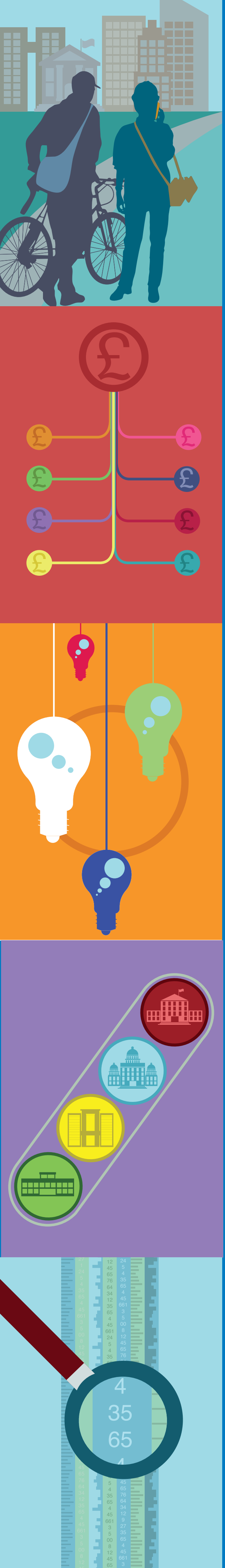


Annual report and accounts

2015-16

July 2016

HC34

hefce
HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

Higher Education Funding Council for England

Annual report and accounts 2015-16

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 11 July 2016

HC34

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

This publication is also available on https://www.gov.uk/government/publications

Print ISBN 9781474130219
Web ISBN 9781474130226

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID 11031608 05/16

Printed on paper containing 75 per cent recycled fibre content minimum.

Higher Education Funding Council for England

Annual report and accounts 2015-16

Contents

Foreword

Tim Melville-Ross CBE, HEFCE Chair

Higher education in England is a local, national and global success story by many measures.

The past few years have seen continued growth in student numbers following the removal of the student number cap. This has included growth in science, technology, engineering and mathematics (STEM) subjects, and in the proportions of students from disadvantaged backgrounds entering and succeeding in higher education. Student satisfaction has remained high.

The UK sector punches above its weight in research: for example, it represents 3.2 per cent of global research expenditure but produces 15.9 per cent of the world's most highly cited articles. The impact case studies, which were a new element in the 2014 Research Excellence Framework (REF), demonstrate the significant and wide-ranging benefits of university research to the economy and society, and the commitment universities show in tackling the big challenges facing the world.

Universities and colleges have continued to work with businesses, communities and others in knowledge exchange partnerships to stimulate innovation and growth and increase productivity. Knowledge exchange income as a measure of impact has risen by 6 per cent for 2014-15 over the previous academic year.

HEFCE is proud to support this success. Our remit spans the range of sector activity, and during 2015-16 we continued to work in the interests of students and the wider public to promote excellence in teaching and learning, research, and knowledge exchange. In so doing, we maintained a clear focus on quality, efficiency, responsiveness, and innovation – key ingredients for a world-leading system.

Much of our work over the past year has focused on improving student choice and the student academic experience. With the other UK funding bodies, the sector and students, we undertook a review of information which is important to students, including improved data on longer-term job prospects and salary levels, and better information about how courses are delivered.

Our quality assessment review also aimed to deliver the things that matter to students: a good academic experience with excellent teaching and learning at its heart; assurances that the standard of their degree is credible and reasonably comparable; and successful outcomes when they leave university. In parallel, we have started pilots with the sector on how best to capture and measure students' learning gain during their time in higher education.

A key aim of the Government's Green Paper on higher education, published in November 2015, was to recognise and reward high-quality teaching. We provided advice to the Department for Business, Innovation and Skills (BIS) on the development of the Teaching Excellence Framework, and have welcomed their request to take responsibility for implementing it in Year 2. We have also been working with BIS on the design of the new postgraduate loans scheme to be introduced later this year. The scheme fills a crucial gap in finance to support progression into the most advanced courses in the sector.

HEFCE's student opportunity funding supports widening participation activity across the student lifecycle. Despite good progress in recent years, there is more to do: the Prime Minister's social mobility goals for widening participation challenge all of us who believe that everyone with the potential to benefit from higher education should have the opportunity to do so.

We have identified those geographical areas with lower than expected participation in higher education given attainment at 16 years. There are continued unexplained differences in degree attainment between students from different ethnic minority and social backgrounds, and rising numbers of students reporting mental health problems. We are taking action on all of these fronts through more effective targeting of our funding and a clearer emphasis on understanding 'what works', in collaboration with the Universities UK Social Mobility Advisory Group and the Office for Fair Access.

HEFCE was the largest single funder of research in England in 2015-16. Our quality-related research funding is distributed on the basis of excellence wherever it is found, and ensures that universities have the capacity to undertake high-quality research which generates new knowledge and new solutions which improve people's lives. Working with the sector and the other higher education funding bodies, we are supporting and engaging with Lord Stern's review of the REF. The Government has asked us to take account of the review's outcomes in developing proposals for the next REF exercise, to be completed by the end of 2021.

Universities play a key role as 'place-makers' in their cities and regions, stimulating growth, increasing productivity, and encouraging innovation. In 2015, we deployed our Catalyst Fund to help the sector to address local and regional economic priorities, and worked with Universities UK to support universities to apply for European structural funding in collaboration with Local Enterprise Partnerships. And as the devolution agenda gathers pace, we are developing a new leadership programme with Universities UK and the Local Government Association to help institutions and combined/local authorities develop further long-lasting productive relationships, and to understand new opportunities for funding and finance.

We have taken on new areas of work in response to changing Government priorities. In September 2015 we became the monitoring authority for the implementation of the new Prevent duty for universities and other higher education providers. This is a sensitive area, requiring providers to strike a balance between safeguarding students and staff who may be vulnerable to extremist influences, and protecting freedom of speech. In support of the Government's commitment to increase the numbers of apprenticeships, we gave help and advice to universities and colleges looking to develop higher level and degree apprenticeships, and worked with the Skills Funding Agency to simplify funding arrangements. In 2016 we will work with BIS to develop a new programme to increase the number of degree apprenticeships.

Looking ahead, the White Paper, Nurse Review and Stern Review collectively signal significant changes to the regulation, funding and architecture of higher education, including a proposal for an 'Office for Students' which would take on most of HEFCE's current roles and responsibilities. HEFCE stands ready to work in partnership with

Government, providers, students and other bodies to implement any changes in a way that protects the interests of students and maximises the success and world-leading reputation of English higher education.

Once again, I thank our partners and stakeholders for their generous contributions to HEFCE's work over the past year. My thanks also to the HEFCE Board. In line with good corporate governance practice, we undertake an annual review of the Board's effectiveness, and this year's review has concluded that it is performing well under challenging circumstances. Finally, I am grateful, as ever, to HEFCE staff for their considerable efforts and unwavering commitment.

Tim Melville Ross.

Tim Melville-Ross CBE, HEFCE Chair
Higher Education Funding Council for England
30 June 2016

Performance report

Overview

Funding and regulating to support government priorities and the success of the higher education sector

We funded and/or regulated

130 Higher education institutions

212 Further education colleges

...and provided BIS with advice and monitoring assistance for

124 Alternative providers

We allocated **£1.36 billion** in teaching funding, and **£1.52 billion** in research funding. HEFCE funding supports **1.3 million students**, including over 44,000 (FTE) PhD students.

Incentivising excellence in learning and teaching

- We advised BIS on the development of the Teaching Excellence Framework (TEF).
- We consulted on future arrangements for quality assessment, and are now working on next steps for implementation.
- We funded projects involving over 70 universities and colleges to test and evaluate approaches to learning gain.

We invested **£188 million** of capital funding to improve science and engineering teaching facilities and expand provision for an additional **25,000 STEM students**.

Supporting subject and skills development

- We supported major independent reviews which explored issues around employment outcomes of STEM graduates (the Wakeham and Shadbolt Reviews).
- We worked with partners on a new infrastructure for degree apprenticeships, and funded the Universities Vocational Award Council to provide advice and support to providers of higher level and degree apprenticeships.
- We funded the development of new engineering conversion courses to run from September 2016.

Information to inform student choice

We led a UK-wide review of information for students, and are now taking forward work on improvements to the National Student Survey and the Unistats website.

Steps to Postgraduate Study

We launched a new website, 'Steps to Postgraduate Study', to help prospective UK, EU and International students make decisions about further study.

The National Student Survey

In 2015 more than **300,000 students** took part in the National Student Survey, a response rate of over **70%**

UNISTATS

In 2015-16 the Unistats website published information on **36,286 courses** from **431 institutions**

Promoting social mobility

- We retargeted our student opportunity funding to support disadvantaged students more effectively, reviewed levels of provision and support for disabled students, and published research on differential student outcomes.
- We supported the National Networks for Collaborative Outreach scheme and provided funding for the national roll-out of the Higher Education Access Tracker (HEAT) service.

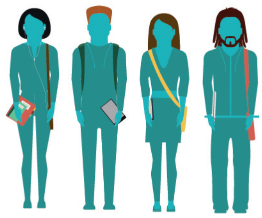
We allocated

£367M
student opportunity funding

to

342
institutions

to support over
500,000
students



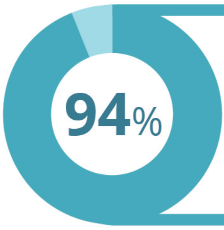
Supporting national and local growth

- We distributed £162 million for knowledge exchange through our Higher Education Innovation Funding (HEIF). The return on investment from £1 of HEIF is currently £9.70 in benefits for the economy and society, and rising.

Knowledge exchange income received by universities and colleges in England has increased in real terms from just over **£2 billion** in academic year 2003-04 to over **£3.4 billion** in academic year 2014-15 – **a 67 per cent increase**.

Informing, developing and implementing government policy

We worked with 10 government departments and provided support on at least 30 different areas of policy development or implementation.



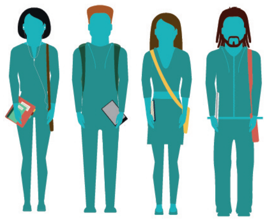
of stakeholders think that HEFCE is effective in implementing government policy

"HEFCE carries out effective support between policy and practice and has the learner at the heart of their approach"

(Further education college)
HEFCE 2015 Stakeholder Survey

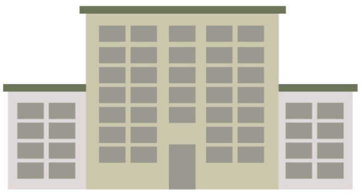
Research and analysis to benefit the sector and students

We collected and processed data on:



9 million students in education

0.5 million staff in UK higher education institutions

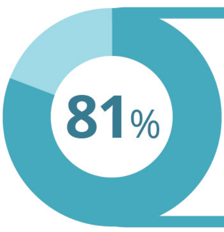


employment destinations of around **500,000** graduate students

... and published **37** reports and data analyses

An efficient and effective organisation

- **HEFCE has some of the lowest grant administration costs in the public sector.** We distributed £4 billion of funding at a cost of approximately £5.5 million (the direct operating costs of administering the grants) – 0.13 per cent of the total funding (2014-15 figures).
- **The Research Excellence Framework is a highly efficient system for funding of research,** with sector administration costs of just 2.4 per cent of the budget, including HEFCE administration costs of just 0.12 per cent.



of stakeholders are satisfied with their relationship with HEFCE

"I can think of very few similar bodies that give such good service and interact so well with their clients"

(Higher education institution)
HEFCE 2015 Stakeholder survey

Excellence in research wherever it is found

- We allocated £1,543 million of recurrent research funding, enabling universities to deliver ground-breaking research and to turn it into tangible outcomes for the economy and society.
- Our evaluation of the Research Excellence Framework (REF 2014) provides a comprehensive evidence base for developing future research assessment policy. The Stern Review of the REF is using our work as a key source of evidence to support its considerations.
- Over 80 per cent of the impact case studies submitted to REF 2014 were underpinned by research that was interdisciplinary in nature.

Through the UK Research Partnership Investment Fund we awarded **£100.1 million** to support seven universities to deliver major new research facilities, leveraging almost **£358 million** of private investment from business and charities.

Intelligent, proportionate regulation to protect the interests of students and the public

- We took on the role as monitoring authority for the new Prevent duty in the higher education sector in England.
- With the National Union of Students and provider representative bodies, we published guidance for providers on their obligations when courses change or close.

"The staff are helpful and quick with responses and feedback. It's an effective interaction."

(Alternative provider)
HEFCE 2015 Stakeholder Survey

As of 31 March 2016, 675 providers were listed on the HEFCE Register, including:

342 providers who receive HEFCE funding directly

124 alternative providers with specific course designation

244 further education or sixth form colleges that deliver higher education

106 providers with university or university college title

137 providers that can award degrees

242 providers accredited for initial teacher training

(Some providers appear in more than one category)

About HEFCE

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

Overview of HEFCE's business plan 2015-20 and our commitments

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

We will achieve our aim by:

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

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

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

Measuring and reporting our progress

Our business plan 2015-2020[1] reflects Government's strategic priorities for higher education in England. The commitments in our business plan are broken down into objectives and activities, described as our work packages. Each has performance indicators so that we know whether or not we are succeeding. We report regularly to the Department for Business, Innovation and Skills (BIS) and the HEFCE Board on our progress towards achieving our work packages and update them annually. We work closely with BIS to ensure smooth delivery, providing more detail on key strategic priorities where appropriate. Our progress over the past year is described in detail in the 'Performance analysis 2015-16' section of this annual report.

HEFCE's approach to risk management

Drawing on our business plan we have identified a number of strategic and operational risks that might impact on the achievement of our objectives. These supersede our former strategic risks. The Governance Statement at page 46 describes our revised approach to risk management and our risks.

Going concern

HEFCE accounts for 2015-16 have been prepared on a 'going concern' basis. The statement of financial position at 31 March 2016 shows net liabilities of £101 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 2016-17, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in BIS's estimates for that year, which have been approved by Parliament. There is no reason to believe that BIS's future sponsoring and future parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on the 'going-concern' basis.

1 www.hefce.ac.uk/about/plan/.

Performance analysis 2015-16

Outstanding education

Teaching and learning

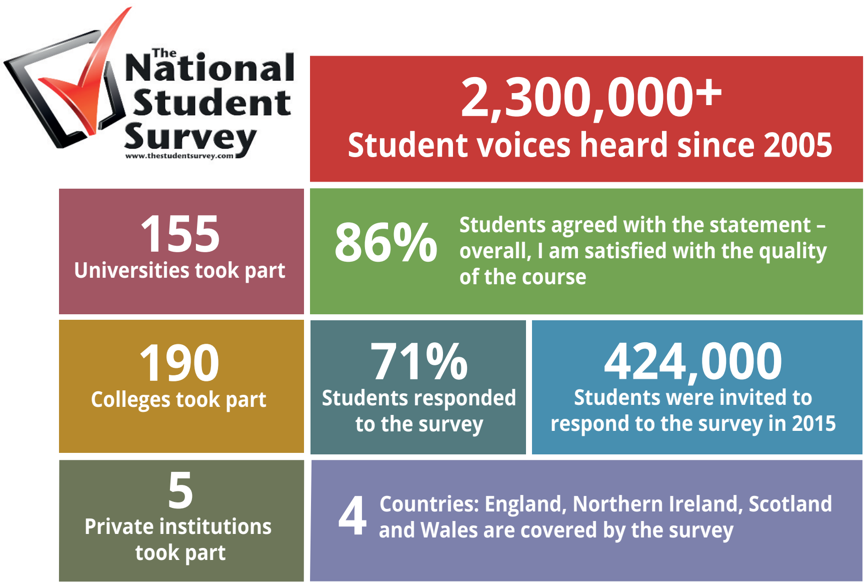
HEFCE is committed to ensuring that students have the best academic experience possible. We work closely with students, institutions and partner organisations to support excellent learning and teaching by promoting sharing of expert practice from the UK and internationally; improving recognition and reward for teaching; providing the information students need; and encouraging innovation and improvement.

A major dimension of our work is ensuring that students' views are heard in the development and implementation of policy. For example, our review of the National Student Survey (NSS) and Unistats has drawn extensively on research with students, and the National Union of Students is involved in the decisions we have taken. We also protect and promote the interests of students through our role as lead regulator of the sector (see page 32).

Better information to improve the student experience

Improving information is a key priority for HEFCE and for the Government. Students seek authoritative and trustworthy information to help them make choices about where and what to study. Institutions also use a wide range of information to improve the student experience and to understand their own performance. HEFCE has been working with BIS and sector agencies to explore how data on student outcomes might inform both the developing Teaching Excellence Framework set out in the 2016 HE White Paper[2] and the revised approach to quality assessment.

Student satisfaction: National Student Survey 2015 The National Student Survey, which is commissioned by HEFCE, is a key source of information for students and institutions. The results from the 2015 survey show that satisfaction among students studying in English institutions remains high. Overall student satisfaction at sector level was unchanged from 2014: 86 per cent of students agreed that they were satisfied with the quality of their course. More than 300,000 UK final-year students responded to the survey in 2015, a 71 per cent response rate.



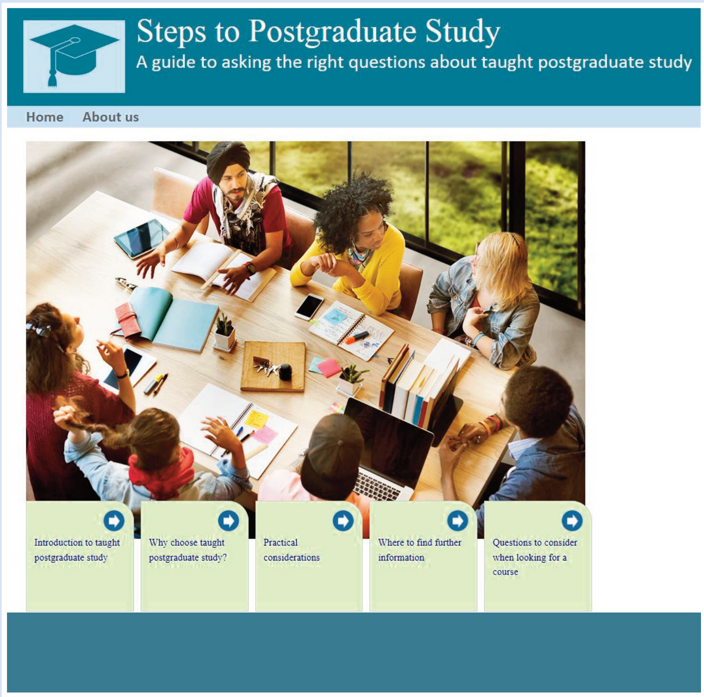
2 https://www.gov.uk/government/publications/higher-education-success-as-a-knowledge-economy-white-paper.

During 2015-16 HEFCE, with the other UK higher education funding bodies, led a major review of information. The review drew extensively on research and consultation with students, and the National Union of Students was closely involved in the decision-making process[3]. Following this:

- we are making improvements to the NSS from 2017, including new questions on student engagement
- we are redesigning the Unistats website, which provides course comparison data, to make it easier for prospective students to navigate and find the information they need
- we consulted on options to capture feedback from taught postgraduate students, students on shorter courses, and other students not currently covered by the NSS, to ensure that they have a voice in influencing provision and informing other students' decisions about study
- we launched the UK-wide Steps to Postgraduate Study website (see case study below).

Steps to Postgraduate Study website

HEFCE has been working in partnership with the other UK HE funding bodies to improve the quality and accessibility of information about taught postgraduate study (PGT). In July 2015 we launched a new web resource, Steps to Postgraduate Study[4] to help prospective UK, EU and international students make decisions about HE – whether they are going straight on to PGT study or returning after a period away from education.



Steps to Postgraduate Study provides links to information about visas, application processes and funding. It explains the benefits of postgraduate study and helps prospective postgraduates choose the right course by suggesting questions they may wish to ask themselves and course providers about their study options.

3 www.hefce.ac.uk/lt/roiconsult/.

4 http://postgradsteps.hefce.ac.uk.

Learning gain

Learning gain measures seek to demonstrate the improvement in knowledge, skills, work-readiness and personal development made by students in HE. From 2015-16, HEFCE is investing £4 million in testing approaches to understanding and measuring learning gain, including funding for 13 collaborative pilot studies involving over 70 universities and colleges.

- **Manchester College** has received £420,000 to work with 15 other colleges to explore the value that HE in further education can provide for students. The project is testing a mix of methods such as student surveys and the analysis of students' grades. Students will be tracked at individual colleges through the lifetime of their chosen programme of study.
- **Birmingham City University** is leading a partnership with Liverpool John Moores University, Coventry University and Staffordshire University to appraise an existing test of critical thinking skills alongside the UK Engagement Survey. The project, which has received £239,000, will follow 250 students at each partner institution.
- **University of East Anglia** has received £105,000 to work with City College Norwich to test approaches to grade point averages and self-assessments.
- **University of Warwick** has received £769,000 to work with 17 other universities, using a range of techniques to explore study motivation, cognitive learning approaches, meta-cognitive regulation of learning, and views on good learning and teaching.

Supporting and promoting social mobility

Delivering opportunities for students and maximising their success

Throughout 2015-16 HEFCE supported the sector as it built on work to widen access and support successful student outcomes. We undertook an extensive programme of research and analysis which highlighted progress to date and identified remaining gaps. Our report 'Delivering opportunities for students and maximising their success: evidence for policy and practice 2015-2020'[5], published in July 2015, set out our policy and funding priorities for 2015-2020.

Understanding impact

HEFCE's Student Opportunity fund supports the development and delivery of long-term strategic activity across the student lifecycle for widening participation in HE. In 2015-16 we allocated £367 million of Student Opportunity funding to institutions, and undertook extensive analysis to understand the impact of such funding (including predecessor funding for widening participation). The analysis indicates that the fund has helped to increase participation and improve retention rates for the most disadvantaged groups, and increased participation of disabled students.

HEFCE's analysis of young participation in higher education reports on the proportion of people who enter higher education at age 18 or 19[6]. This shows that the number of young people entering HE from the most disadvantaged backgrounds has increased from 13 per

5 www.hefce.ac.uk/pubs/year/2015/201514/.

6 'Young participation in higher education' (HEFCE 2005/03), available online at http://webarchive.nationalarchives.gov.uk/20120118171947/http://www.hefce.ac.uk/pubs/hefce/2005/05_03/, gives an overview of our approach to this analysis.

cent in the late 1990s to 20 per cent in 2011-12[7]. However, there is clearly more to do, and the Government's ambition to double the proportion of young people in HE from disadvantaged backgrounds by 2020 requires a significant boost to the current rate of growth in participation rates.

If current trends continue, it would be 2027 before the Government's goal to double participation of the most disadvantaged groups by 2020 could be realised[8]. The most effective way of boosting participation is through collaborative approaches focused on the specific needs of local areas where there is the greatest potential and need. We have announced a new four-year outreach programme to deliver this[9]. Such an approach will complement broader-based outreach activity, particularly activity supported through the investment institutions make through their access agreement commitments, as well as the investments that HEFCE and institutions continue to make to support student success across the lifecycle.

Developing impact measures

During 2015-16 we commissioned research to identify how the outcomes from our investment in widening participation and from institutional activity could more effectively be measured[10]. The research also explored how universities and colleges could better understand and evidence the effectiveness and impact of their widening participation work. We are working with the Office for Fair Access (OFFA) and with institutions to implement the findings.

Higher Education Access Tracker

In last year's annual report we announced funding of £3 million over 2014-17 to enable the national roll-out of the Higher Education Access Tracker (HEAT) service. HEAT is a collaborative project, developed by the sector and hosted by the University of Kent, which allows universities and colleges in England to track learners who have taken part in outreach activities in schools and colleges through their higher education journey. Our funding has enabled HEAT to expand its infrastructure and resources, including the establishment of a hub model to support institutions new to the service. By April 2016, 53 institutions were full members[11].

---

7 The participation of local areas (POLAR) classification groups areas across the UK based on the proportion of the young population that participates in HE. Areas are assigned to quintiles 1 to 5, with quintile 1 being those areas with the lowest rates of HE participation and quintile 5 those areas with the highest rates of participation in HE. For the most recent iteration of the classification see www.hefce.ac.uk/pubs/year/2012/201226/.

8 'UCAS End of Cycle Report 2015', UCAS, February 2016. See: https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/ucas-undergraduate-analysis-reports/ucas.

9 http://www.hefce.ac.uk/news/newsarchive/2016/Name,107804,en.html.

10 www.hefce.ac.uk/pubs/year/2015/201514/ and www.hefce.ac.uk/pubs/rereports/Year/2015/diffout/.

11 http://heat.ac.uk/what-is-heat/.

Supporting access to higher education

National Networks for Collaborative Outreach

The Government provided £22 million for the National Networks for Collaborative Outreach (NNCO) scheme over academic years 2014-15 and 2015-16. The scheme is managed by HEFCE.

The scheme aims to encourage more young people into higher education through coordinated outreach in schools and colleges. It involves 200 universities, further education colleges and sixth form colleges, and will reach 4,300 secondary schools and colleges through 35 local networks. Three further networks offer support to specific groups of students – care leavers, older learners wishing to continue or return to study, and students wishing to progress to Oxford or Cambridge – at national level.

In early 2016 we published a report[12] on the achievements of the NNCO scheme, and the benefits and challenges of collaborative working it identified during its first nine months of operation.

> ### Prepare to Succeed: Better student outcomes for black, Asian and minority ethnic learners in London
>
> AccessHE is working with eight higher education providers in London on the 'Prepare to Succeed' project as part of the NNCO network it hosts[13]. The project looks at how to improve outcomes for black, Asian and minority ethnic (BAME) students in higher education and beyond through the provision of better information, advice and guidance (IAG). It was initiated in response to research which shows that some BAME student groups have fewer opportunities than other students to participate and succeed in higher education and after graduation.
>
> As part of the research, 400 undergraduate students have been invited to talk about their experiences of IAG and support activities before entering higher education. This will help universities and up to 80 students to co-produce new IAG support activities which will be trialed in around 40 schools at the start of the 2016-17 academic year.

Analysis of young participation

In 2014 we published an analysis in the form of a series of interactive maps which looked at young participation in the context of GCSE attainment and ethnicity, and identified unexpected differences or 'gaps' in local areas across England. In 2015-16 we updated the analysis to expose gaps in young participation in the context of secondary school areas. The maps are designed to support NNCOs, policy makers and widening participation practitioners, and have been widely used. The analysis will inform our approach to allocating funding for widening access in 2016-17.

Understanding diversity

In 2015-16 we further developed our programme of research and evaluation to enhance the sector and the Government's understanding of the challenges and issues facing different student groups.

---

12 www.hefce.ac.uk/pubs/year/2016/201602/.

13 GSM London; Kingston University London; London School of Economics and Political Science; London South Bank University; Royal Veterinary College; St Mary's University, Twickenham; UCL; University of Greenwich.

Understanding differential student outcomes: HEFCE's analyses over a number of years have highlighted significant differences in performance between student groups once other factors have been taken into account, such as entrance qualifications, sex and subject area. These differences relate to lower than expected outcomes in terms of academic attainment, employment and progression to further study or employment. The groups affected are students from black and minority ethnic (BME) groups, students from more disadvantaged backgrounds, and disabled students not in receipt of Disabled Students' Allowance.

We commissioned King's College London, Aimhigher Research & Consultancy (ARC) Network and the University of Manchester to review research and practice that had been undertaken in the sector to address these differential student outcomes. Their report explores emerging strategies and interventions implemented by institutions across the student life-cycle, and recommends strategic approaches that embed diversity support in institutional cultures and practices[14]. In particular, it highlights approaches that promote and support institutions working in partnership with students to encourage dialogue and to challenge discriminatory practices.

Supporting academics to address differential student outcomes

The University of Derby's Student Attainment Project addresses differences in the degree attainment of BME students through the development of a toolkit of resources that academics can adapt and apply to their teaching alongside new approaches to communicating with students and facilitating their transition between years of study.

The project draws on research and experiences from across the sector concerning disparities in attainment. The methodology is based on the view that the most successful initiatives work incrementally and need to encompass a range of different interventions, each of which targets a particular hurdle for some students.

Although the project targets the attainment gap, most of the interventions are designed to benefit all students, with the expectation that the removal of obstacles to learning will have a particular benefit for groups of students for whom the transition into HE can be a time of particular turbulence. This commitment to inclusivity helps to ensure that in addressing the attainment gap, negative expectations about performance that may reinforce disadvantage are avoided.

14 'Causes of differences in student outcomes', www.hefce.ac.uk/pubs/rereports/Year/2015/diffout/.

Review of provision and support for disabled students: Following the Government's 2014 announcements regarding changes to the Disabled Students' Allowance from 2016-17, HEFCE commissioned two studies[15] to investigate support for disabled students. One study explored support for students with severe to moderate mental health conditions and/or complex physical impairments, and looked at how HE providers fund and provide support for such students where highly intensive or multi-agency support is required. The other study focused on how support for students with specific learning difficulties impacts on their learning outcomes.

The research found that some of the biggest challenges facing institutions are the increasing demand for services, particularly from students with mental health problems; proposed changes to the way in which funding is delivered to support disabled students; moving to a social model of support; working with external agencies; and increased pressure on resources.

In light of the evidence gathered in the review, we have doubled the amount of funding we deliver to the sector to support disabled students. This means that for 2016-17 and 2017-18, funding will be set at £40 million per annum. The purpose of the increased funding is to help institutions as they transition to a more inclusive, social model of support for their students.

Supporting access to postgraduate study

HEFCE has been working with Government and the sector to improve financial support for taught postgraduate students. The evidence suggests that financial support can affect progression beyond HE, and has implications for social mobility.

During 2014-15 HEFCE's Postgraduate Support Scheme (PSS) tested a range of activity and finance models to support progression into postgraduate taught education, especially for students who are under-represented at this level, and in subjects aligned with the Government's growth strategy. We published an evaluation of the scheme[16] which highlighted lessons for financial support, curriculum design, employer engagement and institutional strategy.

Building on the success of the initial pilot projects, BIS made available a further £50 million to the scheme in 2015-16 for HEFCE to allocate. This was matched-funded by institutions and made available to students as awards of £10,000 for any masters programme lasting no more than two years. Awards were made to students who had been subject to the higher undergraduate tuition fees starting in 2012-13, and who are currently under-represented in postgraduate education.

The 2014 Autumn Statement announced the Government's intention to implement a postgraduate loan scheme. From 2016-17, loans of up to £10,000 for full-time masters courses of one to two years' duration will be introduced. The loans will be available to students under 60 years of age enrolling on taught, distance learning, research and professional masters-level courses across all disciplines. HEFCE is working with BIS and the Student Loans Company on the implementation of the scheme, which will offer a source of financial support to students who otherwise could not afford to undertake postgraduate study.

15 www.hefce.ac.uk/pubs/rereports/Year/2015/spld/ and www.hefce.ac.uk/pubs/rereports/Year/2015/mh/.

16 www.hefce.ac.uk/pubs/rereports/Year/2015/pssfinal/.

Support for subjects and skills development

Higher education has a crucial role to play in supporting individuals, businesses and other organisations to develop the higher-level skills needed to increase UK productivity and competitiveness. Evidence shows that employers value graduates from a wide range of disciplines, and demand for graduates in the top occupations is expected to increase over the next ten years.

HEFCE supports this agenda in a number of ways. We carry out work to understand the changing patterns of demand and supply in relation to particular subjects, and identify subject areas in which action might be necessary to ensure that the supply of graduates meets the needs of the economy and society. We monitor student numbers in strategically important subjects and review the content of courses and the graduate destinations of the students undertaking those subjects. In 2015-16 we supported two major independent reviews which explored issues around employment outcomes of STEM graduates (the Wakeham[17] and Shadbolt[18] Reviews).

We continue to provide additional funding for high cost subjects, including STEM but also art and design and information technology. In 2015-16, we provided £188 million of capital funding to improve science and engineering teaching facilities and expand provision in order to meet both increasing student demand for such courses and industry demand for appropriately skilled graduates. Seventy-three institutions have secured funding through this route to deliver an anticipated increase of 25,000 students.

We also fund projects to develop subject provision and increase student demand, especially in those subject areas that are of national strategic importance but are deemed to be at risk. We are currently funding programmes in mathematics, quantitative social science and modern foreign languages.

Development of degree apprenticeships

Apprenticeships are the Government's flagship commitment to skills, and this has been underlined by the announcement of three million new apprenticeships and the introduction of an apprenticeship levy from April 2017. During 2015-16, HEFCE built awareness of higher level and degree apprenticeships among higher education providers, supported them to develop their apprenticeship offers, and worked with the Skills Funding Agency (SFA) to simplify current funding arrangements.

An increase in requests from higher education providers for advice and practical help prompted us to fund the University Vocational Awards Council (UVAC) to produce an Apprenticeships Roadmap and other guidance. In the past year, UVAC has given tailored advice to more than 20 providers. Sixty-three per cent of higher education institutions (HEIs) in receipt of an SFA allocation for higher level or degree apprenticeships have used this support, 40 higher education providers have joined the Register of Training Organisations, and almost 3,000 students have enrolled as higher or degree apprentices.

We continue to collaborate with the SFA and BIS to design an apprenticeship infrastructure that will work effectively for apprentices, employers and providers, and we have been asked by BIS to manage the Degree Apprenticeship Development Fund. This will provide £8 million starting in academic year 2016-17 to help universities and colleges work with employers to develop new degree apprenticeships ready for delivery from academic year 2017-18.

---

17 https://www.gov.uk/government/publications/stem-degree-provision-and-graduate-employability-wakeham-review.

18 https://www.gov.uk/government/publications/computer-science-degree-accreditation-and-graduate-employability-shadbolt-review.

Engineering conversion courses

Image © Middlesex University

Engineering student Eva Blessing Onyeulo in the mechatronics laboratory at Middlesex University, one of the institutions which will run an engineering conversion course.

From September 2016, new courses will be available to support non-engineering students to start careers in engineering. These conversion courses have been developed and marketed with funding support from HEFCE and BIS. Similar routes will be developed to enable the transition into computer sciences of graduates from other disciplines, with a particular focus on routes into data science, cyber security, and software engineering, following funding from the Digital Economy Unit in the Department for Culture, Media and Sport. Following an open call, HEFCE has distributed funding of £1.7 million to 28 projects involving universities and colleges. The new courses will train a total of up to 1,500 students in the first two years of delivery. Projects include:

University of Hull: Working with three further education colleges in the region, Hull is developing a portfolio of three MSc conversion courses in energy engineering. The region has a concentration of petrochemical, offshore wind, and renewable energy companies, and the largest enterprise zone in the UK with a focus on renewable energy. Local and national employers will be involved in the design and delivery of the modules, providing placements and project ideas.

Anglia Ruskin University: The university is developing a new MSc, Additive and Hybrid Manufacturing, using new engineering laboratories and workshops. Students will develop knowledge of core engineering science through face-to-face and online delivery, and knowledge of design and manufacturing through close co-operation with industry, including real-life projects, placements and case studies.

University of Salford: Salford is designing an MSc Data Science course which will support graduates from other disciplines to develop an understanding of the theory, practice, and application of data science, preparing them for careers in organisations which grapple with the challenges of interpreting and extracting benefits from data. The course is being developed in consultation with leading employers, and builds on the University's 'Statistical Analysis System' (SAS) Academy resources.

Catalyst Fund

HEFCE's Catalyst Fund delivers government priorities for students, the economy and society, and supports and accelerates transformational change, innovation and experimental activity. In 2015-16 we approved funding for nine new projects, encompassing key objectives for student engagement, enhancement of learning and teaching, and knowledge exchange and research. We have also formally reviewed in excess of 50 existing Catalyst-funded projects, ensuring value for money and the achievement of targets of direct benefit to students, businesses and the wider economy.

New approaches in automotive postgraduate technical education

Loughborough University was awarded funding through the HEFCE Catalyst Fund to enable industry-based engineers to engage in advanced, technical education specific to the automotive sector through the provision of accessible postgraduate level courses.

Delivered through a work and learn model, this flexible approach is embedding innovative postgraduate provision in the development of an £11 million training academy at the MIRA technology park, a local enterprise zone with a cluster of national and international automotive businesses. The suite of masters-level postgraduate certificates covers specialist areas of automotive engineering. The delivery model brings together cohorts of university and industry-based students at different physical locations, providing them all with a local, supportive, real and virtual learning environment.

Working in partnership to develop social entrepreneurship in higher education

In 2015, HEFCE completed the third and final phase of a partnership programme with UnLtd, the Foundation for Social Entrepreneurs, to encourage and promote social entrepreneurship in higher education. Over the course of the six-year programme, HEFCE has invested £5 million, and, through working with 86 HEIs, has supported over 1,500 social entrepreneurs among staff, students and recent graduates with small-scale start-up funding.

In the latest phase of work, called SEE Change, partner HEIs distributed 111 awards to social entrepreneurs. Fifty-one were social entrepreneurs starting new social ventures and 58 were social entrepreneurs with an existing venture seeking to grow their idea.

A deep understanding of the sector

HEFCE's work for the benefit of students and the economy is informed by a comprehensive understanding of the higher education sector. We maintain trusted, professional relationships with higher education providers, gathering intelligence, knowledge and insight, and helping to share good practice. We engage with providers around issues of risk and opportunity, providing support, oversight and advice as appropriate.

HEFCE 2015 stakeholder survey

An independent survey of HEFCE stakeholders by Pye Tait Consulting[19] explored perceptions of HEFCE's role, policies, processes, communications and relationships.

The survey found that HEFCE is considered by its stakeholders to be highly respected, trusted and approachable. There is widespread and increased recognition of HEFCE's role as a broker between Government and the higher education sector, and 94 per cent of respondents believe that HEFCE implements government policy effectively.

- 72 per cent of respondents agree that HEFCE promotes and protects the student interest
- 71 per cent feel that HEFCE is effective at understanding the needs of the organisations with which it works
- there was a 16 per cent increase since 2013 in those believing we work effectively in partnership.

Engaging with further education colleges offering higher education

We continue to build our engagement with further education colleges and sixth form colleges that offer higher education (FECs). The 2015 stakeholder survey found significant increases in satisfaction across a range of areas compared with the 2013 survey results: for example, there has been a 15 per cent increase in the proportion of FECs saying that HEFCE has widened access to higher education and works effectively in partnership with them.

19 www.hefce.ac.uk/media/HEFCE,2014/Content/About,HEFCE/Stakeholder,survey/SS-Final-Report-091015-FINAL.pdf.

Catalyst Fund: Furness College Advanced Manufacturing and Technology Centre

HEFCE's Catalyst Fund is supporting the establishment of an advanced manufacturing and technology centre at Furness College in Cumbria. The centre will build on the strategic relationships that the college and higher education institution partners have with the larger employers in Cumbria and the North West of England, such as BAE Systems, Siemens and GlaxoSmithKline. It is estimated that the project will help to deliver 440 new jobs over a ten year period.

The new centre also aims to help reverse the low HE participation in the region (currently under 17 per cent) and improve technical skills in conjunction with local employers. In growing Level 4 to Level 7 skills in engineering and advanced manufacturing, the college aims to provide an additional 4,000 qualifications to at least 1,700 students in the next ten years. The project also aims to further increase the number of women participating in learning in STEM subjects and then moving into careers in advanced manufacturing and engineering.

We maintain strong relationships in the further education sector, such as with the Association of Colleges (AOC) and the Skills Funding Agency. HEFCE has been working with the AOC and 50 further education colleges on a Catalyst Fund project to develop a distinct framework for higher education scholarship in colleges that can be adopted across the sector. The project is centred on enhancing the learning experience for students and ensuring that links with local employers become an even stronger feature of college higher education. There is an ambition for 40 FECs to achieve a kite-marked set of agreed performance indicators and impact measures related to the new framework within the next two years.

We are contributing data and expertise to the Government's ongoing programme of area-based reviews of post-16 education and training institutions to help to ensure that the needs of potential and current higher education students in different localities are taken into account.

Engaging with alternative providers of higher education

We are also engaging much more closely with alternative providers of higher education. Working through the joint Alternative Provider Intelligence Unit with BIS, we have the lead responsibility for direct engagement with alternative providers who have passed through the designation process. In the 2015-16 financial year there was an intensive programme of visits to these providers, meeting with 73 out of 124 to learn more about them and their students.

A number of themes emerged from these visits. Many alternative providers are proud of their strong employer links, their innovative approaches to learning and teaching, and their widening participation strategies, and many serve student populations which are otherwise underrepresented in higher education.

Future institutional engagement will allow HEFCE to develop a more nuanced understanding of alternative providers and the impact of current regulation on them. Building on feedback from the visits, we have arranged a full day workshop event, creating a new forum for alternative providers to meet and share experiences and best practice.

The authoritative voice on higher education

HEFCE's strong analytical competences have made us an authoritative data modelling and information source on higher education in England. Our work includes modelling future financial scenarios, tracking the experience of students over time, and analysing the financial health of the sector on a regular basis. We collect and share data with ten separate partner organisations under agreements.

The evidence we produce informs policy making across a wide range of areas, including higher education participation and provision, social mobility, graduate employment, and economic growth. We also promote use of the evidence by higher education providers to increase its impact – for example, supporting them to make use of our higher education and local growth data.

The Prevent duty

In September 2015 HEFCE formally took on a new role monitoring the implementation of the Government's statutory Prevent duty in the higher education sector in England. HEFCE will be responsible for monitoring more than 320 HE providers.

Following consultation, we have published a monitoring framework which requires providers from April 2016 to submit evidence to demonstrate that they have robust policies, procedures or arrangements in place to help safeguard those who might be vulnerable to extremist influence. This will include policies to identify, manage and mitigate the risks around extremist speakers, and putting in place responsive, effective welfare support systems so that concerns about students' wellbeing can be acted on. The first phase of monitoring activity was completed in January 2016, with all providers submitting a self-assessment setting out their own view of their readiness against the statutory duty.

HEFCE is working closely with providers to ensure that they have the advice and support they need to meet the requirements of the duty. In 2015-16 we held discussions with the 130 HEFCE-funded providers who are covered by the duty, and funded a series of events for practitioners organised by the Leadership Foundation for Higher Education (LFHE). We are actively engaging with alternative providers, many of whom have less experience of the Prevent agenda, through roundtable discussions, workshops and visits.

In addition to this programme of engagement, we are working with the LFHE, Universities UK and other sector bodies to ensure there are suitable Prevent training materials for HEIs.

Promoting equality and diversity

HEFCE is committed to working with the sector to tackle equality challenges. Our Equality and Diversity Statement and Objectives 2016-17[20], which was developed through discussions with sector representatives, explains our rationale for, and approach to, our equality work, and sets out our equality objectives for the next two years. It also sets out how we meet our legal obligation to demonstrate due regard to the public sector equality duty.

We continue to identify and monitor inequalities and to support the sector in addressing them. As part of promoting greater diversity on university governing bodies we are enhancing the data collection arrangements for equality monitoring, and through grant funding to the LFHE we are supporting positive action development programmes (including a BME leadership programme and one for future female leaders) to help the sector to achieve a diverse and representative higher education workforce, especially at leadership level.

World-leading research

The discovery, dissemination, integration and application of new knowledge lies at the heart of the sector's success and international reputation. HEFCE's role as the largest single funder of HE research in England is crucial to this success. In 2015-16, we allocated £1,543 million of recurrent research funding and £284 million of research capital funding.

One of HEFCE's key responsibilities is to deliver the periodic assessment of research quality in the UK, most recently through the 2014 Research Excellence Framework (REF). The REF results show an improvement in research quality, which aligns with external evidence about the improvement in UK research over the last six years. The average proportion of outputs judged to be world-leading (4*) rose from 14 per cent in the 2008 Research Assessment Exercise 2008 to 22 per cent in the 2014 REF. The average proportion judged to be internationally excellent (3*) rose from 37 per cent to 50 per cent[21].

We are committed to supporting innovation and funding excellence wherever it is found. Our system for allocating quality-related (QR) research funding enables universities with the highest quality research to fund promising new areas of research, to respond to regional geographic opportunities, and to provide the environment for nurturing new generations of researchers.

HEFCE shapes and influences government research policy. We develop and deploy evidence and draw on international comparisons, facilitate new models of collaboration and co-funding, open research practice to data sharing, and encourage ways of achieving greater efficiency.

20 www.hefce.ac.uk/pubs/year/2016/201605/.

21 http://results.ref.ac.uk/Results.

The value of QR funding: University of Liverpool

The flexibility of QR funding has allowed the University of Liverpool to invest in the area of polymer and materials chemistry, and since the early 2000s this has leveraged co-investment from Unilever in automated high-throughput technologies. HEFCE's QR funding supported the development of a successful research group, which also received Research Council funding. It also catalysed two significant investments:

- the £10 million Centre of Materials Discovery, supporting research subsequently published in leading journals such as Nature and an increased turnover of over £7 million for over 60 small and medium enterprises
- the £68 million Materials Innovation Factory, supported by HEFCE, the university and a £22 million investment from Unilever.

Evaluating the Research Excellence Framework

The REF is the system for assessing the quality of research in UK higher education institutions and drives the allocation of approximately £2 billion of research funding in the UK. It is owned by the four UK higher education funding bodies, and the 2014 REF was managed by a team based at HEFCE.

The REF is an essential component of an efficient, world-leading sector. It is a highly efficient system for public funding of research, with sector administration costs of just 2.4 per cent of the budget[22] – this includes HEFCE administration costs of just 0.12 per cent. However, continuous improvement is vital. To support this, we undertake and commission a wide range of research and reviews to provide a sound evidence base for research assessment policy.

Following the announcement of the REF results in December 2014 we undertook a comprehensive evaluation of REF 2014[23]. This included:

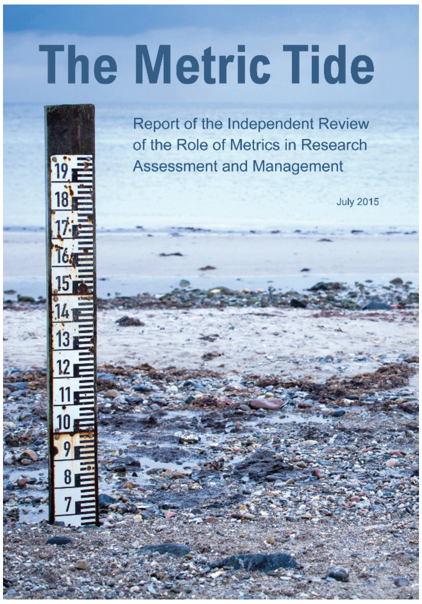
- an evaluation of the introduction of the 'impact' element of the REF, looking at both the process of preparing submissions by HEIs and assessing impact by the REF panels
- qualitative feedback from institutions and panel members
- a comprehensive analysis of the costs, benefits and burden of the REF
- a quantitative review of interdisciplinary research.

22 www.hefce.ac.uk/pubs/rereports/Year/2015/refreviewcosts/.

23 www.hefce.ac.uk/rsrch/REFreview/.

In December 2015, the Government announced that Lord Nicholas Stern would lead an independent review of the REF to look at how university research funding can be allocated more efficiently. The work undertaken and commissioned by the UK HE funding bodies provides a crucial evidence base for this review. The review is due to report in summer 2016.

Metrics and research assessment



Metrics is the quantitative analysis of scientific and scholarly research outputs and their impacts, and include a variety of measures and statistical methods. The use of metrics has developed rapidly as a potential method of measuring research quality, although how best to do this is still the subject of considerable debate.

In 2015 HEFCE managed an independent review, chaired by Professor James Wilsdon, to investigate the current and potential future roles that quantitative indicators can play in the assessment and management of research.

A key finding of the review[24] is that metrics cannot replace peer review, and that there is considerable scepticism among researchers, universities, representative bodies and learned societies about their broader use in research assessment and management.

The review's recommendations are underpinned by the notion of 'responsible metrics' as a way of framing appropriate uses of quantitative indicators in the governance, management and assessment of research.

The impact of UK research

The introduction of impact as a new element of the 2014 REF provided a unique opportunity to learn more about the impact resulting from UK research. The impact case studies submitted to the REF demonstrated the wide-ranging and significant benefits that UK research brings to the economy and society.

HEFCE commissioned the creation of a searchable database (http://impact.ref.ac.uk/) that has made the case studies widely available and has become an invaluable source of information and evidence, beyond the requirements for REF assessment:

- Digital Science has explored the relationships between different fields of research and the areas of impact, finding 'no apparent limitation on what part of society or the economy any particular discipline might impact'.
- EPSRC reported on how its investments over the last two decades have delivered benefits across many areas of the UK economy and society[26].
- The Parliamentary Office of Science and Technology has used the database to identify how research feeds in to the parliamentary process[27].

24 www.hefce.ac.uk/pubs/rereports/Year/2015/metrictide/.

25 www.digital-science.com/resources/digital-research-report-the-diversity-of-uk-research-and-knowledge/.

26 www.epsrc.ac.uk/newsevents/news/refreport1/.

27 http://russellgroup.ac.uk/policy/publications/engines-of-growth-the-impact-of-research-at-russell-group-universities/.

Research impact case study: Royal College of Art

Vehicle Design at the Royal College of Art has acquired an international reputation. Alumni are senior designers and executives in the world automotive industry. The department has a broad transport and mobility agenda that combines teaching, research and professional practice. Research and innovation are treated as a continuum, with a particular emphasis on the human aspects of transport technologies.

For the 2014 REF, RCA Vehicle Design reported significant impacts in car design, public service vehicles and systems, and focused on research enabling the transport sector to anticipate change, whether in redesigning the interior of the 'connected car', contributing to the success of high-performance electric vehicles, or responding to social need through improved accessibility of public and private transport.

RCA Vehicle Design students frequently work on 'live' projects benefitting partners such as Hitachi Rail, Jaguar Land Rover, Tata and Audi. A recent MA student project has involved working with the Metropolitan Police, Transport for London, Mercedes-Benz Trucks and Cemex on the problem of cyclists and pedestrians killed in traffic accidents, particularly those involving heavy goods vehicles.

Interdisciplinary research

An initial analysis of the impact case studies submitted to the 2014 REF found that over 80 per cent of the case studies were underpinned by research that was interdisciplinary in nature[28], reinforcing the view that interdisciplinary research is required to address society's most complex challenges.

We investigated this further with a review of the UK's interdisciplinary research landscape using a citation-based approach. The review found that UK interdisciplinary research activity is growing in intensity and that over 45 per cent of the most interdisciplinary publications were co-authored with international colleagues. However, it also observed that a lower citation impact was associated with interdisciplinary research among all the countries examined.

28 www.hefce.ac.uk/pubs/rereports/Year/2015/analysisREFimpact/.

We are delving deeper into the questions raised by the quantitative analysis, with a qualitative approach to consider the barriers and incentives to interdisciplinary research. The outcomes will be published later in 2016.

The UK Research Partnership Investment Fund

The UK Research Partnership Investment Fund (UKRPIF), which is administered by HEFCE on behalf of the Government, is designed to stimulate investment in large-scale higher education research facilities in areas of research excellence. In spring 2015, following the fourth round of the competition, seven outstanding university research projects were awarded over £100 million of investment in 2016-17 to drive innovation and economic growth. The projects will promote the development of world-leading research in a range of subject areas: metal casting, steel research, semi-conductor technology, the chemistry of health, bioscience, tissue repair and neuroscience.

To date, HEFCE has allocated more than £500 million of public investment to major infrastructure projects through UKRPIF, and universities have secured over £1.4 billion in further funding through investment from businesses or charities. A further £400 million of funding was announced by the Government in the 2015 Budget for the period up to 2021.

In 2015, the National Audit Office examined UKRPIF as part of its review of BIS' investment in science capital projects. The review concluded that HEFCE's assessment process was robust.

University of Cambridge: Chemistry of Health Centre


Impression of the Chemistry of Health Centre

The University of Cambridge was awarded £17.7 million in the fourth round of UKRPIF for its Chemistry of Health Centre, attracting around £50 million in co-investment. The centre will enable fundamental discoveries in the molecular processes underlying human disease. It will promote the translation of these discoveries into clinical and commercial applications by providing the infrastructure required for new academic-industrial partnerships which will have both immediate and long-term benefits for human health and the UK economy.

It is expected that the Chemistry of Health Centre will be ready to host researchers by December 2017. The Centre will house:

- A dedicated 'Incubator' space, where research scientists from industrial partners and start-up companies will occupy laboratory and desk space alongside academic researchers.
- The Centre for Protein Misfolding Disease, which aims to effect a step-change in basic and translational research on molecular approaches to combat modern pandemics such as Alzheimer's and Parkinson's diseases and type II diabetes.
- The Molecular Production and Characterisation Centre, which will provide support and access to state-of-the-art instrumentation for in-house, UK-wide academic and industrial users in the chemistry of health area.

Innovation through knowledge exchange

Universities, through offering their wealth of knowledge and expertise, help organisations of all sizes and sorts to become more competitive, innovative and productive. The term 'knowledge exchange' is shorthand for the multiple interactions between universities and businesses, public services, charities and communities to create benefit for society and the economy. These interactions include joint research and development projects, consultancy and training, knowledge transfer partnerships, and setting up new companies and social enterprises.

Knowledge exchange is critical to a world-leading higher education system. HEFCE is committed to facilitating and co-funding knowledge exchange interactions including the formula funding known as Higher Education Innovation Funding (HEIF), and through initiatives such as the UK Research Partnership Investment Fund. We allocated £162 million in 2015-16 through HEIF to support knowledge exchange activity (building on the £626 million in recurrent funding from 2011-12 to 2014-15). Our Catalyst Fund has supported priority areas of knowledge exchange activity, such as local growth and innovative knowledge exchange in specialist institutions. We support social as well as economic priorities, such as the social enterprise agendas.

Knowledge exchange performance

HEFCE's formula funding for knowledge exchange is currently allocated on the basis of income earned by universities and colleges for the knowledge 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 improve, and knowledge exchange income has risen by 6 per cent in 2014-15 compared with the previous academic year. Knowledge exchange income in England (by academic year) has increased in real terms, from just over £2 billion in 2003-04 to over £3.4 billion in 2014-15 – a 67 per cent increase. Universities are on track to deliver the Government's target, set in the productivity plan, to achieve £5 billion in UK knowledge exchange income by 2025[29].

29 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf.

We evaluated HEIF in 2015 to inform new policy developments and public spending priorities. Evaluation studies concluded that return on investment (ROI) from every £1 of HEIF is currently estimated at £9.70 in benefits for the economy and society. This was calculated taking account of returns measurable in terms of income (£7.30 ROI), but also estimates of some of the wider non-monetised benefits delivered by HEIF (£2.40 ROI). Benefits of HEIF are likely to be in excess even of these estimates (for example, an exploratory 2014 study suggested a tentative additional £3.36 for every £1 of HEIF invested in relation to student start-ups).

Evaluation studies described positive feedback from businesses and social and community groups working with universities, on the benefits they have received from knowledge exchange activities. Businesses feel that universities have become much more willing to engage and that HE knowledge exchange delivers value for money. The important benefits to stakeholders were also confirmed in support for HEIF in the 2015 Dowling Review[30].

HEFCE seeks to support institutions in using public funding for knowledge exchange efficiently and effectively, and furthering a culture of continuous improvement in knowledge exchange in higher education. As part of this agenda, and in response to a request from Government in the 2014 Science and Innovation Strategy, we are developing a knowledge exchange framework which includes tools to benchmark knowledge exchange performance and to share effective practices across universities. With other funders, we are also 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.

Bugs that harm health

HEFCE's Higher Education Innovation Funding was used by the London School of Hygiene & Tropical Medicine to strengthen the school's approach to business development and to set up an independent incubator for innovations from the school.

The school has a unique innovation offer in services and products to deal with the bugs that can be a danger to human health, particularly in the developing world. One example is the Arthropod Control Product Test Centre (arctec), which is now established as a world-leading independent test centre for consultancy and the evaluation and development of arthropod pest control technologies. The centre provides rigorous clinical trials, laboratory and field testing of products including insect repellents, head lice treatments, insecticides and insecticide-impregnated textiles. Vecotech Limited develops and commercialises novel arthropod attractant and repellent technologies discovered by researchers based at the school.

30 https://www.gov.uk/government/publications/business-university-research-collaborations-dowling-review-final-report.

Supporting national and local innovation and growth

In 2015, we used our Catalyst Fund to help to address the Government's priorities for growth and productivity. This has included projects for strengthening the role of universities as 'anchors' or place-makers in their cities, regions or wider locations.

Universities play a key role in stimulating local growth and innovation, and are well placed to respond to the Government's increasing policy of devolution. In England, through the current round of European Structural and Investment Funds (ESIF), over €6 billion between 2014 and 2020 is being coordinated by local partnerships in which universities play an important role. HEFCE, working with Universities UK, has been active in supporting universities to increase their contribution to and benefit from ESIF, ensuring higher education is better informed about underlying policies, detailed programme design and administrative systems.

The ESIF programme is important in many parts of England, and will soon be bolstered by the emergence of new forms of financing, particularly of 'risk-based' and 'value-capture' programmes: examples include the new European Fund for Strategic Investments, Combined Authority Investment Funds and new arrangements with business rates leading to developments such as Enterprise Zones. Many of these new funding opportunities will be developed in the context of devolution, especially in those places where devolution deals have been agreed with Government. HEFCE is developing a new university support programme to help institutions work with local partners and explore the opportunities of these new initiatives.

HEFCE Catalyst Fund: University of Essex as anchor

Image © Shutterstock/Mcleck

How do we better understand the factors contributing to social outcomes for vulnerable people? What is the role of volunteering and community assets in shaping these outcomes? These are the questions being addressed through the University of Essex as Anchor project, working in collaboration with Essex and Suffolk County Councils.

Local authorities across the UK are increasingly concerned with resource efficiency and how best to support the most vulnerable in society. The HEFCE funding for this project will enable the University of Essex to demonstrate how universities can support effective delivery of public services by contributing expertise and capability.

Leveraging the data analytics research expertise at Essex, the project will develop and test a set of smart tools to assess risk, evaluate impact and map community assets in Essex and Suffolk. A Community and Public Service Hub will also be developed to deliver increased volunteering opportunities for students, adding to community assets and providing students with skills development, improving employability and building social capital.

Regulation and assurance

HEFCE aims to regulate intelligently, be transparent and proportionate, and act fairly and legally in the interests of the student, the public and the taxpayer. We seek to reduce the burden of regulation wherever possible, respect institutional autonomy and promote and recognise innovation and excellence, both for those higher education providers we fund and when we are acting on behalf of other organisations, such as BIS.

Key elements of HEFCE regulation include overseeing a national system of quality assurance and assessment of higher education provision we fund, protecting the collective interests of students, operating the Register of higher education providers, and assuring and assessing institutional financial sustainability and good governance and management.

Student protection and the student interest

Students are stakeholders and partners in higher education: their fees increasingly fund large proportions of teaching. They are partners in and need to engage with their learning if the best outcomes are to be achieved. The institutions that teach them need students to engage with, participate in and contribute ideas to the life of the organisation and the wider community.

The Student Engagement Partnership

HEFCE contributes to the funding of The Student Engagement Partnership (TSEP) to support, develop and promote student engagement activity in the higher education sector across England.

TSEP is a central hub for student engagement practice in the higher education sector. It offers consultancy, training and website support to providers wishing to enhance their student engagement practice[31]. The website resources include 40 blog posts and

31 http://tsep.org.uk.

case studies highlighting good practice and insights on student engagement. TSEP projects include:

- the College HE network (with the AOC), which supports student engagement for HE students in colleges
- work with alternative providers to understand and enhance student engagement in that part of the sector
- a postgraduate researcher project which aims to identify how postgraduate research students engage with their institution and how this impacts on their experience and research.

One outcome of our work this year – undertaken with the National Union of Students and all provider representative bodies – has been the publication of practical guidance for institutions around their obligations when courses change or close[32]. We will continue working with Government and other stakeholders to bring about further reforms in this area.

Quality assurance and assessment

HEFCE has a statutory duty to ensure that quality assessment is conducted for provision at institutions we fund or are considering funding. This is vital for a number of reasons, not least to provide assurance to students, student sponsors and the taxpayer, and to protect the reputation of English and UK higher education. It is also important that the approach taken can demonstrate independence of judgement.

Over the 2015-16 financial year 93 reviews were conducted on our behalf by the Quality Assurance Agency for Higher Education, 31 in higher education institutions and 62 in further education or sixth form colleges who teach higher education courses. The majority of institutions were found to meet or exceed UK expectations. Any institution falling below expectations in one or more of four areas has to rectify their failings and then be reconsidered.

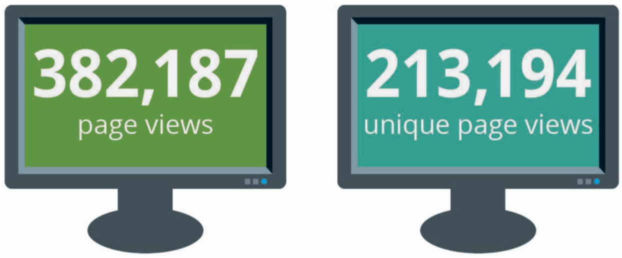
In parallel with Higher Education Funding Council for Wales and Department for Employment and Learning (in Northern Ireland), we have been consulting with a wide range of stakeholders about future arrangements for quality assessment. The future approach will be more risk based, act more quickly when things go wrong and give greater recognition to the increasing diversity of higher education. It builds on the past but also utilises newer data-driven approaches. It aims to introduce more appropriate, streamlined arrangements of assurances for mature providers, and suitably test entrant providers. We propose a strengthening of external examining and more support for governing bodies. We are committed to the development of a single coherent approach that encompasses both the future quality assessment arrangements and the Government's Teaching Excellence Framework.

32 See 'Higher education course changes and closures: statement of good practice' at www.hefce.ac.uk/reg/forstudents/sp/.

The Register

The HEFCE Register of higher education providers in England is a searchable web tool[33] which shows the differing regulatory controls placed upon providers that hold various powers or status. In October 2015 we made a number of changes to the Register to improve its usability and level of detail.

The HEFCE Register is the third most visited part of the website, after Publications and News and has received:



Financial accountability

We need to be assured that the public funds we provide to institutions are used effectively and efficiently. This protects students and the taxpayer. We work directly with the higher education institutions we fund (through visits, conversations, and conducting reviews and analysis of information on financial sustainability, risk management, control and governance) and write to them each year to formally communicate our assessment of their risk status. We seek assurance from the SFA, the main regulator of further education and sixth form colleges, with regard to the financial position, governance and management of those colleges that offer higher education, which we fund.

Gateways into higher education

New providers bring innovative approaches and increase the choice available to students. As they enter the sector or change their status within it, controls are exercised in the interests of students, the taxpayer and the reputation of higher education in England. These entry points are known as gateways.

We have worked with BIS for a number of years contributing to the assessment of gateway applications. In September 2015 our role was extended so that we manage all six of the application processes. We receive applications and variously collate information, analyse applications against criteria (such as financial sustainability) and provide advice to Government to facilitate decision-making. BIS sets the policy and guidance and is the decision maker for five of these gateways.

33 www.hefce.ac.uk/reg/register/.

Financial sustainability and efficiency

HEFCE assesses the financial health of the HEFCE-funded higher education sector in England, and works to promote and evidence efficiency in the sector.

During 2015-16 we published two reports[34] on the financial health of the higher education sector based on the financial results and forecasts submitted by HEFCE-funded institutions. Sector results in academic year 2014-15 continued to show a reasonable position overall. However, and when considered alongside the sector's future financial projections (until 2017-18), there is increasing variation in the financial performance of institutions, with a widening gap between the lowest and highest-performing institutions.

HEIs are under greater pressure to generate higher surpluses in order to remain sustainable. The latest Transparent Approach to Costing (TRAC) submissions show that, in the medium to long term, the sector still needs to generate larger surpluses to make progress towards covering the full economic costs of its activities and maintaining sustainability.

Overall, the sector reported an underlying sustainability gap (the difference between the level of surplus achieved by the sector and the level required to cover the full economic costs of all its activities) of £860 million in academic year 2014-15, which is broadly consistent with the previous year. However, without increased surpluses, there is a risk that institutions will be unable to deliver the scale of investment required to meet rising student expectations, build capacity for growth and ensure that it can remain internationally competitive.

The sector is in the process of implementing new financial reporting standards (FRS102) within a new Statement of Recommended Practice (SORP), which will change the appearances of financial statements from 2015-16. HEFCE is working with the sector to reflect the impact that this will have on consistent and meaningful monitoring of financial performance.

As charities, HEIs are obliged to ensure that they remain sustainable and do not expose themselves to undue risk. Strong liquidity is particularly important given current levels of uncertainty and risk, in-year cash flow pressures, the increasingly competitive home and overseas markets, and the need to repay increasing levels of borrowings. We will continue to monitor liquidity levels to assess whether HEIs are able to maintain sufficient cash levels to manage their risks effectively.

Exempt charities regulation

HEFCE is the principal regulator for 112 higher education institutions which are exempt charities. Our role as principal regulator is to promote compliance by charity trustees with their legal obligations in exercising control and management of the administration of the charity.

We liaise closely with the Charity Commission and discharge our duty by providing guidance to trustees and requiring publication of information about the charity and its trustees on the charities' own websites. We check compliance with disclosures that charities are required to make in their financial statements as part of our review of the annual accountability returns, so reducing the requirements on providers.

34 www.hefce.ac.uk/pubs/year/2015/201529/ and www.hefce.ac.uk/pubs/year/2016/201604/.

Efficiency

During 2015-16 HEFCE continued to work with the sector to promote effective and efficient practices, and to evidence the benefits achieved as a result. Discussions with BIS and Universities UK led to agreement on how the sector will report on its efficiencies in future years. HEFCE will draw on expanding data sources to coordinate the production of an annual report which will include high-level sector productivity indicators as well as institutional measures and metrics on sector initiatives. HEFCE began dialogue with institutional representatives and sector bodies to establish reporting frameworks which can be used to provide evidence most effectively.

We continue to work on issues highlighted by the review of efficiency in HE led by Professor Sir Ian Diamond[35] and the further Universities UK Diamond Report[36]. In particular, we contributed to an initiative to deliver more benefits from research asset sharing. We also continue to collect procurement efficiency data which evidences progress against the 30 per cent collaborative procurement target set by Diamond. We have again analysed the value-for-money (VFM) reports submitted to HEFCE by institutions, which continue to demonstrate efficiency initiatives across the sector. In future years we look to improve the consistency and volume of data collected from institutions through their VFM reporting, in support of an enhanced evidence base for sector efficiency.

Falmouth Exeter Plus

Falmouth Exeter Plus is the service delivery partner of Falmouth University and the University of Exeter, delivering shared higher education services and facilities at Penryn Campus in Cornwall. It is an exempt charity wholly owned by Exeter and Falmouth Universities on a 50:50 basis.

To assist the sector in understanding the costs and benefits of shared services, HEFCE funded Falmouth Exeter Plus to create a web-based tool for use by the sector, known as HERBi (Higher Education Realisation of Benefits interactive (tool)). It is a free resource that helps HEIs to understand the costs and benefits of sharing services, allowing modelling of the quantitative and qualitative impact of sharing various services in different ways – for example, sharing fixed costs, efficiency savings, economies of scale, set-up and governance costs, and the impacts on staff and students.

HERBi has attracted interest from outside the HE sector, most notably by housing associations, which are facing similar challenges.

35 www.universitiesuk.ac.uk/highereducation/Documents/2011/EfficiencyinHigherEducation.pdf.

36 www.universitiesuk.ac.uk/highereducation/Pages/EfficiencyEffectivenessValueForMoney.aspx.

We have also supported the LFHE's Innovation and Transformation Fund projects. In particular, the Guide to Evidencing the Benefits of Business Process Improvement[37] has generated much interest: since its launch in July 2015 it has been downloaded over 3,000 times. In the coming year we will continue to work with the sector representative bodies to support cross-sector efficiency initiatives and share good practice.

Sustainable development

Sustainable development is about protecting and enhancing quality of life for current and future generations. Universities and colleges contribute to this agenda through the understanding, skills and attitudes that their students gain and put into practice, and through research, knowledge exchange and community involvement.

HEFCE's framework for sustainable development in higher education[38] was developed at the request of Government. It includes work to understand progress towards the challenging carbon targets that the sector established in 2010. These are for a 34 per cent reduction in emissions by 2020 and 80 per cent by 2050 against a 1990 base; the latter figure is in line with the Climate Change Act 2008. We monitor progress in the sector towards meeting these targets.

Our Catalyst Fund is open to innovative sustainability projects. We also support institutions in their engagement with Local Enterprise Partnerships in applying for ESIF, where there is often a sustainability dimension.

Delivering our business plan

All that we have achieved in the last year has been thanks to the expertise, talent and motivation of our staff. Our People Strategy[39] affirms our commitment to high performance and continuous improvement. It helps us to ensure that our people are supported to do their jobs to the best of their ability.

HEFCE is committed to promoting diversity and equal opportunities in employment. Like many organisations, we recognise the benefits of a diverse and well-motivated workforce, where all are treated fairly. Our intention is to reflect not only the letter but also the spirit of the Public Sector Equality Duty. We have published our annual equality and diversity report 2015[40] which provides equality data on HEFCE staff, and on staff, students and governing bodies.

2015 staff survey

Our staff complete an annual staff survey, run by Best Companies. As a result of staff responses, HEFCE has been accredited as a 'ones to watch' organisation by Best Companies and were placed in the top 100 Sunday Times Best Not-for-Profit Companies (which include public sector organisations).

37 http://ewds.strath.ac.uk/evidencingbenefits.

38 www.hefce.ac.uk/pubs/year/2014/201430/.

39 www.hefce.ac.uk/workprovide/ed/employ.

40 www.hefce.ac.uk/workprovide/ed/object/.

Sustainability report for 2015-16

HEFCE is committed to acting in a socially responsible way, and we encourage our stakeholders to do likewise. For us, corporate social responsibility (CSR) means that we take account of the impact of our work on the economy, society and the environment[41].

A major development during 2015-16 was the relocation of our main office in Bristol to smaller premises in October 2015. Energy efficiency measures were incorporated into the new buildings during their refurbishment and, in combination with their smaller size, will help to reduce our energy consumption and utilities costs.

Improvements in ICT were an integral part of the relocation project. They will support flexible working practices and reduce our use of print and paper resources. The full evaluation of the benefits of the move has not yet been completed; we will report on this next year.

HEFCE operates two externally certified management system standards: ISO14001:2004 (Environmental) and OHSAS 18001 (Occupational Health and Safety). These standards are designed to be compatible, allowing us to be consistent in applying management processes, making more efficient use of resources and maintaining challenge and improvement.

Our environmental performance

This is the seventh year in which we have reported on environmental sustainability in our annual report. Our processes follow the guidance provided by HM Treasury: 'Public sector annual reports: sustainability reporting guidance 2015-16'[42].

In addition to the proposed minimum reporting requirements of emissions, waste and finite resource consumption (Scope 1 and 2), we report on Scope 3 emissions arising from all business travel that is under our budgetary control. Our analysis of data follows the Department for Environment, Food and Rural Affairs' (Defra's) environmental reporting guidance[43].

Relocation of our London and Bristol offices – impact on environmental performance data

This section deals with non-financial indicators. A CSR steering group oversees our sustainability management and reporting, and reviews the quality of data and data processes at regular intervals. However, the relocation of our London office in April 2013 and the move of our main HEFCE office in Bristol in October 2015 have introduced significant disruption in the year-on-year comparability of data, adding to other difficulties in getting accurate and comparable data.

In the period up to and including 2012-13, the contribution made by water and heating oil consumption at our previous London office was based on data estimates supplied by the landlord: 2013-14 was the first year that we had accurate data on gas, electricity and water consumption at our new London office. Additionally, data on waste and recycling arising from our London office was available from our landlord for the first time in 2013-14.

41 www.hefce.ac.uk/about/csr/.

42 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512663/PU1935_Public_sector_ARA_sustainability_guidance_2015-16.pdf.

43 https://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance.

The floor area of our London office is more than 25 per cent larger than at the previous location (though we share this with the Student Loans Company), and electricity consumption and waste generation were at elevated levels early in 2013 during the fit-out of the new office.

The 2015-16 data are not comparable with any of the previous years' figures because of the fit-out and relocation of our main office in Bristol. The new premises comprise two buildings, one of which is shared with two sub-tenants. The relocation reduced our space by 22 per cent compared with the previous location, when space occupied by our largest sub-tenant is excluded[44].

Across the time series we have been able consistently to gather data on electricity consumption in our main Bristol office and second office in London. However the dataset relating to the fit-out of the new premises in Bristol in 2014-15 is incomplete: while we have data on the expenditure incurred we are unable to access accurate information on consumption and waste before April 2015.

Information on water consumption in our new Bristol premises is only available from our supplier at six-monthly intervals, and complete data for 2015-16 is not yet available. We use a proxy measure whereby metered water consumption in the building that we share with our sub-tenants is reduced by 50 per cent (as one sub-tenant occupies one of two floors in our shared building). All water consumption from our other building in Bristol is attributed to HEFCE's use.

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

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 2014-15 has been restated, and recalculations using these data impact on the information previously reported with respect to this year. The 2015-16 data reported is provisional: we are awaiting 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 2015-16 data in our next sustainability report.

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

'Materiality' is the principle that trivial matters are to be disregarded, and important matters are disclosed. In our sustainability reporting there is no agreed level of data materiality and therefore all data assumptions are declared. In 2015-16 we applied assumptions to primary data for energy, waste and business travel. The accounting error margins arising from these assumptions are more sizeable in 2015-16 than in previous years for the reasons stated above. They arise from cost proxy estimates on 24 per cent of our business travel emissions, and sample estimates on our landfill and recycled waste disposal.

44 As the Office for Fair Access was HEFCE's sub-tenant at our previous Bristol premises, its space in the new premises is not excluded from the comparative calculation of space.

Water and energy consumption

The report on water and energy consumption ('finite resources') combines available data for our Bristol and London offices. As noted above, office relocations mean that these data are not directly comparable across the time series.

HEFCE shares its Bristol office with OFFA: this was the case in our previous premises. We cannot differentiate between resource consumption by HEFCE and OFFA. As our water consumption is reported per full-time equivalent (FTE) staff, we include HEFCE and OFFA staff FTE in the calculation of our water consumption. The figures show that water consumption per staff FTE increased in 2014-15, following the installation of a new water meter at our previous Bristol office in January 2014. We have assumed that the new meter was more accurate than its predecessor, but water consumption in 2015-16 remains at an elevated level when compared to earlier years of the time series, as shown below.

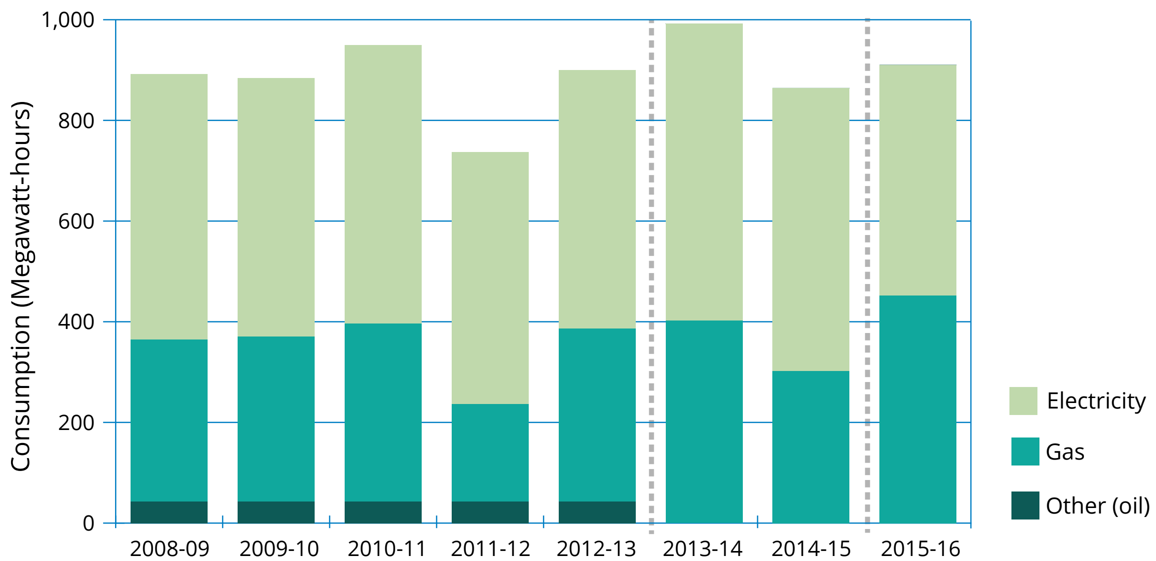
Table A1 **HEFCE finite resource consumption**

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Cubic meters								
Water*	5.40	6.92	6.94	6.71	5.16	7.72	8.86	9.80
Megawatt-hours								
Electricity	527	513	553	500	513	590	562	457
Gas	322	328	354	194	344	402	302	453
Other**	43	43	43	43	43	0	0	0
Total energy	**891**	**884**	**950**	**737**	**900**	**992**	**864**	**910**

* Consumption per HEFCE and OFFA staff FTE.

** Estimated heating oil consumption at the London office occupied by HEFCE prior to 2013-14. The London office occupied by HEFCE since 2013-14 does not consume heating oil and is instead able to provide detailed information regarding gas and electricity consumption that was not available previously. Our heating oil consumption reduces to zero following relocation in London.

Figure A1 **HEFCE finite resource consumption**



Note: The dotted lines identify the breaks in the consistency of the time series caused by the relocations of our London and Bristol offices.

Table A1 and Figure A1 include finite resource consumption across all of the sites operated by HEFCE in 2015-16. They therefore include consumption at our new Bristol office during the fit-out of those premises between April and September 2015, consumption at both office locations during normal business operation, and consumption at our previous Bristol office during its close-down between October and December 2015. To understand the changes in water and gas consumption arising from HEFCE's normal business operation, we have isolated the extraneous consumption attributable to the relocation process. Table A2 shows decreases of 8 per cent and 28 per cent respectively in consumption of water and electricity compared with consumption observed in 2014-15. It confirms that the elevated levels of water consumption result from activities related to the relocation of HEFCE's Bristol office. Gas consumption remains slightly higher in 2015-16 than in 2014-15 when considering only consumption arising from normal business operations.

Table A2 **HEFCE finite resource consumption arising only from normal business operation**

	2013-14	2014-15	2015-16
Cubic meters			
Water*	7.72	8.86	8.17
Megawatt-hours			
Electricity	590	562	403
Gas	402	302	314
Total energy	**992**	**864**	**717**

* Consumption per HEFCE and OFFA staff FTE.

Greenhouse gas emissions

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

Despite increased gas consumption during activities related to the relocation of HEFCE's Bristol office, Table A3 suggests that total carbon emissions from energy use were lower in 2015-16 than in any of the previous three years.

Tables A1 and A2 indicate that the 6.5 per cent reduction in carbon emissions from energy use between 2014-15 and 2015-16 was driven by a fall in electricity consumption, in part reflecting the fact that our servers moved off-site in summer of 2015.

Table A3 **HEFCE greenhouse gas emissions**

Tonnes of CO_2	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total gross emissions* for Scope 1 and 2	326	304	331	270	328	345	313	293**
Gross emissions attributable to Scope 3, business travel	246	165	130	131	131	118	104	118
Total emissions	**572**	**469**	**461**	**401**	**459**	**463**	**418**	**411**

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

** Total gross emissions for Scopes 1 and 2 in 2015-16 include emissions arising from consumption during activities related to the relocation of HEFCE's Bristol office.

Note: The dotted lines identify the breaks in the consistency of the time series caused by the relocations of our London and Bristol offices.

Having isolated the extraneous consumption attributable to the relocation of HEFCE's Bristol office, we note that 2015-16 total gross emissions for Scope 1 and 2 emissions arising from normal business operation were 243 tonnes. The data therefore shows that total emissions would otherwise have been 361 tonnes.

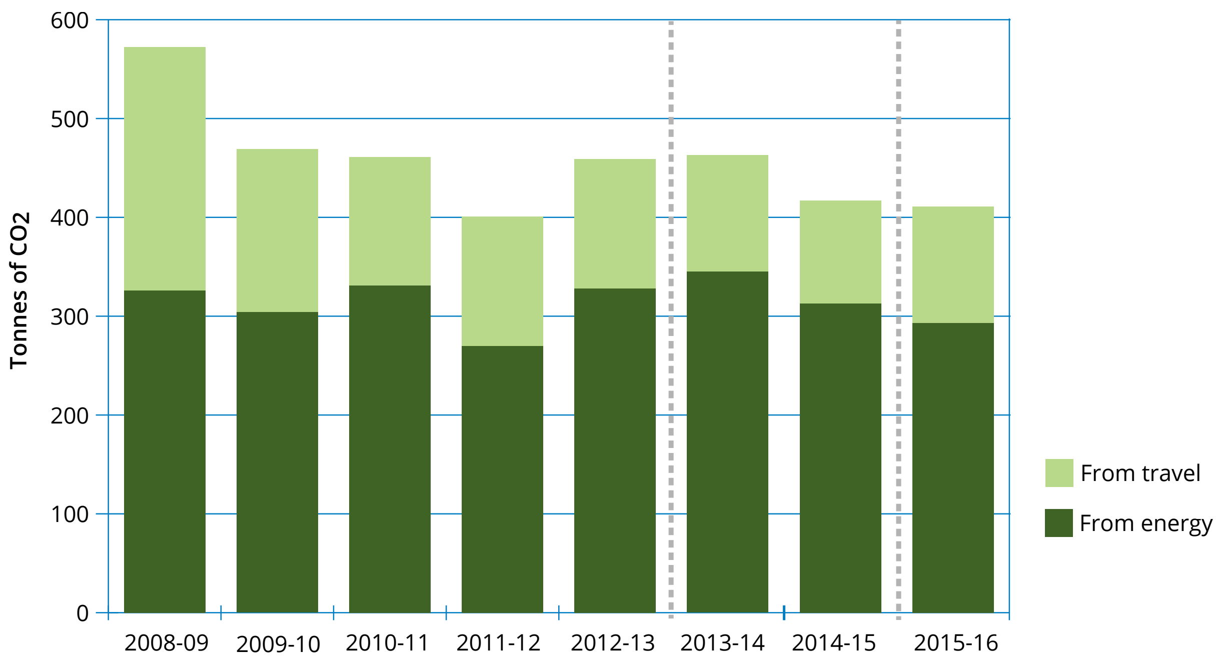
Carbon emissions from business travel returned to 2013-14 levels in 2015-16 after falling to a record low in 2014-15. Emissions from domestic flights were 8.9 tonnes in 2015-16, compared with 6.6 tonnes in the baseline year and 6.0 tonnes in 2014-15. While emissions from short-haul international flights more than halved between 2014-15 and 2015-16, increases are seen in emissions from long-haul international flights in 2015-16 compared with 2014-15. Air travel activity is sensitive to year-on-year fluctuation in the relatively small numbers of flights taken by HEFCE staff.

Table A4 **HEFCE greenhouse gas emissions from air travel**

Tonnes of CO_2	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Domestic flights	6.6	6.1	7.2	7.8	6.9	6.0	8.9
Number of flights*	-	-	-	89	68	87	100
Short-haul international	5.0	4.4	4.6	3.2	1.1	5.4	2.3
Long-haul international	25.5	15.0	21.9	21.9	12.5	15.2	15.9
Total emissions	**37.1**	**25.5**	**33.7**	**32.9**	**20.5**	**26.5**	**27.1**

* Data not available

Figure A2 **HEFCE carbon emissions by business travel and energy use**



Note: The dotted lines identify the breaks in the consistency of the time series on account of the relocations of our London and Bristol offices.

Waste

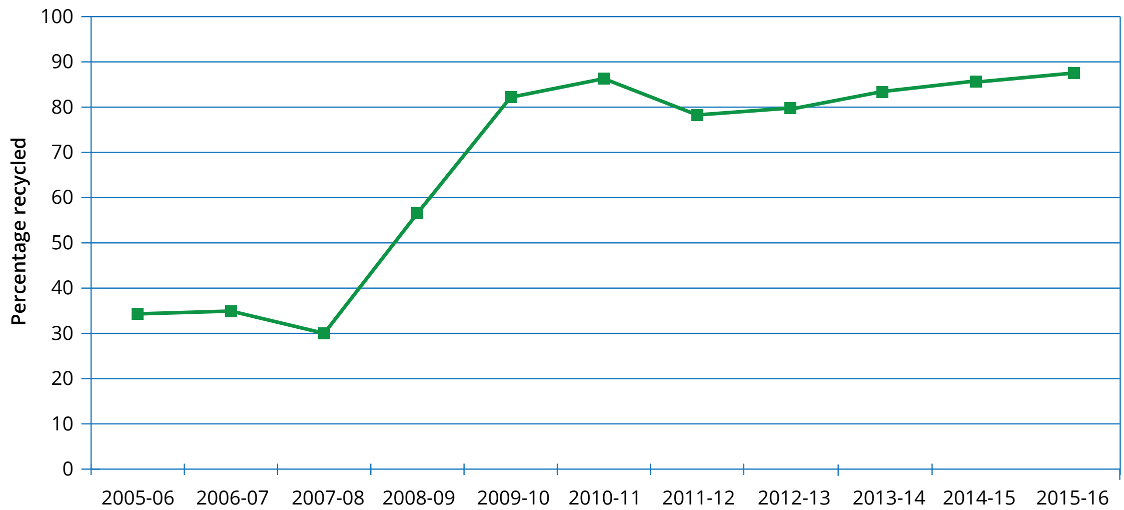
Our target was to reduce the total quantity of waste material we generate on our estate by 25 per cent by 2015-16 against a baseline level in 2009-10. However, our 2009-10 baseline data are likely to be lower than the actual quantities of waste material that were generated in that year. Analysis of recycled 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. We believe the most recent five years of data are more accurate than the earlier years. However, as noted above, activities related to the relocation of HEFCE's Bristol office have been included in the figures shown here, and this includes a substantial volume of waste and recycling as a result of the fit-out of the new, and close-down of the previous, locations. This means that 2015-16 figures are not directly comparable with earlier years.

Table A5 **HEFCE waste**

Tonnes	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Total waste	53.95	33.10	48.74	37.79	41.04	40.49	32.69	69.84
Waste to landfill*	23.43	5.90	6.68	8.21	8.29	6.45	4.21	7.86
Waste recycled at source	30.51	27.20	42.06	29.58	32.75	34.04	28.48	61.99
Percentage of total waste recycled at source	56.55	82.18	86.29	78.27	79.80	83.45	87.13	88.75

* Assumes the provider recycles none.

Figure A3 **Proportion of HEFCE waste recycled at source**



Data shows that 39.66 tonnes of total waste and recycling arising in 2015-16 can be attributed to the fit-out and close-down of HEFCE's Bristol office locations, and that 98.84 per cent of this waste was recycled.

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 Energy Efficiency Scheme, because our annual energy use falls below the compliance threshold for the scheme. The cost of gas in each year between 2011-12 and 2015-16 takes into account HM Revenue and Customs' climate change levy and the increase in the gas unit charge.

Table A6 **Expenditure arising from consumption**

			£000			
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Utilities						
Electricity	58	57	60	66	74	88
Gas	10	9	14	16	16	14
Water	4	5	5	5	8	9
	72	71	79	87	98	111
Business travel						
Car	20	16	18	16	11	11
Taxis	38	34	31	33	32	33
Rail	319	343	351	340	429	502
Air	22	18	29	7	23	25
	399	411	429	396	495	571
Waste disposal						
Waste sent to landfill *			3	3	3	-
Waste recycled*			9	7	9	-
			13	10	13	11

* Data not available

In addition to the 2015-16 figures stated above, HEFCE's relocation of our Bristol office has incurred the following expenditure arising from consumption at the new buildings during the planning and fit-out of the new office.

Table A7 **Expenditure arising from consumption as a result of the fit-out of the new Bristol office**

£000	2014-15	2015-16
Utilities		
Electricity	62	14
Gas	19	2
Water	6	2
	87	17
Waste disposal		6

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

30 June 2016

Accountability report

Corporate governance report

The directors' report

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 2015-16, membership of the Board was:

Chair
Tim Melville-Ross CBE

Chief Executive (and Accounting Officer)
Professor Madeleine Atkins CBE

Members
The Hon Apurv Bagri, President and CEO, Metdist Enterprises Ltd; Chair, London Business School
Professor Sir Keith Burnett, Vice-Chancellor, University of Sheffield
Professor Ruth Farwell CBE, former Vice-Chancellor, Buckinghamshire New University (term of office ended 31 October 2015)
Professor Anne Greenough, Professor of Neonatology and Clinical Research Physiology, King's College London
Peter Houillon, Chief Executive, Kaplan UK
Graeme Osborn, Employee of the Graduate Students' Association, University of York
Professor Dame Shirley Pearce CBE, Chair, College of Policing; member of the University of Cambridge Council; former Vice-Chancellor, Loughborough University (term of office ended on 30 November 2015)
Mark Robson, Head of Statistics and Regulatory Data, Bank of England
Hugh Ross, Former NHS Trust Chief Executive
Anil Ruia OBE, Director, Botraco Ltd; Chair, University of Manchester
Professor Mary Stuart, Vice-Chancellor, University of Lincoln
Dr Suzy Walton, Deputy Chairman of the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA), Board member of ACCA and Institute of Directors (term of office ended on 30 November 2015)
Sara Weller CBE, Non-Executive Director, Lloyds Bank, United Utilities and member of the University of Cambridge Council

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

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

HEFCE committees

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

HEFCE Executive

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

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

Personal data related incidents

In 2015-16 there have been no personal data related incidents formally reported to the Information Commissioner's Office.

Further information

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

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

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

Preparation of the annual report and accounts

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 2016 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2015-16. 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. These decisions are then ratified by the Board.

Membership during the year was as follows:

Chair
Hugh Ross* Former NHS Trust Chief Executive

Members
John Harley Chair of Governors, University of Brighton
Mark Robson* Head of Statistics and Regulatory Data, Bank of England
Clifford Shanbury Independent Member of the Audit Committee, Office for Nuclear Regulation
Dr Ruth Thompson Non-executive director and university governor
Frank Toop Governor and Chair of Audit Committee, Bromley College of Further and Higher Education, retired from the Audit Committee in November 2015
Dr Suzy Walton* Deputy Chair of the Royal Society for the Encouragement of Arts, Manufacturers and Commerce (RSA); Board member of ACCA and Institute of Directors, retired from the Audit Committee in November 2015

*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 Committee will recommend the audited accounts to the Board, and give a formal opinion on the adequacy of internal control. Consistent with HEFCE's responsibilities in the higher education sector, this remit extends to providing 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 and advise the Board and the Accounting Officer on the adequacy and effectiveness of, and good practice in, corporate governance, risk management, internal control arrangements and VFM within the Council and in funded institutions through monitoring and/or reviewing:

- The mechanisms (principles and approach) adopted by HEFCE for the assessment and management of its own current and future risks. This includes a cyclical report from each Directorate on the key risks in their area and actions being taken to mitigate these and other generic risks.
- The robustness of the operation of the institutional risk system undertaken by HEFCE for the assessment and management of risk and internal control issues associated with HEFCE funded and/or regulated institutions and related bodies.
- The scope, resourcing and effectiveness of the Council's Assurance Service, including advising on the appointment of the head of this service.
- The appointment of the Council's Internal Audit provider and Head of Internal Audit along with the scope, resourcing and effectiveness of this service..
- The Council's accounting policies and annual financial statements, including both the 'hard close' accounts and final audited accounts, the NAO management statement and HEFCE response, and the Governance Statement.
- The strategy, remuneration and performance of the National Audit Office (NAO) for the audit work undertaken on the annual accounts.
- The strategy and planned activity, on an annual basis, of internal and external audit designed to (inter alia) assess the systems operated by the Council and funded and/or regulated institutions to achieve effective internal control and risk management.
- The results of internal and external audit activity, including non-audit services provided where appropriate, and the consequences of any shortfall against the full range of activities planned. An update will be provided at each meeting.
- The adequacy of HEFCE management responses to issues identified by audit activity and the satisfactory implementation of any recommendations.
- Any relevant reports from the NAO, the Department for Business, Innovation and Skills (or any successor Department) Audit Service or other parts of the Government, including any management response.
- Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector. This includes receiving regular reports on how risk is managed across HEFCE.
- Reports on the monitoring of HEFCE's performance against budget and on its financial position to ensure resources are managed effectively and that strategic objectives are delivered according to plan.
- The outcomes of work carried out connected to fraud, irregularity and losses in HEFCE or the HE sector.
- The policies and arrangements in place at the Council for the handling of complaints and public interest disclosures made to the Council concerning funded institutions and policies relating to fraud and whistle-blowing.

- The outcome of any independent review of the Internal Audit and/or Assurance Service.
- Processes and assurances relating to arrangements for information security, cyber security and assurance at the Council.
- Information and assurances connected to the Council's role as a principal regulator of HEIs that are exempt charities under the Charities Act 2011.
- Assurances connected to the quality of data and other information obtained from funded and/or regulated institutions.
- New accounting and audit standards.

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

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

External audit information

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

Audit of the accounts

The Comptroller and Auditor General is the appointed statutory auditor of HEFCE's accounts. The audit fee for the financial year 2015-16 is £60,000 (2014-15: £60,000). There was no other work for which a fee was payable.

Financial results 2015-16

Funding and expenditure in-year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £3,844 million of grant funding from the Department for Business, Innovation and Skills (BIS) (2014-15: £4,168 million). Grant-in-aid is treated as financing and taken directly to reserves.

In addition to funding from BIS, HEFCE receives income from other bodies for their contribution towards various initiatives. HEFCE's total income for 2015-16 was £8 million (2014-15: £7 million).

Total expenditure in year was £3,828 million (2014-15: £4,148 million). Of this, £26 million (2014-15: £25 million) relates to the administration costs we incur in managing and distributing grant funding to the higher education sector, and £3,802 million (2014-15: £4,123 million) to programme funds. The vast majority, £3,803 million (2014-15: £4,125 million), of programme funds relates to grants payable to higher education institutions and other sector bodies. In 2015-16 a reduction in programme costs of £0.5 million (2014-15, reduction of £1.2 million) was also incurred as a result of changes to the valuation of HEFCE's provision for inherited liabilities (see note 12 of the accounts). As this type of revaluation is unpredictable and demand-led, costs are charged to a separate central government budget (Annually Managed Expenditure, 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.

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 (1 August to 31 July), with annual funding allocations announced to the sector in March each year (see www.hefce.ac.uk/funding/annallocns/1617/ for the 2016-17 announcement).

Our administration cost budget is agreed by BIS each year, and performance against budget is monitored and reported each month. HEFCE's 2015-16 budget from BIS was £25.7 million, meaning that the cost of administering, managing and allocating programme funding to the higher education sector is less than 0.7 per cent of total grant distributed.

BIS Finance 2020 transformation programme

As part of its strategy for an integrated and efficient future operating model, BIS has set out three aims for financial management reform across the department and its partner organisations. The finance function will be focused on activities that ensure we are at the heart of decision making, providing the customers with an improved, fully digital service. To do this in the future BIS must transform how it delivers finance: by 2020 BIS must be smarter, simpler and smaller. To achieve this BIS will be highly integrated. This will allow

Finance to remain a consistently high performing function that responds positively to the challenges and opportunities. BIS Finance 2020 programme has five work streams: people, policies and processes, technology, target operating model, and data and analytics. HEFCE has remained engaged and contributed to the various programmes and work streams across the BIS family.

In 2015-16 HEFCE used UK Shared Business Services Limited (UK SBS) for procurement activities to maximise savings through centralised buying power across BIS, and to access specialist expert resource of UK SBS category managers. HEFCE has benefitted through use of central government frameworks and procurement contracts.

In addition to working with BIS and UK SBS, we continue to make significant efficiencies through our own cost-sharing arrangements and joint use of estate with other partner organisations. For the past seven years HEFCE has provided the Office for Fair Access with shared services for all its corporate functions, and has hosted the organisation in our Bristol office. In 2015-16 we have completed the relocation of our Bristol office, moving from private sector to public sector estate. This move will generate annual rental savings of around £0.4 million through better use of government buildings, co-location with other partner organisations, reduced floor space and more energy-efficient design.

During 2015-16 HEFCE has made further improvements to its financial management and retained finance function. During the year we underwent a follow up review of our financial management by the Chartered Institute of Public Finance and Accountancy (CIPFA), where the organisation’s capability was assessed very favourably. HEFCE has further developed its internal management information and strengthened the business partnering approach to establish better engagement of finance with the rest of the business.

HEFCE is an active partner in BIS’s financial reform agenda, and during 2015-16 senior finance staff have represented HEFCE at a range of forums. Examples of HEFCE’s engagement in this area include: chairing the BIS Finance Steering Group; 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 the associated BIS Network of Excellence.

In many of these areas, HEFCE has been representing other small and medium partner organisations, identifying the particular strengths of such partner bodies within BIS, highlighting opportunities for the sharing of experience and expertise, and building resilience across clusters of similar organisations. This was recognised in October 2015 when the HEFCE Finance team was awarded ‘Finance Team of the Year’ in the annual BIS Financial Management awards.

Our actions across the different areas of BIS’s 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 2016 HEFCE's Statement of Financial Position shows net liabilities of £101 million (2015: £126 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's 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 2016 our cash balance was £43 million (£30 million in 2015), 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 http://payontime.co.uk/) which targets payment within 30 days, and monitor our performance in-year against this target. We also monitor our performance against 10-day and five-day measures, as we wish to balance the desire to pay our creditors as promptly as we can against the need to maintain effective internal controls. In 2015-16 our 30-day performance was 98 per cent of invoices (2014-15: 99 per cent), with a 10-day performance of 89 per cent (2014-15: 91 per cent) and a five-day performance of 73 per cent (2014-15: 74 per cent). In 2015-16 HEFCE paid £293 of interest to suppliers due to late payment.

At 31 March 2016 our trade payables balance (the amount owing to our suppliers) was £0.4 million (2015: £0.7 million). Comparing this balance with the aggregate amount invoiced by suppliers in-year (£18 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 2016 our figure for 'creditor days' was 8.1 days (2015: 9.3 days).

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 three HEFCE's average variance between forecast BACS payments and actual BACS payments made was 4.15 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 2016-17 we will continue to monitor our performance against such measures and will use benchmark information to drive continuous improvement in our financial management processes.

Statement of Accounting Officer's responsibilities

Under section 16 of Schedule 1 to the Further and Higher Education Act 1992, the Secretary of State for 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 expenditure, 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.
- 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. These responsibilities have been fulfilled.

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

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

The Governance Statement

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 Further and Higher Education Act 1992 requires that the HEFCE Board shall consist of between 12 and 15 members, who are appointed by the Secretary of State for Business Innovation and Skills in accordance with the requirements of the Act. At 31 March 2016, the Board had 12 members.

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. One of these, the Quality, Accountability and Regulation (QAR) strategic advisory committee, acts as HEFCE's formal Quality Assessment Committee under section 70 of the 1992 Act. The Board also has a sub-group to review requests made by HEFCE-funded higher education institutions (HEIs) whose planned financial commitments meet certain criteria. A Board panel also meets to consider certain requests for funding support under our Catalyst Fund, www.hefce.ac.uk/funding/catalyst/.

Attendance at Board and all our Committee meetings is consistently high; more specifically the Board and Audit Committee attendance for the year was 83 per cent and 88 per cent respectively. The background and registered interests of Board and Audit Committee members are published on our website. Information about the diversity characteristics of our Board and its committees is available on our website. The Board has an independent procedure for hearing complaints about HEFCE, the Complaints Panel. There were no complaints in 2015-16 and therefore the Panel was not required to meet. Additionally, we received no allegations about HEFCE under our whistleblowing / public interest disclosure arrangements. Further details about our committees and other corporate governance information are available at www.hefce.ac.uk/about/.

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 website at:
www.hefce.ac.uk/about/reportsaccounts/accountability/.

We have regular interactions with BIS, which incorporate consideration of HEFCE's performance. The BIS grant letter to HEFCE of 4 March 2016 confirmed government funding for higher education for 2016-17, with indicative allocations for financial year 2017-18. For 2016-17, there is a £300 million reduction in teaching, research and capital funding compared with 2015-16. The grant settlement will mean further real-terms reductions in HEFCE funding for higher education institutions in the year. In exercising its discretion in the allocation of funding, HEFCE has sought to address government priorities including the protection of funding for high cost subjects, widening participation, and small and specialist institutions, and to continue selectively to fund world-leading and internationally excellent research wherever it is found. The March 2016 grant letter also included two further significant future developments, that HEFCE will be responsible for operational delivery of the Teaching Excellence Framework in Year 2 and that HEFCE will take on the funding of nursing, midwifery and allied health professional subjects from 2017-18. The grant letter does not deal with HEFCE's administration grant for 2016-17, which is notified to us under separate arrangements.

Governance practice

The Council continues to seek out and adopt good governance practices. It is normal for the Board to carry out an annual effectiveness review. During 2015-16, the Board and Audit Committee each received a report of an external review of their effectiveness which had been commissioned towards the end of the previous year. These reports provided a strong, positive high-level assessment of the Board and Committee's work. The recommendations arising have been reviewed and dealt with to the satisfaction of the Board and Committee during the year. In particular, in its review of the implementation of the recommendations, the Board considered the nature of the information provided to it in the context of the evolving external environment, confirming that the balance of strategic and other information provided enables the Board to meets its changing responsibilities. The Board and Audit Committee have also separately carried out an annual exercise to review their own effectiveness in 2015-16. For the Board this consisted of an appraisal of the Board in early 2016 by the Chair through semi-structured discussions with members, a review of the Chair's performance by the Deputy Chair, an assessment of our governance risks and benchmarking 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 (NDPB). The Board discussed its effectiveness at its annual strategy and planning day in March 2016. Overall, the Board was content with its effectiveness and governance practices, with the Chair's appraisal concluding that the board has performed well in challenging circumstances over the last year. The most significant issues arising concerned the continuing need to respond flexibly to the fast-changing environment and to support BIS in the recruitment of new Board members.

The Audit Committee

The Audit Committee's remit includes both HEFCE itself and HEFCE's assurance work with the higher education (HE) sector. At the year-end, the Committee had five members, two 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 Chair presents a report to the Board after each meeting, and minutes of each meeting are available to Board members.

Following many years of operating an in-house internal audit service, the Committee agreed a recommendation from the Accounting Officer to outsource this work. Following a procurement exercise, Ernst & Young LLP were appointed as our internal auditors in July 2015. The Committee has focused this year on risk management and cyber security, both of which have been subject to internal audit or review in 2015-16.

To complement the work we are undertaking to strengthen our cyber security arrangements, 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 Departmental Security Health Check. In 2015-16, there were no incidents or losses of data that required a report to the Information Commissioner's Office.

In 2014-15, the Committee's effectiveness was independently reviewed by external consultants alongside the review of the Board's effectiveness. The Committee discussed the resulting report in April 2015 and considered progress in implementing the issues arising, alongside its regular annual review of effectiveness, at its November 2015 meeting. Overall, the Committee was assured that it was operating effectively. The issues discussed included the development of the risk management system and the size and nature of its membership. Some minor changes were made to the Committee's terms of reference in response to this review.

The Committee's annual report to the Board incorporates its opinion on governance, internal control and risk management and is shown in full in the box below.

HEFCE Audit Committee opinion to the Board 2015-16

Having taken account of:

- The variety 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 adequacy and effectiveness of the Council's risk management, control and governance processes
- The formal opinions of the Head of Assurance on the financial results and value for money of HEFCE funded HEIs, and the effectiveness of the governance, internal control and risk management at these institutions

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

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

We are satisfied that, at the present time, the Council also has appropriate arrangements in place for oversight of institutional risk and regularity in the higher education sector, including risk management, internal control, corporate governance and value for money in the organisations we fund. However, we recognise that possible changes to the higher education landscape resulting from the Government's Green Paper currently create an uncertain environment for both HEFCE and institutions.

In addition to the outcomes of the Green Paper, and as a partner organisation, we remain concerned about the risks to HEFCE arising from the Chancellor's Autumn Statement and the implementation of the BIS 2020 programme, in relation to both HEFCE's future role and administration budget. This may put pressure on resources and impact on the Council's ability to carry out its remit effectively.

We continue to highlight the risks and challenges faced by the Council relating to cyber security and will closely monitor the actions taken in response to a detailed review of the Council's cyber security arrangements carried out this year.

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 we recommend approval by the Board of the 2015-16 accounts.

The Quality, Accountability and Regulation Strategic Advisory Committee

From 1 April 2015, the Quality, Accountability and Regulation Strategic Advisory Committee replaced the Teaching, Quality and the Student Experience Committee as 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 report 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. In 2015-16 we had a contract with the Quality Assurance Agency for Higher Education (QAA) to carry out assessments on our behalf. The Committee's opinion is shown in full in the box below:

HEFCE Quality, Accountability and Regulation Strategic Advisory Committee opinion to the Board 2015-16 on HEFCE's statutory duty for quality assessment

Having taken account of:

- information and our discussions throughout the year
- the work of QAA as periodically advised and reported to us, including in its annual report for 2014-15

- the assessment of the performance of QAA for 2015-16 which we have had the opportunity to discuss
- the opinion of the operation of the wider quality assurance system for 2015-16 which we have had the opportunity to discuss, including the outcomes of the National Student Survey, the quality assurance activities conducted by providers as part of co-regulation, and the new approaches to maintaining quality following the lifting of student number controls,

it is the opinion of the Quality, Accountability and Regulation Strategic Advisory Committee that HEFCE has satisfactorily met its statutory obligation for quality assessment under section 70 (1) (a) of the Further and Higher Education Act 1992 and in so doing has discharged its duty independently of Government, the higher education sector and providers of higher education.

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

Under the Charities Act 2011, HEFCE is the principal regulator of all the HEIs 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 it 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 any 'serious incidents' reported to us 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 2015-16 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. We co-chair the 'Regulatory Partnership Group', which 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 2015-16, this group discussed the work of the Competition and Markets Authority, the development of the HE Green Paper, counter-terrorism and the Prevent strategy, the Register of providers and progress with the projects it has commissioned. For further information, see www.hefce.ac.uk/about/unicoll/other/RPG/.

In 2015-16, we also worked with a number of organisations that contribute to the achievement of our objectives. The most significant of these are the QAA, Jisc, the Leadership Foundation for Higher Education, the Higher Education Statistics Agency (HESA) and the Higher Education Academy. Accountability for our funding of these organisations is secured through a variety of mechanisms. Our relationship with each organisation is subject to regular review. Our funding is moving away from providing general core funding to supporting specific infrastructure and activities delivered by some of these organisations. For further information on these organisations, see http://www.hefce.ac.uk/about/unicoll/other/other_funded_organisations/

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, strategic objectives and individual work packages; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. In the context of our changing risk environment and approach to risk management which are discussed further below, the overall system of internal control has been in place in the Council throughout the year ended 31 March 2016 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 a Risk Management 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 has recently been updated to bring it into alignment with our new approach to risk management. We supplement our approach to managing risks to our own organisation with a well-established process for assessing risks to the sustainability of the institutions we have lead regulatory responsibility for. This process will be reviewed in 2016-17 in the context of the changing circumstances in which we operate, including the Government's HE reforms.

Risk management

Our approach to risk management is firmly aligned to our Business Plan, which sets out the high level objectives for each Directorate for 2015-2020, and a set of success criteria and measures against which we will monitor our performance on a regular basis and provide reports to the HEFCE Board. In operational terms, these objectives are delivered through Directorate-level work packages, each of which is subject to a regularly updated risk assessment. In some cases, these Directorate level risk assessments are supplemented by further detailed risk assessments covering specific areas of internal control, such as Prevent, human resources, information technology and governance.

Consideration of our risks and the risk environment allows us to assess the continuing viability of our strategy and business plan against changes in circumstances, 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 and prioritise as appropriate, in order to perform our role effectively. With an embedded culture of addressing risk in the way we operate, we do not manage risk only on a specific, individual risk basis. Our primary approach to the mitigation of risk is to assess and respond to risk more broadly in a way that coherently links to and prioritises our wider aims and objectives, drawing on the knowledge, skills and experience of staff, a wide range of information at our disposal and through working with our many stakeholders and partners.

Each Directorate reviews the status of its risks at least twice each year, with a summary of the most significant risks (using a traffic light assessment and a 'by exception' basis approach to reporting) and the mitigating activities in place provided to the Audit Committee and Board. In addition, this year each Directorate presented a report to the Audit Committee about all of their risks. The Board also receives regular oral or written updates on the wider external risk environment from the Chief Executive. This approach to reporting allows both the Board and Audit Committee to regularly review and challenge management on the identification and mitigation of risk. These reports also inform this Governance Statement and our interaction with BIS as part our accountability to Government.

Key risks and mitigating activities

Our principal external strategic risks, with which our work-package risks are aligned, are concerned with the following issues:

a. The uncertainties surrounding the role and status of HEFCE in light of the Government's Green Paper consultation, and subsequent White Paper and Higher Education and Research Bill, on the regulatory framework for higher education and related matters. In particular, the proposal is for HEFCE to make a smooth transition into new NDPB, the 'Office for Students', with a revised but largely comparable remit to that in place for HEFCE now. Implementing this proposal will require legislation, meaning that any change to HEFCE's status is unlikely before 2018. In the meantime HEFCE continues to support BIS in the development and implementation of its HE policies. As lead regulator, we continue to operate a range of regulatory and assurance processes to monitor institutions in the wider HE sector. We mitigate this risk through regular dialogue with BIS and other stakeholders, as well as through our in-depth understanding of how we can use the statutory and delegated powers we do have in the most effective way. We note the outcome of the EU referendum on 23 June 2016 was in favour of the UK leaving the EU. The full implication is not yet known.

b. The confidence that our key stakeholders, particularly BIS, the Home Office (for Tier 4 and Prevent work), the HEIs and further education colleges (FECs) we fund, alternative providers and students, have in HEFCE. This also covers such issues as how we work with BIS on issues connected to their proposed HE reforms and the quality assessment review we instigated in 2014. Our mitigations of this risk are necessarily wide-ranging and rely on working to the highest of standards we can achieve at all times within the resources made available to us by Government. We received the results of an independently commissioned survey of our HE stakeholders in October 2015, see www.hefce.ac.uk/about/stakeholder/. The survey found that HEFCE is considered by its stakeholders to be highly respected, trusted and approachable. We also separately surveyed the alternative providers we work with. In reporting a high level of satisfaction with the level of service they receive from HEFCE, they helpfully identified some opportunities where we could work with them more effectively.

c. The adequacy of funding received from the Government, both in respect of the HE sector and our own administrative costs, including in response to the autumn statement/spending review announced in November 2015. We have only limited control of this risk as it depends on decisions made by Government, but we seek to influence this risk through providing information to and working closely with BIS and HM Treasury.

d. The high reliance we place on key and specialist staff to carry out many of our activities to the high standards we and BIS seek. We mitigate this risk through monitoring and communication, staff training and development, and by sharing knowledge, information and duties to the extent we can as a small organisation. The pay constraints imposed on the public sector over recent years and which will extend to 2020 are leading to higher levels of concern about our ability to recruit and retain staff.

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 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.

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 other organisations 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 all organisations for which we have a regulatory responsibility, including those in receipt of grant funding from us.

The accountability framework consists of policies, procedures, monitoring and approaches to communication, which collectively contribute to the delivery of our strategic objectives and the maintenance of a sound system of internal control. In particular, all institutions and other organisations funded by the Council are required to comply with appropriate accountability agreements, which are designed to help us secure accountability and regularity for the public funds we provide to them. Reviewing this information forms part of our work to ensure the protection of the public investment in institutions and other organisations. This includes seeking assurance that the public funds provided to them have been used for the purposes for which they were intended. For the HEIs we fund, we have published a memorandum of assurance and accountability that requires those HEIs to adhere to a range of core terms and conditions in return for grant funding. In recognition that some HEIs now receive a relatively low level of HEFCE teaching funding following the introduction of higher tuition fees in 2012, we supported the introduction of an additional agreement on institutional designation for the three years beginning 2014-15. This provides 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.

We also support and provide analysis to BIS in connection with other types of provider of higher education who are not funded by us, known as 'alternative providers'. Our work in this area is mainly concerned with providing advice to BIS on the designation of specific courses, on applications for university title and applications to become HEFCE-fundable. Course designation allows students on those courses to borrow from the Student Loans Company to support their studies.

Our internal control system is also subject to regular review and monitoring by the directors and heads of corporate service teams, who are responsible for the management and oversight of the Council's risks. The documented assurance I receive about the management of these risks is substantially derived from the risk reports submitted to the Board and Audit Committee, as well as through the Audit Committee's advice on the associated risk management processes. 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 Quality, Accountability and Regulation Strategic Advisory 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 FECs.

Following a review of our internal audit provision, and taking into account the advice of the Audit Committee, we decided to fully outsource this work to an external provider with effect from 2015-16. Following a procurement exercise, Ernst & Young LLP were appointed as our new internal auditors. Their work this year has included cyber security, stakeholder management, risk management and payroll. The Head of Internal Audit's annual opinion is provided below:

Internal Audit Opinion for 2015-16

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

Based on the internal audit work performed during 2015-16, in our opinion there was adequate and effective risk management, control and governance processes to provide reasonable assurance over the achievement of HEFCE's objectives and the management of key risks. While individual reviews identified that there are elements of the system of internal control requiring improvement, the overall system of internal control enables HEFCE to achieve its objectives and manage its principal risks. Where recommendations have been raised, management have taken action to implement identified recommendations on a timely basis.

During the year, our control systems have identified a small number of issues that required specific actions to manage the associated risks. This includes areas where our internal auditors have indicated we can strengthen our systems and controls further such as in payroll and procurement, and (in order to meet the requirements of the new Cyber Essentials scheme), in cyber security. We report all significant issues to the Audit Committee and the Board. As part of our annual accounts review process, 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 2015-16 that warrant disclosure here.

Significant issues and developments arising in the year

The most significant other issues and developments arising during 2015-16 are as follows:

Issues connected to the potential HE reforms

i. In May 2016 the Government published a White Paper and Higher Education and Research Bill following its autumn 2015 Green Paper consultation to take forward its HE reform programme. This incorporated proposals to implement its manifesto commitment for the introduction of a 'teaching excellence framework (TEF)'. HEFCE has been a participant in the BIS 'TEF delivery group', to help BIS deliver this commitment and on 16 May 2016 received a Commissioning letter as the delivery agent for the TEF year two.

ii. Following the Chancellor's autumn statement/spending review in November 2015, we have further funding cuts to implement in the HE sector throughout the spending review period to 2019-20. While there is some protection for research funding, there are significant cuts to teaching and capital funding. This will impact on many of the HEIs, FECs and other organisations we fund in a variety of ways. In implementing the funding reductions, we are actively considering the impact of cuts on the short and medium-term sustainability of the organisations we fund and will consult with the sector on ways to prioritise most effectively the research, teaching and capital funding.

iii. During 2015-16 we continued with our wide-ranging and fundamental review of the way we deliver our statutory obligation to assess the quality of education we fund. In June 2015, we published proposals for a new approach to quality assessment in England, Wales and Northern Ireland. The consultation responses showed broad support for our proposals, with further reflection needed in two areas: the proposal to place more emphasis on the role of the HEIs governing body; and the proposal to strengthen the external examiner system, in order to deliver enhanced institutional assurance about teaching quality and degree standards in funded institutions. In spring 2016, we published the next steps we plan to take, which included specific proposals for dealing with the transitionary year of 2016-17, before the new arrangements will come into full operation.

iv. HEFCE maintains a register of HE providers covering both traditional and alternative providers, who are in receipt of HEFCE funding, whose students have access to the student support system, or both. This register, which may be found at www.hefce.ac.uk/reg/register/, provides useful information to many of our stakeholders, particularly those with a regulatory interest, across the world. In 2015-16, we extended the functionality of the register to include, for example, a filtering function and information about HE franchises operating in publicly funded colleges.

v. In conjunction with the National Union of Students and other representative bodies, we were pleased to be able to publish a statement of good practice during 2015-16 dealing with the obligations institutions have to students when their course is closed or substantially changed. For further information, see www.hefce.ac.uk/reg/forstudents/sp/.

vi. The Counter-Terrorism and Security Act 2015 sets out that specified authorities must have 'due regard to the need to prevent people from being drawn into terrorism'. Many organisations in the further and higher education sectors have been defined as specified authorities, and became subject to the duty on 18 September 2015. On 21 August 2015, the Secretary of State appointed HEFCE to monitor the performance by higher education providers of their 'Prevent' duty under section 26 of this Act (excluding FECs but including alternative providers). The first step in the monitoring process was to request a self-assessment against the statutory guidance on implementing the Prevent duty from all relevant providers in January 2016. Further monitoring will follow in 2016-17. For further information, see www.hefce.ac.uk/reg/prevent/.

Internal factors and HEFCE operations

vii. 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, and accountability for the public funds we distribute, remains dependent on the resources made available to us from BIS. Following the spending review, BIS is required to make cuts in its administration expenditure of around 17 per cent by 2019-20. BIS is also working on a programme (BIS2020) to make the Department more cost-effective and we will work with BIS as needed in 2016-17 on this programme.

viii. The majority of HEFCE's £1.5 billion of research funding continues to be 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, and the most recent exercise (known as the Research Excellence Framework or REF) was completed in late 2014. In the autumn 2015 spending review, the Chancellor announced a review of the REF, in part to consider the efficiency of the REF process. We are contributing evidence to the review and will work with Government in 2016-17 once the outcomes of the review are known.

ix. After taking into account the cost of running HEFCE, around 99 per cent of the grant-in-aid received from BIS is passed on as grants to HEIs and other organisations. Most of this is distributed by formulae based on activity levels, course 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 institution experiences significant challenges, or other risks to its future sustainability, 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 pressure on public spending, the removal of student number controls and pressures to reduce costs mean that we continue to expect there to be variation in individual institutional financial performance in future. Further details about how our institutional risk system and assurance mechanisms work may be found on our website at www.hefce.ac.uk/reg/.

x. We have continued to provide advice to the Secretary of State on a range of issues connected with alternative providers of higher education, including in respect of organisations wishing to become HEFCE-funded, or those seeking university title, or specific-course designation. At present, in the absence of new regulatory legislation, the associated responsibilities remain with Government, who make the necessary designation decisions taking into account our advice and other information they obtain.

xi. We fully support the Government's work to minimise fraud risk and fraud itself. The Council has 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 20 such notifications during the year. There is no common theme. They include supplier payment frauds, staff-related frauds and one-off incidents. Losses arose in some cases and there was full recovery in others. In no case did the incident reported directly involve public funds or result in a change to an institution's funding. We received 39 public interest disclosures about HEIs in 2015-16. We raised enquiries in three cases. All were satisfactory concluded with no further action considered necessary. We also raised two enquiries following concerns raised about regulated fees which proved to be unfounded. We work with the organisations affected to manage any issues arising from these notifications and disclosures, and provide lessons learned advice to the sector as a whole when we consider this will be of value.

xii. In 2015-16, we have been working to help institutions respond to the advice on consumer protection law published by the Competition and Markets Authority in March 2015 (see http://blog.hefce.ac.uk/2015/03/12/helping-students-to-choose-cma-publishes-advice-on-consumer-law-and-higher-education/). As part of this work, we consulted on proposals arising from a major review of information we and institutions provide for students and other stakeholders about learning and teaching, and the student experience. We have considered the responses to this consultation and, following approval by the Board, will make proposals for changes to the information requirements to take effect in 2017.

xiii. HEFCE seeks value for money (VFM) through all of its activities. We review the annual audit committee reports of funded HEIs, which are required to incorporate an opinion on VFM. The Head of Assurance reports on this in his annual report. We are also in the process of establishing a new approach to measuring the efficiency of the HE sector.

xiv. We report quarterly to the Board on our financial position; this includes a financial dashboard that highlights the key issues arising. During the year, CIPFA followed up its 2013-14 review of our financial management practice. CIPFA's 'Direction of Travel' report describes good progress in implementing the recommendations arising in the original review.

xv. Having reached the end of our lease for our main Bristol office, we successfully moved to a new location within north Bristol in October 2015. Our project plan incorporated elements to deal with the buildings, information technology and people aspects to the move. The move, which was to a leasehold building already within the government estate, results in substantial savings in running costs.

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 Departmental Security Health Check and the associated 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. We commissioned an external review of our cyber security arrangements during the year. This incorporated an assessment against the government 'Cyber Essentials' scheme. We are currently taking the necessary additional measures and making additional investment in IT to meet the new requirements.

ii. We support the Government's 'Transparency Agenda', which seeks to make more government data available and accessible to the public. We publish a great deal of information on our website, particularly at www.hefce.ac.uk/data/. The structural and expenditure data is available at www.hefce.ac.uk/about/reportsaccounts/transparency/ For the benefit of current and prospective students, we have published the outcomes of the National Student Survey for many years. This data informs the 'Key Information Set' on the Unistats website at http://unistats.direct.gov.uk/find-out-more/key-information-set. We make the full dataset freely available for third party re-use via HESA. This is in addition to the main datasets on higher education which have been available from HESA since 1994.

iii. I confirm that all relevant payments made to Board members, senior staff and other people paid on an individual basis are made through arrangements that meet the requirements of HM Revenue and Customs.

iv. I confirm that the Director of Finance 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 HEIs and for calculating student number controls. BIS last assessed these models against the relevant BIS quality assurance framework in 2014-15, concluding that HEFCE meets the highest standard available.

vi. HEFCE is a shareholder in the BIS-sponsored shared services organisation 'UK Shared Business Services Ltd (UK SBS)'. The Council currently only uses UK SBS for some procurement services. Shareholders agreed in early 2016 that, in the context of BIS2020, UKSBS would close down in the next three years. The services it provides, including procurement, will be transferred to other organisations. We continue to consider the benefits of using shared services to deliver other transactional services where 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 are plans in place to address any weaknesses arising and ensure continuous improvement.

I have considered the evidence provided with regard to the production of the annual Governance Statement. The conclusion of my review is that HEFCE's overall governance and internal control structures have been appropriate for HEFCE's business and that they operated satisfactorily throughout 2015-16.

Professor Madeleine Atkins
Chief Executive and Accounting Officer
Higher Education Funding Council for England
30 June 2016

Remuneration and staff report

Part one (unaudited)

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2015-16 were:

Tim Melville-Ross CBE Chair of the HEFCE Board

Professor Dame Shirley Pearce CBE HEFCE Board member (to 30 November 2015)

Professor Mary Stuart HEFCE Board member (from 1 December 2015)

Sara Weller CBE HEFCE Board member

The Chief Executive normally attends meetings.

The Appointments Committee approved the appointment of Mary Stuart to the Remuneration Committee with effect from 1 December 2015, replacing Shirley Pearce.

The terms of reference for the Remuneration Committee are to:

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

These terms of reference were reviewed in May 2015.

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) relates to achievement of the Chief Executive's agreed objectives and is paid in the following financial year.

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

The Remuneration Committee reviews the basic salary and performance pay for the Chief Executive and all Directors, making recommendations to the BIS Senior Remuneration Oversight Committee for each post holder earning over £100,000 based on:

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

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

Contracts

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for 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 of the Chief Executive. Compensation payments for Directors, within the Civil Service pension scheme are determined by Cabinet Office policy.

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 the Secretary of State.

Staff report

On the census date of 31 March 2016, HEFCE employed 275 full-time equivalent staff; 304 headcount, 207 female and 97 male. Of the 10 Board members in post, as listed in the Remuneration Report (excluding the Chief Executive and the Chair), there were seven men and three women. Of the seven senior employees (Chief Executive and directors) in post, as listed in the Remuneration Report, there were four men and three women. We continue to monitor sickness absence as an indicator of staff wellbeing. Our sickness absence remains relatively low. In 2015-16 we lost 1550 working days to sickness, an average of 5.1 days per person. The level compares favourably to an average of 8.7 days for government public service bodies and 5.8 days for private sector services[42].

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

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 2016, was £47,350 *(2014-15: £47,350)*.

[42]CIPD report 2015 (absence management) http://www.cipd.co.uk/binaries/absence-management_2015.pdf

As agreed by BIS and the Secretary of State for Business, Innovation and Skills, Tim Melville-Ross' contract as Chair has been extended until 31 December 2016.

HEFCE Chief Executive

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

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

Chief Executive's remuneration for the year ended 31 March 2016								
Name	**Salary paid in year**		**Taxable benefits**		**Employer's pension contributions**		**Total**	
	2015-16 £	2014-15 £	**2015-16 £**	2014-15 £	**2015-16 £**	2014-15 £	**2015-16 £**	2014-15 £
Professor Madeleine Atkins	**232,300**	234,600	**8,921**	7,018	**5,822**	5,750	**239,004**	247,368

Salary paid in year
The 2014-15 figure includes non-consolidated pay of £4,600 which Professor Atkins donated to charity. No non-consolidated pay was received in 2015-16.

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

Pension contributions
Professor Atkins has opted out of the Universities Superannuation Scheme, but she pays the 2.5 per cent opt-out contribution to retain the death in service benefit.

HEFCE Board

All Board members are eligible to receive an annual honorarium of £5,000. The honorarium is not pensionable. All members are paid the honorarium direct to them via payroll, except those members who have elected to have their honorarium paid direct to a charity. These members are indicated by * in the table below.

Board members' remuneration		
	Year ended 31 March 2016 £	Year ended 31 March 2015 £
The Hon Apurv Bagri*	**5,000**	5,000
Professor Sir Keith Burnett (from March 2015)[a]	**5,417**	-
Professor Ruth Farwell (to October 2015)[b]	**2,919**	5,000
Professor Sir Malcolm Grant (to November 2014)	**-**	3,336
Professor Anne Greenough*	**5,000**	5,000
Peter Houillon	**5,000**	5,000
Graeme Osborn	**5,000**	5,000
Professor Dame Shirley Pearce CBE (to November 2015)	**3,336**	5,000
Mark Robson	**5,000**	5,000
Hugh Ross	**5,000**	5,000
Anil Ruia OBE	**5,000**	5,000
Professor Mary Stuart (from March 2015) [a,*]	**5,417**	-
Dr Suzy Walton (to November 2015)[b]	**3,336**	5,000
Sara Weller CBE	**5,000**	5,000
John Widdowson CBE* (to December 2014)	**-**	3,753
	60,425	62,089

[a] includes an additional £417 to cover 1 March 2015 to 31 March 2015.

[b] Following their retirement from the Board Professor Farwell and Dr Walton attended Board meetings in advisory capacity for which they have also been remunerated (£1000 and £417, respectively).

Senior employees

The remuneration shown in the table below includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the directors received any taxable benefits during the financial year 2015-16, apart from the Chief Executive as stated above. There were no exit packages paid to senior HEFCE employees in the financial year 2015-16.

Single total figure of remuneration										
Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£'000)	
	2015-16	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**	2014-15	**2015-16**	2014-15
Professor Madeleine Atkins CBE, Chief Executive	**235-240**	230-235	**0**	0-5	**900**	7,000	**6,000**	6,000	**245-250**	245-250
Steve Egan CBE[a], Deputy Chief Executive and Director of Finance, left on 30 April 2015	**20-25**	135-140	**0**	10-15	**-**	-	**5,000**	32,000	**25-30**	175-180
Mario Ferelli, Director – Analytical Services	**90-95**	90-95	**0**	-	**-**	-	**23,000**	22,000	**110-115**	110-115
Heather Fry[b], Director – Regulation & Assurance, until 19 February 2016	**115-120**	125-130	**0**	5-10	**-**	-	**19,000**	19,000	**135-140**	145-150
Susan Lapworth[c], Director – Regulation & Assurance, from 1 February 2016	**15-20**	-	**0**	-	**-**	-	**2,000**	-	**15-20**	-
Yvonne Hawkins, Director – Universities & Colleges	**90-95**	90-95	**0**	-	**-**	-	**23,000**	22,000	**110-115**	110-115
Christopher Millward, Director – Policy	**90-95**	90-95	**5-10**	-	**-**	-	**23,000**	22,000	**120-125**	110-115
Nolan Smith[d], Director of Finance, from 1 May 2015	**115-120**	90-95	**0**	-	**-**	-	**28,000**	22,000	**140-145**	110-115
David Sweeney, Director – Research, Education & Knowledge Exchange	**125-130**	125-130	**0**	10-15	**-**	-	**-**	-	**125-130**	135-140

Salary

[a] For the period 1 April to 30 April 2015; full year salary £135,000-£140,000.

[b] For the period 1 April 2015 to 19 February 2016; full year salary £125,000-£130,000.

[c] For the period 1 February to 31 March 2016; full year salary £90,000-£95,000.

[d] In 2014-15 and for the period 1 April to 30 April 2015 Head of Finance & Investment; full year salary £90,000-£95,000. For the period 1 May 2015 to 31 March 2016 Director of Finance; full year salary £115,000-£120,000.

Senior employees' pensions	Accrued pension at pension age as at 31 March 2016 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2016 £000	CETV at 31 March 2015 or start date £000	Real increase in CETV £000
Professor Madeleine Atkins[a], Chief Executive					
Pension	**90-95**	0-2.5	**2,223**	2,569	(353)
Lump sum	**275-280**	0-2.5			
Steve Egan[b], Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	**65-70**	0-2.5	**1,416**	1,391	5
Lump sum	**195-200**	0-2.5			
Mario Ferelli[b], Director – Analytical Services					
Pension	**35-40**	0-2.5	**847**	755	22
Lump sum	**115-120**	5-7.5			
Heather Fry[a,c], Director – Regulation and Assurance					
Pension	**55-60**	5-7.5	**1,248**	1,167	67
Lump sum	**70-75**	(77.5)-(75)			
Susan Lapworth[a], Director – Regulation and Assurance					
Pension	**15-20**	0-2.5	**282**	267	8
Lump sum	**50-55**	0-2.5			
Yvonne Hawkins[b], Director – Universities & Colleges					
Pension	**15-20**	0-2.5	**182**	144	13
Lump sum	**0**	0			
Christopher Millward[b], Director – Policy					
Pension	**25-30**	0-2.5	**374**	320	14
Lump sum	**65-70**	0-2.5			
Nolan Smith[b], Director of Finance					
Pension	**25-30**	7.5-10	**351**	227	91
Lump sum	**65-70**	15-17.5			
David Sweeney[a], Director – Research, Education & Knowledge Exchange					
Pension	**60-65**	0-2.5	**1,540**	1,780	(245)
Lump sum	**190-195**	0-2.5			

[a] Members of the Universities Superannuation Scheme. [b] Members of the civil service pension scheme.
[c] Heather Fry retired on 19 February 2016 at which point part of the lump sum was converted into pension.

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 7.5 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 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate in 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

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

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 period.

Staff costs

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

The banded remuneration of the highest paid director (the Chief Executive) in HEFCE in the financial year 2015-16 was £230-235,000 (*2014-15, £230-235,000*). This was 6.6 times (*2014-15, 6.6*) the median remuneration of the workforce, which was £35,114 (*2014-15, £37,238*).

In 2015-16 no (*2014-15; 0*) employees received remuneration in excess of the highest paid director. Remuneration ranged from £17,822 to £128,704 (*2014-15, £16,000 to £138,000*). The table below shows analysis of staff costs and pension costs.

Staff costs	**Year ended 31 March 2016 £000**	Year ended 31 March 2015 £000
Staff with a permanent UK employment contract with HEFCE		
Salaries	**11,255**	10,107
National Insurance contributions	**954**	878
Pension costs	**2,204**	1,804
	14,413	12,789
Costs of employing contract, agency and temporary staff	**1,069**	1,703
	15,482	14,492
Pension costs breakdown		
Civil Service Pensions	**2,114**	1,736
Partnership pension	**28**	18
Universities Superannuation Scheme	**62**	50
	2,204	1,804

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation. All eligible staff are considered for a non-consolidated performance-related payment related to individuals' performance against objectives. Annual settlements are awarded from 1 August each year and relate to individuals' performance from the previous financial year.

Permanent staff costs have increased in 2015-16 which is in line with the increase in staff numbers, as shown in the table below. This occurred due to new responsibilities assumed by HEFCE, in particular related to the Prevent duty and work with BIS on the regulatory framework.

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

For 2015-16, employers' contributions of £2,114,457 were payable to the PCSPS (2014-15 £1,736,211) at one of four rates in the range 20.0 to 24.5 per cent (2014-15: 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 £28,179 (2014-15: £17,760) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 3.0 to 12.5 per cent (2014-15: 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.

Six members of staff hold a pension with USS and for 2015-16, employers' contributions of £61,746 (2014-15: £50,016) were payable at a rate of 16 per cent.

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

Staff numbers	Year ended 31 March 2016 FTE	Year ended 31 March 2015 FTE
Analytical Services Directorate	**42**	38
Corporate Services	**58**	59
Finance and Funding Directorate	**34**	27
Institutions Directorate	**44**	39
Regulation and Assurance Directorate	**30**	26
Research, Education and Knowledge Exchange Directorate	**53**	47
Shared Resource	**0**	6
	261	242
Average number of contract, agency and temporary staff	**14**	18
	275	260

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

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

During 2015-16 HEFCE incurred no expenditure on consultancy.

As of 31 March 2016 there was one off-payroll engagement for more than £220 per day that has existed for more than four years. This arrangement has been subject to a risk-based assessment as to whether assurance needs to be sought that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

There were five voluntary exit packages paid to HEFCE staff during the financial year 2015-16 (nil: 2014-15).

Exit packages 2015-16

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	**0**	**4**	**4**
£10,000 - £25,000	**0**	**0**	**0**
£25,000 - £50,000	**0**	**0**	**0**
£50,000 - £100,000	**0**	**1**	**1**
Total number of exit packages	**0**	**5**	**5**
Total resource cost £	**0**	**116,507**	**116,507**

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the NDPB has agreed early retirements, the additional costs are met by the NDPB and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Parliamentary Accountability and Audit Report

I can confirm that for the financial year ended 31 March 2016, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money, and that Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2015-2016.

During 2015-16 there have been no losses.

As at 31 March 2016 there were no contingent liabilities.

Professor Madeleine Atkins
Chief Executive and Accounting Officer
Higher Education Funding Council for England
30 June 2016

Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2016 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 and Staff Report and the Parliamentary Accountability disclosures that are 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 Accounting Officer's responsibilities, the Council and the Chief Executive are 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 the 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 2016 and of the 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have 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 Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
July 2016
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

	Note	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Income	6	**(8,106)**	(6,966)
Staff costs	4	**15,482**	14,492
Non-pay administration costs	5	**10,022**	10,346
Depreciation	7	**213**	167
Institutional recurrent funding	3	**3,061,222**	3,487,312
Funding for national facilities and initiatives	3	**116,879**	141,258
Capital funding	3	**588,427**	447,830
Other BIS allocations	3	**36,359**	48,113
Changes in provision	12	**(1,422)**	6,388
Total operating expenditure		**3,827,182**	4,155,906
Net operating expenditure		**3,819,076**	4,148,940
Other Comprehensive Expenditure			
Revaluation of Property, Plant and Equipment	7	**0**	(2)
Net expenditure for the year transferred to general reserve		**3,819,076**	4,148,938

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

The notes on pages 90 to 111 form part of these accounts.

Statement of Financial Position as at 31 March 2016

	Note	As at 31 March 2016 £000	As at 31 March 2015 £000
Non-current assets			
Property, Plant and Equipment	7	**585**	268
Recoverable grants falling due after one year	9a	**32,757**	31,894
Trade and other receivables due after one year	9b	**8,750**	11,250
		42,092	43,412
Current assets			
Recoverable grants falling due within one year	9a	**11,693**	17,256
Trade and other receivables due within one year	9b	**8,341**	18,973
Cash and cash equivalents	10	**43,408**	30,439
		63,442	66,668
Total assets		**105,534**	110,080
Current liabilities			
Trade and other payables	11	**(1,432)**	(1,579)
Provisions for liabilities and charges within one year	12	**(25,730)**	(27,951)
Non-current assets plus net current assets		**78,372**	80,550
Non-current liabilities			
Provisions for liabilities and charges after one year	12	**(179,683)**	(206,816)
Assets less liabilities		**(101,311)**	(126,266)
Taxpayers' equity			
Revaluation reserve		**0**	6
General reserve		**(101,311)**	(126,272)
		(101,311)	(126,266)

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

The financial statements on pages 86 to 89 were approved by the Board and were signed on its behalf on 30 June 2016 by

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

The notes on pages 90 to 111 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2016

	Note	**Year ended 31 March 2016 £000**	Year ended 31 March 2015 £000
Cash flows from operating activities			
Net expenditure		**(3,819,076)**	(4,148,940)
Adjustment for non-cash transactions	*7,12*	**(286)**	(995)
Decrease in receivables	*9b*	**13,132**	1,024
(Decrease)/increase in payables	*11*	**(147)**	279
Use of provisions	*12*	**(28,855)**	(21,439)
Net cash outflow from operating activities		**(3,835,232)**	(4,170,071)
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	*7*	**(530)**	(376)
Cash flows from financing activities			
Grants from sponsoring department	*2*	**3,844,031**	4,167,626
Decrease in recoverable grants	*9a*	**4,700**	4,111
Net increase in cash for the year		**12,969**	1,290
Net financing			
Cash and cash equivalents at the beginning of the period	*10*	**30,439**	29,149
Net increase in cash and cash equivalents in the period	*10*	**12,969**	1,290
Cash and cash equivalents at the end of the period		**43,408**	30,439

The notes on pages 90 to 111 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	Note	General Reserve £000	Revaluation Reserve £000	**Total Reserves £000**
Changes in Taxpayers' Equity 2014-15				
Balance as at 1 April 2014		(144,958)	4	**(144,954)**
Grant from sponsoring department	*2*	4,167,626		**4,167,626**
Comprehensive expenditure for the year		(4,148,940)	2	**(4,148,938)**
Balance as at 31 March 2015		(126,272)	6	**(126,266)**
Changes in Taxpayers' Equity 2015-16				
Balance as at 1 April 2015		(126,272)	**6**	**(126,266)**
Transfer to general reserve		6	**(6)**	**0**
Grant from sponsoring department	*2*	3,844,031		**3,844,031**
Comprehensive expenditure for the year		(3,819,076)		**(3,819,076)**
Balance as at 31 March 2016		(101,311)	**0**	**(101,311)**

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 related to revaluation of tangible fixed assets, in particular to indexation of IT assets. From 2015-16 these assets are no longer revalued and the balance on the revaluation reserve has been transferred to the general reserve.

The notes on pages 90 to 111 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 2015-16 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

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

Going concern

The statement of financial position at 31 March 2016 shows net liabilities of £101 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 2016-17, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

Financial instruments

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

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

During the course of its business, HEFCE may on occasion make loans to Higher Education Institutions. These are disclosed in Note 9a. Loans are disclosed at cost as the discounted cashflows would not be materially different from cost.

Grants from the Department for Business, Innovation and Skills

All grant in aid from BIS is treated as financing as it is 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.

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 IFRS 11, 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.

Non current assets

Property, plant and equipment are capitalised where the costs for an individual asset, or group of functionally interdependent assets exceeds £10,000. On initial recognition assets are measured at cost. Given their low value, depreciated 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	or the remaining term of the lease, whichever is less.
Fixtures, fittings and furniture	5 years	
Office equipment	4 years	
Computer equipment	3 years	

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

Payment of grants

Grants are recognised at the payment dates agreed with the organisations concerned. Most grants are paid on agreed profiles, which are set to reimburse the grant recipients based on the expected profile of expenditure. The profiles are periodically updated throughout the academic year, and 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 changed) holdback of institutional basic grant arising from revised student numbers, where a debt arises at the point where there is sufficient certainty on the revised numbers, and future profile payments will be adjusted where there is sufficient certainty over the value of the resulting funding adjustment. Sufficient certainty is where the HEFCE Chief Executive approves the funding adjustment. These adjustments could result in a net receivable or payable balance at year end. The period over which a holdback recovery is made is normally up to five years. And;

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

1 Accounting policies (continued)

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 and staff 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.

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. At 31 March 2016 the following IFRS, none of which will be material to HEFCE's annual accounts, have been issued but are not effective as they are not yet applied in the FReM:

IFRS 9 - Financial Instruments - no mandatory effective date.

IFRS 15 - Revenue from Contracts with Customers - effective date 1 January 2017.

IFRS 16 - Leases - effective date 1 January 2019.

IAS 7 - Statement of Cash Flows - effective date 1 January 2017.

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.

HEFCE’s policy is to recognise funding adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions’ future grant funding. Further details are given in Note 1 (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 2016 £000	Year ended 31 March 2015 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**3,200,358**	3,651,734
Grant in aid for capital expenditure in HE	**581,496**	444,923
	3,781,854	4,096,657
Other ring-fenced allocations		
Grant for Postgraduate Support Scheme - BIS	**36,503**	0
Grant for National Scholarship Programme - BIS	**0**	48,730
	36,503	48,730
Administration costs		
Grant in aid from BIS for HEFCE administration costs	**25,674**	22,239
Total grant and grant in aid received	**3,844,031**	4,167,626

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. In March 2016 BIS provided HEFCE with an additional £75 million of recurrent Teaching funding, which is included in the figures above. As a consequence, the recurrent Teaching grant in 2016-17 announced on 4 March 2016 has been reduced by £75 million. Over the two financial years the changes in funding cancel each other out, so there is no impact on the funding provided to higher education institutions in the 2015-16 academic year. In March 2015, the equivalent additional amount that BIS provided to HEFCE (also included in the figures above), was £100 million of recurrent Teaching funding and £15 million of Teaching Capital Investment Fund.

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

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

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Institutional recurrent funding [a]		
Teaching	**1,356,975**	1,770,591
Research	**1,542,714**	1,555,190
Knowledge Exchange	**161,533**	161,531
	3,061,222	3,487,312
Funding for national facilities and initiatives [b]	**116,879**	141,258
Capital funding [c]	**588,427**	447,830
Other BIS allocations [d]	**36,359**	48,113
Total grant	**3,802,887**	4,124,513

This analysis of grant expenditure is consistent with the presentation in the Guide to funding 2015-16: How HEFCE allocates its funds (HEFCE 2015/04), available to view at www.hefce.ac.uk/pubs/year/2015/201504/.

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

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

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

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

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

4 Staff costs

Staff costs are analysed in the Remuneration and staff report on page 69.

5 Other administration costs

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Non-pay administration costs		
Policy development	**2,094**	2,090
Staff related and general administrative expenditure	**2,060**	1,676
Rental payments under other operating leases	**1,569**	1,739
Premises costs	**2,761**	3,192
Office costs	**1,292**	1,377
Board and committee members' fees and expenses	**121**	139
Audit fee	**60**	60
Rental payments under plant and machinery operating leases	**65**	73
Total non-pay administration costs	**10,022**	10,346

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 include research and evaluation and other consultancy-related expenditure. Premises costs include expenditure on rates, heat and light, building maintenance, equipment and furniture. This includes the costs of refurbishing the new Bristol offices, which took place during 2014-15 and 2015-16. Office costs include IT costs, catering and room hire, telecommunications, stationery and publications. For 2014-15 they included the costs of buying IT equipment for the new Bristol offices.

6 Income

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Income receivable from other funding councils:		
Department for Employment and Learning in Northern Ireland	**185**	426
Higher Education Funding Council for Wales	**344**	627
Scottish Funding Council	**498**	1,400
Other programme income	**6,548**	2,047
Receipts from OFFA and SLC for services provided under the service level agreement	**273**	354
Income from other activities	**258**	2,112
Total income	**8,106**	6,966

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 joint operations under IFRS 11 and are therefore shown above. As well as funding their share of the programme costs of these national programmes, the other funding councils share the costs incurred by HEFCE in managing and administering these programmes.

The income from other activities in 2014-15 includes the income received from the Audit Commission whose lease of premises HEFCE took over during the year. This was to compensate HEFCE for the need of leasing two office buildings in Bristol during the period between May 2014 and December 2015.

7 Property, Plant and Equipment

	Leasehold improvements	Furniture fittings and equipment	Information Technology	**Total**
	£000	£000	£000	**£000**
Cost or valuation				
At 1 April 2015	**10**	**116**	**413**	**539**
Additions	**465**	**0**	**65**	**530**
Disposals	**(10)**	**0**	**(118)**	**(128)**
At 31 March 2016	**465**	**116**	**360**	**941**
Depreciation				
At 1 April 2015	**10**	**29**	**232**	**271**
Charge for period	**64**	**29**	**120**	**213**
Disposals	**(10)**	**0**	**(118)**	**(128)**
At 31 March 2016	**64**	**58**	**234**	**356**
Net book value				
At 31 March 2016	**401**	**58**	**126**	**585**

Cost or valuation				
At 1 April 2014	10	0	197	207
Revaluation	0	0	1	1
Additions	0	116	260	376
Disposals	0	0	(45)	(45)
At 31 March 2015	10	116	413	539
Depreciation				
At 1 April 2014	10	0	138	148
Charge for period	0	29	138	167
Revaluation	0	0	1	1
Disposals	0	0	(45)	(45)
At 31 March 2015	10	29	232	271
Net book value				
At 31 March 2015	0	87	181	268

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

Prior to 2015-16 HEFCE revalued its IT assets using indexation. From 2015-16 these assets are no longer revalued.

8 Financial Instruments

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

During the course of its business, HEFCE may on occasion make loans to 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 2016 £000	As at 31 March 2015 £000
Recoverable grants		
Balances as at 1 April	**49,150**	53,261
Advanced during the year	**12,206**	12,142
Recovered during the year	**(16,906)**	(16,253)
Balances as at 31 March	**44,450**	49,150
Balances at 31 March		
Within one year	**11,693**	17,256
After one year	**32,757**	31,894
	44,450	49,150

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

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

- Revolving Green Fund
- Strategic Development Fund
- Employer Engagement

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

As at 31 March 2016 six organisations *(2015: 15)* had recoverable grants of £1,000,000 or more outstanding. The total value of these grants was £13,735,126 *(2015: £29,353,154)* .

9b Trade and other receivables

	As at 31 March 2016 £000	As at 31 March 2015 £000
Receivables due within one year		
Programme prepayments	**7,447**	16,472
Programme receivables	**409**	1,113
Trade prepayments	**233**	1,037
Trade and other receivables	**252**	351
	8,341	18,973
Receivables due after one year		
Programme prepayments	**8,750**	11,250
	17,091	30,223
Intra-government balances		
Other central government bodies	**296**	436
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**296**	436
Balances with non-government bodies	**16,795**	29,787
Total as per receivables' notes	**17,091**	30,223

Programme prepayments relate to recovery pre-2012-13 of grant funding (or 'holdback') due from institutions. This relates to adjustments to payment of grant funding to HEIs (non-government bodies) where student numbers fall outside a standard percentage threshold, adjustments arising through data audits or reconciliations. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding or via other means. Discussions around data and 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 2016 £000	As at 31 March 2015 £000
Cash held under Government Banking Service		
Balance at 1 April 2015	**30,438**	29,148
Net change in cash and cash equivalent balances	**12,969**	1,290
Balance at 31 March 2016	**43,407**	30,438
Cash held under commercial banks and cash in hand		
Balance at 1 April 2015	**1**	1
Net change in cash and cash equivalent balances	**0**	0
Balance at 31 March 2016	**1**	1
Total cash and cash equivalents	**43,408**	30,439

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 2015-16 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 until January 2016 and from then onwards by Royal Bank of Scotland, and overseen centrally by the GBS team, ultimately controlled by HM Treasury. HEFCE does not earn any interest on any balances held in GBS accounts.

11 Trade and other payables

	As at 31 March 2016 £000	As at 31 March 2015 £000
Amounts falling due within one year		
Trade payables	**391**	715
Administration accruals	**803**	648
Tax and social security	**39**	64
Programme payables	**199**	152
	1,432	1,579
Intra-government balances		
Other central government bodies	**80**	199
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**0**	0
	80	199
Balances with non-government bodies	**1,352**	1,380
Total as per payables' notes	**1,432**	1,579

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 due to any delays in authorisation and/or the timing of the HEFCE payment runs, or relate to invoices not yet received.

12 Provisions for liabilities and charges

	Inherited staff liabilities £000	Admin provisions £000	**Total** **£000**
Provisions			
Balance of provision at 1 April 2014	256,969	403	257,372
Provision utilised in year	(28,958)	(31)	(28,989)
Decrease in provision	(5,785)	(7)	(5,792)
Unwinding of discount	4,625	5	4,630
Increase in provision due to decrease of the discount rate	7,550	0	7,550
Balance of provision at 31 March 2015	234,401	370	234,771
Provision utilised in year	**(27,562)**	**(370)**	**(27,932)**
Decrease in provision	**(3,546)**	**0**	**(3,546)**
Unwinding of discount	**3,047**	**0**	**3,047**
Decrease in provision due to increase of the discount rate	**(923)**	**0**	**(923)**
Balance of provision at 31 March 2016	**205,417**	**0**	**205,417**

Analysis of expected timing of discounted flows

Within one year	25,730	0	**25,730**
Between 2018 and 2022	96,846	0	**96,846**
Between 2023 and 2032	72,973	0	**72,973**
Thereafter	9,868	0	**9,868**
	205,417	0	**205,417**

Provision utilised in year is the actual expenditure incurred.

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

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

The discount rate for the inherited staff liabilities provision reduced from 1.80% in 2013-14 to 1.30% in 2014-15 and then increased to 1.37% in 2015-16, as per the HM Treasury guidance. This has resulted in significant year on year changes in the revaluation of provision.

12 Provisions for liabilities and charges (continued)

HEFCE has one provision as at 31 March 2016 *(2015: three)* , which relates to inherited staff liabilities.

Provision is 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. The provision was estimated based on data on all pension scheme members. In order to verify the reasonableness of the provision an analytical review is undertaken annually.

Current assumptions mean we expect payments to continue until at least 2041.

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 1.37 per cent per annum *(2014-15: 1.3 per cent)*
- mortality based on SAPS (CMI 2013) tables
- 79 per cent members are age 80 or over
- membership is 49 per cent male and 51 per cent female
- benefits include a 50 per cent contingent spouse's pension.

Administration cost provisions

On 31 March 2015 HEFCE had a provision for the dilapidation costs of Northavon House of £338,000 and a provision for costs of early retirement of two staff members of £32,000. Both were fully utilised in 2015-16.

13 Commitments under leases

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	**933**	1,573
Later than one year and not later than five years	**2,916**	3,192
Later than five years	**1,206**	1,863
	5,055	6,628
Other		
Not later than one year	**37**	4
Later than one year and not later than five years	**88**	0
	125	4

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

HEFCE leases its office buildings in Bristol and London. The Council's lease on its offices at Northavon House in Bristol expired on 24 December 2015. The Council's lease on its offices at Finlaison House in London expires 31 March 2018. The Council's lease on its new offices in Bristol (Nicholson and Westward House) expires 31 January 2023.

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

14 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2016 £000	As at 31 March 2015 £000
Commitments		
Grant committed for the period April to July	**1,140,000**	1,250,000
Grant committed for the next academic year	**3,694,000**	3,971,000

HEFCE has no commitments under non-cancellable contracts.

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

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2016-17 academic year (HEFCE Circular Letter 03/2016) is available on HEFCE's website at www.hefce.ac.uk/pubs/year/2016/CL,032016/.

Grant committed for the period April to July reflects the HEFCE budgeted spend.

As at 31 March 2016 there were no contingent liabilities *(2015: nil)* .

15 Events after the Reporting Period

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

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

16 Related party transactions

HEFCE is a non-departmental public body sponsored by BIS. BIS and other BIS sponsored bodies (e.g. Skills Funding Agency, various Research Councils, Student Loans Company or UK SBS) are regarded as related parties with which HEFCE has had various material non-financial transactions during the year.

In addition, HEFCE has had a small number of transactions with other government departments and other central government bodies (i.e. the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland).

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

The following table provides details of material funding transactions with organisations which are deemed related parties by virtue of HEFCE Board members, Audit Committee members or senior management holding a key management position at those organisations.

	Year ended 31 March 2016 £000
Financial transactions with institutions and other organisations	
● University of Brighton: John Harley*, Chair of Governors.	**24,854**
● Birkbeck College, University of London: Dr Ruth Thompson*, Deputy Chair.	**20,709**
● The University of Cambridge: Professor Dame Shirley Pearce, Council member and Sara Weller CBE, Council member and Chair of the Remuneration Committee.	**189,689**
● The City University: Frank Toop*, Consultant and former University Secretary and The Hon Apurv Bagri, Honorary Rector and visiting professor at the Cass Business School.	**20,966**
● Equality Challenge Unit: Professor Mary Stuart, Board member.	**937**
● Kings College London: Professor Anne Greenough, Professor of Neonatology and Clinical Respiratory Physiology.	**116,370**
● The University of Lancaster: Graeme Osborn, External Trustee of the Students Union.	**36,083**
● University of Lincoln: Professor Mary Stuart, Vice-Chancellor.	**17,839**
● London Business School: Apurv Bagri, Chairman of Board of Governors.	**6,977**
● The University of Manchester: Anil Ruia, Chair of Board of Governors.	**140,295**
● University College London: Clifford Shanbury*, lay member of Council of the Institute of Education.	**190,905**
● University of Oxford: Sara Weller CBE, member of Remuneration Committee at New College and former visiting professor at the Said Business School, Dr Ruth Thompson*, member of the Remuneration Committee at Somerville College and Mark Robson, Honorary Research Fellow at Lady Margaret Hall.	**192,870**
● The University of Sheffield: Professor Sir Keith Burnett, Vice-Chancellor.	**95,559**
● Staffordshire University: Dr Ruth Thompson*, Governor.	**18,539**
● Graduate Students' Association, University of York: Graeme Osborn, employee.	**47,600**

* HEFCE Audit Committee member only.

16 Related party transactions (continued)

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

The University of the West of England is regarded as a related party as it owns Northavon House in Bristol. HEFCE leased this building at an annual commercial rental of £887,090. During the financial year 2015-16 the University of the West of England received £18,621,909.

Appendix 1 Analysis of grant: unaudited

	Year ended 31 March 2016 £000	Year ended 31 March 2015 £000
Funding for national facilities and initiatives		
Strategic Development Fund and Catalyst Fund	**39,862**	32,928
Jisc	**24,233**	34,010
National Networks for Collaborative Outreach	**11,804**	10,036
Museums, galleries and collections	**10,582**	10,447
Higher Education Academy	**6,362**	9,737
Quality assurance	**5,271**	4,968
Postgraduate Support Scheme 2014-15	**3,715**	16,528
Provision of information	**2,509**	2,963
Strategically Important and Vulnerable Subjects (SIVS)	**2,118**	2,139
Policy Ongoing Services	**1,440**	1,521
Learning Gain	**1,273**	0
Higher Education Access Tracker	**1,030**	527
Leadership Foundation for Higher Education	**1,006**	900
HESA	**1,006**	404
International initiatives	**945**	960
Equal Opportunities	**937**	1,017
Engineering Conversion	**858**	12
National Teaching Fellowship Scheme	**580**	757
HE Research Centre	**546**	0
Promoting efficiencies	**356**	1,339
HE Data and Information Improvement Programme	**213**	1,077
Small research programmes	**114**	0
Higher Education Regional Associations	**83**	143
Research Excellence Framework (REF)	**35**	6,866
Changing the Learning Landscape	**30**	454
Research Information Network	**19**	40
Aimhigher	**3**	3
Social entrepreneurship	**0**	1,351
Foundation degrees	**0**	19
Supporting professionalism in admissions	**(51)**	112
	116,879	141,258
Capital funding		
Research Capital Investment Fund (RCIF)	**200,571**	103,733
STEM capital	**187,835**	0
Teaching Capital Investment Fund (TCIF)	**93,269**	143,769
UK Research Partnership Investment Fund (UKRPIF)	**52,500**	152,653
Transitional research	**27,714**	0
Jisc	**19,000**	19,000
Strategic Development Fund and Catalyst Fund	**4,541**	17,899
High Performance Computing capital	**3,000**	4,000
Revolving Green Fund	**0**	(884)
Capital for further education colleges	**(3)**	7,660
	588,427	447,830
Other BIS allocations		
Postgraduate Support Scheme 2015-16	**36,503**	0
Voluntary giving	**43**	107
Student Support Fund	**21**	(20)
FE ITT Bursaries	**0**	(66)
Access to Learning Fund	**0**	(624)
National Scholarship Programme	**(208)**	48,716
	36,359	48,113

Analysis of grant: unaudited (continued)

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

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

Funding for national facilities and initiatives

HEFCE allocates a small proportion of total funding to promote specific initiatives, such as support for national facilities). In 2015-16 HEFCE allocated a total of £117 million for these initiatives *(2014-15: £141 million)* .

Capital

In 2015-16 HEFCE allocated a total of £588 million for capital grants *(2014-15: £448 million)* . Much of the capital is allocated by formula, the two main elements being the Teaching Capital Investment Fund and the Research Capital Investment Fund; funding which goes towards supporting the capital infrastructure of the HE sector. 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 is allocated on the basis that HEIs have secured at least double funding from co-investment sources. That is, for every pound from the UKRPIF, there should be an additional £2 invested.

In 2015-16 we have also distributed nearly £188 million of STEM teaching capital funding. The scheme is intended to ensure that higher education responds effectively to the increase in demand for STEM studies by developing facilities that will support an increased flow of highly employable graduates into industry. Institutions match-fund any allocations on at least a one-to-one basis. This means the total STEM capital investment will be at least £376 million.

Other BIS allocations

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

A brief explanation of each programme is given on the following two pages.

Funding for national facilities and initiatives

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.

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

National Networks for Collaborative Outreach. Scheme that aims to encourage more young people into higher education.

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 teching and research.

Higher Education Academy. Funding for the Higher Education Academy 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 2014-15. Funding to universities and colleges to increase social mobility by attracting and supporting disadvantaged students into postgraduate education.

Provision of information. Funding to support improvement in higher education information for students.

Strategically Important and Vulnerable Subjects (SIVS). We look to support key subjects where the fees and student support system does not cover full costs. Where the future of a key subject is at risk and the subject is of national strategic importance, we may also need to intervene, generally in collaboration with sector partners and on the advice of our SIVS Advisory Group. We are currently funding projects to develop subject provision and increase student demand in modern foreign languages, mathematics and quantitative social science.

Policy ongoing services. Funding that contributes to the delivery of services directly to HEIs or other HE sector bodies.

Learning gain. Funding for pilot projects that will test and evaluate measures of learning gain in English higher education.

Higher Education Access Tracker. The development of a national outreach tracker - a database for monitoring and evaluation of outreach engagement for subscribing Higher Education Institutions.

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

Higher Education Statistics Agency (HESA). Agency for the collection, analysis and dissemination of quantitative information about higher education in the UK.

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

Equal opportunities. Funding to support the work of HEIs in improving equal opportunities for their staff.

Engineering Conversion. Development of engineering conversion pilots.

National Teaching Fellowship Scheme (NTFS). The NTFS recognises and rewards individual practitioners who have demonstrated excellence in learning and teaching. This nomination-based initiative is managed by the Higher Education Academy on behalf of the UK funding bodies.

HE Research Centre. Together with the Economic and Social Research Council HEFCE is co-funding the centre for global HE dedicated to the investigation of higher education and its future development.

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.

HE Data and Information Improvement Programme (HEDIIP). The HEDIIP, hosted by HESA, has a UK-wide remit and is leading a programme of changes to build a more coherent and less burdensome data collection landscape.

Small research programmes. Funding towards policy work on career development of research staff and pilot projects on social innovation.

Higher Education Regional Associations. Funding towards the costs of the HE regional associations which are membership organisations that represent HEIs in the regions.

Research Excellence Framework (REF). Funding for implementing the new system for assessing the quality of research in the UK higher education. Panel meetings determining judgements completed in 2014.

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

Research Information Network. A community interest company which acts as a facilitator to develop shared approaches to the scholarly-communications landscape.

Aimhigher. Former funding initiative for regional partnerships to widen and increase participation in HE.

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

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

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

Capital funding

Research Capital Investment Fund (RCIF). Distribution of earmarked funding to assist with improving the infrastructure for research and knowledge transfer.

STEM capital. Funding to support investment in teaching Science Technology Engineering and Medicine (STEM) subjects.

Teaching Capital Investment Fund (TCIF). Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure.

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

Transitional research. Funding to mitigate changes in research allocations.

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

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.

Other BIS allocations

Postgraduate Support Scheme 2015-16. Individual scholarships to contribute to the costs of masters study in any subject. The funding is matched by institutions so that each award comprises £5,000 HEFCE funding and £5,000 institutional or employer funds.

Higher Education Funding Council for England
Nicholson House
Lime Kiln Close
Stoke Gifford
BRISTOL
BS34 8SR

tel 0117 931 7317
www.hefce.ac.uk

ISBN 978-1-4741-3021-9