



Integrated Reporting in four British Universities

BUFDG and Integrated Reporting – Phase 2



Foreword

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A practical tool for understanding the value of people, knowledge, relationships and the financials

Many of us look back to our time at university as a unique time in our lives to enter in to the world of ideas. I am delighted that the concept of Integrated reporting is a 'big idea' of the current age and that - as this publication shows - universities are playing their own role in championing and developing it.

The fact is that value isn't measured in narrow financial terms alone, but is also present in the people, the knowledge and the relationships which are intrinsic to the world of Higher Education.

Indeed, the concepts of integrated thinking and reporting are championed by the IIRC's own international network of academics, numbering over 400 worldwide.

The pages that follow don't simply make the case for Integrated reporting, but demonstrate how it is a practical tool to assist universities to transition to this new approach to 'value creation', just as

universities start thinking about producing annual reports and accounts for the latest financial year.

There are many benefits from taking this approach to embedding integrated thinking within the university, and to thinking more deeply about how the university is creating value not just for itself, but for others. A better understanding of the university's purpose, of its plans for the long term, and how it is responding to the needs of its core stakeholders are key amongst them.

I congratulate the universities in this paper who have embraced this new way of thinking and reporting and I know that they are already beginning to reap the benefits of Integrated reporting. Many organizations that we have worked with around the world have told us that it can be daunting to begin to adopt Integrated reporting – but once they do so, that they would never turn back.

My thanks go to BUFDG for all their work in encouraging universities to adopt Integrated reporting and for supporting them and guiding them through their journey. I call on universities to use this

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report to spread understanding with their colleagues about why it is time to evolve their reporting and why this is specifically important for the university sector as a whole.

In the universities that we are working with through the <IR> Network and with BUFDG's support, I have been in awe of the finance directors leading this evolution. Their conviction that finance professionals have a duty to consider all resources that contribute to value creation, and their commitment to better communicate this with stakeholders, should be an inspiration to all finance directors in any business. It is clear that the role of finance is evolving - those in the profession should get on board now, to avoid being left behind.

Universities are major economic actors. The latest figures show the income of the 'traditional' higher education sector in the UK was almost £35 billion in 2015/6, and its expenditure £33 billion. Of that, over £18 billion was used to employ staff. In the same year, the UK's universities educated and developed 2,300,000 students and generated £4.2 billion worth of knowledge exchange activities.

But it is also clear that the activities of a university, how they use this income, leads

to outputs and outcomes across the <IR> Framework's six capitals – be it financial, manufactured, intellectual, human, social and relationship or natural. I am delighted by efforts in the Higher Education sector to express this through their reports.

With new providers of Higher Education joining the sector, and a country-wide industrial strategy that will call on universities to play a key role, there has never been a more important time to tell the whole story.

Given the international-facing role of universities through teaching, research and other partnerships, I believe the leadership role undertaken by British universities can also play an influential role in spreading Integrated reporting amongst Higher Education institutions across the world.

Together with the BUFDG, we welcome all universities to work with us to ensure all providers of Higher Education are talking about the value they create. The sector is crucial for the UK and the rest of the world, and it's important for all stakeholders to recognise just how much you contribute to our society.

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Introduction

BUFDG is very grateful to the International Integrated reporting Council (IIRC) and the four universities who volunteered to be part of this project. We hope that the experience will help them as they start to write their 2016/17 annual reports and reflect on how they communicate the value of what their institution does and creates. At a time when all organisations who receive public money, either directly or indirectly, are under pressure to explain how they use that money effectively and efficiently, it has never been more important to be straightforward, clear and honest about how universities operate.

UniversitiesUK's website reminds us, "*[T]he jobs that every community relies on – the teachers, doctors, dentists and nurses – are trained at university. Universities attract valuable income and investment to all corners of the UK, including the income and jobs that students bring. Our universities also make up one of the most successful British*

exports, with international students worth £7.3 billion a year to the economy."

But what else universities do is not always obvious. Universities' websites and their annual reports include interesting and valuable information about "value creation" that never reaches the national press or TV, or even social media. Integrated reporting may not be the complete answer to this, but we hope it could be the start of a new way of telling universities' stories.

The time to link financial information to the amazing work that goes on in universities has come, and for everyone who has a stake in them to take pride in what universities achieve. And by everyone, we mean every citizen, who will inevitably benefit from life-changing teaching and research in our universities. What value citizens put on it depends on how universities communicate, and that is a challenge we should not shy away from.

In March 2017, BUFDG began the second phase of a project to examine how Higher Education institutions can adopt Integrated reporting. For phase one, BUFDG used an abridged framework to [assess the 2014/15 annual reports of six universities](#)¹. In phase two, BUFDG and four universities agreed to join the <IR> Network, and the <IR> Specialist Panel, convened by the IIRC, reviewed the universities' 2015/16 annual reports and financial statements. The four universities involved in the second phase were the University of Edinburgh, Bangor University, Newcastle University and the University of Winchester.

This report summarises the findings of the panel's reviews. The universities are all at different stages of their thinking about Integrated reporting <IR> and, with their individual reports to hand, will approach their 2016/17 report with sharper focus. The lessons learned will be of use to other universities, wherever they are on their <IR> journey.

Communicating value

At a time when Higher Education Institutions need to communicate with a wide range of stakeholders, BUFDG and many of its members feel that <IR> offers a structure that can help. Using the International <IR> Framework and looking at the six capitals – financial, manufactured, intellectual, human, social and relationship, and natural – could help university managers, academics and governors approach “the value question” in a more holistic way. Although an integrated report is not a marketing tool, a well-written report can explain to stakeholders in the Higher Education system that they are all part of a huge “value creation model”.

¹ <https://tinyurl.com/BUFDGIntegratedReporting>

² <https://integratedreporting.org/the-iirc-2/>

What is the IIRC?

[The International Integrated reporting Council \(IIRC\)](#)² is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. The coalition promotes communication about value creation as the next step in the evolution of corporate reporting. The IIRC's mission is to establish Integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. It hopes to see capital allocation and corporate behaviour aligned with wider goals of financial stability and sustainable development. The IIRC – and members of its network – use the shorthand <IR> in much of their communication.

It's not just about money

Jane Gleeson-White, a leading Integrated reporting thinker, suggests that the only way to address the many crises faced by the world today is to “start accounting for nature and society”. She urges the world to “rethink [the] idea of capital by extending the familiar concepts of financial and manufactured capital to include four new categories of wealth: intellectual, human, social and relationship, and natural capital.”³

Too woolly?

Traditional accountants and financial reporting regulators may view this as a step backwards into subjective, or even nebulous, reporting of an organisation's performance. After years of standardisation and definition, they do not welcome an environment where organisations exercise judgement on materiality and the achievement of corporate objectives. There are worries too that those who rely on an <IR> to make investment or funding

³ Jane Gleeson-White, *Six Capitals. The revolution capitalism has to have – or can accountants save the planet?* (Sydney, Allen & Unwin, 2014)

decisions could be misled by the selectivity of the report compilers. Writing in the CPA's magazine "In the Black" (since removed), Dr John Purcell suggested, "The major barrier to the steady adoption of <IR> in Australia is its perceived potential for company and director liability arising out of forward-looking or prospective Integrated reporting information. In other words, there is fear that a person or persons relying on the information might claim for a harm that ought to have been made good by the errant discloser."

Too revealing?

Many Finance and Commercial Directors are concerned that a more revealing annual report will compromise an organisation's competitive position. George Serafeim, Associate Professor of Business Administration at Harvard Business School, wrote in an [IMA publication](#)⁴, "it is quite possible that Integrated reporting will lead to propriety disclosure costs, which stem from communicating competitive information. Further research is required to investigate whether this is the case..."

"...the answer lies in the presentation of a broader range of business-focused information"

The <IR> Framework discusses this in the Guiding Principles; "In including information about material matters dealing with competitive advantage (e.g., critical strategies), an organisation considers how to describe the essence of the matter without identifying specific information

⁴ <https://www.imanet.org/-/media/0830fcd907cd41a7bd760b8900fe7b94.ashx>

⁵ http://www.accaglobal.com/content/dam/ACCA_Global/Technical/integrate/ea-south-africa-IR-assurance.pdf

that might cause a significant loss of competitive advantage. Accordingly, the organisation considers what advantage a competitor could actually gain from information in an integrated report, and balances this against the need for the integrated report to achieve its primary purpose..."

Not auditable?

Some auditors are concerned that assuring an Integrated report is highly problematic. [ACCA work with South African auditors](#)⁵ in 2010 concluded that "there is a strong case for making the integrated report the subject matter of an assurance engagement but there are a number of technical challenges that currently make it difficult to assure the entire integrated report." But many view such worries as artificial barriers to delivering what stakeholders are demanding of organisations. Solutions are being developed by accountancy institutes, regulators, audit and advisory firms and the organisations themselves.

Accounting and Audit organisations think reporting could be better

In 2016, KPMG published a [report, "Room for Improvement"](#)⁶ in which they observed that "[Financial reporting] cannot present a complete picture of business performance and prospects on its own. Addressing this will require something greater than merely tweaking financial reporting standards. Instead, the answer lies in the presentation of a broader range of business-focused information that addresses the operational performance of the company, allowing

⁶ <https://assets.kpmg.com/content/dam/kpmg/pdf/2016/04/room-for-improvement-survey-of-business-reporting.pdf>

investors to form their own assessments of business prospects.”

Hans Hoogervorst, Chairman of the International Accounting Standards Board, raised [a similar point in a speech at an IIRC meeting](#)⁷ in New York; “So what information is missing in the financial statements? Users will need information about a company’s intangibles—strategy, business model or technical know-how—many of which currently are not recognised in the financial statements. Users also want to know about the external environment—competition or economic developments—in which a company operates. Generally, users seek more forward-looking information than the financial statements currently provide. These elements are often included in Integrated reporting”.

“UK companies are using the principles and ideas of <IR> to innovate rather than following the IIRC framework dogmatically”

Deloitte’s 2016, [Annual Reports Insight publication](#)⁸ reported that eight companies out of their sample of 100 described their annual report as an integrated report, but 71% of the sample are “telling their value creation story”. They observed that “UK companies are using the principles and ideas of <IR> to innovate rather than following the IIRC framework dogmatically.” BUFDG’s work with the IIRC suggests this is a perfectly valid way of improving the quality of reporting. Organisations need to take the principles in the Framework and “make them their own” to build better understanding, both

internally and externally, about how value is created and destroyed.

PwC has produced a [practical guide to implementing Integrated reporting](#)⁹ which explains a “roadmap” that identifies three fundamental foundations of good Integrated reporting: Materiality analysis; Value creation and Impact evaluation. This was developed by the firm in response to demands from investors for better reporting of “intangible value drivers” and the introduction of “new business language”.

There are many other sources of advice and reports of how other organisations are approaching Integrated reporting and we have listed these in Annex 2.

What does “value in Higher Education” mean?

Philosophers, psychologists, sociologists and economists have grappled for centuries to define “value”. This report makes no attempt to examine any theories that might help in defining what is meant by “value”. That is because it can mean different things to different people in different contexts. If asked to define what they understand by the meaning of “value”, each student, or each member of university staff would give their own interpretation.

For example, to one student, value for money of their degree will be measured in terms of the outlay in fees and other costs of attending university, set against the salary that they will be able to earn because they have a degree. To another, the value of their degree will be measured in terms of the experience they had whilst at university, the connections they made and the events that followed their time at university.

⁷<https://www.iasplus.com/en/news/2017/04/hoogervorst-integrated-reporting>

⁸<https://www2.deloitte.com/uk/en/pages/audit/articles/annual-report-insights.html>

⁹ <http://www.pwc.com/gx/en/services/audit-assurance/publications/implementing-integrated-reporting.html>

Amongst the many attempts to define “value” in the context of higher education is a 2011 report by the New Economics Foundation, commissioned by Universities UK (now removed), which attempted to put a monetary value on some of the ways that universities contribute to society, using Social Return on Investment (SROI) methodology. The Institute for Fiscal Studies, whose Director, Paul Johnson is a frequent commentator on this issue, has published several reports, including in July 2016, [The UK wage premium puzzle: how did a large increase in university graduates leave the education premium unchanged?](#)¹⁰, which questions whether having a degree really does lead to higher lifetime earnings. In *Speaking of Universities*¹¹, historian and critic Stefan Collini questions what value means to various stakeholders and highlights the difficulty of defining the word, “value”, now heard in higher education circles many times a day.

Submission of “Value for money” reports by “traditional sector” universities to HEFCE is compulsory for the second year running in 2017 and other funding councils require their institutions to report how they use funds efficiently and effectively. There is a view that this moves the focus to what level of resources can be obtained for the least amount of money. Students are also, quite legitimately, asking for evidence that they are getting value for money from their student fees, with many students questioning the value of their tuition fees with reference to hours of contact with

university staff. In a [speech to the think-tank, Reform](#)¹² in July 2017, the Minister for Universities, Jo Johnson, devoted some of his speech to “value for money”.

The “value issue” is here to stay but divorcing the word “value” from the words “for money” may be a harder task than any of us realise. The ‘Ten themes’ that inform the meaning of value creation highlighted in the [EY/IIRC background paper](#)¹³ on the subject may be a useful tool in furthering this cause.

An Integrated report should not be a primary marketing or promotional tool, but it is part of the suite of communications that an organisation uses to communicate with stakeholders about the value it has created and aims to create. Given the calls for clearer explanation of the Higher Education sector’s ability to deliver value, maybe the adoption the principles of <IR> will find favour with its stakeholders and regulators. They already have found favour with many company stakeholders and regulators from around the world including from Japan and India to South Africa, the European Union and Brazil. Examples can be found in the [IIRC Examples Database](#)¹⁴. We have also picked out three organisations to demonstrate “value creation models” in Annex 2.

¹⁰ <https://www.ifs.org.uk/publications/8322>

¹¹ Stefan Collini, *Speaking of Universities*, (London & New York, Verso, 2017)

¹² <https://www.gov.uk/government/speeches/jo-johnson-delivering-value-for-money-for-students-and-taxpayers>

¹³ EY & IIRC, *Value Creation: Background Paper*, (IIRC, 2013:4) <http://integratedreporting.org/wp-content/uploads/2013/08/Background-Paper-Value-Creation.pdf>

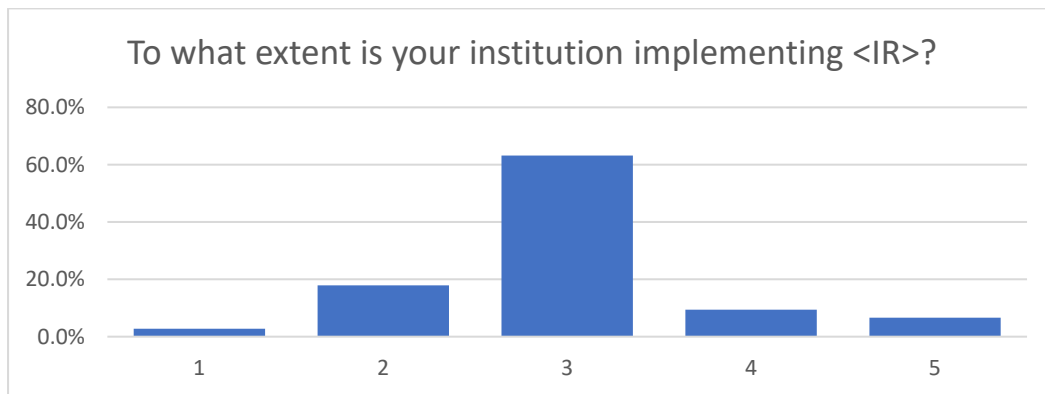
¹⁴ <http://examples.integratedreporting.org/home>

University Finance Directors' attitudes towards Integrated reporting

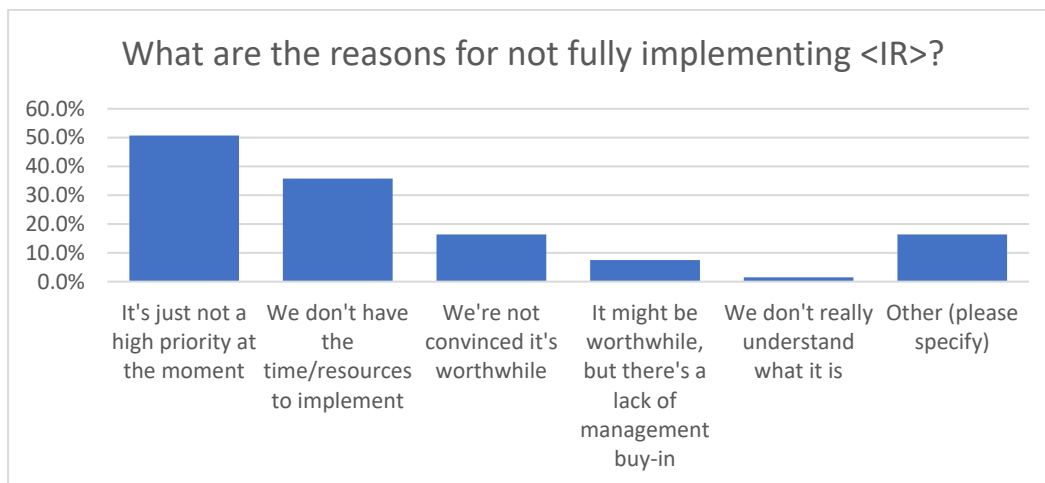
The results of a recent (Spring 2017) survey of University Finance Directors suggest a mixed attitude towards <IR> and although 80% of institutions are working to adopt at least some of the principles, just 16% are convinced enough by the benefits to be working towards a full adoption. One of the concerns amongst Finance Directors is that they do not see the value in producing a more expansive narrative report, as they perceive a limited number of readers and they already provide their regulator with extensive business information in annual accountability reporting.

The survey asked Finance Directors the extent to which their institutions were implementing <IR>, with a choice of answers:

1. What's Integrated reporting?
2. We don't do an Integrated report, and we won't do for the foreseeable future.
3. We are working to adopt some of the principles of Integrated reporting
4. We are working towards a full adoption of Integrated reporting
5. While it might not be perfect, we have already adopted Integrated reporting and have produced at least one Integrated report



Those who aren't working towards full adoption of <IR> gave the following reasons:



So around 15% of institutions are yet to be convinced of the value of <IR> but, for the majority, inaction is the result of other priorities or other time or resource restrictions.

The International <IR> Framework

The Framework was released in 2013 following extensive consultation and testing by businesses, the public sector, regulators, standard setters, the accounting profession, NGOs and investors in all regions of the world. Early testing of the concepts involved 140 organisations and investors from 26 countries participating in the <IR> Pilot Programme. The purpose of the Framework (a 30-page document) is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them. It explains,

“<IR> is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organisation to create value in the short, medium and long term, and in so doing it:

- Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies
- Emphasizes the importance of integrated thinking within the organisation.”

In Spring 2017, the IIRC collected feedback on the implementation of the International <IR> Framework and is due to publish the findings shortly.

The reviews of the four universities’ reports commented on their alignment with the International <IR> Framework; i.e. how closely they had followed the ‘Guiding principles’ when writing the report; how much the content of their report aligned

with the ‘Content Elements’ of the <IR> Framework and to what extent the university reflected the ‘Fundamental Concepts’. In some cases, the annual report only was reviewed and in others, a combination of reports designed to be read together. The reviews did not purport to make any assessment of the accuracy, coverage or integrity of the content of the report and the findings reflect an informal review aimed at encouraging internal discussion and implementation of <IR> concepts.

The IIRC called on participants of the <IR> Business Network, investors and <IR> specialists to support this Report Critique project, and in particular the ACCA and PwC. The ACCA¹⁵ will lead on the thought leadership output on emerging trends in corporate reporting that will follow the report reviews. The <IR> Specialist Panel included specialists from the UK, Europe and Australia working in audit firms, commercial entities and academics and the IIRC.

Can Integrated reporting be used in Universities?

The 2016 BUFDG Conference included a keynote speech by Neil Stevenson, Managing Director of the IIRC. He suggested that the six capitals could be applied to the Higher Education sector and showed the ‘Value creation in universities’ diagram overleaf.

Soon after that conference, BUFDG embarked on its [first study of Integrated reporting in Higher Education in 2016](#)¹⁶. However, it found very few universities to compare with UK HEIs’ reporting. In the first home of Integrated reporting, South Africa, the [University of Stellenbosch](#)¹⁷ published its first integrated report in 2015,

¹⁵<http://integratedreporting.org/resource/acca-insights-into-integrated-reporting/>

¹⁶ <https://tinyurl.com/BUFDGIntegratedReporting>

¹⁷http://www.sun.ac.za/english/Documents/2016/SU%20Annual%20Report%202016_for%20web.pdf

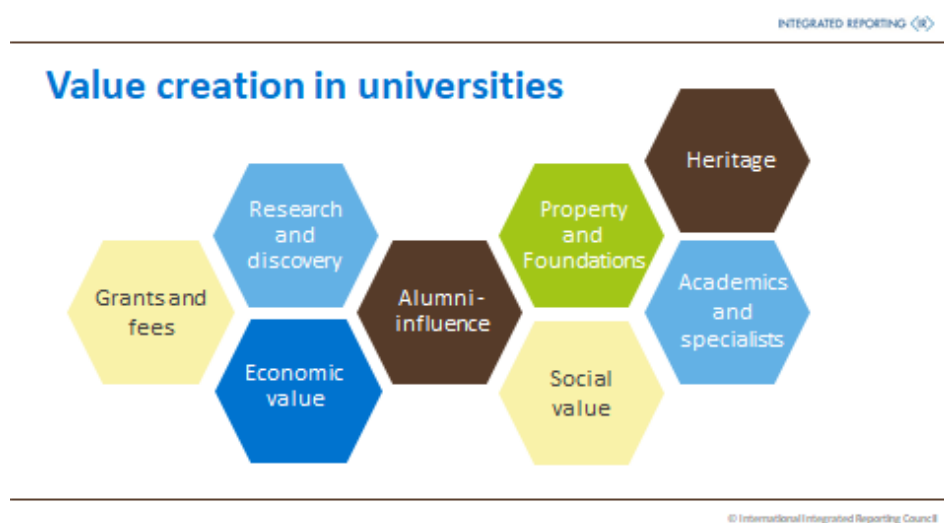
but this was all. The first BUFDG study looked at seven institutions, three of which are included in this second phase – Edinburgh, Bangor and Newcastle. Although the following universities are not involved in phase 2, they tell us that the experience helped them develop their annual reports: University of Leicester, Falmouth University, London Metropolitan University and the Royal Academy of Music. The University of Abertay published its 2016 annual report as an “Integrated report”. Links to all universities’ annual reports are available on the [BUFDG website](#)¹⁸.

Carol Adams, Professor of Accounting at Durham University Business School suggested, “[p]roviders of finance to universities, their staff and students and national governments might expect them to report their contribution to solving the world’s challenges and improving workforce skills. In reality, very few

universities adequately incorporate these issues into strategy or have a comprehensive, joined-up approach to engaging stakeholders”¹⁹.

An article published by the [AICPA](#)²⁰ suggested that 10 metrics included in an Integrated report at Florida State University can provide assurance that “the spending of billions of dollars on education should be linked to what has been accomplished with those dollars and such reporting is enhanced when both financial and nonfinancial reports have a high degree of independent assurance.”

The majority of organisations on the [<IR> Examples database](#)²¹ are from the private sector. There is growing interest in <IR> for the public sector and [CIPFA](#)²² is currently developing Application Notes to support public sector organisations with Integrated reporting.



¹⁸ <https://www.bufdg.ac.uk/resources/financial-reporting/financial-statements/>

¹⁹ Carol Adams, *Understanding Integrated reporting: The Concise Guide to Integrated thinking and the Future of Corporate Reporting* (Oxford, Do Sustainability, 2015)

²⁰ http://www.aicpa.org/interestareas/businessindustryandgovernment/newsandpublications/downloadabledocuments/integrated_reporting_mar2017.pdf

²¹ <http://examples.integratedreporting.org/home>

²² <https://www.cipfa.org/policy-and-guidance/integrated-reporting>

Panel summaries

The <IR> Specialist Panel recognized that the universities were all at different stages of their adoption of <IR> but all reports contained some elements of a good integrated report. One had not yet attempted to produce an integrated report or incorporate elements of the International <IR> Framework in its existing reporting, whereas one had begun its journey of moving away from the 'traditional form' of Annual Report by including explanation of its value model and recognition of its stakeholders that it sees as being critical to its sustained progress.

“In all cases, the panel recommended that universities establish and articulate their business model, or a value creation model”

In another case, a clear overall assessment was given for each of the main strategic objectives so that readers have a simple way of assessing where the university believes it is in respect of meeting its strategic objectives.

In all cases, the panel recommended that universities establish and articulate their business model, or a value creation model. Explicitly identifying the key elements of the business model helps to communicate how a university creates value for itself and for its stakeholders over the short, medium and long term. In one case, where a value model clearly describes how a university will deliver its strategy, the reviewers suggested improved links to the timetable for the next five years to aid better understanding of sustainable value creation over the medium and longer term.

A business model should describe the system of transforming inputs, through business activities, into outputs and outcomes that aim to fulfil a university's

strategic purposes and create value. It is possible that the university may employ more than one business model, e.g. when operating in different market segments or undertaking activities that can be separated. In some, but not all, universities' teaching, research and commercial activities operate with different business models.

Disaggregating the university into its material constituent operations and associated activities is an effective way of explaining how the university operates. This could be an important development in reporting as the demands for explanation of "value for money" become louder from a variety of stakeholders.

In one case, the university's vision and mission were clearly articulated in the strategic plan but it was not immediately clear how the vision and mission then related to the strategic priorities, or the process that was gone through to identify the priorities. Where this would lead to a number of KPIs against which success would be monitored, it was suggested that a university should give careful consideration to the conciseness and clarity of reporting, whilst still reporting material factors. Where successes flow from action against strategic priorities, this should be made clear.

A common recommendation was that the universities should identify the various 'capitals' that a university depends on for its success and summarize how these resources are used and affected by the business activities. This will help with the structure of the report and make clearer the relevance of some of the narrative disclosures currently included in the reports (e.g. environmental performance, employee involvement and sustainable development). The terminology used to explain capitals may vary across sectors of the economy and "capitals" is not prescribed. One university referred to "enablers", e.g. "people and resources" which have characteristics of capitals. Although the terminology is not prescribed,

using consistent terminology should be carefully considered. A university should demonstrate the connectivity of information and capitals in an integrated report.

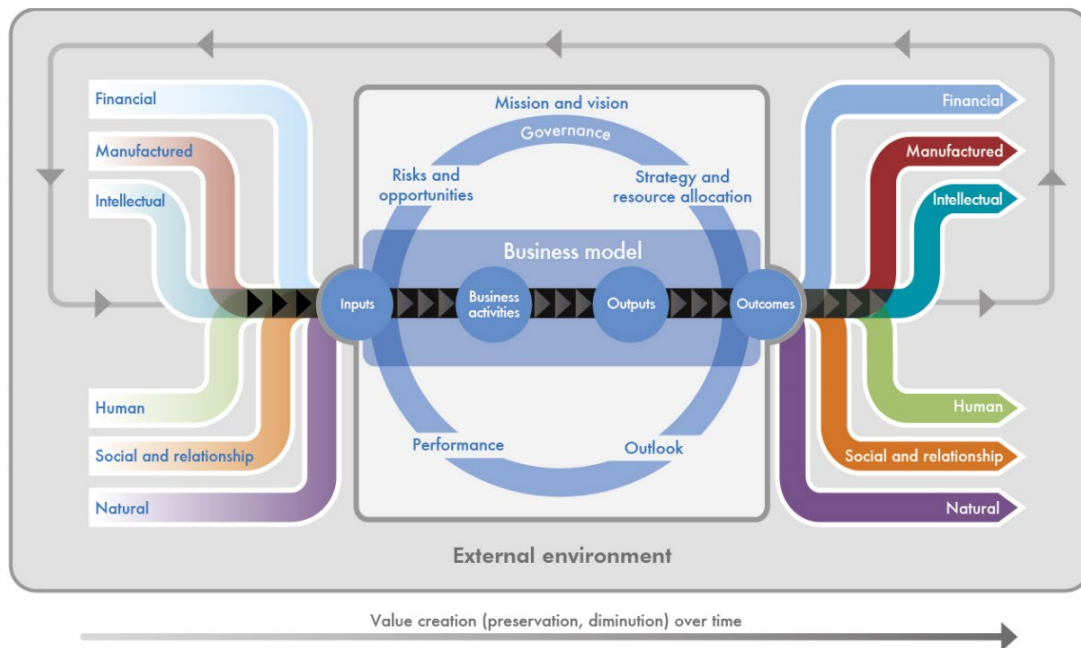
“This could be an important development in reporting as the demands for explanation of “value for money” become louder from a variety of stakeholders”

The four universities’ approaches to identification and explanation of risks were varied. Many risks that were identified had a finance or regulatory focus. There was limited explanation of where the risks impact upon strategic objectives or how a university is responding to each risk. This is particularly obvious when a business model is not explained at an early stage.

There was more comment about downside risks than about the opportunities to create value and there was a tendency for the reports to emphasize achievements and positive aspects of a university’s year of operation. Although this is understandable, an integrated report should show a more balanced view that addresses all material matters, both positive and negative.

The panel suggested that a university should explain the guiding principle of materiality within the report and consider this when deciding what to include in the report. It may be that some aspects of a university’s operations are explained at great length and are not material, and other aspects that are material to the ability to create value are given scant coverage. Materiality does not necessarily have the same meaning in an integrated report as in a financial context – in an integrated report, it means “material to value creation over time” - see guidance on [Materiality in Integrated reporting](#)²³.

Figure 2: The value creation process:



Page 13, *The International Integrated reporting Framework* <http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

²³<http://integratedreporting.org/resource/materiality-in-integrated-reporting>

Summary of comments and observations

Governance and responsibility for integrated report

	Comments
<p>Governance and responsibility</p> <p>An integrated report should include a statement from those charged with governance.</p>	<p>As none of the universities' reports were formally an integrated report, they did not make a disclosure in line with paragraph 1.20 of the International <IR> Framework.</p> <p>However, if moving towards producing an integrated report, a university may wish to consider including:</p> <ul style="list-style-type: none"> • an acknowledgement of the responsibility of those charged with governance to ensure the integrity of the report • what role those charged with governance played in the preparation and production of the report.

Guiding principles

The Guiding Principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented. They are applied individually and collectively for the purpose of preparing and presenting an integrated report; accordingly, judgement is needed in applying them, particularly when there is an apparent tension between them (e.g., between conciseness and completeness).

	Comments
<p>Strategic focus and future orientation</p> <p>An integrated report should provide insight into the organisation's strategy, and how it relates to the organisation's ability to create value in the short, medium and long term and to its use of and effects on the capitals.</p>	<p>There was some good practice in this area. All universities explained their mission and strategic objectives.</p> <p>The reviewers recommended that universities should be explicit about how their strategy relates to their ability to create value in the short, medium and long-term.</p> <p>All reports could be improved (as an Integrated report) by explaining the university's approach to value creation and the business models that underpin them.</p> <p>The extent to which universities linked their strategic objectives to their business model, or value creation model was varied. No university set out its business model in the way that say, The Crown Estate, or Marks & Spencer have done (See examples in Annex 1).</p>

	Comments
<p>Connectivity of information</p> <p>An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time.</p>	<p>There were some good attempts to connect themes through statements of public benefit (required of all charities), and by reporting KPIs that measure performance against strategic objectives. In all universities, the panel suggested that there was room for improvement in this aspect of their reports.</p> <p>The foundation of this part of a report is the description and explanation of the business model, which makes for a more natural discussion of the capitals used to generate value and the connectivity between the capitals and the value created [through the business model].</p>
<p>Stakeholder relationships</p> <p>An integrated report should provide insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.</p>	<p>The universities reviewed all mentioned their groups of stakeholders throughout the report, and the extent to which some relationships are explained is varied. A university should not assume that the reader understands the links with some major stakeholder groups and, given that the relationships are material to the ability to create value, they could be explained more fully.</p>
<p>Materiality</p> <p>An integrated report should disclose information about matters that substantively affect the organisation's ability to create value over the short, medium and long term.</p>	<p>The guiding principle of materiality is fundamental to an integrated report and matters should be disclosed that substantively affect the organisation's ability to create value. In this context "materiality" does not mean the same as in a financial reporting context and some of the disclosures made in the universities' reports were not obviously material in the <IR> context.</p> <p>Paragraphs 3.17 – 3.25 of the <IR> Framework provide guidance but relevant aspects to discuss in a report would be:</p> <ul style="list-style-type: none"> - How are material issues identified and prioritised? - How does feedback from and involvement of stakeholders influence the identification of material issues.

Integrated reporting in four British Universities

	Comments
	<ul style="list-style-type: none"> - The connection between material matters identified and how value is created by the university for itself and others. - Consideration of the reporting boundary for the report. <p>Paragraphs 4.50-4.52 are also relevant linking the nature of expected disclosures back to the guiding principle of connectivity.</p>
<p>Conciseness</p> <p>An integrated report should be concise.</p>	<p>Where a report might be comparatively short, this may be because some key content elements are missing, such as the business model, the materiality assessment and reporting, and stakeholder analysis. The challenge is to balance conciseness with completeness. This is achievable by using Plain English and avoiding repetition.</p> <p>The panel suggested that links to more detailed information outside the report can help conciseness. Tables, diagrams and statistics can break up text and make it easier to read.</p>
<p>Reliability and completeness</p> <p>An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.</p>	<p>An integrated report should include all material matters, both positive and negative, and not be a marketing or promotional tool.</p> <p>All reports were generally factual and neutral.</p> <p>Some reports reviewed tended to focus on positive highlights and balance was not quite achieved in all cases. It is important to mention missed targets or failures to meet objectives alongside the plans to improve performance can add credibility to a report and builds trust in the organisation.</p>
<p>Consistency and comparability</p> <p>The information in an integrated report should be presented:</p>	<p>All reviews focused on the year of the report and comparison with previous years. Explanations of the targets set at the beginning of the year could have been more extensive.</p>

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	Comments
<ul style="list-style-type: none"> • On a basis that is consistent over time • In a way that enables comparison with other organisations to the extent it is material to the organisation's own ability to create value over time. 	<p>Where a university reports KPIs, they should show year on year figures to show improvement, decline or no change in performance.</p> <p>KPIs that are recognised throughout the university sector could be reported against a benchmark, if one exists.</p>

Content elements

The Content Elements are fundamentally linked to each other and are not mutually exclusive. The order of the Content Elements as listed here is not the only way they could be sequenced; information in an integrated report is presented in a way that makes the connections between the Content Elements apparent.

	Comments
<p>Organisational overview and external environment</p> <p>An integrated report should answer the question: What does the organisation do and what are the circumstances under which it operates?</p>	<p>All annual reports reviewed explained the mission and values of the university. Including insight into the university's key activities and the environment (markets) it operates in, alongside key quantitative information can be useful here to set the tone for the rest of the report.</p>
<p>Governance</p> <p>An integrated report should answer the question: How does the organisation's governance structure support its ability to create value in the short, medium and long term?</p>	<p>The reports include separate corporate governance statements. An integrated report should highlight specific examples of how the university's governance structure supports its ability to create value. This could include disclosing examples of decisions or actions of governors to influence and monitor the strategic direction of the university.</p>
<p>Business model</p>	<p>The reports reviewed did not include a description or explanation of their business model, or their portfolio of</p>

	Comments
<p>An integrated report should answer the question: What is the organisation's business model?</p>	<p>business models (e.g. teaching, research, commercial conference centre activity). It is useful to disaggregate the university's operations to understand how the university operates and creates value from the capitals.</p> <p>The International <IR> Framework defines the business model as an organisation's system of transforming inputs, through its business activities, into outputs and outcomes that aim to fulfil the [university's] strategic purposes and create value over the short, medium and long-term.</p> <p>See Figure 2 below.</p>
<p>Risks and opportunities</p> <p>An integrated report should answer the question: What are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term, and how is the organisation dealing with them?</p>	<p>Universities should consider linking the specific risks and opportunities to their ability to create value over the short, medium and long-term to the business model and explanations of how the university is dealing with them.</p> <p>If risks are identified, they should be linked back to the associated strategic priority and a likelihood of the risk coming to fruition should be identified. Using the materiality guiding principle, only material risks should be reported and any mitigating action should be as specific as possible.</p> <p>Universities should not shy away from identifying opportunities that will enable it to create value, and not just report on negative risks.</p> <p>If an explanation of the business model is included in the report, it is then possible to report risks to the key capitals that impact on value creation – this was not done in the reports reviewed.</p>
<p>Strategy and resource allocation</p> <p>An integrated report should answer the question: Where does the organisation want to go and how does it intend to get there?</p>	<p>The reviewers were pleased to see examples of how strategic goals were linked with targets and plans about how a university was using capitals to achieve the goals.</p> <p>When a university has explained its business model, or value creation model, clearer links should be made between the strategy and resource allocation plans.</p>

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	Comments
	<p>Where resource targets are identified, they should be identified as short, medium or long-term to match the business model.</p> <p>Narrative to explain how a university will measure its achievement of priorities and the associated timescales should be included.</p>
<p>Performance</p> <p>An integrated report should answer the question: To what extent has the organisation achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?</p>	<p>Quantitative indicators, along with explanations of their significance, implications and the methods and assumptions used to compile them are important in an Integrated report.</p> <p>Current reporting of performance against KPIs could be improved and sector benchmarks can aid understanding. As implementation of <IR> develops, various resources (or capitals) relevant to universities could be disclosed as inputs to the business model and linked to outputs and outcomes. It should be noted that using the terminology "the capitals" is not specifically required by the framework, but considering the relevance of all these areas and how they connected is helpful to understanding the organisation and its performance.</p>

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	Comments
<p>Outlook</p> <p>An integrated report should answer the question: What challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?</p>	<p>Where risks are discussed, a university should recognise the implications for the business model of external influences and the environment they operate in.</p> <p>A good integrated report should include an explicit view of future prospects from management, and the governing body.</p>
<p>Basis of preparation and presentation</p> <p>An integrated report should answer the question: How does the organisation determine what matters to include in the integrated report and how are such matters quantified or evaluated?</p>	<p>Feedback to the universities suggested that they should explain their approach to materiality and explore connectivity more fully; i.e. it is helpful to the reader to understand how the university has determined what to include in its report and what to exclude.</p>

Fundamental Concepts

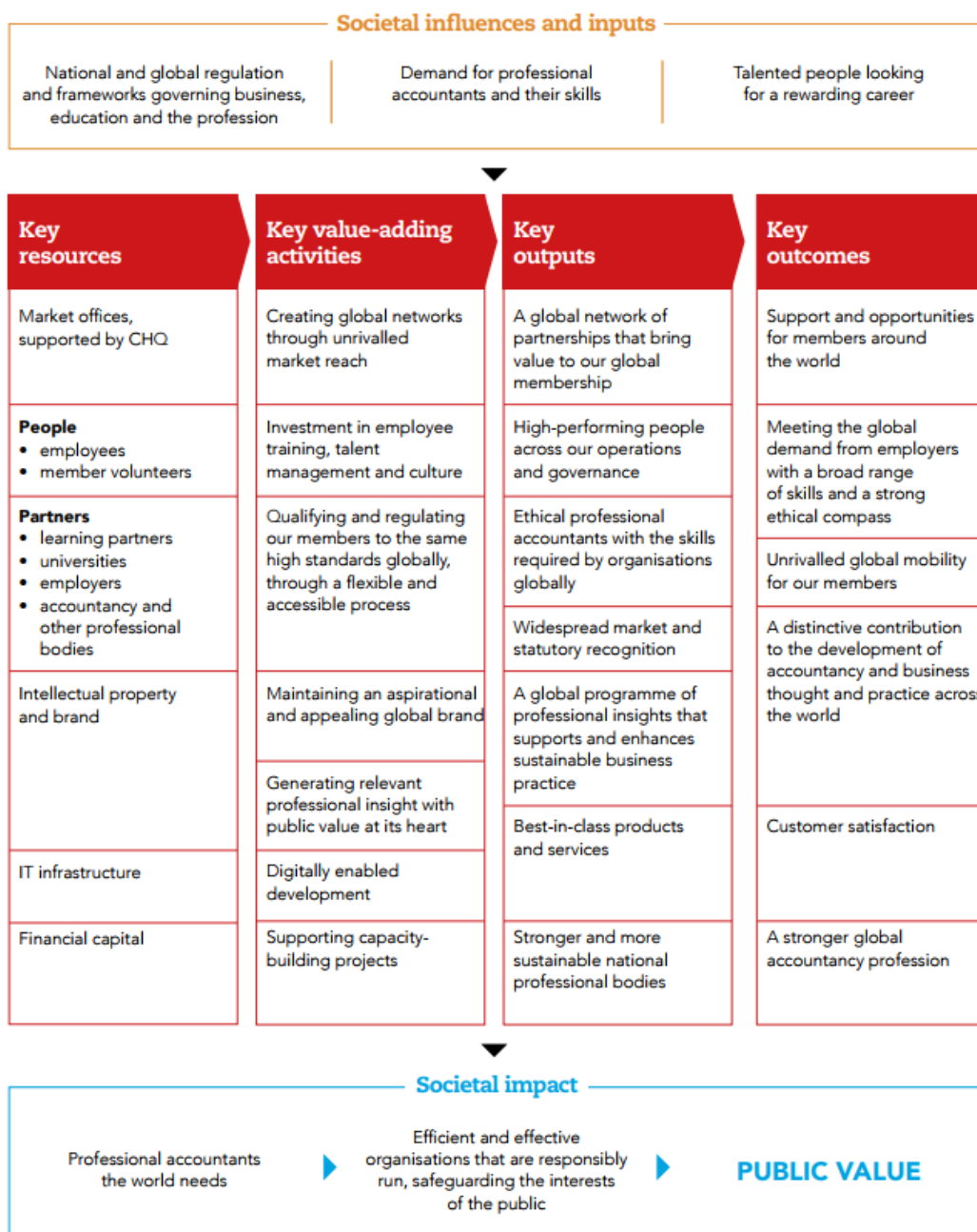
	Comments
<p>Valuation creation for the organisation and for others</p> <p>Value created by an organisation over time manifests itself in increases, decreases or transformations of the capitals caused by the organisation's business activities and outputs. That value has two interrelated aspects – value created for:</p>	<p>Universities that are also charities usually include a 'Public benefit statement' in their annual report. Guidance from the Charity Commission that applies in England and Wales states that there are two aspects of public benefit; the 'benefit aspect' and the 'public aspect'. Similar guidance is given by OSCR in Scotland and the Charity Commission for Northern Ireland.</p> <p>A well-written public benefit statement is a good start to explaining how value is created for others. A university should also explain where there is a distinction between value created for the organisation and the value it creates for others - recognising that an organisation cannot remain a going concern by doing one without the other.</p>

	Comments
<ul style="list-style-type: none"> • The organisation itself, which enables financial returns to the providers of financial capital • Others (i.e., stakeholders and society at large). 	<p>Value created over time manifests itself in increases, decreases and transformations of the capitals caused by the organisation’s business activities and outputs. To explain how this happens, a university needs a value creation model (business model) and must explain it clearly so that connectivity is obvious.</p>
<p>The Capitals</p> <p>All organisations depend on various forms of capital for their success. In the <IR> Framework, the capitals comprise financial, manufactured, intellectual, human, social and relationship, and natural. Organisations preparing an integrated report are not required to adopt this categorization.</p>	<p>The capitals are stocks of value that are increased, decreased or transformed. How universities report this varies, and although the financial review, financial statements and notes explain financial capital, other capitals are not reported as explicitly. Whilst movements in human capital are reported, much of the reporting focuses on cost (decrease in financial capital) and positive increases in human capital are under-reported.</p> <p>The International <IR> Framework offers discretion to the organisation to fit their report and the language they use to their environment. It does not require them to describe capitals in the same manner as outlined within the Framework. Some universities identify “enablers”, which have some of the characteristics of capitals.</p> <p>Universities should identify the capitals (or resources) that are material to the university, consider and quantify the capital inputs and note that not all capitals will necessarily be equally relevant or applicable. Only those considered sufficiently important or material should be included.</p> <p>Organisations that have been developing their integrated report for some time could also consider the trade-offs between capitals – i.e. how an increase in one can cause a decrease in another. E.g. spending money on training will decrease financial capital in the short term, but may increase the value of human and intellectual capital and positively affect financial capital in the medium term.</p> <p>The <IR> Framework does not require the report to tally the net impact on its global stocks of capital, but it is important to understand the trade-offs that influence value creation over time (see paragraph 4.46). This is something for universities to think about as they develop their reporting.</p>

Annex 1 - Examples of business models/value creation models in Integrated reports

ACCA: [http://annualreport.accaglobal.com/uploads/docs/ACCA Integrated Report 2015-16.pdf](http://annualreport.accaglobal.com/uploads/docs/ACCA%20Integrated%20Report%202015-16.pdf)

Our value creation model



Marks & Spencer:

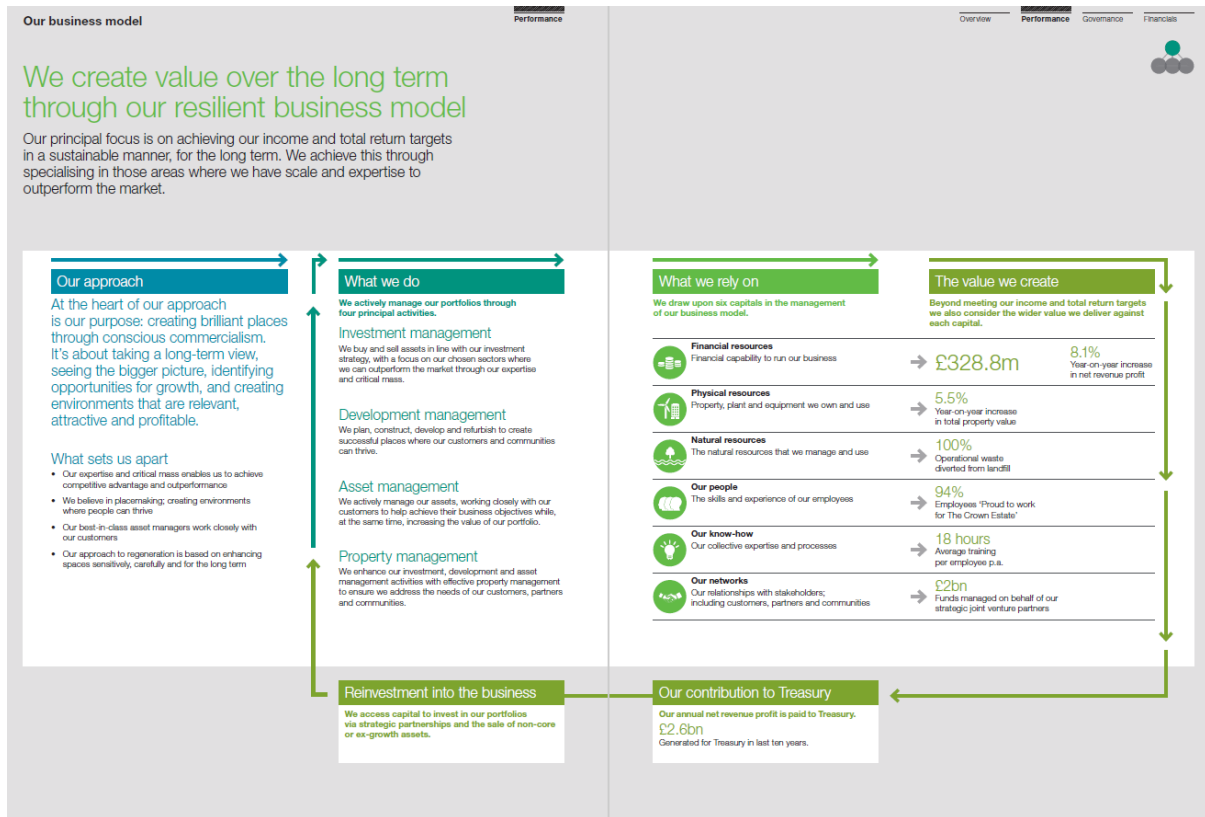
https://www.annualreports.com/HostedData/AnnualReportArchive/m/OTC_MAKSF_2017.pdf

We are committed to delivering sustainable value for stakeholders. Here, we summarise how our business model drives value creation, how the process is managed, and how we measure the value created.

RELATED RISK FACTORS	ACCOUNTABILITY	OUTPUTS	KEY OUTCOMES
<p>Financial performance risks</p> <p>There are a number of risks related to how we deliver financial value:</p> <ul style="list-style-type: none"> 1. Clothing & Home recovery 8. Margin 11. Profitable growth 12. Third party management <p>+ See Risk p32-33</p>	<p>Financial accountability</p> <p>BOARD ↑</p> <p>OPERATING COMMITTEE</p> <p>+ See Governance p34-84 + See Remuneration p66-78</p>	<p>Key financial measures</p> <p>Group revenue Group profit before tax and adjusted items Adjusted earnings per share Dividend per share Return on capital employed Free cash flow (pre-shareholder returns)</p> <p>+ See KPIs p18</p>	<p>Financial value created</p> <p>Strong profits build strong cash position Returns to shareholders Taxes to government Increased investment opportunities Employee rewards</p>
<p>Non-financial performance risks</p> <p>There are a number of risks related to how we deliver non-financial value:</p> <ul style="list-style-type: none"> 1. Clothing & Home recovery 2. Food safety and integrity 3. Corporate responsibility 4. Information security (including cyber) 6. Customer proposition & experience 7. Talent & succession 9. Brand <p>+ See Risk p32-33</p>	<p>Non-financial accountability</p> <p>BOARD ↑</p> <p>OPERATING COMMITTEE</p> <p>ADVISORY PLAN A COMMITTEE ↑</p> <p>OPERATIONAL PLAN A COMMITTEE</p> <p>+ See Plan A Report</p>	<p>Key non-financial measures</p> <p>Total Food customers and average number of shops per customer Total Clothing & Home customers and average number of shops per customer Employee engagement score Percentage of products with a Plan A quality Greenhouse gas emissions (tonnes) Greenhouse gas emissions (per sq ft)</p> <p>+ See KPIs p19</p>	<p>Non-financial value created</p> <p>Maintained and improved reputation with consumers Better trained and fully committed employees Stronger relationships with suppliers and communities Culture where innovation and agility thrive</p>
<p>Strategic performance risks</p> <p>There are a number of risks related to how we deliver strategic value:</p> <ul style="list-style-type: none"> 1. Clothing & Home recovery 5. Technology 8. Margin 10. UK store estate 11. Profitable growth <p>+ See Risk p32-33</p>	<p>Strategic accountability</p> <p>BOARD ↑</p> <p>OPERATING COMMITTEE</p> <p>+ See Governance on p34-84 + See Remuneration p66-78</p>	<p>Key strategic measures</p> <p>Food UK revenue Food gross margin Food like-for-like revenue growth UK space growth – Food Clothing & Home UK revenue Clothing & Home gross margin Clothing & Home UK like-for-like revenue growth International revenue International operating profit International space growth M&S.com sales M&S.com weekly site visits</p> <p>+ See KPIs p20-21</p>	<p>Strategic value created</p> <p>Growth in sales, product range and presence Supply chain efficiency Increased customer base with broadening appeal A more dynamic, flexible and agile business</p>

OUR BUSINESS
OUR PERFORMANCE
GOVERNANCE
FINANCIAL STATEMENTS

The Crown Estate: <https://www.thecrownestate.co.uk/media/2081/integrated-annual-report-2016-17.pdf>



Annex 2 - Sources of further advice, information and guidance

General guidance

The International <IR> Framework - <http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf>

The International Integrated reporting Council - <http://integratedreporting.org/the-iirc-2/>

IIRC Examples Database - <http://examples.integratedreporting.org/home>

IIRC guidance and resources - <http://integratedreporting.org/resources/>

EY/IIRC Background Paper on Value Creation - <http://integratedreporting.org/wp-content/uploads/2013/08/Background-Paper-Value-Creation.pdf>

IIRC/CIPFA/World Bank on Value Creation in the Public Sector - <http://integratedreporting.org/resource/focusing-on-value-creation-in-the-public-sector/>

Accountancy Institutes

All these institutes' search functions will reveal materials, articles or toolkits on Integrated reporting. Individual URLs are not given as new material is constantly being added.

ACCA – Association of Chartered Certified Accountants – UK - <http://www.accaglobal.com>

CIPFA – Chartered Institute of Public Finance and Accountancy – UK - <https://www.cipfa.org/>

ICAEW – Institute of Chartered Accountants in England and Wales – UK - <https://www.icaew.com/>

ICAS – Institute of Chartered Accountants of Scotland – UK - <https://www.icas.com/>

CIMA – Chartered Institute of Management Accountants – UK - <http://www.cimaglobal.com/>

IMA - Institute of Management Accountants – USA - <https://www.imanet.org/>

Chartered Accountants Worldwide – USA - <http://charteredaccountantsworldwide.com/>

AIA - Association of International Accountants – UK - <https://www.aiaworldwide.com/>

AICPA - American Institute of Certified Public Accountants – USA - <http://www.aicpa.org/>

AAT - Association of Accounting Technicians – UK - <https://www.aat.org.uk/>

CICA - Canadian Institute of Chartered Accountants – Canada - <https://www.cpacanada.ca/>

IFAC – International Federation of Accountants – USA <http://www.ifac.org/>

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CAANZ - Chartered Accountants Australia and New Zealand (CAANZ) - <https://www.charteredaccountantsanz.com/>

CPA Australia - <https://www.cpaaustralia.com.au/>

Hong Kong Institute of Certified Public Accountants - <http://www.hkicpa.org.hk/>

Institute of Certified Public Accountants in Ireland - <http://www.cpaireland.ie/>

ICAI - Institute of Chartered Accountants in Ireland - <https://www.charteredaccountants.ie/>

ISCA - Institute of Singapore Chartered Accountants - <http://www.isca.org.sg>

MIA - Malaysian Institute of Accountants - <http://www.mia.org.my>

SAICA - South African Institute of Chartered Accountants - <https://www.saica.co.za/>

Other bodies

Global Reporting Initiative - <https://www.globalreporting.org/>

Audit and accountancy firms

The following firms have special areas of their websites devoted to <IR>

EY - <http://www.ey.com/uk/en/services/assurance/climate-change-and-sustainability-services/ey-integrated-reporting-and-sustainability-report-assurance-services>

Deloitte - <https://www2.deloitte.com/uk/en/pages/audit/articles/integrated-reporting.html>

PwC - <http://www.pwc.com/gx/en/services/audit-assurance/corporate-reporting/integrated-reporting.html>

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