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COMPANIES HOUSE

Report and financial statements
Year ended
31 July 2014

Company registration number 04931031
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Strategic report

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, sector agencies, funders and other key stakeholders.

At the end of 2013-14, the HEA had 222 subscribers from the higher education (HE), further education (FE) and private provider sectors, UK and internationally.

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.

In addition to our core work, the HEA is funded by Jisc to host Jisc TechDis. Following a restructure within Jisc in 2013-14, it has been confirmed that centralised funding for TechDis will cease on 31 December 2014.

Review of the year

This has been a strategically important year for the HEA. A new Chief Executive is in place and a new structure has been developed and implemented in the organisation following notification of sector funding cuts. The HEA has maximised its opportunities to engage stakeholders: the subscriber base broadened again this year to include more private providers and further education colleges, while all UK HEIs continue to subscribe.

There has been a renewed focus on the HEA's role and profile which has given it greater clarity. Wider

international recognition has been gained: the European Commissioner's High Level Group on the Modernisation of Higher Education in Europe, which focused on how best to achieve quality and excellence in teaching and learning, stated it was: "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".

The HEA has continued to increase its reach in the sector through its direct delivery approach with academic teams working with departments and individuals and the partnership team working with nominated institutional contacts.

Professor Stephanie Marshall took up her position as Chief Executive on 1 August 2013, succeeding Professor Craig Mahoney. Professor Marshall was the HEA's Deputy Chief Executive, Research and Policy and joined the organisation from the Leadership Foundation in January 2012.

A review of the results for the year can be found within the operating and financial review, commencing on page five.

Principal risks and uncertainties

The HEA's high-level risks are reviewed regularly and are detailed in the strategic risk register. In 2013-14, the process for risk management was reviewed and a revised risk register created in collaboration with Audit Committee members and HEA staff. A risk management toolkit was also developed to embed risk management within day-to-day operations.

Risks and their causes and effects are recorded. Each risk is assessed on whether it will occur and its likely impact. A risk score is then determined.

The Executive is responsible for identifying risk response actions. These actions are intended to reduce the likely impact and occurrence of the risk. Residual ratings are given to each risk, based on the likelihood and impact of the risk occurring once response actions are in place.

The risks are plotted on a profile to identify the high-level ones and determine appropriate management either by the Executive, Audit Committee or the Board. Cumulative risk is also plotted, which assists the Executive and the Board

by comparing how residual risk rating scores change between quarters. This helps identify significant changes in risk over time.

The risk register is structured under four sub-headings:

- **Transforming learning and teaching** – specifically relating to the engagement, impact and reach of the HEA's enhancement activities.
- **Business development** – focused on the organisation's need to progress its business development activities in order to ensure the organisation becomes financially sustainable.
- **Relationships with stakeholders** – related to ensuring the HEA meets the needs and expectations of a diverse range of stakeholders.
- **Development of HEA staff** – concerned with ensuring the HEA retains the right skills and continuously develops expertise to deliver its core activities and ensures clarity of organisational priorities.

Future outlook

The HEA's 2012-16 Strategic Plan sets priorities and target performance for the coming years. A new strategic plan will be developed in 2014-15 to support the new operating priorities of the HEA. 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 activity for the HEA to broaden the reach and range of best practice shared within the sector.

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

Strategy and key performance indicators

The HEA's priorities and targets are set out in its current Strategic Plan 2012-2016 which can be found at;

<https://www.heacademy.ac.uk/sites/default/files/downloads/strategic-plan-2012-16.pdf>.

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, through funded initiatives, networks, research and events.
- **Research and 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 strategic priorities.

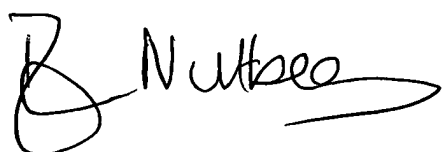
The HEA's strategic targets outline key areas of development and how its success will be measured. During the strategic period the HEA will increase its:

- **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 seeking to exceed client expectations to support, build and sustain working relationships.
- **Impact** - evidencing the outcomes of the HEA's interventions and improvement in the quality of learning and teaching.

As a result of the reduction in income from the UK funding councils from 2014-15 onwards, new key performance indicators (detailed below) were developed during 2013-14 to support the HEA's longer-term direction and to align to the HEA's new Business Development Strategy.

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Ref	Strategic key performance indicators	2013-14 target	2013-14 actual
1	% of institutional leaders and policy-makers surveyed who agree that they have gained valuable support from the work, knowledge, evidence gathering activities and interventions of the HEA	77%	82%
2	% of users of HEA services who are satisfied	90%	95%
3	Number of Associate Fellows (descriptor 1)	7,000	8,300
4	Number of Fellows (descriptor 2)	47,000	42,800
5	Number of Senior Fellows (descriptor 3)	630	1,230
6	Number of Principal Fellows (descriptor 4)	170	200
7	Number of institutions who have a CPD framework accredited	84	70
8	Number of HEPs participating in the HEA's UK Engagement Survey (UKES)	29	35
9	Number of HEPs participating in the HEA's Postgraduate Taught Experience Survey (PTES)	94	100
10	Number of HEA subscribers	214	222
11	Income generated from restricted grant funding, subscriptions, other income, but excluding core grant funding	£3,811K	£3,472K
12	HEA staff engagement (number of staff who took part in annual independent internal HEA staff survey)	635	636



Professor Don Nutbeam (Chair)



Professor S Marshall (Chief Executive)

19 November 2014

Operating and financial review

Financial

At the year end the HEA has £5m of net assets and no debt.

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

People

The HEA employed 165 full-time equivalent staff on average during 2013-14.

Employees' performance is aligned to the HEA's objectives through an annual performance review process for 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;
- personal development;
- 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 with targeted action plans for line managers.

Health and well-being

The HEA considers employees' health and well-being are fundamental to an engaged workforce. It offers a range of support services to promote good health and assist managers in supporting health related issues. These include flu vaccinations, occupational health service, 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, Senior Fellows, Principal Fellows, and 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 (NUS);
- sector agencies such as the Leadership Foundation for Higher Education, the Quality Assurance Agency, and Jisc;
- students;
- HEA staff.

Public benefit

The HEA is the national body for learning and teaching in higher education. It was established to promote higher education for the public benefit, particularly helping those directly involved with students to meet the best standard of teaching.

The HEA's public benefit is reflected in its strapline, "Inspiring teaching, Transforming learning"; so that students who experience higher education in the United Kingdom are given every opportunity through their academic experience, and an enriched appetite for life-long learning, to be in a position to make a positive contribution to society wherever they are and throughout their lives. And, furthermore, to be equipped to make this contribution in a diverse, competitive and global environment with an understanding of their responsibility to a sustainable world for their generation and those that follow.

The HEA does this 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 learning experience;
- supporting and advancing curriculum and pedagogic development across the whole spectrum of higher education activity;
- facilitating the continuing professional development and increasing the professional standing of all staff in higher education through its work to support institutional enhancement initiatives and individual progression.

In doing this, the HEA contributes to the world-wide reputation, success and value of the United Kingdom's higher education sector.

The HEA is a registered charity and the Board continues 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 HEA continue to deliver its charitable aims. The Board also considers 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

As the national body for enhancing learning and teaching in higher education, the HEA works with HE learning and teaching professionals to uphold the highest professional standards, maintain up-to-date expertise and demonstrate their capability to lead and inspire so that students are given every possible opportunity to make the most of their potential.

The HEA continues to broaden the number of beneficiaries of its work by 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, as well as more traditional academic staff. Help is provided for staff at all levels - from those new to teaching to 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 HE staff and students involved in the funded programme but also staff and students in other institutions. Funded bids demonstrate how they benefit other institutions, including disseminating resources and outcomes for the wider HE sector.

Funded programmes include:

- **Teaching Development Grants – 36** grants, totalling £450,000, support enhancement in departments and across institutions.
- **Changing the Learning Landscape Projects – 66** projects were awarded a total of £50,000 to support learning technologies to be embedded in academic practice.
- **Doctoral Programme –** funded four awards (totalling over £240,000) which will develop pedagogical knowledge and evidence-based practice in HE.

Reports and publications from the funded programmes and the HEA's services are freely available on the HEA's website. The website was redeveloped in 2014 to reflect the changing requirements of its users and following an extensive consultation process. The new platform was launched on 1 August 2014. There was an 18% increase in the number of unique visitors to the HEA website (with 771,000 in 2013-14 compared to 655,000 in 2012-13).

The HEA undertook over 450 events, attended by over 13,500 attendees, which encouraged the sharing of practices and ideas across the sector.

The HEA has published a range of publications to support effective practice. These include a number of frameworks that support institutions and individuals to enhance their current practices.

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

During 2013–14, Jisc TechDis continued to be successful in its work to provide advice, guidance, and tools to support those delivering education and training to disabled and disadvantaged learners.

These include:

- **Small Business Research Initiative (SBRI):** continues to manage two research competitions on behalf of the Department for Business Innovation & Skills (BIS) and the Technology Strategy Board (TSB), specifically aimed at exploring and developing new assistive technologies to support independent learning, working and living.
- **Discover Jisc:** a BIS-funded initiative aimed at encouraging Jisc services to become more FE-friendly & Skills-friendly. TechDis obtained sufficient funds to bring together 14 disparate providers and subsequently delivered a complex project which has proved to be successful for both the providers and TechDis.
- **Working closely with HEA:** TechDis has managed to increase the number of practical tools and demonstrations of excellent inclusive teaching and learning practices within such programmes as Open Education Resources (OERs), Changing the Learner Landscape (CLL), and working within the Mooc (Massive Open Online Courses) agenda, advising on the accessibility of such initiatives.
- **Advocacy:** during the year TechDis has been called upon by Ofsted, HEA, DfE, BIS, Student Loans Company, HEFCE, HEFCW and others to provide independent advice on policy matters and implementation of change. Within this timeframe, major changes to the support of the disabled learner have been proposed and TechDis has been in the forefront of the “go to” organisations for the policy makers and advisors to understand the impact of the proposed changes.

Recognising and rewarding individuals

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

Over 52,000 individuals are now recognised against the UKPSF as HEA Fellows, up from 43,000 in 2012-13. The HEA accredits over 650 continuing professional development (CPD) provisions against the UKPSF at 138 institutions and supported new institutions to adopt a CPD approach increasing the total number of institutions with CPD provision from 40 to 70.

The HEA continued to support the recognition of teaching through the National Teaching Fellowship Scheme (with a total of over 640 National Teaching Fellowships now awarded since the scheme started in 2000). The HEA continued its work in supporting a further 25 institutions to develop their own Student-Led Teaching Awards (SLTAs) in partnership with the NUS. By May 2014, 93 of 140 NUS-affiliated higher education students' unions were running SLTA schemes.

The HEA's recognised a further 17 individuals for the valuable contribution made by technical staff in supporting the student learning experience delivered by HE providers, working within three discipline cluster areas of STEM, Health and Social Care, and Arts and Humanities through its Technician of the Year awards.

The HEA continued to recognise and celebrate successful partnerships between staff and students through its two annual partnership awards. The HEA/NUS Students' Union and Institution Partnership Awards recognise HE organisations and their students' unions which have developed strategic approaches in partnership to effect change and enhance the student experience. The second HEA Student and Staff Partnership Awards are made to staff and students who have worked together to effect change and enhance the student experience locally.

Influencing policy, future thinking and change

During 2013-14, 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.

Thanks to one of eight major change initiatives, 76 institutions were supported in preparing,

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implementing and sustaining transformational change that enhances learning and teaching in their own context. This includes the UK-wide pilot of a Grade Point Average (GPA) system that could be implemented alongside or ultimately replace the current honours degree classification. Twenty HE providers, including universities, further education colleges and private providers, took part in the pilot - part of a two-year programme designed to inform a national discussion about assessing and representing students' academic achievement.

The number of institutions using the HEA's surveys to enhance their students' learning experiences continued to increase: 95 institutions participated in the 2013-14 Postgraduate Taught Experience Survey (PTES), compared to 89 in 2012-13. There was a significant increase in the numbers of institutions participating in the HEA's new UK Engagement Survey (UKES) with 35 institutions making use of the new service compared to nine institutions involved in the initial pilot year in 2012-13.

UK nation-specific priorities were supported through the continuation of the HEA's Scotland programme to embed equality and diversity in the curriculum. The project, funded by the Scottish Funding Council, worked with the 19 HEIs in Scotland to build on the diversity of experience and current practice within the sector to further inclusivity within curriculum design, delivery and assessment.

In Wales, the HEA continued its support for quality enhancement through the collaborative cross-sector Future Directions programme. The second Future Directions conference, on 2 and 3 April, launched the new enhancement themes for the sector: Distinctive Graduates; Inspiring Teaching; Learner Journeys.

In Northern Ireland the HEA brought together the findings from sector discussion in a report on *Engaging local students: enhancing retention and success*, published in May 2014.

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

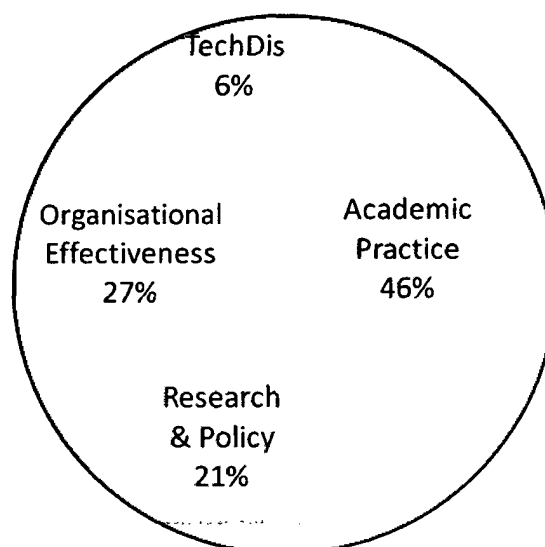
sustainable development principles as outlined in its Corporate Social Responsibility policy.

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 £3,280 for various charities and 24 colleagues supported the York Cares volunteering programme. The HEA also continued to offer work placements and paid internships.

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. The model was reviewed in 2013-14 and an increase of 5% was made to subscription charges. This was the first increase in subscriptions for over five years.

The HEA was subject to an independent review in 2013-14, undertaken by Capita on behalf of the funders. The majority of recommendations made had already been identified by the HEA as areas for improvement as part of its own self-assessment prior to the review. An action plan to address the recommendations was approved by the Board in April 2014 and this has now been incorporated into the operating plan for 2014-15 where appropriate.

2013/14 Allocation of Funds by Team



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Results for the year

The HEA's income, expenditure and results for the 31 July 2014 are summarised below:

	HEA Delivery £000	Ring- fenced delivery £000	Total 2014 £000	Total 2013 £000
Total income	16,487	2,057	18,544	20,008
Total costs	14,932	2,042	16,974	19,534
Surplus	1,555	15	1,570	474

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

Total income decreased by 7%. Recurrent grant levels for 2013-14 remained unchanged with Teaching Development Grant and Doctoral programme commitment funding being deferred into 2014-15. Other ring-fenced project work including Small Business Research Initiatives (SBRI), Changing the Learning Landscape (CLL) and National Teaching Fellowship Scheme (NTFS) projects vary year-on-year and reduced by 3%.

Subscription income has increased by 5% with 22 new subscribers during the year (222 in total). Other income, including events, consultancy and investments, continued to increase overall by 3%.

Total expenditure has decreased by 13% in response to the planned reductions in recurrent grant funding from 2014-15 onwards and subsequent restructure of the HEA to support the HEA Business Development Strategy. Overall staff costs have increased 3% which includes severance payments. Non-pay has decreased by 25%, following an in-depth review of priorities and activities.

The surplus of £1.57m is higher than budgeted, resulting from in-year restructuring to accommodate future recurrent grant funding reductions and support the HEA's Business Development Strategy.

Cashflow and liquid resources

Cashflow has remained positive throughout the year with all expenditure being funded from existing cash balances.

Reserves

Reserves at 31 July 2014 are £4,954,000 (£3,384,000 in 2012-13) with £350,000 being designated to support business development and income generation, including a trading arm set up over the strategic planning period.

This position is within the 2013-14 target range of three to six months fixed costs. The reserves policy has been reviewed in line with Charity Commission guidance and subject to board approval will change to 6 to 12 months of fixed costs for 2014-15. The review followed the notification of future year funding reductions, a subsequent restructure and the HEA's medium term financial forecasts for income and expenditure, with the increased reserve range being deemed to be sufficient to meet the future needs of the HEA during this period of uncertainty.

Post-balance sheet events

Since 31 July 2014 there have been no significant post-balance sheet events.

Directors' report

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 Trustee 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 81% coming from the Higher Education Funding Councils of the UK, 13% from subscribing institutions and 6% from other income including individual recognition events and consultancy.

During 2013-14, the HEA received notification of a £4m cut from the UK HE funding councils for 2014-15 onwards and has completed a major restructure and change process in order to focus its activities and work within its new funding envelope.

Our funding, which has been reduced in line with many parts of the sector, has resulted in the HEA bringing forward existing plans to become financially self-sufficient. HEA work will continue to inform and influence policy, work in partnership with institutions to address learning and teaching initiatives and support discipline communities. We will continue to deliver a first-class service to our subscribing institutions.

The recognition and reward for those teaching in higher education and their continuing professional development will remain at the heart of what the HEA does. The HEA will continue to deliver core services – recognising individuals and accrediting institutions' development programmes, as well as providing enhancement tools such as the postgraduate experience surveys.

The HEA operates within the strategy developed and approved by the Board on 2 November 2011. This was formulated during 2010-11 following consultation across the higher education sector and sets the HEA's direction until 2016. A new strategy is currently under development aligned to the longer-term Business Development Strategy and Sustainability to 2020. This will be approved by the Board during 2014-15.

The current 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 teaching and learning. The HEA's current mission is to inspire teachers to create world-class student learning.

In doing so, the HEA upholds the current 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 current review of the HEA strategic plan will encompass revisions to the vision, mission and values to ensure they reflect and enable delivery of the new strategy.

The Board presents its results for the year ended 31 July 2014 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 Guild HE

- 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, Provost, University of Exeter;
- Professor Rama Thirunamachandran, Vice-Chancellor and Principal, Canterbury Christ Church University.

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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;
- 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;
- Sara Parkin, Founding Director of Forum for the Future.

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

Barclays Bank Plc
25 James Street
Harrogate
North Yorkshire
HG1 1QX

Solicitors:

DAC Beachcroft LLP
100 Fetter Lane
London
EC4A 1BN

Lupton Fawcett
Denison Till
Yorkshire House
East Parade
Leeds
LS1 5BD

No trustees received any payment for their duties other than reimbursement of travel and subsistence expenses incurred in the course of their duties. Seven claimants have been reimbursed a total of £2,989 during the year.

Bond Dickinson
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Related party transactions are reported in note 20 to the financial statements.

Auditors

A formal tender process will be undertaken in November 2014 to appoint external auditors for 2014-15 onwards for a three year period.

Professional advisers

External auditors:
Grant Thornton UK LLP
Statutory Auditor
Whitehall Riverside
Leeds LS1 4BN

Internal auditors:
Baker Tilly
Risk Advisory Services
LLP
Springfield House
76 Wellington Place
Leeds
LS1 2AY

Bankers:

The Royal Bank of Scotland Plc	Yorkshire Bank Plc
York Branch	Business Direct 2
6 Nessgate	4th Floor
York	40 St Vincent Place
North Yorkshire	Glasgow
YO1 9FY	G1 2HL

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 13.

Sara Parkin was appointed to the Board in April 2014. The Board continued to be chaired by Professor Sir Robert Burgess, Vice-Chancellor at the University of Leicester, who stood down on 31 July 2014. Professor Don Nutbeam, Vice-Chancellor at the University of Southampton, was appointed as Chair with effect from 1 August 2014.

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, Finance and General Purposes, Audit, Governance and Nominations, and Remuneration. Each committee has 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 <https://www.heacademy.ac.uk/about/governance>.

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.

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.

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 was chaired by Professor Sir Bob Burgess as Chair of the Board. A further four Board Directors comprise the committee which is responsible for the selection and nomination of any new member for the Board's consideration. The committee recommended to the Board in November 2014 that the recruitment of an additional Board member should be undertaken. Following a recruitment process involving three Board members and the Chief Executive, Sara Parkin was appointed to the Board for her skills, experience and knowledge.

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 three 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. It 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 Professor Rama Thirunamachandran. A further four 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 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 was 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.

In June, the HEA received its annual risk assessment letter from HEFCE, which confirmed the HEA was in the "not at higher risk" category.

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.

The HEA has an internal audit service, which operates in accordance with the requirements of the HEFCE 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

Following notification from funding councils of reductions in funding from 2014-15, there has been an in-depth review and restructure of the HEA, which facilitates and supports the Business Development Strategy for the period 2014-17. With robust cash flow throughout 2013-14, confirmation of continued funding for 2014-15, and a review of reserves, 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.



Professor Don Nutbeam (Chair)



Professor S Marshall (Chief Executive)
19 November 2014

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

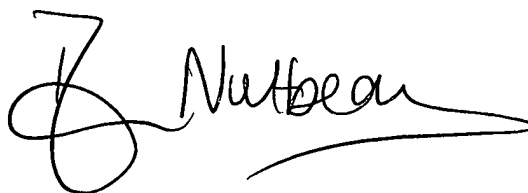
economical, efficient and effective management of the HEA's resources and expenditure.

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 Don Nutbeam
HEA
Company No. 04931031
19 November 2014

Independent auditor's report to the Governing Body of The Higher Education Academy

We have audited the financial statements of The Higher Education Academy (the 'HEA') for the year ended 31 July 2014 which comprise the statement of principal accounting policies, the income and expenditure account, the balance sheet, the cashflow 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).

This report is made solely to the HEA's governing body, in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 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 governing body 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 HEA and its governing body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Governing Body/and auditor

As explained more fully in the Statement of the Directors' and trustees' responsibilities, 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 as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 and of its incoming resources and application of resources, including its income and expenditure, recognised gains and losses and cashflows 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, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matter prescribed by the Companies Act 2006

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

Opinion on other matters prescribed by HEFCE's Financial Memorandum dated July 2010

In our opinion, in all material respects:

- funds from whatever source administered by the HEA for specific purposes have been properly applied to those purposes and managed in accordance with the relevant legislation;
- funds provided by HEFCE have been applied in accordance with the funding council's Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 (as amended) we are required to report to you if, in our opinion:

- the HEA has not kept proper and adequate accounting records, 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.

Under the HEFCE Audit Code of Practice, issued under the Further and Higher Education Act 1992, we are required to report to you if, in our opinion, the Statement of Internal Control included as part of the Statement of corporate governance and internal control is inconsistent with our knowledge of the HEA.

Grant Thornton UK LLP

Peter Edwards

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

LEEDS

19 November 2014

Grant Thornton UK LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

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 cashflow interest rate risk as it does not 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.

Contingent liabilities

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: a possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

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 2013-14 reserves policy sets a target level of three to six months fixed costs and subject to board approval the policy will change to six to 12 months for 2014-15. This 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 2014

	Notes	2014 £000	2013 £000
Income			
Funding body grants	1	14,982	16,580
Other income	2	3,524	3,374
Investment income	3	38	54
Total income		<u>18,544</u>	<u>20,008</u>
Expenditure			
Staff costs	4	(8,446)	(8,222)
Other operating expenses	6	(8,268)	(11,047)
Depreciation	8	(248)	(252)
Interest and other finance costs	7	(12)	(13)
Total expenditure		<u>(16,974)</u>	<u>(19,534)</u>
Surplus for the year retained within the Income and Expenditure reserve	21	<u>1,570</u>	<u>474</u>

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

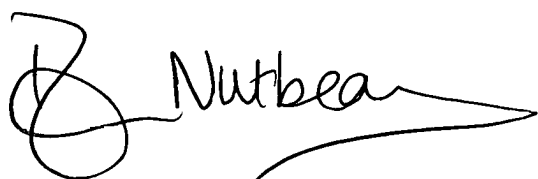
There were no gains and losses other than those reported in the income and expenditure account.

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

Balance sheet as at the 31 July 2014

	Notes	2014 £000	2013 £000
Fixed assets			
Tangible assets	8	<u>254</u>	<u>486</u>
		254	486
Current assets			
Debtors	9	2,378	2,910
Cash at bank and in hand		<u>8,364</u>	<u>5,703</u>
		10,742	8,613
Creditors: amounts falling due within one year	10	(5,891)	(5,491)
Provisions for liabilities	11	<u>(151)</u>	<u>(224)</u>
Net current assets		4,700	2,898
NET ASSETS		<u>4,954</u>	<u>3,384</u>
Reserves			
I & E reserve	21	4,604	3,034
Designated Reserve	21	350	350
TOTAL RESERVES		<u>4,954</u>	<u>3,384</u>

The financial statements on pages 21 to 35 were approved by the Board on 19 November 2014 and were signed on its behalf by:



Professor Don Nutbeam, Chair
The Higher Education Academy
Company number 04931031

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

Cashflow statement for the year to 31 July 2014

	Notes	2014 £000	2013 £000
Net Cash inflow from operating activities	12	2,653	22
Returns on investment and servicing of finance	13	26	41
Capital expenditure and financial investment	14	(18)	(31)
Increase in cash in the year		2,661	32
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year	15	2,661	32
Change in net debt resulting from cash flows		-	-
Movement in net funds in the period		2,661	32
Net funds at 1 August		5,703	5,671
Net funds at 31 July		8,364	5,703

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

Notes to the financial statements

Funding body grants, other income, investment income

1 Funding body grants

	2014 £000	2013 £000
Higher Education Funding Council for England	11,520	13,096
Scottish Funding Council	1,524	1,586
Higher Education Funding Council for Wales	613	668
Department for Employment and Learning	247	247
Jisc	589	681
Department for Business, Innovation & Skills (BIS)	387	162
Other funding body grants	102	140
	<u>14,982</u>	<u>16,580</u>

Other funding body grants are made up of a number of smaller funding bodies including Paul Hamlyn Foundation and the Leadership Foundation.

2 Other income

	2014 £000	2013 £000
Institutional subscriptions	2,374	2,258
Other income	1,150	1,116
	<u>3,524</u>	<u>3,374</u>

3 Investment income

	2014 £000	2013 £000
Interest receivable	38	54
	<u>38</u>	<u>54</u>

4 Staff

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

	2014 No.	2013 No.
Academic practice	61	69
Research and policy	33	36
Organisational effectiveness	60	51
TechDis	11	12
	<u>165</u>	<u>168</u>

	2014 £000	2013 £000
Staff costs for the above persons:		
Wages and salaries	7,189	6,895
Social security costs	452	501
Pension costs	805	826
	<u>8,446</u>	<u>8,222</u>

	2014 £000	2013 £000
Staff costs by strategic aim:		
Academic practice	3,575	3,682
Research and policy	1,824	1,856
Organisational effectiveness	2,594	2,130
TechDis	453	554
	<u>8,446</u>	<u>8,222</u>

2013-14 payroll costs and average full-time equivalent numbers reflect staffed operations throughout the restructure. Severance payments made during 2013-14 and included above are £834,000, (£nil 2012-13).

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

	2014 No.	2013 No.
£80,000 to £99,000	2	3
£100,000 to £119,000	1	-
£120,000 to £139,000	-	-
£140,000 to £159,000	1	1
	<u>4</u>	<u>4</u>

Emoluments of the Chief Executive

	2014 £000	2013 £000
Salary	152	147
Benefits in kind	3	4
Pension Contributions	24	24
Total emoluments	<u>179</u>	<u>175</u>

Professor Stephanie Marshall took up the position as Chief Executive from 1 August 2013 following Professor Craig Mahoney's resignation on 31 July 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

	2014 £000	2013 £000
Academy operational costs	4,886	7,964
Indirect staff costs	537	359
Rent and rates	328	369
Travel and subsistence	1,026	959
Postage, printing, stationery and telephone	297	282
Professional fees	258	207
Office equipment and computer maintenance	393	422
General expenses	84	133
Public relations and fundraising	187	257
Recruitment costs	88	95
Loss on disposal of asset	2	-
Restructure	182	-
	8,268	11,047

Reduced operating costs for 2013-14 reflect a mid-year review of priorities and subsequent restructure following notification of recurrent grant funding cuts from 2014-15. The restructure has been implemented within 2013-14 to support the HEA's continuing work to inform and influence policy, work in partnership with institutions to address learning and teaching initiatives and support discipline communities.

	2014 £000	2013 £000
Other operating expenses include:		
Auditors' remuneration		
- External auditor's remuneration in respect of audit services	34	30
- External auditor's remuneration in respect of non-audit services	24	17
- Internal audit	44	56
Hire of buildings – operating leases	330	330

7 Interest and other finance costs

	2014 £000	2013 £000
Bank charges	12	13

8 Tangible fixed assets

	Computer equipment £000	Equipment £000	Fixtures & fittings £000	Total £000
Cost or valuation				
Opening balance	785	110	848	1,743
Additions	10	-	8	18
Disposals	(31)	(103)	(388)	(522)
At 31 July 2014	764	7	468	1,239
Depreciation				
Opening balance	527	110	620	1,257
Provision for the period	185	-	63	248
Disposals	(30)	(103)	(387)	(520)
At 31 July 2014	682	7	296	985
Net book value				
At 31 July 2014	82	-	172	254
Net book value				
At 31 July 2013	258	-	228	486

9 Debtors

	2014 £000	2013 £000
Amounts falling due within one year:		
Debtors	1,902	2,443
Other debtors	51	51
	1,953	2,494
Prepayments	269	188
Accrued income	156	228
	2,378	2,910

The reduced debtors balance is due to a greater proportion of invoiced income being received before year end compared with the prior year.

10 Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	38	276
Other tax and social security	13	11
Grant income deferred	4,215	3,161
Other accruals and deferred income	1,620	2,029
Other creditors	5	14
	5,891	5,491

11 Provisions for liabilities

	Onerous lease £000	Other £000	Total £000
As at 1 August 2013	114	110	224
Provided for during the year	-	112	112
Utilised during the year	(75)	(110)	(185)
At 31 July 2014	<u>39</u>	<u>112</u>	<u>151</u>

The onerous lease provision will be released over two years to 2015-16 with other provisions relating to restructure costs being released in 2014-15.

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

	2014 £000	2013 £000
Surplus for the year	1,570	474
Depreciation (note 8)	248	252
Decrease/(increase) in debtors (note 9)	532	(568)
Decrease/(increase) creditors (note 10 & 11)	327	(96)
Interest receivable (note 3)	(38)	(54)
Bank charges (note 7)	12	13
Loss on disposal of assets (note 8)	2	1
Net cash inflow from operating activities	<u>2,653</u>	<u>22</u>

13 Returns on investments and servicing of finance

	2014 £000	2013 £000
Interest receivable	38	54
Bank charges	(12)	(13)
Net cash inflow from returns on investments and servicing of finance	<u>26</u>	<u>41</u>

14 Capital expenditure and financial investment

	Year ended 31 July 2014	Year ended 31 July 2013
	£000	£000
Capital expenditure	(18)	(31)
Net cash outflow from capital expenditure and financial investment	(18)	(31)

15 Analysis of changes in net funds

	At 1 August 2013 £000	Cashflow £000	At 31 July 2014 £000
Cash at bank and in hand	5,703	2,661	8,364
Total	5,703	2,661	8,364

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.

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 2014 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 £32,434 million and the value of the scheme's technical provisions was £35,344 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. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at March 2014 and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure however, an estimate has been provided using the assumption used to deliver the 2011 actuarial valuation. On the basis the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the scheme liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at the 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at the date was approximately 61%.

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

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 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 2011 valuation, 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%.

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’s role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme’s liabilities. These parameters, taken together with the anticipated returns form the basis of the trustee’s funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust Higher Education (HE) sector.

The fund is invested in a wide range of asset classes, both publically traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the levels of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and targeted at achieving returns required to meet the schemes' liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

At 31 March 2014, USS had over 162,000 active members and the HEA had 124 active members participating in the scheme at 31 July 2014.

The total pension cost for the HEA was £805,224 (2013: £825,898). The contribution rate payable by the HEA in 2013-2014 was 16% of pensionable salaries.

17 Capital commitments

There were no capital commitments contracted for at 31 July 2014 (2013: £nil).

18 Financial commitments

At 31 July 2014 the HEA had annual commitments under non-cancellable operating leases as follows:

	2014 £000	2013 £000
Land and buildings		
Expiring within one year	-	-
Expiring within two and five years inclusive	51	51
Expiring in over five years	279	279
	<u>330</u>	<u>330</u>

19 Contingent liabilities

The HEA are aware of a potential risk of an unfair dismissal claim, however the HEA will rigorously defend any such claims.

20 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 £000	Payments £000	Owed to (Owed from) £000
Professor R G Burgess	University of Leicester	19	54	(1)
Professor A J Chapman	Cardiff Metropolitan University	14	2	(11)
Professor P Lutzeier	Newman University	2	21	-
Professor M Mannion	Glasgow Caledonian University	21	1	(20)
Professor J Kay	University of Exeter	7	21	-
Professor R Thirunamachandran	Keele University	10	33	(9)

20 Related party transactions continued

Professor R Thirunamachandran	Canterbury Christ Church University	10	2	-
Professor D Nutbeam	University of Southampton	24	88	-
R Bunting	University of Portsmouth	24	14	-
R Bunting	Society for Research into HE	-	4	-
T Pearce	National Union of Students	1	121	-
G Donnelly	NHS North Yorkshire and York	-	1	-
G Donnelly	Oxford Brookes University	17	240	(16)
A Carey	St Mary's University, Twickenham	4	2	(2)

21 Reserves

	Designated reserve £000	I & E reserve £000	Total £000
As at 31 July 2013	350	3,034	3,384
Surplus for the period	-	1,570	1,570
At 31 July 2014	<u>350</u>	<u>4,604</u>	<u>4,954</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
HEFCW	Higher Education Funding Council for Wales
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
STEM	Science, Technology, Engineering and Maths
UKPSF	United Kingdom Professional Standards Framework
USS	Universities Superannuation Scheme
UUK	Universities United Kingdom

Grant Thornton UK LLP
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19 November 2014

Dear Sirs

Higher Education Academy
Financial Statements for the year ended 31 July 2014

This representation letter is provided in connection with the audit of the financial statements of Higher Education Academy for the year ended 31 July 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Companies Act 2006.

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of the Directors' and trustees' with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements, in accordance with the terms of your engagement letter dated 20 August 2014.

Financial Statements

- i As set out in the Statement of Directors' and trustees' responsibilities, we acknowledge our responsibilities, in accordance with the Academy's Articles of Government, for preparing financial statements in accordance with the Academy's Declaration of Trust and Instrument and Articles of Government and the Statement of Recommended Practice - Accounting for Further and Higher Education, and for making accurate representations to you.
- ii In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England and Academy, the Directors' and trustees' of the Academy, through its designated officer holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Academy and of the surplus or deficit and cash flows for that year.
- iii We are responsible for ensuring that funds from the Higher Education Funding Council for England, Wales Scotland and its equivalent in Northern Ireland are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Higher Education Funding Council for England and any other conditions which the Funding Council may from time to time prescribe.
- iv The Academy has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- v We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.

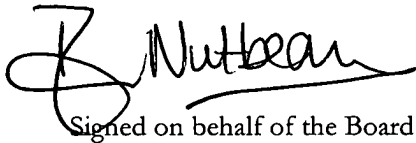
- vi Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP'), issued by the Charity Commission for England and Wales and any subsequent amendments or variations to this statement.
- viii All events subsequent to the date of the Academy financial statements and for which the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.
- ix Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.
- x The Academy financial statements are free of material misstatements, including omissions. As per your audit findings report, there are no unadjusted misstatements.

Information Provided

- i We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Academy financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- ii We have disclosed to you the results of our assessment of the risk that the Academy financial statements may be materially misstated as a result of fraud.
- iii All transactions have been recorded in the accounting records and are reflected in the Academy's financial statements.
- iv We confirm that we have provided to you all information relating to our contractual arrangements with HEFCE and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware, at the current time, there is no adjustment to the HEFCE funds to be provided for in the financial statements.
- v We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the University's financial statements.
- vi We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Academy's financial statements communicated by employees, former employees, analysts, regulators or others.

- vii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing University's financial statements.
- viii We have disclosed to you the identity of the Academy's related parties and all the related party relationships and transactions of which we are aware.
- ix We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- x We are aware of the considerations of four former employees to commence unfair dismissal proceedings, we consider the likeliness of any successful claim to be remote and therefore have not included any provision or contingent liability disclosure in the financial statements.
- xi No provision or disclosure has been made in the financial statements regarding a potential non-existing TUPE transfer of the Academy's staff to Techdis, as no legal arrangements have commenced

Yours faithfully

A handwritten signature in black ink, appearing to read 'J. Nuttall', with a stylized flourish at the end.

Signed on behalf of the Board of The Higher Education Academy