

**HIGHER EDUCATION FUNDING COUNCIL FOR WALES**

**FINANCIAL STATEMENTS FOR THE YEAR**

**ENDED 31 MARCH 2004**

# 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 £0.981 million (2002-03 deficit £0.771 million). Cumulative retained reserves at 31 March 2004 were £5.794 million (2002-03 £4.831 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 £27,000 in the year.

These statements cover the eleventh 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 the Annual Report.

### SEPARATION FROM THE NATIONAL COUNCIL FOR EDUCATION AND TRAINING FOR WALES

Last year's foreword reported that the recommendations of the Rawlings Report, that the Council should have its own Chief Executive and Director of Finance and Risk, rather than share them with the National Council for Education and Training for Wales, had been implemented. During the course of the year, further steps have been taken to strengthen the Council's own staffing and systems, thereby reducing the degree to which the Council depends on shared staff and systems. In particular, the Council has appointed dedicated finance staff.

Since the end of the financial year, the two Councils have made a joint submission to the Welsh Assembly Government proposing the complete operational separation of the Councils.

### KNOWLEDGE EXPLOITATION FUND

In May 2003, the 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.

### 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. A further assessment will take place in September 2004.

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.

## HIGHER EDUCATION FUNDING COUNCIL FOR WALES

### 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 2003-04 payment performance indicated that 83 per cent of invoices (2002-2003: 75%) 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 (*see 5 below*)  
*Former Vice Chancellor, University of Reading*

##### Members

Professor Philip Gummett (from December 2003) (*see 1 below*)  
*Interim Chief Executive, Higher Education Funding Council for Wales (December 2003 to May 2004), Chief Executive from May 2004*

Steve Martin (to December 2003)  
*Chief Executive, Higher Education Funding Council for Wales*

Mrs Wendy Heppell (from October 2003) (*see 2 below*)  
*Director of Enterprise, Chwarae Teg*

Ms Eleri Wynne Jones (*see 3 below*)  
*Retired part-time lecturer, formerly at the University of Wales Bangor*

Professor Gwyn Thomas (*see 4 below*)  
*Retired Professor of Welsh, University of Wales, Bangor*

Dr Geoffrey P Thomas (*see 2 below*)  
*Head of Continuing Education Department, Oxford University and President of Kellogg College*

Mrs Perminder Dhillon  
*Senior lecturer at the University of Central Lancashire*

Professor Angela John (to May 2003)  
*Professor of History at the University of Greenwich*

Mr R P V (Tim) Rees (*see 2 below*)  
*Chartered Accountant; former Chair of Governors at the University of Glamorgan*

Professor Sir Brian Smith  
*Former Vice Chancellor, Cardiff University*

Dr Len Arthur (*see 6 below*)  
*Lecturer at University of Wales Institute, Cardiff*

Professor D Garel Rhys OBE (from October 2003)  
*Director of the Centre for Automotive Industry Research at Cardiff University's Business School*

Mrs Tina Stephens (*see 3 below*)  
*Specialist in management and staff development; Chief examiner for Chartered Institute of Personnel and Development.*

1 Member of Reaching Wider Steering Group; 2 Member of Audit & Risk Committee; 3 Member of both Human Resources and Remuneration Committees; 4 Member of Human Resources Committee; 5 Member of Remuneration Committee; 6 Member of Third Mission Committee.

**HIGHER EDUCATION FUNDING COUNCIL FOR WALES**

**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  
31 August 2004

**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 rôle 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. There was a change in Accounting Officer during the year and my appointment was effective from December 2003.

### 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 2004 and up to the date of approval of the annual report and accounts with the one exception noted below. The system of internal control accords with Treasury Guidance, but did not fully comply throughout the year. This was because the system for explicitly monitoring the key risks for the HEFCW was revised during the year to link the risks more explicitly with the Corporate Strategy and Plan and then to integrate them into the Operational Plan. This took some time to complete.

### 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;
  - 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; and
  - e) the HEFCW is now completing the process of transferring to its revised approach to risk management. Training needs will be reassessed early in 2004-05.

### 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 Corporate and Operational Plans that are approved by the Welsh Assembly Government. These plans identify the key risks to achieving the HEFCW's objectives and the management action proposed to mitigate the risks;
  - 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)

### The risk and control framework (continued)

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 HEFCW's services from the National Council, one feature of which was implementation of an action plan agreed with the Principal Accounting Officer. A particular feature of the Action Plan was the establishment of a dedicated HEFCW finance team.

### 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. 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.

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; and
- 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.

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. The internal audit service reviews progress in implementing recommendations on a monthly basis and the results of these reviews are reported through the Audit and Risk Committee who advise the Chief Executive and the Council on the adequacy of management responses.

Professor Philip Gummatt  
Chief Executive and  
Accounting Officer

31 August 2004



## **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 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 certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 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 2004 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.

*John Bourn*  
**Auditor General for Wales**  
**20 September 2004**

**3-4 Park Place**  
**Cardiff**  
**CF10 3DP**

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004**

	Note	2004 £'000	2003 £'000
<b>GROSS INCOME</b>			
Grant in aid	2(a)	350,179	338,433
Release from government grant reserve	2(b)	45	38
Other income	3	<u>16,323</u>	<u>16,124</u>
<b>TOTAL INCOME</b>		<b>366,547</b>	<b>354,595</b>
<b>EXPENDITURE</b>			
<i>Funding of higher education:</i>			
Recurrent expenditure	4	322,792	310,552
Capital expenditure	4	13,331	15,779
Other purposes	6	<u>27,277</u>	<u>27,233</u>
		<u>363,400</u>	<u>353,564</u>
<i>Council expenditure:</i>			
Administration costs	7	557	458
Staff costs	8	1,591	1,306
Depreciation	11	18	38
Notional charges - cost of capital	9	<u>186</u>	<u>314</u>
		<u>2,352</u>	<u>2,116</u>
<b>TOTAL EXPENDITURE</b>		<b><u>365,752</u></b>	<b><u>355,680</u></b>
<b>Surplus/(deficit) on operating activities</b>		<b>795</b>	<b>(1,085)</b>
Interest receivable	10	274	229
Adjustment for notional charge (cost of capital)	9	186	314
Appropriations	10	<u>(274)</u>	<u>(229)</u>
<b>Surplus/(deficit) for the year transferred to reserves</b>		<b><u>981</u></b>	<b><u>(771)</u></b>

**Movement on reserves**

	2004 £'000	2003 £'000
Retained surplus brought forward	4,790	5,561
Surplus/(deficit) for year	<u>981</u>	<u>(771)</u>
Retained surplus carried forward	<u><u>5,771</u></u>	<u><u>4,790</u></u>

All activities are continuing

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	Note	2004 £'000	2003 £'000
Surplus/(deficit) for year		981	(771)
Movement in government grant reserve	2(b)	<u>(18)</u>	<u>(27)</u>
Total recognised gains and losses relating to year		<u>963</u>	<u>(798)</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 2004**

	Notes	2004		2003	
		£'000	£'000	£'000	£'000
<b>FIXED ASSETS</b>					
Tangible fixed assets	11		23		41
<b>CURRENT ASSETS</b>					
Debtors	12	1,698		523	
Cash at bank and in hand	21	6,394		6,729	
		<u>8,092</u>		<u>7,252</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	13	<u>(2,321)</u>		<u>(2,462)</u>	
Net current assets			<u>5,771</u>		<u>4,790</u>
<b>NET ASSETS</b>			<u>5,794</u>		<u>4,831</u>
<b>FINANCED BY :</b>					
<b>CAPITAL AND RESERVES</b>					
Income and expenditure account			5,771		4,790
Government grant reserve	2(b)		<u>23</u>		<u>41</u>
<b>TOTAL GOVERNMENT FUNDS</b>	14		<u>5,794</u>		<u>4,831</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  
 31 August 2004

**CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2004**

	Notes	2004 £'000	2003 £'000
<b>Operating activities</b>			
Net cash (outflow)/ inflow from operating activities	20	(335)	170
<b>Returns on investments and servicing of finance</b>			
Interest received		252	259
Interest surrendered to the National Assembly for Wales		(252)	(259)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(27)	(11)
<b>Net cash (outflow)/ inflow before financing</b>		<u>(362)</u>	<u>159</u>
<b>Financing</b>			
Government grant reserve	2	27	11
<b>(Decrease)/increase in cash</b>	21	<u>(335)</u>	<u>170</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% (2002-03 - 6%) 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 is 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

	2004 £'000	2003 £'000
Grant in aid received	350,206	338,444
Less amounts used for capital expenditure	(27)	(11)
	<u>350,179</u>	<u>338,433</u>

(b) Government grant reserve

	2004 £'000	2003 £'000
Balance at 1 April	41	68
Capital grants received in year	27	11
Less amounts released to income and expenditure account	(18)	(38)
Less capital amounts reclassified as revenue re prior years (see note 11) released to income and expenditure account	(27)	-
Balance at 31 March	<u>23</u>	<u>41</u>

3. **Other Income**

	2004 £'000	2003 £'000
Welsh Assembly Government – Financial contingency and mature students’ access bursary funds (a)	5,129	5,044
Welsh Assembly Government - Knowledge Exploitation Fund (b)	1,145	4,642
European Union - European Social Fund – Old projects (c)	(587)	1,792
European Union – European Social Fund – New projects	858	-
Office of Science & Technology - Science Research Infrastructure Fund	9,291	4,646
Other	487	-
	<u>16,323</u>	<u>16,124</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.

(b) The Knowledge Exploitation Fund (“KEF”) represents grant received from the Welsh Assembly Government. Its prime purpose is to be used to provide match funding for European grants, to enable a real difference to be made in the way knowledge is applied to industry. Responsibility for KEF transferred to the Welsh Development Agency on 14 January 2004 (see note 22).

# HIGHER EDUCATION FUNDING COUNCIL FOR WALES

## NOTES TO THE ACCOUNTS (continued)

### 3. Other income (continued)

(c) European Social Fund income includes an adjustment in 2003-04 for overclaimed income in previous years in respect of old projects, of which £242k is due to be repaid to the Welsh European Funding Office (see 'other creditors' in note 13).

### 4. Funding of higher education

	2004			2003
	Recurrent £'000	Capital £'000	Total £'000	Total £'000
<b>Higher Education Institutions</b>				
University of Wales, Aberystwyth	29,402	1,260	30,662	30,411
University of Wales, Bangor	29,300	1,178	30,478	30,333
Cardiff University	81,491	2,191	83,682	72,897
University of Wales College of Medicine	18,443	605	19,048	17,582
University of Wales Swansea	34,769	1,365	36,134	36,659
University of Wales, Lampeter	5,693	293	5,986	5,621
North East Wales Institute	14,062	754	14,816	14,072
University of Wales, Newport	16,820	937	17,757	18,366
University of Wales Institute, Cardiff	22,721	1,224	23,945	23,993
Swansea Institute of Higher Education	12,035	665	12,700	13,112
Trinity College Carmarthen	5,385	308	5,693	5,283
University of Glamorgan	41,652	2,073	43,725	44,452
Royal Welsh College of Music and Drama	4,870	304	5,174	5,198
University of Wales Registry	679	-	679	568
<b>Sub-total</b>	<b>317,322</b>	<b>13,157</b>	<b>330,479</b>	<b>318,547</b>
<b>Further Education Institutions</b>				
Bridgend College	106	-	106	192
Coleg Sir Gâr	1,060	-	1,060	1,434
Coleg Llandrillo	1,192	-	1,192	1,103
Coleg Gwent	-	-	-	42
Coleg Menai	110	-	110	177
Neath Port Talbot College	120	-	120	163
Pembrokeshire College	6	-	6	31
Coleg Morgannwg	505	-	505	484
Swansea College	96	-	96	146
<b>Sub-total</b>	<b>3,195</b>	<b>-</b>	<b>3,195</b>	<b>3,772</b>
<b>Other Organisations</b>				
HERO Ltd	13	-	13	22
Higher Education Funding Council for England	1,679	38	1,717	2,111
Quality Assurance Agency	42	-	42	364
Strategic Marketing	-	-	-	42
Arts and Humanities Research Board	1,587	-	1,587	1,227
CRG	-	-	-	73
The British Council	-	-	-	25
Forum For the Future	-	-	-	29
United Kingdom Education & Research Networking Association	50	136	186	68
KPMG LLP	45	-	45	-
OPM	89	-	89	-
Scottish Higher Education Funding C'ncil	212	-	212	-
Universities UK	33	-	33	-
Wales European Centre	25	-	25	-
Other organisations	37	-	37	51
<b>Sub-total</b>	<b>3,812</b>	<b>174</b>	<b>3,986</b>	<b>4,012</b>
<b>Total</b>	<b>324,329</b>	<b>13,331</b>	<b>337,660</b>	<b>326,331</b>
<b>Less ESF funded expenditure (see note 6)</b>				
- New projects	1,537	-	1,537	-
<b>Total</b>	<b>322,792</b>	<b>13,331</b>	<b>336,123</b>	<b>326,331</b>

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

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' 2002/03 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 2003 did not lead to any material adjustments. Any adjustment arising from the audit of 2003/2004 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**

	2004 £'000	2003 £'000
Financial contingency and mature students access bursary funds (a)	5,129	5,046
Knowledge Exploitation Fund (b) (c)	1,145	4,986
European Social Fund (c) (d) – Old projects	(587)	1,793
European Social Fund – New projects	1,537	-
Science Research Infrastructure Fund	20,053	15,408
	<u>27,277</u>	<u>27,233</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) Refer to Note 3 (b)
- (c) 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.
- (d) European Social Fund expenditure includes an adjustment in 2003-04 for overpaid claims to institutions in previous years in respect of old projects, which is due to be recovered from institutions (see 'other debtors' in note 12).

7. **Administration costs**

	2004 £'000	2003 restated £'000
Accommodation costs	155	171
Office costs	163	154
Bought in services	58	41
Auditors' remuneration – Annual audit fee of the HEFCW	13	10
Auditors' remuneration – Additional assurance report work	3	2
Council members' travel and subsistence costs	20	2
Staff travel and subsistence costs	43	39
Staff related expenditure on training etc.	80	33
Council related costs	-	2
Information technology costs	22	4
	<u>557</u>	<u>458</u>

**NOTES TO THE ACCOUNTS (continued)**

7. **Administration costs** (continued)

In the published 2002-03 accounts, the costs of temporary staff were included within Administration costs. They are now included in Staff costs (note 8) and prior year figures have been amended accordingly.

8. **Staff costs**

(a) **Analysis**

	2004			2003		
	Staff	Council Members (inc Chief Executive)	Total	Staff	Council Members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Salaries	1,236	177	1,413	1,002	79	1,081
National insurance	90	14	104	75	5	80
Pension costs	163	15	178	134	4	138
Temporary staff	24	-	24	7	-	7
Total payroll costs	1,513	206	1,719	1,218	88	1,306
Less costs charged to programme recurrent costs	(128)	-	(128)	-	-	-
Administration payroll costs	1,385	206	1,591	1,218	88	1,306

(b) **Salary and pension disclosures**

Position	Name	Salary	Real Increase in Pension & Lump Sum	Pension at 31/03/04 & Lump Sum	CETV at 01/04/03	CETV at 31/03/04	Real increase in CETV as funded by employer
		£	£'000	£'000	£'000	£'000	£'000
Chairman	Roger Williams	14,099	N/A	N/A	N/A	N/A	N/A
Interim Chief Executive (from December 2003) (formerly Director of Higher Education)	Philip Gummett	82,245	0 – 2.5 plus 2.5 - 5 lump sum	0 – 5 plus 10 – 15 lump sum	39	64	22
Director of Finance	Richard Hirst	71,617	0 – 2.5	30 - 35	319	353	15
Former Chief Executive (to December 2003)	Steve Martin	71,444	0 – 2.5	45 - 50	501	519	9

Richard Hirst and Steve Martin 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 £2,823 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.

The former Chief Executive also received severance pay of £45,427 which was paid in accordance with his approved contractual terms.

#### (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. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2003-04, employers' contributions of £177,665 were payable to the PCSPS (2002-03 £138,253) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to revalorisation of the salary bands, but will increase from 2005-06. The contribution rates reflect benefits as they are accrued, not when the costs 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 1/80<sup>th</sup> 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 1/60<sup>th</sup> 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](http://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 39 full time equivalent staff during the financial year ending 31 March 2004, as follows:

	2004	2003 restated
	Numbers	Numbers
Senior Management	3	2
Higher Education Directorate	25	20
Corporate Services Directorate	7	8
Finance & Risk Directorate	4	5
	<u>39</u>	<u>35</u>

NOTES TO THE ACCOUNTS (continued)

9. **Notional charges**

	2004	2003
	£'000	£'000
Cost of capital - 3.5 % (2003 – 6%) of capital employed	186	314

10. **Appropriations**

	2004	2003
	£'000	£'000
Receipts surrenderable to the National Assembly for Wales:		
Bank interest	274	229

11. **Tangible fixed assets**

	IT Equipment	Fixtures & Fittings	Electrical equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2003	181	263	39	483
Reclassification	(49)	(47)	-	(96)
Additions	27	-	-	27
At 31 March 2004	159	216	39	414
Depreciation				
At 1 April 2003	169	239	34	442
Reclassification	(45)	(24)	-	(69)
Charged during year	13	1	4	18
At 31 March 2004	137	216	38	391
Net book value at 31 March 2004	22	-	1	23
Net book value at 1 April 2003	12	24	5	41

As a consequence of the change in capitalisation limits for equipment, assets with a gross cost of £96,000 have been removed from the fixed assets register as at 1 April 2003. The net book values of these assets (£27k) have been transferred to the appropriate expense category in line with the new capitalisation thresholds.

12. **Debtors**

	2004	2003
	£'000	£'000
Prepayments and accrued income	253	438
Other debtors (a)	1,445	85
	1,698	523

(a) This includes an amount of £587k recoverable from HE institutions (see note 6) (2003 - £nil) and £858k receivable from the Welsh European Funding Office in respect of claims for new projects under the European Social Fund (2003 - £nil).

NOTES TO THE ACCOUNTS (continued)

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

	2004 £'000	2003 £'000
Trade creditors	27	54
Accruals	709	451
Deferred income	-	1,108
Other creditors (a)	1,585	849
	<u>2,321</u>	<u>2,462</u>

(a) This includes an amount owed to the NCETW by the HEFCW at 31 March 2004 of £905k (2003 - £849k). This also includes an amount of £242k payable to the Welsh European Funding Office (see note 3).

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

	2004 £'000	2003 £'000
Retained surplus/(deficit) for the year	981	(771)
Movement on government grant reserve	(18)	(27)
Movement in government funds	<u>963</u>	<u>(798)</u>
Government funds at 1 April	4,831	5,629
Government funds at 31 March	<u>5,794</u>	<u>4,831</u>

15. **Lease obligations**

	2004 £'000	2003 £'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**

	2004 £'000	2003 £'000
Contracted	<u>-</u>	<u>12</u>



NOTES TO THE ACCOUNTS (continued)

17. **Financial commitments**

	2004	2003
	£'000	£'000
Revenue grants (a)	129,704	127,107
Capital grants (a)	-	564
European projects (b)	4,325	1,250
	<u>134,029</u>	<u>128,921</u>

(a) These amounts will be funded by grant in aid from the Welsh Assembly Government

(b) European projects will be funded as follows:

	2004	2003
	£'000	£'000
European Social Fund grants	2,737	181
Knowledge Exploitation Funds from the Welsh Assembly Government	-	1,069
Grant in aid from the National Assembly for Wales	1,588	-
	<u>4,325</u>	<u>1,250</u>

The European projects also have financial commitments of £2,720k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

18. **Losses and special payments**

	2004	2003
	£	£
Bad debts	227	-
Fruitless payments	1,526	182
	<u>1,753</u>	<u>182</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 have entered into relationships or transactions that are considered to be related parties, and which are shown in the table below: -

Council Member	Relationship
Dr Len Arthur	◆ Senior Lecturer; University of Wales Institute, Cardiff & Director Research & Graduate Studies UWIC Business School
	◆ Member of NATFHE (National Association of Teachers in Further & Higher Education).
	◆ Member of BUIRA (British Universities Industrial Relations Association).
	◆ Member of ILTHE (Institute for Learning and Teaching in Higher Education).
	◆ Council Member, Bevan Foundation.
	◆ Board Member and Trustee, Promo-Cymru Ltd
	◆ Member of Society of Cooperative Studies
	◆ Daughter, Executive Officer; National Assembly for Wales
	◆ Son-in Law, Senior Patent Examiner, Patent Office, Newport – on secondment to European Commission
Professor Angela John	◆ External Examiner, University of Glamorgan
	◆ Author/Editor : University of Wales Press
	◆ Member, Lord Chancellor's Advisory Council on National Archives
Mr RPV (Tim) Rees	◆ 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	◆ Member of Board of Governors, University of Glamorgan
	◆ Director of Higher Aims.
	◆ Director of Guillemont Trust
	◆ Vice Chair, Oxford University Society
	◆ Board Member, International Festival of Musical Theatre, Cardiff
Professor Gwyn Thomas	◆ External Examiner, University of Wales, Cardiff University.
	◆ Daughter works for National Assembly for Wales.
Mrs Wendy Heppell	◆ Director of Enterprise, Chwarae Teg
	◆ Member, Royal Society of Chemistry
	◆ Member of Bursary Committee, University College, Oxford
Professor D Garell Rhys, OBE	◆ Chairman, Economic Research Advisory Panel of the Welsh Assembly Government
	◆ Daughter in Law, Lecturer at University of Wales, Newport

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 during the year.

NOTES TO THE ACCOUNTS (continued)

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

	2004	2003
	£'000	£'000
Operating surplus/(deficit) (before financing and appropriations)	795	(1,085)
Depreciation charges	18	38
Fixed assets reclassified	27	-
Amount released from deferred government grant reserve	(45)	(38)
Notional charge - cost of capital	186	314
(Increase) in debtors	(1,175)	(295)
(Decrease)/ increase in creditors	(141)	1,236
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(335)</b>	<b>170</b>

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

	2004	2003
	£'000	£'000
(Decrease)/increase in cash	(335)	170
Net funds as at 1 April	6,729	6,559
<b>Net funds as at 31 March</b>	<b>6,394</b>	<b>6,729</b>
<b>Analysis of net funds:</b>		
Cash at bank and in hand	6,394	6,729

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 on 14 January 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.

The financial commitments detailed in the Transfer Agreement have been brought to account in these financial statements.

**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.