Annual report and accounts
2016-17

June 2017

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HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND
hefce

Higher Education Funding Council for England

Annual report and accounts 2016-17

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Chief Executive’s statement

HEFCE funds and regulates universities and colleges in England. We work in the interests of students and the taxpayer to support our world-leading higher education system. Higher education is enormously important to our success as a country. Universities and colleges play a crucial social, economic and cultural role in their local communities and regions, while many have considerable national and international impacts.

The learning and teaching offered by higher education providers not only equips students with knowledge but educates and prepares the graduates who will work in highly skilled jobs in all sectors of the economy. The research and collaborative knowledge exchange activities carried out by universities and colleges furthers our understanding of the natural world and society, and drives innovation, productivity and growth. The Government’s announcement of additional funding for research and innovation this year, including an additional £2 billion per year by 2020, was particularly good news. We also welcome the potential of the Government’s emerging Industrial Strategy to increase the contribution that higher education can make to national productivity and growth, and to strengthen synergies with the work that we have undertaken with partners on the conditions for successful technology transfer.

HEFCE has a comprehensive understanding of the increasingly complex and diverse English higher education landscape. Our work supports the Government’s ambition for greater competition between higher education providers (including alternative or private providers) and enhanced student choice. We invest to promote excellence and innovation in teaching and learning, and in research and knowledge exchange. Over the past year we have worked closely with our sponsor department, the Department for Education, with the Department for Business, Energy and Industrial Strategy, and with many other government departments and agencies, to be a constructive and authoritative voice on issues affecting higher education.

Our analytical expertise is evident in our annual publication ‘Higher Education in England: Key Facts’, a statistical overview of important trends and developments, and our reports on the financial health of the sector. We engage frequently with a wide range of stakeholders; this enables us to gather up-to-date intelligence and to form a detailed and accurate view of the higher education sector.

These insights inform our policies and advice to Government. For example, in the period following the European Union referendum in June 2016, HEFCE proactively gathered evidence on the ways in which English higher education might be affected by the decision to exit the EU. We are now working to understand the challenges and opportunities post-Brexit, and we continue to advise Government on these issues.

HEFCE has always sought to be a learning organisation. This year we took on responsibility for the funding of undergraduate pre-registration courses in nursing, midwifery and allied health from the Department of Health, and in the year ahead we will refine our funding approach to these areas based on the experience of the first year. We try to improve our processes wherever possible: this year we have drawn on independent evaluations to inform a revised approach to future UK Research Partnership Investment Fund allocations. We are outward-facing, working in partnership with others to develop key policy agendas. Earlier this year we launched the Local Growth Academy in partnership with the Local Government Association and the NHS Confederation. The Academy offers training to staff in universities and colleges to help universities and colleges to build the capacity and capability to play a full part in delivering economic growth in their areas.

We previously published a Business Plan for the period 2015-2020, and this Performance Report describes how we have performed against the commitments and objectives that we set ourselves. In this overview of the past year I am pleased to highlight some key achievements:

- Reflecting the importance of a high-quality student academic experience in our world-leading higher education system, we developed and are implementing a revised, **risk-based approach to quality assessment**. This broadens the scope of our quality judgements and supports continuous improvement in learning and teaching. It builds on our long-standing assurance work on institutional financial sustainability, good management and governance, and strengthens our capacity to safeguard the student interest and the reputation of the sector. These arrangements underpin the Government's Teaching Excellence Framework. Throughout 2016-17, HEFCE worked to **implement Year Two of the Teaching Excellence Framework (TEF)**. We will continue to support its development in Year Three.
- We responded to the Government's ambition to double the proportion of students from disadvantaged backgrounds in higher education by 2020 by developing the **National Collaborative Outreach Programme**. The programme, which builds on an evaluation of previous work, encourages access to higher education by disadvantaged students by bringing together consortia to deliver improvements in outreach for specific geographic areas.
- We took forward our **work on learning gain**, which aims to measure improvements in students' knowledge, skills, work-readiness and personal development during their time in higher education. This year, we launched a large-scale, mixed-method project (the first of its kind in the UK) and awarded £2.7 million for the development of smaller-scale experimental innovations in learning and teaching. In consultation with students and the sector we **introduced a 'student premium'** to replace previous separate targeted allocations, and implemented a new approach to funding students with disabilities, including mental health conditions.
- Following Lord Stern's review, we consulted widely on detailed arrangements for research assessment for **the second Research Excellence Framework** exercise in 2020-21. We also continued our work to support outstanding research for the benefit of the economy and society. Through the **UK Research Partnership Investment Fund (UKRPIF)** we allocated £450 million to 32 projects over the first four rounds of funding, attracting £1.2 billion of investment from business and charities. A fifth round of competition for UKRPIF funding is under way.

I am proud of the part HEFCE has played over the past 25 years in supporting our higher education system and I would like to thank the HEFCE Board and staff members – present and past – for their commitment to its success. Following royal assent of the Higher Education and Research Act 2017, all of HEFCE's work from April 2018 will be taken on by two new bodies, the Office for Students and UK Research and Innovation. Over the coming year, we will work closely with the Chairs and Chief Executives designate of these new organisations to ensure a smooth transition.

HEFCE's role as an 'intelligent regulator' based on the collection, analysis and benchmarking of data, is central to these future developments. This work supports our oversight of the financial health and the effective governance of the higher education system and the individual providers within it. For students, who invest substantially in their higher education, choices about what and where to study are vitally important – we play a key part in providing the evidence that informs their decisions. We are working to ensure that the considerable knowledge, expertise and skill within HEFCE is embedded into the development of the two new organisations.

Madeleine S. Atkins

Professor Madeleine Atkins CBE

Chief Executive

About HEFCE

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

The purpose of this Overview section of the Performance Report is to give the reader an understanding of HEFCE, its purpose and commitments, and performance during the 2016-17 financial year.

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

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

Measuring and reporting our progress

HEFCE's Business Plan 2015-2020[1] reflects the Government's strategic priorities for higher education in England.

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

We will achieve our aim by:

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

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

Our progress over the past year against these commitments is described in this section. The Performance analysis section at page 19 gives further detail on our progress against the objectives which underpin our commitments.

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

Our approach to risk management

Drawing on our Business Plan we have identified a number of strategic and operational risks that might impact on the achievement of our objectives. The Governance Statement describes our approach to risk management and our risks (see page 35).

Going concern

HEFCE's accounts for 2016-17 have been prepared on a 'going concern' basis. The statement of financial position at 31 March 2017 shows net liabilities of £110 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grant-in-aid from our sponsoring department. 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 2017-18, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in DfE's estimates for that year, which have been approved by Parliament. There is no reason to believe that DfE's future sponsorship and future Parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on a 'going-concern' basis.

Incentivising excellence in teaching and learning

Teaching excellence must be at the heart of a world-leading higher education system. We are committed to promoting excellent and innovative teaching through funding, sharing best practice, and supporting student choice.

Our achievements this year include:

TEF Teaching Excellence Framework

- Putting steps in place to deliver the second year of the Teaching Excellence Framework (TEF). The TEF aims to recognise and reward high-quality learning and teaching through an assessment of common metrics alongside providers' own evidence. Following extensive engagement during autumn 2016, 301 institutions opted to participate UK-wide in the first exercise. This echoes the strong interest we received from academic staff and students to serve as assessors, for which we received over 1,200 applications. The results of TEF Year Two were announced in June 2017. HEFCE is providing advice to DfE on the further evolution of the TEF, taking into account feedback from students, providers and assessors.

> 222 English universities and colleges took part in Year Two of the TEF.

- With the other UK funding bodies we launched a new **National Student Survey**, including nine new questions on student engagement designed to strengthen the role of the survey in quality improvement. As part of our wider Review of Information[2], we also made improvements to the Unistats website to ensure that students have the detailed and contextualised information that they need to make informed decisions about their course of study.
- We continued to support **innovation in teaching and learning** through a Catalyst Fund call focused on small-scale, experimental innovations for specific cohorts of learners. Sixty-six universities and colleges were awarded £2.7 million over 18 months. Projects include interdisciplinary innovation, responding to employer need, and the development of learning analytics for pedagogic purposes. Insights from the evaluation of this exercise will be synthesised and shared so that innovations that work can be embedded for the benefit of students throughout the country.
- November 2016 saw the launch of the **National Mixed Methodology Learning Gain Project**. Over 30,000 students from 10 universities are taking part in this study, the first of its kind in the UK. The project is one element of HEFCE's broader programme of work on 'learning gain', which aims to develop methodologies to understand the growth in students' knowledge, skills, work-readiness and personal development over the course of their studies. It includes 13 collaborative pilot projects involving more than 70 universities and colleges. We also held the second HEFCE national conference on learning gain, where the findings from the HEFCE-funded projects were discussed alongside work conducted in other countries, and by sector bodies such as Jisc (formerly known as the Joint Information Systems Committee). This programme of work places HEFCE at the forefront of debates about the value and impact of HE, and addresses questions of how we can best understand and evidence students' wider learning.
- HEFCE is working with the Department of Health, DfE and professional and sector representative bodies on two sets of **health reforms**. These aim to put the financing of nursing, midwifery and allied health (NMAH) professional courses on the same basis as other areas of HE, and to expand medical training to meet the nation's future requirements for doctors. We have agreed a new approach to investing in NMAH professions that will enhance their funding, while taking targeted action to address evidence of sustainability concerns in some specialist areas . Funds have also been allocated for new medical training places from 2018-19, to be supplemented by a second allocation, mainly from 2019-20, taking into account geographical, social mobility, and professional specialism priorities.

Improving access and student success

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

- With funding of £60 million per year, NCOP represents a significant investment by HEFCE. The scheme is backed by a substantial evaluation programme, which has the potential to identify the impact of different interventions in a more robust manner than ever before. A number of successful NCOP bids are in locations identified as Government 'opportunity areas', and we are working with DfE to ensure that NCOP networks and their expertise support the enhanced government investment in these areas.

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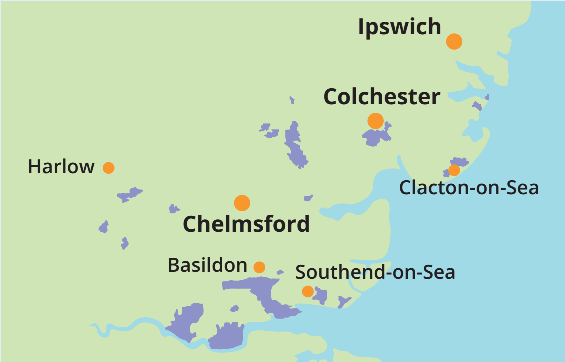
2 www.hefce.ac.uk/lt/roiconsult/.

3 www.hefce.ac.uk/pubs/year/2017/CL,062017/.

National Collaborative Outreach Programme



This year we launched the National Collaborative Outreach Programme (NCOP), a four-year scheme to support disadvantaged young people in England to access HE.

HEFCE is funding 29 local consortia to deliver innovative outreach activity in areas where participation in HE is both lower than average, and lower than expected based on GCSE-level attainment in the relevant wards. The consortia comprise HE providers, schools, colleges and other organisations such as employers, third sector bodies and local enterprise partnerships.

NCOP represents a clear shift in our approach to investment, focusing on 'place' and targeting funding to evidential need. It builds on the success of the predecessor scheme, the National Networks for Collaborative Outreach (NNCO), and provides a boost to existing outreach work taking place across England.

Map shows the Essex Collaborative Outreach Network's target electoral wards (in purple) which are the focus of its work to close the HE participation gap.

- The Government has pledged to increase the uptake of **apprenticeship places** to three million by 2020, including at degree level. This offers the potential for innovative pathways into HE for students from disadvantaged backgrounds while addressing skills needs locally and nationally. HEFCE is helping HE providers to develop and deliver degree apprenticeships, with a view to meeting the high demand from employer at this level. Universities and colleges across England have been awarded a total of £4.5 million to develop new degree apprenticeships starting in September 2017. HEFCE is also working with the new Institute for Apprenticeships and Technical Education to ensure that robust and proportionate steps are taken to regulate the quality of this provision.
- HEFCE analysis has for some time highlighted disparities in outcomes for students from disadvantaged backgrounds compared with their better-off counterparts[4]. This year, HEFCE challenged institutions to develop and share initiatives to address barriers to student success. Through our Catalyst Fund, we have supported 17 collaborative projects in universities and colleges, with funding of up to £500,000 per project, to identify how good practice and innovation can be embedded across providers. This complements other areas of HEFCE activity, such as the TEF and the new quality assessment arrangements, which incentivise institutions to support successful outcomes for students from all backgrounds.
- Funding to support **disabled students** helps HE providers to further develop inclusive models of provision and respond to the rise in the number of students reporting disabilities, particularly the rapid increase in reported mental health problems. We are working closely with Universities UK to support changing practice in this area.

[4] Three examples of HEFCE analysis: www.hefce.ac.uk/pubs/year/2013/201315/, www.hefce.ac.uk/pubs/Year/2015/201523/ and www.hefce.ac.uk/pubs/year/2014/201403/.

- Universities and colleges are developing increasingly deep relationships with schools. HEFCE is at the forefront of efforts to understand the nature of these relationships. We are working to map the scale and impact of **new models of HE-school interaction**, including providers' roles in sponsoring academies, establishing university technical colleges and setting up free schools. In addition, we have produced practical guidance[5] for HE providers on sponsoring schools.

We used the Catalyst Fund to support projects on **student safeguarding**. We allocated £2.4 million to 64 projects at universities and colleges to deliver activities to protect students, and to help the HE sector respond to the recommendations of the Universities UK Harassment Task Force report.

- The introduction of the Government's **masters student loan scheme** from academic year 2016-17 builds on HEFCE investments since 2012 to improve financial support for postgraduate study. We are encouraged to see strong interest in this first year. HEFCE provided advice on the initial development of the loan, and we are working with Government to evaluate uptake in order to develop the loan further. From 2018-19, HEFCE will support the aim of encouraging progression from under-represented groups by specific targeting of funding at postgraduate taught level, complementing the loan scheme. HEFCE is also working to support the Government on the introduction of the doctoral loan scheme, expected to be announced from 2018-19.

Delivering degree apprenticeships

The University of Greenwich, partnering with MidKent College, was awarded funding to support the development of degree apprenticeships in areas including construction, engineering, digital and technology, biomedical and pharmaceutical sciences, nursing, paramedic science, logistics, and chartered surveying, with the first apprentices enrolling in September 2017.

This will support the university's vision for degree apprenticeships to form 10 per cent of their provision in five years, and addresses the needs of large employers in Kent to retain graduates who might otherwise choose to work in London, leading to longer-term retention of higher-level skills and graduate employees in the region. The university aims to use this funding to support the recruitment of 500 degree apprentices from 2017.

5 www.hefce.ac.uk/schools/guide.

Funding excellence in research

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

HEFCE is the largest single funder of HE research in England. In financial year 2016-17 we allocated £1,569 million of recurrent research funding and £291 million of research capital funding.

Achievements this year include:

- Taking forward the process to refine the **Research Excellence Framework (REF)**. This is a periodic assessment of UK research quality that HEFCE manages on behalf of the UK funding bodies, most recently through the 2014 REF. With the other funding bodies, HEFCE developed detailed proposals for consultation on arrangements for a second exercise in 2021. These proposals took account of the recommendations of Lord Stern's Independent Review of the Research Excellence Framework (July 2016)[6]. The consultation closed in March 2017, and we expect to publish initial decisions in summer 2017.
- Allocating an additional £24 million from the Government's **Global Challenges Research Fund and the Newton Fund** to higher education institutions (HEIs) in support of research activity that pioneers new ways of tackling global challenges, and to provide capability funding to explore Newton Fund projects with partners in collaborating countries.
- Undertaking research into the landscape for **interdisciplinary research**, to explore how to create more supportive contexts for such research. This work identified features that support effective interdisciplinary environments, including the importance of institutional infrastructure and the value of flexible funds such as QR.

Through the UK Research Partnership Investment Fund (UKRPIF) HEFCE allocated £450 million to 32 projects over the first four rounds of funding, attracting £1.2 billion of investment from business and charities. By 2021, a total of £900 million will have been allocated through the scheme. This competitive funding stimulates investment in large-scale higher education research facilities in areas of research excellence. Bids must seek a minimum of £10 million and demonstrate that they can attract twice as much funding from private sources.

- **Round 5 of the UKRPIF competition is under way.** Two projects have already been awarded funds in the first stage:
  - £20 million for a new facility at Imperial College London, the Biomedical Engineering Hub, which will bring engineers, scientists and clinicians together to develop solutions to pressing biomedical problems
  - £32 million to the London School of Economics for a world-leading centre for interdisciplinary research on inequalities.

6 https://www.gov.uk/government/publications/research-excellence-framework-review.

Partnership to develop a unique materials chemistry research hub

In the first round of UKRPIF funding in 2012 we awarded funds to a materials chemistry research hub, the Materials Innovation Factory, a £68 million partnership between the University of Liverpool and Unilever. To enhance connectivity between industry and academia, the building includes shared laboratory facilities. The facility is due to open formally later in 2017.

The hub will help accelerate research and reduce new product discovery times relevant to a range of sectors including sustainable energy, home and personal care, pharmaceuticals, paint and coatings, thus helping to drive economic growth and international competitiveness. The UKRPIF award also helped to attract further investment for the University of Liverpool, who was recently awarded £10 million to establish the Leverhulme Centre for Functional Materials Design.

Big Data Institute

Artistic impression of the Institute prepared for Make by Caravan images

The University of Oxford was awarded £10 million in the second round of UKRPIF for the Big Data Institute, attracting £20 million in co-investment.

The institute aims to be a world-leading centre of excellence which will develop approaches for generating, storing and analysing large datasets in medical science to work toward a better understanding of human disease. This shift to digital technology in medicine will transform the way we think about monitoring disease prevalence, treating patients, and managing our healthcare systems. The institute provides the infrastructure required for new academic-industrial partnerships that will have long-term effects for human health in the UK. Some academics are already in post and generating new grants and collaborations.

Funding innovation and excellence in knowledge exchange

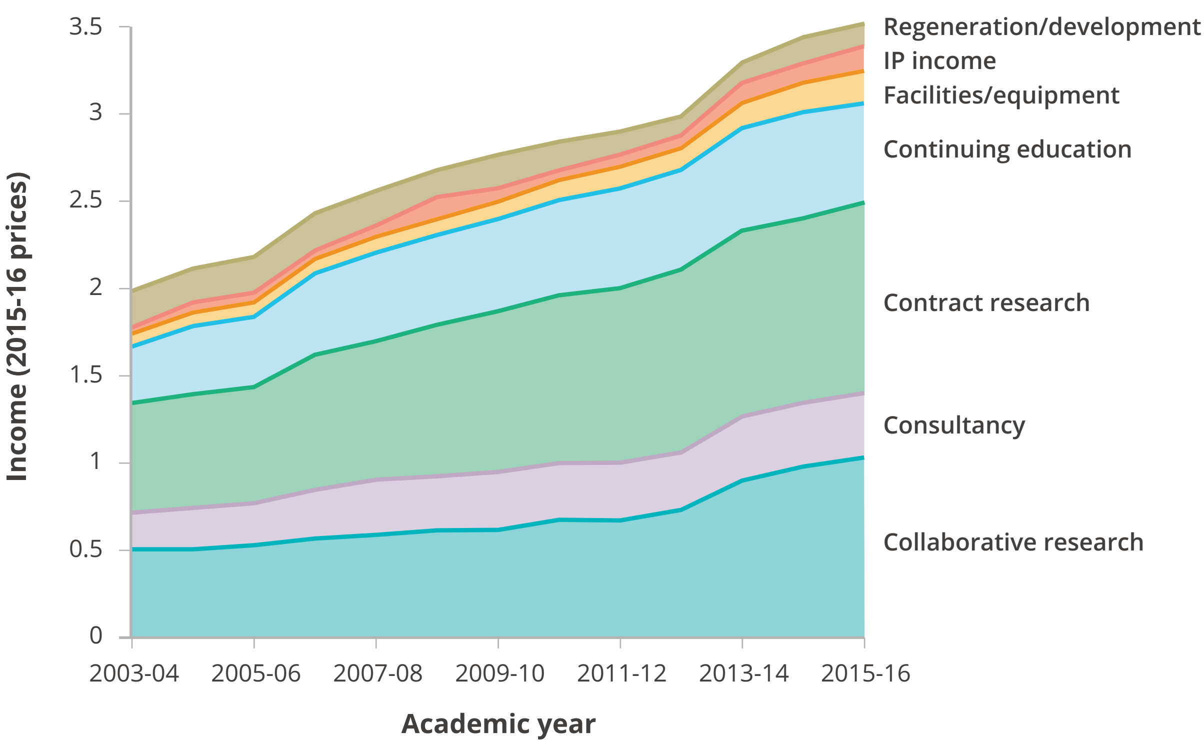
'Knowledge exchange' describes the multiple interactions that take place between universities and businesses, public services, charities and communities. These include joint research and development projects, consultancy and training, knowledge transfer partnerships, and setting up new companies and social enterprises. Government recognised the crucial role that HEFCE plays in supporting university-business collaboration in its response to the Dowling Review[7] of business-university research collaborations.

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

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

- We allocate HEIF on the basis of income earned by universities and colleges for the knowledge services they provide to businesses and other organisations, with earned income used as a proxy for impact. This mechanism gives recipients flexibility to use HEIF for activities that reflect their capabilities, partnerships and intended impacts. We will be introducing a new approach to funding from academic year 2017-18 to increase its dynamism, and recognise recent performance. English HEIs increased their income to more than £3.5 billion[8] in 2015-16 (an increase of 2.2 per cent in real terms compared to 2014-15).

Knowledge exchange income for English HEIs in 2015-16 (£ billions)



Source: HESA Higher Education-Business Community Interaction Survey.

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

8 Capital income relation to regeneration and development is excluded.

- We are developing and implementing the **Knowledge Exchange Performance Framework**[9] which was first requested in the Government's Strategy for Science and Innovation[10]. The framework includes tools to benchmark knowledge exchange performance and shares effective practices across universities through a portal[11] and benchmarking resources. We are supported in this work by a steering group led by Professor Trevor McMillan, which made a number of recommendations for improving evidence, transparency and dissemination of best practice in technology transfer.
- With other funders, we are supporting the **National Centre for Universities and Business** (NCUB), a UK-wide network of business and university leaders working to strengthen collaboration between HE and business. NCUB is developing a brokerage tool, konfer[12], funded by HEFCE and Research Councils UK, to encourage more effective links between universities and businesses, particularly small and medium-sized enterprises.
- Government has signalled its commitment to **long-term support of knowledge exchange**, and has confirmed HEIF funding to 2020. It has also confirmed that UK Research and Innovation, when established, will engage with the proposed Office for Students over the strategic objectives and criteria for HEIF funding that reflect the teaching elements of knowledge exchange.

A comprehensive understanding of the opportunities and risks facing a diverse sector

HEFCE's regional consultants and policy advisers provide support and challenge to the diverse range of providers that make up the English HE sector. They engage with HEFCE-funded universities and colleges, alternative providers of HE, and further education and sixth-form colleges offering HE. These exchanges give us a 'real-time' overview of the sector which informs our advice to Government and our implementation of policy and regulation.

The membership of our strategic committees reflects the diversity of the sector.

Following the European Union referendum vote, we have been active in providing intelligence and analysis to Government on the implications of the result for the sector, including hosting a conference with Universities UK to explore opportunities for providers following an exit from the EU.

Working in partnership to maximise the success of English HE

HEFCE's **Catalyst Fund** enables us to drive innovation, enhance excellence and efficiency, and support innovative solutions in the HE sector. Funded projects are normally collaborative, bringing together support from other partners including business and public agencies.

As the Government's devolution agenda has gathered pace, we have continued to support institutions in building their contributions to **local economic growth**. With the Local Government Association, Universities UK and the NHS Confederation we funded the Leading Places Programme, which supported universities, local councils and other public bodies in redesigning public services for the benefit of their local communities. We contracted the Leadership Foundation for Higher Education (LFHE) to provide executive-level facilitation to six[13] local pilot partnerships.

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9 www.hefce.ac.uk/pubs/rereports/Year/2016/ketech/.

10 https://www.gov.uk/government/publications/our-plan-for-growth-science-and-innovation'.

11 www.hefce.ac.uk/ke/KEportal/.

12 https://konfer.online/.

13 Projects are under way in Gloucestershire, Newcastle, Brighton, Manchester, Coventry and Warwickshire, and Bristol. Areas have access to expert facilitation services provided by the LFHE.

Investing in economic regeneration

Through the HEFCE Catalyst Fund we are providing almost £8 million to help stimulate economic regeneration in Wolverhampton and the Black Country through the creation of a regional and national Centre of Excellence in construction and the built environment. The centre, which will deliver a new model of employer-integrated higher education, will be situated in the heart of Wolverhampton on the 12-acre Grade II listed Springfield Brewery site, which has been derelict since the mid-1990s. The university's investment in the site has been key to forming a critical mass of regeneration in the area.

The shift from traditional grant regimes to new forms of funding requires local anchor institutions to think and act very differently. In 2016 we held a series of workshops for universities and other anchor institutions on emerging forms of investment funding. These demonstrated that while some institutions already have the managerial and operational cultures and technical capacities which are required to succeed in this new environment, most are not yet at that stage of development. The lessons learned from this work is informing the development of the **Local Growth Academy**, which will deliver services and other support over the coming year. HEFCE is also working with the LFHE to develop a management development programme, 'Know your Place', to help senior leaders provide the necessary leadership in finding innovative solutions to local partnership challenges.

An intelligent lead regulator

HEFCE operates as an intelligent regulator working in the interests of students in England within an increasingly diverse higher education sector. We operate the market entry gateway for providers seeking to enter the HE system. We undertake assessments and provide advice to DfE for alternative providers and for applications for degree awarding powers and university title, and we make decisions about access to the publicly funded sector under our own legal powers.

We operate assessment and assurance arrangements for quality, financial sustainability, and good management and governance for HEFCE-funded providers under the 1992 Act duties and powers, and ensure that HEFCE's assessment of risk for individual providers is evidence-based and made on a consistent basis.

This year:

- We implemented a new approach to **quality assessment** for HEFCE-funded providers[14]. This approach is proportionate, risk-based and grounded in the mission and context of an individual provider and the characteristics of its student body. It focuses attention on the outcomes of students and on the quality of their academic experience, and strengthens arrangements for safeguarding degree standards.

14 www.hefce.ac.uk/pubs/year/2016/201603/.

Leading Places programme

Brighton and Hove was chosen as one of six areas where a city and its universities are to pilot a new form of collaborative leadership to tackle a local problem. Three large, complex organisations came together to consider ways to reduce or prevent older people from needing escalated health and social care – one of the city's biggest public policy challenges. This opened up opportunities for interdisciplinary learning and led to the emergence of 'communities of interest', enabling academics and practitioners to share knowledge and know-how across organisational boundaries.

Several research projects are now being co-designed by the Universities of Brighton and Sussex and the local authority to develop new knowledge and inform a more agile and innovative commissioning of council services to improve health outcomes for local people.

- We implemented a new **Annual Provider Review** (APR)[15] process. The APR draws together data and intelligence about each provider across the range of its activities and allows us to identify areas for intervention and improvement on the basis of our assessment of risk to the student or public interest.
- We worked to **protect the student interest** through investigation of concerns raised by students and, within the constraints of our current legal powers, through the development of approaches to student protection in the event of course or provider closure. We are also the source of HEFCE's expertise on the implications of consumer law for higher education providers.
- We provided advice and support to DfE on the development of the **new regulatory framework for the Office for Students (OfS)**. This included work on the design of the single gateway for new providers, the risk-based regulatory framework for registered providers, and the development of student protection plans to safeguard the interests of students in the event of course or provider closure.
- We continued to **work with other regulators**, including the Competition and Markets Authority and the Office of the Independent Adjudicator for HE, and developed memoranda of understanding where appropriate.
- We released an improved **HEFCE Register of Higher Education Providers**[16]. The Register sets out the rights, responsibilities and status of all providers regulated in England (whether they are formally regulated by DfE, HEFCE, Skills Funding Agency or Education Funding Agency). Coverage has been extended to providers that deliver HE in partnership with HEFCE-funded providers, and those at which eligible students can access the Government's new masters loans. Further developments will enable the Register to display the outcomes of new quality assessment requirements and of the TEF. These developments will underpin the work that will be required to develop the new OfS Register, as set out in the Higher Education and Research Act 2017.

15 www.hefce.ac.uk/pubs/year/2016/201629/.

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

As of 31 March 2017, 804 providers were listed on the HEFCE Register, including:

338 providers who receive HEFCE funding directly

115 alternative providers with specific course designation

241 further education or sixth form colleges that deliver higher education

108 providers with university or university college title

139 providers that can award degrees

247 providers accredited for initial teacher training

(Some providers appear in more than one category.)

- We undertook work to update the **National Student Survey** (NSS), including the inclusion of questions on student engagement. This will better inform students about HE provision via the Unistats website. In due course the new survey will contribute to metrics used for the TEF.
- HEFCE is responsible for monitoring compliance with the new **Prevent duty** by more than 320 HE providers in England. Our report to Government on our first year of monitoring gave assurance that the vast majority of providers are complying with the requirements of the statutory guidance: 84 per cent of providers satisfied us that they had responded appropriately to the statutory guidance; 15 per cent needed to improve policies in some key areas before they satisfied requirements. Only two providers did not satisfy us that they were engaging with the duty. One provided further evidence and moved category, and the second provider is no longer subject to the duty due to changed circumstances.

Embedding Prevent and safeguarding training

The University of Law has implemented an active process for ensuring that Prevent training is delivered to its employees. Awareness training has been embedded in the existing mandatory training for new members of staff, and it is developing an automated alert to both the human resources department and line managers when an individual is due to refresh their training which will be activated every 24 months. A new induction policy is being designed to include completion of Prevent and Safeguarding training within the first week of employment.

Performance analysis

This section sets our progress against our 2015-2020 Business Plan objectives. These broad objectives are underpinned by detailed directorate-level work packages that are reviewed annually and adapted as activities evolve. We report regularly to our Board, Audit Committee, to DfE and to BEIS on our progress in delivering our work packages.

Our objectives for 2015-2020	Our performance during 2016-17
To ensure that within the current legislative framework HEFCE promotes assurance and assessment of quality and standards, financial sustainability, good governance, student protection and the wider public interest.	• We provided advice on three degree awarding powers applications and three university title/ university college title applications. We undertook 135 assessments for providers wishing to retain specific course designation, and assessed three applications from publicly funded colleges to join the directly funded sector. • We implemented new arrangements for quality assessment, and as part of this, are conducting an Annual Provider Review process. We published guidance[17] and held events to support institutions to meet the new requirements. • We supported the UK Standing Committee on Quality Assessment, which provides co-regulatory oversight of those aspects of quality assessment that continue to be shared across the UK. • We released an improved HEFCE Register of HE Providers. • We put in place a new Unsatisfactory Quality Scheme to investigate and, as necessary, address concerns raised by students or other stakeholders about quality in an individual provider. • We monitored compliance with the new Prevent duty by more than 320 HE providers in England. We reported to Government on our first year of monitoring, and continued to engage extensively with providers to help them understand what they need to do to comply with the duty. We supported effective practice in relation to specific areas identified through the monitoring process, and worked with the LFHE to offer a range of events, including for alternative providers and governing bodies.

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

Acting as an intelligent regulator, maintain the confidence of financial markets and other investors in the higher education sector	• We monitored the financial sustainability and efficiency of the HEFCE-funded sector, and published overviews of sector financial health based on financial results[18], and forecasts[19]. • We identified, assessed, monitored and mitigated material risks at publicly funded higher education providers through use of engagement and support strategies. • There were no disorderly failures of publicly funded providers. • Moody's Investors Service has noted the value of HEFCE's oversight role and regulatory assurances, which allow markets to take confidence in the sector. This facilitates the availability of beneficial lending rates to institutions. • We assessed the impact of Brexit on the HE sector and advised Government of challenges and opportunities.
Maintain trusted, professional relationships with higher education providers so that HEFCE has a rich, comprehensive 'real-time' overview of the full diversity of the institutions in the sector to inform HEFCE policy and advice to Government and for our key stakeholders.	• We continued our programme of engagement with 132 higher education institutions, 241 further education colleges and sixth form colleges[20] that deliver higher education, and 115 alternative providers who hold institutional designation or specific-course designation for the purposes of student support. • We met 83 times with alternative providers to learn more about them and their students. • We undertook four formal consultations, and engaged extensively on policy issues through discussion with providers at events and through social media. • We maintained strong relationships in the further education sector and with the Association of Colleges. We worked closely with the Skills Funding Agency, with whom we co-regulate the provision of HE in further education and sixth form colleges. • Through our Catalyst Fund we supported 25 further education colleges for a range of purposes, including our Barriers to Student Success Programme, Student Safeguarding on Campus Scheme and the delivery of innovations in learning and teaching.

18 www.hefce.ac.uk/pubs/year/2017/201702/.

19 www.hefce.ac.uk/funding/finhealth/.

20 206 of the 241 further education colleges and sixth form colleges that deliver higher education received HEFCE funding directly as of 31 March 2017.

Develop and provide robust analysis, incisive insight and authoritative advice in order to inform decision-making and policy, and influence the wider HE debate.	• We published 22 research reports and data analyses. We are increasingly making our data tools available as online resources, and using blog posts to disseminate findings from research and analysis, and to stimulate debate on policy issues. • We took forward further improvements to the National Student Survey to ensure students' voices are better heard. • We collect and share data with 11 separate partner organisations under agreements.
Ensure that higher education providers support students from all backgrounds to participate and succeed in higher education, progressing their careers and postgraduate study.	• Through our NCOP scheme we funded 29 consortia comprising 268 HE providers, 69 local organisations, 18 charities, 4 employers, and 135 other educational establishments. Their work will cover 997 targeted electoral wards in England. • We updated and published a series of interactive maps[21] of young participation in HE to support widening participation policy-makers and practitioners. • We doubled the amount of funding we deliver to the sector for disabled students (£40 million for 2016-17 compared with £20 million in 2015-16). This increase is to support institutions in meeting the rapid rise in the number of students reporting mental health problems, and to transition towards an inclusive social model of support for disabled students. • We aimed to see the gap in participation between the most and least advantaged continuing to close. The most recent evidence is that the number of UK-domiciled entrants to full-time first degrees at HEFCE-funded HEIs increased from all Participation of Local Areas (POLAR3) quintiles in 2015-16 but this did not result in any further closing of the gap between the most and least advantaged[22]. • We continued to monitor progress against the Government's ambition to double the overall proportion of students participating in HE from disadvantaged backgrounds between 2009 and 2020 alongside our specific evaluation of the NCOP investment, and will report on both in autumn 2017.

21 www.hefce.ac.uk/analysis/yp/gaps/.

22 The proportion of students coming from quintile 5 (the most advantaged) declined from 34 per cent in 2004-05 to 30 per cent in 2014-15, but has remained at 30 per cent in 2015-16. Meanwhile the proportion from quintile 1 increased from 9 to 11 per cent between 2004-05 and 2014-15, and has remained at 11 per cent in 2015-16. Similarly, the proportion from quintile 2 increased from 14 to 16 per cent in the same period, and remains static at 16 per cent in 2015-16.

	• We began an evaluation of the Postgraduate Support Scheme 2015-16, to report in summer 2017. The 2014-15 analysis found that there was latent demand for postgraduate study, particularly in disadvantaged groups, and that finance was a key barrier to progression. • We began work on a new metric for assessing relative disadvantage at postgraduate level, due to be launched as a data tool in summer 2017. We also embarked on other programmes of analysis around postgraduate data, including student characteristics and masters loan take-up.
Use evidence to support and influence the efficient delivery of higher education within England.	• We worked with Universities UK and others in the sector to implement the recommendations of Professor Sir Ian Diamond's efficiency reviews. • We improved the quality and consistency of the Value for Money reports prepared by HEIs, by suggesting a common definition of efficiency and by questions to structure evidence and possible sources of data that institutions might find useful. We are in the process of reviewing this approach and will produce a sector-level report. • We continued to engage with the sector on various individual efficiency initiatives and projects, providing advice and promoting their achievements.
Deliver an annual process that distributes funding effectively in a low-burden way while supporting government policies.	• Our formulaic approach to funding results in some of the lowest grant administration costs in the public sector. 94 per cent of our funds, approximately £3,353 million in financial year 2016-17, are allocated through a formula-driven approach based on institutional data collection. • Overall our administrative or running costs budget is less than 0.7 per cent of the funding we provide to the sector • Recent audits of UKRPIF processes were broadly positive[23], and we are implementing improvements to future rounds. • We delivered the annual funding process and associated payments on time, to a high standard. Our transaction error rate was minimal.

Professor Madeleine Atkins

Chief Executive and Accounting Officer
Higher Education Funding Council for England 20 June 2017

[23] https://www.nao.org.uk/wp-content/uploads/2016/03/Capital-investment-in-science-projects.pdf.

Accountability report

Corporate governance report

The directors' report

HEFCE Board

HEFCE's Board is responsible for the strategic direction of the organisation. Board members are appointed by the Secretary of State for Education, 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 2016-17 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 (Term of office ended 28 February 2017)

Professor Sir Keith Burnett, Vice-Chancellor, University of Sheffield

Professor Anne Greenough, Professor of Neonatology and Clinical Research Physiology, King's College London

Peter Houillon, Chief Executive, Kaplan UK (Term of office ended 31 January 2017)

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

Mark Robson, Senior Advisor, Bank of England

Hugh Ross, Former NHS Trust Chief Executive

Anil Ruia OBE, Director, Botraco Ltd; Chair, University of Manchester (Term of office ended 31 December 2016)

Professor Mary Stuart, Vice-Chancellor, University of Lincoln

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

Martin Coleman, Global Head of Competition, Norton Rose Fullbright (Term of office commenced 1 March 2017)

Gurpreet Dehal, Non-Executive Director (Term of office commenced 1 March 2017)

Katherine Lander, Global Chief Learning Officer, Fitch Learning (Term of office commenced 1 March 2017)

Professor Carl Lygo, Former Vice-Chancellor, BPP University (Term of office commenced 1 March 2017)

David Palfreyman OBE, Bursar of New College, University of Oxford (Term of office commenced 1 March 2017)

Professor Steven West CBE, Vice-Chancellor, CEO and President, University of the West of England (Term of office commenced 1 March 2017)

HEFCE Board meetings are attended by an Assessor from DfE, and Observers from the Scottish Funding Council; National Union of Students; the Department for the Economy, 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/.

Personal data-related incidents

In 2016-17 there have been no personal data-related incidents formally reported to the Information Commissioner's Office.

Further information

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

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

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

Preparation of the annual report and accounts

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

The annual report and accounts were scrutinised by the Audit Committee on 26 April 2017 along with the Annual report on the Institutional Risk System 2016-17 and the Internal Audit Annual Report for 2016-17. 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 of the Audit Committee during the year was as follows:

Chair

Hugh Ross* Former NHS Trust Chief Executive

Members

John Harley Chair of Governors, University of Brighton

Mark Robson* Senior Advisor, Bank of England

Clifford Shanbury Independent Member of the Audit Committee, Office for Nuclear Regulation

Dr Ruth Thompson** Non-executive director and university governor

Neil Marriott Deputy Vice Chancellor at University of Winchester

* Audit Committee members who are also HEFCE Board members
** Sadly deceased July 2016

The purpose of the Audit Committee is to advise and support the Board and the Accounting Officer by giving them independent assurance as to the effectiveness of the Council's internal control, corporate governance and risk management. In particular, the Audit Committee will recommend the audited accounts to the Board, and give a formal opinion on the adequacy of internal control. Consistent with HEFCE's responsibilities in the higher education sector, this remit extends to providing assurance to the Board about internal control, corporate governance and risk management by institutions and related bodies receiving funding from HEFCE ('funded institutions').

The duties of the Audit Committee are to:

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

- The mechanisms (principles and approach) adopted by HEFCE for the assessment and management of its own current and future risks. This includes a cyclical report from each Directorate on the key risks in their area and actions being taken to mitigate these and other generic risks.
- The robustness of the operation of the institutional risk system undertaken by HEFCE for the assessment and management of risk and internal control issues associated with HEFCE-funded and/or regulated institutions and related bodies.
- The scope, resourcing and effectiveness of the Council's Assurance Service, including advising on the appointment of the head of this service.
- The appointment of the Council's Internal Audit provider and Head of Internal Audit along with the scope, resourcing and effectiveness of this service.
- The Council's accounting policies and annual financial statements, including both the 'hard close' accounts and final audited accounts, the National Audit Office (NAO) management statement and HEFCE response, and the Governance Statement.
- The strategy, remuneration and performance of the NAO for the audit work undertaken on the annual accounts.

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

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

The full terms of reference for the Audit Committee can be found on our website at www.hefce.ac.uk/about/Committees/. The Annual Report of the Audit Committee to the Board is published on our website alongside other Board papers[24].

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.

24 www.hefce.ac.uk/about/members/HEFCE,Board,papers/2017/.

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 2016-17 is £60,000 (2015-16: £60,000). There was no other work for which a fee was payable.

Financial results 2016-17

Funding and expenditure in-year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £3,619 million of grant funding from government departments (2015-16: £3,844 million). Grant-in-aid is treated as financing and taken directly to reserves.

In addition to funding from DfE, HEFCE receives income from other bodies for their contribution towards various initiatives. HEFCE's total income from other bodies for 2016-17 was £7 million (2015-16: £8 million).

Total expenditure in year was £3,635 million (2015-16: £3,828 million). Of this, £25 million (2015-16: £26 million) relates to the administration costs we incur in managing and distributing grant funding to the higher education sector, and £3,610 million (2015-16: £3,802 million) to programme funds. The vast majority, £3,586 million (2015-16: £3,803 million), of programme funds relates to grants payable to higher education institutions and other sector bodies. In 2016-17 an increase in programme costs of £8.9 million (2015-16, reduction of £0.5 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/1718/ for the 2017-18 announcement).

Our administration cost budget is agreed by the sponsoring department each year, and performance against budget is monitored and reported each month. HEFCE's 2016-17 budget from DfE was £25.0 million, meaning that the cost of administering, managing and allocating programme funding to the higher education sector is less than 0.7 per cent of total grant distributed.

Working collaboratively

In 2016-17 HEFCE used UK Shared Business Services Limited (UK SBS) for procurement activities to maximise savings through centralised buying power, and to access specialist expert resource of UK SBS category managers. HEFCE has benefitted through use of central government frameworks and procurement contracts.

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

2015-16 we completed the relocation of our Bristol office, moving from private sector to public sector estate. This generated annual rental savings of around £0.4 million through better use of government buildings, co-location with other partner organisations, reduced floor space and more energy-efficient design.

During 2016-17 HEFCE has made further improvements to its financial management and retained finance function. During the year we have worked with Grant Thornton and our internal auditors EY to ensure that we have a robust control environment in place in both manual and automated processes. A programme of work is under way to ensure that the assurances provided are substantial. HEFCE has further developed its internal financial management and strengthened the business partnering approach to establish better engagement of finance with the rest of the business.

Performance against financial targets in-year

At 31 March 2017 HEFCE's Statement of Financial Position shows net liabilities of £110 million (2016: £101 million). This reflects the inclusion of liabilities falling due in future years (mainly HEFCE's provision for inherited staff liabilities as disclosed at note 12) which will be met from DfE's future sponsorship and which does not affect HEFCE's 'going concern' status.

In resource terms we aim to distribute all funding received from DfE in-year; to achieve this, our framework agreement with DfE recognises that it may not always be possible to match receipts and payments exactly within year, and so allows for a small cash carry-forward (usually less than 2 per cent of total grant in aid received) at year end. At 31 March 2017 our cash balance was £46 million (£43 million in 2016), 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 2016-17 our 30-day performance was 99 per cent of invoices (2015-16: 98 per cent), with a 10-day performance of 93 per cent (2015-16: 89 per cent) and a five-day performance of 74 per cent (2015-16: 73 per cent). In 2016-17 HEFCE paid £237 of interest to suppliers due to late payment. There was no interest charged by HEFCE to suppliers.

At 31 March 2017 our trade payables balance (the amount owing to our suppliers) was £0.2 million (2016: £0.4 million). Comparing this balance with the aggregate amount invoiced by suppliers in-year (£50 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 2017 our figure for 'creditor days' was 1.2 days (2016: 8.1 days).

During 2017-18 we will continue to monitor our performance against such measures and will use benchmark information to drive continuous improvement in our financial management processes.

Statement of Accounting Officer's responsibilities

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

In preparing the accounts, the 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 Education, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the annual accounts.
- Prepare the annual accounts on a going concern basis, where it is appropriate to do so.

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

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

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

The Governance Statement

Scope of responsibility

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

Governance Framework

The HEFCE Board

The Further and Higher Education Act 1992 requires that the HEFCE Board shall consist of between 12 and 15 members, who are appointed by the Secretary of State for Education in accordance with the requirements of the Act. At 31 March 2017, the Board had 15 members.

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

Attendance at Board and all our Committee meetings is consistently high; more specifically the Board and Audit Committee attendance for the year was 84 per cent and 81 per cent respectively. The background and registered interests of Board and Audit Committee members are published on our website. Information about the diversity characteristics of our Board and its committees is available on our website. The Board has an independent procedure for hearing complaints about HEFCE, the Complaints Panel. There were no complaints in 2016-17 and therefore the Panel was not required to meet. Additionally, we received no allegations about HEFCE under our whistleblowing/public interest disclosure arrangements. Further details about our committees and other corporate governance information are available at www.hefce.ac.uk/about/.

HEFCE's relationship with the Department for Education

As part of the machinery of government changes arising after the 2016 EU referendum, the sponsoring government department for HEFCE changed in the year from the Department for Business, Innovation and Skills (BIS) to the Department for Education. The formal relationship between HEFCE and DfE is described in a framework document that was established when our sponsoring department was BIS. 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/.

HEFCE's relationship with DfE and the wider Government has been dominated this year by the Government's plans for higher education, for which new legislation was introduced into Parliament in the year. The Higher Education and Research Act 2017 will result in the closure of HEFCE and the organisation encompassing the role of Director of Fair Access (the Office for Fair Access (OFFA)), on 31 March 2018 and the establishment of the Office for Students (OfS) from 1 April 2018. Through the same legislation, HEFCE's research and knowledge exchange policy teams and their associated functions will become a council (known as 'Research England') within the newly established organisation, UK Research and Innovation.

We have regular routine interactions with DfE, which incorporate consideration of HEFCE's performance. The DfE grant letter to HEFCE of 23 February 2017 confirmed government funding for higher education for 2017-18, with indicative allocations for financial year 2018-19. These incorporate the reductions in teaching, research and capital funding arising from the last Spending Review. The funding for research, knowledge exchange and associated activities is derived from the Department for Business, Energy and Industrial Strategy (BEIS). The grant settlement will mean further real-terms reductions in HEFCE funding for higher education institutions in the year. Alongside describing some of the preparations for the establishment of the Office for Students, the grant letter describes a number of policy priorities, including in connection with social mobility; health funding; higher level skills and local economies; quality, choice and the student experience; student information; student safeguarding; Prevent; science and research; business collaboration; and the efficiency of the HE sector. In exercising its discretion in the allocation of funding, HEFCE has sought to address these government priorities in addition to the long-standing priorities of the protection of funding for high-cost subjects, widening participation, and small and specialist institutions, and to continue to fund world-leading and internationally excellent research selectively wherever it is found. The grant letter does not deal with HEFCE's administration grant for 2017-18, which is notified to us under separate arrangements.

Governance practice

The Council continues to seek out and adopt good governance practices. It is normal for the Board to carry out an annual effectiveness review. The Board and Audit Committee each carried out an exercise to review their own effectiveness in 2016-17. For the Board this consisted of an appraisal of the Board in early 2017 by the Chair through semi-structured discussions with members, a review of the Chair's performance by the Deputy Chair, an assessment of our governance risks, and benchmarking our governance practice against both the FRC Code and the Government's Corporate Governance Code. We are compliant with both codes to the extent they are relevant to HEFCE as a non-departmental public body (NDPB). The Board discussed its effectiveness at its annual strategy and planning day in March 2017. The Board is satisfied that it is discharging its responsibilities under the 1992 Act and that it has made a valuable contribution to the development of the new HE framework, both of which are supported by wide-ranging relationships between HEFCE and the Government. The Board highlighted a number of risks associated with the new policy framework, including, for HEFCE staff, the regulatory proposals made and the student interest. The Board also confirmed that the information provided to it at a time of considerable change in the sector was more than adequate to enable it to discharge its responsibilities.

The Audit Committee

The Audit Committee's remit includes both HEFCE itself and HEFCE's assurance work with the HE sector. At the year-end, the Committee had five members, two of whom are Board members. The Chair is an independent (non-HE sector) member of the Board. The Committee meets four times a year in the presence of the internal and external auditors. The Chair presents a report to the Board after each meeting, and minutes of each meeting are available to Board members.

Following a recommendation from the Committee, the Council's contract with the internal auditors, EY, has been extended to 31 March 2018. The Committee has focused this year on financial controls and cyber security, both of which have been subject to internal audit review in 2016-17. The Committee has also taken a close interest in the Council's support for DfE's work to prepare for the establishment of the OfS.

To complement the work we are undertaking to strengthen our cyber security arrangements, the Committee is provided with an annual summary of progress and issues arising with our information security obligations. In 2016-17, there were no incidents or losses of data that required a report to the Information Commissioner's Office.

In September 2016, the Committee discussed its effectiveness by reference to its annual benchmarking exercise against the good practice principles and guidance set out in the HM Treasury Audit and Risk Assurance Committee Handbook. The comparison was favourable, including against the new guidance on whistleblowing and cyber security. The key outcome was agreement to develop a more formal approach to member appraisal, and an appraisal exercise has subsequently taken place. No changes were made to the Committee's terms of reference in response to this review.

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

HEFCE Audit Committee opinion to the Board 2016-17

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
- evidence of value for money being achieved at the Council
- 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
- the formal opinions of the Director (Regulation and Assurance) on:
  - the financial results for the HEIs in the HEFCE-funded sector's institutions and funded bodies
  - value for money in the HEIs we fund
  - the effectiveness of those institutions' governance, internal control and risk management
- the report on our work as the principal regulator of exempt charity HEIs
- 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 and that HEFCE's risks associated with the transition to the Office for Students and UK Research and Innovation are, at this point in time, being effectively identified and managed in conjunction with BEIS and DfE.

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 changes to the regulatory environment in which the higher education sector operates resulting from the creation of the Office for Students and UK Research and Innovation could create uncertainty and risks for HE providers. We also recognise there may be implications for individual institutions and the sector as a whole arising from Brexit and the Government's timetable for Britain leaving the EU which is not yet clear.

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 the assurance team, that the Governance Statement meets government requirements and that we recommend approval by the Board of the 2016-17 accounts.

The Quality, Accountability and Regulation Strategic Advisory Committee

The Quality, Accountability and Regulation Strategic Advisory Committee is the Council's 'Quality Assessment Committee' for the purposes of complying with section 70 of the Further and Higher Education Act 1992. In this role, the Committee 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.

We describe below how we have changed our approach to meeting this statutory obligation in recent years.

The formal opinion of the Quality, Accountability and Regulation Strategic Advisory Committee to the HEFCE Board for 2016-17 on HEFCE's statutory duty for quality assessment

Having taken account of:

- information provided and our discussions throughout the year
- the work of the Quality Assurance Agency for Higher Education (QAA) as periodically advised and reported to us, including in its annual report for the 2015-16 academic year
- the assessment of the performance of QAA for the 2016-17 financial year, which we have had the opportunity to discuss
- the ongoing work to implement the revised operating model for quality assessment, which has been reported to us regularly and which we have had the opportunity to influence

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

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

Under the Charities Act 2011, HEFCE is the principal regulator of all the HEIs in England that are exempt charities. We have agreed a Memorandum of Understanding with the Charity Commission to assist us in meeting our obligations, and we report to it annually on our work. We have continued to exercise our statutory duty to 'promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity'. For example, we monitor compliance with charity-related information disclosure requirements, follow-up any serious incidents reported to us as appropriate, provide advice to the HE sector on issues connected to their charitable obligations and, if necessary, pursue charity-related public interest disclosures and other issues. There were no significant issues arising in 2016-17 requiring regulatory intervention from either HEFCE or the Charity Commission in respect of our principal regulator obligations.

Working with other organisations

In 2016-17, we worked with a number of organisations that contribute to the achievement of our objectives. The most significant of these are the National Union of Students, QAA, Jisc, the Leadership Foundation for Higher Education, the Higher Education Statistics

Agency (HESA), the Higher Education Academy and sector representative bodies such as Universities UK, GuildHE and Independent HE. Our relationship with each organisation is subject to regular review. Where we provide funding to such organisations, it is primarily directed towards supporting specific infrastructure and activities. Accountability for our funding to these organisations is secured through a variety of mechanisms.

The risk and control framework

HEFCE operates a system of internal control that is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council's policies, strategic objectives and individual work packages; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. In the context of our changing risk environment and approach to risk management which are discussed further below, the overall system of internal control has been in place in the Council throughout the year ended 31 March 2017 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Approach to risk management

The Council's approach to risk management is set out in a Risk Management Framework, which was reviewed and refreshed in 2016-17. 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. We supplement our approach to managing risks to our own organisation with a process for assessing risks to the sustainability of the institutions we have lead regulatory responsibility for; a description of this process is provided below.

Risk management

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

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

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

Key risks and mitigating activities

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

a. While the Higher Education and Research Bill was passing through Parliament, there was some uncertainty about how HEFCE could support the Government in the establishment of both the Office for Students and UK Research and Innovation (UKRI). HEFCE is represented on the DfE and BEIS programme boards which are overseeing the establishment of both organisations, and on the relevant subsidiary working groups. We have contributed significantly to these processes during 2016-17 and will continue to do so during 2017-18. Throughout the transitionary period so far, there has been much additional and complex work to deliver over and above 'business as usual'. The risks to operating normally have placed many demands on HEFCE, particularly senior staff. The adequacy of administrative resource to support this additional work has been a concern throughout the year. This is mitigated through regular discussions with DfE.

b. HEFCE's reputation and maintaining the confidence of our key stakeholders is critical to our ability to operate effectively for the benefit of students, and to deliver the Government's priorities. Our key stakeholders are DfE, BEIS, the Home Office (for Tier 4 and Prevent work), the HEIs and further education colleges (FECs) we fund, alternative providers and students. This is particularly important for HEFCE's work to support delivery of the HE reforms put in place by the Government. Our mitigations of this risk are necessarily wide-ranging and rely on working to the highest of standards we can achieve at all times within the resources made available to us by Government. In 2015-16, we received positive feedback from independently commissioned surveys of our HE stakeholders and alternative providers. A similarly positive report arising from an internal audit of our stakeholder management process was received in 2016-17.

c. The June 2016 referendum and the resulting decision to leave the EU has created a number of significant risks for the HE sector, for example in research funding, recruitment of EU students, and recruitment and retention of EU staff. We mitigate the associated risks through engaging with relevant stakeholders, providing information to Government and through participating in the Minister-led forum established to support the Government's Brexit plans for HE. We held a joint event with Universities UK for institutions about the implications of Brexit in December 2016.

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

e. The quality of data we receive from providers of HE, and our ability to validate and process it, has always been critical to our ability to carry out our work effectively and to ensure all providers are treated fairly within our funding and regulatory processes. As our regulatory role has been developing in response to the Government's HE reforms, the risks attached to poor quality data have been increasing. We have adopted a proactive approach to mitigate these risks, incorporating support, guidance, training, and adapting our audit and validation processes in response to developments.

Review of effectiveness

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

Accountability framework

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

The accountability framework consists of policies, procedures, monitoring and approaches to communication, which collectively contribute to the delivery of our strategic objectives and the maintenance of a sound system of internal control. In particular, all institutions and other organisations funded by the Council are required to comply with appropriate accountability agreements, which are designed to help us secure accountability and regularity for the public funds we provide to them. Reviewing this information forms part of our work to ensure the protection of the public investment in institutions and other organisations. This includes seeking assurance that the public funds provided to them have been used for the purposes for which they were intended.

For the HEIs we fund, we have published a memorandum of assurance and accountability that requires those HEIs to adhere to a range of core terms and conditions in return for grant funding. In recognition that some HEIs now receive a relatively low level of HEFCE teaching funding, we supported the introduction of an additional agreement on institutional designation for the three years beginning 2014-15. This provides accountability for the public investment in student support funds for institutions granted automatic course designation, which in turn allows access to the student support system for those institutions' students. This ensures that the rebalancing of funding from grants to tuition fees does not diminish the effectiveness of the current regulatory regime, which provides confidence to students and the public. We have welcomed the renewal of this agreement beyond 2016-17, which will allow time for the OfS's regulatory framework to be fully implemented.

We also support and provide analysis to DfE 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 concerned mainly with providing assessments and advice to DfE on the designation of specific courses, on applications for degree awarding powers, university title and applications to become HEFCE-fundable. Course designation allows students on those courses to borrow from the Student Loans Company to support their studies.

Our internal control system is also subject to regular review and monitoring by the directors and heads of corporate service teams, who are responsible for the management and oversight of the Council's risks. The documented assurance I receive about the management of these risks is substantially derived from the risk reports submitted to the Board and Audit Committee, as well as through the Audit Committee's advice on the associated risk management processes. As well as the annual reports from the Director of Regulation and Assurance (which incorporates a report on our role as a charity principal regulator) and the Head of Internal Audit, I also receive an annual opinion from the Audit Committee on our internal control framework and from the Quality, Accountability and Regulation Strategic Advisory Committee on our statutory obligation connected to teaching quality. In addition, I exchange letters with the Skills Funding Agency each year in order to obtain assurance about the regularity of the use of HEFCE funds by FECs.

The contract with our internal auditors, EY, was extended in the year to 31 March 2018. Their work this year has included cyber security, data protection, Prevent, risk management and payroll. The Head of Internal Audit's annual opinion is provided below:

Internal Audit Opinion for 2016-17

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

Based on the internal audit work performed during 2016-17, in our opinion there was adequate and effective risk management, control and governance processes to provide reasonable assurance over the achievement of HEFCE's objectives and the management of key risks. While individual reviews identified that there are elements of the system of internal control requiring improvement, the overall system of internal control enables HEFCE to achieve its objectives and manage its principal risks. Where recommendations have been raised, management have taken action to implement identified recommendations on a timely basis.

During the year, our control systems have identified a small number of issues that required specific actions to manage the associated risks. This includes areas where our internal auditors have indicated we can strengthen our systems and controls further, such as in payroll, data protection (in order to meet the requirements of the EU General Data Protection Regulation) and in cyber security. We report all significant issues to the Audit Committee and the Board. As part of our annual accounts review process, I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on its implications. Where issues have arisen, action has been taken or is planned.

There were no significant weaknesses in our internal controls in 2016-17 that warrant disclosure in this Statement.

Significant issues and developments arising in the year

The most significant other issues and developments arising during 2016-17 are as follows:

Issues connected to the potential HE reforms

i. Early in 2016-17, the DfE commissioned HEFCE to deliver Year Two of the 'Teaching Excellence Framework (TEF). At the date of this annual report, this work was approaching completion, with an overwhelming majority of eligible institutions choosing to participate in the exercise.

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

iii. In 2014, in association with our counterparts in Wales and Northern Ireland, we initiated a major review of how we carry out our statutory responsibility for quality assessment in HE. In March 2016, we published a revised operating model for quality assessment, which will be implemented in full in 2017-18. The 2016-17 year was one of transition to the new arrangements, with a range of pilot activities carried out to test different aspects of the revised approach. The new quality arrangements have been developed to integrate with HEFCE's wider approach to the regulation and oversight of the HE sector, and to focus on providing assurances of relevance to students. The cost of this revised model is substantially lower than the previous system of periodic assessment of quality at institutions by the Quality Assurance Agency for Higher Education (QAA). We maintained a contract with the QAA in 2016-17 to carry out certain work under the transition arrangements, and the QAA will continue to support our work in the future through new contracts. We put in place a new 'Unsatisfactory Quality Scheme' on 1 August 2016, which allows concerns about HE degree standards or the quality of the student academic experience to be reported to us, see www.hefce.ac.uk/reg/uqs/.

iv. HEFCE maintains a register of HE providers covering both traditional and alternative providers, who are in receipt of HEFCE funding, whose students have access to the student support system, or both. This register, which may be found at www.hefce.ac.uk/reg/register/, provides useful information to many of our stakeholders, particularly those with a regulatory interest, across the world. It is extensively used by public bodies, HE providers, students and the public at large, receiving an average of 15,000 page views each month. Following a review of the Register last year, we launched an updated version in September 2016 with enhanced search facilities and access to more information about providers.

v. HEFCE is the primary regulator of the HEIs it funds, and receives assurances from the Skills Funding Agency in respect of the FECs we fund for HE provision. For other HE providers, while the Secretary of State for Education or Privy Council makes the relevant decisions, HEFCE operates a number of gateway processes which allow such providers to apply to DfE (via HEFCE) for access to HEFCE funding, to seek university title, to be permitted to award degrees or to seek designation for student support purposes. This process has operated successfully throughout 2016-17 and will be strengthened by the forthcoming Higher Education and Research Act 2017, as the OfS will be responsible for these decisions in future, with widened powers.

vi. In conjunction with the National Union of Students and other representative bodies, we published a statement of good practice during 2015-16 dealing with the obligations institutions have to students when their course is closed or substantially changed. For further information, see www.hefce.ac.uk/reg/forstudents/sp/. In 2016-17, there have been no instances where an institution has been required by HEFCE to take steps to actively protect students under such circumstances.

vii. In 2015, the Secretary of State for Education appointed HEFCE to monitor the performance by HE providers of their 'Prevent' duty under section 26 of the Counter-Terrorism and Security Act 2015, which sets out that specified authorities must have 'due regard to the need to prevent people from being drawn into terrorism'. In January 2017, HEFCE published a report, 'Implementation of the Prevent duty in the higher education sector in England: 2015-16', setting out the findings from our first year of monitoring work. This monitoring report notes that 84 per cent of providers satisfied us that they had responded appropriately to the statutory guidance, 15 per cent needed to improve the policies in key areas to satisfy us (the majority of which have now done so), and just two did not satisfy us. One submitted further evidence and the issues were resolved while the other no longer has courses designated for student support and is no longer subject to the Prevent duty. For further information, seewww.hefce.ac.uk/reg/prevent/. Our internal auditors, EY, reviewed our management of our Prevent duty in the year, concluding that we have a sound system of control to deliver our monitoring function.

Internal factors and HEFCE operations

viii. HEFCE's capacity and capability to continue to perform as an effective organisation which meets the expectations of its stakeholders and the Government's requirements to co-ordinate and provide oversight over the HE regulatory system, and accountability for the public funds we distribute, remains dependent on the resources made available to us from DfE. Our capacity has been stretched during 2016-17, as we have been providing information and advice to DfE and BEIS as they supported the HE legislation passing through Parliament, and also as they both work to establish the OfS and UKRI. Our work on supporting the establishment of the OfS and UKRI is likely to increase markedly in 2017-18. While our administrative budget (as amended during the year) has proved sufficient for 2016-17, we have been discussing with DfE the additional costs of transition for 2017-18 and possibly beyond, as these are expected to be significant.

ix. The majority of HEFCE's £1.6 billion of research funding continues to be distributed on the basis of research quality, taking into account the volume and relative cost of research in different areas. Research quality is periodically assessed on a UK-wide basis, and the most recent exercise (the first Research Excellence Framework or REF) was completed in 2014. Following a review of the REF by Government, we have consulted on the nature of the next exercise, and will report on the outcomes of this in summer 2017. The consultation proposes that a second REF exercise will take place, with the assessment phase due for completion in 2021. Delivery of the REF, and all research policy and funding operations, will be transferred to Research England, one of the nine Councils making up the UKRI with effect from 1 April 2018. In his 2016 autumn statement, the Chancellor announced a £2 billion increase in research and development funding for universities and businesses by 2020-21. We await further information about the distribution of this funding.

x. After taking into account the cost of running HEFCE, around 99 per cent of the grant-in-aid received from DfE is passed on as grants to HEIs and other organisations. Most of this is distributed by formulae based on activity levels, course cost and (in some areas) performance. We have a range of mechanisms in place to secure accountability for this funding, which includes governance, financial health and risk assessments of funded organisations. Our Board and Audit Committee regularly receive reports on these assessments, for which we operate an institutional risk system. Using this system, we assess and monitor the overall risk profile of each funded organisation. Where an institution experiences significant challenges, or other risks to its future sustainability, we implement our support strategy. The pressure on public spending, the removal of student number controls and pressures to reduce costs mean that we continue to expect there to be variation in individual institutional financial performance in future. During 2016-17, we have been developing a new risk assessment process, the 'Annual Provider Review', which incorporates a wider range of information than previously, including our assessment of academic quality and standards. This process will more explicitly address any issues or risks that affect the interests of students, such as through the analysis of data connected to student outcomes. Further details about how our institutional risk system and assurance mechanisms work may be found on our website at www.hefce.ac.uk/reg/.

xi. We fully support the Government's work to minimise fraud risk and fraud itself. The Council has a counter-fraud group to co-ordinate our work in this area. We have experienced no frauds internal to HEFCE in the year. We require organisations we fund to advise us of adverse events, serious incidents and significant frauds. We received 27 such notifications during the year, of which 13 were fraud-related. There is no common theme. They include supplier payment frauds, staff-related frauds and one-off incidents. Losses arose in some cases and there was full recovery in others. In no case did the incident reported directly involve public funds. We received 46 public interest disclosures about HEIs in 2016-17. We raised enquiries in 6 cases. All were satisfactorily concluded with no further action considered necessary. We work with the organisations affected to manage any issues arising from these notifications and disclosures, and provide 'lessons learned' advice to the sector as a whole when we consider this will be of value.

xii. In 2016-17, following a consultation on the information we and institutions provide for students and other stakeholders about learning and teaching, and the student experience, and the subsequent approval of the outcomes by the Board, we have made a number of changes to the information requirements to take effect in 2017.

We anticipate this will enhance the quality of information available to students and further promote compliance with the advice and guidance provided by the Competition and Markets Authority on this subject.

xiii. HEFCE seeks value for money (VFM) through all of its activities. We review the annual audit committee reports of funded HEIs, which are required to incorporate an opinion on VFM. During 2016-17, we made it a requirement for all institutions to submit a 'value for money' report as part of the Annual Accountability Return we require from HEFCE-funded institutions. We will use these reports to inform an annual report on the efficiency of the HE sector.

xiv. We report quarterly to the Board on our financial position; this includes a financial dashboard that highlights any key issues arising.

Additional requirements

We are required 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 Government's 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. In August 2016, we achieved 'Cyber Essentials' certification and are continuing to develop and strengthen our cyber security arrangements, including in response to a second review of our cyber security arrangements and the evolving cyber risk environment.

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, www.hefce.ac.uk. For the benefit of current and prospective students, we have published the outcomes of the National Student Survey (NSS) for many years. We have also made enhancements to the NSS following a major review, which took effect in the 2017 survey. This data informs the 'Key Information Set' on the Unistats website at https://unistats.direct.gov.uk/find-out-more/. We make the full dataset freely available for third party re-use via HESA. This is in addition to the main datasets on higher education which have been available from HESA since 1994. The Register of providers referred to at point iv above provides regulatory information about providers of higher education to the wider public.

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

iv. I confirm that the Director of Finance has overseen and approved a process that reviews the monthly data sets of accounts payable transactions before they are made publicly available.

v. HEFCE operates a suite of business-critical funding models for calculating the amounts of grant to allocate to HEIs and for calculating student number controls. These models were last assessed against the relevant BIS (now DfE) quality assurance framework in 2015, which concluded that HEFCE meets the highest standard available. The internal audit plan for 2017-18 incorporates a review of these funding models.

vi. HEFCE is a shareholder in the BEIS-sponsored shared services organisation 'UK Shared Business Services Ltd' (UK SBS) and uses UK SBS for some procurement services.

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. There are plans in place to address any weaknesses arising and ensure continuous improvement.

I have considered the evidence provided with regard to the production of the annual Governance Statement. The conclusion of my review is that HEFCE's overall governance and internal control structures have been appropriate for HEFCE's business and that they operated satisfactorily throughout 2016-17.

Professor Madeleine Atkins

Chief Executive and Accounting Officer
Higher Education Funding Council for England 20 June 2017

Remuneration and staff report

Part one (unaudited)

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2016-17 were:

Tim Melville-Ross CBE Chair of the HEFCE Board

Professor Mary Stuart HEFCE Board member

Sara Weller CBE HEFCE Board member

The Chief Executive normally attends meetings.

The terms of reference for the Remuneration Committee are to:

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

These terms of reference were reviewed in January 2017.

Remuneration arrangements

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

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

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

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

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

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

Contracts

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

Contracts for directors are open-ended and their notice period is six months.

Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination of the Chief Executive. Compensation payments for Directors within the Civil Service pension scheme are determined by Cabinet Office policy.

Membership of the Board

The Board consists of 12 to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, our Board members are appointed by the Secretary of State for Education 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 DfE, in consultation with HEFCE, mainly from responses to advertisements placed by DfE 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 for Education.

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

Staff report

On the census date of 31 March 2017, HEFCE employed 328 full-time equivalent staff: 358 headcount, 242 female and 116 male. Of the 13 Board members in post, as listed in the Remuneration Report (excluding the Chief Executive and the Chair), there were nine men and four women. Of the seven senior employees (Chief Executive and Directors) in post, as listed in the Remuneration Report, there were four men and three women. We continue to monitor sickness absence as an indicator of staff wellbeing. Our sickness absence remains relatively low. In financial year 2016-17 we lost 1,555 working days to sickness, an average of 4.3 days per person. The level compares favourably to an average of 8.5 days for government public service bodies and 5.2 days for private sector services[25].

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

Part two (audited)

HEFCE Chair

Remuneration of the Chair is decided by DfE. The HEFCE Chair receives a salary but does not participate in the Council's pension scheme. The position is for two days per week. The total salary for Tim Melville-Ross CBE, HEFCE Chair for the year ended 31 March 2017, was £47,350 (2015-16: £47,350).

The Chair's term of office has been extended to 31 December 2018, although the actual date of cessation is expected to be influenced by the date of closure of HEFCE which, following the passing of the Higher Education and Research Bill, will be 31 March 2018.

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

HEFCE Chief Executive

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

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

Chief Executive's remuneration for the year ended 31 March 2017
Professor Madeleine Atkins

Salary paid in year £		Taxable benefits £		Employer's pension contributions £		Total £	
2016-17	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**	2015-16
263,865	232,300	**7,670**	8,921	**10,819**	5,822	**282,354**	247,043

Salary paid in year

The 2016-17 figure includes non-consolidated pay of £27,500 which Professor Atkins donated to charity. The £27,500 figure comprises £10,000 in recognition of performance in 2014-15 and £17,500 in recognition of performance in 2015-16. No non-consolidated pay was received in 2015-16.

The 2016-17 figure includes backdated pay in relation to the annual pay award from the previous year.

Taxable benefits

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

Pension contributions

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

Board members' remuneration

	Year ended 31 March 2017 £	Year ended 31 March 2016 £
The Hon Apurv Bagri* (to February 2017)	**4,583**	5,000
Professor Sir Keith Burnett [a]	**5,000**	5,417
Martin Coleman [b]	**417**	–
Gurpreet Dehal [b]	**417**	–
Professor Ruth Farwell (to October 2015)	**–**	2,919
Professor Anne Greenough*	**5,000**	5,000
Peter Houillon (to January 2017)	**4,166**	5,000
Katherine Lander [b]	**417**	–
Professor Carl Lygo [b]	**417**	–
Graeme Osborn	**5,000**	5,000
David Palfreyman [b]	**417**	–
Professor Dame Shirley Pearce CBE (to November 2015)	**–**	3,336
Mark Robson	**5,000**	5,000
Hugh Ross	**5,000**	5,000
Anil Ruia OBE (to December 2016)	**3,753**	5,000
Professor Mary Stuart*,[a]	**5,000**	5,417
Dr Suzy Walton (to November 2015)	**–**	3,336
Sara Weller CBE	**5,000**	5,000
Professor Steven West [b]	**417**	–
	50,004	60,425

[a] Includes an additional payment of £417 in 2015-16 to cover the period 1 March 2015 to 31 March 2016.
[b] Appointed 1 March 2017; payment of £417 due to cover the period 1 March 2016 to 31 March 2017.

HEFCE Board

All Board members are eligible to receive an annual payment of £5,000 pro rata. The payment is non-pensionable. All members are paid the amount directly via payroll, except those members who have elected to have their payments made direct to a charity. These members are indicated by * in the table above.

Senior employees

The remuneration shown in the table below includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the Directors received any taxable benefits during the financial year 2016-17, apart from the Chief Executive as stated above.

There were no exit packages paid to senior HEFCE employees in the financial year 2016-17.

Single total figure of remuneration

Officials	Salary (£000)		Bonus payments (£000)		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1,000)		Total (£000)	
	2016-17	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**	2015-16	**2016-17**	2015-16
Professor Madeleine Atkins CBE [a], Chief Executive	**235-240**	235-240	**25-30**	0	**7,700**	8,900	**11,000**	6,000	**280-285**	255-260
Mario Ferelli, Director – Analytical Services	**90-95**	90-95	**0**	0	**–**	–	**23,000**	23,000	**115-120**	110-115
Susan Lapworth [b], Director – Regulation & Assurance, from 1 February 2016	**90-95**	15-20	**5-10**	0	**–**	–	**17,000**	2,000	**115-120**	15-20
Yvonne Hawkins, Director – Universities & Colleges	**90-95**	90-95	**5-10**	0	**–**	–	**23,000**	23,000	**120-125**	110-115
Christopher Millward, Director – Policy	**90-95**	90-95	**0**	5-10	**–**	–	**23,000**	23,000	**115-120**	120-125
Nolan Smith [c], Director of Finance, from 1 May 2015	**115-120**	115-120	**0**	0	**–**	–	**29,000**	28,000	**145-150**	140-145
David Sweeney, Director – Research, Education & Knowledge Exchange	**125-130**	125-130	**0**	0	**–**	–	**3,000**	–	**130-135**	125-130
Steve Egan CBE [d], Deputy Chief Executive and Director of Finance, left on 30 April 2015	**–**	20-25	**–**	0	**–**	–	**–**	5,000	**–**	25-30
Heather Fry [e], Director – Regulation & Assurance, left on 19 February 2016	**–**	115-120	**–**	0	**–**	–	**–**	19,000	**–**	135-140

Salary

[a] In 2016-17 and 2015-16, salary includes back pay in relation to the annual pay award from the previous year.

[b] In 2015-16 for the period 1 February 2016 to 31 March 2016; full year salary £90,000-£95,000.

[c] In 2015-16 for the period 1 May 2015 to 31 March 2016; full year salary £115,000-£120,000.

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

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

Senior employees' pensions

	Accrued pension at pension age as at 31 March 2017 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016 or start date	Real increase in CETV
	£000	£000	£000	£000	£000
Professor Madeleine Atkins [a], Chief Executive					
Pension	**90-95**	(2.5)-0	**2,391**	2,223	**140**
Lump sum	**275-280**	(5)-(2.5)			
Mario Ferelli [b], Director – Analytical Services					
Pension	**40-45**	0-2.5	**911**	847	**15**
Lump sum	**120-125**	2.5-5			
Susan Lapworth [a], Director – Regulation & Assurance					
Pension	**15-20**	0-2.5	**387**	283	**93**
Lump sum	**50-55**	2.5-5			
Yvonne Hawkins [b], Director – Universities & Colleges					
Pension	**15-20**	0-2.5	**212**	182	**17**
Lump sum	**0**	0			
Christopher Millward [b], Director – Policy					
Pension	**25-30**	0-2.5	**489**	374	**95**
Lump sum	**10-15**	0			
Nolan Smith [b], Director of Finance					
Pension	**25-30**	2.5-5	**392**	351	**20**
Lump sum	**65-70**	0-2.5			
David Sweeney [a], Director – Research, Education & Knowledge Exchange					
Pension	**60-65**	(2.5)-0	**1,730**	1,540	**171**
Lump sum	**190-195**	(2.5)-0			

[a] Members of the Universities Superannuation Scheme.

[b] Members of a Civil Service pension scheme.

Universities Superannuation Scheme

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

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

Civil Service pensions

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

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

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

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

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

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

Cash Equivalent Transfer Values

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

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

Real increase in CETV

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

Staff costs

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

The banded remuneration of the highest-paid Director (the Chief Executive) in HEFCE, in the financial year 2016-17, was £270-275,000 (2015-16: £240-245,000). This was 7.7 times (2015-16: 6.9 times) the median remuneration of the workforce, which was £35,290 (2015-16: £35,114).

The increase in the banded remuneration of the highest-paid Director and median remuneration ratio is due to the Chief Executive receiving non-consolidated performance-related pay and taxable benefits. The Chief Executive was in receipt of non-consolidated pay in recognition of performance in 2014-15 and 2015-16. No non-consolidated pay was received in 2015-16.

In 2016-17 no (2015-16: 0) employees received remuneration in excess of the highest paid Director. Remuneration ranged from £15,000 to £129,992 *(2015-16: £17,822 to £128,704)*.

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

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

Permanent staff costs have increased in 2016-17 which is in line with the increase in staff numbers, as shown in the table below. This occurred due to new responsibilities assumed by HEFCE, in particular related to the Teaching Excellence Framework (TEF).

Staff costs

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Staff with a permanent UK employment contract with HEFCE		
Salaries	**12,642**	11,255
National Insurance contributions	**1,339**	954
Pension costs	**2,483**	2,204
	16,464	14,413
Costs of employing contract, agency and temporary staff	**2,440**	1,069
	18,904	15,482
Pension costs breakdown		
Civil Service pensions	**2,375**	2,114
Partnership pension	**40**	28
Universities Superannuation Scheme	**68**	62
	2,483	2,204

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

For 2016-17, employers' contributions of £2,375,469 were payable to the PCSPS (2015-16: £2,114,457) at one of four rates in the range 20.0 to 24.5 per cent (2015-16: 20.0 to 24.5 per cent) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a Partnership pension account: a stakeholder pension with an employer contribution. Employers' contributions of £39,798 (2015-16: £28,179) were paid to three appointed stakeholder pension providers. Employer contributions are age-related and range from 8.0 to 14.75 per cent (2015-16: 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 0.5 per cent (2015-16: 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.

Eight members of staff hold a pension with USS. For 2016-17, employers' contributions of £68,301 (2015-16: £61,746) were payable at a rate of 18 per cent (2015-16: 16 per cent). Employers may be required to contribute 2.1 per cent (2015-16: 0 per cent) for employees who have elected for enhanced opt-out to retain death in service and incapacity benefits.

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

Staff numbers

	Year ended 31 March 2017 FTE	Year ended 31 March 2016 FTE
Analytical Services Directorate	**54**	42
Corporate Services	**61**	58
Finance and Funding Directorate	**35**	34
Institutions Directorate	**53**	44
Regulation and Assurance Directorate	**39**	30
Research, Education and Knowledge Exchange Directorate	**59**	53
	301	261
Average number of contract, agency and temporary staff	**27**	14
	328	275

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

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

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

During 2016-17 HEFCE incurred no expenditure on consultancy.

As of 31 March 2017, there were four off-payroll engagements for more than £220 per day, that lasted for longer than six months. Of these four, one engagement has existed for more than four years, two have existed between one and two years and one has existed for less than one year. All of these engagements have been subject to a risk-based assessment as to whether assurance needs to be sought that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

There were no voluntary exit packages paid to HEFCE staff during the financial year 2016-17 (2015-16: 5).

Parliamentary Accountability and Audit Report

I can confirm that for the financial year ended 31 March 2017, neither I nor my staff authorised a course of action, the financial impact of which is that transactions infringe the requirements of regularity as set out in Managing Public Money, and that Treasury approval has been obtained for all novel, contentious or repercussive transactions relating to 2016-17.

The following disclosures are audited:

During 2016-17 there have been no losses or special payments.

As at 31 March 2017 there were no contingent liabilities.

Professor Madeleine Atkins

Chief Executive and Accounting Officer
Higher Education Funding Council for England 20 June 2017

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 2017 under the Further and Higher Education Act 1992. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that are described in that report as having been audited.

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

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2017 and of net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and Secretary of State for Education directions issued thereunder.

Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with directions issued by the Secretary of State for Education under the Further and Higher Education Act 1992; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

27 June 2017

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Financial statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Note	**Year ended 31 March 2017 £000**	Year ended 31 March 2016 £000
Income	*6*	**(6,843)**	(8,106)
Staff costs	*4*	**18,904**	15,482
Non-pay administration costs	*5*	**6,190**	10,022
Depreciation	*7*	**226**	213
Institutional recurrent funding	*3*	**3,044,231**	3,061,222
Funding for national facilities and initiatives	*3*	**98,109**	116,879
Capital funding	*3*	**436,486**	588,427
Other Government allocations	*3*	**7,203**	36,359
Changes in provision	*12*	**23,437**	(1,422)
Total operating expenditure		**3,634,786**	3,827,182
Net operating expenditure		**3,627,943**	3,819,076
Net expenditure for the year transferred to general reserve		**3,627,943**	3,819,076

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

The notes on pages 64 to 82 form part of these accounts.

Statement of Financial Position as at 31 March 2017

	Note	As at 31 March 2017 £000	As at 31 March 2016 £000
Non-current assets			
Property, Plant and Equipment	*7*	**418**	585
Recoverable grants falling due after one year	*9a*	**25,510**	32,757
Trade and other receivables due after one year	*9b*	**6,250**	8,750
		32,178	42,092
Current assets			
Recoverable grants falling due within one year	*9a*	**14,166**	11,693
Trade and other receivables due within one year	*9b*	**4,525**	8,341
Cash and cash equivalents	*10*	**45,581**	43,408
		64,272	63,442
Total assets		**96,450**	105,534
Current liabilities			
Trade and other payables	*11*	**(3,687)**	(1,432)
Provisions for liabilities and charges within one year	*12*	**(23,895)**	(25,730)
Total assets less current liabilities		**68,868**	78,372
Non-current liabilities			
Provisions for liabilities and charges after one year	*12*	**(178,699)**	(179,683)
Total assets less liabilities		**(109,831)**	(101,311)
Taxpayers' equity			
General reserve		**(109,831)**	(101,311)
		(109,831)	(101,311)
		0	

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

The financial statements on pages 60 to 63 were approved by the Board and were signed on its behalf on 20 June 2017 by:

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

The notes on pages 64 to 82 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2017

	Note	**Year ended 31 March 2017 £000**	Year ended 31 March 2016 £000
Cash flows from operating activities			
Net expenditure		**(3,627,943)**	(3,819,076)
Adjustment for non-cash transactions	*7,12*	**9,180**	(286)
Decrease in receivables	*9b*	**6,316**	13,132
(Decrease)/increase in payables	*11*	**982**	(147)
Use of provisions	*12*	**(11,777)**	(28,855)
Net cash outflow from operating activities		**(3,623,242)**	(3,835,232)
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	*7*	**(59)**	(530)
Net cash flow from investing activities		**(59)**	(530)
Cash flows from financing activities			
Grants from government department	*2*	**3,619,423**	3,844,031
Decrease in recoverable grants	*9a*	**4,778**	4,700
DfE Payable	*11*	**1,273**	
Net cash flow from financing activities		**3,625,474**	3,848,731
Net increase in cash for the year		**2,173**	12,969
Net financing			
Cash and cash equivalents at the beginning of the period	*10*	**43,408**	30,439
Net increase in cash and cash equivalents in the period	*10*	**2,173**	12,969
Cash and cash equivalents at the end of the period		**45,581**	43,408

The notes on pages 64 to 82 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	Note	General Reserve £000	Revaluation Reserve £000	**Total Reserves £000**
Changes in Taxpayers' Equity 2015-16				
Balance as at 1 April 2015		(126,272)	6	**(126,266)**
Transfer to general reserve		6	(6)	**0**
Grant from sponsoring department	*2*	3,844,031		**3,844,031**
Comprehensive expenditure for the year		(3,819,076)		**(3,819,076)**
Balance as at 31 March 2016		(101,311)	0	**(101,311)**
Changes in Taxpayers' Equity 2016-17				
Balance as at 1 April 2016		(101,311)	**0**	**(101,311)**
Grant from sponsoring department	*2*	3,619,423		**3,619,423**
Comprehensive expenditure for the year		(3,627,943)		**(3,627,943)**
Balance as at 31 March 2017		(109,831)	**0**	**(109,831)**

General Reserve

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

Revaluation Reserve

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

The notes on pages 64 to 82 form part of these accounts.

1 Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Education, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

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

Going concern

The statement of financial position at 31 March 2017 shows net liabilities of £110 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 Education (DfE). 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 2017-18, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in DfE's estimates for that year, which have been approved by Parliament, and there is no reason to believe that DfE's future sponsorship and future parliamentary approval will not be forthcoming.

Subject to parliamentary process and successful passage of the Higher Education and Research Bill, it is anticipated that HEFCE will close on 31 March 2018. The assets and liabilities of HEFCE will transfer to either of two new non-departmental public bodies: the Office for Students and UK Research and Innovation. This means HEFCE’s activities will continue and accordingly these financial statements have been prepared on a 'going concern' basis.

Financial instruments

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

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

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

Grants from the Department for Education

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

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

For those joint activities that meet the definition of jointly owned operations under IFRS 11, HEFCE is required to show only its share of the income and expenditure within these accounts.

Leases

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

Non-current assets

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

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

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

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

Amortisation is not charged on assets under construction until the asset is brought fully into use and transferred to the appropriate asset category. They are then amortised at the same rate as the other assets in that category.

Payment of grants

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

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

The exceptions to this are:

Pre-2012-13 academic year (the date the HE funding regime changed) holdback of institutional basic grant arising from revised student numbers, where a debt arises at the point where there is sufficient certainty on the revised numbers, and future profile payments will be adjusted where there is sufficient certainty over the value of the resulting funding adjustment. Sufficient certainty is where the HEFCE Chief Executive approves the funding adjustment.

1 Accounting policies (continued)

These adjustments could result in a net receivable or payable balance at year end. The period over which a holdback recovery is made is normally up to five years.

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

Pensions

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

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 possible that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In accordance with IAS 37 provisions are discounted to their net present value where material.

Taxation

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

IFRS issued but not yet effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. At 31 March 2017 the following IFRS, none of which will be material to HEFCE's annual accounts, have been issued but are not effective as they are not yet applied in the FReM:

IFRS 9 - Financial Instruments - no mandatory effective date.

IFRS 15 - Revenue from Contracts with Customers.

IFRS 16 - Leases - effective date 1 January 2019.

These standards have been issued but are not yet effective or endorsed by the European Union or incorporated into the FReM. IFRS 9 and IFRS 1 are anticipated to be adopted in the 2018-19 FReM and the adoption date of IFRS 16 is still to be determined. The potential impacts of IFRS 9, IFRS 15 and IFRS 16 are not expected to have a material impact on HEFCE's financial statements.

1a Significant judgements

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

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

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

HEFCE has the powers under the Further and Higher Education Act 1992 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met. 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 based 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 2017 £000	Year ended 31 March 2016 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**3,158,513**	3,200,358
Grant in aid for capital expenditure in HE	**428,130**	581,496
	3,586,643	3,781,854
Other ring-fenced allocations		
Grant for Postgraduate Support Scheme	**0**	36,503
Grant for Degree Apprenticeships	**4,500**	0
Grant for Newton Fund	**4,000**	0
	8,500	36,503
Administration costs		
Grant in aid from DfE for HEFCE administration costs	**24,280**	25,674
Total grant and grant in aid received	**3,619,423**	3,844,031

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

HEFCE is advised of its total funding in the annual grant letter from the Secretary of State. As well as setting out the details of the funding made available to HEFCE the letter outlines the main policy areas and strategic objectives within which HEFCE is expected to operate. In March 2017 DfE provided HEFCE with an additional £19 million of research capital funding, which is included in the figures above. As a consequence the capital grant allocation in 2017-18 announced on 22 March 2017 has been reduced by £19 million. Over the two financial years the changes in funding cancel each other out so there is no impact on the funding provided to higher education institutions. In March 2016, the equivalent additional amount the department provided to HEFCE (also included in the figures above) was £75 million of recurrent teaching funding.

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

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

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Institutional recurrent funding [a]		
Teaching	**1,318,682**	1,356,975
Research	**1,569,013**	1,542,714
Knowledge Exchange	**156,536**	161,533
	3,044,231	3,061,222
Funding for national facilities and initiatives [b]	**98,109**	116,879
Capital funding [c]	**436,486**	588,427
Other government allocations [d]	**7,203**	36,359
Total grant	**3,586,029**	3,802,887

This analysis of grant expenditure is consistent with the presentation in the Guide to funding 2016-17: How HEFCE allocates its funds (HEFCE 2016/07), available to view at www.hefce.ac.uk/pubs/year/2016/201607/.

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

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

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

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

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

4 Staff costs

Staff costs are analysed in the Remuneration and staff report on page 44.

5 Other administration costs

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Non-pay administration costs		
Policy development	**307**	2,094
Staff-related and general administrative expenditure	**2,487**	2,060
Rental payments under other operating leases	**955**	1,569
Premises costs	**972**	2,761
Office costs	**1,286**	1,292
Board and committee members' fees and expenses	**79**	121
Audit fee	**60**	60
Rental payments under plant and machinery operating leases	**44**	65
Total non-pay administration costs	**6,190**	10,022

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

6 Income

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Income receivable from other funding councils:		
Department for the Economy in Northern Ireland	**252**	185
Higher Education Funding Council for Wales	**416**	344
Scottish Funding Council	**664**	498
Other programme income	**4,988**	6,548
Receipts from OFFA and SLC for services provided under the service-level agreement	**355**	273
Income from other activities	**168**	258
Total income	**6,843**	8,106

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

Other programme income is largely income received from Salix, an independent, publicly funded finance company that provides the public sector with loans for energy efficiency projects. The funding provided to HEFCE is accounted for as income (to HEFCE) as there is no legal requirement on HEFCE to repay this funding. HEFCE partnered with Salix to co-fund the fourth phase of their Revolving Green Fund (RGF) initiative and uses the Salix funding, alongside funding received from government, to provide repayable grants to higher education institutions to invest in energy efficiency and carbon reduction. Any funding distributed through the RGF is accounted for as a loan and any repayments may lead to HEFCE repaying funding to Salix.

7 Property, Plant and Equipment

	Leasehold improvements	Furniture fittings and equipment	Information Technology	**Total**
	£000	£000	£000	**£000**
Cost or valuation				
At 1 April 2016	**465**	**116**	**360**	**941**
Additions	**0**	**0**	**59**	**59**
Disposals	**0**	**0**	**(35)**	**(35)**
At 31 March 2017	**465**	**116**	**384**	**965**
Depreciation				
At 1 April 2016	**64**	**58**	**234**	**356**
Charge for period	**69**	**29**	**108**	**206**
Additions	**0**	**0**	**20**	**20**
Disposals	**0**	**0**	**(35)**	**(35)**
At 31 March 2017	**133**	**87**	**327**	**547**
Net book value				
At 31 March 2017	**332**	**29**	**57**	**418**

Cost or valuation				
At 1 April 2015	10	116	413	539
Additions	465	0	65	530
Disposals	(10)	0	(118)	(128)
At 31 March 2016	465	116	360	941
Depreciation				
At 1 April 2015	10	29	232	271
Charge for period	64	29	120	213
Disposals	(10)	0	(118)	(128)
At 31 March 2016	64	58	234	356
Net book value				
At 31 March 2016	401	58	126	585

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

8 Financial Instruments

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

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

9a Recoverable grants

	As at 31 March 2017 £000	As at 31 March 2016 £000
Recoverable grants		
Balances as at 1 April	**44,450**	49,150
Advanced during the year	**10,017**	12,206
Recovered during the year	**(14,791)**	(16,906)
Balances as at 31 March	**39,676**	44,450
Balances at 31 March		
Within one year	**14,166**	11,693
After one year	**25,510**	32,757
	39,676	44,450

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

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 2017, 10 organisations *(2016: 6)* had recoverable grants of £1,000,000 or more outstanding. The total value of these grants was £16,131,098 *(2016: £13,735,126)* .

9b Trade and other receivables

	As at 31 March 2017 £000	As at 31 March 2016 £000
Receivables due within one year		
Programme prepayments	**3,937**	7,447
Programme receivables	**283**	409
Trade prepayments	**220**	233
Trade and other receivables	**85**	252
	4,525	8,341
Receivables due after one year		
Programme prepayments	**6,250**	8,750
	10,775	17,091
Intra-government balances		
Other central government bodies	**261**	296
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**261**	296
Balances with non-government bodies	**10,514**	16,795
Total as per receivables' notes	**10,775**	17,091

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

10 Cash and cash equivalents

	2016-17	2015-16
	£000	£000
Cash held under Government Banking Service		
Balance at 1 April	**43,407**	30,438
Net change in cash and cash equivalent balances	**2,174**	12,969
Balance at 31 March	**45,581**	43,407
Cash held under commercial banks and cash in hand		
Balance at 1 April	**1**	1
Net change in cash and cash equivalent balances	**(1)**	0
Balance at 31 March	**0**	1
Total cash and cash equivalents	**45,581**	43,408

The framework document between HEFCE and DfE advises a minimum working balance consistent with the efficient operation of HEFCE. HEFCE's balances relate to timing differences in the payment of expenditure committed in 2016-17 academic year.

Since 2009 HEFCE has banked with the Government Banking Services (GBS). This is a government-wide banking service provided jointly by Citibank and Royal Bank of Scotland until January 2016 and from then onwards by Royal Bank of Scotland, and overseen centrally by the GBS team, ultimately controlled by HM Treasury. HEFCE does not earn any interest on any balances held in GBS accounts.

11 Trade and other payables

	As at 31 March 2017 £000	As at 31 March 2016 £000
Amounts falling due within one year		
Trade payables	**150**	391
Administration accruals	**1,650**	803
Tax and social security	**40**	39
Programme payables	**574**	199
DfE Payable	**1,273**	0
	3,687	1,432
Intra-government balances		
Other central government bodies	**1,718**	80
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**0**	0
	1,718	80
Balances with non-government bodies	**1,969**	1,352
Total as per payables' notes	**3,687**	1,432

Trade payables refers to non-pay administration expenditure.

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

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

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

12 Provisions for liabilities and charges

	Inherited staff liabilities £000	Admin Provisions £000
Provisions		
Balance of provision at 1 April 2015	234,401	370
Provision utilised in year	(27,562)	(370)
Decrease in provision	(3,546)	0
Unwinding of discount	3,047	0
Decrease in provision due to increase of the discount rate	(923)	0
Balance of provision at 31 March 2016	205,417	0
Provision utilised in year	**(26,260)**	**0**
Increase in provision	**6,140**	**0**
Unwinding of discount	**2,814**	**0**
Increase in provision due to decrease of the discount rate	**14,483**	**0**
Balance of provision at 31 March 2017	**202,594**	**0**

Analysis of expected timing of discounted flows

Within one year	**23,895**	0
Between 2019 and 2023	**92,654**	0
Between 2024 and 2033	**74,684**	0
Thereafter	**11,361**	0
	202,594	0

HEFCE has one provision as at 31 March 2017 *(2016: one)* , which relates to inherited staff liabilities.

Provision utilised in year is the actual expenditure incurred.

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

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

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

The discount rate for the inherited staff liabilities provision decreased from 1.37 per cent in 2015-16 to 0.24 per cent in 2016-17, as per the HM Treasury guidance. This has resulted in significant year on year changes in the revaluation of provision.

12 Provisions for liabilities and charges (continued)

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

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

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

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

Current assumptions mean we expect payments to continue until at least 2042.

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

- net real discount rate of 0.24 per cent per annum *(2015-16: 1.37 per cent)*
- mortality based on SAPS (CMI 2013) tables
- 77 per cent members are age 80 or over
- membership is 48 per cent male and 52 per cent female
- benefits include a 50 per cent contingent spouse's pension.

13 Commitments under leases

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	**943**	933
Later than one year and not later than five years	**2,630**	2,916
Later than five years	**548**	1,206
	4,121	5,055
Other		
Not later than one year	**37**	37
Later than one year and not later than five years	**52**	88
	89	125

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

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

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

14 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2017 £000	As at 31 March 2016 £000
Commitments		
Grant committed for the period April to July	**1,112,104**	1,140,000
Grant committed for the next academic year	**3,521,000**	3,694,000

HEFCE has no commitments under non-cancellable contracts.

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

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each Spring. The publication detailing the 2017-18 academic year (HEFCE Circular Letter 06/2017) is available on HEFCE's website at www.hefce.ac.uk/pubs/year/2017/CL,072017/.

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

As at 31 March 2017 there were no contingent liabilities *(2016: nil)* .

15 Related party transactions

HEFCE is a non-departmental public body which during the year was sponsored by BIS up to July 2016 and DfE thereafter. BIS and DfE and other BIS and DfE sponsored bodies (such as the Skills Funding Agency, Student Loans Company and OFFA) are regarded as related parties with which HEFCE has had various material transactions during the year.

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

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

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

	Year ended 31 March 2017 £000
Financial transactions with institutions and other organisations	
University of Brighton: John Harley*, Chair of Governors.	**20,554**
Birkbeck College, University of London: Dr Ruth Thompson* ^, Deputy Chair.	**17,442**
University of Cambridge: Sara Weller CBE, Council member and Chair of the Remuneration Committee.	**181,481**
City University: The Hon Apurv Bagri, Honorary Rector and visiting professor at the Cass Business School.	**20,631**
Kings College London: Professor Anne Greenough, Professor of Neonatology and Clinical Respiratory Physiology.	**128,666**
University of Lancaster: Graeme Osborn, External Trustee of the Students' Union.	**32,011**
University of Lincoln: Professor Mary Stuart, Vice-Chancellor.	**13,023**
University of Manchester: Anil Ruia, Chair of Board of Governors.	**135,415**
University of Oxford: Sara Weller CBE, member of Remuneration Committee at New College. Dr Ruth Thompson* ^, member of the Remuneration Committee at Somerville College. Mark Robson, Honorary Research Fellow at Lady Margaret Hall and David Palfreyman, Bursar, Fellow & Trustee and Member of the Congregation.	**185,603**
University of Sheffield: Professor Sir Keith Burnett, Vice-Chancellor.	**81,691**
Staffordshire University: Dr Ruth Thompson* ^, Governor.	**13,139**
Graduate Students' Association, University of York: Graeme Osborn, employee.	**41,245**
University of the West of England: Professor Steve West, Vice Chancellor.	**18,364**
University of Kent: Martin Coleman, Member of Council.	**29,008**
Royal Holloway, University of London: Gurpreet Dehal, Member of Council.	**20,353**
Leadership Foundation: Professor Steve West, Director.	**1,026**
Universities UK: Professor Steve West, Board member.	**822**
UK SBS: Nolan Smith, Non-executive Director	**48**
London Business School: Apurv Bagri, Chairman of Board of Governors	**6,442**
University of Winchester: Professor Neil Marriott*, Deputy Vice Chancellor	**3,202**

15 Related party transactions (continued)

* HEFCE Audit Committee member only
^ Sadly deceased July 2016

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

16 Events after the Reporting Period

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

Appendix 1 Analysis of grant: unaudited

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Funding for national facilities and initiatives		
Strategic Development Fund and Catalyst Fund	**29,697**	39,862
Jisc	**20,333**	24,233
Collaborative Outreach	**14,957**	11,804
Museums, galleries and collections	**10,650**	10,582
Quality assurance	**3,671**	5,271
Provision of information	**3,672**	2,509
Higher Education Academy	**3,238**	6,362
HESA	**1,315**	1,006
Learning Gain	**1,299**	1,273
Strategically Important and Vulnerable Subjects (SIVS)	**1,143**	2,118
HE Research Centre	**1,075**	546
Engineering Conversion	**874**	858
Leadership & Governance	**878**	1,006
International initiatives	**702**	945
National Centre for Universities and Business	**698**	0
Higher Education Access Tracker	**692**	1,030
Teaching Excellence Framework (TEF)	**918**	0
Policy Ongoing Services	**633**	1,440
National Teaching Fellowship Scheme	**575**	580
National Coordinating Centre for Public Engagement	**372**	0
HE Data and Information Improvement Programme	**357**	213
Student Engagement	**156**	0
Higher Education Regional Associations	**111**	83
Research Excellence Framework (REF)	**78**	35
Promoting efficiencies	**15**	356
Postgraduate Support Scheme 2014-15	**0**	3,715
Equal Opportunities	**0**	937
Changing the Learning Landscape	**0**	30
Research Information Network	**0**	19
Aimhigher	**0**	3
Small research programmes	**0**	114
Supporting professionalism in admissions	**0**	(51)
	98,109	116,879
Capital funding		
Research Capital Investment Fund (RCIF)	**190,267**	200,571
Teaching Capital Investment Fund (TCIF)	**118,759**	93,269
UK Research Partnership Investment Fund (UKRPIF)	**81,078**	52,500
Jisc	**20,000**	19,000
STEM capital	**11,999**	187,835
Strategic Development Fund and Catalyst Fund	**11,983**	4,541
High Performance Computing capital	**3,000**	3,000
Capital for further education colleges	**0**	(3)
Transitional research	**0**	27,714
Revolving Green Fund	**(600)**	0
	436,486	588,427
Other Government allocations		
Degree Apprenticeships	**4,549**	0
Newton Fund	**4,000**	0
Voluntary giving	**10**	43
Student Support Fund	**2**	21
Postgraduate Support Scheme 2015-16	**(85)**	36,503
National Scholarship Programme	**(1,273)**	(208)
	7,203	36,359

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

Funding for national facilities and initiatives

HEFCE allocates a small proportion of total funding to promote specific initiatives, such as support for national facilities. In 2016-17 HEFCE allocated a total of £103 million for these initiatives *(2015-16: £117 million)* .

Capital

In 2016-17 HEFCE allocated a total of £436 million for capital grants *(2015-16: £588 million).* Much of the capital is allocated by formula, the two main elements being the Teaching Capital Investment Fund and the Research Capital Investment Fund; funding which goes towards supporting the capital infrastructure of the HE sector.

Another significant element of capital is the UK Research Partnership Investment Fund (UKRPIF), a Government initiative launched in 2012 to support investment in major new university research facilities. The funding is dedicated to supporting large-scale capital projects from HEI's 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 UKRPIF to 2016-17, making available at least £100 million each year of match-funding to leverage private investment. Funding is allocated on the basis that HEIs have secured at least double funding from co-investment sources. That is, for every pound from the UKRPIF, there should be an additional £2 invested.

Other Government allocations

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

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

Appendix 2: Sustainability report for 2016-17

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

HEFCE operates two externally certified management system standards: ISO 14001:2004 (Environmental) and OHSAS 18001 (Occupational Health and Safety).

Our environmental performance

In addition to the proposed minimum reporting requirements of emissions, waste and finite resource consumption (Scope 1 and 2), we report on Scope 3 emissions arising from all business travel that is under our budgetary control. Our analysis of data follows the Department for Environment, Food and Rural Affairs' (Defra's) environmental reporting guidance[27].

Year-on-year comparability of data

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

Our electricity figures for 2016-17 include some estimation because there has been a change in supplier and the meters used.

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

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

Accounting policies for non-financial data

Our policy is to restate data for earlier years where there have been significant changes in accounting assumptions in primary data or conversion factors. The 2016-17 data reported is provisional: we are awaiting end-of-year data which we will reconcile against our own records and meter readings, and this will inform the analysis of 2017-18 data in our next sustainability report.

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

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

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

'Materiality' is the principle that trivial matters are to be disregarded, and important matters are disclosed. In our sustainability reporting there is no agreed level of data materiality, and therefore all data assumptions are declared. In 2016-17 we applied assumptions to primary data for energy, waste and business travel. The accounting error margins arising from these assumptions arise from cost proxy estimates on 20 per cent of our business travel emissions, and sample estimates on our landfill and recycled waste disposal.

Water and energy consumption

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

Table A1 **HEFCE finite resource consumption**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Cubic meters								
Water*		6.94	6.926.71	5.16	7.72	8.86	9.80	6.52
Megawatt-hours								
Electricity	513	553	500	513	590	562	457	375
Gas	328	354	194	344	402	302	453	252
Other**	43	43	43	43	0	0	0	0
Total energy	**884**	**950**	**737**	**900**	**992**	**864**	**910**	**627**

* Consumption per HEFCE and OFFA staff FTE.

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

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

Greenhouse gas emissions

Reflecting the Government's Greening Government Commitments for the period 2016 to 2020[28] we measure our progress in reducing greenhouse gas emissions against a 2009-10 financial year baseline. Our Scope 1 and 2 emissions relating to energy use on our estate have reduced by 34 per cent since the 2009-10 financial year, whereas emissions through business transport have reduced by 30 per cent in the same period.

28 https://www.gov.uk/government/publications/greening-government-commitments-2016-to-2020/greening-government-commitments-2016-to-2020.

Table A2 **HEFCE greenhouse gas emissions**

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

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

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

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

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

* Data not available before 2012-13

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

Waste

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

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

Table A4 **HEFCE waste**

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

* Assumes the provider recycles none.

Gross expenditure attributable to energy consumption

Table A5 **Expenditure arising from consumption**

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

* Data not available before 2012-13

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