

# Higher Education Funding Council for Wales Annual report and accounts

For the year ended 31 March 2017



Noddir gan  
**Lywodraeth Cymru**  
Sponsored by  
**Welsh Government**

## Annual report and accounts

### Contents

	Page
<b>Performance report</b>	
Overview	
Accounting Officer's statement on performance	3
About HEFCW	4
Key issues and risks	6
Performance in year – overview	7
Operational plan outcomes	7
Progress against corporate strategy measures	8
Financial overview	11
Expected future developments	12
Performance analysis	
Corporate strategy objectives - commentary	12
Financial analysis	16
Sustainability	17
<b>Accountability report</b>	
Corporate governance report	
Directors' report	20
Statement of Accounting Officer's responsibilities	23
Governance statement	24
Remuneration and staff report	
Directors' remuneration policy and remuneration committee	32
Remuneration (including salary) and pension entitlements	33
Fair pay disclosures	37
Staff report	38
<b>The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales</b>	<b>42</b>
<b>Financial statements</b>	<b>45</b>

# Performance report

## Overview

### Accounting Officer's statement on performance

The reporting year has again brought significant changes for us, arising from the Higher Education (Wales) Act 2015 ('the HE Act'). We have continued to modify our own role, with arrangements around fee planning and quality assurance changing, and our role as a higher education regulator strengthening. We continue to work with Welsh higher education providers, both universities and further education colleges, to secure a smooth transition and to ensure that our new duties are carried out effectively.

We have needed to give further consideration to the most effective ways of targeting our funding, following a £10 million reduction in our budget for the 2016-17 financial year, followed by a further £21 million being moved from our budget and being put towards tuition fee grant funding in year. Against this backdrop, an additional £20 million of grant funding was made available by the Welsh Government for expenditure on a number of specified priorities. We worked with funded higher education providers to be able to approve the allocation of that additional funding before the end of the 2016-17 year.

Towards the end of 2015-16, the Welsh Government published Professor Ellen Hazelkorn's '*Towards 2030*'. This review of the regulation arrangements for post-compulsory education and training in Wales recommended replacing HEFCW with a single new authority to regulate, oversee and co-ordinate all post-16 education and training. The initial response of the Welsh Government to Professor Hazelkorn's report, in which the Cabinet Secretary indicated approval in principle, was made in January 2017 and will result in a formal consultation in due course.

Professor Sir Ian Diamond published his final report on higher education funding and student finance arrangements in Wales, which has been accepted by the Welsh Government. The Welsh Government has issued a consultation on the recommendations, which will conclude in the summer of 2017. In the meantime, we have started work with the Welsh Government on the range of tasks required to implement his report. The final report, which followed an extensive, evidence-based process during 2016-17, reflected the need to secure a world-class Welsh higher education system; a system which supports jobs and growth but which also makes a major contribution to culture, the arts and to equality and social cohesion.

We were remitted by the Welsh Government to prepare a draft Welsh Government higher education strategy for consideration by the Cabinet Secretary. We prepared the strategy using the framework provided by the 'Future Generations' Act and, following extensive consultation, submitted the draft to the Cabinet Secretary in December 2016.

There are seventeen targets in HEFCW's Corporate Strategy 2013-14 to 2016-17<sup>1</sup>, baseline data for which was academic year 2011/12. These relate to the performance of the HE sector in Wales. In the light of a range of contextual pressures, this performance was somewhat mixed this year. Details of progress made are given in 'Progress against Corporate Strategy measures' below on pages 8 to 11.

The tasks in our operational plan focus on priorities identified by the Welsh Government in its annual remit letter to us. Good progress was made, with 142 activities, from a total of 151 completed. (see 'Operational Plan – outcomes' below on page 7).

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<sup>1</sup>[www.hefcw.ac.uk/documents/publications/corporate\\_documents/HEFCW%20Corporate%20Strategy%202013%2014%20to%202016%2017.pdf](http://www.hefcw.ac.uk/documents/publications/corporate_documents/HEFCW%20Corporate%20Strategy%202013%2014%20to%202016%2017.pdf)

We showcased many of the successes coming from the higher education sector in our January 2017 publication 'Innovation'. We highlighted the numerous positive contributions of Welsh higher education providers to the economic and social prosperity of our country through innovation across a wide range of fields. Individually and collectively, we should be proud of our universities. They are an investment which contributes to Wales as a vibrant nation, and well-resourced higher education providers find it easier to uphold their reputations, attract students and meet the broader needs of Wales. For the foreseeable future, we will continue both to invest in these higher education providers and to hold them to account, making sure students have a first-rate experience at strong, sustainable providers.

### **About HEFCW**

The Higher Education Funding Council for Wales (HEFCW) is the public body that regulates fee levels at higher education (HE) providers, ensure a framework is in place for assessing the quality of higher education and scrutinise the financial, governance and risk performance of universities. We distribute resources for higher education teaching and research, and help to deliver Welsh Government priorities for higher education for the wider benefit of society and the economy.

We are a Welsh Government Sponsored Body, originally established under the Further and Higher Education Act 1992. The Higher Education (Wales) Act 2015 has given us an enhanced role as a regulator of HE in Wales. A transitional period for our duties under the new Act commenced on 1 September 2015, which will be fully implemented from 1 August 2017. We distribute funding for HE provided by the Welsh Government. This includes:

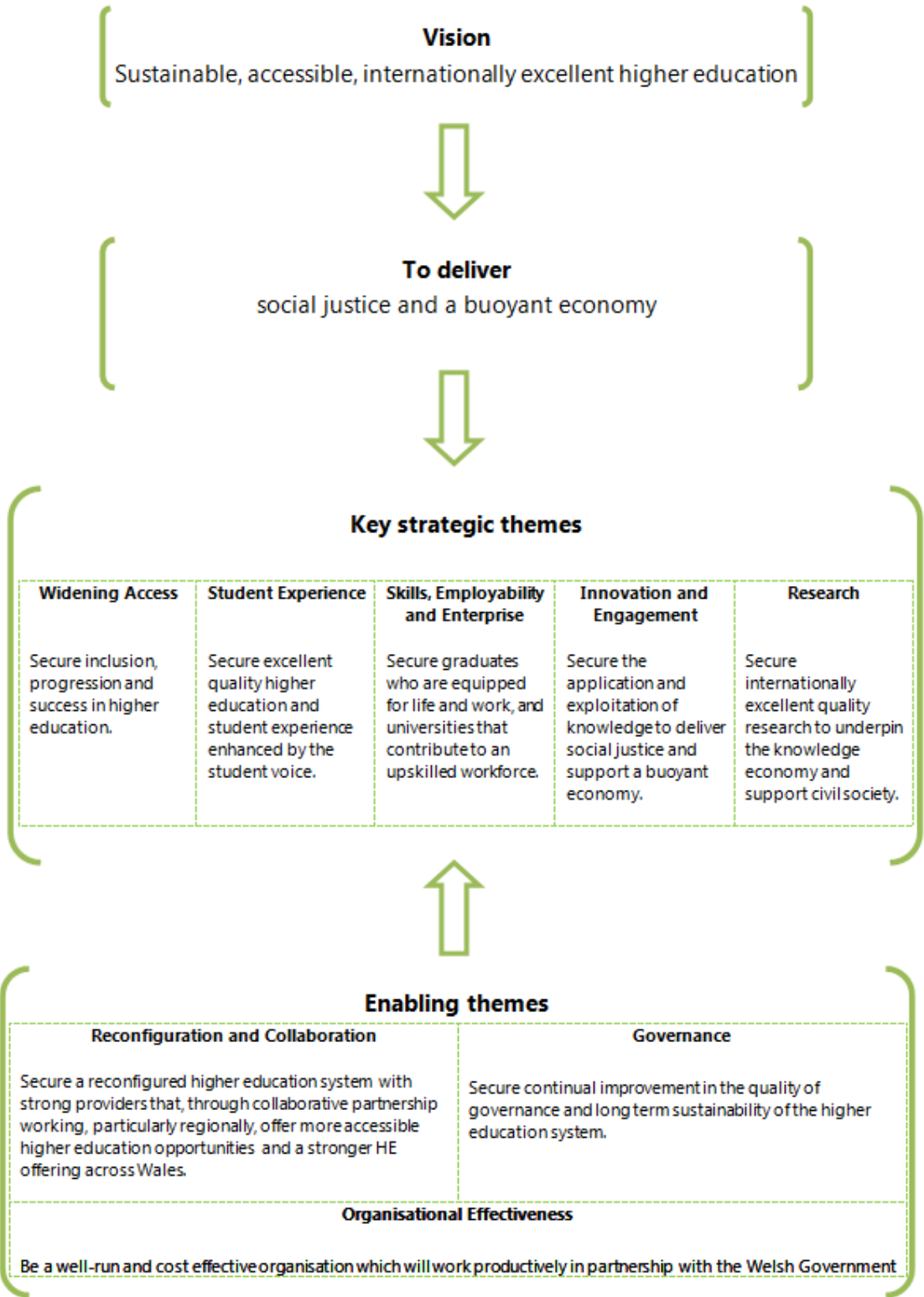
- Teaching, research and other funding to Welsh universities.
- Funding for HE courses at some further education colleges.

We also accredit providers of initial teacher training (ITT) for school teachers. Our responsibilities for ITT are covered under the Education (School Teachers' Qualifications) (Wales) Regulations 2004 and the Education Act 2005.

The key elements of our strategy have, throughout the year, been those set out in our corporate strategy for 2013-14 to 2016-17 and are set out below. Welsh Government officials approved an extension to our Corporate Strategy document to take it through to 2017, in order to take account of the advent of a new Welsh Government in May 2016.

Our strategic framework is set out in the HEFCW Corporate Strategy 2013-14 to 2016-17 as follows:

**HEFCW's strategic framework**



**Key issues and risks**

Key issues for us during the year are detailed as ‘significant risks’ in our Governance Statement on pages 24 to 31. In summary, they consisted of:

- Significant budget reductions
- Brexit
- Welsh Government’s reviews of higher education funding and of governance arrangements for post-compulsory education in Wales (*Diamond* and *Hazelkorn* Reviews)
- Developments in England and the potential impact on Welsh higher education

A revised corporate risk register of our key strategic risks was agreed by our Council in March 2017, and is subject to regular review. The main risks are summarised in the table below. The corporate risk register is structured to reflect all significant risks assessed by our teams in relation to their objectives and projects, including all appropriate corporate and operational plan objectives. Were these risks to materialise they would have a significant negative impact on HEFCW and/or on the higher education sector in Wales as a whole.

This does not mean these risks will definitely occur; rather, the risk register indicates that these are areas of risk which we need to be aware of and respond to in order to perform our role effectively. Monitoring and assessing key risks and current controls allows us to evaluate the effect of these major uncertainties on our corporate strategy and operational plan objectives. Where appropriate we can then make adjustments to our control measures.

Risk area	Main risk(s)
Sustainability and assurance	<ul style="list-style-type: none"> <li>• HE institutions which are sub-optimal in scale may be susceptible to changes in funding and/or in demand and may result in financial failure.</li> </ul>
Governance and assurance	<ul style="list-style-type: none"> <li>• Unsatisfactory governance standards may lead to poor oversight of decision-making and/or finances and may result in financial failure.</li> </ul>
Widening access	<ul style="list-style-type: none"> <li>• Failure of sector to meet part-time corporate strategy target.</li> </ul>
Student experience	<ul style="list-style-type: none"> <li>• Failure to secure effective delivery of Initial Teaching Training.</li> <li>• Failure to secure excellent quality higher education and student experience in context of funding changes which is competitive in the UK and in the international environment, with an associated impact on morale and the recruitment of students and staff.</li> <li>• HEFCW unable to meet its statutory responsibilities for quality under the HE (Wales) Act in light of changes to quality assurance arrangement and the Teaching Excellence Framework.</li> </ul>
Research	<ul style="list-style-type: none"> <li>• Decline in sector’s research performance if QR funding is reduced as a result of reductions in HEFCW’s grant-in-aid funding.</li> </ul>
HEFCW operating risks	<ul style="list-style-type: none"> <li>• Welsh Government fails to engage with, and utilise HEFCW effectively in relation to HE developments.</li> <li>• HEFCW funding is inadequate to support strategic investments and core priorities.</li> <li>• Significant adverse impact on HE sector arising from Brexit affecting funding and cross-border flow of students/staff leading to failure of HEFCW corporate strategy targets.</li> </ul>

## Performance in year - overview

We are required by the Welsh Government to have a corporate plan setting out our medium to long-term objectives and an operational plan for the financial year ahead. Quarterly updates and monitoring meetings are held with the Welsh Government to monitor progress against the operational plan.

The Framework Document, which sets out the terms of the relationship between the Welsh Government and HEFCW, requires us to set budgets and monitor expenditure. This is achieved by issuing monthly budget reports and re-profiling cash expenditure on a quarterly basis. We also monitor our cash balances on a monthly basis to ensure that they are kept within prescribed limits.

## Operational plan - outcomes

Of the 151 activities identified in our operational plan:

- 142 were completed.
- 8 were not completed within the planning period due to external factors.
- 1 was no longer applicable due to external factors.

Our achievements in 2016-17 included:

- Approving 10 fee and access plans for 2017/18 that commit regulated providers to invest over £105 million in activities to improve equality of opportunity and promote higher education.
- Developing a financial management code, which sets out the requirements concerning the organisation and management of financial affairs to which regulated providers must adhere.
- Publishing a full statement of intervention, which sets out our processes for taking action when a serious issue arises at a regulated provider.
- Developing a new quality assessment framework for Wales that assures us of the quality of higher education in Wales.
- Working with Welsh Government to develop arrangements for the development of degree level qualifications to become part of the Welsh apprenticeship system.
- Commencing the delivery of the new *GO Wales: Achieve through work experience* programme.
- Drafting a Welsh Government higher education strategy for Wales in line with the future generations well-being goals.
- Publishing a collection of case studies, entitled *Innovation Nation*, that highlights the value to the Welsh economy of innovation activities in our universities.
- Publishing our well-being statement and objectives to demonstrate how we will contribute to the achievement of the future generations well-being goals;
- Developing our framework for monitoring HE providers' compliance with the Prevent duty and reporting our conclusions on levels of compliance with this duty to the Home Office.
- Co-funding the Welsh Government's *Sêr Cymru II* programme to attract and nurture research talent at universities in Wales.
- Providing support to the Diamond Review to meet its terms of reference.
- Reaccreditation of the ISO 27001:2013 Information Security Management standard.

## Progress against corporate strategy measures

There are seventeen targets in our Corporate Strategy 2013-14 to 2016-17<sup>2</sup>, baseline data for which was 2011/12. As a means of monitoring our progress over the last five years against the targets, we set out below the latest available information for the academic year to 31 July 2016. Last year, the Welsh Government agreed to an extension of our current Corporate Strategy to 2016-17<sup>3</sup>, in effect providing a further year to reach the targets.

Looking at 2015/16 data and rolling this performance forward, it is possible that the following targets will be met: Retention (Target 3, Full-time); Welsh medium (T6) (5 credit target only); Collaborative research income (T13); and REF (T15). However, institutional forecasts are yet to be received and may show a different picture for some of these targets.

A number of targets are comparative to UK performance or await data on performance and cannot therefore be assessed. This applies to Widening Access (T1), Participation (T2), Part-time (T4); NSS (T5); Overseas students (T7); Quality (T8); ITT (T9); Employment (T10); CPD (T12); Research Council income (T14); Income (T16) and Governance (T17).

Performance based on 2015/16 indicates that three targets will not be met: Retention (T3, Part-time); Welsh medium (T6) (40 credits) and Quality (T\*). Data for Employability (T11) is not yet available, and as indicated above, institutional forecasts may show a different picture.

We will continue to monitor progress and work with the higher education sector to encourage improved performance in these policy areas, noting that changes to our powers and funding constrain the extent to which we are able to exercise leverage in these areas.

	Baseline	Progress	Progress	Progress	Progress
<b>1</b>	A rise in the proportion of all Welsh domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are domiciled in the bottom quintile of Lower Super Output Areas in the Welsh Index of Multiple Deprivation or in Communities First cluster areas, <b>from 20.1% in 2011/12 to 22.4% in 2016/17 (a rise of 11.6%)</b>				
	*Baseline and target have been amended to reflect late inclusion of an area in the Communities First initiative				
	2011/12	2012/13	2013/14	2014/15	2015/16
	20.1%	20.7%	20.9%	21.6%	22.3%
<b>2</b>	An increase in the proportion of all UK domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are from UK low participation areas from <b>33.2% in 2011/12 to 35.3% in 2016/17 (a rise of 6.3%)</b>				
	2011/12	2012/13	2013/14	2014/15	2015/16
	33.2%	34.0%	34.3%	35.2%	35.5%

<sup>2</sup>[www.hefcw.ac.uk/documents/publications/corporate\\_documents/HEFCW%20Corporate%20Strategy%202013%2014%20to%202016%2017.pdf](http://www.hefcw.ac.uk/documents/publications/corporate_documents/HEFCW%20Corporate%20Strategy%202013%2014%20to%202016%2017.pdf)

<sup>3</sup> Paragraph 10 of [W15/02HE](#)



## Higher Education Funding Council For Wales

	Baseline	Progress	Progress	Progress	Progress
<b>3 (a)</b> A decrease in the percentage of full-time undergraduate students no longer in higher education following year of entry <b>from 9.2% in 2011/12 to 8.2% in 2016/17 (a drop of 10.7%)</b>					
	2011/12	2012/13	2013/14	2014/15	2015/16
	9.2%	7.5%	7.5%	8.2%	8.1%
<b>3 (b)</b> A decrease in the percentage of part-time first degree students no longer in higher education two years following year of entry <b>from 33.7% in 2011/12 to 30.1% in 2016/17 (a drop of 10.7%)</b>					
	2011/12 (2009/10 entry)	2012/13 (2010/11 entry)	2013/14 (2011/12 entry)	2014/15 (2012/13 entry)	2015/16 (2013/14 entry)
	33.7%	30.9%	35.5%	34.4%	39.0%
<b>4</b> The percentage change in the number of part-time students attending higher education courses in Welsh higher education institutions and further education institutions to be <b>equal to, or greater than, the comparable figure for the UK</b>					
	2010/11 to 2011/12 % growth	2011/12 to 2012/13 % growth	2012/13 to 2013/14 % growth	2013/14 to 2014/15 % growth	2014/15 to 2015/16% % growth
<b>Welsh</b>	-2.2%	-4.8%	-3.4%	-4.0%	-9.5%
<b>UK</b>	-6.0%	-13.8%	-7.3%	-5.1%	-4.4%
<b>5</b> The three year rolling average score for Wales in the National Student Survey 'overall satisfaction'* question will be <b>equal to, or greater than the comparative score for the UK</b> * 'Score' means percentage of students who agreed with 'Overall, I am satisfied with the quality of my course'.					
3 year rolling average	2010 to 2012	2011 to 2013	2012 to 2014	2013 to 2015	2014 to 2016
<b>Welsh</b>	83.3%	83.7%	84.3%	84.7%	85.7%
<b>UK</b>	83.3%	84.3%	85.3%	85.7%	86.0%
<b>6</b> The number of students studying higher education courses at higher education institutions and further education institutions in Wales undertaking at least 5 credits of their course through the medium of Welsh, per annum, will rise from 4,335 in 2011/12 to 5,600 in 2016/17, including a rise from 2,269 to 3,030 in the number of those studying at least 40 credits per annum					
	2011/12	2012/13	2013/14	2014/15	2015/16
<b>5+ credits</b>	4,335	4,882	4,832	5,399	6,784
<b>40+ credits</b>	2,269	2,360	2,445	2,633	2,860
NB there have been manual amendments to previous years' data on this strategy measure					
<b>7</b> The percentage change year on year in the number of overseas students attending higher education courses in Welsh higher education institutions will be <b>equal to, or greater than, the comparable figure for UK higher education institutions</b> (excluding London and the South East)					
<b>% growth</b>	2010/11 to 2011/12	2011/12 to 2012/13	2012/13 to 2013/14	2013/14 to 2014/15	2014/15 to 2015/16
<b>Welsh</b>	-1.5%	-1.4%	7.4%	-5.1%	-11.1%
<b>UK</b> (excl London and SE England)	2.6%	0.7%	4.1%	0.3%	-2.4%
<b>8</b> All institutions being reviewed in the Corporate Strategy period to receive QAA Institutional Review outcomes of <b>'commended' or 'Meets UK expectations' for all judgements'</b> . Data complete as at 31 May 2017					
	2013/14	2014/15	2015/16	2016/17	
Number reported in period	1	3	2	4	
Number 'commended' or 'meets UK expectation'	1	3	2	2	

	Baseline	Progress	Progress	Progress	Progress
<p><b>9</b> Welsh Government intake targets for ITT undergraduate primary, postgraduate primary, undergraduate secondary, postgraduate secondary priority and postgraduate secondary other subjects to be <b>met annually</b>  <b>NB: Intake targets are monitored at individual centre, phase, level and subject using HESES data and if any individual target is over-recruited to by more than 5% a penalty is applied. No penalties were applied in 2012/13, 2013/14, 2014/15 or 2015/16. Under-recruitment is allowed but is monitored<sup>4</sup>. The Corporate Strategy target is monitored at sector level using HESA data.</b></p>					
		2012/13	2013/14	2014/15	2015/16
	Primary UG	2%	-1%	-3%	-10%
	Primary PG	4%	2%	-1%	-8%
	Secondary UG	-15%	-52%	-69%	-65%
	Secondary PGCE-priority	-18%	-12%	-31%	-49%
	Secondary PGCE - other	3%	-1%	-14%	-24%
<p><b>10</b> The proportion of leavers from Welsh higher education institutions obtaining undergraduate qualifications through full-time or part-time study who were employed, studying or both six months after leaving will be <b>equal to, or greater than, the UK proportion</b></p>					
	2010/11	2012/13	2013/14	2014/15	2015/16
<b>Welsh</b>	92.2%	93.5%	94.2%	93.6%	Data not available
<b>UK</b>	91.5%	93.1%	93.8%	94.3%	Data not available
<p><b>11</b> The proportion of leavers who were working or working and studying who were working in a managerial/professional job six months after leaving to rise from <b>67.5% in 2010/11 to 72.7% in 2016/17 (a rise of 7.7%)</b></p>					
	2010/11	2012/13	2013/14	2014/15	2015/16
	67.5%	68.4%	70.2%	68.6%	Data not available
<p><b>12</b> The total number of learner days delivered by Welsh higher education institutions for continuing professional development will rise from <b>202,498 in 2011/12 to 226,000 in 2016/17 (a rise of 11.6%)</b></p>					
	2011/12	2012/13	2013/14	2014/15	2015/16
	202,498	213,534	206,147	248,867	232,488
<p><b>13</b> The total amount of income from collaborative research involving both public funding and funding from business will rise from <b>£65,294k in 2011/12 to £72,000k in 2016/17 (a rise of 10.3%)</b></p>					
	2011/12	2012/13	2013/14	2014/15	2015/16
	65,294k	70,006k	83,135k	83,669k	74,275k

<sup>4</sup>[www.hefcw.ac.uk/documents/publications/circulars/circulars\\_2013/W13%2008HE%20Initial%20Teacher%20Training%20Controls%20on%20recruitment%20against%20intake%20targets.pdf](http://www.hefcw.ac.uk/documents/publications/circulars/circulars_2013/W13%2008HE%20Initial%20Teacher%20Training%20Controls%20on%20recruitment%20against%20intake%20targets.pdf)

## Higher Education Funding Council For Wales

	Baseline	Progress	Progress	Progress	Progress
<b>14 The annual percentage change in income from Research Councils will exceed the comparable figure for UK higher education institutions</b> (excluding the 'golden triangle' of Oxford, Cambridge and London)					
% growth	2010/11 to 2011/12	2011/12 to 2012/13	2012/13 to 2013/14	2013/14 to 2014/15	2014/15 to 2015/16
<b>Welsh UK</b>	-3.6%	-10.1%	5.7%	9.9%	30.9%
	-4.0%	1.6%	6.6%	7.4%	10.1%
<b>15 An increased proportion</b> of research submitted to REF by Welsh higher education institutions will achieve 3* and 4* in the Research Excellence Framework <b>2014 from a baseline of 35% at 3* and 14% at 4*</b> in the 2008 Research Assessment Exercise.					
	2008 RAE		2014 REF		
	4*	14%	4*	30%	
	3*	35%	3*	47%	
<b>16 At least 75% of the Welsh higher education institutions</b> to have an annual income in excess of the UK median, with <b>no institution to be in the lower quartile by 2016/17</b>					
	2011/12	2012/13	2013/14	2014/15	2015/16
In excess of UK median	40%	50%	50%	50%	38%
In lower quartile	30%	13%	13%	13%	13%
<b>17 No higher education institution</b> to be classified as 'high risk' in accordance with HEFCW institutional risk review processes					
	2011/12	2012/13	2013/14	2014/15	2015/16
	0	0	1	1	1

NB There has been a change since the end of the academic year to 31 July 2016 in respect of strategic measure 17. One additional higher education institution is now classified as 'high risk', making a new total of two.

### Financial overview

<i>Performance in year</i>	2017 £000	2016 £000
Funding of higher education	143,086	133,975
Council expenditure	2,691	2,752
Other income	(17,809)	(8,046)
Interest payable	-	1
Grant in aid – funding from the Welsh Government	(121,614)	(125,747)
Decrease in Taxpayers' Equity	(6,354)	(2,935)

Grant in aid funding from the Welsh Government has fallen by 3.3% since last year, whereas the increase in 'Other income' is mainly due to the receipt of £7.9m funding from the UK Research Partnership Investment Fund for a research project at Cardiff University (see note 2 to the accounts).

The increase in 'Funding of Higher Education' expenditure is also largely attributable to the £7.9m funding of the Cardiff University research project referred to above (see also note 5).

See the Statement of Comprehensive Net Expenditure and the Statement of Changes in Taxpayers' Equity on pages 45 and 48 for further details.

## Expected future developments

Over the next twelve months, we will better forge our own identity and develop the strategic direction for higher education in Wales, while continuing to implement the requirements of the Higher Education (Wales) Act 2015.

- Our new corporate strategy will take effect in August 2017. In the meantime, we will be carrying out an extensive consultation on its development.
- Under the Higher Education (Wales) Act 2015, we have specific duties relating to: Fee and access plans; the quality of education; a Financial Management Code for regulated providers; and a Statement of Intervention, showing what happens if a regulated provider fails to reimburse excess student fees or fails to address identified quality issues. We will carry on with our formal consultations on a number of aspects of our new requirements over the current 'transitional period', while continuing to talk to providers about any issues or concerns they have before the full execution of our new duties in August 2017.
- We will be fully engaged in implementing any changes that arise as a result of subsequent Welsh Government actions in respect of the implementation of the Diamond reforms.
- We will also be supporting the Welsh Government in implementing any changes to our remit once it considers in more detail the recommendations of Professor Ellen Hazelkorn's review *Towards 2030*.

## Performance analysis

### Corporate strategy objectives - commentary

*Widening Access: To secure inclusion, progression and success in higher education*

In our role as regulator, we approved, in August 2016, ten fee and access plans from higher education providers for the academic year 2017/18. The approved plans set out how these providers will invest around £105 million of full-time undergraduate student tuition fee income to support equality of opportunity and the promotion of higher education, including more than £29 million of total investment for student bursaries, scholarships and hardship funding. These are the first plans under the Higher Education (Wales) Act 2015.

We have provided funding of £1.7 million for the national Reaching Wider Programme to support three, regional Reaching Wider Partnerships in West and Mid, South West and South East Wales. The Partnerships facilitate joint working between HEIs, FEIs, schools and others, such as local authorities and third sector agencies, to work with people of all ages in Communities First and Welsh Index of Multiple Deprivation (WIMD) areas and with care leavers. Activities to raise awareness of higher education opportunities and learning skills the Reaching Wider Partnerships have delivered include: Summer schools, GCSE revision sessions, transitional and peer mentoring programmes, family and adult learning opportunities and employability and enterprise skills events.

We published our second Strategic Equality Plan 2016-20 and annual equality report for the period 2015-16. We continue to fund, with Universities Wales, the Equality Challenge Unit and we are members of the Unit's Welsh Liaison Group.

*Student Experience: To secure excellent quality higher education and student experience, enhanced by the student voice*

We consulted on a new Quality Assessment Framework for Wales. This included an increased focus on the student voice, far more so than in any other country of the UK, in the spirit of Wise Wales, which we continued to fund. The framework includes:

- Arrangements for established providers, building on established and tested approaches to data benchmarking and analysis, intelligence gathering (including from students), risk assessment, and assurance;
- strengthened arrangements to secure degree standards and their reasonable comparability across the UK, led by the sector representative bodies;
- tailored but rapid intervention where necessary;
- protection of the international reputation of the UK higher education brand, including through the assurance of transnational education; and
- arrangements for automatic and specific designation to access student support.

We consulted on aspects of the framework in 2016-17, including on governing body annual assurance statements related to quality. The outcome was the agreement to have an increased focus on the student voice, including a requirement for the governing body to consider a report on the annual dialogue between the provider and the student body, scrutinised student survey outcomes, and to put action plans in place in partnership with the student body; and to emphasise the role of the student charter, by requiring the governing body to confirm that it has received a copy of the relationship agreement between the provider and the student union, and a copy of the student charter, both of which have been reviewed within the past year. Following consultation, it was also agreed that Wales would participate in transnational quality assurance visits, together with the other countries of the UK.

We published a consultation on revising student charter guidance, which included making links with the Competition and Markets Authority guidance on the provision of information for students. We also published a [Good practice guide on publishing information for prospective undergraduate students](#), jointly with the other UK funding bodies. We also signed a Memorandum of Understanding with the National Union of Students Wales.

Overall satisfaction with the higher education experience rose to 86% in Wales, according to the 2016 National Student Survey. Wales had the highest overall satisfaction with the student union at 71% (compared to an average of 68% across the UK). Three providers obtained overall satisfaction outcomes which were statistically above their benchmark: Aberystwyth University, Bangor University, and Swansea University. A new UK-wide National Student Survey was launched, with an increased emphasis on student engagement. This will report in August 2017.

*Skills, Employability and Enterprise: To secure graduates who are equipped for life and work, and universities that contribute to an upskilled workforce.*

Our investment in part-time courses helps ensure lower fees for part-time courses, helping to make learn-as-you-earn or improving skills affordable for more people. Universities have pointed to their successes in improving the 'employability' of their graduates, with high proportions of graduates not only employed but in graduate jobs.

Welsh universities and directly-funded colleges submitted plans to us to develop degree level qualifications that could ultimately sit on an apprenticeship framework. These qualifications will be in the broad subject areas of IT and Computing, Advanced Manufacturing and Engineering and will be developed in partnership with employers, regional skills partnerships and relevant sector skills councils.

We have worked in partnership with Welsh Government to assess the higher education

## Higher Education Funding Council For Wales

element of the skills plans submitted to Welsh Government by Wales's three Regional Skills Partnerships, and provided input to the specification of forthcoming regional skills plans. An individual has been nominated by Welsh universities and directly-funded colleges to report to us on how higher education providers in Wales inform the development of, and respond to, each regional skills plan.

We have been involved at strategic and operational level in the Higher Education Statistics Agency led review of The Destination of Leavers from Higher Education survey. The intention of the review is to develop a new model for collecting information about what higher education students do after graduating.

We secured funding for two new projects to support the employability of young students on HE courses in Wales who are facing barriers to securing work experience. The projects are known as Achieve through Work Experience. They operate under the banner of GO Wales and are part funded by the European Social Fund, with one project in West Wales and the Valleys and one in East Wales. We are the Lead Beneficiary: the Joint Beneficiaries and delivery partners are the Higher Education Providers in Wales. The projects provide a range of work experience opportunities and associated support to students meeting eligibility and suitability criteria, brokering opportunities designed to meet their specific requirements with a range of employers throughout Wales. More information is available at the web site [www.gowales.co.uk](http://www.gowales.co.uk) The projects are currently funded until the end of March 2019 and will help those students most in need of additional support to become better equipped for the world of work.

*Innovation and Engagement: To secure the application and exploitation of knowledge to deliver social justice and a buoyant economy*

The latest Higher Education - Business and Community Interaction (HE-BCI) Survey demonstrated that Welsh universities successfully encourage staff and students to work with businesses, community bodies and the public sector in partnerships that benefit society, influence policies and generate income. It also indicated that there has been growth in the number of patents filed, and an increase in the number of university start-up businesses that are still active after three years.

In March 2017, we published *Innovation Nation*, a collection of case studies which highlight the value to the Welsh economy of innovation activity in our universities. *Innovation Nation* was launched at the Senedd at an event attended by university staff, business representatives and the Minister for Skills and Science. Examples of work highlighted in the report include:

- The BEACON Biorefining Centre of Excellence, led by Aberystwyth University, which supports Wales-based companies to develop renewable energy products and services, assisting in the transition to a low carbon economy.
- The Centre for Entrepreneurship at Cardiff Metropolitan University, which supports student and graduate start-up businesses and helps individuals develop their entrepreneurial skills.
- The Cardiff Partnership Fund and Fusion IP, which has helped turn scientific discoveries into commercially viable projects, improved university-business awareness and brought new products to market.

*Research: To secure research of internationally excellent quality to deliver a buoyant economy and support social justice*

Universities attract funding for research and development, generating jobs and growth. The outcomes of the latest Research Excellence Framework (REF) demonstrated that half of the research submitted by universities in Wales was world-leading in terms of its impact on life beyond academia.

The strong performance of the Welsh research base was further confirmed by a study which we commissioned from Elsevier in 2016 on the *International Comparative Performance of the Welsh Research Base*. The study, which was based on analysis of publications (bibliometrics), found that the research base in Wales continues to be highly productive and efficient, outranking many comparator countries of similar size.

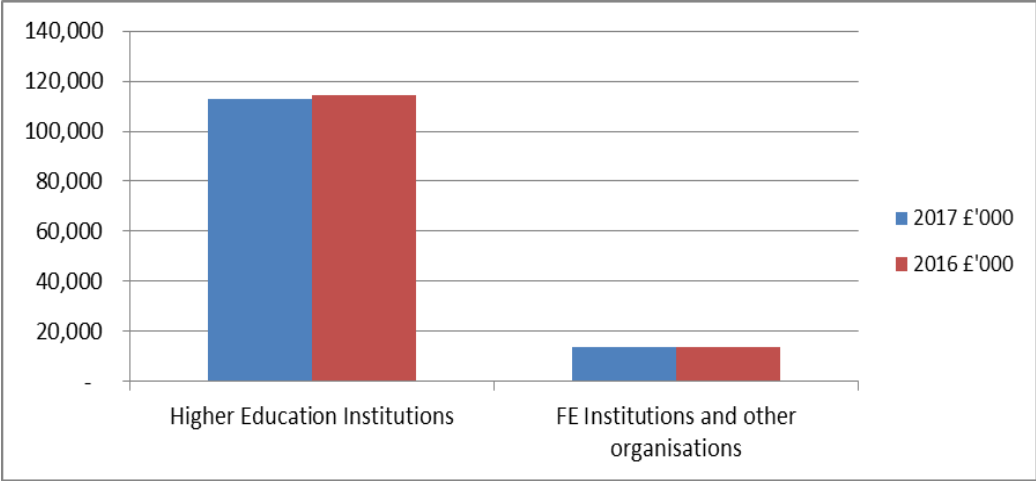
During 2016, universities in Wales secured substantial investment from European Structural and Investment Funds for research activities which will benefit the economy and wider society. Examples include:

- FLEXIS – led by Cardiff University in partnership with Swansea University and the University of South Wales, FLEXIS will investigate how flexible energy systems can meet modern day energy requirements, and particularly the challenges that arise when new sources of energy are integrated into the grid.
- SPECIFIC – led by Swansea University, in partnership with Tata Steel and others, SPECIFIC will help progress the commercialisation of technologies to transform ‘buildings into power stations’ by enabling them to generate, store and release their own solar energy.
- KESS 2 – led by Bangor University in partnership with the seven other universities in Wales, the second phase of the Knowledge Economy Skills Scholarships (KESS2) will offer over 600 scholarships for Research Masters and PhDs in collaboration with companies in West Wales and the Valleys.

**Financial analysis**

In delivering the strategic aims and objectives as set out, we received a total of £121.6 million of grant in aid funding from the Welsh Government (2015-16: £125.7 million). This represents an annual decrease in overall funding of 3.3%.

**Funding of higher education expenditure (£'000)**



In addition to grant in aid funding from the Welsh Government, £17.5 million of other income was receivable in 2016-17 (2015-16: £8.0 million). The increase of £9.5 million is primarily due to the receipt of UK Research Partnership Investment Fund (UKRPIF) funding received for a research project at Cardiff University.

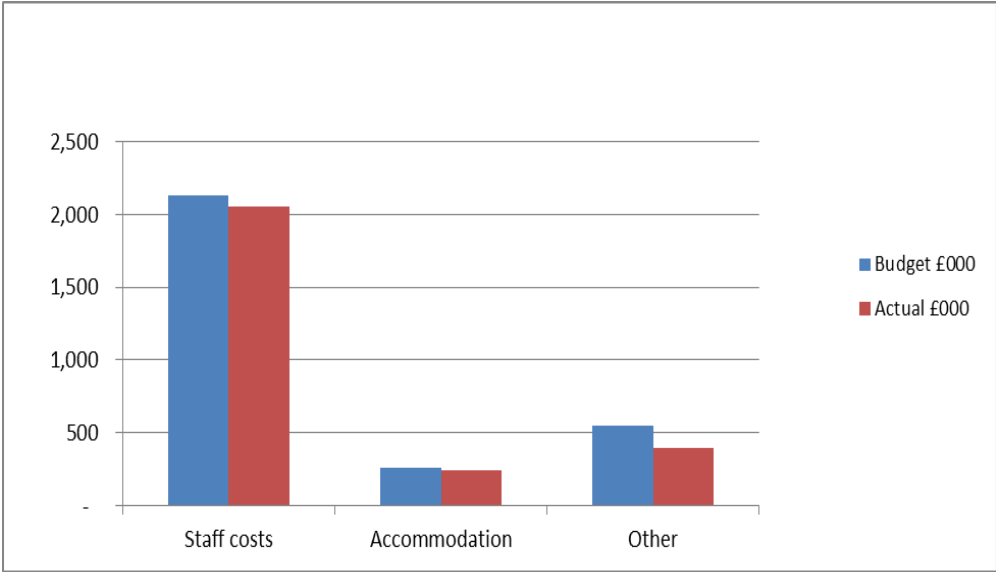
Total expenditure in 2016-17 was £145.8 million (2015-16: £136.7 million). Of this, £143.1 million (2015-16: £134.0 million) relates to the funding of the higher education and £2.7 million (2015-16: £2.8 million) to our own costs incurred in delivering our duties in respect of higher education in Wales. The increase in the former is mainly attributable to the research project expenditure for Cardiff University referred to above.

The net operating costs for the year were £128.0 million (2015-16: £128.7 million). The cumulative taxpayers' equity general fund at 31 March 2017, after crediting the grant in aid funding referred to above, was £8.1 million (31 March 2016: £14.5 million). The financial accounts will always record a net operating costs' result for the year as a consequence of the crediting of funding received to the taxpayers' equity general reserve in the Statement of Financial Position. Our activities are also planned to ensure that our cash carry forward at the financial year end remains within the two per cent of total grant in aid for the year allowed by the Welsh Government.

Expenditure on property, plant and equipment amounted to £43k in the year.



**Council expenditure 2016-17 (£'000)**



**Other financial key performance indicators**

The cash balance as at 31 March 2017 was £1.8 million which represented 1.49 percent of total grant in aid funds available (2015-16: £1.6 million, 1.27 percent) and remained within the maximum of 2% of total funding for the year permitted by the Welsh Government, as set out in the Framework Document.

We are operating under the Welsh Government’s target to pay suppliers of goods and services within ten working days of receiving a valid invoice. In 2016-17, we paid 95.0% of invoices within ten working days, with an average payment time of 2.3 days (2015-16: 95.1% and an average of 2.2 days).

**Sustainability**

In April 2016, The Well-being of Future Generations (Wales) Act 2015 came into force with HEFCW being one of the identified public bodies to which the Act applies. The implementation of the Act places a new responsibility upon the organisation to enshrine sustainable development, both within its internal organisation but also in its external public-facing role. This is a fundamental change, which will take both time and new thinking to achieve. We have started this journey by identifying and publishing our Well-being objectives and statement<sup>5</sup>. We continue to work with the HE sector and other Welsh public bodies to support the development of sustainable development within the HE sector. Perhaps most notable in this respect has been the work undertaken to support the development of the new Higher Education Strategy which utilised the seven well-being goals as the basis for engagement, developed an external panel of experts to guide the development of the strategy and encouraged and facilitated engagement with a diverse range of bodies. The resulting strategy is awaiting the approval of the Welsh Government before release.

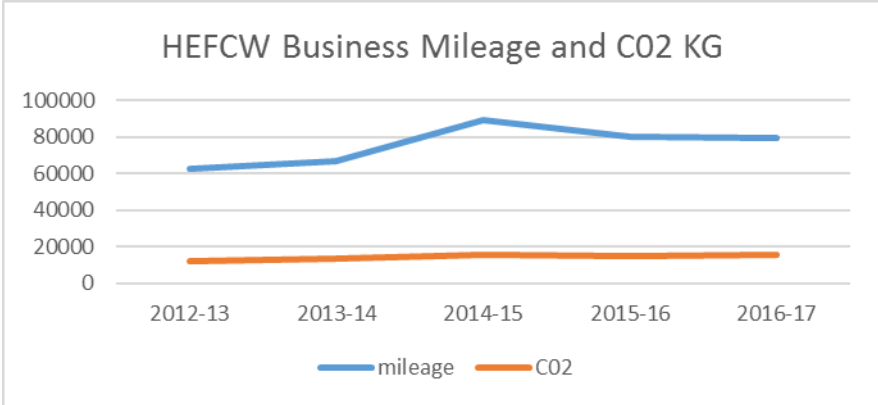
<sup>5</sup>[http://www.hefcw.ac.uk/documents/about\\_he\\_in\\_wales/WG\\_priorities\\_and\\_policies/Wellbeing%20Statement%20March%202017%20English.pdf](http://www.hefcw.ac.uk/documents/about_he_in_wales/WG_priorities_and_policies/Wellbeing%20Statement%20March%202017%20English.pdf)

**Higher Education Funding Council For Wales**

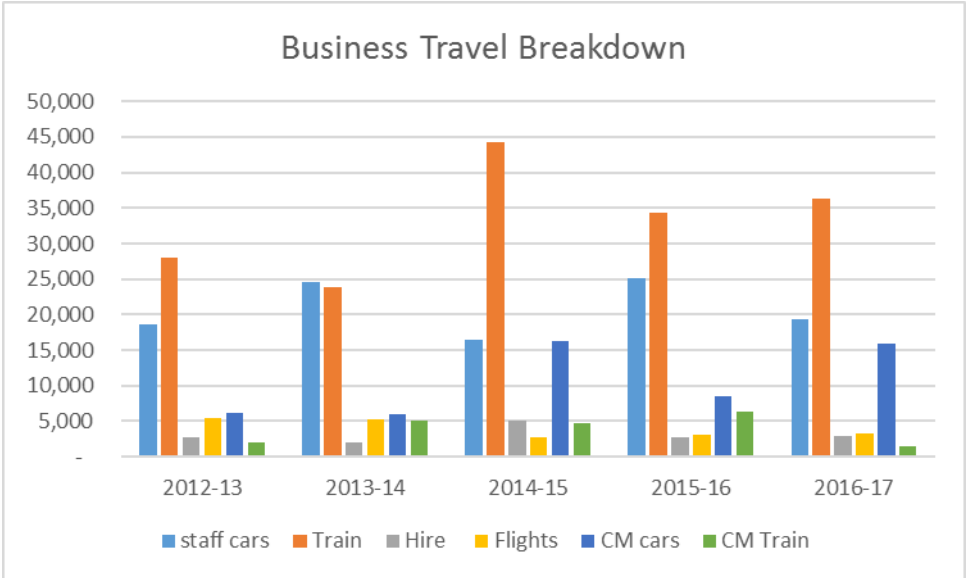
August 2016 saw us leave our former office accommodation in north Cardiff, which it had occupied for over fourteen years and relocate to shared office space with the Welsh Government in Bedwas, Caerphilly. Despite the significant costs incurred in relocating to the new office, better use of space and shared facilities offer significant savings on running costs in the medium-term. This change means that we will no longer be able to record our consumption of utilities, and the associated carbon emissions. We do, however, continue to monitor business travel and waste minimisation activities as shown below.

**Business Travel**

Carbon emissions associated with business travel have proved to be variable, in part due to changing workload together with changes in both the personnel and associated travelling pattern of Council members. As illustrated in the graph below, after a spike in 2014-15, business mileage reduced and has been broadly flat since then, although at a higher level than was recorded in the two years before 2014-15. There is some evidence that reduced business travel is being supported by increased use of video conferencing and tele-conferencing, although it is not practical to collect accurate evidence on tele-conferencing.



The CO2 figure has increased during this period from 12,097 KG in 2012-13 to a peak of 15,426 KG in 2016-17, although business travel has declined from its peak in 2014-15. The increase in CO2 in 2016-17 is attributable to an increase in Council members' business travel by car over the previous year.



## **Waste Minimisation**

As part of the move to our new premises, arrangements were made to update our existing computer infrastructure, replacing the desktops with tablet computers and renewing uninterruptable power supplies . This resulted in the disposal of a significant number of items through our IT recycling contractor. It is pleasing to note that 116 of the 149 items disposed of were reused and the remainder were recycled. Additionally, much of HEFCW's unwanted furniture, none of which had any resale value, was given to charities or reused by staff rather than being recycled. The use of paper continues to reduce with purchases being limited to 247 reams - less than one-third of what was recorded in 2008/09, when recording first commenced.

## **Summary**

The current year has seen a modest increase in carbon emissions arising from business travel (684KG), despite a slight reduction in the overall volume of business travel (921 miles), which has resulted from increased car travel. We continue to encourage staff to avoid business travel where possible and to use the train where viable, particularly for longer journeys. It is pleasing to note that much of the surplus IT equipment and office furniture was reused, rather than recycled. Use of paper has continued to fall showing significant reductions from the volume used over the last eight years.

Dr David Blaney  
Chief Executive and Accounting Officer  
13 July 2017

## Accountability report

### Corporate Governance report

#### Directors' report

#### Council membership

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

##### Chair

Mr David Allen OBE (*First term: 5 May 2014 to 4 May 2017; Second term: 5 May 2017 to 4 May 2020*). Former Registrar and Deputy Chief Executive of the University of Exeter

##### Chief Executive (and Accounting Officer)

Dr David Blaney

##### Other Council members:

Name	Personal history	Term of office	Committee membership
Dame Alexandra (Sandra) Burslem, Deputy Chair	Former Vice-Chancellor, Manchester Metropolitan University	First term: 01/12/08 to 30/11/11  Second term: 01/12/11 to 30/11/14  Third term: 01/12/14 to 30/11/17	Strategic Development Committee (Chair)  Human Resources Committee  Remuneration Committee
Mrs Bethan Guilfoyle CBE	Former Headteacher, Treorchy Comprehensive School	First term: 01/04/10 to 31/03/13  Second term: 01/04/13 to 31/03/16  Third term: 01/04/16 to 31/03/17  Fourth term: 01/04/17 to 31/03/18	Student Opportunity and Achievement Committee (Chair)  Quality Assessment Committee  Strategic Development Committee

## Higher Education Funding Council For Wales

Name	Personal history	Term of office	Committee membership
Mr David Mason	Former Principal/Chief Executive, Coleg Gwent	First term: 01/04/10 to 31/03/13  Second term: 01/04/13 to 31/03/16  Third term: 01/04/16 to 31/03/17  Fourth term: 01/04/17 to 31/03/19	Audit and Risk Assurance Committee (Chair)
Dr Arun Midha	Former Lay Council Member, Swansea University and Director of Strategy, School of Postgraduate Medical and Dental Education, Cardiff University	First term: 07/04/15 to 06/04/18	Student Opportunity and Achievement Committee  Audit and Risk Assurance Committee
Professor Katherine (Leni) Oglesby OBE	Former Senior Deputy Vice-Chancellor, University of Teesside	First term: 01/12/08 to 30/11/11  Second term: 01/12/11 to 30/11/14  Third term: 01/12/14 to 30/11/17	Quality Assessment Committee (Chair)  Strategic Development Committee
Professor Mark Smith	Vice-Chancellor, Lancaster University	First term: 01/01/13 to 31/12/15  Second term: 01/01/16 to 31/12/18	Research, Innovation and Engagement Committee
Professor Robin Williams CBE, FRS	Former Vice-Chancellor, Swansea University	First term: 01/08/09 to 31/07/12  Second Term: 01/08/12 to 31/07/15  Third term: 01/08/15 to 31/07/18	Research, Innovation and Engagement Committee (Chair)  Strategic Development Committee

Name	Personal history	Term of office	Committee membership
Dr Colin Wyatt	Independent consultant and Former Director of Business Development, Imperial College London	First term: 22/04/15 to 21/04/18	Human Resources Committee (Chair)  Remuneration Committee  Research, Innovation and Engagement Committee

The Chair of Council chairs the Appointments Committee (whose membership includes the Chairs of each of the other committees listed above) and the Remuneration Committee. He is also a member of the Strategic Development Committee.

The Chief Executive is a member of the Strategic Development Committee.

### **Observers appointed by the Welsh Government**

Mr Huw Morris,  
*Director, Skills, Higher Education and Lifelong Learning, Welsh Government*

Mr Neil Surman  
*Deputy Director, Higher Education Division, Welsh Government*

### **Composition of Management Board**

The HEFCW Management Board is responsible for our management and operation.

It consists of the Chief Executive, the Director of Strategic Development, the Director of Institutional Engagement and the Head of Corporate Services.

### **Declarations of interests**

Details of Council members' declared interests are available on our website.  
[http://www.hefcw.ac.uk/council\\_and\\_committees/council\\_members/council\\_members.aspx](http://www.hefcw.ac.uk/council_and_committees/council_members/council_members.aspx)

### **Personal data related incidents**

There have been no reported personal data related incidents during the year.

## Statement of Accounting Officer's Responsibilities

Under paragraph 16(2) of schedule 1 to the Further and Higher Education Act 1992, Welsh Ministers with the consent of the Treasury, have directed HEFCW to prepare for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of HEFCW and of our income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, our Accounting Officer 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 accounts; and
- prepare the accounts on the going concern basis.

The Principal Accounting Officer for the Welsh Ministers has designated the Chief Executive as Accounting Officer of HEFCW. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HEFCW's assets, are set out in the Accounting Officers' Memorandum published by the Welsh Government.

### Accounting Officer's statement

So far as I, as the Accounting Officer, am aware, there is no relevant audit information of which our auditors are unaware; and I, as the Accounting Officer, have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that our auditors are aware of that information. I also confirm that the annual report and accounts as a whole, is fair, balanced and understandable; and I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Dr David Blaney  
Chief Executive and Accounting Officer  
13 July 2017

## Governance Statement

### Scope of responsibility

As Accounting Officer of HEFCW, I am accountable to the Permanent Secretary of the Welsh Government as its Principal Accounting Officer for the discharge of my responsibility to maintain sound systems of governance, risk management and internal control. These systems support the achievement of our policies and strategic objectives, while safeguarding the public funds and HEFCW assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Welsh Government guidance Managing Welsh Public Money. I am responsible for ensuring that the public funds and assets assigned to HEFCW are used economically, efficiently and effectively. I also acknowledge my responsibilities in respect of the funds provided to HEFCW, which are allocated to higher and further education providers and others for education, research and associated purposes.

### Developments in-year

Our remaining grant to higher education providers in Wales continues to be focused strategically, to address both Welsh Government and our Council's priorities and takes account of the Minister's expectations as set out in the annual remit letter to HEFCW. Higher Education grant funding is allocated to Higher Education providers on an Academic Year (AY) basis being the 12 months ending 31 July. The Academic Year is coterminous with the financial year for higher education providers. Our annual grant funding allocations circular provides the detail of the provision that we fund and the basis for distribution of that funding between providers.

We received a revised remit letter for FY 2016-17 from the Welsh Government in October 2016 which removed £21.1 million from our original FY 2016-17 budget of £118.6 million which resulted in an in-year adjustment of £24.5 million to our original funding allocations for AY 2016/17. We achieved this by applying a pro-rata reduction across the core credit-based teaching, Quality Research, Postgraduate Research Training and Expensive Subjects Premium funding lines.

This revised remit letter, however, also provided an additional allocation of £20 million for FY 2016-17, aimed at addressing a number of specific issues.

We invited higher education providers in Wales to submit plans for the use of this additional funding to support strategic change. Following our assessment of the relative strengths and impacts of the proposals received, Council agreed the final allocations in March 2017.

This year saw the development of mechanisms to support HEFCW's new regulatory powers under the Higher Education (Wales) Act, which became law on 12 March 2017, for full implementation by 1 August 2017. The project was managed to develop implementation across four streams of work under the Act: Fee and Access Plans; Quality; Financial Management Code and Statement of Intervention. In consultation with regulated higher education providers and other interested parties, we developed processes and procedures for the consideration of fee and access plans 2017/18 and statements of how we would use our new regulatory powers to intervene where problems arise. We also developed, and continue to refine, a new Quality Assessment Framework, taking account of quality developments elsewhere in the UK. We prepared and consulted on a draft Financial Management Code, which covers our regulatory powers, for submission to the Cabinet Secretary. We also advised new higher education providers on regulatory processes and established new pages on our website to provide information on our regulatory role: [Regulating Higher Education in Wales](#).



## Higher Education Funding Council For Wales

A further key development this year was that the 2016-17 remit letter invited HEFCW to 'work in partnership with providers to develop a Strategy for Higher Education in Wales looking forward over the next decade'. Following detailed consultation with a wide range of stakeholders - including Universities Wales, Colleges Wales/Colegau Cymru and NUS Wales - and a widely-attended consultation event in October 2016, we submitted a draft of the Strategy to the Cabinet Secretary in December 2016. This proposed Strategy covers a 10-year period and was cast against the seven goals included in the Well-being of Future Generations (Wales) Act 2015.

The UK Government's Counter-Terrorism and Security Act 2015 introduced measures aimed at countering the risk of terrorism and radicalisation. It put the Prevent strategy onto a statutory footing by placing a duty on a range of 'specified authorities' to have 'due regard to the need to prevent people from being drawn into terrorism'; known as the 'Prevent duty'. Many organisations in the further and higher education sectors became subject to the duty on 18 September 2015. All specified authorities are required by the Act to have regard to any guidance issued by the UK Government about how they should exercise their Prevent duty. In June 2016, the Home Secretary delegated the function of 'monitoring authority' of 'relevant higher education bodies' (RHEBs) in Wales to HEFCW. We consulted on our Monitoring Framework with HE providers in Wales, and more widely ([W16/35HE](#)) in November 2016 and we submitted our first annual report to UK Government in March 2017 on the collective compliance status of the HE providers under HEFCW's monitoring authority.

### Governance Framework

We are responsible for administering resources for higher education provided by the Welsh Government. We work with the Welsh Government to inform higher education policy in Wales, and we work with higher education providers to enable them to meet those policy priorities. We regulate fee levels at higher education providers, ensure a framework is in place for assessing the quality of higher education and scrutinise the financial, governance and risk performance of universities.

Our Council is appointed by the Cabinet Secretary for Education, in accordance with the requirements of the Further and Higher Education Act 1992. As Accounting Officer and Chief Executive, I am a member of the Council. During the year, the Council comprised ten members. There are currently vacancies for two Council members. We believe that having a diverse membership gives positive benefits from the range of experience it brings and that it strengthens the board in governance terms. We therefore monitor closely the diversity of the Council, including such issues as the gender mix on the Council, as well as the balance of skills, knowledge and experience. We work closely with the Welsh Government during appointments exercises to ensure we address issues such as bridging any skills or knowledge gaps, or addressing under-representation. We likewise monitor closely the diversity and skills mix of the membership of the Council's various committees, and when seeking new external representation may actively encourage applications from currently under-represented groups.

The Council met on six occasions during financial year 2016-17. Out of a possible 60 member attendances during the year a total of 55 were made. Key issues discussed during the year are reflected in this annual report. Further detail can be found in the published minutes on our website.

Meetings of the Council are attended by two observers from the Welsh Government, the Higher Education Funding Council for England (HEFCE) and the Scottish Funding Council (SFC). The President of the National Union of Students (Wales) also attends as an observer. Likewise, we have observer status on the Board meetings of both HEFCE and the SFC. The Council is supported by Audit and Risk Assurance; Quality

## Higher Education Funding Council For Wales

Assessment; Human Resources; Remuneration; and Appointments Committees, and by three strategic advisory committees (Student Opportunity and Achievement; Research, Innovation and Engagement; and Strategic Development) covering areas of higher education policy which are important to our remit and statutory responsibilities. The background and declaration of interests of Council members, and the structure and membership of committees, along with other corporate governance information, are published on our website. The Council is also supported by a UK-wide advisory committee: the UK Healthcare Education Advisory Committee.

We have a Complaints Policy based on the model Concern and Complaints Policy produced by the Public Services Ombudsman for Wales. No complaints against us were received during 2016-17.

We carry out an annual self-assessment effectiveness review of our governance. This comprises an appraisal of the Council - including members' performance - by the Chair through discussions with members, and a comparison of our governance arrangements with the Financial Reporting Council's Corporate Governance Code. We also conduct annual reviews of our key corporate governance documents, and review the remits of all Council's committees. Every three years the Council conducts a detailed self-assessment review exercise based around questionnaires completed by each member, and the outcomes are discussed at one of the Council's Workshops. The most recent such exercise was carried out in 2015-16, from which the Council concluded that, overall, it was content with the effectiveness and appropriateness of its governance processes and practices, including with respect to the quality of information and data provided through Council and committee papers. The Council agreed there was more to be done to try and reduce the volume of paperwork, and this year we have begun the process of moving to full electronic distribution of Council papers. We are of the view that our processes continue to be compliant with the Corporate Governance Code to the extent relevant to a Welsh Government Sponsored Body.

We discharge our statutory responsibilities for quality under the HE (Wales) Act through our Quality Assessment Committee. This is the final year of our service level agreement with the Quality Assurance Agency (QAA), which provides an annual academic year report on the outcomes of its higher education reviews, which are considered by the Quality Assessment Committee and the Council. The report for AY 2015/16 can be found on our website. The QAA review reports include recommendations and features of good practice, and are available on the QAA website.

From AY 2016/17 we will be moving to new quality assessment arrangements under our new Quality Assessment Framework, which place greater responsibility on the governing bodies of regulated providers to be assured of the quality of the provision they make available and the awards offered. This will involve the commissioning of an external review at least every six years from a provider on the European Quality Assurance Register (EQAR) against the European Standards and Guidelines for Quality Assurances (ESG). These arrangements are known internationally and are not linked directly to the European Union. HEFCW will underpin these processes through our own monitoring using annual assurance statements and triennial visits, as well as analysis of key data, informed by our expert Quality Assessment Committee.

We conducted an Annual Compliance Review against the requirements placed upon us in the Framework Document, which showed us to be fully compliant.

The Audit and Risk Assurance Committee has five members, two of whom (including the Chair) are members of our Council. The Committee met on four occasions this year. The meetings are attended by the Chief Executive; the Head of Internal Audit; representatives from the external auditors (the Wales Audit Office); and relevant members of our staff. The minutes of the Committee are presented to our Council, and

the Chair of the Committee reports any matters of particular note to Council. The remit of the Committee includes both HEFCW and our assurance work with the HE sector. The Committee provides our Council with an annual report, which incorporates the Committee's opinion on governance, internal control and risk management. The Committee conducts a detailed effectiveness review self-assessment exercise, through which it benchmarks the Committee's operation against the National Audit Office checklist for audit committees, based on the HM Treasury Audit Committee Handbook. The last such exercise was in 2015-16. This year, the Committee considered the updated edition of HM Treasury Handbook, which includes two new sets of guidance on Whistleblowing and on Cyber Security. The Committee noted HEFCW's current arrangements and proposed further actions with respect to these two areas, and will continue to monitor both. The Committee undertook its annual review of the competencies of its membership against best practice identified in the Handbook, and concluded that its membership covered the full range of competencies – skills, knowledge and experience – identified as desirable for all audit committees. The Committee also undertook the annual review of its remit and proposed a number of amendments to it to reflect HEFCW's regulatory role and responsibilities under the Higher Education (Wales) Act 2015, which were subsequently agreed by the Council. The Committee continued to be satisfied that overall it was operating in line with accepted best practice for audit committees.

The Audit and Risk Assurance Committee's opinion for 2016-17 highlighted no major issues, except to note some concerns relating to institutional financial sustainability.

The Head of Internal Audit has provided the following opinions to the Chief Executive and the Council:

- Sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's governance, risk management and internal control processes.
- Governance, risk management and internal controls arrangements for HEFCW have been adequate and effective during the year and the Council and Accounting Officer can therefore place reasonable reliance on them.

We work with higher education providers and in partnership with many other organisations and HE agencies to help us deliver our objectives. These partners include the QAA, Jisc, the Equality Challenge Unit (ECU), the Leadership Foundation for Higher Education (LFHE), and the Higher Education Academy (HEA). These partner organisations provide us with useful sources of advice and information that enable us to benchmark Welsh performance and activities against the rest of the UK, and the arrangements have the benefit of economies of scale since the organisations have UK-wide remits. HEFCE, as the major UK HE funder, traditionally undertakes lead oversight of these bodies, and where appropriate there are supplemental agreements in place between HEFCW and the body to provide for any specific Welsh requirements. We monitor the deliverables from these organisations at a Wales level.

In February 2016, Universities UK established a working group chaired by Sir David Bell to examine the current HE sector agency landscape and provide advice on how the work of the agencies could continue to effectively support the sector into the future. Key recommendations include a merging of ECU, HEA and LfHE into a single body by September 2017, with a new subscription model to be introduced for September 2018 ; HECSU, HEA, Jisc and UCAS to form a strategic delivery partnership with a focus on improving the efficiency and effectiveness of data-related functions and services; positive recognition of the development of the M5 Group of sector agencies (a shared services partnership of QAA, Jisc and HESA) which should seek to include all agencies that might reasonably benefit from the services being developed; and a new forum of

## Higher Education Funding Council For Wales

chairs of sector agencies to enhance accountability to the sector and enhance inter-agency communication and coordination, including on costs to the sector.

HEFCE also has responsibility for oversight of the Open University as a provider, although we work directly with the Open University in Wales on the provision it delivers in Wales. We also provided funding for the Coleg Cymraeg Cenedlaethol to support the development of Welsh medium higher education provision and the take-up of Welsh medium opportunities by students, including via the Coleg's scholarship schemes, academic staffing scheme and strategic development projects. During 2016-17, the Welsh Government announced that they would conduct a review of the Coleg Cymraeg and that during the period of the review, funding of the Coleg would no longer be a responsibility of HEFCW but would be transferred to the Welsh Government. The timing of this decision caused us some difficulties in moving academic year to financial year allocations. A review group was established by the Welsh Government to undertake the review of the Coleg to which HEFCW has presented.

We have a memorandum of understanding (MOU) with the Charity Commission which sets out how we will work together and share information to co-ordinate our regulatory activities with respect to higher education providers in Wales. We have also developed a similar MOU this year with the Office of the Independent Adjudicator.

We have regular interaction with the Welsh Government's Department for Education and Skills, under the terms of the Framework Document between the Department and HEFCW. Staff from the Department and HEFCW meet quarterly which enables the Department to monitor progress against our operational plan and key performance indicators, and to monitor our risk register and the actions we are taking to mitigate risk. We received our initial remit letter for 2016-17 in April 2016; a revised remit letter in October 2016; and further revisions in March 2017. Our Operational Plan 2016-17 was submitted to the Welsh Government for approval in June 2016. We were notified in October 2016 that the Cabinet Secretary for Education had noted the Plan. Our Council receives regular reports on progress against our operational plan targets, and an annual report on progress against our corporate strategy targets.

The Cabinet Secretary for Education has a quarterly meeting with the Chair and Chief Executive, which enables the Minister to monitor our delivery against our strategic objectives and provides an opportunity for us to advise the Minister.

### **Effectiveness of the internal control system**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported in this process by advice from the Audit and Risk Assurance Committee and by other members of the senior management team. My review is also informed by the work of the internal auditor and our managers who have responsibility for the development and maintenance of the internal control framework, and by comments from the external auditors in their management letters.

Our system of internal control provides an assurance framework for managing risks associated with our internal operational and financial controls, and our controls in relation to organisations in receipt of our funding. For this reason, Welsh higher education providers funded by us are required to comply with a Memorandum of Assurance and Accountability, which helps us to secure accountability for the regularity and propriety of the use of public funds provided to them. We consider a comprehensive range of returns provided to us by providers - including their annual accounts, fee plans, and strategic plans - as part of our work to ensure the protection of the public investment in providers. This work includes seeking assurance that the public funds provided to providers have been used for the purposes for which they were intended. We also have

## Higher Education Funding Council For Wales

an increasing number of formal agreements with partner organisations in Wales and other parts of the UK - for example, the Quality Assurance Agency; NUS Wales; and the Charity Commission  
([www.hefcw.ac.uk/about\\_he\\_in\\_wales/he\\_policies\\_and\\_partners/partner\\_bodies.aspx](http://www.hefcw.ac.uk/about_he_in_wales/he_policies_and_partners/partner_bodies.aspx)).

Each of the key controls – the risk registers, the financial statements and the external auditors' report and comments thereon, internal audit reports and institutional risk reviews and assurance reports – has been considered by the Audit and Risk Assurance Committee which reports on to our Council. Our control systems have identified a small number of minor issues that required specific action to manage the associated risks. There were no significant weaknesses in our internal controls in 2016-17 which warrant disclosure here.

### Approach to risk management

Our Audit and Risk Assurance Committee and Council approved this year a revised Risk Management Policy and Guidance. It includes a new risk appetite statement; a refined method for recognising and describing the risks - threats or opportunities - that might affect the achievement of HEFCW's objectives; and a revised, simpler method for calibrating the severity of risks in terms of their likelihood and impact.

We recognise that we must take risks to achieve our objectives. We do so in a controlled manner so as to reduce exposure to risks to a level deemed acceptable, while at the same time balancing this against a desire to support innovation and an imaginative use of resources to achieve substantial benefit. We operate a system of internal control which is designed to: identify and prioritise the risks to the achievement of our policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them effectively. Our risk management processes are overseen by the Audit and Risk Assurance Committee on behalf of our Council.

Each team manages a risk register which is reviewed formally three times a year. I manage a risk register which sits alongside the operational plan, thereby providing scrutiny of our operational performance against which our risk analysis can be judged. If the combined score for probability and impact is above the tolerance boundary as defined in our Risk Management Policy and Guidance, the risk goes on to the Corporate Risk Register. The Corporate Risk Register is reviewed by the Audit and Risk Assurance Committee three times a year, with the results being considered by our Council. As part of our risk assessment processes, we also horizon scan to identify potential changes which may present future risks to HEFCW objectives by conducting a PESTLE (Political, Economic, Social, Technological, Legal and Environmental) analysis.

Alongside the main risk registers, we also maintain a separate fraud and bribery risk register. Those risks above the tolerance boundary are included in a Corporate Fraud and Bribery Risk Register.

The Audit and Risk Assurance Committee and Council receive regular reports on our institutional risk review system, the process by which we assess and monitor the overall risk profile of each HE provider.

### Tax assurance for off-payroll employees

There have been no payments to off-payroll employees during this year or in the previous year.

## Whistleblowing arrangements

HEFCW has its own whistleblowing policy and supporting procedures in place for use by staff. The aim of the policy is to encourage staff to report matters of proper concern considered by them to be in the public interest, either at the workplace or externally, about a danger, risk, malpractice or wrongdoing. When such matters are brought forward by staff it must be without fear of reprisal or victimisation, while protecting staff and HEFCW from unfounded and malicious allegations. This policy and its supporting procedures are available to staff via the intranet and our website. There have been no whistleblowing matters reported during the year and so it is not possible to report upon the effectiveness of these procedures. Our policy and procedures are next due for formal review in late 2017, unless there are any matters reported before then which prompt changes to be made to improve the processes used.

## Significant risks considered by Council during the year

### *Significant budget reductions*

Since the introduction of the new fee regime in AY 2012/13 the funding available to us to allocate to Higher Education providers has reduced significantly on account of the increasing cost of the Welsh Government fee grant for students over that period.

As a consequence, the Council has had to make difficult decisions with funding reductions having to be implemented in areas of strategic priority including innovation, part time provision and strategic funding. The remaining HEFCW recurrent funding is allocated mainly to the priority areas of research, part-time provision and expensive subjects (medicine, dentistry and performing arts).

There is a risk that continuing reductions in funding available for investment in Higher Education provision in Wales will have a detrimental impact on the capacity of Welsh Higher Education providers to continue to compete successfully with other UK providers and global competitors in attracting students, staff, securing research grants, contributing to economic growth and to their local communities. The impact of the funding changes affects higher education providers differentially and consequently the impact on the longer-term financial sustainability of some providers will be more significant than on others.

### *Brexit*

We have reported this year to the HEFCW Council and to our Audit and Risk Assurance Committee on the potential risks to the Welsh higher education sector arising from the impact of Brexit, in particular with respect to the possible effects on the cross-border flows of students and staff, and to future access to a range of EU funding streams. We have also provided advice and guidance on these issues to the Welsh Government through our membership of its HE EU Transition Planning Working Group.

### *Welsh Government reviews of higher education funding and of governance arrangements for post-compulsory education in Wales (Diamond and Hazelkorn Reviews)*

During the year, the review commissioned by the Welsh Government and chaired by Professor Sir Ian Diamond to explore issues of the funding of higher education reported. The Welsh Government has responded positively to its recommendations, which will inevitably have a significant impact on the future funding available for Higher Education providers in Wales and on our future operations. In parallel, the Welsh Government has also given an initial response to the report of the review it commissioned from Professor Ellen Hazelkorn of the governance arrangements for post-compulsory education in

## Higher Education Funding Council For Wales

Wales, with particular reference to the role of HEFCW. We have responded to this process by engaging positively with Professor Hazelkorn, and with a range of other stakeholders, to offer suggestions for future arrangements, advocating the establishment of a single intermediary body to oversee further and higher education in Wales. This report has been accepted in principle and we will work with the Welsh Government and other stakeholders through the forthcoming consultation and implementation phases.

One of the key risks for HEFCW as an organisation lies in ensuring that we maintain a good working relationship with the Welsh Government and, in particular, its sponsor division. We work hard to seek to minimise misunderstandings and resultant frustrations arising and will continue in these efforts.

### *Developments in England and their potential impact on Welsh higher education*

The UK government introduced its Higher Education and Research Bill into Parliament in May 2016. As at the end of 2016-17, the Bill had been through readings in House of Commons and had reached the Report stage in the House of Lords. The Bill, which became law in April 2017, included various proposals which, despite being focussed on higher education in England, would impact across the UK. For that reason, HEFCW chose to respond to the consultation on the Green Paper ([HEFCW consultation response](#)). Particular areas of concern relate to the establishment by the Department for Business, Innovation and Skills of a Teaching Excellence Framework in England. The funding councils have long experience of working collectively to achieve shared objectives at UK level. Officers are working with Welsh Government officials and others to ameliorate the impact of this type of development being taken forward by UK government, at a stage removed from a Welsh Government Sponsored Body and we look forward to working with HEFCE in taking the TEF implementation arrangements forward. Other issues we continue to monitor include the decision to move research funding in England into an overarching body, UKRI, to cover both HEFCE quality research (QR) funding for England and the UK Research Councils, and proposals for the further deregulation of the higher education market in England, including for profit providers.

## Conclusion

I have reviewed the evidence provided with regard to the production of the annual governance statement. The conclusion of my review is that our overall governance and internal control structures have been appropriate for our business, and have worked satisfactorily throughout 2016-17.

Dr David Blaney  
Chief Executive and Accounting Officer  
13 July 2017

## Remuneration and staff report

### Directors' remuneration policy and remuneration committee

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

The Chief Executive's remuneration is approved by the Welsh Government and is not subject to performance-related awards.

The directors' remuneration is set in accordance with our approved pay and grading system, which applies to all staff appointments. Our overall levels of remuneration and annual pay remit, which apply to all staff including the directors, are approved by the Welsh Government.

We have a Remuneration Committee which is responsible for reviewing annually the performance of the Chief Executive and the directors. The committee, currently consisting of four members, three of which are Council members (including the Chair), has delegated authority from the Council to consider matters affecting the pay of the Chief Executive and can make recommendations for the approval of the Welsh Government.

During the year, because of delays in the pay review process for all HEFCW staff, including the Chief Executive, pay awards for four years from 2013-14 to 2016-17 were approved and implemented. The Committee met during the year and based upon a review of his performance, made recommendations that the Chief Executive should receive the same annual increases as those to be awarded to HEFCW staff for both 2015-16 and 2016-17. The percentage increases awarded to the Chief Executive were identical to those for HEFCW staff covering this four-year period. As a result, over the course of the year, the Chief Executive's salary increased from £120,000 to £124,860. The Committee's assessment of the performance of the Chief Executive in 2016-17 will form the basis of a possible pay award for 2017-18. This assessment will take place at the Committee's meeting in May 2017.



## Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of Council members and senior management.

### Senior employees' remuneration (salary and pensions)\*

#### Single total figure of remuneration \*

Name and position	2016-17 Salary £'000	2015-16 Salary £'000	2016-17 Pension benefits £	2015-16 Pension benefits (restated) £	2016-17 Total £'000	2015-16 Total (restated) £'000
David Allen (Chair)	20-25	20-25	N/A	N/A	20-25	20-25
Dr David Blaney (Chief Executive)	130-135	115-120	19,799	74,074	150-155	190-195
Celia Hunt (Director of Strategic Development)	90-95	75-80	40,289	38,609	130-135	115-120
Bethan Owen (Director of Institutional Engagement)	90-95	75-80	54,636	39,004	145-150	115-120

NB There were no benefits in kind or bonus payments in either 2016-17 or in 2015-16 for the above.

The 2016-17 salary figures for the Chief Executive and both Directors include backdated pay in respect of the three years 2013-14 to 2015-16. Actual salary figures as at 31 March 2017 fell into the bands £120,000 to £125,000 for the Chief Executive and £85,000 to £90,000 for both Directors.

The total salary for David Allen for the year 2016-17 was £24,264 (2015-16: £24,264).

The 'Pension benefits' figures above, are calculated for disclosure purposes, by our pension administrators. These figures are calculated as the 'real increase in pension' (see 'Senior employees' pensions' table below) multiplied by 20, plus the 'real increase' in any lump sum, less contributions made by the employee in the financial year. NB The 'Pension Benefits' figure for 2016-17 of £54,636 for Bethan Owen includes approximately £19,000 which results from additional personal pension contributions made by the Director during the year. A similar level of additional personal pension contributions was also made by Bethan Owen in 2015-16.

The 'Pension benefits' figures for the Chief Executive and both Directors have been restated to take account of their retrospective recalculations following the payment of backdated pay in 2016-17, as noted above. This also applies to the CETV figures at 31 March 2016, as noted below.

## Senior employees' pensions\*

Name	Position	Accrued pension at pension age at 31/03/17 & related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/03/17 £'000	CETV at 31/03/16 (restated) £'000	Real increase in CETV £'000
David Allen	Chair	N/A	N/A	N/A	N/A	N/A
Dr David Blaney	Chief Executive	60-65 pension	0 – 2.5 pension	1,040	979	15
Celia Hunt	Director of Strategic Development	20-25 pension plus 70-75 lump sum	0 – 2.5 pension plus 5 – 7.5 lump sum	529	465	39
Bethan Owen	Director of Institutional Engagement	20-25 pension	2.5 – 5 pension	365	304	32

## Salary and pension disclosures\*

Dr David Blaney was a member of the Premium defined benefit scheme throughout the year, whereas Bethan Owen was transitioned from the Premium defined benefit scheme to the Alpha pension scheme on 1 April 2016. Celia Hunt was a member of the Classic defined benefit scheme. All three schemes are part of the Principal Civil Service Pension Scheme. The Classic scheme benefits include the payment of an automatic lump sum on retirement, whereas the Premium and Alpha schemes do not (see 'Pensions' below).

Dr David Blaney, the Chief Executive, has a permanent contract, which stipulates a three-month notice period. Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination.

Directors also have permanent contracts, requiring a notice period of three months and the same terms as the Chief Executive in respect of contract termination.

The Chair 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 us. Council members (excluding the Chair and Chief Executive) receive non-pensionable remuneration of £5,076 per annum (see pages 20 to 22 for a full list of other Council Members).

All salaries/remuneration stated are gross salaries/remuneration 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 arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or 'Alpha', which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service, joined 'alpha'. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis ('Classic', 'Premium' or 'Classic Plus') with a normal pension age of 60; and one providing benefits on a whole career basis ('Nuvos') with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus, Nuvos and Alpha, are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and thirteen years and five months from their normal pension age on 1 April 2012 will switch into Alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to Alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave Alpha (the pension figures quoted for officials show pension earned in either PCSPS or in Alpha – as appropriate. Where the official has benefits in both PCSPS and in Alpha, the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (Partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for Classic (and members of Alpha who were members of Classic immediately before joining Alpha) and between 4.6% and 8.05% for members of Premium, Classic Plus, Nuvos and all other members of Alpha. Benefits in Classic accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial 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. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium. In Nuvos, a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in Alpha build up in a similar way to Nuvos, except that the accrual rate is 2.32%. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The Partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. 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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

## Higher Education Funding Council For Wales

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus, 65 for members of Nuvos, and the higher of 65 or State Pension Age for members of Alpha (the pension figures quoted for officials show pension earned either in PCSPS or in Alpha – as appropriate. Where the official has benefits in both PCSPS and Alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages).

Further details about the Civil Service pension arrangements can be found at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.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 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 pension 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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are calculated out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

### **Real increase in CETV**

This reflects the increase in CETV that is funded by the employer. It does not include 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.

### **Broadly by analogy (BBA) pensions**

A BBA pension arrangement entitles the recipient to benefits that are similar to those provided by the PCSPS classic scheme described above, and obliges both us and the member concerned, to make contributions in line with the PCSPS. We are responsible for funding future pension benefits and retaining pension contributions. A BBA pension is held by the former Chair of Council, Professor Sir Roger Williams.

**Fair Pay disclosures \***

	2016-17 £'000	2015-16 £'000
Band of highest paid member of staff (total remuneration**)	120-125	115-120
Median total remuneration**	£ 44,050	£ 40,411
Ratio	2.8	3.0

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid senior employee in their organisation and the median remuneration of the organisation’s staff.

The banded remuneration of our most highly paid senior employee in 2016-17 was £120,000 to £125,000 (2015-16 £115,000 to £120,000). This was 2.8 times (2015-16: 3.0) the median salary of all staff, which was £44,050 (2015-16: £40,411).

\*\*For the purposes of calculating the ‘highest paid member of staff’ and the ‘median total remuneration’ above, ‘total remuneration’ only consists of salary costs. It does not include employer pension contributions or the annual ‘pension benefits’, shown above.

The median ratio has decreased again, from 3.0 in the previous year to 2.8 due to the impact of a number staff salary increases. In 2016-17, delayed back-pay increases covering the period 2013-14 to 2015-16, were implemented for all staff. Due to the nature of our work, we have a high proportion of staff at middle job levels, resulting in the median shown above.

In 2016-17, no employees (2015-16: none) received remuneration in excess of the highest-paid senior employee. Remuneration ranged from £18,354 to £124,860 (2015-16: £16,610 to £120,000).

## Staff report

### Staff numbers by category

We employed an average of 41 full time equivalent staff during the financial year ended 31 March 2017, as follows:

	2017 Number	2016 Number
Senior Management	3	3
Chief Executive's Office	7	7
Institutional Engagement	13	13
Strategic Development	8	10
Corporate Services	10	10
	<u>41</u>	<u>43</u>

One member of staff included in Institutional Engagement above was not a permanent member of staff.

	2017 Numbers	2016 Numbers
Staff with a permanent UK employment contract with us	40	42
Other staff engaged on our objectives	1	1
	<u>41</u>	<u>43</u>

### Staff costs

#### (a) Analysis \*

	Staff	2017 Council members (inc Chief Executive)	Total	Staff	2016 Council members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,747	191	1,938	1,783	192	1,975
Social security costs	197	19	216	156	20	176
Other pension costs	371	33	404	381	29	410
Total payroll costs	<u>2,315</u>	<u>243</u>	<u>2,558</u>	<u>2,320</u>	<u>241</u>	<u>2,561</u>
Staff on secondment	(13)	-	(13)	(17)	-	(17)
Less:						
charges to						
programme costs	<u>(491)</u>	<u>-</u>	<u>(491)</u>	<u>(447)</u>	<u>-</u>	<u>(447)</u>
Administration						
payroll costs	1,811	243	2,054	1,856	241	2,097

Included in the £491k (2015-16 - £447k) charged to programme costs in 2016-17 is a sum of £250k (2015-16 - £250k). This is a contribution towards running costs' wages and salaries transferred from the programme budget in accordance with an agreement with the Welsh Government. This agreement ends in 2016-17. It should be noted that there are several job vacancies left unfilled as at 31 March 2017.

(b) **Pensions**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “Alpha”, are unfunded multi-employer defined benefit schemes, but HEFCW is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2016-17, our employer’s contributions of £418,194 were payable to the PCSPS (2015-16 - £380,106), at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17, to be paid when the member retires and not the benefits paid during this period to existing pensioners.

A former Chair of Council receives pension benefits broadly by analogy (BBA) with the PCSPS.

The BBA pension provision is unfunded, with benefits being paid as they fall due and guaranteed by us. There is no fund and therefore no surplus or deficit or assets. The scheme liabilities for service are calculated by the Government Actuary’s Department every two years and was performed at the end of 2016-17 and amounted to £26,000 at 31 March 2017.

(c) **Staff numbers by gender**

	2017	2016
<i>Male</i>		
Directors	1	1
Staff	13	14
<i>Female</i>		
Directors	2	2
Staff	31	29
<b>Total</b>	<b>47</b>	<b>46</b>

NB In the tables above staff employed are reported as full time equivalent numbers, however the gender breakdown is reported as actual numbers.

(d) **Sickness absence**

	2017	2016
Sickness absence rate (%)	1.21	2.84
Number of working days lost	141	342
Approximate cost of working days lost	£20,190	£46,690

The approximate cost of working days lost is based upon the salary at level 4 (step 4), a middle management staff level (including overhead costs).

1.21% of potential working time was lost for 2016-17 as a result of sickness absences (2015-16 – 2.84%). This represents a significant improvement on the previous year and is the lowest rate of sickness absence for at least eight years. This compares very favourably with other parts of the public sector (average working time lost per CIPD Absence Management Annual Survey Report 2016 – Education 3.3%; Central Government 4.2%; Local Government 4.3%; Health 3.9%; and Other Public Services 3.2%. The absence rate for all UK employees was 2.8%.

\* This information is subject to audit

**Staff policies and other issues**

We have introduced and/or reviewed a number of policies and procedures this year:

- Sickness absence policy and procedures
- Childcare voucher procedures
- ICT and bicycle loan policy
- Parental leave policy and procedures
- Pay policy

Each policy is subject to a full staff consultation for comment and is impact assessed in line with equalities, the Welsh language and sustainability. These policies are then reviewed by our Works Council (see below) and presented to the HR Committee for approval before being implemented.

*Employee involvement*

Regular staff meetings and seminars help ensure good internal communications and provide opportunities for staff to contribute to the way we work. A Works Council, through which representatives can raise issues of concern to staff and which includes representation from the PCS union, meets on a regular basis.

In 2000, we achieved the Investors in People award. This award is re-assessed every three years and we obtained re-accreditation in June 2015.

*Equality and disability*

We are committed to developing our equality and diversity policies to ensure that all employees are treated fairly, irrespective of any protected characteristic as defined by the Equality Act.

Our policy on recruitment is based on the Civil Service Recruitment Principles of appointments being made on merit on the basis of fair and open competition.

We have achieved the 'Disability Confident' accreditation (previously known as the 'Two Ticks' disability symbol) and we are resolved to meeting the five commitments regarding recruitment, training, retention, consultation and disability awareness. This was re-assessed in November 2016.



## Higher Education Funding Council For Wales

In line with the disability symbol, all applications by disabled persons are given full and fair consideration and our recruitment policy guarantees each disabled person who meets the minimum role requirements, an interview. This would also apply to any disabled employee who applied internally for a promotion.

Reasonable adjustments are also made, where possible, following discussions between an employee in post, who has declared a disability, their line manager and HR, or an employee returning to work following an absence that may have an impact on their ability to meet their job responsibilities.

### *Community and human rights matters*

We have continued, as part of our special leave policy, to give the option of members of staff taking up to two days' paid leave per year to volunteer to support local charities or community groups. We have reinforced our links with local communities through our membership of SEWEN (South East Wales Equality Network).

We embody the principles of Human Rights in our Equality and Diversity practices and our policy on Dignity at Work aims to ensure that all employees' rights are respected.

### *Other staff-related issues*

We conduct biennial Staff Attitude Surveys which support staff engagement. The survey is based upon the Civil Service People Survey and actions arising from this survey and other evaluations such as Investors in People, are included in our organisational action plan which is accessible to all staff on our intranet.

Employees have access to an Employee Assistance Programme which provides access to advice and counselling 24 hours a day, 365 days a year. The resource is available on both our website and as a mobile application and promotes fitness, a healthy lifestyle and provides mental health support.

## **Consultancy expenditure**

There was no consultancy expenditure during the year.

## **Off-payroll engagements**

There have been no payments to off-payroll employees during the year.

## **Exit Packages**

There were no exit packages in 2016-17 (2015-16 – nil).

Dr David Blaney  
Chief Executive and Accounting Officer  
13 July 2017

## **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 2017 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and 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 and Staff Report that is described in that report as having been audited.

### **Respective responsibilities of the Chief Executive and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for preparing the financial statements, in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' directions made there-under and for ensuring the regularity of financial transactions.

My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Higher Education Funding Council for Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Higher Education Funding Council for Wales; and the overall presentation of the financial statements.

In addition, I obtain evidence sufficient to give reasonable assurance that 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 read all the financial and non-financial information in the Annual Report with the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate and report.

### **Opinion on Financial Statements**

In my opinion the financial statements:

- give a true and fair view of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2017 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with Welsh Ministers' directions issued under the Further and Higher Education Act 1992.

### **Opinion on Regularity**

In my opinion, in all material respects, the expenditure and income in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with Welsh Ministers' directions made under the Further and Higher Education Act 1992; and
- the information in the Annual Report is consistent with the financial statements.

### **Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- the Governance Statement does not reflect compliance with HM Treasury/Welsh Ministers' guidance;
- proper accounting records have not been kept;
- the financial statements and the part of the Remuneration and Staff Report to be audited, are not in agreement with the accounting records and returns;
- information specified by HM Treasury/Welsh Ministers regarding the remuneration and other transactions is not disclosed; or
- I have not received all of the information and explanations I require for my audit.

**Report**

I have no observations to make on these financial statements.

**Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ**

18 July 2017

## Statement of comprehensive net expenditure

for the year ended 31 March 2017

		2017		2016	
	Notes	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
<i>Funding of higher education:</i>					
Recurrent expenditure	3	125,538		126,043	
Other purposes	5	17,548		7,932	
		<u>143,086</u>		<u>133,975</u>	
<i>Council expenditure:</i>					
Staff costs		2,054		2,097	
Depreciation	7	57		83	
Loss on disposal of fixed assets		30		-	
Other expenditures	6	550		572	
		<u>2,691</u>		<u>2,752</u>	
<b>Total expenditure</b>		(145,777)		(136,727)	
<b>Income</b>					
Income from activities	2	17,809			8,046
<b>Net operating costs</b>		<u>(127,968)</u>		<u>(128,861)</u>	
Interest payable		-			(1)
<b>Net operating costs after interest transferred to taxpayers' equity</b>		(127,968)		(128,682)	

All activities are continuing.

There are no recognised gains or losses in either 2016-17 or 2015-16.

The notes on pages 49 to 62 form part of these accounts.

Details of staff costs are shown on page 38 as part of the Remuneration and Staff Report.

## Statement of financial position

as at 31 March 2017

	Notes	As at 31 March 2017 £'000	As at 31 March 2016 £'000
<b>Non-current assets</b>			
Property, plant and equipment	7	41	85
Repayable grants falling due after one year	8a	6,150	6,750
<b>Total non-current assets</b>		<b>6,191</b>	<b>6,835</b>
<b>Current assets</b>			
Repayable grants falling due within one year	8a	600	-
Trade and other receivables	8b	1,314	6,375
Cash and cash equivalents	9	1,810	1,599
<b>Total current assets</b>		<b>3,724</b>	<b>7,974</b>
<b>Total assets</b>		<b>9,915</b>	<b>14,809</b>
<b>Current liabilities</b>			
Trade and other payables	10	(1,755)	(298)
Provisions for liabilities and charges within one year	11	(1)	(1)
<b>Total non-current assets plus net current assets</b>		<b>8,159</b>	<b>14,510</b>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges after one year	11	(25)	(22)
<b>Assets less liabilities</b>		<b>8,134</b>	<b>14,488</b>
<b>Taxpayers' equity</b>			
General reserve		8,134	14,488
		<b>8,134</b>	<b>14,488</b>

The notes on pages 49 to 62 form part of these accounts.

Signed on behalf of HEFCW

Dr David Blaney  
Chief Executive and Accounting Officer  
13 July 2017

## Statement of cash flows

for the year ended 31 March 2017

	Notes	2017	2016
		£'000	£'000
<b>Cash flows from operating activities</b>			
Net operating costs before interest		(127,968)	(128,681)
Depreciation charges		57	83
Loss on disposal of assets fixed assets		30	-
Decrease in trade and other receivables due within one year		5,061	3,062
Increase in repayable grants due after one year		-	(2,000)
Increase/(decrease) in trade and other payables		1,457	(694)
Movement in provision for liabilities and charges due within one year		-	-
Movement in provisions		3	(2)
<b>Net cash outflows from operating activities</b>		<b>(121,360)</b>	<b>(128,232)</b>
<b>Cash flows from returns on investments and servicing of finance</b>			
Interest received		-	-
Interest paid		-	(1)
<b>Net cash flows from returns on investments and servicing of finance</b>		<b>-</b>	<b>(1)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7	(43)	(36)
<b>Net cash outflow from investing activities</b>		<b>(43)</b>	<b>(36)</b>
<b>Cash flows from financing activities</b>			
Funding from the Welsh Government		121,614	125,747
<b>Net cash flows from financing activities</b>		<b>121,614</b>	<b>125,747</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>211</b>	<b>(2,522)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,599</b>	<b>4,121</b>
<b>Cash and cash equivalents at end of period</b>	9	<b>1,810</b>	<b>1,599</b>
<b>Net increase/(decrease) in cash</b>		<b>211</b>	<b>(2,522)</b>

The notes on pages 49 to 62 form part of these accounts.

## Statement of changes in taxpayers' equity for the year ended 31 March 2017

	<b>General Reserve</b> £'000
<b>Balance at 1 April 2016</b>	14,488
<b>Changes in taxpayers' equity 2016-17</b>	
Net operating costs	(127,968)
<b>Total recognised income and expense for 2016-17</b>	(127,968)
Funding from the Welsh Government	121,614
<b>Balance at 31 March 2017</b>	8,134

The notes on pages 49 to 62 form part of these accounts.



## Notes to the accounts

### 1. Statement of 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 have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by H M Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to our particular circumstances for the purpose of giving a true and fair view has been selected. The particular policies adopted by us are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

There are no new accounting standards issued but not yet effective that would have a material effect on these financial statements had they been applied in this reporting period.

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

##### *Income:*

We receive grant income relating to EU projects from two sources. Grant income from the Welsh Government in support of European Social Fund projects is credited to the general reserve in the year in which expenditure is incurred. EU income in support of European Social Fund projects is credited to the statement of comprehensive net expenditure in the year in which expenditure is defrayed.

##### *Expenditure:*

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

#### (c) Funding

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

#### (d) Grants payable

These accounts are prepared on a financial year basis to 31 March, but grants payable are issued on an academic year basis to 31 July. 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 funding provided to higher education providers, are brought to account when paid. In our opinion, 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 providers.

**(e) Repayable grants**

Repayable grants are funds provided to providers on an individual basis to support the initial costs of specific projects, which are normally recovered via an adjustment to their future funding.

**(f) Pension costs**

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) arrangements. We recognise the expected cost of providing pensions on a systematic and rational basis over the period during which we benefit from employees’ services by payment to the PCSPS arrangements of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS arrangements.

A former Chair of HEFCW is covered by a pension scheme which is analogous with the PCSPS. We make payments to the former Chair as they are due. However, the expected cost of providing the pension is recognised through building up provision for the future liability calculated by using actuarially assessed assumptions.

**(g) Property, plant and equipment**

Property, plant and equipment are carried at fair value. Depreciated historical cost is used as a proxy for fair value for all classes of these assets as all have either short useful lives or low value, or both.

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

Depreciation is provided on all these assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, being a realistic reflection of the consumption of the asset, as shown below. A full year’s depreciation is charged in the year of acquisition.

Information technology assets	- 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.

**(h) Value Added Tax**

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

**(i) Operating leases**

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

**(j) Financial instruments**

Financial assets: Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Cash comprises cash at bank on instant access terms.

Financial liabilities: Trade payables are not interest-bearing and are stated at their nominal value.

**(k) Segmental reporting**

The FReM directs public bodies to meet the requirements of IFRS 8 to report information concerning operating segments where the criteria under IFRS 8 are met. We consider our activities contribute to a single mission operating within the same business environment and there are no separable operating segments. As a result, we do not report by operating segments.

**(l) Staff costs and secondments**

Staff on secondment normally continue to be paid by us. The reimbursement of costs for seconded staff is netted off against staff costs in the note included within the Staff Report on page 38, which forms part of the Accountability Report.

2. Income from activities

	2017 £'000	2016 £'000
European Union – European Social Fund	556	(5)
Department for Business, Innovation & Skills – Research Capital Investment Fund	6,960	7,406
Y Coleg Cymraeg Cenedlaethol Scholarships	330	330
Jobs Growth Wales (a)	-	14
UK Research Partnership Investment Fund (b)	7,876	-
UK Joint Academic Network 6 (Janet 6) (c)	125	98
Police Knowledge Fund project (d)	203	203
Global Challenges Research Fund (e)	1,200	-
Newton Fund (f)	227	-
ITT Competency Certificates (g)	87	-
Prevent (h)	35	-
Sub total	17,599	8,046
Premium for lease surrender (i)	210	-
	17,809	8,046

(a) This is funding in respect of a project with the Welsh Government to provide graduates with job opportunities with businesses in Wales. 2015-16 was the final year of funding for this project.

(b) This is funding from the UK Research Partnership Investment Fund (UKRPIF) for the Research Foundation in Compound Semiconductor Technology at Cardiff University.

(c) This is funding to support the costs of providing 'Janet 6' to enable joint academic network (Janet) services to continue to be provided to higher education providers in Wales. This funding is paid to Jisc.

(d) This is funding for the Open Source Communications, Analytics and Research (OSCAR) Development Centre at Cardiff University.

(e) Official Development Assistance (ODA) Research funding provided under the Global Challenges Research Fund (GCRF) is for the support of cutting-edge research that addresses the challenges faced by developing countries.

## Higher Education Funding Council For Wales

- (f) ODA Research funding provided under the Newton Fund is to be used solely for investment in research which supports the economic development and wellbeing of developing countries.
- (g) This is funding to facilitate development and implementation of a pan-Wales Welsh language ITT competence certificate with the aim of award to all prospective teachers who wish to teach through the medium of Welsh.
- (h) This is funding to report on compliance with the Prevent duty by higher education (HE).
- (i) Premium for lease surrender received from HEFCW's former landlord following HEFCW's office move from Llanishen to Bedwas.

### 3. Funding of higher education

	2017 £'000	2016 £'000
<b>Higher Education Providers</b>		
Aberystwyth University	6,527	6,842
Bangor University	7,392	7,752
Cardiff University	48,961	43,020
Swansea University	18,135	15,610
Wrexham Glyndŵr University (formerly Glyndŵr University)	2,315	3,151
Cardiff Metropolitan University	1,580	2,262
University of Wales, Trinity Saint David	3,931	5,234
University of South Wales	14,054	19,301
University of Wales	179	209
Open University	9,607	9,768
<b>Sub-total</b>	<b>112,681</b>	<b>113,149</b>
<b>Further Education Providers</b>		
Coleg Llandrillo	535	433
Grŵp NPTC Group	56	66
Gower College Swansea	38	37
<b>Sub-total</b>	<b>629</b>	<b>536</b>
<b>Total carried forward</b>	<b>113,310</b>	<b>113,685</b>

	2017 £'000	2016 £'000
<b>Total brought forward from previous page</b>	113,310	113,685
<b>Other Organisations</b>		
Elsevier	23	-
Equality Challenge Unit	41	76
Higher Education Funding Council for England (HEFCE)	416	404
HESA	116	31
The Higher Education Academy	239	314
JANET (UK) Ltd	2,126	2,178
KPMG LLP	52	23
National Centre for Universities and Business	31	34
National Union of Students	40	10
Quality Assurance Agency	211	282
The Conversation Trust (UK) Limited	30	20
UCAS	-	20
Universities UK	48	48
Universities Wales	-	60
Y Coleg Cymraeg Cenedlaethol	8,973	8,384
Other (see (a) below)	547	473
<b>Sub-total</b>	<b>12,893</b>	<b>12,357</b>
<b>Total</b>	<b>126,203</b>	<b>126,042</b>
<b>(Less)/add ESF funded expenditure (see note 5)</b>	<b>(665)</b>	<b>15</b>
<b>Less Jobs Growth Wales expenditure (see note 5)</b>	<b>-</b>	<b>(14)</b>
<b>Total</b>	<b>125,538</b>	<b>126,043</b>

(a) This includes a contribution of £250k from the programme budget towards running costs wages and salaries as disclosed in the Staff Costs' note on page 38.

#### 4. Grants to providers

Included in these accounts are grants to higher education providers, which are subject to the recipients' external auditors' confirmation that they have been used for their intended purpose. The financial year of higher education providers ends on 31 July and their audited accounts are provided to us by 31 December. A review by us of providers' 2015/16 financial statements confirmed that each provider's external auditors had considered that grants had been used for their intended purpose and no adjustments to grants were necessary. The end of year calculation of clawback for credit-based teaching funding for 2015/16 resulted in a clawback of £2,045k. Any adjustment arising from the audit of 2016/17 accounts and student numbers will be made by us in future years.

We confirm that grants we have received from the Welsh Government have been used for their approved purposes.

5. Expenditure for other purposes

	2017 £'000	2016 £'000
European Social Fund	665	(15)
Research Capital Investment Fund (a)	6,960	7,406
Y Coleg Cymraeg Cenedlaethol Scholarships	330	324
Jobs Growth Wales	-	14
UK Research Partnership Investment Fund (b)	7,876	-
Police Knowledge Fund Project (c)	203	203
Global Challenges Research Fund (d)	1,200	-
Newton Fund (e)	227	-
ITT Competency Certificates (f)	87	-
	<u>17,548</u>	<u>7,932</u>

(a) An analysis of research capital funding by higher education provider is given below:

	2017 £'000	2016 £'000
Aberystwyth University	958	1,020
Bangor University	727	836
Cardiff University	3,671	3,913
Swansea University	1,604	1,637
	<u>6,960</u>	<u>7,406</u>

- (b) This is funding from the UK Research Partnership Investment Fund (UKRPIF) for the Research Foundation in Compound Semiconductor Technology at Cardiff University.
- (c) This is funding for the Open Source Communications, Analytics and Research (OSCAR) Development Centre at Cardiff University.
- (d) ODA Research funding provided under the Global Challenges Research Fund (GCRF) is for the support of cutting-edge research that addresses the challenges faced by developing countries.
- (e) ODA Research funding provided under the Newton Fund is to be used solely for investment in research which supports the economic development and wellbeing of developing countries.
- (f) This is funding to facilitate development and implementation of a pan-Wales Welsh language ITT competence certificate with the aim of award to all prospective teachers who wish to teach through the medium of Welsh.

6. Other expenditures

	2017	2016
	£'000	£'000
<b>Administration costs</b>		
Accommodation costs	245	207
Office costs	52	45
Bought-in services	40	70
Auditors' remuneration – Annual audit fee of HEFCW	25	24
Council members' travel and subsistence costs	29	16
Council members' meeting costs	12	25
Staff travel and subsistence costs	41	33
Staff related expenditure on training, recruitment etc.	17	26
Information technology costs	89	126
	<u>550</u>	<u>572</u>

Our auditor during the year was the Auditor General for Wales.

During the year, HEFCW relocated its offices from Cardiff to Bedwas, Caerphilly resulting in an additional £96k of relocation expenses included within accommodation expenses above.

During 2015-16 there was an HMRC Compliance inspection looking at staff and council members' travel and subsistence and expenses. As a result of anomalies identified, HEFCW paid PAYE and national insurance amounting to £33k (£15k salaries included in salary costs shown on page 38 of the Remuneration and Staff Report, £17k Council members' travel and subsistence and meeting costs included above) covering the periods 2010-11 to 2015-16. This included interest of £1k as shown of the Statement of Comprehensive Net Expenditure.



## 7. Property, plant and equipment

	Information technology equipment	Fixtures & fittings	Total
<b>Cost</b>	£'000	£'000	£'000
At 1 April 2016	517	287	804
Additions	43	-	43
Disposals	(151)	(237)	(388)
At 31 March 2017	409	50	459
<b>Depreciation</b>			
At 1 April 2016	460	259	719
Charged during year	60	-	60
Released on disposals	(148)	(210)	(358)
At 31 March 2017	369	49	418
Net book value at 31 March 2017	40	1	41
Net book value at 1 April 2016	57	28	85
<b>Asset financing</b>			
Owned assets			
Net book value at 31 March 2017	40	1	41

## 8a. Repayable grants

	2017 £'000	2016 £'000
<b>Repayable grants</b>		
Balances as at 1 April	6,750	4,750
Advanced during the year	-	2,000
Repaid during the year	-	-
Balances as at 31 March	6,750	6,750
<b>Balances as at 31 March</b>		
Within one year	600	-
After one year	6,150	6,750
Balances as at 31 March	6,750	6,750

Repayable grants are funds provided to providers on an individual basis to support approved projects from the appropriate part of the programme budget.

The commencement of the repayment and the duration of the period over which the grants are repayable vary according to the conditions of the grant agreed with the provider.

None of the above grants is interest-bearing.

As at 31 March 2017, there was one provider (2016 – one) with repayable grants outstanding.

8b. Trade receivables and other current assets

	2017 £'000	2016 £'000
<b>Amounts falling due within one year</b>		
Prepayments and accrued income	401	132
Other receivables	913	6,243
	1,314	6,375
<b>Intra-government balances</b>		
Other central government bodies	241	-
Balances with other government bodies	-	-
Balances with non-government bodies	1,073	6,375
	1,314	6,375

At 31 March 2016, 'Other receivables' included £1,804k of funding due to be recovered from higher education providers relating to sector agency funding, a short-term loan for cash flow support and the claw back of £1,433k funding following the 2014/15 audit of student numbers.

9. Cash and cash equivalents

	2017 £'000	2016 £'000
<b>Cash held under Government Banking Service</b>		
Balance at 1 April	979	2,077
Net change in cash and cash equivalent balances	540	(1,098)
Balance at 31 March	1,519	979
<b>Cash held under commercial banks and cash in hand</b>		
Balance at 1 April	620	2,044
Net change in cash and cash equivalent balances	(329)	(1,424)
Balance at 31 March	291	620
Total cash and cash equivalents	1,810	1,599

The Government Banking Service (GBS) is a Government-wide banking service. Until February 2016 it was provided jointly by Citibank and the Royal Bank of Scotland and overseen centrally by the GBS team, ultimately controlled by HM Treasury. From February 2016, it was provided solely by the Royal Bank of Scotland (RBS). We do not earn any interest on any balance held in GBS accounts. We have HM Treasury authorisation to continue making payments using commercial banking facilities.

10. Trade payables and other current liabilities

	2017 £'000	2016 £'000
<b>Amounts falling due within one year</b>		
Accruals	1,755	298
Other taxation and social security	-	-
Sundry creditors	-	-
	<u>1,755</u>	<u>298</u>

<b>Intra-government balances</b>		
Central government bodies	1	-
Other central government bodies	66	-
Balances with other government bodies	<u>67</u>	-
Balances with non-government bodies	1,688	298
	<u>1,755</u>	<u>298</u>

11. Provisions for liabilities and charges

	2017 £'000	2016 £'000
Broadly by analogy pension liability (see Staff Costs note on pages 36 and 39)	<u>26</u>	<u>23</u>
<b>Analysis of timing of liability</b>		
Falling due within one year	1	1
Falling due between 2018-19 and 2022-23	7	7
Falling due between 2023-24 and 2032-33	18	15
	<u>26</u>	<u>23</u>

12. Commitments under leases

**Operating leases**

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2017 £'000	2016 £'000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not later than one year	63	82
Later than one year and not later than five years	90	37
	<u>153</u>	<u>119</u>

Expenditure in the year on leasing costs of £71k is included in note 6.

13. **Capital commitments**

	2017 £'000	2016 £'000
Contracted capital commitments at 31 March 2017 not otherwise included in these accounts		
<i>Property, plant and equipment</i>		
Contracted	-	9

14. **Other financial commitments and contingent liabilities**

	2017 £'000	2016 £'000
Revenue grants (a)	48,203	39,272
European projects (b)	5,421	-
	53,624	39,272

(a) This amount will be funded by grant in aid from the Welsh Government to July 2017.

(b) European projects will be funded as follows:

	2017 £'000	2016 £'000
European Social Fund grants	4,120	-
HEFCW	1,301	-
	5,421	-

The European projects also have financial commitments of £993k to be funded by external match-funding contributions from HE providers and small and medium-sized enterprises.

As at 31 March 2017, there were no contingent liabilities (2016 – nil).

15. **Losses and special payments**

	2017 £	2016 £
Fruitless payments	718	90

## 16. Related parties

We are a Welsh Government Sponsored Body. The Welsh Government is regarded as a related party. During the year, we had various material transactions with the Welsh Government, which is regarded as the parent Department.

The following Council members have entered into relationships with organisations that are considered to be related parties, details of which are shown in the table below:

Name	Relationship with related party
Dr David Blaney (Chief Executive and Council member)	<ul style="list-style-type: none"> <li>◆ Fellow, Higher Education Academy</li> <li>◆ Daughter studying at Cardiff University</li> </ul>
Mr David Mason (Council member)	<ul style="list-style-type: none"> <li>◆ Honorary Fellow, University of Wales, Newport (now University of South Wales)</li> </ul>
Mrs Bethan Guilfoyle CBE (Council member)	<ul style="list-style-type: none"> <li>◆ Honorary Doctor of Education, University of Glamorgan (now University of South Wales)</li> </ul>
Dr Arun Midha (Council member)	<ul style="list-style-type: none"> <li>◆ Partner employed by Cardiff University</li> </ul>
Professor Leni Oglesby OBE	<ul style="list-style-type: none"> <li>◆ TDAP Reviewer, Quality Assurance Agency</li> </ul>
Professor Robin Williams CBE (Council member)	<ul style="list-style-type: none"> <li>◆ Emeritus Professor, University of Wales</li> <li>◆ Emeritus Professor, Swansea University</li> <li>◆ Honorary Fellow, Cardiff University</li> <li>◆ Honorary Fellow, Bangor University</li> <li>◆ Honorary Fellow, Swansea University</li> <li>◆ Honorary Fellow, Aberystwyth University</li> <li>◆ Member, Advisory Group for Engineering, Swansea University</li> <li>◆ Fellow of the Coleg Cymraeg Cenedlaethol</li> <li>◆ Member of Council, The Learned Society for Wales</li> <li>◆ Daughter employed by Swansea University</li> </ul>
Professor Mark Smith (Council member)	<ul style="list-style-type: none"> <li>◆ Board Member, HESA</li> <li>◆ Member, the Strategic Advisory Network, EPSRC</li> <li>◆ Trustee, Jisc</li> <li>◆ Trustee, AQA</li> <li>◆ Member, Leadership, Management and Governance Committee, HEFCE</li> <li>◆ Board member, Universities and Colleges Employers Association</li> </ul>

Any funds paid to the providers and organisations noted above are detailed in note 3, otherwise the funds paid in the year were nil. None of the above individuals has undertaken any material transactions with us.

## 17. Financial instruments

IFRS 7 and International Accounting Standards (IAS) 32 and 39 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure.

*Liquidity risks* – In 2016-17 £121.6 million or 87.2% of our income was derived from the Welsh Government (2015-16: £125.7 million or 94.0%). The remaining income £17.8 million or 12.8% was derived from income from activities (2015-16: £8.0 million or 6.0%).

We do not consider that our general activities are exposed to any significant liquidity risk, and we are satisfied that future income is sufficient to meet our commitments.

*Interest rate risks* – Cash balances are no longer held in interest-bearing accounts and therefore our general activities are not exposed to interest rate risks.

*Foreign currency risk* – Our general activities are not exposed to any significant foreign exchange risks.

*Cash flow risk* – We are not exposed to any significant cash flow risks.

## 18. Events after the reporting period

There have been no events, after the Statement of Financial Position date up to the date these financial statements were authorised for issue by the Accounting Officer on 13 July 2017, requiring an adjustment to the accounts.