

HEFCE 01/23

April

Request

Annual operating statements and financial forecasts 2001

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To institutions	Heads of HEFCE-funded higher education Heads of universities in Northern Ireland
Of interest to those responsible for	Planning, Finance, Student data, Staff data
Reference	01/23
Publication date	April 2001
Enquiries to	Higher education advisers (on operating statements) Finance advisers (on financial forecasts)

Executive summary

Purpose

1. This document asks higher education institutions to send an annual operating statement for the 2000-01 academic year and financial forecasts for the period up to 2004-05.

Key points

2. The information requested will:
 - a. Summarise the institution's mission, key objectives and targets, and performance against objectives in strategic areas.
 - b. State the institution's priorities for the next operating year.
 - c. State the institution's key assumptions about future trends.
 - d. Provide a financial forecast for the period 2000-01 to 2004-05 in the context of the institution's financial strategy.
 - e. State the student number forecasts which underpin the plans and financial forecasts.
3. We will use this information:
 - a. To identify trends across the sector, and so advise the Secretary of State for Education and Employment on the needs and development of the higher education sector.
 - b. To monitor the financial prospects of HE institutions, both individually and collectively.
 - c. To monitor the use of funds and outcomes relating to our strategic special funding.

- d. As a basis for discussion with institutions about their progress in key areas, their priorities for strategic development, their financial position, and the support which the HEFCE may be able to give.
4. This report also explains the action we will take in cases where institutions have made insufficient progress towards meeting the objectives that they set for themselves under our strategic special funding initiatives.
5. Please note that disks will be sent to Heads of Finance during May 2001.

Action required

6. The information required is listed in paragraph 19 (for annual reporting statements) and paragraph 48 (for financial forecasts). Institutions should send returns, and the completed disk containing their financial forecasts, to Alison Felton **by Friday 27 July 2001**, at:

Institutions and Projects Directorate
Higher Education Funding Council for England
Northavon House
Coldharbour Lane
BRISTOL
BS16 1QD

7. Institutions for which the Teacher Training Agency has lead accounting officer responsibility, and those which offer initial teaching training, should also make returns to the Teaching Training Agency by 27 July 2001 (see paragraph 51).

Background

8. In April 1999 we introduced new arrangements for receiving planning information from HEIs. Our request for the annual operating statement (AOS) and financial forecasts is part of our broader approach to corporate planning in higher education (HE).

9. Institutions are encouraged to develop corporate plans, setting out their mission, objectives and priorities for action. Plans should incorporate financial strategies and be underpinned by projections of the financial impact of strategic aims. We have agreed with each institution when, within a three-year cycle, it will provide its plan. HEFCE regional consultants discuss the plans with each institution, looking at their priorities and approach to a number of sector-wide strategic issues.

10. We also ask higher education institutions (HEIs) to provide an AOS and financial forecasts in July of each year. The AOS summarises progress made and targets met in key areas over the past year, and where appropriate, sets out the strategic priorities for the coming year.

Annual operating statement

11. The AOS provides the information for discussions about specific HEFCE initiatives and funding programmes, so that we can carry out our function of providing informed advice to the Secretary of State. It also provides the context within which we can assess an institution's financial forecasts, to gauge consistency between the forecasts and the institution's assessment of its strategic position.

12. Our approach to the AOS has evolved, particularly in its greater focus on strategic funding initiatives. We begin with an assumption that most HEIs produce an AOS for their own internal management purposes. We are mindful of the need to strike a balance between our responsibility to secure accountability for use of funds and the administrative burden we place on institutions. We aim to identify the minimum range of information that we need for monitoring purposes, and to collect as much of it as possible through the AOS return.

13. With this in mind, we have prepared the template at Annex A as a guide to institutions in structuring their AOS return.

14. The template has not been developed to prescribe the way institutions should plan. Rather, it provides a structure to focus institutions' responses on a number of strategic issues on which we particularly need information. Some consistency of coverage is necessary if we are to derive valid judgements about national trends and developments.

15. Where we request information on strategic initiatives, almost all HEIs have received funding from these initiatives, and this funding accounts for a substantial proportion of our special funding.

16. Many institutions welcome the opportunity to use their own documents in their AOS return. HEIs can either:

- fill out the template directly

- use the template as a set of headings against which to cross-refer to relevant sections of any annual operating statement which they have already prepared for their own purposes, supplemented, if necessary, with additional information.

17. An electronic version of the template, in Word, will be available as part of this document on the HEFCE web-site, www.hefce.ac.uk under 'Publications'. The disk, to be despatched in May, will also include an electronic copy of the AOS template.

18. To monitor the use of special funds and the achievement of plans we need information which is sufficiently specific. Our analysis of 2000 annual operating statements (HEFCE 00/53 Annex F) identified a number of examples of good practice, both in terms of use of funds and in the discussion of the achievement of plans and future activities in the AOS. When monitoring the outcomes from strategic funding initiatives we found it most helpful where:

- institutions made explicit links between the activities set out in their plans and the outcomes described in the AOS
- progress and future targets were described in quantitative and measurable terms where appropriate, including time scales for achievement
- there was use of intermediate milestones when setting future targets.

19. We request information here on:

- a. The institution's mission and strategic objectives.
- b. The planned activities and targets for 2000-01, the outcomes of those activities and success in achieving related targets, and (where appropriate) planned activities and targets for the academic year 2001-02, in three key areas:
 - widening access and participation, including mainstream disability funding and funds for administering student support (hardship and bursary funds)
 - learning and teaching – institutional funding
 - Higher Education Reach-out to Business and the Community (HEROBC).
- c. Planned activities and related targets for 2000-01, and progress in achieving those targets for the academic year 2000-01; and activities and targets for 2001-02 in other priority areas for the institution. An indicative list of headings is given in paragraph 36. Institutions should note that we ask them to provide information in this section only under those headings which are relevant to them: if they set no targets, or have no progress to report, under particular headings, those headings can be left blank.

Widening participation

20. In HEFCE 99/33 we asked institutions to provide initial statements of their plans for widening participation in higher education, indicating how they planned to use the additional formula-based funds ('the postcode premium') they received from 1999-2000. We asked them

to incorporate clearly defined organisational and numerical targets and said we would monitor institutions' success in attaining those targets through their subsequent annual operating statements.

21. Please provide information about activities supported by these funds and the achievement of related targets in the 2000-01 academic year.

22. Please note that we are **not** asking institutions to report here on progress with the collaborative projects on widening participation which are being undertaken by consortia of HEIs and regional partners. There are separate monitoring arrangements for this special funding programme.

Administrative costs: student support and access funds

23. For 2000-01 we provided additional funding (£4.5 million) to institutions to support them in the promotion and administration of various funds for student support. The funds are not meant to support other activities undertaken by institutions as part of their widening participation strategy, but institutions were encouraged to integrate their activities relating to student support within their overall strategy for widening participation. Institutions are asked to report on their use of funds for administrative costs for student support in 2000-01 through the AOS. We recognise that institutions were not asked to set themselves 'targets' as such for this funding, so the AOS should simply state in summary terms what the institution achieved with the funds allocated.

Mainstream funds for disability

24. Institutions also received formula-based funding (£7 million in total) to recognise that institutions incur additional costs in recruiting and supporting students with disabilities. HEFCE circular letter 07/00 explained that we would expect institutions to set out how they were developing provision for disabled students using this funding in their annual operating statements. (As with administrative costs, we recognise that institutions were not asked to specify targets for 2000-01 in relation to mainstream funds for disability, so the report should summarise what has been achieved with the funds.)

25. Please note that we are **not** asking here for information about the outcomes of the funding programme launched in 1999 (HEFCE 99/08) which funds specific projects aimed at enhancing provision for students with learning difficulties and disabilities. There are separate monitoring arrangements for this special funding programme.

Developed statement of plans and targets and activities for 2001-02

26. HEFCE publication 00/50 proposed that institutions develop full statements on widening participation including action plans to achieve targets which encompass, and are consistent with the criteria for, all the strands of funding available to institutions for widening participation. A HEFCE publication will ask for submission of developed statements of plans for widening participation (including process and outcome targets). Therefore there is no expectation that information on future activities and targets for the strands of widening participation work should be in the 2001 AOS; rather, they should be presented in the

developed statements. (The relevant section of the template makes this clear.) We will monitor institutions' performance against the targets in the 2002 annual operating statements.

Learning and teaching – institutional funding

27. We are providing formula-based funding to support the development of learning and teaching. HEFCE 99/48 asked institutions to provide in return for that funding a strategy for raising the quality of their teaching and learning, with associated activities and targets. Institutions provided detailed plans on activities and related targets in a template (Annex E of HEFCE 99/48). They also identified those activities that were to be specifically supported with HEFCE funds.

28. Institutions are asked to set out their progress in undertaking the activities and achieving related targets in 2000-01.

Targets and activities for 2001-02

29. Where plans are changing in the light of experience and the embedding of good practice, please provide an update of any intended changes to the original plan of activities for 2001-02. If there are no substantive changes to the plans set out in the template in Annex E of HEFCE 99/48, please confirm that the original plan stands.

Higher Education Reach-out to Business and the Community

30. Allocations under the first round of this initiative were made in November 1999. A second round of allocations was made in July 2000. Institutions which were successful in either bidding round, and received individual institutional awards, should report on progress in undertaking activities and achieving the related targets that they identified in their strategy statements.

31. A number of HEIs have received collaborative HEROBC awards, either as a lead institution or as a partner. We operate separate monitoring arrangements for collaborative HEROBC projects, so do not require information on these aspects of HEROBC activity in the AOS.

32. We ask that the information provided includes both a descriptive element, reviewing achievement against the institution's strategy, and a quantitative element showing progress made for the year ending 31 July 2001. This should be in terms which can be compared with the institution's starting position, and which accords with the guidance on monitoring and evaluation in the invitations to bid (HEFCE 99/40 and 00/50).

33. We will draw on institutions' returns to provide a 'snapshot' of the achievements of the programme at national level. We would hope, for example, to be able to show that the programme had led nationally to measurable increases in:

- numbers of work experience placements
- income from research and consultancy commissioned by industry
- placements and secondments in businesses for academic staff

- the number of HEI part-owned and spin-out companies and the income from these.

Targets and activities for 2001-02

34. Information is requested on activities and expected outcomes in academic year 2001-02, linking this to the original bid, and updating this where appropriate.

Project capital

35. In last year's AOS we requested information on the project capital initiative. We reviewed our need for information to ensure we were keeping the accountability burden to a minimum and have concluded that we do not need to seek information about project capital in the 2001 AOS. However, we will ask for a summary of the outcomes for 2000-01 and 2001-02 in July 2002.

Other areas of activity

36. Institutions will have key targets which they have set themselves for other areas. From our analysis of the previous two years' annual operating statements we identified a number of areas generic to most statements, in addition to those for the strategic funding initiatives. These were:

- governance and management
- new academic developments
- research
- quality
- finance
- human resources
- estate
- ICT and information strategies
- regional activities
- international activities

37. We would expect that many institutions have targets in each of these areas. It would help to secure a more consistent analysis and reporting of sector-wide developments if institutions could use this as an indicative list of headings in reporting what activities and targets they set for 2000-01, their progress against those targets, and the targets they are setting themselves for 2001-02. However, there is no presumption that all institutions must set targets in each of these areas: if an institution set no targets, or has no progress to report, under particular headings, those headings should be left blank.

Action in the event of insufficient progress

38. Last year's request for the AOS and financial forecasts (HEFCE 00/20) described our approach to monitoring the progress of our strategic special funding initiatives and our action in the event of an institution's insufficient progress.

39. In considering institutions' AOS in respect of the key strategic initiatives in paragraphs 20 to 34, we distinguish between activities, targets and outcomes. For each of the strategic initiatives, institutions stated a set of activities that they would undertake with the special funding we are allocating, which they expected to enable them to achieve an outcome. We use the annual operating statement to monitor whether the institution is undertaking the activities it proposed, and, where appropriate, what progress it can demonstrate towards its targets.

40. 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. Some activities are more challenging than others, and there may be many good reasons why particular activities or targets are not achieved, at least on the time scale or in the manner originally envisaged.

41. In the short term we make a presumption that, while all institutions should achieve the activities they set for themselves, failure to achieve the intended outcomes will not necessarily have a financial consequence. 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 the Funding Council and the institution. If that purpose is not being achieved, questions need to be asked about the continuance or, in extremis, the recoupment of that funding.

42. Our approach is as follows:

- a. In the first year in which activities have not been undertaken, or progress made, we will ask the institution for a supplementary action plan showing how it will get back on track.
- b. Where the annual operating statement shows that for a second year an institution has not undertaken intended activities (either those planned for the previous academic year, or for the year which has just ended) we may decide to re-profile funds or provide no further funding under the relevant funding programme, consistent with the principle that we should not provide funding in advance of need. We also reserve the right to recoup from the institution's standard grant the additional funding allocations already paid.

- c. Institutions will be able to signal in their AOS where, in the light of experience, they want to change their approach in relation to activities or targets, and where appropriate to negotiate revised plans. But we shall expect increasingly to see evidence of progress towards targets, and, if not, to reduce or remove funding allocations.

Audit

43. Last year we audited a sample of annual operating statements, and will do so again for the 2001 AOS.

44. Our experience of auditing last year raised some interesting points about institutions' approaches to the AOS. Annex F gives feedback on some of the issues we identified around the AOS.

Financial forecasts

45. Financial forecasts represent the institution's strategic plan in financial terms and are integral to it. As such, they should reflect the financial strategy to underpin an institution's mission and objectives. The 'Statement of financial strategy and commentary on the financial forecasts' is therefore a key element of the financial forecast return.

46. The forecasts should reflect the institution's thinking as derived from discussions at all levels in the institution, including the governing body. The governing body should have an opportunity to discuss and approve the financial forecasts before they are submitted to HEFCE. The forecasts should be based on an assessment of the most realistic assumptions over the forecast period.

47. Our objectives in requesting financial forecasts are:

- a. To monitor the financial health of institutions, and identify which ones have, or may have, financial difficulties.
- b. To find out whether institutions' strategic, estates and financial plans are integrated.
- c. To inform our advice to the Secretary of State for Education and Employment on the financial needs and prospects of the higher education sector.

48. To help us analyse the finance-related data, and report back to the sector, information should be provided in a consistent format, following the guidance in Annexes B to E and making use of the templates where given.

- a. Annex B gives guidance on, and a template for, the statement of financial strategy and commentary on the financial forecasts.

b. Annex C shows print-outs of the tables for the financial forecasts and student and staff numbers. These are for reference only. Institutions are asked to complete the tables electronically in the disk provided to the director or head of finance.

c. Annex D gives detailed guidance on completing the financial forecast tables. The student number returns are consistent with the HESES2000 tables, which institutions completed in autumn 2000, and with the Teacher Training Agency's (TTA's) survey of recruitment to initial teacher training (ITT).

d. Annex E gives further guidance on completing the financial forecast tables, including assumptions about future HEFCE and TTA funding which institutions may wish to take into account in preparing their forecasts.

Queries

49. Institutions should address questions about completing the annual operating statement return to their higher education adviser. Financial forecast questions should be addressed to their finance adviser. (Full institutional contact details are available on the HEFCE web-site at www.hefce.ac.uk under 'About us').

Returns to the HEFCE

50. All institutions should send **by 27 July 2001 one copy** of the documents requested in paragraphs 19 and 48, to:

Alison Felton
Institutions and Projects Directorate
Higher Education Funding Council for England
Northavon House
Coldharbour Lane
BRISTOL
BS16 1QD

Returns to the Teacher Training Agency

51. The Chief Executive of the TTA has the lead accounting officer role for the following five colleges:

- Bishop Grosseteste College
- Homerton College, Cambridge
- College of St Mark and St John
- St Martin's College
- Newman College.

52. These colleges should therefore also send a copy of all the information requested to:

Frank Martin
Principal Establishment and Finance Officer
Teacher Training Agency
Portland House
Stag Place
LONDON
SW1E 5TT

Late returns

53. Some institutions may have meetings of their governing body to approve the budgets and financial forecasts shortly after the return date of 27 July 2001. In such cases, we will consider submission of draft documents before 27 July, accompanied by a request for a **limited** extension to the deadline. Institutions should contact their HEFCE finance adviser as soon as possible and write to us asking for a late submission, setting out the date of the meeting when the forecasts will be approved and the date on which we will receive the forecasts.

Confidentiality

54. We will treat institution-specific information as strictly confidential. But, as in previous years, we will prepare a publication reporting a summary of the information provided.