

**To: Heads of higher education institutions in Wales**

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## **Monitoring institutional sustainability: an extension to strategic planning**

### **Purpose**

- 1 I am writing to provide advance notice of the introduction of new arrangements which have been established by the Funders' Forum to monitor and evaluate the sustainability of the UK research base. The arrangements are designed to provide assurance that the increasing level of investment in research in recent years is achieving its key objective of contributing towards the sustainability of research in institutions UK wide.
- 2 To minimise the potential additional burden on institutions, these arrangements will make use of data which already exists and, in most cases, is already provided to the Funding Council. Recognising the relationship with existing processes, it is intended that these new arrangements will become embedded within institutions' strategic planning processes.
- 3 This circular is intended to explain how we see these new arrangements working. I will be writing to you again in full to set out the details of the returns which will be requested from all HEIs in the UK. In the meantime you may wish to consider how your institution would give an account of its sustainability as outlined in this circular.

### **Background**

- 4 In 2002, the publication of '*Investing in Innovation*' jointly by HM Treasury, the Office of Science and Technology and the Department for Education and Skills verified that the volume of research projects undertaken by UK HEIs was not sustainable on current levels of infrastructure funding, including quality-based research funding from the funding councils.

- 5 In response to the widening funding gap on research, HM Treasury has provided and is set to continue to provide substantial additional funding to support the delivery of research on a sustainable basis. Institutions have now been notified of three tranches of SRIF funding to support research infrastructure and substantial additional funds have been allocated to the research councils to support the current volume of research and the move to full economic costs.
- 6 In return for this additional funding, HM Treasury asked the Funders' Forum to develop a method for monitoring its impact on the sustainability of institutions. The Funders' Forum set up two sub-groups to consider sustainability from two perspectives, functional and financial. The task of these groups was to identify effective but not over-burdensome methods for tracking whether the providers of research are, over time, maintaining themselves on a sustainable trajectory.
- 7 The focus of the functional sustainability sub-group, chaired by Ian Diamond, Chief Executive of ESRC, is the health of individual disciplines across the sector. The focus for the financial sustainability sub-group, chaired by the Chief Executive of SHEFC, has been on developing a practical approach to monitoring the sustainability of institutions. **The arrangements covered by this letter reflect the outcome of the work of the financial sustainability sub-group.**
- 8 In developing these arrangements, the financial sustainability sub-group was mindful of their relationship to the existing purpose and requirements of TRAC and considered carefully the potential additional accountability burden on institutions. The result is arrangements which use and build on the key TRAC data and a process which draws heavily on data already provided to the Funding Council and therefore requiring minimal further input from institutions.
- 9 These arrangements have been endorsed by the Funders' Forum, HM Treasury and the funding bodies. In confirming agreement to these arrangements, HM Treasury stressed their importance and the need for institutions to take seriously their approach to measuring and managing their medium-term financial sustainability. HM Treasury has also acknowledged that outputs from this first year should be considered indicative, allowing the monitoring arrangements to be refined if necessary in light of feedback from institutions. A copy of the relevant letter from Daniel Storey at HM Treasury is attached at Annex A for your information.

### **Monitoring arrangements**

- 10 As already indicated, the monitoring arrangements have been developed so as to make use of existing data and minimise the burden on institutions. There are two elements to the monitoring arrangements: an 'institutional *framework towards achieving long-term sustainability*' and a related set of '*trigger metrics*'.

## Framework

- 11 The framework is essentially a statement endorsed by the governing body to explain how and why the leadership of the institution consider the institution to be on a sustainable trajectory. This will require institutions to consider their key resources – money, people, equipment and buildings – and how these are planned and applied in a changing environment. In this context, sustainability does not necessarily mean preserving current activities, but rather the need to plan and manage key resources to at least maintain the capacity of the institution to respond appropriately to future demands. We have called this ‘adaptive capacity’. This definition is consistent with the longer, more technical definition given in the TRAC volume III: full economic costs of projects.<sup>1</sup>
- 12 The concept of adaptive capacity and long-term planning will not be new for institutions, but for the first time we are asking that this be reflected more explicitly in strategic plans. This first year, in order to meet HM Treasury’s deadline, we will be asking institutions to provide their frameworks by 30 November 2005. We recognise that for many institutions this timing will not fit with existing planning timetables, in which case, on this occasion only, the framework should be produced as a supplement to the main strategic plan. After this initial year, institutions will be asked to update their frameworks at three-yearly intervals to coincide with their own strategic planning timetable.
- 13 The content, length and detail of your institutional framework will not be prescribed although we will provide some guidance for those who might prefer this. However, as a minimum, it will be important that the framework sets out why the institution considers that the human resource, infrastructure and financial plans for the institution will ensure it remains on a sustainable trajectory over the next ten years or so. This will not be a detailed strategy but more of a scenario, based on current knowledge of relevant matters internal and external to the institution.

## Trigger metrics

- 14 The above definition of ‘adaptive capacity’ identifies institutions’ four key resources: money, people, equipment and buildings. Fourteen trigger metrics have been identified across these four resource areas and are designed to support an institution’s framework. They have been called “trigger” metrics to reflect this relationship and that when monitored, over time, they will help highlight any inconsistencies between the direction and intended outcomes outlined in the framework and actual results.

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<sup>1</sup> An institution is being managed on a sustainable basis if, taking one year with another, it is recovering its full economic costs across its activities as a whole, and is investing in its infrastructure (physical, human and intellectual) at a rate adequate to maintain its future productive capacity appropriate to the needs of its strategic plan and students, sponsors and other customers requirements.

- 15 Most of these factors and particularly people and buildings change and can be changed only over long timescales, emphasising the need to look at trends and direction of travel rather than absolute values. For this reason, data on the metrics will be collected initially for the last three years and thereafter on an annual basis. The metrics may be further refined through our ongoing discussions with the pilot institutions and representative bodies. However, the current proposed list of metrics is attached at Annex B for your information. You will see from this the data which is already available to the Council.
- 16 Importantly, these are capacity metrics measuring mainly volumes and should not be considered as performance ratios. There are many reasons why numbers change over time and it would be inappropriate to try and judge an institution's performance or its sustainability using these metrics in isolation. Also, the metrics are not intended to give a comprehensive picture of sustainability, but rather provide a standard set of data which, when considered alongside an institution's framework, provide a high level and rounded view of the institution's direction of travel.

#### **Pilot institutions**

- 17 The monitoring arrangements, in particular the trigger metrics, have been tested at five pilot institutions: UCL, Leeds, Cardiff, Edinburgh and Strathclyde. We are grateful to these institutions for their contributions.
- 18 Through the process of discussions with the pilots we have been able to refine the list of trigger metrics, their definitions and data sources. As indicated above, discussions with the pilots and sector representative bodies is ongoing and might result in minor adjustments to the final list of trigger metrics. However, this process has confirmed that the burden on institutions will be minimised and that it will be only necessary to ask institutions to provide data for one of the metrics and this will be readily available within institutions. The data for the remaining metrics are already available to the Council from existing data returns from institutions.

#### **Future returns from institutions and timing**

- 19 We will write again to institutions in late August 2005 requesting:
- data on the metrics for the last three years, 2001-02 to 2003-04 and verification of the accuracy of the data already held by the Council – **to be returned by 30 September 2005**;
  - institutions' framework towards achieving long-term sustainability – **to be returned by 30 November 2005**; and
  - comments on the monitoring arrangements.

## Reports to HM Treasury

- 20 The funding bodies will prepare a report for the January 2006 meeting of the Funders' Forum and in turn provide a summative report to HM Treasury by 30 April 2006 to inform the next Spending Review. As indicated above, the initial report to HM Treasury will be considered indicative. Future reports to HM Treasury will be on a biennial basis, timed to feed into spending reviews.

## Feedback to institutions

- 21 We will provide feedback to institutions by the beginning of June 2006. The detail of this feedback has still to be determined, but it will include any questions identified from our review of institutions' frameworks and trigger metrics. We also intend to provide institutions with comparative data in the form of appropriately anonymised sector averages to assist inter-institutional benchmarking. Institutions may also wish to share the detail of their data with other institutions and the Council is happy to assist in this process if required.

## Further information

- 22 For further information please contact Richard Hirst, Director of Finance & Corporate Services, HEFCW. Telephone 02920 682253, email [Richard.hirst@hefcw.ac.uk](mailto:Richard.hirst@hefcw.ac.uk).

Yours sincerely



**PROFESSOR PHILIP GUMMETT**  
**CHIEF EXECUTIVE**



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Annex A

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[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

20 April 2005

Dear Roger

### **Monitoring financial sustainability**

Thank you for your letter of 23 February regarding the Funding Bodies' proposal for monitoring sustainability of the Higher Education sector at an institutional level, in which you sought confirmation that HM Treasury is content for the exercise to proceed as proposed.

The Funding Bodies have helpfully developed practical proposals for institutions to be able to measure and describe their financial sustainability performance and strategies to deliver these goals. I recognise that, given the pilot nature of the proposal, the Funding Bodies will be looking to refine their approach in light of feedback from experience within the Higher Education sector. I also recognise that, as 2005-06 will be the first year of trialling this approach, the initial results to be reported in January and April 2006 to Funders' Forum and HM Treasury respectively will necessarily be indicative. Treasury is content for you to proceed on this basis, as you propose.

In addition to reviewing over the coming year the usefulness of the information generated by this exercise, and the practicality of doing so, would strongly encourage the Funding Bodies to consider carefully the incentives on Higher Education Institutions to produce robust metrics and strategies, and to adhere to these plans. It will be important that HEIs understand clearly the consequences of taking seriously their approach to measuring and managing their medium-term financial sustainability. They should also understand that this process is part of a broader longer term goal, shared by the Government and the Funding Bodies, of enabling HEIs to bring their activities and ambitions into line with financial resources.

Finally, I would like to thank you and SHEFC colleagues in particular for your work in leading this project over the last year.

**Daniel Storey**

Head, Science & Industry team

cc

Howard Newby	HEFCE
Phil Gummett	HEFCW
David McAuley	DELNI
Keith O’Nions	OST

## PROPOSED TRIGGER METRICS

	<b>Metric</b>	<b>Data source</b>	<b>Input by</b>
	Operating surplus/(deficit) adjusted by fEC net adjustment from TRAC data	Figure as per the institution's annual accounts plus adjustments for infrastructure and cost of capital which is entered on the annual TRAC return	HEFCW
	Underlying operating surplus/(deficit)	Operating surplus/(deficit) as per the institution's annual accounts adjusted to exclude significant one-off items	HEFCW
	Gearing ratio – total long-term borrowings/total general funds	Figures entered on HESA return (reference Table 2 items 7ii, 11ii and 12iv)	HEFCW
	Liquidity ratio - cash divided by expenditure less depreciation	Annual accounts	HEFCW
	Total income per academic FTE	HESA return and/or annual accounts. FTE from TRAC	HEFCW
	Research income per academic FTE	HESA return and/or annual accounts. FTE from TRAC	HEFCW
	Average age of permanent academic staff <b>or</b> % of permanent academic staff over 55 years	Institution  Institution	HEI
	Total value of externally sponsored research and this as a % of total income	Annual accounts	HEFCW
	Total actual capitalised expenditure on equipment and this as a % of the balance sheet value of equipment	Figures entered on HESA return (reference: Table 7: Capital expenditure line 2c of column 1 'total actual spend')	HEFCW
	Total expenditure on major and minor works (capital)	Figures entered on HESA return (reference: Table 7: Capital expenditure lines 2a and 2b of column 1 'total actual spend')	HEFCW

	Total expenditure on repairs and maintenance (recurrent)	Figures entered on HESA return (reference: Table 6: Expenditure by activity, subhead 4 'premises' - line 4d of column 4 'other operating expenses')	HEFCW
	Proportion of building condition (% GIA) in condition C and D and cost of upgrade to condition B	Figures that go into EMS return – (reference D20a-D20b)	HEFCW
	Proportion of buildings space (GIA) in poor condition (Grade 4)	Figures that go into EMS return – (reference D21 'functional suitability % GIA suitability grade 4 C13 total non -residential'.	HEFCW
	Total GIA and total income per square metre	GIA: Figure that goes into EMS return (reference D11 'gross internal area C13 non-residential)	HEFCW