Annual report and accounts

2014-15

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

HC5

Higher Education Funding Council for England

Annual report and accounts 2014-15

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 9 June 2015

HC5

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

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

Print ISBN 9781474118712
Web ISBN 9781474118729

ID 08051501 06/15

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

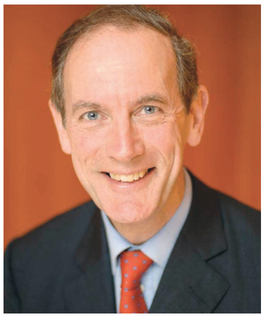
Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty’s Stationery Office

Higher Education Funding Council for England

Annual report and accounts 2014-15

Contents

Foreword



Tim Melville-Ross CBE, HEFCE Chair

In 2014-15, HEFCE's funding and regulatory role continued to evolve in the light of the Government's reforms to higher education and in response to the political and economic environment. We are also continuing to evolve as an organisation, with an emphasis on working in partnership with others to inform and influence policy and practice, and to contribute to the success of higher education in England.

The year has not been without challenge. In the context of continuing constraints on public finance, HEFCE protected core institutional funding as far as possible, but further reductions in addition to those offset by the new tuition fee policy had to be made to teaching funding. We pay tribute to universities and colleges for improving student satisfaction and research performance in the light of these challenges.

We continue to be the largest single funder of research in England. In the 2014-15 academic year we distributed £1.6 billion of quality-related research funding. The results of the 2014 Research Excellence Framework, announced in December, demonstrate the outstanding quality and enhanced international standing of UK research. Excellence was found across a broad range of universities, research types, and disciplines. A new element in the exercise also provided evidence of the significant impact of UK research on society, culture and the economy. The assessment outcomes will inform the allocation of our research funding from the 2015-16 academic year.

As part of our role as lead regulator, in 2014 we published the first register of higher education providers. The register lists all providers which have particular relationships to Government (or bodies related to Government) in England, and the regulatory controls which apply to them. It acts as an authoritative reference point for a wide range of users, including providers of higher education, other regulators, overseas governments and students.

In 2014, with the higher education funding bodies in Wales and Northern Ireland, we initiated a joint review of quality assessment of educational provision. Through a wide-ranging discussion with the sector, students and other stakeholders, we are exploring options for approaches that are risk-based, proportionate, affordable, and low-burden, in order to ensure that the quality assessment system is fit-for-purpose for the next decade.

A key focus over the past year has been our work to address the gap in student finance for taught postgraduate education. HEFCE's Postgraduate Support Scheme received an overwhelmingly positive response, helping more than 2,800 students to progress to postgraduate taught education. The scheme has provided evidence on how to support the sustainability of taught postgraduate provision, and a basis to inform future policy and investment. In 2015-16, HEFCE will allocate £50 million to higher education institutions to offer 10,000 postgraduate bursaries on a match-funded basis, and in 2016-17 we hope to see the introduction by the Government of income-contingent postgraduate loan schemes for students undertaking taught masters and postgraduate research degrees. HEFCE will work closely with the Government during the consultation period in 2015.

Universities and colleges have continued to play a key role in supporting national and local economic growth. HEFCE's funding for knowledge exchange through Higher Education Innovation Funding (HEIF) is an important contributor to this success. Projects funded through our Catalyst Fund and UK Research Partnership Investment Fund demonstrate the extent to which universities and colleges are working with businesses, charities, public sector bodies and their local and regional communities to stimulate growth and innovation through shared capital investment, smart specialisation, higher-level skills development and graduate employability initiatives.

The availability of robust data is critical in providing a solid evidence base and a framework for investment. In 2014 HEFCE published a series of data maps which bring together school and higher education data with employment and mobility data to give a comprehensive and detailed picture of higher education participation and provision, graduate employment and mobility across England. The maps are being used by universities and local enterprise partnerships to inform their work and strategies.

Improving social mobility through widening participation and student success in higher education continues to be a key priority for HEFCE. In 2014, a new HEFCE analysis of differential outcomes in higher education identified significant links between patterns of achievement in higher education and factors such as ethnicity, gender and school type. As part of our work in this area, we are supporting universities and further education colleges to deliver outreach activity for all state-funded secondary schools and colleges through the National Networks for Collaborative Outreach scheme.

HEFCE's Business Plan for the next five years, published in February, sets out the ways in which we will help to create and sustain the conditions for a world-leading higher education system. The plan allows us to be agile and responsive to change, while ensuring that our overarching priorities for the next five years are clear. We will look to the new Government to prioritise appropriate legislation to provide the essential safeguards for all students in the new higher education market context.

I offer thanks to HEFCE staff for their hard work and dedication, and to the HEFCE Board for its consistently excellent work. We assess the effectiveness of HEFCE's governance on an annual basis; this year we commissioned an external, independent review from Maxxim Consulting. Maxxim provides a strong, positive high-level assessment of the Board's work, while offering a number of practical suggestions for strengthening the work of the Board further. These suggestions are under consideration.

Finally, we could not do what we do without the generous and invaluable input and expertise of the sector and of our other partners and stakeholders. We are grateful, as ever, for your support.

Tim Melville-Ross

Tim Melville-Ross CBE
Chair
Higher Education Funding Council for England
13 May 2015

About HEFCE

The Higher Education Funding Council for England (HEFCE) is a public sector body which funds and regulates universities and colleges in England. During the financial year 2014-15 we distributed £4.12 billion in public money. Most of this was used to support research and teaching in universities and colleges. The remainder funded innovation and knowledge exchange work, initiatives to enhance excellence and efficiency in higher education (HE), and research and analysis of sector issues to inform future policy.

As lead regulator of the 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 encourage and support the positive contribution that higher education makes to the economy and society.

HEFCE was established by the Further and Higher Education Act 1992. We are a non-departmental public body (NDPB). We work within a policy framework set by the Secretary of State for Business, Innovation and Skills (BIS), but we are statutorily independent of Government. A description of HEFCE's structure, including a list of Board members, can be found on page 36 and on our website at www.hefce.ac.uk/about/.

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:

- 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
- incentivising excellence in teaching and learning (education)
- 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.

Summary of our achievements in 2014-15

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 2014-15, we allocated £1,573 million of recurrent research funding and £286 million of research capital funding.

We are committed to supporting innovation and funding excellence wherever it is found. Our system for allocating quality-related 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. The promotion of research integrity and ethics is also a priority area for HEFCE. We are working closely with Universities UK, the Research Councils and other funders to implement the joint Concordat on Research Integrity.

Research Excellence Framework

The Research Excellence Framework (REF) is the system for assessing the quality of research in UK higher education institutions (HEIs). The REF is owned by the four UK higher education funding bodies[1], and is managed by a team based at HEFCE.

The REF is an essential component of an efficient, world-leading sector. Continuous improvement is important and we are already considering the next REF, consulting with the community and gathering appropriate evidence, including through evaluation of REF 2014 and an independent review of the potential roles of metrics in research assessment.

Headline figures and outcomes of the REF

REF2014 Research Excellence Framework

The research of 154 UK universities was assessed

They made **1,911** submissions including:

- **52,061** academic staff
- **191,150** research outputs
- **6,975** impact case studies

The **overall quality** of submissions was judged, on average to be:

★★★★ **30%** world-leading (4*)
★★★ **46%** internationally excellent (3*)
★★ **20%** recognised internationally (2*)
★ **3%** recognised nationally (1*)

The REF results were announced on 18 December 2014 and can be found on the REF website, along with further analysis[2]. The results demonstrate the world-leading quality of research conducted in UK universities. They also highlight the wide-ranging and significant benefits that UK research brings to the economy and society.

1 The Higher Education Funding Council for Wales (HEFCW), the Scottish Funding Council (SFC), and the Department for Employment and Learning in Northern Ireland (DELNI).

2 www.ref.ac.uk

Impact analysis in the REF

The assessment of impact was introduced for the first time in REF 2014. HEIs submitting to REF had to submit a number of case studies demonstrating the impact of their research on the wider society. In total, HEIs submitted 6,975 case studies to the REF.

These case studies provide valuable evidence of the impact of UK research. Outstanding impacts were generated by research in all discipline areas. Outstanding (4*) and considerable (3*) impact was generated by research in a diverse range of institutions and across all units of assessment.

Impact was evident in all domains, including the economy, society, culture, public policy and services, health, the environment and quality of life, within the UK and internationally.

All impact case studies have been published on the REF website[3], and two examples are provided below:

The London School of Economics and Political Science helped shape children's internet literacy and safety policy[4]. In the UK the research informed the establishment of the UK Council for Child Internet Safety and the creation by the Council of the UK's first Child Internet Safety Strategy. Policy and practical initiatives around the world draw on the methodology and findings of the research.

Research by the University of Bristol was the first to document the importance of a number of factors that contribute to cot death. As a result there has been a marked and persisting reduction in the number of cot deaths. A 67 per cent reduction from 1988 to 1992 in England and Wales resulted from the identification of risks associated with putting babies to sleep face-down. The identification of further risk factors has halved the death rate again. Tens of thousands of cot deaths world-wide have been prevented due to the team's research.

Equality and diversity in the REF

HEFCE and the other UK higher education funding bodies have been working to improve the management and support of equality and diversity in REF. Through extensive consultation with the sector, the funding bodies have ensured that equality and diversity considerations have been implemented sensitively, fairly, and consistently.

As a result of this, HEIs have developed and applied effective codes of practice, and have been encouraged to submit the excellent research of a wider range of staff. It is extremely encouraging that the proportion of staff submitted with individual circumstances that had impacted on their research productivity has risen from 12 per cent in the 2008 Research Assessment Exercise to 29 per cent in REF 2014. Research outputs submitted by staff with individual circumstances were found to be of equal quality compared with outputs submitted by other staff. In January 2015 we published an analysis of the selection of staff in terms of their equality and diversity characteristics[5].

3 http://impact.ref.ac.uk/casestudies

4 http://results.ref.ac.uk/Submissions/Impact/19

5 www.ref.ac.uk/equality/edapreport/

Evaluating REF 2014

REF 2014 introduced some important new elements, most notably the assessment of research impact, as well as refining aspects of the previous Research Assessment Exercise. In partnership with the other UK HE funding bodies, we have undertaken a comprehensive evaluation of REF 2014 to inform policy development for future exercises. This includes a two-stage evaluation of the impact element, focusing on the submission process for institutions and the assessment process for the REF panels; an accountability review of the costs, benefits and burden of the exercise; qualitative feedback from participating institutions and the REF panels; and a review of multi- and inter-disciplinary research.

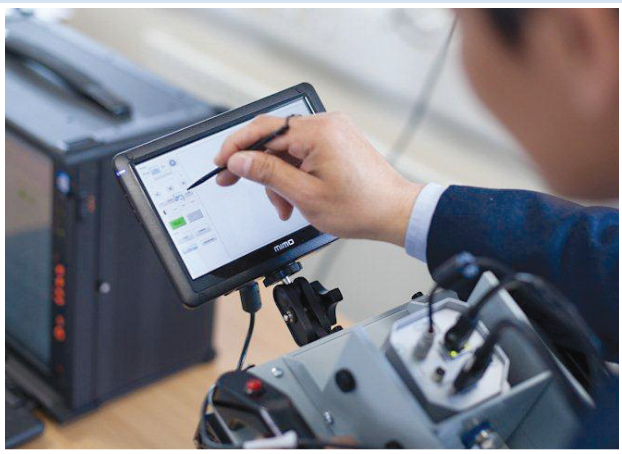
UK Research Partnership Investment Fund

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. To date, HEFCE has allocated more than £400 million of public investment to major infrastructure projects, and universities have secured over £1 billion in further funding through investment from businesses or charities. A fourth round of successful projects was announced in spring 2015.

Cranfield University: Aerospace Integration Research Centre

Cranfield University was awarded £10 million in the third round of UKRPIF. The Aerospace Integration Research Centre is being developed in collaboration with Airbus and Rolls Royce, attracting £20 million in co-investment. It will provide dedicated space and specialist equipment, and conduct research on future challenges facing the aerospace sector. The centre will expand the regional hub of research and technology programmes, carried out by higher education partners and global businesses, all with established aerospace expertise. It will create a research capability that is of regional, national and international significance and reach.

The centre will directly contribute to the competitiveness and prosperity of the aerospace industry and the wider UK economy, safeguarding existing jobs and creating additional work opportunities within the UK aerospace and academic sectors.



Monographs and open access

'Open access' refers to unrestricted, online access to the published findings of research. As a national funding body for research, we are committed to supporting successful approaches to open-access publishing and increasing public access to research findings.

The HEFCE Monographs and Open Access Project ended in January 2015 with the publication of its final report. The project examined the role and current status of the monograph (a monograph is a specialist work of writing on a single topic, usually by a single author), and to explore and clarify the issues around open access for monographs.

Evidence to support the project was gathered through a comprehensive programme of consultations, surveys, data-gathering and focused research activities. The research was supported and shaped by an expert reference group of publishers, academics, librarians, funders and open access experts, with the additional help of distinguished representatives from overseas.

The report found that monographs are a vitally important and distinctive vehicle for research communication, and must be sustained in any moves to open access. The availability of printed books alongside the open-access versions will be essential. Open access offers both short- and long-term advantages for monograph publication and use. There is no single dominant emerging business model for supporting open-access publishing of monographs. A range of approaches will coexist for some time and it is unlikely that any single model will prevail. Policies will therefore need to be flexible.

HEFCE Catalyst Fund: ICURe Innovation-to-Commercialisation

The challenge of translating research and research discoveries into viable businesses and industries is being addressed by the new ICURe Innovation-to-Commercialisation Programme. Led by the SETsquared Partnership and funded by HEFCE and Innovate UK, ICURe is designed to move ideas and innovations out of universities and into the marketplace.

The programme funds teams with grants of up to £50,000, to determine whether there is a market for their discovery. This requires different skills and knowledge from those needed in research and in the laboratory. The basis of ICURe is 'real-world': hands-on, immersive learning about what it takes successfully to transfer innovations into the market. It is about engaging with industry and talking to customers, partners and competitors to identify the most appropriate business model.

ICURe links closely to work by HEFCE to develop entrepreneurial skills and knowledge in a new generation of scientists and engineers. It also addresses issues raised in the Government response to the 2013 inquiry by the House of Commons Science and Technology Select Committee.

Innovation through knowledge exchange

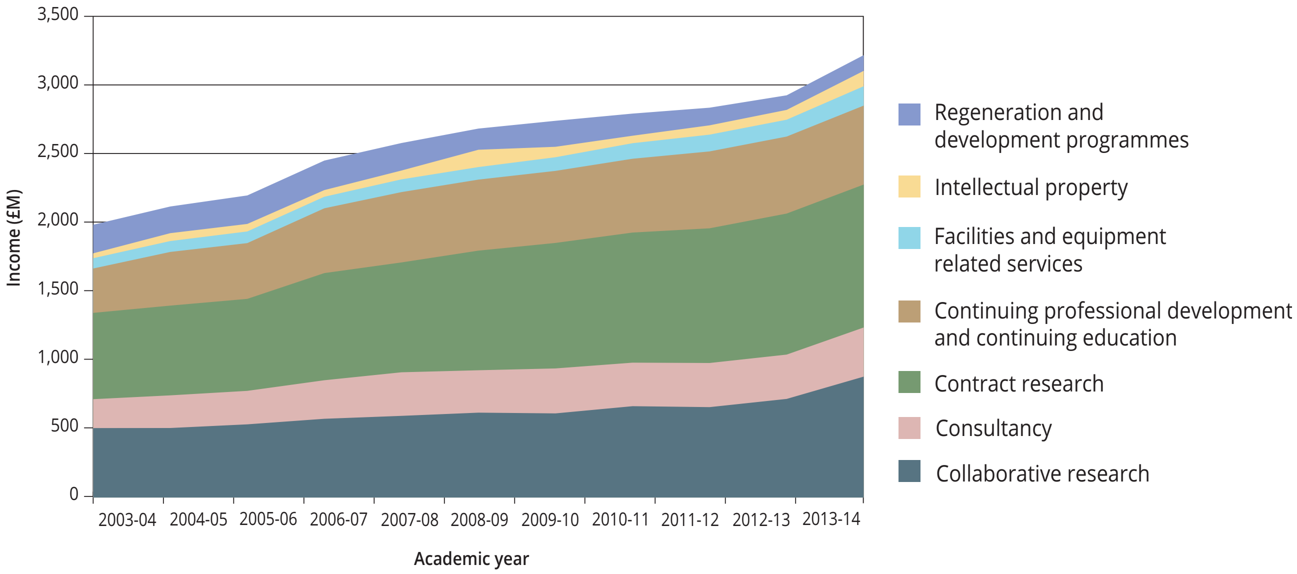
Universities help organisations of all sizes and sorts to become more competitive, innovative and productive, through offering their wealth of knowledge and expertise. The term 'knowledge exchange' is shorthand for the multiple interactions between universities and businesses, public services, charities and communities to create societal and economic benefit. 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), our Catalyst Fund[6], and through initiatives such as the UK Research Partnership Investment Fund. We have invested a total of £626 million in recurrent funding from 2011-12 to 2014-15 through HEIF to support knowledge exchange activity. We are also targeting specific calls on our Catalyst Fund to priority areas of knowledge exchange activity, such as local growth and supporting innovative knowledge exchange in specialist institutions.

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 services they provide to businesses and other organisations – we use earned income as a proxy for impact in terms of delivering benefit for the economy and society. Performance across the HE sector has continued to increase despite the recent economic downturn. Knowledge exchange income in England has increased in real terms from just under £2 billion in 2003-04 to over £3.2 billion in 2013-14 – a 62 per cent increase.

Knowledge Exchange Income – HEFCE-funded HEIs to 2013-14 (Real Terms)



6 The Catalyst Fund commits up to £45 million in annual funding. This money aims to drive innovation in the HE sector, enhance excellence and efficiency in HE, and support innovative solutions at a time of changes to funding and regulation.

The Government confirmed in the Science and Innovation Strategy published in December 2014 the importance of long-term support for knowledge exchange through HEIF. The Government also recognised that HEIF had been successful in generating a very good return on public investment. A 2014 expert analysis of knowledge exchange performance found that, on average, an investment of £1 in knowledge exchange activities by HEFCE produced a return of £6.3[7] in additional institutional income alone. However, recent evaluations have emphasised that the value we can presently demonstrate in income represents only a part of the return on investment (ROI), and HEFCE is undertaking work to capture additional benefit, for example a recently published report on the value of student start-ups[8]. This exploratory study calculated a tentative ROI on student start-ups and spin-outs emerging from English HEIs in 2013, potentially as high as £3.36 for every £1 of HEIF invested. The report indicated that students who studied within art and design and computer science are far more likely to start up a business, highlighting differences in curriculum-based support and development across subjects, and the suggested lower market entry costs in art and design and computing/software development.

We seek to support institutions in adopting best international practice in knowledge exchange and aligning with government priorities for the economy. We are also working with the UK HE International Unit and UK Trade and Investment on opportunities to support universities and colleges in international innovation partnerships and activity.

Supporting national and local innovation and growth

In 2012, the HEFCE Board agreed a new strategic approach to supporting universities and colleges to contribute to the country's economic growth challenge, which included making economic growth a cross-cutting theme for our Catalyst Fund. In 2014, we used the Catalyst Fund to target priority areas to help address the Government's priorities for growth as set out in the Industrial Strategy. In particular, we invited proposals to explore the potential 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 hence are well-placed to respond to the Government's increasing interest in devolution. In England, through the next 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. An initial assessment undertaken jointly with Universities UK and the Department for Communities and Local Government suggests that universities are engaging strongly with the development of proposals to invest ESIF[9]. Most universities interviewed provided data, evidence, intelligence and/or analysis in the preparation of Strategic Economic Plans and draft ESIF Local Implementation Plans.

The Government has also created a Local Growth Fund for which local enterprise partnerships (LEPs) may bid for support, such as for skills and capital investments, and a Regional Growth Fund. The Government encouraged LEPs in its 2014 Autumn Statement to bring forward additional proposals for science projects to access the Local Growth Fund.

7 www.hefce.ac.uk/pubs/rereports/year/2014/keheifimpact/

8 https://www.hefce.ac.uk/pubs/rereports/Year/2015/ssu/

9 www.universitiesuk.ac.uk/highereducation/Documents/2015/ESIF%20factsheet%20FINAL%20FOR%20WEB.pdf

HEFCE has appointed a Local Growth Expert Adviser and supported a post at Universities UK to help institutions extend their engagement with LEPs and other local partners. Universities and colleges are well-placed to deliver activities supported by ESIF: a number of the fund's themes – smart specialisation, higher level skills, graduate employability (including employment in small and medium-sized enterprises (SMEs)), and entrepreneurship – are clearly aligned with the priorities of universities. Much of HEFCE's funding is formula-based and can be used flexibly by universities and colleges; this means that, where HE and LEP priorities align, HEFCE funding can be used as match funding to achieve common aims.

Delivering projects which make effective use of the Local Growth Fund and ESIF requires distinctive expertise, skills and capabilities. HEFCE will consider in the next year how best to help universities to develop these competencies.

HEFCE has funded a Yorkshire Universities project to produce a good practice guide to ESIF. We have also commissioned Praxis and the Association for University Research and Industry Links to produce an accessible guide to the application of state aid.

Yorkshire Universities project to widen access to European Union Funds

The aim of the Yorkshire Universities Technical Assistance Project (YUTA) is to help and encourage universities to engage with the 2014-2020 ESIF Programme. YUTA is funded by a combination of the HEFCE Catalyst Fund and the European Regional Development Fund 2007-2013.

The Yorkshire Universities team is working with three LEPs (Humber, Leeds City Region, and York, North Yorkshire and East Riding) and regional universities to identify and develop innovative projects utilising the research and technology strengths in Yorkshire's academic base.

The YUTA project has three objectives:

1. Supporting and facilitating collaboration between the LEP partners and the universities to ensure that the HE contribution to ESIF is understood and maximised.

2. Identifying and developing a pipeline of strategic collaborative projects suitable for ESIF investment in Yorkshire. Target areas are:

- research and innovation, focused primarily on regional strengths in medical and health innovation, agri-technologies, bioscience and biorenewables, advanced manufacturing and energy
- SME competitiveness
- enterprise and business start-ups.

3. Promoting good practice on the use of EU Innovation and Structural Funds in the higher education sector through a good practice guide: http://yuta.yorkshireuniversities.ac.uk/good-practice-guide.

National Centre for Universities and Business

As part of HEFCE's encouragement of economic growth, we are supporting the National Centre for Universities and Business (NCUB), a UK-wide network of business and university leaders which works to strengthen collaboration between higher education and business. The NCUB is funded by all the major UK funders of higher education, research and innovation[10].

NCUB provides a repository of evidence and case studies, and facilitates collaboration[11]. NCUB, HEFCE, Research Councils UK and Innovate UK have come together to invest over £500,000 in the development of a UK Intelligent Brokerage Tool to enable businesses, particularly SMEs, to find the right university partners and address industry issues and challenges through smart searching and automated brokering. HEFCE has also been supporting NCUB in developing proposals for an Advisory Hub for Smart Specialisation, commissioned by Government to help LEPs in forming partnerships with universities and colleges.

HEFCE Catalyst Fund: Norwich University of the Arts

Catalyst Funding has enabled Norwich University of the Arts (NUA) to develop the Ideas Factory, a centre for business start-up and acceleration in the digital creative sector.

The concept is unique, in that academic teaching of creative development will be fully integrated with the support that NUA offers in employability and business start-up. As well as providing a physical environment for early stage businesses to grow within high-quality incubation space, the centre will offer a support infrastructure, including technical facilities and access to all NUA digital resources. Experienced creative business professionals will deliver workshops, and a programme of business clinics.

The Ideas Factory will be a focal point for Norwich's digital creative industry, providing new meeting, boardroom and networking space – a place to come to find out about cutting-edge creative industry and innovation, and to access the developing talent from a specialist university. It will see co-investment from Sony.

10 HEFCE, HEFCW, SFC, DELNI, Research Councils UK and Innovate UK.

11 NCUB published its first annual State of the Relationship report in April 2014, which described the current spread and quality of university-business collaboration activity taking place in the sector.

Outstanding education: teaching and learning

Teaching excellence must be at the heart of a world-class higher education system. HEFCE is committed to supporting the HE sector to provide excellent teaching that meets the diverse needs of students. We work closely with the sector and partner organisations to stimulate greater innovation in teaching and to support the sharing of excellent and expert practice, both from the UK and internationally. In 2014-15 we focused on developing better ways of capturing excellent educational outcomes (including new approaches to measuring students' learning); supporting the interests of students by ensuring they have better, more relevant and accurate information about courses; and investing in science, technology, engineering and mathematics (STEM) subjects.

Improving information to enhance the student experience

Information increasingly plays a vital role in enhancing the quality of students' experience. Improving information for students to enable them to make informed choices about HE is a government priority. Institutions also use information to identify improvements and monitor change. HEFCE, with partners, has been leading a programme of work across the UK to provide more effective information across the student life-cycle. We are working to enhance existing information tools, as well as conducting research and development to ensure that information sources are fit for the future. Our work has included:

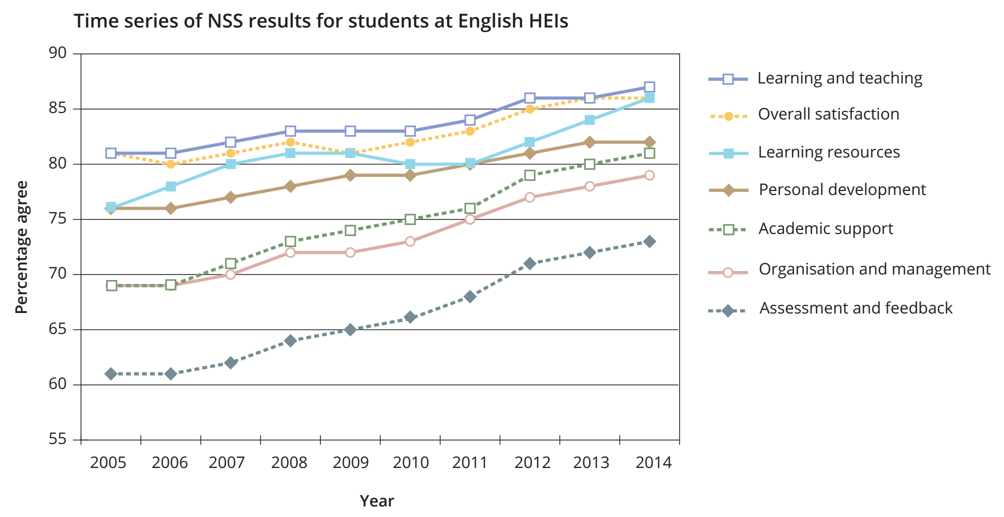
- As part of a joint review of information with the other UK HE funding bodies, we have published two major reports on the National Student Survey (NSS): a data and trends analysis[12] that explores patterns across nine years; and a review of the purpose and effectiveness of the NSS[13]. The review recommended a number of improvements to the survey, including the piloting of questions relating to student engagement. We plan to consult in autumn 2015 on a revised survey.
- We have continued to make improvements to the Unistats website in line with user feedback. A survey in autumn 2014 showed that 94 per cent of users surveyed were satisfied or very satisfied with their visit to the site. We have also responded to feedback from institutions by reducing the number of responses to student surveys we need before we are able to publish data – this will make more data available than currently.

12 www.hefce.ac.uk/pubs/year/2014/201413/.

13 www.hefce.ac.uk/pubs/rereports/year/2014/nssreview/.

National Student Survey 2014

The 2014 National Student Survey headline results show that satisfaction among UK students remains high. UK scores for each of the seven categories of questions showed an improvement, or stayed the same as 2013. In response to the question about overall satisfaction with the quality of their course, 86 per cent of respondents reported being either satisfied or very satisfied (85 per cent in 2013). The overall response rate was 71 per cent, with around 321,000 final-year students responding. This is the highest response rate since the survey began in 2005.



Learning gain

Developing our understanding of student learning is integral to ongoing debates about the quality and impact of higher education. It also helps us to evidence the value of investment in higher education. One element of this work is our research on learning gain (defined as the difference between the skills demonstrated by a student at two points in time). In 2014 we commissioned a scoping study in collaboration with BIS and the Higher Education Academy (HEA). The report will be published in summer 2015.

The study found some evidence of evaluation of learning gain at institutional and discipline level in England, with approaches including self-reported measures of learning (measured by student surveys), skills assessments, student performance tests such as grade point average (GPA) and progress testing (such as that used in medical education). It also highlighted lessons to be learned from activity in other countries. We have started discussions with the sector on the purposes and potential uses of measurements of learning gain and about how HEFCE might support the further development of this area of work. In 2015-16 we will work with institutions to develop, pilot and critically evaluate the pedagogical, technical and financial viability of new and existing approaches.

Support for specific subjects

We continue to provide additional funding for high-cost subjects such as science and engineering, for small and specialist institutions, for courses where students take a year abroad as part of their studies, and for some taught postgraduate programmes. Our data on subject supply and demand, which is updated annually and is now in an interactive format, is increasingly used by subject organisations and others to help build a picture of issues facing particular areas of study.

We are also seeking to address a number of subject risks through specific interventions:

- We have invested £200 million funding for STEM teaching capital projects during 2015-16 (further detail below).
- We continue to provide funding for 'sigma', the maths and statistics support network.
- We support a programme of demand-raising activity in modern foreign languages delivered by the Routes into Languages consortium.
- We support the Q-Step programme, which is designed to promote a step-change in quantitative methods training for social science undergraduates in the UK.

STEM capital

We are investing £200 million funding for STEM teaching capital projects to enable the sector to respond effectively to the increase in demand for STEM studies.

Seventy-three institutions will receive a share of the funding during 2015-16. These examples give an idea of the types of project that are being funded:

- The University of Exeter has secured £5 million and is investing £5.3 million of its own funds to equip laboratories with industry-standard technology and to create virtualisation and simulation laboratories. The investment will support Engineering, Physics, Biosciences and Renewable Energy students in obtaining the technical skills, collaborative attributes and multidisciplinary approaches needed in the 21st-century science and technology sector. The University aims to increase its overall STEM student numbers by 23 per cent over the next four years.
- Anglia Ruskin University has secured £5 million STEM teaching capital investment and is planning to invest £40 million of its own funds to build a new Life Sciences and Technology Centre at its Cambridge campus. The £5 million investment will support the delivery of flexible workstations so that a variety of subject disciplines can be taught in one place. The centre will look to provide an additional 600 STEM graduates to enter the life sciences and information technology sectors.

High-level technical knowledge and skills

Higher education has a crucial role to play in supporting individuals, businesses and other organisations to develop the skills needed to maintain UK competitiveness. Evidence shows that employers value both disciplinary and generic skills arising from higher education studies. More broadly, there will be growth in graduate jobs over the next 10 years (in professional, associate professional and managerial occupations). This is reflected in the Government's industrial strategy and through an increased emphasis on apprenticeships at higher levels.

In 2014-15 we funded the University Vocational Awards Council (UVAC) to help increase HEI engagement in the Government's higher apprenticeship programme, and through the Catalyst Fund we are encouraging the development of technical higher education, particularly at intermediate levels, to test new progression pathways for learners and new provision that supports economic growth.

Southampton Solent University: Exploring Higher Apprenticeships in higher education

The vision of this project is for employers and HEIs to work together to position 'apprenticeships with embedded degree awards' as a sought-after alternative to traditional degree models, thereby contributing to a more highly skilled workforce and thriving creative industries. The project will develop and promote seven new Higher Apprenticeship-degree programmes during a 12-month pilot phase, with an additional three months for research and evaluation. Because the process of Higher Apprenticeship degrees is still evolving, this project will help to develop good practice and regulation in this area, thus having the potential to impact on the national system.

The project is led by Southampton Solent University in collaboration with Creative Skillset, Ravensbourne, University of Bradford, Middlesex University, Norwich University of the Arts; two advisory partners (NCUB and GuildHE); and a number of employer partners.

Supporting and promoting social mobility

Since the publication of the National Strategy for Access and Student Success in 2013[14], HEFCE has initiated work in a number of areas to build on the considerable progress seen in widening access, improving retention and supporting successful student outcomes during the past decade.

Successive governments have recognised the key contribution that higher education makes to improving social mobility, and the benefits arising from this for individuals, society and the economy. HEFCE Student Opportunity funding has enabled universities and colleges to develop and deliver long-term strategies for widening participation that have resulted in increased participation rates for the most disadvantaged groups, and reductions in the numbers of students who fail to complete their studies. In 2014-15 we allocated £366 million through the Student Opportunity allocation.

National Networks for Collaborative Outreach

In January 2015 we announced £22 million of funding for 38 networks as part of the National Networks for Collaborative Outreach (NNCO) scheme. Funded for two years (2014-15 and 2015-16), the scheme will encourage more young people into higher education by delivering a nationally coordinated approach to working with schools, universities and colleges.

The NNCOs, which cover the whole of England, involve 200 universities and colleges and will reach over 4,300 secondary schools and colleges. Thirty-five local networks host websites with information about outreach activity, and signpost other information to support schools and colleges as they prepare their students for higher education.

Three NNCOs will offer support to specific groups of students: those wishing to progress to Oxford or Cambridge, older learners wishing to continue or return to study and care leavers.

National Network for the Education of Care Leavers, University of Winchester

The National Network for the Education of Care Leavers (NNECL) is a network of regional partnerships of universities and other agencies across England. Its mission is to transform the progression of young people in or leaving care into and through further and higher education so that they thrive throughout their lives and careers.

This mission complements the Government's commitment to improving educational outcomes for looked-after children and care leavers. Currently only 6 per cent of care leavers are in higher education at age 19, compared to approximately 30 per cent of young people nationally.

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

The Greater Merseyside Collaborative Outreach Network

The Greater Merseyside Collaborative Outreach Network was awarded HEFCE funding to become a network to identify and target HE 'cold spots' across the region. The University of Liverpool is the lead institution, working with other HE and further education partners including Edge Hill University, University of Chester, Liverpool John Moore's University, Liverpool Hope University, St Helen's College, City of Liverpool College, Riverside College and Wirral Metropolitan College.

The funding has brought partners around the table and encouraged them to think about how best they can support young people in the region to access higher education. The network aims to:

- connect with schools that have not previously engaged with HE providers
- showcase all the HE opportunities in the area through large-scale collaborative activities
- target under-represented groups.

Understanding the impact of our investment in student opportunity

HEFCE's work to understand trends in young participation in HE shows a differential pattern in terms of some disadvantaged groups[15]. There is also evidence of the long-term, positive effect that HEFCE Student Opportunity funding has had on access and retention. However, there is a need to develop more nuanced evidence of the contribution that our funding has made on individual economic and social outcomes.

15 See Figure 12 of 'Trends in young participation in higher education' (HEFCE 2013/28, www.hefce.ac.uk/pubs/year/2013/201328)

We have therefore commissioned two research projects to identify what is required to measure the outcomes from our investment and institutions' activity, and the benefits arising from this. They will employ a range of quantitative and qualitative research instruments and analysis techniques. The final reports will be used to determine what information HEFCE will request from HE providers in autumn 2015 in respect of their use of the Student Opportunity allocation.

Following this initial research we will develop a programme of national research to support institutional monitoring and evaluation. This will provide a richer evidence base of the impact of HE providers' activity and approaches to supporting successful outcomes for students, the economy and society.

Higher Education Access Tracker

To further support institutions in effectively tracking and evaluating the impact of their widening participation activity, in May 2014 we announced funding of £3 million 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 HEIs in England to track learners who have taken part in outreach activities in schools and colleges through to their achievement in higher education. HEFCE funding is enabling a step-change in the scale of the service, putting in place resources and infrastructure so that more institutions can join the service and secure better evidence on the impact of their work. The funding is provided between 2014 and 2017, and the service has already taken on its first tranche of institutional subscribers.

Understanding diversity

Throughout 2014-15 HEFCE has further developed our programme of sector-level research and evaluation to enhance our and the sector's understanding of the challenges and issues facing different student groups:

- **Understanding differential student outcomes**: HEFCE has long been concerned about the differences between student groups in terms of their degree and employment outcomes. Successive HEFCE analyses[16] have shown significant variations in outcomes for students from different groups. These differences remain statistically significant even after controlling for observable individual background characteristics such as prior educational attainment.

  We have commissioned research to explore the reasons for these differences, and to identify emerging strategic responses and interventions. A number of institutions are working to address these differences, and we intend to support a significant improvement in the scale and dissemination of appropriate interventions.

- **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 on support for disabled students. One study is looking at support for students with severe to moderate mental health conditions and/or complex physical impairments, and investigates how HE providers fund and provide support for such students where highly intensive and/or multi-agency support is required. The other focuses on how support for students with specific learning difficulties impacts on their learning outcomes.

16 'Higher education and beyond: outcomes from full-time first degree study' (HEFCE 2013/15, www.hefce.ac.uk/pubs/year/2013/201315/) and 'Differences in degree outcomes: Key findings' (2014/03, www.hefce.ac.uk/pubs/year/2014/201403/).

Supporting access to postgraduate study

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.

Building on the success of the scheme, HEFCE is allocating a further £50 million to the scheme in 2015-16. This will be match-funded by institutions and made available to students as awards of £10,000 for any masters programme lasting no more than two years. The awards will be given to students who have been subject to the higher undergraduate tuition fees starting in 2012-13 and who are currently under-represented in postgraduate education.

In the 2014 Autumn Statement the Government announced its intention to implement postgraduate loan schemes from 2016-17. The proposed schemes are subject to consultation which will run in 2015, and responses will be presented to the new Government to take forward. We have worked closely with BIS and HM Treasury to develop the consultation.

University of Sheffield's Postgraduate Support Scheme

The University of Sheffield consortium project is one of 20 pilot projects to receive funding from the PSS in 2014-15. Partners include the University of Leeds, University of Manchester, Newcastle University, University of Warwick and University of York.

The multi-strand project has offered 350 scholarships, typically between £10,000 and £15,000, along with targeted interventions such as information, advice and guidance and employment support. The project also contains a research component into barriers to progression to increase the evidence base on postgraduate education in England. The project proved very successful, with a total of 1,726 eligible applications for the scholarships.

Regulation and assurance

HEFCE strives to be an intelligent, first-class lead regulator for English higher education operating on transparent, proportionate principles. This includes promoting assurance and assessment of quality and standards, financial sustainability, good governance, student protection and the wider public interest. For those we fund we look to reduce the burden of regulation while further enhancing the reputation of English higher education through respecting institutional autonomy, by high-quality assurance, and by ensuring that excellence, enhancement and innovation are promoted and recognised.

The HEFCE Register of higher education providers

As part of our role as lead regulator, in 2014 we published the first register of higher education providers[17]. The Register lists all providers which have particular relationships to Government (or bodies related to Government) in England, and the regulatory controls which apply to them. It acts as an authoritative reference point for a wide range of users, including providers of higher education, government agencies, other regulators, overseas governments and students.

Providers are listed on the Register where they have one or more of the following features:

a. They directly receive grants from HEFCE for higher education.

b. They have courses which have been specifically designated by the Government as eligible for the purposes of English student support funding.

c. They are a higher education institution.

d. They have the power to award one or more type of UK higher education degree.

The Register brings together a range of information from different sources for ease of reference. It is updated regularly.

HEFCE is undertaking an early review of the Register to inform its future development, with the intention of launching an enhanced version in autumn 2015.

Ensuring accountability

The Financial Memorandum between HEFCE and the higher education institutions it funds was replaced in August 2014 with the Memorandum of Assurance and Accountability (MAA). It modernises the manner in which we seek assurance, places funding conditions on providers, and monitors compliance. A parallel document, the Agreement on Institutional Designation (AID), applies from the same point. The AID gives, for the first time, some accountability for the use of taxpayers' money in the form of student fees that flows to the institutions we fund.

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

We conduct reviews of the financial sustainability, risk management, control and governance of the HE providers who have an MAA with us, and write to them each year to let them know our assessment of their risk status. In 2014-15 we conducted 130 such reviews. Our work includes desk-based assessments and assurance visits to institutions as well as interactions with a range of relevant organisations, and is supplemented by further rich intelligence through our engagement with institutions.

On occasion we may require action to be taken, as well as engaging extensively with those providers about whom we have concerns. We seek assurance from the Skills Funding Agency and Education Funding Agency with regard to the financial position, governance and management of publicly funded colleges we fund.

Quality assessment and assurance

Quality assurance and assessment are essential to maintain accountability, protect and enhance the student experience, and promote excellence in learning and teaching. HEFCE has a statutory duty to assess the quality of education in providers we fund. At present, we do this through Higher Education Reviews (HERs), conducted on our behalf by the Quality Assurance Agency for Higher Education, and through the role we play in publishing data that relates to aspects such as student satisfaction with their provision.

This year 85 HERs have been conducted and nine HE providers have been subject to our unsatisfactory quality policy[18]. Much good practice has also been found.

HEFCE's approach builds on the principles of co-regulation and institutional autonomy. It draws on the expertise and diligence of institutions, which take a range of actions to quality-assure and enhance their educational provision, including the use of external examiners, periodic reviews (validations) of courses, and collecting and acting on student feedback.

In 2014-15 we also put plans in place to ensure that the quality of the student experience in the HEFCE-funded sector does not suffer when the student number cap is lifted in 2015-16. This involves checking that current arrangements in providers and in HEFCE are adequate to identify problems early and ensure that action is taken, and using data evidence to pick up any issues that have not been identified early on.

In September 2014 three higher education funding bodies (HEFCE, HEFCW, and DELNI) launched a wide-ranging review of quality assessment with the aim of establishing what might be fit for purpose in the future. The funding bodies are being advised by an independent high-level steering group chaired by Professor Dame Shirley Pearce CBE. The steering group published a discussion document in January 2015, and a series of roundtables and discussion events has taken place. A detailed options analysis will be issued for consultation in summer 2015 which will draw heavily on the first-stage discussions and on commissioned research.

Alternative providers of higher education

An alternative provider is any provider of higher education courses which is not in direct receipt of recurrent funding from HEFCE or from equivalent bodies in the Devolved Administrations; or does not receive direct recurrent public funding (for example, from a local authority, or from the Secretary of State for Education); and is not a further education college.

18 www.hefce.ac.uk/pubs/year/2013/201330/

This includes a wide range of providers which are for-profit, not-for-profit and charities. HEFCE has increasing involvement with alternative providers, although BIS remains their regulator. Our role ranges from seeking to improve our understanding of that part of the sector, through inclusive discussions on key topics such as student protection (see below) to the functions we perform for BIS in relation to them. Currently we run processes and collate information for BIS in relation to designation for student support, annual monitoring and student numbers. We also participate in a Rapid Response Investigation Team established by the Secretary of State in December 2014 and we are working with BIS on a joint Intelligence Unit, drawing on HEFCE's data and relationship management expertise. Following a report by the National Audit Office on financial support for students at alternative providers[19], the Public Accounts Committee has considered this matter and the HEFCE Chief Executive has appeared before it.

Student protection and the student interest

Students are stakeholders in higher education. Their current and future interests are at stake if poor regulation leads to sub-standard education or unfair practices. Students are also partners in their education: their actions contribute to the outcomes they will enjoy, and their views of how the institution and course are run are vital to enhancing education and ensuring their experience is a good one.

HEFCE has long been engaged in work to ensure that students gain a high-quality educational experience, not least through its quality assessment duty (see above) and the provision of information aimed at students (see page 13). We are the major funder of the Student Engagement Partnership, based at the National Union of Students (NUS), which offers expertise to the sector across the gamut of engagement activity. We have also been advocating the extension of external complaints resolution to all higher education students, and that recourse has now been introduced by the Consumer Rights Act 2015.

Over the past year we have raised the issue of the regulatory 'gap' around protecting the interests of higher education students. This gap cannot fully be closed without legislation, but our discussions with students and the sector revealed a growing realisation among HE providers that they could communicate more effectively to students what protection currently exists. We have also worked with the Competition and Markets Authority during the preparation of its advice to the higher education sector on compliance with consumer legislation. This has particular relevance for protecting students' interests at the point of admission.

19 www.nao.org.uk/report/investigation-financial-support-students-alternative-higher-education-providers-2/

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.

HEFCE's work with the sector on efficiency in 2014-15 focused on developing new and shared services, promoting effective and efficient practices, and evidencing the benefits that are achieved as a result.

Following the publication of the review of efficiency in HE led by Professor Sir Ian Diamond[20] and a further report on efficiency in the sector published by Universities UK in 2015[21], we have been working with Universities UK and other sector bodies to create a body of evidence which details the progress made by the sector in delivering efficiencies through change. In particular, we have created the evidence base for delivery against the target of 30 per cent of non-pay spend going through collaborative agreements, and we have contributed to the development of strands within the 2015 report such as research asset sharing and the HE workforce and utilisation of the HE estate by providing data analysis and metrics to support the report. We have also analysed the annual value-for-money reports submitted to HEFCE by institutions which estimated the sector has delivered savings of over £1 billion in the last three years.

The 2015 report recommended that HEFCE (with Universities UK and the British Universities Finance Directors Group) develops a common framework for reporting efficiency which will be used by institutions. Work on this has already commenced.

We are continuing work to promote the use of the VAT cost-sharing exemption in the development of shared services. A number of existing services in the sector have converted to cost-sharing groups to take advantage of the exemption, and other newer services are looking at the exemptions' potential. In addition to the extensive guidance published by HEFCE, we are working with a number of project groups to develop practice in areas such as benefits realisation management and business cases, template forms of association and costing models.

Assessing the financial sustainability of the sector

During the year we have published two reports on the financial health of the higher education sector. The financial results of the sector in academic year 2013-14 showed a sound position overall. However, the sector-wide picture encompasses a wide range of financial results across HEIs. The future financial projections (until 2016-17) show some uncertainty about the sustainability of the sector. For example, the sector expects its liquid funds to fall from £7.4 billion as at 31 July 2013 to £5.5 billion as at 31 July 2017, and at the same time expects borrowing to increase from £6.2 billion to £8.3 billion. This trend is not sustainable in the long term.

Although liquidity is not a concern for most HEIs at this time, strong liquidity is necessary to efficiently manage: potential risk and uncertainty, 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 in the sector to assess whether HEIs can maintain sufficient cash levels to manage their risks effectively.

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

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

The sector is planning to invest over £15.2 billion in infrastructure projects during the next four years, an average annual investment of £3,811 million. This is nearly 50 per cent higher than the previous four-year average (2009-10 to 2012-13). These investments will be partially funded by public capital funding for teaching and research, which is expected to increase from £420 million in 2013-14 to £440 million in academic year 2014-15. However, current public capital funding is now significantly lower than historical levels, requiring institutions to deploy more of their own resources or raise finance through external borrowing to maintain and enhance their estates. This places greater pressure on HEIs to generate higher surpluses to remain sustainable.

Increased uncertainty over future government funding, student recruitment levels (following the removal of the student number control) and the volatility of overseas student income will also require institutions to aim for higher surpluses in future. This uncertainty is likely to lead to greater volatility of forecasting and increased variation in institutional financial performance.

A deep understanding of the sector

HEFCE's Institutions Directorate maintains a close and constructive dialogue with universities and colleges to understand their evolving strategic positions within a local, national and international context. This exchange helps to identify how individual institutional circumstances shape the broader context of the HE system to drive innovation, support student success, and promote economic growth. By working in partnership with universities and colleges, we share a rich and timely source of intelligence and data to catalyse step-changes in achievement and efficiency, and to support innovative solutions at a time of changes to funding and regulation.

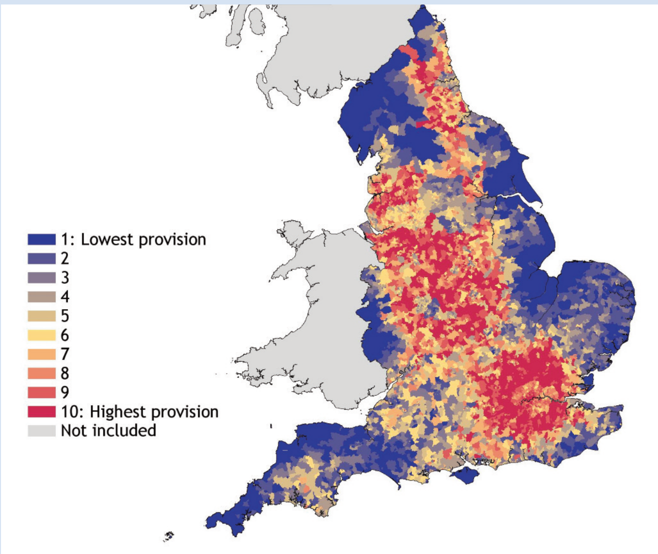
The Institutions Directorate also works with institutions to promote good practice in areas of work such as equality and diversity, and sustainable development.

Higher education and local growth: data maps

Higher education providers play an important role in supporting both national and local economic growth. The availability of robust data is critical in providing a solid base of evidence and a clear intervention logic and performance framework for investment.

In October 2014, HEFCE launched a new and highly detailed dataset of the provision of higher education across England[22]. This powerful new interactive tool can provide evidence to support the role of HE providers in their localities. Information includes the provision of advanced and higher level skills, graduate employment, retention, and mobility in employment – all critically important to the sector growth priorities of the Strategic Economic Plans of LEPs. It also contains data showing the take-up of higher education at very local levels, enabling providers to identify those neighbourhoods where more can be done to improve social inclusion through widening participation.

The maps include data relating to student numbers, student characteristics, and higher education's interaction with business and the community. We are supporting universities, colleges, LEPs and others to explore the potential of the dataset for strategic planning, and we help to broker follow-up action.



22 www.hefce.ac.uk/analysis/coldspots/

Promoting equality and diversity

HEFCE promotes equality and diversity through all of our functions. We work in partnership with other agencies to provide support, resources and information to help institutions share good practice and address equality and diversity challenges.

In 2013 we established a high-level collaborative partnership with the sector agencies representing leadership, governance and equality in higher education. The partnership has been a powerful vehicle for engaging vice-chancellors and chairs of governing bodies and informing the work of member organisations[23]. Research commissioned by the Equality Challenge Unit on behalf of the partnership evidenced a diversity 'rationale' for HE leaders[24] – a broad business case for diversity that cites personal, educational, institutional and societal benefits. We include a target to encourage the diversity of HE governing bodies in our 2015-2020 business plan.

Sustainable development

Sustainable development is about protecting and enhancing quality of life for current and future generations. Dealing with these issues requires technological progress and behavioural change. Universities and colleges are well-positioned to 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. A 2014 United Nations report[25] praised HEFCE for providing leadership, resources and targets for whole-institutional change towards sustainability. The report recognised that HEFCE's influence has been far-reaching and can explain the depth and quality of progress in this area.

In December 2014 we published a framework for sustainable development in higher education, which sets out our role to date and the future actions we will take[26]. The framework was developed at the request of Government, and the actions are informed by consultation with the sector and others. 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.

The annual HEA-NUS survey shows that students believe universities should promote sustainability, and we are encouraged by this. The NUS Students' Green Fund (SGF), which HEFCE is supporting with funding of £5 million, has led to a wide range of innovative projects in areas including curriculum, food, employability, waste, energy and biodiversity. To date, the SGF has engaged around 45,000 students and 3,000 staff from 25 institutions. We have also joined with Salix Finance to deliver a fourth round of the Revolving Green Fund (RGF): at £34 million, this is the largest round of the RGF so far. The RGF provides recoverable grants to help HEIs in England reduce emissions and save money.

---

23 Members of the partnership are: Committee of University Chairs, Equality Challenge Unit, Leadership Foundation for Higher Education, GuildHE, HEFCE, Universities and Colleges Employers Association, Universities UK.

24 www.ecu.ac.uk/publications/rationale-equality-diversity-vice-chancellors-principals-leading-change/

25 'Shaping the future we want: UN decade of education for sustainable development (2005-2014)', available at www.unesco.org/new/en/unesco-world-conference-on-esd-2014/esd-after-2014/desd-final-report/

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

Students’ Green Fund: Growhampton

Roehampton Students’ Union, in partnership with the University of Roehampton, was awarded £227,000 from HEFCE’s SGF to deliver ‘Growhampton’ – a sustainability initiative which aims to inspire and enable all students, staff and the wider community at Roehampton to make more sustainable lifestyle choices.

This has included growing an abundance of leafy greens and root vegetables, which are tended by student volunteers and harvested for sale at a weekly farmer’s market held at the Hive. The Hive is an on-campus café, constructed from two former shipping containers and upcycled furniture, made possible by the funding. The products sold at the Hive are local, organic and ethical. Growhampton has partnered with a local social enterprise, the Feel Good Bakery, set up to provide employment and training for local young people turning away from crime. They use produce from the growing sites to create delicious sandwiches, sold through the Hive. Each sandwich a customer buys provides a meal for a child in a developing country.

The Hive itself is established as a social enterprise. Profits are ring-fenced for the continuation of Growhampton, ensuring its legacy. The Hive has won a Soil Association Organic Award and Growhampton has been Highly Commended for a Green Gown Award.

Delivering the plan

All that we have achieved in the last year has been thanks to the expertise, talent and motivation of our staff. To be effective we need to be responsive to, and trusted by, our stakeholders. Our People Strategy affirms our commitment to high performance and continuous improvement. It helps us to ensure that our people are supported to do their jobs to the best of their ability.

On the census date of 31 March 2015, HEFCE employed 260 full-time equivalent staff (290 headcount). We continue to monitor sickness absence as an indicator of staff wellbeing. Our sickness absence remains relatively low. In 2014-15 we lost 1,013 working days to sickness, an average of 3.9 days per person. The level compares favourably to an average of 7.9 days for government public service bodies and 5.5 days for private sector services[27].

HEFCE's approach to risk management

Drawing on our business plan 2015-2020[28], we have identified a number of strategic and operational risks that might impact on our objectives. These supersede our former strategic risks. The Governance Statement (see page 55) describes our revised approach to risk management in more detail.

Key performance targets

The Government agrees key performance targets (KPTs) with HEFCE which reflect the Government's strategic priorities for higher education in England. These currently run to December 2015 and are supplemented each year with further actions from the Government's annual Grant Letter to us. The KPTs have been incorporated into our business plan 2015-2020 and we continue with regular reporting to the Government on progress against the KPTs, Grant Letter actions and our broader business plan. Progress is reported and incorporated throughout the 'summary of our achievements' section of this report.

27 Chartered Institute of Personnel and Development absence management report 2014 www.cipd.co.uk/binaries/absence-management_2014.pdf

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

Sustainability report for 2014-15

We have gathered data on our environmental performance annually for the past 13 years; 2014-15 data will be published in detail in our next CSR report. Our processes for the management of sustainability performance follow the guidance provided by HM Treasury, 'Public sector annual reports: sustainability reporting guidance 2014-15'.

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

In addition to the proposed minimum reporting requirements of emissions, waste and finite resource consumption (Scope 1 and 2), we report on Scope 3 emissions arising from all business travel under our budgetary control. Our reporting policy follows the spirit of The Prince's 'Connected Reporting Framework', and our analysis of data follows the Department for Environment, Food and Rural Affairs (DEFRA) reporting guidelines set out in 'Greening Government commitments: Operations and Procurement' (updated DEFRA, July 2011).

Relocation of our London office – impact on environmental performance data

The 2013-14 and 2014-15 data reported here is not directly comparable with previous years' figures because of the relocation of our London office in April 2013.

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

Unfortunately, resourcing constraints experienced by the managers of our London office mean that they have been unable to provide us with complete data for 2014-15 regarding gas, electricity and water use or volumes of waste and recycling generated. Accurate data on gas use at our London office is only available for the first quarter of 2014-15: gas use levels for quarters two to four have therefore been assumed to be the same as observed for the same periods during 2013-14. Accurate data on electricity and water use, and volumes of waste and recycling generated, is only available for the first and second quarters of 2014-15. Again, consumption levels for quarters three and four have been assumed to be the same as observed for the same periods during 2013-14.

Based on 2013-14 data, consumption and greenhouse gas emissions at our London office account for between 20 and 25 per cent of the combined total for HEFCE's London and Bristol offices. Because of the above uncertainty, we feel able to make only limited comment in this report on our environmental performance in terms of finite resource consumption and waste arising. We expect complete data on all aspects of our environmental performance to become available from the managers of our London office later in 2015, and will report in more detail on changes in this performance in our 2015 CSR report, to be published later in the year.

The floor area of our new 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.

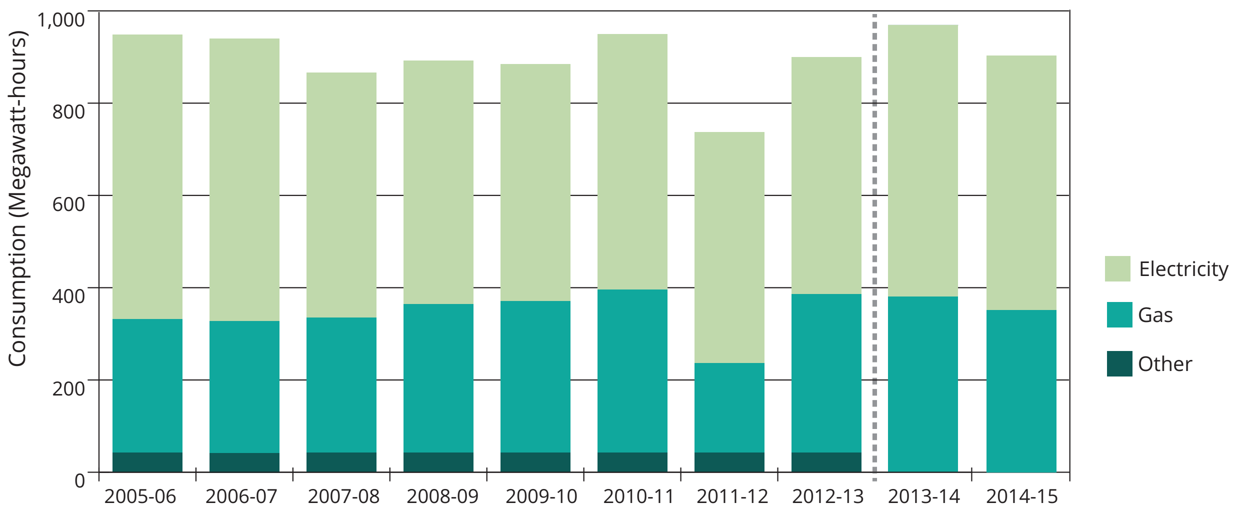
We continue to hold the Carbon Trust Standard, which certifies that we have reduced our carbon emissions and are committed to making further reductions. The fit-out of our new London office achieved a gold-rated environmental assessment from the Royal Institution of Chartered Surveyors, and we are applying the learning from this to our forthcoming Bristol relocation.

Restated and provisional data

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Cubic meters										
Water*	14.74	6.53	5.99	5.40	6.92	6.94	7.06	5.11	6.54	8.02
Megawatt-hours										
Electricity	616	612	531	527	513	553	500	513	590	573
Gas	289	287	292	322	328	354	194	344	402	358
Other**	43	43	43	43	43	43	43	43	0	0
Total energy	**949**	**941**	**866**	**891**	**884**	**950**	**737**	**900**	**992**	**931**

* Consumption per HEFCE and OFFA staff FTE.

** Estimated heating oil consumption at the London office occupied by HEFCE prior to 2013-14. The new London office occupied by HEFCE in 2013-14 and 2014-15 does not consume heating oil, and instead provides detailed information regarding gas and electricity consumption that was not available at Centre Point. Our heating oil consumption reduces to zero following relocation.



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

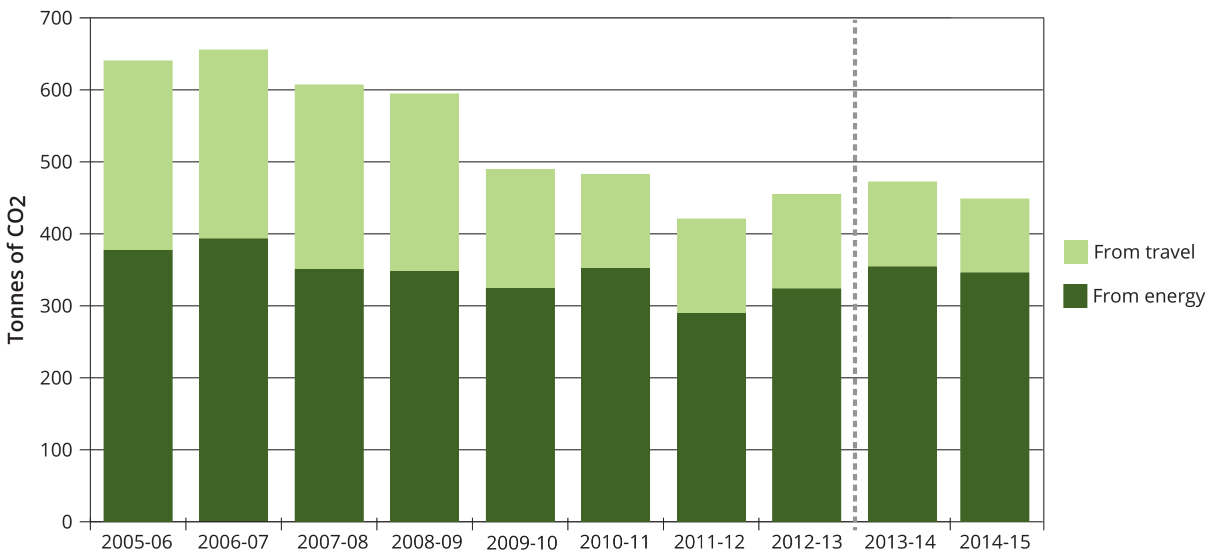
Greenhouse gas emissions

Our target is 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 plan to reduce our emissions from energy use on our estate and through business transport by 25 per cent. For the reasons stated above, we do not comment here on progress towards the second target, and will report in more detail on greenhouse gas emissions from energy use in our 2015 CSR report, to be published later in 2015.

Carbon emissions from business travel were lower in 2014-15 than in any other previous year. Emissions from domestic flights were 6.6 tonnes in the baseline year, rose to 7.2 tonnes and 7.8 tonnes in 2011-12 and 2012-13 respectively, and fell to 6.9 tonnes in 2013-14. In 2014-15 emissions from domestic flights were 6.0 tonnes. However, increases are seen in emissions from short- and long-haul international flights in 2014-15 compared with 2013-14. Air travel activity overall was heightened in 2011-12 and 2012-13, largely due to the Research Excellence Framework, and is sensitive to year-on-year fluctuation in the relatively small numbers of international flights taken by HEFCE staff.

Tonnes of CO_2	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total gross emissions* for Scopes 1 and 2	378	394	351	349	325	353	290	328	364	347
Gross emissions attributable to Scope 3, business travel	263	262	256	246	165	130	131	131	118	102
Total emissions	**641**	**656**	**607**	**595**	**490**	**483**	**421**	**455**	**473**	**449**

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



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

Waste

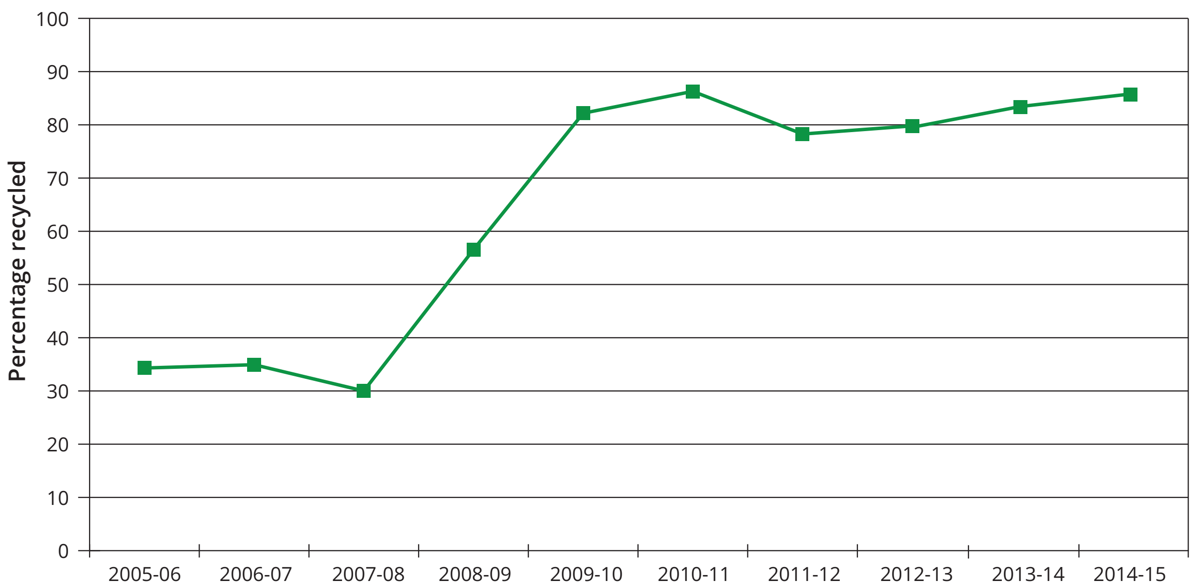
Our target is to reduce the total quantity of waste material we generate on our estate by 25 per cent by 2015-16 against a baseline level in 2009-10. However, our 2009-10 baseline data is likely to be lower than the actual quantities of waste material generated in that year. Analysis of recycled waste in 2009-10 necessarily relied on assumptions regarding the weights of these materials, which became redundant when our contractors began to supply more robust and detailed information. We therefore believe the most recent five years of data are more accurate than the earlier years. However, as noted above we are still resolving issues with the waste and recycling data from our contractors relating to waste arising at our Bristol offices during 2014-15.

Data on waste and recycling arising from our new London office is included in the figures reported here, meaning that 2013-14 and 2014-15 figures are not directly comparable with earlier years. The requirement for us to assume waste arising at our London office at 2013-14 levels for quarters three and four of 2014-15 introduces a further degree of uncertainty.

On the basis of these two constraints, we feel unable to comment further in this report on our environmental performance in terms of waste arising, and we reiterate the provisional nature of this data. We expect complete data on all aspects of our environmental performance to become available from the landlords of our London office later in 2015, and will report in more detail on changes in this performance in our 2015 CSR report, to be published later in 2015.

Tonnes	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Total waste	58.26	50.07	57.48	53.95	33.10	48.74	37.79	41.04	40.49	31.99
Waste to landfill*	38.26	32.59	40.23	23.43	5.90	6.68	8.21	8.29	6.45	4.11
Waste recycled at source	19.99	17.49	17.25	30.51	27.20	42.06	29.58	32.75	34.04	27.88
Percentage of total waste recycled at source	**34.31**	**34.93**	**30.01**	**56.55**	**82.18**	**86.29**	**78.27**	**79.80**	**83.45**	**87.16**

* Assuming the provider recycles none.



Gross expenditure attributable to energy consumption

Under HM Treasury guidance on sustainability reporting in the public sector, from 2011-12 we are required to report on gross expenditure attributable to energy consumption through utilities and official business travel. There is no expenditure under the Carbon Reduction Commitment 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 2014-15 takes into account HM Revenue and Customs' climate change levy and the increase in the gas unit charge.

£000	2010-11	2011-12	2012-13	2013-14	2014-15
Utilities					
Electricity	58	57	60	66	74
Gas	10	9	14	16	16
Water	4	5	5	5	8
	72	**71**	**79**	**87**	**98**
Business travel					
Car	20	16	18	16	13
Taxis	38	34	31	33	33
Rail	319	343	351	340	437
Air	22	18	29	7	29*
	399	**411**	**429**	**396**	**512**
Waste disposal					
Waste sent to landfill			3	3	
Waste recycled			9	7	
			13	**10**	

* The 2014-15 figure for air travel includes the cost of flights incurred when working with the Hong Kong government. This work resulted in earned income.

In addition to the 2014-15 figures given above, the ongoing project to relocate HEFCE's Bristol office has incurred the following expenditure, arising from consumption at the new buildings during planning and fit-out.

£000	2014-15
Utilities	
Electricity	74
Gas	16
Water	8
	98

Corporate social responsibility

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. Our CSR policy sets out our overall aims, objectives and targets for operations at our offices, and the impact we have on the higher education sector[29]. Our annual CSR report describes our activities in more detail and has information about our targets for energy, travel, waste and water.

HEFCE has operated two externally certified management system standards: ISO14001:2004 (Environmental) and OHSAS 18001 (Occupational Health and Safety). These standards are designed to be compatible and we have amalgamated them, allowing us to make more efficient use of resources, improve risk management, provide consistency in the application of management processes, and maintain continual challenge and improvement.

29 The latest report and our CSR policy can be found at www.hefce.ac.uk/about/csr/

HEFCE's structure

HEFCE Board

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

In 2014-15, 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 Ruth Farwell CBE, former Vice-Chancellor, Buckinghamshire New University

Professor Sir Malcolm Grant, Chair, NHS England; former President and Provost, University College London (term of office ended on 30 November 2014)

Professor Anne Greenough, Head of Kings College London School of Medicine and Professor of Neonatology and Clinical Research Physiology

Peter Houillon, Chief Executive, Kaplan UK

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

Professor Dame Shirley Pearce, Chair, College of Policing; member of the University of Cambridge Council; former Vice-Chancellor, Loughborough University

Mark Robson, Head of Statistics and Regulatory Data, Bank of England; Council member, Economic and Social Research Council

Hugh Ross, Former NHS Trust Chief Executive

Anil Ruia, Director, Botraco Ltd; Chair, University of Manchester

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

Sara Weller, Non-Executive Director, Lloyds Bank, United Utilities and member of the University of Cambridge Council

John Widdowson CBE, Principal, New College, Durham (term of office ended on 31 December 2014)

Professor Sir Keith Burnett, Vice-Chancellor, University of Sheffield (appointed with effect from 1 March 2015)

Professor Mary Stuart, Vice-Chancellor, University of Lincoln (appointed with effect from 1 March 2015)

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 www.hefce.ac.uk/about/director/.

Further information

HEFCE business plan

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/.

Students and potential students

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

Frequently asked questions

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

Accounts

Financial results for 2014-15

Funding and expenditure in-year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £4,168 million of grant funding from the Department for Business, Innovation and Skills (BIS) (*2013-14: £5,104 million*). Grant-in-aid is treated as financing and taken directly to reserves. The overall decrease in BIS funding primarily relates to the reduction in recurrent teaching funding as universities and colleges receive more of their funding through students' tuition fees and less through HEFCE teaching grants. The cost of tuition fees is to be met (for most undergraduates) through the availability of loans, which will generally be repayable after the student has finished their studies. The reductions to HEFCE teaching grant contribute to meeting the cost to Government of providing these loans, which are administered by the Student Loans Company.

In addition to funding from BIS, HEFCE receives income from other bodies for their contribution towards various initiatives. HEFCE's total income for 2014-15 was £7 million (*2013-14: £3 million*).

Total expenditure in year was £4,148 million (*2013-14: £5,129 million*). Of this, £25 million (*2013-14: £20 million*) relates to the administration costs we incur in managing and distributing grant funding to the higher education sector, and £4,123 million (*2013-14: £5,109 million*) to programme funds. The vast majority, £4,125 million (*2013-14: £5,060 million*), of programme funds relates to grants payable to higher education institutions and other sector bodies. In 2014-15 a reduction in programme costs of £1 million (*2013-14, increase of £49 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/1516/ for the 2015-16 announcement).

Our administration cost budget is agreed by BIS each year, and performance against budget is monitored and reported each month. HEFCE's 2014-15 budget from BIS was £24.1 million, meaning that the cost of administering, managing and allocating programme funding to the higher education sector is less than 0.6 per cent of total grant distributed.

Finance for the future and financial management reform across BIS

As part of its strategy for an integrated and efficient future operating model, BIS has set out three steps for financial management reform across the department and its partner organisations. These three steps – 'Signing up for collaboration', 'Reforming the retained function', and 'Strengthening incentives for financial leadership' – articulate the various programmes and work streams across corporate services to which HEFCE has contributed over the past year, as summarised below.

Signing up for collaboration

In 2014-15 HEFCE has 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. Through use of central government frameworks and procurement contracts, HEFCE has reported total procurement benefits exceeding £0.4 million for 2014-15 and is targeting a final procurement benefit figure of £0.5m, with a similar target agreed for delivery in 2015-16.

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 six 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 2014-15 we have begun the relocation of our Bristol office, moving from private sector to public sector estate. This move will generate annual savings of around £0.2 million through better use of government buildings, co-location with other partner organisations, reduced floor space and more energy-efficient design.

Reforming the retained function

During 2014-15 HEFCE has made further improvements to its financial management and retained finance function. Following on from the Chartered Institute of Public Finance and Accountancy's Financial Management Review, 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 with the rest of the business.

Strengthening incentives for financial leadership

HEFCE is an active partner in BIS's financial reform agenda, and during 2014-15 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.

Our actions across the three 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 2015 HEFCE's Statement of Financial Position shows net liabilities of £126 million (*2014: £145 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 2015 our cash balance was £30 million (*£29 million in 2014*), 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 2014-15 our 30-day performance was 99 per cent of invoices (*2013-14: 99 per cent*), with a 10-day performance of 91 per cent (*2013-14: 93 per cent*) and a five-day performance of 74 per cent (*2013-14: 71 per cent*).

At 31 March 2015 our trade payables balance (the amount owing to our suppliers) was £0.7 million (*2014: £0.2 million*). Comparing this balance with the aggregate amount invoiced by suppliers in-year (£28 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 2015 our figure for 'creditor days' was 9.3 days (*2014: 4.5 days*).

Throughout 2014-15 we have reported performance against certain key targets on a regular basis to BIS through the Quarterly Data Summary (QDS). Performance against target is used to benchmark against other partner organisations, and to drive continuous improvement in HEFCE and across the BIS family as a whole. QDS measures performance across the headings of operations, people and procurement. HEFCE has performed well on these measures, and according to the quarter three analysis (the latest available) produced by BIS, is in the best performing quartile on procurement (on the measure of percentage of procurement spend on consultancy and contingent labour), and is the midquartile range on people and operations measures.

To help manage the Government's daily financial position, HM Treasury requires all departments and partner organisations to forecast their BACS payments for each month. To end of quarter three HEFCE's average variance between forecast BACS payments and actual BACS payments made was 1.98 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 2015-16 we will continue to monitor our performance against such measures and will use benchmark information to drive continuous improvement in our financial management processes.

Preparation of the annual report and accounts

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

The annual report and accounts were scrutinised by the Audit Committee on 30 April 2015 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2014-15. 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 Deputy Chair, Audit Committee and Chair, University of Brighton
Mark Robson* Head of Statistics and Regulatory Data, Bank of England; Council member, Economic and Social Research Council
Clifford Shanbury Council Member of the Institute of Education, University of London and Independent Member of the Audit Committee, Office for Nuclear Regulation
Dr Ruth Thompson Deputy Chair of Governors Birkbeck College, University of London, Governor, Staffordshire University and Member of the Remuneration Committee at Somerville College, University of Oxford
Frank Toop University Secretary, City University London
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

*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:

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

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

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

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

The full terms of reference for the Audit Committee can be found on our 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 2014-15 is £60,000 (*2013-14: £62,500*). There was no other work for which a fee was payable.

Going concern

The statement of financial position at 31 March 2015 shows net liabilities of £126 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 2015-16, 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.

Professor Madeleine Atkins
Chief Executive and Accounting Officer
Higher Education Funding Council for England
18 May 2015

Remuneration Report

Part one (unaudited)

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2014-15 were:

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

Professor Dame Shirley Pearce CBE HEFCE Board member

Sara Weller HEFCE Board member

The Chief Executive normally attends meetings.

The terms of reference for the Remuneration Committee are to:

- Make recommendations to the Board on the terms and conditions of employment of the Chief Executive, 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.

These terms of reference were reviewed in April 2013.

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

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

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

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

Contracts

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

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

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.

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 2015, was £47,350 *(2013-14: £47,350)*.

As agreed by BIS and the Secretary of State for Innovation, Universities 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 tables.

Chief Executive's remuneration for the year ended 31 March 2015

Name	Period in office	Salary paid in year		Taxable benefits		Employer's pension contributions		Total	
		2014-15 £	2013-14 £	**2014-15 £**	2013-14 £	**2014-15 £**	2013-14 £	**2014-15 £**	2013-14 £
Professor Madeleine Atkins	1 Apr 2014 to 31 Mar 2015	**234,600**	57,500	**7,018**	2,384	**5,750**	1,438	**247,368**	61,322
Sir Alan Langlands	1 Apr 2013 to 30 Sep 2013	**-**	119,493	**-**	6,285	**-**	2,875	**-**	128,653
Steve Egan	1 Oct 2013 to 31 Dec 2013	**-**	49,788	**-**	-	**-**	7,509	**-**	57,297
Total in year		**234,600**	226,781	**7,018**	8,669	**5,750**	11,822	**247,368**	247,272

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

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

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

HEFCE Board

Board members' remuneration		
	Year ended 31 March 2015 £	Year ended 31 March 2014 £
Professor Madeleine Atkins CBE*	**-**	3,753
Apurv Bagri*	**5,000**	417
Professor Sir Keith Burnett (from March 2015)	**-**	-
Rob Douglas CBE (to July 2013)	**-**	1,251
Professor Ruth Farwell	**5,000**	5,000
Professor Sir Malcolm Grant (to November 2014)	**3,336**	5,000
Professor Anne Greenough*	**5,000**	5,000
Peter Houillon	**5,000**	833
René Olivieri* (to February 2014)	**-**	4,587
Graeme Osborn	**5,000**	2,502
Professor Dame Shirley Pearce CBE	**5,000**	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)	**-**	-
Dr Suzy Walton	**5,000**	5,000
Sara Weller	**5,000**	5,000
John Widdowson CBE* (to December 2014)	**3,753**	5,000
	62,089	63,343

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

Senior employees

Single total figure of remuneration

Officials	Salary (£'000)		Bonus payments (£'000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total (£'000)	
	2014-15	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**	2013-14	**2014-15**	2013-14
Professor Madeleine Atkins CBE[a], Chief Executive	**230-235**	55-60	**0-5**	-	**7,000**	2,400	**6,000**	0	**245-250**	55-60
Sir Alan Langlands[b], Chief Executive	**-**	115-120	**-**	-	**-**	6,300	**-**	0	**-**	125-130
Steve Egan CBE[c], Interim Chief Executive	**-**	45-50	**-**	-	**-**	-	**-**	-	**-**	45-50
Steve Egan CBE[d], Deputy Chief Executive and Director of Finance	**135-140**	90-95	**10-15**	10-15	**-**	-	**32,000**	48,000	**175-180**	150-155
Mario Ferelli[e], Director – Analytical Services	**90-95**	-	**-**	-	**-**	-	**22,000**	-	**110-115**	-
Heather Fry, Director – Regulation & Assurance	**125-130**	100-105	**5-10**	10-15	**-**	-	**19,000**	16,000	**145-150**	130-135
Yvonne Hawkins[e], Director – Universities & Colleges	**90-95**	-	**-**	-	**-**	-	**22,000**	-	**110-115**	-
Christopher Millward[e], Director - Policy	**90-95**	-	**-**	-	**-**	-	**22,000**	-	**110-115**	-
Nolan Smith[e], Head of Finance & Investment	**90-95**	-	**-**	-	**-**	-	**22,000**	-	**110-115**	-
David Sweeney, Director – Research, Education & Knowledge Exchange	**125-130**	115-120	**10-15**	10-15	**-**	-	**-**	43,000	**135-140**	170-175

Salary

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

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

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

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

[e] From 1 April 2014 HEFCE had an internal restructure which added additional 4 directors to its senior management structure, with the creation of 4 additional directorates.

Non-consolidated performance pay

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

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

Any non-consolidated pay received by Professor Madeleine Atkins was donated to charity.

The remuneration shown in the table above includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the directors received any taxable benefits during the financial year 2014-15, apart from the Chief Executive as stated above. There were no exit packages paid to senior HEFCE employees in the financial year 2014-15.

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

The banded remuneration of the highest paid director in HEFCE in the financial year 2014-15 was £230-235,000 (*2013-14, £230-235,000*). This was 6.6 times (*2013-14, 6.8*) the median remuneration of the workforce, which was £37,238 (*2013-14, £34,230*).

In 2014-15 no (*2013-14; 0*) employees received remuneration in excess of the highest paid director. Remuneration ranged from £16,000 to £138,000 (*2013-14, £15,000 to £139,000*).

Senior employees' pensions

	Accrued pension at pension age as at 31 March 2015 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	**CETV at 31 March 2015 £000**	CETV at 31 March 2014* or start date £000	Real increase in CETV £000
Professor Madeleine Atkins[1], Chief Executive					
Pension	**90-95**	2.5-5	**2,569**	2,277	292
Lump sum	**275-280**	10-12.5			
Steve Egan[2], Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	**65-70**	0-2.5	**1,391**	1,291	35
Lump sum	**195-200**	5-7.5			
Mario Ferelli[2], Director – Analytical Services					
Pension	**35-40**	2.5-5	**727**	637	47
Lump sum	**105-110**	7.5-10			
Heather Fry[1], Director – Regulation and Assurance					
Pension	**45-50**	7.5-10	**1,167**	1,033	124
Lump sum	**145-150**	25-27.5			
Yvonne Hawkins[2], Director – Universities & Colleges					
Pension	**10-15**	0-2.5	**144**	114	15
Lump sum	**0**	0			
Christopher Millward[2], Director – Policy					
Pension	**20-25**	2.5-5	**297**	246	34
Lump sum	**60-65**	7.5-10			
Nolan Smith[2], Head of Finance & Investment					
Pension	**15-20**	0-2.5	**211**	172	25
Lump sum	**45-50**	5-7.5			
David Sweeney[1], Director – Research, Education & Knowledge Exchange					
Pension	**60-65**	0	**1,780**	1,599	181
Lump sum	**185-190**	0			

[1] Members of the Universities Superannuation Scheme. [2] Members of the civil service pension scheme.

Universities Superannuation Scheme

Certain staff transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. HEFCE is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis. USS members pay contributions of 6.35 per cent of pensionable earnings. The rate of employers' contributions is 16 per cent. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

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

Civil service pensions

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

Employee contributions are salary-related and range between 1.5 per cent and 6.85 per cent of pensionable earnings for **classic** and 3.5 per cent and 8.25 per cent for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2014. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus**, and 65 for members of **nuvos**.

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

Cash Equivalent Transfer Value

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

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

Real increase in CETV

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

Statement of HEFCE's and the Chief Executive's responsibilities

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

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

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

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

HEFCE Governance Statement 2014-15

Scope of responsibility

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

Governance Framework

The HEFCE Board

The HEFCE Board comprises 12-15 members appointed by the Secretary of State for Business, Innovation and Skills in accordance with the requirements of the Further and Higher Education Act 1992. 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. Towards the end of the year, the Board decided on some changes to its strategic advisory committee arrangements in response to HEFCE's growing regulatory role (which is described further below). In February 2015, the Board agreed to the establishment of a Quality, Accountability and Regulation (QAR) committee and, at the same time, to merge the Teaching, Quality and Student Experience Committee with the Widening Participation and Student Opportunity committee. The new QAR Committee has taken on the formal Quality Assurance Committee role required by the 1992 Act with effect from 1 April 2015.

In February 2015, the Board agreed to the establishment of a sub-group to review requests made by higher education institutions to increase their financial commitments above a threshold limit, where these have been assessed as needing Board-level approval. The sub-group allows for enhanced and more detailed scrutiny of such requests.

Attendance at Board and Committee meetings is consistently high; more specifically the Board and Audit Committee attendance for the year was 86 per cent and 93 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, which did not meet in 2014-15. 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 interaction with BIS, including through the Joint Accountability Group (JAG) which specifically reviews HEFCE performance. We have agreed with BIS a number of key performance targets with intermediate milestones for HEFCE, which are discussed at quarterly JAG meetings as necessary. The BIS grant letter to HEFCE of 29 January 2015 confirmed government funding for higher education for 2015-16. With a spending review expected to take place by the incoming government later in 2015, we did not receive indicative allocations for financial year 2016-17. Apart from a modest increase in capital funding, the grant settlement will mean further real-terms reductions in HEFCE funding for higher education institutions in 2015-16. In exercising its discretion in the allocation of funding, HEFCE has sought, as far as possible, 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. BIS wrote separately to HEFCE about its administration grant for 2015-16 in March 2015.

Governance practice

The Council continues to seek out and adopt good governance practices. The Board has carried out an annual effectiveness review for itself for many years. This year, in addition to continuing to consider some elements of its annual process such as an assessment of governance risks and the benchmarking of our governance practice against both the FRC Code and the Government's Corporate Governance Code, the Board commissioned a review of effectiveness of the Board and Audit Committee from Maxxim Consulting. The report from Maxxim provides confirmation that the thoroughness of the papers provided means that the Board is satisfied with the quality of information it receives from management. Maxxim's report also provides a strong, positive high-level assessment of the Board's work, while offering a number of practical suggestions for strengthening the work of the Board further. These suggestions are under consideration.

The Audit Committee

The Audit Committee's remit includes both HEFCE itself and HEFCE's assurance work with the higher education (HE) sector. The Committee has seven members, three of whom are Board members. The Chair is an independent (non-HE sector) member of the Board. The Committee meets four times a year in the presence of the internal and external auditors. In response to developments in HEFCE's approach to risk management this year, the Committee has adopted a new approach to its oversight of the relevant processes. This includes all HEFCE directorates reporting on their risks on an annual basis and considering the most significant risks from across the Council at each meeting. The Chair presents a report to the Board after each meeting and minutes of each meeting are available to Board members.

The Committee is provided with an annual summary of progress and issues arising with our information security obligations, particularly those connected to the Government's Security Policy

Framework. In 2014-15, 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 assessed by Maxxim Consulting alongside the review of the Board's effectiveness. The Committee discussed the outcome of that review and its effectiveness at its April 2015 meeting. Overall, the Committee was reassured that it was operating very effectively. The most significant issues arising concerned how the information provided to the Committee could have greater focus on the key issues and how the Committee might contribute further to the development of HEFCE's new risk management system.

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

HEFCE Audit Committee opinion to the Board 2014-15

Having taken account of:

- Our work throughout the year
- Assurances received through the Committee's discussions on the process for managing and reviewing the Council's strategic risks
- Assurances provided by management on matters of risk and control generally
- The formal opinions of the Head of Internal Audit on:
  - the effectiveness of the Council's framework for corporate governance, internal control and risk management;
  - the governance statement; and
  - value for money
- The formal opinions of the Head of Assurance on:
  - the financial results for the HEFCE funded sector and related bodies
  - value for money in the HE sector
  - the effectiveness of institution's governance, internal control and risk management
- 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 the environment in which HEFCE operates continues to remain uncertain, particularly in light of the General Election.

We continue to highlight the risks and challenges faced by the Council arising from its work to support BIS in connection with alternative providers of higher education but having seen evidence from both the NAO and the Public Accounts Committee (PAC), we are assured that these activities are being carried out satisfactorily at this time.

The Council’s changing role and challenging administration budget creates pressure on resources and we continue to monitor any possible impact on the Council’s ability to carry out its remit effectively.

We are satisfied that the accounts can be relied upon, that the Accounting Officer is entitled to rely on the assurances she has received from Internal Audit and Assurance, that the Governance Statement meets government requirements and that we recommend approval by the Board of the 2014-15 accounts.

The Teaching, Quality and Student Experience Strategic Advisory Committee

The Teaching, Quality and the Student Experience Committee (TQSE) is the Council’s ‘Quality Assurance Committee’ for the purposes of complying with section 70 of the Further and Higher Education Act 1992. In this role, the Committee provides an annual 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. HEFCE’s contract with the Quality Assurance Agency for Higher Education (QAA) contributes significantly to this work. The Committee’s opinion is as follows:

HEFCE Teaching, Quality and Student Experience Committee opinion to the Board 2014-15
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 2013-14
- The assessment of the performance of QAA for 2014-15 which we have had the opportunity to discuss
- The opinion of the operation of the wider quality assurance system for 2014-15 which we have had the opportunity to discuss, including the outcomes of the NSS and the quality assurance activities conducted by providers as part of co-regulation,

it is the opinion of the Teaching, Quality and the Student Experience Strategic Advisory Committee that HEFCE has satisfactorily met its statutory obligation for quality assessment under section 70 (1) (a) of the F&HE Act 1992.

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

Under the Charities Act 2011, HEFCE is the principal regulator of all the higher education institutions (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 them annually on our work. We have continued to exercise our statutory duty to ‘promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity’. For example, we monitor compliance with charity-related information disclosure requirements, follow-up 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 2014-15 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 participate in a '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 2014-15, this group discussed the work of the Competition and Markets Authority and progress with the projects it has commissioned. For further information, see www.hefce.ac.uk/about/unicoll/other/RPG/.

We also work with six organisations, described as 'related bodies', that contribute to the achievement of our objectives. These are the Quality Assurance Agency, the Equality Challenge Unit, Jisc, the Leadership Foundation for Higher Education, the Higher Education Statistics Agency and the Higher Education Academy. Accountability for our funding is secured through a variety of mechanisms. Our relationship with each organisation is subject to regular review. For further information on these bodies, see www.hefce.ac.uk/about/unicoll/other/related/.

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 as discussed further below, the overall system of internal control has been in place in the Council throughout the year ended 31 March 2015 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance. This includes a period during the year when we were in transition between our former and current approach to risk management, as described below.

Approach to risk management

The Council's long-standing approach to risk management is set out in an Assurance Framework, which is an element in our overall Accountability Framework. The Framework explains HEFCE's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in HEFCE's strategic and operational planning processes.

Risk management

During the year, we substantially changed our approach to risk management. Our revised approach draws on our new 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 a large number of Directorate-level work packages.

In risk management terms, beginning in autumn 2014, we have therefore replaced our former small group of high level strategic risks with a much larger group of risks at the work package level for each Directorate. In some cases, these Directorate level risk assessments are supplemented by further detailed risk assessments covering specific areas of internal control, such as finance, 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 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 now reviews the status of its risks on a quarterly basis, with a summary of the most significant risks (based on a traffic light assessment) and the mitigating activities in place provided to the subsequent meetings of the Audit Committee and Board. In addition, each Directorate will present a report to the Audit Committee on all of their risks at least once a year. The Board will also receive a twice-yearly report on the 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 reports to BIS as part of the joint accountability process between HEFCE and the Department.

Key risks and mitigating activities

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

a. The challenges of implementing complex government policies in the absence of new legislation. This particularly affects us in our role as lead regulator as we need to operate a range of regulatory and assurance processes to monitor institutions in the HE sector within a legislative framework that is out-of-date and no longer consistent with our role. 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 powers we do have in the most effective way.
b. The confidence that our key stakeholders, particularly BIS and HEIs we fund, have in HEFCE. This also covers such issues as the outcomes of the 2014 Research Excellence Framework exercise 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.
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 spending review expected in 2015-16. 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 staff training and development, and by sharing knowledge, information and duties to the extent we can as a small organisation.
e. The forthcoming move of our main Bristol office. We have had a project plan in place for some time to deal with the buildings, information technology and people elements of this move. This plan is subject to frequent monitoring by management.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks I am supported in this process by my Deputy Chief Executive, directors and senior management team. My review is also informed by the work of the internal auditors and the executive managers within HEFCE who have responsibility for the development and maintenance of the control framework in their areas of responsibility, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, including on any action taken to address weaknesses and ensure continuous improvement of the system.

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 strategic objectives and maintenance of a sound system of internal control. In particular, all institutions and related bodies funded by the Council are required to comply with some form of accountability agreement, which are designed to help us secure accountability and regularity for the public funds we provide to them, partly by requiring various accountability returns to be provided to us for review, including the annual accounts. Reviewing this information forms part of our work to ensure the protection of the public investment in institutions and other organisations. This includes seeking assurance that the public funds provided to them have been used for the purposes for which they were intended. For HE institutions we fund, following a period of consultation on a new agreement, we published a memorandum of assurance and accountability this year that we require them to adhere to as the core terms and conditions attached to our grants.

As our funding for higher education teaching is reducing in response to the introduction of higher tuition fees, for the three years beginning 2014-15, we have supported the introduction of an additional agreement on institutional designation. This will provide accountability for the public investment in student support funds for institutions granted automatic course designation, which in turn allows access to the student support system for those institutions' students. This ensures that the rebalancing of funding from grants to tuition fees does not diminish the effectiveness of the current regulatory regime, which provides confidence to students and the public. A key part of the new memorandum is that we have introduced a revised approach to how we assess the impact of the financial commitments institutions make in support of their own strategic aims on their financial position. This has proved necessary because of changes in the lending market, particularly where loans are provided for shorter terms than used to be the case. Institutions must now seek our approval to increase their financial commitments above a certain defined threshold. The highest risk applications require approval by a new Board sub-group established for this purpose, or by the Board itself.

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. 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 Deputy Chief Executive and directors, 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 Teaching, Quality, and the Student Experience Committee on our statutory obligation connected to teaching quality. This latter opinion will be provided by our new Quality, Accountability and Regulation Committee in future. In addition, I exchange letters with the Skills Funding Agency each year in order to obtain assurance about the regularity of the use of HEFCE funds by further education colleges.

During the year, our control systems have identified a small number of issues that required specific actions to manage the associated risks. We report all significant issues to the Audit Committee 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 2014-15 that warrant disclosure here. If the Government makes further changes to our remit in response to the HE reforms, we will need to reflect this in the design and operation of our internal control system.

Significant issues and developments arising in the year

The most significant other issues and developments arising during 2014-15 are as follows:

Issues connected to the HE reforms

i. HEFCE continues to discuss with the Government how best to implement its various policy proposals for HEFCE and the HE sector. This includes responding to the introduction of higher tuition fees and related changes to higher education funding, which began to take effect in earnest in 2012-13 and will continue to affect HEFCE for several years to come. The key issues arising this year have been the relaxation and imminent withdrawal of student number controls, further cuts to our funding, significant changes in the Home Office rules surrounding the recruitment of overseas students and the development and operation of significant processes and controls by us in connection with the designation of HE courses by alternative providers of HE, on behalf of BIS. Several of these developments require us to monitor ever more carefully the institutional response and the financial consequences of the reforms for the government and institutions, as well as how they impact on the public interest in higher education.

ii. A significant development in the year was the creation and publication of a register of HE providers covering both traditional and alternative providers, who are either in receipt of HEFCE funding and/or whose students have access to the student support system. 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.

iii. In the last contract period, HEFCE contracted with the Quality Assurance Agency for Higher Education to carry out the assessments of HE quality we require to meet our statutory obligation to assess the quality of education we fund. During 2014-15, we signalled to the HE community that we wished to initiate a wide-ranging review of the way we deliver our statutory obligation. We are looking ahead to identify and respond to the quality assessment needs of higher education over the next ten years to ensure our approach to this is world-leading, promotes excellence in learning and teaching, is co-regulatory in nature, efficient and effective, as well as understandable to all that require assurance from it. Working with the other UK funding bodies, we have established a Quality Assessment Review Steering Group to inform our work, chaired by Board member Dame Shirley Pearce. In January 2015, this Group issued a wide-ranging discussion document and held a range of meetings with stakeholders to gather views on these issues and, having analysed the responses received, we are planning formally to consult on proposals to determine the way forward.

iv. One of the key risks facing HEFCE in recent years has concerned the control of student numbers, as over-recruitment by HE institutions and other providers of higher education can have consequences for other areas of funding. In response to the relaxation of student controls at the request of government, the number of students recruited in 2014-15 increased by more than 10,000 over the previous year. These controls will be fully withdrawn for HEFCE-funded institutions for 2015-16 and, at the Government's request, we are monitoring the impact of this change on the quality of the student experience, using existing processes to do so.

v. In 2015-16, HEFCE expects to take on the monitoring responsibility for higher education from the Counter-Terrorism and Security 2015 Act, which has just passed into law. The nature of our obligations have not yet been determined by the Government.

Other external factors

vi. Following some work on the HE sector in 2013-14 by the former Office of Fair Trading (OFT), we work closely with the Competition and Markets Authority (CMA) to promote a full understanding of the HE sector. The CMA has published guidance to help institutions better understand their responsibilities under competition law.

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 remains dependent on the resources made available to us from BIS. We are working within a legislative framework largely designed many years ago and, while we continue to work with BIS about what reforms can be taken forward short of specific HE-related legislation (including incorporating some reforms in other legislation), we would support the introduction of primary legislation in response to the HE reforms introduced by the Government. This would allow us to address the risks and challenges of the current system and fully deliver the government's HE policies, as well as enable HEFCE to fully realise its regulatory role.

viii. In response to these changes, we have restructured our organisation during 2014-15, for which one of the main changes has been the establishment of a 'Regulation and Assurance' directorate. We have also brought together our main areas of policy (research, education and knowledge exchange) into one directorate and re-organised the remainder of our business into four other directorates; for further information see www.hefce.ac.uk/about/who/.

ix. Following the Government's decision to fund teaching at English HE providers through increased tuition fees for students with effect from autumn 2012, HEFCE's allocation of teaching grant to institutions has continued to be reduced alongside other cuts for public spending reduction reasons. This has necessitated a considerable amount of work to adapt our approach to funding for learning and teaching. In support of the Government's priorities, we aim to create and sustain the conditions for a world-leading system of higher education (HE) which transforms lives, strengthens the economy, and enriches society. To achieve this we will work in partnership with Government and others by: seeking to fund and incentivise excellent teaching, research and knowledge exchange; promote social mobility, participation, retention, achievement and progression; and further develop our knowledge of the whole HE sector in support of our role as an authoritative voice and intelligent regulator for English higher education. Further information may be found at: www.hefce.ac.uk/about/who/#index/.

x. The majority of HEFCE's £1.6 billion of research funding is distributed on the basis of research quality, taking into account the volume and relative cost of research in different areas. Research quality is periodically assessed on a UK-wide basis. The most recent exercise, which HEFCE managed, is the Research Excellence Framework. This very large exercise comprising over 1,900 submissions, over 50,000 academic staff and almost 200,000 research outputs was successfully completed in late 2014 and has informed our funding for research in 2015-16 as planned. A key output from this work has been the almost 7,000 case studies of the impact of HE research in the UK. The results of the REF exercise may be found at www.ref.ac.uk/.

xi. Around 99 per cent of the grant-in-aid received from BIS is passed on as grants to HE institutions and other organisations. Most of this is distributed by formulae based on activity levels, cost and (in some areas) performance. We have a range of mechanisms in place to secure accountability for this funding, which includes governance, financial health and risk assessments of funded organisations. Our Board and Audit Committee regularly receive reports on these assessments, for which we operate an institutional risk system. Using this system, we assess and monitor the overall risk profile of each funded organisation. Where an organisation experiences difficulty, we implement our support strategy. The system regularly evolves in response to the changing risk environment. A small number of institutions face risks to their short to medium term financial sustainability. The pressure on public spending, complete relaxation 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. During the year, we introduced a new dashboard to report to the Board and Audit Committee any significant issues arising on these regulatory and assurance-related matters. Further details about how our institutional risk system and assurance mechanisms work may be found on our website at www.hefce.ac.uk/reg/.

xii. We have continued to provide advice to the Secretary of State on the strategic and operational issues arising from the development of the funding and regulatory arrangements for higher education in England. This includes analysis of issues connected to alternative providers of higher education seeking university title and for the designation of courses at alternative providers who wish their students to access the publicly supported grants and loans system. We have been administering the application process on behalf of BIS, working with the SLC, QAA and others as necessary. HEFCE's role in the new designation system is legally confined to processing and providing analysis of applications from alternative providers for specific-course designation, including (from 2014-15) monitoring of providers. This year, we were given powers to obtain information from these providers, which will help us carry out this work more effectively. However, under current legislation, we do not have regulatory oversight of alternative providers, and we are not empowered to make decisions on applications. These responsibilities lie with Government. BIS sets the criteria for designation and, referring to HEFCE's analysis among other sources, decides whether or not an alternative provider's course should be designated or de-designated. Alongside the BIS Accounting Officer and the Chief Executive of the Student Loans Company, I gave evidence at the Public Accounts Committee in December 2014 and March 2015 in connection with these alternative providers. While we will work with BIS in response to the issues arising, there were no significant issues specifically arising for HEFCE from these meetings. We also provide advice to BIS in respect of applications from providers for university title.

xiii. 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 23 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 result in a change to an institution's funding. We work with the organisations affected to manage any issues arising and provide lessons learned advice to the sector as a whole when we consider this will be of value.

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

xv. As the lease on our Bristol head office expires in late 2015, we have used 2014-15 to plan for our move to a nearby office that forms part of the Government estate. This will achieve further savings through more efficient space utilisation. Many of the costs associated with the move arise around the year-end. We have agreed with BIS how this will affect our administration grant for both 2014-15 and 2015-16.

xvi. We report quarterly to the Board on our financial position; this includes a financial dashboard that highlights the key issues arising. CIPFA benchmarked HEFCE's financial management practice in 2013-14, placing HEFCE among the upper quartile of all the 35 government organisations reviewed at that time. We have implemented their recommendations this year.

xvii. We hold the Carbon Trust Standard, ISO27001, the information security standard (for our ITS team), ISO14001, the environmental system standard and OHSAS18001, the health and safety standard. We are 'Investors in People' accredited and, based on an October 2014 staff survey, HEFCE achieved 'ones to watch' accreditation in The Sunday Times 100 Best Not For Profit Organisations to work for.

Additional BIS requirements

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

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

ii. We 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 unistats.direct.gov.uk/find-out-more/key-information-set. We make the full dataset freely available for third party re-use via HESA in addition to the main datasets on higher education which have been available from HESA since 1994. This year we have published a set of interactive and detailed data maps of higher education provision in England, which provides a toolkit to explore a wide selection of higher education and economic data, see www.hefce.ac.uk/analysis/coldspots/.

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

v. HEFCE operates a suite of business critical funding models for calculating the amounts of grant to allocate to HE institutions and for calculating student number controls. BIS operates a quality assurance framework through which they make an annual assessment of risk inherent in our use of these models. The most recent BIS assessment concluded the risk of significant error in our modelling of recurrent grants and student number controls to be very low.

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

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

I have considered the evidence provided with 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 2014-15.

Professor Madeleine Atkins
Chief Executive and Accounting Officer
Higher Education Funding Council for England
18 May 2015

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

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2015 under the Further and Higher Education Act 1992. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

As explained more fully in the Statement of HEFCE's and the Chief Executive's responsibilities**,** the Council and the Chief Executive 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 2015 and of the net expenditure for the year then ended; and

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

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State for Business, Innovation and Skills under the Further and Higher Education Act 1992; and
- the information given in the sections entitled HEFCE's structure, Financial results for 2014-15, Preparation of the annual report and accounts and Sustainability report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General

1 June 2015

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Statement of Comprehensive Net Expenditure for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Expenditure			
Grants payable to institutions and others			
Institutional recurrent funding	3	**3,487,312**	4,457,027
Funding for national facilities and initiatives	3	**141,258**	116,679
Capital funding	3	**447,830**	348,191
Other BIS allocations	3	**48,113**	137,851
Changes in provision	12	**(1,160)**	48,757
		4,123,353	5,108,505
Council administration costs			
Staff costs	4	**14,492**	13,476
Non-pay administration costs	5	**10,346**	6,888
Depreciation	7	**167**	67
Changes in provision	12	**(2)**	0
		25,003	20,431
Total expenditure		**4,148,356**	5,128,936
Income	6	**(6,966)**	(2,832)
Net operating costs		**4,141,390**	**5,126,104**
Other Comprehensive Expenditure			
Revaluation of Property, Plant and Equipment	7	**(2)**	3
Revaluation of provision due to change in discount rate	12	**7,550**	10,027
Net expenditure for the year transferred to general reserve		**4,148,938**	5,136,134

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

The notes on pages 74 to 97 form part of these accounts.

Statement of Financial Position as at 31 March 2015

	Note	As at 31 March 2015 £000	As at 31 March 2014 £000
Non-current assets			
Property, Plant and Equipment	*7*	**268**	59
Recoverable grants falling due after one year	*9a*	**31,894**	38,842
Trade and other receivables due after one year	*9b*	**11,250**	13,750
		43,412	52,651
Current assets			
Recoverable grants falling due within one year	*9a*	**17,256**	14,419
Trade and other receivables due within one year	*9b*	**18,973**	17,497
Cash and cash equivalents	*10*	**30,439**	29,149
		66,668	61,065
Total assets		**110,080**	113,716
Current liabilities			
Trade and other payables	*11*	**(1,579)**	(1,300)
Provisions for liabilities and charges within one year	*12*	**(27,951)**	(27,473)
Non-current assets plus net current assets		**80,550**	84,943
Non-current liabilities			
Provisions for liabilities and charges after one year	*12*	**(206,816)**	(229,897)
Assets less liabilities		**(126,266)**	(144,954)
Taxpayers' equity			
Revaluation reserve		**6**	4
General reserve		**(126,272)**	(144,958)
		(126,266)	(144,954)

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

The financial statements on pages 70 to 73 were approved by the Board on 18 May 2015 and were signed on its behalf by

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

The notes on pages 74 to 97 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2015

	Note	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Cash flows from operating activities			
Net expenditure		(4,141,390)	(5,126,104)
Adjustment for non-cash transactions	7,12	(995)	48,824
Decrease/(increase) in receivables	9b	1,024	(815)
Increase/(decrease) in payables	11	279	(2,023)
Use of provisions	12	(28,989)	(29,345)
Net cash outflow from operating activities		(4,170,071)	(5,109,463)
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	7	(376)	(35)
Cash flows from financing activities			
Grants from sponsoring department	2	4,167,626	5,104,087
Decrease in recoverable grants	9a	4,111	3,386
Net increase/(decrease) in cash for the year		1,290	(2,025)
Net financing			
Cash and cash equivalents at the beginning of the period	10	29,149	31,174
Net increase/(decrease) in cash and cash equivalents in the period	10	1,290	(2,025)
Cash and cash equivalents at the end of the period		30,439	29,149

The notes on pages 74 to 97 form part of these accounts.

Statement of Changes in Taxpayers Equity for the year ended 31 March 2015

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

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

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

The notes on pages 74 to 97 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 2014-15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

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

Consolidation

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

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

For the financial year ended 31 March 2015 no related bodies have been consolidated within HEFCE's accounts.

Going concern

The statement of financial position at 31 March 2015 shows net liabilities of £126 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 2015-16, 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.

1 Accounting policies (continued)

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

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

Grants from the Department for Business, Innovation and Skills

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

BIS also provides a grant for National Scholarship Programme, which is accounted for as financing and credited to the general reserve, and disclosed in the accounts as 'other ring-fenced allocations'.

Income

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

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

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

Leases

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

Non current assets

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

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

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

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

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

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

The exceptions to this are:

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

Student number control grant adjustments, the grant funding pot is based on an estimated student number control and institutions are encouraged not to over-recruit. If an institution over-recruits, HEFCE will seek to implement grant reductions, on instructions from BIS. 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.

Recoverable grants

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

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

Pensions

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

Provisions for liabilities and charges

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

Segmental reporting

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

1 Accounting policies (continued)

Staff costs and secondments

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

Taxation

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

IFRS issued but not effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. As at 31 March 2015 the following IFRS, none of which will be material to HEFCE's annual accounts, have been issued but are not effective:

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

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

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

IFRS 9 - Financial Instruments - no mandatory effective date.

1a Significant judgements

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

In particular, the provision for Inherited Staff Liabilities is, by its very nature, an estimation. The value of the provision is derived from an actuarial valuation of the underlying population, and is updated periodically. Note 12 to the accounts gives further details of the provision and our assumptions.

The other area of significant judgement is in the recognition of programme holdback as pre-paid grant. This relates to adjustments to payment of grant relating to pre-2012-13 academic year funding to HEIs where student numbers fall outside a standard percentage threshold, adjustments arising from data audits or reconciliations.

HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Further details are given in Note 1 (Accounting Policies) and Note 9b (Trade and other receivables).

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

2 HM Government grants received

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**3,651,734**	4,597,253
Grant in aid for capital expenditure in HE	**444,923**	349,770
	4,096,657	4,947,023
Other ring-fenced allocations		
Grant for Access to Learning Funds	**0**	37,447
Grant for ITT bursaries	**0**	117
Grant for National Scholarship Programme - BIS	**48,730**	100,000
	48,730	137,564
Administration costs		
Grant in aid from BIS for HEFCE administration costs	**22,239**	19,500
Total grant and grant in aid received	**4,167,626**	5,104,087

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

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

The grant letter is available on our 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. In the analysis above, grant funding is shown as 'Other ring-fenced allocations'.

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Institutional recurrent funding [a]		
Teaching	**1,770,591**	2,755,372
Research	**1,555,190**	1,551,265
Knowledge Exchange	**161,531**	150,390
	3,487,312	4,457,027
Funding for national facilities and initiatives [b]	**141,258**	116,679
Capital funding [c]	**447,830**	348,191
Other BIS allocations [d]	**48,113**	137,851
Total grant	**4,124,513**	5,059,748

This analysis of grant expenditure is now consistent with the presentation in the guide to funding and student number controls 2013-14 and 2014-15 (HEFCE 2014/06), available to view at www.hefce.ac.uk/pubs/year/2014/201406/. This change has resulted in reclassification of prior year comparatives.

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 and research 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 National Scholarship Programme and voluntary giving. 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

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Staff with a permanent UK employment contract with HEFCE		
Salaries	**10,107**	9,780
National Insurance contributions	**878**	861
Pension costs	**1,804**	1,875
	12,789	12,516
Costs of employing contract, agency and temporary staff	**1,703**	960
	14,492	13,476

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Pension costs		
Civil Service Pensions	**1,736**	1,811
Partnership pension	**18**	15
Universities Superannuation Scheme	**50**	49
	1,804	1,875

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.

Costs of employing contract, agency and temporary staff have increased due to employing staff at higher daily rates.

There were no exit packages paid to HEFCE staff during the financial year 2014-15 (*nil: 2013-14*).

The Council contributes to two pension schemes, Civil Service Pensions (PCSPS) and the Universities Superannuation Scheme (USS). The USS is a multi-employer defined pension scheme, for more information on this scheme refer to Remuneration Report page 46.

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

Staff costs (continued)

For 2014-15, employers' contributions of £1,736,211 were payable to the PCSPS (*2013-14 £1,811,539*) at one of four rates in the range 16.7 to 24.3 per cent (*2013-14: 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 £17,760 (*2013-14: £14,577*) were paid to 3 appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (*2013-14: 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 2014-15, employers' contributions of £50,016 (*2013-14 £49,036*) were payable at at rate of 16 per cent.

	Year ended 31 March 2015 FTE	Year ended 31 March 2014 FTE
Staff numbers		
Analytical Systems Directorate	**38**	40
Corporate Services	**59**	57
Finance & Funding Directorate	**27**	26
Institutions Directorate	**39**	34
Regulation & Assurance Directorate	**26**	24
Research, Education & Knowledge Exchange Directorate	**47**	40
Shared Resource	**6**	14
	242	235
Average number of contract, agency and temporary staff	**18**	30
	260	265

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

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

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

5 Other administration costs

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Non-pay administration costs		
Policy Development	**2,090**	2,667
Staff related and general administrative expenditure	**1,676**	1,403
Rental payments under other operating leases	**1,739**	1,134
Premises costs	**3,192**	783
Office costs	**1,377**	684
Board and committee members' fees and expenses	**139**	105
Audit fee#	**60**	63
Rental payments under plant and machinery operating leases	**73**	49
Total Administration costs	**10,346**	6,888

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. The work commenced in January 2015 and will continue until summer 2015. These costs do not meet the criteria for capitalisation. Office costs include IT costs, catering and room hire, telecommunications, stationery and publications. For 2014-15 they include the costs of buying IT equipment for the new Bristol offices.

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

6 Income

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Programmes		
Income receivable from other funding councils:		
Department for Employment and Learning in Northern Ireland	**229**	78
Higher Education Funding Council for Wales	**580**	250
Scottish Funding Council	**1,291**	486
Other programme income	**2,047**	1,199
	4,147	2,013
Administration		
Income receivable from other funding councils:		
Department for Employment and Learning in Northern Ireland	**197**	234
Higher Education Funding Council for Wales	**47**	61
Scottish Funding Council	**109**	147
Receipts from the Office for Fair Access and SLC for services provided under the service level agreement	**354**	344
Income from conferences	**0**	21
Income from other activities	**2,112**	12
	2,819	819
Total income	**6,966**	2,832

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

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

The increase of income from other activities listed under the Administration heading includes in 2014-15 the income received from the Audit Commission whose lease of premises HEFCE has taken over during the year. This is to compensate HEFCE for the need of leasing two office buildings during the period between May 2014 and December 2015.

7 Property, Plant and Equipment

	Leasehold improvements £000	Furniture fittings and equipment £000	Information Technology £000	**Total £000**
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**

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

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

8 Financial Instruments

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

This could imply a financial risk to HEFCE. We have reviewed the balances of our supplier contracts for the financial year to 31 March 2015. We have found no evidence of material change in the fair value of current assets/liabilities.

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

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

9a Recoverable grants

	As at 31 March 2015 £000	As at 31 March 2014 £000
Recoverable grants		
Balances as at 1 April	**53,261**	56,647
Advanced during the year	**12,142**	14,153
Recovered during the year	**(16,253)**	(17,539)
Balances as at 31 March	**49,150**	53,261

	As at 31 March 2015 £000	As at 31 March 2014 £000
Balances at 31 March		
Within one year	**17,256**	14,419
After one year	**31,894**	38,842
	49,150	53,261

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

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

- 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 2015 15 organisations *(2014: 17)* had recoverable grants of £1,000,000 or more outstanding. The total value of these grants was £29,353,154 *(2014: £39,091,416)* .

9b Trade and other receivables

	As at 31 March 2015 £000	As at 31 March 2014 £000
Receivables due within one year		
Programme prepayments	**16,472**	16,739
Programme receivables	**1,113**	258
Trade prepayments	**1,037**	224
Trade and other receivables	**351**	276
	18,973	17,497
Receivables due after one year		
Programme prepayments	**11,250**	13,750
	30,223	31,247
Intra-government balances		
Other central government bodies	**436**	440
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**436**	440
Balances with non-government bodies	**29,787**	30,807
Total as per receivables' notes	**30,223**	31,247

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

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

10 Cash and cash equivalents

	As at 31 March 2015 £000	As at 31 March 2014 £000
Cash held under Government Banking Service		
Balance at 1 April 2014	**29,148**	31,173
Net change in cash and cash equivalent balances	**1,290**	(2,025)
Balance at 31 March 2015	**30,438**	29,148
Cash held under commercial banks and cash in hand		
Balance at 1 April 2014	**1**	1
Net change in cash and cash equivalent balances	**0**	0
Balance at 31 March 2015	**1**	1
Total cash and cash equivalents	**30,439**	29,149

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 2014-15 academic year.

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

11 Trade and other payables

	As at 31 March 2015 £000	As at 31 March 2014 £000
Amounts falling due within one year		
Trade payables	**715**	210
Administration accruals	**648**	512
Tax and social security	**64**	11
Programme payables	**152**	567
	1,579	1,300
Intra-government balances		
Other central government bodies	**199**	70
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**0**	0
	199	70
Balances with non-government bodies	**1,380**	1,230
Total as per payables' notes	**1,579**	1,300

Trade payables refers to non-pay administration expenditure.

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

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

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

12 Provisions for liabilities and charges

	Inherited staff liabilities £000	Admin provisions £000	**Total £000**
Provisions			
Balance of provision at 1 April 2013	227,500	433	227,933
Provision utilised in year	(29,315)	(30)	(29,345)
Increase/(Decrease) in provision	43,411	(8)	43,403
Unwinding of discount	5,346	8	5,354
Change in provision due to change in discount rate	10,027	0	10,027
Balance of provision at 31 March 2014	256,969	403	257,372
Provision utilised in year	**(28,958)**	**(31)**	**(28,989)**
Increase/(Decrease) in provision	**(5,785)**	**(7)**	**(5,792)**
Unwinding of discount	**4,625**	**5**	**4,630**
Change in provision due to change in discount rate	**7,550**	**0**	**7,550**
Balance of provision at 31 March 2015	**234,401**	**370**	**234,771**

Analysis of expected timing of discounted flows

In the remainder of the Spending Review period to 2015	27,919	32	**27,951**
Between 2016 and 2021	107,468	338	**107,806**
Between 2022 and 2032	89,113		**89,113**
Thereafter	9,901		**9,901**
	234,401	370	**234,771**

12 Provisions for liabilities and charges (continued)

HEFCE has three provisions as at 31 March 2015 (*2014: three*), one for inherited staff liabilities one for early retirement costs and one for dilapidation costs.
Provisions are discounted to net present value using the appropriate HM Treasury discount rate.

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

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

HEFCE has provided for these ongoing reimbursements. The provision was estimated based on data of all pension scheme members. In order to verify the reasonableness of the provision an analytical review is undertaken anually.

Current assumptions mean we expect payments to continue until at least 2040.

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 1.3 per cent per annum (*2013-14: 1.8 per cent*)
- mortality based on SAPS (CMI 2013) tables
- 75 per cent members are age 80 or over
- membership is 50 per cent male and 50 per cent female
- benefits include a 50 per cent contingent spouse's pension.

Administration cost provisions

HEFCE has provided for early retirement costs relating to two members of staff (*2014: two*). The balance of the provision for early retirement costs as at 31 March 2015 is £32,000 (*2014: £64,000*). Payments will continue until 2016.

HEFCE has also provided for the dilapidation costs for Northavon House in advance of the operating lease ending in 2015. The balance of the provision for dilapidation costs as at 31 March 2015 is £338,000 (*2014: £339,000*).

13 Commitments under leases

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	**1,573**	1,147
Later than one year and not later than five years	**3,192**	1,476
Later than five years	**1,863**	0
	6,628	2,623
Other		
Not later than one year	**4**	23
Later than one year and not later than five years	**0**	0
	4	23

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

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

During 2014-15 HEFCE has agreed a lease on new premises in Bristol. The refurbishment of these offices begun in 2014-15 and will be finalised in 2015-16 financial year. HEFCE is planning to move into the new premises in 2015.

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

14 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2015 £000	As at 31 March 2014 £000
Commitments		
Grant committed for the period April to July	**1,250,000**	1,380,489
Grant committed for the next academic year	**3,971,000**	3,883,000

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

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2015-16 academic year (HEFCE 2015/05) is available on HEFCE's website at www.hefce.ac.uk/pubs/year/2015/201505/.

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

As at 31 March 2015 there were no contingent liabilities (*2014: nil*).

15 Payments to related bodies

	Year ended 31 March 2015 £000	Year ended 31 March 2014 £000
Related bodies		
Jisc	**57,010**	68,994
JISC Services Management Company, trading as JISC Advance	**19**	34
British Universities Film and Video Council (BUFVC)	**0**	98
Sub-total Jisc	**57,029**	69,126
Equality Challenge Unit (ECU)	**1,017**	939
Higher Education Academy (HEA)	**10,487**	12,278
Higher Education Statistics Agency (HESA)	**1,483**	0
Quality Assurance Agency for Higher Education (QAA)	**4,930**	4,312
Research Information Network (RIN)	**0**	(55)
Leadership Foundation for Higher Education (LFHE)	**1,755**	1,905
	76,701	88,505

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

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

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

For the funding relationship with the Research Information Network payments and reimbursements are made via the British Library.

Further information on related bodies can be found at www.hefce.ac.uk/about/unicoll/other/related/.

16 Events after the Reporting Period

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

17 Related party transactions

	Year ended 31 March 2015 £000
Grant funding to institutions and other organisations	
• Aylesbury College: Professor Ruth Farwell, member of Corporation.	**6**
• University of Brighton: John Harley*, Deputy Chair & Chair of Audit Committee.	**24,684**
• Birkbeck College, University of London: Dr Ruth Thompson*, Deputy Chair.	**25,277**
• Bromley College: Frank Toop*, Chair of Audit Committee.	**154**
• Buckinghamshire New University: Professor Ruth Farwell, former Vice-Chancellor.	**7,270**
• The University of Cambridge: Professor Dame Shirley Pearce, Council member and Sara Weller, Council member.	**178,372**
• The City University: Frank Toop*, University Secretary and Apurv Bagri, Honorary Rector and visiting professor at the Cass Business School.	**22,502**
• New College Durham: John Widdowson, Principal.	**1,060**
• Goldsmiths' College: Frank Toop*, former member of the Audit Committee.	**15,435**
• Higher Education Policy Institute: Dr Ruth Thompson, member of Advisory Board.	**18**
• Kings College London: Professor Anne Greenough, Professor of Neonatology and Clinical Respiratory Physiology.	**120,040**
• The University of Lancaster: Graeme Osborne, External Trustee of the Students Union.	**31,170**
• University of Lincoln: Professor Mary Stuart, Vice-Chancellor.	**15,684**
• London Business School: Apurv Bagri, Chairman of Board of Governors.	**6,682**
• London Metropolitan University: Mark Robson, former Vice-Chairman.	**23,139**
• The University of Manchester: Anil Ruia, Chair of Board of Governors.	**156,160**
• National Centre for Universities and Business: John Widdowson, member.	**759**
• National Centre for Social Research: Steve Egan, trusteee and Chair of Audit Committee.	**82**
• University College London: Clifford Shanbury*, lay member of Council of the Institute of Education.	**190,697**
• University of Oxford: Sara Weller, member of Remuneration Committee at New College and visiting professor at the Said Business School and Dr Ruth Thompson, member of the Remuneration Committee at Somerville College.	**187,361**
• Quality Assurance Agency: Graeme Osborn, member of Student Advisory Board.	**4,919**
• The University of Sheffield: Professor Sir Keith Burnett, Vice-Chancellor.	**92,156**
• Staffordshire University: Dr Ruth Thompson*, Governor.	**19,745**
• The University of Westminster: Dr Suzy Walton, Deputy Chair.	**26,940**
• Graduate Students' Association, University of York: Graeme Osborn, employee.	**42,645**

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

HEFCE is a non-departmental public body sponsored by BIS. BIS is regarded as a related party, as are sister funding bodies including the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the National College for Teaching & Leadership, the Skills Funding Agency, various Research Councils and also other BIS partner organisations like the Student Loans Company or UK SBS.

The University of the West of England is regarded as a related party as it owns Northavon House in Bristol. HEFCE leases this building at an annual commercial rental of £887,090. During the financial year 2014-15 the University of the West of England received £29,502,881 of funding.

* HEFCE Audit Committee member only.

Appendix 1 Analysis of grant: unaudited

	Total for year ended 31 March 2015 £000	Total for year ended 31 March 2014 £000
Funding for national facilities and initiatives		
Jisc	**34,010**	34,702
Strategic Development Fund and Catalyst Fund	**32,928**	29,061
Postgraduate Support Scheme	**16,528**	4,165
Museums, galleries and collections	**10,447**	10,420
National Networks for Collaborative Outreach	**10,036**	0
Higher Education Academy	**9,737**	11,038
Research Excellence Framework (REF)	**6,866**	1,469
Quality assurance	**4,968**	6,993
Provision of information	**2,963**	0
Strategically Important and Vulnerable Subjects (SIVS)	**2,139**	1,717
Policy Ongoing Services	**1,521**	901
Social entrepreneurship	**1,351**	2,021
Promoting efficiencies	**1,339**	927
HE Data and Information Improvement Programme	**1,077**	0
Equal Opportunities	**1,017**	939
International initiatives	**960**	605
Leadership Foundation for Higher Education	**900**	900
National Teaching Fellowship Scheme	**757**	1,239
Higher Education Access Tracker	**527**	0
Changing the Learning Landscape	**454**	823
HESA	**404**	0
Higher Education Regional Associations	**143**	143
Supporting professionalism in admissions	**112**	175
Research Information Network	**40**	43
Foundation degrees	**19**	111
Engineering Conversion	**12**	0
Aimhigher	**3**	5
London initiatives	**0**	5,274
Employer Engagement	**0**	2,924
Leadership, Governance and Management Fund	**0**	84
	141,258	116,679
Capital funding		
UK Research Partnership Investment Fund (UKRPIF)	**152,653**	134,851
Teaching Capital Investment Fund (TCIF)	**143,769**	78,861
Research Capital Investment Fund (RCIF)	**103,733**	89,372
Jisc	**19,000**	18,390
Strategic Development Fund and Catalyst Fund	**17,899**	7,839
Capital for further education colleges	**7,660**	1,994
High Performance Computing capital	**4,000**	16,000
Revolving Green Fund	**(884)**	884
	447,830	348,191
Other BIS allocations		
National Scholarship Programme	**48,716**	99,954
Voluntary giving	**107**	143
Student Support Fund	**(20)**	210
FE ITT Bursaries	**(66)**	117
Access to Learning Fund	**(624)**	37,427
	48,113	137,851

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 2014-15 HEFCE allocated a total of £141 million for these initiatives (*2013-14: £117 million*).

Capital

In 2014-15 HEFCE allocated a total of £448 million for capital grants *(2013-14: £348 million)* . Much of the capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund; funding which goes towards supporting the capital infrasturcture of the HE sector. Capital funding under these two streams for 2011 to 2015 was announced in the publication 'Capital Investment Fund 2: Capital allocations for learning and teaching 2013-14; Additional capital allocations for research 2013-14 and 2014-15' (HEFCE 2013/08).

Another significant element of capital is the UK Research Partnership Investment Fund (UKRPIF), a BIS initiative launched in 2012 to support investment in major new university research facilities. The funding is dedicated to supporting large-scale capital projects from higher education institutions (HEIs) with significant track records of research excellence, provided that they secure co-investment from businesses, charities or endowments. Though this investment will be anchored in research activities it could also have benefits for other areas of university activity. The June 2013 Spending Round statement announced an extension of UK RPIF to 2016-17, making available at least £100 million each year of match-funding to leverage private investment. Funding will be allocated on the basis that HEIs have secured at least double funding from co-investment sources. That is, for every pound from the UKRPIF, there should be an additional £2 invested.

Other BIS allocations

This relates to grants administered on behalf of the government and covers National Scholarship Programme, Voluntary Giving, Access to Learning Fund, Student Support Fund and FE ITT Bursaries. HEFCE distributes this funding, which is granted by BIS for specific purposes.

Pages 100 to 102 give a brief explanation of each programme.

Analysis of grant: unaudited (continued)

Funding for national facilities and initiatives

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

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

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

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

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

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.

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

Provision of information. Funding for work relating to provision of information activity responding to the new fees regime and the 2011 White Paper 'Students at the Heart of the System'.

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.

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

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 has a UK-wide remit and is leading a programme of changes to build a more coherent and less burdensome data collection landscape.

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

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

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

Analysis of grant: unaudited (continued)

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.

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.

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

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

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

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

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

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

Engineering Conversion. Development of an engineering conversion pilot.

Aimhigher. Funding for regional partnerships to widen and increase participation in HE (now replaced by a new initiative - National Networks for Collaborative Outreach).

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

Employer engagement. Funding to support co-funded workforce development.

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

Capital funding

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

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

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

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

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.

Analysis of grant: unaudited (continued)

Other BIS allocations

This relates to grants administered on behalf of the government and covers National Scholarship Programme, Voluntary Giving, Student Support Fund, FE ITT Bursaries and Access to Learning Fund. HEFCE distributes this funding, which is granted by BIS for specific purposes.

Higher Education Funding Council for England
Northavon House
Coldharbour Lane
BRISTOL
BS16 1QD

tel 0117 931 7317
www.hefce.ac.uk

ISBN 978-1-4741-1871-2