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Annual report and accounts 2017-18

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HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

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Annual report and accounts 2017-18

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Higher Education Funding Council for England

Annual report and accounts 2017-18

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HEFCE Chief Executive's statement

Higher education has been in the spotlight in the past year. Much of the debate has focused on its role and purpose in our national life, and on its value to individuals and to society. The Government's Industrial Strategy places higher education at the centre of its vision for economic growth, and HEFCE analysis finds clear evidence of individual benefit, not only in terms of employment and income but also for other aspects of wellbeing[1]. The challenge for the sector is clearly to demonstrate this value, and thereby to renew public trust and confidence, through a continuing and unwavering focus on excellent teaching and world-leading research.

HEFCE continued to work on behalf of students and the sector across a number of fronts in 2017-18. As part of our commitment to innovation in learning and teaching, we are undertaking a major programme of work called Learning Gain to develop and test ways of measuring educational outcomes with the aim of better understanding how students benefit from their higher education experience. The programme involves over 70 universities and colleges and includes a large-scale longitudinal study. In July 2017, we published an evaluation of the first year of the programme.

We concluded Year Two and delivered Year Three of the Government's Teaching Excellence and Student Outcomes Framework. The broad method and assessment process from Year Two were retained in Year Three and a number of procedural refinements were introduced following a 'lessons learned' exercise. We also undertook the first year of a two-year subject-level pilot in which 50 higher education providers are participating. This is an important development with the potential to provide students with more detailed information to help them choose where to study.

Last year, too, we announced (with the other UK higher education funding bodies) final decisions on the operation of the next Research Excellence Framework process, following Lord Stern's independent review. After extensive consultation, significant adjustments were made to the initial implementation proposals, including the arrangements for returning research staff and outputs.

Our UK Research Partnership Investment Fund stimulates investment in large-scale research facilities: bids must seek a minimum of £10 million and demonstrate that they can attract twice as much funding from private sources. This year we completed a fifth competitive round, with a sixth now under way. The fund makes £220 million available to universities across the UK to 2021 for the development of leading-edge facilities that support collaboration and excellent research.

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[1] See 'The wellbeing of graduates: Assessing the contribution of higher education to graduates' wellbeing in the UK', www.hefce.ac.uk/pubs/year/2017/201731/.

The 'third leg' of the higher education 'stool' – knowledge exchange and commercial outcomes – was given a major boost in a series of announcements by the then Universities Minister, Jo Johnson, at the HEFCE annual conference in October 2017. Paying tribute to the success of HEFCE's Higher Education Innovation Funding, the Minister asked Research England, the new council responsible for English university research and knowledge exchange within UK Research and Innovation (UKRI), to implement an increase in the fund from £200 million to £250 million by 2020-21. He also asked Research England, working with the Office for Students, to develop a new Knowledge Exchange Framework (KEF). To this end, HEFCE has established a steering group and a technical advisory group to develop proposals for KEF metrics.

Additionally during 2017-18 we announced outcomes from the first two rounds of our £20 million Connecting Capability Fund competition, which supports universities to work together and with external partners to commercialise research and share good practice and capacity.

We continued our work to support students from disadvantaged backgrounds to access and succeed in higher education. We distributed funding for a second year of the National Collaborative Outreach Programme to 29 consortia delivering outreach activity targeted in specific local areas where participation in higher education is low overall, and lower than expected given GCSE attainment levels.

Through our Catalyst Fund we made important investments this year. Our £6.1 million investment in new and enhanced higher education courses will help to provide the skills needed in the future economy. Over 30 universities and colleges were awarded a share of the funding to develop and design courses in conjunction with employers. We supported the implementation of the Universities UK Harassment Task Force report 'Changing the Culture', to prevent and tackle hate crime and harassment of students on campus. This was through investment specific to tackling sexual harassment, gender-based violence, hate crime and online harassment. In a further initiative we invited proposals to form a network of centres developing ways to reduce religion-based hate crime.

Following the Government's decision to increase the number of medical places in England by 1,500, in March 2017 we made an initial allocation of 500 places for 2018-19. In collaboration with Health Education England we have allocated the remaining 1,000 places through a competitive process.

The issue of vice-chancellors' pay has been the subject of much debate in recent months. HEFCE is not legally empowered to tell a university how much to pay its staff, nor the terms of its employment contracts, but we can – and do – investigate governance issues arising in the providers we fund. Last year we published updated guidance on severance pay and on remuneration of senior staff.

The new regulatory body for higher education in England, the Office for Students, will soon be undertaking an assessment of providers for registration purposes under the new Regulatory Framework. So in order to avoid duplication and to minimise burden we did not carry out a second full cycle of the HEFCE Annual Provider Review process in 2017-18. However, we continued to monitor the implementation of any provider action plans required in relation to quality and standards from the previous year's cycle. The unsatisfactory quality scheme also continued to operate during this period, as did the annual risk assessment process, which looks at providers' financial sustainability, management and governance.

The work described in this report will be taken forward by the new bodies created by the Higher Education and Research Act 2017. Throughout the year HEFCE has worked tirelessly with the Department for Education, the Department for Business, Energy and Industrial Strategy, and with the chairs and chief executives designate of the Office for Students, UKRI and Research England to prepare for a seamless transition.

Since its establishment in 1992, HEFCE has served students, the wider public and the sector to the best of its considerable ability. I am proud of our legacy, and I know that the new organisations will benefit enormously from the outstanding expertise, professionalism and dedication of HEFCE staff who move to them.

I would also like to record my thanks to the HEFCE Board for their excellent advice and support, and to the Chair, Sir Tim Melville-Ross, who has provided exemplary leadership over the past decade. Last but very much not least, I would like to thank the large number of people who have participated to HEFCE's work through membership of committees, working groups, and expert panels – your contribution has been unstinting and greatly valued.

Madeleine S. Atkins

Professor Madeleine Atkins CBE

Chief Executive of HEFCE to 31 March 2018

This report covers the year to 31 March 2018. On 1 April 2018, HEFCE was disbanded and its functions taken on by the Office for Students and Research England. For the purposes of readability of this report, however, references to HEFCE are mainly in the present tense.

About HEFCE

The Higher Education Funding Council for England (HEFCE) is a public sector body which funds and regulates universities and colleges in England. We work within a policy framework set by the Secretary of State for Education, but we are statutorily independent of Government.

As lead regulator of the higher education (HE) sector, we ensure effective financial stewardship of our funding to maintain the confidence of Parliament, students and the public. We ensure that the quality of teaching in higher education is assessed, and advise Government and the sector on policy and practice. We work in the student interest in all aspects of our work, and encourage and support the positive contribution that higher education makes to individuals, the economy and society.

Supporting excellence in teaching, research and innovation for the benefit of students, society and the economy is at the heart of HEFCE's work. We do this by maintaining trusted, professional relationships with higher education providers, gathering intelligence, knowledge and insight, implementing policy, and helping share good practice across the sector. HEFCE's strong analytical competences have made us an authoritative data source on the higher education sector.

Measuring and reporting our progress

HEFCE aims to create and sustain the conditions for a world-leading system of higher education which transforms lives, strengthens the economy, and enriches society.

Our Business Plan 2015-2020[2] sets out how we plan to achieve this aim by:

- incentivising excellence in teaching and learning
- funding excellence in research wherever it is found, and the collaborative processes and infrastructure which support an efficient, world-leading research environment
- funding innovation and excellence in knowledge exchange
- evaluating, promoting and funding practices in the sector which best address the issues of social mobility, participation, retention, achievement and progression
- having a deep 'real-time' understanding of the opportunities and risks facing the full range of higher education providers
- collecting, analysing and benchmarking data, and synthesising evidence, to provide a unique authoritative voice on higher education
- informing, developing, and implementing government policy to benefit the sector and students
- being an intelligent lead regulator of the sector, one which respects the autonomy of higher education providers and protects the interests of students
- working in partnership with others to influence and lever investment in, and thereby to maximise the success of, English higher education.

[2] See www.hefce.ac.uk/about/plan/.

Our progress over the past year against these commitments is described in this section. The performance analysis section that follows gives further detail on our progress against the objectives that underpin our commitments.

Our Business Plan commitments are also underpinned by directorate-level work packages that are reviewed annually and adapted throughout the year as we take on new areas of work and as other activities evolve. We report regularly to our Board and Audit Committee, to the Department for Education (DfE) and to the Department for Business, Energy and Industrial Strategy (BEIS) on our progress in delivering our work packages.

Our approach to risk management

We have identified a number of strategic and operational risks that might impact on the achievement of our objectives. The Governance Statement at page 44 describes our approach to risk management and our risks.

Going concern

The passage into law of the Higher Education and Research Act 2017 resulted in the closure of HEFCE on 31 March 2018. A transfer order was put in place at midnight on this date which transferred the remaining assets and liabilities from HEFCE to the Secretary of State for Education and then directly on to either of two new public bodies: the Office for Students (OfS), sponsored by DfE, or Research England (RE), sponsored by BEIS, as agreed by both departments on 1 April 2018. The existing assets, liabilities and staff of HEFCE have been split between these entities in a practical way which reflects the services that each body will provide.

As the functions provided by HEFCE transferred to either the OfS or RE on 1 April 2018 as agreed by both sponsoring departments, the Accounting Officer, with the support of senior management, has concluded that as there is continuation of provision of services previously provided by HEFCE, in accordance with the Financial Reporting Manual, it is appropriate for HEFCE to prepare its 2017-18 Annual Report and Accounts on a going-concern basis.

The statement of financial position at 31 March 2018 shows net liabilities of £152 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grant-in-aid from our sponsoring departments. This is because, under the normal conventions applying to Parliamentary control over income and expenditure, such grants may not be issued in advance of need. Recurrent and capital resources for 2018-19, taking into account the amounts required to meet liabilities falling due in that year, have already been included in DfE's and BEIS's estimates for that year, which have been approved by Parliament. There is no reason to believe that DfE's and BEIS's future sponsorship and future Parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on a 'going-concern' basis.

Incentivising excellence in teaching and learning

A world-leading higher education system must provide excellent learning and teaching that meets diverse students' needs. We promote high-quality and innovative teaching and support student choice by improving information for students, and through funded investment that reflects priority subjects, shares risks and stimulates sector-wide innovation and improvement.

In 2017-18:

- **We successfully delivered Year Two of the Teaching Excellence and Student Outcomes Framework** (TEF) on behalf of the Government. TEF Year Two results for 295 universities, colleges and alternative providers of higher education were published in June 2017. In England 55 providers were awarded the highest ('gold') rating for delivering consistently outstanding teaching, learning and outcomes for their students. Following DfE's lessons learned process, we have put in place steps to implement Year Three of the exercise. In January 2018 HEFCE received 92 applications for full assessment in Year Three, and 34 applications for provisional awards, with a greater proportion of further education colleges (FECs) and alternative providers submitting applications than in Year Two. TEF Year Three results will be announced in June 2018.
- **The specification for TEF subject-level pilots** has been developed in close collaboration with DfE and the sector. This will inform future development of the TEF by testing how ratings could be assigned to individual subjects. In autumn 2017, 50 providers covering the full diversity of the sector were selected to participate in the first year of pilots. The assessment phase of the pilot will be completed in June 2018. The provider feedback we have collected regarding the two alternative models of assessment will be central to informing refinements for the second year of subject-level pilots in 2018-19.
- **We delivered significant health education reforms**, to support the expansion of student places in medical, nursing and allied health subjects:
  - HEFCE worked in partnership with Health Education England (HEE) to allocate an additional 1,500 undergraduate places in medical schools. The first tranche of 500 was allocated formulaically to existing medical schools in order to meet the immediate need for more doctors. Following a government consultation, the priorities for allocating the remaining 1,000 places were agreed: to widen participation and improve access to the medical profession; to align expansion to local NHS workforce needs, with an emphasis on coastal and rural areas; to support general practice, psychiatry and other shortage specialties; and to ensure sufficient provision of high-quality training and clinical placements. In October 2017, bids were invited from higher education institutions (HEIs) that wished either to establish new medical schools or to expand existing provision in line with these priorities. Following the assessment of bids in early 2018 by an expert panel co-chaired by the Chief Executives of HEFCE and HEE, the remaining 1,000 places were allocated, including support for proposals to establish medical provision for the first time in Sunderland, Lancashire, Canterbury, Lincoln and Chelmsford.
  - The Government has also committed to expanding the number of students taking pre-registration programmes in nursing, midwifery and allied health subjects. From 2017-18, students pursuing these programmes of study have been financially supported through the main HE student finance arrangements. Following a detailed analysis of costs, funding was allocated through HEFCE teaching grant to recognise the costs of delivery of these subjects from 2017-18. HEFCE has worked closely with HEE, the Department of Health and the Department for Education to monitor the impact of these changes on student and provider behaviour. We have put in place a three-year, £3 million programme to ensure the sustainability of small and specialist

allied health professions, including podiatry, therapeutic radiography, prosthetics and orthotics, and orthoptics. We are commissioning work to understand the impact of these reforms on particular student groups, especially mature students, and working in partnership with government, professional and representative bodies to promote participation in these professions.

- We have drawn out lessons for the sector on **student-centred innovation**. Our ongoing evaluation of the 67 projects funded through our Catalyst Fund at a broad range of providers has provided new insights into the value and opportunities as well as the challenges involved with partnering and engaging with students in the innovation process. The programme illustrates a range of perceptions of both enablers and inhibitors for implementing pedagogic innovation but also supports new approaches to student engagement. The projects' work has centred around six key themes: learner analytics, inter- and multi-disciplinary practice, blended and immersive learning, transition and retention, collaborative learning and employability.
- Also through the Catalyst Fund we supported the aims of the Government's Industrial Strategy by **closing skill gaps through curriculum development**. In January 2018 we announced £6.1 million funding across 34 lead universities and colleges to develop new and enhanced higher education courses. Working with employers, these projects are helping to provide the skills needed in the future economy. The projects cover priority areas as diverse as industrial digitalisation, skills for flood-resilient infrastructure, and vocational pathways in the nuclear industry.
- The **Learning Gain programme** continued to extend sector-wide understanding and practical testing of measures of learning gain. September 2017 saw the launch of the second year of the National Mixed Methodology Learning Gain Project – a longitudinal project tracking students' progress throughout their course. Over 80,000 students from 10 universities were invited to take part in this study, the first of its kind in the UK. The project is one element of HEFCE's broader programme of work on learning gain, which aims to develop methodologies to understand the growth in students' knowledge, skills, work-readiness and personal development over the course of their studies. It includes 13 collaborative pilot projects involving more than 70 universities and colleges. The programme also includes the evaluation of existing administrative data on the student experience to understand what it tells us about learning gain and methods and to compare this across institutions and subjects.
- We held the third HEFCE national conference on learning gain at which the findings from the programme were discussed alongside work conducted in other countries. This programme of work has placed learning gain at the forefront of debates about the value and impact of higher education, and addresses questions of how we can best understand and evidence students' wider learning.

Improving access and student success

Tackling inequality is central to HEFCE's efforts to widen access to higher education, improve retention and student success, and support progression to employment or further study.

- With funding of £60 million for the 2017-18 academic year, the **National Collaborative Outreach Programme** represents a significant investment. Higher education providers, FECs, charities, employers, and other local organisations are working with schools and community groups in 29 consortia to develop sustained and progressive outreach activities in 997 targeted electoral wards in England. A number of consortia are actively supporting work in the 12 government 'Opportunity Areas', in order to add value and expertise to the work being led by DfE. The scheme is backed by a substantial evaluation programme, which has the potential to identify the impact of different interventions in a more robust manner than ever before. An evaluation report[3] was published in March 2018.

- The introduction of the Apprenticeship Levy in April 2017 heralded change and expansion in the apprenticeship landscape. Many new high-level pathways have been initiated by employers and these are a close match to the most serious graduate-level skills gaps. We estimate there are 5,000 degree apprentices on programmes and this growth has been boosted by HEFCE's **Degree Apprenticeship Development Fund (DADF)**. In the second phase of the DADF, £4.6 million of funding was distributed to a further 27 projects. In addition to the aim of boosting productivity, many of these projects have a social mobility focus. We see positive early signals that this new provision is appealing to students from more varied backgrounds than traditional undergraduate study, and it is facilitating the participation of more females in science, technology, engineering and mathematics occupations.
- HEFCE continues to work with the new Institute for Apprenticeships, and with the Education and Skills Funding Agency to support higher education providers, employers and Government in the development of degree apprenticeships. HEFCE is also working with Ofsted on a joint quality arrangement for those apprenticeships resulting in a prescribed higher education award at Levels 4 and 5.
- HEFCE analysis has highlighted persistent disparities in outcomes for black and minority ethnic students, those from disadvantaged backgrounds and disabled students, even when their prior attainment has been taken into account. We commissioned a critical review of the causes of differences in student outcomes[4] and in response to the evidence, there was a targeted funding call – the Catalyst Fund **Addressing barriers to student success programme**[5] – to support successful outcomes in higher education. The £7.5 million programme comprises 17 collaborative

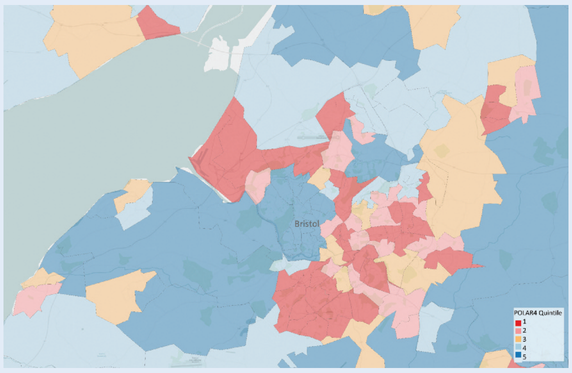
3 See www.hefce.ac.uk/pubs/rereports/year/2018/ncopyear1/.

4 See www.hefce.ac.uk/pubs/rereports/year/2015/diffout/.

5 See www.hefce.ac.uk/sas/barriers/.

projects which are scaling up interventions already proven successful, over two years, to address differential outcomes for specific groups of students. Evaluation is a key aspect of the programme, and through this, individual projects and the programme evaluators will identify how good practice and innovation can be embedded across providers. Projects cover the student lifecycle, from transitions into higher education for students with non-traditional qualifications, through to student retention and attainment (including attainment gaps and mental health and wellbeing) to progression to postgraduate study and employment. This complements other areas of HEFCE activity, such as the TEF, the learning gain programme and the innovations in learning and teaching programme which seek to incentivise HE providers to support successful outcomes for students from all backgrounds.

Participation of Local Areas (POLAR)



This year we updated our POLAR classification, which looks at how likely young people are to participate in HE across the UK[6]. POLAR4 is based on the combined participation rates of those who entered HE between the academic years 2009-10 and 2013-14, if they entered aged 18, or between 2010-11 and 2014-15 if they entered aged 19. We published an interactive map[7] of the POLAR4 classification and a 'postcode look-up' facility to support widening participation policy-makers and practitioners.

Map shows quintile areas around Bristol. Areas in red are those in quintile 1 and have the lowest participation rate, while areas in dark blue are those in quintile 5 and have the highest participation rates.

- The number of students in higher education declaring a disability continues to rise. We have recently published our latest review[8] focusing on models of **provision and support for disabled students**. It found that the number of students in receipt of DSA has nearly trebled between 2003-04 and 2015-16, increasing by 175 per cent, and the number of students with a declared disability has increased by around 140 per cent, while the number of non-disabled students has increased by 25 per cent over this period. The review, which is stage one of a two-stage review process, was undertaken to assess the impact of HEFCE's funding to support disabled students, which remains at £40 million per annum. The uplift to the funding is intended to help HE providers transition to more inclusive models of provision and support. This first-stage review was commissioned to understand existing models, and the second-stage review to be undertaken in 2018-19 will assess how those models have been developed.
- We continue to work with Universities UK to support changing practice in this area and, through the **Addressing barriers to student success** programme, are funding a

6 See www.hefce.ac.uk/pubs/year/2017/201729/.

7 See www.hefce.ac.uk/analysis/yp/POLAR/.

8 See www.hefce.ac.uk/pubs/rereports/Year/2017/modelsofsupport/.

collaborative project with Universities UK, the University of the West of England, Cardiff University and Student Minds to raise the importance of mental wellbeing in the sector through targeted interventions. Local initiatives will be trialled, providing case studies in a toolkit of resources which will be shared with the wider sector to encourage HE providers to apply the learning to their own contexts.

- In November 2017 we published a call for bids through the Catalyst Fund to **support mental health and wellbeing** for postgraduate research students. In recent years the HE sector has seen a rapid rise in demand for support from students at all levels experiencing mental health difficulties and mental distress, and HEFCE is now providing a variety of support. We also commissioned Vitae to carry out focused research so that we have a better understanding of wellbeing issues facing the postgraduate research community. This research is gathering evidence and data to inform our understanding of the factors which may cause mental distress or otherwise affect the student experience, and we used the initial findings to inform this call. Successful projects will receive funding of up to £150,000 from the Catalyst Fund. We are funding 17 projects at £1.5 million, across a variety of types of institutions and tackling different topics affecting mental health and wellbeing for these students.
- Improving the evidence base remains a priority and we have worked with Universities UK to develop a business case for an **Evidence and Impact Exchange**. This will house high-quality, peer-reviewed evidence from across the HE system that can be used to inform decision makers at national, local and institutional levels. It will use the robust evidence HE providers themselves generate, as well as national studies and its own commissioned work, to produce tools that will help providers to ensure they are developing and delivering approaches and activity that will maximise student outcomes. Work on the establishment of the exchange will continue in 2018.

An intelligent lead regulator

HEFCE is the lead regulator for an increasingly diverse higher education sector in England. Our powers are based on accountability for the public funding that we distribute: therefore our role in relation to alternative providers is to provide advice to Government on the operation of its regulatory function for those providers. This year HEFCE's work has comprised 'business as usual' work and work to prepare for the future, including advice and support to DfE on its consultation on the new regulatory framework for the Office of Students[9].

This year:

- We carried out investigations in the interests of safeguarding public funds, students, quality and HE reputation, and reported on an enquiry into governance surrounding senior pay at the University of Bath[10] which made 13 recommendations for improvements.
- We further improved the scope and functionality of the **HEFCE Register of Higher Education Providers**, adding the access agreements for those exempt charities for which HEFCE is the regulator, the quality and standards outcomes from the Annual Provider Review process and the outcomes from the Teaching Excellence Framework. This work underpins the developments required for the OfS Register as set out in the Higher Education and Research Act 2017.

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9 See consult.education.gov.uk/higher-education/higher-education-regulatory-framework/.

10 See www.hefce.ac.uk/reg/staffpay/bath/.

As of 29 March 2018, 815 providers were listed on the HEFCE Register, including:

313 providers that receive HEFCE funding directly

114 alternative providers with specific course designation

212 further education or sixth form colleges that deliver higher education

110 providers with university or university college title

142 providers that can award degrees

241 providers accredited for initial teacher training

(Some providers appear in more than one category.)

- We continued our **Gateways activity** (which concerns the ways in which HE providers can become part of the regulated HE sector), providing advice to the DfE on specific course designation, on applications from publicly funded colleges to join the directly funded HE sector and on university title and university college title applications.
- Following the outcomes of the **Annual Provider Review** (APR) 2016-17, we undertook follow-up work with the sector, focusing on student outcomes. Where warranted, we required action plans. Our approach to APR for 2017-18 (which took place from January 2017) took account of the need to ensure a smooth alignment with the Office for Students (OfS) registration process that began in April 2018. The arrangements for APR have been designed to avoid duplication of regulatory activity, such as the assessment of providers against similar criteria for different purposes.
- We reviewed HEIs' **annual accountability returns** (submitted in December 2017) against our financial sustainability risk assessment from their July forecasts. This work forms a key part of HEFCE's assurance to Parliament for the funding that we disburse on its behalf, as well as enabling HEFCE to provide assurance to partner funders (such as the Education and Skills Funding Agency and the National College for Teaching and Leadership) for the funding that they provide to HEFCE-regulated HEIs.
- We worked to protect the student interest through investigation of concerns raised, such as the alleged fraud in the student loan system uncovered by BBC's Panorama programme. We have done so within the constraints of HEFCE's current legal powers.
- We continued to **work with other regulators** such as the Charity Commission, the Competition and Markets Authority and the Office of the Independent Adjudicator for Higher Education.
- We monitored the financial sustainability and efficiency of the HEFCE-funded sector, and published overviews of **sector financial health** based on financial results[11] and forecasts[12].

11 See www.hefce.ac.uk/pubs/Year/2018/201804/.

12 See www.hefce.ac.uk/pubs/year/2017/201728/.

- We ran two Catalyst Fund calls with the aim of **safeguarding students** during their HE careers. We were able to fund 108 projects over two calls (the first focusing on sexual and gender-based violence, the second on hate crime and online harassment). A total of £4.25 million has been invested, with 1:1 matched funding required. Student engagement and empowerment were a core requirement for all projects and the elected NUS Women's Officer helped to review bids and was involved in funding decisions. The projects' themes range from active bystander training for students, to better partnership working with the police and the development of effective reporting, disclosure and case management systems. More work is being done in 2018 to tackle religious-based hate and harassment, and a round table with faith organisations and students was held in January to understand the issues better. This work will develop further over spring 2018.
- We updated the Nation Student Survey following extensive user research. This included questions on student engagement, including learning opportunities, learning community and student voice. The wording of some existing questions was also amended to bring them up to date and ensure they are easy to understand. Survey results continue to be extremely positive, demonstrating high levels of student satisfaction with their HE experience. 85 per cent of students agree that they are satisfied with the teaching on their course, and report that the course makes them feel challenged and intellectually stimulated. The new student engagement questions show broad student contentment with the learning opportunities provided (84 per cent) and the learning community (77 per cent). A total of 84 per cent of students agreed that they were satisfied with the quality of their course.
- We published a report, 'Analysis of Prevent annual reports from higher education providers for activity in 2015-16'[13], setting out the findings from the first set of annual reports from 'relevant higher education bodies' (RHEBs) on activity for the 2015-16 academic year. This monitoring report notes that 95 per cent (298 providers) satisfied us that they were demonstrating due regard to the Prevent duty. At the point of publication of this report, further evidence was required from 5 per cent (15 providers) that they were demonstrating due regard to the duty. No providers were assessed as not demonstrating due regard to the duty.
- We published a second report in August 2017, 'Evaluation of monitoring of the prevent duty in higher education in England'[14], setting out the findings and recommendations from an evaluation of HEFCE's role as monitor of the duty in higher education in England, and of the framework in which HEFCE monitors relevant higher education bodies. Over 80 per cent of respondents to the provider survey either 'strongly agreed' or 'somewhat agreed' that HEFCE's approach to monitoring had been risk-based and proportionate, and respondents particularly welcomed the consultative approach that HEFCE had taken to developing its approach to monitoring. There was a clear recognition by Government of the positive engagement by HE providers with the monitoring framework, and of the significant steps taken to implement policies and processes which met the requirements of the statutory guidance.

13 See www.hefce.ac.uk/pubs/year/2017/201711/.

14 See www.hefce.ac.uk/pubs/year/2017/201712/.

Funding excellence in research

Research excellence is central to the UK HE sector's success and its international reputation. HEFCE's quality-related research funding is targeted wherever excellence is found.

HEFCE is the largest single funder of HE research in England. In financial year 2017-18 we allocated £1,816 million of recurrent research funding and £197 million of research capital funding.

This year:

- As a delivery partner of the **Global Challenges Research Fund**, HEFCE distributed £20 million in the 2016-17 academic year and is allocating a further £48 million in 2017-18 to institutions in receipt of recurrent research funding. Allocations are calculated in proportion to HEIs' mainstream quality-related research grants.
- Two pieces of independent research and evaluation have been published on **interdisciplinary research**. A national conference was delivered in September 2017 with researchers, research leaders and research funders exploring issues raised. This work, alongside other activity in the sector, has fed into work being undertaken to develop our approach to interdisciplinary research in the next Research Excellence Framework.
- Working with the higher education funding bodies in Scotland, Wales and Northern Ireland, we have continued to develop the next **Research Excellence Framework**. In the first half of 2017, we undertook a large-scale consultation on the arrangements for the second exercise in 2021[16]. The consultation set out proposals for implementing the recommendations of Lord Stern's 'Research Excellence Framework review: Building on success and learning from experience' (July 2016). Following detailed analysis of the consultation responses during summer 2017, an initial set of policy decisions was published in September 2017[16].
- We engaged in further discussion on key aspects of the consultation in early autumn, which fed into the final set of high-level decisions regarding staff and outputs published in November 2017[17]. We are now developing detailed guidance and panel criteria, drafts of which will be published in summer 2018. Together with the other funding bodies, we appointed the four main panel and 34 sub-panel chairs for the 2021 exercise through an open application process. The first group of panel members, appointed via a nominations process to contribute to the development of the criteria, joined in early 2018. Further members will be appointed later in the exercise to contribute to the assessment of submissions.
- Through the **UK Research Partnership Investment Fund** HEFCE has allocated £681 million to 43 projects over five rounds of funding, attracting £1.65 billion of co-investment from business and charities. By 2021, a total of £900 million will have been allocated through the scheme. This competitive funding stimulates investment in large-scale higher education facilities in areas of research excellence. Bids must seeks a minimum of £10 million and demonstrate that they can attract twice as much funding from private sources. Last year HEFCE awarded £230 million to 11 projects in round five

15 See www.hefce.ac.uk/pubs/year/2016/201636/.

16 See www.hefce.ac.uk/rsrch/ref2021/initial/.

17 See www.ref.ac.uk/plublications/2017/decisionsonstaffandoutputs.html.

of the competition (to be distributed in future years), supporting research in areas including power electronics, rail innovation, crop science, vehicle propulsion and digital technology for aviation. Round six of the competition is currently underway, with funding of up to £220 million which will be available to 2021.

Aerospace Integration Research Centre

The Aerospace Integration Research Centre (AIRC) at Cranfield University was awarded £10 million in 2015, attracting £20 million of co-investment from Airbus and Rolls-Royce. A central hub for aerospace research, the AIRC provides space for academically ambitious and industrially relevant research and innovation.

One of the unique features of the AIRC is its focus on integration, so that new aerospace technologies are rapidly developed and tested for current and future airspace concepts. Supported by centre-based facilities including visualisation screens, flight and air traffic management simulators, development time from idea to implementation is shortened, increasing efficiencies between research and industry partners. Cranfield University has also recently been awarded a further £15.5 million for the development of the Digital Aviation Research and Technology Centre, attracting a further £31 million of co-investment from industrial partners. The project is scheduled to complete in summer 2019.

Funding innovation and excellence in knowledge exchange

Knowledge exchange (KE) describes the multiple interactions that take place between universities and businesses, public services, charities and communities. These include joint research and development projects, consultancy and training, knowledge transfer partnerships, and the setting up of new companies and social enterprises.

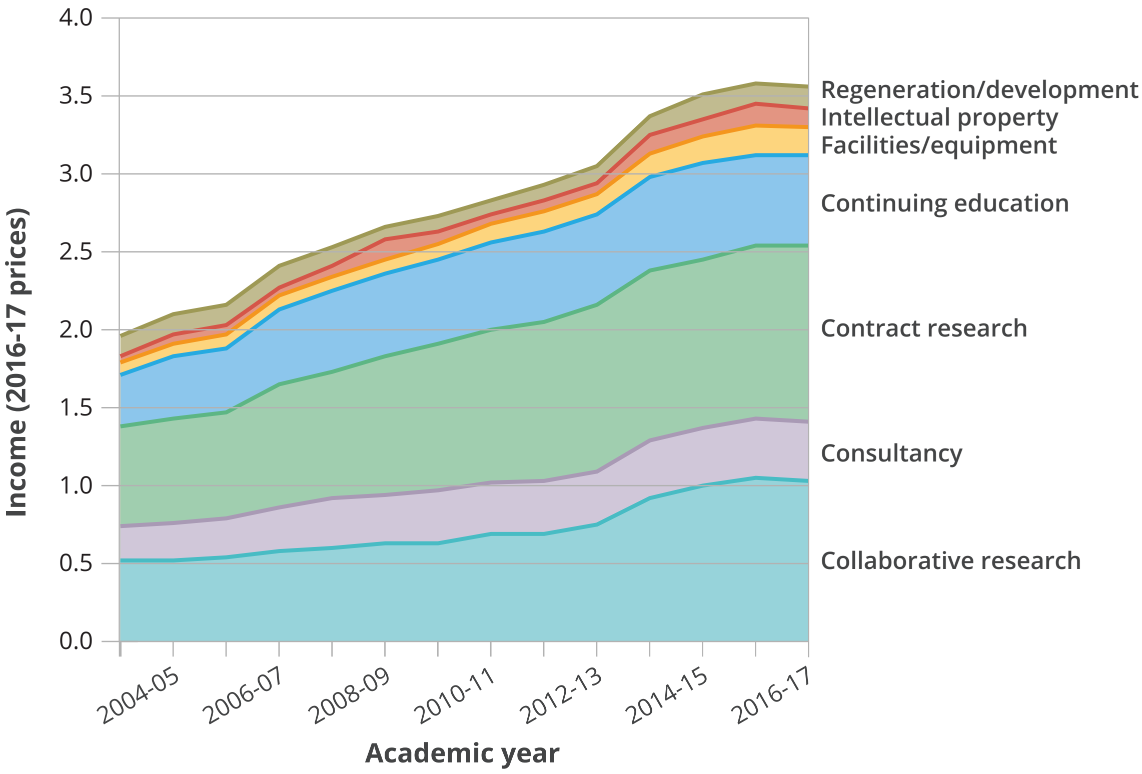
The performance of the English HE sector in KE has remained relatively stable over the last few years, with total KE income of £3.6 billion[18] in the 2016-17 academic year (this represents a small decrease of 0.7 per cent in real terms compared with 2015-16).

To support the continuing and growing importance of knowledge exchange collaborations:

- The Government endorsed the vital importance of HEFCE's **Higher Education Innovation Fund (HEIF)** to support commercialisation and local growth in the Industrial Strategy White Paper in 2017. The Government also set out its commitment to increase HEIF to £250 million by 2020-21, and for HEIF to continue to support the knowledge exchange that unlocks the value of both research and teaching, with funding from both HE and science and research budgets, over this period. From 1 April 2018, Research England, as part of UK Research and Innovation, will engage with the Office for Students over the strategic objectives and criteria for HEIF funding that reflect the teaching elements of knowledge exchange.

18 Capital income relation to regeneration and development is excluded.

Knowledge exchange income for English HEIs in 2016-17 (£ billions)



Source: HESA Higher Education-Business Community Interaction Survey.

Independent evaluation of HEFCE's Higher Education Innovation Fund (HEIF) estimated that the return on investment from every £1 of HEIF is £9.70 in benefits for the economy and society (on the basis of income and wider non-monetised benefits delivered by HEIF).

- We allocate HEIF on the basis of income earned by universities and colleges for the knowledge services they provide to businesses and other organisations, with earned income used as a proxy for impact. This mechanism gives recipients flexibility to use HEIF for activities that reflect their capabilities, partnerships and intended impacts, including supporting activities that cross-cut between research and teaching, such as support for student and academic entrepreneurs. We continue to allocate HEIF dynamically through annual allocations, but secured against long-term, approved institutional strategies. In 2017-18, we allocated an additional £40 million through HEIF, provided by Government to support delivery of the Industrial Strategy, taking HEIF to £200 million per year.
- We allocated £100 million of additional funding for collaboration between HEIs to deliver the Industrial Strategy through commercialisation – the **Connecting Capability Fund (CCF)**. We allocated £15 million of CCF in 17-18 through formula, and £85 million for three years (2018-19 to 2020-21) to competitively won projects. In the year, we made 18 CCF awards, involving 60 HEIs, which will support a diverse range of forms of commercialisation, will address a great many technology sectors, and will deliver benefits around England.
- We were asked by Government to develop and implement a new **Knowledge Exchange Framework** metrics exercise. We established a technical advisory group to advise on this development, chaired by Professor Richard Jones, involving academic and external

experts, and we issued an initial call for evidence to inform work of this group. This exercise builds on the work of Prof Trevor McMillan in reviewing good practice in technology transfer. We have also worked with Universities UK to establish a university senior management group, chaired by Prof McMillan, to develop principles of good practice in institutional leadership of knowledge exchange, and to seek signatories from a wide range of national partners.

- With other funders, we are supporting the **National Centre for Universities and Business**, a UK-wide network of business and university leaders working to strengthen collaboration between HE and business. The network has now launched a brokerage tool, 'Konfer', funded by HEFCE and Research Councils UK, to encourage more effective links between universities and businesses, particularly small and medium-sized enterprises.

Working in partnership

HEFCE is an outward-facing organisation which works in partnership with others. Our **Catalyst Fund** has been an important means by which we have invested in innovative and exceptional projects in the HE sector, many of which have considerable economic impact.

The Catalyst Fund has been running since 2012-13, following from the similar Strategic Development Fund. In September 2016 HEFCE commissioned Deloitte to analyse the impact and return on investment that Catalyst funding is delivering. Deloitte reviewed specific case study projects from both Catalyst Fund and the Strategic Development Fund, and also analysed a range of data from other Catalyst-funded projects. The analysis presented in the report illustrates the diverse range of impacts supported by this type of funding. Key findings of the report are:

- The estimated current return on investment for the Catalyst Fund is between £2.91 and £4.64 of supported direct and indirect gross value added for every £1 of investment.
- Analysis of similar projects funded under the Strategic Development Fund indicates a net additional return of £12 for every £1 of HEFCE investment, demonstrating the increasing return to this type of investment over time.

This year:

- We led a national partnership with the Local Government Association, Universities UK and the NHS Confederation, together with representatives of the country's leading professional service firms (who provided their services throughout on a pro bono basis) to create the **Local Growth Academy**. Over 140 institutions paid to attend a series of two-day development sessions. Senior representatives from all types of HE providers, together with local and combined authorities and local NHS bodies, learned about new approaches to growth topics which included: risk based finance; development, monitoring and evaluation of major projects; inclusive growth; devolution and its impact on local growth; working with the private sector, state aids; and, critically, strategic visioning and systems leadership when working with other partners at a high level. Heavily attended special sessions on 'Growth in all places' were delivered in partnership with the Cites and Local Growth Unit[19] in the two days following publication of the Industrial Strategy White Paper.
- We continued to work in partnership with the Local Government Association and Universities UUK on the successful **Leading Places** initiative, a capacity-building programme bringing together universities, local authorities and other local partners on

[19] A joint unit of BEIS and the Ministry of Housing, Communities and Local Government.

a facilitated programme of action learning, with each local partnership supported and challenged to work collectively on a single priority topic. The pilot phase ended in March 2017 when the six local partnerships involved at that stage presented 'end of term' progress on their new collaborations to a national conference. A call for bids for a second phase of funding was heavily oversubscribed.

Levering partnerships and funding for process at the University of Lincoln

In 2009, HEFCE Strategic Development Funding, together with backing from a set of industrial partners, helped the University of Lincoln to create the first new School of Engineering in the UK for over 20 years. Siemens, as a key partner, co-located on campus to provide student bursaries, internships, continuing professional development courses, a rich research and development portfolio and secondments.

Further investment in 2013 through HEFCE's Catalyst Fund helped to establish new Schools of Chemistry and Mathematics in association with over 30 industrial partners. The new schools have firmly established the university as a regional anchor. The School of Engineering has engaged with over 400 engineering businesses and organisation to address their skills and research and development challenges, and is also driving inward investment to the city (as seen by the decision by Bifrangi, an Italian engineering company, to locate to Lincoln). Additionally the two Schools have underpinned the creation of the Lincoln Science and Innovation Park through a joint venture with Lincolnshire Co-Op.

- Phase 2 funded 15[20] new local area partnerships covering a broad range of thematic areas and a mix of local partners. Additional facilitation services and face-to-face meetings were added to the programme in response to requests from local institutions. Interestingly, many of the priority themes chosen by the local partners have sought to tackle health and social issues to facilitate greater economic development. For example, a local partnership in Hull is working on a sustainable, intergenerational and inclusive growth approach to complement and strengthen the City Plan, including clearer agreement on the roles of anchor institutions including the University of Hull, and the collective levels of resources necessary for longer-term delivery.

20 Phase 2 projects are underway in Bedford, Blackburn and Darwen, Brighton, Buckinghamshire, Gloucestershire, Hull, Keele, Lambeth and Southwark, Lewisham, Lincoln, Newcastle, Nottingham, Sheffield, Shropshire and the Tees Valley.

- The national partners for Leading Places supported programme management and communications activity, including two national events – one for project teams in November 2017 and a conference on the role of anchor institutions in delivering the Industrial Strategy which formally concluded Leading Places Phase 2 in March 2018. The conference was once again oversubscribed, demonstrating the demand from universities for support in this important area.

National Institute of Coding launched

In autumn 2015 the Government asked HEFCE to manage a competition to award funding for an Institute of Coding aimed at improving digital skills and addressing the UK's digital skills gap. HEFCE awarded £20 million to a consortium of 25 universities, businesses including IBM, Cisco, BT and Microsoft, small and medium-sized enterprises, and professional bodies such as the British Computer Society and the Centre for Research and Evidence on Security Threats. The consortium will work to establish a new Institute of Coding which will develop and deliver innovative, industry-focused higher education across the UK, to train the next generation of digital specialists at Levels 6 and 7. HEFCE's investment will be supplemented by more than £20 million of matched funding.

The universities involved, led by the University of Bath, range from sector leaders in business and computer science (University College London and Newcastle University) to experts in arts and design (University of the Arts) and specialists in widening participation and outreach (Open University and Birkbeck, University of London).

Performance analysis

This section sets our progress against our 2015-20 Business Plan objectives. These broad objectives are underpinned by detailed directorate-level work packages that are reviewed annually and adapted as activities evolve. We report regularly to our Board and Audit Committee, to DfE and to BEIS on our progress in delivering our work packages.

Our objectives for 2015-2020

To ensure that within the current legislative framework HEFCE promotes assurance and assessment of quality and standards, financial sustainability, good governance, student protection and the wider public interest.

Our performance during 2017-18

- We provided advice on five applications for degree awarding powers (DAPs), two for university title or university college title (UT/UCT), and one to be designated for HEFCE funding. We undertook 100 assessments for providers wishing to retain specific course designation as part of the annual return assessment, and assessed three applications from publicly funded colleges to join the directly funded sector. We provided advice and support to the Department for Education on the further education designation pilot and the development of new DAPs and UT/UCT systems.
- We continued to embed the new processes for quality assessment, and considered 382 providers across England and Northern Ireland through the Annual Provider Review (APR) process in 2016-17. The APR provided a robust and rigorous assessment as it uncovered quality issues and was a significant step towards a risk-based approach to quality assessment. In 2017-18 we have continued with the follow-up activity to 2016-17 APR as well as transitional arrangements for the assessment of quality ahead of the transition to the Office for Students.
- We have continued to support the UK Standing Committee for Quality Assessment, promoting the co-regulatory and cross-UK work of this committee. This has encompassed a strategic review of the UK Quality Code, an oversight of programmes of work supporting the quality of transnational education, the professionalisation of external examiners, the support for governing bodies in undertaking academic governance, and the scoping of a project that will investigate and respond to issues around grade inflation in the sector.
- We released an improved HEFCE Register of HE providers.

	• We continue to operate the Unsatisfactory Quality Scheme to investigate and as necessary address concerns raised by students or other stakeholders about quality in an individual provider. • We continued to monitor compliance with the Prevent duty of 313 HE providers in England. We reported to Government on our first year of monitoring, and continued to engage extensively with providers to help them understand how to comply with the duty. We supported continuous improvement and facilitated the sharing of effective practice in relation to specific areas identified through the monitoring process, delivering a programme of 'What Works' workshops and publications, and worked with the Leadership Foundation for Higher Education and other partners to support the sector with bespoke training materials and to offer a range of events, including for alternative providers and governing bodies.
Acting as an intelligent regulator, to maintain the confidence of financial markets and other investors in the higher education sector.	• We identified, assessed, monitored and mitigated material risks at publicly funded higher education providers through use of engagement and support strategies. • We publish six-monthly reports on results[21] and forecasts[22] of the overall financial health of the higher education sector to inform HE providers, Government and investors. • There were no disorderly failures of publicly funded providers. • Moody's Investor Service has noted the value of the strong regulatory framework operated by HEFCE, which allow markets to take confidence in the sector. This facilitates the availability of beneficial lending rates to institutions. • We have continued a dialogue with banks and lending institutions to provide sector-level overview and briefings on the proposed changes to sector regulation. • We have continued to assess the potential changes arising from Britain's forthcoming exit from the European Union (EU) on the HE sector in terms of staff and student mobility, and involvement in EU programmes.

21 See www.hefce.ac.uk/pubs/Year/2018/201804/.

22 See www.hefce.ac.uk/pubs/year/2017/201728/.

To maintain trusted, professional relationships with higher education providers so that HEFCE has a rich, comprehensive 'real-time' overview of the full diversity of the institutions in the sector to inform HEFCE policy and advice to Government and for our key stakeholders.	• We continued our programme of engagement with 133 higher education institutions, 212 further education colleges and sixth form colleges[23] that deliver higher education, and 114 alternative providers that hold institutional designation or specific-course designation for the purposes of student support. • We met 130 times with alternative providers to learn more about them and their students. • We undertook one formal consultation, supported DfE in preparation for its consultations, and engaged extensively on policy issues through discussion with providers at events and through social media. • We maintained strong relationships in the further education sector and with the Association of Colleges. We worked closely with the Education and Skills Funding Agency, with which we co-regulate the provision of HE in further education and sixth form colleges. • We undertook a project with a sample of further education colleges and alternative providers with a small number of HE students. The aim was to identify common characteristics of small providers, including common areas of strength, weakness and challenge in managing quality and quality processes. We interviewed staff and students at 18 providers and held a feedback seminar which was attended by 20 providers. Findings of the report were reported to HEFCE's Annual Provider Review Group. • Through our Catalyst Fund we supported 13 further education colleges for a range of purposes, including through our new programmes, Preventing Hate Crime and Online Harassment, part of our Student Safeguarding scheme, and Closing the Skills Gap and Supporting the Industrial Strategy through Curriculum Development.
To develop and provide robust analysis, incisive insight and authoritative advice in order to inform decision-making and policy, and influence the wider HE debate.	• We published 24 research reports and data analyses. We are increasingly making our data tools available as online resources, and using blog posts to disseminate findings from research and analysis.

[23] Of the 212 further education colleges and sixth form colleges that deliver higher education, 180 received HEFCE funding directly as of 29 March 2018.

- This year, we published 78 blog posts to stimulate debate on policy issues.
- We took forward further improvements to the National Student Survey to ensure students' voices are better heard.
- We collect and share data with 11 separate partner organisations under agreements.
- We made a substantial investment of £1.5 million in the Higher Education Statistics Agency's Data Futures transformation programme, which will deliver a better output for a wider range of data users through a more efficient approach to collecting data. During the year HESA have published a specification for the new record and have started the first round of desk based piloting with providers. Technical development work on new data systems at HESA to support the in year collection is now underway and progressing to plan.

To ensure that higher education providers support students from all backgrounds to participate and succeed in higher education, progressing their careers and postgraduate study.

- Through our National Collaborative Outreach Programme (NCOP) we continued to fund 29 consortia comprising 268 HE providers, 69 local organisations, 18 charities, four employers, and 135 other educational establishments. Their work will cover 997 targeted electoral wards in England, and include work in the 12 DfE Opportunity Areas.
- We maintained the level of funding (£40 million) that we deliver to the sector to support disabled students, in recognition of the increase in the reporting of mental health issues, with the aim of helping providers to transition to more inclusive models of disability. This year we published an initial review of the impact of this investment.
- We aimed for the gap in participation between the most and least advantaged to close. The most recent evidence is that the number of young UK-domiciled entrants to full-time first degrees at HEFCE-funded HEIs increased from all POLAR4 quintiles in 2016-17, but that this did not result in any further closing of the gap between the most and least advantaged[24].

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24 The proportion of students coming from quintile 5 (the most advantaged) declined from 35 per cent in 2004-05 to 31 per cent in 2015-16, but has remained at 31 per cent in 2016-17. Meanwhile the proportion from quintile 1 increased from 9 to 11 per cent between 2004-05 and 2015-16, and has remained at 11 per cent in 2016-17. Similarly, the proportion from quintile 2 increased from 14 to 15 per cent in the same period, and remains static at 15 per cent in 2016-17.

- We continued to monitor progress against the Government's ambition to double the overall proportion of students participating in HE from disadvantaged backgrounds between 2009 and 2020, alongside our specific evaluation of the NCOP investment, and will report on both issues in 2018.
- We funded a £7.5 million Catalyst Fund programme, 'Addressing barriers to student success', which is funding 17 collaborative projects focused on improving outcomes in higher education and beyond for black and minority ethnic students, disabled students and those from disadvantaged backgrounds.
- We published an evaluation of the Postgraduate Support Scheme 2015-16[25]. Award-holders were more likely to be from target student groups than the overall eligible population, but the overall increase in student numbers from these groups between 2014-15 and 2015-16 was relatively modest. We embarked on other programmes of analysis around postgraduate data, including student characteristics and masters loan take-up.
- Following the introduction of loans for postgraduate masters study in the 2016-17 academic year there was a 33 per cent increase over the previous academic year (approximately 18,000 more entrants) in the number of eligible students entering these courses. There was a 60 per cent increase in entrants to these courses from the lowest participation areas (POLAR4 quintile 1) compared with a 26 per cent increase in entrants from the highest participation areas (POLAR4 quintile 5).

To use evidence to support and influence the efficient delivery of higher education in England.

- During the year we published an independent review of the value for money (VFM) reports[26] submitted by HEFCE-funded higher education institutions in December 2016, analysing the nature and volume of the savings reported and the approaches taken to achieve them. We also outlined areas of best practice for future value for money reporting as a way of promoting good practice in VFM governance.
- Also in support of governance effectiveness in relation to VFM, as part of a programme of work funded by HEFCE, the Leadership Foundation for Higher Education published 'Getting to Grips with Efficiency'[27], a guide to help governors in the HE sector understand and drive efficiency in institutions.

25 See www.hefce.ac.uk/pubs/rereports/year/2017/psseval/.

26 See www.hefce.ac.uk/reg/guidance/vfmon/.

27 See www.lfhe.ac.uk/en/research-resources/publications-hub/index.cfm/G2GEfficiency.

- We launched a new mandatory annual efficiency return – a more targeted and consistent data collection on efficiencies realised by higher education institutions through their spending activity[28]. In March 2018 we reported our analysis of this, which showed that institutions are making considerable and diverse efforts to improve efficiency, with total sector efficiencies of over £900 million (including collaborative procurement initiatives) for 2016-17, representing 3.2 per cent of total sector expenditure.
- We continued to engage with the sector on various individual efficiency initiatives and projects, providing advice and promoting its achievements, particularly in collaboration with the Efficiency Exchange[29], and with sector procurement groups.

To deliver an annual process that distributes funding effectively in a low-burden way while supporting government policies.

- Our formulaic approach to funding results in some of the lowest grant administration costs in the public sector. Of our funds, 94 per cent, approximately £3,469 million in the 2017-18 financial year, is allocated through a formula-driven approach based on institutional data collection.
- Overall our administrative or running costs budget is 0.8 per cent of the funding we provide to the sector. Of note are the costs associated with the UK Research Partnership Investment Fund, which equate to 0.2 per cent of the funding we have provided to the sector over the lifetime of the scheme.
- Around 4 per cent of our funds (approximately £222 million) were allocated through other methods such as competitive application processes.
- We delivered the annual funding process and associated payments on time, to a high standard. Our transaction error rate was minimal.
- An internal audit of our funding allocation models and related analysis found there was strong evidence of compliance with HM Treasury guidance[30] on the quality assurance of business critical models and in producing quality analysis for government.

28 See www.hefce.ac.uk/pubs/year/2017/201722/.

29 See www.efficiencyexchange.ac.uk/.

30 See www.gov.uk/government/publications/the-aqua-book-guidance-on-producing-quality-analysis-for-government.

Statutory duties

Growth duty

Under Section 8 of the Deregulation Act 2015, HEFCE is in scope for the implementation of the Growth duty. This is a statutory requirement for those organisations that exercise non-economic regulatory functions to have regard to the desirability of growth as part of regulatory decision making and purpose.

As the lead regulator for higher education in England, our powers are based on accountability for the public funding that we distribute. Our regulatory work includes assessing the quality of the education that we fund, charity regulation, the Prevent duty, student information, and a limited role in assisting the Government to operate its regulatory function for alternative providers. We demonstrate our regard for the Growth duty through:

- our strategic aims and objectives which seek to respect the autonomy of higher education providers while protecting the interests of students.
- ensuring that our processes are risk-based and proportionate, as evidenced by our processes to monitor and address financial and other risks associated with providers
- seeking to reduce any unnecessary bureaucratic burdens on providers, while creating an environment that stimulates excellence, innovation and enhancement
- the training and objectives of staff who implement regulatory conditions
- our work to understand the likely impact of proposed regulatory changes to be implemented by our successor body, the Office for Students, and our advice to DfE on these matters
- publication of assessment of the impacts that HEFCE's regulatory activity has on the HE sector[31].

Business Impact Target

The Business Impact Target is a cross-government target for the reduction of regulation on business. The Enterprise Act 2016 extended this target to statutory regulators such as HEFCE with a corresponding requirement to report. During the reporting period of 20 June 2017 to 31 March 2018, HEFCE made no changes to its regulatory measures that would lead to either an increase or decrease in regulatory costs of more than £5 million across the sector.

31 See www.hefce.ac.uk/reg/bit/.

Accounting Officer's Statement

Through the enactment of section 81 of the Higher Education and Research Act 2017, HEFCE ceased to exist and closed on 31 March 2018. During the year to 31 March 2018, my predecessor as Accounting Officer (Professor Madeleine Atkins, Chief Executive, HEFCE), was accountable to the Secretary of State for the Department for Education (DfE) and the Permanent Secretary of DfE as its Accounting Officer in respect of operational control for HEFCE.

The continuing activities of HEFCE were transferred to the Office for Students and Research England (part of UK Research and Innovation), both established by the Higher Education and Research Act 2017. Responsibility for the majority of these continuing activities lies with the Office of Students, for which I am Accounting Officer. The completion and agreement of this performance report therefore became my responsibility from 1 April 2018. Based on the assurances and statements received from the previous accounting officer, I am satisfied that this report accurately reflects HEFCE's performance during FY 2017-18.

Nicola Dandridge, CBE

HEFCE Accounting Officer (from 1 April 2018)
Chief Executive, Office for Students

9 May 2018

Sustainability report for 2017-18

HEFCE is committed to acting in a socially responsible way, and we encourage our stakeholders to do likewise. For us, corporate social responsibility means that we take account of the impact of our work on the economy, society and the environment[32]. HEFCE operates two externally certified management system standards: ISO 14001:2015 (Environmental) and OHSAS 18001 (Occupational Health and Safety).

In October 2015 we relocated our main office in Bristol to smaller premises. Energy efficiency measures were incorporated into the new buildings during their refurbishment. Improvements in information technology were an integral part of the relocation project: they support flexible working practices and reduce our use of print and paper resources. We also promote the use of video- and audio-conferencing to minimise the need to travel.

In December 2017 HEFCE signed the lease on an additional building, Dominions House, which will house Research England staff from April 2018 in addition to some Office for Students staff. As complete data for the 2017-18 FY was not available at the time of compilation of this report we have used data from the final quarter of the 2016-17 FY as a proxy for our usage during the same period in the 2017-18 FY. Additionally, we only include 'business as usual' data and not that from the period of refurbishment activity on Dominions House from January to March 2018.

Our environmental performance

In addition to the proposed minimum reporting requirements of emissions, waste and finite resource consumption (Scope 1 and 2), we report on Scope 3 emissions arising from all business travel that is under our budgetary control. Our analysis of data follows the Department for Environment, Food and Rural Affairs' (Defra's) environmental reporting guidance[33].

Year-on-year comparability of data

The relocation of our London office in April 2013 and the move of our main HEFCE office in Bristol in October 2015 introduced significant disruption in the year-on-year comparability of data. The dotted lines in the tables below identify the breaks in the consistency of the time series caused by the relocations of our London and Bristol offices.

For water consumption in our Bristol premises we use a proxy measure whereby half of the metered water consumption in the building shared with private sector sub-tenants is ascribed to them. All water consumption from our other building in Bristol is attributed to HEFCE's use.

Similarly, waste arising from our shared Bristol site cannot be attributed directly to HEFCE or its sub-tenants. Consequently we use a proxy measure for the waste and recycling by which we ascribe 25 per cent of the total to them. As one sub-tenant is operational 24 hours per day, the approximations we have made in reducing our water and waste figures are likely to be conservative.

32 See www.hefce.ac.uk/about/csr/.

33 See www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance.

Accounting policies for non-financial data

Our policy is to restate data for earlier years where there have been significant changes in accounting assumptions in primary data or conversion factors. The 2017-18 data reported is provisional: we are awaiting end-of-year data which we will reconcile against our own records and meter readings.

Total greenhouse gas emissions are calculated following guidance published by Defra, using current conversion factors for the reporting year, and conversion factors applicable in the baseline year where different.

'Materiality' is the principle that trivial matters are to be disregarded, and important matters are disclosed. In our sustainability reporting there is no agreed level of data materiality, and therefore all data assumptions are declared. In 2017-18 we applied assumptions to primary data for energy, waste and business travel. The accounting error margins arising from these assumptions arise from cost proxy estimates on 20 per cent of our business travel emissions, and sample estimates on our landfill and recycled waste disposal.

Water and energy consumption

The report on our consumption of water and energy ('finite resources') combines available data for our Bristol and London offices. HEFCE shares its Bristol office with the Office for Fair Access (OFFA), as was the case in our previous premises. We cannot differentiate between resource consumption by HEFCE and OFFA. As our water consumption is reported per full-time equivalent (FTE) staff, we include HEFCE and OFFA staff FTE in the calculation of our water consumption.

Table A1 **HEFCE finite resource consumption**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Cubic meters									
Water*	6.92	6.94	6.71	5.16	7.72	8.86	9.80	6.52	7.27
Megawatt-hours									
Electricity	513	553	500	513	590	562	457	375	393
Gas	328	354	194	344	402	302	453	252	234
Other**	43	43	43	43	0	0	0	0	0
Total energy	**884**	**950**	**737**	**900**	**992**	**864**	**910**	**627**	**627**

* Consumption per HEFCE and OFFA staff FTE.

** Estimated heating oil consumption at the London office occupied by HEFCE prior to 2013-14.

Table A1 includes finite resource consumption across all of the sites operated by HEFCE in 2015-16 (that is, consumption at our new Bristol office during the fit-out of those premises between April and September 2015, consumption at both office locations during normal business operation, and consumption at our previous Bristol office during its close-down between October and December 2015).

Greenhouse gas emissions

Reflecting the Government's Greening Government Commitments for the period 2016 to 2020[34] we measure our progress in reducing greenhouse gas emissions against a 2009-10 financial year baseline. Our Scope 1 and 2 emissions relating to energy use on our estate have increased by 5 per cent since 2016-17, but are 29 per cent lower than in the 2009-10 financial year. Emissions through business transport have increased by 10 per cent since 2016-17 as a result of an increased volume of rail travel by HEFCE staff.

Table A2 **HEFCE greenhouse gas emissions**

Tonnes of CO_2	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total gross emissions* for Scope 1 and 2	304	331	270	328	345	313	293**	201	205
Gross emissions attributable to Scope 3, business travel	165	130	131	131	118	104	118	115	128
Total emissions	**469**	**461**	**401**	**459**	**463**	**418**	**411**	**316**	**333**

* We do not take into account net emissions for use of renewable tariffs and carbon offsets.
** Total gross emissions for Scope 1 and 2 in 2015-16 include emissions arising from consumption during activities related to the relocation of HEFCE's Bristol office.

Table A3 **HEFCE greenhouse gas emissions from air travel**

Tonnes of CO_2	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Domestic flights	6.6	6.1	7.2	7.8	6.9	6.0	8.9	9.8	13.0
Number of flights*	–	–	–	89	68	87	100	83	82
Short-haul international	5.0	4.4	4.6	3.2	1.1	5.4	2.3	3.8	1.4
Long-haul international	25.5	15.0	21.9	21.9	12.5	15.2	15.9	6.2	9.9
Total emissions	**37.1**	**25.5**	**33.7**	**32.9**	**20.5**	**26.5**	**27.1**	**19.9**	**24.3**

* Data not available before 2012-13

Air travel activity is sensitive to year-on-year fluctuation in the relatively small numbers of flights taken by HEFCE staff.

Waste

We believe the most recent five years of data regarding waste and recycling at HEFCE are more accurate than the earlier years. However, as noted above, activities related to the relocation of HEFCE's Bristol office have been included in the 2015-16 figures shown here, and this includes a substantial volume of waste and recycling as a result of the fit-out of the new, and close-down of the previous, locations. This means that 2015-16 figures are not directly comparable with other years shown in Table A4.

34 www.gov.uk/government/publications/greening-government-commitments-2016-to-2020/greening-government-commitments-2016-to-2020.

Our main waste and recycling contractor changed during 2016-17 and provides less accurate data on volumes and weights of waste and recycling collected from our premises than our previous supplier. Investigations as to the reporting practices used by our contractor in the supply of collection weight data are ongoing.

Table A4 **HEFCE waste**

Tonnes	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Total waste	33.10	48.74	37.79	41.04	40.49	32.69	69.84	50.89	32.35
Waste to landfill*	5.90	6.68	8.21	8.29	6.45	4.21	7.86	4.18	1.66
Waste recycled at source	27.20	42.06	29.58	32.75	34.04	28.48	61.99	46.70	30.69
Percentage of total waste recycled at source	82.18	86.29	78.27	79.80	83.45	87.13	88.75	91.58	94.87

* Assumes the provider recycles none.

Gross expenditure attributable to energy consumption

Table A5 **Expenditure arising from consumption**

	£000							
	2010-11	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Utilities								
Electricity	58	57	60	66	74	77	80	52
Gas	10	9	14	16	16	17	8	8
Water	4	5	5	5	8	9	10	11
	72	71	79	87	98	103	98	71
Business travel								
Car	20	16	18	16	11	11	12	12
Taxi	38	34	31	33	32	33	24	34
Rail	319	343	351	340	429	502	597	638
Air	22	18	29	7	23	25	10	23
	399	411	429	396	495	571	643	707
Waste disposal								
Waste sent to landfill*	–	–	3	3	3	8	8	9
Waste recycled*	–	–	9	7	9	5	6	5
			13	10	13	13	14	14

* Data not available before 2012-13.

Accountability report

Accountability report

Corporate governance report

The directors' report

HEFCE Board

HEFCE's Board was responsible for the strategic direction of the organisation. Board members are appointed by the Secretary of State for Education, usually for a period of three years. All serving board members tenure ended on 31 March 2018 on the cessation of HEFCE. Board members brought a variety of knowledge and experience from a range of backgrounds, including higher education and industry. With the exception of the Chief Executive, Board members were non-executive.

In 2017-18 membership of the Board was:

Chair

Sir Tim Melville-Ross CBE

Chief Executive (and Accounting Officer)

Professor Madeleine Atkins CBE

Members

Professor Sir Keith Burnett, Vice-Chancellor, University of Sheffield (Term of office ended 28 February 2018)
Martin Coleman, Former Global Head of Competition, Norton Rose Fullbright
Gurpreet Dehal, Non-Executive Director
Professor Anne Greenough, Professor of Neonatology and Clinical Research Physiology, King's College London
Katherine Lander, Director of Strategy and Operations, Eukleia and LEO Learning
Professor Carl Lygo, Former Vice-Chancellor, BPP University
Graeme Osborn, Employee of the Graduate Students' Association, University of York
David Palfryman OBE, Bursar of New College, University of Oxford
Mark Robson, Senior Advisor, Bank of England
Hugh Ross, Former NHS Trust Chief Executive
Professor Mary Stuart, Vice-Chancellor, University of Lincoln (Term of office ended 28 February 2018)
Sara Weller CBE, Non-Executive Director, Lloyds Bank, United Utilities and member of the University of Cambridge Council
Professor Steven West CBE, Vice-Chancellor, CEO and President, University of the West of England

HEFCE Board meetings were attended by an Assessor from the Department for Education (DfE), and observers from the Scottish Funding Council; the National Union of Students; the Department for

Employment and Learning, Northern Ireland; the Higher Education Funding Council for Wales; and the National College for Teaching and Leadership.

There is information on each Board member and their interests at www.hefce.ac.uk/about/members/

HEFCE committees

A number of standing and advisory committees and working groups advise the Chief Executive and the Board on specific issues. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work. Membership of these committees is on the HEFCE website at www.hefce.ac.uk/about/Committees/

HEFCE Executive

The HEFCE Executive was responsible for HEFCE's management and operation. It was made up of the Chief Executive, six Directors, the Head of Communications and the Head of Governance.

Further information on the HEFCE Senior Management Team is available at http://www.hefce.ac.uk/about/director/

Personal data related incidents

In 2017-18 there have been no personal data related incidents formally reported to the Information Commissioner's Office.

Further information

HEFCE's 2015-2020 business plan gives a high-level overview of objectives and activities. Further information can be found at: www.hefce.ac.uk/about/plan/

HEFCE distributes money to English universities and colleges. We do not fund individual students. Information on sources of financial support for students and potential students is on the HEFCE website: www.hefce.ac.uk/reg/forstudents/

Answers to frequently asked questions can be found at: www.hefce.ac.uk/faq/.

Preparation of the annual report and accounts

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

During 2017-18, the HEFCE Audit Committee was a standing committee of the HEFCE Board. It advised the Board and the Chief Executive as the Accounting Officer. The Audit Committee's Chair was appointed by the Board, and its members, who had no executive responsibility for management of HEFCE or its funding activities, went through an internal appointment process and were appointed via the HEFCE Appointments Committee. These decisions were then ratified by the Board.

The 2017-18 Annual Report and Accounts were scrutinised by the Sub-Committee of the Office for Students (OfS) Risk and Audit Committee established to provide advice to the OfS on the approval of HEFCE's final accounts for 2017-18 on 30 April 2018.

Membership of the HEFCE audit committee during the year was as follows:

Chair
Hugh Ross* Former NHS Trust Chief Executive

Members
Gurpreet Dehal* Non-Executive Director
John Harley Chair of Governors, University of Brighton
Katherine Lander* Director of Strategy and Operations, Eukleia and LEO Learning
Neil Marriott Deputy Vice Chancellor at University of Winchester
Mark Robson* Head of Statistics and Regulatory Data, Bank of England
Clifford Shanbury Independent Member of the Audit Committee, Office for Nuclear Regulation

*Audit Committee members who are also HEFCE Board members

The purpose of the HEFCE Audit Committee was to advise and support the Board and the Accounting Officer by giving them independent assurance as to the effectiveness of the Council's internal control, corporate governance and risk management. The opinion on HEFCEs audited accounts for 2017-18 and the adequacy of internal control is being provided by the Sub-Committee of the OfS Risk and Audit Committee established to provide advice to the OfS Accounting Officer on the approval of HEFCE's final accounts for 2017-18. During 2017-18, consistent with HEFCE's responsibilities in the higher education sector, the remit of the HEFCE Audit Committee extended to providing assurance to the Board about internal control, corporate governance and risk management by institutions receiving funding from HEFCE ('funded institutions').

The duties of the Audit Committee were to:

1. Consider and advise the Board and the Accounting Officer on the adequacy and effectiveness of, and good practice in, corporate governance, risk management, internal control arrangements and value for money within the Council and in funded institutions through monitoring and/or reviewing:

- The mechanisms (principles and approach) adopted by HEFCE for the assessment and management of its own current and future risks. This includes a cyclical report from each Directorate on the key risks in its area and actions being taken to mitigate these and other generic risks.
- The robustness of the operation of the institutional risk system undertaken by HEFCE for the assessment and management of risk and internal control issues associated with HEFCE funded and/or regulated institutions and related bodies.
- The scope, resourcing and effectiveness of the Council's Assurance Service, including advising on the appointment of the head of this service.

- The appointment of the Council's Internal Audit provider and Head of Internal Audit along with the scope, resourcing and effectiveness of this service.
- The Council's accounting policies and annual financial statements, including both the 'hard close' accounts and final audited accounts, the National Audit Office (NAO) management statement and HEFCE response, and the Governance Statement.
- The strategy, remuneration and performance of the NAO for the audit work undertaken on the annual accounts.
- The strategy and planned activity, on an annual basis, of internal and external audit designed to (inter alia) assess the systems operated by the Council and funded and/or regulated institutions to achieve effective internal control and risk management.
- The results of internal and external audit activity, including non-audit services provided where appropriate, and the consequences of any shortfall against the full range of activities planned. An update is provided at each meeting.
- The adequacy of HEFCE management responses to issues identified by audit activity and the satisfactory implementation of any recommendations.
- Any relevant reports from the NAO, DfE (or any successor Department), Audit Service or other parts of the Government, including any management response.
- Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector. This includes receiving regular reports on how risk is managed across HEFCE.
- Reports on the monitoring of HEFCE's performance against budget and on its financial position to ensure resources are managed effectively and that strategic objectives are delivered according to plan.
- The outcomes of work carried out connected to fraud, irregularity and losses in HEFCE or the HE sector.
- The policies and arrangements in place at the Council for the handling of complaints and public interest disclosures made to the Council concerning funded institutions and policies relating to fraud and whistle-blowing.
- The outcome of any independent review of the Internal Audit and/or Assurance Service.
- Processes and assurances relating to arrangements for information security, cyber security and assurance at the Council.
- Information and assurances connected to the Council's role as a principal regulator of HEIs that are exempt charities under the Charities Act 2011.
- Assurances connected to the quality of data and other information obtained from funded and/or regulated institutions.
- New accounting and audit standards.

2. Provide advice to the Board on such financial, governance, risk or control issues as the Board requests from time to time. This includes matters referred to the committee by the Board's complaints panel.

The full terms of reference for the Audit Committee can be found on our website at www.hefce.ac.uk/about/Committees/.

External audit information

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

Audit of the accounts

The Comptroller and Auditor General is the appointed statutory auditor of HEFCE's accounts. The audit fee for the financial year 2017-18 is £69,500 (2016-17: £60,000). There was no other work for which a fee was payable.

Financial results 2017-18

Funding and expenditure in-year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £3,692 million of grant funding from the DfE, (2016-17: £3,619 million). Grant-in-aid is treated as financing and taken directly to reserves.

In addition to funding from DfE, HEFCE receives income from other bodies for their contribution towards various initiatives. HEFCE's total income in relation to these activities for 2017-18 was £3 million (2016-17: £7 million).

Total expenditure in year was £3,728 million (2016-17: £3,635 million). Of this, £28 million (2016-17: £25 million) relates to the administration costs we incur in managing and distributing grant funding to the higher education sector, and £3,700 million (2016-17: £3,610 million) to programme funds. The vast majority of programme funds, £3,691 million (2016-17: £3,586 million), relates to grants payable to higher education institutions and other sector bodies. In 2017-18 an increase in programme costs of £6.1 million (2016-17, increase of £8.9 million) was also incurred as a result of changes to the valuation of HEFCE's provision for inherited liabilities (see note 12 of the accounts). As this type of revaluation is unpredictable and demand-led, costs are charged to a separate central government budget (Annually Managed Expenditure (AME), rather than the Departmental Expenditure Limit (DEL)) and do not affect the amount of public funding available for distribution to the sector.

In line with our strategy, we aim to provide as much of our grant funding as possible through core, block allocations for recurrent teaching and research, as the most efficient means of distributing funding to the sector. In addition to recurrent grants we provide specific funding for national initiatives, as well as capital funding to support the sustainability of the higher education system. Grant funding was distributed to the sector on an academic year basis (1 August to 31 July), with annual funding allocations announced to the sector in March each year (see www.hefce.ac.uk/funding/annallocns/1718/ for the 2017-18 announcement).

Our administration cost budget was agreed by the sponsoring department each year, and performance against budget is monitored and reported each month. HEFCE's 2017-18 budget from DfE was £26 million, meaning that the cost of administering, managing and allocating programme funding to the higher education sector is less than 0.8 per cent of total grant distributed.

Working collaboratively

In 2017-18 HEFCE used UK Shared Business Services Limited (UK SBS) for procurement activities to maximise savings through centralised buying power, and to access the specialist expertise of UK SBS category managers. HEFCE has benefitted through use of central government frameworks and procurement contracts.

In addition to working with our sponsor department and UK SBS, we continue to make significant efficiencies through our own cost-sharing arrangements and joint use of estate with other partner organisations. HEFCE provided the Office for Fair Access with shared services for all its corporate functions and hosts the organisation in our Bristol office and shared London office space with the Students Loan Company.

During 2017-18 HEFCE has made further improvements to its financial management and retained finance function, including the implementation of a new integrated finance, HR and payroll system, which provides improved management information and reporting. During the year we have worked with our internal auditors Ernst & Young LLP to ensure that we have a robust control environment in place in both manual and automated processes. Building on work undertaken in 2016-17 and the capability of the new finance system, HEFCE continued to further develop its internal financial management and financial controls and strengthen the business partnering approach to establish better engagement of finance with the rest of the business.

Performance against financial targets in-year

At 31 March 2018 HEFCE's Statement of Financial Position shows net liabilities of £152 million (2017: £110 million). This reflects the inclusion of liabilities falling due in future years (mainly HEFCE's provision for inherited staff liabilities as disclosed at note 12) which will be met from DfE's future sponsorship of the Office for Students and which does not affect HEFCE's 'going concern' status.

In resource terms there was an aim to distribute all funding received from DfE in-year; to achieve this, the framework agreement with DfE recognises that it may not always be possible to match receipts and payments exactly within year, and so allows for a small cash carry-forward (usually less than 2 per cent of total grant in aid received) at year end. At 31 March 2018 our cash balance was £12 million (£46 million in 2017), with the change in balance reflecting timing differences in the payment of expenditure committed in 2017-18 academic year.

We are fully committed to the prompt payment of suppliers, and aim to pay all valid invoices as soon as possible. We support the Better Payment Practice Code (available at http://payontime.co.uk/) which targets payment within 30 days, and monitor our performance in-year against this target. We also monitor our performance against 10-day and five-day measures, as we wish to balance the desire to pay our creditors as promptly as we can against the need to maintain effective internal controls. In 2017-18 our 30-day performance was 98 per cent of invoices (2016-17: 99 per cent), with a 10-day performance of 88 per cent (2016-17: 93 per cent) and a five-day performance of 73 per cent (2016-17: 74 per cent). The decrease in payment performance is a result of necessary downtime of the payment system during implementation of the new finance system. In 2017-18 HEFCE paid £676 of interest to suppliers due to late payment. There was no interest charged by HEFCE to suppliers.

At 31 March 2018 our trade payables balance (the amount owing to our suppliers) was £0.6 million (2017: £0.2 million). Comparing this balance with the aggregate amount invoiced by suppliers in-year (£48 million) and expressing this as a number of days gives an indication of the average time we take to pay our bills: for the year ended 31 March 2018 our figure for 'creditor days' was 4.5 days (2017: 1.2 days).

Statement of Accounting Officer's responsibilities

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

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

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

The DfE Accounting Officer has designated the Chief Executive of HEFCE, and subsequently the Chief Executive of the Office for Students, as Accounting Officer of HEFCE. The responsibilities of an Accounting Officer – including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HEFCE's assets – are set out in 'Managing Public Money', published by HM Treasury. These responsibilities have been fulfilled.

From 1 April 2018 the residual responsibilities attached to the role of HEFCE Accounting Officer have transferred to the Chief Executive of the Office for Students, in light of the closure of HEFCE on 31 March 2018 and the transfer of the majority of its activities to the Office for Students.

The Accounting Officer has taken all the steps that she ought to have taken to make herself aware of any relevant audit information and to establish that HEFCE auditors are aware of that information. As far as the Accounting Officer is aware, there is no relevant audit information of which HEFCE auditors are unaware.

The annual report and accounts as a whole is fair, balanced and understandable. The Accounting Officer takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

HEFCE GOVERNANCE STATEMENT 2017-18

The Governance Statement

Introduction and context

HEFCE was created by the Further and Higher Education Act 1992 and, following the passing of the Higher Education and Research Act 2017 by Parliament, was closed on 31 March 2018. The business, assets and liabilities of HEFCE were transferred with effect from 1 April 2018 to two successor organisations, the Office for Students (OfS) and Research England (RE), which itself is one of the nine Councils forming UK Research and Innovation (UKRI). While the internal control arrangements were substantially transferred with the associated business functions to the new organisations, the governance structures of HEFCE were not carried forward to the OfS and RE. The Department for Education was responsible for establishing the OfS and the Department for Business, Energy and Industrial Strategy was responsible for establishing Research England as part of UKRI.

Scope of responsibility

During the year to 31 March 2018, my predecessor as Accounting Officer, Professor Madeleine Atkins, Chief Executive, HEFCE, was accountable to the Secretary of State for the Department for Education (DfE) and the Permanent Secretary of DfE as its Accounting Officer in respect of her responsibility for maintaining sound systems of governance, risk management and internal control for HEFCE. These systems supported the achievement of HEFCE's policies and strategic objectives while safeguarding the public funds and assets for which she was personally responsible, in accordance with the responsibilities assigned to her in the Treasury guidance 'Managing Public Money'. She was also responsible for using the public funds and assets assigned to HEFCE economically, efficiently and effectively, including in respect of the funds provided to HEFCE which were allocated to higher and further education institutions and others for education, research and associated purposes. As further explained at the end of this statement, I have accepted the residual responsibilities attached to the role of HEFCE Accounting Officer with effect from 1 April 2018 in light of the closure of HEFCE on 31 March 2018 and the transfer of the majority of its activities to the Office for Students.

Governance framework

The HEFCE Board

The Further and Higher Education Act 1992 required that the HEFCE Board should consist of between 12 and 15 members appointed by the Secretary of State for Education in accordance with the requirements of the Act. At the closure of HEFCE on 31 March 2018, the Board had 13 members. For continuity reasons, six of the Board members appointed to the HEFCE Board in early 2017 have been appointed by the Secretary of State to the OfS Board.

The Board was supported by Audit, Remuneration and Appointments Committees, as well as strategic advisory committees covering areas of higher education (HE) policy which were important to HEFCE's remit. One of these, the Quality, Accountability and Regulation Strategic Advisory Committee, acted as HEFCE's formal Quality Assessment Committee under section 70 of the 1992 Act. The Board also had a sub-group to review requests made by HEFCE-funded higher education institutions (HEIs) whose planned financial commitments met certain criteria. A Board panel also met to consider certain requests for funding support under HEFCE's Catalyst Fund, www.hefce.ac.uk/funding/catalyst/.

The Board met six times in 2017-18. Attendance at HEFCE's Board and Audit Committee meetings for the year was 88 per cent and 74 per cent respectively. The background and registered interests of Board and Audit Committee members are published on the HEFCE website. Information about the diversity characteristics of the Board and committees is also available on the HEFCE website. The Board's independent panel for hearing complaints about HEFCE, the Complaints Panel, was not required to meet in 2017-18. Furthermore, HEFCE received no whistleblowing allegations about its work during the year. Further details about HEFCE's committees and other corporate governance information are available at www.hefce.ac.uk/about/.

HEFCE's relationship with the Department for Education

The sponsoring government department for HEFCE during the year was the Department for Education. The formal relationship between HEFCE and DfE was described in a framework document that was established when HEFCE's sponsoring department was the former Department of Business, Innovation and Skills (BIS). It set out the terms and conditions subject to which HEFCE could use the grants made available by Parliament for the higher education sector. It included a description of the Chief Executive's responsibilities as HEFCE Accounting Officer, as well as the responsibilities of the HEFCE Board and its Chair. It may be found on HEFCE's website at www.hefce.ac.uk/about/reportsaccounts/accountability/.

HEFCE's relationship with DfE and the wider Government has been dominated this year by the passing of the Higher Education and Research Act 2017. The implementation of this legislation results in the closure of HEFCE and the organisation encompassing the role of Director of Fair Access (the Office for Fair Access) on 31 March 2018. Through the same legislation, HEFCE's research and knowledge exchange policy teams and their associated functions transferred to a council, Research England, within the newly established organisation, UK Research and Innovation (UKRI), also on 1 April 2018. HEFCE staff extensively supported DfE and and the Department for Business, Energy and Industrial Strategy (BEIS) throughout the year in helping to create both the OfS and UKRI respectively, significantly contributing to the Programme Boards established by DfE and BEIS to oversee this process.

In addition to supporting the implementation of the 2017 Act, HEFCE had regular routine interactions with DfE throughout the year, which incorporated consideration of HEFCE's performance. The Government's higher education funding and policy priorities for 2017-18 were set out in its grant letter to HEFCE of 23 February 2017, which may be found at www.hefce.ac.uk/news/newsarchive/2017/Name,112915,en.html. The funding for teaching and associated activities was derived from the DfE, while the funding for research, knowledge exchange and associated activities was derived from BEIS. Alongside describing some of the preparations for the establishment of the OfS, the grant letter described a number of policy priorities, including in connection with social mobility; health funding; higher level skills and local economies; quality, choice and the student experience; student information; student safeguarding; Prevent; science and research; business collaboration; and the efficiency of the HE sector. In exercising its discretion in the allocation of funding, HEFCE sought to address these government priorities in addition to the long-standing priorities of the protection of funding for high-cost subjects, widening participation, and small and specialist institutions, and to continue to fund world-leading and internationally excellent research selectively wherever it was found. The Board received a progress report of the delivery against these priorities towards the end of the year. The grant letter did not deal with HEFCE's administration grant for 2017-18, which was notified to HEFCE separately.

Governance practice

Over many years, HEFCE sought to adopt good governance practices. For example, both the Board and Audit Committee normally carried out an annual effectiveness review and did so again in 2017-18. For the Board this consisted of an appraisal of the Board in early 2018 by the Chair through semi-structured discussions with members, an assessment of HEFCE's governance risks, and benchmarking HEFCE's governance practice against both the Financial Reporting Council (FRC) Code and the Government's Corporate Governance Code. This assessment demonstrated HEFCE's compliance with both codes to the extent they were relevant to HEFCE as a non-departmental public body. The Board discussed its effectiveness at its final Board meeting in March 2018, including receiving the Chair's summary report of his discussions with members, which confirms that the Board was satisfied it had discharged its responsibilities under the 1992 Act throughout the year. The Board also confirmed that the information provided to it at a time of considerable change in the sector was more than adequate to enable it to discharge its responsibilities.

The Audit Committee

The Audit Committee's remit included both HEFCE itself and HEFCE's assurance and regulatory work with the HE sector. At the year-end, the Committee had seven members, four of whom were Board members, of whom two have been appointed to the OfS Risk and Audit Committee. The Chair of the Committee was an independent (non-HE sector) member of the Board. The Committee met four times in the year in the presence of the internal and external auditors. The Chair presented a report to the Board after each meeting, and minutes of each meeting were available to Board members.

Apart from its interest in matters arising from internal and external audit work, the Committee focused this year on seeking assurance about HEFCE's risks (including those associated with the transition to OfS and Research England) and the implementation of new corporate information technology (IT) systems.

To complement a review of cyber security by the internal auditors, Ernst & Young LLP, the Committee regularly received reports from management concerning HEFCE's information security obligations. There were no significant information security incidents or losses of data arising in the year and none that required a report to the Information Commissioner's Office.

In September 2017, the Committee discussed its effectiveness by benchmarking itself against the good practice principles and guidance set out in the April 2016 'Guidance on Audit Committees' produced by the FRC for listed companies. The comparison was favourable, in that the Committee agreed it was either fully or sufficiently compliant with the individual elements of the guidance. The key outcome was formally to schedule in a routine closed session meeting with the Head of Internal Audit to ensure such meetings actually take place whether actively requested or not. While this exercise gave rise to no changes to the Committee's terms of reference, these were separately updated in response to changes in terminology and in response to DfE's request for a link member from its own audit and risk committee to observe one meeting each year.

The Committee's annual report incorporates its opinion on governance, internal control and risk management and is shown in full in the box below. This opinion is being provided to the OfS Risk and Audit Committee established to provide advice to the OfS on the approval of HEFCE's final accounts for 2017-18.

HEFCE Audit Committee formal opinion to the Sub-Committee of the OfS Risk and Audit Committee

Having taken account of:

- Our work throughout the year, up to and including 31 March 2018
- Assurances received through the Committee's discussions on the process for managing and reviewing the Council's strategic risks
- Assurances provided by management on matters of risk and control generally
- Evidence of value for money being achieved at the Council
- The Chief Executive's governance statement
- The work of the Head of Internal Audit commenting on the effectiveness of the Council's framework for corporate governance, internal control and risk management:
- The work of the HEFCE Director (Regulation and Assurance) in relation to:
    - the financial results for the HEIs in the HEFCE funded sector's institutions and funded bodies
    - value for money in the HEIs we fund
    - the effectiveness of those institutions' governance, internal control and risk management
    - our role as the principal regulator of exempt charity HEIs
- The report of the external auditors following the audit of the accounts

It is the opinion of the Audit Committee that the Council's arrangements for its own corporate governance, internal control, risk management and value for money are sound and that HEFCE risks associated with the transition to the Office for Students (OfS) and to UK Research and Innovation (UKRI) are being effectively identified and managed in conjunction with BEIS and DfE.

We are satisfied that the Council also had appropriate arrangements in place for oversight of institutional risk and regularity in the higher education sector, including risk management, internal control, corporate governance and value for money in its funded organisations.

During the year, we identified a number of on-going activities that we consider will be of interest to the OfS, including the implementation of internal audit recommendations, and we will be drawing these to the attention of the OfS Risk and Audit Committee.

We are satisfied that the accounts can be relied upon, that the OfS Accounting Officer is entitled to rely on the assurances she has received from the HEFCE Accounting Officer to 31 March 2018, Internal Audit and the Assurance team, and that the Governance Statement meets government requirements and that we recommend approval by the OfS Accounting Officer of HEFCE's final audited accounts for 2017-18.

The Quality, Accountability and Regulation Strategic Advisory Committee

The Quality, Accountability and Regulation Strategic Advisory Committee was HEFCE's 'Quality Assessment Committee' for the purposes of complying with section 70 of the Further and Higher Education Act 1992. In this role, the Committee has provided an annual opinion to the Board on whether HEFCE met its statutory obligation to ensure that provision is made to assess the quality of education in funded institutions, as shown below:

The formal opinion of the Quality, Accountability and Regulation Strategic Advisory Committee to the Board for 2017-18 on HEFCE's statutory duty for quality assessment
Having taken account of:

- Information provided and our discussions throughout the year
- The work of QAA as periodically advised and reported to us, including in its annual report for the 2016-17 academic year
- The assessment of the performance of QAA for the 2017-18 financial year, which we have had the opportunity to discuss
- The ongoing work to implement the revised operating model for quality assessment, including the Annual Provider Review (APR) process

it is the opinion of the Quality, Accountability and Regulation Strategic Advisory Committee that HEFCE has satisfactorily met its statutory obligation to assess the quality of education in funded institutions under section 70 (1) (a) of the F&HE Act 1992, and in so doing has discharged its duty independently of government, the higher education sector and providers of higher education.

HEFCE's role as a principal regulator under the Charities Act 2011

Under the Charities Act 2011, HEFCE was the principal regulator of all the HEIs in England that are exempt charities. HEFCE and the Charity Commission had an agreed Memorandum of Understanding to assist both parties to meet their respective obligations, with HEFCE reporting to the Commission annually on its work. Throughout 2017-18, HEFCE continued to exercise its statutory duty to 'promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity'. For example, HEFCE monitored compliance with charity-related information disclosure requirements, followed up any serious incidents reported by exempt HEIs as appropriate, provided advice to the HE sector on issues connected to their charitable obligations and, if necessary, pursued charity-related public interest disclosures and other issues. There were no significant issues arising in 2017-18 requiring regulatory intervention from either HEFCE or the Charity Commission in respect of HEFCE's principal regulator obligations. The OfS inherited the role of principal regulator with effect from 1 April 2018.

Working with other organisations

In 2017-18, HEFCE worked with a number of organisations that contributed to the achievement of its objectives. The most significant of these were the National Union of Students, Quality Assurance Agency, Jisc, the Leadership Foundation for Higher Education, the Equality Challenge Unit, the Higher Education Statistics Agency (HESA), the Higher Education Academy and sector representative bodies such as Universities UK, GuildHE and Independent HE. Where HEFCE provided funding to such organisations, it was primarily directed towards supporting specific infrastructure and activities. Accountability for HEFCE's funding of these organisations was secured through a variety of mechanisms.

The risk and control framework

HEFCE operated a system of internal control that was designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it could therefore only provide reasonable and not absolute assurance of effectiveness. The system was based on a continuing process designed to: identify and prioritise the risks to the achievement of HEFCE's policies, strategic objectives and individual work packages; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. In the context of HEFCE's changing risk environment and approach to risk management which are discussed further below, the overall system of internal control was in place within HEFCE throughout the year ended 31 March 2018, and was consistent with Treasury guidance.

Approach to risk management

HEFCE's approach to risk management was set out in its Risk Management Framework. The Framework explained HEFCE's risk management policy, defined key roles and responsibilities, and set out how risk management was embedded in HEFCE's strategic and operational planning processes. The approach to managing risks to HEFCE was supplemented with a process for assessing risks to the sustainability of the institutions HEFCE had lead regulatory responsibility for; a description of this process is provided below.

Risk management

HEFCE's approach to risk management was firmly aligned to its Business Plan, which set out the high-level objectives for each directorate, and a set of success criteria and measures against which its performance was monitored and reported to the HEFCE Board. In operational terms, these objectives were delivered through directorate-level work packages, each of which was subject to a regularly updated risk assessment. In some cases, these directorate-level risk assessments were supplemented by further detailed risk assessments covering specific areas of internal control, such as Prevent, the Teaching Excellence Framework, human resources, information technology and governance. HEFCE's senior management team (the 'HEFCE Executive') also identified, assessed, regularly monitored and reported on a number of 'cross-cutting' risks that affected HEFCE as a whole.

Regular consideration of HEFCE's risks and the risk environment in which it operated, particularly as this changed throughout what was a transitionary year, allowed HEFCE to assess the continuing viability of its strategy and business plan against these changes in circumstances, and to make adjustments when necessary. This does not mean that management expected the risks to materialise. Rather, it indicated that these were areas of risk which they needed to be aware of, and to respond to and prioritise as appropriate, in order to perform HEFCE’s role effectively. With an embedded culture of addressing risk in the way HEFCE operated, risks were not managed only on a specific, individual basis. The primary approach adopted to the mitigation of risk was to assess and respond to risk more broadly in a way that coherently linked to and prioritised HEFCE’s wider aims and objectives, drawing on the knowledge, skills and experience of staff, a wide range of information at HEFCE’s disposal and work with HEFCE’s many stakeholders and partners.

Each directorate reviewed the status of its risks at least four times this year, with a summary of the most significant risks and ‘cross-cutting’ risks (using a traffic light assessment and a ‘by exception’ basis approach to reporting) and the mitigating activities in place being regularly provided to the Audit Committee and Board. The Board also received regular oral or written updates on the wider external risk environment from the Chief Executive. This approach to reporting allowed both the Board and Audit Committee to review regularly and challenge management on the identification and mitigation of risk. These reports also inform this Governance Statement and HEFCE’s interaction with DfE as part of its accountability to Government.

Key risks and mitigating activities

HEFCE’s principal strategic risks, with which its work package risks were aligned, were concerned with the following issues:

a. Transition risks: The Higher Education and Research Act 2017 was passed by Parliament in May 2017, with HEFCE supporting DfE in the enactment of this legislation and associated issues during the remainder of the year. This has included HEFCE providing extensive support to the Government in the establishment of both the OfS and UKRI. HEFCE was represented on the DfE and BEIS programme boards which were created to oversee the establishment of both organisations, and on the relevant subsidiary working groups. Throughout the transitionary period, there was a significant amount of additional and complex work to deliver over and above ‘business as usual’. The risks to operating normally during this period placed many demands on a wide range of HEFCE staff, particularly senior staff. The adequacy of administrative resource to support this additional work was a concern throughout the year. This was mitigated through regular discussions with DfE, which supported this work with a transition budget.

b. Staffing risks: HEFCE has always placed a high degree of reliance on the knowledge, skills and experience of its staff to carry out its work to the high standards Government and stakeholders expect. Staff received assurances about the transfer of their employment to either the OfS or Research England in the latter half of the year. There were several risks attached to the high level of change resulting from these developments, including to staff workloads, motivation, effectiveness, recruitment and retention. These risks were mitigated through monitoring, communication, staff training and development, and by sharing knowledge and information with staff whenever possible, particularly about the transfer arrangements.

c. Reputational risks: HEFCE’s reputation and maintaining the confidence of its key stakeholders was always critical to its ability to operate effectively for the benefit of students, and to deliver the Government’s priorities. HEFCE’s key external stakeholders this year have been DfE, BEIS, the Home Office (for Tier 4 and Prevent work), the Office for Fair Access, QAA, HESA, funded HE providers and further education colleges (FECs), alternative providers and students. Working with stakeholders was particularly important this year in supporting HEFCE's work to deliver the HE reforms put in place by the Government. Our mitigations of this risk are necessarily wide-ranging and rely on working to the highest of standards we can achieve at all times within the resources made available to us by Government. For example, HEFCE staff contributed significantly to the DfE consultations concerned with the establishment of the OfS, of which the development of the OfS Regulatory framework was the most significant. In addition, during the year, in response to a high level of public interest in senior pay levels in HEIs, HEFCE published information to explain its regulatory powers in this area.

d. Brexit risks: The June 2016 decision to leave the European Union (EU) created a number of significant risks for the HE sector, for example in research funding, recruitment of EU students and recruitment and retention of EU staff. HEFCE continued to mitigate the associated risks through engaging with relevant stakeholders, providing information to Government and participating in the Minister-led forum established to support the Government's Brexit plans for HE.

e. Data quality risks: The quality of data HEFCE received from providers of HE, and the need to validate and process it, have always been critical to HEFCE's ability to carry out its work effectively, including to ensure all providers are treated fairly within its funding and regulatory processes. As HEFCE's regulatory role developed in response to the Government's HE reforms, the risks attached to poor quality data increased, for example in the data contributing to the assessments made under the Teaching Excellence and Student Outcomes Framework. HEFCE adopted a proactive approach to mitigating these risks, incorporating support, guidance, training, and adapting its audit, validation and appeal processes in response to developments.

Review of effectiveness

The Accounting Officer is accountable to the Secretary of State for the Department for Education (DfE) and the Permanent Secretary of State for Education as its Accounting Officer in respect of responsibility for maintaining sound systems of governance, risk, management and internal control for the Higher Education Funding Council for England ('HEFCE' or the 'Council'). Arrangements for the cessation of HEFCE and transition of Accounting Officer responsibilities are detailed at the end of this report.

Accountability framework

HEFCE's system of internal control provided a framework for all the processes and activities that were designed to give reasonable assurance regarding achievement of objectives. The system was designed to manage, rather than eliminate, the risk of failure. It also took into account the funds provided by HEFCE which were transmitted to legally independent and autonomous higher and further education institutions and other organisations for education, research and associated purposes. HEFCE's accountability framework therefore needed to encompass its internal operational and financial controls, and its controls in relation to all organisations for which it had a regulatory responsibility, including those in receipt of its grant funding.

HEFCE’s accountability framework consisted of policies, procedures, monitoring and approaches to communication, which collectively contributed to the delivery of its strategic objectives and the maintenance of a sound system of internal control. In particular, all institutions and other organisations funded by HEFCE were required to comply with appropriate accountability agreements, which were designed to help secure accountability and regularity for the public funds provided to them. This information formed part of HEFCE’s work to ensure the protection of the public investment in institutions and other organisations. This included seeking assurance that the public funds provided to them were used for the purposes for which they were intended.

HEFCE published a Memorandum of Assurance and Accountability requiring funded HEIs to adhere to a range of core terms and conditions in return for grant funding. In recognition that some HEIs received a relatively low level of HEFCE teaching funding, HEFCE supported the introduction of an additional agreement on institutional designation, which provided accountability for the public investment in student support funds for institutions granted automatic course designation, which in turn allowed access to the student support system for those institutions’ students. This was designed to ensure that the rebalancing of funding from grants to tuition fees did not diminish the effectiveness of the regulatory regime in place prior to the establishment of the OfS, so providing confidence to students and the public. This agreement will remain in place until the OfS’ regulatory framework has been fully implemented.

HEFCE also supported and provided analysis to DfE in connection with other types of provider of higher education that were not grant funded, known as ‘alternative providers’. HEFCE’s work in this area mainly concerned the provision of assessments and advice to DfE on the designation of specific courses, on applications for degree awarding powers, university title and applications to become HEFCE-fundable. Course designation by DfE allows students on those courses to borrow from the Student Loans Company to support their studies.

HEFCE’s internal control system was subject to regular review and monitoring by the directors and heads of corporate service teams, who were responsible for the management and oversight of HEFCE’s risks. The documented assurance about the management of these risks was substantially derived from the risk reports submitted to the Board and Audit Committee, as well as through the Audit Committee’s advice on the associated risk management processes. Assurance was also available from the following sources:

- the annual report from the Director of Regulation and Assurance (which incorporates a report on our role as a charity principal regulator)
- the annual report from the Head of Internal Audit
- the annual opinion from the Audit Committee on HEFCE’s internal control framework (see above)
- the annual opinion from the Quality, Accountability and Regulation Strategic Advisory Committee on HEFCE’s statutory obligation connected to teaching quality
- a letter of assurance from the Education and Skills Funding Agency about the regularity of the use of HEFCE funds by FECs.

The work of HEFCE's internal auditors, Ernst & Young, included cybersecurity, data protection, financial controls, the implementation of new corporate systems and a review of the work contributing to the transition of HEFCE to the OfS. The Head of Internal Audit's annual opinion is provided below:

Head of Internal Audit opinion for 2017-18

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of HEFCE's risk management, control and governance processes.

Based on the internal audit work performed during 2017-18, in our opinion there was adequate and effective risk management, control and governance processes to provide reasonable assurance over the achievement of HEFCE's objectives and the management of key risks. While individual reviews identified that there are elements of the system of internal control requiring improvement, the overall system of internal control enables HEFCE to achieve its objectives and manage its principal risks. Where recommendations have been raised, management have taken action to implement identified recommendations on a timely basis.

During the year, HEFCE's control systems identified a small number of issues that required specific actions to manage the associated risks. This included areas where the internal auditors indicated that HEFCE's systems and controls can be further strengthened, such as in financial controls within our new corporate systems, data protection (in order to meet the requirements of the EU General Data Protection Regulation) and in cybersecurity. All significant system and control issues were reported to the Audit Committee and, where appropriate, the Board. The HEFCE Chief Executive also discussed a draft of this Statement, which formed part of the pre-year-end hard-close accounts, with the Audit Committee and carried out an effectiveness review of internal control towards the year end. In the majority of cases where control issues arose, action was taken by HEFCE during 2017/18. A few (non-critical) control issues are being followed up by the OfS.

There were no significant weaknesses in HEFCE's internal controls in 2017-18 that warrant disclosure in this Statement.

Significant issues and developments arising in the year

The most significant other issues and developments arising during 2017-18 are as follows:

Issues connected to the HE sector and HE reforms

i. HEFCE received 55 public interest disclosures about HE providers in 2017-18, raising enquiries in nine of these cases and taking further action where HEFCE concluded this was necessary. In particular, HEFCE worked with the organisations affected to manage any issues arising from these notifications and disclosures, and provided lessons learned advice to the sector as a whole when this was considered to be of value. Of the disclosures received in 2017-18, three related to governance issues connected to the remuneration of vice-chancellors at two HEIs. Enquiries were raised in all three cases, one of which led to the publication of a report in

November 2017 on governance issues arising at the University of Bath. The other two enquiries were satisfactorily resolved by correspondence. In recognition of the public interest in and government's concern about senior staff pay levels in the HE sector, HEFCE published revised guidance in this area in June 2017.

ii. The outcomes of HEFCE's assessment of provider submissions to year 2 of the TEF were published in June 2017. This successfully completed exercise was carried out on behalf of DfE. HEFCE was subsequently commissioned by DfE to deliver year 3 of the exercise (now fully described as the Teaching Excellence and Student Outcomes Framework), which included a large pilot project to inform the future development of the TEF by testing how ratings could be assigned at subject level as well as institutional level. Both the main and pilot work transferred to the OfS at the year-end. Participation by providers in the TEF increased between year 2 and year 3.

iii. In 2017-18, HEFCE continued to implement the funding reductions required of it following the 2015 spending review, especially in the areas of teaching and capital funding. HEFCE continued to monitor the impact of these funding reductions, alongside other effects of the HE market reforms such as the lifting of constraints on student recruitment, on the sustainability of the institutions it funds. HEFCE's publications on the outcomes of its sustainability monitoring activities provided useful information to lenders and other stakeholders about the financial strength of HEIs. In 2017-18, there were no instances where an HE provider was required by HEFCE to take steps actively to protect students as a result of its organisational failure or for any other reason under such circumstances.

iv. In 2014, in association with its counterparts in Wales and Northern Ireland, HEFCE initiated a major review of how it should carry out its statutory responsibility for quality assessment in HE. The resulting revised operating model for quality assessment, which aligned with other aspects of HEFCE's regulation and oversight of the HE sector, was implemented in full in 2017-18. The cost of this revised model is substantially lower than the previous system of periodic assessment of quality at institutions managed and overseen by the QAA. As part of the new arrangements, HEFCE operated an 'Unsatisfactory Quality Scheme', which allowed concerns about HE degree standards or the quality of the student academic experience to be reported to HEFCE (see www.hefce.ac.uk/reg/uqs/). While there were no significant or systemic quality-related concerns reported during the year, HEFCE continued to promote good practice in the provision of governing body assurances relating to quality, external examining arrangements and academic award algorithms used by providers.

v. In light of the Grenfell Tower disaster in London, in June 2017, HEFCE carried out a survey for Government on the estates of HEIs and alternative providers, with a particular focus on student residences. HEFCE's engagements with the sector confirmed that it was well prepared for fire incidents in residential accommodation and, where necessary, had taken appropriate expert advice in regard to fire safety procedures. The sector continues to follow relevant advice as it is produced by the Government's Building Safety Programme

vi. HEFCE continued to maintain a register of HE providers covering both traditional and alternative providers that were in receipt of HEFCE funding, whose students have access to the student support system, or both. This register, which may be found at www.hefce.ac.uk/reg/register/, provided useful information to many HE stakeholders, particularly those with a regulatory interest, across the world. It was extensively used by public bodies, HE providers, students and the public at large, receiving an average of 15,000 page views each month. The OfS will use the knowledge gained from creating and using this register to develop a new register as a key regulatory tool, as prescribed by the Higher Education and Research Act 2017.

vii. Throughout 2017-18, HEFCE continued to be the primary regulator of the HEIs it funded, and to receive assurances from the Education and Skills Funding Agency in respect of the FECs it funded for HE provision. For other HE providers, while the Secretary of State for Education or Privy Council made the relevant decisions, HEFCE continued to operate a number of gateway processes allowing such providers to apply to DfE (via HEFCE) for access to HEFCE funding, to seek university title, to be permitted to award degrees or to seek designation for student support purposes. This process operated successfully throughout 2017-18. In future, the OfS will be responsible for these decisions, with widened powers, as prescribed by the Higher Education and Research Act 2017 and as described in more detail in the outcome of the consultation carried out by DfE on the OfS' regulatory framework.

viii. Since 2015, 'relevant higher education bodies' have been subject to a statutory duty under the Counter-Terrorism and Security Act 2015 to have due regard to the need to prevent people from being drawn into terrorism. The Government appointed HEFCE to monitor implementation of the duty across the higher education sector in England (except for FECs that are monitored by other bodies). In August 2017, HEFCE published the outcome of an evaluation of its monitoring activity. The feedback provided showed a high level of positive support for HEFCE's role in and approach to monitoring, which was capable of effectively providing assurance to Government about the HE sector's approach to implementing the Prevent duty.

Internal factors and HEFCE operations

ix. HEFCE's capacity and capability to perform as an effective organisation which met the expectations of its stakeholders and the Government's requirements to co-ordinate and provide oversight over the HE regulatory system, and to provide accountability for the public funds it distributed, was dependent on the resources made available to HEFCE from DfE. HEFCE's capacity was stretched during 2017-18, due to the need to support the establishment of the OfS and Research England. The additional cost of supporting the transitionary period and the costs of administration for the successor bodies were regularly discussed with DfE and BEIS. DfE supported the additional costs arising for HEFCE with a transition budget.

x. After taking into account the cost of running HEFCE, around 99 per cent of the grant-in-aid received from DfE was passed on as grants to HEIs and other organisations. Most of this was distributed through formulae based on activity levels, course cost and (in some areas) performance. Recurrent grant funding relating to teaching activity in HEIs amounted to £1.4 billion. Following a request from Government in 2016, HEFCE reviewed various aspects of this funding, including for postgraduate taught students, support for disabled students and the additional costs of operating in London and elsewhere. HEFCE also took on responsibility for funding the majority of HE courses in nursing, midwifery and allied health subjects from the Department of Health. Some of the changes to funding that arise from this work will be for the OfS to take forward.

xi. The majority of HEFCE's £1.6 billion of research funding continued to be distributed on the basis of research quality, taking into account the volume and relative cost of research in different areas. Research quality was periodically assessed on a UK-wide basis; the most recent exercise (the first Research Excellence Framework (REF)) was completed in 2014. During 2017-18, HEFCE continued to develop its approach to the second REF, to be carried out in 2021, following both the independent review of the REF carried out by Lord Stern and a major consultation exercise initiated last year. In November 2017, HEFCE published key decisions on several areas of the REF 2021, including concerning the submission of staff and outputs to the exercise. Management and oversight of the REF transferred to Research England with effect from 1 April 2018.

xii. HEFCE's work in 2017-18 also included promoting the Government's Industrial Strategy through funding of HEIs (HE Innovation Fund and a new 'Connecting Capability Fund'), through Catalyst Funding of curriculum development by HE providers and through the early development of a Knowledge Exchange Framework. Management and oversight of the knowledge exchange activity transferred to Research England with effect from 1 April 2018.

xiii. HEFCE operated a range of mechanisms to secure accountability for its funding, which included governance, financial health and risk assessments of funded organisations. HEFCE's Board and Audit Committee regularly received reports on these assessments, for which HEFCE recently established a new 'Annual Provider Review' process. Using this system, HEFCE assessed and monitored the overall risk profile of each regulated organisation, taking into account a wide range of information including that relating to financial performance and sustainability, student data, academic quality and standards, and with higher reliance placed upon a provider's own internal assurance arrangements. The HE reforms implemented by the Government in recent years contributed to a variation in individual institutional financial performance. Where an institution experienced significant challenges, or other risks to its sustainability, HEFCE implemented its support strategy, which aimed to address explicitly any issues or risks that affect the interests of students. Further details about how HEFCE's institutional risk system and assurance mechanisms worked may be found at www.hefce.ac.uk/reg/.

xiv. HEFCE fully supported the Government's work to minimise fraud risk and fraud itself and used a counter-fraud group to co-ordinate its work in this area. This included a regular review of an internal fraud risk assessment. HEFCE experienced no internal frauds in the year. HEFCE required funded organisations to advise it of adverse events, serious incidents and significant frauds, receiving 25 such notifications during the year, of which 12 were fraud-related. There is no common theme. They included supplier payment frauds, staff-related frauds and one-off incidents originating overseas. Financial losses arose in some of these cases. In no case did the incident reported directly involve public funds.

xv. During the year, in addition to continuing the development of its cyber security arrangements, HEFCE made a substantial investment in its IT systems. HEFCE successfully replaced its finance, payroll and human resources systems with one integrated system in December 2017. In addition, HEFCE initiated a major IT transformation programme on behalf of the OfS during the year (the OfS Digital, Data and Technology Programme), to help establish the IT systems that the OfS will need from 1 April 2018 and beyond.

xvi. HE providers are accountable to students and taxpayers for the investment provided by tuition fees and public funding. HEFCE, as lead regulator for the sector with a responsibility to protect the interests of students and the wider public, has supported the sector in demonstrating efficiency and value for money (VFM) in HE. HEFCE reviewed both the annual audit committee reports of funded HEIs and the annual reports of their auditors, which are required to incorporate an opinion on VFM. In addition, HEFCE has reviewed the mandatory VFM reports included in the Annual Accountability Return received from funded providers. HEFCE commissioned an independent review of the reports from 2015/16, which was published at www.hefce.ac.uk/reg/guidance/vfmon/ in July 2017. It provides information on the nature and amount of savings made and offers further guidance to institutions on the reporting of VFM within institutions. HEFCE also collected more specific data on efficiency from HEIs in January 2018. A summary of HEFCE's analysis of this data is provided at www.hefce.ac.uk/funding/efficient/ . The National Audit Office also published a report in December 2017[1] on the higher education market, and the value for money that students receive. All of this information has provided assurance to the Board on the adequacy and effectiveness of, and good practice in, value for money for the funding distributed by HEFCE.

xvii. To enable the board to fulfil its assurance responsibilities to monitor performance against budget to ensure resources are managed effectively, the Board received a quarterly report on HEFCE's financial position. This included a financial dashboard that highlighted any key issues arising.

Additional requirements

Comments on the following issues are required to be included in this statement:

i. HEFCE continued to maintain, enhance and report on its cybersecurity, information security and related assurance arrangements in order to meet the requirements of the Government's Security Policy Framework. Progress with this work was also reported to the HEFCE Audit Committee periodically, and through an annual report. HEFCE experienced no reportable losses of personal data in this period. In August 2017, HEFCE renewed its 'Cyber Essentials' certification accreditation and commissioned a third successive review of its cybersecurity arrangements from Ernst & Young, its internal auditors.

ii. HEFCE supported the Government's 'Transparency Agenda', which seeks to make more government data available and accessible to the public. HEFCE published a great deal of information on its website, www.hefce.ac.uk. For example, for the benefit of current and prospective students and interested third parties, HEFCE published the outcomes of the National Student Survey (NSS) every year since it started in 2005. The NSS data informs the 'Key Information Set' on the Unistats website at https://unistats.direct.gov.uk/find-out-more/, which students may use to inform their study choices. The full dataset remains freely available for third party re-use via HESA. This is in addition to the main datasets on higher education which have been available from HESA since 1994. HEFCE also published a register of providers which provided regulatory information about providers of higher education to the wider public.

iii. All relevant payments made by HEFCE to Board members, senior staff and other people paid on an individual basis were made through arrangements that met the requirements of HM Revenue and Customs.

[1] https://www.nao.org.uk/report/the-higher-education-market/

iv. The Director of Finance had oversight of and approved a process that ensured the monthly datasets of accounts payable transactions were reviewed before they were made publicly available.

v. HEFCE operated a suite of business-critical funding models for calculating the amounts of grant to allocate to HEIs and for other regulatory purposes. These models were assessed against the relevant BIS (now DfE) quality assurance framework in 2015, which concluded that HEFCE met the highest standard available. An internal audit of HEFCE's funding models was carried out in the year, concluding that there was strong evidence of compliance with the Government's requirements, as described in the Macpherson Review and Aqua Book guidance.

vi. HEFCE was a shareholder in the BEIS-sponsored shared services organisation 'UK Shared Business Services Ltd' and used it for some procurement services.

Cessation of HEFCE and transfer of Accounting Officer responsibilities

Through the enactment of section 81 of the Higher Education and Research Act 2017, HEFCE ceased to exist and closed on 31 March 2018. The continuing activities of HEFCE were transferred to the Office for Students and Research England (part of UK Research and Innovation), both established by the Higher Education and Research Act 2017. Responsibility for the majority of these continuing activities lies with the Office of Students, for which I am Accounting Officer. The completion and agreement of these final accounts of HEFCE, and their submission to Parliament, therefore became my responsibility from 1 April 2018.

In fulfilling this duty, I have relied on the statements and assurances of the Accounting Officer in place at HEFCE for the year to 31 March 2018. I have also relied on the oversight of HEFCE's systems of corporate governance, risk management and internal control carried out by the HEFCE Audit Committee during the financial year and as described in its annual report, as well as the Risk and Audit Committee of the Office for Students, which established a sub-group (comprising members of both the HEFCE and OfS audit committees), to review these annual report and accounts. I have also received the management report on their audit of these 2017-18 accounts from HEFCE's external auditors. I am satisfied that, where any weaknesses in systems and processes have been identified, there are plans in place both to address them and to ensure continuous improvement.

I have considered the evidence provided with regard to the production of the annual Governance Statement. The conclusion of my review is that HEFCE's overall governance and internal control structures were appropriate for HEFCE's business and that they operated satisfactorily throughout 2017-18.

Nicola Dandridge
HEFCE Accounting Officer (from 1 April 2018)
Chief Executive, Office for Students
9 May 2018

Remuneration and staff report

Part one (not subject to audit)

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2017-18 were:

Sir Tim Melville-Ross CBE Chair of the HEFCE Board

Professor Mary Stuart HEFCE Board member

Sara Weller CBE HEFCE Board member

The Chief Executive normally attends meetings to support discussion of the performance and remuneration of Directors but leaves before discussion of her own performance and remuneration occurs.

Professor Mary Stuart left the board on 28 February but had been a Remuneration Committee Member up to this point.

The terms of reference for the Remuneration Committee are to:

- Make recommendations to the Board on the terms and conditions of employment of the Chief Executive, noting that some aspects of the terms and conditions will then need to be referred to the Department for Education (DfE) for approval. Unless there are exceptional circumstances, the Board delegates consideration and approval of these recommendations to the Chair of the Board.
- Support the HEFCE Chair in setting objectives with the Chief Executive and monitoring the Chief Executive's performance.
- Carry out an annual review of the remuneration of the Chief Executive, and make recommendations to DfE about changes to basic pay and levels of performance-related pay within the context of the terms and conditions agreed by the Board.
- Agree the terms and conditions of employment of other Directors.
- Support the HEFCE Chief Executive in monitoring the Directors' performance.
- Carry out an annual review of the remuneration of Directors, and make decisions about changes to basic pay and levels of performance-related pay involving DfE as required.
- Review the aims of the annual pay remits, which seek authority from DfE for the nature and scale of pay awards to Council staff, delegating the details to the Chief Executive.
- Set and review the ongoing appropriateness and relevance of the approach to remuneration.
- Review the remuneration report that forms part of the Council's annual report and accounts.
- Support the Chair, Chief Executive and DfE in the consideration of succession planning requirements at Board and Executive level.

These terms of reference were reviewed in January 2017.

Remuneration arrangements

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

The aim is to enable us to recruit, retain and motivate a highly talented and experienced person who is capable of fulfilling the role. Normally, salary reviews take account of market pay data and the Government's decisions on the recommendations of the Senior Salaries Review Body. The level of non-consolidated performance pay (up to a maximum of 10 per cent of basic salary) relates to achievement of the Chief Executive's agreed objectives and is normally paid in the following financial year.

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

The Remuneration Committee reviews the basic salary and performance pay for the Chief Executive and all Directors, making recommendations to the Secretary of State for Education for each post holder earning over £150,000 based on:

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

Non-consolidated performance pay for high-performing staff is limited to 4 per cent of the total pay bill.

Contracts

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Education. Professor Madeleine Atkins CBE was appointed for a five-year term which began in January 2014 and her contract stipulates a minimum of a six-month notice period.

Contracts for directors are open-ended and their notice period is also for a minimum of six months.

No contracts envisaged the closure of HEFCE or covered termination of contracts in these circumstances.

Membership of the Board

The Board consists of 12 to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, Board members were appointed by the Secretary of State for Education usually for a period of three years. They were appointed on the basis of their expertise in education, or their experience in industry or the professions. Candidates were identified by DfE, in consultation with HEFCE, usually from responses to advertisements placed by DfE in the national and educational press.

Members were able to be reappointed for a second term of three years subject to appraisal by the Chair and the Secretary of State for Education.

The Chief Executive was appointed by the other members of the Board with the approval of the Secretary of State for Education.

Memberships of the HEFCE Board ceased on 31 March 2018 upon the closure of HEFCE.

Staff report

On the census date of 31 March 2018, HEFCE employed 359 full-time equivalent staff; 393 headcount, 271 female and 122 male. Of the 11 Board members in post, as listed in the Remuneration Report (excluding the Chief Executive and the Chair), there were eight men and three women. Of the six senior employees (Chief Executive and Directors) in post, as listed in the Remuneration Report, there were three men and three women. We continue to monitor sickness absence as an indicator of staff wellbeing. Our sickness absence remains relatively low. In 2017-2018 we lost 1,611 working days to sickness, an average of 4.1 days per person. The level compares favourably to an average 8.5 for government public service bodies and 5.2 days for private sector services[2]. These figures are provided by the Human Resources team based on their knowledge and assessment of sickness and absence patterns across the business.

HEFCE is committed to promoting diversity and equal opportunities in employment. Like many other organisations, we have recognised the benefits of a diverse and well-motivated workforce, where all are treated fairly. Our intention is to reflect not only the letter but also the spirit of the Public Sector Equality Duty. In putting our aspirations into firm commitments, and by working alongside our stakeholders, we issued an Equality and Diversity statement in 2016. This includes our annual report, equality information and forward plan. The statement can be found at http://www.hefce.ac.uk/pubs/year/2016/201605/.

In accordance with the Trade union (Facility Time Publication Requirements) Regulations 2017 which came into force on 1st April 2017, HEFCE is required to report the following facility time information. During 2017-18 there were 8 full time employees who were union officials. All of these employees spent between 0-15 per cent of their working hours on facility time. The total cost of this facility time was £15,546, which represents 0.08 per cent of the total staff costs of £19.3 million for permanently employed staff. Of the facility time, all was spent on trade union activities.

[[2]CIPD Report 2016 (Absence management) https://www.cipd.co.uk/Images/absence-management_2016_tcm18-16360.pdf]

Part two (audited)

HEFCE Chair

Remuneration of the Chair was decided by DfE. The HEFCE Chair receives a salary but does not participate in the Council's pension scheme. The position is for two days per week.
The total salary for **Sir Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2018, was £47,350 *(2016-17: £47,350)*.

In May 2016 the Chair's term of office was extended to 31 December 2018. However this ceased on 31 March 2018 upon the closure of HEFCE.

HEFCE Board

All Board members are eligible to receive an annual payment of £5,000 pro rata. The payment is non-pensionable. All members are paid the amount directly via payroll, except those members who have elected to have their payments made direct to a charity. These members are indicated by * in the table below. Some members had previously been paid for their work on the Annual Provider Review and received a £1,000 payment; their honorarium payments were agreed to be reduced by £1,000. These members are marked by ** in the table below. Other members who were appointed as at the 1 March 2017 had an additional payment agreed of £417 relating to 2016-2017. These are marked by *** in the table below.

Board members' remuneration

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
The Hon Apurv Bagri (*) (to February 2017)	-	4,583
Professor Sir Keith Burnett (to February 2018)	**5,000**	5,000
Martin Coleman (**)(***)	**5,000**	417
Gurpreet Dehal (***)	**5,000**	417
Professor Anne Greenough (*)	**5,000**	5,000
Peter Houillon (to January 2017)	-	4,166
Katherine Lander (***)	**5,000**	417
Professor Carl Lygo (***)	**5,000**	417
Graeme Osborn	**5,000**	5,000
David Palfreyman (***)	**5,000**	417
Mark Robson	**5,000**	5,000
Hugh Ross	**5,000**	5,000
Anil Ruia OBE (to December 2016)	-	3,753
Professor Mary Stuart (*) (to February 2018)	**5,000**	5,000
Sara Weller CBE (**)	**5,000**	5,000
Professor Steven West (*)(***)	**5,000**	417
	65,000	50,004

HEFCE Chief Executive

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

HEFCE was wound up operationally on 31 March 2018. The new regulatory body for higher education, the Office for Students, became fully operational on 1 April 2018 under a new Chief Executive and new governance structures. On the same date HEFCE's work related to research and knowledge exchange transferred to another new body, Research England which is part of UK Research & Innovation.

Professor Atkins' role as Chief Executive of HEFCE therefore ended on 31 March 2018, before the end of her contract. In accordance with her employment rights she received a payment of £177,728 in lieu of her basic salary for the notice period 1 April 2018 to 31 December 2018. This payment was agreed and approved by the Department for Education following HM Treasury guidelines for such circumstances and was subject to normal tax deductions. Professor Atkins was also entitled to a redundancy payment of £67,250, which she has declined to take and asked for the payment to be made to Charity.

Professor Atkins has agreed to make herself available to provide support and advice to the Office for Students and Research England regarding any legacy issues relating to HEFCE for a period of two years. She has also been in discussion with the Department for Education regarding how her extensive expertise and experience can continue to be made available.

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

Chief Executive's remuneration for the year ended 31 March 2018								
Name	**Salary paid in year**		**Taxable benefits**		**Employer's pension contributions**		**Total**	
	2017-18 £	2016-17 £	**2017-18 £**	2016-17 £	**2017-18 £**	2016-17 £	**2017-18 £**	2016-17 £
Professor Madeleine Atkins	**528,891**	263,865	**6,654**	7,670	**19,103**	10,819	**554,648**	282,354

Salary paid in year

The salary paid in 2017-18 includes non-consolidated pay of £35,000 which comprises £17,500 in recognition of performance in 2016-17 and £17,500 in recognition of performance in 2017-18. Salary paid in 2017-18 also includes payment in lieu of basic salary for the notice period 1 April to 31 December 2018 of £177,728, payment for redundancy (donated to charity) of £67,250 and payment for untaken leave to 31 March 2018 of £11,357. The salary paid in 2016-17 includes non-consolidated pay of £27,500 which relates to performance in 2014-15 and 2015-16.

Taxable benefits

Taxable benefits relate to occasional provision of overnight accommodation in Bristol and travel to HEFCE's Bristol office (assessed for tax purposes as the permanent workplace). The value is calculated at year end.

Pension contributions

Professor Atkins has opted out of the Universities Superannuation Scheme, but there is a requirement to pay the enhanced opt-out contribution to retain the death in service and incapacity benefit.

Senior employees

The remuneration shown in the table below includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the Directors received any taxable benefits during the financial year 2017-2018, apart from the Chief Executive as stated above.

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£'000)	
	2017-18	2016-17	**2017-18**	2016-17	**2017-18**	2016-17	**2017-18**	2016-17	**2017-18**	2016-17
Professor Madeleine Atkins CBE[a,b], Chief Executive	**490-495**	235-240	**30-35**	25-30	**6,700**	7,700	**19,000**	11,000	**550-555**	280-285
Mario Ferelli, Director – Analytical Services	**90-95**	90-95	**-**	-	**-**	-	**23,000**	23,000	**115-120**	115-120
Susan Lapworth [c], Director – Regulation & Assurance	**95-100**	90-95	**5-10**	5-10	**-**	-	**17,000**	17,000	**115-120**	115-120
Yvonne Hawkins [c], Director – Universities & Colleges	**95-100**	90-95	**-**	5-10	**-**	-	**23,000**	23,000	**115-120**	120-125
Christopher Millward[d], Director – Policy Up to 31 December 2017	**70-75**	90-95	**5-10**	-	**-**	-	**17,000**	23,000	**90-95**	115-120
Nolan Smith[e], Director of Finance	**120-125**	115-120	**-**	-	**-**	-	**30,000**	**29,000**	**150-155**	145-150
David Sweeney[f], Director – Research, Education & Knowledge Exchange	**130-135**	125-130	**-**	-	**-**	-	**3,000**	3,000	**135-140**	130-135

Salary

[a] In 2017-18 and 2016-17, salary includes backdated pay in relation to the annual pay award from the previous year

[b] In 2017-18 salary includes payment in lieu of basic salary for the notice period 1 April to 31 December 2018 of £177,728, payment for redundancy (donated to charity) of £67,250 and payment for untaken leave to 31 March 2018 of £11,357

[c] Includes payment for additional responsibility from 1 January 2018 to 31 March 2018 of £1,180

[d] For the period up to 31 December 2017, after which time the Director joined the Office for Students. (Annualised salary was £95,000-100,000).

[e] Includes payment for additional responsibility from 1 January 2018 to 31 March 2018 of £1,510

[f] Includes payment for additional responsibility from 1 January 2018 to 31 March 2018 of £1,641.

Senior employees' pensions	Accrued pension at pension age as at 31 March 2018 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2018 £000	CETV at 31 March 2017 or start date £000	Real increase in CETV £000
Professor Madeleine Atkins[a], Chief Executive					
Pension	90-95	(2.5)-0	2,513	2,391	47
Lump sum	280-285	(5)-(2.5)			
Mario Ferelli[b], Director – Analytical Services					
Pension	40-45	0-2.5	979	911	1
Lump sum	130-135	0-2.5			
Susan Lapworth[a], Director – Regulation and Assurance					
Pension	15-20	0-2.5	395	387	(10)
Lump sum	55-60	0-2.5			
Yvonne Hawkins[b], Director – Universities & Colleges					
Pension	15-20	0-2.5	244	212	18
Lump sum	0	0			
Christopher Millward[b], Director – Policy					
Pension	25-30	0-2.5	427	404	(1)
Lump sum	65-70	0			
Nolan Smith[b], Director of Finance					
Pension	30-35	0-2.5	432	392	9
Lump sum	65-70	0			
David Sweeney[a], Director – Research, Education & Knowledge Exchange					
Pension	60-65	(2.5)-0	1,639	1,687	(97)
Lump sum	190-195	(5)-(2.5)			

[a] Members of the Universities Superannuation Scheme.

[b] Members of the Civil Service pension scheme.

Universities Superannuation Scheme

Certain employees transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. HEFCE is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis. USS members pay contributions of 8 per cent of pensionable earnings. The rate of employers' contributions is 18 per cent. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay. Employees who have elected for enhanced opt out to retain death in service and incapacity benefits, contribute 2.5 per cent of pensionable earnings and employers contribute 2.1 per cent.

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

Civil Service Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and five months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 4.6 per cent and 8.05 per cent for members of **classic**, **premium**, **classic plus**, **nuvos** and **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate in 2.32 per cent. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8 per cent and 14.75 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the Civil Service Pensions Scheme website www.civilservicepensionscheme.org.uk

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Staff costs

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

The banded remuneration of the highest paid director (the Chief Executive) in HEFCE, in the financial year 2017-18, was £290-295,000 *(2016-17: £270-275,000)*. This was 8.1 times *(2016-17: 7.7 times)* the median remuneration of the workforce, which was £35,980 *(2016-17: £35,290)*. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

The increase in the banded remuneration of the highest paid Director and median remuneration ratio is due to the Chief Executive receiving payment for untaken leave to 31 March 2018 of £11,357. Excluding this payment would reduce the banded remuneration to £275-280,000 and the median remuneration ratio to 7.7.

In 2017-18 no *(2016-17: 0)* employees received remuneration in excess of the highest paid director. Remuneration ranged from £17,500 to £132,500 *(2016-17: £15,000 to £129,992)*.

The table below shows analysis of staff costs and pension costs.

Staff costs

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Staff with a permanent UK employment contract with HEFCE		
Salaries	**14,834**	12,642
National Insurance contributions	**1,611**	1,339
Pension costs	**2,893**	2,483
	19,338	16,464
Costs of employing contract, agency and temporary staff	**1,371**	2,440
	20,709	18,904
Pension costs breakdown		
Civil Service Pensions	**2,737**	2,375
Partnership pension	**60**	40
Universities Superannuation Scheme	**96**	68
	2,893	2,483

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation. All eligible staff are considered for a non-consolidated performance-related payment related to individuals' performance against objectives. Annual settlements are awarded from 1 August each year and relate to individuals' performance from the previous financial year. Permanent staff costs have increased in 2017-18 which is in line with the increase in staff numbers, as shown in the table below. This occurred due to new responsibilities assumed by HEFCE, in particular related to the subject-level Teaching Excellence and Student Outcomes Framework and transition work in relation to the Office for Students and Research England.

The Council contributes to two pension schemes, the PCSPS and the USS. The USS is a multi-employer defined pension scheme. The PCSPS is an unfunded multi-employer defined benefit scheme but HEFCE is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource accounts section of the Civil Service Pensions website (www.civilservice.gov.uk/pensions).

For 2017-18, employers' contributions of £2,737,810 were payable to the PCSPS *(2016-17: £2,375,469)* at one of four rates in the range 20.0 to 24.5 per cent *(2016-17: 20.0 to 24.5 per cent)* of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a Partnership pension account: a stakeholder pension with an employer contribution. Employers' contributions of £59,548 *(2016-17: £39,798)* were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 8.0 to 14.75 per cent *(2016-17: 8.0 to 14.75 per cent)* of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay and contribute a further 0.5 per cent *(2016-17: 0.5 per cent)* of pensionable pay to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Eight members of staff hold a pension with USS. For 2017-18, employers' contributions of £96,050 *(2016-17: £68,301)* were payable at a rate of 18 per cent *(2016-17: 18 per cent)*. Employers may be required to contribute 2.1 per cent *(2016-17: 2.1 per cent)* for employees who have elected for enhanced opt-out to retain death in service and incapacity benefits.

The table below shows the average full-time equivalent (FTE) staff numbers per directorate excluding the Chair.

Staff numbers

	Year ended 31 March 2018 FTE	Year ended 31 March 2017 FTE
Analytical Services Directorate	**60**	54
Corporate Services	**69**	61
Finance and Funding Directorate	**38**	35
Institutions Directorate	**58**	53
Regulation and Assurance Directorate	**47**	39
Research, Education and Knowledge Exchange Directorate	**87**	59
	359	301
Average number of contract, agency and temporary staff	**22**	27
	381	328

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

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

The increase in staff numbers is due to additional responsibilities requested by the sponsor Department in order to fulfil our objectives.

During 2017-18 HEFCE incurred no expenditure on consultancy.

As of 31 March 2018, there were no off payroll engagements.

In addition to the Chief Executive's payment noted above, there was one exit package paid in 2017-18 (2016-17: 0) for £65-70,000. This was paid on a voluntary basis in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure.

Parliamentary Accountability and Audit Report

I can confirm that for the financial year ended 31 March 2018, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money, and that Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2017-2018.

The following disclosures are audited.

Special payments

HEFCE was wound up operationally on 31 March 2018. The new regulatory body for higher education, the Office for Students, became fully operational on 1 April 2018 under a new Chief Executive and new governance structures. On the same date HEFCE's work related to research and knowledge exchange transferred to another new body, Research England which is part of UK Research & Innovation.

Professor Madeleine Atkins' role as Chief Executive of HEFCE therefore ended on 31 March 2018, before the end of her contract. Her contract required a minimum six months' notice and it was agreed she would receive a payment of £177,728 in lieu of her basic salary for the period 1 April 2018 to 31 December 2018. This payment was agreed and approved by the Department for Education following HM Treasury guidelines for such circumstances and was subject to normal tax deductions. Professor Atkins has agreed that in the event she receives income during the period 1 April 2018 to 31 December 2018 from any employment she secures during that period, she will repay an equivalent amount of the net income received from such employment.

In addition a financial settlement of £67,250 was agreed in lieu of any redundancy entitlement and any employment claim, which Professor Atkins declined to take and asked for the payment to be made to Charity.

The remuneration report provides further details.

During 2017-18 there have been no losses.

As at 31 March 2018 there were no contingent liabilities.

Nicola Dandridge CBE
HEFCE Accounting Officer (from 1 April 2018)
Chief Executive, Office for Students
9 May 2018

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2018 under the Further and Higher Education Act 1992. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that are described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2018 and of net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and Secretary of State directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of HEFCE in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board and Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Further and Higher Education Act 1992.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of HEFCE's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the HEFCE's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Further and Higher Education Act 1992;
- in the light of the knowledge and understanding of HEFCE and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse	**Date**
Comptroller and Auditor General	**15 May 2018**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Financial statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Note	**Year ended 31 March 2018 £000**	Year ended 31 March 2017 £000
Income	6	**(3,054)**	(6,843)
Staff costs	4	**20,709**	18,904
Non-pay administration costs	5	**6,866**	6,190
Depreciation	7	**119**	226
Institutional recurrent funding	3	**3,150,438**	3,044,231
Funding for national facilities and initiatives	3	**121,585**	98,109
Capital funding	3	**358,591**	436,486
Other government allocations	3	**60,856**	7,203
Changes in provision	12	**9,012**	23,437
Total operating expenditure		**3,728,176**	3,634,786
Net operating expenditure		**3,725,122**	3,627,943
Net expenditure for the year transferred to general reserve		**3,725,122**	3,627,943

HEFCE operations were transferred to the Office for Students and Research England with effect from 1 April 2018.
There were no gains or losses other than the net expenditure for the year.

The notes on pages 84 to 102 form part of these accounts.

Statement of Financial Position as at 31 March 2018

	Note	**As at 31 March 2018 £000**	As at 31 March 2017 £000
Non-current assets			
Property, Plant and Equipment	*7*	**299**	418
Recoverable grants falling due after one year	*9a*	**15,089**	25,510
Trade and other receivables due after one year	*9b*	**3,750**	6,250
		19,138	32,178
Current assets			
Recoverable grants falling due within one year	*9a*	**10,312**	14,166
Trade and other receivables due within one year	*9b*	**7,525**	4,525
Cash and cash equivalents	*10*	**11,821**	45,581
		29,658	64,272
Total assets		**48,796**	96,450
Current liabilities			
Trade and other payables	*11*	**(12,407)**	(3,687)
Provisions for liabilities and charges within one year	*12*	**(22,419)**	(23,895)
Total assets less current liabilities		**13,970**	68,868
Non-current liabilities			
Provisions for liabilities and charges after one year	*12*	**(165,681)**	(178,699)
Total assets less liabilities		**(151,711)**	(109,831)
Taxpayers' equity			
General reserve		**(151,711)**	(109,831)
		(151,711)	(109,831)

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

The financial statements on pages 80 to 83 were approved by the Accounting Officer on 9 May by:

Nicola Dandridge CBE, Accounting Officer

The notes on pages 84 to 102 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2018

	Note	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Cash flows from operating activities			
Net expenditure		**(3,725,122)**	(3,627,943)
Adjustment for non-cash transactions	*7,12*	**6,242**	9,180
(Increase) / decrease in receivables	*9b*	**(500)**	6,316
Increase in payables	*11*	**3,479**	982
Use of provisions	*12*	**(20,617)**	(11,777)
Net cash outflow from operating activities		**(3,736,518)**	(3,623,242)
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	*7*	**-**	(59)
Net cash flow from investing activities		-	(59)
Cash flows from financing activities			
Grants from government department	*2*	**3,691,942**	3,619,423
Decrease in recoverable grants	*9a*	**14,275**	4,778
(Decrease) in DfE payable	*11*	**(1,273)**	1,273
(Decrease) in payable to co-funding partner	*11*	**(2,186)**	-
Net cash flow from financing activities		**3,702,758**	3,625,474
Net increase / (decrease) in cash for the year		**(33,760)**	2,173
Net financing			
Cash and cash equivalents at the beginning of the period	*10*	**45,581**	43,408
Net increase / (decrease) in cash and cash equivalents in the period	*10*	**(33,760)**	2,173
Cash and cash equivalents at the end of the period		**11,821**	45,581

The notes on pages 84 to 102 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	Note	Total Reserve £000
Changes in Taxpayers' Equity 2016-17		
Balance as at 1 April 2016		(101,311)
Grant from sponsoring department	*2*	3,619,423
Comprehensive expenditure for the year		(3,627,943)
Balance as at 31 March 2017		**(109,831)**
Changes in Taxpayers' Equity 2017-18		
Balance as at 1 April 2017		(109,831)
Grant from sponsoring department	*2*	3,691,942
Reimbursement to co-funding partner	*11*	(8,700)
Comprehensive expenditure for the year		(3,725,122)
Balance as at 31 March 2018		**(151,711)**

General Reserve

This reserve consists of programme and administration funding (grant and grant in aid) from DfE, and the net expenditure relating to programme and administration costs.

The notes on pages 84 to 102 form part of these accounts.

1 Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Education, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2017-18 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

The accounts are prepared under the historical cost convention. The currency used to prepare the accounts is sterling and is rounded to the nearest £1,000.

Going concern

The passage into law of the Higher Education and Research Act 2017 resulted in the closure of HEFCE on 31 March 2018. A transfer order was put in place at midnight on this date which transferred the remaining net liabilities from HEFCE to the Secretary of State for Education and then directly onto either of two public bodies. These were the Office for Students (OfS), sponsored by the Department for Education (DfE) or Research England (RE), which is a Council within UK Research and Innovation (UKRI), sponsored by the Department for Business, Energy and Industrial Strategy (BEIS) as agreed by both departments on 1 April 2018.

The existing assets, liabilities and staff of HEFCE have been transferred between these entities in a practical way which reflects the services that each body will provide. Teaching and associated services will be provided by the OfS. Research, Knowledge Exchange and associated services will be provided by RE.

The functions provided by HEFCE transferred to either the OfS or RE on 1 April 2018 as agreed by both sponsoring departments. Consequently, the Accounting Officer, with the support of senior management, has concluded that as there is continuation of provision of services previously provided by HEFCE, in accordance with the Financial Reporting Manual (FReM), it is appropriate for HEFCE to prepare its 2017-18 Annual Report and Accounts on a going concern basis.

The statement of financial position at 31 March 2018 shows net liabilities which reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the OfS and RE’s other sources of income, may only be met by future funding from the organisations sponsoring departments, the DfE and BEIS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need. Funding for 2018-19, taking into account the amounts required to meet the OfS and RE transferred liabilities from HEFCE that are due in that year, has already been included in DfE's and BEIS's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. This means the functions of government delivered by HEFCE will continue and accordingly these financial statements have been prepared on a 'going concern' basis.

Financial Instruments

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

1 Accounting policies (continued)

Assets and liabilities that meet the definition of financial instruments are accounted for under IAS32, IAS 39 and IFRS 7. Trade receivables and payables are measured at cost on the basis that this is a reasonable approximation of fair value.

During the course of its business, HEFCE may on occasion make loans to higher education institutions. These are disclosed in Note 9a. Loans are disclosed at cost as the discounted cash flows would not be materially different from cost.

Grants from the Department for Education

All grant in aid from DfE is treated as financing as it is contribution from controlling parties giving rise to a financial interest. It is recorded as financing in the cash flow statement and credited to the general reserve. Grants not classified as financing are subject to conditions such that non-compliance with grant terms would result in the grant being repaid.

Leases

Under IAS 17 leases are reviewed against key indicators to determine whether they are finance or operating leases.

Non-current assets

Property, plant and equipment are capitalised where the costs for an individual asset, or group of functionally interdependent assets exceeds £10,000. On initial recognition assets are measured at cost. Given their low value, depreciated historical cost is used as a proxy for fair value.

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

Leasehold improvements	10 years or the remaining term of the lease, whichever is less
Fixtures, fittings and furniture	5 years
Office equipment	4 years
IT assets	3 years

A full year's depreciation is provided in the year of acquisition and none in the year of disposal, so the actual acquisition/disposal date within the financial year is not reflected. This is an approximation adopted due to the low value of the fixed assets owned.

Payment of grants

Grants are recognised at the payment dates agreed with the organisations concerned. Most grants are paid on agreed profiles, which are set to reimburse the grant recipients based on the expected profile of expenditure.

The profiles are periodically updated throughout the academic year, and therefore no financial year end accruals are expected for these streams of expenditure.

1 Accounting policies (continued)

The exceptions to this are:

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

Student number control grant adjustments: The grant funding pot is based on an estimated student number control and up to 2015-16 academic year institutions were encouraged not to over-recruit. If an institution over-recruited HEFCE will seek to implement grant reductions, on instructions from DfE. The grant reductions are implemented at the point where there is sufficient certainty over the value of the funding adjustment. Sufficient certainty is where the HEFCE Chief Executive approves the funding adjustment. Any funding which is recovered through this route may be recycled to the sector or returned to the Department. If HEFCE is permitted to keep funding, this creates a debtor.

Pensions

HEFCE employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is a multi-employer defined benefit scheme treated for accounting purposes, in accordance with the FReM, as a defined contribution scheme. Some staff transferring to HEFCE from universities are covered by the provisions of the Universities Superannuation Scheme (USS), which is also a defined benefit scheme treated for accounting purposes as a defined contribution scheme. These schemes are described in more detail in the remuneration and staff report. The PCSPS and USS have both confirmed that the OfS and RE as applicable will be accepted into these respective schemes.

Provisions for liabilities and charges

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

Taxation

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

IFRS issued but not yet effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. At 31 March 2018 the following IFRS's, none of which will be material to HEFCE's annual accounts, have been issued but are not effective as they are not yet applied in the FReM:

IFRS 9 - Financial Instruments - no mandatory effective date.

IFRS 15 - Revenue from Contracts with Customers - effective date 1 January 2018.

IFRS 16 - Leases - effective date 1 January 2019.

These standards have been issued but are not yet effective or endorsed by the European Union or incorporated into the FReM. IFRS 9 and IFRS 15 are anticipated to be adopted in the 2018-19 FReM and the adoption date of IFRS 16 anticipated to be 2019-20.

1 Accounting policies (continued)

The potential impacts of IFRS 9, IFRS 15 and IFRS 16 are not expected to have a material impact on HEFCE's financial statements.

1a Significant judgements

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

In particular, the provision for Inherited Staff Liabilities is, by its very nature, an estimation. The value of the provision is derived from a periodic actuarial valuation of the underlying population, and is updated in the interim years by management. An actuarial valuation of the pension liabilities as at 31 March 2018 has been performed by the Government Actuary's Department.
Note 12 to the accounts gives further details of the provision and our assumptions.

HEFCE's policy is to recognise funding adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Further details are given in Note 1.

HEFCE has the powers under the Further and Higher Education Act 1992 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met.

2 HM Government grants received

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**3,257,623**	3,158,513
Grant in aid for capital expenditure in HE	**347,713**	428,130
	3,605,336	3,586,643
Other ring-fenced allocations		
Grant for National Productivity Investment Fund	**40,309**	-
Grant for Connecting capabilities fund	**15,000**	-
Grant for Degree Apprenticeships	**4,000**	4,500
Grant for Institute of Coding	**1,084**	-
Grant for Newton Fund	**-**	4,000
	60,393	8,500
Administration costs		
Grant in aid from DfE for HEFCE administration costs	**26,213**	24,280
Total grant and grant in aid received	**3,691,942**	3,619,423

This note shows the total grant and grant in aid received from government departments during the year. Grant and grant in aid are paid from DfE's resource accounts and are taken to the general reserve.

HEFCE is advised of its total funding in the annual grant letter from the Secretary of State. As well as setting out the details of the funding made available to HEFCE the letter outlines the main policy areas and strategic objectives within which HEFCE is expected to operate. In March 2018 DfE provided HEFCE with an additional £70 million of recurrent teaching and £40 million of research recurrent funding, which is included in the figures above. As a consequence the recurrent grant allocations in 2018-19 have been reduced by £70 million and £40 million respectively. Over the two financial years the changes in funding cancel each other out so there is no impact on the funding provided to higher education institutions. In March 2017, the equivalent additional amount the department provided to HEFCE (also included in figures above) was £19 million of research capital funding.

The grant letter is available on our website at www.hefce.ac.uk/funding/govletter/.

HEFCE receives grant in aid for programmes and administration costs expenditure, and ring-fenced grant funding for other specific purposes.

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Institutional recurrent funding [a]		
Teaching	**1,357,240**	1,318,682
Research	**1,632,902**	1,569,013
Knowledge Exchange	**160,296**	156,536
	3,150,438	3,044,231
Funding for national facilities and initiatives [b]	**121,585**	98,109
Capital funding [c]	**358,591**	436,486
Other government allocations [d]	**60,856**	7,203
Total grant	**3,691,470**	3,586,029

This analysis of grant expenditure is consistent with the presentation in the Guide to funding academic year 2017-18: How HEFCE allocates its funds (HEFCE 2017/08), available to view at www.hefce.ac.uk/pubs/year/2017/201708/.

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

a **Institutional recurrent funding** - the grant allocated to institutions as a block grant, analysed across teaching, research and knowledge exchange in line with the way the grant is announced.

b **Funding for national facilities and initiatives** - this is a summary of the grant expenditure on specific funding programmes. A detailed analysis of this expenditure is provided in Appendix 1 to the Accounts.

c **Capital funding** - this is a summary of the grant expenditure on capital programmes. A detailed analysis of capital grant expenditure is provided in Appendix 1.

d **Other government allocations** - this relates to grant administered on behalf of the Government and covers programmes such as Industrial Strategies. HEFCE distributes this funding, which is granted by the DfE for specific purposes. Detailed analysis is provided in Appendix 1.

4 Staff costs

Staff costs are analysed in the Remuneration and staff report on page 60.

5 Other administration costs

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Non-pay administration costs		
Policy development	**-**	307
Staff-related and general administrative expenditure	**2,304**	2,487
Rental payments under other operating leases	**962**	955
Premises costs	**975**	972
Office costs	**2,456**	1,286
Board and committee members' fees and expenses	**85**	79
Audit fee	**70**	60
Rental payments under plant and machinery operating leases	**14**	44
Total non-pay administration costs	**6,866**	6,190

The analysis of expenditure shown above reflects the in-year management accounting process whereby HEFCE monitors and reports on its administration costs. Staff related and general administrative expenditure includes costs of recruitment, training and staff travel. Policy development costs have been reclassified as programme spend. expenditure. Premises costs include expenditure on rates, heat and light, building maintenance, equipment and furniture. The increase in office costs is predominantly due to an increase in IT costs and professional services costs. This includes activity relating to the set-up of Dominions House which is an additional lease to the HEFCE estate.

6 Income

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Income receivable from other funding councils:		
Department for the Economy in Northern Ireland	**294**	252
Higher Education Funding Council for Wales	**339**	416
Scottish Funding Council	**633**	664
Other programme income	**974**	4,988
Receipts from OFFA, SLC and DELNI for services provided under the service-level agreement	**507**	355
Income from other activities	**307**	168
Total income	**3,054**	6,843

HEFCE receives income from other funding councils and associated organisations in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector across the whole UK. These initiatives and national programmes do not meet the definition of joint operations under IFRS 11 and are therefore shown above. As well as funding their share of the programme costs of these national programmes, the other funding councils share the costs incurred by HEFCE in managing and administering these programmes.

Other programme income has been reduced in 2017-18 due to a change in accounting treatment to money received from Salix.

7 Property, Plant and Equipment

	Leasehold improvements	Furniture fittings and equipment	Information technology	**Total**
	£000	£000	£000	**£000**
Cost or valuation				
At 1 April 2017	**465**	**116**	**384**	**965**
Additions	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(260)**	**(260)**
At 31 March 2018	**465**	**116**	**124**	**705**
Depreciation				
At 1 April 2017	**133**	**87**	**327**	**547**
Charge for period	**66**	**29**	**24**	**119**
Additions	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**(260)**	**(260)**
At 31 March 2018	**199**	**116**	**91**	**406**
Net book value				
At 31 March 2018	**266**	**-**	**33**	**299**

Cost or valuation				
At 1 April 2016	465	116	360	941
Additions	-	-	59	59
Disposals	-	-	(35)	(35)
At 31 March 2017	465	116	384	965
Depreciation				
At 1 April 2016	64	58	234	356
Charge for period	69	29	108	206
Additions	-	-	20	20
Disposals	-	-	(35)	(35)
At 31 March 2017	133	87	327	547
Net book value				
At 31 March 2017	332	29	57	418

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

8 Financial Instruments

As the cash requirements of HEFCE are met through the grant in aid from the sponsor department, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with HEFCE's expected purchase and usage requirements and HEFCE is therefore exposed to little credit, liquidity or market risk.

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

9a Recoverable grants

	As at 31 March 2018 £000	As at 31 March 2017 £000
Recoverable grants		
Balances as at 1 April	**39,676**	44,450
Advanced during the year	**639**	10,017
Recovered during the year	**(14,914)**	(14,791)
Balances as at 31 March	**25,401**	39,676
Balances at 31 March		
Within one year	**10,312**	14,166
After one year	**15,089**	25,510
	25,401	39,676

Recoverable grants are funds provided to institutions on an individual basis to support the initial costs of specific projects, which are normally recovered via an adjustment to their future funding. The HEFCE Board has agreed the principles for providing recoverable grants. It has been agreed with the DfE that the recoverable grants should be reclassified as loans to ensure consistency of reporting across the Departments consolidated accounts.

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

- Revolving Green Fund
- Strategic Development Fund
- Employer Engagement

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

As at 31 March 2018, five organisations *(2017: 10)* had recoverable grants of £1,000,000 or more outstanding. The total value of these grants was £7,240,000 *(2017: £16,131,098)* .

9b Trade and other receivables

	As at 31 March 2018 £000	As at 31 March 2017 £000
Receivables due within one year		
Programme prepayments	**6,207**	3,937
Programme receivables	**644**	283
Trade prepayments	**180**	220
Trade and other receivables	**494**	85
	7,525	4,525
Receivables due after one year		
Programme prepayments	**3,750**	6,250
	11,275	10,775
Intra-government balances		
Other central government bodies	**1,003**	261
NHS Trusts	**2**	-
Balances with other government bodies	**1,005**	261
Balances with non-government bodies	**10,270**	10,514
Total as per receivables' notes	**11,275**	10,775

Programme prepayments relate to recovery pre-2012-13 of grant funding (or 'holdback') due from institutions. This relates to adjustments to payment of grant funding to HEIs (non-government bodies) where student numbers fall outside a standard percentage threshold, adjustments arising through data audits or reconciliations. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding or via other means. Discussions around data and recovery of grant funding happen on a continuous basis as a result of the data collection and audit programmes that run each year. Consequently, at year end, there may be continuing data audits or investigations where the outcomes, and any potential holdback, are not yet certain. Such amounts are not included within the above balances. DfE may require HEFCE to implement grant adjustments in relation to medical and dentistry intakes; where this happens and HEFCE is instructed to retain any such adjustment, this is also accounted for as a programme prepayment.

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

10 Cash and cash equivalents

	2017-18	2016-17
	£000	£000
Cash held under Government Banking Service		
Balance at 1 April	**45,581**	43,408
Net change in cash and cash equivalent balances	(33,760)	2,173
Balance at 31 March	**11,821**	45,581
Cash held under commercial banks and cash in hand		
Balance at 1 April	**-**	1
Net change in cash and cash equivalent balances	**-**	(1)
Balance at 31 March	-	-
Total cash and cash equivalents	**11,821**	45,581

The framework document between HEFCE and DfE advises a minimum working balance consistent with the efficient operation of HEFCE. HEFCE's balances relate to timing differences in the payment of expenditure committed in 2017-18 academic year.

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

11 Trade and other payables

	As at 31 March 2018 £000	As at 31 March 2017 £000
Amounts falling due within one year		
Trade payables	**594**	150
Administration accruals	**1,904**	1,650
Tax and social security	**113**	40
Programme payables	**3,282**	574
Operating payables	**5,893**	2,414
Reimbursement to co-funding partner[a]	**6,514**	-
DfE Payable	**-**	1,273
Financing payables	**6,514**	1,273
	12,407	
Intra-government balances		
Other central government bodies	**167**	1,718
Local authorities	**-**	-
	167	1,718
Balances with non-government bodies	**12,240**	1,969
Total as per payables' notes	**12,407**	3,687

Trade payables refers to non-pay administration expenditure.

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

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

Programme payables include claims received but not yet paid due to any delays in authorisation and/or the timing of the HEFCE payment runs, or relate to invoices not yet received.

[a] The payable for reimbursement to a co-funding partner relates to funding repayable to Salix. Salix is an independent, publicly funded finance company that provides the public sector with loans for energy efficiency projects. During 2017-18 we revised the accounting treatment for funding received from Salix. Previously, the treatment recognised this funding as income (Note 6). However, the money received from Salix, which is used to co-fund HEFCE’s recoverable grants to higher education institutions, is repayable to Salix once these grants are recovered from institutions. The revised treatment recognises the funding as an amount repayable to Salix (Note 11). The amount repayable to Salix was £6,514k as at 31 March 2018, and £8,700k as at 1 April 2017. This £8,700k, reported as income in prior years, is recognised as a reduction of the 2017-18 opening reserves balance (in the Statement of Changes in Taxpayer’s Equity). Comparatives have not been restated as there was no material error in prior years. The £2,186k decrease in the amounts payable to Salix is reported in the Statement of Cash Flows.

12 Provisions for liabilities and charges

	Inherited staff liabilities £000
Provisions	
Balance of provision at 1 April 2016	205,417
Provision utilised in year	(26,260)
Increase in provision	6,140
Unwinding of discount	2,814
Increase in provision due to increase of the discount rate	14,483
Balance of provision at 31 March 2017	202,594
Provision utilised in year	**(23,506)**
Increase in provision	**5,637**
Unwinding of discount	**486**
Increase in provision due to decrease of the discount rate	**2,889**
Balance of provision at 31 March 2018	**188,100**

Analysis of expected timing of discounted flows

Within one year	**22,419**
Between 2020 and 2024	**85,744**
Between 2025 and 2034	**65,680**
Thereafter	**14,257**
	188,100

HEFCE has one provision as at 31 March 2018 *(2017: one)* , which relates to inherited staff liabilities.

Provision utilised in year is the actual expenditure incurred.

Increase in provision is the amount needed to bring the provision to the closing balance, reflecting the latest estimate of the value of the liability.

The provision is discounted to the net present value to reflect the time value of money, given these are long-term liabilities. The unwinding of the discount is the adjustment needed each year to reflect the fact that the liabilities are now one year closer to being paid.

Provision is discounted to net present value using the appropriate HM Treasury discount rate.

The discount rate for the inherited staff liabilities provision decreased from 0.24 per cent in 2016-17 to 0.1 per cent in 2017-18, as per the HM Treasury guidance. This has resulted in significant year-on-year changes in the revaluation of provision.

12 Provisions for liabilities and charges (continued)

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

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

HEFCE has provided for these ongoing reimbursements. The provision was estimated based on data on all pension scheme members.

Current assumptions mean we expect payments to continue until 2069.

The provision value is based upon projected payments, mortality rates and other actuarial assumptions. The main assumptions used in the latest review were as follows:

- net real discount rate of 0.10 per cent per annum (2016-17: 0.24 per cent)
- mortality based on 104 per cent S2NA tables (2016-17: SAPS (CMI 2013) tables)
- 86 per cent of members are age 80 or over
- membership is 46 per cent male and 54 per cent female
- benefits include a 50 per cent contingent spouse's pension.

The pension scheme is a closed scheme and is not open to new members. The main movements on the provision recognised are: the actual expenditure incurred by HEFCE; the unwinding of the discount in the year; and changes in the calculated provision due to changes in HM Treasury discount rate and the mortality tables used in the actuarial valuations. HEFCE has assessed the mortality tables used in the actuarial valuation as the most significant assumption made during the valuation process. The actuarial valuation performed as at 31 March 2018 identified that the impact of varying the longevity assumption, by assuming members had a mortality rate of individuals one year younger, would be to increase the provision recognised by £13.2 million. HEFCE considrs this level of sensitivity to be acceptable on a materiality basis and considers the mortality tables used in the actuarial valuation to be the most approriate for the valuation of the provision.

13 Commitments under leases

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	1,047	943
Later than one year and not later than five years	4,283	2,630
Later than five years	-	548
	5,330	4,121
Other		
Not later than one year	37	37
Later than one year and not later than five years	52	52
	89	89

HEFCE's leases do not transfer the risks and rewards incidental to ownership of an asset to HEFCE, and as such are classified as operating leases.

HEFCE leases its office buildings in Bristol and London. HEFCE's lease on its offices at Finlaison House in London expires on 23 June 2023. The Council's lease on its offices in Bristol (Nicholson, Westward and Dominions House - not used by HEFCE) expires 31 January 2023.

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

14 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2018 £000	As at 31 March 2017 £000
Commitments		
Grant committed for the period April to July	**473,548**	1,112,104
Grant committed for the next academic year	**-**	3,521,000

HEFCE has no commitments under non-cancellable contracts.

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

Commitments will transfer to and be fullfilled by the Office for Students from 1 April 2018.

As at 31 March 2018 there were no contingent liabilities (*2017: nil*).

15 Related party transactions

HEFCE is a non-departmental public body which during the year was sponsored by DfE.
DfE and other DfE sponsored bodies (such as the Student Loans Company and The Office for Students) are regarded as related parties with which HEFCE has had various material transactions during the year.

In addition, HEFCE has had a small number of transactions with other government departments and other central government bodies (such as the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for the Economy in Northern Ireland and Government Actuary's Department).

No Board member or key manager has undertaken any material transactions with HEFCE during the year.

The following table provides details of material funding transactions with organisations which are deemed related parties by virtue of HEFCE Board members, Audit Committee members or senior management holding a key position at those organisations. These payments are part of the normal course of HEFCE's business with the institutions.

	Year ended 31 March 2018 £000
Financial transactions with institutions and other organisations	
University of Brighton: John Harley*, Chair of Governors.	**22,703**
Kings College London: Professor Anne Greenough, Professor of Neonatology and Clinical Respiratory Physiology.	**127,458**
University of Lancaster: Graeme Osborn, External Trustee of the Students' Union.	**34,300**
University of Lincoln: Professor Mary Stuart, Vice-Chancellor.	**12,807**
The University of Cambridge: Sara Weller, Council member and Chair of Remuneration Committee.	**180,612**
University of Oxford: Sara Weller CBE, member of Remuneration Committee at New College. Mark Robson, Honorary Research Fellow at Lady Margaret Hall and David Palfreyman, Bursar, Fellow and Trustee and Member of the Congregation.	**191,809**
University of Sheffield: Professor Sir Keith Burnett, Vice-Chancellor.	**84,271**
Graduate Students' Association, University of York: Graeme Osborn, employee.	**43,874**
University of the West of England: Professor Steve West, Vice Chancellor.	**21,553**
University of Kent: Martin Coleman, Member of Council.	**31,610**
Royal Holloway, University of London: Gurpreet Dehal, Member of Council.	**20,422**
Leadership Foundation: Professor Steve West, Director.	**1,028**
Universities UK: Professor Steve West, Board member and Nicola Dandridge, former Chief Executive.	**510**
UK SBS: Nolan Smith, Non-executive Director.	**48**
University of Winchester: Professor Neil Marriott*, Deputy Vice Chancellor.	**4,069**
National Centre for Universities and Business: Sir Keith Burnett, Non-executive director.	**400**
Royal Colleg of Art: Chris Millward, Partner is a Director.	**12,000**

* HEFCE Audit Committee member only

15 Related party transactions (continued)

HEFCE has had no material transactions with companies whose directors are closely associated with it. In this context 'closely associated' refers to Board members, Audit Committee members, or directors. These individuals may have other relationships through family members who are employees or students in institutions funded by HEFCE, or through membership of governing bodies. Details of relationships are held in HEFCE's register of interest and available on our website at www.hefce.ac.uk/about/members/.

16 Events after the reporting period

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Audit Certificate and Report of the Comptroller and Auditor General.

As at the date of the Audit Certificate, the following reportable events had occurred:

Dissolution of HEFCE
HEFCE ceased operations on 31 March 2018. The functions delivered by HEFCE have been divided between The Office for Students (OfS) and Research England (RE). Both are public sector entities. HEFCE has committed to ensuring that all services will continue under the new structure, using the same assets and resources, for the foreseeable future.

On 1 April 2018, a transfer order, under the Higher Education and Research Act 2017, effected the transfer of existing assets, liabilities and staff of HEFCE to the OfS and RE in a practical way that reflects the services that each provides. Teaching and associated services will be provided by the OfS. Research, Knowledge Exchange and associated services will be provided by RE.

The Accounting Officer has reflected that there is no further impact on the financial statements other than that referred to in Note 1.

HEFCE management has concluded that these changes, reflecting legislation and subsequent transfer orders, provide certainty that the functions delivered by HEFCE in 2017-18 will continue to be delivered in the future. Although HEFCE ceased operations on 31 March 2018, it remains appropriate to prepare these accounts on a going concern basis.

Appendix 1 Analysis of grant: unaudited

	Year ended 31 March 2018 £000	Year ended 31 March 2017 £000
Funding for national facilities and initiatives		
Collaborative Outreach	**41,169**	14,957
Strategic Development Fund and Catalyst Fund	**27,742**	29,697
Jisc	**20,000**	20,333
Museums, galleries and collections	**10,686**	10,650
Policy Ongoing Services	**5,151**	633
Quality assurance	**3,377**	3,671
Provision of information	**1,928**	3,672
Teaching Excellence Framework (TEF)	**1,751**	918
Higher Education Statistics Agency (HESA)	**2,001**	1,315
Learning Gain	**1,220**	1,299
Costing and Pricing	**993**	-
Research Excellence Framework (REF)	**745**	78
Strategically Important and Vulnerable Subjects (SIVS)	**800**	1,143
HE Research Centre	**815**	1,075
Leadership and Governance	**858**	878
National Teaching Fellowship Scheme	**736**	575
Higher Education Access Tracker	**731**	692
Degree Apprenticeship Development Fund HEFCE	**615**	-
International initiatives	**402**	702
National Centre for Universities and Business	**400**	698
National Coordinating Centre for Public Engagement	**154**	372
Strategic Intervention NMAHS	**193**	-
Higher Education Regional Associations	**-**	111
Student Engagement	**41**	156
Promoting efficiencies	**30**	15
Engineering Conversion	**(0)**	874
Higher Education Academy	**-**	3,238
HE Data and Information Improvement Programme	**-**	357
Regional bodies and partnerships	**154**	-
Postgraduate Support Scheme 2015-16	**(159)**	(85)
	122,533	98,024
Capital funding		
Research Capital Investment Fund (RCIF)	**170,261**	190,267
Teaching Capital Investment Fund (TCIF)	**148,340**	118,759
Jisc	**20,000**	20,000
UK Research Partnership Investment Fund (UKRPIF)	**12,166**	81,078
Strategic Development Fund and Catalyst Fund	**8,155**	11,983
Revolving Green Fund	**(330)**	(600)
STEM capital	**-**	11,999
High Performance Computing capital	**-**	3,000
	358,592	436,486
Other government allocations		
National Productivity Investment Fund (NPIF)	**40,203**	-
Connecting Capabilities Fund	**15,109**	-
Degree Apprenticeships	**4,000**	4,549
Institute of Coding	**1,089**	-
Newton Fund	**-**	4,000
Voluntary giving	**-**	10
Student Support Fund	**-**	2
National Scholarship Programme	**-**	(1,273)
	60,401	7,288

Analysis of grant: unaudited (continued)

The analysis on the previous page gives a breakdown of HEFCE's grant expenditure as shown in Note 3 to the accounts. Funding for national facilities and initiatives per Note 3 to the accounts is net of staff recharges to external bodies. Appendix 1 shows gross expenditure.

HEFCE aims to provide as much as possible of its funding for learning and teaching, research and knowledge exchange through recurrent funding allocations to Institutions. Further non-institutional funding, in the form of recurrent and capital grants, is provided for specific purposes and to promote change that cannot easily be achieved through other routes.

Funding for national facilities and initiatives

HEFCE allocates a small proportion of total funding to promote specific initiatives, such as support for national facilities.

Capital

In 2017-18 HEFCE allocated a total of £356 million for capital grants *(2016-17: £436 million).* Much of the capital is allocated by formula, the two main elements being the Teaching Capital Investment Fund and the Research Capital Investment Fund; funding which goes towards supporting the capital infrastructure of the HE sector.

Another significant element of capital is the UK Research Partnership Investment Fund (UKRPIF), a government initiative launched in 2012 to support investment in major new university research facilities. The funding is dedicated to supporting large-scale capital projects from HEIs with significant track records of research excellence, provided that they secure co-investment from businesses, charities or endowments. Though this investment will be anchored in research activities it could also have benefits for other areas of university activity. Round five funding of £230 million was awarded in 2017 covering investment to be made from 2017-18 and 2019-20. Round six was launched in autumn 2017 and funding of up to £220 million will be available to 2021. Funding is allocated on the basis that HEIs have secured at least double funding from co-investment sources. That is, for every pound from the UKRPIF, there should be an additional £2 invested.

Other Government allocations

This relates to grants administered on behalf of the Government and covers specific initiatives.

A brief explanation of each is given on the HEFCE website.