

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2007

ANNUAL REPORT

INTRODUCTION AND BACKGROUND

STATUTORY BACKGROUND

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 (the former National Assembly for Wales as constituted by the Government of Wales Act 1998). As a result of the Government of Wales Act 2006, the HEFCW is now an Assembly Government Sponsored Body.

These accounts have been prepared in accordance with the direction made by Welsh Ministers 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.

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

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 and the Education Act 1994.

SEPARATION FROM THE NATIONAL COUNCIL FOR EDUCATION AND TRAINING FOR WALES

From 1 April 2001, the HEFCW shared a number of services with The National Council for Education and Training for Wales (NCETW). On 14 July 2004, the First Minister announced the decision to incorporate the work of the NCETW, but not the HEFCW, directly into the Welsh Assembly Government from 1 April 2006. As a result, the comparative figures in these accounts for 2005-06 represent the last year before formal separation from the NCETW.

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 October 2006 and the Council was still found to be meeting the Investors in People standard. The HEFCW's accreditation is in place until October 2009.

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.

ANNUAL REPORT (continued)

INTRODUCTION AND BACKGROUND (continued)

CREDITOR PAYMENT POLICY

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 2006-07 payment performance indicated that 97.8 per cent of invoices (2005-2006: 95.3%) were paid in accordance with agreed contractual conditions, or where no condition existed, within 30 days of the presentation of a valid invoice.

AUDIT

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. External audit fees in respect of this and other audit work are shown at Notes 4 and 7 to these accounts.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Council's auditors are unaware; and the Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Council's auditors are aware of that information.

COUNCIL MEMBERSHIP

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

Chairman

Professor Sir Roger Williams (*also member of 1 & 11 - see below*)
Former Vice Chancellor, University of Reading

Members

Professor Philip Gummett (*also member of 2, 3, 10 & 11 - see below*)

Chief Executive, Higher Education Funding Council for Wales

Mrs Wendy Heppell (*resigned 31 August 2006*) (*also member of 4, 5, 11 & 12 until 31 August 2006 - see below*)

Director, Publicly Funded Services, Business West

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

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

Mr R P V (Tim) Rees (*also member of 4, 6 & 8 - see below*)

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

Professor Sir Brian Smith (*also member of 11 & 13 - see below*)

Former Vice Chancellor, Cardiff University

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

Lecturer at University of Wales Institute, Cardiff

Professor D Garell Rhys OBE (*also member of 6 & 8 - see below*)

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

ANNUAL REPORT (continued)

INTRODUCTION AND BACKGROUND (continued)

COUNCIL MEMBERSHIP (continued)

Mrs Tina Stephens (*also member of 1, 5 & 6 - see below*)

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

Professor Nigel Stott CBE (*also member of 4 - see below*)

Emeritus Professor, Wales College of Medicine, Cardiff University

Professor Mari Lloyd-Williams (*appointed 1 January 2007*)

Director of Community Studies, University of Liverpool

Mr Kenneth Richards (*appointed 1 January 2007*)

Former Senior Lecturer in Taxation and Finance, University of Wales, Aberystwyth

Assessor appointed by Welsh Ministers

Dr David Bacon

Head of Higher Education Division, Department for Education, Culture and the Welsh Language, Welsh Assembly Government

1 Remuneration Committee; 2 Widening Access Committee; 3 Quality Assessment Committee; 4 Audit & Risk Committee; 5 Corporate Governance Working Group; 6 Human Resources Committee; 7 Welsh Medium Strategy Steering Group; 8 Reconfiguration Panel; 9 Third Mission Committee; 10 Learning and Teaching Committee; 11 Strategic Development Fund Assessment Panel; 12 ITT Accreditation Panel; 13 Research Sounding Group.

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

MANAGEMENT COMMENTARY

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 economy of Wales; and to
- ensure high quality, accredited teacher training provision across Wales.

In all that the Council does it is committed to maintaining and upholding the enduring core higher education values of:

Scholarship and Learning

Sustaining a culture which demands disciplined thinking and intellectual integrity, encourages curiosity, challenges existing ideas and generates new ones.

Civic Responsibility

Playing a major role in encouraging good citizenship and in shaping a democratic, inclusive society founded on respect for the rights of the individual and their responsibilities to society as a whole.

ANNUAL REPORT (continued)

MANAGEMENT COMMENTARY (continued)

Mission Statement and Strategic Aims (continued)

Lifelong Learning

Enabling individuals to develop their capabilities to their highest potential throughout life.

Sustainability

Working to ensure that the sector develops structurally in a manner that best supports the delivery of the strategic aims and remains internationally competitive.

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;
- vi) **Making it Work: The Higher Education Sector in Wales:** a strong emphasis on reconfiguration, collaboration and other measures to sustain improved performance of individual institutions and the HE system as a whole; and
- vii) **Making it Work: HEFCW:** being an effective public body by (i) having the capability and infrastructure that enables us to work effectively internally and with all our stakeholders and partners (especially the Welsh Assembly Government and the HE sector in Wales); and (ii) being an employer of choice.

Remit Letter

In February 2006 the Minister for Education and Lifelong Learning issued the annual remit letter to the Council. This sets out the Welsh Assembly Government's guidance to the Council for the year and the priorities and outputs the Minister expects the Council to deliver and which should be reflected in the Council's Operational Plan.

Operational Plan

Of the 46 actions identified in the Operational Plan for 2006-07, 40 were achieved, four were partially achieved, with the balance of these carried forward to the 2007-08 Operational Plan, and two were carried forward in their entirety.

Some of the key Operational Plan actions were to:

- *Undertake a full evaluation of the Reaching Wider initiative and review our widening access policy, and report to the Assembly by January 2007. A report was submitted in January 2007.*

ANNUAL REPORT (continued)

MANAGEMENT COMMENTARY (continued)

Operational Plan (continued)

- *Provide advice to the Welsh Assembly Government on what further steps might need to be taken to support preparation for the next Research Assessment Exercise (RAE) and to strengthen capacity more broadly, by January 2007. Advice submitted on further allocation of Reaching Higher funding in support of the 2008 RAE and £5m subsequently allocated.*
- *Review outcomes of the Council's first three year third mission funding cycle and adjust the funding methodology in readiness for the next three year cycle commencing in 2007/08. Achieved and resultant revised allocations will be shared with the sector in 2007/08.*
- *Work with the sector to produce a plan for the reconfiguration of Initial Teacher Training (ITT) provision, incorporating expected reductions in ITT numbers, for submission to the Assembly in November 2006. This was achieved, and recommendations were submitted on 30 November 2006.*
- *Refine the analysis undertaken during 2005-06 on comparative funding levels for HE between Wales and other parts of the UK, and submit an updated report to the Assembly in September 2006. This was achieved.*

These actions were in addition to the Council's successful achievement of its regular activities which included issuing the recurrent grant allocations, making prompt payments to institutions and analysing and providing feedback on institutions' strategic plans.

Financial review

This year's accounts reflect a change in the way in which revenue grants and grant in aid plus general capital grants are accounted for, in accordance with the Government Financial Reporting Manual for 2006-07. Such payments from a controlling party (the Welsh Assembly Government) are required to be regarded as funding and credited to the general fund in the balance sheet rather than as operating income for the year, or as a movement on the government grant reserve. The detailed impact on the 2005-06 comparative figures as prior year adjustments is shown in notes 2 and 15.

As a result, the net operating costs for the year were £429.2 million (2005-06 net operating costs £388 million). The cumulative general fund at 31 March 2007 after crediting grant in aid funding of £433.5 million, was £11.8 million (2005-06 £7.2 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 general fund balances. The financial statements will always record a net operating costs result for the year as a result of the crediting of funding received to the general fund in the balance sheet. 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 £43,000 in the year.

ANNUAL REPORT (continued)

REMUNERATION REPORT

Remuneration policy

The remuneration of the Chairman, the Council Members and the Chief Executive is set by the Welsh Assembly Government.

The remuneration of the Chairman and Council Members is governed by the Welsh Assembly Government's Scheme for Remunerating Chairs and Members of ASPBs and NHS Bodies introduced on 1 April 2004.

The Chief Executive's remuneration is set by the Welsh Assembly Government and may include a performance related bonus of up to 10% based on the assessment of performance targets set by the Chairman of the Council.

The director's remuneration is set in accordance with the approved pay and grading system within the Council, which applies to all staff appointments. The Council's overall levels of remuneration and its annual pay remit, which apply to all staff including the corporate director are approved by the Welsh Assembly Government.

No specific bonus is payable to the director although an annual performance award equivalent to one step increment on salary bandings can be made in accordance with the performance appraisal process which applies to all staff appointments.

Remuneration committee

The HEFCW has a Remuneration Committee which is responsible for reviewing annually the performance of the Chief Executive and the director. The committee, consisting at any time of at least two members, both of whom are Council Members, has delegated authority to consider matters affecting the pay and performance bonus of the Chief Executive and make recommendations for approval to the Welsh Assembly Government accordingly.

Salary and pension disclosures*

Position	Name	Salary	Real Increase in Pension & Lump Sum	Pension at 31/03/07 & Lump Sum	CETV at 01/04/06 (Restated)	CETV at 31/03/07	Real increase in CETV as funded by employer
		£	£'000	£'000	£'000	£'000	£'000
Chairman	Prof Sir Roger Williams	£15,168 (2005-06 : 14,760)	N/A	N/A	N/A	N/A	N/A
Chief Executive	Prof Philip Gummatt	£107,053 (2005-06 : 97,375)	0 – 2.5 pension plus 2.5 – 5 lump sum	5 – 10 pension plus 20 – 25 lump sum	163	199	29
Director of Finance and Corporate Services	Richard Hirst	£81,787 (2005-06 : 76,064)	0 – 2.5 pension	35 -40 pension	622	674	30

Richard Hirst is a member 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 'pensions' below).

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

ANNUAL REPORT (continued)

REMUNERATION REPORT (continued)

Salary and pension disclosures* (continued)

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 £4,752 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.

* This information is subject to audit

Pensions

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 in 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 from a selection of approved products. 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).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60 or immediately on ceasing to be an active member of the scheme if they are already 60.

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

ANNUAL REPORT (continued)
REMUNERATION REPORT (continued)

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a 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 Cabinet Office's Civil Superannuation 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.

Professor Philip Gummett
Chief Executive and Accounting Officer
11 July 2007

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 Welsh Ministers, 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, recognised gains and losses and cash flows for the financial year.

In preparing the financial statements the Council is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the accounts direction issued by Welsh Ministers, 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 as set out in the *Government Financial Reporting Manual* 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 for the Welsh Ministers 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 for the keeping of proper records and for safeguarding the Council's assets, are set out in the 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 AGSB 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, the impact should they be 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 2007 and up to the date of approval of the accounts and accords with Treasury Guidance.

Capacity to handle risk

- 3 The following processes have been established to manage risk within the HEFCW:
- a) the corporate risk register is reviewed at each meeting of the Audit and Risk Committee and quarterly by the Council;
 - b) the Management Board, which comprises all the senior managers in the organisation, reviews and updates the corporate risk register on a quarterly basis before it goes to the Audit Committee and Council;
 - c) individual members of the Management Board are responsible for managing the key corporate risks arising from their areas of responsibility and for assessing and managing the operational risks arising in their areas; and
 - d) all senior managers have been briefed on the Council's *Risk Management Policy and Guidelines* and are aware of their responsibilities for risk management both individually and as heads of 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;
 - 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.

STATEMENT ON INTERNAL CONTROL (continued)

Review of effectiveness

5 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Council and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6 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.

7 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. In addition, the Council's own processes identified an instance where a contract value had been exceeded and Welsh Assembly Government approval should have been obtained. The Welsh Assembly Government has subsequently given retrospective approval. Procedures have been reviewed and strengthened to prevent similar instances occurring.

Professor Philip Gummett
Chief Executive and
Accounting Officer

11 July 2007

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

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

I certify that I have audited the financial statements of the Higher Education Funding Council for Wales for the year ended 31 March 2007 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Operating Cost Statement, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Council, the Chief Executive and the Auditor General for Wales

The Council and the Chief Executive are responsible for preparing the Annual Report, including a Remuneration Report and the Financial Statements in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Council's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions issued thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises Introduction and Background, Management Commentary and the unaudited part of the Remuneration Report is consistent with the financial statements. I also report 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.

In addition, I report to you if the Higher Education Funding Council for Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control on pages 11 & 12 reflects the Higher Education Funding Council for Wales' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this Statements covers all risks and controls, or to form an opinion on the effectiveness of the Higher Education Funding Council for Wales' corporate governance procedures or its risk and control procedures.

I also read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Higher Education Funding Council for Wales' circumstances, consistently applied and adequately disclosed.

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

Basis of audit opinion (continued)

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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error 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 also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by Welsh Ministers, of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2007 and of its net operating costs and cash flows for the year then ended;
- the financial statements and part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions made thereunder; and
- information given within the Annual Report, which comprises Introduction and Background, the Management Commentary and the unaudited part of the Remuneration Report is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, 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.

Report

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
23 July 2007

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

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

		2007		2006 restated	
	Note	£'000	£'000	£'000	£'000
EXPENDITURE					
<i>Funding of higher education:</i>					
Recurrent expenditure	4	403,703		358,310	
Capital expenditure	4	11,564		15,026	
Other purposes	6	30,440		32,301	
		<u>445,707</u>		<u>405,637</u>	
<i>Council expenditure:</i>					
Administration costs	7	795		841	
Staff costs	8	2,006		1,847	
Depreciation	11	113		109	
Amortisation	12	9		10	
Notional charges - cost of capital	9	331		267	
		<u>3,254</u>		<u>3,074</u>	
TOTAL EXPENDITURE			448,961		408,711
INCOME FROM ACTIVITIES	3		<u>19,752</u>		<u>20,682</u>
Net operating costs before interest and appropriations			(429,209)		(388,029)
Interest receivable	10		356		299
Appropriations	10		<u>(356)</u>		<u>(299)</u>
Net operating costs for the year transferred to the general fund			<u>(429,209)</u>		<u>(388,029)</u>
Movement on general fund					
			2007		2006 restated
			£'000		£'000
Balance brought forward			7,150		8,134
Net operating costs for year			(429,209)		(388,029)
WAG grant in aid			433,496		386,778
Notional cost of capital adjustment			331		267
Balance carried forward			<u>11,768</u>		<u>7,150</u>

All activities are continuing.

There are no recognised gains and losses in either 2006-07 or in 2005-06.

The notes on pages 18 to 29 form part of these accounts.

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

BALANCE SHEET AS AT 31 MARCH 2007

		2007		2006 restated	
	Notes	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets	11		117		187
Intangible fixed assets	12		<u>10</u>		<u>19</u>
			127		206
CURRENT ASSETS					
Debtors	13	6,036		2,100	
Cash at bank and in hand	22	<u>6,230</u>		<u>6,616</u>	
		12,266		8,716	
CREDITORS					
Amounts falling due within one year	14	<u>(625)</u>		<u>(1,772)</u>	
Net current assets			<u>11,641</u>		<u>6,944</u>
NET ASSETS			<u>11,768</u>		<u>7,150</u>
FINANCED BY :					
CAPITAL AND RESERVES					
General fund	15		<u>11,768</u>		<u>7,150</u>
TOTAL GOVERNMENT FUNDS	15		<u>11,768</u>		<u>7,150</u>

The notes on pages 18 to 29 form part of these accounts.

Signed on behalf of the Council

Professor Philip Gummett
Chief Executive and Accounting Officer
11 July 2007

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Notes	2007 £'000	2006 restated £'000
Operating activities			
Net cash outflow from operating activities	21	(434,170)	(383,834)
Returns on investments and servicing of finance			
Interest received		346	306
Interest surrendered to the Welsh Assembly Government		(346)	(306)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(43)	(226)
Payments to acquire intangible fixed assets		-	(29)
Net cash outflow before financing		<u>(434,213)</u>	<u>(384,089)</u>
Financing			
Welsh Assembly Government Funding		433,496	386,778
Welsh Assembly Government notional cost of capital adjustment		331	267
(Decrease)/increase in cash	22	<u><u>(386)</u></u>	<u><u>2,956</u></u>

The notes on pages 18 to 29 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 Welsh Ministers, 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, the Government Financial Reporting Manual 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 European Social Fund projects is credited to the general fund in the year in which expenditure is incurred. EU income in support of European Social Fund projects is credited to the operating cost statement 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) **Funding**

Grant in aid is received from the Welsh Assembly Government to fund its general revenue and capital activities. This amount of grant in aid is regarded as financing and is credited to the general fund on receipt.

(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**

Until 31 March 2006, 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 were allocated directly to the financial statements of the relevant Council. However, there were joint costs that could not reasonably be allocated directly to the two Councils and, following an annual internal review, these costs were apportioned on the basis of activity undertaken for each Council. On 1 April 2006, the National Council merged into the Welsh Assembly Government.

NOTES TO THE ACCOUNTS (continued)

1. Accounting policies (continued)

(f) Notional charges

Cost of Capital:

As directed by Welsh Ministers, a notional capital charge reflecting the cost of capital employed, is included in operating costs and calculated at 3.5% (2005-06 - 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 shown below. A full year's depreciation is charged in the year of acquisition.

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

Any office alterations included within fixtures and fittings are amortised over the remaining period of the lease, from the date of purchase.

(i) Intangible fixed assets

Software licences costing more than £500 are capitalised.

Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life as shown below. A full year's amortisation is charged in the year of acquisition.

Software licences	- 3 years
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(j) Value Added Tax

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

(k) Operating Leases

Operating lease rentals are charged to the operating cost statement in the year to which they relate.

NOTES TO THE ACCOUNTS (continued)

2. Change of accounting policy

The Government Financial Reporting Manual for 2006-07 has introduced a change from 2006-07, in the way that revenue grants and grant in aid plus general capital grants should be accounted for. Under these changes such payments from a controlling party are required to be regarded as funding and credited to the general fund rather than as operating income for the year, or as a movement on the government grant reserve. This change will also impact on the presentation of this funding in the cash flow statement. For these purposes, the Welsh Assembly Government is regarded as a controlling party.

Prior year adjustments have therefore been made to the 2005-06 comparative figures as follows (see also note 15):

- Crediting grant in aid of £386,778,000 and the related notional cost of capital adjustment of £241,000 to the general fund rather than to the operating cost statement (with corresponding changes to the cash flow statement);
- Transferring £70,000 from the opening balance of the government grant reserve to the opening balance of the general fund in 2005-06

These changes do not affect the overall level of taxpayers' equity as represented by capital and reserves.

In addition, in order to better reflect the reclassification of this funding as financing, the net operating results are no longer required to be included in a statement of total recognised gains and losses. As a result no statement of recognised gains and losses is necessary this year.

3. Income from activities

	2007 £'000	2006 £'000
Welsh Assembly Government – Financial contingency and mature students' access bursary funds (a)	5,278	5,109
European Union – European Social Fund	1,992	1,894
Office of Science & Technology - Science Research Infrastructure Fund	12,482	13,679
	19,752	20,682

- (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

	Recurrent	2007 Capital	Total	2006 Total restated
	£'000	£'000	£'000	£'000
Higher Education Institutions				
University of Wales, Aberystwyth	37,551	980	38,531	34,901
University of Wales, Bangor	37,174	944	38,118	34,417
Cardiff University	114,283	2,845	117,128	111,308
University of Wales Swansea	43,210	1,102	44,312	40,464
University of Wales, Lampeter	7,100	225	7,325	6,818
North East Wales Institute	16,830	545	17,375	15,529
University of Wales, Newport	20,928	682	21,610	19,987
University of Wales Institute, Cardiff	29,960	947	30,907	27,491
Swansea Institute of Higher Education	17,234	539	17,773	16,326
Trinity College Carmarthen	6,828	243	7,071	6,161
University of Glamorgan (see (a) below)	51,949	1,642	53,591	44,646
Royal Welsh College of Music and Drama (see (a) below)	4,856	140	4,996	5,593
University of Wales Registry	1,420	-	1,420	1,286
Open University (see (b) below)	7,258	430	7,688	4,182
Sub-total	396,581	11,264	407,845	369,109
Further Education Institutions				
Bridgend College	67	-	67	24
Coleg Sir Gâr	1,170	-	1,170	1,014
Coleg Llandrillo	1,332	-	1,332	1,076
Coleg Menai	53	-	53	22
Neath Port Talbot College	115	-	115	110
Coleg Morgannwg	412	-	412	423
Swansea College	37	-	37	67
Sub-total	3,186	-	3,186	2,736
Other Organisations				
Arad Consulting Ltd	40	-	40	-
Economic and Social Research Council	1,000	-	1,000	-
EKOS Consulting	24	-	24	-
Equality Challenge Unit	30	-	30	-
Evidence Ltd	21	-	21	-
Centre for Higher Education Research & Information	-	-	-	37
Department of Employment and Learning Northern Ireland	-	-	-	21
Higher Education Funding Council for England (HEFCE)	2,937	300	3,237	2,641
HERO Ltd	28	-	28	25
The Higher Education Academy	885	-	885	596
Institute of Employment Studies	49	-	49	29
Integrated Web Systems Ltd	20	-	20	-
London Economics	27	-	27	-
NCETW	-	-	-	24
OPM	-	-	-	104
PMMS Limited	-	-	-	184
Quality Assurance Agency	77	-	77	68
SQW Ltd	21	-	21	-
UKERNA	146	-	146	36
Universities UK	56	-	56	81
Wales Audit Office – audit fees, EU-funded projects	14	-	14	26
York Consulting Ltd	27	-	27	-
Other	451	-	451	374
Sub-total	5,853	300	6,153	4,246
Total	405,620	11,564	417,184	376,091
Less ESF funded expenditure (see note 6)	(1,917)	-	(1,917)	(2,755)
Total	403,703	11,564	415,267	373,336

(a) On 1 January 2007 the Royal Welsh College for Music and Drama (RWCMD) became a wholly owned subsidiary of the University of Glamorgan. As a result, funding for the RWCMD above is for the period to 31 December 2006 and funding for the University of Glamorgan includes funding for RWCMD from 1 January 2007.

(b) The responsibility for the funding of the Open University in Wales together with the associated funding, was transferred from HEFCE to HEFCW as from August 2005.

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' 2005/06 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 2006 did not lead to any material adjustments. Any adjustment arising from the audit of 2006/2007 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**

	2007 £'000	2006 £'000
Financial contingency and mature students access bursary funds (a)	5,279	5,109
European Social Fund (b)	1,917	2,755
Science Research Infrastructure Fund	23,244	24,437
	<u>30,440</u>	<u>32,301</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) are subject to separate audits. Any adjustment arising from these audits will be accounted for in future years.

7. **Administration costs**

	2007 £'000	2006 £'000
Accommodation costs	347	262
Office costs	90	78
Bought in services	47	208
Auditors' remuneration – Annual audit fee of the HEFCW	16	16
Auditors' remuneration – Additional assurance report work	4	3
Council members' travel and subsistence costs	9	13
Council members' meeting costs	22	18
Staff travel and subsistence costs	44	48
Staff related expenditure on training etc.	105	102
Information technology costs	111	93
	<u>795</u>	<u>841</u>

Administration costs exclude £22k charged to programme recurrent costs (2006 - £32k).

NOTES TO THE ACCOUNTS (continued)

8. **Staff costs**

(a) **Analysis**

	2007			2006		
	Staff	Council Members (inc Chief Executive)	Total	Staff	Council Members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,788	160	1,948	1,626	156	1,782
Social security costs	140	14	154	113	14	127
Other pension costs	328	25	353	280	24	304
Total payroll costs	2,256	199	2,455	2,019	194	2,213
Less costs charged to programme recurrent costs	(449)	-	(449)	(366)	-	(366)
Administration payroll costs	1,807	199	2,006	1,653	194	1,847

(b) **Pensions**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but 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 2006-07, employers' contributions of £353,045 were payable to the PCSPS (2005-06 £303,613) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

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

The Higher Education Funding Council for Wales employed an average of 57 full time equivalent staff during the financial year ending 31 March 2007, as follows:

	2007 Numbers	2006 Numbers
Senior Management	2	2
Policy Teams	30	32
Finance & Corporate Services	25	23
	<u>57</u>	<u>57</u>

NOTES TO THE ACCOUNTS (continued)

8. **Staff costs** (continued)

(c) **Average Number of Staff Employed** (continued)

	2007	2006
	Numbers	Numbers
Staff with a permanent UK employment contract	54	51
Other staff - temporary	1	3
Other staff - seconded	2	3
	<hr/>	<hr/>
	57	57

9. **Notional charges**

	2007	2006 restated
	£'000	£'000
Cost of capital - 3.5 % (2006 – 3.5%) of capital employed	331	267

10. **Appropriations**

	2007	2006
	£'000	£'000
Receipts surrenderable to the Welsh Assembly Government:		
Bank interest	356	299

11. **Tangible fixed assets**

	IT Equipment	Fixtures & Fittings	Electrical equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2006	264	31	43	338
Additions	36	-	7	43
At 31 March 2007	<hr/> 300	<hr/> 31	<hr/> 50	<hr/> 381
Depreciation				
At 1 April 2006	125	12	14	151
Charged during year	91	13	9	113
At 31 March 2007	<hr/> 216	<hr/> 25	<hr/> 23	<hr/> 264
Net book value at 31 March 2007	84	6	27	117
Net book value at 1 April 2006	<hr/> 139	<hr/> 19	<hr/> 29	<hr/> 187

NOTES TO THE ACCOUNTS (continued)

12. **Intangible fixed assets**

	Software licences £'000
Cost	
At 1 April 2006	29
Additions	-
At 31 March 2007	<u>29</u>
Amortisation	
At 1 April 2006	10
Charged during year	9
At 31 March 2007	<u>19</u>
Net book value at 31 March 2007	<u>10</u>
Net book value at 1 April 2006	<u>19</u>

13. **Debtors**

	2007 £'000	2006 restated £'000
Trade debtors	-	9
Prepayments and accrued income	4,801	1,617
Balances with other central government bodies	1,235	474
	<u>6,036</u>	<u>2,100</u>

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

	2007 £'000	2006 £'000
Trade creditors	107	-
Accruals	518	1,352
Balances with other central government bodies	-	420
	<u>625</u>	<u>1,772</u>

NOTES TO THE ACCOUNTS (continued)

15. Effects of prior year adjustments on general funds

a) General fund

	2006 restated £'000
At 1 April 2005	
As originally stated	8,064
Transfer from government grant reserve (note 15(b))	70
As restated at 1 April 2005	<u>8,134</u>
Net operating costs for year	(388,857)
WAG grant in aid	386,778
WAG notional cost of capital adjustment	241
Prepaid programme recurrent expenditure	854
As restated at 31 March 2006	<u><u>7,150</u></u>

b) Government grant reserve

At 1 April 2005	
As originally stated	70
Transfer to general fund (note 15 (a))	(70)
As restated at 1 April 2005	<u><u>-</u></u>

The prior year adjustment in respect of the programme recurrent expenditure in the general fund above, relates to the correction of an omission of a prepayment at 31 March 2006. All other prior year adjustments detailed above result from the change in accounting policy referred to in note 2 to these accounts.

16. Lease obligations

	2007 £'000	2006 £'000
Amounts charged to the operating cost statement for operating lease rentals in respect of accommodation	<u>157</u>	<u>108</u>
Annual commitment on leases expiring within:		
One year	68	-
Two to five years	-	154
Over five years	<u>91</u>	<u>-</u>

17. Capital commitments

	2007 £'000	2006 £'000
Contracted	<u>4</u>	<u>-</u>

NOTES TO THE ACCOUNTS (continued)

18. **Financial commitments**

	2007 £'000	2006 £'000
Revenue grants (a)	157,553	147,885
European projects (b)	23	3,430
	<u>157,576</u>	<u>151,315</u>

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

(b) European projects will be funded as follows:

	2007 £'000	2006 £'000
European Social Fund grants	23	2,584
Grant in aid from the Welsh Assembly Government	-	846
	<u>23</u>	<u>3,430</u>

The European projects also have financial commitments of £38k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

19. **Losses and special payments**

	2007 £	2006 £
Fruitless payments	<u>708</u>	<u>2,425</u>

20. **Related party transactions**

The Welsh Assembly Government is regarded as a related party. During the year, the HEFCW has had various material transactions with the Welsh Assembly Government for which it is regarded as the parent Department.

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: -

HIGHER EDUCATION FUNDING COUNCIL FOR WALES

NOTES TO THE ACCOUNTS (continued)

20. Related party transactions (continued)

Name	Relationship
Dr Len Arthur (Council member)	♦ Senior Lecturer; University of Wales Institute, Cardiff.
	♦ Son-in Law, European Commission, Framework 7 Consultation.
Mr RPV (Tim) Rees (Council member)	♦ Member & Chairman of Audit Committee, Representative Body of the Church in Wales.
Professor Sir Brian Smith (Council member)	♦ International ambassador, Cardiff University
Mrs Tina Stephens (Council member)	♦ Member of Advisory Board for School of Business & Regional Development at UW Bangor.
Professor D Garel Rhys, OBE (Council member)	♦ Chairman, Economic Research Advisory Panel of the National Assembly for Wales.
	♦ Emeritus Professor, Cardiff University.
	♦ Member of Ministerial Advisory Group (DEIN)
	♦ Honorary Fellow, Swansea Institute of Higher Education.
	♦ Daughter in Law, Lecturer at University of Wales, Newport.
Professor Nigel Stott, CBE (Council Member)	♦ Emeritus Professor, Wales College of Medicine, Cardiff University.
Mr Kenneth Richards	♦ Treasurer, University of Wales Guild of Graduates
	♦ Member, University of Wales, Aberystwyth Investments Committee
Professor Mari Lloyd-Williams	♦ Son, student at University of Wales, Bangor
Professor Philip Gummett (Chief Executive)	♦ Wife, part-time tutor at Swansea Institute of Higher Education.
Mr Richard Hirst (Director of Finance & Corporate Services)	♦ 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.

21. Reconciliation of net operating costs for the year to net cash outflow from operating activities

	2007	2006
		restated
	£'000	£'000
Net operating costs	(429,209)	(388,029)
Amortisation charges	9	10
Depreciation charges	113	109
(Increase)/decrease in debtors	(3,926)	4,276
Decrease in creditors	(1,157)	(200)
Net cash outflow from operating activities	(434,170)	(383,834)

NOTES TO THE ACCOUNTS (continued)

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

	2007	2006
	£'000	£'000
(Decrease)/increase in cash	(386)	2,956
Net funds as at 1 April	6,616	3,660
Net funds as at 31 March	<u>6,230</u>	<u>6,616</u>
Analysis of net funds:		
Cash at bank and in hand	<u>6,230</u>	<u>6,616</u>

23. **Derivatives and other financial instruments**

The Council has no borrowings and relies primarily on Welsh Assembly Government 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.

24. **Post balance sheet events**

The Accounting Officer authorised these financial statements for issue on 24 July 2007.