



Integrated Reporting

<IR>

in HE



Helping universities tell their stories better

FOREWORD

Universities are extraordinary, diverse, and unique organisations. They are places of education, but they are also the crucibles for researchers and innovators to create, share and curate the world's knowledge. They are major employers, drive local and national economies and are also valued sources of expertise. They can often be town-sized communities and have a wide and complex web of stakeholders and influence, reaching around the globe, from centuries past to the generations of the future. They are a source of leadership and have a multitude of roles such as partners, advisers, custodians, carers, counsellors, assessors, and much, much more.

Unfortunately, despite, and perhaps because of, their diversity and complexity, universities have tended to be poor at communicating the roles they play and the value that they add to the lives of the people who engage with them, and to the wider society they are part of. They haven't always been very good at capturing that complexity and explaining it; at telling the stories that matter in a memorable way to the people who need to hear them.

Finance directors have an opportunity to make a difference here. We know that our universities' annual reports can tell a part of that story but they have traditionally been dry or impenetrable to non-specialists. The reports sometimes fail to make obvious the connections between a university's finances and its activities and sustainability, or how its financial status, decisions or governance can help it achieve its aims or carry out its strategy.

The Integrated Reporting <IR> framework offers an opportunity for universities to develop their annual reports from unremarkable repositories of financial information into engaging, enlightening, and even surprising tales of a university's hopes, successes, failures, and values. An Integrated Report can find an audience beyond just regulators or governors, and become a useful tool for a wider range of stakeholders to gain a deeper understanding of a university's performance, plans, and prospects.

This short study – a snapshot of reporting at seven universities – shows that while some universities are starting to report in far more integrated ways, even the best examples have room for improvement. At the same time, even those reports that fall far short of the <IR> standards contain many of the elements that would make up an Integrated Report, just in a truncated way, and without drawing the connections between them.

The good news from this study is that, to move towards the <IR> standard, universities don't necessarily need do a lot more work behind the scenes. Much of the information is already there. What's needed are fresh eyes, critical analysis, and a creativity to draw out the narrative from the figures, and tell the story of the university with the clarity and energy that the university, and its stakeholders, deserve. With the adapted <IR> framework as well as the study's detailed recommendations, this report provides universities with ideas not just about where to go, but the steps to take to get there.

We hope that universities find this a useful resource, and we look forward to following and supporting their journeys towards <IR> in subsequent projects.

Phil McNaull
Chair

British Universities Finance Directors Group



EXECUTIVE SUMMARY

We want universities to tell better stories

Telling stories is important. Stories are how we share information. They are how we communicate with each other. They are how we get our message across. Integrated Reporting helps organisations tell their stories better by providing a framework for talking about themselves in an engaging and insightful way.

Universities have a compelling story to tell and it is more important now than ever before that they explain clearly to staff, students and society the importance of what they do. This project assesses how well universities tell their stories, and sets out what we found.

How we've approached the challenge

We have taken as our starting point the Integrated Reporting framework that has been developed by the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs. We have then interpreted and 'abridged' this framework in the light of the specific circumstances and needs of the Higher Education sector in the UK (see Appendix 2).

One change we have made is around terminology. Where the Integrated Reporting framework talks about the 'capitals' that organisations use to create value, we refer instead to their financial, intellectual, human and natural resources. Another is that, due to our focus on one particular sector, we have been more specific on certain points where the Integrated Reporting framework is more general. As an example, when discussing business models on page 19 of the report, we consider the IIRC's requirements and suggest that universities should explain how their business model contributes to the generation of sustainable income streams.

Finally, we have reviewed a small number of institution's annual reports and have assessed them against the abridged framework.

Integrated Reporting can help us

An Integrated Report says who we are and where we are going. The Integrated Reporting website (www.integratedreporting.org) says it is "a concise communication about how an organisation's strategy, performance and prospects ...lead to the creation of value over the short, medium and long term".

It looks at both style and substance. The Integrated Reporting framework sets out a suite of Guiding Principles and Content Elements¹ that form the backbone of an Integrated Report. Furthermore, an Integrated Report should be a pleasure to read. And it is very different from what universities have done in the past.

We can tell our stories more effectively

While some institutions have taken good first steps, most of the universities we assessed do not yet prepare Integrated Reports. With some exceptions, the institutions' annual reports are simply a presentation of their financial statements. Unless the reader knows how to read the numbers, such reports don't do the story justice. There are some simple actions that they can take to get better.

This report shows how university annual reports can benefit from focusing on the Guiding Principles outlined in the Integrated Reporting framework. This includes adopting a more strategic and forward-looking focus for the reports, providing a more comprehensive picture of the institution's activities and performance, and doing more to show the institution's relative position and role, and its impact on society and the environment.

Inclusion of the Content Elements is varied. Most reports include information on governance and risk management. More consideration is needed, though, of institutions' basic organisational structures, activities and business models. Reports would also benefit from a better explanation of institutions' aims, strategies and performance.

And all the reports studied could be made more compelling and fun to read.

This is just the start

We have set out in this report some ways in which institutions can improve their annual reports and embrace the guiding principles and content elements of Integrated Reporting. And BUFDG will be here to help, with this and further projects over the coming months.

We hope that you will find this report and abridged framework thought-provoking and useful. By exploring what it means for our own sector, we want you and your institution to realise the benefits that Integrated Reporting can yield.

We welcome your views on the use of terminology as well as the framework we are developing. Institutions can find the original Integrated Reporting framework and other resources, and more about the work of the IIRC, at www.integratedreporting.org

¹The guiding principles and content elements are explained in the assessment framework in Annex 2 (Page 30).



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1

WE WANT TO HELP UNIVERSITIES TELL THEIR STORIES BETTER

1.1 Telling engaging stories is important

Everyone loves a good story. From the moment our ancestors first sat around the campfire and shared tall tales of epic mammoth hunts and daring forays into new territory, we have been captivated by the power of a strong narrative, a twisting plot and larger than life characters.

Stories are how we share our experiences with others. They are how we communicate the things that are important to us. They are how we show the world who we are.

Yet when it comes to the workplace, we shy away from telling stories. We jostle data into tables and charts. We fire out bullet point lists. We assail the world with slide packs and performance dashboards.

Sure, all of these have their place. But they are not memorable. They do not engage or entertain. And they do not tell our stories.

1.2 Integrated Reporting helps us to tell our stories better

Integrated Reporting, or <IR>, provides us with a way to tell our organisations' stories in a more engaging and more effective way. It has been developed by practitioners from around the world and looks at the stories that organisations tell and how they tell them.

The British Universities Finance Directors Group (BUFDG) is currently undertaking a series of projects to help universities to tell their own engaging, enlightening stories through the use of Integrated Reporting.

1.3 Universities need to get better at explaining what they do

UK universities have a fantastic story to tell. They train and develop the next generation of scientists, artists, historians and engineers. They conduct research at the cutting edge of human understanding, from the development of ground-breaking medical treatments to the discovery of new forms of matter. They work in collaboration with industry and engage with individuals and groups across society. And they do so while driving economic growth and improving the efficiency and effectiveness of their activities.

Getting this message across is more important now than ever before. The austerity agenda increases pressure on universities to demonstrate the benefit from public investment in their activities. Tuition fee-paying students are becoming ever more discerning in their choice of where to study. And with the abolition of most student number controls and the entry into the market of alternative providers of higher education, competition for students and funding is intense.

Yet when it comes to reporting, we are missing an opportunity. For many institutions the only public reporting of financial and non-financial performance is a set of financial statements, prepared but then hidden away in a cobweb-strewn corner of the internet. They meet regulatory requirements but they are boring. Hardly anyone reads them. And they really do not do justice to our universities and their achievements.

We need to tell our stories. And we need to tell them well. We need to tell our students, our funders and our supporters what we are doing and how well we are doing it. We need to share our aspirations and our achievements, our challenges and our triumphs. We need to use our reporting to engage, to entertain and to inspire.

1.4 We have looked at how well universities tell their stories

In this project, we have used the Integrated Reporting framework to assess the annual reports published by a small number of varied volunteer Higher Education Institutions in England, Wales and Scotland. Viewed together, these institutions are broadly representative of the sector as a whole.

We have used our assessment to understand how institutions currently report on who they are, what they do, how well they are doing it and where they hope to be in the future.

We set out in this report what these institutions are doing well in terms of reporting. We explore where they could do better. And we set out our thoughts on how institutions across the sector could use Integrated Reporting to improve how they tell their own stories.

We set out more details of our approach and of the assessment framework in the annexes to this report.

1.5 And we are very grateful to everyone who has helped us

We are extremely grateful to those institutions that kindly allowed us to review and assess their annual reports and who provided us with feedback on our assessments. The institutions are Bangor University, the University of Edinburgh, Falmouth University, the University of Leicester, London Metropolitan University, Newcastle University, and the Royal Academy of Music. Their annual reports are publicly available from their institutional websites. We would also like to thank everyone else who has contributed to this project and to the development of our report.



2 INTEGRATED REPORTING CAN HELP UNIVERSITIES

2.1 An Integrated Report says who we are and where we are going

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

The Integrated Reporting framework has been developed by the International Integrated Reporting Council (IIRC), which is a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs.

The framework aims to:

- improve the **quality of information** available about organisations, their activities and their performance;

- promote a more **cohesive and efficient approach** to reporting that encompasses the full range of factors that affect an organisation's ability to create value over time;
- enhance **accountability** for and **stewardship** of financial, intellectual, human, social, natural and other resources; and
- support **integrated thinking, decision-making and actions** that focus on the creation of value over the short, medium and long term.

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

2.2 It looks at both style and substance

The Integrated Reporting framework focuses on two things: guiding principles and content elements. To this, we have added a third: readability.

The 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.

Strategic focus and future orientation	An Integrated Report should provide insight into the institution's strategy, and how it relates to the institution's ability to create value in the short, medium and long term and to its use of and effects on resources.
Connectivity of information	An Integrated Report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the institution's ability to create value over time.
Stakeholder relationships	An Integrated Report should provide insight into the nature and quality of the institution's relationships with its key stakeholders, including how and to what extent the institution understands, takes into account and responds to their legitimate needs and interests.
Materiality	An Integrated Report should disclose information about matters that substantively affect the institution's ability to create value over the short, medium and long term.
Conciseness	An Integrated Report should be concise.

Reliability and completeness	An Integrated Report should include all material matters, both positive and negative, in a balanced way and without material error.
Consistency and comparability	The information in an Integrated Report should be presented (a) on a basis that is consistent over time and (b) in a way that enables comparison with other institutions to the extent it is material to the institution's own ability to create value over time.

The content elements

An Integrated Report includes the eight content elements, which help to provide a holistic view of an organisation's strategy, governance, performance and prospects.

Organisational overview and external environment	What does the institution do and what are the circumstances under which it operates?
Governance	How does the institution's governance structure support its ability to create value in the short, medium and long term?
Business model	What is the institution's business model?
Risks and opportunities	What are the specific risks and opportunities that affect the institution's ability to create value over the short, medium and long term, and how is the institution dealing with them?
Strategy and resource allocation	Where does the institution want to go and how does it intend to get there?
Performance	To what extent has the institution achieved its strategic objectives for the period and what are its outcomes in terms of effects on resources?
Outlook	What challenges and uncertainties is the institution likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?
Basis of presentation	How does the institution determine what matters to include in the Integrated Report and how are such matters quantified or evaluated?

Readability

An Integrated Report can be understood easily by the reader and is a pleasure to read.

It should be structured clearly, with a good narrative flow. It should also be written in clear language, with technical terms defined

appropriately and used only when necessary. And it should include things like case studies to bring the organisation to life.

Furthermore, the report should make good use of tables, figures, images and other visual aids to understanding. It should go beyond the mere presentation of information. The report should engage the reader and guide him or her through its pages.

Most importantly, though, an Integrated Report should tell a riveting story. It should capture the reader's attention and hold it right to the very end. And it should be a joy to read.

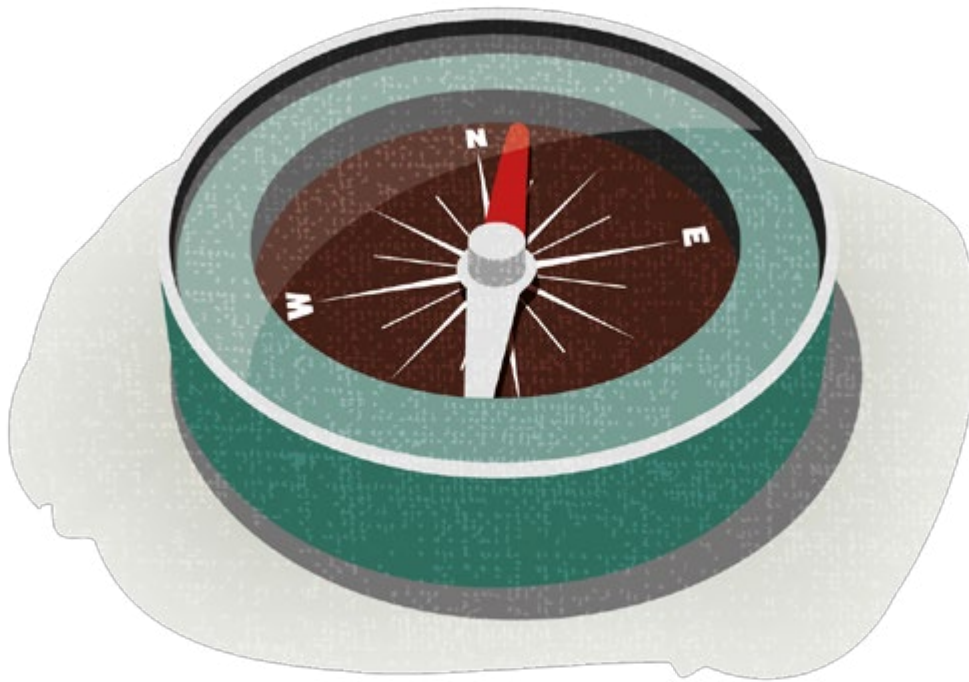
2.3 And it is very different from what we have done in the past

An Integrated Report looks – and, indeed, is – very different from a simple set of financial statements.

Here are some of the main differences.

A set of financial statements...	An Integrated Report...
Is focused on the previous financial period, usually a year.	Reviews past and current performance, but is focused on the future.
Looks mainly at the institution's financial performance.	Provides a holistic view of the institution's strategy, governance, performance and prospects.
Shows how the institution generates a surplus or deficit.	Shows how the institution creates value.
Is focused on the institution itself.	Also identifies the institution's stakeholders and explains how they help it to create value.
Looks at the institution in isolation.	Explores the environment in which the institution operates and the external issues that it faces.
Outlines the institution's governance arrangements.	Explains how the institution's governance arrangements help it to create value.
Sets out the institution's main sources of income.	Sets out the institution's business model, including how its principal activities generate income, achieve the institution's strategic aims and create value.
Lists the main risks that the institution has identified.	Lists the main risks that the institution has identified, assesses their potential impact on its ability to create value and explains what the institution is doing to manage them. Oh, and it looks at opportunities, too.

A set of financial statements...	An Integrated Report...
Says that the institution has a long term strategy.	Sets out the institution's strategic objectives and describes the plans it has in place to achieve them. Shows how the institution seeks to differentiate itself from its peers. Explains how the strategy impacts on the allocation of the institution's resources and how the institution will ensure its financial sustainability. Shows how the institution will measure its performance in achieving its strategic objectives.
Provides information about the institution's financial performance.	Provides a balanced and complete view of the institution's performance, covering strategic, financial, people and environmental issues. Shows the effect that this performance has had on the institution's financial, intellectual, human and natural resources.
Says whether the institution will continue to operate as a going concern.	Sets out the challenges that the institution anticipates facing in the future, the impact that these challenges will have on the institution's ability to achieve its strategic objectives, and how well equipped the institution is to respond to these challenges.
Is rather heavy on numbers and rather light on engaging narrative.	Contains a balance of qualitative and quantitative information, supplemented with a range of charts, figures, maps, images and other visual elements.
Consists of a somewhat disjointed set of statements, designed to meet regulatory requirements.	Is well-structured and is designed to tell the institution's story in a clear and compelling way.



3 UNIVERSITIES CAN DO MUCH MORE TO TELL THEIR STORIES MORE EFFECTIVELY

3.1 Most universities do not yet prepare Integrated Reports

It is evident from our work that very few universities currently prepare Integrated Reports. Most of the annual reports that we reviewed are simply the institution's regulation financial statements, sometimes with a colourful cover and an introduction from the Chair or Vice Chancellor, though sometimes without even that.

As one would expect, these annual reports and financial statements follow a standard and predictable format. They contain a series of narrative commentaries, the primary financial statements and the notes to the accounts. So far, so normal. Though not very interesting. And most certainly not Integrated Reports.

But all is not lost. Some institutions have done something different. Their reports explain to readers what the institution is, what it does

and what its plans are for the future. The reports are insightful, informative and comparatively fun to read.

Universities need to think about how to make their reports appear more inviting to read.



Source: Newcastle University, University of Edinburgh, London Metropolitan University

3.2 We need to focus more on the guiding principles

Most institutions have yet to embrace the guiding principles of Integrated Reporting. In fairness, this might be because the traditional format in which institutions prepare their financial statements does not lend itself ideally to the more strategically-focused nature of Integrated Reporting. But it does not mean that institutions should not strive to improve the information they report and the way in which they report it.

The reports that we reviewed have, in general, a rather limited **strategic focus and future orientation**. They are long on financial information pertaining to the previous year, but short on insight into how the institutions seek to create value in the short, medium and long term. They also do little to explain how the institutions use their financial, intellectual, human and natural resources to achieve their strategic aims. There are, however, exceptions. One institution, in particular, sets out in detail how it uses the skills and experience of its academic

and professional services staff, its campus facilities and its financial resources to educate the next generation of students, to undertake ground-breaking research and to support the development of the local economy. It describes where it is now and where it wants to be in the future. It explains how it proposes to get there, and does so with conviction and enthusiasm.

An Integrated Report explains how an institution uses its resources to achieve its strategic aims.

06 Annual Report and Accounts 2014/15

Strategy and value model

The University's strategic model
Our approach to achieving our strategic goals is shaped by six strategic themes.



Our mission

The mission of the University is the creation, dissemination and curation of knowledge. As a world-leading centre of academic excellence we aim to:

- enhance our position as one of the world's leading research and teaching universities and to measure our performance against the highest international standards;
- provide the highest quality learning and teaching environment for the greater wellbeing of our students, and deliver an outstanding educational portfolio;
- produce graduates fully equipped to achieve the highest personal and professional standards; and
- make a significant, sustainable and socially responsible contribution to Scotland, the UK and the world, promoting health, economic growth and cultural wellbeing.

Source: University of Edinburgh, Annual Report and Accounts; p6.

There is comparatively little evidence of **connectivity of information** in the reports that we reviewed. In particular, the reports struggle to provide a complete and holistic view of the institutions' strategy, governance, performance and prospects. Institutions that perform well here go beyond the presentation of mere financial information to look at a broader range of issues, such as student recruitment and satisfaction. But they could go further. For example, none provide information on student retention and attainment, staff satisfaction or research performance (other than a few Research Excellence Framework scores).

Information on **stakeholder relationships** is the Achilles heel for all of the institutions whose reports we reviewed. While some identify

students, staff and the local community as key stakeholder groups, none explain the role of these groups in helping the institution to create value. And few attempt to show how they engage with these stakeholders and how the university seeks to identify and respond to their needs.

The **materiality** of the information presented in the reports is harder to assess. While most reports present information about matters that appear significant to the institution, there is frequently no explicit link made between the information given and the institution's ability to create value or its strategy, governance, performance and prospects. This is not to say that there is no link, of course. It's just that it isn't evident from the reports. Consequently, the information in the reports provides less insight into the life of the institution than could otherwise have been the case.

The issue of **conciseness** is a relative one. None of the reports we reviewed are particularly short. But it is not the length of the reports that interests us here. It is whether institutions manage to present the information that they wanted to include without surrounding it with waffle or resorting to generic statements and disclosures. And, in general, they have done a reasonable job. In fact, our main criticism here would be that some reports are too concise, in that they do not contain enough information to allow us to gain an insight into the institution's activities.

The **reliability and completeness** of the reports is a delicate issue. There is, of course, no indication that the information contained in the reports is anything but credible and free from error. However, it is not clear in several cases whether the reports present a balanced and complete view of the institution's strategy, governance, performance and prospects. They almost invariably set out a long – and often slightly overwhelming – list of achievements and successes in the year. There is scant mention of challenges, failures or areas where more work is required. The reality may be that the institutions in question have only successes to report, and have hit all of their targets – but this is unlikely to be the case.

The notable exception here is one institution that is remarkably candid in discussing its problems with poor student recruitment. Far from shooting itself in the foot by disclosing this information, it is able to explain what the issue is, how it has come about and what the institution is doing to address it. While this is not the sort of information that has traditionally been presented in annual reports, the institution is able to use it as an example of how it is working proactively to achieve success within a challenging environment – exactly what Integrated Reporting is all about.

An Integrated Report gives a balanced view of performance and allows institutions to explain how they are addressing the challenges that they face.

Student numbers

Student numbers, taken from the returns submitted to the Higher Education Statistics Agency (HESA) in the autumn of each academic year are shown in the table below, expressed as full person equivalents.

	2014-15	2013-14	2012-13
Full Time (Home/EU)	10,277	12,434	13,347
Full Time (Overseas)	551	543	957
Part Time	3,258	3,297	3,833
Total	14,086	16,274	18,137

The University saw a drop in student numbers for 2014-15 due to a number of factors. Re-growth of our international student base has been much slower than expected and we face growing competition in our home and EU student market as a result of loosening by government of Student Number Control.

Recruitment for both undergraduate and postgraduate home students was down on 2013-14. Postgraduate courses with professional accreditation remain strong as does the Undergraduate offering at Year 0 / Level 3.

Source: London Metropolitan University, p. 20.

The reports we assessed are certainly **consistent**. After all, most institutions use the same template for their annual reports and financial statements and have done so for years. The **comparability** of these reports, however, is less than one would expect. If it is fixed asset values or liquidity data that one is interested in, then of course the reports provide this sort of information. But if the reader wishes to compare performance in student attainment, research performance, strategic positioning or anything other than financial performance, then these reports are of little use.

3.3 Inclusion of the content elements is variable

Some content elements of Integrated Reporting are evident in all of the reports that we reviewed. However, other content elements are less consistently present. And a couple are almost universally absent or presented only incidentally. Preparing Integrated Reports that address all of the content elements will be challenging for most institutions, as it requires them to disclose and discuss information that has not traditionally been set out explicitly in their published documents.

We expected that **organisational overviews** and some details of the **external environment** in which the institution operates would form the mainstay of the annual reports. Surprisingly however, very few reports contain even a basic overview of the institution and its activities. Furthermore, information on academic or professional services structures is absent in all but one case. Where quantitative information on student and staff numbers, income streams and academic performance is presented, it is done so sporadically throughout the report.

All of the reports include a section on **governance**. They set out the institution's governance structures and explain the roles of the different individuals and committees with governance responsibilities. In most cases, though, these sections are extremely dry and draw heavily on generic wording. And while these reports explain how the institutions' governance arrangements work, they do little to explain how these arrangements help the institutions to create value or to achieve their strategic objectives.

There is one exception, though. In this case, the institution includes detailed information on the actions that its main governance committees have taken over the year and how these have contributed to its achievements and performance. However, even in this case there is room for improvement. Information on the skills and diversity of those charged with governance would strengthen the report further, as would greater discussion of the respective roles of executive and non-executive members of the leadership team.

An Integrated Report explains how the institution's governance arrangements work and how they help to create value.

Committee activities 2014/15

Audit and Risk Committee Convener: Lay Member of Court

During 2014/15 the Audit and Risk Committee was responsible for reviewing the University's annual report and financial statements and any changes to accounting policies and advising the Court accordingly. In addition, the Committee received regular reports from the Internal and External Auditors which included recommendations for improvements in internal control and management's responses and implementation plans. It also had explicit responsibility for advising on the effectiveness of the University's risk management arrangements.

In addition to routine business, items of note considered by the Committee include the following:

- Oversight of preparations for the implementation of FRS 102, including approval of revised accounting policies; and
- Consideration of IT security, the dynamic nature of emerging risks and the development of updated policies and procedures to mitigate this.

Estates Committee

Convener: Vice-Principal Planning, Resources and Research Policy

The Estates Committee oversees the preparation, review and implementation of the University's Estates Strategy and its links to corporate and other business plans. It also oversees the University's property portfolio transactions (acquisitions and disposals), matters relating to estate developments and considers reports on progress through the Gateway process. It considers and approves all major capital projects and advises on significant matters related to the amount and deployment of Estates and Buildings recurrent budget, and operational matters across Colleges and Support Groups.

In addition to the above, the Committee progressed and reviewed estate visioning work to 2025, preparing material including an estate development programme to help inform the 2015-2025 estates strategy update.

Exception Committee

Convener: Vice-Convener of Court

Items of particular note considered by the Exception Committee include:

- The establishment of Court Sub-Groups to consider the University's response to proposed changes to the USS pension scheme; and
- Consulting and assisting with the process to secure external loan funding, in line with the new University Finance strategy.

Source: University of Edinburgh, p. 35.

The Integrated Reporting framework asks organisations to provide details of their **business model**, including what their main activities are, how they help the organisations to achieve their strategic aims, how they draw on the organisations' resources and how they contribute to the generation of sustainable income streams. This is not something that features to a noticeable degree in any of the reports that we reviewed.

It may be that institutions take it for granted that readers of their reports know what they do and how they generate income to support their activities. Or it might be that they shy away from making explicit the fact that they have to make money in order to survive, or that some streams of income are used to cross-subsidise other 'un-related' areas of expenditure. But if institutions wish to showcase their value

to their students, staff and society, they must explain much more clearly what the value is and how they create it.

The management of **risks and opportunities** is something that is embedded into the culture of most institutions. Perhaps for this reason, the topic of risk frequently merits a section of its own in the reports we reviewed. Often though, this is little more than simply a list of the main risks identified by the institution. The better reports go further, explaining the potential impact of these risks and discussing how the institution is seeking to manage them. This is much more in the spirit of Integrated Reporting. In all cases however, a similar focus on potential opportunities, seen within Integrated Reporting as the flipside of risk, would make the reports even better.

We mentioned above that the reports that we reviewed have, in general, a rather limited strategic focus. And when it comes to **strategy and resource allocation**, some reports just state that the institution has a strategy. Others go a little further, setting out the aims of their strategy and perhaps listing one or two major developments that are in the pipeline.

The better reports provide a detailed overview of the institution's strategy and explain how this strategy is being implemented. They link – though not always very clearly – the institution's strategy to how it allocates its resources, with a focus on ongoing and future capital projects. And they explain how they measure their performance in achieving their strategic objectives, in one case showing the performance measures that are used.

An Integrated Report explains how well an institution is doing and provides qualitative and quantitative supporting evidence.



Source: Newcastle University, pp. 10-13.

It is notable, though, how few institutions seek to explain how they differentiate themselves in the higher education 'marketplace'. While Integrated Reporting does not seek to form a judgement on the nature or content of an organisation's strategy, it does expect that organisations will seek to define and differentiate themselves among their peers. Generic

or non-specific statements such as ‘we will be a world class university that delivers high quality teaching and research’ are not sufficient. After all, what does such a sentence really mean?

The inclusion of information on institutions’ **performance** is something of a mixed bag. All institutions include some form of performance information, with all but a few making some attempt to link this information to their strategic objectives. In most cases, though, this takes the form of a long list of achievements during the year, rather than a balanced and complete review of performance.

The better reports seek to give a much more comprehensive view of performance, drawing on key performance indicators as well as a broad range of qualitative and quantitative performance data. One institution has even given a ‘risk’ rating for the achievement of each of its strategic objectives, though the rationale for each rating is not evident from the accompanying narrative.

Overall, institutions need to provide a much broader overview of their performance, which addresses their strategic aims, their activities and their resources. For example, while some reports refer to student satisfaction (usually where the institution has performed well in the National Student Survey) or to research performance (usually where the institution has performed well in the Research Excellence Framework), none provide information on student attainment, teaching methods, staff satisfaction or a host of other highly relevant factors.

Integrated Reporting expects organisations to provide information on the **outlook** for the future. This includes discussion of the challenges that the organisation is likely to face, the implications of these challenges on its future performance, and how well the organisation is equipped to respond to these challenges. Such a discussion is absent, or mostly absent, from almost all of the reports that we reviewed.

This might be because the reports are focused primarily on the institutions’ performance over the previous year, and so do not seek to look to the future. But if an Integrated Report is to be useful to the reader, it needs to explore an institution’s future prospects as well as its past achievements. Ensuring that their reports do this will be a key challenge for any institution wishing to go down the Integrated Reporting path.

Integrated Reporting also requires organisations to set out the **basis of presentation** for their reports. This means explaining how they have determined which matters to include in the report and how such matters have been quantified or evaluated. With the exception of one institution, which has made some incidental references to the identification of issues for reporting,

such information is almost entirely absent from the reports that we reviewed.

3.4 We can all make our reports more fun to read

Some of the reports we reviewed are great to read. Others are not. The better reports are written clearly, with a well thought out structure and an engaging narrative flow. They avoid complex technical language and make good use of tables, figures, photographs and other visual aids to understanding.

An Integrated Report is engaging and fun to read.



Source: Newcastle University, pp. 8,40; University of Edinburgh, pp. 15,25.

In short, they tell a story. And they tell it reasonably well.

The less good reports are filled with dense blocks of text. They present information, but do not communicate it or the meaning behind it. There is no overall narrative, with the reports leaping from one topic to another. There is little in the way of images, figures or visual excitement, either.

The reports also veer on occasion into obscure jargon. Phrases such as 'the university will continue to pursue student experience enhancement initiatives' and 'the principles of strategic alignment, embeddedness, critical mass and sustainability will underpin the university's future research and innovation activities' do not fit within the spirit of an Integrated Report.

There is scope for all of the reports to be more engaging and more entertaining to read. A stronger narrative, clearer messages, more exciting visuals, greater use of relevant images and case studies – all of these would make the reports better. Better at communicating information, better at holding the reader's attention and better at attracting and appealing to new audiences.

All institutions have a story. But if that story is not told well, nobody is going to listen to it or remember it.



4

AND THIS IS JUST THE START

4.1 Institutions have taken some good first steps

The extent to which the reports we reviewed espouse the guiding principles of Integrated Reporting and include the relevant content elements varies considerably. However, all of the reports demonstrate some of the guiding principles and include many of the content elements, even if not to a significant degree.

So the implementation of Integrated Reporting is not about doing things completely differently. It is about taking institutions' existing reports and making them better.

From our work on this project, it is clear that the main challenge facing institutions here is moving from reports that provide a description of key achievements and successes to reports that provide significantly deeper insight into the institutions, their activities and the challenges that they face.

The reports need more reflection, more analysis and greater consideration of the external environment in which the institutions operate.

None of the reports that we have reviewed are yet paragons of Integrated Reporting. But some of them have made strong and positive steps in that direction. They have shown that the use of Integrated Reporting in the higher education sector is possible. And they have shown that it results in better, more insightful and more engaging reports.

4.2 There are some simple actions that they can take to make their reports better

It is easy for institutions to improve their annual reports and to embrace the guiding principles and content elements of Integrated Reporting. Here are some ideas.

To demonstrate the guiding principles:

1. Adopt a more **strategic, forward-looking focus** for the report. Include more information on the value that the institution creates and how it creates it. And explain how the institution uses its financial, intellectual, human and natural resources to create this value.
2. Set out who the institution's **stakeholders** are and how they help the institution to create value. This should include, as a minimum, students, staff, employers, funders, industry and the local community. And the report should explain how the institution seeks to understand and to respond to the needs of these stakeholders.
3. Include **contextual information** that allows the reader to understand how the institution relates to the rest of the sector, such as its market positioning, its performance in relevant league tables and its performance against relevant sector benchmarks.
4. Explain the institution's **strategy** and provide more information about what the institution is doing to implement this strategy, rather than just the things that it has achieved. Include a broad range of quantitative information to back up the narrative information given in the report.
5. Ensure that the report represents a **complete, balanced and holistic view** of the institution's strategy, governance, performance and prospects. Focus on significant issues that allow the reader to gain insight into the institution and how it works. Make sure that it is more balanced than just an overwhelmingly positive showcase for the institution's achievements.

To better incorporate the content elements:

1. Start with a comprehensive **overview of the institution**. Include information on the institution's activities, operating structures, markets and relative position in the higher education sector. Back this up with quantitative information such as numbers of staff and students, as well as any significant changes in recent years.
2. Explain the institution's **business model**, i.e. how it uses its financial, intellectual, human and natural resources to create value by teaching students, undertaking research, etc. Link this to the financial income and expenditure data. And include more information on the institution's academic performance in teaching and research, including things such as academic attainment and student retention.
3. Outline the institution's **strategic aims** and how it proposes to achieve them. Be clear about how the institution seeks to differentiate itself in the higher education market. Demonstrate how the institution's strategy draws on its financial, intellectual, human and natural resources. And explain how the institution's strategy informs its allocation of these resources.
4. Provide more contextual information in terms of the **competitive environment** and other external factors influencing the institution's ability to create value. Analyse how these external issues impact on the institution's ability to create value and to achieve its strategic aims, as well as how the institution is responding to these issues.
5. Show how the institution's **governance structures** help it to create value. For example, explain what the governing body contributes in terms of experience and expertise and what the different governance bodies and committees have done over the course of the year to help the institution to achieve its strategic aims.
6. In addition to listing the risks identified by the institution, explain the potential **impact of significant risks** and how the institution is working to manage them. Also, outline any significant opportunities that any areas of uncertainty may present and how the institution is seeking to take advantage of these opportunities.
7. Provide more comprehensive information on how **performance** against the institution's strategic objectives is measured, including the performance indicators used and any associated targets or milestones. As well, of course, as actual performance about strategic, financial, people and environmental issues.
8. Provide clear, comprehensive and clearly signposted analysis about the **forward-looking outlook** for the institution, in terms of the issues that it faces and how these will impact – positively or negatively – on its ability to achieve its strategic objectives and to create value.
9. Include information on how the institution has determined which **matters to include in the report** and how such matters are evaluated.

To make reports more readable:

- Put as much **effort** into creating the annual report as the student prospectus.
- Structure the report so that it has a better and more **engaging narrative 'flow'**. This could be as simple as including an additional narrative section at the beginning of the report to set the scene, explaining what the institution is, what it does and what it seeks to achieve.
- Ensure that all **technical language** (e.g. changes in FRS 17 actuarial assumptions) is explained clearly. Avoid the use of obscure language. Think about the institution's 'voice' and how this can come across in the report.
- **Break up text** with paragraphs and white space.
- Include more **tables, charts and figures** to present quantitative information or to highlight key messages. Where images are included, ensure that they are relevant and that they serve to highlight key messages. Use appropriate captions to emphasise these messages further.
- Use relevant **case studies** to add 'colour' to the report and to highlight key messages.
- Use the report to **tell the institution's 'story'**, rather than simply to present mandatory financial and narrative information.

4.3 And BUFDG will be here to help

It is understandable that institutions may have concerns about moving towards <IR>. It does, after all, represent a significant change in the way institutions report on their activities and their performance. Change isn't easy, and adopting <IR> will require a change in culture and a fair amount of hard work. But it can be done gradually. And there is plenty of support available.

In addition, institutions may be unsure about including in an integrated report information that could be considered commercially sensitive or that provides their competitors with an advantage. They might also be concerned that publishing a more 'balanced' report – one that acknowledges the organisation's shortcomings as well as successes – could portray the institution in a less than positive light.

These are all legitimate concerns, and it is up to each institution to ultimately decide what information they are comfortable publishing. It is worth keeping in mind, though, that <IR> offers institutions the chance to present a clearer and more engaging picture to new

audiences. It is the transparency and thoroughness of an integrated report that give stakeholders confidence in the organisation's management, governance and ability to thrive in the future.

And <IR> isn't a passing fad. Rather, it may well herald the future of reporting for organisations across the globe. To date it has been adopted by over 1,000 businesses and organisations worldwide, including Grant Thornton, Marks and Spencer, PwC, and the Cooperative Group, as well as a number of universities in other countries. It is also supported by the International Integrated Reporting Council (IIRC), a global coalition of high-profile individuals, companies, charities, accountancy institutes and professional bodies.

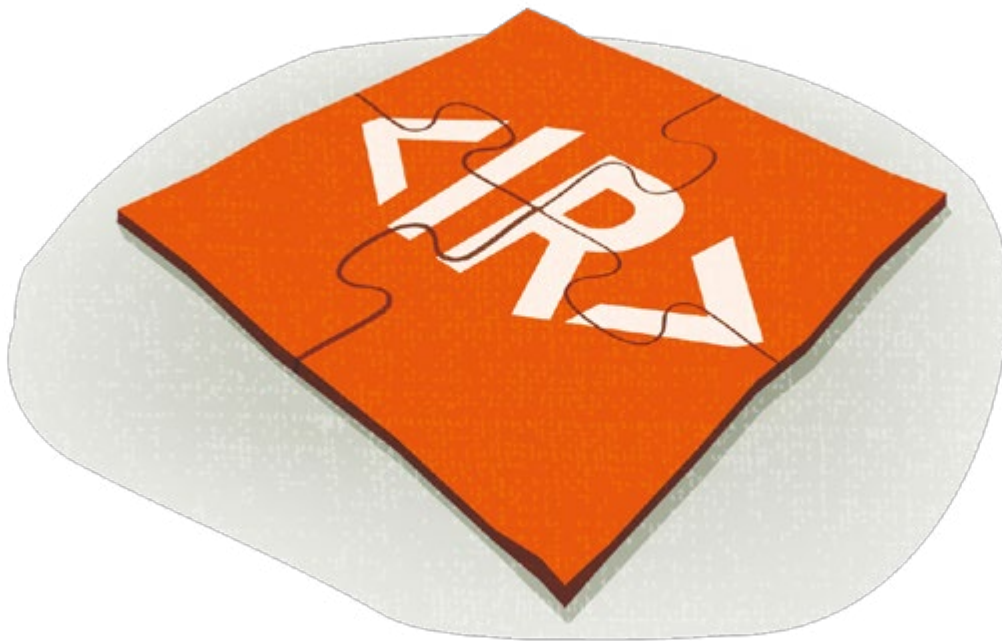
The continuing shift in the business environment towards greater transparency, accountability and financial sustainability is only going to increase the demand for more integrated reporting from large businesses and public organisations. Our funders, staff, students and local communities are expecting us to explain clearly what we do, why we do it and how we are spending their money. It is up to us to lead the way. And <IR> gives us the means to do just that.

Over the next year, BUFDG will be undertaking a number of other projects to help universities tell their engaging, enlightening stories through the use of Integrated Reporting.

To find out more about this work, email Matt Sisson, BUFDG Projects and Communications Manager at matt@bufdg.ac.uk, or ring him on 01509 228852.

Find out more about organisations that have taken the plunge, by visiting the <IR> networks page:
<http://integratedreporting.org/ir-networks/>

And to browse the library of good examples of <IR>, go here:
http://examples.integratedreporting.org/getting_started



ANNEXES: WHAT WE DID AND HOW WE DID IT

ANNEX 1: OUR METHODOLOGY

1. **The aim of this project**

The aim of this project is to understand the extent to which Higher Education Institutions' annual reports meet the requirements of Integrated Reporting and to identify ways in which institutions can embed further the guiding principles and content elements of Integrated Reporting into these reports.

The project was undertaken by the British Universities Finance Directors Group (BUFDG) with support from Sockmonkey Consulting. The fieldwork was undertaken during April and May 2016.

2. **How we selected the reports to review**

We invited BUFDG member institutions to nominate themselves to take part in this project. From those institutions that responded positively, we

selected seven that are collectively representative of the sector as a whole and that span England, Wales and Scotland.

For these institutions, we identified the principal reports that they produce on an annual basis and which contain information on the institution's performance. In most cases, this took the form of the institution's annual financial statements. In all cases, we used the institution's most recent reports - for the 2014-15 academic year.

Where institutions produced more than one relevant report, such as an annual report and a set of financial statements, we considered both reports.

3. How we assessed the reports

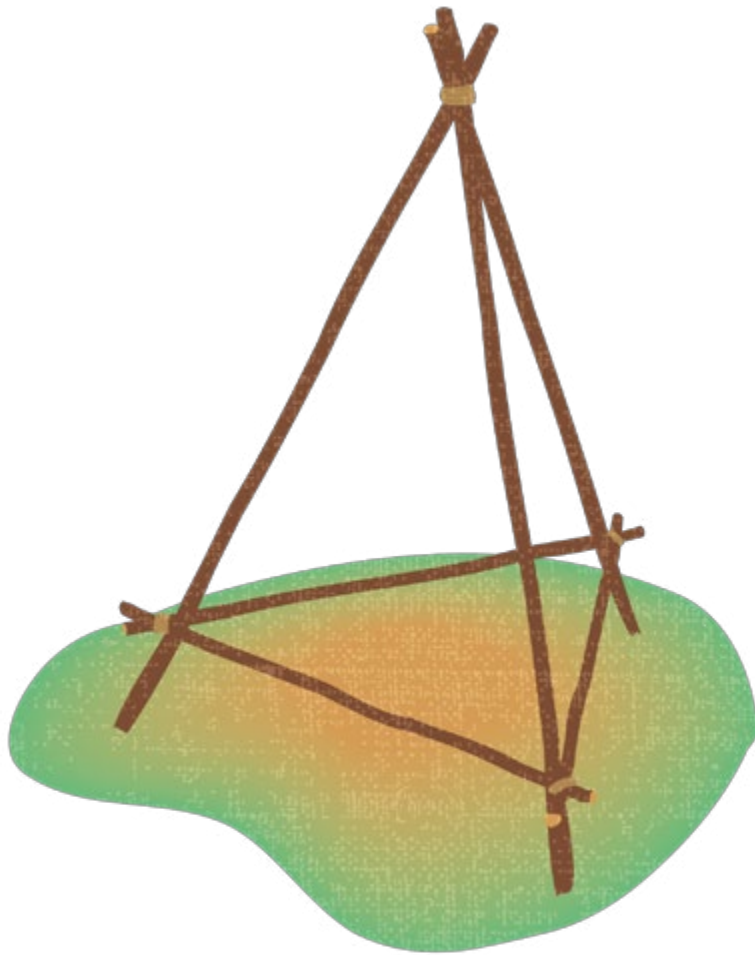
We developed a framework for the assessment of reports (see Annex 2), which starts with the guiding principles and content elements of Integrated Reporting and breaks these down into a series of specific assessment criteria. We also added a third criterion – 'readability' – that relates to the extent to which the reports engage the reader's attention and are enjoyable to read.

We developed a scoring system for assessing the reports against each of the guiding principles, content elements and readability. This scoring system ranged from 1 (the lowest level of compliance) to 4 (the highest).

We then used this framework and scoring system to assess each of the institutional reports. Once we had undertaken all of the assessments, we moderated them to ensure that our judgements had remained consistent throughout the assessment process.

4. How we reported our findings

We prepared a short report for each institution, setting out our findings and making suggestions as to how the reports could be improved. We shared and discussed these reports with the institutions concerned. We then prepared this final report, summarising our overall findings and providing further guidance to the sector.



ANNEX 2: OUR ASSESSMENT FRAMEWORK

1. Introduction

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

This document sets out the criteria used by BUFDG in its assessment of the extent to which institutions' annual reports:

- demonstrate the guiding principles of Integrated Reporting;
- include consideration of the different content elements of Integrated Reporting; and
- can be understood by the reader and are a pleasure to read.

Further information about Integrated Reporting is available at <http://integratedreporting.org/>.

2. Adoption of the 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.

2.1. Assessment criteria

Strategic focus and future orientation

Does the report provide insight into the institution's strategy, and how it relates to the institution's ability to create value in the short, medium and long term and to its use of and effects on resources?

In particular, does the report:

- have a clear strategic focus, allowing the reader to gain insight into what the institution seeks to achieve in the future, rather than dwelling on the achievements of the past?
- provide clear evidence of action that is being taken or has been taken to implement the institution's strategy?
- explain how the efficient and effective use of financial, intellectual, human and natural resources will support the delivery of the institution's strategy?
- discuss the relationship between past and future performance and how the institution has learned from past experience in determining its future direction?
- explain how the institution's strategy will create value in the short, medium and long term?

Connectivity of information

Does the report show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the institution's ability to create value over time?

In particular, does the report:

- provide a complete and holistic view of the institution's strategy, governance, performance and prospects?
- provide a good balance of qualitative and quantitative information, allowing the reader to gain insight into and to reach an informed understanding of the institution's strategy, governance, performance and prospects?
- include information that is consistent with other sources of information prepared by the institution, such as its strategic plan and reports to those charged with governance?

Stakeholder relationships

Does the report provide insight into the nature and quality of the institution's relationships with its key stakeholders (including students, staff, funders, graduate employers and the wider society) including how and to what extent the institution understands, takes into account and responds to their legitimate needs and interests?

In particular, does the report:

- outline clearly who the institution's main stakeholders are and the role that they play about the institution's ability to create value?
- explain how the institution engages with each of its main stakeholders?
- explain how the institution has taken into account the needs and interests of its stakeholders when developing and implementing its strategy (preferably with specific examples)?
- provide convincing evidence that the institution has done more than simply pay lip service to the needs and interests of its stakeholders when developing and implementing its strategy?

Materiality

Does the report disclose information about matters that substantively affect the institution's ability to create value over the short, medium and long term?

In particular, does the report:

- focus on significant matters that impact upon the institution's ability to create value and highlight clearly the issues that are most significant to the reader's understanding of the institution's strategy, governance, performance and prospects?
- explain how the institution has identified those matters that have a significant impact on its ability to create value?
- provide information only on issues that are material to the reader's ability gain insight into the institution's strategy, governance, performance and prospects?
- include all issues that are relevant and material to the reader's understanding of the institution's strategy, governance, performance and prospects, regardless of whether these reflect positively or negatively on the institution?

Conciseness

Is the report concise?

In particular, does the report:

- include sufficient context to allow the reader to understand the institution's strategy, governance, performance and prospects without being burdened with less relevant information?
- avoid unnecessary repetition of information and inclusion of information that is not relevant to the purpose of the report?
- avoid, where possible, highly generic information or disclosures that do not relate specifically to the institution?

Reliability and completeness

Does the report include all material matters, both positive and negative, in a balanced way and without material error?

In particular, does the report:

- present information that is credible and free from obvious error?
- present a balanced view of the institution's strategy, governance, performance and prospects?
- provide a complete view of the institution's strategy, governance, performance or prospects and of the opportunities, risks and other issues that it faces?
- present information that is free from obvious bias in its selection and presentation?

Consistency and comparability

Does the report present information (a) on a basis that is consistent over time and (b) in a way that enables comparison with other institutions to the extent it is material to the institution's own ability to create value over time?

In particular, does the report:

- as far as can be determined, present a nature and level of information that is consistent with reports from previous years?
- present information that allows, as far is reasonable, the institution's strategy, governance, performance or prospects to be compared with those of other institutions?
- provide strategically relevant information about the institution's performance against recognised sector benchmarks or in relevant league tables?

2.2. Assessment

Our assessment considers the extent to which the institution's report demonstrates the guiding principles of Integrated Reporting.

Guiding principle	Our assessment			
	1	2	3	4
Strategic focus and future orientation				
Connectivity of information				
Stakeholder relationships				
Materiality				
Conciseness				
Reliability and completeness				
Consistency and comparability				

The assessment scores can be interpreted as follows:

1. The institution's report does not demonstrate the guiding principle or demonstrates it only incidentally and to a limited extent;
2. The institution's report demonstrates the guiding principle to some extent, but has not espoused it to any significant degree;
3. The institution's report has espoused the guiding principle and demonstrates it to a reasonable extent;
4. The institution's report has espoused clearly the guiding principle and demonstrates it consistently throughout.

3. Inclusion of the content elements

An Integrated Report includes the eight content elements, which help to provide a holistic view of an organisation's strategy, governance, performance and prospects.

3.1. Assessment criteria

Organisational overview and external environment

Does the report answer the question: What does the institution do and what are the circumstances under which it operates?

In particular, does the report:

- set out clearly the institution's vision and mission?
- set out the institution's operating structure, its principal activities and markets and its relative position within the sector?

- provide information about the competitive environment and of the institution's position within this environment?
- set out key quantitative information, such as numbers of students and staff and revenue from its various activities, together with any significant changes from prior periods?
- provide information about significant external factors impacting on the institution, such as commercial, social, technical, environmental and political matters, together with an assessment of their impact on the institution's ability to implement its strategy and to create value?

Governance

Does the report answer the question: How does the institution's governance structure support its ability to create value in the short, medium and long term?

In particular, does the report:

- provide information about the institution's leadership structure, including the skills and diversity of those charged with governance and whether regulatory requirements influence the design of the governance structure?
- explain the roles of the different elements of the institution's leadership structure and how they interact with each other?
- provide sufficient explanation of the differences in roles and responsibilities between executive and non-executive members of the leadership team?
- explain how strategic decisions are made across the institution?
- set out specific actions that those charged with governance have taken to influence and monitor the strategic direction of the institution and its approach to the management of risk?
- set out how those charged with governance, and other members of the leadership team, are remunerated and how the nature and level of their remuneration is determined?

Business model

Does the report answer the question: What is the institution's business model?

In particular, does the report:

- set out clearly the institution's business model, including its main activities and how they fulfil the institution's strategic purposes and create value over the short, medium and long term?
- explain how the institution's main activities draw on the financial, intellectual, human and natural resources upon which the institution depends?
- set out the institution's main sources of income and the factors that determine the level and sustainability of this income over time?

Risks and opportunities

Does the report answer the question: What are the specific risks and opportunities that affect the institution's ability to create value over the short, medium and long term, and how is the institution dealing with them?

In particular, does the report:

- explain the institution's approach to identifying significant risks and opportunities, including how it defines 'significant' risk and opportunity?
- set out the significant risks affecting the institution's ability to create value over the short, medium and long term?
- explain how the institution is managing these risks and the level of net risk to which it will remain exposed?
- provide information on significant opportunities relating to the institution's ability to create value over the short, medium and long term?
- explain how the institution is seeking to realise these opportunities and the anticipated benefits of the institution's efforts?
- set out how the institution will monitor and report on its efforts to manage the risks and to realise the benefits of the opportunities that it has identified?

Strategy and resource allocation

Does the report answer the question: Where does the institution want to go and how does it intend to get there?

In particular, does the report:

- set out clearly the institution's short, medium and long term strategic objectives?
- explain the strategies that the institution has in place, or intends to implement, to achieve its strategic objectives?
- set out the resource allocation plans that the institution has in place to support the implementation of its strategy?
- set out how the institution will ensure its financial sustainability in the short, medium and long term?
- explain how the institution will measure its performance in achieving its strategic objectives in the short, medium and long term?
- explain how the institution seeks to differentiate itself in the sector and how this is reflected in its strategy, structure and activities?

Performance

Does the report answer the question: To what extent has the institution achieved its strategic objectives for the period and what are its outcomes in terms of effects on resources?

In particular, does the report:

- set out clearly the institution's strategic objectives for the period covered by the report and the extent to which it has achieved them?
- provide a balanced and complete view of the institution's performance?
- provide information on the institution's performance about strategic, financial, people and environmental issues?
- explain the impact of the institution's activities and performance on the financial, intellectual, human and natural resources upon which the institution depends?
- provide information about the state of relationships with key stakeholders and how the institution has responded to these stakeholders' legitimate needs and interests?
- discuss the linkages between past and current performance and between current performance and the institution's outlook?

Outlook

Does the report answer the question: What challenges and uncertainties is the institution likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

In particular, does the report:

- set out the institution's expectations about the external environment that it is likely to face in the short, medium and long term?
- explain how the external environment will impact on the institution's ability to achieve its strategic objectives?
- explain how the external environment will impact on the financial, intellectual, human and natural resources upon which the institution depends?
- set out how the institution is currently equipped to respond to the critical challenges and uncertainties that are likely to arise?
- as far as can be determined, provide an assessment of the institution's ability to respond effectively to changes in the external environment that is based on a realistic appraisal of the competitive landscape and of the institution's strengths, weaknesses and market positioning?

Basis of presentation

Does the report answer the question: How does the institution determine what matters to include in the Integrated Report and how are such matters quantified or evaluated?

In particular, does the report:

- set out how the content of the report has been determined and who has been involved in the preparation of the report?
- set out who has reviewed and approved the report prior to its publication?
- include a summary of the significant frameworks and methods used to quantify or evaluate material matters included in the report?
- where necessary, explain any uncertainty or unreliability inherent to any of the data or information that has been used in the preparation of the report?

3.2. Assessment

Our assessment considers the extent to which the institution's report includes consideration of the different content elements of Integrated Reporting.

Guiding principle	Our assessment			
	1	2	3	4
Organisational overview and external environment				
Governance				
Business model				
Risks and opportunities				
Strategy and resource allocation				
Performance				
Outlook				
Basis of presentation				

The assessment scores can be interpreted as follows:

1. The institution's report does not provide information about the content element or does so incidentally and without purpose;
2. The institution's report provides some information about the content element, but makes little or no attempt to contribute to a holistic view of this aspect of the institution's strategy, governance, performance and prospects;
3. The institution's report provides a reasonable amount of information

about the content element and makes some attempt to contribute to a holistic view of the institution's strategy, governance, performance and prospects;

4. The institution's report provides comprehensive information about the content element and makes a clear and convincing attempt to contribute to a holistic view of the institution's strategy, governance, performance and prospects.

4. Readability of the report

An Integrated Report can be understood clearly by the reader and is a pleasure to read.

4.1. Assessment criteria

Can the report be understood clearly by the reader and is it a pleasure to read?

In particular:

- is the report structured clearly, with a good narrative flow?
- is the report written in clear language that can be understood easily by the reader?
- are technical terms defined clearly and used only where necessary?
- does the report make good use of tables, figures, photographs and other visual aids to understanding?
- does the report hold the reader's attention?
- is the report enjoyable to read?

4.2. Assessment

Our assessment considers the extent to which the institution's report can be understood by the reader and is a pleasure to read.

Guiding principle	Our assessment			
	1	2	3	4
Readability of the report				

The assessment scores can be interpreted as follows:

1. The institution's report is difficult to understand and fails to capture the reader's attention;
2. The institution's report is reasonably comprehensible, but is far from being a joy to read;
3. The institution's report can be understood clearly by the reader and is not too painful to read;
4. The institution's report is clear, engaging and a pleasure to read.



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