Higher Education Funding Council for England

Annual report and accounts 2009-10

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Foreword

Tim Melville-Ross CBE, HEFCE Chair

This has been a year of considerable achievement, challenge and adjustment. Higher education in England, benefiting from over 10 years of growth in funding and student numbers, has maintained its reputation for academic excellence, delivering 12 per cent of the world's scientific citations and supporting prolific, widely respected arts, humanities and social science communities.

Universities and colleges have delivered for the economy: providing well-qualified graduates; generating £59 billion in economic activity with a return of £3 for every £1 of public investment and up to £7 for every pound spent through the Higher Education Innovation Fund (HEIF). The UK share of international trade in higher education is 11 per cent, second only to the USA and with the capacity to grow further.

HEFCE research also demonstrates that, with our support, universities and colleges have achieved significant success in taking forward the Government's policy of widening participation: young people from more disadvantaged areas are now over 30 per cent more likely to enter higher education than they were five years ago.

Higher education institutions have also stepped up to the plate in helping the country out of recession. Rapid support through HEFCE's Economic Challenge Investment Fund has helped 50,000 people and 12,000 businesses. We have also supported a graduate internship programme, providing funding for an initial 7,000 places for graduates to work with employers in the Government's priority economic sectors and small businesses.

This year we have reported record numbers of students. There were 389,000 new full-time undergraduate home and EC entrants to higher education in 2009-10 in England, bringing the total number of students in this group to just over a million. And we have shown that since 2005-06 the number of undergraduates studying physics, chemistry and mathematics has risen by 6.8 per cent, exceeding the average growth across all disciplines and restoring the flow of well qualified science, technology, engineering and maths (STEM) graduates.

This growth in STEM subjects has been strongly supported by a £350 million HEFCE programme to support strategically important and vulnerable subjects (SIVS), including modern languages. The report of a HEFCE review group on SIVS, chaired by Peter Saraga, demonstrates that the value of vulnerable science subjects to employers and our economy is greater than ever. This also chimes with recent government reports 'Higher Ambitions: the future of universities in a knowledge economy', 'New Industry, New Jobs' and 'Going for growth: our future prosperity'.

With this tide of achievement running strongly across so many areas, universities and colleges are now preparing for a period of fiscal consolidation. They are doing this from a position of relative strength, but nevertheless face considerable underlying cost pressures and uncertainties about future funding.

One of the most significant challenges is the unprecedented demand for higher education with UCAS reporting a 16 per cent increase in applicants to higher education in 2010-11. Following our grant letter from the Secretary of State for Business, Innovation and Skills in December we have had to introduce controls on student numbers. Although these controls will remain in place, the situation has been alleviated by the Budget announcement of an additional £270 million to universities and colleges in 2010-11 to support 20,000 extra student places and improve efficiency. We have warmly welcomed this development.

It was against this background that we published in March provisional recurrent grants for 2010-11 to 253 universities, higher education colleges and directly funded further education colleges – distributing a sum of £7.356 billion. We have done this by supporting the core areas of high-quality learning and teaching, world-class research and effective knowledge transfer. Compared with the 2009-10 academic year, the final allocations for 2010-11 will mean cash increases for teaching, research and HEIF, but decreases for capital and special funding programmes.

Faced with future financial uncertainties HEFCE, with our partners, will continue to ensure that the case is made for investment in higher education and the benefits it delivers to individuals and their families, the economy and wider society, and that this case is understood within Government and more widely by taxpayers and employers. We are also supporting the work of Lord Browne and his expert team as they conduct their independent review of higher education funding and student finance.

The challenges for HEFCE as we support universities and colleges through these difficult times are considerable. But we take heart from an independent review, chaired by Dame Sandra Burslem, which concluded that HEFCE is a high-performing organisation and has the confidence of the higher education sector and the Government.

Everyone has benefited from the rising tide of public investment over the past 10 years. Now is the time to ensure that we make the very best use of the resources that are available to us.

Tim Melville-Ross CBE
Chair
Higher Education Funding Council for England

18 May 2010

Management commentary

HEFCE's role and responsibilities

The Higher Education Funding Council for England (HEFCE) was established on 6 May 1992 under Section 62 of the Further and Higher Education Act 1992. It assumed its funding responsibilities from its predecessor councils on 1 April 1993. Its role is set out in the Further and Higher Education Act 1992 and can be summarised as:

- to administer funds to support education and research in higher education institutions (HEIs) and other organisations.
- to administer funds to support prescribed higher education (HE) courses in further education colleges (FECs).
- to provide the Secretary of State for Business, Innovation and Skills with information relating to all aspects of HE teaching and research, including the financial needs of the sector.
- to secure the assessment of the quality of education at institutions that receive HEFCE funding.

HEFCE is therefore responsible for distributing public money to universities and colleges in England that provide HE. In 2009-10 we distributed £7.9 billion in public funds. Most of this went to 130 universities and HE colleges in England. Some HEFCE funds supported HE courses in 123 FECs that we fund directly[1]. A further 243 FECs received funds indirectly through an HEI in 2008-09. Of these FECs, 144 received funding from us only indirectly (the remaining 99 also received funds directly from us). A small number of FECs have also been indirectly funded through HEFCE-recognised funding consortia[2].

We have a statutory duty to ensure that provision is made for the assessment of the quality of education at institutions that receive HEFCE funding. This assessment is carried out on our behalf by the Quality Assurance Agency for Higher Education and monitored through our Teaching, Quality and Student Experience committee.

Distribution of funding

Of the £7.9 billion in public funds we distributed during the 2009-10 financial year, the vast majority was provided as recurrent funding for teaching and research. This was allocated as a block grant which institutions may distribute internally as they wish to support their own priorities. The remaining funding – referred to as 'non-recurrent grant' – was allocated to support specific initiatives to deliver strategic objectives, and to fund national activities such as the Joint Information Systems Committee. Analysis by our strategic aims of both recurrent and non-recurrent funds distributed in 2009-10 is provided in Note 3 of the accounts.

The Secretary of State for Business, Innovation and Skills set out in his annual grant letter to HEFCE the public funding to be made available for HE for 2010-11. A total of £7.6 billion has been allocated for distribution by HEFCE in 2010-11. The grant letter for 2010-11 is available at www.hefce.ac.uk under Finance & assurance/Finance and funding/Grant letter from Secretary of State.

[1] Numbers of institutions can change through the year – for example due to mergers and transfers. The figures used here are for funding announced in 'Recurrent grants for 2010-11' (HEFCE 2010/08, which is available at www.hefce.ac.uk under Publications).

[2] Figures for institutions that receive funding from HEFCE only indirectly are taken from the Higher Education Statistics Agency student data for 2008-09. Funding consortia will no longer exist from 2009-10.

Our mission

Working in partnership, we promote and fund high-quality, cost-effective teaching and research, meeting the diverse needs of students, the economy and society.

To achieve our mission, we have set out our aims and objectives in our strategic plan for 2006-2011. It was updated in June 2009 and is available at www.hefce.ac.uk under Publications.

Our strategic aims

Enhancing excellence in learning and teaching – to ensure that all HE students benefit from a high-quality learning experience, fully meeting their needs and the needs of the economy and society.

Widening participation and fair access – to promote and provide the opportunity of successful participation in HE to everyone who can benefit from it.

Employer engagement and skills – to encourage transformational change in the HE sector that will enhance the capability of HEIs to establish long-term, sustainable relationships with employers to stimulate and meet their demands for highly competent and skilled employees.

Enhancing excellence in research – to develop and sustain a dynamic and internationally competitive research sector that makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.

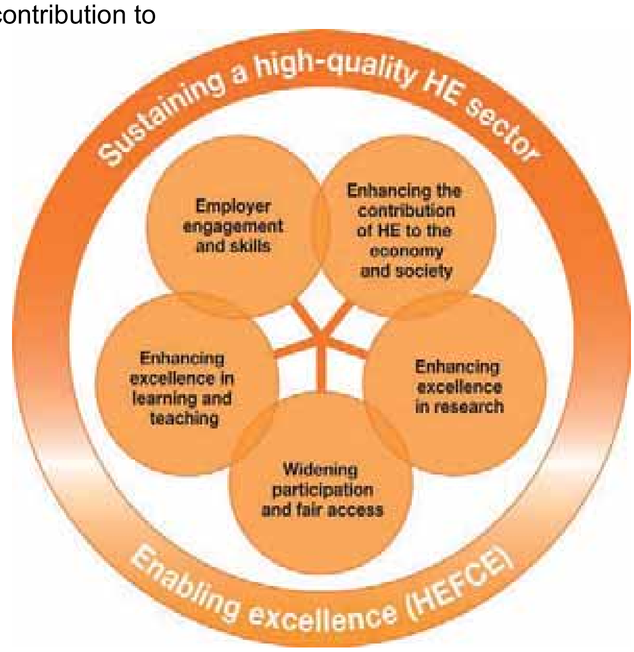
Enhancing the contribution of HE to the economy and society – to increase the impact of the HE knowledge base to enhance economic development and the strength and vitality of society.

Underpinning these are two cross-cutting and supporting aims:

Sustaining a high-quality HE sector – to sustain a high-quality HE sector that adapts to the developing needs of stakeholders, and which continues to be recognised as world class.

Enabling excellence – to ensure that we can effectively deliver the strategic plan, working to the highest standards in all that we do.

There is more information on developments in relation to our strategy on page 42.



Structure

HEFCE's policies are decided by Board members who are responsible for the strategic direction of the organisation. A number of standing and advisory committees and working groups advise the Chief Executive (who is also the Accounting Officer) and the Board on specific issues. Policies are then developed and put into practice by HEFCE's staff.

HEFCE Board

Board members are appointed by the Secretary of State for Business, Innovation and Skills, normally for periods of two or three years. Membership of the HEFCE Board during 2009-10 was as follows:

Chair

Tim Melville-Ross, CBE

Chief Executive

Sir Alan Langlands

Deputy Chair

Ed Smith Senior partner (retired), PricewaterhouseCoopers

Members

Professor Madeleine Atkins Vice-Chancellor, Coventry University

Alastair Balls CB Chairman, Centre for Life

Rob Douglas CBE Business Advisor, Douglas Associates Limited

Professor Ruth Farwell Vice-Chancellor, Buckinghamshire New University

Professor Malcolm Grant Provost, University College London

Dame Patricia Hodgson Principal, Newnham College, Cambridge

Sir Paul Judge* Businessman

René Olivieri Chairman, Tubney Charitable Trust

Professor Shirley Pearce CBE Vice-Chancellor, Loughborough University

Professor Peter Rubin* Professor of Therapeutics, University of Nottingham

Ann Tate* Vice-Chancellor, University of Northampton

Professor Paul Wellings Vice-Chancellor, University of Lancaster

John Widdowson Principal, New College Durham

Professor Dianne Willcocks* Vice-Chancellor, York St John University

Professor Tim Wilson Vice-Chancellor, University of Hertfordshire

* denotes Members no longer on the Board as at 31 March 2010 – for further details see page 61

HEFCE Chair

Tim Melville-Ross CBE joined the Board in January 2008, to serve as Chair until December 2010. Until joining HEFCE, Tim Melville-Ross chaired the Council of the University of Essex. He continues to chair a number of companies. In addition, he is a member of the Institute of Business Ethics Advisory Council and recently chaired Investors in People UK. Previously, he was Chief Executive of the Nationwide Building Society and Director General of the Institute of Directors.

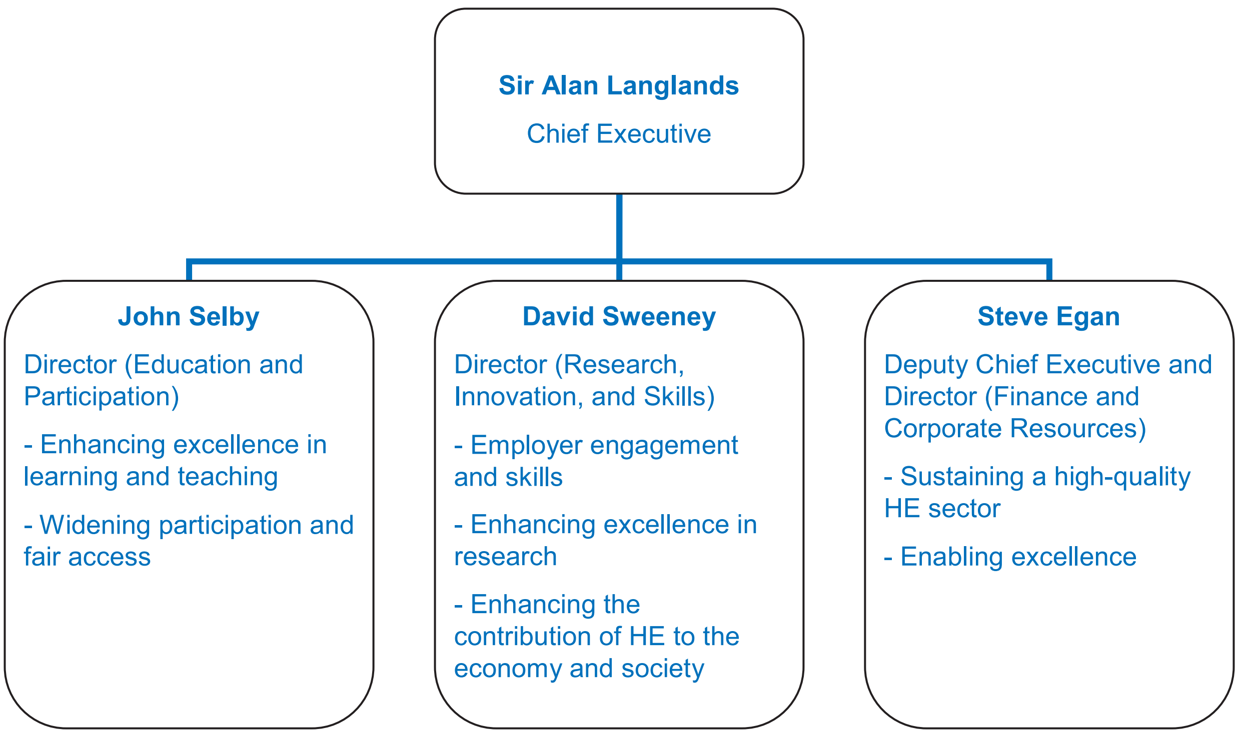
There is information on each Board member and their interests at www.hefce.ac.uk under About us/HEFCE's Board. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work. Current membership of these committees is also available on our web-site.

HEFCE Chief Executive's Group

The HEFCE Board appoints a Chief Executive to lead the organisation, to advise the Board, and to serve as the Accounting Officer. Sir Alan Langlands was appointed on 1 April 2009. He was previously Vice-Chancellor of the University of Dundee and Chief Executive of the NHS in England.

HEFCE's Chief Executive's Group (CEG) comprises the Chief Executive and three directors who combine leadership of key strategic areas with responsibilities for institutional and regional issues. HEFCE's staff work in teams based within the three directorates. Further information on HEFCE's Board, committees, CEG and staff is available at www.hefce.ac.uk under About us/Staff and structure.

HEFCE Chief Executive's Group – March 2010



Our performance and achievements in 2009-10

For each of our seven aims in the 2006-2011 strategic plan (HEFCE 2009/21) we have identified objectives and key performance targets. The targets allow us to measure progress in some key aspects of the plan and we report on our progress in this annual report. The measures we have defined for the targets are outlined in our strategic plan for 2006-2011.

Integral to the development of our strategic plan was a process of risk assessment. For each of the aims, we identify the key risks to achieving the aim. In developing the programme of activity to deliver our objectives, we took into account actions required to manage and mitigate the risks, and embedded them in the programme of activity set out in the plan. We have monitored our strategic risks through 2009-10, remaining aware of the possibility of new risks emerging. Through this process, we added two new risks for quarter four of 2009-10:

- 'that pressures on the student support budget lead to unexpected reductions in the funding available to HEFCE, negatively impacting on our ability to achieve our strategic aims'
- 'that pressures facing higher education lead to our role as an effective broker between the sector and Government being compromised, reducing our effectiveness'.

Further information on risk management is included in the Chief Executive's statement on internal control (pages 66-70).

The programme of work required to deliver our strategic aims and objectives was set out further in our operating plan for 2009. For 2009-10, this contained 49 high-level work areas spread across our strategic aims. We have developed an operating plan for 2010-11 which will be published at www.hefce.ac.uk under About us/Operating plan.

The HEFCE Chief Executive's Group approves quarterly reports to our Board on progress against the work areas in the operating plan. These reports are subsequently placed on our web-site, to provide performance information for our stakeholders. Every three months we use a 'traffic light' system to class each work area as green, amber or red. This provides a broad indicator of the status of our work areas and a means of showing changes in status through the year. Under this system:

Green indicates that progress is being made according to plan and that the activity overall is expected to deliver on time, within budget and to an appropriate quality.

Amber indicates that there have been some difficulties with the activity but that remedial action is planned or in place.

Red indicates that there have been significant difficulties and delivery of the activity is unlikely.

In this annual report we continue to use this reporting format. A status bar for each work area shows its traffic light ratings through the year, giving an 'at a glance' assessment of how we have done. We then provide a commentary on our performance in that area and an assessment of progress to date against each of our key performance targets.

Numbered HEFCE documents referred to in the plan are available on our web-site, www.hefce.ac.uk, under Publications. Research and evaluation reports that we commission are on our web-site under Publications/Research & evaluation, organised by year of publication.

Strategic aim: Enhancing excellence in learning and teaching

To ensure that all HE students benefit from a high-quality learning experience fully meeting their needs and the needs of the economy and society.

Objectives

- To promote continuous improvement in learning and teaching through:
  - investing in excellence
  - refining the arrangements for quality assurance and strengthening their connection with quality enhancement
  - supporting the professional development of those who contribute to the effectiveness of student learning.
- To enable greater flexibility in the provision of learning and teaching and opportunities for lifelong learning.
- To facilitate engagement with students and other stakeholders to ensure a high-quality learning experience that meets the needs of students, the economy and society.
- To support innovation and the use of new technologies that enrich the student experience and promote greater skills for lifelong learning.
- To support the sector to be internationally competitive in learning and teaching and to play a leading role in co-operation and good practice at European and international levels.
- To develop further a funding policy that supports these objectives.

Key strategic risks

The key risks to achieving our strategic objectives under this aim are:

- That developments in quality assurance and quality enhancement procedures fail to retain the confidence of stakeholders and/or restrict our ability to fulfil our statutory role.
- That changes to our teaching funding policy do not meet the aims set and/or win the confidence of the sector and/or the Government.

Making progress

We continue to support and invest in excellence in teaching, being responsive to Government and the sector and taking a lead in implementing and developing policy. This year has seen a number of significant developments, most notably in the areas of reviewing the quality assurance system and starting the process towards a new teaching funding method, which will be introduced at the earliest in 2012-13.

The year 2008 saw a number of concerns raised about quality and standards in HE provision. We set up a review of this area which reported in 2009 ('Report of the sub-committee for Teaching, Quality, and the Student Experience: HEFCE's statutory responsibility for quality assurance', HEFCE 2009/40). Subsequently, the audit method and the information available about HE, especially for the use of prospective students, have been major themes of our work. We have collaborated extensively with partners in taking forward this work on quality and standards and there is much continuing work being led by ourselves and other partner bodies across the sector. We have also placed considerable emphasis on quality enhancement, with a number of new initiatives, especially in the area of learning technology, including funding the Open Education Resources pilot programme. We have also continued to support work on the Higher Education Achievement Record, credit, flexible provision, student engagement, and the National Teaching Fellowship Scheme.

In autumn 2009 we ran a series of round-table events to start discussion with the sector and other interested parties about a possible new method for funding teaching. This has resulted in a full consultation with the sector about the principles and features that we believe will be important to any future funding method for teaching ('Review of the teaching funding method: consultation on key principles and features', HEFCE 2010/10). A second consultation will follow on the details of the method.

We have also continued to encourage further education colleges to be strategic in their approach to HE provision, with a good response being made to our call to write HE strategies.

Credit-based provision and flexible learning

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We support HEIs to use credit as a means of assisting student progression, student mobility, and flexible and lifelong learning. Along with other HE bodies and HEIs, we were involved in the development of the new HE credit framework for England. The Quality Assurance Agency for HE, Universities UK and GuildHE carried out a survey of the implementation of the framework for England in summer 2009. This shows that a large majority of English HEIs are using credit, and that most have aligned their credit arrangements with the framework.

We are currently supporting eight institutions that are piloting flexible approaches to study. These are known as the flexible learning pathfinders. The number of courses offered by the pathfinders has increased between 2008-09 and 2009-10, as has the number of students studying on these courses (see key performance target (KPT 4). An interim evaluation of the pathfinders was completed in 2009, which noted significant successes. A final evaluation of the pathfinders is under way, and will be completed by early 2011.

Among other issues, our long-term review of teaching funding policy will consider whether anything further should be done to ensure that our funding method is compatible with flexible modes of provision.

New 'University Challenge'

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

The New 'University Challenge' is a government initiative to develop new HE centres designed to make HE more accessible. Following consultation in 2008, we invited institutions to submit proposals for new HE centres. We received 28 proposals, which were considered against the criteria agreed through consultation. We judged that seven of these proposals made a good case for proceeding to the next stage, which is development of a full business case. We have advised institutions, however, that this work be postponed until the spending decisions that affect the period 2011-2014 have been made.

Quality assurance, standards and enhancement

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We are committed to a quality assurance system that is accountable, rigorous, transparent, flexible, responsive and public-facing. We want to tackle concerns about quality and standards, and make real changes to improve the student experience and the reputation of HE.

We are working with a range of stakeholders to develop the principles that might underpin the development of a future quality assurance system following the completion of the current audit cycle, and to outline the proposed purpose, outputs and outcomes of any such system. We invited views on these issues in a consultation launched in December 2009 ('Future arrangements for quality assurance in England and Northern Ireland', HEFCE 2009/47). In the light of the outcomes from that consultation, more detailed proposals will be worked up. A further opportunity to comment on the proposed operation of the new system will take place through a second consultation to be led by the Quality Assurance Agency in late 2010.

The publication of Teaching Quality Information (TQI) forms part of current quality assurance arrangements and incorporates the National Student Survey (NSS), the Destination of Leavers from Higher Education (DLHE) survey and statistics derived from data collected through the Higher Education Statistics Agency (HESA) and individualised learner record.

The TQI/NSS steering group is reviewing policy in this area. We anticipate that the review will lead to a joint consultation with Universities UK and GuildHE in autumn 2010 about the shape and extent of the information and who should provide it. A new group, chaired by Professor Philip Jones of Sheffield Hallam University, has been set up to have high-level oversight of the future quality assurance system; its joint secretariat consists of ourselves, Universities UK and GuildHE.

Partnership between institutions and students

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We are working in partnership with various national stakeholders (for example, the Quality Assurance Agency, the Higher Education Academy, National Union of Students (NUS), Universities UK and GuildHE) to develop student engagement policies and inform institutional practice. This work takes place through a group drawn from across the HE sector chaired by the NUS.

We have funded a 12-month to support HEIs and their students' unions to engage students more effectively in shaping their learning experiences. The project started in October 2009 and is a collaboration between the NUS and the Higher Education Academy (HEA).

Policies for student numbers and growth

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Amber	Amber

We continue to ensure suitable funding mechanisms and policies are applied to student numbers and growth and we are discussing with the Department for Business, Innovation and Skills (BIS) its planning assumptions for the future in the light of the overall growth in the sector.

In quarter three this area was given an amber rating because growth in student numbers in the sector has been significantly higher in 2009-10 than was fully funded, in part due to the extra 10,000 unfunded places announced by BIS in July 2009, but also because of much higher intakes in 2008-09. There is now a surplus of demand compared to supply of places (expressed as full-time equivalents) and this will continue to grow. Therefore this area has retained its amber rating for quarter four.

We have established a clearer control for the 2010-11 intake with a system of grant adjustments for institutions that over-recruit. This will significantly reduce the risk of over-recruitment in 2010-11 compared to the circumstances that pertained in 2009-10. While there is now a low risk of over-recruitment in 2010-11, the rise in overall numbers due to in-built growth will ensure that total numbers continue to exceed planned full-time equivalents, and the political environment in which all this is taking place is very uncertain and changing.

The Secretary of State wrote to us following the March 2010 Budget, authorising us to allocate funding for 20,000 additional new entrants for 2010-11 through the new University Modernisation Fund, providing up to £250 million in additional funding.

Enhancing HE learning and teaching

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We aim to support universities and colleges in maintaining excellence and finding continuing ways to improve the learning environment. This work is vital to meet student expectations, the challenges of global competition, and the increasing diversity of the student population.

In pursuit of these aims we have continued to provide funds directly to institutions, by means of the Teaching Enhancement and Student Success allocation. We also fund the HEA, the Centres for Excellence in Learning, and Teaching and the National Teaching Fellowship Scheme.

We encourage the embedding of technology-enhanced learning across the sector. Our partners in using technology to enhance learning are the HEA and the Joint Information Systems Committee, who help institutions achieve their aims and objectives for making best use of technology to support student learning. We recently established an Online Learning Task Force to help the UK HE sector maintain and extend its position as a world leader in online technology.

In summary

The current period of resource constraint presents challenges for all involved in HE. At the same time it is important to maintain enhancement and development activity. In these circumstances much work has taken place to support the objectives and targets for enhancing excellence in learning and teaching.

<table>
<tr><th>Key performance target</th><th>Progress to 31 March 2010</th></tr>
<tr><td>KPT1: At least 95 per cent of HEIs receive judgements of confidence in institutional quality audits by the Quality Assurance Agency, completed by 2009-10.</td><td>Off target: At 3 March 2010 performance was 92.5 per cent[3] (including audits since 2002-03) and therefore continues to be below target. All but one of the HEIs that did not receive judgements of full confidence received a limited confidence judgement in one of the two areas assessed: the soundness of the institution’s current and likely future management of the academic standards of its awards; or the soundness of the institution's current and likely future management of the quality of the learning opportunities available to students. No HEI has received a judgement of no confidence. No trends can be discerned in the judgements and, to date, institutions have rectified shortcomings to the satisfaction of the Quality Assurance Agency.</td></tr>
<tr><td>KPT2: The proportion of students who are broadly satisfied with all aspects of teaching covered by the National Student Survey increases between 2005 and 2009.</td><td>On target: By ‘broadly satisfied’ we mean an average score of at least 3 on the scale of 1 to 5 for each of the clusters of questions as defined on the survey. The table below sets out performance against this target since 2005. Weighted figures are weighted to reflect changes in the number of students by institution and mode responding to the 2005 survey. From this table it can be seen that for the first time since 2005 the weighted proportion of students satisfied who are broadly satisfied has gone down, although overall the target of increasing the levels of broad satisfaction between 2005 and 2009 is still being met. From the one-year downward movement of 0.1 per cent no trend can be discerned.
<table>
<tr><th colspan="3">Percentage of students broadly satisfied</th></tr>
<tr><td>Year</td><td>Unweighted</td><td>Weighted</td></tr>
<tr><td>2005</td><td>57.5</td><td>57.5</td></tr>
<tr><td>2006</td><td>58.0</td><td>59.0</td></tr>
<tr><td>2007</td><td>60.8</td><td>61.9</td></tr>
<tr><td>2008</td><td>63.2</td><td>64.2</td></tr>
<tr><td>2009</td><td>62.8</td><td>64.1</td></tr>
</table>
✓</td></tr>
<tr><td>KPT3: The continuation rate for students in English HEIs across the planning period is the same as, or better than, the benchmark value calculated from the start year 2002-03.</td><td>On target: The continuation rate for full-time first degree entrants in 2007-08 is at the benchmark level (89 per cent). The rate for full-time other undergraduate entrants is 82 per cent, which is above benchmark of 80 per cent).[4]</td></tr>
</table>

[3] During the financial years 2002-03 to 2008-09, 93.8 per cent of institutional audits carried out by the Quality Assurance Agency received judgements of full confidence.

[4] The benchmarks are weighted to reflect changes in the composition of the student population since the base year (2002-03).

<table>
<tr>
<td></td>
<td>
<table>
<tr><th colspan="5">Continuation rate</th></tr>
<tr><td></td><td colspan="2">First degree</td><td colspan="2">Other undergraduate</td></tr>
<tr><td></td><td>Indicator</td><td>Bench-mark</td><td>Indicator</td><td>Bench-mark</td></tr>
<tr><td>2002-03</td><td>87.0</td><td>87.8</td><td>82.6</td><td>82.6</td></tr>
<tr><td>2003-04</td><td>87.9</td><td>88.4</td><td>82.2</td><td>82.7</td></tr>
<tr><td>2004-05</td><td>88.7</td><td>88.8</td><td>82.0</td><td>83.1</td></tr>
<tr><td>2005-06</td><td>89.0</td><td>88.9</td><td>80.3</td><td>83.0</td></tr>
<tr><td>2006-07</td><td>88.5</td><td>88.6</td><td>80.8</td><td>82.5</td></tr>
<tr><td>2007-08</td><td>88.7</td><td>88.6</td><td>82.3</td><td>80.2</td></tr>
</table>

In 2010 for the first time the non-continuation indicators (series T3) have been extended to cover high-intensity, part-time, first degree students. The continuation rate for high-intensity, part-time, first degree entrants for 2006-07 was 59.6 per cent.

✓
</td>
</tr>
<tr>
<td>KPT4: To increase innovative, flexible approaches to the delivery of HE across the planning period.</td>
<td>On target: We fund eight flexible learning pathfinders. The number of courses delivered through these pathfinders has increased from 14 in 2006-07 to around 75 in 2009-10. Student numbers have increased from 109 in 2006-07 to around 1,400 in 2009-10. Programmes include two-year accelerated honours degrees, four-year accelerated part-time degrees, work-based learning and accelerated part-time foundation degrees.

✓
</td>
</tr>
</table>

Strategic aim: Widening participation and fair access

To promote and provide the opportunity of successful participation in HE to everyone who can benefit from it.

Objectives

- To increase and widen participation in HE.
- To stimulate and sustain new sources of demand for HE among under-represented communities and to influence supply accordingly.
- To improve opportunities for lifelong learning for everyone who can benefit.
- To embed widening participation in the corporate policy and practice of HEIs.

Risks

The key risks to achieving our strategic objectives under this aim are:

- That the supply of places created to meet the participation target does not match the demand from students in terms of level, mode (full-time or part-time) or location.
- That there is insufficient demand for HE places from 18-30 year-olds to meet the participation target.
- That there is insufficient increase in representation from the under-represented socio-economic groups. This could be due to: higher fees deterring debt-averse students; poor information, advice and guidance; widening participation being marginalised in some universities and colleges; insufficient growth; and/or those universities and colleges most likely to widen participation struggling in the new market conditions.
- That there is no increase in the rate of progression to HE for those with vocational qualifications. This could be due to: a failure of Lifelong Learning Networks to recruit students, or to agree or operate progression agreements that guarantee progression for learners on vocational programmes; a failure in other collaborations between HEIs and FECs; or a failure of HEIs and/or FECs to make vocational opportunities available over a lifetime.

Making progress

In January 2010 we published updated results from the analysis of young participation in HE, first published in 2005 ('Trends in young participation in higher education: core results for England', HEFCE 2010/03). This showed significant and sustained increases in participation for those from the most disadvantaged areas. We will be releasing more detailed results throughout 2010 and our primary focus will be to ensure that the momentum of this trend is sustained.

Widening participation as a strategic theme in institutions

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

In January 2008 we issued a request to HEIs and directly funded FECs for the submission of widening participation strategic assessments. Submissions were received by June 2008 and demonstrated to us institutions' commitment to widening participation and the extent to which it is a strategic theme that is embedded in institutional missions, policies and cultures. The strategic assessments provided HEIs with an opportunity to demonstrate, and take credit for, all that they do in widening participation throughout the student lifecycle from outreach and pre-entry activity through to graduate employment.

For us, they were an opportunity to continue to discuss with institutions their approach to widening participation. We have asked institutions to develop evaluation strands to their work and we will monitor progress each year through annual reports. Action on Access will also produce a thematic analysis of all the widening participation strategic assessments, which may result in guides and examples of effective practice to support the sector.

Disabled students

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

The outcomes of the review of HEFCE policy as it relates to disabled students were noted at the November 2009 Board meeting. The document and related research reports were published in January 2010.

The review found that the sector has considerably improved support and provision for disabled students, and suggests areas where further improvements could be made. Although the research pinpointed areas for further support, the objectives of our policy remained fit for purpose and the review found that no significant changes were needed. Therefore our future strategy is largely a continuation of the old policy.

To address the areas for development identified in the review we will fund specialist disability support services for the sector through special projects run by Action on Access, the Higher Education Academy and the Equality Challenge Unit. The projects will be funded from the existing widening participation budget. We are negotiating and approving projects to run between 2010 and 2012.

Supporting collaborative activities

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We continue to fund and manage the Aimhigher programme, with 42 local partnerships of schools, academies, universities and colleges. They continue to work on a wide range of activities to engage and motivate learners who have the potential to enter HE but who, for a variety of reasons, may be under-achieving, undecided or lacking in confidence.

Following a successful pathfinder phase in 2008-09, plans from Aimhigher partnerships were agreed that allow the Aimhigher Associates scheme to be rolled out nationally in 2009-10. The aim is to build long-term links between undergraduates and school/college students from disadvantaged backgrounds, to help raise educational aspirations. The scheme is looking to recruit around 5,500 university students from September to mentor over 21,000 school pupils. It has funding of £21 million over three academic years, 2008-2011, and all partnerships are involved.

We continue to analyse all work relating to Aimhigher, with a separate evaluation focusing on the Associates programme and summer schools, all of which should give us quantitative basis for future planning. Concurrently to this, individual partnerships continue to monitor their own activities. The national evaluation will roll out into its third phase in autumn 2010.

Vocational progression and lifelong learning

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We continue to support lifelong learning networks. The overall objective of these is to improve the coherence, clarity and certainty of progression opportunities for vocational learners into and through HE. To date, approximately £105 million and 15,000 additional student numbers have been allocated to 30 networks. In June 2009 a consultant was commissioned to evaluate the networks. An interim report was submitted in March 2010 and a final report will be submitted by 31 July 2010. This final, summative evaluation will examine the overall success of the project in achieving its aims and outcomes.

Supporting student retention and success

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

HEFCE and the Paul Hamlyn Foundation have made a total of £1 million available to support seven projects across the HE sector as part of a programme called 'What Works? Student success and retention'. The programme was developed in response to reports on student retention by the National Audit Office (July 2007) and the Public Accounts Committee (February 2008). In particular, the scheme seeks to address the conclusion in the National Audit Office report that there is a lack of evaluation of the impact and transferability of practice in relation to student retention. The projects, funded over a three years, focus on evaluating the impacts and transferability of institutional practice in relation to student retention, with an emphasis on collaborative approaches. The first annual reports from the projects were submitted in September 2009 and indicated a welcome breadth and depth to the projects.

In addition, on 4 June 2009, the then Secretary of State for Innovation, Universities and Skills wrote to the Chief Executive to express his concern at the non-continuation rates reported in the recently published widening participation performance indicators. We continue to work with HEIs through institutional teams to investigate why some HEIs are significantly below their benchmarks and to ascertain how to rectify this. From this and the information provided in the widening participation strategic assessments we will gain a much better understanding of the priority given to ensuring student success and completion, and the particular strategies and approaches adopted to deliver improvement.

Raising demand for science, technology, engineering and mathematics

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

The National Higher Education STEM Programme is a £20 million, three-year initiative aiming to generate interest in science, technology, engineering and mathematics (STEM) subjects among young people, enhance higher-level skills in the workplace and increase accessibility of HE courses in these subjects. The programme began in August 2009 and is building on the success of the four pilot projects in this area. The University of Birmingham is hosting the programme and operating a 'hub and spoke' model to transfer and embed effective practice across the sector.

The programme's partners have been confirmed, and contracts signed with the Institute of Physics, the Royal Society of Chemistry, the Royal Academy of Engineering and the Institute of Mathematics and its Applications (on behalf of a consortium of mathematical organisations). The HEIs that will act as 'spokes' for the programme have been confirmed.

To support the transfer and wider adoption of proven good practice within the HE STEM sector, the National HE STEM Programme is making funding available to HEIs to share proven, evidence-based interventions.

In summary

The young participation rate data in HEFCE 2010/03 shows that good progress has been made over the past 15 years, which we aim to maintain and improve. However, with reduced funding, a cap on student places and a sharp increase in demand for HE, we now face significant and unique challenges. Our programme of work, emphasising flexible modes of provision and mainstreaming widening participation, seeks to mitigate these factors.

Key performance target	Progress to 31 March 2010
KPT 5: To increase participation in HE in line with the funding and policies set out in the Secretary of State's annual grant letter.	**On target:** The Higher Education Initial Participation Rate for 2008-09 (provisional) shows an increase of two percentage points compared to 2007-08, from 43 per cent to 45 per cent. ✓
KPT 6: To increase the proportion of students (full-time and part-time, both young and mature) from under-represented groups in HE.	**Partially on target** The performance indicators for 2008-09 show that, of the total number of young entrants to full-time undergraduate courses, 10.6 per cent come from low-participation neighbourhoods. This is an increase of 0.3 per cent since 2007-08. In 2008-09 the proportion of mature, full-time, undergraduate students from low-participation neighbourhoods was 11.9 per cent – a fall of 0.1 per cent since 2007-08. This is a small reduction but we will monitor this area in future years. The proportion of part-time students from low-participation neighbourhoods rose from 7.2 per cent in 2007-08 to 7.3 per cent in 2008-09[5]. Our analysis of trends in young participation (HEFCE 2010/03) has shown that in the most disadvantaged areas of England there have been substantial and sustained increases in the proportion of young people entering higher education since the mid-2000s. In particular, the participation rate of young people living in the most disadvantaged neighbourhoods has increased from 15 per cent to 19 per cent between the 2005-06 and 2009-10 cohorts: this rise of four percentage points represents a 30 per cent increase in the chances of entering HE.

[5] The figures showing the proportion of students from lower socio-economic groups are not available for 2008-09 because UCAS changed the question that informs National Statistics Socio-economic Classification (NS-SEC) for the majority of applicants for the 2008-09 academic year. The change in question between 2007-08 and 2008-09 has had an impact on the NS-SEC indicators, causing the proportion of students classified as 'unknown' and those classified as falling into NS-SEC groups 4 to 7 to rise. Given these differences and the lack of any significant external changes to the system, the NS-SEC data for 2008-09 is not comparable with that published previously.

Strategic aim: Employer engagement and skills

To encourage transformational change in the HE sector that will enhance the capability of HEIs to establish long-term, sustainable relationships with employers to stimulate and meet their demands for highly competent and skilled employees.

Objectives

- To establish an environment of collaborative interchange between employers and HEIs, harnessing the capability from across HE to respond with innovation and flexibility to meet the needs of employers and the economy for a highly motivated, educated and skilled workforce.
- To stimulate transformational change to make the meeting of employer demand for a highly skilled workforce a core institutional strategic objective, impacting on at least half of English HEIs by 2011.
- Over 2008-2011, to test the potential scale of the market and the levels of demand for employer co-funded HE and to generate learning and evaluation evidence to inform policy development.
- Over 2008-2011, to build a platform of capability and capacity within the HE sector to achieve further growth from 2011-2014 in employees participating in HE-based workforce development.
- To introduce long-term funding arrangements for employer co-funded HE, over a timescale agreed with the BIS.

Key strategic risks

The key risks to achieving our strategic objectives under this aim are:

- That our strategy for employer engagement fails to ensure a higher level of skills and knowledge that meets the needs of the economy and society.
- That it is not possible to balance the requirement to test the market for employer co-funded HE with the requirement to establish the capability and capacity for future growth.
- That it is not possible to establish a sustainable financial model for the delivery of employer-focused and co-funded workforce development, and that our strategy fails to secure sufficient and sustainable funding contributions from employers.
- That public sector employers are strongly attracted to the co-funding model as a means of reducing their existing levels of funding to support workforce development and transferring a proportion of their costs to HEFCE funding.

Making progress

For the period 2008-2011 we have invested substantial funding to:

- develop the HE sector's capacity to generate and respond to employer demand for HE provision for staff
- recruit employee learners including those new to HE
- increase the income stream from employers through co-funding contributions.

This has been a learning period for HE and we expect much of this learning to feed into further growth of employer-responsive HE in the next phase (2011-12 onwards).

2009-10 has been a challenging year as the recession impacted on employers, and small and medium-sized enterprises in particular. This required institutions to change their immediate-term strategies to continue to grow the number of HE learners being supported by their employers.

We have also implemented new short-term interventions to complement our existing support for longer-term transformation. Our Economic Challenge Investment Fund supports the HE sector in delivering a range of support for individuals and businesses vulnerable in the economic downturn. We have also funded the expansion of graduate internships. These provide graduate-level work experience for 2008 and 2009 graduates who have been unable to find permanent employment, and provide access to graduates for businesses that might not otherwise have considered recruitment.

Growth in co-funded provision and building of capacity in HE to deliver workforce development

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We are investing over £148 million to build the capacity of the HE sector in employer engagement and to support growth in HE provision co-funded with employers. We have allocated £103 million across 37 workforce development projects to develop institutions' operations towards HE provision for employers. Institutions are being challenged to generate increased demand (and income) from employers, develop new curricula that facilitate employee learning, and improve approaches to costing and pricing that can identify sustainable activities. The projects are diverse in terms of: geographical location and focus; scale of development; employer markets; extent of collaboration; business models; subject expertise involved; and skills needs being addressed.

We have provided £45 million to support growth in numbers of co-funded students. Over 70 HEIs and further education colleges are in receipt of co-funding in 2008-2011 and we are on course to meet the co-funded student targets outlined in our 2008 grant letter from the then Department for Innovation, Universities and Skills (5,000 co-funded entrants in 2008-09; 10,000 in 2009-10; and 20,000 additional entrants in 2010-11). HESA data for 2008-09 show that we have achieved the co-funding target set by Government – the HE sector recruited 8,038 additional entrants against the 5,000 target. We will be conducting an analysis of the HESA data on an annual basis to look in more detail at the nature of the provision and students being supported. The first annual report is due in summer 2010. We have allocated substantial co-funding for 2009-10 and are confident that we will achieve that year's target provided current recruitment levels hold up. For 2010-11 we have recently reviewed progress towards the target and have agreed to allocate a further 6,000 co-funded additional student numbers.

We are keen to capture and promote the learning that is taking place across the sector. The HEA supports networking of the institutions implementing change programmes, and it is seeking to develop a range of good practice materials in 2010. We have funded the HEA to work with the Quality Assurance Agency and Foundation Degree Forward in commissioning a series of reports on managing the quality and standards of employer-responsive HE. The reports are due to be published in 2010 and will contribute to future development of the Quality Assurance Framework. In addition, through its pro vice-chancellors' network, the HEA will support strategic decision-making and management within universities and colleges that are focusing on employer engagement.

Support for graduate employability

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Our goals this year have been:

- to enhance HE support for graduate employment in the context of economic recession
- to ensure graduate labour market information is up to date and accessible.

Building on our Economic Challenge Investment Fund we have expanded our activity in this area to address graduate unemployment.

The most recent data on graduate employment levels after six months (qualifiers from 2007-08) show that levels of unemployment have increased in England with the proportion of graduates in work and/or study dropping from 94 per cent in 2006-07 to 91 per cent .

In view of the change in economic environment, we launched the Economic Challenge Investment Fund in 2009 to support universities and colleges to put in place rapid-delivery schemes during the summer for unemployed graduates and professionals, and to support business resilience. Over £28 million was allocated in spring 2009 to support 78 projects with additional matched funding of £32 million from universities and local partners such as Regional Development Agencies. Building on this we funded an additional 8,000 internships for unemployed graduates in 2010 and provided pilot funding for at least 500 undergraduate internships to support students from disadvantaged backgrounds to access the professions.

At the request of Government we are working with HE sector partners, the UK Commission for Employment and Skills, and the Confederation of British Industry to implement HEI employability statements. These will be available for prospective students entering HE in 2011-12.

Following publication of the second longitudinal DLHE survey (LDLHE) in 2009 we have agreed to run two further LDLHE surveys in 2010 and 2012. We have commissioned a review to inform the long-term future of longitudinal surveys of employment to run alongside the third LDLHE survey.

We are also undertaking initial analysis to inform the review of indicators of job quality which are based on destinations data. We anticipate this will be used to enhance existing employment performance indicators.

Increasing demand from business for higher-level skills

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have worked with a range of employer partners to support the integration of HE in their strategies for skills and workforce development. Two of our workforce development projects are led by Sector Skills Councils (Cogent and Skillet) collaborating with consortia of HEIs. These will test employer co-funding at a sectoral level but will also seek to stimulate demand from employers through the role of the Sector Skills Council. We have also worked with the Federation of Small Businesses on the expansion of graduate internships – the primary purpose is to provide work experience in small businesses for unemployed graduates but we anticipate knock-on benefits for the institutions involved.

Building on the work of the three Higher Level Skills Pathfinders, which are connecting HE to employers and brokerage services on a regional basis, we are supporting the Training Gateway as a national enquiry point for employers to contact HEIs to source their training needs. The service will also offer a resource for Business Link and Train to Gain advisers to support businesses to access training at higher levels.

We also intend to extend the links between our employer engagement and skills programmes and the strategically important and vulnerable subjects (SIVS) programme, particularly through the role of the SIVS Advisory Group whose role will be to report annually on the match between supply and demand of skills.

Foundation degrees

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Recent data on enrolments (from HEFCE's Higher Education Students Early Statistics and Higher Education in Further Education: Students surveys) suggest there were more than 99,475 foundation degree enrolments in 2009-10 (including 53,750 entrants): one year early, we are only marginally short of the 100,000 target and we expect the target to be substantially exceeded in 2010-11. We published our annual statistical report on foundation degrees in April 2010 ('Foundation degrees: key statistics 2001-02 to 2009-10', HEFCE 2010/12).

Long-term strategy and funding method to support workforce development

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Amber

We will develop a new strategy and funding method to support workforce development for 2011-12 onwards. This work is at an early stage and will continue to develop throughout 2010, building on internal expertise and linking to the review of the main teaching funding method for HE. Our approach will take into account changing government priorities, information on the nature of employer demand, and the level of resources available.

A programme-wide evaluation will be commissioned in 2010, a little later than originally envisaged. Early outputs from the evaluation will feed into the development and implementation of our longer-term strategy and funding method.

This area is rated as amber to reflect the uncertainties on government priorities and funding during the period in which we need to develop the strategy and funding method.

In summary

Progress has been made in facilitating transformational change across the sector – investing in new models of employer engagement that test the market for workforce development and leverage increased employer investment in HE. This will continue through 2010-11. Our discussions with institutions suggest they have had some success in adapting their strategies to recessionary conditions in 2009. However, changes in the public sector funding environment will require continuing innovation to grow business investment in higher-level skills to support our economy in remaining competitive into the longer term.

Key performance target	Progress to 31 March 2010
KPT 7: 5,000, 10,000 and 20,000 employer co-funded entrants to accredited provision each year over the three-year period 2008-2011.	**On target:** HESA data indicate that we have met our co-funded entrants targets for 2008-09. The HE sector recruited 8,038 co-funded entrants against a target of 5,000. ✓
KPT8: The proportion of HEIs reporting high levels of employer involvement in the HE curriculum increases to 80 per cent by 2009.	**Target complete:** We met our target a year ahead of schedule. The 2007-08 HE-Business and Community Interaction Survey showed 80 per cent reported at the two highest levels of engagement in the curriculum. However, figures for 2008-09 show this has dropped to 78 per cent. This may be a result of difficulties in engaging employers during the recession. We will monitor this area going forward. ✓

Strategic aim: Enhancing excellence in research

To develop and sustain a dynamic and internationally competitive research sector that makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.

Objectives

- To maintain a research sector with a strong position among the world leaders, which can respond flexibly to the changing needs of stakeholders and lead in developing new and innovative fields of enquiry.
- To work with Government and the sector to develop a system for assessing research which informs funding and demonstrates the power of the national research base, helping institutions to identify and foster excellence.
- To ensure that research can be supported without prejudice to the sustainability of the sector's long-term financial, physical and human resources, or the delivery of other activities in the public interest.
- To develop a funding policy that achieves these objectives.

Key strategic risks

The key risks to achieving our strategic objectives under this aim are:

- That HEIs are not recovering the full economic costs of research from funders and sponsors.
- That the outcomes of the 2008 Research Assessment Exercise, or the new framework for research assessment and funding beyond 2008, fail to win the confidence of the sector and/or the Government.
- That growing competition from emerging research economies impacts on the UK's international position in research excellence.

Making progress

Our focus in delivering these objectives has been on further developing the assessment of research quality and implementing a funding policy that differentially funds research of the highest quality.

Mainstream research funding

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have continued to allocate core research grant to institutions through quality-related research funding. For the 2010-11 academic year we have announced £1,603 million mainstream funding, which will be allocated selectively on the basis of research quality, as assessed through the 2008 Research Assessment Exercise. We changed the scale of selectivity from that used in 2009-10 to increase the rate of funding for research of the very highest quality.

We have also allocated three further streams of quality-related funding to institutions: to contribute to the indirect costs of research projects whose direct costs are funded by charities; to contribute to the costs of supervising postgraduate research students; and to incentivise research that directly meets the needs of businesses.

Research Excellence Framework

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Working with Government and the HE sector, we have continued to develop the policy and operational framework for the Research Excellence Framework (REF) which will replace the Research Assessment Exercise as our primary means of assessing research quality. With input from expert advisory groups, we concluded a pilot exercise with 22 institutions to assess the feasibility of using bibliometric indicators of excellence alongside peer review in the REF. We consulted on a comprehensive set of proposals for the conduct of the REF in a sector consultation that we held between May and December 2009; as planned, this consultation incorporated proposals for using bibliometric indicators. Following this consultation, we are developing firm proposals for the conduct of the exercise for publication shortly. The REF will also, for the first time, separately assess the impact of high-quality research. We are conducting a pilot exercise until summer 2010 in five subject Units of Assessment to establish robust practices for REF panels undertaking this new part of the assessment process.

Research collaboration, capability and capacity building

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have supported three projects this year aimed at securing increased institutional collaboration in research through our Strategic Development Fund (SDF). We have developed revised criteria, which will be published shortly, for more targeted investment in future through SDF to enhance collaboration.

We are currently evaluating (alongside three co-funders) five, five-year programmes of support to build capacity in language-based area studies, through support for academic posts and masters and doctoral students.

Research degree programmes and research careers

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We intended to publish this year qualification rates of research degree students for each institution, to update the first such set of full-time rates that we published in 2007. We also intended to provide the first time rates for part-time students. We delayed this publication to allow further work on data quality following audits. We expect to publish these rates in summer 2010.

We have continued to work with the Department of Health within the framework of the UK Clinical Research Collaboration to enhance the clinical academic careers of staff in medicine and dentistry. We received applications to the fifth round of awards for clinical senior lectureships in February 2010, the outcomes of which will be announced in June 2010. We have also worked with the Department of Health on a separate, senior clinical lectureship award scheme for academic staff in nursing, midwifery and associated health professions, which will call for applications in May 2010.

Research information

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have made significant progress to establish a UK research reserve to reduce the amount of space that academic libraries have to devote to important but rarely utilised research material. This £10 million project, run collaboratively with the British Library, now has 29 participating UK institutions involved in de-duplicating such research material. A proof of concept study is under way to establish an integrated request and delivery service for document supply of reserve copies of de-duplicated material.

In spring 2010 we completed a review, led by Sir Muir Russell, of funding that we provide for university museums and galleries and will announce the outcome of the review and consequent funding allocations in summer 2010. We have begun a cost-based review of our support for five university libraries that we have designated as National Research Libraries, we will report its outcomes in spring 2011.

In summary

Our work has focused on developing and sustaining a dynamic and internationally competitive research sector. Developments in our funding policy have prioritised funding for research of the highest quality, to maintain England's contribution to the UK's leading position in research excellence. We have made particular progress in developing a robust and widely accepted framework for the future assessment of research, which will more explicitly than previously recognise high-quality research that contributes to national prosperity and wellbeing.

Key performance target	Progress to 31 March 2010
KPT9: To maintain England's contribution to the UK's leading international position in research excellence throughout the planning period.	**On target**: BIS published its annual report on 'International comparative performance of the UK Research Base' in September 2009 (available at www.bis.gov.uk). That report showed the UK's performance against international competitors was generally maintained or improved in terms of its rank position despite increasingly intense competition from fast-developing nations. The UK is first in the G8 in terms of research productivity (papers per researcher), and its increase in share of world citations (to 12 per cent) is considered a firm indicator of the excellent quality of its published research output. ✓
KPT10: To develop a process for assessing research quality.	**On target**: We have developed the Research Excellence Framework policy and operational framework through: consultation with institutions and expert advisory groups and research-informed evidence; and pilot exercises with institutions for previously untested aspects of our proposals. We will announce key aspects of the operational framework in 2010-11. ✓
KPT11: To demonstrate improved sustainability of the national research base by 2011.	**On target**: The annual report on sectoral financial sustainability metrics, presented to the HE Research Base Funders' Forum in September 2009, showed progress towards this goal: consistent increases in research income per academic (full-time equivalent) and the value of externally sponsored research were noted. ✓

Strategic aim: Enhancing the contribution of HE to the economy and society

To increase the impact of the HE knowledge base to enhance economic development and the strength and vitality of society.

Objectives

- To secure long-term and adequate support for third-stream activities as a significant HE function.
- To integrate third-stream activities into every HEI in a sustainable way that is appropriate to their missions.
- To engage a wider range of users in the HE knowledge base by promoting a distinctive regional third-stream mission.
- To increase global engagement between our HE knowledge base and overseas HE and users.
- To provide a stronger and clearer focus on the social aspects of third-stream activities, to increase HE impact and stakeholder buy-in.
- To work with partners to develop a co-ordinated awards scheme to encourage and support public engagement activities by HEIs.
- To devise and use effective funding mechanisms, metrics and evaluations, appropriate to third-stream activities.

Key strategic risks

The key risks to achieving our strategic objectives under this aim are:

- That the many national and regional stakeholders engaged in third-stream activities do not achieve the common purpose necessary to unlock all HE potential.
- That we fail – through lack of vision, ideas, effectiveness or appropriate measures – to support the HE sector in making its full (and diverse) contributions to national competitiveness and improved quality of life.
- That HEIs neglect third-stream work relative to teaching and research because, for example, they do not see the rewards as proportionate to effort.

Making progress

The turbulence of the economic downturn has challenged HE's contribution to the wider economy and society, and the sustainability of knowledge exchange activities. We offered further support for the HE sector's work to help the economy and society in the recession, through the sponsorship of good practice and additional networking. We continue to monitor the impact on the delivery of our aims, objectives and KPTs, and to consider whether additional activity is needed to mitigate risks.

Higher Education Innovation Fund

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

HEIs are in their second year of funding under the Higher Education Innovation Fund (HEIF) round four. We monitor progress in delivery of HEIF 4 strategies and planned use of funds by HEIs through our annual monitoring statement. Because of concerns about the effect that the economic downturn would have on the delivery of HEIF strategies, we asked for additional information in the annual monitoring statement. Responses from HEIs on 2008-09 activity (when GDP was declining) suggest that they maintained knowledge exchange activity by being dynamic and responsive, that is switching to different client groups or knowledge exchange offers. This was helped by the flexibility of our funding through formula which enabled HEIs to react speedily.

HEIs may not fully deliver their planned growth in knowledge exchange but activity is holding up well. Analysis of the Higher Education-Business and Community Interaction (HE-BCI) Survey for 2008-09 will provide further information about the impact of the recession on progress.

We are also compiling a programme monitoring report. This will include results from an overview evaluation of HEIF 3 projects.

Business and community indicators

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

The HE-BCI Survey for 2007-08 published in July 2009 (HEFCE 2009/23), demonstrates the sector's performance on a number of measures related to interactions with businesses and the community. The survey showed that total income to HEIs from knowledge exchange activities in England increased from £2,088 million in 2006-07 to £2,254 million in 2007-08 – an increase of 7.9 per cent. Although the rate of growth in income was lower than in the previous year, it represented good performance in the face of worsening economic conditions (GDP was flat for the last quarter of the survey report period).

The handover process of HE-BCI to HESA progressed as planned. Work is on track to publish the next HE-BCI Survey (of 2008-09 activity, based on HESA-collected data) in summer 2010.

We are doing a range of work to develop the HE-BCI metrics set, addressing commitments in the Government's 'Higher Ambitions' strategy. This includes six micro-studies that investigate areas currently under-represented by existing metrics. We are on track for these projects to feed into an overview report drawing together conclusions and recommendations to us and Universities UK in the summer. The outcomes will feed into the future development of the HE-BCI Survey (and potentially our approach to funding).

Seven HEIs are participating in a pilot where they will submit statements alongside their annual monitoring statement about the range of benefits that their institution creates in the economy and society, to inform a wide range of stakeholders. We will receive these 'statements of benefits' by the end of April 2010. This addresses a recommendation in the Wellings Review of Intellectual Property and Research Benefit and will be followed with national dissemination activity.

We are also finalising a work plan for compiling international comparisons of metrics (focused on the USA and Europe).

Public and community engagement

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Amber	Amber	Amber	Amber

Our support for public and community engagement remains at amber because we continue to review our approach towards the Beacons of Public Engagement programme jointly funded with Research Councils UK and the Wellcome Trust. We continue to work with our partners – particularly Research Councils UK and those HEIs in receipt of the Beacons funding.

Individual Beacons are largely on track to deliver their individual plans. However, we are reviewing the pilot experience to identify a sustainable way to achieve the objectives of the programme in a tougher financial climate.

As part of our strategic plan commitment to highlight the contribution of HE to society, we provided funding for, and launched, a Social Entrepreneurship Awards scheme in November 2009 in partnership with UnLtd. This initiative stimulates interest and identifies good practice in social enterprise, feeding into our broader development of knowledge exchange policy in the HE sector.

Third-stream strategy and development

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Our work on strategy and development of business and community engagement policy is particularly focused on effectiveness and efficiency issues, addressing recommendations in 'Higher Ambitions'. We have sponsored a series of research working papers, using data and case studies from our recent HEIF 4 overview and third-stream evaluation to inform understanding of the current state and development of knowledge exchange across the HE sector. Our work is on track, with three papers published in the period on: the state of the infrastructure for knowledge exchange; intellectual property; and synergies between knowledge exchange and research and teaching. Two further papers will be published in summer 2010: a comparison between UK and US performance in knowledge exchange; and a paper on improving effectiveness and efficiency.

We are on track with our support for a joint programme of research on HE impacts in the regions (with the Economic and Social Research Council and other higher education funding councils). A number of projects have completed and the research has influenced future policy development[6].

HE support to the economy and society in the economic downturn

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We sponsored an event in May 2009, with the Association for University Research and Industry Links and Universities UK that supported sharing of good practice on ways the HE sector can help the economy and society in the recession.

Over the period, we supported the higher education regional associations to gather intelligence and network regionally with partners on behalf of their member institutions.

This work (described as the Higher Education Regional Associations Barometer) tracked the sector's response to economic conditions and the needs of the economy, businesses and individuals. Periodic national reports were produced about how the sector was responding to the needs of the economy and society, highlighting effective responses and barriers, and helping to share good practice. There will be a final summative report from the regional associations in summer 2010 on achievements and lessons learned from the experience over the last year, to draw longer-term conclusions on the role that HE can play in such economic circumstances.

[6] For example, work by Hughes and Kitson from Cambridge Centre for Business Research (see www.cbr.cam.ac.uk/research/programme1/project1-17.htm).

In summary

We have made significant progress to establish a robust evidence base on the performance and benefits of knowledge exchange in the HE sector, through substantial programmes of research and evaluation. We will continue to focus on the evidence base in the next year to support continued policy and investment in this area. We are focusing particularly on ways to achieve increased efficiency and effectiveness in knowledge exchange, including through: collaboration; improving measurements and demonstration of public benefits of knowledge exchange; and developing international comparisons, to show the progress the UK has made to achieve a world-class standard in knowledge exchange and commercialisation.

Key performance target	Progress to 31 March 2010
KPT12: Throughout the period, to secure year-on-year increases in the total contributions (both direct contributions from users leveraged through HEFCE core funds for third stream, and support from a wider range of public sources to deliver public goods) for third-stream activity in the HE sector.	**On target:** HEIF funding profile has increased as planned from £134 million in 2009-10 to £150 million per year in 2010-11. Supplementary questions were included in the annual monitoring statement to allow HEIs to report if there had been significant difficulty in attaining and maintaining HEIF targets (especially where related to income). Some HEIs reported difficulties in achieving planned growth although the majority noted increasing activity and income overall due to the flexible nature of HEIF strategic funding. Early data from HE-BCI survey support this (see KPT13). ✓
KPT13: Throughout the period, to demonstrate year-on-year improvement in the impact of the HE sector on business and the community.	**On target:** As yet unpublished data from 2008-09 collected under the HE-BCI survey show an overall increase in activity to a similar level to the previous period (but achieved during a period of falling GDP). Some individual indicators have decreased, but there are no clear trends that particular areas have suffered relative to others and, overall, activity and income have increased over the period. ✓

Strategic aim: Sustaining a high-quality HE sector

To sustain a high quality HE sector which adapts to the developing needs of stakeholders, and which continues to be recognised as world class.

Objectives

- To support society's intellectual, economic, social and environmental development through sustaining and growing a successful HE sector that is sufficiently vibrant and diverse.
- To promote the further development of leadership, governance and management that will help HEIs deliver and innovate by building on their individual strengths, locally, regionally, nationally and internationally.
- To sustain stakeholder confidence in HE through a risk-based accountability framework which places greater reliance on institutions' own accountability processes and demonstrates a well-led, managed and governed sector.
- To promote and support continued investment in the HE infrastructure, so that it remains fit for purpose and can adapt to change, now and in the future.
- To support the continuing development of people, and of an organisational culture in HEIs, that is representative of society as a whole and delivers high-quality provision now and in the future.

Key strategic risks

The key risks to achieving our strategic objectives under this aim are:

- That HEIs do not develop clear and distinctive missions that build on or develop their specific strengths regionally, nationally and internationally (as appropriate) in order to create a suitably diverse sector that continues to be recognised as world class.
- That inadequate leadership, governance or management at HEIs, whether associated with the new market conditions or other factors, has a negative impact on students, demonstrates poor use of public funding, and causes a loss of public confidence in the sector.
- That economic conditions, together with changes in the HE market – for example, rising costs, a decline in international student demand and the volume of research contracts – threaten HEIs' financial viability and ability to achieve their mission.
- That HEIs do not utilise, develop and invest appropriately in their physical infrastructure in order to support their longer-term viability.
- That the recruitment, retention and development of people in the HE sector fails to keep pace with changing demands placed upon institutions.
- That the sector does not demonstrate leadership in reducing carbon emissions, thus missing opportunities for funding, cost reduction and enhanced reputation.

Making progress

The HE sector is recognised as world class and makes a contribution to intellectual, social and economic wellbeing, nationally and internationally. We are working with HEIs to maintain and enhance that reputation. Together we are promoting their long-term sustainability by enhancing staff capacity and capability, maintaining and improving the physical infrastructure and promoting stakeholder confidence.

Core funding

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We distribute funding for teaching and research to universities and colleges. In doing so, we aim to promote high-quality education and research, within a financially healthy sector. Most of our funding is distributed annually on a formula basis through the block grant.

We have implemented the substantial reduction to funding announced in the December 2009 grant letter from the Department for Business, Innovation and Skills. In doing so, we have sought to minimise the impact on core funding in 2010-11. The reduction has, however, increased the challenges faced by the sector in delivering the quality and quantity of its outputs.

Relationships with HEIs and directly funded FECs

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Our institutional teams work with HEIs to develop a range of missions that will meet the needs of the wide spectrum of stakeholders and maintain the sector's international reputation for high-quality provision.

The recent 'Independent Review Group review of the effectiveness and efficiency of HEFCE: final report' (HEFCE 2010/07) indicates that the majority of our external stakeholders (78 per cent of HEI respondents) view HEFE as 'effective'.

Risk-based accountability framework

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Amber	Amber	Amber	Amber

We have a role in ensuring accountability for the investment made in HE by a range of stakeholders, including students, banks, donors and funders of research, as well as the Government. We promote public confidence in the sector by providing assurance that institutions' own accountability processes are working well.

Further information is given in the Chief Executive's Statement on Internal Control on pages 66 to 70.

The indicator for this objective has been set at amber since December 2008. It reflects the scale of the current financial challenge, which we realise falls differentially across the sector and is greatest for those institutions that are most reliant on public funding. We have worked throughout this period to support institutions at higher risk and we regularly update our assessments to reflect developments at the sector and individual institutional level.

Strategic Development Fund

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Amber	Amber	Amber

The Strategic Development Fund is our main tool to support change and innovation in the sector.

We have reviewed the process and made additional funding available, but it may not be sufficient in view of the potential increases in demand as universities and colleges adapt to the changed funding environment. We will revisit this early in the 2010-11 financial year.

Medicine, dentistry, nursing and allied health professionals

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We work with the National Health Service and the other HE funding bodies to ensure effective provision of education for healthcare professionals. Our regional consultants liaise with Strategic Health Authorities.

The UK Healthcare Education Advisory Committee has met regularly as a forum for discussion and we are monitoring funding through our participation in the Health Education National Strategic Exchange.

HE in the economic downturn

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Amber	Amber

This work area was created as a complement to the 'risk-based accountability framework' area to highlight how the sector itself was responding to the economic situation. More general points relating to institutional assurance are covered under 'Risk-based accountability framework' above.

An amber rating was given to this area in the third quarter of 2009-10 when we recognised that further work may be necessary to support the sector in managing the consequences of the economic downturn, since this will be challenged by diminished funding. Much of this will be accomplished through our accountability processes.

We have invested over £1.5 million as a result of our Leading Transformational Change initiative, which captured emerging good practice in responding to the economic downturn and preparing for recovery. We held an inaugural event on 10 March 2010 to develop a community of practice that will disseminate the good practice for the benefit of the whole sector.

Strategically important and vulnerable subjects

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have developed a programme of work to support and develop SIVS, which are gathered in the following groups: STEM; area studies and related minority languages; quantitative social science; modern foreign languages; and Islamic studies.

A £350 million programme of work to support SIVS has been put in place to run until 2011-12. UCAS data indicate that the decline across these subjects in the first part of the decade has been reversed during the past three years.

Promote further development of leadership, governance and management

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

The English HE sector has demonstrated it has high-quality leadership, governance and management by delivering an HE system with a high global reputation at a time when international competition has increased.

Our work in this area includes funding of the Leadership Foundation for Higher Education and our use of the Leadership, Governance and Management Fund to support the development and dissemination of good practice. The Leadership Foundation has been evaluated midway through the period covered by its funding agreement and the evaluation has confirmed that the organisation is well managed. It has now reached maturity and users have confirmed that it delivers high quality, appropriate programmes. We have issued two special invitations to bid for support from the Leadership, Governance and Management Fund. These have promoted good practice in transformational leadership and the leadership of sustainable development in HE.

Sustainable development

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have made sustainable development a central part of our strategy for the future development of the HE sector. Within the next 10 years we want the HE sector in England to be recognised as a major contributor to society's efforts to achieve sustainability through: the skills and knowledge of its graduates; its research and exchange of knowledge through business, community and public policy engagement; and through its own strategies and operations.

In partnership with Universities UK and GuildHE we have published a carbon reduction target and strategy for HE in England. We have also signalled to institutions a more demanding approach to carbon reduction and our intention to make carbon management plans a condition of grant.

A total of 59 HEIs have now received funding via the Revolving Green Fund.

Supporting HE efficiencies

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Amber	Amber	Amber	Amber

We have a programme of work to support the sector in becoming more efficient and effective, including in the areas of shared services and procurement.

This indicator has been set at amber throughout the period because the issue of unrecoverable VAT on shared services and outsourced provision remains unresolved. The 2010 March Budget announced an investment of £20 million into shared services in the HE sector.

Continued investment in the HE infrastructure

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Amber	Amber

Capital funding for learning and teaching, research and infrastructure is distributed by formula as a conditional allocation. These allocations can be used by HEIs to invest in supporting infrastructure. Capital funding for learning and teaching, and for research, has been announced together so that institutions can plan their buildings and equipment spending effectively.

Our ability to provide continued investment in the HE infrastructure is challenged by the capital reductions announced in the December 2009 grant letter and the uncertainties over the level of future capital funding. As a result, our indicator has been set to amber. We continue to work on developing the second Capital Investment Framework to increase the emphasis on carbon reduction and space utilisation.

Continuing development of people and organisational culture in HE

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Amber	Amber	Amber	Amber

The HE sector is knowledge-based, and the performance of the people who work in it is, therefore, crucial. We aim to support the continuing development of those people, who are representative of society as a whole, and to support organisational cultures that enable the sector to deliver high-quality provision now and in the future.

We have published a 2010 edition of the HE workforce framework (HEFCE 2010/05 and 2010/05a), which provides information to assist HEIs in their strategic human resources planning. We are also supporting through the Leadership, Governance and Management Fund a number of projects on human resources systems and processes, and on pensions. We have reviewed the work of the Equality Challenge Unit in promoting a more diverse workforce and student population, and have agreed with the other funding bodies to provide further funding for this shared service over five years.

Our indicator, set at amber when we were concerned about recruitment to the sector of a diverse workforce, has remained at amber as a result of emerging issues over affordability of sector pensions. Leadership, Governance and Management Fund support has been given to a proposal to develop an HE pensions strategy.

Key performance target	Progress to 31 March 2010
KPT14: To develop during 2009-10 in consultation with stakeholders a realistic strategy and target for carbon reductions which are sufficient to ensure satisfactory progress towards the government targets of reducing carbon emissions by 80 per cent against 1990 levels by 2050 and at least 34 per cent by 2020.	**Completed**: We published 'Carbon reduction target and strategy for higher education in England' (HEFCE 2010/01) and 'Carbon management strategies and plans: a guide to good practice' (HEFCE 2010/02). We are using our Leadership, Governance and Management Fund to support the sector in sustainable development by inviting proposals for projects that will support the implementation of the strategy. ✓
KPT15: Through increased influence of procurement expertise, and building on the £100 million of procurement efficiencies delivered in 2007-08 across all areas of non-pay expenditure, to deliver measurable benefits for re-investment across the sector worth an additional £67 million a year by 2010-11.	**On target:** Actions to deliver the £67 million measurable benefits for re-investment by 2010-11 are in place and on track to meet the target. ✓
KPT16: To operate a regulatory framework that encourages effective institutional accountability and successfully identifies and manages risks to institutional sustainability, only imposing cost or burden that is necessary to achieve these aims.	**On target:** The institutional risk assessment and management system has operated effectively during this year, although it has had to deal with heavier demands. We are reviewing our Financial Memorandum with HEIs, which sets out our risk based accountability framework, and will publish this in summer 2010. ✓
KPT17: By 2011 all HEIs to have provided information as specified in the Capital Investment Framework that demonstrates that they are investing at or progressing towards levels that demonstrate sustainable physical infrastructures.	**Partially on target:** All HEIs have been assessed against the requirements of the Capital Investment Framework and most HEIs have met them; a minority have still to do so. We are working with these HEIs but we expect that some will not meet the requirements by March 2011. We are consulting on a second Capital Investment Framework, which has increased requirement in terms of carbon reduction and space utilisation, and all HEIs will be re-assessed against these requirements later in 2010.

KPT18: By 2010-11 the HE workforce at a sector level will have increased proportions of female staff, disabled staff, and staff from black and minority ethnic groups in senior positions, taken from a baseline established in 2003-04.	**On target:** Proportions of female, disabled and ethnic minority staff at senior levels are all increasing according to HESA data. Female appointments are increasing at a faster rate than might be anticipated from the rate of turnover in institutions. Although the proportion of disabled senior staff was static for two years, actions taken to encourage better reporting throughout 2008-09 resulted in slightly higher numbers of staff declaring their disability (110 in 2007-08 increased to 140 in 2008-09). ✓

Strategic aim: Enabling excellence (our role)

To ensure that we can effectively deliver this strategic plan, working to the highest standards in all that we do.

Objectives

- To ensure that the needs of our stakeholders are met.
- To ensure optimum use of our staff and other resources by identifying and focusing on areas where we can add greatest value.
- To monitor national trends in HE and draw attention to areas of national interest or concern.

Key strategic risks

The key risks to achieving our strategic objectives under this aim are:

- That we do not secure sufficient public funds to deliver our strategic aims.
- That there is a mismatch between the Government's priorities, the views of key stakeholders and our strategic aims.
- That our leadership, governance and management capability, and management of resources, do not effectively enable the delivery of our core strategic aims.

Governance

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We continue to seek out and adopt good governance practices. The Chair conducted an appraisal of the Board during the year through discussions with members. This appraisal, combined with some supplementary work carried out by the Deputy Chair and the annual assessment of the Council's governance risks, was discussed at the Board's annual strategy and planning day in March 2010. The risk assessment is itself subject to review by internal audit every year, providing independent assurance that the risks are appropriately managed.

Board members are appointed by the Secretary of State – their backgrounds and registered interests are published on our web-site. The diversity of the Board has improved since last year and we are committed to working with BIS to improve this further. The Board is supported by Audit, Remuneration and Appointments Committees, as well as five strategic advisory committees, the Joint Advisory Committee for Church Universities and Colleges and the UK Healthcare Education Advisory Committee.

The Audit Committee operates in ways consistent with standards we expect in the HE sector, as set out in our Audit Code of Practice. There are eight members, three of whom (including the Chair) are on HEFCE's Board. The Committee meets four times a year in the presence of the internal and external auditors. Each of the Council's Directors attends the Committee annually to present their risk management statement. The minutes of each meeting are available to Board members and the Chair of the Committee presents a report to the Board after each meeting. The remit of the Committee includes both HEFCE and HEFCE's assurance work with the HE sector, and has been extended this year to incorporate information and data security. A formal statement on information security is now part of the Audit Committee annual report.

There have been no incidents of loss of data that required report to the Information Commissioner's Office.

The Teaching, Quality and the Student Experience Committee provides an annual opinion to the Board on the Council's work in meeting its legal obligation to ensure that provision is made to assess the quality of education in funded institutions.

Following the implementation of the Charities Act 2006, the Board has agreed that HEFCE should become a principal regulator of the exempt charitable status enjoyed by the majority of HEIs. The Council's new legal power to promote compliance with charity law comes into effect on 1 June 2010.

We have a strong system of internal control, as evidenced though our control risk self-assessment processes and the low number of high-priority recommendations in internal and external audit reports. Further information is given in the Chief Executive's Statement on Internal Control on page 66.

Strategy, planning, and risk management

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Amber

Having decided not to review our 2006-11 strategic plan as scheduled in 2009 because the Government's HE framework (since published as 'Higher Ambitions') was in development, we are now nearing the final year of the cycle. Although the aims of our current strategic plan remain relevant, the specific challenges, risks and strategic choices facing us now are very different to those originally set out. In particular, our current plan implies progress across our entire portfolio, whereas the fiscal position demands greater prioritisation between and within our strategic aims. Decisions requiring prioritisation – particularly around funding – are already being taken on the basis of an emerging strategic understanding that is not fully captured in the published plan. Despite this, the plan in its current (2009-10) edition remains functional for 2010-11: it describes our current portfolio and objectives well and is therefore still viable as a focus for operational planning.

The Board's emerging strategic understanding has been informed by: discussions at the April 2009 HEFCE conference and at the annual conference of HEFCE's strategic committees in 2008 and 2009; the Government's priorities set out in 'Higher Ambitions'; and discussions with groups of institutions in early 2010. The most recent Board discussion took place in March 2010. This means that, even though our strategy has evolved at a faster pace than our formal strategic plan, we have been able to maintain a sufficient understanding of the current strategic challenges and can apply this to decisions. Over the coming year, that understanding will be formalised in a new published strategy.

Through the process of monitoring risks throughout the year, we have added two new strategic risks to our risk register at the end of quarter four of 2009-10:

- 'that pressures on the student support budget lead to unexpected reductions in the funding available to HEFCE, negatively impacting on our ability to achieve our strategic aims'
- 'that pressures facing higher education lead to our role as an effective broker between the sector and Government being compromised, reducing our effectiveness.'

Reporting key performance results

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

This annual report, along with the audited accounts, are the principal way in which progress against targets is reported to the Board, Government and any other interested party. Quarterly reports are also made to the Board, including details of any issues relating to any of HEFCE's key performance targets. These reports are published on HEFCE's web-site.

Our 2008-09 annual report and accounts were laid before Parliament on 13 May 2009. This is one of the shortest periods of accounts production in the public sector.

We are keen to reduce further the time taken to produce our annual report and accounts at the end of each financial year.

Organisational development

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Our performance as an organisation has a major impact on how around £7.4 billion of public money is spent each year, how well it is accounted for, what outcomes it delivers, and how far good value for money is secured. Our performance affects how universities and colleges understand and respond to the national policies and priorities that drive our allocation of these funds. It also affects stakeholders' perceptions of the English HE system – including students and employers, here and overseas.

We recognise that our continuing success depends on our ability to adapt to changing circumstances and to continuously improve what we do. Since 2000, we have been using the European Foundation for Quality Management Excellence Model as a basis for identifying our organisational strengths and areas for improvement. In 2008, following rigorous external assessment, we were 'Recognised for Excellence' with five stars – the highest level available under the award.

We have implemented a number of organisational changes in the past two years. The purposes have been to enable us to build on our strong base, adapt to changing circumstances, and respond positively and creatively to the evolving policy and economic environment, while continuously improving what we do in a cost-effective way. We aimed in particular to further enhance our relationship with institutions and ensure that institutional perspectives were given full consideration in the development and evaluation of our policy. This year we have also implemented changes to our administrative support arrangements.

To enable us to better manage the resource implications of changing priorities, alongside reductions in our running costs, we have also taken opportunities to build more flexibility into roles and have further developed our resource management system.

In March 2010 an Independent Review Group, chaired by Dame Sandra Burslem, published a report on the effectiveness and efficiency of HEFCE carried out by Oakleigh Consulting, and its own commentary (HEFCE 2010/07). The report concluded that we are a high-performing organisation that has the confidence of the HE sector and the Government and provides good value for money to the taxpayer. We were found to be effective in delivering our core functions and efficient both in the use of our own resources and in the processes we administer for funding universities and colleges. The review also identifies significant challenges that we, and universities and colleges, face in the future. We are considering carefully the recommendations in the report and commentary so that we can further improve our performance and position ourselves to meet future challenges.

Partnership working

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We regard working in partnership as essential for effective policy development and the delivery of our strategy. We have continued to engage systematically with our stakeholders, including universities and colleges, Government, the other UK funding bodies, representative bodies, businesses and employers. Our Associate Directors and Regional Consultants maintain regular direct contact with all the institutions that we fund.

Our annual conference in April 2009 addressed current challenges for HE and their future implications. Heads of institutions and key partners helped to develop our strategic thinking on national and global challenges and opportunities. HEFCE's strategic advisory committees, with their sector and business representatives, have played an important part in developing our thinking on the full range of our responsibilities.

An independent survey of our communications and relations with non-HEI stakeholders in 2009 found that HEFCE continues to enjoy a strong reputation among its key stakeholders. Stakeholders were twice as likely to have a 'very favourable' impression of HEFCE in 2009 as in 2005. The next survey of universities and colleges will be conducted in 2010.

The Independent Review Group found that the Council uses regular, systematic gathering of stakeholder perceptions (which cover staff, HEIs and non-HEIs) to assess its performance. It acknowledges that the results of these surveys have informed a sustained initiative by the Council to improve the quality and sophistication of its relationships with its key stakeholders.

The Review Group also found specific instances of where the Council's work on policy development and refinement have been regularly and positively cited by both sector and Government including: the handling of stakeholder consultation in the development of proposals for the REF; the Economic Challenge Investment Fund, which demonstrated HEFCE's ability to respond rapidly to a high-priority requirement; and stimulating provision through the programme of investment supporting SIVS.

BIS and other agencies of Government see HEFCE's policy, funding and assurance expertise, and its understanding of how to engage effectively with the sector, as crucial to their confidence in its ability to deliver its remit.

People

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We employ 251[7] full-time equivalent staff. As a relatively small, knowledge-based

[7] This note shows the average Full Time Equivalent (FTE) number of staff employed excluding the Chief Executive but including the directors. Full Time Equivalent are classed as those staff who are employed on either permanent HEFCE contracts or fixed term contracts and paid directly from HEFCE payroll, including those on maternity leave. The staff numbers do not include any outward seconded staff.

organisation, our continued success depends on the expertise, talent, interpersonal skills and proactivity of our people. To be regarded as effective we need to be responsive to, and trusted by, our stakeholders. Therefore, we rely on everyone in the organisation to be an ‘active citizen’, committed to high performance and continuous improvement. We aspire to empower and appreciate each other and operate with the principles of fairness and integrity at all times.

These principles are reflected in our people strategy, which articulates aims, responsibilities and key improvement activities related to:

- a culture that embodies the public service ethos
- focusing human resources advice and change on delivering HEFCE strategy
- attracting and retaining high-calibre people
- exploring colleagues’ full potential and encouraging creativity and innovation
- supporting colleagues’ wellbeing in a healthy working environment and valuing diversity.

This strategy was developed in consultation with staff.

Our March 2010 report to the Board on progress against each of these aims is available on our web-site. This annual report includes our diversity data for 2008-09. We firmly believe that we will be in a better position to achieve our aims as an organisation if we have a more diverse staff and our commitment to this is set out in detail in our single equality scheme (‘The HEFCE Equality Scheme’, HEFCE 2007/01). As an example of our actions we are committed to the ‘positive about disabled people’ Two Ticks scheme and we are working to improve staff disability disclosure rates by making the definitions more helpful and by inspiring confidence that disclosure will help us provide ‘reasonable adjustments’ and anticipatory measures.

So far, we have made steady progress towards achieving the diversity targets on gender, ethnicity and disability we agreed last year. However, if the recent pattern of leavers and starters continues, we will not achieve the second target for ‘at least 27 per cent of employees at pay bands 1-8 to be men’ by 2013.

Overall, our staff survey results continue to be very positive. The overall level of satisfaction is 84 per cent, up four percentage points compared to last year and nine percentage points higher than the external benchmark of high-performing companies (75 per cent). We were also ranked 13th in the Sunday Times ‘75 Best Places to Work in the Public Sector’ list published in March 2010. This was based solely on a separate survey of staff carried out by Best Companies who also awarded us one star accreditation for ‘first class’ employee engagement.

At the organisational level we believe that sickness levels can be a useful indication of staff satisfaction and wellbeing. Sickness absence remains relatively low. In 2009-10 we lost an average of 5.1 working days per person, compared to 6.5 days in our public sector comparator group[8], 7.8 days in central Government[9], and 6.4 days for private sector services[10]. We have recently been awarded a Healthy@Work Gold Award by South Gloucestershire Council in recognition of our ‘commitment to actively encourage a healthy workplace environment for employees’

Over the year we have been working to develop further our high-performance culture – in particular to explore how we can better enable people to work to the best of their ability, for the good of the organisation, in a way that feels authentic and brings real satisfaction. We have also been reviewing our approach to performance management, focusing on its relationship to, and congruence with, the developing organisational culture. We believe that over time these projects will

[8] ‘Public sector corporate services value for money indicators 2008-09, central Government with less than £100m running costs’ (average working days lost due to sickness), Chartered Institute of Public Finance and Accountancy, January 2010.

[9] ‘Benchmarking the Back Office: Central Government’, Annex A, HM Government, December 2009

[10] ‘Absence management: annual survey report’, CIPD 2009

support greater empowerment and encourage more creativity and innovation within the organisation.

Knowledge

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Our commitment to partnership working set out above is key to our approach to developing and sharing understanding and knowledge at HEFCE.

We rely on a number of key datasets for funding and research. Most of the data are collected on our behalf by HESA, but we also do some bespoke data collection for funding and other statutory and non-statutory purposes. Maintaining and improving the integrity and quality of the data we hold is paramount. We operate a risk-based approach to data audit.

We invest heavily in research and evaluation to support policy, monitor trends in HE and contribute to national and international debate. We do this through a variety of means including: externally sourced research; indirect funding of others' research (for example, through our related-body funding commissioning research); and through our internal Quantitative Analysis for Policy team. Examples of outputs we have published this year include:

- the 2010 HE workforce framework (HEFCE 2010/05 and 2010/05a) which considers the major considerations and challenges for the workforce of English HE and provides evidence to inform future policy decisions and to assist in institutional strategic planning
- 'Trends in young participation in HE: core results for England' (HEFCE 2010/03) which reports on the trends in young participation from the mid-1990s to the present.

All our 2009-10 research reports are available at www.hefce.ac.uk under Publications.

Having good knowledge of the international context within which we work and, in particular, in which our policies are developed and implemented, enables us to ensure that policy developments are appropriate for the English sector. We continue to monitor the world's media for articles relevant to HE issues, and to ensure that our staff have access to all the latest research reports and briefings on international issues.

We also believe that it is important to ensure that the sector has access to good-quality intelligence and is encouraged to engage with the international HE scene. To this end we have funded the UK HE Europe Unit and the UK HE International Unit, both hosted and managed by Universities UK. During 2009 consultants SQW reviewed both units for us; they recommended that the units be merged for economies of scale and impact. We are working with Universities UK to facilitate this.

We are committed to best practice in managing the information we hold. We continue to develop our electronic records management system, and are implementing the requirements of the HMG Security Policy Framework and ensuring we meet our obligations under information legislation.

Financial resources

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

Our 2008 grant letter set out funding for the three years 2008-2011. Funding levels for 2009-10 and 2010-11 have since been reduced by £19 million and £449 million respectively.

Reductions in funding for 2010-11 have been managed to minimise the impact on core funding for teaching and research. Moderation funding, so that no institutions have a greater than 0.8 per cent in-year cash reduction, will allow affected institutions time to make changes to operate at lower levels of funding after 2010-11. Details of the allocations can be found in 'Recurrent grants for 2010-11' (HEFCE 2010/08).

There is, however, uncertainty about future levels of funding and the scale of any further reductions after the general election. The 2009 Pre-Budget Report indicated further reductions by 2012-13 of £600 million across science, student support and

HE budgets. We continue to stress that investment in HE is key to our public cultural future and to economic recovery.

The HE sector continues to deliver further efficiencies and is on target to deliver the £490 million of annual efficiency savings by 2010-11 set out in the 2007 comprehensive spending review. The £449 million reductions announced for 2010-11 are additional to these figures.

Our grant from BIS for running costs has stayed at the same cash value of £18 million over each of the three years 2008-2011, while delivering increased activities and further efficiencies; that is a real-terms reduction close to 7 per cent compared to 2007-08. Our total running costs represents less than 0.25 per cent of the grant we distribute.

We continue to secure best value from the £6 million of annual non-pay expenditure, through taking advantage of Government or HE sector negotiated framework agreements. We use benchmarking across the range of support activities, to identify where services can improve and be even more cost-effective.

We recognise that further cuts to our running costs would impact on what we can deliver. Therefore, we have sought to better understand what drives our costs and how these are consumed, to enable us to make smart choices about priorities. Our people resources are aligned to delivering our strategic objectives, and increased flexibility in roles means that we can more easily move people to new priorities as needed.

Facilities

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Green

We have developed a new Information Systems and Services strategy covering 2010-12 and this is now being implemented. This will provide an increased alignment of information and communications technology (ICT) resources to support the delivery of strategic objectives. In addition increased engagement with key users will allow changes to the ICT services and activities to be determined by Council-wide priorities.

The facilities management function has been reorganised during the year, with a greater focus on delivering improved facilities for staff and visitors. This includes further investment within our Bristol office where this is justified to meet our lease obligations, meet statutory requirements, improve operational efficiency or contribute to reducing energy consumption.

Our health and safety policy has been revised and we have retained our OHSAS 18001 accreditation.

Corporate social responsibility

Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar
Green	Green	Green	Amber

We are committed to acting in a socially responsible way. Corporate social responsibility (CSR), in this context, means that we take account of the impact our work has on the economy, society and the environment. We have a parallel commitment to encouraging our stakeholders to do likewise. In November 2008 we published our new CSR policy for 2008-2011 and action plan for 2008-2010. This policy sets out our overall aims, objectives and targets in this area. It covers operations at our offices, as well as the influence we have on the sector through our policies and services. Our CSR report for 2008-09 was published in October 2009.

During 2008 we achieved the Carbon Trust Standard, and we are committed to making further reductions in our carbon footprint.

ISO 14001 certification continues to support and develop our work on environment management generally.

We participated for the first time this year in the Environmental Association for Universities and Colleges' 'Universities that Count' programme, which benchmarks organisations using the Business in the Community Corporate Responsibility index. This ranked us first out of 25 British HEIs with a score of 84 per cent, which is above the corporate average.

For the first time, a sustainability report is being included in the HEFCE Annual Report and Accounts (pages 51 to 53). This includes progress against the targets set out in our CSR policy and our environmental performance indicators with data on carbon dioxide emissions, office energy consumption, water consumption, waste disposed to landfill and recycling. These data show that we have met over half of our 2009 indicative milestones for our 2011 targets. However, this activity is now recorded as amber because we have not made as much progress as we would have liked in reducing our carbon emissions from energy use. The reasons for this include a large, as-yet unexplained increase in electricity consumption at our London office.

Improvements to our data processes made this year ensure that we demonstrate best practice in measuring our key performance indicators. This has highlighted weaknesses in some of our baseline data (in particular relating to carbon emissions) and in the light of this we will review our targets against a more recent and robust baseline.

Our CSR report, policy and action plan can be read at www.hefce.ac.uk under About us/Corporate Social Responsibility.

Key performance target	Progress to 31 March 2010
KPT19: To maintain the European Foundation for Quality Management level 2 ('Recognised for Excellence') across the remainder of the planning period.	**On target**: In 2008, HEFCE achieved 'Recognised for Excellence' status with a five star rating – the highest level achievable under the award and well in excess of the minimum level necessary to achieve the target. We are planning to enter for a European award with the European Foundation for Quality Management in 2011. Although this means that we will technically be without formal accreditation of our status for a year ('Recognised for Excellence' expires after two years), we are still committed to maintaining or exceeding the standard. ✓
KPT20: Stakeholders' satisfaction with the Council to at least match relevant external benchmarks and to show an improving trend over the planning period.	**On target**: Ipsos MORI's 2007 survey of communications and relations between HEFCE and universities and colleges found a strong and improving trend in stakeholder satisfaction. Favourability towards HEFCE has continued a steep upwards trend since the survey conducted in 2000 (84 per cent in 2007, compared to 76 per cent in 2003 and 61 per cent in 2000). Three-quarters of respondents were satisfied with the relationship their institution had with HEFCE, and 80 per cent thought that quality of staff was good (compared to 67 per cent in 2003). The vast majority of stakeholders (94 per cent) felt that HEFCE communicated well with their organisation and 82 per cent thought that HEFCE kept them informed. We have changed the timing of the surveys to assess this target from the dates originally set out in our 2006-2011 strategic plan. The next survey of universities and colleges will be conducted in 2010. ✓
KPT21: To review our effectiveness and efficiency in consultation with our stakeholders, including in the areas of policy development and advice to others, policy implementation, accountability for public funding and the promotion of best practice within HEIs.	**Completed:** The Independent Review Group, chaired by Dame Sandra Burslem, has endorsed a report on the effectiveness and efficiency of HEFCE carried out by Oakleigh Consulting, and produced a commentary (HEFCE 2010/07). The report concluded that we are a high-performing organisation that has the confidence of the HE sector and the Government and provides good value for money to the taxpayer. We were found to be

	effective in delivering our core functions and efficient both in the use of our own resources and in the processes we administer for funding universities and colleges. The review also identifies significant challenges that we, and universities and colleges, face in the future. We are considering carefully the recommendations in the report and commentary so that we can further improve our performance and position ourselves to meet future challenges. ✓

Sustainability report for 2009-10

We have gathered environmental performance annual data for the past eight years; it will be published in greater detail in our annual CSR report. Our governance processes for management of sustainability performance follow draft guidance provided by HM Treasury on sustainability reporting in the public sector.

In addition to the proposed minimum reporting requirements (scope 1 and 2[11]) of emissions, waste and finite resource consumption, we also report on Scope 3 emissions arising from all business travel that is under our budgetary control. Our reporting policy follows the spirit of the Prince's Trust Connected Reporting Framework; its principle is that sustainability and more conventional financial information should be represented together in a clear, concise manner.

In this, the first year of our annual sustainability report we include data on only non-financial CSR indicators. Our analysis of quantitative performance data follows reporting guidance from the Department for Environment, Food, and Rural Affairs. Our targets are aligned with those set out in 'Sustainable operations on the government estate' (SOGE).

Our baseline year is 2004-05 for waste and water targets as this is defined in SOGE. For our carbon emissions targets we have set a baseline year of 2002-03 because this is the earliest year for which we have data. The 2010-11 targets set out in SOGE form our interim targets and we have extrapolated to define targets for 2014. Where we have already exceeded these targets we have set ourselves more challenging targets.

There is no strategic plan key performance target for our environmental performance; however we use the same quarterly progress assessment system as for our strategic aims (see page 47 of this report). A CSR steering group oversees all aspects of our sustainability management and reporting, and the quality of data and data processes are subject to a triennial review.

Greenhouse gas emissions

Our target for 2010-11 is to reduce scope 1 and 2 emissions by 12.5 per cent against our baseline year of 2002-03. Emissions have reduced in the past five years, but in 2009-10 they had not fallen below the baseline level. This is explained below.

There is currently no SOGE target for scope 3 emissions. We have set our own target to reduce business travel emissions by 5 per cent in 2010-11 against our baseline year of 2002-03. Improvements in the accuracy of our data led to an increase in reported emissions from 2004-05, but we have made consistent progress in reducing emissions in the past six years to 5.8 percent below baseline. The target has therefore been met.

Waste

Our milestone for 2010-11 was to reduce our total waste by 5 per cent, and to increase the proportion of our total waste which is recycled to 60 per cent, compared to our baseline year of 2004-05. We have made progress towards these targets in each of the past five years. Total waste this year was 25 per cent below baseline, and waste recycled was 62 per cent of the total, indicating that the targets for both total waste arising and for recycling were met.

Finite resource consumption

Our water and energy consumption report combines available data for our main Bristol office and our second office in Centre Point,

[11] The World Resource Institute classifies emissions into three 'scopes': 'scope 1' emissions are direct emissions from sources owned or controlled by the organisation, for example emissions from combustion in owned or controlled boilers/furnaces/vehicles; 'scope 2' accounts for emissions from the generation of purchased electricity consumed by the organisation; 'scope 3' covers all other indirect emissions that are a consequence of the activities of the organisation, but occur from sources not owned or controlled by the organisation – for example, commuting and procurement.

London. We gather accurate data on gas and electricity consumption for both sites, but the minor contribution made by water and heating oil consumption at Centre Point is currently based on data estimates supplied by the landlord.

Our target for 2010-11 was to reduce water consumption by 70 per cent compared to the baseline year of 2004-05. Measures to conserve water and reduce leakage on our premises resulted in major improvements over the baseline in the first three years, with consumption increasing slightly in 2009-10 over that for the previous two years. Our consumption is currently 60 per cent below baseline, and we have not met our annual milestone.

Our target for 2010-11 is to increase energy efficiency per m^2 office floor space by 15 per cent over the baseline year of 2002-03. Our office energy consumption is currently 5 per cent above the baseline. Energy consumption has declined progressively over the past five years. The baseline year represented a low point in consumption, but this is partly due to improvements since 2002-03 in the accuracy of data. Detail of the individual data lines indicates a progressive reduction in electricity consumption at our main office, resulting from proactive measures taken each year to control usage, and a progressive increase in gas consumption, which we are investigating.

Accounting policies for non-financial data

Our policy is to restate data for prior years where there have been significant changes in accounting assumptions in primary data or conversion factors. In 2009-10 there have been no significant restatements.

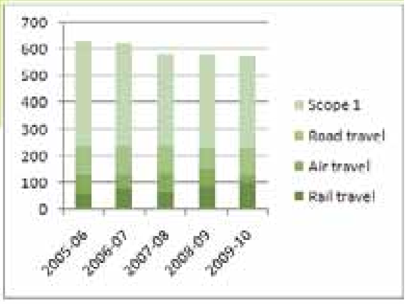
Total greenhouse gas emissions are calculated following guidance published by the Department for the Environment and Rural Affairs, using current conversion factors for the reporting year and conversion factors applicable in the baseline year where different. Grid rolling averages are used to calculate greenhouse gas emissions from electricity consumption data.

There is no agreed level of data materiality. The CSR Steering Group plans to increase data accuracy and reduce assumptions every year. All our data assumptions are declared. In 2009-10 we applied assumptions to our energy, waste and business travel primary data leading to estimated accounting error margins of less than 10 per cent. These arise from cost proxy estimates on 30 per cent of our business travel emissions, sample estimates on our landfill waste disposal and estimates of water and heating oil consumption at our London office.

Greenhouse Gas Emissions					
tonne CO_2 e	2005-06	2006-07	2007-08	2008-09	2009-10
Total Gross Emissions* for Scopes 1 and 2	390	387	346	355	351
Gross emissions attributable to Scope 3, Business travel	263	262	256	246	228
TOTAL EMISSIONS	**653**	**649**	**602**	**601**	**578**

*We do not account for net emissions for use of renewable tariffs and carbon offsets

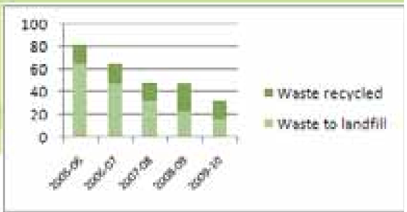
Graphical analysis

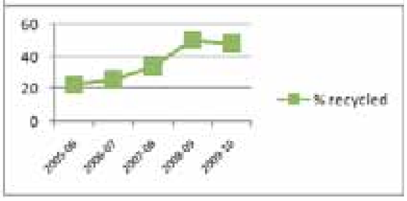


Waste					
tonne	2005-06	2006-07	2007-08	2008-09	2009-10
Total Waste	72.9	65.1	49.2	47.5	31.8
Waste to landfill*	65.1	48.1	32.5	23.6	16.6
Waste recycled at source	16.7	17.0	16.7	24.0	15.1
Percent total waste recycled at source	**23**	**26**	**34**	**50**	**48**

*Assumes provider recycles none

Graphical analysis

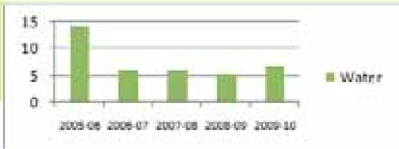


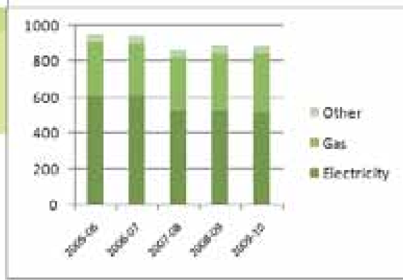


Finite Resource Consumption					
metre³	2005-06	2006-07	2007-08	2008-09	2009-10
Water	14.2	6.2	6.1	5.4	6.8
kilowatt-h					
Electricity	616	612	531	527	513
Gas	290	286	292	321	329
Other*	43	43	43	43	43
TOTAL ENERGY	**949**	**941**	**866**	**891**	**885**

*Estimated heating oil consumption at our London office

Graphical analysis



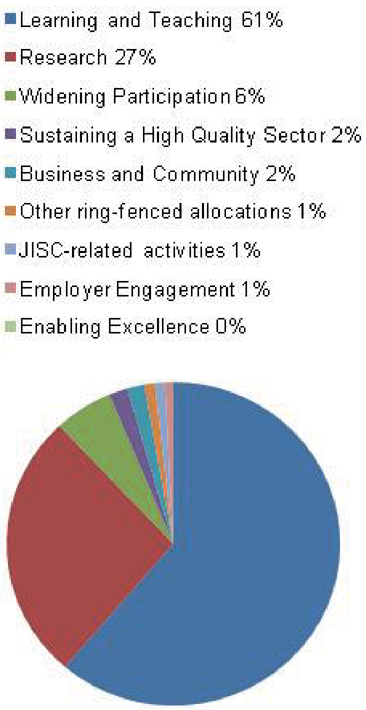


Financial results for 2009-10

Funding and expenditure in year

In delivering the strategic objectives outlined in the previous pages, HEFCE's total income for 2009-10 was £19 million (*2008-09: £19 million*). This figure does not include grant in aid received from BIS, since in accounting terms this is treated as financing (and taken directly to the balance sheet) rather than income. In 2009-10 HEFCE received a total of £7,955 million of grant and grant in aid (*2008-09: £7,507 million*).

Total expenditure in year was £7,891 million (*2008-09: £7,528 million*). Of this £7,873 million *(2008-09: £7,509 million)* relates to grants payable to institutions and others, paid under our strategic aims as follows:



The remaining £18 million relates to the running costs we incur in managing and distributing grant funding to the sector. We aim to provide as much of our funding as is possible through the core/block grant, as the most efficient means of distributing funding to the sector. This is in line with our financial strategy, which presents us with a framework for securing sufficient resources to deliver our strategic objectives, applying those funds to deliver those objectives, and ensuring that we deliver outcomes that represent value for money. All of this is to be achieved within an environment of sound internal controls and management of key risks.

In addition to the core/block grant, special funding and earmarked capital is provided for specific purposes and to promote change that cannot easily be achieved through other routes. We have taken steps to ensure that most of our earmarked capital is allocated by formula, and to rationalise the number of special funding programmes wherever possible and where this does not impact on outcomes in the sector. For 2009-10, the total allocated as special funding has decreased year-on-year and we now distribute just 4.6 per cent of total grant in this way.

Efficiency in delivery also underpins our submission to the Comprehensive Spending Review Value for Money Delivery Plan. The aim of this project is to ensure that HEFCE leads the HE sector in securing efficiency savings agreed in the most recent government spending review period, and as part of this aim HEFCE has its own internal efficiency targets to achieve. From the period 2008-09 to 2010-11 we have committed to making total savings of £1.3 million in our running costs budget. This saving is being achieved by HEFCE while also delivering a number of additional activities at BIS' request, and will keep the proportion of HEFCE's net running costs to total grant distributed at less than 0.25 per cent.

Balances at year end

Each year HEFCE aims to distribute all funding received within that year. Our Financial Memorandum (FM) with BIS recognises that it may not always be possible to match receipts and payments exactly within year, and allows a cash carry-forward of up to 2 per cent of total grant in aid received. At 31 March 2010 our cash balance was £53 million *(£8 million in 2009*). The increase in cash balance reflects a movement in working capital.

In resource terms our FM with BIS advises us that in normal circumstances we may carry forward resource balances as necessary, although there is always the risk that any unspent balances (particularly on recurrent expenditure) may have to be returned to HM Treasury. We therefore aim to manage our expenditure in-year to ensure low balances, and hence reduce any risk that the sector may be penalised.

At 31 March 2010 our resource balance was nil for recurrent grant and £53 million for capital and other grant (*2009: nil recurrent and £53 million capital and other*). The year-end balance on capital arose in 2007-08 and has been carried forward since then, while we awaited confirmation from BIS on how the balance could be used. In previous years HEFCE has been permitted to carry such balances forward as agreed ‘end year flexibility’ (EYF) for distribution to the sector in the following financial year. The 2010-11 grant letter confirms that the £51 million of capital EYF is no longer available to HEFCE and we therefore expect this balance to be returned to BIS in 2010-11.

Payment of creditors

We are fully committed to the prompt payment of suppliers and aim to pay all valid invoices as soon as possible. We support the Better Payment Practice Code (see www.payontime.co.uk/companies) which targets payment within 30 days, and monitor our performance in-year against this target. In 2009-10 we met this target for 99 per cent of invoices (*2008-09: 98 per cent*).

At year end our trade payables balance (that is to say, the amount owing to our suppliers) was £0.1 million. Comparing this balance with the aggregate amount invoiced by supplier in year (£21.2 million) and expressing this as a number of days gives an indication of the average time we take to pay our bills: for the year ended 31 March 2010 our figure for ‘creditor days’ was 2.26.

In 2008 as a direct response to the risk of business failure arising from late payment, the Prime Minister committed all government departments to pay suppliers as soon as possible, and within 10 days. Following this, non-departmental public bodies (NDPBs) were asked to examine and review existing payment practices and performance, and to sustain or move as closely as possible to the 10-day payment commitment set for government departments wherever practical. HEFCE’s performance against this new prompt payment target is currently 82 per cent. This has increased from 54 per cent in 2008 and 74 per cent in March 2009. During 2010-11 we will look to sustain and improve on this performance, with the 2010 Budget announcing the aim of moving towards a five day payment target. We will balance this request against the impact on our resources and the need to maintain effective internal controls.

International financial reporting standards

HEFCE’s 2009-10 annual accounts have been prepared, in line with all relevant central government public sector organisations, under International Financial Reporting Standards (IFRS).

This is the first year that ‘live’ accounts have been prepared under IFRS, though as part of our preparation we were subject to a number of ‘Trigger Point’ restatement exercises which were subject to audit by the National Audit Office. The reports from the NAO raised no significant findings and confirmed HEFCE’s readiness for implementing IFRS from 1 April 2009.

Preparation of the annual report and accounts

Our annual report and accounts are prepared in accordance with a direction given by the Secretary of State with the approval of the Treasury, in pursuance of paragraph 16(1) of Schedule 1 of the Further and Higher Education Act 1992.

The annual report and accounts were scrutinised by the Audit Committee on 29 April 2010 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2009-10. The Audit Committee is a standing committee of the HEFCE Board. It advises the Board and the Chief Executive as the Accounting Officer. The Committee's membership, including its chair, is appointed by the Board and consists of members with no executive responsibility for management of HEFCE or its funding activities. Membership is as follows.

Chair

Rob Douglas, CBE* Business Advisor, Douglas Associates Limited

Members

Professor Madeleine Atkins* Vice-Chancellor, University of Coventry

Stephen Dexter Former Partner, Grant Thornton UK LLP

Margaret Pratt Freelance consultant

Kathleen Tattersall, OBE Chair, University of Manchester Audit Committee

Frank Toop Secretary, City University

Alison Woodhams Director of Finance, University College London

* Audit Committee members who are also HEFCE Board members

The purpose of the Committee is to advise and support the Board and the Accounting Officer by giving them independent assurance as to the effectiveness of the Council's internal control, corporate governance and risk management. In particular, the Committee will recommend the audited accounts to the Board, and give a formal opinion on the adequacy of internal control. Consistent with HEFCE's responsibilities in the HE sector, this remit extends to assurance to the Board about internal control, corporate governance and risk management by institutions and related bodies receiving funding from HEFCE ('funded institutions').

The duties of the Audit Committee are to:

1. Consider the adequacy of corporate governance, risk management and internal control within HEFCE and in HEIs through reviewing:

- The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
- The planned activity of internal and external audit designed to (inter alia) assess the systems operated by HEFCE and HEIs to achieve effective corporate governance, risk management and internal control.
- The annual results of internal and external audit activity, in HEFCE and in the HE sector.
- The adequacy of HEFCE management and institutional responses to issues identified by audit activity.
- Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector.

2. On the basis of the above consideration, advise the HEFCE Board and the Accounting Officer on:

- The effectiveness of risk management in HEFCE and in the HE sector.
- The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
- The scope and effectiveness of the work carried out by HEFCE's Assurance Service. This will include planning, operation and follow-up work, and the Assurance Service annual report.
- The criteria for the selection and appointment of HEFCE's internal audit service, including assessing the adequacy of the resources available for the work required.

- Any reports from the National Audit Office and the BIS Audit Service, including the response to any management letters.
- The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
- The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

The full terms of reference for the Audit Committee can be found on our web-site under About us/HEFCE's Board and committees.

External audit information

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

Audit of the accounts

The Comptroller and Auditor General is the appointed statutory auditor of HEFCE's account. The audit fee for the financial year 2009-10 is £56,000 plus £6,000 in relation to work on International Financial Reporting Standards. There was no other work for which a fee was payable.

Going concern

The balance sheet at 31 March 2010 shows net liabilities of £121 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grants-in-aid from HEFCE's sponsoring department, BIS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need. Recurrent and capital resources for 2010-11, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in the department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the department's future sponsoring and future parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on the 'going-concern' basis.

Sir Alan Langlands
Chief Executive and Accounting Officer
Higher Education Funding Council for England

6 May 2010

Remuneration report

Part one (unaudited)

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2010-11 were:

Chair

Tim Melville-Ross CBE, HEFCE Chair

Members

Dame Patricia Hodgson

HEFCE Board member

Ed Smith

HEFCE Board member

The HEFCE Chief Executive is invited to attend meetings except when his/her own remuneration is being discussed.

The terms of reference for the Remuneration Committee are:

- To make recommendations to the Board on the terms and conditions of employment of the Chief Executive.
- To support the Chair in monitoring the performance of the Chief Executive and in assessing his entitlement to performance-related pay.
- To agree the terms and conditions of employment of other directors.
- To carry out an annual review of the remuneration of directors.
- To review the aims of pay remits, which seek authority from the BIS for the nature and scale of pay awards to Council staff, delegating the details to the Chief Executive.

The Chief Executive's salary and non-consolidated performance bonus are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Committee. Salary reviews take account of market pay data and the Government's decisions on the recommendations of the Senior Salaries Review Body. The level of the bonus (up to a maximum of 10 per cent of basic salary) relates to achievement of the Chief Executive's agreed objectives.

The pay system for the Deputy Chief Executive, Director of Research, Innovation and Skills, and Director of Education and Participation has been revised over two years in light of the changes to roles arising from the move from a four to three-directorate structure.

Working within the context of the annual Treasury pay guidance and pay remit process, the aim of the revised pay system is to enable us to recruit, retain, and motivate highly talented people to lead on specific areas in HEFCE's strategic plan, and to work together with the Chief Executive to lead the organisation.

From August 2009 salaries and bonuses for these postholders were calculated in a different way to all other staff (as is the case in many other similar organisations). The Committee reviews the basic salary for each postholder, taking account of advice from the Chief Executive based on:

- Job size, as measured by HEFCE's job evaluation system.
- Market pay, and pay movement data gathered from comprehensive reviews covering the wider economy, the HE sector, the public sector, and the senior civil service.
- Performance, taking account of delivery of objectives, feedback from third parties, 360-degree feedback, and a self-assessment by the individual.
- Affordability, based on the Treasury pay guidance and approved remit and acceptability to HEFCE and our stakeholders.

In addition to the above, the postholders have set pay ranges with upper limits, acting as a constraint on pay growth.

As part of this new system the level of performance-related, non-consolidated bonus available to the Deputy Chief Executive, Director of Research, Innovation and Skills, and Director of Education and Participation has increased to a maximum of 10 per cent. There is a maximum 5 per cent bonus to reward individual performance, and a maximum 5 per cent for the performance of the postholders as a group in delivering HEFCE's strategic aims.

The assessment of individual and collective performance for the purpose of determining the bonus will take account of delivery of objectives, feedback from third parties, 360-degree feedback, a self-assessment by the individual and a team assessment.

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Business, Innovation and Skills. Contracts for directors are open-ended. The contract for the Chief Executive stipulates a 12-month notice period; for directors, the notice period is now six months. Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination. Sir Alan Langlands was appointed for a five-year term which began in April 2009.

Membership of the Board

The Board consists of up to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, Board members are appointed for an initial term of two or three years by the Secretary of State for Business, Innovation and Skills. Appointments are made on the basis of expertise in the field of HE or experience in industry or the professions.

The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State.

Part two (audited)

HEFCE Chair

Remuneration of the Chair is decided by the Department for Business, Innovation and Skills. The HEFCE Chair receives a salary but does not participate in the Council's pension scheme. The position is for two days per week.

The total salary for **Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2010, was £47,350 *(2008-09: £46,650)*. He elected for his salary to be paid to a registered charity.

HEFCE Chief Executive

The Chief Executive’s salary and non-consolidated performance bonus are

determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Remuneration Committee. Salary reviews take account of market pay data and the Government’s decisions on the recommendations of the Senior Salaries Review Body. The level of the bonus (up to a maximum of 10 per cent of basic salary) relates to achievement of the Chief Executive's agreed objectives, and is paid in the following financial year.

The total emoluments including taxable benefits for **Sir Alan Langlands**, HEFCE Chief Executive from 1 April 2009, are shown in the following table.

Chief Executive's remuneration

		Year ended 31 March 2010 £	Year ended 31 March 2009 £
Salary paid in year	a	**230,000**	-
Taxable benefits	b	**4,480**	-
Employer's pension contributions	c	**34,500**	-
		268,980	-

a Non-consolidated performance bonus is not determined until after year-end and is not included here.
b Taxable benefits in kind paid in 2009-10 relate to occasional provision of overnight accommodation in Bristol and travel to HEFCE's Bristol office (assessed for tax purposes as the permanent workplace).
c Sir Alan Langlands is a member of the Universities Superannuation Scheme.

The total emoluments including taxable benefits for **Professor David Eastwood**, HEFCE Chief Executive to 31 March 2009, are shown in the table below.

Chief Executive's 2008-09 remuneration

		Year ended 31 March 2010 £		Year ended 31 March 2009 £
Salary paid in year	a	**18,675**	b	204,771
Taxable benefits		**-**		-
Employer's pension contributions		**-**		26,148
		18,675		230,919

a Paid in June 2009 but relating to performance in financial year 2008-09.
b Includes a 10 per cent non-consolidated performance bonus relating to performance in financial year 2007-08.

Board members' remuneration

	Year ended 31 March 2010 £		Year ended 31 March 2009 £	
Professor Madeleine Atkins (from October 2009)	**2,083**		-	
Alastair Balls CB	**5,000**		5,000	
Rob Douglas CBE	**5,000**		3,333	
Professor Ruth Farwell (from October 2009)	**2,083**		-	
Jackie Fisher CBE (to December 2008)	**-**		3,750	*
Professor Malcolm Grant	**5,000**	*	1,667	
Dame Patricia Hodgson	**5,000**		5,000	
Sir Paul Judge (to March 2010)	**5,000**		1,667	
Rene Olivieri	**5,000**	*	5,000	
Professor Shirley Pearce CBE (from December 2009)	**1,667**		-	
Professor Peter Rubin (to August 2009)	**2,083**		5,000	
Peter Saraga OBE (to August 2008)	**-**		1,667	
Professor Nigel Savage (to August 2008)	**-**		1,667	*
Ed Smith	**5,000**		5,000	
Sir Richard Sykes (to September 2008)	**-**		2,500	*
Ann Tate (to August 2009)	**2,083**	*	5,000	
Professor Paul Wellings	**5,000**		5,000	
John Widdowson	**5,000**		1,250	
Professor Dianne Willcocks CBE (to November 2009)	**3,333**	*	5,000	
Professor Tim Wilson	**5,000**	*	5,000	
	63,332		62,501	

All Board members are eligible to receive an annual honorarium of £5,000. The honorarium is not pensionable. Some members are paid directly by their employing institutions, with the subsequent reimbursement from HEFCE to the institutions including VAT where appropriate. These members are indicated by * in the table above.

Senior employees salaries	Year ended 31 March 2010 £000		Year ended 31 March 2009 £000	
Sir Alan Langlands, Chief Executive (from April 2009)	**230-235**		-	
Professor David Eastwood, Chief Executive (to March 2009)	**15-20**	*a*	**200-205**	
Steve Egan, Deputy Chief Executive and Director – Finance and Corporate Resources	**135-140**		**125-130**	
John Selby, Director – Education and Participation	**115-120**	*b*	**105-110**	
David Sweeney, Director – Research, Innovation and Skills	**120-125**		**60-65**	*c*
Rama Thirunamachandran, Director – Research, Innovation and Skills			**25-30**	*d*

a Paid in June 2009 but relating to performance in financial year 2008-09.
b For the year to 31 March 2010 John Selby elected for the non-consolidated cash bonus element of his salary to be paid to a registered charity.
c From 1 September 2008; full year salary £110,000-115,000.
d For the period to 16 June 2008; full year salary £105,000-110,000.

The remuneration shown includes salary and benefits in kind. Salary includes gross salary, performance pay or bonuses, reserved rights to London weighting or allowances, recruitment and retention allowances, and any other taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument.

Senior employees pensions	Accrued pension age 60 at 31 March 2010 £000	Real increase in pension at age 60 £000	CETV at 31 March 2010 £000	CETV at 31 March 2009* or start date £000	Real increase in CETV £000
Sir Alan Langlands, Chief Executive					
Pension	**20-25**	2.5-5	**428**	319	85
Lump sum	**60-65**	7.5-10			
Steve Egan, Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	**45-50**	2.5-5	**951**	826	71
Lump sum	**145-150**	10-12.5			
John Selby, Director – Education and Participation					
Pension	**50-55**	0-2.5	**1,122**	1,092	32
Lump sum	**150-155**	2.5-5			
David Sweeney, Director – Research Innovation and Skills					
Pension	**50-55**	2.5-5	**1,008**	826	150
Lump sum	**150-155**	12.5-15			

* This figure may be different from the closing figure in last year's accounts. This is due to the Cash Equivalent Transfer Values being updated to comply with the Occupation Pension Scheme (Transfer Values – Amendment) Regulations 2008.

Civil service pensions

The Principal Civil Service Pension Scheme (PSCPS) is an unfunded multi-employer defined benefit scheme notionally backed by the Government. HEFCE is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009-10, employers' contributions were payable at one of four rates in the range of 16.7 per cent to 24.3 per cent *(2008-09: 16.7 per cent to 24.3 per cent)* of pensionable pay based on salary bands. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

There are four civil service pension schemes, ‘classic’, ‘classic plus’, ‘premium’ and ‘nuvos’, providing benefits on a final salary basis at a normal retirement age of 60 (age 65 for new entrants). Benefits accrue at a rate of 1/80th (classic) or1/60th (classic plus and premium) of pensionable pay for each year of service. A lump sum equivalent to three years' pension can be payable on retirement, either automatically (classic), or in return for a reduction in the annual pension (classic plus and premium). Members of the Civil Service pension pay contributions of 1.5 per cent (classic) or 3.5 per cent (classic plus and premium) of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay (classic) or three times pensionable pay (classic plus and premium) and also provides a service enhancement on computing the spouse's pension. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay, and contribute a further 0.8 per cent of pensionable pay to PCSPS to cover the cost of centrally-provided risk benefits (death in service and ill health retirement). As at 31 March 2010 five HEFCE employees had a partnership pension account *(2009: three employees)*. Contributions due to partnership providers for 2009-10 were £6,160 *(2009: £6,281)*.

Universities Superannuation Scheme

Certain staff transferring from HE institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. HEFCE is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis. USS members pay contributions of 6.35 per cent of pensionable earnings. From October 2009 the rate of employers’ contributions changed to 16 per cent *(2008-09: 14 per cent)*. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

In accordance with HM Treasury guidance HEFCE has accounted for both Civil Service and USS pensions as if they were defined contribution schemes.

Cash Equivalent Transfer Value

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

Real increase in CETV

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

Sir Alan Langlands

Chief Executive and Accounting Officer

Higher Education Funding Council for England

6 May 2010

Statement of HEFCE's and the Chief Executive's responsibilities

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for England (HEFCE) is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury. The accounts are prepared on an accruals basis (modified by the revaluation of fixed assets) and must show a true and fair view of HEFCE's state of affairs at the year end, and of its income and expenditure 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 the Secretary of State for Business, Innovation and Skills, 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 annual accounts.
- Prepare the annual accounts on a going concern basis.

The Accounting Officer for the Department for Business, Innovation and Skills has designated the Chief Executive as the Accounting Officer for HEFCE. 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 HEFCE's assets – are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by HM Treasury and published in 'Managing Public Money'.

Statement by the Chief Executive on internal control

Scope of responsibility

As Accounting Officer, accountable to the Secretary of State for the Department for Business Innovation and Skills, I have responsibility for maintaining a sound system of internal control that supports the achievement of our strategic aims, policies and objectives, while safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Treasury guidance 'Managing Public Money'. I also acknowledge my responsibilities in respect of the funds provided to the Council which are transmitted to higher and further education institutions and others for education, research and associated purposes.

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council's strategic aims, policies and objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. The system of internal control has been in place in the Council for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The Council's current approach to risk management is set out in HEFCE's Assurance Framework which was approved by the Board in May 2007 and is available on our web-site, www.hefce.ac.uk under About us/How HEFCE is accountable for the funds it administers. The Assurance Framework, which is an element in our overall Accountability Framework, explains the Council's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in the Council's strategic and operational planning processes. In particular, we operate a quarterly process of reporting to the Board on our operational performance, which incorporates an updated review of the status of our strategic risks and the action we are taking in response to risks requiring additional attention.

As a public body, our approach to handling risk takes account of the delivery of the Government's priorities and objectives for HE. In this respect, I accept that the Council must take well-managed risks to work towards achieving our challenging objectives. So, while the mix of our risks is tolerable and well-balanced, the residual risks are relatively high. This is also because we are largely reliant on the HE sector (universities, colleges and other organisations) to help us deliver our objectives. Our risk appetite for many of our operational risks is relatively low, reflecting our desire to protect our credibility as a regulator and enhance our effectiveness as a high-performing organisation.

To support the management of both our strategic and more detailed operational risks, all staff have access to intranet-based tools and guidance, as well as training, coaching and mentoring in risk management, partly through our approach to promoting project management and also through internal audit, acting in its advisory role.

While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks I am supported in this process by my directors and senior management team.

Against HEFCE's strategic aims as set out in our 2006-2011 strategic plan, we have identified 27 strategic risks. Risks are allocated to either myself, the Deputy Chief Executive and Director (Finance and Corporate Resources), or one of the two other directors. Responsibility is shared between us for the risk that we fail to secure sufficient public funds to deliver our strategic aims. Assurance relating to these responsibilities is provided to me by each director in an annual risk management statement. These statements refer to the strategic risks that they have been responsible for managing, along with any other responsibilities that contribute to our risk management and internal control system (specifically including responsibilities relating to regions, HEIs, related bodies and key business processes).

The directors are supported in this process by the independently operating Assurance and Institutional Risk Team, which provides them with assurance as appropriate on the management of their strategic risks and associated responsibilities within their directorate. The risk management statement from the Deputy Chief Executive in his capacity as Director – Finance and Corporate Resources also covers the key financial processes and controls that he is directly responsible for. A specific assurance from the Head of Analytical Services Group and Funding, which confirms that the data we use and generate are fit for purpose, feeds into the Deputy Chief Executive's risk management statement.

The risk and control framework

The Council's approach to risk management is based on a process designed to identify the significant risks to achieving HEFCE's strategic aims and objectives, to evaluate the nature and extent of these risks, and to manage them effectively, efficiently and economically. In addition to managing strategic risks, there are arrangements in place to manage ongoing operational risks including those pertaining to information. HEFCE's Assurance Framework sets out more fully the Council's risk management policy.

Central to this policy is the clear relationship between our strategic risks and the achievement of our strategic objectives. We originally identified 21 strategic risks during the development of our 2006-2011 strategic plan. We have since added six risks and modified others, so that there are now 27 strategic risks. The most recent changes are largely connected to our new objectives for employer engagement and skills, risks to our budget and risks to our broker role between Government and the sector. All our risks relate directly to the strategic aims identified in the plan. The monitoring of these strategic risks is fully embedded in the process to monitor our operational performance and the associated reports. Quarterly reports, which go to our Chief Executive's Group and Board, provide risk scores for all of the strategic risks: they highlight the highest-scoring risks, explain any movements in risk scores and provide a total risk score for the portfolio of risks to enable the overall movement in the risk portfolio to be monitored over time. This quarterly monitoring system also aims to identify new and changing risks. The full risk register was reviewed as a whole as part of the 2009 annual update of the strategic plan.

Our strategic plan for the period 2006-2011 was published in March 2006 and has been updated each year since. While we had envisioned engaging our stakeholders in the development of a new 2009-2014 strategy in 2008-09, we decided to defer this project in recognition of the Government's continuing Higher Education Debate and its plans to publish a 10-15 year framework for HE. BIS subsequently published 'Higher Ambitions' in November 2009. We have begun working towards a new set of strategic principles and priorities to guide our future work and development. Our mission statement remains unchanged.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Council who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, including on any action taken to address weaknesses and ensure continuous improvement of the system.

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. It must also take into account the funds provided by the Council which are transmitted to legally independent and autonomous higher and further education institutions and related bodies for education, research and associated purposes. The Council's accountability framework therefore needs to encompass our internal operational and financial controls, and our controls in relation to higher and further education institutions and related bodies. The accountability framework consists of policies, procedures, monitoring and communication, which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control.

Our internal control system is also subject to continual review and monitoring by the Deputy Chief Executive and directors. As part of the effectiveness review process I have sought assurance from them on the controls for which they have responsibility (via their assurance statements), and I then also review the key annual controls which inform this statement. I also receive a statement on internal control from the Executive Secretary of the Joint Information Systems Committee and an annual opinion from the Audit Committee on our internal control framework and the Teaching, Quality, and the Student Experience Committee on our statutory obligation connected to teaching quality.

Each of the key annual controls (directors' risk management statements, the production of the financial statements, the Assurance and Institutional Risk annual report and the Internal Audit annual report) has been considered by the Audit Committee with onward reports to the Board. I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on its implications. Where issues have arisen, action has been taken or is planned.

During the year, our control systems (which cover our internal controls and the risk management system for institutions and related bodies) have identified a small number of issues that required specific actions to manage the associated risks. The majority of these issues are recorded in the individual assurance statements referred to above and are not indicative of significant weaknesses in our internal controls that warrant disclosure here. There has been one significant issue crystallising in 2009-10 that does, however, deserve disclosure, partly because it has diverted significant resources from our regular work, as described below.

We have been working with one particular institution at higher risk, London Metropolitan University, for several years to establish the right level of grant funding it is entitled to and to ensure it has appropriate governance and management arrangements to safeguard public funds. This work has been largely concluded during 2009-10 and we are now working with the university to help it deal with the challenges that it faces. Our work has resulted in a need to recover a total of £36.5 million from the university over six years, which we recognised in our 2008-09 accounts. The weaknesses in internal control arising in this case have proved to mostly lie with the university as the data provider rather than HEFCE, which relies on receiving good-quality institutional data in its funding role. We nevertheless commissioned our own 'lessons learned' review in connection with this work and, with oversight from our Audit Committee, have largely implemented the recommendations arising. Some of these are reflected in the new Financial Memorandum with HEIs and data assurance strategy referred to below. The report is published on our web-site at www.hefce.ac.uk/news/hefce/2009/lmu/statement.asp alongside other material we published in the public interest in August 2009. The recommendations in the lessons learned review were connected with:

- the legal and regulatory environment in which we operate, for example by summarising the legal advice we have received in recent years
- our data verification processes, for example to clarify our policy on extrapolating the results of data verification work to previous years
- our internal oversight processes, for example to clarify the leadership of a case of an institution we consider has provided us with particularly poor quality data
- our use of independent advisers, for example to clarify the ownership of the final report arising when we have commissioned work from consultants
- the resourcing implications of this type of work, for example to develop the

skills of staff in order to maximise our ability to resource several challenging cases at the same time.

We have taken a wide range of actions in response to the issues raised. This has included: reflecting recent legal advice in our draft Financial Memorandum; revising various aspects of our data audit and verification processes; considering how staff working in different teams can work more effectively together; considering how to make better use of independent advisers; and reviewing and adjusting our resources to meet the workload demands arising.

At our suggestion, the university commissioned its own ‘lessons learned’ review, which identified significant weaknesses in the management of student data. The Council and the university subsequently agreed that steps should be taken to renew the Board and Audit Committee of the university to ensure that there are effective governance and management arrangements in place, providing confidence in the university’s ability to ensure the proper stewardship and use of public funds.

The most significant other issues and developments connected to our internal control system arising during 2009-10 are as follows:

i. We have consulted on, and plan to issue, a new Financial Memorandum between HEFCE and institutions, incorporating an updated accountability and audit code of practice, effective from 1 August 2010. This clarifies the relationship between us and the HEIs we fund and, at the same time, strengthens the accountability requirements on institutions.

ii. We have committed to an accelerated programme of data audits of HEIs student number returns during 2010 as part of our new data assurance strategy. This strategy, prepared and discussed with the Audit Committee in 2009/10, will remain in draft until our current programme of data audits is complete. Our intention is to confirm that all HEIs are following our funding rules, in order to ensure fairness of funding as we enter a period of challenging economic circumstances. This accelerated programme also takes into account the findings of our work on one particular HEI at higher risk, as described above.

iii. We continue to strengthen our information security and assurance arrangements in response to the issue of the HMG Security Policy Framework by the Cabinet Office. In particular, we are working closely with BIS to ensure we meet their requirements and adopt new security measures that are appropriate for HEFCE. We have provided additional resources and established a number of formal roles to carry out this work and are making good progress, as measured by the Information Assurance Maturity Model and as independently assessed by internal audit. Progress with this work is periodically reported to our Audit Committee, which has its own obligations connected to this area of work. We have experienced no loss of personal data in this period.

iv. Our Board and Audit Committee regularly receive information about the effects of the current economic climate on the HE sector and our response to this. This information includes reports on our institutional risk system, which is the process by which we assess and monitor the overall risk profile of each HE institution, and, where appropriate, implement support strategies to secure recovery. The system evolves in response to the changing risk environment. The current environment is now more challenging for institutions, particularly because of financial pressures, including reductions in public funding. The Assurance and Institutional Risk Team has developed a modelling tool to help us identify institutions whose financial risks are likely to be most severely affected by changes in funding. We expect the number of institutions in financial difficulty to rise and for some of those the difficulties may potentially threaten institutional sustainability. This means that the demands on our assurance staff are increasing because of the need to effectively monitor the changing position and support recovery, and we have increased our staffing in response to this. We currently anticipate that the demands will be manageable, but we are keeping under review the roles, responsibilities and workloads of our assurance and institutional team.

v. During 2009, in response to a requirement of the Secretary of State, we commissioned a review of our efficiency and effectiveness in consultation with our stakeholders, including in the areas of policy development and advice to others, policy implementation, accountability for public funding and the promotion of best practice within HEIs. The review was carried out by Oakleigh Consulting under the direction of an Independent Review Group chaired by Dame Sandra Burslem. The key findings of the report state that HEFCE:

- is a high-performing organisation that has secured the confidence both of Government and of the sector
- provides good value for money to the taxpayer by being efficient both in the use of its own resources and in the processes it administers for funding the sector
- is generally effective in delivering its core functions.

vi. We successfully retained the following international standards in the year: ISO 14001, the environmental system standard; ISO27001, the information security standard (for our ITS team); and OHSAS18001, the health and safety standard.

To my knowledge, and based on the advice I have received from those assigned responsibility for managing risks and the risk system, and other sources of assurance, and subject to the matters referred to above, I am not aware of any significant internal control problems for 2009-10.

Sir Alan Langlands
Chief Executive and Accounting Officer
Higher Education Funding Council for England

6 May 2010

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2010 under the Further and Higher Education Act 1992. These comprise the Net Expenditure Account, the Statement of Financial Position, the Statement of Cash Flows, the 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 Higher Education Funding Council for England, the Chief Executive and auditor

As explained more fully in the Statement of HEFCE's and the Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices 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 HEFCE's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HEFCE; 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 reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2010 and of its net expenditure, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions issued thereunder by the Secretary of State for Business, Innovation and Skills.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State for Business, Innovation and Skills under the Further and Higher Education Act 1992; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared 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:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

19 May 2010

Net expenditure account for the year to 31 March 2010

	Note	**Year ended 31 March 2010 £000**	Year ended 31 March 2009 £000
Expenditure			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	*3*	**7,773,741**	7,405,364
Other ring-fenced allocations	*3*	**80,608**	62,799
Changes in provision	*14*	**18,309**	41,061
		7,872,658	7,509,224
Council administration costs			
Staff costs	*4*	**11,992**	11,689
Other administration	*5*	**6,491**	7,627
Depreciation	*7*	**65**	69
Changes in provision	*14*	**12**	39
		18,560	19,424
Total expenditure		**7,891,218**	7,528,648
Income	*8*	**(19,327)**	(18,712)
Total net expenditure before interest		**7,871,891**	7,509,936
Notional interest on capital	*9*	**(6,375)**	(6,890)
Total net expenditure after interest		**7,865,516**	7,503,046
Reversal of notional interest on capital		**6,375**	6,890
Net expenditure for the year transferred to general reserve		**7,871,891**	7,509,936

All HEFCE operations are continuing.
There were no gains or losses other than the net expenditure for the year.

The notes on pages 77 to 100 form part of these accounts.

Statement of Financial Position as at 31 March 2010

	Note	As at 31 March 2010 £000	As at 31 March 2009 £000	As at 1 April 2008 £000
Non-current assets				
Property, plant and equipment	7	42	52	103
Recoverable grants falling due after one year	11a	39,110	30,294	31,012
Trade and other receivables due after one year	11b	40,028	37,615	3,052
		79,180	67,961	34,167
Current assets				
Recoverable grants falling due within one year	11a	1,580	7,956	3,117
Trade and other receivables due within one year	11b	30,202	34,314	26,731
Cash and cash equivalents	12	53,435	7,688	24,976
		85,217	49,958	54,824
Total assets		164,397	117,919	88,991
Current liabilities				
Trade and other payables	13	(2,206)	(26,990)	(7,925)
Provisions for liabilities and charges within one year	14	(27,081)	(26,948)	(27,828)
Non-current assets plus net current assets		135,110	63,981	53,238
Non-current liabilities				
Provisions for liabilities and charges after one year	14	(256,220)	(246,142)	(232,241)
Assets less liabilities		(121,110)	(182,161)	(179,003)
Taxpayers' equity		(121,110)	(182,161)	(179,003)
		(121,110)	(182,161)	(179,003)

Sir Alan Langlands

Chief Executive and Accounting Officer
Higher Education Funding Council for England

6 May 2010

The notes on pages 77 to 100 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2010

	Note	**Year ended 31 March 2010 £000**	Year ended 31 March 2009 £000
Cash flows from operating activities			
Net expenditure before interest		**(7,871,891)**	(7,509,936)
Depreciation and revaluation	*7*	**65**	70
(Increase) in receivables and recoverable grants	*11*	**(741)**	(46,267)
Increase/(decrease) in payables	*13*	**(24,784)**	19,065
Payment from provisions	*14*	**(30,838)**	(28,079)
Movement in provisions	*14*	**18,863**	41,100
Net cash outflow from operating activities		**(7,909,326)**	(7,524,047)
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	**(47)**	(19)
Cash flows from financing activities			
Grants from parent department	*2*	**7,955,120**	7,506,778
Net increase/(decrease) in cash for the year		**45,747**	(17,288)
Net financing			
Net funds at 1 April	*12*	**7,688**	24,976
Increase/(decrease) in cash for the year	*12*	**45,747**	(17,288)
Net funds at 31 March		**53,435**	7,688

The notes on pages 77 to 100 form part of these accounts.

Statement of changes in taxpayers equity for the year ended 31 March 2010

	As at 31 March 2010 £000	As at 31 March 2009 £000
Restatement under IFRS		
Balance at 31 March 2008		(178,665)
Changes in accounting policy		(338)
Restated balance at 1 April 2008		(179,003)
Programmes		
Balance as at 1 April	**(179,233)**	(177,307)
Grant from parent department	**7,857,754**	7,426,518
Net expenditure for the year	**(7,773,244)**	(7,428,444)
Increase in provision	**(22,186)**	0
Balance as at 31 March	**(116,909)**	(179,233)
Other ring-fenced allocations		
Balance as at 1 April	**(3,024)**	(1,975)
Grant from parent department	**79,364**	61,750
Net expenditure for the year	**(80,608)**	(62,799)
Balance as at 31 March	**(4,268)**	(3,024)
Running costs		
Balance as at 1 April	**96**	279
Grant from parent department	**18,002**	18,510
Net expenditure for the year	**(18,039)**	(18,693)
Balance as at 31 March	**59**	96
Revaluation reserve		
Balance as at 1 April	**0**	0
Revaluation in year	**8**	0
Balance as at 31 March	**8**	0
Total		
Balance as at 1 April	**(182,161)**	(179,003)
Grant from parent department	**7,955,120**	7,506,778
Net expenditure transferred in year	**(7,871,891)**	(7,509,936)
Increase in provision	**(22,186)**	0
Revaluation reserve	**8**	0
Balance as at 31 March	**(121,110)**	(182,161)

Further details of the re-statement under International Financial Reporting Standards (IFRS) are given in note 1b.

1 Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2009-10 Government Financial Reporting Manual (FReM) issued by HM 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 HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

This is the first year HEFCE has produced accounts under International Financial Reporting Standards (IFRS). The effect of transition from UK GAAP to IFRS is shown in note 1b.

Accounting convention

The accounts are prepared under the historical cost convention, modified by revaluation of IT assets.

Consolidation

HEFCE contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the Higher Education (HE) sector as a whole, rather than with the intention of making a long-term investment. A full list of related bodies is given in note 16 of the accounts.

These related bodies are examined both individually and in aggregate, to assess whether they meet the requirements for consolidation in line with IFRS and the FReM. For each body the level of HEFCE influence is considered, together with the materiality of the grant funding given during the financial year.

For the financial year ended 31 March 2010 HEFCE considers that where related bodies do meet the criteria for a subsidiary, joint venture or associate under IFRS, none are accounted for as such on the basis of materiality.

Going concern

The statement of financial position at 31 March 2010 shows net liabilities of £121 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future funding from HEFCE’s sponsoring department, the Department for Business, Innovation and Skills (BIS). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Funding for 2010-11, taking into account the amounts required to meet HEFCE’s liabilities falling due in that year, has already been included in the Department’s estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department’s future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a ‘going concern’ basis.

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. As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity or interest rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

Assets and liabilities that meet the definition of financial instruments are accounted for under IAS 32, IAS 39 and IFRS 7. Trade receivables and payables are measured at cost on the basis that this is a reasonable approximation of fair value.

Recoverable grants and grant based receivables do not meet the definition of financial instruments and are measured at cost.

Grants from the Department for Business, Innovation and Skills

All grant in aid from BIS is treated as financing as it is a contribution from controlling parties giving rise to a financial interest. It is recorded as financing in the cash flow statement and credited to the general reserve.

BIS also provides grants for Access to Learning Funds, Post-Graduate Certificates of Education, and Voluntary Giving. These grants are accounted for as financing and credited to the general reserve, and are disclosed in the accounts as 'other ring-fenced allocations'.

Income
Income received from other sources, including income from the Office for Fair Access (OFFA) in respect of services provided under a service level agreement covering financial, payroll, IT and other office services, is accounted for on the accruals basis.

Joint initiatives and national programmes which benefit the higher education sector in the whole UK

For those joint activities that meet the definition of jointly owned operations' under IAS 31, HEFCE is required to show only its share of the income and expenditure for both programme and administration costs within these accounts.

Leases

Under IAS 17 leases are reviewed against key indicators to determine whether they are finance or operating leases. HEFCE's leases do not transfer the risks and rewards incidental to ownership of an asset to HEFCE, and as such are classified as operating leases. Rentals payable for operating leases are charged to the net expenditure account when they fall due.

Non current assets

Property, plant and equipment are capitalised where the costs for an individual asset, or group of functionally interdependent assets, exceeds £10,000. On initial recognition, assets are measured at cost. IT assets are revalued each year based on indices produced by the Office for National Statistics. Given their low value, depreciated historic cost is used as a proxy for fair value for the other categories of property, plant and equipment.

Depreciation is shown on all non current assets, at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

Leasehold improvements	10 years *
Fixtures, fittings and furniture	5 years
Office equipment	4 years
Computer equipment	3 years

*or the remaining term of the lease, whichever is less.

A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

Notional costs

The FReM requires NDPBs to disclose the full cost of their activities in their accounts. HEFCE has therefore included in its accounts charges for the notional cost of capital. The cost of capital has been arrived at by using the HM Treasury prescribed rate, currently 3.5 per cent per annum of the average capital employed. In accordance with HM Treasury guidance, non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England (or other central accounts under the Government Banking Service) are excluded from the calculation of capital employed.

Payment of grants

Grants

Grants are recognised at the payment dates agreed with the organisations concerned. Most grants are paid on agreed profiles, and as such no financial year end accruals are expected for these streams of expenditure.

The exception to this is holdback of institutional basic grant arising from revised student numbers, where a debt arises at the point where there is sufficient certainty on the revised numbers, and future profile payments will be adjusted when there is sufficient certainty over the value of the resulting funding adjustment. These adjustments could result in a net receivable or payable balance at year end. The period over which a holdback recovery is made can be up to five years.

Recoverable grants

Recoverable grants are recognised at the dates agreed with the organisations concerned and are recovered through planned deductions from future profile payments. Where there is not sufficient certainty over recoverability, grants are accounted for as in year expenditure.

Pensions

HEFCE employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is a multi-employer defined benefit scheme treated for accounting purposes, in accordance with the FReM, as a defined contribution scheme. Some senior managers transferring to HEFCE from universities, are covered by the provisions of the Universities Superannuation Scheme (USS), which is also treated for accounting purposes as a defined contribution scheme. These schemes are described in more detail in the remuneration report.

Provisions for liabilities and charges

Provisions are recognised when HEFCE has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. In accordance with IAS 37 provisions are discounted to their net present value where material.

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

Staff costs and secondments

Staff on secondment (including those seconded on a fixed-term basis to OFFA) normally continue to be paid by HEFCE. The reimbursement of costs for seconded staff is netted off against staff costs in note 4 of the accounts.

Taxation

HEFCE's income generating activities are not intended to produce surpluses, and therefore considered as not liable for corporation tax. Most of HEFCE’s activities are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment.

IFRS issued but not effective

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 2010 the following IFRS, none of which will be applicable to HEFCE's annual accounts, have been issued but are not effective:

IFRS 9 Financial Instruments - classification and measurement - Issued November 2009 effective January 2013.

IFRS 1 First-time adoption - revised and restructured but no change in substance - issued November 2008 effective 1 July 2009.

IAS 24 Related Party Disclosures - simplifies and clarifies definition - issued November 2009 effective 1 January 2011.

IFRS 8 Operating Segments - clarifies that segmental information for total assets is required only if such amounts are regularly reported to the chief operating decision maker - issued april 2009 effective 1 January 2010.

IAS 7 Statement of Cash Flows - clarifies that only expenditure that results in the recognition of an asset can be classified as a cash flow from investing activities issued April 2009 effective 1 January 2010.

IAS 17 Leases - clarifies that where a lease includes both land and buildings elements, they are separately assessed within the general classification of leases - issued April 2009 effective 1 January 2010.

IAS 39 Financial Instruments: Recognition and Measurement - clarify that a loan prepayment option is not separable where the penalties incurred compensate the lender for loss of interest income issued April 2009 effective 1 January 2010.

The above impact have not been quantified but are not expected to be material.

1a Significant judgements

In preparing these accounts HEFCE makes certain judgements on key areas of income, expenditure, assets and liabilities.

In particular, the provision for Inherited Staff Liabilities is, by its very nature, an estimation. The value of the provision is derived from an actuarial valuation of a sample of the underlying population, and is updated periodically to include movements in mortality and discount rates. Note 14 to the accounts gives further details of the provision and our assumptions.

The other area of significant judgement is in the recognition of programme holdback as pre-paid grant. This relates to adjustments to payment of grant funding to HEIs where student numbers fall outside a standard percentage threshold. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Further details are given in Note 1 (Accounting Policies) and Note 11b Trade and other receivables).

1b IFRS 1 First Time Adoption for year ended 31 March 2009

	UK GAAP	Employee Benefits IAS 19	Joint Ventures IAS 31	IFRS
	£000	£000	£000	£000
Net expenditure changes				
Expenditure				
Grants payable to institutions and others				
Recurrent and non-recurrent grant [a]	7,452,384		(47,020)	**7,405,364**
Other ring-fenced allocations	62,799			**62,799**
Changes in provision	41,061			**41,061**
	7,556,244		(47,020)	**7,509,224**
Council administration costs				
Staff costs [ab]	12,386	16	(713)	**11,689**
Other expenditure [a]	7,961		(226)	**7,735**
	20,347	16	(939)	**19,424**
Total expenditure	7,576,591	16	(47,959)	**7,528,648**
Income	(66,671)		47,959	**(18,712)**
Total net expenditure before interest	**7,509,920**	**16**	**0**	**7,509,936**
Statement of Financial Position changes				
Current liabilities				
Trade and other payables	(26,636)	(354)	0	**(26,990)**
Other net liabilities	(155,171)			**(155,171)**
Total net assets/(liabilities)	**(181,807)**	**(354)**	**0**	**(182,161)**
Taxpayers' equity				
General reserve	**(181,807)**	**(354)**	**0**	**(182,161)**

This is the first year HEFCE has produced accounts under International Financial Reporting Standards. The date of transition from UK GAAP to IFRS is1 April 2008, and the above reconciliations show the changes to the Net Expenditure Account for financial year 2008-09 and the Statement of Financial Position from 31 March 2009 to 1 April 2009.

a **JISC related activities -** under IAS 31 these activities fall under the category "jointly owned operations", and therefore HEFCE is only required to shows its share of income and expenditure, for both programme and administration costs. There is no change in balances as a result of this adjustment.

b **Annual leave accrual - IAS 17 Employee Benefits**
HEFCE has made the decision to include an accrual to take account of costs associated with any untaken annual leave. Although the total accrual is not material, it has been included for completeness. The HEFCE annual leave year starts from 1 November at year end HEFCE accounts for any untaken annual leave (including authorised carryover) for the five month period November to March.

2 HM Government grants received

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**6,703,232**	6,448,512
Grant in aid for capital expenditure in HE	**1,154,522**	978,006
	7,857,754	7,426,518
Other ring-fenced allocations		
Grant for Access to Learning Funds	**44,928**	49,914
Grant for ITT bursaries	**11,936**	11,686
Grant for voluntary giving	**22,500**	150
	79,364	61,750
Running costs		
Grant in aid from BIS for HEFCE running costs	**18,002**	18,510
Total grant and grant in aid received	**7,955,120**	7,506,778

This note shows the total grant and grant in aid received from the Department for Business, Innovation and Skills (BIS) during the year. Grant and grant in aid is paid from the Department's resource accounts and is taken to the general reserve.

HEFCE is advised of its total funding in the annual grant letter from the Secretary of State. As well as setting out the details of the funding made available to HEFCE the letter outlines the main policy areas and strategic objectives within which HEFCE is expected to operate.

The grant letter is available on our web-site www.hefce.ac.uk under Finance & assurance/Finance and funding/Grant letter from BIS.

HEFCE receives grant in aid for programmes and running costs expenditure, and ring-fenced grant for other specific purposes. In the analysis above, grant funding is shown as 'Other ring-fenced allocations' (previously 'Access and hardship funds').

The running costs grant in aid includes an amount of £64,000 to cover PGCE admin costs.

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Recurrent grant [a]		
Learning and teaching	**4,241,401**	4,140,983
Widening participation	**385,024**	358,198
Research	**1,500,174**	1,431,425
Business and community	**130,822**	124,897
	6,257,421	6,055,503
Non-recurrent grant [b]		
Learning and teaching	**569,788**	554,540
Widening participation	**63,963**	62,617
Employer engagement	**63,548**	25,240
Research	**602,070**	474,026
Sustaining a high quality sector	**141,049**	142,583
Enabling excellence	**1,428**	1,560
JISC-related activities [c]	**74,474**	89,295
	1,516,320	1,349,861
Total recurrent and non-recurrent grant	**7,773,741**	7,405,364
Other ring-fenced allocations [d]	**80,608**	62,799
Total grant	**7,854,349**	7,468,163

This analysis of grant expenditure reflects HEFCE's strategic aims as published in the strategic plan for 2006-11 (HEFCE 2006/11, updated in June 2009 see HEFCE 2009/21), available to view at www.hefce.ac.uk under Publications.

The Board certifies that government grants have been used by HEFCE only for approved purposes.

a **Recurrent grant** - the grant allocated to institutions as a block grant, analysed across teaching, research, widening participation and business and community in line with the way the grant is announced.

b **Non-recurrent grant** - this is a summary of the grant expenditure on special funding programmes and earmarked capital. A detailed analysis of non-recurrent grant expenditure by strategic aim is provided at Appendix 1 to the Accounts.

c **JISC-related activities** - these are shown separately, as they are relevant to several of HEFCE's strategic aims.

d **Other ring-fenced allocations** - this relates to grant administered on behalf of the government and covers Access to Learning Funds, ITT bursaries and voluntary giving. HEFCE distributes this funding, which is granted by BIS for specific purposes.

4 Staff costs

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Staff costs		
Salaries	**9,081**	8,598
National Insurance contributions	**770**	733
Pension costs	**1,713**	1,680
	11,564	11,011
Costs of employing contract, agency and temporary staff	**428**	678
	11,992	11,689

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Pension costs		
Civil Service Pensions	**1,649**	1,641
Universities Superannuation Scheme	**64**	39
	1,713	1,680

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, and any other allowance to the extent that it is subject to UK taxation. Pay settlements consist of an element of revaluation to take account of the effects of inflation, and an element of progression related to performance against objectives. Annual settlements are awarded from 1 August each year and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non-consolidated lump sums above it. Members of staff are also eligible for a non-consolidated performance-related bonus.

Four members of staff on the HEFCE payroll are seconded on a fixed-term basis to the Office For Fair Access (OFFA). The reimbursement of costs from OFFA is netted off against expenditure in the statements shown above.

The Council contributes to two pension schemes, Civil Service Pensions and the Universities Superannuation Scheme (USS). There are no outstanding or prepaid contributions as at 31 March 2010. Further details of HEFCE's pensions arrangements can be found in the remuneration report on page 58.

Staff costs (continued)

	Year ended 31 March 2010 FTE	Year ended 31 March 2009 FTE
Staff numbers		
Finance and Corporate Resources Directorate	**152**	146
Education and Participation Directorate	**54**	50
Research, Innovation and Skills Directorate	**41**	42
Chief Executive, central and support staff	**4**	4
	251	242
Average number of contract, agency and temporary staff	**14**	22
	265	264

This note shows the average Full Time Equivalent (FTE) number of staff employed excluding the Chief Executive but including the directors.

Full Time Equivalent are classed as those staff who are employed on either permanent HEFCE contracts or fixed term contracts and paid directly from HEFCE payroll, including those on maternity leave. The staff numbers do not include any outward seconded staff.

5 Other administration costs

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Non-pay running costs		
Staff related and general administrative expenditure	**1,732**	2,195
Research and evaluation costs	**1,483**	1,853
Premises costs	**1,317**	1,432
Rental payments under plant and machinery operating leases	**26**	44
Rental payments under other operating leases	**1,053**	1,065
Office costs	**703**	859
Board and committee members fees and expenses	**115**	122
Audit fee	**62**	56
Non-cash items: revaluation of IT assets	**0**	1
	6,491	7,627

The analysis of expenditure shown above reflects the in-year management accounting process whereby HEFCE monitors and reports on its running costs. **Staff related and general administrative expenditure** includes costs of recruitment, training, and staff travel. **Research and evaluation** costs includes other consultancy-related expenditure. **Premises costs** includes expenditure on rates, heat and light, building maintenance, equipment and furniture. **Office costs** include IT costs, catering and room hire, telecommunications, stationery and publications.

6 Commitments under leases

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	**1,060**	1,098
Later than one year and not later than five years	**4,441**	4,441
Later than five years	**881**	1,991
	6,382	7,530
Other		
Not later than one year	**36**	29
Later than one year and not later than five years	**64**	3
	100	32

This note shows HEFCE's future commitments under operating leases.

HEFCE leases its office buildings in Bristol and London. The Council's lease on its offices at Northavon House in Bristol expires on 24 December 2015. The Council's lease on its offices at Centrepoint in London expires on 28 February 2017 (subject to a three month notice period by either party).

Operating leases shown in the **Other** category relate to the rental of office equipment.

7 Property, Plant and Equipment

	Leasehold improvements £000	Furniture and fittings £000	Information Technology £000	**Total £000**
Cost or valuation				
At 1 April 2009	**16**	**19**	**196**	**231**
Revaluation	**0**	**0**	**18**	**18**
Additions	**0**	**17**	**30**	**47**
Disposals	**0**	**(18)**	**(66)**	**(84)**
At 31 March 2010	**16**	**18**	**178**	**212**
Depreciation				
At 1 April 2009	**15**	**17**	**147**	**179**
Charge for period	**1**	**4**	**60**	**65**
Revaluation	**0**	**0**	**10**	**10**
Disposals	**0**	**(18)**	**(66)**	**(84)**
At 31 March 2010	**16**	**3**	**151**	**170**
Net book value				
At 1 April 2009	**1**	**2**	**49**	**52**
At 31 March 2010	**0**	**15**	**27**	**42**
Cost or valuation				
At 1 April 2008	16	26	218	260
Revaluation	0	0	(2)	(2)
Additions	0	0	19	19
Disposals	0	(7)	(39)	(46)
At 31 March 2009	16	19	196	231
Depreciation				
At 1 April 2008	14	21	122	157
Charge for period	1	4	64	69
Revaluation	0	0	1	1
Disposals	0	(8)	(40)	(48)
At 31 March 2009	15	17	147	179
Net book value				
At 1 April 2008	2	5	96	103
At 31 March 2009	1	2	49	52

This note shows the capitalised value of HEFCE's property, plant and equipment. HEFCE's office premises at Bristol and London are rented under operating leases and are disclosed in note 6 to the accounts.

8 Income

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Programmes		
Income receivable from other funding councils:		
Department for Employment and Learning	**1,066**	677
Higher Education Funding Council for Wales	**767**	696
Learning and Skills Council	**9,338**	9,589
Scottish Funding Council	**820**	1,610
Income from Salix Finance Ltd	**4,871**	2,004
Other programme income	**1,944**	3,444
	18,806	18,020
Running costs		
Income receivable from other funding councils:		
Department for Employment and Learning	**217**	300
Higher Education Funding Council for Wales	**53**	114
Scottish Funding Council	**99**	115
Receipts from the Office for Fair Access for services provided under the service level agreement	**88**	87
Income from conferences	**48**	51
Income from other activities	**16**	25
	521	692
Total income	**19,327**	18,712

HEFCE receives income from other funding councils and associated organisations in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector within the whole UK. These initiatives and national programmes do not meet the definition of jointly owned operations under IAS 31, and are therefore shown above.

As well as funding their share of the programme costs of these national programmes, the other funding councils share the costs incurred by HEFCE in managing and administering these programmes.

Income from Salix Finance Ltd relates solely to contributions to the Revolving Green Fund. Details of the Revolving Green Fund expedniture are shown in Appendix 1.

9 Notional costs

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Notional costs		
Capital employed as at 1 April	**(189,787)**	(203,934)
Capital employed as at 31 March	**(174,490)**	(189,787)
Average capital employed	**(182,138)**	(196,860)
Notional interest on capital	**6,375**	6,890

The notional cost of capital is designed to show the opportunity cost of funding the net assets needed to provide a particular service. It is a non-cash charge shown on the net expenditure account.

HEFCE's net expenditure account shows a credit rather than a charge in relation to the cost of its capital. This is because HEFCE, instead of having overall net assets on its balance sheet, has overall net liabilities (due to its provision for future programme payments as detailed in note 14to the accounts). This means that in effect HEFCE is being 'funded' by those to whom it has a liability. As the Exchequer benefits from having these liabilities, the net expenditure account has to reflect that benefit and show a credit. However, the effect of this notional credit is reversed on the net expenditure account so that the bottom line net expenditure for the year is not distorted.

The cost of capital for 2009-10 is calculated at a rate of 3.5 per cent (*2008-09 3.5 per cent*) of the average capital employed. In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

10 Financial Instruments

Embedded instruments in trade receivables/payables. The fair value of an asset (or liability) may change when the carrying cost is affected by derivatives designed to hedge the forward cost of any contract for sale.

This could imply a financial risk to HEFCE. We have reviewed the balances of our supplier contracts for the financial year to 31 March 2010. We have found no evidence of material change in the fair value of current assets/liabilities.

As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

11a Recoverable grants

	As at 31 March 2010 £000	As at 31 March 2009 £000
Recoverable grants		
Balances as at 1 April	**38,250**	34,129
Advanced during the year	**10,931**	9,292
Recovered during the year	**(8,491)**	(5,171)
Balances as at 31 March	**40,690**	38,250

	As at 31 March 2010 £000	As at 31 March 2009 £000	As at 1 April 2008 £000
Balances at 31 March			
Within one year	**1,580**	7,956	3,117
After one year	**39,110**	30,294	31,012
	40,690	38,250	34,129

The HEFCE Board has agreed the principles for providing recoverable grants. These recoverable grants are provided within the total budgets of the following programmes:

- Equal opportunities
- Joint Information Systems Committee
- Poor estates
- Revolving Green Fund
- Restructuring and Collaboration Fund
- Strategic Development Fund
- Employer Engagement

None of the above recoverable grants are interest bearing. Recoverable grants are only provided for projects which meet the criteria for the particular programme. Amounts provided are within the total funding for the programme approved by the Board. Recoverable grants are normally for three to five years, but can be made for up to 10 years.

As at 31 March 2010, 14 organisations *(2009: 11)* had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £35,753,043 *(2009: £32,243,000)* .

11b Trade and other receivables

	As at 31 March 2010 £000	As at 31 March 2009 £000	As at 1 April 2008 £000
Receivables due within one year			
Programme prepayments	**26,526**	31,261	20,801
Programme receivables	**3,029**	2,297	4,902
Trade prepayments	**450**	448	423
Trade receivables	**197**	307	604
Staff loans	**0**	1	1
	30,202	34,314	26,731
Receivables due after one year			
Programme prepayments	**40,028**	37,615	3,052
	70,230	71,929	29,783
Intra-government balances			
Other central government bodies	**2,613**	909	5,357
Local authorities	**0**	0	40
NHS Trusts	**0**	0	0
Public corporations and trading funds	**10**	10	0
Balances with other government bodies	**2,623**	919	5,397
Balances with non-government bodies	**67,607**	71,010	24,386
Total as per receivables' notes	**70,230**	71,929	29,783

Programme prepayments relate to recovery of grant funding (or 'holdback') due from institutions. This relates to adjustments to payment of grant funding to HEIs (non-government bodies) where student numbers fall outside a standard percentage threshold. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Discussions around data and possible recovery of grant funding happen on a continuous basis as a result of the data collection and audit programmes that run each year. Consequently, at year end, there may be continuing data audits or investigations where the outcomes, and any potential holdback, are not yet certain. Such amounts are not included within the above balances.

HEFCE uses its discretionary powers under the FHE Act 1992 to determine the amounts to recover from institutions. In March 2009, the Board used these powers to determine that HEFCE should recover £36.5m from London Metropolitan University over the next five years. Furthermore, in July 2009, the Board determined that HEFCE should not seek holdback from the University for periods prior to 2005-06.

Programme receivables include contributions to national initiatives due from other funding councils. Contributions to HEFCE's running costs for managing and administering these initiatives are included under **trade receivables.**

Trade prepayments includes payments made in advance for services.

Staff loans for the purchase of bus and train season tickets and bicycles are available to all HEFCE staff after a qualifying period. These loans are interest free and are repayable through HEFCE's payroll over the period of the duration of ticket or in the case of bicycles, over six months.

12 Cash and cash equivalents

	As at 31 March 2010 £000	As at 31 March 2009 £000	As at 1 April 2008 £000
Cash			
Cash held under GBS (programmes)	**53,048**	7,356	25,085
Cash held under GBS (running costs)	**332**	270	(154)
	53,380	7,626	24,931
Cash held at other banks and in hand	**27**	34	16
Cash held for the European Network and Programming Group	**28**	28	29
	53,435	7,688	24,976

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Programme funds		
Grant received	**7,857,754**	7,426,518
2 per cent thereof	**157,155**	148,530
Balances at year end	**53,051**	7,302
Running costs		
Grant received	**18,002**	18,510
2 per cent thereof	**360**	370
Balances at year end	**356**	358

In cash terms BIS authorises a working balance at 31 March of 2 per cent of the total grant in aid for the financial year. The cash balances above are within the margins, as shown above.

During the year 2009-10 HEFCE migrated to the new Government Banking Service (GBS) in readiness for Bank of England withdrawal from retail banking (effective 1 April 2010).

13 Trade and other payables

	As at 31 March 2010 £000	As at 31 March 2009 £000	As at 1 April 2008 £000
Amounts falling due within one year			
Trade payables	**131**	608	305
Running cost accruals	**452**	461	487
Tax and social security	**15**	11	12
Programme payables	**1,580**	25,882	7,092
Other payables: European Network and Programming Group	**28**	28	29
	2,206	26,990	7,925
Intra-government balances			
Other central government bodies	**47**	60	3,964
Local authorities			
NHS Trusts			
Public corporations and trading funds			
Balances with other government bodies			
	47	60	3,964
Balances with non-government bodies	**2,159**	26,930	3,961
Total as per payables' notes	**2,206**	26,990	7,925

Trade payables refers to non-pay running cost expenditure.

Running cost accruals contains staff annual leave accrual which has been included for completeness.

The **tax and social security** payable is the element of VAT charged to OFFA on the HEFCE service level agreement, which is then paid to HM Revenue and Customs (HMRC). The agreement is charged quarterly and the VAT owing to HMRC for the quarter to 31 March is accrued.

Programme payables include claims received after the year end for capital projects where funding is granted on submission of a claim or profile.

Other payables relates to funds held by HEFCE on behalf of the European Network and Programming Group, an independent self-financing organisation which acts as a forum for research networking across Europe. Further details of its activities can be found on its web-site at www.enpg.org.

14 Provisions for liabilities and charges

	Staff inherited liabilities £000	Running cost provisions £000	**Total** **£000**
Provisions			
Balance of provision at 1 April 2008	260,000	69	260,069
Provision utilised in year	(28,061)	(18)	(28,079)
Additional provision/(reversed unused)	(1,039)	7	(1,032)
Unwinding of discount	5,720	2	5,722
Increase in provision	36,380	30	36,410
Balance of provision at 31 March 2009	**273,000**	**90**	**273,090**
Provision utilised in year	(30,800)	(38)	**(30,838)**
Additional provision/(reversed unused)	3,017	542	**3,559**
Unwinding of discount	8,736	2	**8,738**
Increase in provision	28,742	10	**28,752**
Balance of provision at 31 March 2010	**282,695**	**606**	**283,301**
Treatment of increase in provision due to change in discount rate			
Net expenditure account	6,556	10	6,566
Statement of changes in taxpayers equity	22,186	0	22,186
	28,742	10	28,752
Analysis of expected timing of discounted flows			
In the remainder of the Spending Review period to 2011	26,511	570	**27,081**
Between 2011 and 2016	112,203	32	**112,235**
Between 2017 and 2027	125,845	4	**125,849**
Thereafter	18,136	0	**18,136**
	282,695	**606**	**283,301**

The increase in provision as a result of the change in discount rate (HM Treasury guidance), is split between the Net expenditure account and Statement of changes in taxpayers equity. The split being the value for early retirement charged to Net expenditure account and value for pension to Statement of changes in taxpayers equity.

14 Provisions for liabilities and charges (continued)

HEFCE has three provisions as at 31 March 2010 (2009: two), one for **inherited staff liabilities**, one for **early retirement costs** and one for **building refurbishments** at Northavon House. Provisions are discounted to net present value using the appropriate HM Treasury discount rate.

Inherited staff liabilities are certain staff-related commitments of HEIs that were previously Local Authority (LA) maintained. These liabilities were transferred from LAs to HEIs on incorporation and the Education Reform Act 1988 gave powers to the Polytechnics and Colleges Funding Council (PCFC) to reimburse institutions and LAs for such liabilities. Upon its formation HEFCE assumed the PCFC's main responsibilities and now provides funding for reimbursements as follows:

- early retirement or redundancy compensation payments
- protection of salary
- pension increases under the Local Government Superannuation Scheme for former non-teaching staff of institutions formerly funded by the PCFC.

HEFCE has provided for these ongoing reimbursements. As the provision estimate is based on a sample and uses various assumptions, the valuation obtained may vary from that which would be obtained if the data of all pension scheme members was made available to allow a full actuarial valuation. An independent review is undertaken periodically in order to verify the reasonableness of the provision. The latest review in 2008-09 used a larger sample than previous reviews, and recommended an increase in the provision value to reflect increases in life expectancy, offset by an increase in HM Treasury's net real rate for valuing pension liabilities in that year.
Current assumptions mean we expect payments to continue until at least 2022.
HM Treasury's discount rate has changed to 1.8% (3.2% was used for the 2008-09 valuation).

The provision value is an estimate based upon a sample of the underlying population, projected payments, mortality rates and other actuarial assumptions. The main assumptions used in the latest review were as follows:

- net real discount rate of 3.2 per cent per annum (updated to 1.8% for the 2009-10 valuation).
- mortality based on PA92 year of birth tables
- payments based on 20 per cent early retirement compensation and 80 per cent pensions
- members with early retirement compensation have an average age of 76.75 years
- members with pension compensation have an average age of 82.75 years
- membership is 75 per cent male and 25 per cent female
- all beneficiaries receive a 50 per cent spouse's pension

Running cost provisions

HEFCE has provided for **early retirement costs** relating to two members of staff. The balance of the provision for early retirement cost as at 31 March 2010 is £64,000 (*2009: £90,000*).
Payments will continue until 2016.

HEFCE has created a third provision in 2009-10 for building **refurbishment of Northavon House**. This being for obligations under our lease agreement - this provision will be fully utilised by the end of the first quarter of financial year 2010-11. The balance as at 31 March 2010 is £542,000.

15 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2010 £000	As at 31 March 2009 £000
Commitments		
Grant committed for the period April to July	**2,748,830**	2,683,199
Grant committed for the next academic year	**7,356,000**	7,994,000
Grant committed for subsequent academic years	**44,670**	591,664

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July).

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2010-11 academic year (HEFCE 2010/08) is available on HEFCE's web-site at www.hefce.ac.uk under Publications.

The figure under 'grant committed for following academic years' shows funding allocated to individual institutions for payment from August 2011 onwards. This is mainly non-recurrent special funding for longer term capital programmes which is announced over spending review periods.

As at 31 March 2010 there were no contingent liabilities (2009: *nil*).

16 Payments to related bodies

	Year ended 31 March 2010 £000	Year ended 31 March 2009 £000
Related bodies		
British Universities Film and Video Council (BUFVC)	**730**	177
Equality Challenge Unit (ECU)	**1,047**	1,149
Foundation Degree Forward (FDF)	**4,500**	4,589
HERO Ltd (Higher Education and Research Opportunities in the United Kingdom)	**199**	536
Higher Education Academy (HEA)*	**24,065**	20,527
Higher Education Policy Institute (HEPI)	**184**	273
Higher Education Statistics Agency (HESA)	**292**	448
JISC Content Procurement Company (JCPC), trading as JISC Collections	**5,433**	5,889
JNT Association trading as JANET UK (formerly UKERNA)	**47,589**	55,731
Leadership Foundation for Higher Education (LFHE)	**1,173**	1,189
Quality Assurance Agency for Higher Education (QAA)	**4,915**	5,386
Research Information Network (RIN)	**1,365**	1,325
	91,492	97,219

The term 'related body' describes an entity that is not a higher education institution or further education college, whose mission and activities are congruent with the broad strategic objectives of HEFCE and with whom HEFCE has a formal grant-funding relationship (or in the case of QAA, where the organisation is delivering a statutory function to HEFCE).

The relationship is governed by a funding agreement which sets out the terms and conditions of the grant, though it is important to note that the services of related bodies are received by the HE sector in general, not by HEFCE itself.

HEFCE has no power of control over most related bodies, who are legally owned by sector representative bodies such as Universities UK and Guild HE, and who are independent of HEFCE in terms of corporate governance and operational management. The exceptions are HEPI (classed as a subsidiary of HEFCE), and JISC Collections and HERO (both classed as associates of HEFCE). In financial terms these related bodies are immaterial to HEFCE and so are not consolidated into HEFCE's accounts, in line with our accounting policies (see note 1). Similarly, the requirement under the FReM to provide information under the Companies Act 2006 does not apply on the grounds of materiality.

For certain related bodies, grants are paid to the host organisation, rather than directly to the related body:

- Funding to Foundation Degree Forward is paid via the University of Staffordshire
- Funding to the Research Information Network is paid via the British Library.

It should be noted that HEFCE ceased funding HERO Ltd, a company limited by guarantee, in August 2009 as a result of the company being dissolved.

Further information on related bodies can be found at www.hefce.ac.uk under About us/Related Bodies.

17 Events after the balance sheet date

There have been no events after the balance sheet date requiring an adjustment to the financial statements.

The financial statements were signed on 6 May 2010 by Sir Alan Langlands, HEFCE Chief Executive and Accounting Officer, and were authorised for issue on 19 May 2010.

18 Related party transactions

	Year ended 31 March 2010 £000
Grant funding to institutions and other organisations	
• Brunel University: **Michael Sheasby**, former member of the Audit Committee	**56,186**
• Buckinghamshire New University: **Professor Ruth Farwell,** Vice-Chancellor.	**23,266**
• University of Cambridge: **Dame Patricia Hodgson,** Principal of Newnham College; and **Sir Paul Judge,** Founder Judge Business School, Trinity College finance committee.	**227,261**
• City University: **Frank Toop,** Secretary.	**44,089**
• Coventry University: **Professor Madeleine Atkins,** Vice-Chancellor.	**62,076**
• New College, Durham: **John Widdowson,** Principal.	**4,593**
• University of Hertfordshire: **Professor Tim Wilson,** Vice-Chancellor.	**66,299**
• University of Lancaster: **Professor Paul Wellings**, Vice-Chancellor.	**60,934**
• Leeds Metropolitan University: **Ninian Watt,** Chair of Board of Governors	**74,028**
• University College, London: **Professor Malcolm Grant**, President and Provost; and **Alison Woodhams,** Director of Finance.	**219,659**
• Loughborough University: **Professor Shirley Pearce**, Vice Chancellor	**74,486**
• University of Manchester: **Kathleen Tattersall,** Chair of the Audit Committee.	**234,078**
• University of Newcastle: **Alastair Balls**, member of the court.	**132,026**
• University of Northampton: **Ann Tate**, Vice-Chancellor.	**31,905**
• University of Nottingham: **Professor Peter Rubin**, Professor of Therapeutics.	**145,666**
• Open University: **Fraser Woodburn,** Secretary.	**233,160**
• York St John University: **Professor Dianne Willcocks**, Vice-Chancellor.	**15,604**
Payments to other organisations	
• PricewaterhouseCoopers: **Ed Smith,** former Global Chief Operating Officer.	**358**

In the course of allocating funding during the year, HEFCE entered into material transactions with these organisations to which the current Board members, Audit Committee members, and senior employees shown above are related parties. HEFCE has had no material transactions with companies whose directors are closely associated with it. In this context, closely associated refers to Board members, Audit Committee members, or directors. These individuals may have other relationships through family members who are employees or students at institutions funded by HEFCE, or through membership of governing bodies. Details of relationships are held in HEFCE's register of interest and available on our web-site at www.hefce.ac.uk under About us/Board.

HEFCE is a non-departmental public body sponsored by BIS. BIS is regarded as a related party, as are sister funding bodies including the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Training and Development Agency, and the Learning and Skills Council.

There was one material outstanding balance at the end of 31 March 2010 relating to a recoverable grant of £10m with University of Manchester.

Appendix 1 Analysis of non-recurrent grant by strategic aim: unaudited

	Total for year ended 31 March 2010 £000	Institutional funding or national programme £000	Non-institutional funding £000	Special institutional funding £000	Total for year ended 31 March 2009 £000
Learning and teaching					
Capital for learning and teaching	471,298	471,298			420,696
Centres for excellence in teaching & learning	26,368	26,368			33,313
Quality enhancement	20,786	20,786			56,069
Capital for further education colleges	20,000			20,000	14,989
Higher Education Academy*	17,898		17,898		18,046
Quality assurance (inc QAA*)	8,050		8,050		10,333
Open education resource	5,087			5,087	0
Student engagement and experience	182		182		0
Funding shape and structure	119		119		0
Finished initiatives	0				1,094
	569,788	518,452	26,249	25,087	554,540
Widening Participation					
Aimhigher (and associated initiatives)	63,830	63,830			62,019
HERO*	133		133		517
Students with learning difficulties/disabilities	0			0	81
	63,963	63,830	133	0	62,617
Employer Engagement					
Employer Engagement	32,171	32,171			20,651
Economic Challenge Investment Fund	26,850	26,850			0
Foundation degrees (inc FDF*)	4,527		4,527		4,589
	63,548	59,021	4,527	0	25,240
Research					
Capital for research & infrastructure	580,026	580,026			411,779
Museums, galleries and collections	10,222	10,222			10,161
Overseas Research Students Award Scheme	9,563	9,563			14,377
Research Information Resources* (RIN)	1,365		1,365		1,325
Research Excellence Framework	625		625		553
Research policy development	152		152		0
Research Assessment Exercise	117		117		7,095
Finished initiatives	0			0	28,736
	602,070	599,811	2,259	0	474,026
Sustaining a high quality sector					
Strategic Development Fund	108,090	108,090			118,379
London	14,879			14,879	12,632
Revolving Green Fund	11,176	11,176			3,970
Management Development Fund	2,265			2,265	2,322
Procurement initiatives	1,490			1,490	1,992
Leadership Foundation for Higher Education*	1,235		1,235		1,169
Equal Opportunities (funded via ECU*)	1,058		1,058		1,038
Higher education regional associations	290	290			737
Costing and pricing initiative	222		222		188
Other minor or finishing initiatives	167			167	156
SHQS Development Fund	177		177		0
	141,049	119,556	2,692	18,801	142,583
Enabling Excellence					
International Initiatives	738			738	655
Higher Education Policy Institute*	437		437		457
Higher Education Statistics Agency*	253		253		448
	1,428	0	690	738	1,560
JISC-related activities					
JISC (inc BUFVC, JCPC and JANET UK*)	74,474		74,474		89,295
	74,474	0	74,474	0	89,295
Total funding for initiatives	1,516,320	1,360,670	111,024	44,626	1,349,861

Analysis of non-recurrent grant by strategic aim: unaudited (continued)

The analysis on the previous page gives a breakdown of HEFCE's non-recurrent grant expenditure as shown in note 3 to the accounts.

We aim to provide as much as possible of our funding for learning and teaching, widening participation, research, and business and community engagement through the core/block grant. Further non-recurrent funding, in the form of earmarked capital and special funding, is provided for specific purposes and to promote change that cannot easily be achieved through other routes.

Earmarked capital

In 2009-10 we allocated a total of £1,156 million for earmarked capital grants. Most of our earmarked capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund. Capital funding under these two streams for 2008 to 2011 was announced in ‘Capital Investment Fund: capital for learning and teaching, research and infrastructure 2008-2011’ (HEFCE 2008/04).

Special funding

We allocate a small proportion of our total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through our recurrent funding methods (such as support for national facilities). In 2009-10 we allocated a total of £360 million for special funding; this is £53 million less than last year, and represents a decrease from 5.5 per cent to 4.6 per cent of total grant distributed.

Analysis of non-recurrent grant expenditure

The analysis above gives individual allocations for all such programmes, grouped by HEFCE strategic aim and disclosed across the following categories as per our publication HEFCE 2010/08
- 'Institutional funding or national programme' is funding that is available to all institutions.
- 'Non-institutional funding' is funding provided to sector bodies (with related bodies identified by *).
- 'Special institutional funding' is provided in specific areas to achieve objectives on behalf of the sector.

Pages 87 to 88 give a brief explanation of each programme.

Analysis of non-recurrent grant by strategic aim: unaudited (continued)

Learning and teaching

Capital for learning and teaching
Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure. This encompasses the HE in FECs Development Fund and funding for expansion of places in medical school.

Centres for excellence in teaching and learning (CETLs). Funding to reward excellent teaching practice, and to further invest in that practice so that CETLs funding delivers substantial benefits to students, teachers and institutions.

Quality enhancement. Institutional, subject and individual strands of funding to promote and reward excellence in teaching.

Capital for further education colleges. Capital allocations for further education colleges directly funded by HEFCE.

Higher Education Academy. Funding for the Higher Education Academy to develop as a major resource for the sector to support quality enhancement, professional development and dissemination of good practice aimed at improving the learning experience for students.

Quality assurance. Funding to secure the assessment of the quality of education provided by individual institutions.

Open education resource. Capital funding to support the development of on-line learning.

Student engagement and enhancement. Funding for planned research and development work relating to the student experience.

Funding shape and structure. Funding to support further development of the funding model.

Widening participation

Aimhigher. A joint initiative between the BIS, HEFCE and the Learning and Skills Council funding regional partnerships between HE, FE and schools in order to widen and increase participation in higher education. This encompasses funding for Excellence Fellowships, Partneships for Progression and summer schools.

HERO (Higher Education and Research Opportunities). Funding for a web-based resource to support transparency of information and to inform student choice.

Students with learning difficulties and disabilities. Targeted funding to encourage institutions to develop high quality provision for students with disabilities.

Employer Engagement

Employer engagement. Funding to support co-funded workforce development; to appreciate the requirements of the employers, and the general employability skills that are increasingly wanted in the workplace; to provide and adapt courses swiftly in response.

Economic Challenge Investment Fund. Funding to help the higher education sector respond rapidly and flexibly to the recession through targeted support to individuals and businesses vulnerable to the recession.

Foundation degrees (including FDF). Funding to develop and promote intermediate-level qualifications, in partnership with employers. Foundation Degree Forward has been set up to provide a support network of expertise in foundation degree development.

Research

Capital for research. Distribution of earmarked funding to assist with improving the infrastructure for research and knowledge transfer.

Museums, galleries and collections. Funding to support advanced research in the arts and humanities and to promote and support excellence in research in these fields. Also HEFCE's contribution towards the costs of operating and maintaining museums, galleries and collections.

Overseas Research Students Award Scheme (ORSAS). The Council's contribution to a scheme to attract high quality overseas research students to UK HEIs.

Research information resources. A joint initiative with the Research Councils and the British Library to create a new national framework for UK research information provision.

Analysis of non-recurrent grant by strategic aim: unaudited (continued)

Research Excellence Framework (REF). Funding to develop a new framework following discussion and consultation on the reform of the research assessment exercise.

Research policy development. Funding to support development of specific areas of research policy.

Research Assessment Exercise (RAE). Joint funding with other funding bodies to support the 2008 peer review exercise to evaluate the quality of research in UK higher education institutions.

Sustaining a high quality HE sector

Strategic Development Fund (SDF). Discretionary funding to facilitate constructive development and change, at a strategic level, within the higher education sector.

London. Contribution toward the additional costs for HEIs of operating in London, including supplementary pensions.

Revolving green fund. Funding to enable HEIs to overcome initial capital costs and to implement sustainable development, undertaking projects which reduce greenhouse gas emissions.

Leadership governance and management fund. Funding for projects that develop the application of good management practice in HEIs.

Procurement and shared services initiatives. Promotion of effective procurement and increased collaboration within the higher education sector.

Leadership Foundation for Higher Education (LFHE). A resource to develop world-class programmes for leaders, governors and managers in higher education.

Equal opportunities. Funding includes the Equality Challenge Unit which supports the work of UK HEIs in improving equal opportunities for their staff and providing a sector-level view of progress.

Higher education regional associations. Funding towards the costs of nine HE regional associations. These are membership organisations that represent HEIs in their regions.

Costing and pricing initiatives. Promotion of increased accountability to stakeholders, improved management information and the integration of academic and financial decision making.

SHQS Development Fund. Funding to support development of specific policy with the SHQS strategic aim.

Other minor or finishing initiatives. Residual funding for a number of small initiatives including estates good practice, golden hellos for staff in specific subjects, Public Private Partnerships and Private Finance Initiatives.

Enabling excellence

International initiatives. Funding for specific projects to assist promotion of UK higher education overseas.

Higher Education Policy Institute (HEPI). The institute is a company limited by guarantee whose function is to consider, develop, and promulgate policy advice and related matters in the field of UK higher education.

Higher Education Statistics Agency (HESA). Joint funding with other funding bodies to support studies into student destinations after HE.

JISC-related activities

Funding to the Joint Information Systems Commitee to support strategic guidance, advice and opportunities in the use of information and communications technology in the higher education sector. Funding is also provided for the costs of the SuperJANET 5 network.

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