

September 2008/31

Core funding/operations

Request for information

Returns should be made in
December 2008

This document asks higher education
institutions to send us their annual
accountability returns for 2007-08.

‘Single conversation’ annual accountability returns 2008

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‘Single conversation’ annual accountability returns 2008

To	Heads of HEFCE-funded higher education institutions Heads of universities in Northern Ireland
Of interest to those responsible for	Audit, Estates, Finance, Governance, Management, Planning, Student data
Reference	2008/31
Publication date	September 2008
Enquiries to	HEFCE higher education policy advisers (on annual monitoring and corporate planning statements) HEFCE assurance consultants or assurance advisers (for financial and audit accountability returns)

Executive summary

Purpose

1. This document asks higher education institutions to send us their annual accountability returns for 2008. This annual process has been commonly known as the ‘single conversation’. The accountability returns form a significant part of the way in which institutions can demonstrate accountability for the public funds distributed to them.

Key points

2. In May 2007 we published ‘Accountability for higher education institutions: new arrangements from 2008’ (HEFCE 2007/11), which confirmed that the ‘single conversation’ process would apply in full from 2008. This is part of our continuing commitment to reduce the burden of regulation on the higher education sector. We set out the process for 2008 in Circular Letter 15/2008.

3. The documents to be sent to us, and their submission dates, are as follows:

Annual assurance return Annual monitoring statement (AMS) Corporate planning statement (CPS) Audited financial statements Financial results and forecast tables Financial commentary on past performance and future prospects Audit committee annual report External audit management letter Internal audit annual report	1 December 2008
Higher Education Students Early Statistics (HESES) return	9 December 2008
Research Activity Survey (RAS)	11 December 2008
Transparent Approach to Costing (TRAC) return	30 January 2009

4. This publication gives guidance on the returns that are to be submitted to us by 1 December 2008. Detailed guidance on the requirements of the HESES, RAS and TRAC returns will be provided separately.

5. Those institutions that met the criteria for funding under the new Capital Investment Framework for 2008-2011 are required to provide information within the AMS return. The detail of these requirements is included within this publication.

6. We will primarily use the information collected to:

- a. Monitor the use of our funds for the purposes intended, including compliance with the Financial Memorandum.
- b. Form a basis for discussion with institutions about their progress in key areas, their priorities for strategic development and their current and future performance.
- c. Largely determine our risk assessments of each institution.
- d. Identify trends across the sector and advise the Secretary of State for Innovation, Universities and Skills on the needs and development of the higher education sector.

Action required

7. The single conversation returns should be submitted as follows:

- one paper copy of the completed annual assurance return (Annex E) signed by the head of the institution should be sent to: Single conversation returns, HEFCE, Northavon House, Coldharbour Lane, Bristol BS16 1QD
- electronic copies of the following should be sent via the HEFCE extranet:
 - completed AMS template
 - CPS
 - audited financial statements

- completed financial results and forecast tables
- financial commentary on past performance and future prospects
- audit committee annual report
- external audit management letter
- internal audit annual report.

Templates for the AMS and financial tables will be available for completion at the end of September 2008. We will write to heads of finance and our AMS contact in each institution at the end of September with details on how to access the templates and how to return information to us.

Introduction

8. Higher education institutions (HEIs) are required to send us their annual accountability returns, a process commonly known as the 'single conversation'. These returns form a significant part of the way in which institutions can demonstrate accountability for the public funds distributed to them. This document requests the returns for 2008.

9. In May 2007 we published 'Accountability for higher education institutions: New arrangements from 2008' (HEFCE 2007/11), which confirmed that the 'single conversation' process would apply in full from 2008. This is part of our continuing commitment to reduce the burden of regulation on the higher education sector. We set out the process for 2008 in HEFCE Circular Letter 15/2008.

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Guidance

Annual assurance return

13. The purpose of this return is to confirm that the institution has met its obligations to HEFCE under the Financial Memorandum (HEFCE 2008/19). This return should cover the period to the financial year-end (31 July 2008) but should also report on any issues that have occurred since then. It should be signed by the head of the institution as the designated officer.

14. In signing this return the designated officer is confirming that the institution has returned all the relevant accountability returns and that these are accurate, adhere to the published guidance and have been through the appropriate approval process. A copy of the return to be completed can be found at Annex E.

Annual monitoring statement

15. The annual monitoring statement (AMS) monitors the use of special initiative funding outside of the main teaching and research funding allocation. As part of our commitment to reduce the burden on institutions, we generally only ask for reporting on areas where institutions have not met their planned targets. We also use this process to track institutions' work to promote equality and diversity.

16. Each institution should provide assurance on the use of special initiative funding for 2007-08 and report any underspend. Those institutions that met the criteria for funding under the new Capital Investment Framework for 2008-2011 are required to provide information within the AMS return. We also request information on equality and diversity to fulfil our statutory duty under the Race Relations (Amendment) Act 2000, the Disability Discrimination Act 2005 and the Equality Act 2006.

17. We are requesting information on activities running from August 2007 to July 2008. While the questions will be asking institutions to report against the position at 31 July 2008, we would expect institutions to provide details on any significant changes since then, which should be described in the appropriate 'further details' text box. This is to make sure that we are working with the most up-to-date information when reviewing the returns in December.

18. Templates for the AMS will be available for completion electronically through the HEFCE extranet at the end of September 2008. Details of how to access these templates and return information to us will be included in a letter to the named AMS contact in September. Annex A includes further guidance on completing the AMS template including background on the initiatives covered and our approach to underspend.

19. Although this is an annual process, the general condition of HEFCE funding still applies: we do not fund ahead of need. If expenditure on any project has slipped substantially, please contact us to discuss whether it is appropriate to suspend payments temporarily. This can happen at any point in the year, there is no need to wait until the annual submission date.

Corporate planning statement

20. One of the purposes of the 'single conversation' process is to review an institution's performance and risk position as a whole. The corporate planning statement (CPS) is the opportunity for institutions to provide us with a strategic update that provides the context in which to understand the other returns more fully and to help understand the progress towards delivery of the strategic plan and aims for the year ahead.

21. In this statement we request an update on an institution's activities across the full range of its strategic priorities as identified in its corporate plan, including progress against key performance targets. Information need not be limited to activities funded by HEFCE, but can include any area of strategic importance to the institution. Areas that institutions may wish to cover in the CPS include:

- governance and management
- new academic developments
- research
- estates and sustainable development
- regional activities.

22. There is no prescribed format for the CPS, although we would expect most returns to be an 'executive summary'-style review of the year. Indeed, it may be a document already produced for the institution's own planning purposes, and may be relatively brief.

23. We would encourage institutions to think about key opportunities and barriers to success in the year ahead. In doing so we would expect HEFCE Strategic Development Fund proposals to be flagged, as well as large-scale capital projects.

Audited financial statements

24. Institutions are required to follow the latest version of the 'Statement of Recommended Practice: Accounting for Further and Higher Education'¹ in preparing their financial statements this year. Institutions should also comply with our annual accounts direction (HEFCE Circular Letter 22/2007).

Financial results and forecast tables

25. In previous years we have requested separate returns (and commentaries) for actual financial results and financial forecasts. The single conversation timetable has allowed us to combine these requests into one set of financial tables and associated commentary.

26. Therefore, the financial tables should include the actual figures from the two most recent sets of audited financial statements, together with forecasts for the following four years. These should represent the institution's strategic plan in financial terms. The forecasts should be based on realistic assumptions and be consistent with the accounting

¹ The latest version of the SORP (2007) is available from the Universities UK website at: <http://bookshop.universitiesuk.ac.uk/> under Management Guides & Codes of Practice.

treatment in the financial statements. Annex C includes further guidance on completing the tables.

Financial commentary on past performance and future prospects

27. The commentary is an integral part of the overall financial return, explaining forecast financial performance in the context of recent financial results. Although there is no template to complete, it is expected that institutions address the questions in paragraph 28. The commentary may be a document already produced by an institution for its own planning purposes. The governing body should discuss and approve the financial tables and commentary before they are submitted to us.

28. In the commentary we ask institutions to answer the following questions:

Financial sustainability: Taking into account the financial returns, student number data and the institution's current TRAC data	
1	How is the institution ensuring its long-term financial sustainability?
2	How has the institution decided appropriate levels for annual surpluses? Do the forecasts indicate that these levels will be achieved? If not, what are the consequences?
3	How has the institution decided appropriate levels for liquidity, borrowings and reserves? Do the forecasts indicate that these levels will be achieved? If not, what are the consequences?
4	How has the institution decided on the level of investment required to maintain its physical infrastructure in a fit state for the long-term? How will it ensure this can be financed and is affordable?
5	What does the institution consider to be the key risks to its financial health and sustainability over the forecast period (in addition to any comments made for questions 6-8)?

Changing economic conditions:	
6	To what extent have changing market conditions affected the institution's capital investment plans and financial strategy? How is the institution responding? Examples of changing economic conditions are changes in the availability and cost of loan finance, falling asset values, and uncertainty about the timing or possibility of asset sales.
7	How have changing economic conditions affected the assumptions in your financial forecasts about income and expenditure? What new actions are you taking to secure your financial position?
8	Bearing in mind the above, how is the institution keeping its risk position under review?

Financial tables: Within the commentary we also ask institutions to provide the following additional information in relation to the financial tables submitted	
9	Explain significant movements (± 10 per cent in any one year) on the income and expenditure account and material changes on the balance sheet. The commentary should also provide detail on any material exceptional items.
10	Explain significant movements in the forecast of student numbers.

Audit committee annual report

29. As stated in the Accountability and Audit Code of Practice (Annex B to HEFCE 2008/19) the audit committee must produce an annual report for the governing body and the designated officer. The audit committee annual report should cover the financial year 2007-08 and include any significant issues up to the date of preparation of the report. The audit committee annual report should normally be submitted to the governing body before the annual financial statements are signed.

30. The audit committee annual report must include the committee's opinion on the adequacy and effectiveness of the HEI's arrangements for the following:

- risk management, control and governance
- economy, efficiency and effectiveness (value for money)
- management and quality assurance of data submitted to the Higher Education Statistics Agency and to HEFCE and other funding bodies. Further guidance for audit committees on data assurance can be found on the HEFCE web-site, www.hefce.ac.uk, under Finance & assurance/Assurance service/Guidance/Audit arrangements.

These opinions should be based on the information presented to the committee. The report should also record the work of the committee and consider the following:

- the external auditors' management letter
- the internal auditors' annual report
- any value for money work
- any HEFCE assurance service or other relevant evaluation.

31. The report might also identify any key issues for the HEI arising out of its activity over the year.

External audit management letter

32. External audit should report to each institution by way of a management letter (or audit issues memorandum) that highlights any significant accounting and control issues arising from their audit. The HEI's management should provide written responses to any recommendations made or issues raised.

Internal audit annual report

33. The internal audit annual report should relate to the financial year 2007-08 and include any significant issues, up to the date of preparing the report, that affect the opinion. This should be addressed to the governing body and the designated officer, and should be considered by the audit committee.

34. The internal audit annual report should include the internal auditor's opinion on the adequacy and effectiveness of the HEI's arrangements for:

- risk management, control and governance
- economy, efficiency and effectiveness.

35. This opinion should be placed into its proper context: that is, the work undertaken has been based on the agreed audit strategy and on the areas reviewed in the year, as well as incorporating knowledge of areas audited in previous years (including from a previous auditor). Internal audit performance measures should be provided, including coverage achieved against the original audit plan. The annual report should also draw attention to any significant audit recommendations which the internal audit service considers have not received adequate management attention.

Higher Education Students Early Statistics

36. All HEIs must complete the annual survey of students on recognised higher education courses. Detailed guidance on this return will be available as a separate publication on the HEFCE web-site, www.hefce.ac.uk under Publications.

37. The HESES return should be uploaded to the HEFCE extranet by noon on **Tuesday 9 December 2008**. Workbooks will be available for institutions in November.

Research Activity Survey

38. This return asks institutions to update information on their research activity. Detailed guidance on this return will be available as a separate publication (HEFCE 2008/29).

39. The RAS return should be uploaded to the HEFCE extranet by noon on **Thursday 11 December 2008**. Workbooks will be available for institutions in November.

Transparent Approach to Costing return

40. Institutions are asked to submit an annual TRAC return by **Friday 30 January 2009**. In future years we would like to bring the submission date forward to fall within the single conversation time frame (December), but we recognise that some institutions are still working to improve their TRAC processes. Earlier returns this year would be appreciated. Further guidance on this year's return will be made available in November.

Returns

41. The single conversation returns should be submitted as follows.

Hard copy

One paper copy of the completed annual assurance return (Annex E) signed by the head of the institution. This return should be posted to: Single Conversation returns, HEFCE,

Northavon House, Coldharbour Lane, Bristol BS16 1QD, to arrive by **Monday 1 December 2008**.

Electronic copies

Electronic copies of the following should be submitted via the HEFCE extranet by **Monday 1 December 2008**:

- completed annual monitoring statement template
- corporate planning statement
- audited financial statements
- completed financial results and forecast tables
- financial commentary on past performance and future prospects
- audit committee annual report
- external audit management letter
- internal audit annual report.

Further information on this process will be sent to heads of finance and our AMS contacts in September 2008.

42. The specific reporting requirements for the HESES, RAS and TRAC returns will be published separately.

Late returns

43. The majority of the single conversation returns must be submitted by 1 December 2008. We recognise that adjusting to this timescale may present difficulties for some institutions in 2008, so for this year only we will accept submission later in December. Institutions are asked to inform the relevant HEFCE assurance consultant or adviser of any late submissions before 1 December. The deadlines for submitting the HESES and RAS returns cannot be extended.

Feedback

44. The main purpose of the single conversation is to simplify the accountability process. For HEIs about which we have no major concerns or queries – the great majority of them – the main outcome will be a letter updating our risk assessment of the HEI and data that benchmark financial performance against the whole sector. In addition, we will publish a HEFCE Board Paper in April 2009 summarising the sector's overall financial performance.

Freedom of information

45. Any information submitted to HEFCE may be disclosed on request, under the terms of the Freedom of Information Act 2000. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. We have a responsibility to decide whether any responses should be made public or treated as confidential. We may refuse to disclose information in exceptional circumstances, for example where disclosure of information would prejudice commercial interests such as future financial projections. For

further information about the Act, including the particular circumstances when information may be withheld, see www.ico.gov.uk under Freedom of Information Act.

Queries

46. Institutions should address questions about completing the AMS, CPS, HESES and RAS returns to their HEFCE higher education policy adviser. Questions about the other accountability returns should be addressed to their HEFCE assurance consultant or adviser. HEFCE contacts for each institution are on our web-site under About us/Contact us.

Annex A Guidance on completing the annual monitoring statement return

1. We are requesting information on activities running from August 2007 to July 2008 in the annual monitoring statement (AMS) return. While the questions will be asking institutions to report against the position at 31 July 2008, we would expect institutions to provide details on any significant changes since then, which should be described in the appropriate 'further details' text box. This is to make sure that we are working with the most up-to-date information when reviewing the returns in December.

2. The following areas of activity will require reporting upon if the institution has received funding under any of these initiatives, or has other requirements to fulfil in relation to the initiatives:

Learning and teaching

- Centres for Excellence in Teaching and Learning
- Teaching Quality Enhancement Fund

Research

- Overseas Research Students Awards Scheme
- Research Capability Fund

Economy and society

- Higher Education Innovation Fund round three

Capital

- additional research capital funding
- Capital Investment Framework

Other areas

- Equality and diversity monitoring
- Diploma supplement
- higher education in further education colleges.

3. In the return, higher education institutions (HEIs) should tell us about any underspend greater than 10 per cent of the institution's total funds for that initiative for the year. If reporting an underspend, institutions should give details of how they expect to get the spending profile back on track. If a project has reached its completion, any funds remaining unspent at the project completion date should be reported upon. More details on our approach to underspend can be found in paragraphs 48 to 51 of this Annex.

4. A sample of the AMS template can be found in Annex B. We will write to our AMS contacts by the end of September with details of how to access and return the AMS template.

5. From time to time, and in particular towards the end of a special funding initiative, we may need to conduct a qualitative evaluation of a programme in order to understand

the impact that our funding has had across the sector, and to inform future policy and funding decisions. We believe this kind of evaluation is best handled outside the AMS process. We will contact institutions separately about any evaluations, and will always aim to strike a balance between gathering the information we need and minimising any additional burden on institutions.

Centres for Excellence in Teaching and Learning

6. Funding for Centres for Excellence in Teaching and Learning (CETLs) was announced in the Government's 2003 White Paper 'The future of higher education'. The purpose of the funding is to recognise and reward excellence in teaching and developing learning, to promote innovation and to invest further in excellent practice, to expand and deepen its impact within institutions and across the sector. Following a two-stage bidding process (HEFCE 2004/05), we announced funding for 74 CETLs (HEFCE 2005/17).

7. We allocated £175 million as recurrent funding to CETLs over five years, and £140 million in capital funding time-limited for two years – between April 2005 and March 2007, although in some cases this was extended until March 2008. There are three levels of recurrent funding: £2.5 million paid to CETLs in annual allocations of £500,000; £1.75 million paid in annual allocations of £350,000; and £1 million paid in annual allocations of £200,000. All allocations are paid on a quarterly basis. Capital funding allocations are also at three levels: £2 million, £1.4 million and £800,000. We profiled capital funds over two financial years, starting from April 2005.

8. We announced additional capital funds of £21 million for CETLs in September 2005, from the residual capital from the first round of funding. CETLs were invited to bid for extra funds, allocated according to the level of their existing capital funding (minimum £140,000, maximum £350,000), and to expand their business plans showing how they would use the extra money to strengthen the impact of their CETL investment. We informed the 74 CETLs in February 2006 of their additional allocations and agreed their capital spending profiles.

9. For this AMS, institutions are asked to provide assurance for their spending of the second tranche of recurrent funding for CETLs, from August 2007 to July 2008, and for capital spending from August 2006 to July 2007. All capital funding should now have been spent. Institutions with more than one CETL should refer to each CETL separately in their AMS when providing additional details. Lead institutions for a collaborative CETL are responsible for reporting on it in their AMS return, so should co-ordinate the information and data from their collaborative partners.

Teaching Quality Enhancement Fund – institutional strand

10. Through the institutional strand of the Teaching Quality Enhancement Fund (TQEF) we have provided formula-based special funding to support the development and implementation of institutions' learning and teaching strategies. HEFCE 2006/11 announced the latest allocation of funds – a total of £158.5 million for the three-year period 2006-07 to 2008-09 – to embed and sustain strategies and supporting activities that HEIs have been developing over the past six years.

11. We invited institutions to submit action plans showing how they would use the funding over the three years, detailing budgets and targets. Institutions are now asked to provide assurance of their progress in undertaking HEFCE-funded activities and achieving related targets in 2007-08.

Overseas Research Students Awards Scheme

12. In Circular Letter 21/2005 we set out the terms of funding and objectives for ORSAS as follows:

- the objective of the Overseas Research Students Awards Scheme (ORSAS) is to encourage high-quality overseas postgraduate research students to undertake their research in the UK
- the funding should be used to provide awards to full-time postgraduate students who are classified as 'overseas' for tuition fee purposes
- awards must be made for the difference between the home tuition fee for postgraduate research students and the institution's overseas tuition fee for the relevant subject
- awards can be held for a maximum of three years
- ORSAS awards may only be made up to the value of each institution's ORSAS allocation. Additional awards funded from other sources should not be associated with the ORSAS name.

13. In 2006-07, formula-based payment arrangements for ORSAS were announced in a letter to institutions dated 21 February 2006. Allocations to institutions were fixed for the three-year period 2006-07 to 2008-09 and uplifted for inflation where possible.

Research Capability Fund

14. The Research Capability Fund was set up to support research in emerging subject areas where the research base is not as strong as in more established subjects (see HEFCE Circular Letter 10/2003).

15. Working within the subject categories for the 2001 Research Assessment Exercise (RAE), we identified seven subject units of assessment (UOAs) eligible for this funding, on the basis that they had low proportions of staff in departments rated 4, 5 or 5*, and in 2002-03 had relatively high proportions of quality-related (QR) research grant attributable to departments rated 3a or 3b. The seven are:

- Nursing (UOA 10)
- Other studies and professions allied to medicine (UOA 11)
- Social work (UOA 41)
- Art and Design (UOA 64)
- Communication, Cultural and Media Studies (UOA 65)
- Drama, Dance and Performing Arts (UOA 66)
- Sports-related Studies (UOA 69).

16. Institutions were notified of provisional allocations from the fund for each UOA in which they had an RAE rating of 3b or 3a. Funds were conditional on the submission of an acceptable strategy showing how the money would be used over the three-year period 2003-04 to 2005-06, for each of the UOAs for which funding was allocated. In Circular Letter 10/2003 we gave guidance on submitting strategies. In deciding whether strategies were acceptable we took advice from two expert panels: one for arts-related subjects and one for health, social work and sports studies. We also stated that to minimise the burden on institutions we would monitor progress through the AMS.

17. Institutions were asked to demonstrate in their strategies how they planned to invest the allocated funding over the three years to improve the quality of the research base in the UOAs for which they received capability funding.

18. Institutions were also asked to provide progress indicators and milestones in their strategies, against which progress could be measured through the AMS. Following the meeting of the two expert panels, we wrote to all institutions. In some areas we noted that the proposed milestones were over-ambitious and suggested that institutions should make them more realistic. We also asked some institutions for further information on their strategies and in some cases to resubmit the strategy.

19. Following a review of the Research Capability Fund, in 2005 the HEFCE Board decided to continue funding until 2008-09. Institutions were asked to provide revised strategies to cover 2006-07 to 2008-09. Further details about the fund can be found on the HEFCE web-site, www.hefce.ac.uk, under Research/funding/research capability fund.

20. In the AMS we are seeking assurance of progress for the period 2007-08. Where a resubmission or further information regarding a strategy was requested, the AMS should refer to this.

21. Information requested in the AMS should be provided for each UOA to which capability funding has been allocated, including where an institution has made multiple submissions to the same UOA.

Higher Education Innovation Fund round three

22. An important strategic aim for HEFCE is to ensure that higher education is responsive to the needs of the economy and society. There has been increasing Government action in this area, with a range of initiatives to enhance the interaction of higher education with business and the community, including in the 2007 Sainsbury Review of the Government's science and innovation policies² and the 2008 White Paper 'Innovation Nation'³. The Council's Higher Education Innovation Fund is a major and permanent stream of funding to support higher education's engagement with the economy and society.

² Lord Sainsbury's review of science and innovation policy, 'The race to the top: a review of Government's science and innovation policies', is available at www.hm-treasury.gov.uk under Independent Reviews.

³ The 2008 White Paper 'Innovation Nation' can be read at www.dius.gov.uk under Policy/Innovation.

23. The third round of the Higher Education Innovation Fund (HEIF 3) provides funding to HEIs to support a broad range of knowledge transfer and enterprise activities resulting in economic and social benefit to the UK. A total of £234 million has been made available through HEIF 3 over the two years 2006-07 and 2007-08.

24. Approximately 70 per cent of the HEIF 3 funding (£164 million) was allocated by formula across all HEFCE-funded HEIs, to support them in embedding and further developing their knowledge transfer and enterprise work so that it becomes integrated into the institution's mission as a sustainable activity. In November 2005 we invited each HEI to submit an institutional plan setting out its 'third stream' strategy for activities with business and the community, and how it proposed to use its formula funding allocation. In the AMS, HEIs are invited to report on their progress in implementing their HEIF 3 institutional plan during 2006-07.

25. Under HEIF 3 we also allocated approximately £53 million through a competitive funding element and £17 million as continuation funding to the 22 Centres for Knowledge Exchange that were initiated under HEIF 2. This funding is monitored outside of the AMS process because it was awarded to collaborative, multi-institution projects rather than individual HEIs.

26. We are presently completing allocations of funding under HEIF 4. HEIF 4, which is allocated entirely by formula and against an institutional strategy, will be reflected in AMS monitoring from next year.

Additional research capital funding 2006-07 and 2007-08

27. In HEFCE Circular Letter 03/2006 we announced allocations of additional capital funding for research to HEIs in England for 2006-07 and 2007-08.

28. At its meeting on 23 February 2006 the HEFCE Board decided:

- to allocate the remaining grant of £88 million across the two years 2006-07 and 2007-08 as capital grant, including for equipment purchases
- to distribute this grant between HEIs on a formula basis, reflecting their allocations of QR funding and research capability funding for 2006-07. Institutions do not receive any share of these funds if their formula allocation would come to less than £20,000, to ensure that we do not allocate trivial sums for these purposes.

29. We did not monitor the use of these additional funds in 2006-07. Institutions will be asked to confirm that the additional funding for both 2006-07 and 2007-08 has been used for the intended purpose in their AMS.

Capital Investment Framework

30. The aim of the Capital Investment Framework is to encourage institutions to improve their strategic approach to infrastructure planning and investment, and to underpin sustainability, while reducing the accountability burden for capital funding.

31. The Capital Investment Fund was announced in January 2008 (HEFCE 2008/04), allocating £1,086 million for learning and teaching and £1,276 million for research determined by formulae for institutions to invest in supporting infrastructure.
32. The Capital Investment Framework determines how HEIs access these grants. We need to monitor progress and improvements for HEIs who are included in the framework and institutions must demonstrate that they remain within the criteria of the framework.
33. In the corporate planning statement, institutions are required to make specific reference to estates management and sustainable development. For those in the Capital Investment Framework the AMS requires confirmation that targets and objectives are being met.
34. HEIs should understand that the requirements of the next evolution of the Capital Investment Framework are likely to require continuous improvement and clearer reporting of environmental performance, and they should be considering how and where this can be demonstrated and reported in their performance and accountability returns in future.
35. Other sources of information and data (including the Estate Management Statistics) will be used to complement and corroborate the information supplied here.

Equality and diversity monitoring

36. In HEFCE 2006/28 we consulted the sector on our plans to meet our statutory duties to promote race, disability and gender equality under the Race Relations (Amendment) Act 2000, the Disability Discrimination Act 2005 and the Equality Act 2006. These duties are not only to eliminate unlawful discrimination but also to promote equality of opportunity in all of these areas. HEFCE's single equality scheme (2007/01) brings together the Council's race, disability and gender equality schemes and sets out an equality action plan to address these issues. Following the consultation, the HEFCE single equality scheme was published on our web-site (under About us).
37. We have a statutory duty to monitor the impact of these three pieces of legislation on the higher education sector. As part of this monitoring we said we would build the disability, gender and race equality and diversity dimension into AMS by:
- a. Asking HEIs to identify the equality and diversity dimension of their strategic objectives, including through widening participation, learning and teaching, and projects to reach out to diverse groups and organisations.
 - b. Analysing the equality and diversity dimension of operating statements and using the results to inform ongoing discussions between HEFCE regional consultants and HEIs.
38. Institutions are asked to provide an assurance in the AMS that the objectives and targets for 2007-08, as agreed in each HEI's equalities action plan, have been delivered. Where objectives and targets have not been achieved, they should give further details, including any barriers to implementation. We are asking HEIs to provide a brief description of their equality objectives for 2007-08 for each of the following areas:
- widening access
 - learning and teaching

- business and the community
- human resource management
- research.

39. The institution may wish to focus on areas where it has undertaken impact assessments for equality and diversity, where it has embedded equality in a policy or process, or has worked in partnership with organisations or businesses that promote or support disabled people, people from black and minority ethnic backgrounds or voluntary/community organisations promoting gender equality.

40. Institutions should, as part of their implementation of the Act's requirements, be able to demonstrate some outcomes and results they have achieved to improve and promote gender, disability and race equality in their organisations.

Diploma Supplement

41. The Diploma Supplement (DS) is a key tool of the Bologna Process for enabling recognition of qualifications and facilitating student mobility and employability within Europe. It is issued to students on graduation and relates to the Bologna Process objective to create a system of easily readable and comparable degrees. The Bologna Process ministerial summit held in 2003 called for 'every student graduating as from 2005 to receive the Diploma Supplement automatically and free of charge'.

42. The DS describes the qualification(s) a student has received in a standard format that is easy to understand and compare. It also describes the content of the qualification and the structure of the higher education system within which it was issued. The UK Higher Education Europe Unit is advising the sector on issuing the DS (see www.europeunit.ac.uk under EU policy – Education/Diploma Supplement) and has published a guide. It has also produced a description and diagram, agreed by stakeholders, of the national higher education system, to be used in the DS by HEIs in England. These are all available on the Diploma Supplement page of the Europe Unit website. It is recommended that HEIs use the standard format of the DS, developed by the European Commission, the Council of Europe and UNESCO/CEPES. For examples, see the UK National Europass Centre website (www.uknec.org.uk).

43. The Measuring and Recording Student Achievement Steering Group, chaired by Professor Bob Burgess, recommended in 2007 that HEIs issue a Higher Education Achievement Report (HEAR) – currently under development – to supplement the existing degree classification system. The HEAR will incorporate and build on the DS.

44. For this AMS, institutions are asked to provide information on their use of the DS, in the run-up to the creation of the European Higher Education Area in 2010 as envisaged by the Bologna Process. Institutions not yet using the DS are urged to proceed with issuing it as soon as possible.

45. For further information about, or advice on implementing, the DS, institutions should contact the UK Higher Education Europe Unit (www.europeunit.ac.uk).

Higher education in further education colleges

46. As part of our 'Higher education in further education colleges' consultation (HEFCE 2006/48) we proposed that under normal circumstances, indirect funding arrangements should provide member institutions with security of funding and student numbers for at least three years. This received extremely strong support, both from further education colleges and from HEIs.

47. Institutions will be asked to report through the AMS whether they are providing the proposed security required for provision that is sub-contracted to colleges.

HEFCE approach to reporting on delivery and underspend

48. In considering institutions' AMS returns in respect of the key strategic initiatives, we distinguish between activities, targets and outcomes. For each of the strategic initiatives, institutions stated a set of activities that they would undertake with HEFCE special funding, as well as targets and outcomes that they expected to achieve. In the AMS, institutions are asked to confirm that the targets and objectives for 2007-08 have been delivered as originally outlined in their strategies or business plans for each initiative. They are required to provide more detail only where there have been problems with delivery or where plans have slipped.

49. We recognise that it is possible to fail to deliver fully an individual activity or target while still achieving overall objectives or outcomes. Therefore, it is not necessary to report every individual activity or target that is not achieved or only partially achieved. We do expect an explanation for all cases where under-achievement of targets and activities will mean that overall objectives and outcomes are not met, or where there is an impact on the delivery of other targets and achievements which together mean that overall objectives and outcomes cannot be met.

50. Institutions are asked to report on any significant underspend of funds for special initiatives. Each HEI should tell us about any underspend greater than 10 per cent of its total funds for that initiative for the year, unless the project is near to completion, in which case any funds remaining unspent at the project completion date should be reported upon. If reporting an underspend, institutions should give details of how they expect to get the spending profile back on track.

51. We recognise that the relationship between activities and outcomes can be indirect, and that it is possible to undertake an activity with care and yet not secure the intended outcome because some other factor intervenes. In the short term, although all institutions should undertake the activities they set for themselves, failure to achieve the intended outcomes will not necessarily affect their funding from HEFCE. However, as each strategic initiative progresses, we become increasingly focused on the outcomes. The additional funding is provided for a purpose, as a form of investment partnership between HEFCE and the institution. If that purpose is not being achieved, we will review whether funding should continue. If the AMS shows insufficient progress, we will discuss appropriate actions on a case-by-case basis.

Annex B Sample annual monitoring statement 2008

This annex is for reference only. Templates will be available to download from the HEFCE extranet at the end of September 2008.

Centres for Excellence in Teaching and Learning

1. Have you met the targets and objectives for the period August 2007 to July 2008 for your Centre(s) for Excellence in Teaching and Learning (CETL(s)) as set out in the business plan submitted with your stage-two CETL bid and in any subsequently agreed amendments?

Response Yes/No

If 'no' please give further details.

2. For August 2007 to July 2008, you received £XXXX in recurrent funds for your CETL(s) and £XXXX in capital funds. Will any significant proportion of the funds expected to be spent in this period remain unspent at the end of AY 2007-08?

Response Yes/No

If 'yes' please give the amount that will be carried over to 2008-09 and give details of actions that you are taking to get the spending profile back on track.

Teaching Quality Enhancement Fund – institutional strand

1. Have you delivered the targets and objectives for 2007-08 in relation to funding from the Teaching Quality Enhancement Fund (TQEF) as agreed in your action plan submitted in response to HEFCE 2006/11, and in any subsequently agreed amendments?

Response Yes/No

If 'no' please give further details.

2. For 2007-08 you received £XXXX from the TQEF. Will any significant funds remain unspent at the end of AY 2007-08?

Response Yes/No

If 'yes' please give the amount that will be carried over to 2008-09 and give details of actions that you are taking to get the spending profile back on track.

Overseas Research Students Awards Scheme

1. Have you adhered to the objectives of the Overseas Research Students Awards Scheme (ORSAS) for 2007-08 as set out in the terms of funding (HEFCE Circular Letter 21/2005)?

Response Yes/No

If 'no' please give further details.

2. For 2007-08 you received £XXXX for ORSAS. Will any significant funds remain unspent at the end of AY 2007-08?

Response Yes/No

If 'yes' please give the amount that will be carried over to 2008-09 and give details of actions that you are taking to get the spending profile back on track.

Research Capability Fund

1. Have you delivered the targets and objectives for 2007-08 as agreed in your research capability strategy for unit of assessment (UOA) XX and in any subsequently agreed amendments?

Response Yes/No

If 'no' please give further details.

2. For 2007-08, you received £XXXX for UOA XX from the Research Capability Fund. Will any significant funds remain unspent at the end of AY 2007-08?

Response Yes / No

If 'yes' please give the amount that will be carried over to 2008-09 and give details of actions that you are taking to get the spending profile back on track.

Higher Education Innovation Fund round three

1. In response to HEFCE 2005/46 you submitted an institutional plan for your use of Higher Education Innovation Fund round three (HEIF 3) formula funding in 2006-07 and 2007-08. Have you made progress as planned in 2007-08 towards delivering the activities and outcomes you set out in the plan?

Response Yes/No

If 'no' please give further details.

2. Please provide a short summary (250 words maximum) of the key achievements of the year linked to HEIF formula funding.

3. For 2007-08 you received a HEIF 3 formula allocation of £XXXX. Will any significant funds remain unspent at the end of AY 2007-08?

Response Yes/No

If 'yes' please give the amount that will be carried over to 2007-08 and give details of actions that you are taking to get the spending profile back on track.

Additional research capital funding 2006-07 and 2007-08

1. For your additional research capital funding for 2006-07 and 2007-08, can you confirm that you have used the funding for the intended purposes as described in HEFCE Circular Letter 03/2006?

Response Yes/No

If 'no' please give further details.

2. For 2006-07 and 2007-08 you received a total of £XXXX for additional research capital funding. Will any significant funds remain unspent at the end of AY 2007-08?

Response Yes/No

If 'yes' please give the amount that will be carried over to 2008-09 and give details of actions that you are taking to get the spending profile back on track.

Capital Investment Framework

1. During the first quarter of 2008-09 you received £XXXX from your allocation of £XXXX for learning and teaching and £XXXX from your allocation of £XXXX for research. Has your expenditure of capital equalled or exceeded these allocations?

Response Yes/No

If 'no' please give further details.

2. Have you broadly met the targets and objectives for 2007-08, as set out in your estates strategy?

Response Yes/No

If 'no' please give details of any material issues.

3. Have you broadly met the targets and objectives from your action plan subsequent to your Association of University Directors of Estates self-assessment toolkit or your own effectiveness review of your estates management?

Response Yes/No

If 'no' please give details of any material issues.

Equality and diversity monitoring

1. Have you delivered the objectives and targets for 2007-08 as agreed in your equality action plan?

Response Yes/No

If 'no', please give further details, including any barriers to implementation.

2. Please briefly describe your gender, disability and race equality objectives for 2007-08 for the areas listed below.

- widening access
- learning and teaching
- business and the community
- human resource management
- research.

Diploma Supplement

1. Do you issue a Diploma Supplement (DS) to all students completing a programme?

Response Yes/No

If 'yes', please ignore questions 2 and 3. If 'no', please give further details, including any barriers to implementation, and also answer questions 2 and 3.

2. If you issue a DS to some, but not all, qualifying students, please give the categories of qualifying students (for example foundation degree, undergraduate programme, postgraduate taught programme, postgraduate research programme) to whom the DS is issued.

3. Are you planning to issue the DS to all qualifying students in the next reporting period, during 2008-09?

Response Yes/No

If 'no', please give reason(s) why this will not be implemented.

Higher education in further education colleges

1. For your indirect funding agreements (sometimes known as 'franchise agreements' or 'franchises') with further education colleges, can you provide security of funding and student numbers for three years?

Response Yes/No

If 'no', please give further details.

Annex C Financial results and forecast tables 2008: guidance notes

Accounting conventions

1. The main financial tables follow the format of the 'Statement of Recommended Practice: Accounting for Further and Higher Education' (SORP) introduced from 1 August 2007⁴. The financial information should therefore comply with all Financial Reporting Standards (FRSs) effective as at 31 July 2008. In particular, institutions should apply the definition of terms in the SORP when completing the return and be consistent with the accounting policies used in institutions' 2007-08 financial statements.

Consolidation

2. The financial tables should cover the institution and all its subsidiary undertakings. If an institution has subsidiary undertakings, the financial tables should be consolidated in accordance with FRS 2 'Accounting for subsidiary undertakings'. Students' unions should be consolidated where this is the agreed approach used in the institution's financial statements.

Joint venture entities and associates

3. An entity (as defined by FRS 9) in which an institution holds an interest on a long-term basis, and is jointly controlled by the institution, should be accounted for using the gross equity method. FRS 9 requires the equity method to be used when consolidating associates. The income and expenditure table and balance sheet include the relevant lines that institutions with joint venture entity and associate interests will need to complete. In case of any ambiguity, institutions should be consistent with the way they treat joint venture entities in their audited financial statements.

FRS 17 (Retirement benefits)

4. For the purposes of the financial forecasts balance sheet, institutions are asked to include the pension asset or liability for each year. We recognise that forecasting future pension values is difficult, and institutions may decide to forecast the pension asset or liability as at 31 July 2008 for all years. Any assumptions made in the forecasts should be noted in the commentary.

Tables to be completed

5. The tables cover a six-year period starting with the two most recent years' audited financial statements. They comprise the following tables:

Financial Indicators table	Key financial indicators
Table 1	Income and expenditure account
Table 2	Balance sheet

⁴ The latest version of the SORP (2007) is available from the Universities UK website at: <http://bookshop.universitiesuk.ac.uk/> under Management Guides & Codes of Practice.

Tables 3 and 4	Cash flow
Table 5	Supporting data
Table 6	Student number forecasts
Table 7	Annualised servicing costs of long-term borrowings
Table 8	Net liquidity

6. A sample of the financial tables can be found in Annex D. We will write to heads of finance by the end of September with details of how to access and return the tables.

Financial indicators table

7. The first table is an automated table that is calculated from the data in the income and expenditure and balance sheet forecasts. The financial indicators used in this table help to show a trend of financial performance for each institution. We hope that institutions will comment on the trends of these indicators and any significant assumptions within the supporting commentary.

Guidance on Tables 1 to 4

8. Tables 1 to 4 are standard financial tables that should be completed in accordance with the SORP and consistent with accounting policies adopted in institutions' 2007-08 financial statements. The actual outturn for 2006-07 and 2007-08 entered in the tables should be consistent with the recent audited financial statements (restated if appropriate). The forecast figures for 2008-09 to 2011-12 should be based on an assessment of the most realistic assumptions over the forecast period and should be consistent with the institution's strategic plan.

Guidance on Table 5: Supporting data

9. This table asks for data on miscellaneous items to support the information supplied in the other tables.

Guidance on Table 6: Student number forecasts

10. Student numbers should be returned as full-time equivalents (FTEs) for both full-time and part-time numbers. The numbers returned should be consistent with how HEIs return student number data to HESA. The information will be used to provide context to the other financial tables and will not be used for funding purposes.

11. For each year, two columns must be completed: 'Home and EC' (both fundable and non-fundable) and 'Island and overseas'. Student numbers relating to franchised-out provision, Training and Development Agency for Schools and NHS students should be included within the totals.

Guidance on Table 7: Annualised servicing costs of long-term borrowing

12. This table is used to review compliance with the Financial Memorandum in relation to the level of annualised servicing costs (ASC) of long-term financial commitments. This table should provide information on the ASC of all long-term borrowings in place at the year-end (31 July 2008) and any additional borrowings drawn down or agreed at 31 October 2008. The data returned will enable us to update long-term borrowing thresholds to take account of latest audited total income and ASC figures. Guidance on calculating

the ASC of long-term borrowing is provided in Annex F of the Financial Memorandum (HEFCE 2008/19).

13. The first section of the table requires institutions to input information about the level of borrowings as at 31 July 2008. The second section should record information about any additional borrowings agreed and/or drawn down before 31 October 2008.

14. The table has been pre-filled with the information that institutions inputted to last year's financial statements return. However, loans from last year's return with nil outstanding or listed as repaid/expired have been deleted. Where any other information is incorrect, please overwrite the amended details, giving the reason in the far right-hand column (column O in the spreadsheet) using the drop-down menu. If the reason is not available in the drop-down menu, please select 'Other' and provide an explanation in the commentary.

15. Where loans have terminated, please delete the loan and select the reason (for example repaid or expired) using the drop-down menu (and provide a further explanation in the commentary if necessary). Where there are new borrowings these should be added selecting 'New loan' in the far right-hand column (column O).

Guidance on Table 8: Net liquidity

16. This table is used to review compliance with the Financial Memorandum in relation to the level of short-term financial commitments. This table should provide the level of 'net liquidity', giving details of net cash, deposits and overdrafts (as defined in FRS 1 [Revised 1996]: Cash Flow Statements) and other current asset investments.

17. If an institution had negative net cash (where cash in hand and deposits repayable on demand, as defined by FRS 1, are exceeded by bank overdrafts that are repayable on demand), for more than 35 consecutive days during the period 1 November 2007 to 31 October 2008, it should give the highest negative level in the final column of this table.

HEFCE funding

18. Institutions are expected to include, within their financial tables, any HEFCE funding that has already been announced. In relation to future revenue and capital funding, institutions will need to make assumptions about the level of funding that might be available. The grant letter from the Department for Innovation, Universities and Skills to HEFCE will provide a context to the level of funding available for the period 2008-09 to 2010-11⁵. Institutions are expected to refer to any assumptions within their financial commentary.

⁵ The grant letter received by HEFCE is available on the HEFCE website at: <http://www.hefce.ac.uk/news/hefce/2008/grant/letter.htm>

Annex D Sample financial tables

This annex is for reference only and may be downloaded from the HEFCE web-site, www.hefce.ac.uk, with this document under Publications. Templates will be available to download from the HEFCE extranet at the end of September 2008.

Annex E Annual assurance return template

This annex is available for download with this document on the HEFCE web-site under Publications.

List of abbreviations

AMS	Annual monitoring statement
ASC	Annualised servicing cost
AY	Academic year
CETL	Centre for Excellence in Teaching and Learning
CPS	Corporate planning statement
DS	Diploma Supplement
FRS	Financial Reporting Standard
FTE	Full-time equivalent
HEFCE	Higher Education Funding Council for England
HEAR	Higher Education Achievement Report
HEI	Higher education institution
HEIF	Higher Education Innovation Fund
HESES	Higher Education Students: Early Statistics (survey)
ORSAS	Overseas Research Students Awards Scheme
QR	Quality-related research
RAE	Research Assessment Exercise
RAS	Research Activity Survey
SORP	Statement of Recommended Practice
TRAC	Transparent Approach to Costing
TQEF	Teaching Quality Enhancement Fund
UOA	Unit of assessment