

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

FINANCIAL STATEMENTS FOR THE YEAR

ENDED 31 MARCH 2005

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

FOREWORD

HISTORY OF THE COUNCIL AND BACKGROUND INFORMATION

The Higher Education Funding Council for Wales (HEFCW) was established under the Further and Higher Education Act 1992. On 7 May 1999, the National Assembly for Wales was created and took over the majority of the functions of the Welsh Office from 1 July 1999, which led to the HEFCW becoming a sponsored body of the National Assembly for Wales.

These accounts have been prepared in accordance with the direction made by the Welsh Assembly Government, with the consent of the Treasury, in exercise of powers conferred by paragraph 16 (2) of schedule 1 to the Further and Higher Education Act 1992. A copy of the direction can be obtained from the Council.

The accounts are prepared in accordance with the requirements of the Companies Acts and Accounting Standards issued or adopted by the Accounting Standards Board, so far as these requirements are appropriate.

THE RESPONSIBILITIES OF THE HIGHER EDUCATION FUNDING COUNCIL FOR WALES

The HEFCW is responsible for the administration of funds made available by the Welsh Assembly Government, and others, in support of the provision of education and the undertaking of research by higher education institutions in Wales and the provision of prescribed courses of higher education in local authority or further education institutions in Wales, and the performance of such supplementary functions as are required of it by the Further and Higher Education Act 1992.

REVIEW OF ACTIVITIES AND DEVELOPMENTS

The surplus for the year was £2.293 million (2003-04 surplus £0.981 million). Cumulative retained reserves at 31 March 2005 were £8.134 million (2003-04 £5.794 million). The Council's expenditure is planned on the basis of the funds available to it through annual receipts of grant in aid and other income and reserve balances. The financial statements may record an operating surplus or deficit as a result of planned activity or as a result of the timing of payments to institutions. The Council's activities are also planned to ensure that its cash carry forward remains within the two per cent of total grant in aid for the year allowed by the Welsh Assembly Government. Expenditure on fixed assets amounted to £85,000 in the year.

These statements cover the twelfth reporting period of the Council and reflect the continuing development of the Council's systems and policies.

THE COUNCIL'S MISSION STATEMENT AND STRATEGIC AIMS

The Council's mission is to promote internationally excellent higher education in Wales, for the benefit of individuals, society and the economy, in Wales and more widely.

Working with partners, the Council deploys funds from the Welsh Assembly Government and others in order to:

- secure higher education learning and research of the highest quality;
- maximise the contribution of higher education to the culture, society and the economy of Wales; and
- to ensure high quality, accredited teacher training provision across Wales.

FOREWORD (continued)

THE COUNCIL'S MISSION STATEMENT AND STRATEGIC AIMS (continued)

The Council's strategic aims in discharging its responsibilities are:

- i. **Reaching Wider:** delivering wider participation and access in support of social inclusion and economic upskilling;
- ii. **The 'Deal' for Students:** delivering the highest quality learning and related support;
- iii. **Research Excellence:** delivering improved research performance to underpin the knowledge economy and cultural and social renewal;
- iv. **Benefiting the Economy and Society:** delivering more productive relationships between higher education institutions and the public and private sectors, other agencies and local communities;
- v. **Initial Teacher Training:** delivering newly qualified teachers of high quality; and
- vi. **Making it Work:** a strong emphasis on reconfiguration, collaboration and, other measures to sustain improved performance of individual institutions and the HE system as a whole.

A more detailed description and explanation of the aims and objectives of the Council is contained in its Annual Report.

SEPARATION FROM THE NATIONAL COUNCIL FOR EDUCATION AND TRAINING FOR WALES

Last year's foreword reported that a joint submission had been made during the year by the two Councils to the Welsh Assembly Government proposing the complete separation of the two Councils. On 14 July 2004, the First Minister announced the decision to incorporate the work of the National Council for Education and Training for Wales, but not the HEFCW, directly into the Welsh Assembly Government from 1 April 2006. As a result, work to carry through separation began during the year and is continuing. In particular, staff with contracts with both Councils are being given the choice of which Council they wish to work for. The Council will be introducing new systems, for example, a new accounting system from October 2005 and the installation of its new website from Autumn 2005, where they are necessary for it to be able to operate independently.

EMPLOYEE INVOLVEMENT

Regular staff meetings and seminars ensure good internal communications and provide opportunities for staff to contribute to the workings of the Council. A Works Council, through which representatives can raise issues of concern to staff, met on a regular basis.

On 26 January 2000, the Council achieved the Investors in People award. This award was re-assessed during September 2003 and the Council was still found to be meeting the Investors in People standard.

The Council is committed to developing its Equal Opportunities Policy to ensure that all employees are treated fairly, irrespective of sex, age, marital status, disability, racial or ethnic origin.

The Council's policy on recruitment is based on the ability of a candidate to perform the job. Full and fair consideration is given to applications for employment from the disabled where they have the appropriate skills and abilities to perform the job. If disablement should occur during employment the Council would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

FOREWORD (continued)

CBI PROMPT PAYMENT CODE

The Council is fully committed to the prompt payment of its suppliers' bills and supports the Confederation of British Industry's Prompt Payment Code. An analysis of the Council's 2004-05 payment performance indicated that 93 per cent of invoices (2003-2004: 83%) were paid in accordance with agreed contractual conditions, or where no condition existed, within 30 days of the presentation of a valid invoice.

AUDITORS

The accounts of the Council are audited by the Auditor General for Wales as required by paragraph 16(1) of Schedule 1 to the Further and Higher Education Act 1992.

COUNCIL MEMBERSHIP

The following persons served as Council members during the reporting year:

Chairman

Professor Roger Williams (*member of 1 - see below*)
Former Vice Chancellor, University of Reading

Members

Professor Philip Gummett (*member of 2 & 3 - see below*)
Chief Executive, Higher Education Funding Council for Wales (from May 2004), Interim Chief Executive (April 2004)

Mrs Wendy Heppell (*member of 4 & 5 - see below*)

Director of Enterprise, Chwarae Teg

Ms Eleri Wynne Jones (*member of 1, 5 & 6 - see below*)

Retired part-time lecturer, formerly at the University of Wales Bangor

Professor Gwyn Thomas (*member of 6 & 7 - see below*)

Retired Professor of Welsh, University of Wales, Bangor

Dr Geoffrey P Thomas (*member of 4 & 8 - see below*)

Head of Continuing Education Department, Oxford University and President of Kellogg College

Mrs Perminder Dhillon (to July 2004)

Senior lecturer at the University of Central Lancashire

Mr R P V (Tim) Rees (*member of 4 & 8 - see below*)

Chartered Accountant; former Chair of Governors at the University of Glamorgan

Professor Sir Brian Smith

Former Vice Chancellor, Cardiff University

Dr Len Arthur (*member of 5 & 9 - see below*)

Lecturer at University of Wales Institute, Cardiff

Professor D Garel Rhys OBE (*member of 8 - see below*)

Director of the Centre for Automotive Industry Research at Cardiff University's Business School

Mrs Tina Stephens (*member of 1 & 5 - see below*)

Specialist in management and staff development; Chief examiner for Chartered Institute of Personnel and Development.

1 Remuneration Committee; 2 Reaching Wider Steering Group; 3 Quality Working Group; 4 Audit & Risk Committee; 5 Corporate Governance Working Group; 6 Human Resources Committees; 7 Welsh Medium Strategy Steering Group; 8 Reconfiguration Panel; 9 Third Mission Committee.

FOREWORD (continued)

COUNCIL MEMBERSHIP (continued)

Assessor appointed by the National Assembly for Wales

Richard Davies

Director of Training and Education Department, National Assembly for Wales

The register of members' interests is available for inspection through the Clerk to the Council at the Council's offices in Llanishen.

Professor Philip Gummett
Chief Executive and Accounting Officer
2 August 2005

STATEMENT OF COUNCIL'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under paragraph 16(2) of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for Wales is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the National Assembly for Wales, with the consent of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Council's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the financial statements the Council is required to:

- observe the accounts direction issued by the National Assembly for Wales, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Council will continue in operation.

The Principal Accounting Officer of the National Assembly for Wales has designated the Chief Executive of the Higher Education Funding Council for Wales as the Accounting Officer. His relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the National Assembly for Wales' Accounting Officers' Memorandum.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of the HEFCW's policies, aims, and objectives whilst safeguarding the public funds and other assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting. My role and responsibilities as Accounting Officer for the HEFCW are set out in the memorandum *The Responsibilities of an ASPB Accounting Officer*. I also attend regular meetings with officers in the Higher Education Division of the Welsh Assembly Government where the priorities for the HEFCW and the key risks facing the organisation are reviewed.

The purpose of the system of internal control

2 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the HEFCW's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the HEFCW for the year ended 31 March 2005. The system of internal control accords with Treasury Guidance.

Capacity to handle risk

- 3 The following processes have been established to manage risk within the HEFCW:
- a) The risk register is reviewed at each meeting of the Audit and Risk Committee and quarterly by the Council;
 - b) individual managers are responsible for assessing and managing the key risks arising from their areas of responsibility;
 - c) Senior Managers review and update the risk register on a quarterly basis; and
 - d) an *Opportunity and Risk Policy and Guidelines* was developed in 2001-02. Training was provided for senior staff who then took responsibility for championing risk management within their teams.

The risk and control framework

- 4 The key elements of the HEFCW's risk management strategy are as follows:
- a) The HEFCW's objectives are established through the preparation of its Corporate Strategic and Operational Plans that are approved by the Welsh Assembly Government;
 - b) the HEFCW has a Risk Assurance section that provides the HEFCW's internal audit service and is available to provide advice and guidance to groups of staff and individual managers. Because of staff shortages arising from the separation of the HEFCW and the National Council, the HEFCW's internal audit requirements for 2004-05 have been provided by Bentley Jennison;
 - c) risks are prioritised according to their likelihood and impact and actions are identified to be proportionate with the scale of the exposure; and
 - d) the Council, advised by myself as Accounting Officer and by the Audit and Risk Committee through its routine consideration of the risk register, determines risk appetite.
- 5 The priority areas for risk management throughout the year have related to the delivery of the Welsh Assembly Government's reconfiguration and collaboration agenda, *Reaching Higher* and the management of issues surrounding the potential separation of the HEFCW's services from the National Council.

STATEMENT ON INTERNAL CONTROL (continued)

Review of effectiveness

6 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and executive managers within the HEFCW who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

7 The following processes have been established to review the effectiveness of the system of internal control within the HEFCW:

- a) The HEFCW's internal audit service operates in accordance with Government Internal Audit Standards; audit plans are based on an assessment of risk linked to the organisation wide risk register. The Head of Risk Assurance provides an independent opinion on the adequacy and effectiveness of the HEFCW's system of risk management, control and governance each year, together with recommendations for improvement;
- b) the work of the internal audit service is overseen by the Audit and Risk Committee, which reports regularly to Council the findings and conclusions of audit work; and
- c) managers provide a statement of assurance about the systems and procedures operating in their area of responsibility.

8 The internal audit service has identified a number of areas where controls require strengthening during the year and up to the date of signature of the statement. In each case an action plan has been agreed with the relevant manager for addressing the weakness. One area of weakness, which has been identified, is the implementation of agreed actions. I have now taken personal responsibility for ensuring that these actions are implemented and for reporting the position to the Audit Committee.

Professor Philip Gummatt
Chief Executive and
Accounting Officer

2 August 2005

THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO THE MEMBERS OF THE NATIONAL ASSEMBLY FOR WALES

I certify that I have audited the financial statements on pages 11 to 28 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 15 and 16.

Respective responsibilities of the Council, the Chief Executive and Auditor

As described on page 6, the Council and Chief Executive are responsible for the preparation of the financial statements in accordance with the Further and Higher Education Act 1992 and the National Assembly for Wales directions made thereunder, and for ensuring the regularity of financial transactions. The Council and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Further and Higher Education Act 1992 and National Assembly for Wales directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 7 & 8 reflects the Council's compliance with Treasury's guidance on the 'Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control, covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

**THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO
THE MEMBERS OF THE NATIONAL ASSEMBLY FOR WALES** (continued)

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Higher Education Funding Council for Wales at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the National Assembly for Wales; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
22 August 2005

Wales Audit Office
2-4 Park Grove
Cardiff
CF10 3PA

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 £'000	2004 £'000
GROSS INCOME			
Grant in aid	2(a)	372,315	350,179
Release from government grant reserve	2(b)	38	45
Other income	3	18,826	16,323
TOTAL INCOME		<u>391,179</u>	<u>366,547</u>
EXPENDITURE			
<i>Funding of higher education:</i>			
Recurrent expenditure	4	340,504	322,792
Capital expenditure	4	14,926	13,331
Other purposes	6	31,328	27,277
		<u>386,758</u>	<u>363,400</u>
<i>Council expenditure:</i>			
Administration costs	7	614	557
Staff costs	8	1,476	1,591
Depreciation	11	38	18
Notional charges - cost of capital	9	244	186
		<u>2,372</u>	<u>2,352</u>
TOTAL EXPENDITURE		<u>389,130</u>	<u>365,752</u>
Surplus on operating activities		2,049	795
Interest receivable	10	342	274
Adjustment for notional charge (cost of capital)	9	244	186
Appropriations	10	<u>(342)</u>	<u>(274)</u>
Surplus for the year transferred to reserves		<u>2,293</u>	<u>981</u>
Movement on reserves			
		2005 £'000	2004 £'000
Retained surplus brought forward		5,771	4,790
Surplus for year		2,293	981
Retained surplus carried forward		<u>8,064</u>	<u>5,771</u>

All activities are continuing.

The notes on pages 15 to 28 form part of these accounts.

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2005 £'000	2004 £'000
Surplus for year		2,293	981
Movement in government grant reserve	2(b)	<u>47</u>	<u>(18)</u>
Total recognised gains and losses relating to year		<u>2,340</u>	<u>963</u>

The notes on pages 15 to 28 form part of these accounts.

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

BALANCE SHEET AS AT 31 MARCH 2005

	Notes	2005		2004	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets	11		70		23
CURRENT ASSETS					
Debtors	12	6,376		1,698	
Cash at bank and in hand	21	3,660		6,394	
		<u>10,036</u>		<u>8,092</u>	
CREDITORS					
Amounts falling due within one year	13	<u>(1,972)</u>		<u>(2,321)</u>	
Net current assets			<u>8,064</u>		<u>5,771</u>
NET ASSETS			<u>8,134</u>		<u>5,794</u>
FINANCED BY :					
CAPITAL AND RESERVES					
Income and expenditure account			8,064		5,771
Government grant reserve	2(b)		<u>70</u>		<u>23</u>
TOTAL GOVERNMENT FUNDS	14		<u>8,134</u>		<u>5,794</u>

The notes on pages 15 to 28 form part of these accounts.

Signed on behalf of the Council

Professor Philip Gummett
 Chief Executive and Accounting Officer
 2 August 2005

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
Operating activities			
Net cash outflow from operating activities	20	(2,696)	(335)
Returns on investments and servicing of finance			
Interest received		330	252
Interest surrendered to the National Assembly for Wales		(368)	(252)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(85)	(27)
Net cash outflow before financing		<u>(2,819)</u>	<u>(362)</u>
Financing			
Government grant reserve	2	85	27
Decrease in cash	21	<u>(2,734)</u>	<u>(335)</u>

The notes on pages 15 to 28 form part of these accounts.

NOTES TO THE ACCOUNTS

1. Accounting policies

(a) **Basis of accounting**

These accounts are prepared in accordance with a direction issued by the National Assembly for Wales, with the consent of the Treasury, in exercise of the powers conferred by paragraph 16(2), schedule 1 to the Further and Higher Education Act 1992.

The accounts are prepared under the modified historical cost convention and in accordance with the requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board so far as these requirements are appropriate. Fixed assets are valued at historic cost less depreciation and have not been revalued as, in the opinion of the Council, such adjustment would not be material.

(b) **Grants for European Union (EU) projects**

Income:

The Council receives grant income relating to EU projects from two sources. Grant income from the Welsh Assembly Government in support of Knowledge Exploitation Fund and European Social Fund projects is credited to the account in the year in which expenditure is incurred. EU income in support of Knowledge Exploitation Fund and European Social Fund projects is credited to the account in the year in which expenditure is defrayed.

Expenditure:

As the applicant for European projects contracting with third parties for the delivery, the Council's liability arises when a valid claim from the grant recipient is received.

(c) **Grant in aid**

Grant in aid is received from the Welsh Assembly Government for operating expenditure and capital expenditure. Where Grant in aid expenditure has been used for the purchase of tangible fixed assets, the grant in aid receivable for capital expenditure is credited to the Government Grant Reserve and released to the Income and Expenditure Account over the estimated useful lives of the relevant fixed assets on a basis consistent with the depreciation policy.

(d) **Grants payable**

Grants payable are recorded as expenditure in the period in which the recipient carries out the activity, which creates an entitlement. Those grants of a recurring nature, mainly the recurrent and capital funding provided to Higher Education Institutions, are brought to account when paid. In the opinion of the Council, this treatment achieves in all material respects a match between grant funding brought to account and the pattern of financial activity at the Higher Education Institutions.

(e) **Joint costs**

The structure of the Higher Education Council and The National Council – ELWa, was planned to take into account the individual policies and statutory responsibilities of each of the two Councils, whilst recognising that a joint executive provided a cost effective solution for the provision of professional services.

Wherever possible, the costs of those Divisions with joint responsibilities are allocated directly to the financial statements of the relevant Council. However, there are joint costs that cannot reasonably be allocated directly to the two Councils and, following an annual internal review, these costs are apportioned on the basis of activity undertaken for each council.

NOTES TO THE ACCOUNTS (continued)

1. Accounting policies (continued)

(f) Notional charges

Cost of Capital:

As directed by the National Assembly for Wales, a notional capital charge reflecting the cost of capital employed, is included in operating costs and calculated at 3.5% (2003-04 - 3.5%) of capital employed.

(g) Pension costs

Past and present employees are covered by the provisions of the Civil Service Pension (CSP) arrangements. The Council recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the CSP arrangements of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the CSP arrangements.

(h) Tangible fixed assets

IT equipment costing more than £500 and any other fixtures, fittings or equipment costing more than £1,000 are capitalised.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, as follows:

IT equipment	- 3 years
Electrical equipment	- 5 years
Fixtures and fittings	- 5 years

(i) Value Added Tax

As the Council is not registered for VAT, all transactions in the accounts are stated inclusive of any attributable VAT.

(j) Operating Leases

Operating lease rentals are charged to the Income and Expenditure Account in the year to which they relate.

NOTES TO THE ACCOUNTS (continued)

2. **Reconciliation of grant in aid**

The following note reconciles the cash amounts received from the National Assembly for Wales as grant in aid for the year with the financial statements.

(a) Revenue grant in aid received

	2005 £'000	2004 £'000
Grant in aid received	372,400	350,206
Less amounts used for capital expenditure	(85)	(27)
	<u>372,315</u>	<u>350,179</u>

(b) Government grant reserve

	2005 £'000	2004 £'000
Balance at 1 April	23	41
Capital grants received in year	85	27
Less amounts released to income and expenditure account	(38)	(18)
Less capital amounts reclassified as revenue	-	(27)
Balance at 31 March	<u>70</u>	<u>23</u>

3. **Other Income**

	2005 £'000	2004 £'000
Welsh Assembly Government – Financial contingency and mature students' access bursary funds (a)	5,115	5,129
Welsh Assembly Government - Knowledge Exploitation Fund	4	1,145
European Union - European Social Fund – Old projects	-	(587)
European Union – European Social Fund – New projects	2,156	858
Office of Science & Technology - Science Research	11,551	9,291
Infrastructure Fund	-	-
Other	-	487
	<u>18,826</u>	<u>16,323</u>

(a) These funds are received from the Welsh Assembly Government for onward distribution to the HE sector. Principally, these funds exist to provide financial assistance to students in hardship.

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

NOTES TO THE ACCOUNTS (continued)

4. Funding of higher education

	2005			2004
	Recurrent £'000	Capital £'000	Total £'000	Total £'000
Higher Education Institutions				
University of Wales, Aberystwyth	30,086	1,374	31,460	30,662
University of Wales, Bangor	31,041	1,284	32,325	30,478
Cardiff University (see (a) below)	96,808	2,994	99,802	83,682
University of Wales College of Medicine (see (a) below)	7,815	195	8,010	19,048
University of Wales Swansea	35,834	1,468	37,302	36,134
University of Wales, Lampeter	5,789	375	6,164	5,986
North East Wales Institute	16,375	821	17,196	14,816
University of Wales, Newport	21,125	1,023	22,148	17,757
University of Wales Institute, Cardiff	24,946	1,375	26,321	23,945
Swansea Institute of Higher Education	13,348	766	14,114	12,700
Trinity College Carmarthen	5,675	603	6,278	5,693
University of Glamorgan	42,572	2,176	44,748	43,725
Royal Welsh College of Music and Drama	5,057	388	5,445	5,174
University of Wales Registry	736	-	736	679
Sub-total	337,207	14,842	352,049	330,479
Further Education Institutions				
Bridgend College	80	-	80	106
Coleg Sir Gâr	909	-	909	1,060
Coleg Llandrillo	1,171	-	1,171	1,192
Coleg Menai	79	-	79	110
Neath Port Talbot College	127	-	127	120
Pembrokeshire College	5	-	5	6
Coleg Morgannwg	472	-	472	505
Swansea College	80	-	80	96
Sub-total	2,923	-	2,923	3,195
Other Organisations				
HERO Ltd	33	-	33	13
Higher Education Funding Council for England	1,867	-	1,867	1,717
Quality Assurance Agency	-	-	-	42
Arts and Humanities Research Council	1,704	-	1,704	1,587
United Kingdom Education & Research Networking Association	25	84	109	186
KPMG LLP	-	-	-	45
OPM	-	-	-	89
Scottish Higher Education Funding Council	(21)	-	(21)	212
Universities UK	85	-	85	33
Wales European Centre	25	-	25	25
Department of Employment and Learning	29	-	29	-
Education Data Surveys	67	-	67	-
Newidiem Cyf	69	-	69	-
The Higher Education Academy	200	-	200	-
Other organisations	192	-	192	37
Sub-total	4,275	84	4,359	3,986
Total	344,405	14,926	359,331	337,660
Less ESF funded expenditure (see note 6)				
- New projects	(3,901)	-	(3,901)	(1,537)
Total	340,504	14,926	355,430	336,123

No payments of funding for old ESF or KEF projects are included in the above figures. They are disclosed in note 6 only.

(a) These two institutions entered into a legal agreement for the joint undertaking of activities from 1 August 2004 and funding was amalgamated from that date. They formally merged on 1 December 2004.

NOTES TO THE ACCOUNTS (continued)

5. Grants to institutions

Included in these accounts are grants to institutions, which are subject to the recipients' external auditors' confirmation that they have been used for their intended purpose. The financial year of higher education institutions ends on 31 July and audited accounts are expected to be received by the Council by 31 December. A review by Council staff of institutions' 2003/04 financial statements disclosed that the external auditors had considered that grants had been used for their intended purpose and no adjustments to grants were necessary. Additionally, the audit of student numbers carried out in the summer of 2004 did not lead to any material adjustments. Any adjustment arising from the audit of 2004/2005 accounts and student numbers, will be made by the Council in future years.

The Council confirms that grants received from the Welsh Assembly Government have been used for their approved purposes.

6. Expenditure for other purposes

	2005 £'000	2004 £'000
Financial contingency and mature students access bursary funds (a)	5,115	5,129
Knowledge Exploitation Fund (b)	4	1,145
European Social Fund – Old projects	-	(587)
European Social Fund – New projects	3,901	1,537
Science Research Infrastructure Fund	22,308	20,053
	<u>31,328</u>	<u>27,277</u>

- (a) This expenditure relates to the onward distribution of funds from the Welsh Assembly Government for the purpose of providing financial assistance to students in hardship.
- (b) The amounts relating to grant payments made under the European Social Fund (ESF) and Knowledge Exploitation Fund (KEF) are subject to separate audits. Any adjustment arising from these audits will be accounted for in future years.

7. Administration costs

	2005 £'000	2004 £'000
Accommodation costs	155	155
Office costs	143	163
Bought in services	94	58
Auditors' remuneration – Annual audit fee of the HEFCW	16	13
Auditors' remuneration – Additional assurance report work	3	3
Council members' travel and subsistence costs	11	20
Staff travel and subsistence costs	39	43
Staff related expenditure on training etc.	124	80
Information technology costs	29	22
	<u>614</u>	<u>557</u>

NOTES TO THE ACCOUNTS (continued)

8. **Staff costs**

(a) **Analysis**

	2005			2004		
	Staff	Council Members (inc Chief Executive)	Total	Staff	Council Members (inc Chief Executive)	Total
	£'000	£'000	£'000	restated £'000	£'000	restated £'000
Wages and salaries	1,316	140	1,456	1,260	177	1,437
Social security costs	88	12	100	90	14	104
Other pension costs	143	17	160	163	15	178
Total payroll costs	1,547	169	1,716	1,513	206	1,719
Less costs charged to programme recurrent costs	(240)	-	(240)	(128)	-	(128)
Administration payroll costs	1,307	169	1,476	1,385	206	1,591

In the published 2003-04 accounts, the costs of temporary staff were included as a separate item within staff costs. They are now included within 'wages and salaries' above and prior year figures have been amended accordingly.

(b) **Salary and pension disclosures**

Position	Name	Salary	Real Increase in Pension & Lump Sum	Pension at 31/03/05 & Lump Sum	CETV at 01/04/04	CETV at 31/03/05	Real increase in CETV as funded by employer
		£	£'000	£'000	£'000	£'000	£'000
Chairman	Roger Williams	14,400	N/A	N/A	N/A	N/A	N/A
Chief Executive (from May 2004) (formerly Interim Chief Executive)	Philip Gummett	93,418	0 – 2.5 plus 5 – 7.5 lump sum	5 – 10 plus 15 – 20 lump sum	64	97	29
Director of Finance	Richard Hirst	71,617	0 – 2.5	30 -35	353	377	1
Director of Corporate Services (from May 2004 – January 2005)	Jo Thorne	56,070	0 – 2.5	0 - 5	0	9	7

The Director of Corporate Services' salary has been included within these accounts (note 8(a)) in accordance with the basis of apportionment set out in note 1(e).

Richard Hirst and Jo Thorne are members of the Premium defined benefit scheme, part of the Principal Civil Service Pension Scheme. The scheme benefits do not include the payment of an automatic lump sum on retirement (see also note 8(c)).

NOTES TO THE ACCOUNTS (continued)

8. **Staff costs** (continued)

(b) **Salary and pension disclosures** (continued)

The Chief Executive has a permanent contract and is an ordinary member of the Principal Civil Service Pension Scheme.

The Chairman and Council Members (excluding the Chief Executive) are not members of the Principal Civil Service Pension Scheme and do not receive any pension benefits paid for by the HEFCW. Council Members (excluding the Chairman and Chief Executive) receive a non-pensionable salary of £4,500 per annum.

All salaries stated are gross salaries only, as none of the Council Members or senior staff received any other remuneration or benefits in kind, other than as disclosed below.

(c) **Pensions**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the HEFCW is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers' contributions of £160,327 were payable to the PCSPS (2003-04 £177,665) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the Civil Service Pension ("CSP") arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

NOTES TO THE ACCOUNTS (continued)

8. **Staff costs** (continued)

(c) **Pensions** (continued)

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a particular member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

(d) **Average Number of Staff Employed**

The Higher Education Funding Council for Wales employed an average of 41 full time equivalent staff during the financial year ending 31 March 2005, as follows:

	2005	2004
	Numbers	Numbers
Senior Management	2	3
Higher Education Directorate	26	25
Corporate Services Directorate	8	7
Finance & Risk Directorate	5	4
	<u>41</u>	<u>39</u>

NOTES TO THE ACCOUNTS (continued)

9. **Notional charges**

	2005	2004
	£'000	£'000
Cost of capital - 3.5 % (2004 – 3.5%) of capital employed	244	186

10. **Appropriations**

	2005	2004
	£'000	£'000
Receipts surrenderable to the National Assembly for Wales:		
Bank interest	342	274

11. **Tangible fixed assets**

	IT Equipment	Fixtures & Fittings	Electrical equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2004	159	216	39	414
Additions	56	-	29	85
At 31 March 2005	215	216	68	499
Depreciation				
At 1 April 2004	137	216	38	391
Charged during year	32	-	6	38
At 31 March 2005	169	216	44	429
Net book value at 31 March 2005	46	-	24	70
Net book value at 1 April 2004	22	-	1	23

12. **Debtors**

	2005	2004
	£'000	£'000
Trade debtors	62	-
Prepayments and accrued income	590	187
Balances with other central government bodies	614	924
Other debtors (a)	5,110	587
	6,376	1,698

- (a) This includes an amount of £160k recoverable from HE institutions (see note 6) (2004 - £587k). This also includes an interest-free loan of £4.95 million to University of Wales Swansea in respect of an advance of funding to meet the cost of purchasing a high powered computer which is part of UW Swansea's Institute of Life Science Project. Welsh Assembly Government funding for this project was not due to be available to UW Swansea until the Assembly's new financial year commencing in April 2005. The loan was made with the approval of the Welsh Assembly Government and was recovered in two instalments in April and May 2005.

NOTES TO THE ACCOUNTS (continued)

13. **Creditors : Amounts falling due within one year**

	2005 £'000	2004 £'000
Trade creditors	-	27
Accruals	1,365	709
Balances with other central government bodies	607	1,585
	<u>1,972</u>	<u>2,321</u>

14. **Reconciliation of movement in government funds**

	2005 £'000	2004 £'000
Retained surplus for the year	2,293	981
Movement on government grant reserve	47	(18)
Movement in government funds	<u>2,340</u>	<u>963</u>
Government funds at 1 April	5,794	4,831
Government funds at 31 March	<u>8,134</u>	<u>5,794</u>

15. **Lease obligations**

	2005 £'000	2004 £'000
Amounts charged to the Income and Expenditure Account for operating lease rentals in respect of accommodation	<u>69</u>	<u>69</u>
Annual commitment on leases expiring within:		
One year	-	-
Two to five years	69	69
Over five years	<u>-</u>	<u>-</u>

16. **Capital commitments**

	2005 £'000	2004 £'000
Contracted	<u>-</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)

17. **Financial commitments**

	2005	2004
	£'000	£'000
Revenue grants (a)	132,696	129,704
European projects (b)	261	4,325
	<u>132,957</u>	<u>134,029</u>

(a) This amount will be funded by grant in aid from the Welsh Assembly Government

(b) European projects will be funded as follows:

	2005	2004
	£'000	£'000
European Social Fund grants	100	2,737
Grant in aid from the Welsh Assembly Government	161	1,588
	<u>261</u>	<u>4,325</u>

The European projects also have financial commitments of £186k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

At the financial year end, phase two of the existing European projects was subject to Welsh European Funding Office approval and therefore no specific commitments can be disclosed in these accounts.

18. **Losses and special payments**

	2005	2004
	£	£
Bad debts	-	227
Fruitless payments	603	1,526
	<u>603</u>	<u>1,753</u>

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

NOTES TO THE ACCOUNTS (continued)

19. Related party transactions

The National Assembly for Wales and the Welsh Assembly Government are regarded as related parties. During the year, the HEFCW has had various material transactions with the Welsh Assembly Government and with other entities for which the National Assembly for Wales is regarded as the parent Department, viz: the NCETW.

The following Council members and members of senior management have entered into relationships or transactions that are considered to be related parties, and which are shown in the table below: -

Name	Relationship
Dr Len Arthur (Council member)	◆ Senior Lecturer; University of Wales Institute, Cardiff & Director Research & Enterprise UWIC Business School; Member of UWIC Academic Board.
	◆ Wales Regional Council Executive of NATFHE (National Association of Teachers in Further & Higher Education).
	◆ Member of Higher Education Academy.
	◆ Board Member and Trustee, Promo-Cymru Ltd.
	◆ Daughter, Executive Officer; National Assembly for Wales.
	◆ Son-in Law, Senior Patent Examiner, Patent Office, Newport – on secondment to European Commission.
Mr RPV (Tim) Rees (Council member)	◆ PricewaterhouseCoopers, receives a pension.
	◆ Independent Member, Council Audit Panel, City and County of Cardiff.
	◆ Treasurer, Order of St John Wales.
	◆ Deputy Chairman, Investment Committee; Representative Body of the Church in Wales.
	◆ Panel Member, Compensation Scheme; Institute of Chartered Accountants in England and Wales.
◆ Governor, Llandaff Cathedral School.	
Professor Sir Brian Smith (Council member)	◆ Member of Board of Governors, University of Glamorgan.
	◆ Director of Higher Aims Limited.
	◆ International ambassador for Cardiff University.
	◆ Vice Chair of Trustees, Oxford University Society.
	◆ Board Member, International Festival of Musical Theatre, Cardiff.
Mrs Tina Stephens (Council member)	◆ North Wales representative on Wales Management Council
	◆ Member of Advisory Board for School of Banking & Regional Development at UW Bangor
Professor Gwyn Thomas (Council member)	◆ Daughter works for Welsh Assembly Government
Mrs Wendy Heppell (Council member)	◆ Director of Enterprise, Chwarae Teg & overseeing research project with UW, Lampeter.
	◆ Member, Royal Society of Chemistry.
	◆ Director of Business West, which has direct relationship with University of Bristol and University of West of England.
	◆ Partner in Knowledge West, a consortium with 6 Higher Education Institutions in West of England.
	◆ Husband, student at Cardiff University Business School.
◆ Member of Bursary Committee, University College, Oxford.	
Professor D Garel Rhys, OBE (Council member)	◆ Chairman, Economic Research Advisory Panel of the Welsh Assembly Government.
	◆ Member of Motor Racing Industry Development Board of the Department of Trade & Industry.
	◆ Daughter in Law, Lecturer at University of Wales, Newport.
Professor Philip Gummatt (Chief Executive)	◆ Member of Institute of Learning & Teaching, now part of the Higher Education Academy.
	◆ Wife, part-time tutor at Swansea Institute of Higher Education.
	◆ Brother, part-time student at UW Lampeter.
Mr Richard Hirst (Director of Finance & Risk)	◆ Director of Higher Education and Research Opportunities (HERO) Limited.

Any funds paid to the institutions and organisations noted above are detailed in note 4, otherwise the funds paid in the year were nil. None of the key managerial staff or other related parties has undertaken any material transactions with the Higher Education Funding Council for Wales.

NOTES TO THE ACCOUNTS (continued)

20. **Reconciliation of surplus for the year to net cash (outflow) from operating activities**

	2005	2004
	£'000	£'000
Operating surplus (before financing and appropriations)	2,049	795
Depreciation charges	38	18
Fixed assets reclassified	-	27
Amount released from deferred government grant reserve	(38)	(45)
Notional charge - cost of capital	244	186
(Increase) in debtors	(4,666)	(1,175)
(Decrease) in creditors	(323)	(141)
Net cash (outflow) from operating activities	(2,696)	(335)

21. **Reconciliation of net cash flows to movement in net funds**

	2005	2004
	£'000	£'000
Decrease in cash	(2,734)	(335)
Net funds as at 1 April	6,394	6,729
Net funds as at 31 March	3,660	6,394
Analysis of net funds:		
Cash at bank and in hand	3,660	6,394

22. **Transfer of the Knowledge Exploitation Fund**

In May 2003, the Welsh Assembly Minister for Economic Development requested that the Welsh Development Agency ("WDA") take over responsibility for the Knowledge Exploitation Fund ("KEF"), a fund that was set up to encourage entrepreneurship and innovation in Further and Higher Education Institutions in Wales. This fund was previously managed by the Higher Education Funding Council for Wales together with the National Council for Education and Training for Wales.

The transfer took place in 2004, by which time Phase 1 of the KEF programme was substantially complete. An arrangement to manage Phase 1 was therefore agreed between the WDA and the two Councils, under which the WDA administers the remaining elements of Phase 1 on behalf of the Councils until its completion, although the ultimate responsibility for Phase 1 remains with the Councils' Accounting Officers. From the date of transfer, responsibility for the operation, delivery and completion of Phase 2 passed in its entirety to the WDA.

As a consequence of the transfer of responsibility, the Councils are required to pay to the WDA, European grant monies previously held by the two Councils. This funding package was intended to cover all KEF commitments previously entered into by the two Councils, which remained outstanding to 31 March 2004. In the event of any shortfall, the Councils will recompense the WDA and therefore a contingent liability exists which cannot be quantified. This remained the situation at 31 March 2005.

NOTES TO THE ACCOUNTS (continued)

23. **Derivatives and other financial instruments**

The Council has no borrowings and relies primarily on National Assembly for Wales grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate or currency risk.