



MONDAY



\*A30WMIQ0\*

A12

03/02/2014

#202

COMPANIES HOUSE



**Report and financial statements**  
**Year ended**  
**31 July 2013**

Company registration number 04931031  
Registered Charity numbers 1101607 & SC043946

## **Contents**

Operating and financial review	02
Statement of corporate governance and internal control	12
Statement of Directors' and trustees' responsibilities	16
Independent auditors' report to the governing body of the HEA	17
Statement of principal accounting policies	19
Income and expenditure account	21
Balance sheet	22
Cash flow statement	23
Notes	24
Acronyms and abbreviations	36

## 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 2012-13 the HEA had 200 subscribers from the higher education (HE), further education (FE) and private provider sectors including its first international subscriber, the Australian International University (ANU), its first affiliate, the Royal College of Physicians and a number of new college-based higher education providers.

The HEA's work is delivered through teams in academic practice, research and policy 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. Following a restructure within Jisc 2013-14 funding has been confirmed and will be received direct from Jisc.

### Corporate governance

The HEA is a registered charity in England and Wales under the Charities Act 1993 (as amended by the Charities Act 2011), in Scotland under the Charity and Trust Investment (Scotland) Act 2005 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 83% of its funding coming from the Higher Education Funding Councils of the UK, 11% from subscribing institutions and 6% 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 in 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 2013 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, Vice-Chancellor and Principal, Newman University College
- Professor Mike Mannion, Vice-Principal and Pro-Vice-Chancellor(Research), 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

- Rebecca Bunting, Deputy Vice-Chancellor, University of Portsmouth and Director and Vice-Chair of the Society for Research into Higher Education
- Toni Pearce, President, National Union of Students
- Anthony Carey, Partner, Mazars LLP, Governor, St Mary's University College, Twickenham
- 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
- Johnny Rich, Managing Director, Push

No trustees received any payment for their trustee duties other than reimbursement of travel and subsistence expenses incurred in the course of their duties. Six claimants have been reimbursed a total of £2,750 during the year.

Related Party transactions are reported in note 19 to the financial statements

## Auditors

Following a formal tender process, the internal auditors Price Waterhouse Coopers will be replaced by Baker Tilly commencing 1 August 2013

### Professional advisers

External auditors.  
Grant Thornton UK LLP  
Statutory Auditor  
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  
EI 8BE

Handelsbanken  
Unit 5, Tudor Court  
Nether Poppleton  
York  
North Yorkshire  
YO26 6RS

Barclays Bank  
25 James Street  
Harrogate  
North Yorkshire  
HG1 1QX

### Solicitors:

DAC Beachcroft LLP  
100 Fetter Lane  
London  
EC4A 1BN

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

Bond Dickinson  
The Chocolate Works  
Bishopthorpe Road  
York  
YO23 1DE

## Report and financial statements for the year ended 31 July 2013

### Resources

#### Financial

At the year end the HEA has £3.4m of net assets and no debt.

Further details are set out in the balance sheet on page 22.

#### People

The HEA employed 168 full-time equivalent staff on average during 2012-13.

Employees' performance is aligned to the HEA's objectives through an annual performance review process which is carried out with all employees. This uses performance against objectives and capabilities that identify the types of behaviour the HEA expects from its employees. These are:

- client focus,
- personal responsibility;
- working collaboratively;
- valuing diversity,
- communication;
- leadership for those in management roles

There has been a great deal of investment in personal development for staff particularly in supporting our academic colleagues in gaining fellowship of the HEA and our professional colleagues in role-specific qualifications and membership.

The HEA is committed to undertaking an annual staff survey benchmarked nationally, analysing an extensive range of satisfaction and engagement measures.

#### Health and wellbeing

The HEA considers the health and wellbeing of its employees to be fundamental to an engaged workforce. To this end it offers a range of support services to promote good health and assist managers in supporting health related issues. These include a British Heart Foundation wellbeing day, flu vaccinations, occupational health service, training in tackling bullying and harassment and a 24 hour employee helpline supporting financial, legal and personal matters.

#### Equality and diversity

The HEA is committed to upholding the values that underpin current equality and diversity legislation and principles. The HEA aims to treat individuals with dignity and respect in the provision of its services and by creating a positive working environment for staff.

#### Stakeholder relationships

The HEA engages with multiple stakeholders. They include:

- UK higher education institutions and their staff (the HEA's subscribers);
- HEA Associates, Fellows and Senior Fellows, its staff;
- National Teaching Fellows;
- Funding bodies,
- Universities UK and Guild HE (the HEA's owners),
- Governments of the UK and of the devolved nations,
- Professional, Statutory and Regulatory Bodies and subject associations,
- National Union of Students;
- sector agencies such as the Leadership Foundation for Higher Education, the Quality Assurance Agency, and the Jisc,
- students

#### 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 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 99 grants, representing £1.1m in funding to the sector, across individual, departmental and collaborative strands, taking forward sector priorities of employability and internationalisation;
- International Scholarship Programme – supporting five individuals in the sector (total funding over £86,000) to 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 seven awards (total funding over £386,000) which will develop pedagogical knowledge and evidence-based practice in HE;
- UK travel fund – 190 grants awarded 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 was 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 national border within the UK to attend a teaching and learning event;
- 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 discipline specific journals) are freely available on the HEA's website and through a new journal portal. There was a 45% increase in the number of unique visitors (693,000 in 2012-13 compared to 478,000 in 2011-12).

The HEA undertook over 550 events with approximately 9,500 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. The HEA also ran a series of events through Changing the

## Report and financial statements for the year ended 31 July 2013

Learning Landscape, a HEFCE funded programme which helps HE and FE institutions to adopt effective and strategic uses of online technology in teaching and learning.

The HEA launched two sector wide groups on Transnational Education (TNE) and Internationalisation of the Curriculum. The TNE group recruited 147 members from 59 institutions and the Internationalisation of the Curriculum group recruited 18 members representing 54 institutions both in the UK and internationally.

The HEA also launched a Student Advisory Forum which gives 20 students a voice in the HEA's activities with and for students.

Jisc TechDis continued the work started in 2011-12 in partnership with the Department for Business Innovation and 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.

Over 43,300 individuals are now recognised against the UKPSF as HEA Fellows up from 36,000 in 2011-12 including the first Principal Fellows in Scotland, Northern Ireland and Wales. 20% of UK

academic staff are now recognised in total. The HEA supported 567 provisions at 135 institutions and supported 26 new institutions to adopt a CPD approach bringing the total number of institutions with CPD provision to 38.

The HEA continued to support the recognition of teaching through the National Teaching Fellowship Scheme (with a total of 588 NTFs now awarded since the scheme started in 2000) and published a review and recommendation on the NTFs in 2012. The Student-Led Teaching Awards (SLTAs) work continued, building on the previous year's successes and 13 small and specialist students' unions were supported to establish their own SLTAs in partnership with the National Union of Students.

### Influencing policy, future thinking and change

During 2012-13 the HEA brought together key individuals in the sector to stimulate discussion on emerging issues in HE, including working in partnership with The Guardian on their higher education summits, and the Higher Education Policy Institute (HEPI) on a series of breakfast seminars at the House of Commons.

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

Eighty nine institutions participated in the 2013 Postgraduate Taught Experience Survey (PTES) and 122 in the Postgraduate Research Experience Survey (PRES), informing institutional enhancements to their postgraduate students' learning experience.

The HEA published its first position statement in November 2012 on 'Public information for post graduate taught programmes' following a roundtable on proposals for a national survey of postgraduate taught students.

UK nation specific priorities were supported through development of the HEAR in Scotland, continued leadership of SHEEF and contributing our expertise and support to other sector initiatives such as the Scottish Enhancement theme 'Developing and Supporting the Curriculum'.

Spring 2013, the HEA held its first Learning and Teaching summits in Wales and Northern Ireland focusing respectively on mapping pathways through learning and engaging local students. enhancing retention and success.

#### 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 Corporate Social Responsibility 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. Staff raised over £2,500 for various charities and 22 colleagues supported the York Cares volunteering programme. The HEA also offered work placements and internships for the first time in 2012-13

The HEA provides the sector support on education for sustainable development as part of its thematic programme. Work included support on the Higher Education Funding Council for England (HEFCE) Sustainable Development Strategy, the Welsh Government Sustainable Development Bill and the sector response on the United Nations conference on Sustainable Development outcome document 'Future We Want'.

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. This model will be reviewed in 2013-14. In 2012-13 the HEA welcomed new subscribers from the international, HE in FE and private provider sectors.

#### 2012/13 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 three areas.

- Academic Practice – working with disciplinary and interdisciplinary teams to inspire and support effective practice, though funded initiatives, networks, research, and events;
- Research & Policy – 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 postgraduate enhancement surveys, informing national policies through research, and debate around thematic priorities. Work to recognise reward and accredit individuals staff is delivered through recognition and accreditation services, as well as its support for teaching awards such as the National Teaching Fellowship Scheme and Student-led Teaching Awards,
- Organisational Effectiveness – supporting an effective and sustainable organisation to deliver the strategic priorities.



## Report and financial statements for the year ended 31 July 2013

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.

## Report and financial statements for the year ended 31 July 2013

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

### Review of the year

Ref	Strategic key performance targets	2012-13 target	2012-13 actual	2015-16 Strategic Plan target
1	Income generated from restricted grant funding, subscriptions, other income, but excluding core grant funding	£6,000,000	£5,265,000 <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	20%	20%	50%
3	Eligible academic staff achieving Descriptor 3	140	387	2,000
4	Eligible academic staff achieving Descriptor 4	70	78	1,000
5	% of subscribing HEIs have a CPD framework accredited	55%	23% <sup>2</sup>	85%
6	% of institutions in the UK have used the HEA's institutional strategic change services	75%	87%	75%
7	% of students studying for a UK higher education qualification are taught in HEA-subscribing institutions	96%	96%	95%
8	% of users of all HEA services in 2012-13 are satisfied	85%	92%	85%
9	% of respondents surveyed report that they have changed their practice or policies as a result of the HEA's partnership work	40%	39%	n/a <sup>3</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	65%	n/a <sup>4</sup>	80%

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

<sup>2</sup> Board agreed that this target would be revised to reflect that not all subscribing institutions will have individual CPD frameworks

<sup>3</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>4</sup> Benchmark data is unavailable due to historical changes in survey approach.

This has been a strategically important year for the HEA, building on the new structure put in place during the previous year. It has maximised its opportunities to engage stakeholders: the subscriber base broadened this year to include the first international subscriber, and a further 26 college-based higher education providers also became subscribers.

There has been a significant focus on explaining the HEA's role, profiling and positioning the organisation with greater clarity. Wider international recognition has been gained and the European Commissioner's High Level Group on the Modernisation of Higher Education in Europe, focused on how best to achieve quality and excellence in teaching and learning, commented that they were "particularly inspired by the activities of the Higher Education Academy in the United Kingdom [...] especially for their potential for networking and developing new pedagogical approaches."

## Report and financial statements for the year ended 31 July 2013

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. Following the introduction of partnership managers last year, tasked with working at a senior level with our subscribers, this year saw subscribers benefit from an even greater client-focused service.

At the end of the year, Professor Stephanie Marshall was appointed as the new Chief Executive at the HEA, succeeding Professor Craig Mahoney who so successfully led and steered the HEA through its restructure. Professor Mahoney has been appointed Principal and Vice-Chancellor of the University of the West of Scotland. Professor Marshall, took up her position as chief executive on 1 August 2013. Professor Marshall joined the HEA as Deputy Chief Executive, Research and Policy in January 2012, having joined from the Leadership Foundation.

### 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

All sources of financial investment in the HEA that support the enhancement of the quality and impact of learning and teaching. If the HEA fails to maximise revenue levels because of failure to maintain UK institutional subscription levels, a reduction in the funding bodies 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

The proportion of HEA target audiences engaged in services to support the enhancement of the student learning experience. If the HEA fails to engage a significant proportion of its target market

as a result of 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

The HEA's support and interventions meet client expectations to support and enhance the student learning experience and build and sustain working relationships. 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. The HEA may become 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

The outcomes of HEA interventions show a demonstrable improvement in the quality of learning and teaching. 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 controls and actions in place for all risks which are reviewed 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 and SMT 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.

## Report and financial statements for the year ended 31 July 2013

### Results for the year

The HEA's income, expenditure and results for the 31 July 2013 are summarised below.

	HEA delivery	Ring fenced delivery	Total 2013	Total 2012
	£000	£000	£000	£000
Total income	16,914	3,094	20,008	22,720
Total costs	16,413	3,121	19,534	23,312
Deficit/ surplus	501	(27)	474	(592)

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

Total income decreased by 12%. Income from funding council grants has reduced by 10% this is the final year of reductions in an agreed three year plan. Other ring fenced project work including Open Educational Resources (OER), Small Business Research Initiatives (SBRI) and National Teaching Fellowship Scheme projects vary year on year and reduced by 3%.

Subscription income has increased by 4% with 34 new subscribers during the year. Other income, including events, consultancy and investments continued to increase overall by 1%.

Total expenditure has decreased by 16% in response to the planned reductions in grant funding and building reserves. Pay has increased 18% reflecting the 19% increase in FTE numbers supporting the finalised restructure from 2011-12. Non-pay has decreased by 30%, in response to funding reductions.

The surplus of £474k is higher than budgeted recognising the need to increase reserves.

### 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 2013 are £3,384,000 (£2,910,000 in 2011-12) 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 above the bottom of the target range of four to six months fixed costs. The HEA's three year financial forecast incorporates modelling of reserves over the period and supports year on year increases with the aim to bring the position up to the middle of the target range.

### Post-balance sheet events

Since 31 July 2013 there has been no significant post-balance sheet events.

### Future outlook

The HEA's 2012-16 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 continuing 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.

2013-14 will include a scheduled independent 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 demonstrating 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.

### Board of Directors

The composition of the Board is set out on page 3

Mr Robert Barlow resigned from the Board of Directors during the course of the year, and Ms Toni Pearce replaced Mr Liam Burns as the co-opted member appointed by virtue of being President of the National Union of Students. 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.

In order to monitor and scrutinise progress 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 held by separate individuals with clear divisions of responsibility.

The Chair is responsible for leading the Board and ensuring its effectiveness.

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 held the position of Chief Executive on 1 July 2010 until his resignation from 31 July 2013. A selection process was undertaken by the Board supported by a recruitment consultant and a range of candidates both internal and external were considered. The successful candidate was Professor Stephanie Marshall, the HEA's Deputy Chief Executive (Research and Policy). Her appointment as Chief Executive came into effect on 1 August 2013.

### **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. Under normal circumstances, the maximum term for a Board member is nine years. However, in July 2013 the Nominations Committee recommended to the Board that in order to provide continuity at a time when there were significant changes to the HEA Executive Management and the Independent Review of the HEA was underway by its funders Professor Sir Bob Burgess who was appointed on 26 March 2004 would continue as Chair until 31 July 2014. The Chair took no part in the discussions regarding the extension to his term of office.

The Governance and Nomination Committee also ensures that appropriate induction and on-going training is provided for all new Board members

### **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

- monitoring the integrity of the financial statements and work of the external auditors prior to recommending the approval of the annual accounts;
- reviewing the 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;
- to review the effectiveness and independence of the internal and external auditors and ensuring the appropriate implementation of recommendations

At least once a year, the internal and external auditors meet 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 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 HEA's strategic and operating plans, including the recommendation of an annual budget and

## Report and financial statements for the year ended 31 July 2013

medium-term financial forecast;

- the financial health and solvency of the HEA, 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 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 operate 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, while safeguarding the funds and assets for which they are responsible. The Chief Executive 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; and
- the adoption of formal project management disciplines, where appropriate.

## Report and financial statements for the year ended 31 July 2013

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 HEA'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. The review of the effectiveness of the system of internal control is informed by:

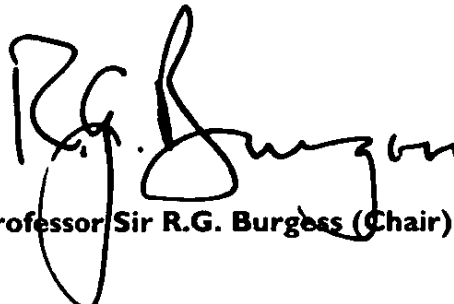
- the work of the internal auditors;
- the work of the executive managers within the HEA who have responsibility for the development and maintenance of the internal control framework;
- comments made by the HEA's financial statements auditors in their management letters.

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.

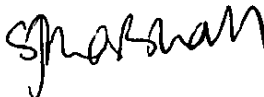
### **Going concern**

Financial forecasts for the strategic period 2013-16 have been considered and with robust cash flow throughout 2012-13 and confirmation of continued funding for 2013-14 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 S Marshall (Chief Executive)  
20 November 2013



## 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

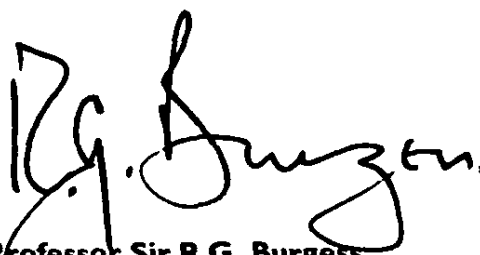
economical, efficient and effective management of the HEA's resources and expenditure.

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. 04931031**  
**20 November 2013**

## **Independent auditors' report to the governing body of the HEA**

We have audited the financial statements of the HEA for the year ended 31 July 2013 which comprise the statement of principle accounting policies, the income and expenditure account, the balance sheet, 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 16, 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 2013 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

## Report and financial statements for the year ended 31 July 2013

### 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 2013 have been applied for the purposes for which they were received;
- in all material aspects, income during the year/period ended 31 July 2013 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, and where appropriate, with the financial memorandum with the funding council.

### 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**

**20 November 2013**

## 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 does not have any loans or interest charging facilities in place

## Report and financial statements for the year ended 31 July 2013

### **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 2013

	Notes	2013 £000	2012 £000
<b>Income</b>			
Funding body grants	1	16,580	19,395
Other income	2	3,374	3,273
Investment income	3	54	52
<b>Total income</b>		<u>20,008</u>	<u>22,720</u>
<b>Expenditure</b>			
Staff costs	4	(8,222)	(6,955)
Subject Centres	6	-	(1,482)
Other operating expenses	6	(11,047)	(14,172)
Restructure	6	-	(513)
Depreciation	8	(252)	(183)
Interest and other finance costs	7	(13)	(7)
<b>Total expenditure</b>		<u>(19,534)</u>	<u>(23,312)</u>
<b>Surplus for the year retained within the Income and Expenditure reserve</b>	20	<u>474</u>	<u>(592)</u>

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

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

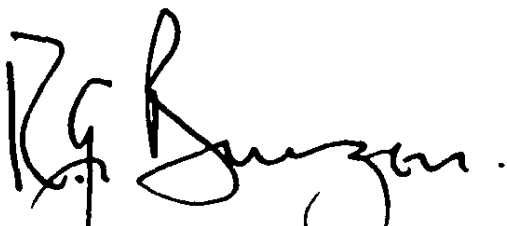
The accompanying accounting policies and notes form an integral part of these financial statements.

Report and financial statements for the year ended 31 July 2013

Balance sheet as at the 31 July 2013

	Notes	2013 £000	2012 £000
<b>Fixed assets</b>			
Tangible assets	8	<u>486</u> <u>486</u>	<u>708</u> <u>708</u>
<b>Current assets</b>			
Debtors	9	2,910	2,342
Cash at bank and in hand		<u>5,703</u> <u>8,613</u>	<u>5,671</u> <u>8,013</u>
Creditors, amounts falling due within one year	10	(5,491)	(5,687)
Provisions for liabilities	11	<u>(224)</u>	<u>(124)</u>
<b>Net current assets</b>		<u>2,898</u>	<u>2,202</u>
<b>NET ASSETS</b>		<u><u>3,384</u></u>	<u><u>2,910</u></u>
<b>Reserves</b>			
I & E reserve	20	3,034	2,560
Designated Reserve	20	350	350
<b>TOTAL RESERVES</b>		<u><u>3,384</u></u>	<u><u>2,910</u></u>

The financial statements on pages 20 to 35 were approved by the Board on 20 November 2013 and were signed on its behalf by:-

  
 Professor Sir R.G. Burgess Chair  
 The Higher Education Academy  
 Company number 04931031

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

## Cash flow statement for the year to 31 July 2013

	Notes	2013 £000	2012 £000
<b>Net Cash inflow from operating activities</b>	12	22	915
Returns on investment and servicing of finance	13	41	45
Capital expenditure and financial investment	14	(31)	(628)
<b>Increase in cash in the year</b>		<u>32</u>	<u>332</u>
<b>Reconciliation of net cash flow to movement in net funds</b>			
Increase in cash in the year	15	32	332
Change in net debt resulting from cash flows		<u>-</u>	<u>-</u>
<b>Movement in net funds in the period</b>		<b>32</b>	<b>332</b>
<b>Net funds at 1 August</b>		<u><b>5,671</b></u>	<u><b>5,339</b></u>
<b>Net funds at 31 July</b>		<u><u><b>5,703</b></u></u>	<u><u><b>5,671</b></u></u>

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



# Report and financial statements for the year ended 31 July 2013

## Notes to the financial statements

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

#### 1 Funding body grants

	2013 £000	2012 £000
Higher Education Funding Council for England	13,096	15,446
Scottish Funding Council	1,586	1,866
Higher Education Funding Council for Wales	668	782
Department for Employment and Learning	247	286
Joint Information System Council (Jisc)	681	638
Department for Innovation, Universities and Skills	-	-
Other funding body grants	302	377
	<u>16,580</u>	<u>19,395</u>

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

#### 2 Other income

	2013 £000	2012 £000
Institutional subscriptions	2,258	2,164
Other income	1,116	1,109
	<u>3,374</u>	<u>3,273</u>

#### 3 Investment income

	2013 £000	2012 £000
Interest receivable	54	52
	<u>54</u>	<u>52</u>

## Report and financial statements for the year ended 31 July 2013

### 4 Staff

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

	<b>2013 No.</b>	<b>2012 No.</b>
Academic Practice	69	55
Research and Policy	36	27
Organisational Effectiveness	51	49
TechDis	12	10
	<b>168</b>	<b>141</b>
	<b>2013 £000</b>	<b>2012 £000</b>
Staff costs for the above persons:		
Wages and salaries	6,895	5,855
Social security costs	501	415
Pension costs	826	685
	<b>8,222</b>	<b>6,955</b>
	<b>2013 £000</b>	<b>2012 £000</b>
Staff costs by strategic aim:		
Academic Practice	3,682	2,873
Research and Policy	1,856	1,227
Organisational Effectiveness	2,130	2,388
TechDis	554	467
	<b>8,222</b>	<b>6,955</b>

2012-13 payroll costs and average full-time equivalent numbers reflect fully staffed operations supporting the direct delivery approach of the finalised restructure from 2011-12. There were no severance payments made during 2012-13, (£230,000 2011-12).

## Report and financial statements for the year ended 31 July 2013

### 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,

	<b>Senior post holders</b>	
	<b>2013 No.</b>	<b>2012 No.</b>
£100,000 to £109,999	3	1
£110,000 to £119,999	-	-
£120,000 to £129,999	-	-
£130,000 to £139,999	-	-
£140,000 to £149,999	1	1
	<u>4</u>	<u>2</u>

#### Emoluments of the Chief Executive

	<b>2013 £000</b>	<b>2012 £000</b>
Salary	147	144
Benefits in kind	4	4
Pension Contributions	24	23
Total emoluments	<u>175</u>	<u>171</u>

Professor Craig Mahoney held the position of Chief Executive until his resignation on 31 July 2013. Professor Stephanie Marshall has been appointed as Chief Executive from 1 August 2013.

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

	2013 £000	2012 £000
Subject Centre grants	-	1,482
Academy operational costs	7,964	10,821
Indirect staff costs	359	389
Rent and rates	369	399
Travel and subsistence	959	1,036
Postage, printing, stationery and telephone	282	380
Professional fees	207	183
Office equipment and computer maintenance	422	438
General expenses	133	180
Public relations and fund raising	257	189
Recruitment costs	95	157
Restructure	-	513
	<u>11,047</u>	<u>16,167</u>

Reduced operating costs for 2012-13 reflect the final year of planned funding reductions and continued investment in staffing to support the direct delivery approach to the sector. There has been continued investment in public relations and professional advice to support international activity in broadening the reach and range of best practice shared within the sector.

	2013 £000	2012 £000
Other operating expenses include:		
Auditors' remuneration		
- External auditors' remuneration in respect of audit services	30	30
- External auditors' remuneration in respect of non-audit services	17	16
- Internal audit	56	31
Hire of buildings – operating leases	<u>330</u>	<u>301</u>

Investment in new office space in Scotland accounts for the increase in operating leases in 2013

# Report and financial statements for the year ended 31 July 2013

## 7 Interest and other finance costs

	2013 £000	2012 £000
Bank charges	13	7
	<u>13</u>	<u>7</u>

## 8 Tangible fixed assets

	Computer equipment £000	Equipment £000	Fixtures & fittings £000	Total £000
<b>Cost or valuation</b>				
Opening balance	843	110	846	1,799
Additions	20	-	11	31
Disposals	(78)	-	(9)	(87)
At 31 July 2013	<u>785</u>	<u>110</u>	<u>848</u>	<u>1,743</u>
<b>Depreciation</b>				
Opening balance	414	109	568	1,091
Provision for the period	190	1	61	252
Disposals	(77)	-	(9)	(86)
At 31 July 2013	<u>527</u>	<u>110</u>	<u>620</u>	<u>1,257</u>
<b>Net book value</b>				
At 31 July 2013	<u>258</u>	<u>-</u>	<u>228</u>	<u>486</u>
<b>Net book value</b>				
At 31 July 2012	<u>429</u>	<u>1</u>	<u>278</u>	<u>708</u>

## 9 Debtors

	2013 £000	2012 £000
Amounts falling due within one year		
Debtors	2,443	112
Other debtors	51	51
	<u>2,494</u>	<u>163</u>
Prepayments	188	334
Accrued income	228	1,845
	<u>2,910</u>	<u>2,342</u>

The increase in debtors is due to 2013-14 invoicing of annual subscriptions being performed prior to the year end

Report and financial statements for the year ended 31 July 2013

**10 Creditors: amounts falling due within one year**

	<b>2013 £000</b>	<b>2012 £000</b>
Trade creditors	276	227
Other tax and social security	11	-
Grant income deferred	3,161	1,613
Other accruals and deferred income	2,029	3,847
Other creditors	14	-
	<u>5,491</u>	<u>5,687</u>

**11 Provisions for liabilities**

	<b>Onerous lease £000</b>	<b>Other £000</b>	<b>Total £000</b>
As at 1 August 2012	124	-	124
Provided for during the year	-	110	110
Utilised during the year	(10)	-	(10)
At 31 July 2013	<u>114</u>	<u>110</u>	<u>224</u>

Provisions have been presented separately this year with prior year figures amended accordingly to enable more accurate comparison.

**12 Reconciliation of consolidated operating surplus to net cash flow from operating activities**

	<b>2013 £000</b>	<b>2012 £000</b>
<b>Surplus/(deficit) for the year</b>	<b>474</b>	<b>(592)</b>
Depreciation (note 8)	252	183
Increase in debtors (note 9)	(568)	199
Decrease in creditors (note 10 & 11)	(96)	1,170
Interest receivable (note 3)	(54)	(52)
Bank charges (note 7)	13	7
Loss on disposal of assets (note 8)	1	-
Net cash inflow from operating activities	<u>22</u>	<u>915</u>

## Report and financial statements for the year ended 31 July 2013

### 13 Returns on investments and servicing of finance

	2013 £000	2012 £000
Interest receivable	54	52
Bank charges	(13)	(7)
Net cash inflow from returns on investments and servicing of finance	41	45

### 14 Capital expenditure and financial investment

	Year ended 31 July 2013 £000	Year ended 31 July 2012 £000
Capital expenditure	(31)	(628)
Net cash outflow from capital expenditure and financial investment	(31)	(628)

### 15 Analysis of changes in net funds

	At 1 August 2012 £000	Cash Flow £000	At 31 July 2013 £000
Cash at bank and in hand	5,671	32	5,703
Total	5,671	32	5,703

### 16 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 three and a maximum of five are independent 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 triennial actuarial valuation of the scheme was at 31 March 2011. This 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 2013 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 three 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 also necessary to assess the on-going cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those



## Report and financial statements for the year ended 31 July 2013

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 of 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 valuation effective date there has 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 increases by more than 5% then USS will pay half of the difference up to a maximum increase of 10%

The actuary has estimated that the funding level as at 31 March 2013 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 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 68%. An estimate of the funding level measured on a historic gilts basis at the date was approximately 55%

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.

Assumption	Change in assumption	Impact on shortfall
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 significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that, putting the issue of the USS fund's size and scale to one side it might 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 sponsoring employers would be willing and able to make, it is necessary and appropriate for the trustee 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 while 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 importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the on-going flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer term view of its investments. Some short-

term volatility of returns can be tolerated and need not feed through directly to the contribution rate. However the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together – in an integrated form – the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

At 31 March 2013, USS had over 148,000 active members and the HEA had 138 active members participating in the scheme at 31 July 2013.

The total pension cost for the HEA was £825,898 (2012 £679,043). The contribution rate payable by the HEA in 2011-2012 was 16% of pensionable salaries

## 17 Capital commitments

There were no capital commitments contracted for at 31 July 2013 (2012 nil)

## 18 Financial commitments

At 31 July 2013 the HEA had annual commitments under non-cancellable operating leases as follows:

	2013 £000	2012 £000
<b>Land and buildings</b>		
Expiring within one year	-	-
Expiring within two and five years inclusive	51	51
Expiring in over five years	279	250
	<u>330</u>	<u>301</u>

## 19 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	34,953	159,190	(15,305)
Professor A J Chapman	Cardiff Metropolitan University	21,897	27,782	(9,441)
Professor P Lutzeier	Newman University College	9,975	50,372	1,264
Professor M Mannion	Glasgow Caledonian University	44,440	75,880	(14,577)
Professor J Kay	University of Exeter	31,100	79,810	(8,480)
Mr R Thirunamachandran	Keele University	17,788	81,286	(7,706)
Professor D Nutbeam	University of Southampton	45,000	172,514	(20,264)
R Bunting	University of Portsmouth	46,012	14,949	(21,289)
R Bunting	Society for Research into HE	-	3,306	-
T Pearce	National Union of Students	215	132,316	240
G Donnelly	NHS North Yorkshire and York	-	1,315	-
G Donnelly	Oxford Brookes University	42,653	244,105	(12,829)
A Carey	St Mary's University College, Twickenham	6,173	14,734	1,716

Report and financial statements for the year ended 31 July 2013

**20 Reserves**

	<b>Designated reserve £000</b>	<b>I &amp; E reserve £000</b>	<b>Total £000</b>
As at 31 July 2012	350	2,560	2,910
Surplus for the period	-	474	474
At 31 July 2013	<u>350</u>	<u>3,034</u>	<u>3,384</u>

A designated reserve was established in 2011-12 to support business development including trading arm set up.

## Acronyms and abbreviations

BIS	Department for Business Innovation and Skills
CLL	Changing the Learning Landscape
CPD	continuing professional development
ESD	Educations for Sustainable Development
F & GP	Finance and General Purposes Committee
FTE	full time equivalent
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
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