

# Illustrative Practice Note 4: Institutional Sustainability

May 2017

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## Governing body role in assessing institutional sustainability

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1. The governing bodies of Higher Education Institutions (HEIs) have a critical role in assessing institutional sustainability for the long term. The governing body approves the mission and strategic vision of the institution, its strategic plans, key performance indicators (KPIs) and annual budgets, and acts as a focus for ensuring that these work together in the interests of students and other stakeholders.
2. This practice note is designed to assist governing bodies to develop an approach to sustainability assessment that fits their institution's character and addresses the demands and expectations of other stakeholders. It first sets out the expectations in the HE Code of Governance in this area and the requirements of funding bodies, and then provides suggestions about the information the governing body may receive and how it can be used to inform an assessment of institutional sustainability. The guide also provides a series of questions for members of governing bodies to consider, which members may wish to use as a tool to assess their approach.

### *What does the HE Code of Governance say?*

3. One of the seven primary elements of HE governance included in the Code of Governance is that “the governing body ensures institutional sustainability by working with the Executive to set the institutional mission and strategy. In addition it needs to be assured that appropriate steps are being taken to deliver them and that there are effective systems of control and risk management” (Primary element 3).
4. The Code of Governance requires that the governing body “must rigorously assess all aspects of the institution's sustainability in the broadest sense, using an appropriate range of mechanisms”. It goes on to note that “the governing body must be in a position to explain the processes and the types of evidence used and provide any assurances required by funders”.
5. For most governing bodies, members are charitable trustees and must comply with legislation governing charities and case law in the exercise of their duties. These include the requirement to manage the charity's resources responsibly, ensuring that charitable assets are only used to support or carry out the charitable purposes of the institution and to avoid putting those assets at undue risk.
6. The Scottish Code of Good HE Governance published in 2013 (the Scottish Code) sets out the main principles with which institutions in Scotland are expected to comply, together with associated guidelines that institutions are expected to follow closely.
7. One of the main principles of the Scottish Code (Main Principle 1) includes the statement that the governing body “is unambiguously and collectively responsible for overseeing the institution's activities. In discharging its responsibilities it shall ensure the institution's long-term sustainability”.



## *Why is it important?*

8. Whether in HE, the public sector or in a business environment, assessing organisational sustainability is crucial. HEIs operate in a complex and constantly changing environment. Though the challenges they face are not unique to HE, HEIs nevertheless face a multitude of external and internal challenges as the HE landscape changes in response to government policy, tough economic conditions, fragmentation of the regulatory environment, uncertainty over the future funding model, rising student expectations, increased competition nationally and internationally, and the introduction of transforming digital technologies, among other factors. The HE sector also has an extensive estate and facility base with ongoing investment needs to be funded.
9. To be sustainable, HEIs need a clear mission, vision and strategy. Governing bodies need to be briefed on institutional sustainability in order to be assured about which activities the HEI can sustain and how they can be financed. Governors must also be satisfied that an institution is spending and investing enough to maintain its future performance and productive capacity and capability, taking account of the more competitive environment. Being sustainable also means institutions can withstand turbulence in the short term and deal with shocks as they arise.
10. At a time of reduced public capital funding, and increased competition, there is greater pressure on HEIs to generate higher surpluses to deliver their strategy and objectives. These surpluses can then be used to service borrowing or be accumulated to fund infrastructure projects. Financial strategies to inform strategic choices are more important than ever before.
11. The bodies that fund HE, and other stakeholders including students, staff and employers, need to know that the activity they fund is well-managed, efficient and sustainable, to ensure that public investment (including student tuition fees provided by government loan agencies) will deliver value for money, while protecting the student interest.

## *What is meant by 'sustainability'?*

12. The definition recognised by the Financial Sustainability Strategy Group (FSSG) is that "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." This goes beyond the concepts of financial health or going concern.
13. The informal, but commonly used definition quoted in CUC guidance suggests that this could also be considered as: "operating today without damaging ability to do so tomorrow" or "maintaining at least the current capacity to respond to changing demands".
14. Monitoring sustainability requires monitoring of all activities and not just the financial position of the institution.

## **The Royal Central School of Speech and Drama**

The Royal Central School of Speech and Drama's Corporate Plan sets out the vision, mission and key strategic aims. Each core section of the Plan has a small number of KPIs to set targets and measure success. KPIs are monitored termly by the appropriate committee. KPIs are subject to regular status review with actions flowing where necessary.

The Audit Committee undertakes an annual review of KPIs and reports thereon to the Board of Governors. This annual review draws out core KPIs for inclusion within the ASSUR.

The ASSUR is considered and approved by the Governing Body in November each year. The School's financial forecasts inform the ASSUR to confirm the university is a going concern.

## *What do the funding councils expect from governing bodies?*

15. In their [2015 annual accountability returns circular](#) HEFCE noted:

“The Committee of University Chairs (CUC) Higher Education Code of Governance issued in December 2014 states that the governing body must rigorously assess all aspects of the institution’s sustainability in the broadest sense using an appropriate range of mechanisms. We consider that submitting the Annual Sustainability Assurance Report (ASSUR) is one way of demonstrating this assessment and will therefore continue to request the ASSUR on a voluntary basis.”

16. HEFCE requested that the commentary that accompanies institutions’ financial forecasts, submitted to the funding body in July 2016, should include an answer to the question:

“Explain how the institution is ensuring its sustainability, including through its strategy; quality of teaching and research; management of key risks including cash flow management, proposed financial commitments and material leases; and investment in estates and infrastructure. Set out any conclusions from sustainability reviews... and any going concern reviews.”

17. The 2016 Memorandum of Assurance and Accountability (effective from 1 August 2016) between HEIs in England and HEFCE includes a number of requirements on institutional sustainability. The Memorandum notes that “to remain sustainable and financially viable HEIs should assess, take and manage risks in a balanced way that does not overly constrain freedom of action in the future.” The Memorandum also sets out certain principles which institutions must follow when entering into any financial commitments. Arrangements in Northern Ireland mirror those for England.

18. The Higher Education and Research Act 2017 gained Royal Assent in April 2017. This changes the regulatory arrangements for HEIs in England, with responsibility for assurance and financial sustainability passing to the Office for Students. This change does not mean that institutions need to delay enhancing their arrangements.

19. In Scotland, the Scottish Funding Council requires the governing body to ensure that the institution “plans and manages its activities to remain sustainable and financially viable”.

20. In Wales, the existing Memorandum of Assurance and Accountability between the Higher Education Funding Council for Wales and institutions includes similar provisions in respect of financial commitments. Its proposed successor, the [Draft Financial Management Code](#) in Wales, due to take effect from September 2017 states that “in accordance with FSSG’s recommended good practice, institutions should prepare an ASSUR statement on an annual basis. This statement should be reviewed by the institution’s governing body.”

## *What is the role of the governing body?*

21. The governing body provides independent scrutiny, support and challenge to management. It has a vital role to play in ensuring the sustainability of their institution in the long term, through:

- a. setting the institutional mission and strategy;
- b. overseeing its delivery; and
- c. getting assurance that effective systems of control and risk management are in place.

## **The Royal Central School of Speech and Drama**

The Royal Central School of Speech and Drama introduced monthly dashboard reporting of key indicators in recognition of the dynamic environment and the need to be able to respond quickly to sudden changes. This resulted in a concise report showing performance against key institutional indicators including financial outputs, admissions, retention, staff vacancy levels, core project performance and emerging risks.

This one-page report produced mid-month has been welcomed by the Board and management as it provides an early warning of any emerging issues across all areas of the institution.

22. Oversight of the institution's strategy and its enabling and supporting strategies, together with insight into performance through monitoring of financial and non-financial indicators, are the primary means through which the governing body discharges its responsibilities. It is therefore important that management's reports to the governing body provide sufficient detail to allow governors to provide appropriate challenge to assure themselves fully that a comprehensive process for ensuring sustainability is in place.
23. As independent organisations, HEIs are responsible for managing their finances and taking necessary action to manage risks and exploit opportunities. Management teams and governing bodies need to be able to look ahead, assess their future financial position and where necessary make appropriate adjustments to their teaching and research strategies, cost base and market position. To achieve this, institutions require good-quality, reliable information on their educational and financial performance, realism when forecasting future performance, and insight into how the external environment is changing.
24. The governing body also needs to be in a position to report and explain its strategy and financial position to its respective funding body/regulator. Requests for such explanations could come at any time and form part of the funding body's/ regulator's institutional review processes. Those HEIs that are charities also need to ensure that they can comply with their responsibilities for managing the charity's resources responsibly under charity law.

### *What information should management provide to the governing body?*

25. Institutional governing bodies receive a range of information through the year on the institution's position and how it is performing against its financial and non-financial targets. Information provided to governors should help ensure they have a good understanding of what is happening in their institution. From this, governors can understand the inevitable trade-offs between different aspects of performance. It is governors' awareness of the rounded performance of the institution that enables judgements to be made over its ability to achieve its objectives while remaining sustainable.
26. Institutional governing bodies usually set clear indicators against strategic priorities. Information may then be provided to the main governing body, or to a finance committee or planning and resources committee, as follows:
  - A range of KPIs. These should cover all activities including financial health, student recruitment, the student experience, research activity, staff, international activity and enterprise. Targets and relevant benchmarks are usually institution-specific.
  - Information about the institution's position (and movement) in the league tables, and the indicators that drive that position and any changes, which provide insight into how the institution is perceived externally.
  - Budgets and financial forecasts, including scenario or sensitivity analyses.
  - Periodic reports on the institution's financial position, including monthly or quarterly management accounts, annual financial accounts, the reports of internal and external auditors and reports on compliance with bank covenants.
  - Reports on efficiency and value for money.

## **Brunel University London**

As part of its financial sustainability assessment, as reported in its financial statements, and separate from the preparation and review of its financial forecasts, the University conducts a formal assessment of the going concern status of the University. This takes into account the guidance produced by the Sharman Panel in 2012.<sup>1</sup> The guidance asks the institution to review, over the foreseeable future (a minimum of 12 months from the date of approval of the financial statements):

- Solvency: the ability of the University to meet its liabilities in full, ensuring that there is sufficient capital so that there is an excess of assets over liabilities;
- Liquidity: the ability of the University to liquidate its assets at the velocity needed to meet its liabilities as they fall due.

The formal conclusion of the assessment undertaken in November 2016 is that the University meets the requirement that the going concern basis of preparation is appropriate.

<sup>1</sup> Panel of the Sharman Inquiry, Final Report and Recommendations on Going Concern and Liquidity Risk, June 2012

- Annual Transparent Approach to Costing (TRAC) return<sup>2</sup> and associated commentary.
  - Reports on capital and other major development projects.
  - Annual report on academic standards and quality received from Senate/ Academic Board.
  - A report from the Vice-Chancellor or other members of the senior management team to each meeting.
  - Reports of assessments undertaken by external bodies (for example, HEFCE, Research Councils UK, Quality Assurance Agency).
27. The governing body typically has access to a range of benchmark information to allow it to make comparisons with other institutions in the sector. Sources of benchmark information include league tables, sector bodies (for example, HEIDI (Higher Education Information Database for Institutions) financial indicators, the annual TRAC benchmarking, and HEFCE's report on the financial health of the HE sector which is published twice a year) and the HE media together with other more bespoke benchmarking that the institution may commission.
28. Guidance on the development and implementation of appropriate KPIs is included in the 2006 CUC report *Monitoring of Institutional Performance and the Use of Key Performance Indicators*.<sup>3</sup> This guide includes a possible monitoring framework for governors in which institutional performance is summarised in ten high-level KPIs which can be reported on a single page. The guide provides a range of additional materials to help institutions to think about how to build up these top-level KPIs. Although this is a relatively old publication, its contents remain useful and valid.
29. In order to assess performance of different aspects of the institution, many institutions make use of a 'balanced' scorecard or dashboard to assess the institution's performance.
30. Since the publication of the guidance on KPIs, the FSSG has supported the development of approaches to sustainability assessment and reporting, culminating in the development of the ASSUR.

### *What is the ASSUR and where does it fit in?*

31. The FSSG's annual sustainability assurance project investigated how institutions monitor the extent to which institutional plans are sustainable.
32. FSSG's work in developing a basis for monitoring and reporting institutional sustainability through an annual sustainability report led to a recommendation that institutions should:
- debate and determine a small number of KPIs that the governing body considers are the most important for institutional performance and sustainability at present;
  - agree the KPIs, any appropriate targets, and assessments of performance against these KPIs with the senior management team and governing body;
  - make an overall assessment of institutional sustainability using these KPIs; and
  - have this discussed and approved by the governing body.

<sup>2</sup>The Transparent Approach to Costing is the activity-based costing system used by all HEIs in the UK (see Appendix 3).

<sup>3</sup>Committee of University Chairs, November 2006

## University of Cumbria

In order to add some independent input and feedback to their discussions on sustainability, the University of Cumbria opened its discussions on a reciprocal and confidential basis to a Director and Chair of Finance Committee at another university.

## University of Warwick

The Council of the University of Warwick undertakes an annual horizon-scanning exercise to consider emerging risks, how they might impact on the University should they occur, and any mitigating action required. The focus is on those current or emerging factors that have the potential to become major risks to the University and which, without an appropriate response, could impact its sustainability.

In a recent exercise, members were also presented with a range of significant global scenarios, and invited to think about how the influence of such factors might impact on the institutional response to a major crisis.

The exercise highlighted the importance of considering risks in combination, particularly in the context of geopolitical uncertainty.

33. The outcome of this work led to the development of an optional assurance report called the ASSUR which captures the assurances made by the governing body and reports a financial metric known as the Margin for Sustainability and Investment (MSI), based on the institution's own individual required sustainability margin. While not intended to constrain institutions to a particular format, an example of the ASSUR template is at Appendix 1. An earlier version of the ASSUR called for reporting on one or two KPIs in the areas of: teaching, learning and the student experience; research outputs; financial performance and sustainability; financial health; and other areas as deemed relevant by the institution. This helped enable a rounded assessment of sustainability to be made. While this is no longer required formally as part of the core ASSUR, it continues to provide a useful guide for institutions.
34. The development of the ASSUR mirrors the work of the Financial Reporting Council (FRC) and their development of improved guidance on the going concern basis of accounting and reporting on solvency and liquidity risks over the past few years.
35. The ASSUR provides institutions with a basis for engaging with its governing body on matters concerning sustainability. It also provides assurance to funders. Following the publication of the HE Code of Governance, HEFCE and other funders have recognised the ASSUR as a process that can satisfy these requirements.

### *How does the governing body ensure it is able to make the sustainability assessment?*

36. The ASSUR is a valuable tool to help governing bodies meet the Code of Governance requirement that the governing body assesses all aspects of an institution's sustainability, and provides a means for it to "explain the processes and the types of evidence used and provide any assurances required by funders". Alongside the ASSUR, some of the other tools and approaches to reporting sustainability assessments, including integrated reporting, and viability statements, are included at Appendix 2.
37. Access to high-quality financial and non-financial data at the right time is crucial. This means in addition to the agreement of a small number of relevant strategic KPIs, the governing body requires assurance that approaches to data collection and analysis are appropriate and rigorous. This might mean that the approach is reviewed by an appropriate institutional committee, or is subject to internal audit or other review.
38. Effective risk management can also increase the likelihood of successful outcomes while protecting the reputation and sustainability of the HEI. The governing body will wish to be assured that appropriate risk management and control processes are in place. It should also be assured that these processes not only support long-term planning, but can help the institution respond quickly to short-term turbulence. Horizon-scanning may be able to support this by improving understanding of the impact of combinations of events and by helping governing bodies "think the unthinkable".
39. Overall, to support the governing body in providing a basis for its assessment of institutional sustainability there will be a range of tools and techniques working together. Some of these are illustrated in Figure 1. They will interact in different ways depending on the strategy of the institution, where it is in its growth cycle, and the external environment and market conditions at the time of the assessment.

*Figure 1*



*Some questions for members of governing bodies to consider*

40. Sustainability can be a topic that is dismissed as “something that the institution already does”. To assess whether this is the case, the following questions have been developed for governing bodies to assess the completeness of their current approach.

**Institutional vision, mission and objectives**

- (1) Is there a clear institutional strategy?
- (2) Is there a clear process for monitoring progress against strategic priorities and objectives?
- (3) Do the institution’s financial plans match the strategic ambition?
- (4) Does the institution have a clear financial strategy which determines the amount of cash the institution needs to generate for sustainability, and the way this will be done?

**Performance indicators and other information**

- (5) Do governors receive regular, clear and informative updates on performance indicators?
- (6) Are early warning or ‘in-year’ indicators in place to assess progress more frequently than some of the KPIs that are used as annual indicators?
- (7) Do the non-financial and financial performance indicators monitored and reported reflect the governing body’s understanding of the institution’s position?
- (8) Is sufficient information provided to governors at the point when judgements are being made about sustainability?

# University of Edinburgh

## Role of the governing body

The University's governing body, the University Court, has comprehensive arrangements in place to monitor, assess and ensure the institution's sustainability:

- The University Court approves the University's Strategic Vision which articulates a vision of the University in 2025 and the Strategic Plan which sets the aims and objectives for the University and provides an outline of how the University will measure success over the period of the Plan.
- The University Court and its committees annually consider and review progress against the University's Strategic Plan targets and KPIs.
- These targets and KPIs cover the University's activities including teaching, learning and the student experience, research outputs and sustainability, financial performance and sustainability, financial health and other key areas.
- This annual reporting is supplemented by in-year reporting to Court of areas where further work is required.
- The process of Strategic Plan monitoring is covered by the University's internal audit programme.
- The annual self-evaluation progress report on the University's Outcome Agreement with the Scottish Funding Council is reviewed and considered by Court.
- The progress report on the Outcome Agreement sits alongside the annual report on institution-led internal review, which is part of the University's quality assurance and enhancement arrangements.

## In-year monitoring

The University recognises financial sustainability in its risk register. One of its key strategic risks is that failure to maintain financial stability and sustainability (in particular solvency and liquidity) would undermine the delivery of the University's strategic ambitions.

### The University mitigates these risks through:

- the exercise of financial control by the University Court, acting through Policy & Resources Committee and the Central Management Group. These formal channels are augmented informally by meetings of the Principal's Strategy Group and the Strategic Finance Group.
- implementation of its Finance Strategy. This includes financial planning, budgetary processes and a ten-year forecast informed by an integrated financial model of the University including key assumptions on income and expenditure as well as their interdependencies.
- having KPIs with tolerance ranges that are monitored by the executive and governance groups

The ten-year forecast is reviewed quarterly and presented to Policy and Resources Committee and University Court for scrutiny and approval. The forecast includes 'scenario planning' and 'stress testing' using modelled scenarios to show the impact of certain risks crystallising during the term. At its quarterly meetings, the University Court receives a copy of the most recent monthly reporting/information pack and the same updated forecast as the Central Management Group receives, providing assurance to governors that there is a single version of the truth and enabling them to understand how progress is being made through the year.

## Annual reporting on sustainability

In its annual report and accounts the University includes commentary on its arrangements to monitor, assess and ensure the institution's sustainability including the arrangements outlined above.

During the year the University developed its approach to reporting, using the integrated reporting model (see Appendix 2) and their most recent annual report reflects the integrated relationships and thinking that is taking the University forward and that will act as a force for both academic and financial stability and sustainability.



- (9) Are there reliable indicators across all key institutional types of activity?
- (10) Has assurance been given on reliability of the data and information received?
- (11) Are appropriate targets or levels set for the chosen KPIs?
- (12) Is the information presented to governors and its sub-committees sufficiently long-term in its outlook to enable judgements over sustainability to be made?

#### **Skills, behaviours and resources**

- (13) Have governors been assured that effective risk management is embedded within the institution?
- (14) Do governors regularly give appropriate and constructive challenge to management on key areas of the institution's activity?
- (15) What action is taken if performance targets are missed?
- (16) Is there sufficient capacity within the management team and in key operational areas to deliver the strategy in the current and future environment?
- (17) Does the institution have the relevant skills and resources within management teams and the governing body to address problems as they arise?

#### **If my institution is financially stretched or facing a financial shock**

- (18) Is there regular, accurate and timely reporting to the governing body and to appropriate institutional committees of key areas including for example: research pipeline, student recruitment and cash flow projections?
- (19) How do governors ensure that the Audit Committee or equivalent is focused on key risks and focused on ensuring recommendations are implemented?
- (20) Is the existing stress testing and sensitivity analysis fit for purpose and do governors receive details of this?
- (21) Does the governing body explicitly consider the impact of the principal risks materialising?
- (22) Is the HEI resilient to the threats posed by the principal risks (or a combination of such risks) in severe but plausible scenarios?

### ***What other support is available for governing bodies?***

- 41. There is a range of training and support available for governors through the Leadership Foundation for Higher Education (LFHE).
- 42. The LFHE has developed a range of guidance and other resources to support the development and improvement of the management and leadership skills of existing and future leaders of HE.
- 43. The LFHE runs a national Governor Development Programme which offers a range of support, training, development and networking to bring together governors from across UK HE.
- 44. Other useful resources on and insight into financial sustainability issues in HE are available through the [FSSG web pages](#).

## *Additional Resources*

### **Higher Education**

Committee of Scottish Chairs (2013) [The Scottish Code of Good HE Governance](#).

Committee of University Chairs (November 2006), [Monitoring of Institutional Performance and the Use of Key Performance Indicators](#).

Committee of University Chairs (June 2008), [Report on the implementation of Key Performance Indicators: case study experience](#).

Committee of University Chairs (2014), [Higher Education Code of Governance](#).

FSSG (March 2015), [The sustainability of learning and teaching in higher education in England](#).

FSSG (September 2016), [Mind the gap – Understanding the financial sustainability challenge](#).

J M Consulting (2008), [The sustainability of learning and teaching in English higher education](#).

J M Consulting (July 2009), [Policy overview of the financial management information needs of higher education, and the role of TRAC](#).

J M Consulting (June 2011), [Assessing the sustainability of higher education institutions](#).

Research Councils UK/Universities UK (2010), [Financial Sustainability and Efficiency in Full Economic Costing of Research in UK Higher Education Institutions](#).

TRAC Development Group (June 2015), [TRAC – A Guide for Senior Managers and Governing Body Members](#).

Universities UK (February 2015), [Efficiency, effectiveness and value for money](#).

Universities UK (July 2016), [University Funding Explained](#).

### **Public Sector**

CIPFA (2015), Guide for Finance Committee Members in Academies, Colleges and Universities.

National Audit Office (March 2011), [Regulating financial sustainability in higher education](#).

National Audit Office (July 2015), [Overseeing financial sustainability in the further education sector](#).

### **Industry/Private Sector**

Financial Reporting Council (April 2016), [The UK Corporate Governance Code](#).

**All links accessed May 2017**

## Appendix 1 – The Annual Sustainability Assurance Report (ASSUR)

The ASSUR provides institutions with a basis for engaging with its governing body on matters concerning sustainability. It also provides assurance to funders.

Institutions were able to use the form below for the ASSUR to the relevant Funding Council in December 2016.

Annual Sustainability Assurance Report: December 2016

Institution..... Signed by..... Chair of Governing Body

During the last 12 months, we have reviewed the sustainability of our institution. We have assured ourselves that our academic and other strategies take account of the environment in which we expect to be operating, and are taking us in a direction where the institution and its core publicly-supported activities should be sustainable. The following elements give us assurance of this.

1. We have considered the set of key performance indicators (KPIs) as recommended by the CUC. We have identified a number of KPIs as particularly worthy of governors' attention at present and have assessed our performance against these. We will continue to monitor our performance against this set of KPIs over a period of at least 3-5 years. These include KPIs in: teaching and learning and the student experience; research (if it is a significant activity for the institution); financial health; and the average operating surplus we need in order to generate cash to invest in and manage the business for a sustainable future.
2. We have made assessments of sustainability in respect of each of these KPIs, considered other evidence, and on that basis made an aggregated institutional sustainability assessment. If any of these assessments suggest serious issues which could affect sustainability of these areas, we are planning or will plan appropriate remedial action.
3. We have a financial strategy which includes consideration of the level of cash (hence operating surplus) which we need to generate for sustainable operation.
4. Our expected average Margin for Sustainability and Investment – (MSI) is shown below, based on average Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) as a percentage of turnover, using guidance issued by the Finance Directors' group (BUFDG). We confirm that this is a realistic assessment for the institution and could inform calculation of the full economic cost of our activities.
5. We are satisfied that our process of selection of the KPIs, and our use of other data in assessing the sustainability of the institution is appropriate and rigorous, and consistent with data reported in annual financial statements; in the financial forecasts; and in the annual TRAC return.
6. If required by the funding council, we could provide more information on these KPIs and the assessments we have made.

5-year average MSI (2014-15 to 2018-19) as % of Adjusted Turnover (see notes below).	PLEASE USE ATTACHED SPREADSHEET TO CALCULATE MSI
Main non-financial KPIs used in 2016 (this is not required, but institutions which already publish KPIs, or are willing to share them here are encouraged to do so)	

The earlier version of the ASSUR included a report on the KPIs used in four main areas of performance and an assessment of sustainability in each area. Although completion of this report is not a requirement, this is a mechanism through which institutions may report on their assessment of sustainability:

	Area of performance	KPIs(s) used in each area	Target and Actual KPI	Sustainability assessment
1	Teaching and learning and the student experience	(HEIs may choose one or two KPIs, or an aggregated basket)		
2	Research outputs and sustainability	(HEIs may choose one or two KPIs, or an aggregated basket)		
3	Financial performance for sustainability  Report on performance against an institutional target for operating cash generation on a rolling 5-year basis.	Actual and forecast level of EBITDA over 5 years compared to target		
4	Financial health  Use the basket of six financial health indicators used by funding councils	<ul style="list-style-type: none"> <li>• Historical cost surplus as % of income</li> <li>• Discretionary reserves (excluding pensions) as % of income</li> <li>• External borrowing as % of income</li> <li>• Net cash flow as % of income</li> <li>• Net liquidity days</li> <li>• Staff costs as a % of income</li> </ul>		
5	Other leading area –	e.g. physical infrastructure, HR, special projects, as appropriate to the institution. Choose the KPI(s) you wish to use		
	Supplementary information	Net TRAC RFI for 2012-13 as % of income  MSI – target		

Template available from [the FSSG](#).

## *Appendix 2 – Alternative approaches to reporting on sustainability assessments*

In addition to the ASSUR, there are other tools that are valuable in making and reporting sustainability assessments. Some of the approaches used in the public and private sectors are set out below.

### **Integrated reporting**

The International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs which is seeking to establish Integrated Reporting (IR) and thinking within mainstream business practice as the norm in the public and private sectors. 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 in the short, medium and long-term.

In August 2016, the British Universities Finance Directors Group (BUFDG) published a study on IR, which provides, in its own words, a framework for an organisation "to prepare and publish a concise communication about how its 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 study argues that IR helps organisations tell their stories in a more engaging and effective way.

An integrated report can show how the institution's strategy impacts on the allocation of resources, how the institution will ensure its financial sustainability, and how the institution will measure its performance in achieving its strategic objectives.

Using IR is one approach to providing a coherent picture of the institution's approach to ensuring sustainability and how it is monitored, drawing together existing content on financial indicators, non-financial measures, commentary on public benefit, corporate social responsibility and corporate governance.

More information is included in the BUFDG study: Integrated Reporting <IR> in HE: Helping universities tell their stories better (July 2016).

### **Viability statements**

The September 2014 update of the Combined Code issued by the Financial Reporting Council (FRC) focused on the provision by companies of information about the risks which affect longer-term viability. Companies which comply with the Code now need to present information to give a clearer and broader view of solvency, liquidity, risk management and viability.

Amongst other things, the Code requires the annual report to include:

- a statement from the directors whether they considered it appropriate to adopt the going concern basis of accounting in preparing the accounts, and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- confirmation by the directors that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The directors should describe the risks and explain how they are being managed or mitigated;

- a statement from the directors explaining how they have assessed the prospects of the company (taking account of the company's current position and principal risks), over what period they have done so and why they consider that period to be appropriate. The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

**Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks Guidance for directors of companies that do not apply the UK Corporate Governance Code**

In April 2016, the FRC published the above guidance for companies that are not required to follow the UK Corporate Governance Code. It:

- encourages directors to take a broader view, over the longer term, of the risks and uncertainties that go beyond the specific requirements in accounting standards;
- acknowledges that companies will have risk management and control processes in place that will underpin the assessment and that the degree of formality of this process will depend on the size, complexity and the particular circumstances of the company; and
- uses the term 'going concern' only in the context of referring to the going concern basis of accounting for the preparation of financial statements.

## *Appendix 3 – The Transparent Approach to Costing*

TRAC is directly relevant to the sustainability debate as it records the full economic cost of all activities, including not only direct costs (such as staff costs and equipment) and support costs (such as IT, library and central costs), but also economic adjustments (the Return for Financing and Infrastructure (RFI) adjustment and the Infrastructure Adjustment) to reflect the full economic cost of sustaining activities.

TRAC data provides managers and governing bodies with valuable ‘sense checking’ of the results and enables linkages to be made between future plans and past performance at an activity level – a critical part of the sustainability assessment.

Further details are provided in a guide developed for governing body members and senior managers: TRAC: A guide for senior managers and governing body members.

### **TRAC quality assurance**

It is a requirement of the TRAC process that the annual TRAC return and charge-out rates should be subject to review and approval by a committee of the governing body. This provides reassurance to the governing body and head of institution that compliance with TRAC requirements has been achieved and provides assurance to funders on the institution’s understanding of its costs, financial sustainability and risks.

