

OTHER



SATURDAY



\*A1NBM110\*

A55

08/12/2012

#116

COMPANIES HOUSE



**Report and financial statements**  
**Year ended**  
**31 July 2012**

Company number  
Registered Charity number

4931031  
1101607

## Contents



Operating and financial review	02
Statement of corporate governance and internal control	10
Statement of directors' and trustees' responsibilities	14
Auditors' report	15
Statement of principal accounting policies	17
Income and expenditure account	19
Balance sheet	20
Cash flow statement	21
Notes	22
Acronyms and abbreviations	33

## Operating and financial review

### Organisation profile

The Higher Education Academy (HEA) champions excellence in learning and teaching in higher education. It is committed to improving the student learning experience by raising the status of teaching, adding to the body of knowledge relating to pedagogy, enhancing professional teaching practice, and facilitating networks and communities of practice. It works in partnership with institutions, student bodies, academic and professional staff, and sector agencies and funders.

At the end of 2011-12 the HEA had 169 subscribers from the HE, FE and private provider sectors.

The HEA's work is delivered through teams in academic practice, teacher excellence, institutional strategy and change and organisational effectiveness. Our priorities are to

- inspire and support effective practice in learning and teaching,
- recognise, reward and accredit excellent teaching,
- influence policy, future thinking and change;
- develop an effective, sustainable organisation that is relevant to and valued by higher education.

The HEA is funded by JISC Advance to host JISC TechDis. Through the funding agreement the HEA provides organisational facilities including employment of JISC TechDis staff, accommodation and business support functions.

### Corporate governance

The HEA is a registered charity under the Charities Act 1993 (as amended by the Charities Act 2011) and was incorporated as a company limited by guarantee on 14 October 2003. It receives a significant proportion of its funding from public sources, with 85% of its funding coming from the Higher Education Funding Councils of the UK, 10% from subscribing institutions and 5% from other income including events and consultancy.

The HEA operates within the strategy developed and approved by the Board. This strategy was formulated during 2010-11 following a consultation across the higher education sector. Approved by the Board on 2 November 2011, the strategy sets the HEA's direction until 2016, but will be reviewed annually to anticipate and reflect the development of the higher education sector context during that period.

The vision of the HEA is for UK higher education to be recognised and valued by students, staff and wider society for its provision of consistency, excellent learning and teaching.

The HEA's mission is to use its expertise and resources to support individual staff, disciplinary and interdisciplinary teams and higher education communities and institutions in general to enhance the quality and impact of learning and teaching.

In doing so, the HEA upholds the following values.

- creativity – applying expertise and knowledge to push boundaries and foster a culture of innovation,
- empowerment – collaborating with individuals, groups and institutions to transform staff and student learning,
- working for the public good - providing transparency and accountability and value for money,
- professionalism – ensuring an equality of opportunity and treating all others with respect by taking responsibility for our actions.

The Board presents its results for the year ended 31 July 2012 and the report below in this context.

## Directors and trustees

The Board of Directors and Trustees who served during the year and up to the date of signature of this report were as listed below

### Appointed by Universities UK and GuildHE

- Professor Sir Robert Burgess, Chair of the Board and Vice-Chancellor, University of Leicester
- Professor Tony Chapman, Vice-Chancellor, Cardiff Metropolitan University
- Professor Peter Lutzeier, Principal and Chief Executive, Newman University College (appointed 3 November 2011)
- Professor Mike Mannion, Vice-Principal and Pro-Vice-Chancellor Learning and Teaching, Glasgow Caledonian University

### Appointed by the UK Higher Education Funding Councils

- Professor Janice Kay, Deputy Vice-Chancellor (Education), University of Exeter
- Mr Rama Thirunamachandran, Deputy Vice-Chancellor and Provost, Keele University

### Appointed by the Board of Directors

- Mr Robert Barlow, Founder and Managing Associate, Your Talent Ltd
- Rebecca Bunting, Deputy Vice-Chancellor, University of Portsmouth and Director and Vice-Chair of the Society for Research into Higher Education (appointed 3 November 2011)
- Liam Burns, President, National Union of Students
- Anthony Carey, Partner, Mazars LLP
- Geoff Donnelly, Non-Executive Director, NHS North Yorkshire and York, and Chair of Governors, Oxford Brookes University
- Professor Don Nutbeam, Vice-Chancellor, University of Southampton (appointed 3 November 2011)
- Mr Johnny Rich, Publisher, Push/Real World

have been reimbursed a total of £1,634 during the year

Related Party transactions are reported in note 18 to the financial statements

## Auditors

A resolution to reappoint Grant Thornton UK LLP as auditors of the Academy will be proposed at the forthcoming AGM.

## Professional Advisers

External Auditors  
Grant Thornton UK LLP  
No 1 Whitehall Riverside  
Leeds  
LS1 4BN

Internal Auditors  
Price Waterhouse  
Coopers LLP  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

## Bankers:

The Royal Bank of Scotland  
York Branch  
6 Nessgate  
York  
North Yorkshire  
YO1 9FY

The Co-operative  
Bank  
4<sup>th</sup> Floor  
9 Prescott Street  
London  
E1 8BE

## Solicitors:

DAC Beachcroft LLP  
100 Fetter Lane  
London  
EC4A 1BN

Lupton Fawcett  
Lee & Priestley  
Yorkshire House  
East Parade  
Leeds  
LS1 5BD

Dickinson Dees  
The Chocolate Works  
Bishopthorpe Road  
York  
YO23 1DE

No trustees received any payment for their trustee duties other than reimbursement of travel and subsistence expenses incurred in the course of their duties Four claimants

## Public Benefit

The HEA was established to promote higher education for the public benefit by:

- providing strategic advice and co-ordination to the higher education sector, government, funding bodies and others on policies and practices that will impact on and enhance the student experience,
- supporting and advancing curriculum and pedagogic development across the whole spectrum of higher education activity;
- facilitating the professional development and increasing the professional standing of all staff who support learning and teaching in higher education.

The HEA's Board continued to have due regard to the Charity Commission's guidance on public benefit. This has informed the development of the HEA's business development strategy ensuring that any services delivered through the charity continue to deliver the HEA's charitable aims. The Board also considered the potential risks and ethical issues that might arise as a result of the HEA supporting HE outside the UK and the need to mitigate the risk of international activity where appropriate.

### HEA beneficiaries

The HEA is broadening the beneficiaries of its work through offering greater support to professional service staff such as HR, registrars, librarians, student support services, careers staff, information services, and practitioners working in non-HEIs such as the NHS, in addition to more traditional academic staff roles. This is across the full range of staff, from those new to teaching to academic and institutional leaders and policy-makers.

The HEA operates across the higher education community, collaborating with higher education providers, funding bodies, higher education mission groups, professional, statutory and regulatory bodies, subject associations, sector agencies, and groups representing external stakeholders.

### Supporting effective practice

The HEA has stimulated evidence-based research and encouraged innovation in learning and teaching practice through a number of targeted development programmes. These programmes benefit both the HE staff and students involved in the funded programme but also staff in other institutions and their students. Funded bids demonstrated how they will provide benefit beyond their own institution, including disseminating any resources and outcomes produced free of charge to the wider HE sector.

Funded programmes include

- Teaching Development Grants – a total of 111 grants, representing £2.2m in funding to the sector, across individual, departmental and collaborative strands, taking forward sector priorities of employability and internationalisation,
- International Scholarship Programme – supporting 14 individuals in the sector (total funding over £193,000) undertake specific investigations outside of the UK and bring back interesting, challenging and innovative learning and teaching practice to share across the HE sector;
- Doctoral Programme – funded 15 awards (total funding over £823,000) which will develop pedagogical knowledge and evidence-based practice in HE;
- UK travel fund – 489 grants awarded (total funding over £111,000) enabling staff and students in UK higher education to attend events (run by the HEA or another organisation related to learning and teaching in HE) to exchange and disseminate good practice with their peers. This initiative has been developed for 2012-13 to clarify the range of beneficiaries supported by providing funding in three distinct strands: students participating in learning and teaching events; staff presenting papers on learning and teaching practice, and, staff travelling across a

- Connections Pilot projects supporting internationalisation - working in partnership with the UK Council for International Student Affairs to fund 20 projects (total funding over £161,000) supporting both international students studying in the UK and encouraging UK students to take opportunities to be more internationally aware,
- Strategic Development Grants – eight grants (total funding over £68,000) have been awarded to improve the attainment of Black and Minority Ethnic (BME) students within higher education

Reports and publications from funded programmes above and the HEA's existing services (such as the HEA's 12 discipline specific journals) are freely available on the HEA's website. There was a 62% increase in the number of unique visitors (an average of 38,200 unique visitors per month) to the HEA's website in 2011-12 compared to 2010-11.

The HEA undertook over 450 events with approximately 12,000 event attendees. In order to minimise any financial barriers to engagement HEA events were either subject to a £50 standard booking fee, or free for delegates to attend (when hosted by an institution, as part of the HEA's seminar series initiative) to encourage the sharing of practices and ideas across the sector.

JISC TechDis undertook three new project strands, in partnership with the Department for Business Innovation & Skills (BIS), to provide disabled and disadvantaged learners with tools to understand and address their own access needs thereby becoming more independent. These include:

- Small Business Research Initiative (SBRI) – which promoted and managed two competitions specifically aimed at exploring and developing new assistive technologies to support independent learning, working and living,
- Toolbox – a collection of JISC TechDis resources and tools specifically aimed at helping disabled or disadvantaged learners to understand, gain and improve those skills that are most valued by employers'

- The Voice – developed a synthetic voice to support a wide range of learners who would benefit from high quality synthetic speech voice to help bring text to speech (TTS) to the mainstream of educational practice

### Recognising and rewarding individuals

The HEA launched the revised UK Professional Standards Framework (UKPSF) to the sector in November 2011.

During 2011-12 the HEA recognised over 6,000 new individuals against the UKPSF leading to approximately 17% (over 36,000 individuals) of UK academic staff now recognised in total. The HEA accredited 114 new institutional provisions, with five new institutions gaining CPD provision.

The HEA continued to support the recognition of teaching through the National Teaching Fellowship Scheme (with a total of 533 NTFs now awarded since the scheme started in 2000) and Student-Led Teaching Awards (SLTAs) – rolled-out to over 30 HEIs across England, Wales, and Scotland in partnership with the National Union of Students.

### Influencing policy, future thinking and change

During 2011-12 the HEA has brought together key individuals in the sector to stimulate discussion on emerging issues in HE, including working in partnership with the Guardian on their 2012 higher education summit "The Future of Higher Education", and the Higher Education Policy Institute (HEPI) on a series of breakfast seminars at the House of Commons.

35 institutions, through one of seven change programmes, were supported in preparing, implementing and sustaining transformational change that enhances learning and teaching in their own context.

83 institutions participated in the 2012 Postgraduate Taught Experience Survey (PTES), informing institutional enhancements to their postgraduate students' learning experience.

UK nation specific priorities were supported through the Future Directions Graduates For Our Future quality enhancement theme in Wales,

the Scottish HE Employability Forum (SHEEF) in Scotland, and the Enhancing learning and teaching in higher education in Northern Ireland publication.

### An effective and sustainable organisation

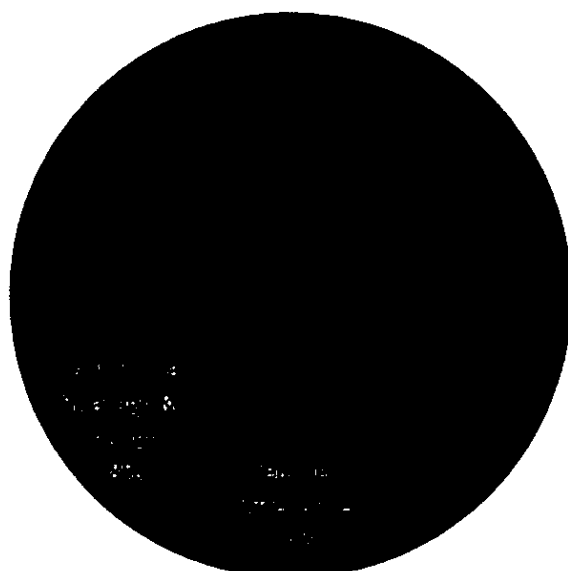
The HEA is committed to being a socially responsible organisation, seeking to minimise adverse impacts on the environment wherever possible and to operate in accordance with sustainable development principles as outlined in its sustainability policy.

All HEA employees are supported to undertake voluntary activities in the community through flexible working arrangements and one additional day's leave each year

The HEA provides the sector support on Education for Sustainable Development as part of its thematic programme. During 2011-12 the HEA published *Future-fit framework*, an introductory guide to teaching and learning for sustainability in HE to support academic staff embed ESD in their curricula, and *ESD Holistic Curriculum Change A Review and Guide* featuring a number of case studies of whole institutional approaches to ESD

HEA subscription charges are based on student full time equivalent numbers (FTE) and are reviewed annually to ensure both value for money and affordability for all subscribers. In 2011-12 the HEA welcomed new subscribers from both the HE in FE and private provider sector.

2011/12 Allocation of Funds by Team



## **Strategy**

The HEA's priorities and targets are set out in its Strategic Plan 2012-2016 which can be found at (<http://www.heacademy.ac.uk/strategic-plan>)

The HEA delivers its strategy operating at multiple levels through four areas.

- **Teacher Excellence** – working to recognise, reward, and accredit individual staff This is undertaken through the HEA's recognition and accreditation services, as well as its support for teaching awards such as the National Teaching Fellowship Scheme, and Student-led Teaching Awards,
- **Academic Practice** – working with disciplinary and interdisciplinary teams to inspire and support effective practice, though funded initiatives, networks, research, and events;
- **Institutional Strategy and Change** – working with higher education communities and institutions in general to enhance the quality and impact of learning and teaching. This is undertaken through services such as the HEA's institutional change programmes, postgraduate enhancement surveys, informing national policies through research, and debate around thematic priorities,
- **Organisational Effectiveness** – supporting an effective and sustainable organisation to deliver the strategic priorities

The HEA's strategic targets outline key areas of development and how its success will be measured. During the strategic period the HEA will increase its:

- **revenue** - by gaining new sources of financial investment to further support the enhancement of the quality and impact of learning and teaching;
- **reach** - by targeting new audiences engaged in services to support the enhancement of the student learning experience,
- **quality** - by meeting client expectations to support and build and sustain working relationships;
- **impact** – evidencing the outcomes of the HEA's interventions and improvement in the quality of learning and teaching

The HEA has already made progress towards all of its strategic key performance targets in the first six months of its strategic plan

Ref	Strategic key performance targets	2011-12 forecast	2011-12 actual	2015-16 Strategic Plan target
1	Income generated from restricted grant funding, subscriptions, other income, but excluding core grant funding	£6,315,000	£6,114,000 <sup>1</sup>	£8,000,000
2	% of eligible academic staff working in UK higher education Fellows (descriptor 2) at the end of 2012-13	17%	17%	50%
3	Eligible academic staff achieving Descriptor 3	n/a <sup>2</sup>	34	2,000
4	Eligible academic staff achieving Descriptor 4	n/a <sup>2</sup>	3	1,000
5	% of subscribing HEIs have a CPD framework accredited	7%	11%	85%
6	% of institutions in the UK have used the HEA's institutional strategic change services	72%	72%	75%
7	% of students studying for a UK higher education qualification are taught in HEA-subscribing institutions	95%	95%	95%
8	% of users of all HEA services in 2012-13 are satisfied	89%	92% <sup>3</sup>	85%
9	% of respondents surveyed report that they have changed their practice or policies as a result of the HEA's partnership work	46% <sup>4</sup>	39%	n/a <sup>5</sup>
10	% of institutional leaders and policy-makers surveyed agree that they have gained valuable support from the work, knowledge, evidence gathering activities and interventions of the HEA	n/a <sup>6</sup>	n/a <sup>6</sup>	80%

<sup>1</sup> The overall reduction predicted in 2012-13, compared to 2011-12, is due to a number of restricted grant funding sources ending in 2011-12. Additional income from subscriptions and consultancy is forecasted to increase following 2012-13 to meet the strategic plan target at the end of 2015-16.

<sup>2</sup> No comparable 2011-12 benchmark data is available due to changes in recognition at Descriptor 3 and Descriptor 4 following the re-launch of the UKPSF in November 2011.

<sup>3</sup> The 2011-12 data for % of users satisfied with the HEA services is based solely on attendees of HEA events. As % satisfaction of other HEA services will also be included in 2012-13 this may reduce the average while newer services become more established.

<sup>4</sup> The 2011-12 forecast data used was gathered from a small number of respondents (13) as part of a pilot HEA Event Impact Survey which had a low reliability due to the small survey sample involved.

<sup>5</sup> This KPI forms part of the Strategic Plan target (8) on the % of users satisfied with the HEA services. While no quantitative measure is specified in the Strategic Plan for those who have changed their practice or policies as a result of the HEA's partnership work, this internal measure has been added to inform the HEA's progress in this area.

<sup>6</sup> Benchmark data is unavailable due to historical changes in survey approach.



## **Review of the year**

This has been an extraordinary year of change for the HEA having implemented a new structure and begun to operationalise the new Strategic Plan. In addition to recruiting and inducting 110 staff, a thorough review of all of our processes and supporting systems through business process mapping has been undertaken. This will ensure that the HEA is both efficient and effective in its operation. The HEA has invested in systems to support a more remote workforce including Information and Communications Technology that facilitate collaborative working both internally and externally.

Further internal restructures of the Information Services team and Chief Executive's office to reflect the new structure have been completed and the building layout was remodelled to support both remote workers and new teams based in York.

The HEA continued to enjoy productive relationships with the subject centres as they work through their final transitional year. Discipline Leads worked closely with them to ensure an appropriate handover and transfer of resources.

The HEA has continued to increase its reach in the sector through its direct delivery approach with Discipline and Academic Leads working with departments and individuals and the introduction of Partnership Managers tasked with working at a senior level with our subscribers.

## **Principal risks and uncertainties**

The HEA's major risks are assessed regularly by the Executive and detailed in a strategic risk register.

The four key risks to the achievement of the HEA mission as defined and identified in the strategic risk register are as follows:

### **1 – Revenue**

If the HEA fails to maximise revenue levels caused by failure to maintain UK institutional subscription levels, reduction in the core grant to the HEA; or failure to generate sufficient new income from growth in subscription, business development and

co-investment by partners then the HEA becomes unable to maintain the quantity or quality of its services to the sector, limiting its impact and compromising its reputation,

### **2 – Reach**

If the HEA fails to engage a significant proportion of its target market caused by products and services not meeting sector needs, increased competition from other organisations in the area of quality enhancement or failure to market HEA services and maintain the profile of the organisation then the HEA becomes less valued by the sector, reducing its potential revenue streams, limiting its impact and compromising its reputation,

### **3 – Quality**

If the HEA fails to provide a consistent, high quality service to its target audiences caused by poor understanding of client needs and priorities, inability to exploit the sharing of information and new ways of working through the use of technology and an inability to recruit and maintain the right calibre of staff and consultants in response to levels of demand then the HEA becomes unable to sustain existing levels of financial support from its UK subscriber base and funding bodies, limiting its ability to expand the business and generate new and repeat sources of income and therefore compromising its reputation,

### **4 – Impact**

If the HEA fails to demonstrably enhance the quality of the student learning experience caused by failure to plan for impact measures at the outset of services, use of inadequate evaluation methodology or lack of a coherent and co-ordinated approach to measurement then the HEA becomes less valued by the sector, particularly, UK funding bodies, compromising its revenue stream, reputation and competitive position in the sector.

The HEA has mitigating actions in place for all risk and reviews those plans regularly as part of an integrated framework of management information. A formal assessment of the status of each strategic risk is made by the Executive on at least a quarterly basis and is reported to each meeting of the Audit Committee and reviewed by the Board on an annual basis.

## Results for the year

The HEA's income, expenditure and results for the 31 July 2012 are summarised below,

	HEA delivery	Ring fenced delivery	Total 2012	Total 2011
Total income	18,002	4,718	22,720	27,608
Total costs	18,587	4,725	23,312	26,571
Deficit/ surplus	(585)	(7)	(592)	1,037

- HEA delivery = funding body and HEA generated income and expenditure
- Ring-fenced delivery = specific income and expenditure including JISC TechDis

Total income decreased by 18% Income from funding council grants has reduced by 10% this is the second year of reductions in an agreed three year plan Other ring fenced project work including Open Educational Resources (OER) and

National Teaching Fellowship Scheme projects vary year on year and account for the remaining 8%

Subscription income has decreased by 1% following a review of charges. This has been offset by a 4% increase in the number of subscribers Other income, including events, consultancy and investments increased 1%

Total expenditure has decreased by 12% in response to the planned reductions in grant funding Pay has increased 54% in implementing the new structure (including 2% being the cost of the voluntary redundancy scheme) This follows a 17% decrease in 2010-11 during restructure Non-pay has decreased by 26%, in response to funding reductions.

The deficit of £592k is slightly higher than budgeted with increased utilisation of associates, additional investment in systems and restructuring costs being the major components contributing to this £531k of the deficit was a planned draw down

of reserves to supported delivery of Teaching Development Grants and Doctoral and International Scholarship work

## Cash flow and liquid resources

Cash flow has remained positive throughout the year with all expenditure being funded from existing cash balances

## Reserves

Reserves at 31 July 2012 are £2,910,000 (£3,502,000 in 2010-11) with £350,000 being designated to support business development and income generation including trading arm set up over the strategic planning period

This position is just below the target range of four to six months fixed costs The HEA's five-year financial forecast has incorporated modelling of reserves over the period and supports year on year increases in reserves with a target to bring the position up to the middle of the target range by 2013-2014.

## Post-balance sheet events

Since 31 July 2012, there has been one case in relation to the suspicion of fraud. This incident is in the process of investigation and had been reported to the relevant authorities on behalf of the Board of Directors and charitable trustees. The suspicion is not material to the financial statements

## Future outlook

The HEA's 2012-2016 Strategic Plan sets priorities and target performance for the coming years Financial modelling supports the operationalisation of the plan and incorporates targets set across all areas of delivery including income generation.

International activity is a new and major focus for the HEA to broaden the reach and range of best practice shared within the sector.

We will continue to review the forecasts on annual basis and adjust the structure as appropriate

2014 will include a scheduled review by the funding bodies which will highlight the HEA's achievements and further inform future developments

## **Statement of corporate governance and internal control**

The HEA is committed to exhibiting best practice in all aspects of corporate governance, following good practice guidance relevant to its status as a company limited by guarantee and a charity supporting the higher education sector. This summary describes the manner in which the HEA has applied this guidance. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The HEA endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). These are known as the Nolan Principles.

It also has regard to voluntary Governance Code of Practice contained in the Committee of University Chairmen's 'Guide for Members of Higher Education Governing Bodies in the UK', published in March 2009 and the principles of the Combined Code on Corporate Governance.

### **Board of Directors**

The composition of the Board is set out on page 3.

Professor Dianne Willcocks resigned from the Board of Directors during the course of the year, following which Professor Peter Lutzeier, was appointed in her place by Universities UK and GuildHE. The Board continues to be chaired by Professor Sir Bob Burgess, Vice Chancellor at the University of Leicester.

The Board of Directors, which meets formally four times a year, is responsible for the HEA's long-term strategy and objectives and for providing overall financial and organisational control. In this role it brings independent

judgement to issues of strategy, performance, resources and standards of conduct.

The Board is provided with regular and timely information on the overall financial performance of the HEA together with other information such as performance against targets, proposed capital expenditure, quality matters and personnel related issues such as health and safety and environmental issues.

The Board conducts its business through four committees, namely Finance and General Purposes, Audit, Governance and Nominations, and Remuneration. Each committee has a terms of reference, reviewed annually and approved by the Board. The decisions of these committees are formally reported to the Board. Minutes of Board meetings are available on the HEA website [heacademy.ac.uk/board-of-directors](http://heacademy.ac.uk/board-of-directors).

The Company Secretary maintains a register of financial and personal interests of the directors and trustees. The register is available for inspection at the registered office. All directors/trustees are able to take independent professional advice in furtherance of their duties at the HEA's expense and have access to the Company Secretary, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment and removal of the Company Secretary are matters for the Board as a whole.

Formal agendas, papers and reports are supplied to directors/trustees in a timely manner, prior to Board meetings. Additional briefings are also provided as necessary, including a monthly newsletter.

The Board has a strong, independent and fully non-executive membership with no individual or group dominating its decision making process. The Board considers that each of its members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Chief Executive are separate.

The Chief Executive is the head of the HEA and has a general responsibility to the Board for the organisation, direction and management of the HEA. The Board is responsible for the appointment and removal of the Chief Executive. Professor Craig Mahoney has held the position of Chief Executive since 1 July 2010.

### **Appointments to the Board**

Any new appointments to the Board are a matter for the consideration of the Board as a whole (other than those that are the responsibility of nominating bodies as specified in the Articles of Association).

### **Governance and Nominations Committee**

The Governance and Nominations Committee meets at least once a year and is chaired by Professor Sir Bob Burgess as Chair of the Board. A further three Board Directors comprise the committee which is responsible for the selection and nomination of any new member for the Board's consideration. The normal term of appointment is three years, after which members are eligible for re-appointment, however, no Board member may serve for a period exceeding nine years.

The Governance and Nomination Committee also ensures that appropriate induction and ongoing training is provided for all new Board members and during 2011-12 oversaw a review of Board and committee effectiveness which were reported to and discussed at the Board.

### **Audit Committee**

The Audit Committee meets at least three times a year and is chaired by Geoff Donnelly. A further two Board Directors, plus two co-opted members comprise the current committee which is responsible for advising the Board on the following key issues:

- the integrity of the financial statements and work of the external auditors prior to recommending the approval of the annual accounts;

- effectiveness of internal control and risk management arrangements;
- the extent to which satisfactory arrangements are in place to promote value for money through economy, efficiency and effectiveness;
- the review and effectiveness of the internal audit service and ensuring the appropriate implementation of recommendations.

The internal and external auditors have access to the committee for independent discussion, without the presence of HEA management.

The Audit Committee also advises the Board on the appointment of external auditors and their remuneration for both audit and non-audit work and has delegated authority to appoint internal auditors and set their terms of engagement.

### **Finance and General Purposes Committee (F&GP)**

F&GP meets at least four times a year and is currently chaired by Rama Thirunamachandran. A further three Board Directors comprise the current committee which is responsible for advising the Board on the following key issues:

- formulation of finance and resource objectives in the Academy's strategic and operating plans, including the recommendation of an annual budget and medium-term financial forecast;
- the financial health and solvency of the Academy, including the safeguarding of its assets;
- employment strategy and policy, including the diversity and equality of opportunity in employment and health and safety issues.

### **Remuneration Committee**

The Remuneration Committee meets at least once a year and is chaired by Professor Sir Bob Burgess as Chair of the Board. A further three Board

Directors, including the Chair of F&GP, comprise the current membership with delegated authority to review the performance of the Chief Executive and the other senior post holders appointed by the Board and to set the remuneration and conditions of service (including any severance arrangements) for all senior post holders with particular responsibility to represent the public interest.

All Board committees operates in accordance with written terms of reference which outline their responsibilities in more detail and are reviewed annually and approved by the Board

## **Internal control**

### Scope of responsibility

The Board is ultimately responsible for the HEA's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, not absolute assurance, against material misstatement or loss.

The Board has delegated the day to day responsibility to the Chief Executive for maintaining a sound system of internal control that supports the achievement of the HEA's policies, aims and objectives, whilst safeguarding the funds and assets for which he is responsible. He is also responsible for reporting to the Board any material weaknesses or breakdowns in internal control.

### The purpose of the system of internal control

A system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives, it can therefore only provide reasonable and not absolute assurance of effectiveness. The HEA's system of internal control is developed through processes designed to identify and prioritise the risks to the achievement of HEA policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control is

continuously being improved with assistance from the HEA's internal auditors.

### Capacity to handle risk

The Board has reviewed the key risks to which the HEA is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. In the opinion of the Board, a formalised process for identifying, evaluating and managing the HEA's significant risks has been in place throughout the year and up to the date of approval of the annual report and accounts and a process for identifying, evaluating and managing operational risks has been developed.

### The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board,
- regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts,
- setting targets to measure financial and other performance,
- clearly defined capital investment control guidelines;
- the adoption of formal project management disciplines, where appropriate.

The HEA has an internal audit service, which operates in accordance with the requirements of the Higher Education Funding Council for England Audit Code. The work of the internal audit service has been informed by an analysis of the risks to which the HEA is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Academy's Board on the recommendation of the audit committee. Annually, the Head of Internal Audit (HIA) provides the audit committee with a report on internal audit activity in the HEA. The report includes the HIA's independent opinion on the adequacy and effectiveness of the

HEA's system of internal control, risk management controls and governance processes.

#### Review of effectiveness

The Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by:

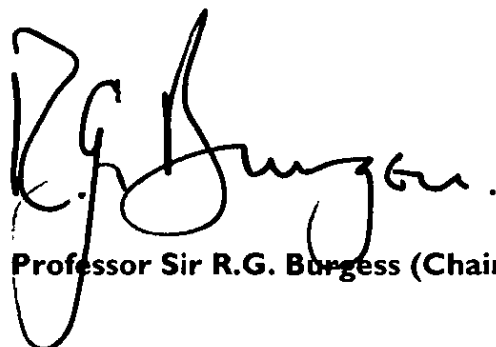
- the work of the internal auditors;
- the work of the executive managers within the HEA who have responsibility for the development and maintenance of the internal control framework,
- comments made by the HEA's financial statements auditors in their management letters.

The Executive and the Audit Committee receive regular reports from internal audit, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control.

#### **Going Concern**

Financial forecasts for the strategic period 2012-2016 have been considered and with robust cash flow throughout 2011-12 and confirmation of continued funding for 2012-13 the Board considers that the HEA has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements.

Approved by order of the members of the Board and signed on its behalf by



**Professor Sir R.G. Burgess (Chair)**



**Professor C. Mahoney (Chief Executive)**

21 November 2012

## Statement of the directors' and trustees' responsibilities

The directors and trustees are responsible for preparing the Operating and financial review and the financial statements in accordance with applicable law and regulations.

Company and charity law requires the directors and trustees to prepare financial statements for each financial year. Under that law the directors and trustees prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Academy for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Academy will continue in operation

The directors and trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the HEA's transactions and disclose with reasonable accuracy at any time the financial position of the HEA and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

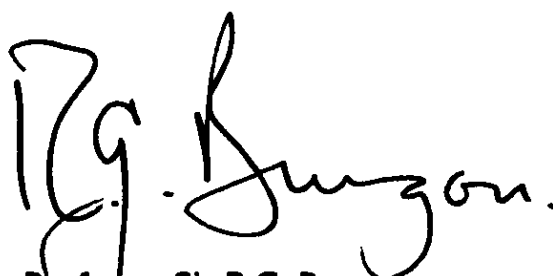
Directors and trustees must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly In addition, directors and trustees are responsible for securing economical, efficient and effective management of the HEA's resources and expenditure.

The directors confirm that.

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware,
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors and trustees are responsible for the maintenance and integrity of the corporate and financial information included on the HEA's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Signed on behalf of the Board



Professor Sir R.G. Burgess  
HEA

Company No. 4931031

21 November 2012

## **Independent auditor's report to the governing body of the HEA**

We have audited the financial statements of the HEA for the year ended 31 July 2012 which comprise the statement of principle accounting policies, the income and expenditure account, the balance sheets, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the 2007 Statement of recommended Practice Accounting for Further and Higher Education.

This report is made solely to the governing body, in accordance with the HEA's articles of government, section 124B(3) of the Education and Reform Act 1988 and Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the HEA's members and trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its members and trustees as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of trustees and auditor**

As explained more fully in the governing body's responsibilities statement on page 14, the governing body (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed auditor under the Education and Reform Act 1988 and the Companies Act 2006 and report in accordance with those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing

### **Practices Board's (APB's) Ethical Standards for Auditors**

We also report to you whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the HEA have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respect, income has been applied in accordance with the statutes and, where appropriate, the financial memorandum with the Higher Education Funding Council for England ('the Funding Council').

We read the operating and financial review and the corporate governance statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements. We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the HEA's affairs as at 31 July 2012 and of the incoming resources and application of resources, including its income and expenditure, for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education,
- have been prepared in accordance with the requirements of the Companies Act 2006.



### **Opinion on other matters**

In all material respects

- income from the funding council, grants and income for specific purposes and from other restricted funds administered by the HEA during the year ended 31 July 2012 have been applied for the purposes for which they were received,
- in all material aspects, income during the year/period ended 31 July 2012 has been applied in accordance with the HEA's statutes

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from Branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of the governing body's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

*Grant Thornton UK LLP*

**Peter Edwards**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

**LEEDS**

22 November 2012

## **Statement of principal accounting policies**

### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with the Statement of Recommended Practice (SORP) Accounting for Further and Higher Education 2007, the Companies Act 2006 and in accordance with applicable Accounting Standards.

### **Recognition of income**

Recurrent income receivable from the funding bodies represents the funding allocation attributable to the current financial year and is recognised in the income and expenditure accounts

Income from specific grants, contracts and other services is accounted for on an accruals basis and recognised in the accounts when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned

### **Grants made**

Where grants made are not utilised a claw back is recognised as a debtor in the balance sheet. The associated grant income is then deferred until the original conditions for its receipt have been complied with

### **Pension schemes**

The HEA participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the HEA is unable to identify its share of the

underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period

The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the USS

### **Tangible fixed assets**

Tangible assets are capitalised where they are capable of being used for a period that exceeds one year. Laptops, desk top computers, servers and printers are capitalised, irrespective of cost. All other equipment (excluding computer software and licences), furniture and fittings are capitalised at cost where the aggregated or individual cost is £1,000 or more

### **Depreciation**

All tangible fixed assets are depreciated on a straight line basis over their useful economic life as follows.

Equipment	-	three years,
Computer equipment	-	three years,
Furniture and fittings	-	five years

### **Leased assets**

Costs in respect of operating leases are charged to expenditure on a straight-line basis over the lease term

### **Liquid resources**

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities

The HEA has no significant exposure to cash flow interest rate risk as it doesn't have any loans or interest charging facilities in place

## **Provisions**

Provisions are recognised when the HEA has a present financial obligation as a result of a past event and it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of its value

## **Taxation**

The HEA is an exempt charity within the meaning of schedule 3 of the Charities Act 2011 and as such is a charity within the meaning of section 467 Corporation Tax Act 2010 (CTA 2010)

Accordingly, the HEA is potentially exempt from taxation in respect of income or capital gains received within categories covered by part 11 of CTA 2010 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes

The HEA receives no similar exemption in respect of Value Added Tax

## **Reserves**

The HEA's reserves policy sets a target level of four to six months fixed costs and is deemed appropriate to ensure sufficient funds are available to maintain the programme of work in the event of an unexpected loss of income. This policy allows directors to meet their obligations under the Companies Acts and to comply with Charity Commission guidance

The HEA may establish a designated reserve, where reserves are earmarked for a particular purpose.

## Income and expenditure account for the year ended 31 July 2012

	Notes	2012	2011
		£000	£000
<b>Income</b>			
Funding body grants	1	19,395	24,357
Other income	2	3,273	3,196
Investment income	3	52	55
<b>Total income</b>		<b>22,720</b>	<b>27,608</b>
<b>Expenditure</b>			
Staff costs	4	(6,955)	(4,528)
Subject Centres	6	(1,482)	(11,372)
Other operating expenses	6	(14,172)	(9,532)
Restructure	6	(513)	(1,059)
Depreciation	8	(183)	(76)
Interest and other finance costs	7	(7)	(4)
<b>Total expenditure</b>		<b>(23,312)</b>	<b>(26,571)</b>
<b>Deficit for the year deducted within the Income and Expenditure reserve</b>	19	<b>(592)</b>	<b>1,037</b>

The income and expenditure account is in respect of continuing activities for the Academy and TechDis

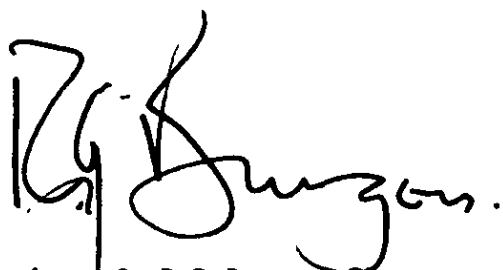
There were no gains and losses other than those reported in the income and expenditure account

The accompanying accounting policies and notes form an integral part of these financial statements

## Balance sheet as at the 31 July 2012

	Notes	2012 £000	2011 £000
<b>Fixed assets</b>			
Tangible assets	8	<u>708</u>	<u>263</u>
		<b>708</b>	<b>263</b>
<b>Current assets</b>			
Debtors	9	2,342	2,541
Cash at bank and in hand		<u>5,671</u>	<u>5,339</u>
		8,013	7,880
<b>Creditors: amounts falling due within one year</b>	10	<u>(5,811)</u>	<u>(4,641)</u>
<b>Net current assets</b>		<u>2,202</u>	<u>3,239</u>
<b>NET ASSETS</b>		<u><b>2,910</b></u>	<u><b>3,502</b></u>
<b>Reserves</b>			
I & E reserve	19	2,560	3,502
Designated Reserve	19	350	-
<b>TOTAL RESERVES</b>		<u><b>2,910</b></u>	<u><b>3,502</b></u>

The financial statements on pages 18 to 31 were approved by the Board on 21 November 2012 and were signed on its behalf by -



Professor Sir R.G. Burgess Chair  
The Higher Education Academy  
Company number 4931031

## Cash flow statement for the year to 31 July 2012

	Notes	2011	2011
		£'000	£'000
<b>Net Cash inflow from operating activities</b>	11	915	337
Returns on investment and servicing of finance	12	45	51
Capital expenditure and financial investment	13	( 628)	( 217)
<b>Increase in cash in the year</b>	14	<u>332</u>	<u>171</u>

### Reconciliation of net cash flow to movement in net funds

Increase in cash in the year	14	332	171
Change in net debt resulting from cash flows		<u>-</u>	<u>-</u>
<b>Movement in net funds in the period</b>		<b>332</b>	<b>171</b>
<b>Net funds at 1 August</b>		<u>5,339</u>	<u>5,168</u>
<b>Net funds at 31 July</b>		<u>5,671</u>	<u>5,339</u>

## Notes to the financial statements

### Funding body grants, other income, investment income

#### 1 Funding body grants

	2012	2011
	£000	£000
Higher Education Funding Council for England	15,446	20,328
Scottish Funding Council	1,866	2,090
Higher Education Funding Council for Wales	782	813
Department for Employment and Learning	286	318
Joint Information System Council (JISC)	638	793
Department for Innovation, Universities and Skills	-	10
Other funding body grants	377	5
	<u>19,395</u>	<u>24,357</u>

Other funding body grants largely relates to the Department for Business Innovations and Skills (BIS) grant awarded to TechDis in relation to the Small Business Research Initiative Scheme

#### 2 Other income

	2012	2011
	£000	£000
Institutional subscriptions	2,164	2,183
Other income	1,109	1,013
	<u>3,273</u>	<u>3,196</u>

#### 3 Investment income

	2012	2011
	£000	£000
Interest receivable	52	55
	<u>52</u>	<u>55</u>

#### 4 Staff

The average number of persons (including senior post holders) employed by the Academy during the year, expressed as full time equivalents was

	2012	2011
	No.	No.
Academic Practice	41	15
Teacher Excellence	12	7
Institutional Strategy & Change	27	24
Organisational Effectiveness	51	46
TechDis	10	11
	<u>141</u>	<u>103</u>

	2012	2011
	£000	£000
Staff costs for the above persons.		
Wages and salaries	5,855	3,762
Social security costs	415	261
Pension costs	685	505
	<u>6,955</u>	<u>4,528</u>

Staff costs by strategic aim:

Academic Practice	2,209	437
Teacher Excellence	541	257
Institutional Strategy & Change	1,237	1,195
Organisational Effectiveness	2,501	2,164
TechDis	467	458
	<u>6,955</u>	<u>4,528</u>

The 2010-11 restructure resulted in a reduced average FTE and payroll costs 2011-12 reflects the implementation of the new structure and recruitment to support this, including further internal restructuring of Information Services and Chief Executive's office Total severance pay included within payroll during 2011-12 is £230,000 approved by the Executive and reported to Board where appropriate, (£265,000 2010-11).



## 5 Senior post holders

The number of higher paid post-holders who received emoluments, excluding pension contributions and benefits in kind in the following ranges was;

	Senior post holders	
	2012	2011
	No.	No.
£ 70,000 to £ 79,999	-	1
£ 80,000 to £ 89,999	-	-
£ 90,000 to £ 99,999	-	1
£100,000 to £109,999	1	-
£110,000 to £119,999	-	-
£120,000 to £129,999	-	-
£130,000 to £139,999	-	1
£140,000 to £149,999	1	-
	<u>2</u>	<u>3</u>

### Emoluments of the Chief Executive

	2012	2011
	£000	£000
Salary	144	139
Benefits in kind	4	2
Pension Contributions	23	22
Total emoluments	<u>171</u>	<u>163</u>

The pension contributions in respect of the Chief Executive are in respect of employer's contributions to the USS pension scheme and are paid at the same rate as for other employees

## 6 Other operating expenses

	2012	2011
	£000	£000
Subject Centre grants	1,482	11,372
Academy operational costs	10,821	7,874
Indirect staff costs	389	103
Rent and rates	399	530
Travel and subsistence	1,036	353
Postage, printing, stationery and telephone	380	134
Professional fees	183	82
Office equipment and computer maintenance	438	392
General expenses	180	53
Public relations and fund raising	189	20
Recruitment costs	157	15
Restructure	513	1,059
Bad debt	-	(24)
	<u>16,167</u>	<u>21,963</u>

Subject Centre transition handover and the HEA direct delivery approach to the sector reflects the year on year movement in operational costs and travel and subsistence. There has been continued investment in systems including information and communication technology, and recruitment to support remote working and the restructure costs relate to the completion of the 2010-11 plan

	2012	2011
	£000	£000
Other operating expenses include		
Auditors' remuneration		
- External auditors' remuneration in respect of audit services	30	29
- External auditors' remuneration in respect of non-audit services	16	3
- internal audit	31	44
Hire of buildings – operating leases	<u>301</u>	<u>301</u>

## 7 Interest and other finance costs

	2012	2011
	£000	£000
Bank charges	7	4
	<u>7</u>	<u>4</u>

## 8 Tangible fixed assets

	Computer Equipment £000	Equipment £000	Fixtures & Fittings £000	Total £000
<b>Cost or valuation</b>				
Opening balance	594	113	602	1,309
Additions	332	0	296	628
Disposals	(83)	(3)	(52)	(138)
At 31 July 2012	<u>843</u>	<u>110</u>	<u>846</u>	<u>1,799</u>
<b>Depreciation</b>				
Opening balance	337	112	597	1,046
Provision for the period	160	0	23	183
Disposals	(83)	(3)	(52)	(138)
At 31 July 2012	<u>414</u>	<u>109</u>	<u>568</u>	<u>1,091</u>
<b>Net book value</b>				
At 31 July 2012	<u>429</u>	<u>1</u>	<u>278</u>	<u>708</u>
<b>Net book value</b>				
At 31 July 2011	<u>257</u>	<u>1</u>	<u>5</u>	<u>263</u>

## 9 Debtors

	2012	2011
	£000	£000
Amounts falling due within one year		
Debtors	112	51
Other debtors	51	51
	<u>163</u>	<u>102</u>
Prepayments	334	804
Accrued income	1,845	1,635
	<u>2,342</u>	<u>2,541</u>

## 10 Creditors: amounts falling due within one year

	2012	2011
	£000	£000
Creditors	227	61
Grant income deferred	1,613	2,705
Other accruals and deferred income	3,971	1,875
	<u>5,811</u>	<u>4,641</u>

## 11 Reconciliation of consolidated operating surplus to net cash flow from operating activities

	2012	2011
	£000	£000
<b>Deficit/surplus for the year</b>	(592)	1,037
Depreciation (note 8)	183	76
Decrease in debtors (note 9)	199	(990)
Increase in creditors (note 10)	1170	265
Interest receivable (note 3)	(52)	(55)
Bank charges (note 7)	7	4
Loss on disposal of assets	-	-
<b>Net cash inflow from operating activities</b>	<b>915</b>	<b>337</b>

## 12 Returns on investments and servicing of finance

	2012	2011
	£000	£000
Interest receivable	52	55
Bank charges	(7)	(4)
<b>Net cash inflow from returns on investments and servicing of finance</b>	<b>45</b>	<b>51</b>

## 13 Capital expenditure and financial investment

	Year ended 31 July 2012	Year ended 31 July 2011
	£000	£000
Capital expenditure	(628)	(217)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(628)</b>	<b>(217)</b>

## 14 Analysis of changes in net funds

	At 1 August 2011 £000	Cash Flow £000	At 31 July 2012 £000
Cash at bank and in hand	5,339	332	5,671
<b>Total</b>	<b>5,339</b>	<b>332</b>	<b>5,671</b>

## 15 Pensions and similar obligations

The HEA participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P)

The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK, three are appointed by the University and College Union, of whom at least one must be a USS pensioner member, and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the HEA is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2011. This valuation was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of this estimate of funding level at 31 March 2012 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the

assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality rates were used as follows:

Male members' mortality

SINA ["light"] YoB tables – No age rating

Female members' mortality

SINA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The CMI 2009 projects with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65 23.7 (25.6) years

Males (females) currently aged 45 25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the

scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pensions Protections Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded, on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition to the variability mentioned above.

As at the valuation date the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are

based on the Consumer Price Index measure of price inflation. Historically these increases had been based on the Retail Price Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

*New Entrants* – Other than in specific, limited circumstances, new entrants are now provided on a Career Re-valued Benefits (CRB) basis rather than a Final Salary (FS) basis,

*Normal pension age* – The normal pension age was increased for future service and new entrants, to age 65,

*Flexible Retirement* – Flexible retirement options were introduced;

*Member contributions increased* – Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively,

*Cost sharing* – If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions,

*Pension increase cap* – For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pension increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 inflation has declined rapidly towards the year end, although the markets assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation

On the FRS17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at the date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the HEA's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the schemes liabilities on a technical provisions basis as at the date of the last triennial valuation are set out below

<b>Assumption</b>	<b>Change in assumption</b>	<b>Impact on shortfall</b>
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Member live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any part of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are

designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows.

However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to what degree investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100%, thereby minimising the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

At 31 March 2012, USS had over 145,000 active members and the HEA had 141 active members participating in the scheme at 31 July 2012.

The total pension cost for the HEA was £679,043 (2011: £504,892). The contribution rate payable by the HEA in 2011-2012 was 16% of pensionable salaries.

## 16 Capital commitments

There were no capital commitments contracted for at 31 July 2012 (2011 nil)

## 17 Financial commitments

At 31 July 2012 the HEA had annual commitments under non-cancellable operating leases as follows

	2012	2011
	£000	£000
<b>Land and buildings</b>		
Expiring within one year	-	-
Expiring within two and five years inclusive	51	-
Expiring in over five years	250	301
	<u>301</u>	<u>301</u>

## 18 Related party transactions

Due to the nature of the HEA's operations and the composition of the Board (being drawn from the higher education sector) it is inevitable that transactions will take place with organisations in which a director of the board or a member of the HEA may have an interest. All transactions involving organisations in which a director of the Board or a member of the HEA may have an interest are conducted at arms' length and in accordance with the HEA's financial regulations and normal procurement procedures

During the period there were no material transactions (neither income nor expenditure) with organisations with which any director of the Board or member of the HEA may have an interest.

The following transactions were identified for disclosure under Financial Reporting Standard 8 Related Party Disclosures:

Director/Trustee	Institution	Receipts	Payments	Owed to (Owed from)
Professor R G Burgess	University of Leicester	17,630	58,075	-
Professor A J Chapman	Cardiff Metropolitan University	12,017	30,096	-
Professor P Lutzeier	Newman University College	1,993	146	14,056
Professor M Mannion	Glasgow Caledonian University	20,988	67,928	-
Professor J Kay	University of Exeter	17,455	41,102	-
Mr R Thirunamachandran	Keele University	9,026	19,246	(3,100)
Professor D Nutbeam	University of Southampton	22,639	392,347	-



## 19 Reserves

	Designated reserve £000	I & E reserve £000	Total £000
As at 31 July 2011	-	3,502	3,502
Deficit for the period	-	(592)	(592)
Designated reserve FY 11/12	350	(350)	-
At 31 July 2012	350	2,560	2,910

A designated reserve has been earmarked to support business development and including trading arm set up.

## 20 Post Balance Sheet Event

Since 31 July 2012, there has been one case in relation to the suspicion of fraud. This incident is in the process of investigation and had been reported to the relevant authorities on behalf of the Board of Directors and charitable trustees. The suspicion is not material to the financial statements.

## Acronyms and abbreviations

BIS	Department for Business Innovation and Skills
CPD	continuing professional development
ESD	Educations for Sustainable Development
F & GP	Finance and General Purposes Committee
FTE	full time equivalent
HIA	Head of Internal Audit
HEA	The Higher Education Academy
HEAR	Higher Education Achievement Record
HEFCE	Higher Education Funding Council for England
HE in FE	higher education in further education
HEI	higher education institution
HEPI	The Higher Education Policy Institute
HIA	Head of Internal Audit
JISC	Joint Information Systems Council
NHS	The National Health Service
NTFS	National Teaching Fellowship Scheme
NUS	National Union of Students
OER	Open Educational Resources
PRES	Postgraduate Research Experience Survey
PTES	Postgraduate Taught Experience Survey
SBRI	Small Business Research Initiative
SHEEF	Scottish Higher Education Employability Forum
SORP	Statement of Recommended Practice
SLTA	Student Led Teaching Awards
UKPSF	United Kingdom Professional Standards Framework
USS	Universities Superannuation Scheme
UUK	Universities United Kingdom