

Higher Education Funding Council for Wales
Annual report and accounts

For the year ended 31 March 2014

Annual report

Management commentary

About HEFCW

The Higher Education Funding Council for Wales (HEFCW) was established under the Further and Higher Education Act 1992. From 1 July 1999, HEFCW became a sponsored body of the newly-established National Assembly for Wales. We subsequently became known as an Assembly Government Sponsored Body (Government of Wales Act 2006) and finally, a Welsh Government Sponsored Body (WGSB) in May 2011.

HEFCW is an intermediary body between the Welsh Government and the higher education (HE) sector in Wales, and we provide expert advice to the Welsh Government on the sector.

We distribute funding for HE provided by the Welsh Government.

This funding includes:

- The tuition fee grant for Welsh domiciled full-time undergraduates.
- Teaching, research and other funding to Welsh universities.
- HE courses at further education colleges.

We support the HE system in Wales in delivering Welsh Government priorities, securing high quality learning, teaching and research and contributing to Welsh culture and society and the economy.

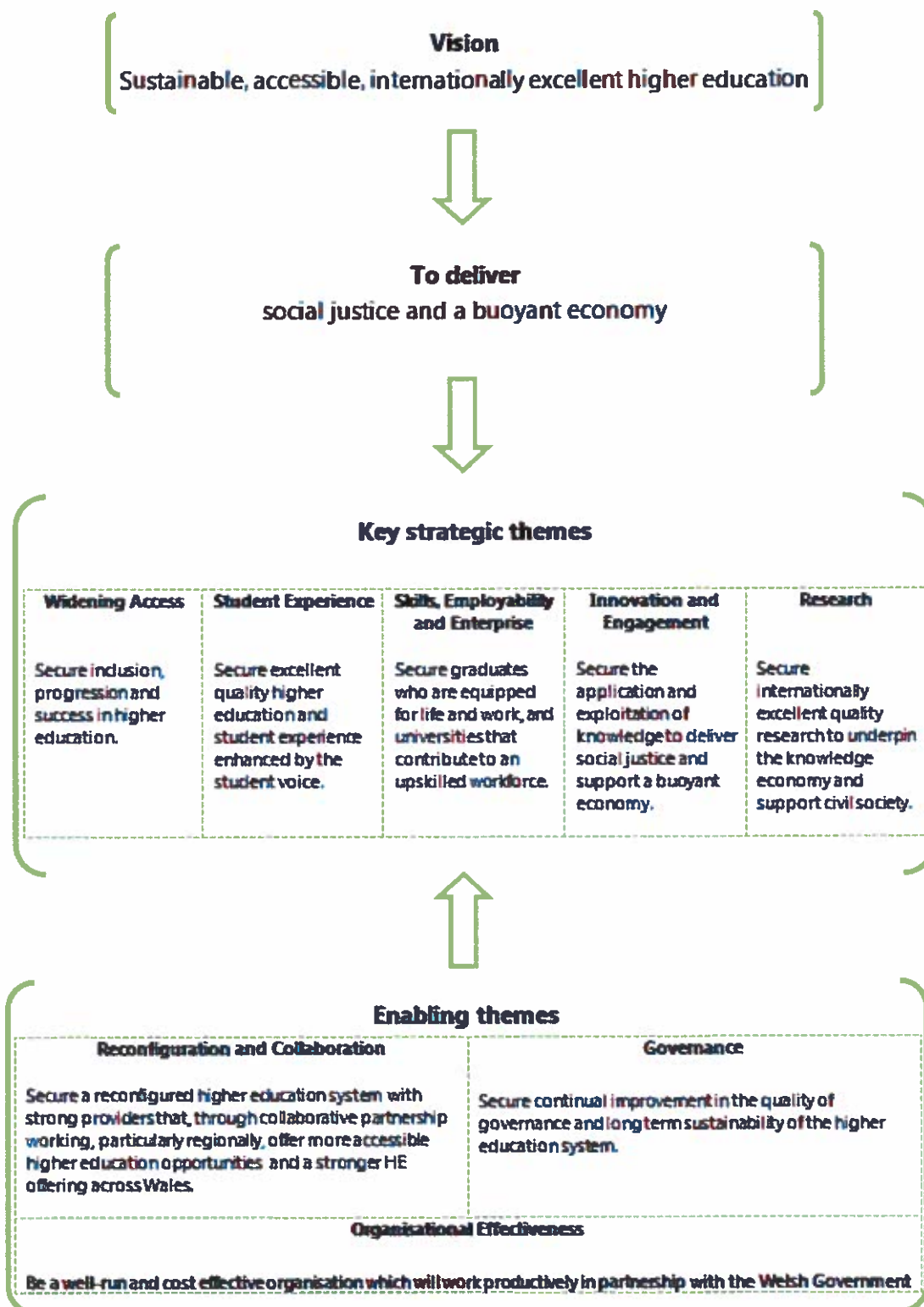
HEFCW also accredits providers of initial teacher training (ITT) for school teachers. Our responsibilities for ITT are covered under the Education (School Teachers' Qualifications) (Wales) Regulations 2004 and the Education Act 2005.

The key elements of HEFCW's strategy have, throughout the year, remained those set out in its corporate strategy for 2010-11 to 2012-13, updated by the revised 2013-14 to 2015-16 version and are set out below.

Strategic framework

Our strategic framework is set out in the HEFCW Corporate Strategy 2013-14 to 2015-16 as follows:

HEFCW's strategic framework



Progress against Corporate Strategy measures

As a means of monitoring our progress over the last three years against the twelve measures set out in our Corporate Strategy 2010-11 to 2012-13 document, we set out below information for the academic year to 31 July 2013. Where there are gaps, data will become available by the end of September 2014.

This is the final year in which we will report against the measures in this Corporate Strategy, which were based on the principles in the Welsh Government's 2009 higher education strategy 'For our Future'.

Our Corporate Strategy from 2013-14 to 2015-16, which took account of developments including the Welsh Government's policy statement on higher education, includes 17 measures. Most of the data that will allow us to assess progress against these new and updated measures will be available in 2015 as we produce our next Annual Report and Accounts (2014-15).

Progress against strategic measures

| | Baseline | Progress | Progress | Progress | Progress |
|--|--------------|--------------|--------------|--------------|------------------------|
| 1 A 10% 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 Welsh Communities First Areas from 15.6% in 2008/09 to 17.2% in 2012/13. | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | 15.6% | 16.2% | 16.5% | 16.9% | 17.3% |
| 2 A 2.7% rise in the module completion rate for undergraduate enrolments in Welsh higher education institutions from 87.6% in 2008/09 to 90% in 2012/13. | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | 87.6% | 90.1% | 92.5% | 93.7% | 95.1% |
| 3 The three year rolling average score for Wales in the National Student Survey 'overall satisfaction'* question will be equal to, or greater than the comparative score for the UK. | | | | | |
| <i>* 'Score' means percentage of students who agreed with 'Overall, I am satisfied with the quality of my course'.</i> | | | | | |
| 3-year rolling average | 2007 to 2009 | 2009 to 2011 | 2010 to 2012 | 2011 to 2013 | 2012 to 2014 |
| Welsh HE institutions | 83.3% | 82.7% | 83% | 83.7% | Data not yet available |
| UK HE institutions | 81.7% | 82.7% | 83.7% | 84.3% | Data not yet available |

| | Baseline | Progress | Progress | Progress | Progress |
|--|--------------------|--------------------|--------------------|------------------------|------------------------|
| <p>4 The number of Welsh domiciled students at Welsh higher education institutions and further education institutions undertaking some element of their course through the medium of Welsh will rise from 4,586 in 2008/09 to 5,509 in 2012/13.</p> <p><i>*Baseline and target have been amended to reflect 2008/09 data correction.</i></p> | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | 4,586 | 4,612 | 4,690 | 4,328 | Data not yet available |
| <p>5 The percentage growth in the number of overseas students attending higher education courses in Welsh higher education institutions will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding London and the South East).</p> | | | | | |
| % growth | 2007/08 to 2008/09 | 2008/09 to 2009/10 | 2009/10 to 2010/11 | 2010/11 to 2011/12 | 2011/12 to 2012/13 |
| Welsh HE institutions | 15.1% | 26.7% | 16.4% | -1.5% | -1.4% |
| UK HE institutions (excl. London and SE England) | 10.4% | 11.9% | 8.5% | 2.6% | 0.7% |
| <p>6 The proportion of leavers obtaining first degrees from full-time courses who were employed, studying or both six months after leaving, will be equal to, or greater than the UK proportion by 2012/13.</p> | | | | | |
| % employed / studying after 6 months | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| Welsh HE institutions | 91.2% | 91.9% | 91.0% | 91.6% | Data not yet available |
| UK HE institutions | 89.9% | 90.4% | 90.3% | 90.8% | Data not yet available |
| <p>7 The absolute participation rate within Welsh higher education providers of students in the five Universities Heads of the Valleys Institute unitary authorities will rise by 8% to the current national average by 2012/13 (from 2.5% to 2.7%).</p> | | | | | |
| | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
| | 2.5% | 2.5% | 2.5% | Data not yet available | Data not yet available |

| | Baseline | Progress | Progress | Progress | Progress |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------------|
| 8 The total number of part-time students studying higher education courses in higher education institutions and further education institutions in Wales will rise from 54,714 in 2008/09 to 59,000 in 2012/13. | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | 54,714 | 50,243 | 50,020 | 49,136 | 46,946 |
| 9 The number of spin-off companies still active which have survived at least three years will increase by 10% from 252 in 2008/09 to 277 in 2012/13. | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| | 252 | 301 | 376 | 445 | 463 |
| 10 The annual percentage growth in income from Research Councils will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding the 'golden triangle' of Oxford, Cambridge and London). [In 2008/09, Welsh HE income from the Research Councils accounted for 4.8% of the UK total excluding 'golden triangle' universities.] | | | | | |
| % growth in income for: | 2007/08 to 2008/09 | 2008/09 to 2009/10 | 2009/10 to 2010/11 | 2010/11 to 2011/12 | 2011/12 to 2012/13 |
| Welsh HE institutions | 17.4% | 3.0% | 1.2% | -3.6% | -10.1% |
| UK HE institutions | 13.9% | 3.1% | -2.7% | -4.0% | 1.6% |
| 11 At least 75% of the Welsh higher education institutions will have an annual income in excess of the UK median (36% in 2008/09), with no institution to be in the lower quartile by 2012/13 (4 in 2008/09). | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| In excess of UK median | 36% (4 out of 11 institutions) | 45% (5 out of 11 institutions) | 40% (4 out of 10 institutions) | 40% (4 out of 10 institutions) | 50% (4 out of 8 institutions) |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| In lower quartile | 36% (4 out of 11 institutions) | 36% (4 out of 11 institutions) | 30% (3 out of 10 institutions) | 30% (3 out of 10 institutions) | 13% (1 out of 8 institutions) |

| | Baseline | Progress | Progress | Progress | Progress |
|--|----------|----------|----------|----------|----------|
| 12 No higher education institution to be classified as 'high risk' under HEFCW institutional risk review processes. | | | | | |
| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 |
| No. of HE institutions classified as 'high risk' | 0 | 0 | 0 | 0 | 0 |

NB There has been a change since the end of the academic year to 31 July 2013 in respect to strategic measure 12. One higher education institution is now classified as 'high risk'.

Progress against Welsh Government priorities identified in our operational plan

The tasks in HEFCW's operational plan are largely based on priorities identified by the Welsh Government in its annual remit letter to us.

Of the 42 actions identified in the 2013-14 operational plan, 30 have been fully achieved and a further 10 have been undertaken successfully, but as a result of undertaking them, additional pieces of work have been developed and by the financial year-end, had not been fully completed. Quarterly updates and monitoring meetings with the Welsh Government ensure a continual assessment of our achievements and give us an opportunity to address areas that might be not progressing to our satisfaction.

During the reporting year, we:

- Completed the consultation on the part-time action plan, which informs the development of a position statement on part-time learning. This, in turn, will feed into HEFCW's response to the forthcoming Diamond Review to the Welsh Government on higher education funding.
- Made recommendations to the Quality Assurance Agency for Higher Education about changes to the institutional review process for Wales, following consultation with the higher education sector.
- Published good practice case studies on funding student unions and on student representation, and updated our guidance in these areas.
- Encouraged digital learning and provided funding to embed Open Education Resources at HE institutions.
- Delivered our graduate employability programme, GO Wales, and aligned associated Jobs Growth Wales activities.
- In line with the Welsh Government's 'Innovation Wales', helped the HE sector to continue to improve its engagement with the business community through funding and monitoring of innovation and engagement (I&E) collaborative projects.

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- Contributed financially to the Sêr Cymru programme, which establishes expert science research teams at universities, and maintained our level of funding for quality research in Wales.

As an organisation we:

- Launched our new three-year Corporate Strategy.
- Responded to the Welsh Government's Technical Consultation on the HE (Wales) Bill.
- Reported against our Welsh Language Scheme and Strategic Equality Plan, and on efficiencies against procurement expenditure which we were able to influence.

HEFCW's strategic risks

A revised corporate risk register of HEFCW's key strategic risks was agreed by Council in March 2013 and is subject to regular review.

The corporate risk register is structured to reflect all significant risks assessed by HEFCW teams in relation to their objectives and projects, including all appropriate corporate and operational plan objectives. These identified risks, were they to materialise, would have a significant negative impact on HEFCW and/or on the higher education sector in Wales as a whole.

Consideration of these risks allows us to assess the continuing validity of our corporate strategy and operational plan against changes in circumstance and to make adjustments where necessary. This does not mean we expect the risks to materialise – rather, it indicates that these are areas of risk which we need to be aware of and respond to, as appropriate, in order to perform our role effectively.

| Risk area | Main risk(s) |
|------------------------------|---|
| Sustainability and assurance | <ul style="list-style-type: none">• Universities Heads of the Valleys Institute fails to achieve objectives within agreed timescales.• HEFCW fails to achieve corporate target of 75% of sector with income above UK median and only one higher education institution in lower quartile by AY 2012/13.• Higher education providers fail to maintain effective regional partnerships.• HE institutions fail to comply with the HEFCW Financial Memorandum and to maintain their long term financial sustainability. |
| Widening access | <ul style="list-style-type: none">• HE sector fails to deliver 'For our Future' policy part-time target. |
| Student experience | <ul style="list-style-type: none">• HE sector fails to meet 'For our Future' target for Welsh medium provision.• HE sector's quality of teaching suffers in context of HEFCW funding changes.• HE sector fails to deliver ITT quota in new fees' regime |

| Risk area | Main risk(s) |
|-----------------------|---|
| Research | <ul style="list-style-type: none"> • HE sector fails to meet Welsh Government expectations of improved research performance which underpin the objectives set out under 'For our Future'. • HE sector fails to prepare adequately for REF 2014. |
| Knowledge transfer | <ul style="list-style-type: none"> • Reduction in IEF funding in AY 2013/14 misinterpreted by HE sector and stakeholders as indicative of I&E not continuing to be a core agenda for the sector. |
| Policy delivery | <ul style="list-style-type: none"> • Welsh local authorities incorrectly assess students as Welsh domiciled, thus qualifying for tuition fee support. |
| HEFCW operating risks | <ul style="list-style-type: none"> • Workload increases beyond staff capacity. • HEFCW's organisational re-design adversely affects delivery capacity. • Welsh Government policy fails to appreciate HE dimension of policy areas. • HEFCW funding, post student fee grant changes, is inadequate to address core priorities. |

Accounts

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

The accounts are prepared in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards as adapted or interpreted for the public sector context.

These statements cover the twenty-first reporting period of HEFCW and reflect the continuing development of HEFCW's systems and policies.

Financial review

In delivering the strategic aims and objectives set out in the previous pages, HEFCW received a total of £380.6 million of grant in aid funding from the Welsh Government (2012-13: £373.7 million). Although this represents a small annual increase in overall funding, a larger proportion of the funding has been paid as student tuition fee support grants to the Student Loans Company (SLC) amounting to £129.3 million (2012-13 : £48.1 million), this being the second financial year (and first year in full) of the new arrangements for funding students. This has resulted in a reduction in the funds being distributed by HEFCW on a discretionary basis.

In addition to grant in aid funding from the Welsh Government, £11.6 million of other income was receivable in 2013-14 (2012-13: £22.0 million).

Total expenditure in 2013-14 was £397.6 million (2012-13: £391.9 million). Of this, £395.2 million (2012-13: £389.0 million) relates to the funding of the higher education and £2.4 million (2012-13: £2.9 million) to HEFCW's own costs incurred in managing and distributing grant funding to the higher education sector and to the SLC. HEFCW's own expenditure cost savings have been achieved largely as a result of staff cost efficiencies following the implementation of a voluntary exit scheme in 2012-13, together with the first

full year impact of accommodation cost efficiencies resulting from the reduction in office space occupied and more favourable lease rental arrangements that took effect midway through 2012-13.

The net operating costs for the year were £386.0 million (2012-13 net operating costs £369.9 million). The cumulative taxpayers' equity general fund at 31 March 2014 after crediting the grant in aid funding referred to above, was £6.4 million (31 March 2013: £11.8 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. HEFCW's activities are also planned to ensure that its 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 £67k in the year.

Employee involvement

Regular staff meetings and seminars ensure good internal communications and provide opportunities for staff to contribute to the workings of HEFCW. A Works Council, through which representatives can raise issues of concern to staff, meet on a regular basis. A formal consultation process is in place which supports the consultation mechanism for the Works Council and also the process for changes to policies and procedures.

In 2000, HEFCW achieved the Investors in People award. This award was re-assessed in March 2012 and HEFCW was found to be still meeting the required standard.

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

HEFCW's 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.

HEFCW has achieved the 'Two Ticks' disability symbol and is resolved to meeting the five commitments regarding recruitment, training, retention, consultation and disability awareness.

In 2009, HEFCW became the first organisation in Wales to be awarded the Welsh Government's small workplace health award at silver level. The award recognises measures taken in smaller organisations to help improve the health and well-being of staff. HEFCW was commended for the range of materials and resources available to employees, and the policies and procedures in place which promoted physical and mental health and well-being. Due to the reduction in staff resources during 2012-13, HEFCW revised its award target and was awarded the bronze standard in November 2012.

Community and human rights matters

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

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

Future developments

HEFCW's role is changing as more of our funding is used to support student fees over the next few years. 2013-14 is the second financial year (and first year in full) in this transition which will be fully implemented in 2015-16. This will continue to reduce our remaining funding available for core higher education priorities and necessitate using this funding more strategically to support these priorities. Funding levels are also expected to be come under continuing pressure as part of ongoing spending reviews at both national and UK level which could lead to further reductions in future years.

Our role as regulator is likely to increase with new powers from the National Assembly for Wales through the new Higher Education Bill which is scheduled to be enacted by the end of 2014-15. As a consequence, it is anticipated that we will be required to monitor universities and private providers in the delivery of higher education.

The proposals for the Future Generations Bill remain unclear, however, we anticipate in principle, that this will require HEFCW, but not the HE sector, to demonstrate how it makes decisions that support the achievement of defined high level sustainable development goals and to report on progress through annual reporting processes with effect from 2016.

Council membership

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

Chair

Mr Roger Thomas OBE (*First term: 5 May 2008 to 4 May 2011; Second term: 5 May 2011 to 4 May 2014*). *Former Chair of Governors and Pro-Chancellor of the University of Glamorgan.*

NB Mr David Allen OBE (see 'Other Council Members' below) was appointed as Chair with effect from 5 May 2014 for a term of three years to 4 May 2017.

Chief Executive (& Accounting Officer)

Dr David Blaney

Other Council members:

| Name | Personal history | Term of office | Committee membership |
|--------------------|--|---|---------------------------------|
| Mr David Allen OBE | Partner (part-time), Perrett Laver. Former Registrar and Deputy Chief Executive of the University of Exeter | First term: 01/12/08 to 30/11/11 Second term: 01/12/11 to 30/11/14 | Strategic Development Committee |

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| Name | Personal history | Term of office | Committee membership |
|--|---|---|--|
| Dame Alexandra (Sandra) Burslem | Former Vice-Chancellor, Manchester Metropolitan University | First term: 01/12/08 to 30/11/11 Second term: 01/12/11 to 30/11/14 | 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 | Student Experience, Teaching and Quality Committee |
| 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 | Audit and Risk Assurance Committee (Chair) |
| 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 | Student Experience, Teaching and Quality Committee (Chair) |
| Professor Mark Smith | Vice-Chancellor, Lancaster University | First term: 01/01/13 to 31/12/15 | Research, Innovation and Engagement Committee |
| Professor Stephen Tomlinson CBE | Former Vice-Chancellor, University of Wales College of Medicine | First term: 01/01/13 to 31/12/15 | Research, Innovation and Engagement Committee |
| Professor Robin Williams CBE | Former Vice-Chancellor, Swansea University | First term: 01/08/09 to 31/07/12 Second Term: 01/08/12 to 31/07/15 | Research, Innovation and Engagement Committee (Chair) Strategic Development Committee |

| Name | Personal history | Term of office | Committee membership |
|-------------------------|--|----------------------------------|---|
| Mr Ewart Wooldridge CBE | Former Chief Executive, Leadership Foundation for Higher Education | First term: 01/01/13 to 31/12/15 | Human Resources Committee (Chair) Remuneration Committee Audit and Risk Assurance Committee |

The Chair of Council also chairs the Appointments Committee (whose membership includes the Chairs of each of the other committees listed above) and the Remuneration Committee.

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

Assessor appointed by Welsh Ministers

Mr Neil Surman

Head of Higher Education Division, Department for Education and Skills, Welsh Government

Register of interests

Details of Council members' declared interests are available on the HEFCW website (www.hefcw.ac.uk) at: Home > Council and Committees > Council members.

Management board membership

The HEFCW Management Board is responsible for HEFCW's management and operation.

For the period 1 April to 31 July 2013, it was made up of the Chief Executive, the Head of Skills, Education and Funding, the Head of Institutional Engagement and the Head of Corporate Services. From 1 August, following the appointment of two directors, it consisted of the Chief Executive, the Director of Strategic Development, the Director of Institutional Engagement and the Head of Corporate Services.

Pension liabilities

Details of pension costs, pension schemes and pension liabilities are disclosed within the Remuneration Report, the accounting policy 1(e) and in note 14 to the accounts.

Sickness absence

Sickness absence is monitored by HEFCW. At 2.17% of potential working time lost for 2013-14 (2012-13 – 1.31%), this is low compared to most other organisations in the public sector (average working time lost per CIPD Absence Management Annual Survey Report 2013 – Public Services 4.0%; Education 4.5%; Central Government 3.8%; Local

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Government 3.9%; Other Public Services 3.0%; Public sector workforce size 1-49, 4.1%; and UK (across all sectors – 4.4%).

Personal data related incidents

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

Audit

The accounts of the Council are audited by the Auditor General for Wales as required by paragraph 16(1) of Schedule 1 to the Further and Higher Education Act 1992. External audit fees in respect of this and other audit work are shown at Note 6 to these accounts.

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

Sustainability report

The primary role of HEFCW is to develop and sustain internationally excellent higher education in Wales, for the benefit of individuals, society and the economy, in Wales and more widely. The 46 staff plus Council members who make up the organisation, operate from a single shared office building in North Cardiff. Our main direct environmental impact arises from the use of the office building and business travel.

HEFCW has been recording its environmental performance in relation to business travel since 2007-08. This has been supported by the development of an environmental management system with Green Dragon Level 2 and the use of the Welsh Government Sustainable Procurement Assessment Framework. We have now extended the collection of environmental data to include the use of electricity within the building and the associated carbon impact. We have also been successful in encouraging the landlord to install low energy lighting and lighting controls to the core area of the building, which has resulted in both energy and maintenance savings.

Table 1 below compares CO₂ and mileage recorded in relation to business travel between 2011-12 and 2013-14. From this it can be seen that business travel has increased modestly in 2013-14 for the first time in six years. This rise is accounted for by an increase of circa 6,000 miles in staff travel but is offset by a reduction of nearly 3,000 miles in staff rail travel. The change in business mileage represents an increase of less than 5% and must be viewed in the context of a 60% reduction in business travel since 2008-09. Video and telephone conferencing continues to be used and in 2013-14 this has generated savings of 15,678 miles or 23.87% of total business mileage.

Table 1

| | 2011-12 | | 2012-13 | | 2013-14 | |
|-------|---------|--------------------|---------|--------------------|---------|--------------------|
| | Miles | CO ₂ KG | Miles | CO ₂ KG | Miles | CO ₂ KG |
| Total | 100,200 | 22,357 | 62,866 | 12,098 | 65,676 | 13,993 |

HEFCW also records and monitors its purchases of paper, as well as ensuring photocopiers and printers default to two-side printing. We will also continue to provide a system of segregated waste collection. In terms of waste management, we maintain basic

records to monitor paper usage and the quantity of bags shredded and other waste paper disposals. The recycling of waste by staff is encouraged by providing recycling receptacles within the office to separately deposit plastic, cardboard, paper and batteries. We will continue to promote recycling where practical.

Electricity consumption is displayed in Table 2 below. This is the first year that we have been able to produce accurate consumption figures, and will seek to benchmark these figures in future. We will continue to monitor electricity consumption and will through our Environmental/Procurement Improvement Plan look for opportunities to reduce this wherever this can be achieved on a cost effective basis.

Table 2

| 2013-14 Electricity Consumption | Landlord's supply (Kilowatt hours) | Tenant's supply (Kilowatt hours) | Total (Kilowatt hours) | Carbon Emissions* (Kilograms) |
|---------------------------------|------------------------------------|----------------------------------|------------------------|-------------------------------|
| Ground Floor | 7,780 | 58,908 | 66,688 | |
| First Floor | 4,719 | 56,547 | 61,266 | |
| Second Floor | 5,371 | 121,049 | 126,420 | |
| Total | 17,870 | 236,504 | 254,374 | 113,318 |

* This has been calculated using The Department of the Environment Food and Rural Affairs 2013 figures
<http://www.ukconversionfactorscarbonsmart.co.uk/Filter.aspx?year=27>

Remuneration report

Remuneration policy

The remuneration of the Chair, the Council Members and the Chief Executive is set by the Welsh Government. The remuneration of the Chair and Council Members 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 the approved pay and grading system within HEFCW, which applies to all staff appointments. HEFCW's overall levels of remuneration and its annual pay remit, which apply to all staff including the directors, are approved by the Welsh Government.

Remuneration committee

HEFCW has a Remuneration Committee which is responsible for reviewing annually the performance of the Chief Executive and the directors. The committee, consisting at any time of at least two members, both of whom are Council Members, has delegated authority from the Council to consider matters affecting the pay of the Chief Executive in accordance with guidelines set by the Welsh Government.

Remuneration (including salary) and pension entitlements

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

Senior employees' remuneration (salary and pensions)*

Single total figure of remuneration

| Name and position | 2013-14 Salary | 2012-13 Salary | 2012-13 Bonus payments | 2013-14 Pension benefits | 2012-13 Pension benefits | 2013-14 Total | 2012-13 Total |
|---|----------------|----------------|------------------------|--------------------------|--------------------------|---------------|---------------|
| | £'000 | £'000 | £'000 | £ | £ | £'000 | £'000 |
| Roger Thomas (Chair) | 20-25 | 20-25 | N/A | N/A | N/A | 20-25 | 20-25 |
| Dr David Blaney (Chief Executive) | 115-120 | 105-110 | N/A | 97,859 | 79,024 | 215-220 | 185-190 |
| Professor Philip Gummatt (former Chief Executive) - retired 26 October 2012 | N/A | 60-65 | 10-15 | N/A | 11,060 | N/A | 85-90 |
| Celia Hunt (Director of Strategic Development) – appointed 1 August 2013 | 45-50 | N/A | N/A | 41,180 | N/A | 90-95 | N/A |
| Bethan Owen (Director of Institutional Engagement) – appointed 1 August 2013 | 45-50 | N/A | N/A | 8,337 | N/A | 55-60 | N/A |
| Richard Hirst (former Director of Finance & Corporate Services) - retired 31 March 2013 | N/A | 95-100 | N/A | N/A | 63,269 | N/A | 160-165 |

| | 2013-14 £'000 | 2012-13 £'000 |
|---|------------------|------------------|
| Band of highest paid member of staff (total remuneration**) | 115-120 | 105-110 |
| | 2013-14 £ | 2012-13 £ |
| Median total remuneration** | 34,388 | 41,517 |
| Ratio | 3.4 | 2.6 |

NB There were no benefits in kind in either 2013-14 or in 2012-13 for the above.

There were no bonus payments in 2013-14 for the above.

The salaries shown for Celia Hunt and Bethan Owen are for the period 1 August 2013 to 31 March 2014. The equivalent full year's salary for each is £75,000.

Richard Hirst left under Voluntary Exit terms on 31 March 2013. In addition to the remuneration above, he received a compensation payment of £135-140,000.

The 'bonus payment' shown above for Professor Gummatt was a non-consolidated performance award in respect of the previous performance year 2011-12, together with a sum payable in respect of the 2012-13 performance year up to the date of his retirement.

The 'Pension benefits' figures above are calculated for disclosure purposes by HEFCW's pension administrators.

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 the most highly paid senior employee in HEFCW in 2013-14 was £115,000 to £120,000 (2012-13 - £105,000 to £110,000). This was 3.4 times (2012-13 - 2.6) the median salary of all staff, which was £34,388 (2012-13 - £41,517).

**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 increase in the ratio is chiefly attributable to the 2012-13 voluntary exit scheme departures of mostly senior staff who fell above the median salary level. This has significantly reduced the median remuneration level in 2013-14 from the previous level of £41,517. Due to the nature of the work undertaken at HEFCW, we have a high proportion of staff at middle job levels, resulting in the median shown above.

The total salary for Roger Thomas for the year 2013-14 was £24,264 (2012-13 - £24,264). He waived his right to his salary and elected for payment to be made to a registered charity.

Senior employees' pensions*

| Name | Position | Accrued pension at pension age at 31/03/14 & related lump sum | Real increase in pension and related lump sum at pension age | CETV at 31/03/14 | CETV at 31/03/13 | Real increase in CETV |
|-----------------|---|---|--|------------------|------------------|-----------------------|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| Roger Thomas | Chair | N/A | N/A | N/A | N/A | N/A |
| Dr David Blaney | Chief Executive | 50-55 pension | 5 – 7.5 pension | 787 | 669 | 70 |
| Celia Hunt | Director of Strategic Development (from 1 August 2013) | 15-20 pension plus 50-55 lump sum | 0 - 2.5 pension plus 5 - 7.5 lump sum | 338 | 287 | 35 |
| Bethan Owen | Director of Institutional Engagement (from 1 August 2013) | 10-15 pension | 0 – 2.5 pension | 192 | 170 | 3 |

The CETV figures in the column 'CETV at 31/03/13' above for Celia Hunt and Bethan Owen are their respective balances at 31 July 2013, the day before their appointment as directors.

Salary and pension disclosures*

Dr David Blaney and Bethan Owen were both members of the Premium defined benefit scheme during the year, whereas Celia Hunt was a member of the Classic defined benefit scheme, both schemes being 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 scheme does 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 HEFCW. Council Members (excluding the Chair and Chief Executive) receive a non-pensionable salary of £5,076 per annum.

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

* This information is subject to audit

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium, or classic plus); or a whole career scheme (nuvos). 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 and nuvos are increased annually in line with Pensions Increase legislation. 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 1.5% and 6.25% of pensionable earnings for classic and between 3.5% and 8.25% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2014. Benefits in classic accrue at the rate of 1/80th 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 1/60th 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. 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three 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 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 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 and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The 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 worked 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 HEFCW and the member to make contributions in line with the PCSPS. HEFCW is 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.

Exit packages

During 2011-12 HEFCW implemented a voluntary exit scheme in order to meet running cost reduction requirements. All departures took place during 2012-13. Compensation costs for nine of the ten departing members of staff were accounted for in 2011-12 and the balance in 2012-13.

| Exit package cost band | Number of departures accounted for in 2013-14 | Number of departures accounted for in 2012-13 |
|--------------------------------------|---|---|
| <£10,000 | - | - |
| £10,000 - £25,000 | - | - |
| £25,000 - £50,000 | - | - |
| £50,000 - £100,000 | - | 1 |
| £100,000 - £150,000 | - | - |
| Total number of exit packages | - | 1 |
| Total cost | - | £64,695 |

Voluntary exit compensation costs were payable in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

A handwritten signature in black ink, appearing to read 'D. Blaney', written in a cursive style.

Dr David Blaney
Chief Executive and Accounting Officer
8 July 2014

Statement of HEFCW's and the Chief Executive'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 the Higher Education Funding Council for Wales 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 its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the 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 the Higher Education Funding Council for Wales. 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.

HEFCW Governance Statement 2013-14

Scope of responsibility

As Accounting Officer of HEFCW, I am accountable to the Permanent Secretary of the Welsh Government as its 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, whilst safeguarding the public funds and Council 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 also 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 institutions and others for education, research and associated purposes.

Developments in year

From academic year 2012/13 the Welsh Government introduced new tuition fee arrangements for higher education in Wales which has resulted in significant changes in the way HEFCW funds institutions. An increasing proportion of HEFCW resources is now required to be allocated as tuition fee grant support for full-time undergraduate (FTUG) and post graduate certificate in education (PGCE) Welsh and EU domiciled students at institutions in Wales, and for FTUG/PGCE Welsh domiciled students at institutions in the rest of the UK. As a consequence, there has been a commensurate reduction in HEFCW grant allocations directly to institutions in Wales.

The level of tuition fee grant support which HEFCW is required to make each year is demand-led. HEFCW has limited control over the quantum of these payments for Welsh and EU domiciled students studying in Wales, and no control over the quantum of these payments which follows Welsh domiciled students into the rest of the UK. The final annual amount of fee grant obligation is not known until well into the academic year to which the allocation relates, however we estimate that for 2013/14 academic year around 42% of HEFCW's overall funding allocations for the year will be used for FTUG/PGCE tuition fee grant payments for Welsh domiciled students attending universities both within and outside of Wales, along with EU domiciled students studying in Wales. On present modelling, we estimate that this will increase to nearly 60% of HEFCW's overall funding allocations in 2014/15. The funding of student tuition fee grant support is paid by HEFCW to the Student Loans Company (SLC). The SLC then makes payments to higher education institutions in respect of their eligible Welsh students.

HEFCW's remaining grant to higher education institutions in Wales is established from the balance of resources after estimated tuition fee grant payments have been allocated. This funding continues to be focussed strategically to address both Welsh Government and HEFCW Council priorities. However, the reduction in the balance of available funding is significantly affecting the Council's policy leverage, and thus it is more difficult to find ways of ensuring delivery on these key priority areas. The key mechanism which we currently have in place for doing so is that HEFCW has designated responsibility for approving Welsh institutions' fee plans, which set out their commitment to invest a reasonable proportion of their tuition fee income above the basic fee rate of £4,000 on measures to improve equality of opportunity and promote higher education. However, the Welsh Government has recognised that the policy shift away from HEFCW's institutional grants to

a system where a significant proportion of institutional income is derived from student tuition fees requires new legislation and a revised regulatory system for higher education in Wales. It therefore announced the intention to introduce a Higher Education (Wales) Bill to the National Assembly for Wales.

Governance Framework

HEFCW is 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 universities to enable them to meet those policy priorities.

The HEFCW Council is appointed by the Minister for Education and Skills in accordance with the requirements of the Further and Higher Education Act 1992. The Accounting Officer is a member of the Council. During the year there were 11 members serving on the Council. Due to the retirement in May 2014 of the existing Chair of HEFCW, in September 2013 the Welsh Government issued an advertisement for a new Chair.

The Council met on six occasions during financial year 2013-14. Out of a possible 66 member attendances during the year, a total of 61 were made.

The Council's meetings are attended by an observer from the Welsh Government; by the President of the National Union of Students (Wales) as an observer; and by observers from the Higher Education Funding Council for England (HEFCE) and the Scottish Funding Council (SFC). Likewise, we have observer status on the Board meetings of both HEFCE and the SFC. The Council is supported by Audit and Risk Assurance; Human Resources; Remuneration; and Appointments Committees, and by three strategic advisory committees (Student Experience, Teaching and Quality; Research, Innovation and Engagement; and Strategic Development) covering areas of higher education policy which are important to HEFCW's remit. 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 the HEFCW website. The Council is also supported by a UK-wide advisory committee: the UK Healthcare Education Advisory Committee.

The Council has a Complaints Policy based on the model Concern and Complaints Policy produced by the Public Services Ombudsman for Wales. No formal complaints against HEFCW were received during 2013-14.

The Council carries out an annual self-assessment effectiveness review of its governance, comprising an appraisal of the Council, including members' performance, by the Chair through discussions with members and a comparison of HEFCW's governance arrangements with the Financial Reporting Council's Corporate Governance Code. In addition to these activities, in 2013-14 the Council conducted the annual review of its key corporate governance documents and also reviewed the functions and remit of its Strategic Development Committee, as well as agreeing minor amendments to the remits of other committees. Overall the Council was content with its effectiveness and governance practices, including with respect to the quality of information and data provided through Council and committee papers. The Council is of the view that its processes continue to be compliant with the Corporate Governance Code to the extent relevant to a Welsh Government Sponsored Body. Following a review last year of new ways of working, the Council continued during 2013-14 to seek ways of making better use of Council and

committee time, including through a more strategic focus for business. Council agreed to consider the timing and content of its next detailed governance effectiveness review once the new HEFCW Chair had been appointed, and when there was further clarity on the new role for and expectations of the Council from the final HE (Wales) Bill.

During the year we received a letter from the Minister, following up on similar correspondence received in 2012-13, requesting a progress report from HEFCW for completion by June 2014 on increasing the number of women and other under-represented groups in public appointments. The Council initially considered its response to the Minister at its January 2014 meeting. In 2013-14 the gender balance of the HEFCW Council was eight male (including the Chairman) and three female Council members. Responsibility for the appointment of HEFCW Council members lies with the Welsh Government.

During the year, both the Audit and Risk Assurance Committee and the Council reviewed and provided feedback on the draft Framework Document which is due to replace the Management Statement/Financial Memorandum between the Welsh Government and HEFCW.

The Audit and Risk Assurance Committee has benchmarked its operation against the National Audit Office checklist for audit committees, which uses criteria derived from the HM Treasury Audit Committee Handbook. There are five members, two of whom (including the Chair) are members of HEFCW's Council. The Committee meets three times a year and meetings are attended by the Chief Executive; the Head of Internal Audit; representatives from the external auditors, the Wales Audit Office; and relevant HEFCW staff. The minutes of the Committee are presented to the Council after each meeting, and the Chair of the Committee reports any matters of particular note to the Council. The remit of the Committee includes both HEFCW itself and HEFCW's assurance work with the HE sector. The Committee provides the Council with an annual report, which incorporates the Committee's opinion on governance, internal control and risk management. In its annual self-assessment effectiveness review, members agreed a number of changes to the Committee's reporting arrangements, and to update the Committee's self-assessment review checklist against the requirements in the revised HM Treasury *Handbook*.

As part of our commitment to improving our performance, we are keen to learn from other comparable public bodies. Working with the Arts Council of Wales, we were the first Welsh Government Sponsored Bodies (WGSBs) to hold reciprocal visits for the Chairs and representatives of the HEFCW executive, to attend each other's Audit and Risk Assurance Committee meetings as observers. We have been in discussion with other WGSBs and have plans to arrange further reciprocal visits in the coming year.

The Audit and Risk Assurance Committee's opinion for 2013-14 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.

Higher Education Funding Council For Wales

- Governance, risk management and internal controls arrangements for HEFCW have been generally adequate and effective during the year and the Council and Accounting Officer can therefore place reasonable reliance on them.
- There remains some risk concerning fee grant eligibility checks, but assurance work completed has identified no evidence of any unusual trends in fee grant payments.

The Council discharges its legal responsibility to ensure that provision is made to assess the quality of education in funded institutions through its Student Experience, Teaching and Quality Committee (SETQC) and its Quality Assessment and Enhancement Sub-Group (QAESG). The assessment is carried out primarily by the Quality Assurance Agency, which provides an annual academic year report on the outcomes of reviews, considered by QAESG, SETQC and the Council. The report for 2012/13 can be found on the Council's website. During 2012/13 the QAA conducted one Institutional Review, of Glyndwr University in March 2013. The QAA review report includes recommendations and features of good practice, and can be found on the QAA website.

During 2013-14, the QAA conducted follow-up review activity with Aberystwyth University and worked closely with the University of Wales, including setting up an annual monitoring report on that University's 'exit arrangements'.

QAESG also considers assessments undertaken in HE institutions by professional statutory and regulatory bodies, such as Estyn, as well as the outcomes of the UK National Student Survey.

We work with the sector in partnership with many other organisations to help us deliver our objectives, including the Quality Assurance Agency, Jisc, the Equality Challenge Unit, the Leadership Foundation for Higher Education, and the Higher Education Academy. These partner organisations provide HEFCW with useful sources of advice and information that enables it to benchmark Welsh performance and activities against the rest of the sector, and the arrangements have the benefit of economies of scale since the organisations have UK-wide remits. The Higher Education Funding Council for England (HEFCE), as the major UK funder, 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. HEFCE also has responsibility for oversight of the Open University as an institution, although HEFCW works directly with the Open University in Wales on the provision it delivers in Wales.

We have a memorandum of understanding 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 institutions in Wales.

We have regular interaction with the Department for Education and Skills, under the terms of the Management Statement and Financial Memorandum between the Department and HEFCW. The Department and HEFCW have a quarterly monitoring meeting at officer level, which enables the Department to monitor HEFCW's progress against our operational plan and key performance indicators and to monitor our risk register and the actions we are taking to mitigate risk. The Council receives a report every term on progress against its Operational Plan targets, and an annual report on progress against its Corporate Strategy targets.

The Minister for Education and Skills has a quarterly meeting with the Chair and Chief Executive, which enables him to monitor HEFCW's delivery against our strategic objectives and provides an opportunity for HEFCW to advise the Minister.

Handling organisational change

Following the departure of ten members of staff in 2012-13 as a result of a voluntary exit scheme, which was necessitated by reductions in our running costs and which led to a restructuring of the organisation, further restructuring took place during 2013-14 to address the latest needs of the organisation. Senior management was strengthened through the appointment of two new Directors and the portfolios and staffing structures for which the Directors are responsible were further adjusted, ensuring that the direct reports to Directors are at head of section level.

There remains a heightened level of risk to our effective operation whilst we adjust to the new staffing levels and structure in the context of the increasing operational demands placed upon us, alongside the possibility of further running cost pressures in the short to medium term. As part of this adjustment, a comprehensive review of policies and procedures is underway and will continue through 2014-15 and beyond. In addition, a project to develop the use of mobile IT facilities to reduce the use of paper is well-advanced and is due to be fully implemented from the start of 2014-15.

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 my senior management team. My review is also informed by the work of the internal auditor and the managers within HEFCW who have responsibility for the development and maintenance of the internal control framework, and by comments from the external auditors in their management letters.

HEFCW's 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 institutions funded by HEFCW are required to comply with a financial memorandum, 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 institutions - including their annual accounts, fee plans, and strategic plans - as part of our work to ensure the protection of the public investment in institutions. This work includes seeking assurance that the public funds provided to institutions have been used for the purposes for which they were intended.

Each of the key annual 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 with reports on to the 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 2013-14 which warrant disclosure here.

Approach to risk management

HEFCW operates a system of internal control which is designed to: identify and prioritise the risks to the achievement of HEFCW's policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them effectively. HEFCW's risk management processes are overseen by the Audit and Risk Assurance Committee on behalf of the Council.

Each team within HEFCW manages a risk register which is reviewed three times a year. The Chief Executive manages 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 agreed by the Audit and Risk Assurance Committee, 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 Council.

Alongside the main risk registers, each team produces a fraud risk register. Those risks above the tolerance boundary are included in a Corporate Fraud Risk Register. The implications of the Bribery Act 2010 are included in the management of fraud risk.

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 institution.

During the year we evaluated our approach to risk management and concluded that, while our systems appear to be broadly effective, there was a lack of leverage with respect to some long-standing, contextual risks such that we have been unable to significantly influence or mitigate those risks. We will be developing our risk management processes to try and address this issue.

Significant issues considered by Council during the year

Student tuition fee grant arrangements

I reported last year that the most significant issue and development in relation to our internal control system that arose during 2012-13 related to the major changes made by the Welsh Government to how higher education is funded. This change resulted in incorporating an increase in tuition fee support for Welsh students and a commensurate reduction in HEFCW grant, with effect from the start of the academic year 2012/13. These policies have continued to give rise to significant changes in the way HEFCW funds institutions in both 2013-14 and in future years. These represent significant areas of risk for HEFCW, therefore, further actions have been taken in 2013-14 to ameliorate the impact.

As referred to above, the Head of Internal Audit has expressed the opinion that there remains some risk concerning fee grant eligibility checks (by local authorities), but assurance work completed has identified no evidence of any unusual trends in fee grant payments. HEFCW has been responsible for paying out funding on the basis of eligibility judgements made by local authorities in both the financial years 2012-13 and 2013-14. This has amounted to £129.3 million in the year to 31 March 2014 (an increase from £48.1 million in 2012-13). Given the financial benefits involved, there is a risk that students could have claimed Welsh domicile fraudulently. It is recognised by the Welsh Government that the fundamental underpinning rules regarding 'normal residency' which determine the success

of an application by a student, cannot be defined easily. Local authority staff have been required to take care in making decisions and have had to make a judgement on each student's residency status, which if done in good faith, has had to be accepted by the Welsh Government.

Although HEFCW has little control over the basis of these payments, as Accounting Officer, I have responsibility for the regularity and probity of expenditure. It was agreed between HEFCW and the Welsh Government from the outset of the introduction of the new student tuition fee funding arrangements in 2012-13, that it would not be sensible or feasible for HEFCW to carry out assurance work beyond that already commissioned by the Welsh Government and that reliance could be placed by HEFCW on this work.

Because of the degree of reliance being placed by HEFCW on assurances from the Welsh Government, as agreed by both parties, a statement on student fee arrangements has been provided to HEFCW by the Welsh Government. This confirms that there is some evidence of weaknesses in the processes and procedures in the control framework operated by local authorities, but after analysing the responses to the National Fraud Initiative and the results of the investigations from local authorities in Wales (see details below), there is no material evidence of fraud in respect of the 2013-14 financial year.

In its assurance statement to HEFCW, referred to above, the Welsh Government also confirms that it has received an annual assurance statement from the Accounting Officer of the Student Loans Company. This statement confirms that all SLC financial arrangements have been in compliance with the terms set out by government departments and that all grants received have been used for the purposes intended. The statement concludes by confirming that it can also provide assurance on the effective control framework in place with the SLC for the 2013-14 financial year.

The Welsh Government commissioned the Wales Audit Office (WAO) to carry out a review of practice in four local authorities in 2012-13 and as a result of finding a number of weaknesses in procedures and processes adopted by the local authorities, commissioned work by the WAO on a further nine local authorities in 2013-14 (as referred to above). The WAO's key findings from this report included in the Welsh Government's assurance statement to HEFCW were:

- Since our 2012 review the Welsh Government has improved aspects of its oversight and control of student finance, although a small number of significant weaknesses remain in the overall system of control operated collectively by the Welsh Government, Student Loans Company and local authorities; and
- While the local authorities had applied the Welsh Government's guidance generally well, with a lower level of non-compliance compared to our testing in 2012, some of the audit errors highlighted a number of significant weaknesses within the system of control.

We welcome that the WAO has identified improvements in the control arrangements in its latest report.

The Welsh Government assurance statement also refers to a National Fraud Initiative (NFI) pilot student data matching exercise carried out by the WAO and the Audit Commission in 2013-14 on student applications made in 2011 and 2012 for three local

authorities in Wales. This compared the student application data with the electoral register to September 2013 in order to confirm residency. This resulted in very low levels of unexplained anomalies all of which have since been investigated by the relevant local authorities and all but two have been explained satisfactorily.

It should be noted that responsibility for the processing of student finance applications is due to change in respect of the start of the academic year 2014/15, whereby the SLC will be responsible for all new applicants and the local authorities, renewals only. From academic year 2015/16, the SLC will have responsibility for all student applications. This will ensure that there is a consistent approach for all applications, which will be controlled by the Welsh Government through the SLC.

Further evidence made available to HEFCW consists of:

- Confirmation from the Welsh Government that reported cases of suspected fraud by the Local Authorities to the SLC have numbered only ten in the financial year 2013-14. Six of the ten cases have been reviewed with four of the six resulting in either fully or partially ineligible claims. The remaining four cases are ongoing.
- Additional assurance work completed by HEFCW's Head of Internal Audit, focused on analysing the basis of the SLC and HEFCW forecasts compared to actual payments and data on an academic year and financial year basis. The assurance work did not identify any evidence of unusual trends in fee grant payments and so there is no evidence identified of systematic problems or fraud issues within the fee grant processes; and

Based upon all of the evidence available to us, I consider that we have sufficient assurance to conclude that there is no evidence of fraud of a material value in 2013-14 in respect of our annual accounts, although risk still exists in respect of the probity of some expenditure for student fee grant support.

Conclusion

I have considered the evidence provided with regards to the production of the annual governance statement. The conclusion of my review is that HEFCW's overall governance and internal control structures have been appropriate for HEFCW's business and have worked satisfactorily throughout 2013-14.



Dr David Blaney
Chief Executive and Accounting Officer
8 July 2014

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 2014 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 the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Higher Education Funding Council for Wales' and Chief Executive's Responsibilities, the Chief Executive as Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report and 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 the financial statements and the part of the Remuneration Report to be audited in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Auditing Practice Board'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 am required to 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 to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my 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 2014 and of its net operating costs after interest, recognised gains and losses and cash flows 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 have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

Opinion on other matters

In my opinion:

- the part of the Remuneration 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 which comprises the Management Commentary, Sustainability Report and the unaudited part of the Remuneration Report, included within 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 Annual Governance Statement does not reflect compliance with HM Treasury guidance;
- proper accounting records have not been kept;
- information specified by HM Treasury 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
24 Cathedral Road
Cardiff
CF11 9LJ

15 July 2014

**Statement of comprehensive net expenditure
for the year ended 31 March 2014**

| | | 2014 | | 2013 | |
|--|-------|----------------|------------------|----------------|------------------|
| | Notes | £'000 | £'000 | £'000 | £'000 |
| Expenditure | | | | | |
| <i>Funding of higher education:</i> | | | | | |
| Recurrent expenditure | 3 | 382,987 | | 370,647 | |
| Other purposes | 5 | 12,237 | | 18,324 | |
| | | <u>395,224</u> | | <u>388,971</u> | |
| <i>Council expenditure:</i> | | | | | |
| Staff costs | 7 | 1,830 | | 2,293 | |
| Depreciation | 9 | 60 | | 50 | |
| Other expenditures | 6 | 521 | | 600 | |
| | | <u>2,411</u> | | <u>2,943</u> | |
| Total expenditure | | | (397,635) | | (391,914) |
| Income | | | | | |
| Income from activities | 2 | | <u>11,611</u> | | <u>22,048</u> |
| Net operating costs | | | (386,024) | | (369,866) |
| Interest receivable | | | - | | 3 |
| Appropriations | 8 | | - | | <u>(1)</u> |
| Net operating costs after interest transferred to taxpayers' equity | | | <u>(386,024)</u> | | <u>(369,864)</u> |

All activities are continuing.

There are no recognised gains or losses in either 2013-14 or 2012-13.

The notes on pages 38 to 54 form part of these accounts.

**Statement of financial position
as at 31 March 2014**

| | Notes | As at 31 March 2014 £'000 | As at 31 March 2013 £'000 |
|---|-------|------------------------------------|------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 122 | 115 |
| Intangible assets | 10 | - | - |
| Total non-current assets | | <u>122</u> | <u>115</u> |
| Current assets | | | |
| Trade and other receivables | 11 | 4,588 | 12,668 |
| Cash and cash equivalents | 12 | 2,990 | 6,502 |
| Total current assets | | <u>7,578</u> | <u>19,170</u> |
| Total assets | | 7,700 | 19,285 |
| Current liabilities | | | |
| Trade and other payables | 13 | (1,262) | (7,437) |
| Provisions for liabilities and charges within one year | 14 | (1) | (1) |
| Total non-current assets plus net current assets | | 6,437 | 11,847 |
| Non-current liabilities | | | |
| Provisions for liabilities and charges after one year | 14 | (20) | (22) |
| Assets less liabilities | | <u>6,417</u> | <u>11,825</u> |
| Taxpayers' equity | | | |
| General reserve | | <u>6,417</u> | <u>11,825</u> |
| | | <u>6,417</u> | <u>11,825</u> |

The notes pages 38 to 54 form part of these accounts.

Signed on behalf of HEFCW



Dr David Blaney
Chief Executive and Accounting Officer
8 July 2014

Statement of cash flows
for the year ended 31 March 2014

| | Notes | 2014 | 2013 |
|--|-------|------------------|------------------|
| | | £'000 | £'000 |
| Cash flows from operating activities | | | |
| Net operating costs before interest | | (386,024) | (369,866) |
| Depreciation charges | | 60 | 50 |
| Decrease/(increase) in trade and other receivables | | 8,080 | (11,191) |
| (Decrease)/increase in trade and other payables | | (6,175) | 6,331 |
| Movement in provision for liabilities and charges due within one year | | - | - |
| Movement in provisions | | (2) | 3 |
| Net cash outflows from operating activities | | <u>(384,061)</u> | <u>(374,673)</u> |
| Cash flows from returns on investments and servicing of finance | | | |
| Interest received | | - | 3 |
| Interest surrendered to the Welsh Government | | - | (1) |
| Net cash flows from returns on investments and servicing of finance | | <u>-</u> | <u>2</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 9 | <u>(67)</u> | <u>(30)</u> |
| Net cash outflow from investing activities | | <u>(67)</u> | <u>(30)</u> |
| Cash flows from financing activities | | | |
| Funding from the Welsh Government | | <u>380,616</u> | <u>373,653</u> |
| Net cash flows from financing activities | | <u>380,616</u> | <u>373,653</u> |
| Net decrease in cash and cash equivalents | | <u>(3,512)</u> | <u>(1,048)</u> |
| Cash and cash equivalents at beginning of period | | 6,502 | 7,550 |
| Cash and cash equivalents at end of period | 12 | <u>2,990</u> | <u>6,502</u> |
| Net decrease in cash | | <u>(3,512)</u> | <u>(1,048)</u> |

The notes on pages 38 to 54 form part of these accounts.

**Statement of changes in taxpayers' equity
for the year ended 31 March 2014**

| | General Reserve £'000 |
|--|--------------------------------------|
| Balance at 1 April 2013 | <u>11,825</u> |
| Changes in taxpayers' equity 2013-14 | |
| Net operating costs | <u>(386,024)</u> |
| Total recognised income and expense for 2013-14 | <u>(386,024)</u> |
| Funding from the Welsh Government | 380,616 |
| Balance at 31 March 2014 | <u><u>6,417</u></u> |

The notes on pages 38 to 54 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 the particular circumstances of HEFCW for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCW are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

(b) Grants for European Union (EU) projects

Income:

HEFCW receives 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, HEFCW's 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 Institutions, are brought to account when paid. In the opinion of HEFCW, this treatment achieves in all material respects a match between grant funding brought to account and the pattern of financial activity at the Higher Education Institutions.

Tuition fee support grants are accounted for on a payable or accruals basis. These grants are payable to the Student Loans Company (SLC). The SLC funds the Higher Education Institutions to pay, on behalf of students, the cost of the difference between the tuition fees charged by the Higher Education Institutions and the tuition fee loan available to students.

(e) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) arrangements. HEFCW recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the 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. HEFCW makes payments to the former Chair as they are due. However the expected cost of providing the pension is recognised through the building up of a provision for the future liability calculated using actuarially assessed assumptions.

(f) 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.

(g) Intangible fixed assets

Software licences costing more than £500 are capitalised.

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

| | |
|-------------------|-----------|
| Software licences | - 3 years |
|-------------------|-----------|

(h) Value Added Tax

As HEFCW is 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. HEFCW considers its activities contribute to a single mission operating within the same business environment and there are no separable operating segments. As a result HEFCW does not report by operating segments.

(l) Staff costs and secondments

Staff on secondment normally continue to be paid by HEFCW. The reimbursement of costs for seconded staff is netted off against staff costs in note 7 to the accounts.

(m) IFRSs issued but not effective

International Accounting Standard (IAS) 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued, but is not yet effective. As at 31 March 2014, the following IFRSs, none of which will either be applicable or are likely to have an impact on HEFCW's annual accounts, have been issued but are not effective:

- IFRS 1 – First-time adoption of International Financial Reporting Standards (effective 1 July 2014)
- IFRS 2 – Share-based payment (effective date 1 July 2014)
- IFRS 3 – Business Combinations (effective date 1 July 2014)
- IFRS 8 – Operating Segments (effective date 1 July 2014)
- IFRS 9 – Financial instruments (new) (no mandatory effective date)
- IFRS 10 – Consolidated financial statements (effective date 1 January 2014)
- IFRS 11 – Joints arrangements (effective date 1 January 2014)
- IFRS 12 – Disclosure of interests in other entities (effective date 1 January 2014)
- IFRS 13 – Fair value measurement (effective date 1 July 2014)
- IAS 16 Property, plant and equipment (effective date 1 July 2014)
- IAS 17 replacement – Leases (no target date for IFRS)
- IAS18 replacement – Revenue Recognition and Liabilities Recognition (effective date 1 January 2015)
- IAS19 – Employee benefits (effective date 1 July 2014)
- IAS 24 – Related party disclosures (effective date 1 July 2014)
- IAS 27 – Consolidated financial statements (effective date 1 January 2014)
- IAS 38 – Intangible assets (effective date 1 July 2014)
- IAS 40 – Investment Property (effective date 1 July 2014)

2. Income from activities

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| European Union – European Social Fund | 2,454 | 2,223 |
| Department for Business, Innovation & Skills – Research Capital Investment Fund | 5,070 | 5,115 |
| Welsh Government – Universities Heads of the Valleys Institute Year 3 Funding (a) | - | 4,366 |
| Y Coleg Cymraeg Cenedlaethol Scholarships | 330 | 230 |
| Welsh Government - ECTARC Ltd (b) | 96 | 75 |
| Jobs Growth Wales (c) | 622 | 39 |
| Welsh Government - Estates and Infrastructure Capital Funding (d) | - | 6,000 |
| Welsh Government – ICT infrastructure funding for merger of Higher Education Institutions (e) | - | 4,000 |
| Improving Environmental Performance through Student Engagement (f) | 68 | - |
| UK Research Partnership Investment Fund (g) | 2,658 | - |
| UK Joint Academic Network 6 (Janet 6) (h) | 313 | - |
| | <u>11,611</u> | <u>22,048</u> |

(a) This funding is paid to the University of Glamorgan but from 2013-14 it is included within recurrent funding.

(b) This funding is in respect of ECTARC Ltd providing EU work placements for Welsh graduates.

(c) This is funding in respect of a project with the Welsh Government to provide graduates with job opportunities with businesses in Wales.

(d) This is funding for capital projects for estates or infrastructure purposes.

(e) This funding is in respect of ICT integration costs of the merger between the University of Glamorgan and the University of Wales, Newport in April 2013 in forming the University of South Wales.

(f) This is a project jointly funded by the Welsh Government and six higher education institutions in Wales

Higher Education Funding Council For Wales

(g) This is funding from the UK Research Partnership Investment Fund (UK RPIF) for the Energy Safety Research Institute at Swansea University.

(h) 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 institutions in Wales. This funding is paid to JISC.

3. Funding of higher education

| | <u>2014</u> | <u>2013</u> |
|--|--------------------|--------------------|
| | £'000 | £'000 |
| Higher Education Institutions | | |
| Aberystwyth University | 17,621 | 27,462 |
| Bangor University | 18,985 | 27,986 |
| Cardiff University | 88,166 | 100,577 |
| Swansea University | 30,836 | 35,884 |
| Glyndŵr University | 9,140 | 12,669 |
| University of Wales, Newport (see (a) below) | - | 14,853 |
| Cardiff Metropolitan University | 7,395 | 18,838 |
| Swansea Metropolitan University (see (b) below) | 1,197 | 9,089 |
| University of Wales, Trinity Saint David (see (b) below) | 9,313 | 9,848 |
| University of Glamorgan (see (a) below) | - | 43,114 |
| University of South Wales (see (a) below) | 44,674 | - |
| University of Wales | 650 | 450 |
| Open University | 15,049 | 10,604 |
| Sub-total | <u>243,026</u> | <u>311,374</u> |
| Student Loans Company Ltd (see (c) below) | <u>129,264</u> | <u>48,098</u> |
| Further Education Institutions | | |
| Bridgend College | 2 | 33 |
| Coleg Sir Gâr | 919 | 1,060 |
| Coleg Llandrillo | 609 | 1,043 |
| Neath Port Talbot College | 102 | 151 |
| Gower College Swansea | 44 | 36 |
| Sub-total | <u>1,676</u> | <u>2,323</u> |
| Carried forward | <u>373,966</u> | <u>361,795</u> |

Higher Education Funding Council For Wales

| | <u>2014</u> | <u>2013</u> |
|--|----------------|----------------|
| | £'000 | £'000 |
| Brought forward | <u>373,966</u> | <u>361,795</u> |
| Other Organisations | | |
| Economic and Social Research Council | 494 | 625 |
| Elsevier BV | 25 | - |
| Engineering and Physical Sciences Research Council | 31 | - |
| Equality Challenge Unit | 58 | 58 |
| Higher Education Funding Council for England (HEFCE) | 374 | 1,340 |
| HESA Services Ltd | 1 | 42 |
| HESA | 36 | - |
| The Higher Education Academy | 612 | 709 |
| Higher Education Wales | 45 | 84 |
| High Performance Computing Wales | 600 | 1,000 |
| JANET (UK) Ltd | 2,806 | 1,937 |
| KPMG LLP | - | 25 |
| Leadership Foundation | 47 | - |
| National Centre for Universities and Business | 23 | - |
| National Union of Students | 20 | 10 |
| Parity Solutions Ltd | 47 | 80 |
| Public and Corporate Economic Consultants Ltd | 21 | - |
| Quality Assurance Agency | 295 | 283 |
| Universities UK | 31 | - |
| Welsh Government | 245 | 490 |
| WJEC CBAC Ltd | 69 | 56 |
| Y Coleg Cymraeg Cenedlaethol | 6,104 | 4,141 |
| Other (see (d) below) | 465 | 544 |
| Sub-total | <u>12,449</u> | <u>11,424</u> |
| Total | <u>386,415</u> | <u>373,219</u> |
| Less ESF funded expenditure (see note 5) | (2,806) | (2,533) |
| Less Jobs Growth Wales expenditure (see note 5) | (622) | (39) |
| Total | <u>382,987</u> | <u>370,647</u> |

(a) On 11 April 2013, the University of Glamorgan merged with the University of Wales, Newport and the new institution was renamed the University of South Wales.

(b) On 1 August 2013, Swansea Metropolitan University was dissolved and its assets and liabilities transferred to University of Wales, Trinity Saint David.

(c) AY 2013/14 is the second year where HEFCW pays funding for student tuition fee support grants to the Student Loans Company (SLC). The SLC then pays higher education institutions (HEIs) in respect of their eligible students. As shown above, payments of £129.3m were made to the SLC in the financial year. The increase from £48.1m in 2012-13 reflects the impact of funding tuition fee support grants for the second cohort of students. This change in the flow of funding to HEIs from HEFCW is responsible for the reduction in total payments of recurrent funding to HEIs shown above.

Based upon SLC data made available to HEFCW, the allocation of its tuition fee grant payments made to higher education institutions in FY 2013-14 and FY 2012-13 was:

| | 2014 % | 2013 % |
|---------------|-----------|-----------|
| Welsh HEIs | 61.7 | 65.5 |
| Other UK HEIs | 38.3 | 34.5 |

Applying these percentages to the total payments made by HEFCW to the SLC, the notional payments made to HEIs are estimated to equate to:

| | 2014 £'000 | 2013 £'000 |
|---------------|----------------|---------------|
| Welsh HEIs | 79,756 | 31,504 |
| Other UK HEIs | 49,508 | 16,594 |
| | <u>129,264</u> | <u>48,098</u> |

(d) This includes a contribution of £250k from the programme budget towards running costs wages and salaries as disclosed in note 7.

4. Grants to institutions

Included in these accounts are grants to institutions, which are subject to the recipients' external auditors' confirmation that they have been used for their intended purpose. The financial year of higher education institutions ends on 31 July and their audited accounts are provided to HEFCW by 31 December. A review by HEFCW staff of institutions' 2012/13 financial statements confirmed that each institution's external auditors had considered that grants had been used for their intended purpose and no adjustments to grants were necessary. Additionally, the audit of student numbers carried out in the summer of 2013 did not lead to any material adjustments. Any adjustment arising from the audit of 2013/14 accounts and student numbers will be made by HEFCW in future years.

HEFCW confirms that grants it has received from the Welsh Government have been used for their approved purposes.

5. Expenditure for other purposes

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| European Social Fund (a) | 2,806 | 2,533 |
| Research Capital Investment Fund (b) | 5,070 | 5,115 |
| Universities Heads of the Valleys Institute (c) | - | 4,365 |
| Y Coleg Cymraeg Cenedlaethol Scholarships | 305 | 197 |
| ECTARC Ltd (d) | 96 | 75 |
| Jobs Growth Wales (e) | 622 | 39 |
| Estates and Infrastructure Capital Funding (f) | - | 6,000 |
| Improving Environmental Performance through Student Engagement (g) | 51 | - |
| UK Research Partnership Investment Fund (h) | 2,658 | - |
| Capital Contribution towards Merger (i) | 629 | - |
| | <u>12,237</u> | <u>18,324</u> |

- (a) The amounts relating to grant payments made to higher education institutions under the European Social Fund (ESF) are subject to separate audits. Any adjustment arising from these audits will be accounted for in future years.
- (b) An analysis of research capital funding by higher education institution is given below:

| | 2014 £'000 | 2013 £'000 |
|------------------------|---------------|---------------|
| Aberystwyth University | 749 | 760 |
| Bangor University | 557 | 570 |
| Cardiff University | 2,791 | 2,847 |
| Swansea University | 973 | 938 |
| | <u>5,070</u> | <u>5,115</u> |

- (c) This payment was made to the University of Glamorgan in accordance with the Agreement between Welsh Ministers and HEFCW dated 16 February 2010. Payment of funding is dependent upon satisfactory progress against set targets and deliverables. This funding is now included within recurrent funding.
- (d) This is funding paid to ECTARC Ltd to provide EU work placements for Welsh graduates.
- (e) These are costs in respect of a project to provide graduates with job opportunities with businesses in Wales.
- (f) This is capital funding for projects which support the development or maintenance of either non-residential estate or other infrastructure provisions.

An analysis of this capital funding is given below:

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| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Aberystwyth University | - | 445 |
| Bangor University | - | 334 |
| Cardiff University | - | 1,670 |
| Swansea University | - | 550 |
| University of Wales, Trinity Saint David | - | 409 |
| University of Wales, Newport | - | 643 |
| Swansea Metropolitan University | - | 452 |
| University of Glamorgan | - | 1,497 |
| | <u>-</u> | <u>6,000</u> |

- (g) This work is being undertaken by the NUS Charitable Services in conjunction with six Higher Education Institutions in Wales
- (h) This is funding from the UK Research Partnership Investment Fund (UK RPIF) for the Energy Safety Research Institute at Swansea University
- (i) This is capital funding paid to the University of South Wales (formerly the University of Glamorgan) towards the costs associated with its merger with the University of Wales, Newport on 11 April 2013.

6. Other expenditures

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Administration costs | | |
| Accommodation costs | 241 | 327 |
| Office costs | 43 | 36 |
| Bought in services | 30 | 44 |
| Auditors' remuneration – Annual audit fee of HEFCW | 25 | 22 |
| Auditors' remuneration – Additional assurance report work | - | 4 |
| Council members' travel and subsistence costs | 6 | 5 |
| Council members' meeting costs | 12 | 14 |
| Staff travel and subsistence costs | 29 | 16 |
| Staff related expenditure on training, recruitment etc. | 23 | 34 |
| Information technology costs | 112 | 98 |
| | <u>521</u> | <u>600</u> |

The auditor of HEFCW during the year was the Auditor General for Wales.

There were no administration costs charged to programme recurrent costs for 2013-14 (2013 - £8k).

7. Staff costs

(a) Analysis

| | Staff | 2014 Council Members (inc Chief Executive) | Total | Staff | 2013 Council Members (inc Chief Executive) | Total |
|-------------------------------------|--------------|--|--------------|--------------|--|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Wages and salaries | 1,580 | 194 | 1,774 | 1,901 | 181 | 2,082 |
| Social security costs | 133 | 17 | 150 | 163 | 16 | 179 |
| Other pension costs | 313 | 29 | 342 | 370 | 30 | 400 |
| Voluntary exit costs | - | - | - | 65 | - | 65 |
| Total payroll costs | 2,026 | 240 | 2,266 | 2,499 | 227 | 2,726 |
| Staff on secondment | 4 | - | 4 | - | - | - |
| Less: charges to programme costs | (440) | - | (440) | (433) | - | (433) |
| Administration payroll costs | 1,590 | 240 | 1,830 | 2,066 | 227 | 2,293 |

Further details of the Voluntary Exit scheme costs in 2012-13 are disclosed in the Remuneration Report on page 20 of these accounts. Included in the £440k charged to programme costs in 2013-14 is a sum of £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.

(b) Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HEFCW is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2013-14, employer's contributions of £334,311 were payable to the PCSPS (2012-13 - £397,981) at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay, 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 2013-14 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.

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The BBA pension provision is unfunded, with benefits being paid as they fall due and guaranteed by HEFCW. 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 2012-13 and amounted to £23,000 at 31 March 2013.

(c) Average number of staff employed

The Higher Education Funding Council for Wales employed an average of 43 full time equivalent staff during the financial year ending 31 March 2014, as follows:

| | 2014 Numbers | 2013 Numbers |
|-------------------------------|-----------------|-----------------|
| Senior Management | 2 | 2 |
| Chief Executive's Office | 8 | 9 |
| Institutional Engagement | 12 | 13 |
| Skills, Education and Funding | - | 12 |
| Strategic Development | 12 | - |
| Corporate Services | 9 | 11 |
| | <u>43</u> | <u>47</u> |

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

| | 2014 Numbers | 2013 Numbers |
|--|-----------------|-----------------|
| Staff with a permanent UK employment contract with HEFCW | 42 | 46 |
| Other staff engaged on the objectives of HEFCW | 1 | 1 |
| | <u>43</u> | <u>47</u> |

(d) Sickness absence data

| | 2014 | 2013 |
|---------------------------------------|----------------|----------------|
| Sickness absence rate (%) | 2.17 | 1.31 |
| Number of working days lost | 253 | 186 |
| Approximate cost of working days lost | <u>£32,269</u> | <u>£23,178</u> |

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

8. Appropriations

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Receipts surrenderable to the Welsh Government: | | |
| Bank interest (net of bank charges) | <u>-</u> | <u>1</u> |

9. Property, plant and equipment

| | Information technology equipment £'000 | Fixtures & fittings £'000 | Total £'000 |
|---------------------------------|---|---------------------------------|----------------|
| Cost | | | |
| At 1 April 2013 | 401 | 286 | 687 |
| Additions | 67 | - | 67 |
| Disposals | (34) | - | (34) |
| At 31 March 2014 | <u>434</u> | <u>286</u> | <u>720</u> |
| Depreciation | | | |
| At 1 April 2013 | 381 | 191 | 572 |
| Charged during year | 34 | 26 | 60 |
| Released on disposals | (34) | - | (34) |
| At 31 March 2014 | <u>381</u> | <u>217</u> | <u>598</u> |
| Net book value at 31 March 2014 | <u>53</u> | <u>69</u> | <u>122</u> |
| Net book value at 1 April 2013 | <u>20</u> | <u>95</u> | <u>115</u> |
| Asset financing | | | |
| Owned assets | | | |
| Net book value at 31 March 2014 | <u>53</u> | <u>69</u> | <u>122</u> |

10. Intangible fixed assets

| | Software licences £'000 |
|--------------------------------------|-------------------------------|
| Cost | |
| At 1 April 2013 and at 31 March 2014 | <u>30</u> |
| Amortisation | |
| At 1 April 2013 and at 31 March 2014 | <u>30</u> |
| Net book value at 31 March 2014 | <u>-</u> |
| Net book value at 1 April 2013 | <u>-</u> |

11. Trade receivables and other current assets

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Trade receivables | 25 | 6,000 |
| Prepayments and accrued income | 4,562 | 6,667 |
| Other receivables | 1 | 1 |
| | <u>4,588</u> | <u>12,668</u> |
| Intra-government balances | | |
| Other central government bodies | 2,932 | 12,421 |
| Local authorities | - | - |
| NHS Trusts | - | - |
| Public corporations and trading funds | - | - |
| Balances with other government bodies | <u>2,932</u> | <u>12,421</u> |
| Balances with non-government bodies | 1,656 | 247 |
| | <u>4,588</u> | <u>12,668</u> |

In 2013, 'Trade receivables' consisted of Welsh Government capital funding in respect of HE institutions' estates or infrastructure projects. 'Prepayments and accrued income' included £4,000k receivable in respect of Welsh Government infrastructure funding for the merger between the University of Glamorgan and the University of Wales, Newport.

12. Cash and cash equivalents

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Cash held under Government Banking Service | | |
| Balance at 1 April | 3,058 | - |
| Net change in cash and cash equivalent balances | (645) | 3,058 |
| Balance at 31 March | <u>2,413</u> | <u>3,058</u> |
| Cash held under commercial banks and cash in hand | | |
| Balance at 1 April | 3,444 | 7,550 |
| Net change in cash and cash equivalent balances | (2,867) | (4,106) |
| Balance at 31 March | <u>577</u> | <u>3,444</u> |
| Total cash and cash equivalents | <u>2,990</u> | <u>6,502</u> |

The Government Banking Service (GBS) is a Government-wide banking service provided jointly by Citibank and the Royal Bank of Scotland and overseen centrally by the GBS team, ultimately controlled by HM Treasury. HEFCW does not earn any interest on any balance held in GBS accounts. HEFCW obtained HM Treasury authorisation to continue making payments using commercial banking facilities.

13. Trade payables and other current liabilities

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Amounts falling due within one year | | |
| Accruals | 1,215 | 7,436 |
| Other taxation and social security | 46 | - |
| Sundry creditors | 1 | 1 |
| | <u>1,262</u> | <u>7,437</u> |
| Intra-government balances | | |
| Other central government bodies | 46 | - |
| Local authorities | - | - |
| NHS Trusts | - | - |
| Public corporations and trading funds | - | - |
| Balances with other government bodies | <u>46</u> | <u>-</u> |
| Balances with non-government bodies | 1,216 | 7,437 |
| | <u>1,262</u> | <u>7,437</u> |

Included in these figures is a sum of £497k (2013 - £409k) due to HEIs in respect of the GO Wales European Social Fund Convergence project.

In 2013, included in these figures was (i) £6,000k in respect of the distribution of capital funding to HEIs for estates or infrastructure projects; and (ii) £395k relating to staff Voluntary Exit Scheme costs. Although the staff departing under the Voluntary Exit Scheme had left on or before 31 March 2013, the majority of the costs were not charged to HEFCW by the Cabinet Office until after the financial year end.

14. Provisions for liabilities and charges

| | 2014 £'000 | 2013 £'000 |
|--|---------------|---------------|
| Broadly by analogy pension liability (see note 7(b)) | <u>21</u> | <u>23</u> |
| | <u>21</u> | <u>23</u> |
| Analysis of timing of liability | | |
| Falling due within one year | 1 | 1 |
| Falling due between 2015 and 2020 | 7 | 6 |
| Falling due between 2021 and 2031 | 13 | 16 |
| Thereafter | - | - |
| | <u>21</u> | <u>23</u> |

15. **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.

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Obligations under operating leases comprise: | | |
| Buildings | | |
| Not later than one year | 82 | 82 |
| Later than one year and not later than five years | 201 | 283 |
| Later than five years | - | - |
| | <u>283</u> | <u>365</u> |

Expenditure in the year on leasing costs of £82k is included in note 6.

16. **Capital commitments**

| | 2014 £'000 | 2013 £'000 |
|---|---------------|---------------|
| Contracted capital commitments at 31 March 2014 not otherwise included in these accounts | | |
| Property, plant and equipment Contracted | <u>-</u> | <u>-</u> |

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

| | 2014 £'000 | 2013 £'000 |
|-----------------------|----------------|----------------|
| Revenue grants (a) | 119,781 | 131,584 |
| European projects (b) | 6,367 | 9,942 |
| | <u>126,148</u> | <u>141,526</u> |

(a) This amount will be funded by grant in aid from the Welsh Government to July 2014.

(b) European projects will be funded as follows:

| | 2014 £'000 | 2013 £'000 |
|-----------------------------|---------------|---------------|
| European Social Fund grants | 5,498 | 8,103 |
| HEFCW | 869 | 1,839 |
| | <u>6,367</u> | <u>9,942</u> |

The European projects also have financial commitments of £2,533k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

As at 31 March 2014, there were no contingent liabilities (2013 – nil).

18. Losses and special payments

| | 2014 £ | 2013 £ |
|--------------------|-----------|------------|
| Fruitless payments | <u>-</u> | <u>418</u> |

19. Related parties

The Higher Education Funding Council for Wales is a Welsh Government Sponsored Body. The Welsh Government is regarded as a related party. During the year, HEFCW has had various material transactions with the Welsh Government, which is regarded as the parent Department.

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

| Name | Relationship |
|--|--|
| Mr Roger Thomas (Chair of Council) | ◆ Honorary Doctor, University of Glamorgan |
| Mr David Mason (Council member) | ◆ Honorary Fellow, University of Wales, Newport |
| Mrs Bethan Guilfoyle CBE (Council member) | ◆ Honorary Doctor of Education, University of Glamorgan |
| Professor Robin Williams CBE (Council member) | <ul style="list-style-type: none"> ◆ Emeritus Professor, University of Wales ◆ Emeritus Professor, Swansea University ◆ Honorary Fellow, Cardiff University ◆ Honorary Fellow, Bangor University ◆ Honorary Fellow, Swansea University ◆ Member of the Advisory Board, CAFMaD, Aberystwyth Universities ◆ Member, Advisory Group for Engineering, Swansea University ◆ Fellow of the Coleg Cymraeg Cenedlaethol ◆ Daughter employed by Swansea University |
| Professor Mark Smith (Council member) | <ul style="list-style-type: none"> ◆ Board Member, HESA ◆ Member, the Strategic Advisory Network, EPSRC |
| Professor Stephen Tomlinson CBE (Council member) | ◆ Emeritus Professor, Cardiff University |

Any funds paid to the institutions and organisations noted above are detailed in note 3, otherwise the funds paid in the year were nil. None of the key managerial staff or other related parties has undertaken any material transactions with the Higher Education Funding Council for Wales.

20. 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 2013-14 £380.6m or 97.0% of HEFCW's income was derived from the Welsh Government (2012-13: £373.6m or 94.4%). Of the remaining income £11.6m or 3.0% was derived from bank interest and income from activities (2012-13: £22.0m or 5.6%). HEFCW does not consider that its general activities are exposed to any significant liquidity risk, and is satisfied that future income is sufficient to meet its commitments.

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

Foreign currency risk – The general activities of HEFCW are not exposed to any significant foreign exchange risks.

Cash flow risk – HEFCW is not exposed to any significant cash flow risks.

21. 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 8 July 2014, requiring an adjustment to the accounts.