# Annual report and accounts

2013-14

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

hefce

HC 1221

# Higher Education Funding Council for England -

## Annual report and accounts 2013-14

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

Ordered by the House of Commons to be printed on 12 May 2014

HC1221 -

Any enquiries regarding this publication should be sent to us at hefce@hefce.ac.uk, 0117 931 7438.

This publication is also available on http://www.hefce.ac.uk

Print ISBN 9781474101950
Web ISBN 9781474101967

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID: 04041401 05/14

Printed on paper containing 75% recycled fibre content minimum.

# Higher Education Funding Council for England

## Annual report and accounts 2013-14

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# Foreword

## Tim Melville-Ross CBE, HEFCE Chair

In 2013-14 – the second year of the new funding arrangements for higher education in England – the Higher Education Funding Council for England (HEFCE) continued to work in the interests of students, the sector and the wider public to promote opportunity, choice and excellence in higher education. As part of the Regulatory Partnership Group we mapped the current regulatory framework for higher education in England which was published in July 2013. However, a new legislative framework for regulation will be required as soon as possible, and we will be devoting considerable effort towards this with the Department of Business, Innovation and Skills. The coming year also brings real challenges as institutions adjust to a funding settlement which incorporates further significant reductions.

It is widely accepted that higher education makes crucial contributions to our economy, society and cultural life. In our research funding we are committed to working in close partnership with other organisations to achieve a coherent funding framework that promotes and rewards outstanding quality, enables innovation and supports institutional autonomy. We have made good progress on the Research Excellence Framework which is the new system of expert review of research that will inform our funding allocations for research from the 2015-16 academic year, and have received submissions for assessment of research from 155 institutions relating to the work of over 52,000 academics.

We also announced a further round of the UK Research Partnership Investment Fund, which strengthens the contribution of the research base to economic growth through large-scale investment in facilities for world-leading research. The fund has so far generated total investment of over £1 billion, with over £300 million of public money unlocking over £800 million of private and charitable investment. We continued to support knowledge-based interactions between the sector, business, and the wider world through our knowledge exchange funding, and encouraged innovation and collaboration across a range of areas, including learning and teaching, research, and student engagement and participation, through the Catalyst Fund.

In learning and teaching HEFCE's investment is becoming increasingly focused on the wider public benefits of higher education such as supporting high cost subjects which cannot be covered by student fee income alone. The Chancellor announced in the Autumn Statement an increase of 30,000 in additional student number places for 2014-15 as a prelude to the removal of the control in 2015-16. HEFCE will work to implement these and other changes as fairly and sensibly as possible.

Higher education plays an important role in promoting social mobility. Our Student Opportunity funding helps institutions to deliver successful participation in terms of attainment outcomes such as progression to employment or further study for students from non-traditional backgrounds. Helping students make informed choices has also been an important part of our student-focused activity this year through the provision of important information through Unistats. We have also worked with partner organisations to enable students to influence how higher education is delivered: this has included establishing the Student Engagement Partnership, which is hosted by the National Union of Students and the Students' Green Fund, which supported students from across the country to work with their universities and colleges to promote sustainable development.

In September 2013 we said farewell to Sir Alan Langlands, who provided exceptional leadership through a period of rapid change, and in January 2014 were delighted to welcome Professor Madeleine Atkins as HEFCE's new Chief Executive. During the period from October to December last year we were fortunate to have Steve Egan in post as Interim Chief Executive, who managed this transition period with great skill and commitment. I offer thanks, as ever, to HEFCE staff for their hard work and dedication, and to the HEFCE Board for its consistently excellent contributions and effective governance.

Tim Melville-Ross CBE
Chair
Higher Education Funding Council for England
28 April 2014

# 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 invest on behalf of students and the public to promote opportunity, choice and excellence in research, teaching, and knowledge exchange. As lead regulator of the 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 encourage and support the positive contribution that higher education (HE) makes to the economy and society.

HEFCE was established by the Further and Higher Education Act 1992. We are a non-departmental public body (NDPB). We work within a policy framework set by the Secretary of State for Business, Innovation and Skills (BIS), but we are statutorily independent of Government. A description of HEFCE's structure, including a list of Board members, can be found on page 38.

## What we do

- We fund universities and colleges (including further education colleges) for higher education research, teaching, knowledge exchange, and related activities.
- We aim to develop and sustain a dynamic and internationally competitive research sector that makes a major contribution to economic prosperity and national well-being.
- We monitor the financial health and sustainability of higher education institutions (HEIs) to ensure that the funds we distribute are properly accounted for and provide value for money.
- We ensure that the quality of teaching in higher education is assessed.
- We support the development of higher education by funding specific initiatives and providing good practice guidance.
- We provide information on higher education to students, potential students, Government, other funders of research and all those with an interest in it.
- We help the Government to manage the level of entrants to higher education.
- We provide the Secretary of State for Business, Innovation and Skills with information and advice on higher education, and in particular
  - on the overall performance and sustainability of the HE sector
  - on applications for designation for university title, eligibility for student support, and eligibility for direct funding.
- We promote and work to protect the interests of students (including past and prospective students) in higher education in England.

During the financial year 2013-14 we distributed £5.06 billion in public money. Most of this was used to support research and teaching in universities and colleges. The remainder funded innovation and knowledge exchange work, initiatives to enhance excellence and efficiency in HE through the Catalyst Fund, a postgraduate support scheme, and research and analysis of sector issues to inform future policy.

# HEFCE's regulatory role

We are responsible for ensuring accountability for the funds we distribute, and are also the principal regulator of those HEIs in England that are exempt charities. Institutions are required to report to us any serious incidents (including those that involve loss of charitable assets, extremism on campus, harm to beneficiaries or to the reputation of the institution itself). We continue to monitor the financial sustainability of universities and colleges that receive HEFCE and/or student support funding, taking a risk-based approach. Where we assess a university or college as being at higher risk, we engage with it to resolve any issues, aiming to protect students and the wider public interest. Our engagement aims to be proportionate to the risks involved[1].

The financial memorandum between HEFCE and the institutions we fund sets out the terms and conditions for payment of HEFCE grants. We review the financial memorandum on a regular basis and have recently consulted on revisions. Our proposals were principle-based and took account of the Government's reforms to higher education funding. We continue to recognise that institutions are autonomous and, wherever we can, we rely on the assurances they provide for themselves. The updated memorandum, renamed the memorandum of assurance and accountability, will take effect from 1 August 2014.

1 How we will engage and the proportionate action we may take is published as part of the financial memorandum: www.hefce.ac.uk/whatwedo/reg/instfinance/financialmemorandum/

# Summary of our achievements in 2013-14 -

## World class research

The UK is a world leader in terms of the quantity and quality of published research outputs. Although the UK represents just 0.9 per cent of the global population, it accounts for 15.9 per cent of the world's most highly cited research articles[2].

HEFCE is the single biggest funder of university research in England. Over the past year we sustained our investment in research across a broad range of disciplines while targeting funding selectively on the very highest quality research. In March 2014, we announced a total of £1,558 million of research funding for the 2014-15 academic year – the same cash level of funding that we have allocated for the past three years.

Our method for allocating research funding enables a degree of stability, predictability and independence not provided by other funding sources. It allows universities the freedom to drive innovation and to pursue research agendas which they have prioritised.

The largest element of our research funding, at just over £1 billion, is allocated by reference to research activity assessed as being either 'internationally excellent' or 'world leading' in quality. In 2013-14 we allocated £198 million to incentivise institutions to undertake research funded by charitable sources, and a further £64 million to encourage institutions to undertake research commissioned by business. We also supported the development of research careers in 2013-14 by allocating £240 million to support the costs of supervising postgraduate research students.

### Research Excellence Framework

The Research Excellence Framework (REF) is the new system for assessing the quality of research in UK higher education institutions (HEIs). It replaces the Research Assessment Exercise (RAE). The first REF assessment will be completed in 2014. The REF is being undertaken by the four UK higher education funding bodies, and is managed by a team based at HEFCE.

The primary purpose of the REF is to assess submissions from HEIs so the results can be used by the four UK funding bodies to allocate research funding to universities from 2015-16, on a selective basis. The assessment also provides:

- benchmarking information and reputational yardsticks
- accountability for public investment in research
- evidence of the achievements of UK research and the health of disciplines
- a general stimulus for improving performance.

The REF is a process of expert peer review. It is carried out across all research disciplines which are grouped into 36 subject areas, known as units of assessment. Sub-panels will assess each submission to the REF in terms of the quality of research outputs, the socio-economic impact of research, and the vitality and sustainability of the research environment. These three elements of the assessment will be combined to produce an overall quality profile to be awarded to each submission. The outcomes will be published in December 2014. Further detail on the assessment process can be found on the REF web-site: www.ref.ac.uk

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2 International comparative performance of the UK research base 2013
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263729/bis-13-1297-international-comparative-performance-of-the-UK-research-base-2013.pdf

## UK Research Partnership Investment Fund

High-quality research and knowledge exchange in UK universities keeps the UK at the forefront of the global knowledge economy. The UK Research Partnership Investment Fund (UKRPIF), which is administered by HEFCE on behalf of Government, supports major infrastructure projects in HEIs undertaking world-leading research. By stimulating university-business collaboration in key industries, it strengthens the contribution of higher education to economic growth.

In 2013, the Government allocated an additional £200 million to the fund, bringing total public investment to £500 million. To date, universities have secured at least double this funding through investment from businesses or charities, together delivering more than £1 billion of new funding for research. A third round of allocations is due to be announced in July 2014. Successful bidders in the second round (announced in July 2013) include:

- A £33 million partnership between University College London and the Royal Free London NHS Foundation Trust in the Institute of Immunity and Transplantation. The Institute will undertake world-leading research and clinical trials to develop new treatments and patient therapies for a range of chronic diseases, such as cancer, viral hepatitis, HIV infection and diabetes.
- A £43 million partnership between the University of Sheffield's Advanced Manufacturing Research Centre (AMRC) and manufacturing companies to develop the AMRC Factory 2050. This will be the world's most flexible factory, capable of rapidly switching production between different high-value components and one-off parts.

## Open access to research

The wide dissemination of research findings and outputs is an essential and integral part of any high-quality research process. It is our position that all research arising from our funding should be as widely and freely accessible as possible. During 2013-14 we developed a new policy for open access for future research assessment exercises. Journal articles and conference proceedings accepted for publication from 1 April 2016 will need to be made available in an open-access form in order to be eligible for submission to the next REF. The policy was developed in extensive consultation with the sector and other key stakeholders. This has helped us to develop an approach that we believe will substantially increase the proportion of UK research that is openly accessible, while striking a balance between all interests.

### Monographs and open access project

A monograph is a specialist work of writing on a single topic, usually by a single author. In planning an approach for open access and the post-2014 REF, we received clear advice that the monograph publishing world is not yet ready to support an open-access requirement. We have therefore decided not to introduce open-access rules for monographs and other long-form publications in the next REF. But we want to understand the issues better, and help to identify potential ways forward.

We have established a project in partnership with the Arts and Humanities Research Council and the Economic and Social Research Council to help us do this. The project is supported by an expert reference group of representatives from a wide range of interested parties and organisations. Geoff Crossick, Distinguished Professor of the Humanities at the School of Advanced Study, University of London, is leading this work.


## Public engagement

HEFCE remains committed to encouraging and supporting universities and colleges to share the benefits of their research with the public. Informing, consulting and collaborating with the public is vital to ensuring that research activity has maximum impact, and is aligned with the needs and aspirations of society.

In 2013-14, working with the other UK funding bodies, Research Councils UK and the Wellcome Trust, we agreed to fund the National Co-ordinating Centre for Public Engagement (NCCPE) for a further two academic years. Hosted jointly by the University of Bristol and the University of the West of England, the NCCPE's mission is to inspire and support universities in engaging with the public.

## Research careers

During the past year, we have focused on developing an evidence base for postgraduate research programmes as part of our wider work on postgraduate policy and funding. As part of this, we commissioned CRAC: The Career Development Organisation to investigate sector perspectives on recruiting and selecting postgraduate research students.

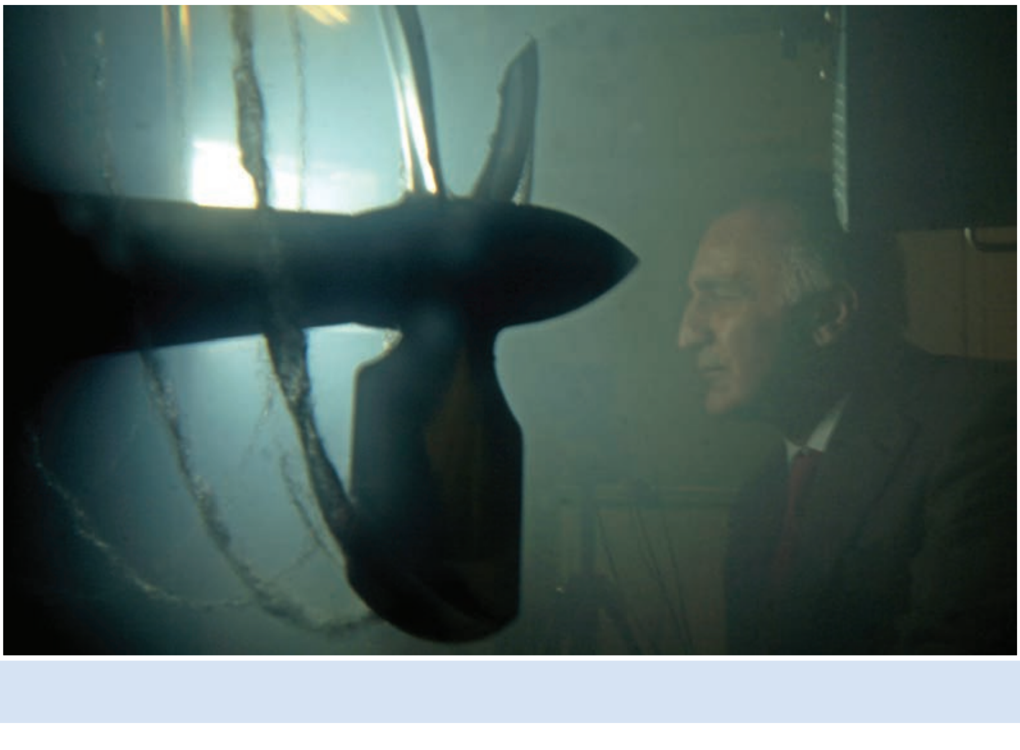
We will continue to support research degrees in 2014-15 by allocating £240 million to support the costs of supervising postgraduate research students.

In partnership with Vitae and the Equality Challenge Unit, in 2013-14 we continued to support research careers and researcher development. We undertook further work on equality and diversity, looking at protected characteristics within the academic staff population and how people with these characteristics make the journey from undergraduate study, through postgraduate training, to research roles within the HE sector.

### HEFCE Catalyst Fund: research projects

The Catalyst Fund supports innovative projects which address our strategic aims and government priorities, and provide wider benefit to higher education, the economy and society.

In 2013-14, the fund awarded £3 million to Newcastle University for the Neptune National Centre for Subsea and Offshore Engineering. The centre will provide significant and distinctive research assets and infrastructure not currently available in the UK on a large scale. It will develop highly skilled graduates, and help to address major skill shortages for UK industry, as well as local innovation needs.



# Innovation through knowledge exchange

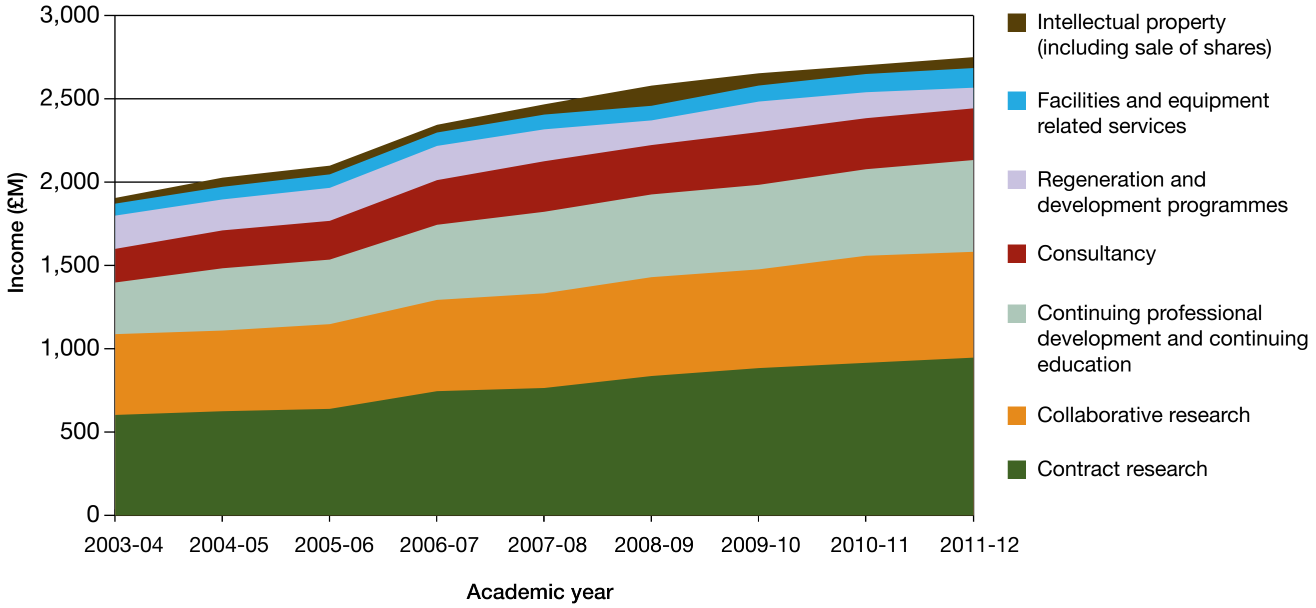
Universities harbour a wealth of knowledge and expertise. The term 'knowledge exchange' is shorthand for the myriad of ways in which they deploy these assets for economic and social benefit through their interactions with businesses, public services, charities and communities: setting up companies to develop new technologies grounded in research; enabling small businesses to use university facilities; delivering professional training, consultancy and other services; supporting graduates to set up their own businesses; and contributing to social innovation.

HEFCE is committed to enhancing the contribution higher education makes to the economy and society. Our funding for knowledge exchange encourages institutions to take a strategic approach to their activities, and provides incentives and support for them to work with business, community and other partners. We are investing a total of £626 million recurrent funding from 2011-12 to 2014-15 to support knowledge exchange activity. HEFCE also provides discretionary funding (such as through the Catalyst Fund) to stimulate developments across the spectrum of HE activity, and this includes knowledge exchange.

## Knowledge exchange performance

HEFCE's formula funding for knowledge exchange is allocated on the basis of income earned by universities and colleges for the services they provide to businesses and other organisations – we use earned income as a proxy for impact in terms of delivering benefit for the economy and society. Performance across the HE sector has continued to increase despite the recent economic downturn. Knowledge exchange activity in England has increased by £1 billion since 2003-04 (from under £2 billion to nearly £3 billion).

### Selected knowledge exchange income streams 2003-04 to 2011-12 (real terms)



A 2009 evaluation found that, on average, an investment of £1 in knowledge exchange activities by HEFCE produced a return of £5. An update to this evaluation in 2013 indicates that the return has increased to a minimum of £6, and more than double that for high-performing institutions. However, all evaluations have emphasised that the value we can presently capture in income represents only a part of the returns on the investment, and we have further work in train to capture the additional benefits.

### HEFCE Catalyst Fund: knowledge exchange projects

In 2013 Dudley College of Technology was awarded £455,000 from the Catalyst Fund to create an Enterprise and Innovation Zone within the college's Advanced Manufacturing and Engineering Centre. Students will work with local engineering and manufacturing companies to develop new products, using rapid prototyping and CAD technology.


## Supporting national and local innovation and growth

In 2012, the HEFCE Board agreed a new strategic approach to supporting universities and colleges to contribute to the country's economic growth challenge. As part of the Board's strategy, additional funding for knowledge exchange was provided, and greater prominence given when making allocations from the Catalyst Fund to key aspects of growth, innovation, industrial sector strategy and the anchor role of HEIs for the economy and society. The UK Research Partnership Investment Fund is also contributing to our strategic approach to growth through shared research infrastructure with business and charities.

In 2013, Sir Andrew Witty delivered his review on universities and growth to Government[3]. The review concluded that universities are key enablers across a diverse range of economic growth

3 'Encouraging a British Invention Revolution: Sir Andrew Witty's Review of Universities and Growth', published by BIS at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249720/bis-13-1241-encouraging-a-british-invention-revolution-andrew-witty-review-R1.pdf, 2013

activities, and that national and local government policies should cohere to enable companies to access the best expertise, wherever it is located. It emphasised the importance of HEFCE's knowledge exchange funding in maintaining and developing university-business collaboration and in providing access to university expertise and facilities for innovative small and medium enterprises (SMEs). Sir Andrew also endorsed the role that HEFCE plays in supporting economic growth and innovation and the strategic approach we have taken, through initiatives such as UKRPIF, to support capital schemes.

Universities play a key role in stimulating local growth and innovation. In England, through the next round of European Structural and Investment Funds (ESIF), over €6 billion between 2014 and 2020 is being administered at a local level through the 39 Local Enterprise Partnerships (LEPs) across the country. The LEPs have developed strategies to invest funding in line with local priorities and against the European Union's (EU's) thematic areas including innovation, skills and low carbon.

HEFCE has funded a post at Universities UK to provide support to the HE sector to help institutions extend their engagement with LEPs. Universities and colleges are well-placed to deliver activities supported by ESIF, as some of the fund's themes – such as smart specialisation, employability of graduates including employment in SMEs, and increased skills and entrepreneurship – are clearly aligned with the priorities of universities. Much of HEFCE's funding is formula-based and can be used flexibly by universities and colleges, so that where HE and LEP priorities align, HEFCE funding can be used as match against ESIF to achieve common aims.

In December 2013 we awarded £2.9 million from the Catalyst Fund to the University of Gloucestershire for a project which aims to deliver improved employability and skills for students and graduates. Gloucestershire will use HEFCE funding to provide new teaching programmes and work-based learning activities, and will work with employers to offer increased work placements and internships for students. This allocation complements £1 million of funding and longer-term collaborative business activities provided by the GFirst Gloucestershire Local Enterprise Partnership, and £2.3 million direct investment from the university.

## Knowledge Exchange & Enterprise Network

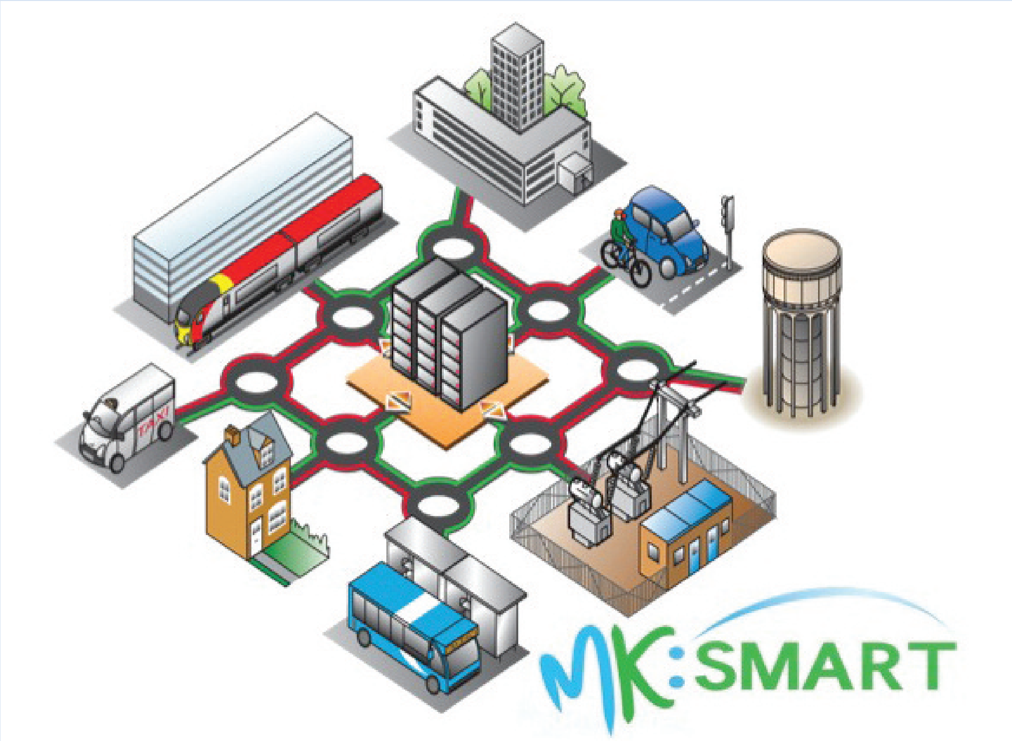
The University of Wolverhampton is leading a consortium of West Midlands universities with the aim of increasing the economic prosperity of the region through an initiative called KEEN (Knowledge Exchange & Enterprise Network), which is partly funded by HEFCE's knowledge exchange funding. KEEN helps SMEs in the West Midlands to become more innovative, and thereby to improve their competitive advantage, through working in partnership with a university.

A particular aim of KEEN projects is to facilitate SME access to the skills, expertise and other resources of the university with which it is partnering. A graduate works at the SME on a strategic project, supported by an academic mentor. There are also clear benefits to students and the university. 79 companies are currently participating in KEEN projects. The aim is to increase this number to 210 over three years.

## HEFCE Catalyst Fund: MK:Smart

MK:Smart is a £16 million project, funded by HEFCE's Catalyst Fund and match-funded by partners in a consortium led by The Open University. The investment aims to demonstrate how universities can apply their expertise to support cities' economic growth.

The project will capitalise on the 21st century phenomenon of 'big data' as a way of developing new and more efficient ways of managing key infrastructure such as transport, water and energy supplies. It will bring together a number of universities (including Cambridge and Bedfordshire), Catapults (initially Satellite Applications), companies (including British Telecom and Dell) and local government to build and operate a data hub. It will also provide a resource for SMEs to exploit commercial opportunities.




## National Centre for Universities and Business

As part of HEFCE's approach to economic growth, we are supporting the National Centre for Universities and Business (NCUB), a UK-wide network of business and university leaders which works to strengthen collaboration between higher education and business. The NCUB is funded by all the major UK funders of higher education[4]. As part of its work to promote more effective collaboration, NCUB will be a repository of evidence and case studies and it will

[4] HEFCE, the Higher Education Funding Council for Wales, the Scottish Funding Council, the Department for Employment and Learning in Northern Ireland, Research Councils UK and the Technology Strategy Board.

facilitate collaboration, particularly for SMEs wishing to access university expertise to support innovation. The NCUB is also supporting HEFCE's business-led Economic Growth Forum, established to gain greater engagement from the business world to inform HEFCE policy. Forum members were engaged in discussions during February and March 2014 covering research, knowledge exchange, skills and employability.

## HEFCE Catalyst Fund: Arts University Bournemouth

HEFCE has awarded £439,900 to the Arts University Bournemouth for 'Building the Bridge'; a project that develops the university's strong relationship with the Visual Effects Industry, in particular the British visual effects company, Framestore.

It aims to maintain and develop the current global lead of UK visual effects by ensuring a supply of appropriately skilled and experienced people. As part of the project, the visual effects industry will mentor higher education students. It will also create staff exchanges between academics and industry professionals to support professional development.

Some of the work on the film 'Gravity' involved graduates and interns from the university, and was undertaken at Framestore's 'outpost' which operates from the university's Enterprise Pavilion.

Picture courtesy of Framestore and Warner Bros.

# Outstanding higher education

Students are at the heart of higher education. Universities and colleges in England enjoy an enviable reputation for excellence in teaching and learning for students of all types.

In 2013-14, HEFCE continued to support excellent education in a variety of ways. We funded significant development projects; worked with universities and colleges to improve information for students to enable them to make more informed choices about higher education; researched patterns of student participation to help us understand trends and impacts; and encouraged and promoted good practice.

## Enhancing the student learning experience

HEFCE is committed to ensuring that institutions deliver high-quality education. It is vital that quality is continuously enhanced and the status of teaching raised, and we support continuous improvement in learning and teaching in all its forms. One distinctive feature of our work in this area is funding for strategic approaches to technology enhanced learning. In recent years we have supported a £1.6 million programme of work called Changing the Learning Landscape.

### Changing the Learning Landscape

Changing the Learning Landscape is a HEFCE-funded programme led by the Leadership Foundation for Higher Education. Other partners include Jisc, the Higher Education Academy, the National Union of Students (NUS) and the Association for Learning Technology. The programme helps universities and colleges to develop more strategic approaches to the use of technology in learning and teaching, with the aim of improving experiences for learners.

In 2013-14, the second year of funding, the programme focused on instigating a step-change in policy and practice by encouraging senior staff to take the lead in embedding the use of learning technologies across their institution. Change consultants have been working with over 60 institutions to identify a set of objectives, and to support them in developing an action plan.

A vital underpinning to higher education is quality assessment and assurance. In operating our statutory duty for quality assessment in the publicly funded sector we have continued to contract with the Quality Assurance Agency for Higher Education (QAA) to carry out reviews of institutions. These build on each institution's internal assurance arrangements. Results of reviews of both HEIs and further education colleges demonstrate that the quality of HE provision in England is high.

## Excellence in higher education provision

2013 saw several higher education providers awarded the highest possible results for elements of their provision:

- Bournemouth University was the first university in QAA review to achieve the 'commended' judgement for the quality of its student learning opportunities (the approaches, support and facilities that a provider makes available in order to facilitate the success of its students).
- The University of Bath was the first provider to receive a commended judgement for the quality of its information about learning opportunities. The QAA review team identified the systematic provision of accessible, reliable and up-to-date information for students, staff and the public as demonstrating good practice. The QAA also praised both Bournemouth University and the University of Bath for their positive engagement with students.
- Further education colleges were also successful in attaining the highest QAA judgements. Colchester Institute was the first of all providers to receive a commended judgement for the quality of its student learning opportunities, in particular its high-quality learning support and pastoral care for students with a disability. Blackpool and the Fylde College was the only provider successful in securing two QAA commended judgements, in the systematic improvement of its student learning opportunities and the quality of information about its learning opportunities.

Following HEFCE and the QAA's consultations on a more risk-based approach to quality assurance, HEFCE worked with the QAA to prepare for the introduction of a revised method of assuring quality and standards for all HEIs and further education colleges. This method, known as Higher Education Review, was introduced in the academic year 2013-14, with the first reviews taking place in January 2014.

The Minister for Universities and Science, reflecting on the global growth in the scale and complexity of transnational education, asked several agencies including HEFCE to see how best to strengthen the quality assurance of UK transnational education. The aim is to have in place a new approach for the start of 2014-15, which will provide greater public assurance about quality and standards, and thus protect the interests of students on such programmes and the reputation of UK higher education.

## Enhancing information to support student choice

It is vital that students make informed choices about if, what and where to study higher education. In order to do this, they need sound advice, and high-quality, accessible information. Improving information for students is a government priority. HEFCE has been working with a wide range of partners to promote greater consistency and transparency in the provision of information for prospective students. Our approach has encompassed new initiatives, as well as evaluation, review and improvements to existing data. We have based our work on a better understanding of what prospective students want and how they use information. HEFCE has led much of this work across the UK. The first part of the review[5] concluded that the decision-making process is complex, personal and nuanced, involving different types of information, messengers and influences over a long time. This challenges the common assumption that people primarily make objective choices following a systematic analysis of all the information available to them at one time. The analysis also found that greater amounts of information do not necessarily mean that people will be better informed or be able to make better decisions.

Highlights of our work:

- Following the re-launch in 2012 of Unistats – a UK-wide HE course comparison web-site – we have continued to work with partners to improve the site in response to users' feedback. In 2013 we launched a mobile phone version of the site, as well as a course assistant tool – an interactive step-by-step guide to choosing a course. Since its re-launch the Unistats web-site has attracted more than 342,000 visitors.


- We have undertaken research with partners on the type and format of financial information current students would like to see institutions make available, and have issued guidance for institutions about this.
- Following on from research in 2012 that showed prospective taught postgraduate students had difficulties finding the information they needed, we have undertaken further work on the decision-making process and information needs of these students and have developed guidance for institutions.

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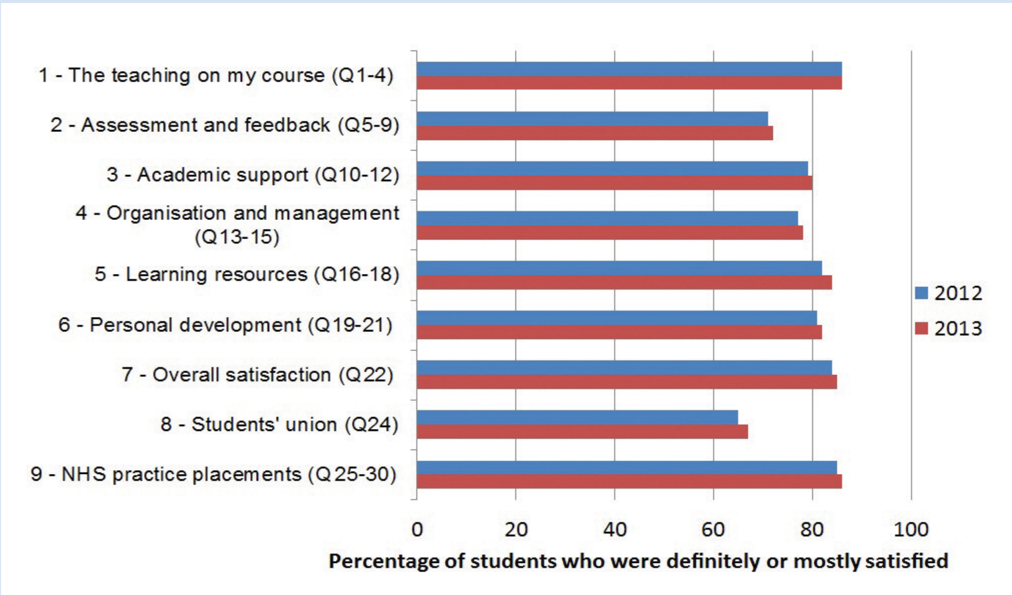
5 'UK review of the provision of information about higher education: Advisory study and literature review', www.hefce.ac.uk/pubs/rereports/year/2014/infoadvisory/

- \- HEFCE manages the contract and governance arrangements for the UK-wide National Student Survey (NSS), which has been running for close to ten years. We are also leading a review of the NSS. We envisage the review will be followed by piloting and consultation about future changes.

## National Student Survey

The 2013 NSS headline results show that satisfaction among students in the UK remains high. The survey, independently conducted by Ipsos MORI, received responses from around 304,000 final-year students, an increase of over 17,000 from the previous year. The overall UK response rate was 68.6 per cent, a record for the survey. Satisfaction levels across the UK for each of the eight question groups showed an improvement or stayed the same, with notable improvements in Assessment and feedback, and Learning resources. In English higher education institutions and further education colleges 85 per cent of students reported being satisfied overall with their course, an increase of 1 per cent on satisfaction levels from 2012.

### NSS results for England for full-time and part-time students, 2012 and 2013




## Promoting and protecting the collective student interest

HEFCE works in partnership with others to promote and protect the collective interests of students, following the 2011 White Paper[6], but has no increased powers. We have made the collective student interest more explicit in our work, improved student representation on HEFCE's Board and strategic advisory committees, and engaged in an increasing number of student-focused and student-led projects.

6 https://www.gov.uk/government/news/putting-students-at-the-heart-of-higher-education

We continue to build stronger links and closer working relations with NUS, and have funded a number of projects with NUS in the last year. These include a Students' Green Fund[7], to help students engage with their universities and colleges to promote sustainable development. We have invested in the quality mark Quality Students' Unions[8], which has been developed by NUS to assure the quality, standards and overall effectiveness of students' unions. We have also helped to promote the idea of students as partners in their education and stressed the importance of student engagement in learning. A tangible expression of this has been to fund The Student Engagement Partnership.

## Students' Green Fund: Staffordshire University

Students at Staffordshire University are working in partnership with private landlords in a Students' Green Fund project. Their aim is to improve the environmental credentials of private rented houses while rewarding students for cutting down on their energy usage. The GreenPad initiative responds to the fact that the cost of rent in private accommodation often includes energy bills, so students have little reason to be mindful of energy usage. It helps tenants and landlords move to billing that reflects usage, and tenants get feedback on how to improve energy efficiency.

The students' union is also operating a student-led letting agency, which is driving sustainability improvements by encouraging landlords to participate in energy-efficiency audits and gain certification for their properties in return for a period of free advertising through the letting agency.

7 www.studentsgreenfund.org.uk

8 www.nusconnect.org.uk/charity/quality-students-union/

## Regulating student entry numbers

The Government's aim in having controls on student numbers is to manage the student support budget while improving student choice and allowing popular institutions to grow. The guidance given to us by Government over the period of this report has been, broadly, to increase through a number of routes the proportion of student numbers that are uncontrolled. Initially, we were asked by Government to design an approach to ensure institutions with demand from students could recruit above their student number control, while moving numbers away from institutions that had less demand from students. We consulted with the sector on this in spring 2013, and the Board approved the outcomes in September 2013, which were published as 'Student number controls: Outcomes of consultation on arrangements for 2014-15 onwards', (HEFCE 2013/20), www.hefce.ac.uk/pubs/year/2013/201320/

In the Government's 2013 Autumn Statement it was announced that 30,000 additional places would be made available in 2014-15. The intention is that the student number control will no longer apply to HEFCE-funded providers from 2015-16. The Government reserved the right to re-impose number controls, if providers seem to be expanding at the expense of the quality of provision.

## Strategically important and vulnerable subjects

We continue to provide additional funding for high-cost subjects such as science and engineering, for small and specialist institutions, for the year abroad and for taught postgraduate programmes. Our data on subject supply and demand, which is updated annually, is increasingly used not only within HEFCE but by subject organisations and others to help build a picture of issues facing particular areas of study.

Alongside this, we are addressing a number of subject risks through specific interventions. We have provided new funding for Sigma, the maths and statistics support network, to continue and expand its activities over the next three years. Our support for modern foreign languages has also been renewed through the programme of demand-raising activity delivered by the Routes into Languages consortium. In addition, several institutions have been awarded grants from HEFCE's Catalyst Fund to support activities relating to strategically important and vulnerable subjects.

### Q-Step: Undergraduate Centres of Excellence in Quantitative Methods

HEFCE, in collaboration with the Economic and Social Research Centre and the Nuffield Foundation, is co-funding 15 Q-Step Centres of Excellence in undergraduate teaching of quantitative methods, aiming to promote a step-change in quantitative methods training for UK social science undergraduates.

Q-Step

**A step-change in quantitative social science skills**

Funded by the Nuffield Foundation, ESRC and HEFCE

## Undergraduate courses other than first degrees

Our analysis of latest shifts and trends in higher education[9] shows that the recent major declines in undergraduate part-time study are largely due to significant falls in entrants to courses other than first degrees (such as certificates and diplomas of higher education and study for institutional credit that can be counted towards a qualification). There were 84,700 fewer such entrants in 2012-13 compared with 2010-11 – a fall of almost half. There have also been recent falls in the number of entrants to foundation degrees at full-time undergraduate level. These figures do not include entrants at alternative providers. HEFCE will continue to look into these and other trends, and will publish further analyses.

## Supporting and promoting student opportunity

The National Strategy for Access and Student Success was commissioned by BIS and developed jointly with the Office for Fair Access (OFFA). It draws together new and existing research to present an evidence-based picture of strengths and weaknesses of widening participation across the student lifecycle. It points to how higher education should further enhance its activity and role to support social mobility, and the personal and economic growth this brings. It indicates how widening participation needs to be achieved across three broad stages of the student journey:

- access
- retention and student success
- progression to further study or to/within employment.

It sets out the roles and responsibilities of Government, higher education providers, and HEFCE and OFFA in achieving the strategy and the actions required to lead to success in widening participation. The strategy was published on 3 April 2014[10].

The National Scholarship Programme (NSP) aims to benefit eligible students from households with a residual income of £25,000 or less through the provision of fee waivers, institutional services and cash awards. HEFCE administers the programme on behalf of the Government. For the undergraduate programme, institutions provide matched funding. Early indications through in-year monitoring showed that approximately 35,000 students benefited from an NSP award in 2012-13. More information on the National Scholarship Programme is at www.hefce.ac.uk/whatwedo/wp/currentworktowidenparticipation/nsp/

## Postgraduate study

The Government has asked HEFCE to pay particular attention to postgraduate education following the higher education reforms. Postgraduate study is important to universities and colleges, both as a central aspect of their business and the source of their future workforce. It is also important to business and public services, due to their increasing imperative for the highest levels of knowledge and advanced skills to enhance innovation and productivity in work.

Between 2012-13 and 2014-15 we are providing more than £200 million additional funding for postgraduate education through our teaching and research grants. We also commissioned research to improve our understanding of postgraduate education, much of which we brought together in two reports published in July 2013[11].

9 'Higher Education in England 2014: Analysis of latest shifts and trends' (HEFCE 2014/08), www.hefce.ac.uk/heinengland/2014/

10 https://www.gov.uk/government/publications/national-strategy-for-access-and-student-success

11 'Trends in transition from first degree to postgraduate study: Qualifiers between 2002-03 and 2010-11' (HEFCE 2013/13) and 'Postgraduate education in England and Northern Ireland: Overview report 2013' (HEFCE 2013/14)

England has a successful and thriving postgraduate education system, which has grown during the last decade, particularly for taught masters and among students from overseas. Feedback from surveys suggests that students are positive about their experiences. Postgraduates also have higher employment rates and higher salaries than those with a first degree.

We have also, however, identified some threats to student opportunity at postgraduate level. There are concerns about the availability of student finance, with 72 per cent of taught postgraduates having no financial backing. Part-time study has been particularly affected by reductions in employer investment in a more constrained economic climate.

We continue to build up the evidence base on postgraduate education, including work that will enable us to compare our postgraduate system with those in other countries, and the difference a postgraduate qualification makes in the workplace.

Building on the evidence we have gathered to date, we have provided £25 million of pilot funding to test ways of stimulating progression to taught postgraduate study, the findings from which will inform a further investment of £50 million in this area during 2015-16.

## Postgraduate Support Scheme

In July 2013, HEFCE launched the Postgraduate Support Scheme (PSS), a £25 million fund for pilot projects to test activity and finance models to support progression into postgraduate taught education, especially for students who are under-represented at postgraduate level and in subjects aligned with the Government's growth strategies.

The 20 successful projects will support more than 2,800 students and involve a range of activities including financial and pastoral support, mentoring and networking, changes to curricula, funded studentships, work placements and a variety of bursary and loan schemes.

With the Economic and Social Research Council, HEFCE has appointed Dr Paul Wakeling of the University of York to draw out findings from the projects, to provide examples of good practice across the sector, to inform further research in this territory, and to inform the allocation of £50 million the Government has set aside to support postgraduate participation in 2015-16.

## Alternative providers

Alternative providers of higher education can now apply for designation of some or all or their courses. When a course is designated, students attending it will be able to access student loans.

HEFCE's role in the new course designation system is legally confined to processing and providing analysis of applications from alternative providers. Under current legislation, we do not have regulatory oversight of alternative providers, and we are not empowered to make decisions on applications. These responsibilities lie with Government. BIS sets the criteria for designation, and decides whether or not an alternative provider's course should be designated or de-designated. The transition to the new system is ongoing, with over 100 providers seeking designation under the new criteria for 2014-15. Primary legislation is required to enable necessary regulatory reforms to address the risks and challenges of the current system. We are in discussions with BIS about what reforms can be taken forward short of legislation, while maintaining that legislation is required in the long term.

In addition to our work on course designation we are providing technical support to BIS in its implementation of a student number control for alternative providers. One way we have done this is through developing the Higher Education in Alternative Providers Early Statistics (HEAPES) annual survey, undertaken to monitor the number of students at alternative providers.

# Effective governance and management, and promoting good practice

Effective and efficient leadership, governance and management are essential for the development and sustainability of higher education. Primary responsibility for this rests with institutions themselves. HEFCE plays an important supporting role, working with the sector to enable and catalyse change. We monitor and report on efficiency in the sector to demonstrate value for money for public investment; give guidance to institutions on shared services approaches; promote good practice in sustainable development; and work with the Equality Challenge Unit and other agencies to provide resources and information on equality and diversity issues.

## Shared services

Sharing services can achieve significant savings and improved performance. We have been working with the sector to implement the EU cost-sharing exemption which enables universities and colleges to develop shared services without incurring VAT. We have published guidance for institutions on how to establish the cost sharing groups that must be formed to take advantage of the exemption, and plan to supplement the guidance with case studies[12].

We will continue to work with the research community to encourage efficiency initiatives such as asset sharing, research data management and efficient laboratory usage. We fund the Efficiency Exchange, an innovative web-site delivered by Universities UK which helps to disseminate information about efficiency in the HE sector[13].

### Shared services: Box of Broadcasts

With support from HEFCE's University Modernisation Fund, the British Universities Film and Video Council has developed a central broadcast library. The Box of Broadcasts makes copies of broadcast television and radio material available to universities and colleges. This gives institutions access to a much wider range of material, and means that they do not themselves need to record and store this material.

The broadcast material can be used for teaching and streamed directly into lecture theatres. This shared service approach has delivered substantial savings in licences, systems and hardware infrastructure, as well as in staff resource.

## Transparent approach to costing

HEFCE collects data on the costs of teaching and research from the institutions it funds through the Transparent Approach to Costing (TRAC) exercise. TRAC provides valuable management information to help managers at universities and colleges make decisions about academic and financial sustainability. Following a request from Government, in 2012 we undertook a review of the TRAC system in consultation with the sector. In April 2013 we published the outcomes from the review, together with a series of recommendations from the TRAC Review Group and a HEFCE action plan.

12 www.hefce.ac.uk/pubs/rereports/year/2013/csgexemption/

13 www.efficiencyexchange.ac.uk/

The review's recommendations, when implemented, will result in a TRAC system which aims to be more streamlined and less burdensome for institutions to administer; provide more reliable and accurate cost information to HEIs and their funders; support an increasing focus on decision making for investment and sustainability; pave the way for more transparent information for students and taxpayers (using a wider set of data than is produced by TRAC alone); and support benchmarking and efficiency in HEIs, leading to cost savings. The new TRAC guidance is due to be published in autumn 2014.

## Revolving Green Fund: Sustainable development

Universities have an important role in -
society's efforts to achieve a sustainable -
future. -

HEFCE supports universities in this -
endeavor through the Revolving Green -
Fund.

The Revolving Green Fund continues to -
deliver significant financial and carbon -
savings for the sector. An independent -
evaluation of the first three rounds has -
indicated that funded projects will contribute -
nearly 20 per cent of the sector's 2020 target -
for carbon savings, saving £19 million per -
annum.

Lancaster University developed and -
installed a wind turbine with support from -
the first round of the Revolving Green Fund. -
The turbine reduces the university's reliance -
on imported electricity. In its first year of -
operation, it generated 13 per cent of the -
university's annual electricity consumption -
and reduced carbon emissions by 2,259 -
tonnes of $CO_2$ and equivalent gases. The -
wind turbine is one of a number of initiatives -
that the university has completed as part of -
its carbon management plan, making -
Lancaster a more sustainable campus. -

## Equality and diversity

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

The Research Excellence Framework is designed to support equality and diversity in research careers. We will evaluate the overall effectiveness of the equality and diversity measures we have taken once the 2014 REF is complete.

Our 2013 Annual Monitoring Statement included questions about equalities issues. Universities and colleges were asked to comment on the diversity of their governing bodies and senior leadership; representation of disabled staff and disclosure rates; gaps in student participation; and gaps in student attainment between students with different characteristics. The responses will be used to inform future equalities policy development.

In 2013-14 we continued to fund and work with the Equality Challenge Unit to eliminate discrimination, advance equality of opportunity and foster good relations between protected groups in the sector. The Athena SWAN Charter, which recognises commitment to advancing women's careers in higher education in science, technology, engineering, maths and medicine (STEMM) and is managed by the Equality Challenge Unit, welcomed its 95th member institution and saw the number of award holders increase from 124 in 2012 to 259 in 2013.

### Equalities summit

In autumn 2013 HEFCE brought together the Equality Challenge Unit, Committee of University Chairs, Universities UK, the Universities and Colleges Employers Association, GuildHE and the Leadership Foundation for Higher Education to develop a shared approach to increasing diversity in HE leadership and governance. Work will continue in 2014 on an action plan.

## Delivering the plan

All that we have achieved in the last year has been thanks to the expertise, talent and professionalism of our staff. To be effective we need to be responsive to, and trusted by, our stakeholders. Our People Strategy affirms our commitment to high performance and continuous improvement.

On the census date of 31 March 2014, HEFCE employed 258 full-time equivalent staff (291 headcount). We continue to monitor sickness absence as an indicator of staff wellbeing. Our sickness absence remains relatively low. In 2013-14 we lost 1,152 working days to sickness, an average of 4.08 days per person. The level compares favourably to an average of 8.7 days for government public service bodies[14].

Over 80 per cent of staff completed our annual staff survey, run by Best Companies. As a result of those responses, we were placed 62nd in the Sunday Times 100 Best Not-for-Profit Companies (which include public sector organisations), and were accredited by Best Companies as a one star accreditation for staff engagement.

14 Source 'Absence management: annual survey report', Chartered Institute of Personnel and Development 2013

# HEFCE’s strategic risks -

In April 2013 the HEFCE Board agreed a revised register of HEFCE’s key strategic risks.

The risk register is structured to reflect the themes of our business plan for 2011-2015 (HEFCE 2011/34). We have identified a number of risks which, were they to materialise, would have a significant negative impact on HEFCE and/or the higher education system as a whole.

Consideration of these risks allows us to assess the continuing viability of our strategy and business plan against changes in circumstance, and to make adjustments when necessary. This does not mean that we expect the risks to materialise – rather, it indicates that these are areas of risk which we need to be aware of, and respond to as appropriate, in order to perform our role effectively.

| Risk no. | Risk area | Main risk |
|---|---|---|
| 1 | Student support | The student support budget cannot be managed effectively. |
| 2 | Collective student interest | The higher education system does not meet the interests of students. |
| 3 | Reputation of higher education | There is a decline in the overall reputation of English higher education nationally and internationally. |
| 4 | Investment - | Private and/or public investment in higher education is insufficient to sustain a diverse and high quality sector that can meet the needs of the economy, students and the policy aims of Government. |
| 5 | Institutional sustainability | Disorderly institutional failure exceeds our capacity to protect the interests of students and the public. |
| 6 | Regulatory partnership - | There are failures of coordination between the higher education regulatory bodies resulting in failures within the system and a loss in the confidence of Government, students and the wider public. |
| 7 | Economic, social and cultural impact | Higher education does not adequately contribute to economic, social and cultural prosperity. |
| 8 | Changing environment | HEFCE fails to detect and respond to risks emerging due to the changing environment. |
| 9 | HEFCE operations - | HEFCE fails to resource and run its key operations effectively and efficiently, leading to failure to meet our objectives. |
| 10 | Regulation - | HEFCE’s regulatory activity is not transparent, accountable, proportionate, consistent, targeted and/or effective. |
| 11 | HEFCE relationships - | HEFCE fails to build and maintain appropriate, effective and constructive relationships with its key partners and stakeholders. |

# Key performance targets

In December 2012 the Government wrote to HEFCE setting out revised key performance targets to apply for the remainder of the current spending review period. These reflected the Government's strategic priorities for higher education in England. Progress against these is reported on throughout the 'Summary of our achievements in 2013-14' section of this report, incorporated with our achievements against our wider objectives and activities set out in our business plan[15].

| | Key performance target | Progress |
|---|---|---|
| 1a | HEFCE will provide advice [to Ministers] on how to promote dynamism in the allocation of student places while maintaining necessary control of public funding. This advice should cover the operation and development of the tariff and core and margin policies. | We continue to provide advice on student numbers and dynamism. This advice helped to shape government policy on the exemption of high grades from the student number control, and on flexibility within the student number control. |
| 1b | HEFCE will develop a strategic approach to deploying its residual non-block grant, assess where interventions are necessary to help address the risk of undesirable reductions in the scale of provision of STEM and SIVS, and provide advice to Ministers. | We have provided a further £23 million to support very high cost STEM subjects, including physics; chemistry; chemical engineering; and mineral, metallurgy and materials engineering. In October we launched a £19.5 million intervention to overhaul social science teaching and address the shortage of social science graduates with quantitative skills. |
| 2 | HEFCE will take forward a set of initiatives relating to the provision of information in higher education in the White Paper, 'Students at the Heart of the System', and the linked BIS Implementation Plan. This will include developing plans for a major review of the provision of information, including the Key Information Set, Unistats and the ten-year review of the National Student Survey. | Following user testing in 2013, we have updated the Unistats site with enhanced features together with a mobile phone compatible site. The review of the NSS commenced in July 2013 and is due to report in July 2014. |

15 www.hefce.ac.uk/about/howweoperate/businessplan/

| Key performance target | | Progress |
|---|---|---|
| 3 | HEFCE will work with OFFA to develop a joint strategy as commissioned in a letter from BIS Ministers on 22 May 2012. The focus of the strategy is to maximise the impact of the spending by Government, HEFCE and institutions; it should draw together and, where appropriate, initiate evaluation and research to ensure a focus on making faster progress on access; and consider options to improve value for money across funding streams, improving impact and avoiding duplication. | The national strategy for access and student success was published on 3 April 2014. |
| 4 | HEFCE will maintain effective systems to monitor and promote the financial health of HEIs and the sector, with a particular focus on assessing the effects of the new funding regime. | We continue to operate systems to monitor financial health, including through our annual accountability returns and analysis of institutions' financial statements.<br><br>In October 2013 we published our financial health report based on the financial forecasts for the period 2012-13 to 2015-16[16]. |
| 5 | HEFCE will introduce a new risk-based approach to national quality assurance arrangements which balances deregulation for providers with an established track record for quality, while protecting the interests of the student and the international reputation of UK higher education. | The new approach, to be known as Higher Education Review, is now in place, and the first reviews took place in January 2014. |
| 6 | Working with BIS, HEFCE will contribute to the design and implementation of a new system for the designation of courses of higher education at alternative providers for student support purposes. This target will be reviewed by summer 2013 with the expectation that future targets here will be expressed in terms of the level and quality of service HEFCE provides to BIS under the new designation regime. | The new system is now operational with HEFCE leading on the application process and assessment of providers. |

16 www.hefce.ac.uk/pubs/year/2013/201329/

| Key performance target | | Progress |
|---|---|---|
| 7a | HEFCE will work with the Student Loans Company to review and replace the Council's financial memorandum with HEIs. | The new memorandum is in development. We held successful consultation events and we will have the new one in place by August 2014. |
| 7b | HEFCE, working with partners, will review data collection burdens. | The HE Data and Information Improvement Programme (HEDIIP) was established in August 2013 to enhance the arrangements for the collection, sharing and dissemination of data and information about the HE system. |
| 8a | HEFCE will deliver Research Excellence Framework results which overall are consistent with citation evidence of trends in UK research performance and which are suitable for use to inform selective funding from 2015-16. | REF remains on track. All 155 institutions that intend to participate in the REF successfully made their submissions by the deadline on 29 November 2013. |
| 8b | HEFCE will further encourage institutions to leverage research funding into the UK research base from a range of other public and private funders of research including charities, EU and international bodies, and business. | We continue to support research conducted with charities and business as a component of quality-related funding. |
| 9 | HEFCE, working with Research Councils, Technology Strategy Board and other public funders, will continue to drive a strong culture of knowledge exchange within institutions which supports and encourages sustained contribution to economic growth, including alignment with the Industrial Strategy, and, in particular, identify innovative modes of knowledge exchange which are presently effective in supporting economic growth. | We have conducted an econometric study of several years' of data from the higher education-business and community interaction survey. This highlights that knowledge exchange funding has successfully levered into the HE sector substantial income, in particular from the private sector.<br>We are using our Catalyst Fund to identify and support strong and innovative approaches within institutions. |
| 10 | HEFCE, taking account of the cross-Government imperative to deliver ever greater value for public money, will promote and demonstrate ways in which the sector can deliver increased efficiency, drawing on TRAC data. | We are reviewing our approach to encouraging efficiency and value for money in the sector, using an appropriate and effective balance between funding and partnership working. |

# Sustainability report for 2013-14 -

We have gathered data on our environmental performance annually for the past 12 years; 2013-14 data will be published in detail in our next corporate social responsibility (CSR) report. Our processes for the management of sustainability performance follow the guidance provided by HM Treasury: 'Public sector annual reports: sustainability reporting guidance 2013-14'.

This is the fifth year in which we have reported on environmental sustainability in our annual report. In this section we include data only on non-financial CSR indicators. A CSR steering group oversees all aspects of our sustainability management and reporting, and it reviews the quality of data and data processes every three years. The most recent review took place during 2012-13 when the results indicated that HEFCE collects a comprehensive set of data, with appropriate targets and suitable reporting processes. HEFCE's commitment to seeking improvement in data accuracy were noted in that review, as well as our mature and established data collection systems leading to the vast majority of the data being accurate and robust.

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 reporting policy follows the spirit of The Prince's 'Connected Reporting Framework', and our analysis of data follows Defra reporting guidelines, which are set out in 'Greening Government commitments: Operations and Procurement' (updated Defra, July 2011). During 2011-12 we revised the targets we set in our 2011-2015 CSR policy.

## Restated and provisional data

Data reported for the period 2005-06 to 2012-13 have been restated: recommendations arising from the most recent review of our CSR data and processes (regarding improvement in clarity and minor inaccuracies) have been fully implemented in the most recent data analysis. Complete data are also now available for 2011-12 and 2012-13, and these recalculations impact on the historical data reported. In addition, the 2013-14 data reported are provisional: we are awaiting some end-of-year data which we will reconcile against our own records and meter readings. The results of this reconciliation will inform the analysis of 2013-14 data in our next CSR report.

## Relocation of our London office – impact on environmental performance data

The 2013-14 data reported here are not directly comparable with previous years' figures due to the relocation of our London office in April 2013.

Across the period considered we have been able to consistently gather data on electricity consumption for both our main Bristol office and second office in London. In the period up to and including 2012-13, the contribution made by water and heating oil consumption at our previous London office was necessarily based on data estimates supplied by the landlord. In 2013-14 for the first time we have accurate data on gas, electricity and water consumption at our new London office which can be fully integrated with data available on consumption at our Bristol office. Data on waste and recycling arising from our London office are available for the first time in 2013-14 and are newly included in the figures reported here.

We note that the floor area at our new London office is more than 25 per cent larger than at the previous location (though we share our new office with the Student Loans Company) and that electricity consumption and waste generation were at elevated levels early in 2013 during the fit-out of the new office: both of these factors are likely to have impacted negatively upon our environmental performance reported below.

We continue to hold the Carbon Trust Standard, which certifies that we have reduced our carbon emissions and that we are committed to making further reductions. The fit-out of our new London office achieved a gold-rated environmental assessment from the Royal Institution of Chartered Surveyors. We are aiming to achieve the highest standards in our forthcoming Bristol re-location too.

## Finite resource consumption

This report on water and energy consumption combines available data for our Bristol and London offices. As noted above, the relocation of our London office in 2013 introduces inconsistency into the data we report.

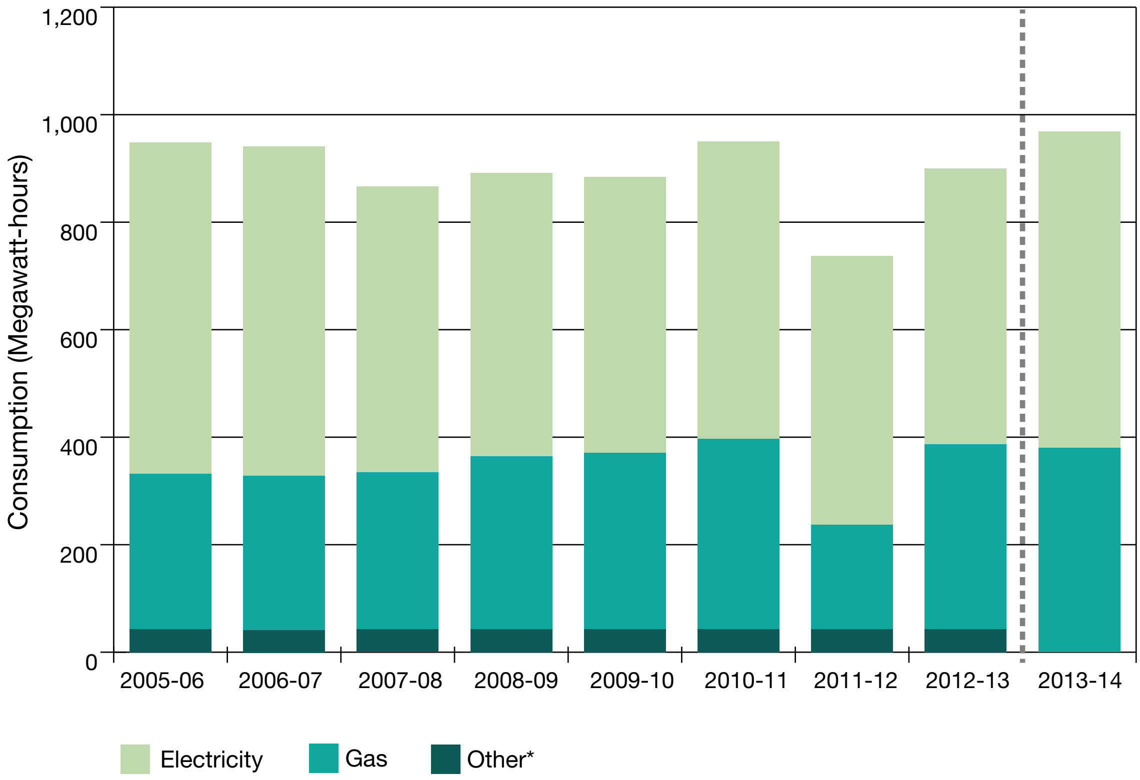
We have a five-year target to reduce water consumption compared to the baseline year of 2009-10. Consumption is reported per full-time equivalent (FTE) staff. The latest figures show that although consumption was higher in 2013-14 than it was in 2012-13, we continue to achieve this target. Our water consumption per staff FTE in 2013-14 was lower than at any other point in the last 12 years except 2012-13. A new meter at our Bristol office should provide increased accuracy in future years.

The data indicate an increase in energy use in comparison with 2012-13, resulting from increased levels of consumption of electricity in our offices. While gas consumption may appear to have increased in 2013-14 this is entirely explained by the move from heating oil to gas consumption at our London office. Analysis shows that the increased levels of electricity consumption are driven entirely by a significant increase in consumption reported at our new London office relative to the one occupied previously: consumption reported at our Bristol office is around 2 per cent lower than in 2012-13. We note that both the increased floor area at our new London office and elevated consumption levels during its fit-out will have impacted on the figures reported below.

| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|---|---|
| **Cubic meters** | | | | | | | | | |
| Water* | 14.74 | 6.53 | 5.99 | 5.40 | 6.92 | 6.94 | 7.06 | 5.11 | 6.35 |
| **Megawatt-hours** | | | | | | | | | |
| Electricity | 616 | 612 | 531 | 527 | 513 | 553 | 500 | 513 | 588 |
| Gas | 289 | 287 | 292 | 322 | 328 | 354 | 194 | 344 | 381 |
| Other** | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 43 | 0 |
| **Total energy** | **949** | **941** | **866** | **891** | **884** | **950** | **737** | **900** | **969** |

* Consumption per staff FTE.

** Estimated heating oil consumption at the London office occupied by HEFCE prior to 2013-14. As such, our heating oil consumption reduces to zero in this year. The London office occupied by HEFCE in 2013-14 is able to provide detailed information regarding gas and electricity consumption that was not previously available for inclusion in these figures.




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

Notes: The dotted line identifies the break in the consistency of the time series on account of the relocation of our London office.

## Greenhouse gas emissions

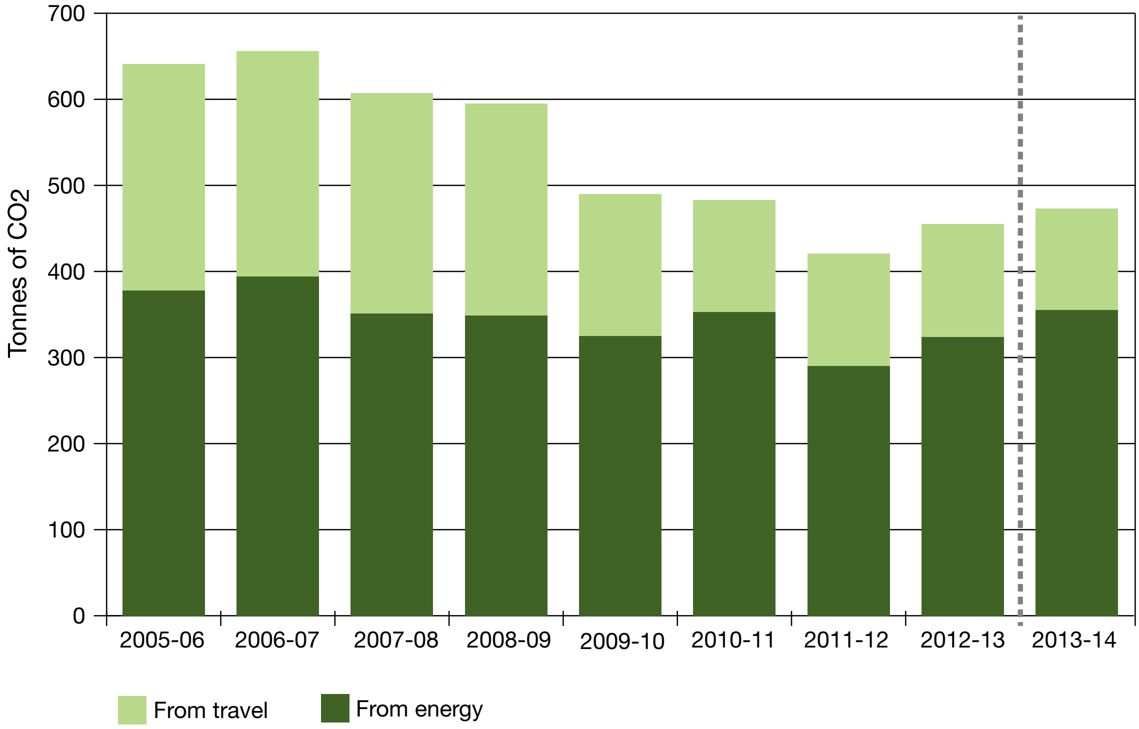
Our target is to reduce our greenhouse gas emissions from energy use on our estate and through business transport by 25 per cent by 2015-16 against a baseline level in 2009-10. In the same period we plan to reduce our emissions from domestic air travel by 20 per cent.

Total emissions in 2013-14 increased by 4 per cent over the previous year. Within this overall increase, the data indicate an increase of 10 per cent in carbon emissions from energy use, while emissions from business travel fell by 10 per cent. The increased carbon emissions from energy use result entirely from increased levels of electricity consumption in our London office, which is explained above and relates to the impacts of our relocation. Analysis shows that carbon emissions from both gas and electricity use at our Bristol office decreased between 2012-13 and 2013-14.

Carbon emissions from business travel were at a lower level in 2013-14 than in any other previous year. Emissions from domestic flights were 6.6 tonnes in the baseline year, rose to 7.2 tonnes and 7.8 tonnes in 2011-12 and 2012-13 respectively, and have fallen to 6.9 tonnes in 2013-14. Significant reductions are also seen in emissions from short- and long-haul international flights in 2013-14 compared with 2012-13. Air travel activity overall was heightened in 2011-12 and 2012-13, and has returned to more typical levels during 2013-14. Air travel activity is subject to fluctuation due to the very low volume of this form of travel.

| Tonnes of $CO_2$ | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|---|---|
| Total gross emissions* for scopes 1 and 2 | 378 | 394 | 351 | 349 | 325 | 353 | 290 | 324 | 355 |
| Gross emissions attributable to Scope 3, business travel | 263 | 262 | 256 | 246 | 165 | 130 | 131 | 131 | 118 |
| **Total emissions** | **641** | **656** | **607** | **595** | **490** | **483** | **421** | **455** | **473** |

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




Notes: The dotted line identifies the break in the consistency of the time series on account of the relocation of our London office.

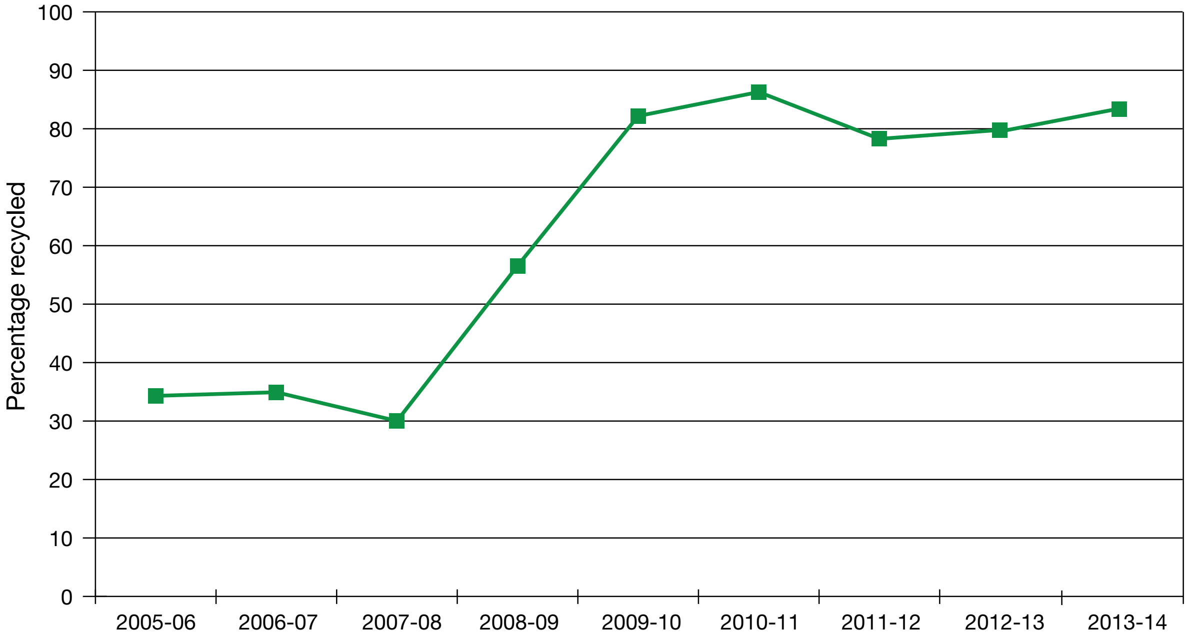
# Waste

Our target is to reduce the total quantity of waste material we generate on our estate by 25 per cent by 2015-16 against a baseline level in 2009-10. However, our 2009-10 baseline data are likely to be lower than the actual quantities of waste material that were generated in that year. Analysis of recycled waste in 2009-10 necessarily relied on assumptions made regarding the weights of these materials which became redundant when our contractors began to supply more robust and detailed information to us. We therefore believe the most recent four years of data are much more accurate than the earlier years. Data on waste and recycling arising from our new London office are included in the figures reported here, and therefore 2013-14 figures are not directly comparable with earlier years.

Landfill waste remains higher than that reported for the baseline year, but is lower than almost any other year. Total waste arising in 2013-14 was lower only in 2009-10 and 2011-12. Aside from the elevated quantities of waste materials generated early in 2013 during the fit-out of our new London office, we believe that the 2013-14 figures could represent an all-time low in both the volume of waste that we are sending to landfill and in total waste arising. In 2013-14 we recycled 83.45 per cent of waste materials at source: with the exception of 2010-11 this is the highest level recorded.

| Tonnes | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|---|---|---|---|---|---|---|---|---|---|
| Total waste | 58.26 | 50.07 | 57.48 | 53.95 | 33.10 | 48.74 | 37.79 | 41.04 | 40.49 |
| Waste to landfill* | 38.26 | 32.59 | 40.23 | 23.43 | 5.90 | 6.68 | 8.21 | 8.29 | 6.45 |
| Waste recycled at source | 19.99 | 17.49 | 17.25 | 30.51 | 27.20 | 42.06 | 29.58 | 32.75 | 34.04 |
| **Percentage of total waste recycled at source** | **34.31** | **34.93** | **30.01** | **56.55** | **82.18** | **86.29** | **78.27** | **79.80** | **83.45** |

* Assumes the provider recycles none.




## Gross expenditure attributable to energy consumption

Under HM Treasury guidance on sustainability reporting in the public sector, from 2011-12 we are required to report on gross expenditure attributable to energy consumption through utilities and official business travel. There is no expenditure under the Carbon Reduction Commitment (CRC) Energy Efficient Scheme, because our annual energy use falls below the compliance threshold for the scheme. The cost of gas in 2011-12, 2012-13 and 2013-14 takes into account HM Revenue and Customs' climate change levy and the increase in the gas unit charge. Our gross expenditure attributable to waste disposal was quantified and reported on for the first time in 2012-13 and is included again in 2013-14.

| | £000 | | | |
|---|---|---|---|---|
| | **2010-11** | **2011-12** | **2012-13** | **2013-14** |
| **Utilities** | | | | |
| Electricity | 58 | 57 | 60 | 66 |
| Gas 10 | 9 | 14 | 16 | |
| Water | 4 | 5 | 5 | 5 |
| | **72** | **71** | **79** | **87** |
| **Business travel** | | | | |
| Car | 20 | 16 | 18 | 16 |
| Taxis | 38 | 34 | 31 | 33 |
| Rail | 319 | 343 | 351 | 340 |
| Air | 22 | 18 | 29 | 7 |
| | **399** | **411** | **429** | **396** |
| **Waste disposal** | | | | |
| Waste sent to landfill | | | 3 | 3 |
| Waste recycled | | | 9 | 7 |
| | | | **13** | **10** |

## 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. Data reported for the period 2005-06 to 2012-13 have been restated to implement the recommendations arising from the most recent review of our CSR data and processes. Additionally, figures for 2011-12 and 2012-13 have been recalculated based on complete data now available.

Total greenhouse gas emissions (GHGE) are calculated following guidance published by Defra, using current conversion factors for the reporting year and conversion factors applicable in the baseline year where different. GHGE from electricity consumption data are no longer calculated using grid rolling averages but, in accordance with guidance published by Defra, have been re-baselined to use a single average factor for a given year.

There is no agreed level of data materiality. All our data assumptions are declared. In 2013-14 we applied assumptions to our primary data for energy, waste and business travel leading to estimated accounting error margins of less than 10 per cent. These margins arise from cost proxy estimates on 73 per cent of our business travel emissions and sample estimates on our landfill and recycled paper waste disposal.

# Corporate social responsibility

As an organisation we are 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. Our 2011-15 CSR policy, published in August 2012, sets out our overall aims, objectives and targets for operations at our offices, as well as the influence we have on the higher education sector.

HEFCE currently operates two externally certified management system standards: ISO14001:2004 (Environmental) and OHSAS 18001 (Occupational Health and Safety). HEFCE is amalgamating these two standards, which are designed to be compatible. This will allow us to make more efficient use of resources, improve risk management, provide consistency in the application of management processes and maintain continual challenge and improvement.

Our annual CSR report describes our activities in more detail and charts progress against targets for energy, travel, waste and water. The latest one can be found at www.hefce.ac.uk About/Howweoperate/Corporatesocialresponsibility, along with our annual CSR reports, policy and action plan.

# HEFCE's structure

## HEFCE Board

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

In 2013-14, membership of the Board was:

### Chair

Tim Melville-Ross CBE

### Chief Executive (and Accounting Officer)

Sir Alan Langlands (until 30 September 2013) -

Steve Egan (Interim Chief Executive and Accounting Officer, 1 October – 31 December - 2013) -

Professor Madeleine Atkins CBE (from 1 January 2014) -

### Members

Professor Madeleine Atkins CBE, Vice-Chancellor, Coventry University (until 31 December - 2013)

Apurv Bagri, President and CEO, Metdist Enterprises Ltd (appointed with effect from 1 March 2014) -

Professor Ruth Farwell, Vice-Chancellor, Buckinghamshire New University -

Professor Sir Malcolm Grant, Chair, NHS England; former President and Provost, - University College London -

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

Peter Houillon, Chief Executive, Kaplan UK (appointed with effect from 1 February 2014) -

Graeme Osborn, Employee of the Graduate Students' Association, University of York -

Professor Dame Shirley Pearce, former Vice-Chancellor, Loughborough University

Mark Robson, Head of Statistics and Regulatory Data, Bank of England -

Hugh Ross, Director, Hehir-Ross Partnership -

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

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

Sara Weller, Non-Executive Director, Lloyds Bank, United Utilities -

John Widdowson CBE, Principal, New College, Durham -

Board members who retired during 2013-14:

Rob Douglas, Business Advisor, Douglas Associates Ltd

René Olivieri, former Chief Executive, Blackwell Publishing

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

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

## HEFCE committees

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

## HEFCE Executive

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

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

Further information on the HEFCE Executive and staff is available at www.hefce.ac.uk/about/staff/

## Further information

### HEFCE strategy statement and business plan

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

### Students and potential students

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

### Frequently asked questions

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

# Accounts -

# Financial results for 2013-14

## Funding and expenditure in-year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £5,104 million of grant funding from the Department for Business, Innovation and Skills (BIS) (*2012-13: £5,769 million*). Grant-in-aid is treated as financing and taken directly to reserves. The overall decrease in BIS funding primarily relates to the reduction in recurrent teaching funding as universities and colleges receive more of their funding through students' tuition fees and less through HEFCE teaching grants. The cost of tuition fees is to be met (for most undergraduates) through the availability of loans, which will generally be repayable after the student has finished their studies. The reductions to HEFCE teaching grant contribute to meeting the cost to Government of providing these loans, which are administered by the Student Loans Company.

In addition to funding from BIS, HEFCE receives income from other bodies for their contribution towards various initiatives. HEFCE's total income for 2013-14 was £3 million (*2012-13: £2 million*).

Total expenditure in year was £5,129 million (*2012-13: £5,782 million*). Of this, £20 million (*2012-13: £21 million*) relates to the administration costs we incur in managing and distributing grant funding to the higher education sector, and £5,109 million (*2012-13: £5,760 million*) to programme funds. The vast majority, £5,060 million (*2012-13: £5,753 million*), of programme funds relate to grants payable to higher education institutions and other sector bodies. In 2013-14 programme costs of £49 million were 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, or AME, rather than the Departmental Expenditure Limit, or DEL) and do not affect the amount of public funding available for distribution to the sector. On ring-fenced allocations HEFCE also received an additional £50 million of funding from BIS for the National Scholarship Programme (*2012-13; £50 million*).

In line with our financial 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 is distributed to the sector on an academic year basis (i.e. 1 August to 31 July), with annual funding allocations announced to the sector in March each year (see www.hefce.ac.uk/whatwedo/invest/institns/annallocns/ for the 2014-15 announcement).

Our administration cost budget is agreed by BIS each year, and performance against budget is monitored and reported each month. HEFCE's 2013-14 budget from BIS was £19.5 million, meaning that the cost of administering, managing and allocating programme funding to the higher education sector is less than 0.4 per cent of total grant distributed.

## Finance for the Future and financial management reform across BIS

In November 2013 the Head of Finance Profession in BIS wrote to all accounting officers to set out three steps for financial management reform across BIS and its partner organisations. These three steps – ‘Signing up for collaboration’, ‘Reforming the retained function’, and ‘Strengthening incentives for financial leadership’ – articulate the various programmes and workstreams across corporate services to which HEFCE has contributed over the past year, and form BIS’ overall vision of ‘Finance for the Future’ across BIS family and partner organisations. HEFCE’s commitments in terms of specific actions to deliver Finance for the Future during 2013-14, and an outline of how we will continue to deliver our commitments in 2014-15, are summarised below.

### Signing up for collaboration

In 2013-14 HEFCE committed to transition of all its strategic procurement activity to UK Shared Business Services Limited (UK SBS) in order to maximise savings through centralised buying power across BIS, and to access specialist expert resource of UK SBS category managers. Through UK SBS’ use of central government frameworks and procurement contracts HEFCE has reported total procurement benefits of nearly £0.5 million for 2013-14, with a similar target agreed for delivery in 2014-15.

In addition to working with BIS and UK SBS, we are making significant efficiencies through our own cost-sharing arrangements and joint use of estate with other partner organisations. For the past five years HEFCE has provided the Office for Fair Access (OFFA) with shared services for all its corporate functions, and has hosted the organisation in our Bristol office. In 2013-14 we moved the location of our London office to less expensive, government-owned estate which we share with the Student Loans Company, and in 2014-15 we will be commencing the relocation of our Bristol office, again moving from private sector to public sector estate. These moves will generate annual savings of around £0.2 million through better use of government buildings, co-location with other partner organisations, reduced floor space and more energy-efficient design.

### Reforming the retained function

In line with BIS’ strategy and future operating framework, 2013-14 saw the completion in HEFCE of a financial management review by the Chartered Institute for Public Finance and Accountancy (CIPFA). The CIPFA Financial Management Model is recognised by HM Treasury as setting out the fundamentals of best practice financial management within public sector organisations, and has been chosen by the cross-Government Finance Leadership Group (FLG) as the framework to be used for assessment of the largest central government departments, including BIS, and their main partner organisations. The model uses a scoring system to provide an objective measure of performance across an organisation, including the identification of strengths, weaknesses and areas for improvement. The results of our 2013-14 review noted that while comparisons are difficult because of differing sizes, complexities and cultures, the overall scoring for HEFCE was in the upper quartile of the 35 organisations for which CIPFA has provided this type of assessment.

Within HEFCE we found the Financial Management review to be particularly useful in helping shape an action plan for building on existing strengths and making further improvements. Actions we have committed to in 2014-15 include the ongoing development of the recently formed Operations and Business Analysis Unit within HEFCE (with its focus on developing management information for use across HEFCE and BIS), and a further strengthening of our Finance Business Partner approach. Such actions will serve to consolidate and reform our retained finance function during 2014-15.

### Strengthening incentives for Financial Leadership

HEFCE is actively engaged in BIS' financial reform agenda, and during 2013-14 senior finance staff have represented HEFCE (and other partner organisations) at a range of boards, steering groups and other forums. Examples of HEFCE's engagement in this area include: working with BIS colleagues on the development of the BIS' strategy for management information; contributing to the People and Capability Network of Excellence; and sharing good practice and expertise through contributions to the cross-department Grants Efficiency Programme and associated Network of Excellence.

In 2014-15 HEFCE has committed to leading the workstream on Small and Medium Organisations. This programme looks at identifying the particular strengths of such partner bodies within BIS, identifying opportunities for the sharing of experience and expertise, and building resilience across clusters of similar organisations.

Our actions across the three areas of BIS' Financial Management reform, together with ongoing internal efficiency programmes, will help ensure that HEFCE continues to operate efficiently and effectively.

## Performance against financial targets in-year

At 31 March 2014 HEFCE's Statement of Financial Position shows net liabilities of £145 million *(2013: £113 million)*. This reflects the inclusion of liabilities falling due in future years (mainly HEFCE's provision for inherited staff liabilities as disclosed at note 12) which will be met from BIS' future sponsorship and which does not affect HEFCE's 'going concern' status.

In resource terms we aim to distribute all funding received from BIS in-year; to achieve this, our framework agreement with BIS 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 2014 our cash balance was £29 million *(£31 million in 2013)*, with the change in balance reflecting a movement in working capital.

We are fully committed to the prompt payment of suppliers, and aim to pay all valid invoices as soon as possible. We support the Better Payment Practice Code (available at www.payontime.co.uk ) which targets payment within 30 days, and monitor our performance in-year against this target. We also monitor our performance against 10- and 5-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 2013-14 our 30-day performance was 99 per cent of invoices (*2012-13: 99 per cent*), with a 10-day performance of 93 per cent *(2012-13: 91 per cent)* and a 5-day performance of 71 per cent *(2012-13: 78 per cent)*.

At 31 March 2014 our trade payables balance (i.e. amount owing to our suppliers) was £0.2 million *(2013: £0.7 million).* Comparing this balance with the aggregate amount invoiced by suppliers in-year (£17 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 2014 our figure for 'creditor days' was 4.5 days (*2013: 8.5 days*).

Throughout 2013-14 we have reported performance against certain key targets on a regular basis to BIS through the Quarterly Data Summary (QDS). Performance against target is used to benchmark against other partner organisations, and to drive continuous improvement in HEFCE and across the BIS family as a whole. QDS measures performance across the headings of Operations, People and Procurement. HEFCE has performed well on these measures, and according to the quarter three analysis (the latest available) produced by BIS, is in the best performing quartile on Procurement (on the measure of percentage of procurement spend on consultancy and contingent labour), and is the mid-quartile range on People and Operations measures.

To help manage the Government's daily financial position, HM Treasury requires all departments and partner organisations to forecast their BACS payments for each month. To end of quarter 3 HEFCE's average variance between forecast BACS payments and actual BACS payments made was 3.47 per cent. This compares favourably with other bodies, and helps minimise the amount of funding the Government needs to borrow to cover the cost of payments.

During 2014-15 we will continue to monitor our performance against such measures and will use benchmark information to drive continuous improvement in our financial management processes.

# Preparation of the annual report and accounts

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

The annual report and accounts were scrutinised by the Audit Committee on 28 April 2014 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2013-14. The Audit Committee is a standing committee of the HEFCE Board. It advises the Board and the Chief Executive as the Accounting Officer. The Audit Committee's chair is appointed by the Board, and members who have no executive responsibility for management of HEFCE or its funding activities, go through an internal appointment process and are appointed via the Appointments Committee, which are then ratified by the Board. Membership during the year was as follows:

### Chair

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

### Members

**Professor Madeleine Atkins* CBE** (to 31 December 2013) Vice-Chancellor, University of Coventry

**John Harley** Deputy Chair, University of Brighton

**Mark Robson*** (from January 2014) Head of Statistics and Regulatory Data, Bank of England and Vice-Chairman, London Metropolitan University

**Clifford Shanbury** Independent Member; Council Member of the Institute of Education, University of London

**Dr Ruth Thompson** Governor, Birkbeck College, University of London and Staffordshire University

**Frank Toop** University Secretary, City University London

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

* Audit Committee members who are also HEFCE Board members

The purpose of the Audit Committee is to advise and support the Board and the Accounting Officer by giving them independent assurance as to the effectiveness of the Council's internal control, corporate governance and risk management. In particular, the Audit

the adequacy of internal control. Consistent with HEFCE's responsibilities in the higher education sector, this remit extends to assurance to the Board about internal control, corporate governance and risk management by institutions and related bodies receiving funding from HEFCE ('funded institutions').

The duties of the Audit Committee are to:

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

- The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
- The planned activity of internal and external audit designed to (inter alia) assess the systems operated by HEFCE and higher education institutions to achieve effective corporate governance, risk management and internal control.
- The annual results of internal and external audit activity, in HEFCE and in the higher education sector.
- The adequacy of HEFCE management and institutional responses to issues identified by audit activity.
- Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector.

2. On the basis of the above consideration, advise the HEFCE Board and the Accounting Officer on:

- The effectiveness of risk management in HEFCE and in the higher education sector.
- The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
- The scope and effectiveness of the work carried out by HEFCE's Assurance Service. This will include planning, operation and follow-up work, and the Assurance Service annual report.
- The criteria for the selection and appointment of HEFCE's internal audit service, including assessing the adequacy of the resources available for the work required.
- Any reports from the National Audit Office and the BIS Audit Service, including the response to any management letters.
- The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
- The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

The full terms of reference for the Audit Committee can be found on our web-site at www.hefce.ac.uk/about/staff/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 2013-14 is £62,500 (2012-13: £59,000). There was no other work for which a fee was payable.

## Going concern

The statement of financial position at 31 March 2014 shows net liabilities of £145 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 HEFCE's sponsoring department, BIS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need. Recurrent and capital resources for 2013-14, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in BIS' estimates for that year, which have been

future parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on the 'going-concern' basis.

Professor Madeleine Atkins
Chief Executive and Accounting Officer
Higher Education Funding Council for England
2 May 2014

# Remuneration report

Part one (unaudited)

## Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2013-14 were:

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

**Professor Dame Shirley Pearce** HEFCE Board member

**Sara Weller** HEFCE Board member

The Chief Executive normally attends meetings.

The terms of reference for the Remuneration Committee are to:

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

These terms of reference were reviewed in May 2011.

## Remuneration arrangements

The Chief Executive's salary and non-consolidated performance pay are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the 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, subject to a cap of £17,500), relates to achievement of the Chief Executive's agreed objectives and is paid in the following financial year. Non-consolidated performance pay for all staff is limited to 4 per cent of the total pay bill.

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

The Remuneration Committee reviews the basic salary and performance pay for each post holder, taking account of advice from the Chief Executive based on:

- job size, as measured by HEFCE's job evaluation system
- market pay, and pay movement data gathered from comprehensive reviews covering the wider economy, the 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.

## Contracts

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Business, Innovation and Skills. Professor Madeleine Atkins CBE was appointed for a five year term which began in January 2014 and her contract stipulates a six month notice period. Contracts for directors are open-ended and their notice period is six months.

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

Sir Alan Langlands HEFCE's previous Chief Executive, left the organisation on 30 September 2013 to take up the post of Vice-Chancellor at the University of Leeds with effect from 1 October 2013.

Steve Egan, HEFCE's current Deputy Chief Executive, acted as Interim Chief Executive during the period 1 October to 31 December 2013.

## Membership of the Board

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

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

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

Part two (audited)

## HEFCE Chair

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

The total salary for **Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2014, was £47,350 *(2012-13: £47,350)*.

As agreed by BIS and the Secretary of State for Innovation, Universities and Skills, Tim

## HEFCE Chief Executive

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

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

**Chief Executive's remuneration for the year ended 31 March 2014**

| Name | Period in office | Salary paid in year | | Taxable benefits | | Employer's pension contributions | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | **2013-14 £** | 2012-13 £ | **2013-14 £** | 2012-13 £ | **2013-14 £** | 2012-13 £ | **2013-14 £** | 2012-13 £ |
| Sir Alan Langlands | 1 Apr 2013 to 30 Sep 2013 | **119,493** | 230,000 | **6,285** | 8,386 | **2,875** | 5,813 | **128,653** | 244,199 |
| Steve Egan | 1 Oct 2013 to 31 Dec 2013 | **49,788** | - | **-** | - | **7,509** | - | **57,297** | - |
| Professor Madeleine Atkins | 1 Jan 2014 to 31 Mar 2014 | **57,500** | - | **2,384** | - | **1,438** | - | **61,322** | - |
| Total in year | | **226,781** | 230,000 | **8,669** | 8,386 | **19,584** | 5,813 | **247,272** | 244,199 |

**Taxable benefits**

Taxable benefits in kind paid in 2013-14 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**

Sir Alan Langlands and Professor Madeleine Atkins are members of the Universities Superannuation Scheme.

Steve Egan is a member of the Civil Service Pension Scheme.

# HEFCE Board

| Board members’ remuneration | | |
|---|---|---|
| | **Year ended 31 March 2014 £** | Year ended 31 March 2013 £ |
| Professor Madeleine Atkins CBE* (to Dec 2013) | **3,753** | 5,000 |
| Apurv Bagri (from March 2014) | **417** | 0 |
| Alastair Balls CB* (to November 2012) | **0** | 3,333 |
| Rob Douglas CBE (to July 2013) | **1,251** | 5,000 |
| Professor Ruth Farwell | **5,000** | 5,000 |
| Professor Sir Malcolm Grant* | **5,000** | 5,000 |
| Professor Anne Greenough* | **5,000** | 5,000 |
| Peter Houillon (from February 2014) | **833** | 0 |
| René Olivieri* (to February 2014) | **4,587** | 5,000 |
| Graeme Osborn (from October 2013) | **2,502** | 0 |
| Professor Dame Shirley Pearce* | **5,000** | 5,000 |
| Mark Robson | **5,000** | 3,750 |
| Hugh Ross | **5,000** | 5,000 |
| Anil Ruia OBE | **5,000** | 5,000 |
| Dr Suzy Walton | **5,000** | 1,666 |
| Sara Weller | **5,000** | 5,000 |
| John Widdowson CBE* | **5,000** | 5,000 |
| | **63,343** | 63,749 |

All Board members are eligible to receive an annual honorarium of £5,000. The honorarium is not pensionable. From 2012-13 onwards all members are paid the honorarium direct to

direct to a registered charity. These members are indicated by * in the above table.

## Senior employees

| Single total figure of remuneration | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Officials | Salary (£'000) | | Bonus payments (£'000) | | Benefits in kind (to nearest £100) | | Pension benefits (to nearest £1000) | | Total (£'000) | |
| | **2013-14** | 2012-13 | **2013-14** | 2012-13 | **2013-14** | 2012-13 | **2013-14** | 2012-13 | **2013-14** | 2012-13 |
| **Professor Madeleine Atkins CBE,** [a] Chief Executive (from 1 Jan 2014) | **55-60** | - | **-** | - | **2,400** | - | **0** | - | **55-60** | - |
| **Sir Alan Langlands,** [b] Chief Executive (to 30 Sept 2013) | **115-120** | 230-235 | **-** | - | **6,300** | 8,400 | **0** | 0 | **125-130** | 235-240 |
| **Steve Egan**, [c] Interim Chief Executive (1 Oct to 31 Dec 2013) | **45-50** | - | **-** | - | **-** | - | **-** | - | **45-50** | - |
| **Steve Egan**, [d] Deputy Chief Executive and Director – Finance and Corporate Resources | **90-95** | 120-125 | **10-15** | 10-15 | **-** | - | **48,000** | 116,000 | **150-155** | 250-255 |
| **Heather Fry**, Director – Education, Participation and Students | **100-105** | 100-105 | **10-15** | 5-10 | **-** | - | **16,000** | 39,000 | **130-135** | 150-155 |
| **David Sweeney**, Director – Research, Innovation & Skills | **115-120** | 110-115 | **10-15** | 5-10 | **-** | - | **43,000** | 7,000 | **170-175** | 130-135 |

**Salary**

a From 1 January 2014; full year salary £230,000-235,000.

b For the period to 30 September 2013; full year salary £230,000-235,000.

c For the period 1 October to 31 December 2013; full year salary £200,000-£205,000.

d For the period 1 April to 30 September 2013 and 1 January to 31 March 2014; full year salary £125,000-£130,000.

**Non-consolidated performance pay**

Sir Alan Langlands requested that no non-consolidated performance pay was paid to him during his time as Chief Executive.

Any non-consolidated performance pay received by Steve Egan during 2013-14 relates to his time as Deputy Chief Executive and Director of Finance and Corporate Resources.

Professor Madeleine Atkins did not receive any non-consolidated performance pay during 2013-14 as she joined after the assessment period.

The remuneration shown in the table above 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 2013-14, apart from the Chief Executive as stated above. There were no exit packages paid to senior HEFCE employees in the financial year 2013-14.

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 in HEFCE in the financial year 2013-14 was £230-235,000 (2012-13, £230-235,000). This was 6.8 times (2012-13, 6.9) the

In 2013-14 no (*2012-13; 0*) employees received remuneration in excess of the highest paid director. Remuneration ranged from £15,000 to £139,000 (*2012-13, £15,000 to £136,000*).

**Senior employees' pensions**

| | **Accrued pension at pension age as at 31 March 2014 and related lump sum £000** | Real increase in pension and related lump sum at pension age £000 | **CETV at 31 March 2014 £000** | CETV at 31 March 2013* or start date £000 | Real increase in CETV £000 |
|---|---|---|---|---|---|
| **Professor Madeleine Atkins**[1], Chief Executive | | | | | |
| Pension | **85-90** | (0-2.5) | **2,277** | 2,253 | 20 |
| Lump sum | **265-270** | (0-2.5) | | | |
| **Steve Egan**[2], Deputy Chief Executive and Director – Finance and Corporate Resources | | | | | |
| Pension | **60-65** | 0-2.5 | **1,291** | 1,173 | 42 |
| Lump sum | **185-190** | 5-7.5 | | | |
| **Heather Fry**[1], Director – Education, Participation and Students | | | | | |
| Pension | **40-45** | 0-2.5 | **1,033** | 993 | 16 |
| Lump sum | **120-125** | 2.5-5 | | | |
| **David Sweeney**[1], Director – Research Innovation and Skills | | | | | |
| Pension | **60-65** | 0-2.5 | **1,599** | 1,499 | 68 |
| Lump sum | **185-190** | 5-7.5 | | | |

[1] Madeleine Atkins, Heather Fry and David Sweeney are members of the Universities Superannuation Scheme.

[2] Steve Egan is a member of the civil service pension scheme (classic).

## Universities Superannuation Scheme

Certain staff 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 6.35 per cent of pensionable earnings. The rate of employers' contributions is 16 per cent. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

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

## Civil service pensions

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

Employee contributions are salary-related and range between 1.5 per cent and 6.25 per cent of pensionable earnings for **classic** and 3.5 per cent and 8.25 per cent for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. 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. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3 per cent of pensionable salary 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**, and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the web-site www.civilservice.gov.uk/pensions.

## Cash Equivalent Transfer Value

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

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

## Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, 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

# Statement of HEFCE’s and the Chief Executive’s responsibilities

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

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

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

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

# HEFCE Governance Statement 2013-14

## Scope of responsibility

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

## Governance Framework

### The HEFCE Board

The HEFCE Board comprises 12-15 members appointed by the Secretary of State for Business Innovation and Skills in accordance with the requirements of the Further and Higher Education Act 1992. In April 2013, the Secretary of State reappointed Tim Melville Ross as Chair of HEFCE for a further three years until 31 December 2016. The Council's Deputy Chief Executive, Steve Egan, was appointed to the Board for the period 1 October to 31 December 2013 while he acted as Interim Chief Executive. This followed the departure of the former Chief Executive, Sir Alan Langlands, who took up the post of Vice Chancellor of the University of Leeds, and preceded my appointment as Chief Executive with effect from 1 January 2014. The Board is supported by Audit, Remuneration and Appointments Committees, as well as strategic advisory committees covering areas of higher education policy which are important to HEFCE's remit. While our committee structure has served us well, we will keep it under review to ensure it remains aligned to our evolving role. Attendance at Board and Committee meetings is consistently high; the Board and Audit Committee attendance for the year was 87 per cent and 90 per cent respectively. The Board has an independent procedure for hearing complaints against decisions of the Chief Executive, the Complaints Panel. The Panel met once in 2013-14; the issues arising have not yet been concluded. Further details about our committees and other corporate governance information are available at www.hefce.ac.uk/about/staff/.

### HEFCE's relationship with BIS

The formal relationship between HEFCE and BIS is described in a framework document. It sets out the terms and conditions subject to which HEFCE will use the grants made available by Parliament for the higher education sector. It includes a description of my responsibilities as HEFCE Accounting Officer, as well as the responsibilities of the HEFCE Board and its Chair. It may be found on our web-site at: www.hefce.ac.uk/about/intro/wip/ourrelationshiptogovernment/.

We have regular interaction with BIS, including through the Joint Accountability Group (JAG) which specifically reviews HEFCE performance. We have agreed with BIS a number of key performance targets with intermediate milestones for HEFCE, which are discussed at quarterly JAG meetings as necessary. The BIS grant letter to HEFCE of 10 February 2014 confirmed government funding for HEFCE and for higher education for 2014-15, the third year of the new financial arrangements for higher education in England. It also sets out indicative allocations for financial year 2015-16. The settlement will mean reductions in HEFCE funding for higher education institutions in 2014-15 and again in 2015-16 beyond those accounted for by the switch to publicly funded tuition fees. In exercising its discretion in the allocation of funding, HEFCE has sought, as far as possible, to address Government priorities including the protection of high cost subjects (including STEM), widening participation and small and specialist institutions.

## Governance practice

The Council continues to seek out and adopt good governance practices. The Board has carried out an annual effectiveness review, comprising an appraisal of the Board in early 2014 by the Chair through discussions with members, a review of the Chair's performance by the Deputy Chair, a review of governance risks observed by the Head of Internal Audit and benchmarking of our governance practice against both the FRC Code and the Government's Corporate Governance Code. We are compliant with both codes to the extent they are relevant to HEFCE as a non-departmental public body. The Board discussed its effectiveness at its annual strategy and planning day in March 2014. Overall, the Board was content with its effectiveness and governance practices. In particular, the Chair's appraisal described the Board as receiving excellent support from the executive in the form of high quality papers and presentations. The most significant issue arising concerned the need to devote more time and a different approach to meetings to address the considerable changes confronting the HE sector at present.

## The Audit Committee

The Audit Committee's remit includes both HEFCE itself and HEFCE's assurance work with the higher education (HE) sector. The Committee has seven members, three of whom are Board members. The Chair is an independent (non-HE sector) member of the Board. The Committee meets four times a year in the presence of the internal and external auditors. The Committee discussed HEFCE's approach to strategic risk management and reporting at each meeting, including through consideration of detailed reports on individual risks. During 2013-14, the Committee agreed to strengthen the work it carries out in this area with the Board. This included taking a greater role in the identification of risk.

The Committee is provided with an annual summary of progress and issues arising with our information security obligations, particularly those connected to the Government's Security Policy Framework. In 2013-14, there were no incidents or losses of data that required a report to the Information Commissioner's Office.

The Chair presents a report to the Board after each meeting and minutes of each meeting are available to Board members. In 2013-14, the Committee carried out a review of its own effectiveness in a closed session discussion, through benchmarking against the Treasury Audit and Risk Committee Handbook and as part of its preparation of its annual report. The benchmarking review demonstrated a high degree of compliance with the Handbook's principles and good practice, with no significant issues arising. The Committee's annual report incorporates its opinion on governance, internal control and risk management and is shown below in full.

**HEFCE Audit Committee opinion to the Board 2013-14**

Having taken account of:

- Our work throughout the year
- Assurances received through the Committee's discussions on the process for managing and reviewing the Council's strategic risks
- Assurances provided by management on matters of risk and control generally
- The formal opinions of the Head of Internal Audit on:
  - the effectiveness of the Council's framework for corporate governance, internal control and risk management;
  - the governance statement; and
  - value for money
- The formal opinions of the Head of Assurance on the sector's institutions and related bodies, including on value for money in the HE sector
- The report on our work as the principal regulator of exempt charity higher education institutions
- The formal opinion on the accounts and the management report of the external auditors following the audit of the accounts

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

We are satisfied that, at the present time, the Council also has appropriate arrangements in place for oversight of institutional risk and regularity in the higher education sector, including risk management, internal control, corporate governance and value for money in the organisations we fund. However, we recognise that the environment in which HEFCE operates continues to remain uncertain and that the Council is continuing to adapt aspects of its business to respond to a more complex system of higher education funding. This creates pressure on resources and we continue to monitor any possible effect on the Council's ability to carry out its existing and new remits effectively. We highlight the risks and challenges faced by the Council arising from its work to support BIS in connection with the HE reforms, in particular those risks associated with alternative providers of higher education.

We are satisfied that the accounts can be relied upon, that the Accounting Officer is entitled to rely on the assurances she has received from Internal Audit and Assurance, that the Governance Statement meets government requirements and that we recommend approval by the Board of the 2013-14 accounts.

## The Teaching, Quality and Student Experience Strategic Advisory Committee

The Teaching, Quality and the Student Experience Committee (TQSE) is the Council's "Quality Assurance Committee" for the purposes of complying with section 70 of the Further and Higher Education Act 1992. In this role, the Committee provides an annual statement to the Board on the Council's work in meeting its statutory obligation to ensure that provision is made to assess the quality of education in funded institutions. HEFCE contracts with the Quality Assurance Agency for Higher Education (QAA) for this purpose. A summary of the statement is provided below:

> **Summary statement of the Teaching, Quality and Student Experience Committee**
>
> The Quality Assurance System operated satisfactorily for the financial year 2013-14.
>
> The QAA delivered its contractual outputs for the financial year 2013-14 in the HEFCE-funded sector.
>
> The relationship between HEFCE and the QAA remains professional and robust.
>
> Overall, HEFCE has satisfactorily met its statutory obligation to ensure that provision has been made to assess the quality of education in institutions funded by HEFCE.

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

Under the Charities Act 2011, HEFCE is the principal regulator of all the higher education institutions in England that are exempt charities. We have agreed a Memorandum of Understanding with the Charity Commission to assist us in meeting our obligations and we report to them annually on our work. We have continued to exercise our statutory duty to 'promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity'. For example, we monitor compliance with charity-related information disclosure requirements, follow-up reported 'serious incidents' as appropriate, provide advice to the HE sector on issues connected to their charitable obligations and, if necessary, pursue charity-related public interest disclosures and other issues. There were no significant issues arising in 2013-14 requiring regulatory intervention from either HEFCE or the Charity Commission in respect of our principal regulator obligations.

## Working with other organisations

We work in partnership with many other organisations to help us deliver our objectives. The Chairs of HEFCE and the Student Loans Company co-chair a 'Regulatory Partnership Group' for this purpose. This group enables a number of national agencies, including sector bodies and the National Union of Students, to discuss issues of common interest, so enabling us all to provide advice to Government on the development of its policies for higher education. During 2013-14, this group published the 'Operating framework for higher education in England', which explains how higher education providers are held to account and regulated. For further information, see [www.hefce.ac.uk/about/intro/wip/rpg/](www.hefce.ac.uk/about/intro/wip/rpg/).

We also work with organisations that we describe as ‘related bodies’. At the year-end these were QAA, the Equality Challenge Unit, Jisc, the Leadership Foundation for Higher Education, the Higher Education Statistics Agency and the Higher Education Academy. The activities of each related body in some way contribute to the achievement of our objectives. Accountability for our funding is secured through the operation of our Related Bodies Corporate Framework, and specific accountability arrangements will normally be described in a funding agreement, a service-level agreement or a memorandum of understanding. The funding arrangements for such bodies are subject to regular review. Following the transfer of the former Joint Information Systems Committee to a separate company (Jisc) in 2012, we transferred the funding of the British Universities Film and Video Council to Jisc with effect from 1 August 2013. For further information on our related bodies, see www.hefce.ac.uk/about/intro/wip/partners/relatedbodies/.

# The risk and control framework

HEFCE operates a system of internal control that is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council’s policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. In the context of our changing risk environment as discussed further below, the system of internal control has been in place in the Council throughout the year ended 31 March 2014 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

## Approach to risk management

The Council’s long-standing approach to risk management is set out in an Assurance Framework, which is an element in our overall Accountability Framework. The Framework explains HEFCE’s risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in HEFCE’s strategic and operational planning processes. The Framework is under review in light of the changes we have made and are making to our risk management system.

## Strategic risk management

The risk register comprises eleven high-level strategic risks. In view of our role as a funder and regulator of HE in England, these risks deal with systemic issues facing the HE sector, the objectives described in our strategic statement and business plan, and the specific risks facing HEFCE as an organisation. While all of our risks have internal and external facing elements, the risks with a primarily external focus cover risk in the areas of: student support; the collective student interest; the reputation of HE; investment in HE; institutional sustainability; regulatory partnership; economic and social impact of HE; and the changing environment in which we work. In all of these areas, we rely on the contributions of other stakeholders alongside our own contribution to manage the risk effectively. The risks with a primarily internal focus cover risk in the areas of: HEFCE operations; HEFCE acting as a regulator and our relationships with key partners and stakeholders. Our strategic risk

register is available at:
www.hefce.ac.uk/about/standards/howweareaccountableforthefundsweadminister/riskman/.

The assessments of our strategic risks are based on an in-depth exploration of relevant issues, and rely on contributions from across the organisation, including consideration by senior officers at HEFCE Executive meetings. The Audit Committee also provides advice on the identification of risk and the design of our risk assessment, monitoring and reporting processes. These processes and the assessments they produce can expect to remain subject to further development during 2014-15, including the incorporation of more quantitative indicators in due course. We will keep our risk register under review in 2014/15 to ensure that we continue to recognise and focus on the most appropriate risks for us as an organisation in the light of the development of a new corporate plan.

## Operational risk management

HEFCE also has many operational risk assessments in place that support the strategic risk management process. In five key areas of our business (finance, governance, information technology, human resources and analytical services), we have adopted the 'control risk self assessment' approach to risk management, whereby the operational risk assessments are subject to a formal process of review at least once each year, which provides assurance to management or the Board. Independent assurance on the quality of these assessment processes is regularly obtained from internal audit. We audit part of our risk management system every year. This approach will also come under review in 2014/15 as we develop a new corporate plan for the period from 2015 to 2020.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks I am supported in this process by my Deputy Chief Executive, directors and senior management team. My review is also informed by the work of the internal auditors and the executive managers within HEFCE who have responsibility for the development and maintenance of the control framework in their areas of responsibility, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, including on any action taken to address weaknesses and ensure continuous improvement of the system. As I have only been in post since 1 January 2014, I have also taken account of the interim reviews of effectiveness carried out by my predecessors as Chief Executive, Sir Alan Langlands and Steve Egan, during the year. The handover process also included discussions with my predecessors about the key issues and risks facing HEFCE at present.

## Accountability framework

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. It must also take into account the funds provided by the Council which are transmitted to legally independent and autonomous higher and further education institutions and related bodies for education, research and associated purposes. The Council's accountability framework therefore needs to encompass our internal operational and financial controls, and our controls in relation to higher and further education institutions and related bodies.

The accountability framework consists of policies, procedures, monitoring and approaches to communication, which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. In particular, all institutions and related bodies funded by the Council are required to comply with a financial memorandum or other form of agreement. These documents are designed to help us secure accountability and regularity for the public funds provided to them, partly by requiring various accountability returns to be provided to us for review, including the annual accounts. Reviewing this information forms part of our work to ensure the protection of the public investment in institutions and other organisations, which includes seeking assurance that the public funds provided to them have been used for the purposes for which they were intended.

During the year, we consulted on proposed changes to the financial memorandum we have in place with HE institutions. There was a particular emphasis on responding to the HE reforms, particularly as the quantum of our funding for higher education teaching is reducing in response to the introduction of higher tuition fees. The terms and conditions we can currently place on the grants we provide to institutions will remain effective for at least the next year, but have been at risk of diminishing in their effectiveness thereafter, particularly for some institutions with specific characteristics. To reduce the risks in this area, for the three years beginning 2014/15, an agreement on institutional designation is being put in place with the support of BIS, HEFCE and the sector's representative bodies. This will provide accountability for the public investment in student support funds for institutions granted automatic course designation, which in turn allows access to the student support system for those institutions' students. This ensures that the rebalancing of funding from grants to tuition fees does not diminish the effectiveness of the current regulatory regime, which provides confidence to students and the public. In consulting on the financial memorandum, we were also mindful of the need to adapt our approach to the approval of borrowing by HE institutions that is currently in place, in view of changes in how banks lend funds to institutions. The revised financial memorandum, to be known in future as the Memorandum of Assurance and Accountability, will take effect from 1 August 2014.

Our internal control system is also subject to regular review and monitoring by the Deputy Chief Executive and directors, who are responsible for the management and oversight of most of the strategic risks. The documented assurance I receive about the management of these risks is substantially derived from the risk reports to the Board, as well as through the Audit Committee's advice on the associated risk management processes. As well as the annual reports from the Head of Assurance (which incorporates a report on our role as a charity principal regulator) and the Head of Internal Audit, I also receive an annual opinion from the Audit Committee on our internal control framework and from the Teaching, Quality, and the Student Experience Committee on our statutory obligation connected to teaching quality. In addition, I exchange letters with the Skills Funding Agency each year in order to obtain assurance about the regularity of the use of HEFCE funds by further education colleges.

During the year, our control systems have identified a small number of issues that required specific actions to manage the associated risks. We report all significant issues to the Audit

Committee. I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on its implications. Where issues have arisen, action has been taken or is planned.

There were no significant weaknesses in our internal controls in 2013-14 that warrant disclosure here. If the Government makes changes to our remit in response to the HE reforms, further changes in the design and operation of our internal control system are likely to prove necessary.

## Significant issues and developments arising in the year

The most significant other issues and developments arising during 2013-14 are as follows:

### Issues connected to the HE reforms

i. HEFCE continues to discuss with the Government how best to implement its various policy proposals for HEFCE and the HE sector. This includes responding to the introduction of higher tuition fees and related changes to higher education funding, which began to take effect in earnest in 2012-13 and will continue to affect HEFCE for several years to come. In December 2013, we provided the Secretary of State with a confidential additional assessment of how the new funding arrangements are affecting students and institutions and plan to publish more information in the coming months. The key messages from these assessments are connected with student recruitment in 2013-14 (including the impact of the student number control – see below), the institutional response to the reforms, the financial consequences for the government and institutions, and the impact on various aspects of the public interest in higher education.

ii. In July 2013, the Minister for Universities and Science made a ministerial statement on how the regulation of higher education needed to be adjusted in response to the reforms, to ensure it maintains accountability for public funding, protects the collective student interest, gives priority to quality improvement, safeguards institutional autonomy, and sustains the reputation of English higher education (see www.hefce.ac.uk/news/newsarchive/2013/news82681.html). The Government has placed HEFCE in an oversight and co-ordination role, working with a range of regulatory partners to deliver an effective system of regulation. The current regulatory system for traditional providers of HE was described in the Operating Framework for Higher Education in England, which was published in July 2013 (see www.hefce.ac.uk/about/intro/wip/rpg/of/). This framework will now evolve in response to the Government's request. As part of this, HEFCE is in the process of developing a register of HE provision covering traditional and alternative providers, which will provide useful information to prospective students.

iii. One of the key risks facing HEFCE in recent years has concerned the control of student numbers, as over-recruitment by HE institutions and other providers of higher education can have consequences for other areas of funding. Recruitment for 2013-14 has returned to the level of 2010-11. The recruitment ambitions of individual institutions is, however, quite variable; we will continue to monitor recruitment performance and the impact of this for the benefit of students. Following the Chancellor's Autumn Statement announcement of a relaxation of student number controls for 2014-15 and beyond, the risks attached to recruitment are in the process of change.

## Other external factors

iv. In October 2013, the Office of Fair Trading (OFT) launched a call for information on the provision of undergraduate higher education in England. The OFT sought to understand if universities are able to compete effectively and respond to students' expectations and if students are able to make well-informed choices of where and what to study, as this helps to drive competition and supports students in acquiring the skills and knowledge necessary for themselves and the wider economy. HEFCE itself provided a response to the call for information and has supported the OFT in its work. The OFT reported on the outcomes of their work in March 2014, highlighting a number of issues for further consideration by its successor body, the Competition and Markets Authority (CMA). HEFCE plans to work with the CMA in addressing these issues.

## Internal factors and HEFCE operations

v. HEFCE's capacity and capability to continue to perform as an effective organisation which meets the expectations of its stakeholders and the Government's requirements to co-ordinate and provide oversight over the HE regulatory system remains dependent on the resources made available to us from BIS. We are also constrained by the legislative framework in which we operate at present. Primary legislation is required to enable necessary regulatory reforms to address the risks and challenges of the current system. We are in discussions with BIS about what reforms can be taken forward short of legislation, while maintaining that legislation is required in the long term.

vi. Following the Government's decision to fund teaching at English HE providers through increased tuition fees for students with effect from autumn 2012, HEFCE's allocation of teaching grant to institutions is being reduced. This has necessitated a considerable amount of work on the development of our approach to funding for learning and teaching, and the operation of student number controls. In May 2013 we consulted on our approach to student number controls for 2014-15 and beyond. In implementing a new system, we have the following key objectives: investing to ensure a high-quality student experience; supporting institutions in adjusting to the new environment; and minimising the administrative burden placed on institutions, while focusing on Government priorities. Further information may be found at: www.hefce.ac.uk/whatwedo/lt/.

vii. The majority of HEFCE's £1.6bn of research funding is distributed on the basis of research quality, taking into account the volume and relative cost of research in different areas. Research quality is periodically assessed on a UK-wide basis. The current exercise, which HEFCE manages, is the Research Excellence Framework (REF: www.ref.ac.uk/). It is due for completion in late 2014 and will inform our research funding from 2015-16 onwards. The outcomes of previous exercises have been of significant interest to the HE community within the UK and beyond. A major milestone was reached in November 2013, when all 155 institutions intending to participate in the REF successfully made their submissions by the deadline set (see www.hefce.ac.uk/news/newsarchive/2013/news85247.html).

viii. Following the consultation on our Financial Memorandum with institutions, we are introducing a mandatory subscription to Jisc (www.jisc.ac.uk) for the next three years.

ix. More than 99 per cent of the grant-in-aid received from BIS is passed on as grants to HE institutions and other organisations. Most of this is distributed by formulae based on activity levels, cost and (in some areas) performance. We have a range of mechanisms in place to secure accountability for this funding, which includes governance, financial health and risk assessments of funded organisations. Our Board and Audit Committee regularly receive reports on these assessments, for which we operate an institutional risk system. Using this system, we assess and monitor the overall risk profile of each funded organisation. Where an organisation experiences difficulty, we implement our support strategy. The system regularly evolves in response to the changing risk environment. A small number of institutions face risks to their short to medium term financial sustainability. The forthcoming reductions in funding, changes to student number controls and continuing pressures to reduce costs mean that we can expect there to be a greater variation in individual institutional financial performance in future. While our resources to manage this work were previously sufficient, the new fees and funding regime presented a range of uncertainties and additional work that required us to keep the levels of resource for this work under regular review. This has led to an agreement with BIS to increase the resources we apply to this work, particularly in relation to alternative providers of HE. Further details about how our institutional risk system and assurance mechanisms work may be found on our web-site at www.hefce.ac.uk/whatwedo/reg/assurance/.

x. We have continued to provide advice to the Secretary of State on the strategic and operational issues arising from the development of the funding and regulatory arrangements for higher education in England. This includes advice on issues connected to alternative providers of higher education seeking university title and for the designation of courses at alternative providers who wish their students to access the publicly supported grants and loans system. We have been administering the application process on behalf of BIS, working with the SLC, QAA and others as necessary. HEFCE's role in the new designation system is legally confined to processing and providing analysis of applications from alternative providers for specific-course designation. Under current legislation, we do not have regulatory oversight of alternative providers, and we are not empowered to make decisions on applications. These responsibilities lie with Government. The Department for Business, Innovation and Skills (BIS) sets the criteria for designation and, referring to HEFCE's analysis among other sources, decides whether or not an alternative provider's course should be designated or de-designated.

xi. We fully support the Government's work to minimise fraud risk and fraud itself. The Council has this year established a 'Counter-fraud group' to co-ordinate our work in this area. We have experienced no frauds internal to HEFCE in the year. We require organisations we fund to advise us of adverse events, serious incidents and significant frauds. We received 23 such notifications during the year. There is no common theme; they include supplier payment frauds, supplier insolvency, staff-related frauds and student-related frauds. Losses arose in some cases and there was full recovery in others. In no case did the incident reported result in a change to an institution's funding. We work with the organisations affected to manage any issues arising and provide lessons learned advice to the sector as a whole when we consider this will be of value.

xii. HEFCE seeks value for money (VFM) through all of its activities. The Head of Internal Audit provides an annual opinion on VFM within HEFCE in his annual report. We review the annual audit committee reports of funded HE institutions, which are required to incorporate a statement on VFM. The Head of Assurance reports on this in his annual report.

xiii. We successfully moved our London meeting base in 2013, opening a new office, Finlaison House, on 2 April 2013. This reduced our annual operating costs in London by a third and allowed us to share this facility with the Student Loans Company. In addition, releasing the commercial commitment on the Centre Point office and utilising space in the existing Government estate creates an annual saving of £367,000 to the Exchequer. The lease on our current Bristol head office expires in 2015 and plans are under way to move to a nearby office that forms part of the government estate in 2015. This will achieve further savings through more efficient space utilisation.

xiv. During the year, we introduced a new financial dashboard to report regularly to the Board on our financial position. CIPFA benchmarked HEFCE's financial management practice this year, placing HEFCE among the top performers of all the organisations it has reviewed.

xv. We hold the Carbon Trust Standard and ISO27001, the information security standard (for our IT team). We are awaiting re-certification for ISO14001, the environmental system standard and OHSAS18001, the health & safety standard. During 2013-14, we participated in the NUS Green Impact scheme, which encourages pro-environmental behaviours within the workplace. We are 'Investors in People' accredited and, based on an October 2013 staff survey, HEFCE was awarded 62nd place in The Sunday Times 100 Best Not For Profit Organisations to work for.

## Additional BIS requirements

We are required by BIS to comment on the following issues in this statement:

i. We continue to maintain and report on our information security and assurance arrangements that meet the requirements of the Security Policy Framework. Progress with this work is also reported to our Audit Committee annually. We have experienced no reportable losses of personal data in this period.

ii. We continue to support the Government's 'Transparency Agenda', which seeks to make more government data available and accessible to the public. We already publish a great deal of information on our web-site, particularly in our data section at www.hefce.ac.uk/data/. The structural and expenditure data is available at www.hefce.ac.uk/about/howweoperate/transparencydata/. This year we have added more datasets to the data.gov.uk web-site: at http://data.gov.uk/publisher/higher-education-funding-council-for-england. For the benefit of current and prospective students, we have published the outcomes of the National Student Survey for many years. Following publication in 2012 of the 'Key Information Set' on the Unistats web-site at http://unistats.direct.gov.uk/find-out-more/key-information-set, we have conducted an early review and made several enhancements to better meet the information needs of prospective students and their advisors. We make the full dataset freely available for third party re-use via HESA in addition to the main datasets on higher education which have been available from HESA since 1994.

iii. I confirm that all relevant payments made to Board members, senior staff and other people paid on an individual basis are made through the payroll, where they are subject to tax in the normal way.

iv. I confirm that the Deputy Chief Executive (who is Director of Finance and Corporate Resources) has overseen and approved a process that reviews the monthly data sets of accounts payable transactions before they are made publicly available.

v. HEFCE operates a suite of business critical funding models for calculating the amounts of grant to allocate to higher education institutions and for calculating student number controls. During the year, the Council assessed these models against the relevant BIS quality assurance framework and reported on the outcome of this work to the Audit Committee in September 2013. BIS assessed the risk of significant error in our modelling of recurrent grants and student number controls to be very low.

vi. HEFCE is a shareholder in the BIS-sponsored shared services organisation 'UK Shared Business Services Ltd (UK SBS)'. The Council currently uses UK SBS for some IT back-up services and is in the process of transitioning some procurement activities to UK SBS. In the future the Council will consider the benefits of using shared services to deliver other transactional services were there is a clear business case to do so.

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

I have considered the evidence provided with regards to the production of the annual Governance Statement. The conclusion of my review is that HEFCE's overall governance and internal control structures have been appropriate for HEFCE's business and that they operated satisfactorily throughout 2013-14.

Professor Madeleine Atkins
Chief Executive and Accounting Officer
Higher Education Funding Council for England
2 May 2014

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

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2014 under the Further and Higher Education Act 1992. The financial statements comprise; the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

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

## Scope of the Audit of the Financial Statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income 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.

## Opinion on Regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2014 and of the net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and Secretary of State directions issued thereunder.

## Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State for Business, Innovation and Skills under the Further and Higher Education Act 1992; and
- the information given in the sections entitled HEFCE'S structure, Financial results for 2013-14, and Preparation of the annual report and accounts and Sustainability 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

**Amyas C E Morse**

**Comptroller and Auditor General**

**8 May 2014**

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|---|
| **Expenditure** | | | |
| Grants payable to institutions and others | | | |
| Recurrent and non-recurrent grant | 3 | **4,921,897** | 5,662,434 |
| Other ring-fenced allocations | 3 | **137,851** | 90,635 |
| Changes in provision | 12 | **48,757** | 7,045 |
| | | **5,108,505** | 5,760,114 |
| Council administration costs | | | |
| Staff costs | 4 | **13,476** | 12,366 |
| Non-pay administration costs | 5 | **6,888** | 9,072 |
| Depreciation | 7 | **67** | 73 |
| Changes in provision | 12 | **0** | (14) |
| | | **20,431** | 21,497 |
| Total expenditure | | **5,128,936** | 5,781,611 |
| **Income** | 6 | **(2,832)** | (1,774) |
| **Net operating costs** | | **5,126,104** | **5,779,837** |
| **Other Comprehensive Expenditure** | | | |
| Revaluation of Property, Plant and Equipment | 7 | **3** | (1) |
| Increase of provision due to change in discount rate | 12 | **10,027** | 6,767 |
| **Net expenditure for the year transferred to general reserve** | | **5,136,134** | 5,786,603 |

All HEFCE operations are continuing.
There were no gains or losses other than the net expenditure for the year.

*The notes on pages 76 to 99 form part of these accounts.*

## Statement of Financial Position as at 31 March 2014

| | Note | As at 31 March 2014 £000 | As at 31 March 2013 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *7* | **59** | 96 |
| Recoverable grants falling due after one year | *9a* | **38,842** | 44,024 |
| Trade and other receivables due after one year | *9b* | **13,750** | 16,250 |
| | | **52,651** | 60,370 |
| **Current assets** | | | |
| Recoverable grants falling due within one year | *9a* | **14,419** | 12,623 |
| Trade and other receivables due within one year | *9b* | **17,497** | 14,182 |
| Cash and cash equivalents | *10* | **29,149** | 31,174 |
| | | **61,065** | 57,979 |
| **Total assets** | | **113,716** | 118,349 |
| **Current liabilities** | | | |
| Trade and other payables | *11* | **(1,300)** | (3,323) |
| Provisions for liabilities and charges within one year | *12* | **(27,473)** | (25,923) |
| **Non-current assets plus net current assets** | | **84,943** | 89,103 |
| **Non-current liabilities** | | | |
| Provisions for liabilities and charges after one year | *12* | **(229,897)** | (202,010) |
| **Assets less liabilities** | | **(144,954)** | (112,907) |
| **Taxpayers' equity** | | | |
| Revaluation reserve | | **4** | 7 |
| General reserve | | **(144,958)** | (112,914) |
| | | **(144,954)** | (112,907) |

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

The financial statements on pages 72 to 75 were approved by the Board on 30 April 2014 and were signed on its behalf by;

*Professor Madeleine Atkins*
*Chief Executive and Accounting Officer*
*Higher Education Funding Council for England*

*The notes on pages 76 to 99 form part of these accounts.*

## Statement of Cash Flows for the year ended 31 March 2014

| | Note | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net expenditure | | **(5,126,104)** | (5,779,837) |
| Adjustment for non-cash transactions | *7,12* | **48,824** | 7,094 |
| (Increase)/decrease in receivables | *9b* | **(815)** | 36,034 |
| (Decrease)/increase in payables | *11* | **(2,023)** | 895 |
| Use of provisions | *12* | **(29,345)** | (28,289) |
| **Net cash outflow from operating activities** | | **(5,109,463)** | (5,764,103) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | *7* | **(35)** | (121) |
| **Cash flows from financing activities** | | | |
| Grants from sponsoring department | *2* | **5,104,087** | 5,768,982 |
| Decrease/(Increase) in recoverable grants | *9a* | **3,386** | (6,378) |
| Net (decrease)/increase in cash for the year | | **(2,025)** | (1,620) |
| **Net financing** | | | |
| Cash and cash equivalents at the beginning of the period | *10* | **31,174** | 32,794 |
| Net (decrease) in cash and cash equivalents in the period | *10* | **(2,025)** | (1,620) |
| **Cash and cash equivalents at the end of the period** | | **29,149** | 31,174 |

*The notes on pages 76 to 99 form part of these accounts.*

## Statement of Changes in Taxpayers Equity for the year ended 31 March 2014

| | Note | General Reserve £000 | Revaluation Reserve £000 | **Total Reserves £000** |
|---|---|---|---|---|
| **Changes in Taxpayers' Equity 2012-13** | | | | |
| Balance as at 1 April 2012 | | (95,292) | 6 | **(95,286)** |
| Grant from sponsoring department | *2* | 5,768,982 | | **5,768,982** |
| Comprehensive expenditure for the year | | (5,786,604) | 1 | **(5,786,603)** |
| Balance as at 31 March 2013 | | (112,914) | 7 | **(112,907)** |
| **Changes in Taxpayers' Equity 2013-14** | | | | |
| Balance as at 1 April 2013 | | (112,914) | **7** | **(112,907)** |
| Grant from sponsoring department | *2* | 5,104,087 | | **5,104,087** |
| Comprehensive expenditure for the year | | (5,136,131) | **(3)** | **(5,136,134)** |
| **Balance as at 31 March 2014** | | (144,958) | **4** | **(144,954)** |

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

**Revaluation Reserve**
The revaluation reserve relates to revaluation of tangible fixed assets.

*The notes on pages 76 to 99 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 Business, Innovation and Skills, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### Accounting convention

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

### Consolidation

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

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

For the financial year ended 31 March 2014 no related bodies have been consolidated within HEFCE's accounts.

### Going concern

The statement of financial position at 31 March 2014 shows net liabilities of £145 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future funding from HEFCE's sponsoring department, the Department for Business, Innovation and Skills (BIS). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Funding for 2014-15, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'gong concern' basis.

### Financial instruments

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

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

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

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

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

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

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

### Income

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

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

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

### Leases

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

### Non current assets

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

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

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

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

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

## Payment of grants

Grants

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

The exceptions to this are;

pre-2012-13 academic year (the date the HE funding regime was changed) holdback of institutional basis grant arising from revised student numbers, where a debt arises at the point where there is sufficent 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 can be up to five years. And;

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

Recoverable grants

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

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

## Pensions

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

## Provisions for liabilities and charges

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

## Segmental reporting

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

## Staff costs and secondments

Staff on secondment normally continue to be paid by HEFCE. The reimbursement of costs for seconded staff is netted off against staff costs in note 4 of the accounts.

## Taxation

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

## IFRS issued but not effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. As at 31 March 2014 the following IFRS, none of which will be material to HEFCE's annual accounts, have been issued but are not effective:

IFRS 10 (Consolidated Financial Statements), 11 (Joint Arrangements), 12 (Disclosure of Interests in Other Entities), IAS 27 (Separate Financial Statements), IAS 28 (Investments in Associates and Joint Ventures) - effective date 1 January 2014 (EU adopted).

IFRS 13 - Fair Value Measurement (new) - effective date 1 January 2013 (EU adopted).

IAS 17 replacement - Leases - no target date for IFRS.

IAS 18 replacement - Revenue Recognition and Liabilities Recognition - effective January 2015.

IFRS 9 - Financial Instruments (new) - no mandatory effective date.

## 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 an actuarial valuation of the underlying population, and is updated periodically.
Note 12 to the accounts gives further details of the provision and our assumptions.

The other area of significant judgement is in the recognition of programme holdback as pre-paid grant. This relates to adjustments to payment of payment of grant relating to pre-2012-13 academic year funding to HEIs where student numbers fall outside a standard percentage threshold, adjustments arising from 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. Further details are given in Note 1 (Accounting Policies) and Note 9b (Trade and other receivables).

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

## 2 HM Government grants received

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Programmes** | | |
| Grant in aid for recurrent expenditure in HE | **4,597,253** | 5,409,271 |
| Grant in aid for capital expenditure in HE | **349,770** | 250,647 |
| | **4,947,023** | 5,659,918 |
| **Other ring-fenced allocations** | | |
| Grant for Access to Learning Funds | **37,447** | 36,324 |
| Grant for ITT bursaries | **117** | 0 |
| Grant for voluntary giving | **0** | 2,000 |
| Grant for National Scholarship Programme - BIS | **100,000** | 50,000 |
| | **137,564** | 88,324 |
| **Administration costs** | | |
| Grant in aid from BIS for HEFCE administration costs | **19,500** | 20,740 |
| **Total grant and grant in aid received** | **5,104,087** | 5,768,982 |

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

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

The grant letter is available on our web-site www.hefce.ac.uk under What we do/Funding and Investment.

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

## 3 Analysis of recurrent and non recurrent grant expenditure

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Recurrent grant** [a] | | |
| Learning, Teaching & Student Choice | **2,905,762** | 3,705,162 |
| Research | **1,551,265** | 1,568,951 |
| | **4,457,027** | 5,274,113 |
| **Non-recurrent grant** [b] | | |
| Learning, Teaching & Student Choice | **110,045** | 67,436 |
| Research | **252,155** | 188,720 |
| Investment | **100,237** | 130,321 |
| Partnership | **1,506** | 958 |
| Information | **927** | 886 |
| | **464,870** | 388,321 |
| Total recurrent and non-recurrent grant | **4,921,897** | 5,662,434 |
| Other ring-fenced allocations [c] | **137,851** | 90,635 |
| Total grant | **5,059,748** | 5,753,069 |

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

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

a **Recurrent grant** - the grant allocated to institutions as a block grant, analysed across teaching and research in line with the way the grant is announced.

b **Non-recurrent grant** - this is a summary of the grant expenditure on special funding programmes and earmarked capital. A detailed analysis of non-recurrent grant expenditure by strategic aim is provided at Appendix 1 to the Accounts.

c **Other ring-fenced allocations** - this relates to grant administered on behalf of the government and covers Access to Learning Funds, National Scholarship Programme and voluntary giving. HEFCE distributes this funding, which is granted by BIS for specific purposes.

## 4 Staff costs

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Staff with a permanent UK employment contract with HEFCE** | | |
| Salaries | **9,780** | 8,972 |
| National Insurance contributions | **861** | 807 |
| Pension costs | **1,875** | 1,650 |
| | **12,516** | 11,429 |
| Costs of employing contract, agency and temporary staff | **960** | 937 |
| | **13,476** | 12,366 |

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Pension costs** | | |
| Civil Service Pensions | **1,811** | 1,573 |
| Partnership pension | **15** | 26 |
| Universities Superannuation Scheme | **49** | 51 |
| | **1,875** | 1,650 |

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.

There were no exit packages paid to HEFCE staff during the financial year 2013-14 (nil: 2012-13).

The Council contributes to two pension schemes, Civil Service Pensions (PCSPS) and the Universities Superannuation Scheme (USS). The USS is a multi-employer defined pension scheme, for more information on this scheme refer to Remuneration Report page 49.

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

## Staff costs (continued)

For 2013-14, employers' contributions of £1,811,539 were payable to the PCSPS (2012-13 £1,572,920) at one of four rates in the range 16.7 to 24.3 per cent (2012-13: 16.7 to 24.3 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £14,577 (2012-13: £25,827) were paid to 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent (2012-13: 3.0 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay, and contribute a further 0.8 per cent of pensionable pay to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

4 members of staff hold a pension with USS and for 2013-14, employers' contributions of £49,036 (2012-13 £51,078) were payable at at rate of 16 per cent.

| | **Year ended 31 March 2014 FTE** | Year ended 31 March 2013 FTE |
|---|---|---|
| **Staff numbers** | | |
| Finance & Corporate Resources | **124** | 119 |
| Institutional & Policy | **97** | 88 |
| Shared Resource | **14** | 18 |
| | **235** | 225 |
| Average number of contract, agency and temporary staff | **30** | 29 |
| | **265** | 254 |

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

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

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

## 5 Other administration costs

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Non-pay administration costs** | | |
| Policy Development | **2,667** | 2,218 |
| Staff related and general administrative expenditure | **1,403** | 1,350 |
| Rental payments under other operating leases | **1,134** | 1,114 |
| Premises costs | **783** | 1,458 |
| Office costs | **684** | 589 |
| Board and committee members' fees and expenses | **105** | 127 |
| Audit fee # | **63** | 59 |
| Rental payments under plant and machinery operating leases | **49** | 42 |
| **HEFCE Administration costs** | **6,888** | 6,957 |
| | | |
| Administration costs for JISC-related activities* | **0** | 2,115 |
| **Total Administration costs** | **6,888** | 9,072 |

The analysis of expenditure shown above reflects the in-year management accounting process whereby HEFCE monitors and reports on its administration costs. Staff related and general administrative expenditure includes costs of recruitment, training and staff travel. Policy Development costs includes research and evaluation and other consultancy-related expenditure. Premises costs includes expenditure on rates, heat and light, building maintenance, equipment and furniture (including the costs of refurbishing our London offices, which took place during 2012-13). These costs do not meet the criteria for capitalisation as the refurbishment entailed painting and decorating only, there was no significant re-structure work undertaken. Office costs include IT costs, catering and room hire, telecommunications, stationery and publications.

#2013-14 audit fee includes an additional £2.5k for work on 2012-13 audit but accounted for during 2013-14 financial year. The fee for 2013-14 audit is £60k.

* Administration costs for JISC-related activities relate to staff pay costs, office costs and travel and subsistence costs for staff employed at King's College and University of Bristol. From 1 December 2012 JISC became its own separate legal entity, therefore included in the above are the costs relating to 1 April to 30 November 2012 period.

## 6 Income

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Programmes** | | |
| Income receivable from other funding councils: | | |
| Department for Employment and Learning in Northern Ireland | **78** | 54 |
| Higher Education Funding Council for Wales | **250** | 177 |
| Scottish Funding Council | **486** | 395 |
| Other programme income | **1,199** | 485 |
| | **2,013** | 1,111 |
| **Administration** | | |
| Income receivable from other funding councils: | | |
| Department for Employment and Learning in Northern Ireland | **234** | 217 |
| Higher Education Funding Council for Wales | **61** | 37 |
| Scottish Funding Council | **147** | 90 |
| Receipts from the Office for Fair Access and SLC for services provided under the service level agreement | **344** | 181 |
| Income from conferences | **21** | 20 |
| Income from other activities | **12** | 118 |
| | **819** | 663 |
| **Total income** | **2,832** | 1,774 |

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

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

## 7 Property, Plant and Equipment

| | Leasehold improvements £000 | Furniture and fittings £000 | Information Technology £000 | **Total £000** |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| **At 1 April 2013** | **10** | **18** | **200** | **228** |
| **Revaluation** | **0** | **0** | **(4)** | **(4)** |
| **Additions** | **0** | **0** | **35** | **35** |
| **Disposals** | **0** | **(18)** | **(34)** | **(52)** |
| **At 31 March 2014** | **10** | **0** | **197** | **207** |
| **Depreciation** | | | | |
| **At 1 April 2013** | **10** | **18** | **104** | **132** |
| **Charge for period** | **0** | **0** | **67** | **67** |
| **Revaluation** | **0** | **0** | **1** | **1** |
| **Disposals** | **0** | **(18)** | **(34)** | **(52)** |
| **At 31 March 2014** | **10** | **0** | **138** | **148** |
| **Net book value** | | | | |
| **At 31 March 2014** | **0** | **0** | **59** | **59** |

| | | | | |
|---|---|---|---|---|
| Cost or valuation | | | | |
| At 1 April 2012 | 16 | 18 | 105 | 139 |
| Revaluation | 0 | 0 | 1 | 1 |
| Additions | 0 | 0 | 121 | 121 |
| Disposals | (6) | 0 | (27) | (33) |
| At 31 March 2013 | 10 | 18 | 200 | 228 |
| Depreciation | | | | |
| At 1 April 2012 | 16 | 11 | 65 | 92 |
| Charge for period | 0 | 7 | 66 | 73 |
| Revaluation | 0 | 0 | 0 | 0 |
| Disposals | (6) | 0 | (27) | (33) |
| At 31 March 2013 | 10 | 18 | 104 | 132 |
| Net book value | | | | |
| At 31 March 2013 | 0 | 0 | 96 | 96 |

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

## 8 Financial Instruments

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

This could imply a financial risk to HEFCE. We have reviewed the balances of our supplier contracts for the financial year to 31 March 2014. We have found no evidence of material change in the fair value of current assets/liabilities.

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

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

## 9a Recoverable grants

| | As at 31 March 2014 £000 | As at 31 March 2013 £000 |
|---|---|---|
| **Recoverable grants** | | |
| Balances as at 1 April | **56,647** | 50,269 |
| Advanced during the year | **14,153** | 16,958 |
| Recovered during the year | **(17,539)** | (10,580) |
| Balances as at 31 March | **53,261** | 56,647 |

| | As at 31 March 2014 £000 | As at 31 March 2013 £000 |
|---|---|---|
| **Balances at 31 March** | | |
| Within one year | **14,419** | 12,623 |
| After one year | **38,842** | 44,024 |
| | **53,261** | 56,647 |

The HEFCE Board has agreed the principles for providing recoverable grants. It has been agreed with BIS that the recoverable grants be reclassified as loans.

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

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

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 2014, 17 organisations *(2013: 17)* had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £39,091,416 *(2013: £45,743,846)* .

## 9b Trade and other receivables

| | As at 31 March 2014 £000 | As at 31 March 2013 £000 |
|---|---|---|
| **Receivables due within one year** | | |
| Programme prepayments | **16,739** | 13,470 |
| Programme receivables | **258** | 254 |
| Trade prepayments | **224** | 237 |
| Trade and other receivables | **276** | 221 |
| | **17,497** | 14,182 |
| **Receivables due after one year** | | |
| Programme prepayments | **13,750** | 16,250 |
| | **31,247** | 30,432 |
| **Intra-government balances** | | |
| Other central government bodies | **440** | 372 |
| Local authorities | **0** | 0 |
| NHS Trusts | **0** | 0 |
| Public corporations and trading funds | **0** | 0 |
| Balances with other government bodies | **440** | 372 |
| Balances with non-government bodies | **30,807** | 30,060 |
| **Total as per receivables' notes** | **31,247** | 30,432 |

**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 reconciliation. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding or via other means. Discussions around data and possible recovery of grant funding happen on a continuous basis as a result of the data collection and audit programmes that run each year. Consequently, at year end, there may be continuing data audits or investigations where the outcomes, and any potential holdback, are not yet certain. Such amounts are not included within the above balances. BIS may require HEFCE to implement grant adjustments in relation to student number controls; 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 funding councils. Contributions to HEFCE's administration costs for managing and administering these initiatives are included under trade receivables.

## 10 Cash and cash equivalents

| | As at 31 March 2014 £000 | As at 31 March 2013 £000 |
|---|---|---|
| **Cash held under Government Banking Service** | | |
| Balance at 1 April 2013 | **31,173** | 32,791 |
| Net change in cash and cash equivalent balances | **(2,025)** | (1,618) |
| Balance at 31 March 2014 | **29,148** | 31,173 |
| **Cash held under commercial banks and cash in hand** | | |
| Balance at 1 April 2013 | **1** | 3 |
| Net change in cash and cash equivalent balances | **0** | (2) |
| Balance at 31 March 2014 | **1** | 1 |
| **Total cash and cash equivalents** | **29,149** | 31,174 |

The framework document between HEFCE and BIS advises a minimum working balance consistent with the efficient operation of HEFCE. HEFCE's balances relate to timing differences in the payment of expenditure committed in 2013-14 academic year.

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

## 11 Trade and other payables

| | As at 31 March 2014 £000 | As at 31 March 2013 £000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | **210** | 717 |
| Administration accruals | **512** | 486 |
| Tax and social security | **11** | 20 |
| Programme payables | **567** | 2,100 |
| | **1,300** | 3,323 |
| **Intra-government balances** | | |
| Other central government bodies | **70** | 191 |
| Local authorities | **0** | 0 |
| NHS Trusts | **0** | 0 |
| Public corporations and trading funds | **0** | 0 |
| Balances with other government bodies | **0** | 0 |
| | **70** | 191 |
| Balances with non-government bodies | **1,230** | 3,132 |
| **Total as per payables' notes** | **1,300** | 3,323 |

Trade payables refers to non-pay administration expenditure.

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

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

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

## 12 Provisions for liabilities and charges

| | Inherited staff liabilities £000 | Admin provisions £000 | **Total £000** |
|---|---|---|---|
| **Provisions** | | | |
| Balance of provision at 1 April 2012 | 241,958 | 476 | 242,434 |
| Provision utilised in year | (28,270) | (29) | (28,299) |
| Increase/(Decrease) in provision | 270 | (37) | 233 |
| Unwinding of discount | 6,775 | 13 | 6,788 |
| Change in provision due to change in discount rate | 6,767 | 10 | 6,777 |
| Balance of provision at 31 March 2013 | 227,500 | 433 | 227,933 |
| | | | |
| **Provision utilised in year** | **(29,315)** | **(30)** | **(29,345)** |
| **Increase/(Decrease) in provision** | **43,411** | **(8)** | **43,403** |
| **Unwinding of discount** | **5,346** | **8** | **5,354** |
| **Change in provision due to change in discount rate** | **10,027** | **0** | **10,027** |
| **Balance of provision at 31 March 2014** | **256,969** | **403** | **257,372** |

**Analysis of expected timing of discounted flows**

| | | | |
|---|---|---|---|
| In the remainder of the Spending Review period to 2014 | 27,442 | 31 | **27,473** |
| Between 2015 and 2020 | 110,705 | 372 | **111,077** |
| Between 2021 and 2031 | 106,002 | | **106,002** |
| Thereafter | 12,820 | | **12,820** |
| | 256,969 | 403 | **257,372** |

## 12 Provisions for liabilities and charges (continued)

HEFCE has three provisions as at 31 March 2014 (2013: three), one for inherited staff liabilities one for early retirement costs and one for dilapidation costs.
Provisions are discounted to net present value using the appropriate HM Treasury discount rate.

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

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

HEFCE has provided for these ongoing reimbursements. As the provision estimate uses various assumptions, the valuation obtained may vary from that which would be obtained if the data of all pension scheme members was made available to allow a full actuarial valuation. An independent review is undertaken periodically in order to verify the reasonableness of the provision. The latest review was carried out in 2013-14.

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

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 1.8 per cent per annum (2012-13: 2.35 per cent)
- mortality based on SAPS (CMI 2013) tables
- 73 per cent members are age 80 or over
- membership is 51 per cent male and 49 per cent female
- benefits include a 50 per cent contingent spouse's pension

Administration cost provisions
HEFCE has provided for early retirement costs relating to two members of staff (2013: two).
The balance of the provision for early retirement costs as at 31 March 2014 is £64,000 (2013: £94,000). Payments will continue until 2016.

HEFCE has also provided for the dilapidation costs for Northavon House in advance of the operating lease ending in 2015.
The balance of the provision for dilapidation costs as at 31 March 2014 is £339,000.

## 13 Commitments under leases

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Obligations under operating leases comprise:** | | |
| **Buildings** | | |
| Not later than one year | **1,147** | 1,141 |
| Later than one year and not later than five years | **1,476** | 2,624 |
| | **2,623** | 3,765 |
| **Other** | | |
| Not later than one year | **23** | 32 |
| Later than one year and not later than five years | **0** | 23 |
| | **23** | 55 |

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

HEFCE leases its office buildings in Bristol and London. The Council's lease on its offices at Northavon House in Bristol expires on 24 December 2015. The Council's lease on its offices at Finlaison House in London expires 31 March 2018.

HEFCE is currently in the process of agreeing a lease on new premises in Bristol. This is government owned property. The refurbishment of these offices will take place during the 2014-15 and 2015-16 financial years with HEFCE planning to be moved by summer or autumn 2015.

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 2014 £000** | As at 31 March 2013 £000 |
|---|---|---|
| **Commitments** | | |
| Grant committed for the period April to July | **1,380,489** | 1,776,030 |
| Grant committed for the next academic year | **3,883,000** | 4,472,000 |

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

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2014-15 academic year (HEFCE 2014/05) is available on HEFCE's web-site at www.hefce.ac.uk under Publications.

As at 31 March 2014 there were no contingent liabilities (2013: nil).

## 15 Payments to related bodies

| | Year ended 31 March 2014 £000 | Year ended 31 March 2013 £000 |
|---|---|---|
| **Related bodies** | | |
| JNT Association trading as JANET UK | | 29,119 |
| Jisc | **68,994** | 24,877 |
| JISC Services Management Company, trading as JISC Advance | **34** | 11,060 |
| JISC Content Procurement Company (JCPC), trading as JISC Collections | | 1,810 |
| British Universities Film and Video Council (BUFVC) | **98** | 633 |
| **Sub-total Jisc** | **69,126** | 67,499 |
| Equality Challenge Unit (ECU) | **939** | 1,255 |
| Higher Education Academy (HEA) | **12,278** | 12,887 |
| Quality Assurance Agency for Higher Education (QAA) | **4,312** | 4,409 |
| Research Information Network (RIN) | **(55)** | 0 |
| Leadership Foundation for Higher Education (LFHE) | **1,905** | 1,332 |
| | **88,505** | 87,382 |

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

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

The related bodies shown above are not consolidated by HEFCE in line with our accounting policy. Refer to Note 1 for further details.

From 1 December 2012 JISC (now known as Jisc) became its own separate legal entity, and thus its relationship to HEFCE changed to that of a related body. All the other "JISC" associates ceased their relationship with HEFCE which now only has a relationship with Jisc.

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

- Funding to the Research Information Network is paid via the British Library.

Further information on related bodies can be found at www.hefce.ac.uk under About HEFCE/ Working in Partnership/Related Bodies.

## 16 Events after the Reporting Period

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

## 17 Related party transactions

| | Year ended 31 March 2014 £000 |
|---|---|
| **Grant funding to institutions and other organisations** | |
| • Aylesbury College: Professor Ruth Farwell, member of Corporation. | **10** |
| • University of Brighton: John Harley*, Deputy Chair & Chair of Audit Committee. | **38,658** |
| • Birkbeck College, University of London: Dr Ruth Thompson*, Governor. | **23,247** |
| • Bromley College: Frank Toop*, Chair of Audit Committee. | **133** |
| • Buckinghamshire New University: Professor Ruth Farwell, Vice-Chancellor. | **12,357** |
| • Cambridge University: Professor Dame Shirley Pearce, Council member. | **186,492** |
| • City University: Frank Toop*, Secretary; and Apurv Bagri Honorary Rector. | **26,179** |
| • Coventry University: Professor Madeleine Atkins, former Vice-Chancellor. | **39,772** |
| • New College, Durham: John Widdowson, Principal. | **1,502** |
| • Goldsmiths College: Frank Toop*, member of the Audit Committee. | **18,640** |
| • Institute of Education: Clifford Shanbury*, Lay Member. | **12,739** |
| • Kings College London: Professor Anne Greenough, Head of School of Medicine. | **132,221** |
| • University College, London: Professor Sir Malcolm Grant, President and Provost. | **194,094** |
| • London Business School: Professor Sir Malcolm Grant, Governor; and Apurv Bagri, Deputy Chair of Board of Governors. | **6,812** |
| • London Metropolitan University: Mark Robson, Vice-Chairman. | **32,579** |
| • University of Manchester: Anil Ruia, Chair of Board of Governors. | **179,804** |
| • National Centre for Universities and Business: Professor Madeleine Atkins, Trustee. | **550** |
| • University of Newcastle: Rob Douglas, advisory board member of Business School. | **90,733** |
| • University of Northampton: Margaret Pratt, former Chair of the Audit Committee. | **16,586** |
| • New College, Oxford: Sara Weller, member of Remuneration Committee. | **201,955** |
| • Quality Assurance Agency: Graeme Osborn, member of Student Advisory Board. | **4,312** |
| • Staffordshire University: Dr Ruth Thompson*, Governor. | **32,418** |
| • University of Westminster: Dr Suzy Walton, Deputy Chair. | **37,662** |
| • Graduate Students' Association, University of York: Graeme Osborn, employee. | **51,307** |

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

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

The University of the West of England is regarded as a related party as it owns Northavon House in Bristol. HEFCE lease this building at an annual commercial rental of £887,090. During the financial year 2013-14 the University of the West of England received £40,940,238 of funding.

Following Sir Alan Langlands' appointment as the Vice Chancellor of the University of Leeds from 1 October 2013, HEFCE put in place measures to ensure any conflicts of interest arising with his role as HEFCE Chief Executive until 30 September 2013 were dealt with. Specific decisions involving the University were made by the Deputy Chief Executive.

* HEFCE Audit Committee member only.

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

| | Total for year ended 31 March 2014 £000 | Total for year ended 31 March 2013 £000 |
|---|---|---|
| **Learning, Teaching & Student Choice** | | |
| Capital for learning and teaching | **78,861** | 32,296 |
| Higher Education Academy | **11,038** | 10,842 |
| Quality assurance | **6,993** | 7,164 |
| Postgraduate Support Scheme | **4,165** | 0 |
| Employer Engagement | **2,924** | 9,040 |
| Capital for further education colleges | **1,994** | 3,526 |
| Strategically Important and Vulnerable Subjects (SIVS) | **1,717** | 1,000 |
| National Teaching Fellowship Scheme | **1,239** | 1,049 |
| Changing the Learning Landscape | **823** | 377 |
| Supporting professionalism in admissions | **175** | 334 |
| Foundation degrees | **111** | 100 |
| Aimhigher (and associated initiatives) | **5** | 149 |
| Open education resource | **0** | 1,559 |
| | **110,045** | 67,436 |
| **Research** | | |
| UK Research Partnership Investment Fund (UK RPIF) | **134,851** | 0 |
| Capital for research | **89,372** | 177,871 |
| High Performance Computing capital | **16,000** | 0 |
| Museums, galleries and collections | **10,420** | 10,422 |
| Research Excellence Framework (REF) | **1,469** | 383 |
| Research Information Network | **43** | 44 |
| | **252,155** | 188,720 |
| **Investment** | | |
| JISC and related funding | **53,092** | 73,892 |
| Strategic Development Fund and Catalyst fund | **36,900** | 37,922 |
| London | **5,274** | 15,693 |
| Leadership, Governance and Management fund | **84** | 478 |
| Revolving green fund | **884** | (3,189) |
| Social entrepreneurship | **2,021** | 1,264 |
| Leadership Foundation for Higher Education | **900** | 955 |
| Equal Opportunities | **939** | 1,251 |
| Procurement initiatives | **0** | 1,891 |
| Higher education regional associations | **143** | 144 |
| Management costs for capital | **0** | 20 |
| | **100,237** | 130,321 |
| **Partnership** | | |
| Policy ongoing services | **901** | 438 |
| International initiatives | **605** | 520 |
| | **1,506** | 958 |
| **Information** | | |
| Promoting efficiencies | **927** | 886 |
| **Total funding for initiatives** | **464,870** | 388,321 |
| Promoting Efficiencies | | |

## Analysis of non-recurrent grant by strategic aim: unaudited (continued)

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

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

**Earmarked capital**

In 2013-14 HEFCE allocated a total of £350 million for earmarked capital grants *(2012-13: £251 million)* . Much of the earmarked capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund; funding which goes towards supporting the capital infrasturcture of the HE sector. Capital funding under these two streams for 2011 to 2015 was announced in the publication 'Capital Investment Fund 2: Capital allocations for learning and teaching 2013-14; Additional capital allocations for research 2013-14 and 2014-15' (HEFCE 2013/08).

Another significant element of capital is the UK Research Partnership Investment Fund (UKRPIF), a BIS initiative launched in 2012 to support investment in major new university research facilities. The funding is dedicated to supporting large-scale capital projects from higher education institutions (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. The June 2013 Spending Round statement announced an extension of UK RPIF to 2016-17, making available at least £100 million each year of match-funding to leverage private investment. Funding will be 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.

**Special funding**

HEFCE allocate a small proportion of total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through the recurrent funding methods (such as support for national facilities). In 2013-14 HEFCE allocated a total of £115 million for special funding *(2012-13: £144 million)* .

Pages 102 to 103 give a brief explanation of each programme.

## Analysis of non-recurrent grant by strategic aim: unaudited (continued)

**Learning, Teaching and Student Choice**

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

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

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

**Postgraduate Support Scheme.** Funding to universities and colleges to increase social mobility by attracting and supporting disadvantaged students into postgraduate education.

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

**Capital for Further Education Colleges.** Capital allocations for learning and teaching infrastructure in FECs providing Higher Education courses and funded directly by HEFCE.

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

**National Teaching Fellowship Scheme (NTFS).** The NTFS recognises and rewards individual practitioners who have demonstrated excellence in learning and teaching.

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

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

**Foundation degrees.** Funding for qualifications which offer flexible and accessible ways of studying for degree-level skills

**Aimhigher.** Funding for regional partnerships to widen and increase participation in HE.

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

**Research**

**UK RPIF.** Capital funding to support investment in higher education research facilities and other large-scale projects that can also attract private investment.

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

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

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

# Analysis of non-recurrent grant by strategic aim: unaudited (continued)

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

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

**Investment**

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

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

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

**Social entrepreneurship.** Funding for initiatives offering practical guidance and working models for social entrepreneurs.

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

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

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

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

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

**Procurement initiatives.** Promotion of effective procurement and increased collaboration within the Higher Education sector. This includes shared services.

**Management costs for capital.** Contributions to the cost of managing large-scale captial schemes across the sector.

**Partnership**

**Policy ongoing services.** Funding that contributes to the delivery of services directly to HEIs or other HE sector bodies (e.g hosting the Key Information Sets database).

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

**Information**

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

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ISBN 978-1-4741-0195-0

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