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Introduction

UK universities are home to outstanding teaching and world-leading research. They are also "anchor organisations" in their local communities and, in many cases, regional economic hubs.

They operate in a higher education sector that is competitive, complex and changing constantly. Universities have to move faster than ever to keep up with student preferences and research priorities, government policy changes, and technological developments.

To succeed in this environment, universities need adequate and sustainable funding, a sound financial plan, and competent financial management. This guide aims to explain university finances and funding so it can be understood by those with little or no financial background. It looks at how institutions ‘tick’ from a financial perspective – where universities get their money from; how they spend the money and why, and how the financial statements demonstrate this.
To that extent, the guide seeks to avoid jargon where it can, and to explain it where it cannot. Where jargon proves unavoidable, there is a detailed glossary at the end. The guide will also be useful to those who understand finance, but not higher education.

On that note, a quick word about terminology: It is tempting to refer to higher education institutions as ‘universities’, but not all hold this title. The move in England is towards higher education ‘providers’, but this has not yet taken hold across the UK. And so, this guide refers to ‘higher education institutions’ or simply ‘institutions’.

There is, of course, more than one type of institution. With a growing number of commercially-oriented institutions in the sector, the landscape continues to change. This guide focuses on the more established institutions but seeks to highlight where newer entrants may behave differently, be subject to different requirements or face different challenges.
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A wide group of sector representatives kindly read and commented on drafts of the guide, for which we are most grateful. Every comment was useful but particular thanks are due to Jim Dickinson, Wonkhe; Nick Hillman, HEPI; David Kernohan, Wonkhe; John Rushforth, Committee of University Chairs.

Many BUFDG members commented and contributed to drafts. Invidious as it might be to pick anyone out, Richard Dale, Newcastle; Mike Davies, Bangor; Sarah Randall-Paley, Lancaster; Andy Stephens, Loughborough deserve special mention.

The guide was edited by the BUFDG team. Design and illustration by CWS Agency Ltd.

**Future editions of this guide and companion publications**

This guide builds on a 2011 publication “An Insider’s Guide to Finance and Accounting in Higher Education” published by New JNCHES. This 2019 edition of a guide to understanding finance and accounting in higher education will be revised in 2020 to reflect updated terminology in financial statements and respond to feedback. Please send comments to matt@bufdg.ac.uk

A separate guide to Accounting for Pensions in Higher Education Institutions is scheduled for publication in early 2020 and a revised edition of the BUFDG Briefing on Tax in Higher Education will be published in Spring 2020.
Higher education institutions are autonomous organisations that operate with a high degree of freedom. They are, however, subject to the ever-evolving requirements of government, regulators and funders. They have become multifaceted, international enterprises, and they need to be managed accordingly.

1.1 The modern higher education institution

Higher education in the United Kingdom has its beginnings in Oxford in the twelfth century, when a group of scholars and students came together to study the seven ‘liberal arts’ of grammar, logic, rhetoric, arithmetic, geometry, astronomy and music. Over the next four hundred years, similar academic societies were established in Cambridge, St. Andrews, Glasgow, Aberdeen and Edinburgh.

While these societies still exist today, in the form of the universities that bear the names of their home cities, the nature of higher education has
changed beyond recognition. The UK now hosts hundreds of higher education institutions, where more than 2.3 million undergraduate and postgraduate students from around the world study each year.

And while they still engage with the liberal arts, higher education institutions now facilitate study across an astonishing and ever-growing array of subject areas. They undertake cutting-edge research that drives modern industry. They operate vast campuses. And they serve as cultural and economic hubs for the towns and cities in which they are based.

1.2 The different types of higher education institution

The term ‘higher education institution’ or ‘higher education provider’ covers a broad range of organisations. Those that come most readily to mind are what we see as traditional ‘universities’, which teach students at undergraduate and postgraduate level and award their own degrees.

Yet even universities can differ significantly from each other. Some focus on teaching, while others also have a large research portfolio. Some only teach at postgraduate level. Some invite students to study on a part-time basis or on degree-apprenticeship schemes. Some offer courses via ‘distance learning’, meaning that students do not have to physically attend the institution at all. Some have been around for centuries, while others were established much more recently. Some operate exclusively within small towns, while others operate both in the UK and overseas.

The right to award degrees is protected by law. Institutions without degree-awarding powers must either restrict themselves to awarding sub-degree higher education qualifications – such as certificates and diplomas – or engage (and pay) an institution that does have degree-awarding powers to validate their qualifications.

The right to call oneself a ‘university’ is similarly protected and is known as ‘having university title’.

In some cases, institutions with degree-awarding powers develop and administer academic programmes that they then franchise out to other providers.

many institutions also have a ‘third mission’, which may relate to civic engagement, graduate employability, the commercialisation of their research, or engagement with industry
This is a common way of allowing students in further education colleges (only a few of which have degree-awarding powers) to study for a degree. But it is also increasingly being used by universities to offer their degrees in other countries – an approach known as ‘transnational education’.

In addition to their teaching and research activities, many institutions also have a ‘third mission’, which may relate to civic engagement, graduate employability, the commercialisation of their research, or engagement with industry. Like teaching and research, this ‘third mission’ can have considerable financial implications and may guide an institution’s strategic decision making.

1.3 The regulatory environment: Four systems, one nation

Higher education institutions are autonomous, independent organisations and legal entities in their own right. Some may be part of a larger group of organisations. Critically, however, while they may receive public funding, they are not owned or managed by the state. Indeed, many institutions are not ‘owned’ by anyone in the traditional sense.

In England, many higher education providers – and all of the ‘traditional’ universities – are registered with and regulated by the Office for Students1 (OfS), which seeks to ensure that institutions’ activities deliver positive outcomes for students. Higher education institutions in England wishing to access public funding must register with the Office for Students, pay a registration fee, and submit to the associated regulatory framework.

Approval as a ‘regulated’ institution (or ‘provider’, to use the Office for Students’ terminology) also means that the institution’s students may apply for financial support from the government (i.e. tuition fee loans and maintenance loans). Regulated providers may also apply for university title and taught degree-awarding powers, and for a license to sponsor international students applying for a visa to enter the UK.

It should be noted, however, that there are many, mostly smaller, higher education providers in England that are not registered with the Office for Students and which are, therefore, not subject to the same regulatory processes and requirements.

1 The Office for Students came into existence in 2018, when it took over some of the responsibilities of the Higher Education Funding Council for England (HEFCE) and the Office for Fair Access (OFFA). The Office for Students is a government body associated with, but technically not a part of, the UK Government’s Department for Education.
In Scotland, higher education institutions come under the purview of the Scottish Funding Council (SFC), which distributes public funding to these institutions, furthers the development of the higher education sector and the institutions within it, and advises the Scottish Government in matters pertaining to higher education.

In Wales, the Higher Education Funding Council for Wales (HEFCW) distributes higher education funding from the Welsh Government and seeks to further the contribution that the sector makes to Welsh culture, economy and society. It also advises the Welsh Government on the funding needs of the higher education sector and promotes Welsh interests in the wider UK higher education sector.

In Northern Ireland, the higher education sector is overseen by the Department for the Economy of the Northern Ireland Executive. The Department’s higher education division has responsibility for formulating policy and administering funding to support education, research and other activities in the Northern Ireland higher education sector.

The higher education research regime across the UK is supported by UK Research and Innovation (UKRI), which is funded by the UK Government’s Department for Business, Energy and Industrial Strategy. It brings together the work of seven subject-specific research councils, which provide funding for specific research projects, as well as Innovate UK, which works with industry to promote innovation. It also oversees Research England, which carries out UK Research and Innovation’s England-only functions (these functions are undertaken by the SFC, HEFCW and the Department for the Economy in the other home nations).

Most higher education institutions are also charities, which means that they must comply with charity law and, potentially, the requirements of the Office for Students (which has a regulatory role for institutions in England that are ‘exempt’ charities, which means that they are not required to register with the Charity Commission), the Charity Commission for England and Wales, the Office of the Scottish Charity Regulator, or the Charity Commission for Northern Ireland.

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2 www.sfc.ac.uk
3 www.hefcw.ac.uk
4 www.economy-ni.gov.uk
5 www.ukri.org
7 www.gov.uk/government/organisations/innovate-uk
8 re.ukri.org
9 www.gov.uk/government/organisations/charity-commission
10 www.oscr.org.uk
11 www.charitycommissionni.org.uk
The higher education sector is also subject to scrutiny and regulation by the Competition and Markets Authority (CMA), a government department that works to promote competition for the benefit of consumers.

Many newer institutions – and some long-established ones – are set up as limited companies (where they are limited either by shares or by guarantee) and must comply with various legal requirements associated with this status. They must also observe any reporting requirements set out by the Registrar of Companies in the UK home nation in which they are based.

1.4 How institutions are governed

The way in which higher education institutions are governed – i.e. how they make significant decisions – can be complex.

Many institutions have a Chancellor, which is primarily a ceremonial role that involves being an ambassador and figurehead for the institution. The Chancellor is usually a high-profile public figure (recent university Chancellors include the Princess Royal, Alan Titchmarsh, Lord Coe and Floella Benjamin), who plays a role in significant events in the life of the institution, such as graduation ceremonies.

A higher education institution will have a Council or a Board of Trustees, which is its Governing Body. For those institutions that are also charities, the members of the Governing Body are also its trustees. The Governing Body is led by its Chair. Most members of the Governing Body are ‘lay members’ – similar to non-executive directors of a company – who are not employees of the institution.

Lay members of an institution’s Governing Body have not traditionally received payment for their role, beyond the reimbursement of expenses. However, the issue of remuneration for governors is currently the subject of debate, with cases being made for and against remuneration for what is now a substantive role with significant responsibilities. This debate has developed most rapidly in Scotland, where institutions are now required to offer payment to the Chair of their Governing Body.

12 www.gov.uk/government/organisations/competition-and-markets-authority
The Governing Body has ultimate responsibility for the institution’s strategic direction, for oversight of the institution’s affairs, and for ensuring that it meets its legal obligations. In Scottish institutions, the Governing Body is known as the Court and is chaired by a ‘rector’ or ‘convenor’. Some older English institutions also have a Court, but it is a primarily ceremonial body with a large and diverse membership, and few real powers beyond the ability to make non-binding recommendations to the Council.

The Governing Body delegates academic matters to a Senate or an Academic Board, which is the institution’s primary academic decision-making body. The Governing Body and the Senate will usually also have several delegated committees, with responsibility for areas such as finance, audit, risk, education, research and the remuneration of senior staff.

The day-to-day work of leading the institution is the role of the Vice-Chancellor, who serves as its principal academic and administrative officer. The Vice-Chancellor is usually supported in their work by a Deputy Vice-Chancellor and/or one or more Pro Vice-Chancellors, who have a specific remit, such as learning and teaching, research, or resources (which includes things like finance, human resources and the institution’s buildings and other facilities).

In some institutions, the Vice-Chancellor may also carry the title of Provost, President or Chief Executive. In Scotland, the Vice-Chancellor is more commonly referred to as the Principal. In institutions that operate a college system, where the colleges operate as self-governing units within the broader institution (such as Oxford and Cambridge), the head of each college may also carry a title, such as Master or Principal.

Further information about governance is available from AdvanceHE and the Committee of University Chairs.

1.5 How institutions work

The Vice-Chancellor (or their equivalent) leads the institution’s senior management team, which oversees the academic and administrative management of the institution.

13 www.lfhe.ac.uk/en/governance-new
14 www.universitychairs.ac.uk
In addition to the Deputy Vice-Chancellor and/or Pro Vice-Chancellors, the senior management team usually includes the institution’s Registrar (a senior officer with a focus on student administration) or Chief Operating Officer, and may also include the heads of some of the institution’s professional services functions, such as finance, legal and human resources.

On the academic side, institutions may be split into ‘faculties’, which bring together like-minded academic disciplines into groupings, such as the sciences, the humanities and the arts. Each faculty is made up of several individual departments, each of which focuses on a specific academic discipline, such as physics, archaeology or law. In some universities the word “school” is used instead of Faculty or Department.

Figure 1 below sets out a simplified example of how the organisational structure of an institution might look. Most institutions are significantly more complex than this.

![Organisational Structure Diagram]

Figure 1: Example organisational structure for a higher education institution

Faculties are led by a Dean and departments are managed by a Head of Department, both of whom are usually senior academics undertaking the role for a period of three to five years.

Within each department, there are individual academics at varying grades of seniority. Lecturers, senior lecturers, readers and professors are frequently supported in their work by post-doctoral researchers, who
are in the early stages of their academic careers, as well as by post-graduate students. Technical and administrative support staff are also crucial to the smooth running of academic operations.

Academics undertake a range of activities, including teaching and assessing undergraduate and postgraduate students, supervising postgraduate research students, doing research in their areas of expertise, scholarship (staying up to date with developments in their field) and personal development, managing junior colleagues, preparing applications for research grants, writing up the results of their research, engaging with partner organisations and members of the public, and much more.

Institutions also employ a range of academic support services, which sit outside academic departments. These include things like admissions (the process of applying for and securing a place to study at the institution), libraries and other learning resources, information technology services and student records. Institutions also offer a variety of services to support students’ wellbeing, academic performance and career prospects.

On the non-academic side of things, the institution’s professional services functions undertake the roles that are required to keep any large, complex organisation running, such as finance, human resources, legal, estates and facilities, marketing, and strategic planning. Many institutions also run extensive student accommodation and catering operations, as well as sports centres, conference centres, and various other enterprises.

1.6 The higher education ‘business model’

The higher education ‘business model’ is a relatively new concept that explains the way in which institutions use the resources that are available to them (e.g. people, campus, financial resources) to create value in the short, medium and long term.
The idea of value creation is not new, but it has taken on increased salience in recent years, as institutions come under greater pressure to explain and justify the resources (and not just the financial ones) that are spent on higher education.

At the moment, relatively few institutions set out explicitly how their ‘business model’ works, perhaps assuming that people know how institutions work and what they are trying to do. However, a growing number of institutions are being more explicit about the value that they create and how they create it. This is particularly significant as the sector – and the institutions within it – become more diverse in their aspirations and more creative in how they operate.

It is important to note that the value created by higher education institutions is not just financial and economic. For example, they create more employable citizens who are likely to earn higher salaries and thus pay more taxes to the Treasury, and graduates typically enjoy better physical and emotional health, longer life expectancy, and are more likely to engage in civic activities. Institutions may also create social, environmental and cultural benefits for their communities.

### 1.7 Who’s who in university finance?

The institution’s senior management team will invariably include an individual with specific responsibility for the management of its financial resources. This may be a Pro Vice-Chancellor (Resources), a Director of Finance or a Chief Finance Officer.

Whatever their job title, this person will be a qualified and experienced finance professional.

The Director of Finance (or their equivalent) will report to the Vice-Chancellor or, in some cases, to another member of the senior management team, for example the Registrar or Chief Operating Officer. They will also report to the Governing Body on financial matters, as well as to one or more sub-committees of the Governing Body, such as those with responsibility for finance, risk, planning and/or audit.
1.8 The university finance department

The Director of Finance leads the institution’s finance department, which has responsibility for a broad range of activities, often including:

- setting financial strategies and budgets;
- collecting income, making payments and managing cash levels;
- financial record keeping and reporting;
- taxation;
- insurance and risk management;
- procurement of goods and services;
- management of subsidiary companies;
- pensions;
- investments;
- combating fraud;
- liaising with the institution’s auditors; and
- completing and submitting statutory returns to regulators.

The finance department will usually be structured into divisions, each of which is overseen by a manager who reports to the Director of Finance. Depending on the size of the institution, the Director of Finance may also appoint one or more Deputy or Assistant Directors of Finance, who will have their own portfolio of responsibilities.

There might also be someone called the Financial Controller, who is responsible for the day-to-day operation of the institution’s key financial processes, such as collecting income and paying the bills. In smaller institutions, the finance department may be managed by a Head of Finance (or similar), who reports directly to a member of the institution’s senior management team.

While most members of the finance department will be based in a central location, it is common for finance staff working with academic faculties and departments to be located within the faculties and departments that they serve, or at least to engage closely with them.
The structure of the finance department is unique to each institution, depending on its size, priorities, and how it has developed over time. Smaller institutions can have a finance department that contains as few as two people. Larger institutions can employ more than a hundred finance professionals.

Figure 2 below sets out an example of how the finance department might be structured in a large higher education institution.

![Figure 2: Example structure for an institution's finance department](image)

1.9 The financial cycle

Most higher education institutions have a high-level strategic plan, which sets out their overall objectives and how they intend to achieve them. This strategic plan can cover periods of up to twenty-five years but, as planning too far ahead can be difficult, the plan is usually split into five-year periods and refreshed frequently.

Institutions will usually also have a financial strategy for the same planning period, setting out the financial and resourcing implications of the overall strategy, i.e. what it will cost and how it will be paid for. The strategic plan and the financial strategy will inform the development of other institutional strategies and plans, such as an estates strategy and a human resources strategy.
Each year the institution prepares a detailed budget, which is a financial plan setting out the income that it anticipates earning and how it plans to spend the money it receives. For most institutions, but certainly not all, the financial year runs from August to July. For some newer providers, the financial year may run to a different cycle from that of the traditional university sector.

The budget will be agreed by the Director of Finance, the senior management team and the Governing Body. Responsibility for different areas of income and expenditure will be delegated to specific individuals across the institution, known as 'budget holders', for managing their respective budget areas.

Performance against budget is monitored on at least a monthly basis, to ensure that income is received as anticipated and that expenditure incurred is in line with the budget. Significant variances from budget – whether positive or negative – are reported to senior managers, so that their impact on the institution’s overall finances can be assessed and addressed.

It is also normal for the Governing Body and/or one of its committees to receive a report on the institution’s finances at each of its meetings. This report will include information on performance against budget and on the action that is being taken to address any significant variances from the agreed budget.

At the end of the financial year, the institution prepares a set of financial statements, which report, amongst other things, its income and expenditure over the course of the year and the resources that it has at its disposal at the end of the year. These financial statements are approved by the Governing Body and are scrutinised by the institution’s external auditors. They are then published externally and filed with the relevant regulators, depending on the nature of the institution’s legal form.

The strategic plan and the financial strategy will inform the development of other institutional strategies and plans, such as an estates strategy and a human resources strategy.
How institutions are funded and how they spend their money

The funding regime for UK higher education institutions depends on the home nation in which they are based. For most institutions, income comes from a range of sources, including tuition fees, government grants and commercial activities. Institutions need to manage this income carefully to meet their financial obligations.
2.1 The different funding regimes across the UK

Higher education is a devolved area of policy, so the four home nations of the United Kingdom each take a slightly different approach to the funding of teaching at higher education institutions in their territories.

This approach is determined by the relevant government in each home nation and is overseen by the appropriate regulatory or funding body, namely the Office for Students (England), the Scottish Funding Council (Scotland), the Higher Education Funding Council for Wales (Wales) and the Department for the Economy (Northern Ireland).

The funding regime for higher education research is broadly consistent across the home nations, with each nation adopting a ‘dual support’ approach. This means that qualifying institutions (a) receive an annual research grant from their funding body and (b) can apply for funding from the research councils to support individual research projects and activities.
2.2 Student tuition fees and education contracts

Before 1998, UK undergraduate students and those from other European Union member states could participate in higher education in all areas of the UK for no charge. Since then, a contribution by students towards the cost of their studies applies in most areas. The extent of this contribution depends on where the student is from and the home nation in which they are studying.

Tuition fees paid by undergraduate students from the UK and, at the time of writing, from other European Union countries, are ‘regulated’, which means that the maximum fee that can be charged is set by the relevant government. Such students are known as ‘home’ – or ‘home/EU’ – students.

For students eligible for government financial support (i.e. most home undergraduate students studying for the first time), these fees are paid up-front by the government via the agency of the Student Loan Company and Student Awards Agency for Scotland to the relevant institution. They are then repaid by the student over time as a proportion of their earnings after graduation, provided the student earns enough to meet the repayment criteria.

This guide is not a detailed explanation of the student finance regime. Student finance is a complex topic and would merit a guide of its own. Further information is available from the relevant student funding body in each home nation1.

The tuition fees charged to home undergraduate students on full-time three- or four-year degree courses vary depending on which home nation they are from and the home nation in which they are studying. The fees charged are summarised in figure 4.

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1 Information is available from Student Finance England, from the Student Awards Agency Scotland, from Student Finance Wales and Student Finance Northern Ireland. Other organisations, such as Which, also provide useful guides to UK student finance.
Figure 4: Tuition fees charged to home undergraduate students across the UK home nations

In Scotland, where Scottish students do not pay fees to Scottish universities, the funding relating to these students is provided by the Scottish Funding Council. In Northern Ireland, the Department for the Economy makes an additional funding award to Northern Irish institutions to ‘top up’ student tuition fees income.

Tuition fees for part-time home undergraduate students are subject to similar regulations. The fees for taught postgraduate courses are not regulated, so institutions are free to charge what they like. Institutions do, however, have to make sure that sufficient numbers of students are willing to pay that fee to make the course financially viable.

In England, institutions registered with the Office for Students are designated as either ‘approved (fee cap)’ or ‘approved’. Institutions that have ‘approved (fee cap)’ status can charge home undergraduate fees as outlined above and their students will be eligible for tuition fee loans to cover the full tuition fee. Institutions that have simply ‘approved’ status can charge whatever tuition fees they like, but their students are only eligible for a tuition fee loan up to a certain amount, currently £6,000 per year.

Students from outside the UK – and, currently, outside the European Union – are known as ‘overseas’ or ‘international’ students. The maximum fee that institutions can charge to overseas undergraduate and postgraduate students is not regulated so institutions are free to set the fee as they wish.
2.3 Funding body grants

Higher education institutions receive a range of grants from their national funding bodies, as well as from other public funders. This applies to all institutions in Scotland, Wales and Northern Ireland and to institutions in England registered with the Office for Students and with ‘approved (fee cap)’ status.

All regulators and funding bodies provide grant funding to support the delivery of teaching (the ‘T grant’) in high cost subjects, such as physics, chemistry, medicine, dentistry and others. Institutions also receive an element of funding to support the delivery of teaching in other subject areas, though the amounts involved vary depending on the home nation and the student tuition fee that can be charged.

Institutions may receive other grant funding from their funding bodies, often targeted at the implementation of regional or national government priorities. They may also receive grants towards the cost of ‘capital expenditure’, which is money to be spent on buildings and other long-term assets.

As well as grants from their funding bodies, institutions can receive grants from other funders of higher education teaching (such as for teacher training) or for further education, if such courses are provided.

2.4 Research grants and contracts

Under the first element of the ‘dual support’ funding regime for research, institutions receive an annual grant from their funding body towards the cost of their research activities and to support research more generally. These grants are not directed to specific aspects of research, so can be spent as each institution sees fit.

The amount of funding provided to each institution is determined by the periodic ‘Research Excellence Framework’, which seeks to assess the quality of the research undertaken by the researchers in different institutions. In broad terms, the higher the overall volume and quality of research, the more funding the institution will be granted. For this reason, this element of the dual support regime is often referred to as ‘quality-related funding’ or ‘QR’.
In the second element of the ‘dual support’ regime, institutions are able to apply to the UK research councils for funding to support specific researchers, research projects or activities. There are various streams of funding available, such as for particular research themes or aimed at researchers at specific stages of their research career.

Such funding streams are extremely competitive and funds are awarded, in the main, on the basis of academic merit as judged by panels of fellow researchers in the relevant field.

Funding for researchers and research projects is also available from a range of other public and non-public sources, such as the European Commission, government departments, learned societies, industry, charities and philanthropic organisations.

The extent to which institutions engage in research depends on their strategic objectives, the nature of their activities and their success in securing research funding. Figure 5 below illustrates the typical proportion of income from different sources, for an institution that focuses primarily on teaching (‘teaching-intensive’) and an institution that has significant teaching and research activities (‘research-intensive’).

Research-intensive institution

<table>
<thead>
<tr>
<th>Source</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition fees and education contracts</td>
<td>41%</td>
</tr>
<tr>
<td>Funding body grants</td>
<td>13%</td>
</tr>
<tr>
<td>Research grants and contracts</td>
<td>26%</td>
</tr>
<tr>
<td>Other income</td>
<td>20%</td>
</tr>
</tbody>
</table>
2.5 Other income

Institutions also generate income from a variety of other sources. Many institutions, for example, operate residential and catering operations for their students. Such facilities may also be used in vacation periods to generate income from conferences and other events.

Some institutions, especially those with a strong research focus, generate income from collaboration with industrial partners. While this may sometimes take the form of research, in that it generates new knowledge, collaboration can also mean consultancy-type arrangements, where the institution uses its expertise to provide advice to industrial clients.

Institutions also generate income from the exploitation of their intellectual property. This might include the licensing of specific patents or other rights, or the establishment of ‘spin-out’ companies. The benefits of such arrangements may be shared between the institution and the members of academic staff involved.

Other income-generating activities include the academic publishing houses operated by a small number of institutions or the validation of health professionals’ competence to practice in the UK. In most part,
however, other such activities are small in scale and modest in the level of income that they generate.

2.6 Investment income

Institutions with significant financial reserves are also able to generate returns from the investment of these reserves. However, as charities, institutions typically tend not to pursue aggressive investment strategies. Instead, they attempt to maintain the value of their financial assets against inflation and to minimise the risk to the money that they have invested.

2.7 Donations and endowments

Institutions across the United Kingdom are making greater efforts to raise income from alumni and other donors. While a small number of institutions have had considerable success over the years in securing donations and endowments from wealthy benefactors, many are still in the early stages of such activity.

2.8 How institutions spend their money

In theory, institutions are free to spend their income as they see fit, subject to their status as charities and any constraints placed on that income by their funding bodies, research councils and other partners.

In practice, most institutions spend over half of their income directly on their teaching and research activities, including academic staff costs and the operation of academic departments.

The other half is spent on things that support teaching and research indirectly, such as libraries and other academic support services, the maintenance of the institution’s buildings and other facilities, the provision of student accommodation, and financial support to students.

Figure 6 provides an example of how a large teaching and research institution spends its money.
While institutions may have annual income in the hundreds of millions of pounds, much of this is already committed to paying for costs that are essentially ‘fixed’ in the medium term, such as staff costs, building maintenance, utilities, professional fees, software licenses and numerous other things. Consequently, institutions typically have little in the way of ‘unallocated’ resources that can be spent on new activities or initiatives. By far the biggest item of cost to a university is for its staff, which is typically around 50% of the total.
2.9 **Staff costs**

The cost of staff to an organisation is made up of:

a) **Salaries**
These are determined by the institution, usually with reference to a job evaluation scheme recognised in the sector, and the national pay structure negotiated on behalf of employers by UCEA. Newer providers in the English sector may use different reference points.

b) **Employment taxes**
Like any employer, institutions are obliged to pay employers' National Insurance contributions. Any institution with a pay bill of over £3M must pay the Apprenticeship Levy whether or not it employs apprentices.

c) **Statutory sick or parental leave payments**
Every workforce faces these issues and universities are no exception.

d) **Sick pay or parental leave payments in excess of the statutory requirements**
Universities often offer in excess of the statutory minimum.

e) **Additional employee benefits**
Some institutions offer private health care schemes and other benefits at a cost to the institution, but possibly shared with the employee.

f) **Income protection or life insurance premiums**
These are often included in pension scheme payments but where an employee has opted out of such arrangements, or the scheme does not provide them, the university may make separate arrangements.

g) **Employer pension scheme contributions**
Most staff in the higher education sector are members of a pension scheme. Any employer is obliged by law to enrol employees in a scheme, but the employee may opt-out. Most schemes require a contribution by the employer and the employees. The purpose of participating in a pension scheme is to provide the employee with a retirement income.
Higher education institutions participate in a number of different pension schemes: these can be specific to the sector, which is the case with the Universities Superannuation Scheme (USS) and Superannuation Arrangements for the University London (SAUL); specific to a particular university, (such as an in-house self-administered trust); or have a membership which extends beyond the higher education sector, such as the Teachers’ Pension Scheme (TPS), the Scottish Teachers’ Pension Scheme (STPS), the National Health Service Pension Scheme (NHSPS) or the Local Government Pension Scheme (LGPS). The scheme(s) provided to staff will often depend on the history of the institution, and the eligibility criteria which the institution determined when it first became a participating employer in a scheme.

In short,

- pension cost is one component of the overall staff cost;
- the cost to a higher education institution is based on the employer contribution only, since the member contribution is collected by deduction from the member's salary;
- the actual total cost to the university is calculated by multiplying the salary cost by the employer pension contribution rate;
- the different pension schemes used in the higher education have different contribution rates.

More information on the financial impact of pension arrangements in the higher education sector is included later in the guide.

2.10 Achieving a balance between income and expenditure

The structure of the higher education funding system in the UK means that it is rare that institutions can cover the costs of each activity they undertake with the income associated directly with that activity. Even the smallest higher education institution will generate income from a range of sources, and this income will often subsidise unrelated expenditure elsewhere in the institution.

For example, most institutions can cover the cost of teaching most home undergraduate students with the income from those students’ tuition fees. However, tuition fees do not cover the full cost of educating students
in laboratory-based subjects that are more expensive to teach. In addition, the funding provided by research councils deliberately covers less than 100% of the costs of the research projects for which it is awarded. There is an assumption that the institution will be able to cover the remaining amount from other sources and from economies of scale, i.e. saving money by running lots of research projects at the same time.

Because institutions are able to charge higher fees to international students, they are often able to generate surplus funds from such fees, which can help to offset any shortfall in the funding of research activities. This approach relies on an institution’s ability (and desire) to attract significant numbers of overseas students.

Consequently, most institutions seek to generate enough income, from their activities as a whole, to fund all of their ongoing activities and to set aside funds for long-term investment in their infrastructure, such as their buildings, facilities and information technology resources. A recent report by The Financial Sustainability Strategy Group provided important information on how UK institutions pool financial resources to deliver a diverse range of activities. It also provided a detailed understanding of how institutions plan financially for the medium term, to sustain activities and deliver public benefit.

2.11 Illustrating how different types of income and expenditure deliver a surplus or deficit

If a university earns more income from its activities as a whole than it spends on its activities, this results in an “operational surplus”. If expenditure is more than income, an “operational deficit” results. This is also referred to as ‘generating a surplus/deficit’.

The “traditional” Higher Education sector uses an “activity-based costing system” adapted for use in universities to help them understand the costs of their activities. It is known as TRAC – The Transparent Approach to Costing.

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3 www.trac.ac.uk/about
Although there are some exemptions for very small organisations, most regulated institutions use this system and report figures to their funding bodies annually. To compile the figures, the university must record full costs of doing the activities, which includes a figure called the “margin for sustainability and investment” (MSI). This is an essential adjustment that allows institutions to budget (or save) for [re]investment in their activities.

Figure 7 shows the level of surplus generated by different activities across the higher education sector, both in absolute terms and as a proportion of income. This figure shows, among other things, how the surplus in teaching subsidises deficits made by research activities.

**Figure 7: Surplus/deficit on different activities; sector-level data 2017/18**

Source: Office for Students, Transparent Approach to Costing (TRAC) data

N.B. Publicly-funded teaching relates mostly to home students, while non-publicly funded teaching relates mostly to overseas students (outside the European Union). Other (income-generating) includes things like residences and catering. Other (non-commercial) encompasses institutions’ investment and fundraising activities. Expenditure figures include an adjustment to allow for reinvestment in institutions’ activities.

However, it is more important that an institution can generate sufficient cash to fund its activities, as some elements of an institution’s surplus (or deficit) will have no impact on the actual amount of cash available to it.

Healthy cash flow is the lifeblood of any organisation and universities are no exception.
no exception. If a university is earning enough and getting paid quickly enough to pay its obligations (see 2.8 and 2.9) it is said to have positive cash flow. It is important to keep this in mind.
The annual financial statements are the primary publicly-available source of information about a higher education institution’s finances. For the uninitiated, they can be difficult to make sense of. However, as long as the reader knows where to look, the financial statements can provide insight into an institution’s financial standing at a point in time. The narrative reporting, read in conjunction with the financial statements, will give the reader a good idea about the institution’s future prospects.

3.1 Aims of the financial statements

Each higher education institution has a legal and regulatory obligation to prepare, for each financial year, a set of financial statements. The aim of these financial statements (or ‘annual accounts’) is to provide information about the institution’s financial performance over the course of the year and its financial position at the end of the year.
The financial statements are designed to be used by a broad range of individuals and organisations to learn about the institution and to inform their interactions with it. Such users include the institution’s Governing Body, regulators and funding bodies, the charity regulator, employees and students, lenders and creditors, grant-awarding bodies and the general public.

By law, the financial statements are required to provide a ‘true and fair’ view of the institution’s financial performance and position. This means that they must be sufficiently complete, accurate and reliable to allow those who use them to do so with confidence.

To ensure that the financial statements meet these standards, they are subject to review each year by the institution’s external auditors. The auditors provide a certificate stating their view on the extent to which the accounts provide this ‘true and fair’ view, among other things, which is included with the financial statements when they are published.

### 3.2 The Statement of Recommended Practice

In order to ensure that an organisation’s financial statements allow comparison with both the financial performance of other organisations and the financial performance of the same organisation over time, there is an agreed approach to how financial transactions should be recorded and how financial statements should be prepared and presented. This approach is set out in a series of ‘financial reporting standards’.

The financial reporting standards are designed with the needs of commercial organisations in mind. In order to translate them into something that meets the more specific requirements of higher education institutions, Universities UK – the organisation that represents most long-established UK higher education institutions’ Vice-Chancellors – maintains a ‘statement of recommended practice’ (SORP) for financial accounting and reporting across the UK higher and further education sectors. The SORP is scrutinised and endorsed by the Financial Reporting Council, the national standards body for the accountancy profession.

The higher education regulators/funding bodies across the UK home nations issue ‘accounts directions’ to the institutions that they fund, which outline the specific requirements for the institutions’ annual financial reporting.

In line with these directions, the adoption of the requirements of the SORP is mandatory for higher education institutions in Wales, Scotland and Northern Ireland. In England, the SORP is no longer mandatory due to the varied nature of institutions offering higher education. However, complying with the SORP enables comparability between institutions, and encourages best accounting practice.

The SORP defines the format that an institution’s financial statements must follow. This includes a range of specific financial ‘primary statements’ and a suite of accompanying notes, which institutions are required to prepare and to publish alongside the financial statements.

This edition of the guide (November 2019) refers to the 2015 SORP, which still applies to accounting periods ending 31st July 2019. This guide will be updated in 2020 to reflect the changes in the 2019 SORP.

### 3.3 Key accounting concepts

The language of accounting is complex.

The application of accounting concepts is the cause of many misunderstandings about the financial strength of an organisation. An organisation could show a deficit figure in the financial statements but still have a lot of valuable assets and cash in the bank. We will try to explain how this can be.

The financial reporting requirements for higher education institutions are based on a number of fundamental principles.

The most relevant ones for those seeking to understand an institution’s financial statements are:

- **Recognition** – Institutions must recognise income when it has been earned and expenditure when it has been incurred, regardless of when it has actually been received or paid. This is known as ‘accruals-based’ accounting. Transactions must be recorded and reported in the accounting period in which they were recognised.

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2 [www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/sorp-accounting-higher-education.aspx](www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/sorp-accounting-higher-education.aspx)
• **Completeness** – The financial statements must include all transactions of income and expenditure during the period that they cover. And they must be recorded in line with the financial reporting standards and, where applicable, the statement of recommended practice.

• **Existence** – All transactions and balances recorded in the financial statements must actually exist or have taken place. Institutions must also maintain a record of all transactions, for audit and other compliance purposes.

• **Accuracy** – The transactions and balances recorded in the financial statements must be recorded accurately, reflecting the nature of the transaction or balance, the amount concerned and the point at which it was recognised or recorded.

• **Materiality** – The institution’s financial statements are not expected to be accurate to the penny, as this is not realistic in practice. They should, however, avoid any ‘material’ errors, which could influence the decisions of users of the financial statements. The International Accounting Standards Board has clarified that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The accounting rules that underpin an institution’s financial reporting arrangements are supported by a myriad of concepts, principles and requirements. To consider all of them would – and, indeed, does – require several sizeable textbooks. Here are some of the more important ones that readers may come across:

• **Accruals** – Institutions are required to recognise and to record income as it is earned and to recognise and record expenditure as it becomes due. As mentioned above, income and expenditure are recognised as they are accrued. This is one of the causes of misunderstanding of financial statements. Income may be earned, and recognised by issuing an invoice, but the person or organisation may not have paid the invoice so the university does not have the cash. Expenditure may have been incurred, and an invoice received, but the institution may not have paid the money out. Recording income when it is actually received and expenditure when it is actually paid is known as accounting on a “cash basis”. The problem with the cash basis is that it does not reveal what is around the financial corner.

• **Accounting policies** – In some respects, institutions have a degree of choice as to how they implement the specific accounting requirements of the financial reporting standards and the SORP. The way in which the institution implements these requirements, together with other elements of the financial reporting regime, become its accounting ‘policies’. The institution must set out these accounting policies and the notes that accompany its financial statements, usually at the front of the statements.

• **Assets and liabilities** – Assets are something the institution owns that generate future economic benefits, such as cash, buildings, investments and intellectual property. Liabilities are obligations to pay money or to perform services in the future.

• **Debtors and creditors** – Debtors are individuals and organisations that owe money to the institution. Creditors are individuals or organisations that the institution owes money to.

• **Revenue and capital expenditure** – Revenue expenditure is money that is spent on things that will usually be used up within the period covered by the financial statements or shortly thereafter, such as staff salaries, rent and other operating costs. Capital expenditure is money spent on the creation of longer-term assets, such as new buildings. Revenue expenditure is recognised when it is incurred. Capital expenditure is recognised over the life of the asset that it is spent on, by way of an annual ‘depreciation’ charge. See Section 5.4 for a more detailed explanation of depreciation.

• **Capital grants** – Institutions may receive grants to support the purchase or construction of buildings or other facilities, which are known as ‘capital grants’, as they are used to fund capital expenditure. Capital grants can be accounted for in a number of different ways, some of which may distort the surplus or deficit generated by an institution, as they rarely match the grant received with the expenditure to which it relates in the same accounting period.

• **Group** – Some institutions are part of a ‘group’ structure, where the institution itself is just one of a number of related legal entities. Separate legal entities – usually limited companies that are owned...
by the institution (known as ‘subsidiary’ companies) – are commonly established to undertake activities that are not an essential part of its higher education operations, or do not meet the university’s charitable objectives, for example, a conference centre. The financial statements will usually show figures for both the institution on its own and for the wider ‘consolidated’ group. The group figures exclude any transactions between the companies in the institution’s group.

- **Provisions** – Where an institution knows that it will incur a liability as a result of a past event, but does not know for sure how much it will need to pay or when it will need to pay it, it must set aside a ‘provision’ to pay this liability. This provision is included as an expense in the financial statements. This type of entry is also a cause of misunderstanding. Where an institution cannot be certain that a liability will be incurred, or where it cannot estimate the value of the liability, this constitutes a ‘contingent liability’. This is not recorded as an expense in the institution’s financial statement but must be explained in the narrative notes that accompany the statements.

### 3.4 The Statement of Comprehensive Income and Expenditure

The Statement of Comprehensive Income and Expenditure (SOCI) presents the institution’s financial performance during the reporting period, together with the financial performance of the consolidated group, if such a group exists. As it covers a period of time, a SOCI will be dated “for the year ended [YEAR]”.

1. The statement starts by showing the income from the institution’s ongoing activities. Income is categorised by its source, namely Tuition fees and education contracts, Funding body grants, Research grants and contracts, Other income, and Investment income. A sub-total is then shown before “Donations and endowments” are added.

   Donations are generally a gift with no restrictions but endowments generally have restrictions such as what the money is to be spent on, how the money is to be invested or whether only the interest can be spent.
## Consolidated and University Statement of Comprehensive Income and Expenditure

### Year Ended 31 July 2018

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consolidated £'000</td>
<td>University £'000</td>
</tr>
<tr>
<td>i. Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition fees and education contracts</td>
<td>1</td>
<td>152,130</td>
</tr>
<tr>
<td>Funding body grants</td>
<td>2</td>
<td>38,050</td>
</tr>
<tr>
<td>Research grants and contracts</td>
<td>3</td>
<td>41,892</td>
</tr>
<tr>
<td>Other income</td>
<td>4</td>
<td>67,018</td>
</tr>
<tr>
<td>Investment income</td>
<td>5</td>
<td>574</td>
</tr>
<tr>
<td><strong>Total income before donations and endowments</strong></td>
<td></td>
<td>299,664</td>
</tr>
<tr>
<td>Donations and endowments</td>
<td>6</td>
<td>1,146</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td></td>
<td>300,810</td>
</tr>
<tr>
<td>ii. Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>7</td>
<td>161,369</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td></td>
<td>104,158</td>
</tr>
<tr>
<td>Depreciation</td>
<td>11</td>
<td>23,849</td>
</tr>
<tr>
<td>Interest and other finance costs</td>
<td>8</td>
<td>6,023</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td></td>
<td>295,499</td>
</tr>
<tr>
<td>iii. Surplus before other gains and losses</td>
<td></td>
<td>5,311</td>
</tr>
<tr>
<td>iv. Gain/(loss) on disposal of fixed assets</td>
<td></td>
<td>154</td>
</tr>
<tr>
<td>(Loss)/gain on investments</td>
<td>14</td>
<td>(23)</td>
</tr>
<tr>
<td>Gain on sale of subsidiary</td>
<td></td>
<td>762</td>
</tr>
<tr>
<td><strong>Surplus before tax</strong></td>
<td></td>
<td>6,204</td>
</tr>
<tr>
<td>v. Taxation</td>
<td></td>
<td>10 (54)</td>
</tr>
<tr>
<td>vi. Surplus for the year</td>
<td></td>
<td>6,150</td>
</tr>
<tr>
<td>vii. Actuarial gain in respect of pension schemes</td>
<td>23</td>
<td>16,305</td>
</tr>
<tr>
<td>Transfer of reserves from subsidiary</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>viii. Total comprehensive income for the year</td>
<td></td>
<td>22,455</td>
</tr>
<tr>
<td>ix. Represented by:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment comprehensive income for the year</td>
<td></td>
<td>349</td>
</tr>
<tr>
<td>Restricted comprehensive (expenditure)/income for the year</td>
<td></td>
<td>(2,231)</td>
</tr>
<tr>
<td>Unrestricted comprehensive income for the year</td>
<td></td>
<td>24,337</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td></td>
<td>22,455</td>
</tr>
</tbody>
</table>

All items of income and expenditure relate to continuing activities.
ii. **Expenditure** is categorised as Staff costs, Fundamental restructuring costs (if applicable), Other operating expenses, Depreciation and Interest and other finance costs.

iii. By deducting expenditure from income, the statement shows the ‘operating’ surplus or deficit from the institution’s ongoing operations, though it is actually referred to in the statement as the ‘surplus or deficit before other gains or losses and the share of the operating surplus or deficit of joint ventures and associates’.

Institutions aim to make a surplus from their ongoing higher education activities, to invest in the future. It is not expected that they will make a large surplus, but it could be reason for concern if an institution were to operate at a deficit, especially if this situation were to arise several years in succession (unless this was done deliberately as part of its longer-term strategy, in which case it will be described as such in the narrative accompanying the accounts).

iv. The statement of comprehensive income then recognises gains or losses from other transactions or activities, which are not a core part of the institution’s operations. These include gains or losses on the sale of fixed assets (such as buildings, equipment and other things that the institution uses to generate income), gains or losses on investments, and the institution’s share of the surplus or deficit generated by any other entities of which it is a part-owner.

v. Any deduction for tax is made here – the figure is usually small, the reasons for which are not covered in this guide. Further information explaining universities and tax is available on the BUFDG website[^5].

vi. This figure is the institution’s overall surplus or deficit for the year.

vii. The statement then sets out any notional income or losses during the year, which have not yet been ‘realised’, i.e. the institution has not taken action to officially ‘lock in’ that income or loss. This includes surpluses on the revaluation of land or buildings (which can only be realised when the land or buildings are sold), actuarial losses or gains from the institution’s pension scheme (see section below on the pensions figures), and changes in the value of certain financial instruments (financial assets with a monetary value that are held or traded with a view to making a profit, such as shares or bonds).

[^5]: [www.bufdg.ac.uk/resources/tax](http://www.bufdg.ac.uk/resources/tax)

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Institutions aim to make a surplus from their ongoing higher education activities, to invest in the future.
viii. This figure is the “Total comprehensive income for the year” and understanding this figure requires some effort as it may include various accounting entries that relate to pensions. These are not simple and this guide does not explain the individual accounting entries. A further guide will be published to cover this in more detail.

ix. The statement concludes by analysing the institution’s income for the year, principally by whether it is from endowments, from ‘restricted’ sources (meaning that it can only be spent on certain activities) or from ‘unrestricted’ sources (meaning that it can be spent at the institution’s discretion). Unrestricted income gives an institution greater financial flexibility.

x. In addition to the income and expenditure for the financial year in question, the statement also presents an analysis of income and expenditure for the previous financial year. This allows the reader to compare the institution’s financial performance over the last two years. However, an institution’s financial performance can vary significantly from one year to the next, for a variety of reasons, so an analysis over a longer period of five or more years is a more accurate indicator of an institution’s underlying financial performance. Institutions provide public access to many years’ worth of financial statements on their websites for this reason.

3.5 The Balance Sheet

This presents the balance of each of the institution’s assets and liabilities at the end of the financial year. As this statement records balances on the last day of the accounting period, this is dated “as at [DATE]” rather than “for the year ended”.

The Balance Sheet sets out the assets that the institution has available to generate future income and the financial obligations which will use up its resources. Indicators of financial health are discussed in more detail later in this guide.

The statement is in two halves. A - The ‘top’ half lists the institution’s assets and liabilities, which collectively equate to its ‘Total net assets’ at the end of the year. The ‘bottom’ half lists the value of the institution’s reserves with Total Reserves equal to Total Net Assets.
In other words, the top half of the statement shows what assets the institution has, while the bottom half shows how it is financing them. The total of the top half should equal the total of the bottom half, so that the sheet ‘balances’. In fact, the two halves must balance.

The statement uses categories to present the institution’s assets and liabilities clearly:

### Consolidated and University Balance Sheet

as at 31 July 2018

<table>
<thead>
<tr>
<th>Notes</th>
<th>as at 31 July 2018</th>
<th>as at 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consolidated</td>
<td>University</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td></td>
<td>Consolidated</td>
<td>University</td>
</tr>
<tr>
<td></td>
<td>£’000</td>
<td>£’000</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed assets</td>
<td>11</td>
<td>465,020</td>
</tr>
<tr>
<td>Heritage assets</td>
<td>12</td>
<td>1,165</td>
</tr>
<tr>
<td>Investments</td>
<td>14</td>
<td>21,637</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>487,822</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td></td>
<td>566</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>15</td>
<td>33,777</td>
</tr>
<tr>
<td>Investments</td>
<td>16</td>
<td>20,000</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td>65,835</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>120,178</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creditors: amounts falling due within one year</td>
<td>17</td>
<td>82,681</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td></td>
<td>37,497</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td></td>
<td>525,319</td>
</tr>
<tr>
<td>Creditors: amounts falling due after more than one year</td>
<td>18</td>
<td>123,808</td>
</tr>
<tr>
<td>Provisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pension provisions</td>
<td>19</td>
<td>(90,242)</td>
</tr>
<tr>
<td>Other provisions</td>
<td>19</td>
<td>(63)</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td></td>
<td>311,206</td>
</tr>
<tr>
<td>Restricted Reserves</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income and expenditure reserve - endowment reserve</td>
<td>21</td>
<td>2,055</td>
</tr>
<tr>
<td>Income and expenditure reserve - restricted reserve</td>
<td>22</td>
<td>45,433</td>
</tr>
<tr>
<td><strong>Unrestricted Reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income and expenditure reserve - unrestricted</td>
<td></td>
<td>283,718</td>
</tr>
<tr>
<td><strong>Total Reserves</strong></td>
<td></td>
<td>311,206</td>
</tr>
</tbody>
</table>
(a) Non-current assets – assets that the institution holds but from which it will not gain the full value in the next financial year (in other words, that it will use over more than one year), such as fixed assets (e.g. buildings, vehicles, computer equipment), intangible assets (e.g. intellectual property) and long-term investments.

(b) Current assets – assets that the institution holds but for which it expects to realise the benefits in the next financial year, such as cash, short-term investments, stock that it plans to sell (e.g. catering supplies) and income owed from customers and service users.

(c) Creditors (due within one year) – amounts that the institution owes to other individuals or organisations, and which it expects to pay within the next financial year, such as payments to suppliers and loan repayments due within the next twelve months.

(d) The net current assets figure is b – c and is often referred to as "working capital". As long as this figure is positive (does not have brackets round it) there are enough current assets to pay for all current obligations. If the net amount is negative, it could be an indicator of financial difficulties.

(e) Total assets less current liabilities is (a + b) - c

(f) Creditors (due after one year) - amounts that the institution owes to other individuals or organisations, and which it expects to pay in more than twelve months' time, such as long-term loans from a bank or other credit provider.

(g) Provisions – amount that the institution has set aside to pay liabilities that have arisen as a result of a past event, but where the institution does not know exactly how much it will need to pay or when it will need to pay it, such as for pension liabilities.

(h) Total net assets is e – (f + g)

B - The “bottom half”, shows how the top half is financed by capital and reserves. Most universities do not show a figure for “capital” as they do not issue shares, so the bottom half of a university balance sheet shows reserves. This is another source of confusion when reading an organisation’s accounts – not all reserves are cash and are therefore not available to be spent. The reserves element of the Balance Sheet is split into
(i) **Restricted reserves** - Split into endowment reserves, restricted reserves

(j) **Unrestricted reserves**, revaluation reserve and non-controlling interest. The totals given here should agree with the year-end totals in the Statement of Changes in Reserves. (see below).

(k) This is the **total reserves figure** which shows where the value of the top half of the balance sheet is held.

The various kinds of reserves above are explained in the next section.

As with the other primary statements, the Balance Sheet provides information for both the financial year in question and the previous financial year. It also shows the financial position of both the institution and its wider consolidated group, where this is applicable.

### 3.6 The Statement of Changes in Reserves

A ‘reserve’ is an accumulation of resources in the institution’s accounts. They are where financial resources are stored until they are required. As we said before, not all reserves are cash in the bank, ready to be spent.

The Statement of Changes in Reserves explains what reserves the institution – and its wider group, if applicable – had at the beginning of the year, what reserves it had at the end of the year, and what has changed over the course of the year to account for the difference.

The statement identifies five different types of reserves. Not all universities will have all types of reserves.
A) **endowment reserves** – donations of money or other assets, which are used to earn interest or other investment return that can then be spent on the institution’s activities, in accordance with the specific purpose for which the donations were given.

B) **restricted reserves** - resources that have been provided to the institution for a specific purpose (such as grants for teaching and research) and can only be spent on the activities to which it relates;

C) **unrestricted reserves** – resources that are held by the institution but that are not tied to a specific purpose, though they are likely to be tied up in land, buildings, facilities, investments and income due, rather than held as cash;

These collectively make up the ‘income and expenditure reserve’.

**Consolidated and University Statement of Changes in Reserves**

**Year Ended 31 July 2018**

<table>
<thead>
<tr>
<th>Income and expenditure reserve</th>
<th>Consolidated</th>
<th></th>
<th>University</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Endowment £'000</td>
<td>Restricted £'000</td>
<td>Unrestricted £'000</td>
<td>Total £'000</td>
</tr>
<tr>
<td><strong>Balance at 1 August 2016</strong></td>
<td>1,643</td>
<td>52,056</td>
<td>205,661</td>
<td>259,360</td>
</tr>
<tr>
<td>Surplus from the income and expenditure statement</td>
<td>63</td>
<td>32</td>
<td>19,746</td>
<td>19,841</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>9,550</td>
<td>9,550</td>
</tr>
<tr>
<td>Release of capital grants with expired asset use restrictions</td>
<td>-</td>
<td>(4,424)</td>
<td>4,424</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Comprehensive Income for the year</strong></td>
<td>63</td>
<td>(4,392)</td>
<td>33,720</td>
<td>29,391</td>
</tr>
<tr>
<td><strong>Balance at 31 July 2017</strong></td>
<td>1,706</td>
<td>47,664</td>
<td>239,381</td>
<td>288,751</td>
</tr>
<tr>
<td>Surplus from the income and expenditure statement</td>
<td>349</td>
<td>(128)</td>
<td>5,929</td>
<td>6,150*</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>16,305</td>
<td>16,305**</td>
</tr>
<tr>
<td>Release of capital grants with expired asset use restrictions</td>
<td>-</td>
<td>(2,103)</td>
<td>2,103</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Comprehensive Income/(deficit) for the year</strong></td>
<td>349</td>
<td>(2,231)</td>
<td>24,337</td>
<td>22,455***</td>
</tr>
<tr>
<td><strong>Balance at 31 July 2018</strong></td>
<td>2,055</td>
<td>45,433</td>
<td>263,718</td>
<td>311,206</td>
</tr>
</tbody>
</table>

*see SOCI (vi)

**see SOCI (vii)

***see SOCI (viii)

---

**see balance sheet (i)(j)(k)**

**see balance sheet (i)(j)(k)**
D) the revaluation reserve – a notional reserve based on the revaluation of buildings and other assets, to reflect their current value, rather than the amount for which they were built or purchased (such income can only be realised as and when the underlying assets are sold, so this reserve should not be regarded as actual ‘money’ held by the institution). Not all universities choose to revalue their buildings or other assets so they do not have a revaluation reserve, but this is an example of one that does.  

Consolidated and University Statements of Changes in Reserves  
Year ended 31 July 2018

<table>
<thead>
<tr>
<th>Consolidated</th>
<th>Income and expenditure account</th>
<th>Revaluation reserve</th>
<th>Total reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Endowment £m</td>
<td>Restricted £m</td>
<td>Unrestricted £m</td>
</tr>
<tr>
<td>Balance at 1 August 2016</td>
<td>62.6</td>
<td>–</td>
<td>299.8</td>
</tr>
<tr>
<td>Surplus from the income and expenditure statement</td>
<td>5.7</td>
<td>–</td>
<td>58.2</td>
</tr>
<tr>
<td>Other comprehensive (expense)/income</td>
<td>–</td>
<td>–</td>
<td>(5.3)</td>
</tr>
<tr>
<td>– Depreciation on revalued assets</td>
<td>–</td>
<td>–</td>
<td>2.0</td>
</tr>
<tr>
<td>– Disposals of revalued assets</td>
<td>–</td>
<td>–</td>
<td>1.3</td>
</tr>
<tr>
<td>Transfer between endowment reserve and income and expenditure reserve</td>
<td>2.5</td>
<td>–</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>8.2</td>
<td>–</td>
<td>55.7</td>
</tr>
<tr>
<td>Balance at 31 July 2017</td>
<td>70.8</td>
<td>–</td>
<td>353.5</td>
</tr>
<tr>
<td>Surplus from the income and expenditure statement</td>
<td>1.4</td>
<td>–</td>
<td>7.6</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>–</td>
<td>–</td>
<td>27.0</td>
</tr>
<tr>
<td>Transfers between revaluation and income and expenditure reserve in respect of:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Depreciation on revalued assets</td>
<td>–</td>
<td>–</td>
<td>1.8</td>
</tr>
<tr>
<td>– Disposals of revalued assets</td>
<td>–</td>
<td>3.1</td>
<td>(3.1)</td>
</tr>
<tr>
<td>Transfer between endowment reserve and income and expenditure reserve</td>
<td>3.1</td>
<td>33.3</td>
<td>18.7</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>1.4</td>
<td>3.1</td>
<td>386.8</td>
</tr>
</tbody>
</table>

E) non-controlling interests – the institution’s share of surpluses generated by entities in which the institution is a part-owner, but where it does not own enough of the entity to have control over the decisions that any such entity makes. Not all universities have this, but an example is shown below. 

Consolidated and University Statements of Changes in Reserves  
for the year ended 31 July 2018

<table>
<thead>
<tr>
<th>Consolidated</th>
<th>Income and expenditure reserves</th>
<th>Non controlling interest</th>
<th>Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Endowment £00</td>
<td>Restricted £00</td>
<td>Unrestricted £00</td>
<td>Non controlling interest £00</td>
</tr>
<tr>
<td>Balance at 1 August 2016</td>
<td>7,258</td>
<td>12,731</td>
<td>301,707</td>
<td>321,696</td>
</tr>
<tr>
<td>Surplus from the income and expenditure statement</td>
<td>416</td>
<td>1,724</td>
<td>4,815</td>
<td>6,955</td>
</tr>
<tr>
<td>Other comprehensive expense</td>
<td>-</td>
<td>-</td>
<td>17,961</td>
<td>17,961</td>
</tr>
<tr>
<td>Release of restricted funds spent in the year</td>
<td>-</td>
<td>(380)</td>
<td>380</td>
<td>-</td>
</tr>
<tr>
<td>Total comprehensive income for the year</td>
<td>416</td>
<td>1,344</td>
<td>23,156</td>
<td>24,916</td>
</tr>
</tbody>
</table>

7 This example is from a different institution and does not match the main example
8 This example is from a different institution and does not match the main example
F) **Total Reserves** – Institutions may designate additional reserves within the overall headings of the endowment, restricted or unrestricted reserves, though they do not need to show these in this primary statement. For example, an institution may wish to create a separate reserve for each major endowment or for a long-term investment project, such as a new campus. This is a presentational issue, allowing institutions to highlight reserves that have been allocated to a specific purpose.

The main reasons for any changes to the value of these reserves over the course of the financial year, which are shown individually in the statement, are:

- the generation of a surplus or deficit in the year (from the statement of comprehensive income);
- the generation of ‘unrealised’ income (again, from the statement of comprehensive income);
- transfers between the revaluation reserve and the income and expenditure reserve (where revalued assets have been sold or otherwise disposed of and the revaluation gains have been realised); and
- the use of any restricted funds during the year (which results in them being transferred from restricted reserves to unrestricted reserves).

The statement of changes in reserves is often overlooked by readers of financial statements. But it is useful to see at a glance any changes in the value of an institution’s reserves and how these changes have come about.

### 3.7 The Statement of Cash Flows

The Statement of Cash Flows shows how much cash has come into and gone out of the institution. It is an important statement because when it comes to the viability of any organisation, cash flow is critical. After all, no matter how much you earn, if you do not get paid at the end of the month and have cash in your bank account, you will not be able to pay your bills.

There’s a saying in business circles, which sums this up:

*Turnover for vanity,*  
*Profit for sanity,*  
*Cash is reality*
The Statement of Cash Flows shows how the institution’s cash position (i.e. the cash in the institution’s bank accounts and cash-equivalent items, such as short-term investments) has changed from the beginning of the year to the end.

It is important to understand what cash is. It is actual notes and coins and money in a current account or an account that requires no notice to withdraw funds. It also includes cash or no-notice accounts held in foreign currency.

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash, which are subject to an insignificant risk of changes in value.

Examples of cash equivalents are:

- investments that can be converted to cash within three months
- bank deposits which require some prior notice before withdrawal
### Consolidated Statement of Cash Flows

**Year Ended 31 July 2018**

<table>
<thead>
<tr>
<th>Notes</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000</td>
<td>£'000</td>
</tr>
</tbody>
</table>

#### Cash flow from operating activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus for the year</td>
<td>6,150</td>
<td>19,841</td>
</tr>
</tbody>
</table>

#### Adjustment for non-cash items

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>54</td>
<td>90</td>
</tr>
<tr>
<td>Depreciation</td>
<td>23,949</td>
<td>22,815</td>
</tr>
<tr>
<td>(Gain)/loss on investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Decrease/(increase) in stock</td>
<td>(49)</td>
<td>(116)</td>
</tr>
<tr>
<td>(Increase) in debtors</td>
<td>(2,081)</td>
<td>(5,264)</td>
</tr>
<tr>
<td>(Decrease) in creditors</td>
<td>(3,699)</td>
<td>(4,838)</td>
</tr>
<tr>
<td>LGPS service costs less contributions paid</td>
<td>4,668</td>
<td>2,855</td>
</tr>
<tr>
<td>USS deficit provision expense less contributions paid</td>
<td>(1,571)</td>
<td>(1,254)</td>
</tr>
<tr>
<td>(Decrease)/increase in other provisions</td>
<td>(108)</td>
<td>(154)</td>
</tr>
<tr>
<td>Research &amp; Development Expenditure Credits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service concession agreement nominal rent</td>
<td>(635)</td>
<td>(619)</td>
</tr>
</tbody>
</table>

#### Adjustment for investing or financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment income</td>
<td>(574)</td>
<td>(411)</td>
</tr>
<tr>
<td>Interest payable</td>
<td>6,023</td>
<td>4,383</td>
</tr>
<tr>
<td>Endowment income</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>(Gain)/loss on investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss on the sale of fixed assets</td>
<td>(154)</td>
<td>713</td>
</tr>
<tr>
<td>(Gain)/loss on the sale of subsidiary</td>
<td>(762)</td>
<td>-</td>
</tr>
<tr>
<td>Capital grant income</td>
<td>(7,802)</td>
<td>(13,200)</td>
</tr>
</tbody>
</table>

#### Net cash inflow from operating activities

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23,481</td>
<td>25,048</td>
</tr>
</tbody>
</table>

#### Cash flows from investing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital grants receipts</td>
<td>11,829</td>
<td>10,177</td>
</tr>
<tr>
<td>Investment income received</td>
<td>510</td>
<td>412</td>
</tr>
<tr>
<td>Proceeds from sales of fixed assets</td>
<td>160</td>
<td>562</td>
</tr>
<tr>
<td>Net proceeds from sale of subsidiary</td>
<td>646</td>
<td>-</td>
</tr>
<tr>
<td>Payments made to acquire fixed assets</td>
<td>(78,895)</td>
<td>(37,717)</td>
</tr>
<tr>
<td>New non-current asset investments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of long term loans receivable</td>
<td>14</td>
<td>33</td>
</tr>
<tr>
<td>Redemption / (placement) of deposits with maturity of more than 3 months</td>
<td>16</td>
<td>(5,000)</td>
</tr>
</tbody>
</table>

#### Cash flows from financing activities

<table>
<thead>
<tr>
<th>Description</th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>(3,251)</td>
<td>(2,212)</td>
</tr>
<tr>
<td>Arrangement fee paid on new borrowings</td>
<td>(300)</td>
<td>-</td>
</tr>
<tr>
<td>New borrowings</td>
<td>60,000</td>
<td>-</td>
</tr>
<tr>
<td>Endowment reserves received from LUDT</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Reserves received from LUDT</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Repayments of amounts borrowed</td>
<td>(4,655)</td>
<td>(2,298)</td>
</tr>
</tbody>
</table>

#### Increase/(decrease) in cash and cash equivalents in the year

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>9,725</td>
<td>(10,994)</td>
</tr>
</tbody>
</table>

#### Cash and cash equivalents at the beginning of the year

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>56,110</td>
<td>67,104</td>
</tr>
</tbody>
</table>

#### Cash and cash equivalents at the end of the year

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 July 2018</th>
<th>Year ended 31 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>65,835</td>
<td>56,110</td>
</tr>
</tbody>
</table>

---

The annual financial statements
The statement starts by analysing:

A **cash flow from operating activities** – this is the surplus or deficit from the Statement of Comprehensive Income (vi). However, the Statement of Comprehensive Income has been prepared in line with accounting principles and convention (accruals), recognising income as it is earned and expenditure as it is incurred, rather than when it is received or paid. Therefore, the surplus or deficit figure needs to be adjusted to remove transactions that do not have an impact on the flow of cash or that will feature elsewhere. This includes -

B **adjustment for non-cash items** such as depreciation (the gradual recognition of the cost of a long-term asset, such as a building, as a notional charge to the institution’s accounts), increases or decreases in current assets, and the institution’s share of the surplus or deficit in part-owned entities; and

C **adjustments for investing or financing activities**, such as investment income, interest payable and surplus on the sale of long-term assets.

Where a figure is in brackets, this is a reduction in cash required or a cash-outflow. Where the figure is not in brackets, it means that cash has come into the university or at least has not left the university’s accounts. In the example shown, depreciation is not in brackets despite it being an item of expenditure in the Statement of Comprehensive Income. This is because depreciation is accounting for the cost of fixed assets over the life of the asset, most likely a percentage of its value every year, rather than recognising the full cost in the first year the asset is acquired or revalued. Say a piece of equipment is purchased in the year being reported, the total amount of cash that was spent will be shown in the cash-flow statement but only the depreciation charge is shown in the SOCI – see section 6.4 to learn more about depreciation.

D shows the cash flow from the institution’s operating activities, i.e. its day-to-day higher education operations. From this, the institution then deducts:

**taxation** – this is the tax payments that have actually been made in the year, rather than the taxation payments that are due for the year. (There are none in the example used).

This yields the net cash inflow (or outflow) from operating activities. To complete the picture we then add or subtract:
E cash flows from investing activities – such as proceeds (not just the surplus) on the sale of long-term assets and investments, new endowments received, and payments made to purchase new long-term assets; and

F cash flows from financing activities – such as interest paid, new loans taken out and existing loans repaid.

G The total of these various items and adjustments is equal to the net increase or decrease in cash and cash equivalents over the course of the year. i.e. 65,835

-56,110

9,725

H shows the cash figures from the Balance Sheet (b) at the beginning and end of the accounting period and the difference between them is G.

Where an institution has experienced negative net cash flows, a closer examination of the Statement of Cash Flows may provide some insight into what has caused this. For example, net cash could have gone down because the institution has paid off a large loan, which would overall be a good thing. Alternatively, the institution could have earned income but not received it, meaning that the amount owed to it has risen. This would be a bad thing, unless the institution is sure that the money owed will eventually be paid.

Ideally, though, the statement will show a net increase in cash. As a minimum, a positive net cash inflow from operating activities (D) is desirable. If the institution does not manage to achieve this, especially if it fails to do so for two or more years in succession, this could potentially be a cause for concern. This is a prompt to look back at previous annual reports to see if this was planned and explained in the narrative reports, as would be the case if the institution had saved up cash to spend on new buildings or facilities.

3.8 The notes to the financial statements

The primary financial statements are accompanied by a series of notes, which provide additional information on how the statements have been compiled and breaks down some of the numbers into greater detail. The notes are very important as they explain how numbers in the financial statements have been derived or calculated.
The first note, often in front of the financial statements, usually sets out the main accounting policies and estimation techniques that have been used to prepare the financial statements. These are fairly standard across the UK higher education sector, as the policies adopted and techniques used must comply with the SORP and/or the relevant financial reporting standards. They give an introduction to the bases of the institution’s finances.

The remaining notes follow the financial statements and provide further detail on the main figures, such as sources of income, items of expenditure and the institution’s assets and liabilities. The primary financial statements include, next to each figure, a reference to the appropriate note, where applicable.

The notes also provide additional information on things like the pension schemes of which the institution’s staff are members, any entities of which the institution is a part-owner and any transactions into which the institution has entered with ‘related parties’, which are entities that are controlled or influenced by members of the institution’s management/governance team.

In addition to the statements and notes required by financial reporting standards and the SORP, the accounts directions issued by the relevant regulators or funding bodies can also require institutions to make specific disclosures in their financial statements. These disclosures usually include the remuneration of the vice-chancellor or principal, the number of staff paid more than a certain amount (e.g. above £100k per annum), and details of any compensation for loss of office paid to members of staff.

3.9 Narrative reporting

The SORP requires institutions to publish alongside their financial statements a series of narrative reports, namely:

- **a strategic report**, which sets out the institution’s objectives and its strategy for achieving these objectives, a review of its operational and financial performance during the year, an assessment of its future prospects, the main risks and uncertainties that it faces and an overview of the key measures that it uses to assess its performance;

- **a statement of corporate governance and internal control**, which explains how the institution’s governance arrangements work and how the institution ensures that the institution’s activities and processes operate as they are supposed to;
a statement of responsibilities of the Governing Body, which explores – as the name suggests – the responsibilities of the institution’s Governing Body and of its various committees, such as the audit committee, the finance committee and the remuneration committee; and

an independent audit report, which reports the auditors’ findings from their review of the financial statements, about which more below.

The financial statements and the associated narrative reports are often published alongside, or as part of, a ‘glossy’ annual report, which explains what the institution has achieved over the course of the year and how well it is doing. The annual report itself usually presents a positive view of the institution, its performance and its prospects. The strategic report must present a fair and balanced assessment of the institution and may not be as selectively positive as the annual report, so it is usually the best place to start to assess the true future prospects of an institution

3.10 The audit report

All higher education institutions – along with most organisations over a certain size – are required to submit their financial statements for audit by a suitably-qualified auditor or audit practice. Upon completion of this audit, the auditor or auditors prepare a report setting out their findings and conclusions. The audit report, among other things, seeks to reassure the reader that institutional reporting, as prepared by the institution, can be trusted.

Audit reports contain the auditor’s conclusions on some important elements of the financial statements, including:

- whether the institution is a ‘going concern’, which means that it can reasonably be expected to continue in operation for the time being (if the auditors disagree with this, the reader should ask some more questions);

- whether the financial statements give a ‘true and fair view’ of the institution’s financial performance for the year and of its financial position at the end of the year (any minor problems are usually ironed out during the audit, so if the auditor sets out ‘qualifications’ to this aspect of their opinion, these usually relate to issues that the institution is unable to resolve); and

The audit report, among other things, seeks to reassure the reader that institutional reporting, as prepared by the institution, can be trusted.
• the institution’s funds have been applied to the purposes for which these funds were granted (this is particularly important for funding body and research grants, which can usually only be used for specific things and that can be ‘clawed back’ by the funder if they have been used inappropriately).

While the institution’s auditors do review the narrative elements of the broader annual report and the narrative elements of the financial statements, they do not audit these as such. Rather, they are required merely to mention in their audit report if they identify anything in the annual report or narrative reports that is inconsistent with the findings of their audit.

3.11 Key things to look out for

The financial statements should provide readers with all the information they need to gain an understanding of the institution’s financial health.

Here are some of the key questions to ask:

❓ Does the strategic report highlight any particular risks and/or uncertainties?
Any institution will face a range of risks to the achievement of its objectives, and/or uncertainties in the environment in which it operates. The main things to look for are (a) that the institution recognises what these risks and uncertainties are and (b) that it is doing something to manage or address them.

❓ How does the institution rate its own prospects?
The institution is unlikely to use its own annual report to do itself down, so a reasonably positive view of the institution’s performance and prospects is to be expected. Consequently, when an institution does express any concern about its future prospects, these should be taken seriously. Where there are significant issues at stake, the institution should have in place an action plan to address them.

any surplus generated by an institution is not the same as the ‘profit’ generated by a commercial company
Has the institution generated a surplus during the year?
Breaking even is good but generating a surplus to reinvest in the institution’s activities is even better. However, the reader should be very wary of taking a surplus figure at face value, as it does not mean that that amount of extra cash has been added to the institution’s reserves. This is especially true where an institution has recognised significant non-cash costs, such as depreciation or an increase in its pension liability. This is not a suggestion that liabilities should be ignored - they are real according to the conditions at the time - but the institution may not required to settle that liability all at once in the near future.

It is important to note that any surplus generated by an institution is not the same as the ‘profit’ generated by a commercial company. An institution’s surplus – except in the cases of some commercial higher education institutions – cannot be distributed to shareholders, both because the institution has no shareholders and because there is no legal provision for such surpluses to be distributed. Any surplus is retained by the institution until it is required.

If it has generated a deficit, did it have one last year, too?
Generating a deficit, i.e. incurring more expenditure than income the institution has earned, is clearly less good than generating a surplus. But it can happen, especially if something unusual has happened during the year, such as a major restructuring. If it is a ‘structural’ deficit (meaning that the institution isn’t covering its costs even without anything unusual happening), especially if this has happened for two or more years in a row, then further examination is wise.

What levels of financial reserves does the institution have?
If an institution has generated a deficit, it needs to fund this from its reserves. The level of financial reserves (specifically, unrestricted reserves) determines how long the institution can afford to generate a deficit before the money runs out. Simply running down reserves is not, however, a satisfactory way of dealing with a structural deficit. In looking at this figure, take notice of how the reserves are made up as they cannot all be spent readily.

Does the institution have enough cash to pay its short-term liabilities?
The Balance Sheet shows the liabilities that the institution will need to pay in the next twelve months. Some of these, such as bills from suppliers, will of course need to be paid much sooner than this.
It is therefore important that the institution has enough cash – and things that can quickly be turned into cash, such as short-term investments and outstanding debtors – to pay these liabilities. Lack of cash – rather than failure to make a profit – is one of the main reasons that organisations of all types experience financial distress.

Does the institution have positive net cash flow from its operating activities?
While generating cash is not an institution’s primary aim, it is a necessary part of operating as a financially viable and sustainable organisation. Where the institution has experienced a net cash outflow in the year from its operating activities, there should be a clear reason for this. And this should not continue, unplanned, for more than one year.

Does the institution have significant external borrowing?
Taking out a loan from a bank or other financial institution is not a problem in itself, as this is a common way to finance capital developments, such as new buildings or facilities. It is the ability of the institution to manage these loans that is important. This means being able to pay the interest charged on them and to pay back the capital amount over time. Institutions also have to comply with certain ‘covenants’: conditions relating to their financial performance, which if breached, can trigger enforced repayment of the loan. It is not unusual for higher education institutions to have external debt equivalent to anything up to 50% or so. The strategic report or the notes to the financial statements should provide additional useful information.

Does the institution have any other significant liabilities?
In addition to any loans that it will need to repay, institutions are likely to show in their accounts a provision for the payment of pension liabilities that will need to be paid to former and current members of staff when they retire. If the institution shows in its Balance Sheet (or in the notes to the financial statements) any other significant provisions or liabilities, these should be investigated and understood. The same applies to any contingent liabilities explained in a note to the financial statements, which could have a future financial impact on the institution. This guide does not offer a full explanation of how pensions provisions are calculated as it requires knowledge of concepts such as discounting. This will be covered in a subsequent publication.
Have the auditors provided a ‘clean’ audit opinion?
If the institution’s auditors have a problem with anything in the financial statements, this will be set out in their audit opinion. Some issues are purely technical accounting problems, so will not usually have an impact on an institution’s financial viability or sustainability. Others will be more of a concern. It is a big thing for an auditor to issue a ‘qualified’ audit opinion, i.e. one that highlights problems with the way in which the institution has reported its financial performance or position. Usually, if the auditor identifies a problem, the institution will try to rectify it before the audit report is issued. If it cannot, or chooses not to, the reasons for this will be set out in the audit report.

Have the financial statements been prepared on a ‘going concern’ basis?
If they have not – and this will be evident from the narrative reports and from the auditor’s opinion – then there is serious doubt that the institution will be able to continue in operation for another financial year. This rarely happens, but if it does then it’s a major – and very obvious – warning sign that things have gone badly wrong.

Is there anything in the financial statements that looks a bit, well, odd?
Institutions will usually disclose significant financial transactions or issues in the notes to their financial statements, generally towards the end. If anything here looks unusual, it may be worth looking into in more detail, especially if it does not appear to relate to the institution’s core activities. Transactions entered into with organisations or individuals that are in any way ‘related’ to the institution, such as trusts of members of the Governing Body, should be subject to especially close scrutiny.
Pensions and accounting for them

The purpose of participating in a pension scheme is to provide the member with a retirement income. Many employees in the higher education sector are members of an occupational pension scheme, having been contractually enrolled into a scheme when they commenced employment with the institution, or enrolled automatically at a later date.

Pension scheme membership is a valuable part of the staff reward package as, in addition to paying staff salaries, universities will also make significant payments (contributions) toward the cost of pension benefits which staff build up during the period of their employment.

4.1 Higher education pension schemes

There are several different pension schemes used within the Higher Education sector. The scheme or schemes offered by individual institutions vary based on a range of criteria, including how old the
institution is, the affordability of participating in certain schemes, and the balance of the overall employment package offered to staff. Common schemes and their “type” are:

- **The Universities Superannuation Scheme (USS)** is specific to the sector and is one of the largest private pension schemes in the UK. The Superannuation Arrangements of the University of London (SAUL) is another HE-sector scheme. (Funded Defined Benefit)

- **Self-administered pension schemes**, which are specific to individual universities (often called self-administered trusts (SATs)) (Funded Defined Benefit)

- **A scheme whose membership extends beyond the higher education sector**, such as the Teachers’ Pension Scheme (TPS), the Scottish Teachers’ Pension Scheme (STPS), and the NHS Pension Scheme (NHSPS) (All are Unfunded Defined Benefit)

- **The Local Government Pension Scheme (LGPS)** (Funded Multi-employer Defined Benefit)

- **A work-place pension scheme** for use by any employer, for example, NEST. (Defined Contribution)

- **A “defined contribution” or “money purchase” scheme** that a university has set up just for its staff. (Defined Contribution)

The rules of each pension scheme are set out in the scheme’s Trust Deed and Rules. These will determine how the scheme operates, the duties and responsibilities of the Trustees, and the interaction between the scheme and the participating employer(s). As a participating employer, each institution is required to adhere to the rules of the scheme. In addition, the operation of UK pension schemes is governed by pension legislation and monitored by the Pensions Regulator.

### 4.2 Types of scheme

In all pension arrangements, payments are made into the scheme by employees and employers and benefits are paid out to employees once they retire. However, the different types of pension schemes operate in different ways.
In a **Defined Contribution** scheme, the payments into the scheme (the contributions) are defined, but the benefits (the pension that the employee will receive when they retire) are not guaranteed. The amount of income a DC pension provides depends on the value of contributions, investment performance of those contributions in the years before retirement, and the wider economic conditions at the point that the employee retires and wants to turn their pension ‘fund’ or ‘pot’ into their retirement income.

In a **Defined Benefit scheme**, the payments into the scheme (contributions) can be varied, but the benefits are defined by a formula that is outlined in the scheme Trust Deed and Rules. The defined benefits will usually be based on member’s salary and length of scheme membership. As an example, this might be an annual pension income that is a 60th of the employee’s final salary, for every year they paid into the pension scheme.

As noted above, a defined benefit scheme can be unfunded or funded. The impact on the financial statements of the employer (university) is different for each type of scheme.

In the case of an unfunded defined benefit scheme (TPS, STPS, or NHSPS), the contributions made by employers go into HM Treasury coffers and payments made to pensioners similarly come from government funds. There is no separate “pot” or “fund” set aside from which payments are made.

In a funded defined benefit scheme, the contributions go into a “fund”, which is managed by investment managers who invest in equities, bonds, property and other assets that will grow and deliver income. The payments made to pensioners are made out of this same fund.

Many of the schemes available in the higher education sector are DB pension schemes. The tricky aspect to operating a DB scheme is determining the amount of money which must be collected from members and employers now in order to pay the defined benefits when they become due – which may be up to 60 years in the future. This requirement needs to be assessed regularly, and the assessment may indicate that an adjustment to the amount being collected is required. For this reason, as noted in the previous paragraph, the contributions to a DB scheme (i.e. the contributions) can be varied.
The task of determining the required level of contributions for a DB scheme is the job of a pensions actuary, who will model different assumptions for a broad range of variables, including future investment returns, inflation, expected retirement age, and life expectancy, to determine the amount of money required now to pay pension benefits in the future. This cash requirement is translated into a member contribution rate and an employer contribution rate as percentages of the employee’s pensionable salary.

4.3 The financial impact of pension arrangements in the higher education sector

As employer contributions to a pension scheme are expenditure, they must be reflected in the institution’s annual financial statements. Pension cost is one component of an institution’s overall expenditure on its staff and is approximately 20% of its salary bill although this varies considerably amongst institutions. This is the amount paid (i.e. cash cost) by employers.

In the case of unfunded schemes or defined contribution schemes, the contributions are included in staff costs in the Statement of Comprehensive Income.

In the case of funded schemes, there are further complications. Not only are the contributions included in staff costs, but the “funding position” of the scheme(s) needs to be reflected in the financial statements of the universities. By “funding position” we mean the extent to which the fund is projected to be able to meet the commitments to its past and present members.

This is where universities rely on pension actuaries to assess the value of the funds’ assets and liabilities, (its obligations). This is called an actuarial valuation and usually happens every three years.

If the actuary determines that the assets of the pension scheme are greater than the liabilities of the scheme, it is said to be in surplus. If they are equal, it is “fully funded”, but if the liabilities are greater than the assets, it is a scheme in deficit.
A scheme in deficit needs a plan to become fully funded, which is known as a deficit recovery plan.

The actuarial assessments and predictions, and any deficit recovery plan will then be used to calculate the accounting entries on the Statement of Comprehensive Income and Expenditure, the Balance Sheet and the Statement of Cash Flows.

Several figures are affected, but the most striking effect is likely to be on Staff Costs included in (ii), and the Total Comprehensive Income for the year (viii) on the SOCI.

Staff costs will include a figure that has been agreed as the institution’s share of the deficit recovery plan, adjusted by payments already made. UK accounting standards require the commitment to pay off a scheme deficit as a single upfront accounting charge.

The final figure in (viii) incorporates the "Actuarial gain in respect of pension schemes". This may, depending on the outcome of an actuarial valuation, be a large figure in brackets. This means it will be deducted from the surplus or deficit (vi), resulting in a smaller surplus, a deficit where there was no deficit before, or a larger deficit.

The other big figure relating to pensions is Pensions Provisions (g) on the Balance Sheet. This figure is the amount that the pension schemes need from the university to be balanced—i.e. so that the pension scheme is "fully funded". How the scheme and the university arrive at this figure will be explained in a subsequent publication.
Monitoring and reporting financial performance

There are few aspects of life in the UK on which the higher education sector does not have a significant impact. For this reason, it has an enviable array of stakeholders – from students and their parents, to government, research partners, industry, and beyond. All these stakeholders have an interest in how well institutions are performing, so institutions must report effectively on what they do, how they spend their money and what they have achieved.

5.1 Key financial indicators

An institution will monitor its performance against its financial strategy, its financial forecasts and its annual budget to allow it to identify and to respond to any significant deviations from its financial plans.
Without a detailed knowledge of the institution, however, such information would not give the casual observer the context to form a view of the institution’s financial stability and sustainability. Such an observer needs objective financial performance data that are publicly available and that can be compared across different institutions.

The best source of such data is the ‘key financial indicators’, which are published by the Higher Education Statistics Agency for all institutions, using data submitted by the institutions themselves and largely derived from their financial statements¹.

These indicators, together with some ideas as to what to look for, are:

1. **Surplus/(deficit) as a % of total income**
   
   There is no official guidance as to what constitutes a suitable surplus for reinvestment. Bear in mind, though, that – as mentioned previously – an institution’s surplus or deficit position can be affected by factors not related directly to its underlying financial performance.

   Many institutions now also use Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA, pronounced ‘ee-bit-da’) as a measure of operational financial performance as this removes the non-cash figures. EBITDA is a way of measuring an institution’s financial performance without having to factor in financing decisions, accounting decisions or tax environments. It is used commonly throughout the commercial and other sectors, too.

   *In our example surplus is just over 2%*

2. **Staff costs as a % of total income**
   
   There is no right or wrong answer here, but somewhere between 50% and 60% is fairly normal. An institution cannot function without good people, so it is right that a significant proportion of its money should be spent on them.

   *In our example 53%*

3. **Premises costs as a % of total costs**
   
   This can vary depending on the nature and age of the institution’s premises. Between 5% and 10% is typical, but institutions with listed buildings and London-based facilities will probably pay more.

   *This is not derived from the financial statements.*

¹ Data can be accessed via the HESA website. Links to all universities’ financial statements are on the BUFDG website.
### 4. Unrestricted reserves as a % of total income

A healthy level of unrestricted reserves is a good sign and acts as an indicator of the capacity of an institution to respond to change. Institutions should not, though, simply ‘hoard’ excessive levels of reserves for the sake of it. Around 100% or so is extremely reassuring. Above 50% is reasonable enough. Below this is potentially cutting it fine, but not a sign of immediate financial distress unless accompanied by a recurring annual deficit.

*In our example* 87%

### 5. External borrowing as a % of total income

The key thing here is the institution’s ability to ‘service’ its debt, i.e. to be able to pay the interest and capital repayments from cash generated. Borrowing of up to 50% or so of total income is fairly normal and should not be a cause for concern. More than this is manageable if the institution’s other indicators suggest it is in good financial health. High levels of borrowing should, though, be supported by a suitable rationale, e.g. for investment in a large capital project.

*In our example* 43%

### 6. Days ratio of total net assets to total expenditure

This indicates how long, in days, the institution could continue to pay its bills in the extreme scenario that it liquidated all of its net assets, i.e. its total reserves. It is worth bearing in mind that not all assets can be liquidated quickly, if at all. (Consequently, this indicator is perhaps less useful than some of the others.)

*In our example* 384 days

### 7. Ratio of current assets to current liabilities

This tells us about the institution’s ability to pay its debts that are due in the near future, so is a good indicator of its immediate financial viability. Anything above 1 is good. Anything above 2 is excellent, though it may mean that the treasury manager needs to look at how proactively cash is invested. Below 1 means the institution is either very good at managing its working capital (‘liquidity’) or is about to run out of cash.

*In our example* 1.45

### 8. Net cash inflow from operating activities as a % of total income

This is a measure of the institution’s ability to generate cash, which is arguably even more important than generating a surplus. 5% upwards is alright. 10% upwards is good. A negative number is a source of concern.

*In our example* 7.8%

### 9. Net liquidity days

This tells us how many days the institution can – in theory, at least – continue to pay its bills with the cash that it has to hand. The larger the number here, the better, but too high and we should wonder whether treasury management is working optimally. Anything less than 60 days is potentially worrying, especially if the institution is facing other financial issues.

*In our example* 115.4 days
5.2 Benchmarking

Internally, institutions may also choose to compare their performance – whether activities or costs – against that of their peers. This is known as benchmarking. The increased level of competition between institutions has made benchmarking a little more difficult, but it is still feasible if undertaken sensibly.

Institutions have three benchmarking options:

• they can liaise directly with a group of other institutions to share cost and activity data and to use it benchmark their performance against the other institutions in this group;

• they can participate in benchmarking activities organised and managed by sector professional or representative bodies; or

• they can engage with a commercial supplier of benchmarking services.

The key to successful benchmarking is usually to compare like with like. This means that the institutions in the benchmarking group need to share similar characteristics, at least in those areas that are the subject of the benchmarking exercise.

Alternatively, institutions may wish to benchmark themselves against institutions they aspire to be like, in order to identify what steps they need to take.

The exception to benchmarking on a like-with-like basis is ‘best in class’ benchmarking, where an institution might want to compare its activities and performance in a particular aspect of its activities with an organisation – potentially a very different organisation, in a different sector of the economy, – that does this really well.

For example, an institution wanting to get better at managing its student residences might wish to look at how a large hotel chain manages its rooms. It can then identify any useful learning points and apply them to its own activities and context.

This is not to say, of course, that institutions should model themselves on such organisations. It is simply that, by looking at an organisation that does something very well, the institution may be able to learn something that it can apply to its own activities, to the benefits of students, staff and other stakeholders.
5.3 Reporting financial information to students

There is growing interest – from government, regulators, funding bodies, students’ unions and students – in the ways that institutions report to students on how tuition fees are spent.

To do this is not as straightforward as it sounds, as most institutions do not record expenditure at the level of individual programmes or courses. There is also considerable and necessary cross-subsidy between subjects, which do not all cost the same amount to teach.

However, more institutions now publish a user-friendly breakdown of their costs, with an explanation of what each area of expenditure (e.g. academic departments, student support services, estates) does and how it contributes to the student experience.

Some institutions have gone further than this to provide more comprehensive financial reports to their students. Work continues across the sector, though, to develop a more consistent approach to presenting useful financial information to students and potential students, so that they can see what their tuition fees pay for.

5.4 Integrated Reporting

One way in which institutions and other organisations across the higher education sector are trying to provide better information – financial and otherwise – to funders, students and other interested parties is through the growing use of Integrated Reporting. This is a global initiative (by the International Integrated Reporting Council) to encourage organisations to explain the value that they create.

It is compulsory in some countries (e.g. South Africa) to produce such a report that explains not only changes in financial value, but also in societal, human, intellectual, natural and manufactured ‘capital’.

An Integrated Report is a concise communication about how an organisation’s strategy, governance, performance and prospects, in the...
context of its external environment, lead to the creation of value over the short, medium and long term.

The framework identifies the information that should be included in an Integrated Report, together with the way in which the report should be prepared and presented, so that readers are able to assess an organisation’s ability to create value and to use its resources efficiently and effectively.

A small number of institutions – such as Newcastle University³ and the University of Edinburgh⁴ – have already prepared and published integrated reports alongside their financial statements. And others are working to implement the principles of Integrated Reporting and to produce integrated reports of their own in due course.

5.5 Value for money

The reporting of financial information to students and Integrated Reporting to explain how an institution creates value are part of the wider discussions across the higher education sector about value for money, and especially value for money for students.

In England, the Office for Students has a specific remit to ensure that students receive value for money from the institutions at which they study, and the funding bodies in the other UK home nations have an interest in ensuring that higher education creates value for students, for taxpayers and for society as a whole.

Furthermore, surveys have shown that students lack confidence that the tuition fees they pay represent good value for money. As a result, the Government, regulators/funding bodies and student representatives are keen that institutions do more to (a) ensure that they provide their students with value for money and (b) demonstrate that this is the case.

³ www.ncl.ac.uk/foi/publication-scheme/financial-information/#financialstatements
⁴ www.ed.ac.uk/finance/accounts
As well as managing the present, institutions need to think about the future. The competitive nature of the higher education sector means that, in order to recruit students, universities need to improve and keep up to date their built estate and facilities, to develop new information technology and learning resources, and to invest in other things that they hope will improve the student experience. This all needs to be paid for.

6.1 Generating a surplus

It is not sufficient for a higher education institution to only generate enough income to cover the costs associated with its activities. It needs to generate a surplus and show positive cash flows.
Generating such a surplus allows institutions to:

- maintain its current infrastructure;
- invest in new buildings, facilities and equipment;
- invest in strategic initiatives to improve the academic and student experience;
- engage in teaching, research and other activities in areas that are worthwhile but for which no other source of funding exists; and
- create a financial ‘buffer’ or ‘rainy day fund’.

### 6.2 Reserves

Any surplus that the institution has retained for use in the future is held, in accounting terms, in its financial reserves. The value of such reserves is set out in the institution’s financial statements, as has been discussed previously in Section 3.5.

Institutions’ financial reserves have recently come under significant scrutiny, with some criticism of the level of reserves held by individual institutions and by the sector as a whole.

It is important not to confuse the level of reserves held by an institution with the actual cash that is has available, as the overall reserves figure will also include the value of any assets held by the institution and various other things that cannot be turned readily into cash.

Furthermore, some reserves will be ‘earmarked’ for specific things, either because their use has been restricted by the funder or because the institution has committed to saving the money for a forthcoming project.

### 6.3 Cash and treasury management

Making sure that an institution has enough money available at the right time, in the right currency, is known as treasury management. Inevitably, cash does not come in and go out evenly, so sometimes an institution will have more money than it needs, and so will invest it with banks and other financial organisations until it is needed. This allows the institution to earn a return on its money and to protect its value against inflation.
Like any investor, institutions must be careful because the higher the potential return on the investment, the higher the risk that the institution might not see any return at all (or, indeed, get back the money that it invested).

Institutions are not investment banks, so they generally steer clear of complicated investment schemes with promises of higher returns. Rather, they tend to focus on investments that will protect the value of their cash (so that it increases at least at the same rate as inflation) without subjecting it to unnecessary risk, and often use third-party investment managers to manage a portfolio of financial assets.

In any event, an institution will invest its cash with a range of organisations (known as ‘counterparties’) to spread the risk of any one counterparty encountering financial difficulties and being unable to pay back the money that the institution has invested.

Each institution should have a specific treasury management policy, which sets out how it manages its cash. This must be approved by the Governing Body. Such a policy will include things like:

- the level of cash resources that the institution would like to have readily available, i.e. in a normal bank account to which it has instant access;
- the sorts of investments that it is happy to make and the level of risk that it is willing to accept when entering into investments;
- the acceptable duration of any investment, bearing in mind that if cash is tied up in a long-term investment it cannot be used for anything else;
- the nature and financial standing of organisations in which it is happy to invest its cash, usually well-known banks or other investment firms of good financial standing;
- how to manage foreign currency income and expenditure; and
- the way in which any investments must be authorised.
Institutions usually try to strike a suitable balance between longer-term investments (which generally yield better returns but tie up the institution's cash) and shorter-term ones (which yield lower returns, but don't tie up the institution's cash for so long).

In addition to investing cash that it does not need to spend in the immediate future, institutions may also seek to borrow cash to ensure it can continue to operate during anticipated shortfalls. This could be by means of a bank overdraft, which is essentially a short-term loan, although there are other financial options available.

6.4 Capital expenditure

The money that the institution spends constructing and maintaining buildings and other assets that it will be able to use over several years is known as 'capital' expenditure. This is different to 'revenue' expenditure that is spent on goods and services that the institution uses up within the same year that it paid for them.

When the institution creates such a 'capital asset', for example by building a new library, it typically pays the construction firm and other suppliers at the point at which the building is constructed. But the institution will gain the value from this asset over the whole period of its use which, for new buildings, could be anywhere between twenty and a hundred years.

The cost of the new asset is shown on the institution's Balance Sheet and included in the Statement of Cash Flows but is charged to its Statement of Comprehensive Income over the asset's estimated lifetime, usually with an equal 'depreciation' charge each year.
So, a building that cost £1 million and is estimated to have a useful life of 50 years might be charged to the Statement of Comprehensive Income at £20,000 per year. In order to avoid double counting, the ‘net’ value of the asset on the Balance Sheet would be reduced accordingly, as shown in Figure 8.

**Figure 8: Illustration of depreciation charge for a new asset**

Note: Assumes no depreciation charged in year of construction

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<th>Year</th>
<th>Depreciation charge to Statement of Comprehensive Income</th>
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<td>2060</td>
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6.5 The capital programme

Most institutions have a long list of new buildings, facilities, equipment and other capital assets they would like to invest in. Finding funding for these projects from the institution’s limited resources often involves intense scrutiny, hard choices and internal competition.

Those capital projects that are put forward for consideration will be part of the institution’s capital programme, which is shorthand for a list of potential and actual capital projects. The institution will identify those that it would like to pursue, plan when they are going to be undertaken, monitor their implementation and assess the extent to which they achieve their aims. The capital programme will be approved by the Governing Body.
New capital projects will usually be approved by senior individuals from across the institution, often operating as a ‘capital programme board’ or similar. This group will also monitor closely the implementation of approved projects and will ensure that any issues arising – such as delays or budget over-runs – are identified and addressed promptly.

As part of the approval of new projects, consideration will also be given to how they will be funded. While some may be funded from the institution’s reserves, institutions also have access to a range of other sources of funding for capital projects.

6.6 Sources of capital funding and finance

Higher education institutions have several sources of funding for capital projects available to them. Yet while there is no shortage of institutions developing new and innovative buildings and facilities, securing funding for such projects can still be a challenging process.

The most straightforward way to pay for a new capital project is to save up the money and then fund it from the institution’s reserves. But that is not always possible, just as saving up to buy a house – rather than take out a mortgage – is not usually realistic for most people.

Institutions may be able to secure a capital grant from their funding body, from one of the research councils or from another public source. Such grants are scarce, though, and demand for them is high.

Some institutions are in the fortunate position of being able to solicit substantial donations from wealthy individuals, such as alumni and others with a close connection to the institution. Other institutions run fundraising campaigns that are targeted at their alumni, often with the aim of funding a specific capital project. It is, however, rare for institutions to fund entire capital projects in this way.

There is also the option of borrowing money. And this is what many institutions do, with the aim of paying back the loan over time. When
institutions borrow money from a bank or other financial institution, they are commonly subject to financial ‘covenants’, which means that they must maintain a healthy financial position within parameters specified by the lender. If they do not comply with these covenants, they may be required to repay the loan.

However, banks are now increasingly reluctant to lend money to institutions for a long period of time at fixed rates of interest, due to uncertainties in the higher education ‘market’ (rather than due to concerns about the financial health of individual institutions). And institutions are often unwilling to take out a substantial loan where the interest rate may well go up before they have paid the money back. Consequently, some institutions have opted for less-traditional methods of financing capital projects.

Some institutions have used the capital markets to obtain ‘private placement’ loans, which means that they – or, more likely, an intermediary – find one or more individual or institutional investors to lend them the money for the project, in return for the repayment of the invested sum plus interest. This is a ‘private bond’.

Other institutions, generally those that need to borrow large sums of money – generally in excess of £200 million or so – have issued public bonds.

A bond is a form of loan or, more specifically, an IOU. The institution (the ‘issuer’) issues a bond to a lender (the ‘holder’), in return for the loan of a given amount of money. The bond is a promise to pay back the loan – with a fixed amount of interest – after an agreed period of time (the ‘term’).

Interest is usually paid by the issuer to the holder during the life of the bond, while the capital is repaid at the end of the term. If the holder of a public bond needs their money sooner than the date when the institution has agreed to repay the capital, it can sell the bond to another holder. The issuing institution is not affected – it still has a loan of the money but will pay back the capital and interest to the new holder.

Both private placement finance and bonds are accepted ways of raising capital. However, the sums involved – often many tens of millions of
pounds – and the long timescales over which they mature, mean that they tie institutions into substantial debt (on which interest has to be paid) for decades into the future. This should not necessarily be a concern, if the underlying business of an institution is sound and the decision to seek such financing has been considered carefully.

Another common approach to financing assets, especially student residences, is to work with a commercial partner who will design and build – and finance – the asset, in exchange for the rights to a significant proportion of the income that it will generate. This means that, if all goes well, the institution gets a new, attractive hall of residence, the students get somewhere pleasant to live and the commercial partner makes a return on its investment.

6.7 Managing long term debt

As with a household that takes out a mortgage, any institution that enters into any form of capital financing arrangement needs to be very sure that it can meet its financial obligations under that arrangement. And not just now, but in the future, too.

Most loans, like a mortgage, are paid back gradually over the period of the loan. Other forms of financing, however, may have repayments staged at specific points in time. This means that institutions must be able to afford these repayments and to have sufficient cash available at the right time. This is where an institution needs good treasury management.
Understanding the cost of the institution’s activities

Understanding the costs associated with different activities of a modern, higher education institution is essential to building a picture of the financial pressures that such institutions face. Thankfully, the sector has already developed a variety of tools, approaches and mechanisms to help with this.

7.1 Teaching

The teaching of students is the most significant activity undertaken by most higher education institutions. And it is also the activity they spend the most of their money on. This is why institutions get so worried when the resources available for their teaching activities come under threat.
The main costs associated with an institution’s teaching activities are:

- The cost of the **time for the academic staff** doing the teaching, plus associated costs such as national insurance and pension contributions. This will include time giving lectures or running tutorials but will also include the time that academics spend preparing for these lectures and tutorials, setting exams, marking assignments, supervising projects, giving feedback and much more.

- The cost of **teaching materials and resources**. While such costs may be limited for a lecture or a tutorial, when it comes to laboratory sessions in the natural and physical sciences, or to practical sessions in the creative arts, the cost of materials can be significant.

- The cost of the **space that is used for the teaching** – whether it is a lecture theatre, a classroom, a laboratory or an academic’s office. Such spaces must, after all, be built (the cost of which is spread over the usable life of the building they are in), maintained, lit, cleaned and provided with electricity and other services.

- The cost of the **academic staff who manage the delivery of their department’s teaching activities**. Some have responsibility for the coordination of individual degree programmes or individual modules. Others have line management responsibility for more junior colleagues. And most academics will spend at least some of their time on ‘pastoral’ activities, such as meeting with students to discuss their progress and to offer advice and support.

- The cost of the **administrative and support staff within academic departments**, who do things like prepare timetables, deal with queries from students, book teaching space, manage the assessment process and ensure that everything runs as smoothly as it can.

- The cost of the institution’s **academic support services**, such as the library, its information technology facilities, the admissions office, the student records office, activity being undertaken to improve student welfare, and much more.

- The cost – or, at least, a proportion of the cost – of the other **departments and facilities that allow the institution to operate**, such as senior management, finance, human resources, legal, estates, security, marketing and others.
Some of these costs will vary depending on the nature of the subject being taught, how it is being taught and to whom it is being taught. For example, teaching that is delivered predominantly in lecture theatres to large groups of students will, in general, be cheaper to deliver than teaching that is undertaken in small groups or in a laboratory setting. But many of the costs outlined above will exist regardless of such factors.

7.2 Course costing

With the introduction of tuition fees for students, there has been greater pressure on institutions to understand – and to be able to explain – the specific costs associated with their teaching activities.

Consequently, institutions have started to develop mechanisms to measure the cost of teaching individual modules, courses and degree programmes.

This ‘course costing’ approach allows institutions to:

• understand the resources that they require to deliver their teaching activities;
• compare the costs of teaching between different modes of delivery;
• identify opportunities to increase economy and efficiency in the delivery of teaching activities;
• make informed decisions about the pricing of different courses, where applicable;
• assess the financial sustainability of their teaching portfolio;
• demonstrate to students the costs associated with each module, course or programme; and
• attribute an element of departmental and institutional ‘overhead’ costs to these teaching activities, to allow their ‘full’ cost to the institution to be established.

Those institutions that have developed and implemented an approach to course costing use this information internally to make informed decisions about their teaching activities. Due to the commercial sensitivity of this costing information, though, it is not usually published externally or shared with students or other institutions.
7.3 **Workload modelling**

Another way in which some institutions try to understand their costs is by identifying the different things that their members of academic staff do and how much time they spend on them. This is known as 'academic workload modelling'.

Academic workload modelling seeks to understand how members of academic staff spend their time when they are at work, from teaching and research to management, administration, academic citizenship and other activities.

It uses an agreed framework of activities, encompassing the entire range of academic endeavour, to model the ways in which members of academic staff spend their time at work. This framework can then be used to plan, manage and monitor workloads at individual, departmental, faculty and institutional level.

A well-designed approach to workload modelling can be of considerable benefit to institutions, to departments and to individual academics.

For example, it can:

- provide institutions with a better understanding of the different activities that their members of academic staff undertake and of the impact that these activities have on individuals' workloads;

- allow institutions to compare activities and workloads across individual members of staff, as well as across departments, schools and faculties;

- help those with management responsibilities to allocate activities equitably, to ensure that workloads are balanced and to identify capacity issues before they become critical;

- help individual academics to understand what is expected of them and to better demonstrate their contribution to their department’s activities;

- help institutions to identify those activities or tasks that take up large amounts of academic staff time and to consider how the burden of these could be reduced; and

- help institutions to demonstrate that they are using their resources efficiently.
Academic workload modelling is still in its relative infancy. However, as pressure increases on the sector to demonstrate the efficient use of resources and take a more proactive approach towards academic staff welfare, workload modelling is likely to become more popular.

It is important, however, that any workload model is developed and implemented sensitively, to avoid a negative impact on staff wellbeing, productivity and morale.

7.4 Research

Research is the other major activity undertaken by many higher education institutions and, like teaching, it takes up a significant amount of institutions’ resources.

As with teaching, one of the most significant costs associated with an institution’s research activities is the cost of the time (plus associated costs such as national insurance and pension contributions) of the members of academic staff undertaking that research. Similarly, research activities are also supported by departmental and institutional support services, so must bear some of the cost of these, too.

An institution’s research activities will also incur other specific costs, such as:

- the cost of any additional research staff taken on to assist with a specific research project;
- the cost of any materials or resources used in the research project;
- the cost of any laboratory or other space used for the project;
- the cost of any specific equipment that is required for the project;
- the cost of any research facilities used as part of the project;
- the cost of any travel associated with the project, either to undertake the research (e.g. field trips) or to communicate its results (e.g. attending conferences); and
- the cost of ‘backfilling’ or ‘buying out’ the teaching commitments of research staff.
The costs associated with an institution’s research activities can vary significantly from project to project, depending on the nature of the research being undertaken.

### 7.5 The Transparent Approach to Costing

The Transparent Approach to Costing (TRAC) is the higher education sector’s way of understanding the costs associated with an institution's teaching, research and other activities. A common methodology has been developed by the regulatory and funding bodies across each of the UK home nations and is applicable to all publicly-funded higher education institutions.

The TRAC methodology provides institutions with a robust and – as the name implies – transparent way of matching their income and expenditure to their teaching, research and other activities. This allows them to determine the extent to which each of these activities (and some sub-categories of these activities) is generating sufficient income to cover its costs.

Institutions are required to provide an annual TRAC return to their regulatory or funding body, showing the income and costs associated with their teaching, research and other activities in the previous academic year. There is a separate ‘TRAC for Teaching’ return for institutions in England, Scotland and Northern Ireland, which looks in more detail at the cost of teaching home students. (The TRAC for Teaching return is not applicable to institutions in Wales, although this is under review.)

Because all institutions use the same methodology to complete their returns, the regulatory and funding bodies can compare the results across the institutions that they fund. This is not to say that TRAC is a ‘silver bullet’. Indeed, it is not without some shortcomings, but it is currently an agreed way in which regulators and funding bodies can gain insight into the financial sustainability of institutions’ activities and into the costs associated with them.

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1 The costs included in the TRAC return include an adjustment to allow for future investment, so are normally greater than the expenditure reported in institutions’ financial statements.
7.6 Full economic costing

Full economic costing is an element of the TRAC methodology, which sets out the way in which institutions must determine the cost of research projects when they submit a grant funding application to any of the UK research councils. This ensures that all grant applications to these research councils are costing robustly and in a consistent manner.

The full economic costing methodology makes provision for:

- the cost of staff time, facilities, goods or services relating solely to the research project being costed, known as ‘directly incurred’ costs;
- the cost of staff time, facilities, goods or services that need to be spread across a number of research projects or other activities, known as ‘directly allocated’ costs; and
- the cost of departmental and institutional administrative and support services, known as ‘indirect’ costs.

Whether a research grant application gets funded depends on the academic merit of the proposed research and the priorities of the funder. But for projects that do get funded, the amount of funding granted is determined by the cost of the project calculated using the full economic costing methodology.

Research councils commit to pay institutions 80% of the full cost of project, though in practice it is sometimes less. As mentioned previously, there is an assumption here that the institution will be able to cover the remaining 20% from other sources.

Funders of research projects other than UK research councils – such as the European Union and other government, charitable and commercial funders – are under no obligation to fund research projects in accordance with the full economic costing methodology. Some funders require projects to be costed using their own methodologies, while others negotiate with the institutions concerned to agree a suitable budget for the projects that they fund.
7.7 Costing and pricing

There is, however, a critical distinction between how much an activity costs the institution and the amount of money that it can charge (i.e. the price) for undertaking that activity.

For publicly-funded undergraduate teaching activities (i.e. first-time home and EU students), for example, the maximum level of tuition fees that an institution can charge is set by the government, regardless of how much it actually costs the institution to deliver each degree programme. Consequently, for certain high-cost subjects, tuition fees are supplemented by a direct teaching grant from an institution’s funding body.

For postgraduate courses and the teaching of overseas undergraduates, however, institutions have more flexibility to decide how much they charge. And so they must seek to strike a suitable balance between recruiting the desired number of students and covering the cost of these teaching activities.

There is a similar picture for an institution’s research activities. While grant applications to the UK research councils have to be costed in line with the full economic costing methodology, applications to other funders might be costed in other ways.

Where institutions can determine their own pricing, such as for international student tuition fees and for non-publicly funded research, it is important that they consider not just their costs, but also what price is acceptable to the relevant ‘market’.

In some cases, for example, institutions may be able to charge in excess of their costs, and so generate a surplus. Indeed, there is evidence that international students, in particular, frequently equate price with quality, so a higher price can help to attract more students. In other cases, institutions may wish to price their activities below cost, for example to secure a strategically-important opportunity.
08 The importance of thinking ahead

Like the metaphorical oil tanker, higher education institutions can take a fair amount of time and effort to change course. It is critical, therefore, that they plan, both strategically and financially, even if what the future holds is far from clear.

8.1 The political context of higher education

Although higher education institutions are autonomous organisations, this does not mean that they have the commercial freedom to do whatever they like.

Institutions in Scotland, Wales and Northern Ireland and regulated providers in England must, for example, comply with the requirements of their regulatory or funding for good governance, quality of education, access for students from poorer backgrounds, and financial sustainability. The tuition fees that they can charge to home undergraduate students are restricted.
And they must participate in a range of sector programmes, such as those to assess teaching and research quality.

Institutions are restricted in the number of students that they can recruit to some of their degree programmes, for example in medicine and nursing. Institutions in Wales, Scotland and Northern Ireland face restrictions on the number of students they can recruit from their own country, as a way of managing the overall cost of student support. And the recruitment of students from overseas remains subject to numerous immigration policies and controls.

The dynamic and highly politicised environment requires institutions to be responsive and adaptable. While it is difficult for institutions to plan in this environment, it is vital that they do.

### 8.2 Strategic planning

Institutions generally have a series of long-term goals that they want to achieve, typically over the next five to ten years. These might include targets like increasing or decreasing the number of students that it teaches in specific subjects, opening an overseas campus, increasing the amount of research it does, or enhancing the role that the institution plays in its local community.

The way in which the institution plans to achieve these goals is known as its strategy. This strategy is usually set out in a five-year (or thereabouts) plan, which breaks down the institution’s objectives into a series of actions that it will need to take to achieve them.

The institution’s strategy cannot, however, be implemented in a vacuum. The institution’s ability to implement its strategy will be determined to a certain extent by the internal commitment, expertise and resources that it can devote to it. It will also be influenced heavily by the external environment the institution operates in. New government policy, changing student trends or poor performance in a league table can all send the institution’s strategic planners back to the drawing board.

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1. These programmes are known respectively as the Teaching Excellence Framework (TEF) and the Research Excellence Framework (REF).
Consequently, a good strategy will also explore the risks to its delivery. This will include what these risks are, how the institution can mitigate the likelihood of them arising and their impact if they do, how it will know if such risks are ‘crystallising’ (turning from a theoretical possibility into a practical reality) and what it will do then.

8.3 Financial planning

In addition to planning their strategy, institutions need to plan their finances. There is, after all, limited use in having a long-term strategy if it is unaffordable or if it does not allow the institution to balance income and expenditure and to generate the kind of modest surplus required to support future investment.

Institutions generally plan their finances in different ways, depending on the planning horizons involved:

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<th>In the long term (i.e. 5 – 10 years):</th>
<th>Financial strategy</th>
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<tr>
<td>In the medium term (i.e. 3 – 5 years):</td>
<td>Financial forecasts</td>
</tr>
<tr>
<td>In the short term (i.e. 1 year):</td>
<td>Annual budget</td>
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The institution’s longer-term financial strategy typically mirrors its strategic plan, setting out how the institution will finance the strategic developments that it plans to undertake and how it will ensure that its income continues to fund its expenditure.

The financial strategy will also draw on, influence and be consistent with other institutional strategies, such as those relating to human resources and the development of the institution’s estate.

The financial strategy may include growth in existing income streams or the development of new ones, such as an increase in student numbers or an expansion of the institution’s research activities. It may also set out how the institution will seek to manage its expenditure, such as through greater efficiency or the adoption of different models of teaching.
8.4 Financial forecasts

An institution’s financial forecasts focus on the more immediate future, usually looking five years into the future.

Such forecasts set out the institution’s projected income and expenditure for each year in this period, at a reasonable level of detail, taking into account planned changes in activity and student numbers.

The aim of these forecasts is to allow the institution to identify any potential financial shortfalls and to address them in a timely manner. Consequently, a realistic assessment of factors such as future student numbers is vital.

Most institutions are required to prepare and submit financial forecasts to their regulator or funding body. However, they are a fundamental element of an institution’s financial planning and a sensible institution would prepare them even without this requirement.

8.5 The budgeting process

An institution’s annual budget is a much more detailed document that sets out the income that the institution plans to receive and how it will allocate its financial resources. As the name suggests, it covers a period of one financial year.

The annual budget will usually break down income into individual income streams (e.g. tuition fee income, research grants, commercial income) and then further into individual elements of these streams (e.g. different degree programmes, individual academic departments, or specific commercial services).

It will also break down expenditure into its constituent types (e.g. salaries, operating costs) and into the institution’s different operating units (e.g. academic departments, professional services departments).
It is normal practice for each individual element of the income or expenditure budget to be allocated to a named individual, who is responsible for the institution’s performance against this element of the budget. This person is known as a ‘budget holder’ and must have some element of control over the level of income or expenditure included within their element of the budget.

The annual budget is prepared prior to the beginning of the financial year and is subject to approval by the institution’s Governing Body. Any significant changes to the budget must usually receive similar approval.

8.6 Monitoring performance against budgets

Because the annual budget is the institution’s financial plan for the year, it is essential that the institution’s performance against this plan is monitored regularly and that any issues are identified and addressed promptly.

To aid monitoring of the budget over the course of the year, income and expenditure is usually forecast across the different months (this is known as ‘profiling’ the budget), to reflect when income is likely to be earned and when expenditure is likely to be incurred.

The Director of Finance and the finance team will monitor performance against the budget at least monthly and will ask budget holders to explain any significant variations from what had been agreed. The institution’s financial performance, including performance against budget, will also be reported regularly to senior management and to the Governing Body and/or one of its committees.

Where there are significant variations from the budget, the Director of Finance must consider the impact that this may have on the institution’s ability to meet its other budget commitments for the year, as well as on its
cash position and short-term liquidity. A shortfall in income in one area, for example, may need to be addressed by targeting increased income in another area or by reducing expenditure.

Regular monitoring of performance against budget is vital to avoiding unwelcome financial surprises at the end of the year. Most major financial problems have at least some warning signs, such as poor student recruitment or over-spends on capital projects. It is the aim of the budget monitoring process to detect these as quickly as possible, so that the problem can be addressed before it becomes more serious.
How to tell if an institution is in trouble

Just like any organisation, higher education institutions can experience financial difficulties. It is important – to regulators, funders, governors, staff and students alike – to know where difficulties can occur and what the warning signs are.

9.1 Key challenges that institutions face

While each institution has a different way of working and of balancing its activities to achieve financial sustainability, there are some challenges that are common to many institutions. Some of these issues affect institutions across the sector in a similar way. Others, however, may impact on different institutions in different ways.
Some common challenges facing institutions include:

- **Brexit** – the departure of the United Kingdom from the European Union puts at risk the recruitment of EU students and EU funding for institutions’ research activities and could prevent the involvement of UK academics in EU-funded projects, whether hosted in the UK or elsewhere;

- **uncertainty around tuition fee funding** – the maximum home undergraduate tuition fee that institutions can charge is a topic of ongoing debate, particularly in England, with any changes to such fees potentially having a significant financial impact on many institutions;

- **student recruitment** – the market for students is a highly competitive one, especially in years with a demographic ‘dip’ (i.e. fewer children born in the early 2000s – see Figure 9 below), and poor recruitment – especially over a sustained period – could put individual institutions at risk;

- **sector rankings** – institutions are subject to formal assessments of a range of things – such as teaching quality and research ‘excellence’, some of which have a direct impact on their funding and others of which have an indirect impact on student recruitment;

![Figure 9: Number of 18-year olds per year](image-url)

*Note: Office for National Statistics*
• **research funding shortfall** – the funding by the research councils of research projects at 80% – or less – of projects' full economic cost, or less, means that the additional 20% needs to be funded from other sources;

• **overseas student recruitment** – with tuition fees from overseas students generally being a way for institutions to generate a surplus to cover financial shortfalls in other areas, and some institutions being extremely reliant on the income from such students, any fall in overseas student recruitment could be critical; and

• **staff pensions** – the cost of pension contributions for staff in final salary pension schemes continues to rise.

### 9.2 Keeping the regulators happy

As part of their agreement with their regulator or funding body, institutions must comply with certain terms and conditions. These are set out in the Regulatory Framework (England), the Memorandum of Assurance and Accountability (Wales) and the Financial Memorandum (Scotland / Northern Ireland) between each institution and the relevant regulator or funding body. These include requirements for financial viability and sustainability, as well as issues such as governance, financing and the provision of information.

Regulators and funders will also lay down specific terms and conditions about other things that they permit or fund, such as the power to award degrees or the funding of specific activities or research projects.

Failing to comply with any of these terms and conditions can be a significant problem for the institution concerned. Minor issues can usually be addressed without undue stress if raised promptly by the institution with their regulator or funding body. But if institutions do not raise such issues promptly, and they are discovered subsequently by the regulator or funder, there could be reputational damage among other complications.

More significant breaches of regulator or funder terms and conditions can have drastic consequences. Institutions have, before now, had to repay large amounts of money to their funder after having failed to comply with basic requirements. And, in England especially, the sanctions that can be wielded by the regulator include financial penalties or the power to ‘deregister’ an institution temporarily or permanently.
9.3 Spotting other warning signs

In addition to financial problems, poor performance or issues of regulatory non-compliance, there are other potential warning signs that could signal an institution that is in difficulty or could quickly get into difficulty.

Thankfully, such occurrences are rare, but they might include:

- Key members of senior staff or governors leave at short notice. This should prompt some questions, although there may, of course, be perfectly legitimate reasons for this, too.

- The Vice-Chancellor – or the senior management team more generally – is so dominant, or the Governing Body is so weak, that the Governing Body is unable to hold the senior management team effectively to account. Known as ‘Board capture’, this allows the senior management team to do pretty much what it likes without proper scrutiny, which can rapidly become a recipe for disaster.

- The institution suffers severe and sustained bad publicity, resulting from an event or series of events that cast the institution in a bad light. This could include, for example, dubious strategic decisions that the institution has made, financial irregularities, fraud, or issues around student welfare or mental health. While some institutions appear to be able to weather such issues with ease, for others the bad publicity can have a significant impact on student recruitment and, consequently, the institution’s financial performance.

- The auditors quit. This is an extremely rare occurrence and usually only happens when the auditors are no longer able to do their job, either because management has refused to cooperate or because auditors are being treated unreasonably by an institution’s staff. In particularly extreme circumstances, auditors quit – sometimes even part-way during an audit – because the client’s financial management arrangements are so poor that the auditors simply do not want their name associated with the organisation. In such circumstances, the auditors will usually make a public statement explaining the circumstances surrounding their resignation or clarifying that there are no particular circumstances to report.

It has been rare for UK higher education institutions to experience financial difficulties that are so severe as to threaten the financial viability of the institution itself.
It has hitherto been rare for UK higher education institutions to experience financial difficulties that are so severe as to threaten the financial viability of the institution itself, though at least one institution has been forced to enter into administration and close its doors.

As the environment in which institutions operate becomes more uncertain, though, and the pressures that they face become both more varied and more severe, the likelihood of even well-established institutions experiencing existential financial problems in the near future is increasing.

### 9.4 If things go wrong

It is far from clear what would happen should such a situation arise. One of the tenets of the (Westminster) Government’s move to an increased ‘marketisation’ of higher education is that institutions must be free to make their own strategic financial decisions – and to suffer the consequences should these decisions prove ill-advised.

There is, however, a huge amount of public money invested in the UK’s higher education institutions. And the impact on its students if an institution were to fold would be stark. Furthermore, the cost of ‘relocating’ such students to other institutions could outweigh the cost of intervening to support their original provider.

Despite this, there is a clear view from the regulator – in England, at least – that it will not bail out institutions that experience financial difficulties. This position has yet to be tested (the only institution to close under the current regulatory regime was not regulated by the Office for Students) and it is to be hoped that, with good financial management and governance, such a difficult set of circumstances will never arise.
Sources of financial information, guidance and support

There is a multitude of sources of further information about the UK higher education sector and the institutions that operate within it. This section sets out some of the more useful and reliable ones, each of which is easy enough to find with a quick web search. This list is not, however, exhaustive; other excellent resources are available.

10.1 Information about the sector

For information about the sector as a whole the best place to start is Universities UK, which represents the Vice-Chancellors of most UK universities and works on their behalf. Some smaller and specialist institutions are represented by GuildHE. Where higher education is delivered within further education colleges, these are represented by the Association of Colleges. And IndependentHE is rapidly becoming the group of choice for providers of a more commercial orientation. Each of these makes available plentiful information about the institutions that they
represent and undertakes insightful research into the issues that these institutions face.

Different types of institution are also represented by specific ‘mission groups’. Some 24 of the larger, research-intensive institutions are members of the Russell Group. Many of the institutions established after 1992 are members of MillionPlus, while those that have a more business-led focus are part of the University Alliance. Smaller institutions with historic links to the Christian churches are commonly members of the Cathedrals Group.

For more quantitative information, the Higher Education Statistics Agency (HESA) publishes data and analysis about all aspects of the higher education sector, from its financial performance to numbers of staff and students, graduate outcomes and interaction with the business community. While some data is offered on a paid-for basis, some of the more basic information is available for free.

10.2 Information about individual institutions

The best source of information about individual institutions is the institutions themselves, each of which publishes a broad range of information about its aims, its history, its activities and its performance. Much of this is designed to attract new staff and students, of course, so a certain element of enthusiasm in the information presented is to be expected.

An objective view can usually be found in the institutions’ annual reports and financial statements, the latter of which – as explained in this guide – are prepared in line with strict requirements and are subject to external review by each institution’s auditors. Links to most institutions’ financial statements are listed on the BUFDG website.

The Higher Education Statistics Agency also publishes data at the level of individual institutions, so should be an early port of call for those wishing to find out more about an institution’s student numbers, graduate outcomes and such like. This allows users to compare the performance of individual institutions against that of their peers, which is a helpful bonus.
10.3 Regulators and funding bodies

The higher education regulators and funding bodies publish comprehensive information about their own aims and activities, as well as about the institutions that they fund. In England, the regulator is the Office for Students, while the funding bodies for institutions in the other home nations are the Scottish Funding Council, the Higher Education Funding Council for Wales, and the Northern Ireland Executive’s Department for the Economy. The Office for Students has a slightly different remit from its counterparts in the other home nations, as it is a regulator and a guardian of the student interest, as well as a funding body.

On the research side of things, research policy and funding is coordinated by UK Research and Innovation. And while in Scotland, Wales and Northern Ireland an element of research funding is provided through the funding councils, in England it is allocated by Research England. And the promotion of ‘innovation’, i.e. using research to drive economic growth, is the responsibility of Innovate UK.

Funding for specific research projects is provided through subject-specific research councils, namely the Arts and Humanities Research Council, the Biotechnology and Biological Sciences Research Council, the Engineering and Physical Sciences Research Council, the Economic and Social Research Council, the Medical Research Council, the Natural Environment Research Council and the Science and Technology Facilities Council.

Research funding is also available (at the time of writing, at least) from the European Commission, through the European Research Council and its various funding streams.

Higher education institutions are subject to various other arms of the UK Government, including HM Treasury, the Department for Education and the Department for Business, Energy and Industrial Strategy. They also fall within the remit of the Competition and Markets Authority and, for those institutions that are also charities, the various charity regulators across the home nations.

Each of these regulators and funding bodies publishes a broad range of information about its priorities and what these mean for the sector. Many of them also publish reports on sector developments and on their investigations into issues that have come to their attention.
10.4 Sector representative groups and professional organisations

The higher education sector is blessed with a number of representative groups and professional organisations, all of which publish a broad range of insightful information and analysis in their specialist areas.

For finance-related issues, the British Universities Finance Directors Group (BUFDG), which published this guide, is the place to go. BUFDG is part of the Professional HE Services family, which also includes the Higher Education Strategic Planners Association (HESPA), the Association of University Directors of Estates (AUDE) and Universities Human Resources (UHR), the Council of Higher Education Internal Auditors (CHEIA) and the Higher Education Procurement Association (HEPA). More information on institutions’ procurement activities is available from the various procurement consortia of which institutions are members.

For governance matters, the Committee of University Chairs (CUC) is a helpful source of guidance and other information. For thoughtful insights into policy issues, the Higher Education Policy Institute (HEPI) is helpful. And AdvanceHE – the organisation that brings together the former Leadership Foundation for Higher Education, Higher Education Academy, and Equality Challenge Unit – provides valuable resources to help institutions to get better at what they do.

10.5 Staff unions

The unions in the higher education sector also play an active role in researching the issues that their members face and in campaigning on a variety of issues.

The main union for academic, teaching and research staff is the University and College Union (UCU), though academics in Scotland may well be represented by the Educational Institute of Scotland (EIS). Professional services staff may belong to Unison and operational staff tend to be represented by Unite. Non-academic staff may also be represented by the GMB union. Different institutions, though, may potentially recognise other unions in addition to these.
Higher education institutions are represented as employers by the Universities and Colleges Employers Association, which leads on – among other things – negotiations with the staff unions about the pay scales used across the higher education sector.

10.6 Students' unions

The National Union of Students is the main representative and campaigning organisation for students. It is also supported by students’ unions within most higher education institutions, some of which play a highly activist role in seeking to improve conditions for students. Most students’ unions are independent entities in their own right. Many are also registered charities.

10.7 The media

Although mainstream media outlets do cover higher education issues, ranging from student fees and vice chancellor pay to scientific breakthroughs and discoveries, for ongoing coverage of the sector, the Times Higher Education offers a good range of comment across the sector in the UK and overseas. The Guardian also offers excellent coverage of the higher education sector, frequently attracting contributions from academics and others who work in higher education.

And no discussion of useful sources of information about the sector would be complete without mention of Wonkhe (pronounced ‘wonky’), which brings together an unparalleled range of news, insight and ideas that explore the issues of the day, as well as the more obscure ideas that could at any moment rise to greater prominence.
# Annex A: Glossary of terms

<table>
<thead>
<tr>
<th><strong>Academic</strong></th>
<th>A member of teaching or research staff at a higher education institution, usually at a grade from lecturer up to professor.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic department</strong></td>
<td>An administrative unit of the institution, bringing together academic staff in a particular subject area.</td>
</tr>
<tr>
<td><strong>Academic year</strong></td>
<td>The annual cycle in which teaching is delivered. This is usually, but not always, August to July.</td>
</tr>
<tr>
<td><strong>Accounts directions</strong></td>
<td>Instructions from the funding bodies to the institutions that they fund, outlining these institutions’ obligations for financial reporting.</td>
</tr>
<tr>
<td><strong>Asset</strong></td>
<td>An item or resource that provides the institution with future economic value.</td>
</tr>
<tr>
<td><strong>Audit report</strong></td>
<td>The report of the institution’s external auditors to its Governing Body, providing the auditors’ opinion on whether the institution’s financial statements present a ‘true and fair’ view of its financial performance and position.</td>
</tr>
<tr>
<td><strong>Balance Sheet</strong></td>
<td>A primary financial statement setting out an institution’s assets, liabilities and reserves at the end of the financial year. Will be referred to from 2019/20 as the Statement of Financial Position (SOFP).</td>
</tr>
<tr>
<td><strong>Benchmarking</strong></td>
<td>The act of comparing the institution’s performance in some respect with that of its peers.</td>
</tr>
<tr>
<td><strong>Board of Trustees</strong></td>
<td>The committee within the institution, which has ultimate responsibility for directing the institution’s affairs and for ensuring that it meets its legal obligations. Sometimes called the ‘Council’ or the ‘governing body’.</td>
</tr>
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</tr>
<tr>
<td><strong>Break even</strong></td>
<td>Achieving a balance of income and expenditure, so the institution generates neither a surplus nor a deficit.</td>
</tr>
<tr>
<td><strong>Brexit</strong></td>
<td>The process by which the United Kingdom is seeking to leave the European Union, and which at the time of writing is (still) ongoing.</td>
</tr>
<tr>
<td><strong>Budget</strong></td>
<td>An annual financial plan setting out the income that the institution anticipates earning and how it plans to spend its money.</td>
</tr>
<tr>
<td><strong>Budget holder</strong></td>
<td>An individual responsible for a particular aspect of income or expenditure in the budget.</td>
</tr>
<tr>
<td><strong>Capital asset</strong></td>
<td>An asset with a useable life of more than one year, which the institution does not intend to sell in the course of its normal activities.</td>
</tr>
<tr>
<td><strong>Capital expenditure</strong></td>
<td>Money that the institution spends on the creation or purchase of capital assets.</td>
</tr>
<tr>
<td><strong>Chancellor</strong></td>
<td>The ceremonial figurehead of some institutions.</td>
</tr>
<tr>
<td><strong>Council</strong></td>
<td>The committee within the institution, which has ultimate responsibility for directing the institution’s affairs and for ensuring that it meets its legal obligations. Sometimes called the ‘Board of Trustees’ or the ‘Governing Body’.</td>
</tr>
<tr>
<td><strong>Course costing</strong></td>
<td>An approach to determining the cost of the institution’s teaching activities at module, course or programme level.</td>
</tr>
<tr>
<td><strong>Degree-awarding powers</strong></td>
<td>The legal right to award taught or research degrees in an institution’s own name.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Department for the Economy</td>
<td>The department of the Northern Ireland Executive that acts as the funding body for higher education institutions in Northern Ireland.</td>
</tr>
<tr>
<td>Depreciation</td>
<td>The notional annual charge to an institution that reflects the 'using up' of the value of a capital asset.</td>
</tr>
<tr>
<td>Director of Finance</td>
<td>The individual within the institution who has the responsibility for the management of its financial affairs. Specific job titles may vary.</td>
</tr>
<tr>
<td>Distance learning</td>
<td>A method of studying in which the student is not required to physically attend the institution, or is required to attend only infrequently.</td>
</tr>
<tr>
<td>Dual support</td>
<td>The approach to the funding of research in institutions, whereby institutions (a) receive a 'block' research grant from their funding body and (b) are entitled to apply for funding for specific research projects from the research councils.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Tax, Depreciation and Amortisation (pronounced ‘ee-bit-dar’). A way of measuring an institution’s financial performance without having to factor in financing decisions, accounting decisions or tax environments.</td>
</tr>
<tr>
<td>Endowment</td>
<td>A financial donation to an institution, where the endowment sum itself may not be spent but any interest or other return earned on this sum may be spent in line with the terms of the endowment.</td>
</tr>
<tr>
<td>Exempt charity</td>
<td>A charity in England that is not required to register with or report to the Charity Commission.</td>
</tr>
<tr>
<td>External auditor</td>
<td>The individual or firm charged with providing the institution’s Governing Body with their opinion on the extent to which the institution’s financial statements provide a ‘true and fair’ view of its financial performance and position.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Faculty</td>
<td>A organisational grouping of academic departments that share an affinity of the academic subjects on which they focus, such as sciences, humanities or arts. Usually headed by a Dean.</td>
</tr>
<tr>
<td>Financial forecast</td>
<td>A projection – usually over five years – of an institution’s income and expenditure for each year in the period covered, at a reasonable level of detail, taking into account planned changes in activities and student numbers.</td>
</tr>
<tr>
<td>Financial statements</td>
<td>An annual summary of an institution’s financial performance over the course of the year and of its financial position at the end of the year.</td>
</tr>
<tr>
<td>Financial strategy</td>
<td>A long-term plan for how an institution will finance the achievement of its strategic aims.</td>
</tr>
<tr>
<td>Financial year</td>
<td>The annual period for which an institution prepares its financial statements. Usually, but not always, the same as its academic year.</td>
</tr>
<tr>
<td>Franchising</td>
<td>The practice of developing and validating programmes that are delivered to students by a third-party organisation.</td>
</tr>
<tr>
<td>Full economic costing</td>
<td>A sector-wide approach to measuring the cost of research projects, used when submitting grant applications to the research councils. Part of the Transparent Approach to Costing (TRAC).</td>
</tr>
<tr>
<td>Funding body</td>
<td>The body in each of the UK home nations that allocates public funding to individual higher education institutions. The funding body for England is now technically a ‘regulator’, though all funding bodies have some regulatory functions.</td>
</tr>
</tbody>
</table>
### Further education college
A tertiary education provider that focuses on the delivery of further education qualifications, which are usually at a level below higher education qualifications. May also deliver some higher education courses, though not usually undergraduate degrees.

### Going concern
The ability of an institution to be confident that it will have sufficient resources available to allow it to remain in operation for the next twelve months. Financial statements are normally prepared on the basis of this assumption.

### Governance
The way in which an institution makes significant decisions, determines its long-term priorities and ensures that it is meeting its legal obligations.

### Governing body
The committee within the institution, which has ultimate responsibility for directing the institution’s affairs and for ensuring that it meets its legal obligations. Sometimes called the ‘Council’ or the ‘Board of Trustees’.

### Higher education
Study towards qualifications at tertiary level, usually of degree standard and above but also including some sub-degree level awards such as certain certificates and diplomas.

### Higher Education Funding Council for England
The former funding body for higher education in England. Now replaced by the Office for Students and Research England.

### Higher Education Funding Council for Wales
The funding body for higher education in Wales.

### Higher education institution
An organisation that delivers teaching towards higher education qualifications and is recognised by the relevant funding body.
<table>
<thead>
<tr>
<th><strong>Higher education provider</strong></th>
<th>A term for higher education institutions that has been adopted increasingly in England, due to the growing variety of institutions joining the sector.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home students</strong></td>
<td>Students studying at a UK institution who come from the UK or (at the time of writing) countries from elsewhere in the European Union.</td>
</tr>
<tr>
<td><strong>Integrated Reporting</strong></td>
<td>An approach to reporting an institution’s performance that emphasises how it uses the resources available to it to create value in the short, medium and long term.</td>
</tr>
<tr>
<td><strong>Key financial indicators</strong></td>
<td>A series of financial performance indicators collated and published at institution level by the Higher Education Statistics Agency.</td>
</tr>
<tr>
<td><strong>League tables</strong></td>
<td>An approach to ranking institutions’ performance against specific metrics or a ‘basket’ of such metrics.</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>An obligation to transfer economic benefits to a different entity at some point in the future, e.g. to pay a bill or to repay a loan.</td>
</tr>
<tr>
<td><strong>Mission groups</strong></td>
<td>Membership organisations representing institutions that share common characteristics or ‘missions’.</td>
</tr>
<tr>
<td><strong>Non-publicly-funded teaching</strong></td>
<td>The teaching of students who are not eligible for public support, such as overseas students and those on non-credit-bearing courses.</td>
</tr>
<tr>
<td><strong>Office for Fair Access</strong></td>
<td>The former regulator for access and widening participation in England. Its responsibilities have now been taken on by the Office for Students.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>Office for Students</td>
<td>The regulatory body for higher education institutions in England.</td>
</tr>
<tr>
<td>Overseas students</td>
<td>Students studying at UK institutions who are from countries outside the UK and (at the time of writing) outside the European Union.</td>
</tr>
<tr>
<td>Part-time study</td>
<td>The study for a qualification that spreads the study load across a longer period of time, allowing it to be studied at a lower intensity.</td>
</tr>
<tr>
<td>Post-1992 institution</td>
<td>Technically, an institution that joined the sector – usually after having been a polytechnic – subsequent to the Further and Higher Education Act 1992. Commonly used to refer to any institution established after that date.</td>
</tr>
<tr>
<td>Postgraduate study</td>
<td>The study towards a qualification at a level beyond an undergraduate degree, usually at masters or doctoral level. (Some undergraduate masters degrees are also available.)</td>
</tr>
<tr>
<td>Pro Vice-Chancellor</td>
<td>An assistant or deputy to the Vice-Chancellor of an institution.</td>
</tr>
<tr>
<td>Professional services department</td>
<td>A department of the institution that provides support services to academic departments, such as finance, human resources, information technology and legal services.</td>
</tr>
<tr>
<td>Programme</td>
<td>A course of study leading to a qualification, usually an undergraduate or postgraduate degree.</td>
</tr>
<tr>
<td>Publicly-funded teaching</td>
<td>The teaching of students who are eligible for public support, usually home students studying on undergraduate and taught postgraduate degree programmes.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
</tr>
<tr>
<td>-------------------------------------------</td>
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</tr>
<tr>
<td>Quality-related research funding</td>
<td>The element of research funding under the ‘dual support’ system that is paid to institutions as a ‘block’ grant on the basis of an assessment of the quality of their research activity.</td>
</tr>
<tr>
<td>Registered charity</td>
<td>A charity that is registered with the Charity Commission, the Office of the Scottish Charity Regulator, or the Charity Commission for Northern Ireland.</td>
</tr>
<tr>
<td>Registered provider</td>
<td>A higher education provider, in England, that is registered with the Office for Students. Registered providers have ‘approved (fee cap)’ or ‘approved’ status.</td>
</tr>
<tr>
<td>Regulated tuition fees</td>
<td>Tuition fees for which the maximum amount that institutions can charge is set by the Government. Principally undergraduate degrees for home students.</td>
</tr>
<tr>
<td>Research</td>
<td>The action of increasing society’s knowledge of the object of the research and, usually, using this new knowledge to do something new or to devise new applications.</td>
</tr>
<tr>
<td>Research councils</td>
<td>The bodies that provide public funding to institutions to support research in specific subject areas.</td>
</tr>
<tr>
<td>Research England</td>
<td>The research funding body for institutions in England.</td>
</tr>
<tr>
<td>Research Excellence Framework</td>
<td>A periodic assessment of the quality of research undertaken by academics within higher education institutions, which is used to determine the amount of quality-related research funding institutions receive.</td>
</tr>
<tr>
<td>Reserves</td>
<td>An accumulation of surplus income – or, in some cases, an accumulation of deficit – in the institution’s accounts.</td>
</tr>
<tr>
<td>Restricted reserves</td>
<td>Reserves that can be used only for specific purposes.</td>
</tr>
</tbody>
</table>
### Scenario planning
An approach to undertaking strategic planning in an environment where it is difficult to predict what the future will look like.

### Scholarship
The act of maintaining an academic’s professional knowledge and understanding. Not technically research, but essential for research to be able to take place.

### Scottish Funding Council
The funding body for higher education in Scotland.

### Senate
The primary academic decision-making body in some institutions.

### Senior management team
The team of senior officers that oversees the academic and administrative management of an institution. Led by the Vice-Chancellor or equivalent.

### Statement of Cash Flows
A primary financial statement showing how much cash has come into and gone out of an institution over the course of the financial year.

### Statement of Changes in Reserves
A primary financial statement showing, as the name suggests, how the balances in an institution’s reserves have changed over the course of the financial year.

### Statement of Comprehensive Income
A primary financial statement setting out an institution’s income and expenditure over the course of the year, together with the resulting surplus or deficit. Referred to traditionally in accountant-speak as the ‘profit and loss’ or ‘income and expenditure’ account.

### Statement of Financial Position
A primary financial statement setting out an institution’s assets, liabilities and reserves at the end of the financial year. Referred to traditionally in accountant-speak as the ‘balance sheet’.

### Statement of Recommended Practice
Guidance to higher education institutions on the preparation of their financial statements. Mandatory in Wales, Scotland and Northern Ireland.
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic plan</td>
<td>A long-term plan in which an institution sets out its strategic aims and how it plans to achieve them.</td>
</tr>
<tr>
<td>Strategic planning</td>
<td>The process of developing and updating an institution’s strategic plan and of monitoring the institution’s performance in delivering the plan.</td>
</tr>
<tr>
<td>Strategic report</td>
<td>A narrative element of the financial statements in which an institution sets out its objectives and its strategy for achieving those objectives, a review of its operational and financial performance during the year, an assessment of its future prospects, the main risks and uncertainties that it faces and an overview of the key measures that it uses to assess its performance.</td>
</tr>
<tr>
<td>Teaching</td>
<td>The facilitation of learning, usually focused on study towards a specific qualification or award.</td>
</tr>
<tr>
<td>Transparent Approach to Costing</td>
<td>A sector-wide approach to determining the cost of teaching, research and other activities across higher education institutions. Known as TRAC.</td>
</tr>
<tr>
<td>Treasury management</td>
<td>The way in which an institution looks after its money.</td>
</tr>
<tr>
<td>True and fair view</td>
<td>The measure of accuracy and precision against which an institution’s financial statements are assessed by its auditors.</td>
</tr>
<tr>
<td>Tuition fees</td>
<td>Fees charged to students for study at a higher education institution.</td>
</tr>
<tr>
<td>UK Research and Innovation</td>
<td>The coordinating body for UK higher education research policy and funding.</td>
</tr>
<tr>
<td>Undergraduate study</td>
<td>The study towards a qualification at bachelor’s degree level (or, in some cases, an ‘undergraduate masters’.</td>
</tr>
<tr>
<td>Term</td>
<td>Definition</td>
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</tr>
<tr>
<td>University</td>
<td>Quite simply, a higher education institution with the word ‘university’ in its title. Except for ‘university colleges’, which are slightly different. But only slightly.</td>
</tr>
<tr>
<td>University title</td>
<td>The legal right of a higher education institution to call itself a university.</td>
</tr>
<tr>
<td>Unregulated provider</td>
<td>A higher education institution, in England, that is not registered with the Office for Students.</td>
</tr>
<tr>
<td>Unrestricted reserves</td>
<td>Reserves that can be used for any purpose.</td>
</tr>
<tr>
<td>Validation</td>
<td>The mechanism by which a higher education institution with degree-awarding powers issues degree-level qualifications on behalf of an institution that does not have such powers. Usually in exchange for a fee.</td>
</tr>
<tr>
<td>Vice-Chancellor</td>
<td>An institution’s principal academic and administrative officer. Other job titles are available.</td>
</tr>
<tr>
<td>Workload modelling</td>
<td>An approach to understanding how members of academic staff spend their time and to ensuring that academic workloads are distributed fairly.</td>
</tr>
</tbody>
</table>