Regulatory advice 14:

Guidance for providers for the annual financial return

Reference OfS 2019.44

General enquiries to regulation@officeforstudents.org.uk

Technical enquires to financedata@officeforstudents.org.uk

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<td>1.0</td>
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Introduction

1. This regulatory advice sets out guidance about the information that a provider is required to submit as part of its annual financial return to the Office for Students (OfS). It applies to a provider that is registered with the OfS in either the Approved or Approved (fee cap) category of the OfS register. However, where a provider is a further education college or a sixth form college under the primary regulation of the Education and Skills Funding Agency (ESFA), it is not required to submit this financial data to the OfS. For such providers, the OfS works closely with the ESFA to ensure that it is able to undertake appropriate monitoring of financial viability and sustainability.

2. The guidance is intended to help providers to understand:
   
a. The information that providers must submit to the OfS about condition D (financial viability and sustainability) to demonstrate compliance with condition D as an ongoing condition of registration
   
b. Where to find information about what a provider’s financial statements must include and other related requirements
   
c. Where to find the detailed guidance to support providers in completing the financial return workbook and commentary
   
d. Whether a provider needs to submit any additional information to the OfS about its financial performance or position or both
   
e. What data will be published by the designated data body, the Higher Education Statistics Agency (HESA).

3. The information about financial performance and position enables the OfS to:
   
a. Assess a provider’s financial viability and sustainability and make a judgement about the risk that it may breach condition D in future. This informs the mitigations that the OfS imposes on providers where the OfS identifies a higher risk of future breach of the condition.
   
b. Assess the patterns and trends in financial sustainability of registered providers at a sector level. This enables the OfS to fulfil its statutory duty under section 68 of Higher Education and Research Act 2017 (HERA).
   
c. Support evidence based policy making through provision of OfS advice to government, e.g. Department for Education, HM Treasury (the OfS won’t share forecasts of individual providers with other bodies).
   
d. Provide data relating to the last complete year to HESA for publication as an official statistic, which supports providers in benchmarking their performance against others.

   The provider will need to provide all the required information and to complete the financial return workbook in full.
4. Some of this financial data is also required and used to support the activities of UK Research and Innovation (UKRI) and Research England.

5. In preparing the audited financial statements, registered providers must refer to the relevant accounts direction:

   a. For accounting periods beginning on or before 31 July 2019, this is OfS 2018.26

   b. For accounting periods beginning on or after 1 August 2019, this is OfS 2019.41

   c. Where the OfS publishes a new accounts direction in the future, then this will apply for accounting periods beginning after the date specified in new accounts direction.

Where a provider was not subject to the OfS’s accounts direction before its registration by the OfS, it will be required to comply with the relevant accounts direction for financial years ending more than 12 months after the date of their first registration with the OfS.

6. In preparing the audited financial statements and in completing the financial return workbook, providers must refer to the Financial Reporting Standards (FRS102), or International Financial Reporting Standards (IFRS), depending on the convention used in the provider’s latest audited accounts, to ensure that it follows the correct technical accounting requirements.

7. This guidance is consistent with the finance record guidance published by HESA and does not introduce new terminology or a different interpretation of financial terms from those used previously by the OfS or the Higher Education Funding Council for England (HEFCE).

8. This guidance should be read in conjunction with the OfS regulatory framework (OfS 2018.01).

9. Providers are required to submit and sign off their annual financial return within five months of their financial year end. The annual financial return workbook should be submitted within four months of the financial year end so that the OfS can carry out data verification before sign off. Exact deadlines will be issued to providers along with the bespoke workbook that the provider needs to complete (this means that the workbook that an individual provider receives may not include every table referenced in this guidance).

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4 https://www.ifrs.org/issued-standards/list-of-standards/

10. Any general questions about this regulatory advice can be sent to regulation@officeforstudents.org.uk.

11. Technical queries about the completion or submission of the financial return workbook can be emailed to financedata@officeforstudents.org.uk.
What evidence must a provider submit and when?

Summary of evidence

12. Providers must submit the following information via the OfS portal:

<table>
<thead>
<tr>
<th>Applicable to</th>
<th>Further information from:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audited full financial statements that are compliant with the OfS accounts direction</td>
<td>All providers</td>
</tr>
<tr>
<td>Financial return workbook</td>
<td>All providers</td>
</tr>
<tr>
<td>Commentary in relation to the financial return workbook</td>
<td>All providers</td>
</tr>
<tr>
<td>Business plan</td>
<td>Required in some circumstances (where a provider has a track record but is not able to demonstrate that it is financially viable and sustainable using its audited financial statements) This is optional for other providers</td>
</tr>
<tr>
<td>Audited financial statements from the legal entity giving the legally binding obligation of financial support</td>
<td>Providers that have a legally binding obligation of financial support</td>
</tr>
</tbody>
</table>

13. For some registered providers, the OfS may have imposed enhanced monitoring or a specific condition of registration about condition D or the provider may submit a reportable event to the OfS that affects its financial viability and sustainability. In these cases, the provider will need to provide more information, or to update existing information, than is set out in the table in paragraph 12.

Timing of submissions and action required

14. The annual financial return workbook must be submitted within four months of the provider’s year end. The data returned for audited years should be finalised at this point, with all

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6 Further guidance on how to submit the information to the OfS portal will be issued separately to this document.
workbook validation checks passed for these years. You should also include forecast data although it is expected the data for forecast years may not be finalised at this point. It is the responsibility of the provider to ensure the data is accurate and credible.

15. In order to mitigate the risk of the OfS receiving inaccurate data, the OfS will then issue verification queries on the submitted data, which providers are expected to respond to. This will be an iterative process and providers may need to correct their tables.

16. Within five months of the provider’s year end, the following actions must be completed:

   a. All data verification queries have been responded to by the provider.

   b. The annual financial return workbook has been finalised, including forecast information, with validation checks completed (see paragraph 38 and 39 for guidance on data accuracy and validation).

   c. The remaining information in the table in paragraph 12 has been submitted.

   d. The OfS requires that financial forecasts, commentary (and business plan if applicable) are approved by the providers governing body prior to submission. Thee sign off form generated after all of the above have been completed is signed by the accountable officer.

17. Providers will be informed of the exact deadlines in advance of the submission period. Adjustments will be made to the submission timeframe where the month before final sign-off and submission includes Christmas or Easter.

**Signing off the annual financial return**

18. Once all of the actions in paragraph 17 have been completed, we will ask for the entire annual financial return to be signed off by the provider’s accountable officer.

19. The sign off form will be available to download on the OfS portal, along with the final versions of all of the documents submitted for the provider. Please check that all documents are final. The accountable officer will need to sign this form, which should then be uploaded to the OfS portal.

20. Under condition of registration F3, a provider must provide the OfS with the information the OfS specifies at the time and in the manner and form specified. All providers (who are not a further education or sixth form college) must submit an annual financial return to the OfS.

21. The annual financial return signed off as correct by the provider’s accountable officer is expected as the final suite of documents that we will use. Amendments will only be accepted after this point in exceptional circumstances, or where errors make a material difference to our use of the information. This will be determined through an amendment process.7

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22. Providers are reminded that material changes to historic or forecast financial data or performance following this financial submission are considered a reportable event. Reportable events must be reported to the OfS under condition F3(i).8

Audited financial statements

23. Providers must submit financial statements that have been audited by independent external auditors. By ‘independent’ the OfS means independent of the provider and independent of the preparer of the accounts and the financial statements. The external auditor must also be listed on the Register of Statutory Auditors.

A provider must submit audited financial statements to the OfS, regardless of whether this is an existing legal requirement or whether it has exemption from filing audited accounts at Companies House or with the Charity Commission due to its size or legal form.

The OfS requires financial statements to be audited by an independent external auditor (see below) before submission so that the OfS can have confidence in the information that the provider submits.

If a registered provider submits unaudited financial statements in its annual financial return, then the OfS will be unable to consider this information and may consider the provider to be in breach of ongoing conditions of registration E3 and F3.

24. Providers’ audited financial statements for each year must be prepared on the basis of the FRS 102, or the IFRS (if applicable) and include all of the following:

- a ‘Statement of financial position’ (balance sheet)
- a ‘Statement of comprehensive income’ incorporating profit or loss for the period and items of other comprehensive income
- a ‘Statement of changes in equity’ or a ‘Statement of income and retained earnings’ or a ‘Statement of changes in reserves’
- a ‘Statement of cash flows’
- a “Statement of principal of accounting polices’
- notes to the financial statements.

8 See Regulatory advice 16: reportable events (https://www.officeforstudents.org.uk/publications/regulatory-advice-16-reportable-events/)
Some providers do not need to include for statutory purposes (company law) all of the components set out above in their financial statements due to their size or legal form. However, a provider’s audited financial statements must contain all of the components set out above regardless of whether this is a legal requirement for its business or whether it has an exemption from including certain components (such as cash flow statements) in the accounts that it files with Companies House.

This is so that the OfS has a full picture of the provider’s financial performance and position and can make an appropriate, fair and reasonable assessment of the provider’s financial viability and sustainability.

If a registered provider submits financial statements to the OfS as part of its annual financial return that do not contain all of the components set out above, then this may be a breach of ongoing conditions of registration E3 and F3.

25. The external auditor must provide a report giving an opinion to the governing body, or equivalent. Requirements in relation to this report are set out in the relevant OfS accounts direction.

26. It may be the case that a provider gives a trial balance\(^9\) to its external auditor and that the external auditor then places the financial data from the trial balance into a template to produce the provider’s financial statements. As long as the provider, and not its external auditor, prepares the trial balance and approves any changes to the numbers in the financial statements that arise as a result of the external audit, then the OfS will consider the external auditor to be independent of the preparation of the provider’s financial statements.

27. The audited financial statements must be correctly signed – the relevant OfS accounts direction sets out the requirements for signature.

28. The external auditor must sign the report to the governing body that is included in the financial statements.

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\(^9\) The trial balance is a list of all the closing balances of the all of the accounts in your general ledger.
If a registered provider submits financial statements to the OfS in its annual financial return that are not signed by the external auditor or for which the external auditor’s opinion does not cover all of the pages in the financial statements, then this may be a breach of ongoing conditions of registration E3 and F3.

**Business plan**

29. A business plan that sets out a provider’s plans for the same period as the financial return workbook:

a. Must be submitted where a provider has delivered higher education for fewer than three years (track record) prior to the date of its annual financial return.

b. May be submitted where a provider has a track record but is not able to demonstrate that it is financially viable and sustainable using its audited financial statements.

30. If a provider submits a business plan, the OfS will consider this alongside the financial return workbook and commentary. The business plan must include robust and well-evidenced assumptions that underpin the financial forecasts in the financial return workbook. The forecasts must be credible and show:

- over what period the provider will become financially viable and sustainable and how it will achieve this
- how the provider will manage its finances over the period before it is viable and sustainable (its sources of financial support during this period)
- how the provider will use its resources over this period to deliver a high-quality student experience
- what contingency plans the provider has in place should unexpected financial challenges arise during this period.

31. Providers can submit a business plan in any format as long as it includes the information set out above.

**Financial return workbook**

32. The workbook requires providers to give historic and forecast information about the provider’s financial performance and position, along with student number information. This enables the OfS to assess financial viability and sustainability and make a judgement about providers’ financial risks. Providers will need to complete the workbook in full.

33. Providers must submit historic financial data consistent with their audited financial statements and forecasts to the OfS in the financial return workbook. Registered providers that are completing the workbook to meet monitoring requirements must download the workbook from the OfS portal and upload the workbook using the portal once completed.
34. The OfS has published an example template workbook on the OfS website together with detailed guidance explaining how to complete the tables. The tables collected as part of the financial return workbook are summarised below (see the ‘Use and publication of financial data’ section).

35. The information contained within the financial return workbook guidance is intended to help providers to understand what they should include in each line. In completing the workbook, providers should refer to FRS102 or IFRS, depending on the convention used in their latest audited accounts, to ensure that they follow the correct and consistent technical accounting requirements.

36. The financial return workbook has been designed to ensure that the OfS can collect data from a diverse range of providers with differing levels of organisational complexity. We recognise that some elements of the workbook (for example those relating to research income and expenditure) will not be relevant to the activities of some providers, so where possible, we have adapted the workbook for different types of provider, to show only relevant areas of the table.

Data accuracy and validation

37. The accuracy of data is the responsibility of providers. The return of inaccurate data to the OfS may be a breach of ongoing registration condition F3, indicating inadequate management and governance oversight of the provider, and adversely impacting on the OfS’s judgement of the provider’s compliance with ongoing registration conditions E2 and E3.

38. Providers must check that they have entered the data into tables correctly to ensure that they are returning accurate data. The financial return workbook contains a number of validation checks below each table to help identify errors or discrepancies. You should review these validation checks once you have populated your financial return workbook. Further details of the validation checks (displayed separately as errors and warnings) and how to resolve them are available separately to this guidance.

39. When a financial return workbook is uploaded to the portal, a workbook containing data verification queries will be available to download. In order to mitigate the risk of the OfS receiving inaccurate data, providers should review each of the queries and submit their responses to the portal. The OfS will then review the responses and communicate any further queries with the provider. In order to carry out this process, providers are required to submit their initial financial return workbook within four months of their financial year end. Data verification will then be carried out over the following month until the five month final submission deadline. Further details of the data verification process are available separately to this guidance.

Use and publication of financial data

40. The OfS collects and manages financial data from providers and will use it in accordance with purposes set out in the regulatory framework and the Higher Education and Research Act 2017.
41. The OfS is committed to protecting personal information and being clear about the information held and how it is used. The OfS has published a privacy notice describing this on its website.

42. Specifically in relation to the financial data, the collection, processing and publication of information on senior pay and severance payments is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in the Controller (See GDPR Article 6(1)(e)) and for statistical and research purposes (See GDPR Article 89).

43. The OfS also recognises that providers' financial forecast data, student number forecast data, financial assumptions and commentary information are commercially sensitive. Ordinarily, this data will not be published or shared outside the OfS at a provider level. We may share appropriately aggregated data with other bodies, but in doing so we will ensure that the identity of individual provider data is not ordinarily disclosed. The Freedom of Information Act (FOI Act) 2000 allows everyone the right to request access to all types of information held by public bodies, such as the OfS. If we receive a freedom of information request relating to individual provider data, we will always seek the views of the provider on disclosure.

44. The functions of the designated data body, HESA, include the publication of appropriate higher education information (section 65 of HERA). The OfS has determined that some financial data is information the designated data body should publish. This is consistent with HESA’s annual publication of financial data for education providers across the UK and other stakeholders as an official statistic.

45. The OfS will transfer some financial data, including data on senior pay and severance payments, only relating to the audited financial years (Years 1 and 2) to HESA for the purpose of publication as official statistics and consolidation and comparison with other UK-wide financial data. Details of exactly which data will be transferred is set out in the table below.

46. The accounts direction requires providers to publish (in their financial statements) certain information on the head of provider and the salary and benefits they received and any other detail on highly paid staff and compensation/severance payments made for loss of office in their financial statements. This information is also collected by OfS in these tables and will be shared with HESA, who publish it as open data alongside other financial information about HE providers. The Legal basis for HESA processing financial information about staff pay, compensation and benefits is set out in HESA's staff collection notice under purpose 6: (https://www.hesa.ac.uk/about/regulation/data-protection/notices).

47. The following table sets out the data for years 1 and 2 only that will be transferred to HESA for publication as open data, at an individual provider level. (Note that no data will be transferred relating to forecast years, 3 to 7.)
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<thead>
<tr>
<th>Table</th>
<th>Table description</th>
<th>Which elements will be transferred to HESA for publication?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Consolidated statement of comprehensive income and expenditure</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 2</td>
<td>Consolidated balance sheet</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 3</td>
<td>Consolidated statement of cash flows</td>
<td>All data transferred to HESA for publication, except for sections 10 and 11</td>
</tr>
<tr>
<td>Table 4</td>
<td>Analysis of income</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 5</td>
<td>Analysis of income – Research grants and contracts – breakdown by source of income and HESA cost centre</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 6</td>
<td>Analysis of income - Course fees and education contracts analysed by domicile, mode, level and source</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 7</td>
<td>Student numbers (FTE)</td>
<td>Not transferred to HESA</td>
</tr>
<tr>
<td>Table 8</td>
<td>Analysis of expenditure - breakdown by expenditure activity and HESA cost centre</td>
<td>All data transferred to HESA for publication</td>
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<tr>
<td>Table 9</td>
<td>Analysis of expenditure - staff costs</td>
<td>All data transferred to HESA for publication</td>
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<tr>
<td>Table 10</td>
<td>Analysis of expenditure - severance payments</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 11</td>
<td>Head of provider remuneration</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 12</td>
<td>Analysis of capital expenditure</td>
<td>All data transferred to HESA for publication</td>
</tr>
<tr>
<td>Table 13</td>
<td>Financial commitments drawn and commitments agreed with lender but not yet drawn down</td>
<td>Not transferred to HESA</td>
</tr>
<tr>
<td>Assumptions</td>
<td>Assumptions and impact of forecast changes</td>
<td>Not transferred to HESA</td>
</tr>
<tr>
<td>Financial commentary</td>
<td>Commentary supporting the financial workbook</td>
<td>Not transferred to HESA</td>
</tr>
</tbody>
</table>