFCE assurance consultants or assurance advisers (for financial and audit accountability returns)  There are searchable contact details for HEFCE staff at <a href="http://www.hefce.ac.uk/aboutus/cop/contact/">www.hefce.ac.uk/aboutus/cop/contact/</a> .

## Executive summary

### Purpose

1. This document asks higher education institutions (HEIs) to send us their annual accountability returns for 2011. The accountability returns form a significant way in which HEIs can demonstrate accountability for the public funds distributed to them.

### Key points

2. The accountability returns enable HEFCE to reassess HEIs' overall risk assessments and to ensure that HEIs are meeting their accountability responsibilities.
3. The various returns cover financial performance, financial sustainability, risk management, control and governance, value for money, and the management and quality assurance of data. In addition to the documentation requested in the annual process itself (as detailed below) we will also consider other sources of assurance.
4. For this year's process we are deferring the submission of financial forecast data (relating to the academic years 2012-13 to 2014-15) until 20 June 2012. The decision to defer submission of the financial forecasts has been taken due to the degree of uncertainty in the sector about, amongst other things, student number limits, future HEFCE funding and student recruitment in the new fee regime. Whilst not eliminating all of the uncertainty, deferral should enable institutions to produce more reliable forecast information for both HEFCE and internal use as the outcomes of the HEFCE grant letter from the Department for Business, Innovation and Skills, as well as the implications of the teaching funding consultation outcomes should be known. BUFDG, on behalf of the sector, has been consulted on the change. We require that both the December submission of the 2011

annual accountability returns and the submission of full financial forecasts information in June 2012 to be approved by the governing body. If the change in submission dates presents timetabling difficulties for governing body approval we would be content for approval to be delegated to the Chair or to the Finance Committee or equivalent and retrospective approval at the next governing body meeting. If this creates difficulties for institutions we request that they contact their HEFCE Assurance Consultant to discuss.

5. Following our review of the returns we will notify each HEI of our risk assessment through a letter to the chair of the governing body and head of HEI. This is an annual process, but we may revisit an HEI's overall risk assessment at any time if there is a significant change in circumstances. Until a new letter is issued HEIs can assume that the last risk assessment letter is still valid. We remind all HEIs of their obligation, under the Financial Memorandum with HEFCE, that they should inform us of any material adverse change in their circumstances (see 'Model Financial Memorandum between HEFCE and institutions', HEFCE 2010/19).

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

Annual assurance return Annual monitoring statement (AMS) Audited financial statements Financial results and forecast tables to 2011-12 Financial commentary on assumptions for 2011-12 forecasts Audit committee annual report External audit management letter and management responses Internal audit annual report Value for money report (optional)	1 December 2011
Higher Education Students Early Statistics Survey (HESES) 2011-12 return	9 December 2011
Transparent Approach to Costing (TRAC) return	31 January 2012
Financial forecast tables, 2011-12 to 2014-15 Financial commentary on future financial sustainability	20 June 2012

7. This publication gives guidance on the returns that are to be submitted to us by 1 December 2011 and, in the case of TRAC, by 31 January 2012. Note that this guidance lays out the minimum requirements for submission, and we request that HEIs provide all of the requested information in the return; for example, please ensure that your financial commentary answers **all** of the questions in the guidance. This publication also provides initial guidance on the financial forecast tables and commentary to be returned in June 2012, though we expect to re-issue guidance in early spring next year.

8. Detailed guidance on the requirements of the HESES return is provided in a separate HEFCE publication, 'HESES11: Higher Education Students Early Statistics Survey 2011-12' (HEFCE 2011/27). Please note that HEFCE has issued advanced notification of changes to the HESES return for 2011-12 ('Advance notification of changes to HESES and HEIFES for 2011-12', HEFCE Circular letter 17/2011).

9. We will primarily use the information collected to:
  - a. Monitor the use of our funds for the purposes intended.
  - b. Assess compliance with the Financial Memorandum (HEFCE 2010/19).
  - c. Form a basis for discussion with HEIs about their progress in key areas, their priorities for strategic development, and their current and future performance.
  - d. Largely determine our risk assessments of each HEI.
  - e. Identify trends across the sector and advise the Secretary of State for Business, Innovation and Skills on the needs and development of the higher education sector.

## Action required

10. The returns must be submitted by the deadlines shown in paragraph 17 **via the HEFCE extranet** (<https://extranet.hedata.ac.uk>). The required documents are:

- scanned PDF copy of the completed annual assurance return (Annex E) with part 1 signed by the accountable officer and part 2 signed by an appropriately authorised trustee (note: part 2 is not required from HEIs that are either not a charity, or are registered with and make an annual return directly to the Charity Commission)
- completed AMS template
- scanned PDF copy of the signed audited financial statements
- completed financial results and forecast tables
- financial commentary (for which detailed questions are provided in paragraph 46 and an optional template is provided in Annex C)
- audit committee annual report
- external audit management letter and management responses
- internal audit annual report
- value for money report (optional)
- completed TRAC return reporting for 2010-11.

Templates for the AMS, financial tables and TRAC return will be available by early October 2011. We will write to heads of finance and our AMS contacts in each HEI at the beginning of October with details on how to access the templates and how to return information to us.

## Introduction

11. Higher education institutions (HEIs) are required to send us their annual accountability returns. These form a significant part of the way in which HEIs can demonstrate accountability for the public funds distributed to them. Although HEFCE's role is changing we have been told we will continue with our current role and responsibilities until July 2013. This document requests the returns for 2011.
12. The accountability returns enable us to refresh our overall risk assessments of HEIs and to ensure that HEIs are meeting their accountability requirements.
13. The various returns cover financial performance, financial sustainability, risk management, control and governance, value for money (VFM), and the management and quality assurance of data. In addition to the documentation requested in the annual process itself (as detailed below), we will also consider other sources of assurance such as:
  - HEFCE assurance reviews
  - HEFCE data audits and reconciliation of data from Higher Education Students Early Statistics (HESES) returns and the Higher Education Statistics Agency (HESA)
  - reviews by the Quality Assurance Agency for Higher Education and the Office for Standards in Education
  - the Capital Investment Framework (CIF) and Estate Management Statistics.
14. Please note the following changes and/or areas of interest in this year's guidance:
  - a. The submission of the financial tables will be in two stages:
    - i. By 1 December 2011, the financial tables should be submitted containing the 2009-10 and 2010-11 audited numbers and the 2011-12 forecasts. The forecasts for future years are not requested for this submission date.
    - ii. By 20 June 2012, the financial tables should be submitted containing updated forecasts for 2011-12 and new forecasts for 2012-13, 2013-14 and 2014-15.

For this year's process we are deferring the submission of financial forecast data (relating to the academic years 2012-13 to 2014-15) until 20 June 2012. The decision to defer submission of the financial forecasts has been taken due to the degree of uncertainty in the sector about, amongst other things, student number limits, future HEFCE funding and student recruitment in the new fee regime. Whilst not eliminating all of the uncertainty, deferral should enable institutions to produce more reliable forecast information for both HEFCE and internal use as the outcomes of the HEFCE grant letter from BIS as well as the implications of the teaching funding consultation outcomes should be known. BUFDG, on behalf of the sector, has been consulted on the change. We require that both the December submission of the 2011 annual accountability returns and the submission of full financial forecasts information in June 2012 to be approved by the governing body. If the change in submission dates presents timetabling difficulties for governing body approval we would be content for approval to be delegated to the Chair or to the Finance Committee or equivalent and retrospective approval at the next governing body meeting. If this creates difficulties

for institutions we request that they contact their HEFCE Assurance Consultant to discuss.

b. The financial information completed for 2010-11 in the financial results and forecast tables should be consistent with both the audited financial statements and the data returned to the HESA Finance Statistics Return.

c. When returned the financial forecasts should include the institution's best estimates for the forecast period. We recognise that this return is a snapshot at a point in time and therefore request that if anything significant changes in your performance relative to forecast, you notify HEFCE through material adverse change outlined in the Financial Memorandum (FM) (HEFCE 2010/19, paragraph 18). Further guidance on what should be reported to HEFCE is noted in paragraph 27 of this document.

d. The financial commentary contains specific questions to which we require HEIs' responses (paragraph 46). Annex C presents a template for this, but we are happy to accept the HEI's own format where this information is available from documents produced for internal use and provided all of the questions are answered. We expect the financial commentary to be submitted by 20 June 2012 to include discussion of all of the questions in paragraph 46. Due to the deferral of submission of the forecasts and commentary, we expect HEIs to provide a short commentary in December 2011 which explains any material changes in the 2010-11 results and 2011-12 forecasts compared to the information returned to HEFCE in April 2011. Further details will be provided separately to heads of finance.

e. The student numbers returned in the financial forecast tables should be consistent with how HEIs return student number data to HESA ([www.hesa.ac.uk](http://www.hesa.ac.uk)).

f. Table 7 in the financial forecast tables is used to review compliance with the Financial Memorandum in relation to the level of annualised servicing costs (ASC) of long-term financial commitments. This table should provide information on the ASC of all long-term borrowings in place at the year-end (31 July 2011) and any additional borrowings drawn down or agreed at 31 October 2011. We use these data to calculate the annual revisions to the borrowing consent limits and to understand the borrowing behaviour in the sector. Therefore, it is important that the information includes all of the loans and that the ASC is calculated correctly. Guidance on calculating the ASC of long-term borrowing is provided in Annex F of the Financial Memorandum.

g. Following the Public Accounts Committee (PAC) hearing of March 2011 and its subsequent report<sup>1</sup> together with the current economic environment, there is increased focus on value for money for public funds provided in the higher education sector and for students in respect of the fee paid. Therefore, we are requesting submission of annual VFM reports – this is not a mandatory requirement, but is intended to be a non-burdensome way of addressing the concerns raised during the PAC discussions. As this is optional, we do not require these to be presented in a

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<sup>1</sup> Available at [www.publications.parliament.uk/pa/cm201012/cmselect/cmpublic/914/91402.htm](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpublic/914/91402.htm)

special format, but would be happy to receive a copy of such a report produced for internal purposes.

h. We no longer require submission of a corporate planning statement. This decision reflects our review of the returns requested and the need to minimise the accountability burden that we place on institutions, particularly given that we now request the VFM report as part of the annual accountability return.

i. We no longer require submission of the Research Activity Survey return because for 2012-13 onwards we will use HESA data on postgraduate research full-time equivalent (FTE) numbers to inform quality-related research degree programme supervision funding and research income from charities to inform quality-related research charity support funding. For more information see 'Discontinuation of the Research Activity Survey and future arrangements for data collection' (HEFCE Circular letter 19/2011)<sup>2</sup>.

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

k. The award of funding under the Overseas Research Students Award Scheme (ORSAS) has now finished. Questions about the use of ORSAS funding have been removed from this year's AMS.

l. For the 2011 AMS, we are asking HEIs to set out how they have invested CIF 1 funding.

m. The 'HE response to economic downturn' questions in the HEIF section of the 2010 AMS have been removed for this year, leaving only questions directly related to HEIF4.

n. We have included a question about the use of University Modernisation Fund monies and an invitation for HEIs to share innovative practice.

15. Following our review of the returns we will notify each HEI of our risk assessment through a letter to the chair of the governing body and head of HEI. This is an annual process, but we may revisit an HEI's overall risk assessment at any time if there is a significant change in circumstances. Until a new letter is issued HEIs can assume that the last risk assessment letter is still valid. We remind all HEIs of their obligation, under the Financial Memorandum with HEFCE (HEFCE 2010/19), that they should inform us of any material adverse change in circumstances.

16. We will primarily use the information collected to:

- a. Monitor the use of our funds for the purposes intended.
- b. Assess compliance with the Financial Memorandum.
- c. Form a basis for discussion with HEIs about their progress in key areas, their priorities for strategic development and their current and future performance.
- d. Largely determine our risk assessments of each HEI.

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<sup>2</sup> All HEFCE publications are available in full at [www.hefce.ac.uk/pubs](http://www.hefce.ac.uk/pubs).



e. Identify trends across the sector and advise the Secretary of State for Business, Innovation and Skills on the needs and development of the HE sector.

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

Annual assurance return Annual Monitoring Statement (AMS) Audited financial statements Financial results and forecast tables to 2011-12 Financial commentary on assumptions for 2011-12 forecasts Audit committee annual report External audit management letter and management responses Internal audit annual report Value for money report (optional)	1 December 2011
HESES 2011-12 return	9 December 2011
Transparent Approach to Costing (TRAC) return	31 January 2012
Financial forecast tables, 2011-12 to 2014-15 Financial commentary on future financial sustainability	20 June 2012

Templates for the AMS, financial tables and TRAC return will be available by early October 2011. We will write to heads of finance and our AMS contacts in each HEI at the beginning of October with details on how to access the templates and how to return information to us.

18. This publication gives guidance on the returns on all the annual returns apart from the HESES return. Detailed guidance on the requirements of the HESES return is provided in a separate HEFCE publication ('HESES11: Higher Education Students Early Statistics Survey 2011-12', HEFCE 2011/27).

19. Since June 2010, HEFCE has been the principal regulator of the HEIs in England that are exempt from registration with the Charity Commission. This requires the regular monitoring of those HEIs as charities. The Accounts Direction to higher education institutions for 2010-11 financial statements (HEFCE Circular letter 19/2010) and revised Accounts Direction for 2010-11 (HEFCE Circular letter 20/2011) set out the reporting requirements for exempt charity HEIs, and they are noted for ease of reference in paragraph 39 of this document. Further guidance on reporting and on HEFCE's responsibilities as principal regulator is available in Annex H of the Financial Memorandum and at [www.hefce.ac.uk/charityreg](http://www.hefce.ac.uk/charityreg). Annex H includes the requirement for HEIs to update the charity information gateway pages on their web-sites by 31 January 2012.

## The future context

20. Our December 2010 grant letter from the Department for Business, Innovation and Skills (BIS)<sup>3</sup> set out that HEFCE would distribute £4.6 billion for teaching in the financial year 2011-12 and specified £3.8 billion as an indicative level of funding for financial year

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<sup>3</sup> This can be read in full at [www.hefce.ac.uk/finance/fundinghe/grant/](http://www.hefce.ac.uk/finance/fundinghe/grant/).

2012-13. Future years' funding is still to be confirmed but the Department has indicated that by the financial year 2014-15 HEFCE's teaching funding will reduce to £2 billion.

21. The December 2010 grant letter to HEFCE from BIS also signalled that the Government would set some new directions for HE, signalled in the Comprehensive Spending Review, and the Government's response to Lord Browne's report on higher education funding and student finance<sup>4</sup>. The Government's overall thinking and plans for HE are specified in more detail in the recent HE White Paper<sup>5</sup>. However, for 2011-12 and 2012-13, BIS expects HEFCE to continue to perform its current role on its existing statutory basis.

22. Subsequent to the December 2010 grant letter to HEFCE, legislation was implemented to allow institutions to increase the fees charged to students, alongside the significant reductions in the amount of public funding for teaching that is administered through HEFCE (see paragraph 20). We expect institutions to include their assumptions about future funding in their forecasts and to detail these in the accompanying financial commentary.

23. The White Paper heralds a period of significant change in the way teaching and learning are funded and overseen. Alongside the consultation on the White Paper, HEFCE has run a consultation on funding for teaching and student number allocation in 2012-13 ('Teaching funding and student number controls: Consultation on changes to be implemented in 2012-13', HEFCE 2011/20). Institutions should ensure that they consider the outcome of these proposals, when published later this year, when preparing their assumptions and developing their financial forecasts for submission on 20 June 2012.

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

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

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

## Guidance

### Annual assurance return

25. The purpose of this return is to confirm that the HEI's accountable officer has met their obligations to HEFCE under the Financial Memorandum (HEFCE 2010/19, paragraphs 12-27). We are requesting completion of Annex E of the Financial Memorandum (HEFCE 2010/19).
26. The return should cover the period to the financial year-end (31 July 2011) but should also report on any issues that have occurred since then. The return is in two parts:
- a. Part 1 should be signed by the head of the HEI as the accountable officer. No other signatory is acceptable since the accountable officer responsibility cannot be delegated.
  - b. Part 2 is not required from HEIs that are either not a charity or are registered with, and make an annual return directly to, the Charity Commission. For all other HEIs, part 2 should be signed by the accountable officer, unless they are not a trustee, in which case it should be signed by an appropriately authorised trustee. In all cases the return should normally be approved by the governing body as the trustees of the HEI.
27. The Financial Memorandum requires that the institution inform us of any change in its circumstances which – in the judgement of the accountable officer and in agreement with the governing body – is a material adverse change, as well as any significant developments that could impact on the mutual interests of the institution and HEFCE (HEFCE 2010/19, paragraph 18). HEFCE 2010/19, Annex B, paragraphs 14-17, provide more details of this process and an indicative, but not exhaustive, list of what should be reported to HEFCE. In signing part 1 of the annual assurance return, the accountable officer is declaring that any such events have been notified to HEFCE. These include but are not limited to:
- a. Any financial loss or reduction in income or working capital which is significant enough in the accountable officer's judgement to materially impact on the financial outturn or the cash position.
  - b. Any new decision to invest or expend funds which in the accountable officer's judgement will have a material impact on the forecast position as reported to HEFCE in the most recent annual accountability exercise.
  - c. Any new or changed risks which in the accountable officer's judgement are significant enough to affect the institution's future sustainability.
  - d. Any theft, fraud, loss of charity assets or other irregularity that meets one or more of the following conditions:
    - i. where the sums of money involved are, or are potentially, in excess of £25,000 (this figure aligns with reporting requirements for charities and we will keep it under review and notify changes through our annual accounts direction)
    - ii. where the particulars of the fraud, theft, loss of charity assets or other irregularity may reveal a systemic weakness of concern beyond the institution, or are novel, unusual or complex

- iii. where there is likely to be public interest because of the nature of the fraud, theft, loss of charity assets or other irregularity, or the people involved.

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

28. In addition, in signing this return the accountable officer is confirming that the HEI has returned all the relevant accountability returns and that these are accurate, adhere to the published requirements and have been through the appropriate approval process. The return to be completed, Annex E, may be downloaded from [www.hefce.ac.uk/pubs](http://www.hefce.ac.uk/pubs) alongside this document, or from the HEFCE extranet in October 2011.

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

### **Annual monitoring statement**

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

31. Each HEI should provide assurance on the use of special initiative funding for 2010-11 and report any underspend. We also request information on equality and diversity to fulfil our statutory duty under the Race Relations (Amendment) Act 2000, the Disability Discrimination Act 2005 and the Equality Act 2010.

32. In all cases we are requesting information on activities running from 1 August 2010 to 31 July 2011. Although the questions will ask HEIs to report against the position at 31 July 2011, we expect HEIs to provide details on any significant changes since then, which should be described in the appropriate text box. This is to make sure that we are working with the most up-to-date information when reviewing the returns.

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

34. As part of our consultation 'Higher education in further education colleges: consultation on HEFCE policy' (HEFCE 2006/48) we proposed that indirect funding agreements should be long-term associations between member institutions and should provide security of funding and student numbers over an agreed period, typically a minimum of three years, to support a more strategic approach. The proposal received extremely strong support, both from further education colleges and HEIs. HEFCE is interested in knowing how widely the proposal has been adopted, and in the AMS we again

ask whether security of funding and student numbers is provided for the recommended three-year minimum. Where this is not the case, we request further details.

35. For the 2011 AMS, we are asking HEIs to set out how they have invested CIF 1 funding (both learning and teaching, and research capital) over the three years from 2008-11 and what benefits have been achieved through that funding.

36. Annex A includes the sample AMS for the 2011 return; the actual AMS template for completion will be supplied in early October 2011.

### **Audited financial statements**

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

38. HEIs are required to follow the latest version of the 'Statement of recommended practice: accounting for further and higher education'<sup>6</sup> (SORP) in preparing their financial statements. HEIs should also comply with 'HEFCE's Accounts Direction to higher education institutions for 2011-12 financial statements and revised Accounts Direction for 2010-11' (HEFCE Circular letter 20/2011). The audited financial statements should, as a minimum, include:

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

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

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

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<sup>6</sup> The latest version (2007) is available from [www.universitiesuk.ac.uk/Publications/Pages/Default.aspx](http://www.universitiesuk.ac.uk/Publications/Pages/Default.aspx).

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

- iv. Funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them. In particular, auditors should have regard to the specific requirements of the Financial Memorandum, such as compliance with the short-term and long-term borrowing conditions.
  - e. Disclosures and reporting required to meet the institution's charitable obligations (see paragraph 39 for details).
39. New reporting requirements for HEIs that are exempt charities have been included in the revised Accounts Direction for 2010-11. Guidance about these requirements is available at [www.hefce.ac.uk/charityreg](http://www.hefce.ac.uk/charityreg). For ease of reference the main requirements for 2010-11 are listed below:
- a. The exempt or registered charitable status of the HEI.
  - b. The trustees who served at any time during the financial year and until the date the financial statements were formally approved.
  - c. A statement that the trustees of the charity have had regard to the Charity Commission's guidance on public benefit.
  - d. A report on how during the year the HEI has delivered its charitable purposes for the public benefit.
  - e. Information about payments to or on behalf of trustees, including: expenses; payments to trustees for serving as trustees (and waivers of such payments); and related party transactions involving trustees.
  - f. Details of HEIs 'paragraph (w)' linked charities:  
For each paragraph (w) charity that has income in the year of £100,000 or more:
    - i. The name and charitable purpose.
    - ii. The opening balance, income and expenditure for the year, and closing balance.
 For all other paragraph (w) charities:
    - iii. An analysis into appropriate groups (for example: prize funds, bursary/scholarship funds, research support funds) stating the number of entities in each group.
    - iv. For each group: the aggregate opening balances, income and expenditure for the year, and closing balances. (Note: the terms 'opening' and 'closing' balance should be interpreted as total reserves where the paragraph (w) charity is an operating charity.)
 A possible (non-mandatory) layout for these linked charity disclosures is available in the guidance referred to above.

## **Financial results and forecast tables**

40. The submission of the financial tables are requested in two stages:

a. By 1 December 2011, the financial tables should be submitted containing the 2009-10 and 2010-11 audited numbers and the 2011-12 forecasts. The forecasts for future years are not requested for this submission date.

b. By 20 June 2012, the financial tables should be submitted containing updated forecasts for 2011-12 and new forecasts for 2012-13, 2013-14 and 2014-15.

41. By 1 December 2011 we request financial tables to include the actual figures from the two most recent sets of audited financial statements (2009-10 data will be pre-filed by HEFCE), together with updated budget for 2011-12. By 20 June 2012 we request financial tables to include any material updates to 2011-12 and forecasts for the period 2012-13 to 2014-15 which should present the HEI's strategic plan in financial terms. The forecasts should be based on realistic assumptions and be consistent with the accounting treatment in the financial statements. Annex B includes further guidance on completing the tables.

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

43. In developing the financial forecasts, HEIs must take account of the changing funding environment, their own plans regarding fee levels, and assumptions about the impact of these on demand. Further guidance will be issued in spring next year.

44. We require that both the 2011 annual accountability returns and the submission of full financial forecasts information (up to 2014-15) submitted by 20 June 2012 to be **approved by the governing body**. If the change in submission dates presents timetabling difficulties for governing body approval we would expect approval to be delegated to the Chair or the Finance Committee or equivalent and retrospective approval at the next governing body meeting. If this creates difficulties for institutions we request that they contact their HEFCE Assurance Consultant to discuss.

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

45. The financial commentary is an integral part of the overall financial return, explaining forecast financial performance in the context of recent financial results. We would expect the commentary to be consistent with the operating and financial review in the audited financial statements, in respect of both past performance and future prospects. In addition to aiding our understanding of each HEI's specific circumstances, the commentaries (taken together) will further our understanding of the sector as a whole. In order to help HEIs in responding to all of the required questions in this section, we have provided a template for completion in Annex C. Use of the template is optional: the commentary may instead be a document already produced by an HEI for its own planning purposes. However, it is expected that HEIs will address **all** of the questions in paragraph 46 regardless of the format used for the commentary. **The governing body should discuss and approve the financial tables and commentary before they are submitted to us.**

46. Following discussion with BUFDG, we have amended the questions in the financial commentary, as follows:



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

47. Where the commentary outlined above has not been provided to a satisfactory level of detail, or if the information provided is not consistent with the operating and financial review, we will follow up with the relevant contacts at the HEI to obtain the required information.

48. We expect the financial commentary to be submitted by 20 June 2012 to include discussion of all of the questions in paragraph 46. Due to the deferral of submission of the forecasts and commentary, we expect HEIs to provide a short commentary in December 2011 which explains any material changes in the 2010-11 results and 2011-12 forecasts compared to the information returned to HEFCE in April 2011. Further details will be provided separately to heads of finance.

### **Audit committee annual report**

49. As stated in the Audit Code of Practice (Annex B to 2010/19) the HEI's audit committee must produce an annual report for the governing body and the accountable officer. The audit committee annual report should cover the financial year 2010-11 and include any significant issues (including its consideration of the 2010-11 financial statements, and internal and external audit reports) up to the date of preparation of the report. The audit committee annual report should normally be considered by the governing body before the annual financial statements are signed.

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

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

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

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

- the external auditors' management letter (for both 2009-10 and 2010-11)
- the internal auditors' annual report (for both 2009-10 and 2010-11)
- the committee's consideration of the performance of the internal and external audit services
- any VFM work
- any HEFCE assurance service or other relevant evaluation.

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

### **External audit management letter**

53. External auditors should report to each HEI by way of a management letter (or audit issues memorandum) that highlights any significant accounting and control issues arising from the audit. **Where issues are communicated through more than one report** (for example, a separate report covering information technology audits or governance issues or a separate report detailing management's responses), **the additional reports should also be submitted to HEFCE** – these should all be submitted **as a single document**. Further, the HEI's management should provide written responses to any recommendations made or issues raised and these must be submitted to HEFCE.

### **Internal audit annual report**

54. The internal audit annual report should relate to the financial year 2010-11 and include any significant issues up to the date of preparing the report that affect the opinion. This should be addressed to the governing body and the accountable officer, and should be considered by the audit committee.

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

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

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

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

## Value for money report

57. Following the PAC hearing into 'Regulating financial sustainability in higher education' and the subsequent report<sup>7</sup>, and given the current economic environment, there is increased focus on value for money for public funds provided in the HE sector, and for the student in return for the fee paid. In addition, UUK published a report<sup>8</sup> on 15 September noting that efficiency and effectiveness are key priorities for the UK higher education sector, but that universities must continue to demonstrate good value for money in the new funding environment. We note that around half of institutions voluntarily submitted their annual VFM reports as part of their 2010 annual accountability return when asked about recent implementation of VFM initiatives.

58. Therefore, HEIs are asked to submit an annual value for money report via the HEFCE extranet by 1 December 2011 – this is not a mandatory requirement, but is intended to be a non-burdensome way of addressing the concerns raised during the PAC discussions. If provided, the report should provide commentary on how the institution delivers economy, efficiency and effectiveness, in other words how the institution makes the best use of the resources it has available to achieve the desired output and maximise the benefit of that output.

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

## Transparent approach to costing return

60. In the HE White Paper, HEFCE is asked to consult with the sector on radically streamlining the reporting requirements of TRAC. This consultation is likely to take place in spring 2012. TRAC reporting for 2010-11 remains unchanged (with exception to a refinement in the calculation of the Return for Financing and Investment cost adjustment<sup>9</sup>) and therefore HEIs are asked to submit an annual TRAC return via the HEFCE extranet (see paragraph 66) by 31 January 2012. Although the deadline for submission is 31 January 2012, earlier returns would be appreciated. A separate letter will be issued in respect of the TRAC for teaching (TRAC(T)) return, which is required by 29 February 2012.

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

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<sup>7</sup> Available at [www.publications.parliament.uk/pa/cm201012/cmselect/cmpublic/914/91402.htm](http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpublic/914/91402.htm)

<sup>8</sup> 'Efficiency and effectiveness in higher education: A report by the Universities UK Efficiency and Modernisation Task Group', available at [www.universitiesuk.ac.uk/Publications/Documents/2011/EfficiencyinHigherEducation.pdf](http://www.universitiesuk.ac.uk/Publications/Documents/2011/EfficiencyinHigherEducation.pdf)

<sup>9</sup> See TRAC update 6 on the TRAC guidance web pages ([www.icpsg.ac.uk/guidance/revisions/](http://www.icpsg.ac.uk/guidance/revisions/))

62. The template incorporates in a single return:
- a. The annual TRAC reporting requirements.
  - b. The charge-out rates for research collected on behalf of Research Councils UK (RCUK), which will be used by RCUK and institutions for benchmarking purposes.
63. To help improve the quality of data submitted, automatic and self-validation checks are incorporated within the return. We also request a written commentary from institutions to explain data that falls outside the parameters set in the return and any material unusual movements when comparing 2010-11 with 2009-10 outputs as shown in the summary worksheet.
64. The TRAC pages on our web-site provide an update on guidance and development of TRAC methodology and remind institutions of the key issues ([www.hefce.ac.uk/trac](http://www.hefce.ac.uk/trac)).
65. In reporting these data, the head of the institution should review the return for reasonableness, confirm compliance with all TRAC requirements and confirm that the institution's committee of the board (the committee should have a lay member majority) has specifically confirmed compliance with the statement of requirements. Annual TRAC figures and an analysis of the year-on-year changes in the figures (including the full economic costing rates) should also be presented to this committee before they are reported. Where the timing of the board committee meeting makes this difficult, chairman's action, or approval by a management committee, can be used prior to submission, to confirm compliance. Presentation to an appropriate board committee after submission should then follow. Responsibility for confirming compliance still rests with the board committee. Any areas of non-compliance should be immediately addressed and, where this is not possible, an action plan drawn up to address these areas in a reasonable timescale.
66. The 2011 versions of the sample TRAC return form in PDF format, and the income allocation guidance and schedule (Annex 16), will be available to download from the TRAC Guidance web-pages ([www.jcpsg.ac.uk/guidance/annexes.htm](http://www.jcpsg.ac.uk/guidance/annexes.htm)) during October 2011. Your institution's individualised template for completion of the TRAC data return should be downloaded and submitted via the HEFCE extranet. Details of how to access the extranet will be sent to the HEI's director or head of finance.
67. We will report to BIS on the sector aggregate TRAC return data, which we expect to publish. For further information about the TRAC reporting requirements, contact your HEFCE assurance consultant. Details of all HEFCE contacts for your institution (for contact details see [www.hefce.ac.uk/aboutus/cop/contact/](http://www.hefce.ac.uk/aboutus/cop/contact/)). For further advice the TRAC Support Unit (tel 0115 935 3400, e-mail [trachelpdesk@kpmg.co.uk](mailto:trachelpdesk@kpmg.co.uk)) has responsibilities in the following areas:
- provision of the TRAC Helpdesk (covering all aspects of the TRAC guidance, annual TRAC, TRAC(T) and TRAC EC-FP7)
  - policy research and support to the Financial Sustainability Strategy Group and the TRAC Development Group; TRAC Guidance research and development
  - communication with the sector on TRAC
  - support for the TRAC Self Help groups

- promulgation of TRAC among the sector's stakeholders.

## Higher Education Students Early Statistics Survey

68. All HEIs must complete the annual survey of students on recognised HE courses. Detailed guidance on this return ('HESES11: Higher Education Students Early Statistics Survey 2011-12', HEFCE 2011/27) is available at [www.hefce.ac.uk/pubs](http://www.hefce.ac.uk/pubs).

69. The HESES return should be uploaded to the HEFCE extranet by noon on 9 December 2011. Workbooks will be available for HEIs in November.

## Submission of the returns

70. The returns should be submitted as follows.

Electronic copies of the following should be submitted via the HEFCE extranet by **Thursday 1 December 2011**:

- completed annual assurance return (Annex E) with part 1 signed by the accountable officer and part 2 signed by an appropriately authorised trustee (note: part 2 is not required from HEIs that are either not a charity or are registered and make an annual return directly to the Charity Commission)
- completed AMS template
- signed audited financial statements
- completed financial results and forecast tables to 2011-12
- financial commentary on 2010-11 results and 2011-12 forecasts
- audit committee annual report
- external audit management letter and management responses
- internal audit annual report
- value for money report (optional).

Electronic copies of the following should be submitted via the HEFCE extranet by **Wednesday, 20 June 2012**:

- completed financial forecast tables for 2011-12 to 2014-15
- financial commentary on future financial sustainability.

Further information on this process will be sent to heads of finance and AMS contacts in October 2011. The submission of the TRAC return is outlined in paragraphs 60-66.

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

## Feedback

72. The main purpose of asking for submission of accountability returns once a year is to simplify the accountability process. For HEIs about which we have no major concerns or queries – the great majority – the main outcome will be a letter updating our risk assessment of the HEI and data that benchmark financial performance against the whole

sector. This risk letter may contain comment on instances of non-compliance with the Financial Memorandum, Audit Code of Practice and the CUC Governance Code of Practice. We may also use the risk letter to draw attention to areas of financial performance or other matters over which we have concern. These are intended to be helpful in highlighting issues and risks to the HEI. Risk letters are normally issued to the accountable officer and chair of the governing body following the reviews of the annual accountability returns, but exceptionally can be issued at any point in time during the year. Due to the deferral of submission of the full financial forecasts the risk letters in 2012 may be issued later in the year. Until a new letter is issued HEIs can assume that the last risk assessment letter is still valid.

73. In addition to the risk letter, we will publish an outcomes document reporting on our review of the returns. This will include our assessment of the financial health of the sector and will provide feedback, at a sector level, on the accountability returns themselves. The relevant publications for the 2010 returns are 'Financial health of the higher education sector: 2009-10 financial results and 2010-11 forecasts' (HEFCE 2011/06) and 'Financial health of the higher education sector: Including overview of 2009-10 annual accountability returns' (HEFCE 2011/23).

### **Freedom of information**

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

### **Queries**

75. HEIs should address questions about completing the AMS and HESSES returns to their HEFCE higher education policy adviser. Questions about the other accountability returns should be addressed to their HEFCE assurance consultant or adviser (for contact details see [www.hefce.ac.uk/aboutus/cop/contact/](http://www.hefce.ac.uk/aboutus/cop/contact/)).

## **Annex A Sample annual monitoring statement 2011**

This annex is for reference only. Templates for the AMS will be available in early October 2011. We will write to our AMS contacts in each HEI in October with details on how to access the templates and how to return information to us.

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

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

Response Yes/No

If 'no', please give further details.

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

2. Have you made progress as planned in 2010-11 towards delivering the activities and outcomes you set out in your Higher Education Innovation Fund round four (HEIF 4) strategy?

Response Yes/No

If 'no' please explain the reasons for this, in not more than 300 words.

3. Funding for HEIF 4 ended in July 2011, therefore all underspends need to be reported here, regardless of size. All substantial underspends will be fully investigated by HEFCE, with emphasis placed particularly on scrutinising and potentially recovering significant underspent funds from those HEIs receiving increased allocations in HEIF11-15 (on grounds that these may not be able to deliver value for money from the combination of a substantial past underspend and a substantial present uplift) .

For 2010-11 your HEI received £XXXX for HEIF 4. Did any funds remain unspent at the end of academic year 2010-11?

Response Yes/No

If 'yes' please state the amount and explain the reasons for this, in not more than 300 words. (Your explanatory text should include any spending since 31 July 2011.)

4. Please provide a summary (400 words maximum) of the key achievements of the year linked to HEIF 4 formula funding, referring to flagship projects identified in your institutional strategy.

### **Equality and diversity monitoring**

5. Have you made progress or met your objectives from last year as set out in your 2010-11 equality action plan?

Response Yes/No

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

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

8. Please highlight any particular achievements.

9. Please briefly describe your key equality objectives and/or actions for 2011-12.

### **Revolving Green Fund (transformational strand)**

#### **Capital funding**

10. During the three years from 2008-09 to 2010-11 your HEI received capital funding under the Capital Investment Fund either by having met the requirements of the CIF or by providing programme and project information. Please explain, in a maximum of 250



words how your institution invested the CIF 1 funding (both teaching and research capital) over the three years and what benefits have been achieved through that funding.

### **University Modernisation Fund (UMF)**

11. For 2010-11 your HEI received UMF money, and you have self-certified that this was fully spent by 31 March 2011. Please provide information about how the funding was spent, in not more than 300 words. We may publish examples of efficiency measures which represent innovative practice.

12. Did any funds remain unspent at the end of academic year 2010-11?

Response Yes/No

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

### **Revolving Green Fund (transformational strand)**

13. Your HEI was awarded funding under the transformational strand of the Revolving Green Fund in March 2009. Have you made progress as planned in 2010-11 towards implementing the project, and is the project due to be completed on the agreed date?

Response Yes/No

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

## **Annex B Financial results and forecast tables 2011: guidance**

### **Approach to forecasting**

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

### **Accounting conventions**

2. The main financial tables follow the format of the 'Statement of recommended practice: accounting for further and higher education' (SORP) introduced from 1 August 2007<sup>10</sup>. The financial information should therefore comply with all Financial Reporting Standards (FRSs) effective as at 31 July 2011. In particular, HEIs should apply the definition of terms in the SORP when completing the return and be consistent with the accounting policies used in HEIs' 2010-11 financial statements.

### **Consolidation**

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

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

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

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

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

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<sup>10</sup> The latest version (2007) is available from [www.universitiesuk.ac.uk](http://www.universitiesuk.ac.uk) under Publications.

## Tables to be completed

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

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

7. A sample of the financial tables can be found in Annex D. We will write to heads of finance in October 2011 with details of how to access and return the tables.

### Financial indicators table

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

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

9. Tables 1, 2, 3 and 4 are standard financial tables that should be completed in accordance with the SORP and consistent with accounting policies adopted in HEIs' 2009-10 financial statements. The actual outturn for 2009-10 and 2010-11 entered in the tables should be consistent with the audited financial statements (restated if appropriate). The forecast figures for 2011-12 to 2014-15 should be based on an assessment of the most realistic assumptions over the forecast period and should be consistent with the HEI's strategic plan and with the most recent operating and financial review in the audited financial statements. Headings 1-6 and Heading 9 in Table 1 are automatically completed from Tables 1a and 1b and do not require input.

10. As well as returning information to HEFCE, all institutions must submit financial information for 2010-11 to HESA). The return to HESA (Finance Statistics Return) is based on the annual audited financial statements and, as such, should be consistent with both the audited statements and the data returned to HEFCE.

## **Guidance on Table 1a**

11. This section provides guidance for some of the sub-headings on Table 1a. The information returned should be consistent with the HEI's audited financial statements and the HESA Finance Statistics Return.

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

12. This heading should contain the actual or expected total recurrent teaching funding from HEFCE. This should include the elements of funding as shown in Table A of the 2010-11 grant letter.

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

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

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

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

### Sub-heading 1d: TDA funding

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

### Sub-heading 1e: SFA funding

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

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

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

## Heading 2: Tuition fees and education contracts

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

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

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

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

Sub-heading 2e: Overseas students

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

Sub-heading 2f: Other fees and support grants

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

Sub-heading 3a: BIS Research Councils

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

Sub-heading 3b: UK-based charities

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

Sub-heading 3c: Other research grants and contracts

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

Sub-heading 4a: Other services rendered

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

Sub-heading 4b: Residences and catering operations

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

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

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

Sub-heading 4d: Other operating income

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

Heading 5: Endowment and investment income

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

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

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

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

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

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

33. Student numbers should be returned as FTEs for both full-time and part-time numbers. **The numbers returned should be consistent with how HEIs return student number data to the Higher Education Statistics Agency ([www.hesa.ac.uk](http://www.hesa.ac.uk))**. The information will be used to provide context to the other financial tables and will not be used for funding purposes.

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

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

35. This table is used to review compliance with the Financial Memorandum in relation to the level of ASC of long-term financial commitments. This table should provide information on the ASC of all long-term borrowings in place at the year-end (31 July 2011) and any additional borrowings drawn down or agreed at 31 October 2011. We use these data to calculate the annual revisions to the borrowing consent limits and to understand the borrowing behaviour in the sector. Therefore, **it is important that the information includes all of the loans and that the ASC is calculated correctly**. Guidance on calculating the ASC of long-term borrowing is provided in Annex F of the Financial Memorandum (HEFCE 2010/19).

36. The first section of the table requires HEIs to input information about the level of borrowings as at 31 July 2011. The total loans outstanding as at that date should agree with the audited balance sheet total long-term and short-term borrowings. The second section should record information about any additional borrowings agreed and/or drawn down before 31 October 2011. If you have any queries about how to complete this table, then please contact your assurance consultant or assurance adviser (see [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Contact us).

37. The table has been pre-filled with the information input by HEIs to last year's financial statements return. However, loans from last year's return with nil outstanding or listed as repaid/expired have been deleted. Where any other information is incorrect, please overwrite the amended details, giving the reason in the far right-hand column

(column O in the spreadsheet) using the drop-down menu. If the reason is not available in the drop-down menu, please select 'Other' and provide an explanation in the commentary.

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

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

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

40. If the HEI had negative net cash (where cash in hand and deposits repayable on demand, as defined by FRS 1, are exceeded by bank overdrafts that are repayable on demand), for more than 35 consecutive days during the period 1 November 2010 to 31 October 2011, you should give the highest negative level in the final column of this table.

### **Public funding assumptions**

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

42. HEFCE's grant letter to HEIs in July 2011 announced the level of funding for the academic year 2011-12, and HEIs have also received correspondence about the level of capital funding available during this year. For future years HEIs should include their own assumptions, and be clear about those in the commentary.

43. Paragraphs 20-24 of the main document provide the context that institutions themselves should use in their future financial plans. We expect institutions' financial forecasts to be realistic about the level of public funding available, and the underlying assumptions to be explained in the financial commentary.

## Annex C Financial commentary template

As noted in 'Annual accountability returns: outcomes for 2009' (HEFCE 2010/20), the questions to be addressed in the financial commentary have not always been fully answered by institutions. Although compliance was improved in the 2010 annual accountability returns (see 'Financial health of the higher education sector: Including overview of 2009-10 annual accountability returns', HEFCE 2011/23), there is still further improvement necessary to ensure that all institutions provide all of the requested information. To help institutions meet our requirements, this annex provides an optional template for HEIs to complete.

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

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

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



## **Annex D Sample financial tables**

This annex is for reference only and may be downloaded from the HEFCE web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), alongside this document under Publications. Templates will be available to download from the HEFCE extranet in early October 2011.

## **Annex E Annual assurance return template**

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

## List of abbreviations

<b>AMS</b>	Annual monitoring statement
<b>ASC</b>	Annualised servicing cost
<b>BIS</b>	Department for Business, Innovation and Skills
<b>CIF</b>	Capital Investment Framework
<b>CUC</b>	Committee of University Chairs
<b>FRS</b>	Financial Reporting Standard
<b>FTE</b>	Full-time equivalent
<b>HE</b>	Higher education
<b>HEFCE</b>	Higher Education Funding Council for England
<b>HEI</b>	Higher education institution
<b>HEIF</b>	Higher Education Innovation Fund
<b>HESA</b>	Higher Education Statistics Agency
<b>HESES</b>	Higher Education Students: Early Statistics (survey)
<b>ORSAS</b>	Overseas Research Students Awards Scheme
<b>PAC</b>	Public Accounts Committee
<b>RCUK</b>	Research Councils UK
<b>SFA</b>	Skills Funding Agency
<b>SORP</b>	Statement of Recommended Practice
<b>TDA</b>	Training and Development Agency for Schools
<b>TRAC</b>	Transparent Approach to Costing
<b>TRAC(T)</b>	Transparent Approach to Costing for Teaching
<b>VFM</b>	Value for money