



Higher Education Funding  
Council for England  
**Annual report and  
accounts 2008-09**



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Presented pursuant to the Further and Higher Education Act 1992, c.13, sch 1, paragraph 16

# Higher Education Funding Council for England **Annual report and accounts 2008-09**

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# Higher Education Funding Council for England

## Annual report and accounts 2008-09

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## Foreword

### Tim Melville-Ross CBE, HEFCE Chair

Amid today's global economic challenges and uncertainties, higher education in England stands out as a national and international success story. Because of this success, it is natural that the Government will look to universities and colleges to provide solutions to the economic difficulties facing the country, regions and local communities.

Higher education, with our support, is stepping up to the mark in meeting this challenge. It is in a very strong position to do so because over the past 10 years links with business, particularly small and medium-sized enterprises have been continuously strengthened. These links – underpinned by third-stream funding to support work with businesses and the community – have become embedded in universities and colleges. Sixty per cent of employers have established links with one or more universities<sup>1</sup> to draw on their expertise in research, consultancy and education.

One of our fastest growing programmes has been the provision of courses that are co-funded with employers. We are allocating 10,700 new co-funded places for 2008-09 and 15,900 for 2009-10. Sixty lead universities and colleges now deliver co-funded provision. Both the sector and employers understand the importance of higher-level skills to our future prosperity.

This transformed relationship with business has provided the springboard for the sector to respond with a series of short-term measures to help people and businesses affected by the economic downturn. We have introduced a £50 million Economic Challenge Investment Fund. We are bringing forward £200 million in capital funding to stimulate economic activity. We have supported the publication of 'Standing together: Universities helping business through the downturn', which tells businesses the wide variety of ways in which high education can help.

As well as dealing with the short-term problems we are working with our partners to address the longer-term challenges as the country emerges from recession. Here the strengths of the higher education system will provide the basis for recovery and regeneration. The 2008 Research Assessment Exercise confirmed the very strong international position held by the UK in research with over half the submissions judged as world-leading or internationally excellent.

Universities in this country have a deserved reputation for providing a world-class student experience and for the quality of their graduates. Universities are changing to bring higher education to a more diverse student body and we are recognising these changes through changes in our funding methods and policies. The need to promote and provide the opportunity of successful participation to everyone who can benefit from higher education remains as strong as ever.

The case for prioritising investment in higher education is conclusive, if the country is to emerge economically and socially stronger after the recession.

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

*7 May 2009*

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<sup>1</sup> Figure taken from 'Stepping higher – Workforce development through employer-higher education partnership', CBI (2008).

## 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 courses in further education colleges (FECs).
- To provide the Secretary of State for Innovation, Universities and Skills with information relating to all aspects of higher education 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 higher education (HE). In 2008-09 we distributed £7.5 billion in public funds. Most of this went to 130 universities and higher education colleges in England. Some HEFCE funds supported higher education courses in 124 FECs that we fund directly<sup>2</sup>. 136 FECs are indirectly funded through an HEI, and a small number of FECs have also been indirectly funded through HEFCE-recognised funding consortia<sup>3</sup>.

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 £7.5 billion in public funds distributed during the 2008-09 financial year, the vast majority is provided as recurrent funding for teaching and research. This is allocated as a block grant which institutions can then decide how to distribute internally to support their own priorities. The remaining funding – referred to as 'non-recurrent grant' – supports specific initiatives to deliver strategic objectives, and to fund national activities such as the Joint Information Systems Committee (JISC). Analysis by our strategic aims of both recurrent and non-recurrent funds distributed in 2008-09 is provided in Note 4 of the accounts.

The Secretary of State for Innovation, Universities and Skills set out in his annual grant letter to HEFCE the public funding to be made available for higher education for 2009-10. A total of £8.0 billion has been allocated for distribution by HEFCE in 2009-10. The grant letter for 2009-10 is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Finance & assurance/Finance and funding/Grant letter from Secretary of State.

<sup>2</sup> 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 2008-09: final allocations' (HEFCE 2008/40, which is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications).

<sup>3</sup> Figures for institutions that receive funding from HEFCE only indirectly are taken from the Higher Education Statistics Agency (HESA) student data for 2007-08. 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. The plan was the outcome of a lengthy period of discussion and consultation with a wide range of partners and stakeholders.

### Our strategic aims

'HEFCE strategic plan 2006-11' (HEFCE 2008/15) is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications. It sets out our four core strategic aims:

**Enhancing excellence in learning and teaching** – to ensure that all higher education 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 higher education to everyone who can benefit from it.

**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.

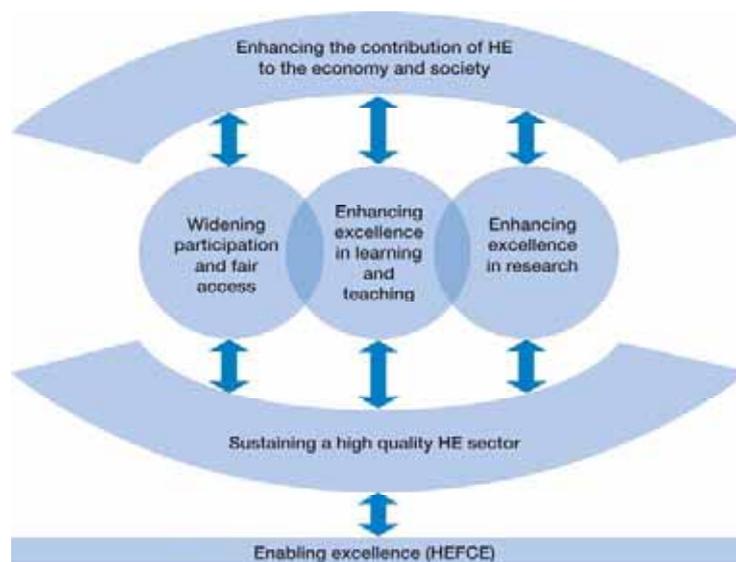
**Enhancing the contribution of HE to the economy and society** – to increase the impact of the higher education knowledge base to enhance economic development and the strength and vitality of society.

Underpinning these are two cross-cutting and supporting aims:

**Sustaining a high-quality HE sector** – to sustain a high-quality HE sector which 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.

We originally intended to produce a new strategic plan for 2009-2014, but we have deferred the process of developing a fully revised strategy largely in anticipation of the publication in 2009 of a 10-15 year framework for HE by the Department for Innovation, Universities and Skills. Opportunities have been provided for us and the HE sector to contribute to the development of the framework, and it will inform future HEFCE strategy.



## 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 Innovation, Universities and Skills, normally for periods of two or three years. Membership of the HEFCE Board during 2008-09 was as follows:

### Chair

**Tim Melville-Ross, CBE**

### Chief Executive

**Professor David Eastwood**

### Members

**Alastair Balls, CB** Chairman, Centre for Life

**Rob Douglas, CBE** Business Advisor, Douglas Associates Limited

**Jackie Fisher, CBE\*** Principal, Newcastle College

**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 Peter Rubin** Professor of Therapeutics, University of Nottingham

**Peter Saraga, OBE\*** Formerly Managing Director, Philips Research Labs UK

**Professor Nigel Savage\*** Chief Executive, College of Law

**Ed Smith** Senior partner, PricewaterhouseCoopers (retired)

**Sir Richard Sykes\*** Rector, Imperial College of Science, Technology and Medicine

**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 2009 – for further details see page 48

## HEFCE Chair

Tim Melville-Ross CBE joined the Board in January 2008. He was appointed by the Minister of State for Lifelong Learning, Further and Higher Education 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.

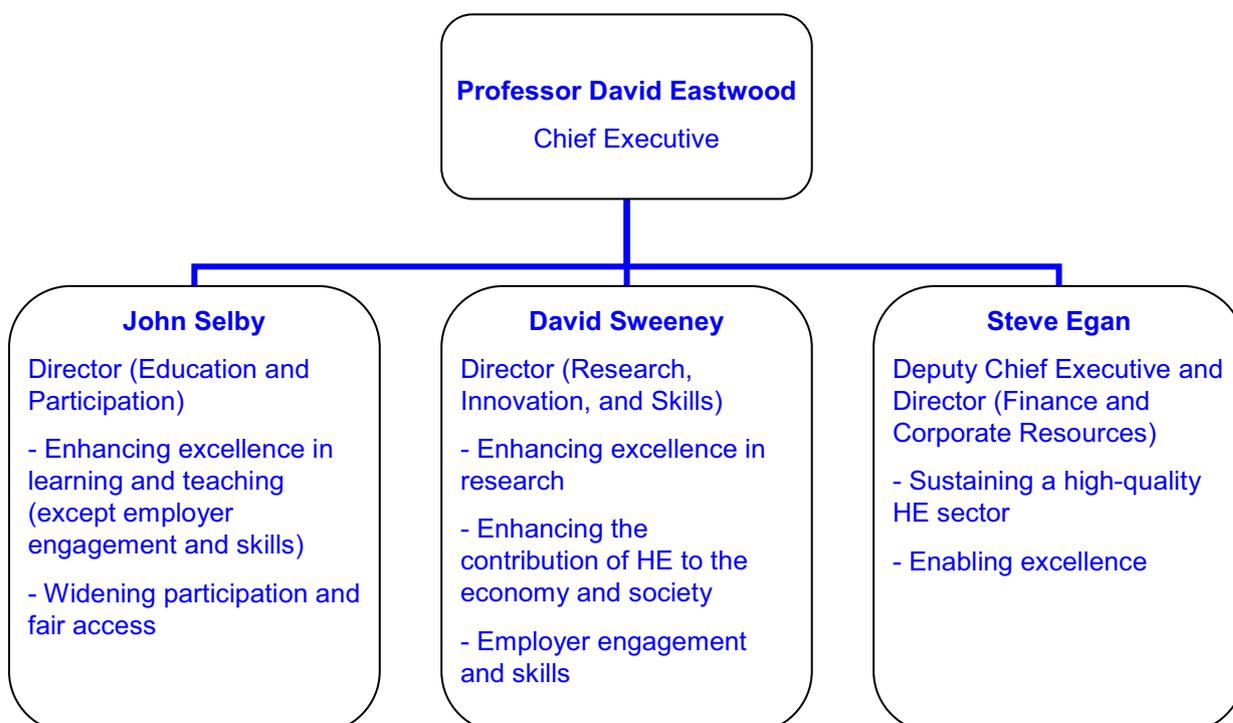
Information on each Board member and their interests is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/HEFCE's Board. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work. Current membership of 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. Professor David Eastwood was appointed Chief Executive of HEFCE on 1 September 2006. He was previously Vice-Chancellor of the University of East Anglia. He takes up the post of Vice-Chancellor of the University of Birmingham in April 2009, with Sir Alan Langlands becoming HEFCE Chief Executive from 1 April 2009.

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](http://www.hefce.ac.uk) under About us/Staff and structure.

### HEFCE Chief Executive's Group – March 2009



## Our performance and achievements in 2008-09

For each of our six aims in the 2006-2011 strategic plan (HEFCE 2008/15) 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 2008-09, remaining aware of the possibility of new risks emerging. Through this process, we have added a new risk 'that the sector does not demonstrate leadership in reducing carbon emissions, thus missing opportunities for funding, cost reduction and enhanced reputation'. We are revising some of the risks for the 2009 update of the strategic plan, which will be published in spring 2009. Further information on risk management is included in the Chief Executive's statement on internal control (pages 53-55).

The programme of work required to deliver our strategic aims and objectives was set out in our operating plan for 2006-2009. For 2008-09, this contained 37 high-level activities spread across our strategic aims. We are developing an operating plan for 2009-10 which will be published at [www.hefce.ac.uk](http://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 activities 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 activity as green, amber or red. This provides a broad indicator of the status of our activities 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 activity 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 activity 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](http://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 employers, 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.

### 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 the sector and/or restrict our ability to fulfil our statutory role.
- 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 our strategy for employer engagement fails to secure sufficient funding contributions from employers.
- That the changes to our teaching funding policy do not meet the aims set and/or win the confidence of the sector and/or the Government.

### Reporting on this strategic aim

In April 2008 we made changes to our operating plan for 2006-2009 which included adding a new 'employer engagement and skills' section that set out more explicitly our work in this increasingly important area. This allowed for improved reporting to our Board against specific employer engagement and skills activities. The commentary below therefore includes details of activities from both the learning and teaching and employer engagement sections of our operating plan. In the 2009 update of our 2006-2011 strategic plan, we have identified 'employer engagement and skills' as a strategic aim in its own right.

### Continuous improvement of learning and teaching

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

We have worked with a range of partners, including the Higher Education Academy, the Quality Assurance Agency for Higher Education (QAA) and the National Union of Students, to help enable the continuous enhancement of learning and teaching. Key aspects of this were our continuing operation of the National Student Survey and the connecting of the Unistats web-site to the UCAS 'Apply' site to further improve the availability of information to students about the quality of teaching.

We are conscious of and take seriously our statutory responsibility for securing the assessment of quality in the sector, although this is discharged via the QAA, and have strengthened our processes in this area. We take any possible dilution of the excellent reputation of English HE extremely seriously.

The pilots for the Integrated Quality and Enhancement Review in FECs have been completed and the first developmental engagements with colleges have begun. We continued to develop our broader approach to HE in FECs. Last year we completed a pilot exercise with HE strategies from 27 colleges and three partnerships, testing the process of how we might assess strategies. Informed by this, we will require all colleges with HE provision to provide us with a strategy for their HE. In addition, we continued to look

at ways to strengthen the provision of HE in FECs, which included the publication of 'Supporting higher education in further education colleges: Policy, practice and prospects' (HEFCE 2009/05). We also commissioned a study of costing methods for partnership arrangements between HEIs and FECs, and we began using the HEI annual monitoring statement to look at whether HEIs were providing security of funding and student numbers for indirectly funded partnerships with FECs.

### Flexible lifelong learning

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

We are currently supporting eight institutions that are piloting flexible approaches to study. The work of these institutions is being evaluated and will inform our future approach to flexible learning. We also support innovative and flexible approaches to delivery through Centres for Excellence in Teaching and Learning (based in HEIs, these aim to reward excellent teaching practice and to further invest in that practice), our e-learning strategy and our work, mentioned above, with FECs. We support initiatives to make HE more locally available, so as to promote and widen participation and contribute to developing a high-level skills economy. We have developed a two-stage process for proposals to develop new HE centres or university campuses by 2014.

We continue to support the work on credit and developing alternatives to the current degree classification system carried out by the Burgess Implementation Steering Group. Credit plays an important role in promoting flexible and lifelong learning, and supports student progression into and within HE. The Higher Education Achievement Report for learners, which will be used alongside the current degree classification system, likewise supports lifelong learning.

**Facilitating stakeholder engagement**

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

Engagement with stakeholders is central to all aspects of our work in learning and teaching. We have worked in close partnership over the last year with a range of stakeholders such as the QAA; the Higher Education Academy; Universities UK; GuildHE; the Department for Innovation, Universities and Skills (DIUS); and the National Union of Students.

Engaging with students remains a focus for DIUS. We have responded by being an active partner in the Government's response to the first report of the National Student Forum, and supporting a research study on student engagement. Our work on the National Student Survey is also designed to facilitate student engagement.

**Innovation and new technology**

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

The review of the HEFCE strategy for e-learning was published this year. It indicated that the strategy was largely fit for purpose and had been useful in directing institutional activity. However, some elements of it appeared dated given the speed of progress over the last three years. We have been working with JISC and the Higher Education Academy to revise our approach in light of the review, particularly in highlighting how learning technology can support flexibility, enhancement and institutional strategy. New guidance for institutions was published in March 2009 (HEFCE 2009/12).

We continue to invest in JISC to support its work in developing new technologies to improve the learning experience. The Higher Education Academy has also been working with a number of institutions to understand how new technologies can most effectively support learning and teaching. We also established a programme of pilot projects to investigate how openly available educational resources can be used to improve learning and teaching.

**International connections and competitiveness**

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

We maintain awareness of the Bologna Process, and developments relating to the European Union and other overseas activities as they relate to learning and teaching policy. Via the Europe Unit, the UK Higher Education International Unit and other information sources, we maintain an overview of the competitiveness of English HE and an awareness of developments that could inform our policy-making. We also commission studies of HE policies in other countries to assist us in policy-making.

**Developing the funding policy to meet strategic objectives**

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

The last year has seen developments in the review of our funding policy as we work to ensure that it is fit for purpose and supports our strategic objectives.

In early 2008, we began a review of exceptional funding – this is funding not allocated through our funding formulae but which is provided to a small number of institutions through an institution-specific targeted allocation. A key aim of the review was to establish a set of principles that should govern future allocations of exceptional funding. These principles state that an institution should receive exceptional funding only if:

- it engages in activities which produce additional public value over and above that produced by other institutions not in receipt of the funding
- these activities incur additional costs, and
- these costs cannot be met from other funding streams.

In July 2008, the institutions considered by the review were invited to provide a written submission presenting their case for receiving additional funding in the future. The advisory group of the review considered these submissions, and broad recommendations were made to our Board.

From 2008-09, funding associated with the former premiums in the funding model has been transferred to targeted allocations. Targeted allocations are directly affected by changes in student numbers, and they recognise the extra costs associated with foundation degrees, part-time undergraduates, accelerated and intensive provision, and old and historic buildings. There is also a targeted allocation for strategically important and vulnerable subjects, which is intended to mitigate the effect on strategically important and vulnerable subjects of the policy to withdraw funding from students studying for a qualification that is equivalent to, or lower than, a qualification they have already achieved.

In August 2008, the subject price group weightings that we use in our funding method were reviewed. This review suggested that in the long term, adjustments might be appropriate for the assignment of subject cost centres to broader price groups, and to also the weightings between price groups. However, we decided to retain the current groups and weightings for at least 2009-10 in order to provide stability to the funding method, considering that institutions will also be adapting to the outcomes of the 2008 Research Assessment Exercise and the introduction of the new targeted allocation for teaching enhancement and student success.

In January 2009, DIUS wrote to us to request that we review the impact of the first year of the policy to withdraw funding from students studying for qualifications equivalent to, or lower than, one they already have. We commenced this review in March 2009.

In March 2009, we published grant tables which reflect a new targeted allocation of £269 million in 2009-10 to support teaching enhancement and student success. This allocation will bring together funding previously associated with the allocation for improving retention of learners and the Teaching Quality Enhancement Fund. The allocation demonstrates a more strategic approach to the overall enhancement of learning and teaching. It acknowledges that funding for improving retention is used to support the learning of all students and that

improving retention is often achieved through enhancing the student experience.

### **Growth in employer 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

Our work in employer engagement and skills aims at delivering a £148 million programme of activities that will promote transformational change in HE and sustainable relationships with employers to meet the long-term skills needs of the economy. In 2008-09, we have expanded on the initial employer co-funded pilot projects funded in 2006-07 to establish 36 transformational projects, which aim to make skills and workforce development a core strategic objective for the 36 institutions involved. These HEI-led projects, alongside a further 24 HEIs and FECs delivering provision that is co-funded by employers, create the long-term platform for growth in workforce participation in HE towards the target set out in the Leitch Review of Skills and the Government's higher-level skills consultation 'Higher Education at Work – High Skills: High Value'.

We are on course to meet the co-funded student targets outlined in our grant letter from DIUS (5,000 co-funded entrants in 2008-09; 10,000 in 2009-10; and 20,000 additional entrants in 2010-11). We have allocated £100 million in capacity development funding to deliver 4,975 full-time equivalent learners in 2008-09 (10,700 headcount), and in 8,221 full-time equivalent learners in 2009-10 (18,738 headcount). In view of the current economic climate, we are liaising closely with projects to monitor and adjust for any substantial changes to employer investments. We received the first tranche of monitoring reports in March 2009. Despite the economic conditions, there is no substantial evidence that employers are withdrawing from their training programmes. The majority of institutions remain confident of achieving their targets in 2008-09. However, we will continue to monitor the projects closely. The next formal monitoring point is in September 2009.

In addition we have worked with the Higher Education Academy, Foundation Degree Forward and the QAA to put in place support to enable the HE sector to transform its operations and systems. The HE Academy is providing a support network for all employer engagement projects to enable them to share practice and disseminate it across the sector. Through its pro-vice chancellors' network the Academy will also support strategic decision-making and management within HEIs that are focusing on employer engagement.

In 2008 the Task Force on Quality Assurance and Employer Engagement reported to us on the support needs of the HE sector. The QAA has put in place a planned programme of support and guidance activities for HE, and also for its own reviewers and auditors, to support the management of quality and standards of HE that is responsive to employers, and to ensure successful strategies are disseminated. The Higher Education Academy, the QAA and Foundation Degree Forward have also developed joint actions on supporting the sector through shared research and dissemination of good practice, including the establishment of demonstrator projects on areas where more support is needed such as involving employers in assessment.

#### Enhancing graduate employability

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

Our objectives in this year have been to support HE to maintain the level of graduate employment and ensure labour market information is up to date. The most recent data on graduate employment levels (2006-07) shows that levels of employment continue to remain stable in the context of expansion of participation. For the fifth year since 2002, more than 85 per cent of full-time first degree respondents to the Destinations of Leavers from HE (DLHE) survey reported they were in employment and/or study six months after completing their course. The overall number of first degree qualifiers from UK HEIs between 2002-07 increased by 13 per cent.

However, in view of early signs of contracting graduate employment in 2009

we expect a downturn in these figures in the future. In response to the change in economic environment, we have launched the Economic Challenge Investment Fund, a matched funding scheme of £50 million to provide immediate HE support for individuals and businesses that are vulnerable in a recession. As part of this, we are providing immediate support to help institutions protect new graduates from unemployment.

We have continued to work with partners to make available to prospective students and employers information on employment outcomes to inform course choices. We have funded a second DLHE longitudinal survey to be undertaken in 2008 which will complement the data available from the DLHE six-month early survey with information on student outcomes three-and-a-half years after graduation. As part of our strategically important and vulnerable subjects programme we have undertaken and promoted analysis of the first DLHE longitudinal survey outcomes of employment by discipline. Working with UCAS and other partners, we have supported employability profiles of subjects to be accessed by prospective students through UCAS' applications web-site.

#### 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. We have funded two projects led by Sector Skills Councils working collaboratively 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 worked with the CBI and Universities UK to publish a high-profile publication – 'Stepping Higher' – on the benefits of HE and business collaboration on workforce development. 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, as well as to offer a resource for Business Link and Train to Gain brokers to support businesses to access training at higher levels.

#### Foundation degrees

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

The most recent data on foundation degrees shows that we are on course to meet our target of 100,000 entrants to foundation degrees by 2010. Building on the recommendations of the Quality Assurance Task Group on employer engagement, Foundation Degree Forward has worked with the Quality Assurance Agency and the Higher Education Academy to develop an action plan, including how they will work together to enhance the quality of work-based learning.

#### Long-term strategy and funding method to support workforce development

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

Building on the introduction of a new method for supporting workforce development through employer co-funding for 2008-2011, we have had exploratory discussions to scope out options for supporting workforce development after 2011. This work is at an early stage and will continue to develop, taking into account the recent economic changes and changes in the public sector funding environment. The status of this activity was rated as amber in early 2009 because we have held back on development because of the uncertainties in the future public finance environment. We will work with DIUS to agree a timetable for the development of this work. We have also worked with them on developing their higher-level skills strategy which is being published in April 2009, and we will play our part in its implementation.

In the coming year we will be commissioning a programme-wide evaluation which will inform longer-term policy. Our intention is to focus on promoting long-term sustainable relationships and HE operations which are sufficiently flexible to respond to changing employer and employee needs, and will deliver both business and HE benefits. 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 on the match between supply and demand of skills.

<b>Key performance targets and progress to March 2009</b>	
<b>KPT1:</b> At least 95 per cent of HEIs receive judgements of confidence in institutional quality audits by the QAA, completed by 2008-09.	<b>Below target:</b> 93.8 per cent of institutional audits carried out by the Quality Assurance Agency during the financial years 2002-03 to 2008-09 received judgements of full confidence. Those that did not receive full judgements of 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, and the soundness of the institution's current and likely future management of the quality of the learning opportunities available to students). No institution 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 <sup>4</sup> .
<b>KPT2:</b> The proportion of students who are broadly satisfied with all aspects of teaching covered by the National Student Survey increases between 2005 and 2009.	<b>On target:</b> In the 2008 National Student Survey there was again a rise in the percentage of students broadly satisfied (scoring at least 3 on the scale of 1 to 5 for each of the clusters of questions) with all aspects of teaching covered by the survey. Weighted results (to reflect the number of students by institution and mode of study responding to the 2005 survey) have increased from 57.5 per cent in 2005 to 64.2 per cent in 2008. 
<b>KPT3:</b> 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.	<b>Partially on target:</b> The continuation rate (including transfer) based on the 2002-03 first degree cohort of starters to full-time courses was 91 per cent (with a benchmark of 91 per cent). For the most recently available cohort, 2005-06, the rate was 92 per cent (benchmark 92 per cent). The figures for other undergraduate full-time starters were 85 per cent for 2002-03 (benchmark 85 per cent), and 83 per cent for 2005-06 (benchmark 85 per cent) <sup>5</sup> . Further, more detailed, analysis of the data is being conducted to ascertain if there are any discernable patterns.

<sup>4</sup> The corresponding figure for the period from 2002-03 to 2007-08 is 94.8 per cent, compared to the previously reported figure of 95 per cent, which was based on completed academic years and did not include the data from August 2007 to March 2008.

<sup>5</sup> A benchmark figure, based on the student population in 2002-03, is calculated annually to control for the effect that changes in the profile of the student population could have on continuation rates.

### Key performance targets and progress to March 2009

<p><b>KPT4:</b> To increase innovative, flexible approaches to the delivery of higher education across the planning period.</p>	<p><b>On target:</b> The number of flexible learning pathfinder projects we fund has increased from five in 2006-07 to eight in 2008-09. The number of flexible and/or innovative courses piloted has increased from 14 in 2006-07 to 58 in 2007-08 and 2008-09. Student numbers have increased from 109 on flexible courses delivered by the pathfinders in 2006-07 to an estimate of over 1,000 for 2008-09. Programmes include a range of approaches: two-year accelerated honours degrees; four-year accelerated part-time degrees; work-based learning; continuing professional development; blended-learning foundation degrees; and accelerated part-time and integrated masters.</p> 
<p><b>KPT5:</b> The proportion of HEIs reporting high levels of employer involvement in the HE curriculum increases to 80 per cent by 2009.</p>	<p><b>On target:</b> In the Higher Education-Business and Community Interaction survey carried out in 2007-08, 104 out of 130 HEIs (80 per cent) scored four or five in this self-assessed benchmark.</p> 

## 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 further education colleges (FECs); or a failure of HEIs and/or FECs to make vocational opportunities available over a lifetime.

### Supporting collaborative activities

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

The latest data for participation in HE were published in March 2009. The Higher Education Initial Participation Rate for 2007-08 was 43 per cent (provisional), up from 42 per cent in 2006-07<sup>6</sup>.

The National Audit Office published its 'Widening participation in higher education' report in June 2008. Analysis undertaken for this report showed that young people living in deprived areas have experienced an increase in participation of 4.5 percentage points since 1998 compared with an increase of 1.8 percentage points in the least deprived areas. Overall, the report found that some progress was being made in encouraging under-represented groups to continue into HE, but that particular sections of society remain significantly under-represented. In addition, too little was known about the links between measures taken by institutions and any improvements in access.

The latest HE performance indicators were published in June 2008 by the Higher Education Statistics Agency, based on 2006-07 data. These data showed that, of the total number of young entrants to full-time undergraduate courses, the proportion of those from lower socioeconomic groups rose to 30.3 per cent in 2006-07 (with 10.1 per cent coming from low-participation neighbourhoods in 2006-07). In 2006-07 the proportion of mature full-time undergraduate students from low participation neighbourhoods was 12 per cent. The proportion of part-time students from low participation neighbourhoods was 7.2 per cent<sup>7</sup>.

<sup>6</sup> Due to a change in the underlying data, a discontinuity has been introduced at 2006-07. The latest figures (for 2006-07 and 2007-08) are therefore not comparable to the historical time series, including the figures included in our 2007-08 annual report and accounts. A new methodology has been used to calculate the provisional 2007-08 figures and this has also been applied to recalculate the 2006-07 final figure to provide a valid comparison.

<sup>7</sup> The method for defining low participation neighbourhoods has changed this year and indicators are based on the POLAR2 method. As a result,

In April 2008, we announced a new £21 million Aimhigher Associates scheme, which aims to promote the progression of learners from state schools to the full range of HE provision on offer. Undergraduates from state school backgrounds provide support and encouragement to learners as they encounter the various transition milestones between Year 9 and Year 13, receiving training to help them in this role. This national strand of Aimhigher activity will see around 5,500 university students recruited to provide long-term individual and face-to-face support to more than 21,000 pupils in schools and colleges across the country. An initial pathfinder phase began in September 2008, during which 21 Aimhigher partnerships are working together to produce an agreed training framework and standard for use from September 2009. The scheme will be launched nationally in June 2009.

As noted in our 2007-08 annual report, supporting Aimhigher partnerships to develop improved evidence at a local level has been important in determining which widening participation activities are particularly effective. In October 2008, we commissioned a report which found that while the extent and quality of data collected by Aimhigher partnerships had greatly improved, data collection and collation was not sufficiently consistent to enable comparative data analysis nationally. In response, we commissioned researchers to develop guidance that will enable Aimhigher partnerships to collect and record data consistently, which will then inform long-term evaluation and monitoring at a local and national level.

We continue to support demand-raising activity to increase and widen participation in strategically important and vulnerable subjects, specifically chemistry, physics, engineering and mathematics. We are currently working with the University of Birmingham to develop a national HE science, technology, engineering and mathematics programme from August 2009.

equivalent figures for 2005-06 are not available – see [www.hesa.ac.uk](http://www.hesa.ac.uk), under Performance indicators.

### Vocational progression and lifelong learning

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

Lifelong Learning Networks (LLNs) have been set up to improve the coherence, clarity and certainty of progression opportunities for vocational learners into and through HE. We have allocated approximately £105 million to 30 networks spanning 120 HEIs and more than 300 FECs. This represents close to national coverage.

Following an interim evaluation of LLNs published in April 2008, we introduced a new monitoring system for LLNs which standardised reporting mechanisms and allowed for consistent financial data and activity to be captured. The first monitoring reports were submitted in October 2008 and demonstrated the important and positive work that is being achieved by LLNs. They also showed the volume of activity, particularly in the core processes of: progression agreements; curriculum development and alignment; and information, advice and guidance.

The provision of clear progression routes for learners from a variety of academic and non-academic pathways continues to be essential if we are to ensure that HE is available to all who could benefit from it. We are continuing to work with the Department for Children, Schools and Families and DIUS to support HE engagement with the changing 14-19 curriculum, in particular the Diplomas and Apprenticeships. HE engagement with and endorsement of the new Diplomas is key in ensuring that they are perceived as a viable and valued entry route to HE.

### Embedding widening participation

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

For the 2008-09 academic year, universities and colleges received £364 million to support their work to widen participation in HE and improve student retention and success.

In January 2009, we asked HEIs and directly funded FECs to submit widening

participation 'strategic assessments'. These assessments will provide institutions with an opportunity to demonstrate and take credit for the work they are doing in respect of widening participation, and show how it is embedded in institutional missions and policies. They will also provide HEFCE and the Office for Fair Access with vital evidence of how widening participation has become an integral part of the policies, processes and cultures in many institutions. The first strategic assessments will be submitted by June 2009, followed by annual reports on progress each December.

Recent reports, including the recommendations from the National Audit Office and the National Council for Educational Excellence, have highlighted links between schools and HE as integral to widening participation. In January, we launched a grant programme to research, develop and evaluate institutional practice relating to these links. Once identified and fully researched, we will provide opportunities for these models to be discussed by the HE sector so that individual institutions can select and then apply those aspects that are most appropriate to their needs and strategic priorities.

We have also commissioned five new studies to build on the work undertaken in four areas of very low HE participation in 2007. The research, to be published later in 2009, is intended to provide a better understanding of the social, economic and cultural factors that might lie behind the low participation rates in each community, in order to establish what might be done to improve them. It also aims to achieve a commitment to future action by the institutions informed by the research to embed strategic widening participation developments across the areas.

In November 2007, we announced our intention to undertake a review of our policy as it relates to disabled students. Consequently, we commissioned (with the Higher Education Funding Council for Wales) research into the provision and support for disabled students in HE and an evaluation of the Disability Equality Partnership. We received a draft report in August 2008 and asked the research team to do some additional research to take account of recommendations from the

National Audit Office and Public Accounts Committee reports on student retention. The research will be published in the coming months. The research and the evaluation will inform the development of our policy and determine the nature of any updated guidance to the sector. We continue to support institutions in meeting the needs of disabled students by providing the mainstream disability allocation within the widening participation allocation. This amounted to £13 million for the 2008-09 academic year.

Progress has been made in recent years in encouraging under-represented groups to continue into HE – however, particular sections of society remain significantly under-represented. Over the coming year, our work will focus in particular on three key themes: the need for better links between higher education and schools and colleges; new forms of partnership between HEIs and communities, in order to improve opportunities for lifelong learning; and the development of the strategic assessments so that widening participation is recognised as a strategic theme that runs through all aspects of the work of HEIs, rather than a set of discrete activities.

<b>Key performance targets and progress to March 2009</b>	
<p><b>KPT6:</b> To increase participation in HE in line with the funding and policies set out in the Secretary of State's annual grant letter.</p>	<p><b>On target:</b> The Higher Education Initial Participation Rate for 2007-08 (provisional) shows an increase of one percentage point compared to 2006-07, from 42 per cent to 43 per cent<sup>6 above</sup>.</p> 
<p><b>KPT7:</b> To increase the proportion of students (full-time and part-time, both young and mature) from under-represented groups in HE.</p>	<p><b>On target:</b> The performance indicators for 2006-07 show that, of the total number of young entrants to full-time undergraduate courses, the proportion of those from lower socioeconomic groups rose to 30.3 per cent in 2006-07 (with 10.1 per cent coming from low-participation neighbourhoods in 2006-07). In 2006-07 the proportion of mature full-time undergraduate students from low participation neighbourhoods was 12 per cent. The proportion of part-time students from low participation neighbourhoods was 7.2 per cent. The method for defining low participation neighbourhoods has changed this year and indicators are based on the POLAR2 method. As a result, equivalent figures for 2005-06 are not available – see <a href="http://www.hesa.ac.uk">www.hesa.ac.uk</a>, under Performance indicators.</p> <p>Analysis by the NAO, published in June 2008, shows that young people living in deprived areas have experienced an increase in participation of 4.5 percentage points since 1998 compared with an increase of 1.8 percentage points in the least deprived areas.</p> 

## 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, that 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 that 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.

### 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 (RAE), 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.

**Research excellence**

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

In 2008-09 we completed the 2008 Research Assessment Exercise (RAE), with all panels completing their assessments in time for publication of the results in December 2008. The results confirm the UK's position among the top rank of international research powers. The use of quality profiles enabled the panels to exercise finer degrees of judgement, and the results show how excellent research is found across the HE sector. A total of 150 of the 159 institutions have some work of world-leading quality, while 49 have research of the highest quality in all of their submissions.

Panel overview reports were published in January 2009, describing how panels took account of the full breadth of research quality, including inter-disciplinary, applied, basic and strategic research wherever it is located. Panels also reported very favourably on the high-quality work undertaken by early-career researchers, which will help the UK to maintain this leading position in the future.

We have continued to work with the Government and the HE sector throughout the year to develop a new framework for research assessment and funding to follow the 2008 RAE: the Research Excellence Framework (REF). An initial consultation concluded in February 2008; we announced the outcomes in May 2008 and are now working towards a unified framework for assessment and funding across all disciplines. In June 2008 we started a pilot exercise with 22 HEIs across the UK, to develop new bibliometric indicators of quality for use in the REF. Outcomes are due in spring 2009. We have also paid particular attention to how the REF will take account of the social and economic impact of research. This will build on the approach of the RAE, in which the impact of research influenced panels' judgements, to make this a more explicit element of research assessment. We will form detailed proposals on the REF for consultation in autumn 2009.

**Research funding**

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

We have continued to allocate quality-related research (QR) funding, which is our core grant to HEIs for research. We announced £1,572 million for the 2009-10 academic year, taking into account the results of the 2008 RAE. We continue to allocate this funding selectively on the basis of quality, but we modified the way the mainstream QR funding is calculated to work with the quality profiles produced by the 2008 RAE.

We retained the other elements within QR: funding to support charity-funded research; funding to incentivise research that directly meets the needs of business; and funding to support the supervision of postgraduate research students.

We continued to support strategic research collaboration between HEIs through our Strategic Development Fund – one award was made during the year with others in the pipeline.

We are currently considering what was achieved by funding to build research capability in six emerging research disciplines from 2003 to 2009, and whether similar provision will be needed in the coming years.

**The research base**

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

We continued to contribute to the annual report of the Research Base Funders Forum (a group of public and private funders of research) which monitors the sustainability of the UK HE research base.

During the year we have supported capacity for research in strategic areas. In collaboration with the Engineering and Physical Sciences Research Council, we announced the fifth and final round of Science and Innovation Awards.

Following a pilot, in February 2009 we announced funding of £10 million for the British Library to launch the UK Research Reserve. This aims to reduce the amount of space in many libraries given to the

retention of important but rarely used research by consolidating the collection of these pieces into a central reserve.

In 2009-10 we will review our special funding for museums and galleries. We will continue to work with the sector to ensure the sustainability of a world-class research base that is dynamic and responsive, and to help identify how the research base can help address the current economic downturn. In 2009-10 we will also work with the Government to take forward new priorities emerging from the debate about HE initiated by the Secretary of State for Innovation, Universities and Skills.

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. In 2008-09 we announced 40 Clinical Senior Lectureship Awards in round three of the scheme, to help develop high-quality capacity and enhanced outcomes in research and teaching at senior lecturer level. We received applications to the fourth round of awards in February 2009, the outcomes of which will be announced in June 2009.

### People in research

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

We have delayed the publication of qualification rates of research degree students for each institution to take account of audits undertaken at the end of last year to interrogate the quality of the data. We expect to publish these in early 2009-10.

We published a report on trends of PhD starters. This report looked at the characteristics of PhD students by mode of study, domicile, subject, gender, disability, ethnicity and qualification on entry. This report is an important piece of evidence for continued discussions with other stakeholders around postgraduate students.

We completed the review of the Overseas Research Students Awards Scheme and decided to terminate funding for this scheme, to help meet other funding priorities. We worked with the research councils to launch a revised UK Concordat and Code of Practice for Researchers, and are supporting its implementation. The concordat addresses the support and management of research careers to ensure the continuation of research excellence by providing a framework for best practice across the UK HE sector.

<b>Key performance targets and progress to March 2009</b>	
<p><b>KPT8:</b> To maintain England's contribution to the UK's leading international position in research excellence throughout the planning period.</p>	<p><b>On target:</b> DIUS published its annual report on 'International comparative performance of the UK Research Base' in July 2008 (available on the Department for Business, Enterprise and Regulatory reform web-site at <a href="http://www.berr.gov.uk">www.berr.gov.uk</a>). That report showed the UK's performance against international competitors was maintained or improved in all major areas of research.</p> 
<p><b>KPT9:</b> To ensure that the 2008 Research Assessment Exercise delivers on time and produces results which command the confidence of the sector; and to develop a process for assessing research quality beyond this.</p>	<p><b>On target:</b> The 2008 Research Assessment Exercise was completed on schedule. We concluded a consultation on the Research Excellence Framework, and are piloting and developing proposals on the operation of the framework, for consultation in autumn 2009.</p> 
<p><b>KPT10:</b> To demonstrate improved sustainability of the national research base by 2011.</p>	<p><b>On target:</b> An annual report was presented to the HE Research Base Funders' Forum in April 2008 which showed our progress towards this goal.</p> 

## 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, 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.

### 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.

### Higher Education Innovation Fund

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

We set out in the 2007-08 annual report details of the Government's announcement of increased funding for the Higher Education Innovation Fund (HEIF) over the period 2008-2011, with HEIF rising to £150 million in the last year. Over 2008-09 we finalised allocations of funding, through the assessment and approval of institutional strategies, which described the overall approach of the HEI to third-stream<sup>8</sup> activity and the specific use and management of HEIF funds. Strategies were received from all HEIs and were assessed by expert advisers (PACEC) and our institutional teams. Around 85 per cent of strategies were approved as submitted, with the remainder asked to provide – usually minor – clarifications or amendments. Funds were then released from August 2008 so that there was no discontinuity with the previous round of funding. The distribution of funding in 2008-09 enabled a greater range of HEIs to develop distinctive approaches to the third stream, including focusing further on work with small and medium-sized enterprises.

We published an overview by PACEC of all strategies in October 2008, together with HEFCE policy commentary, which commended eight strategies for particularly innovative and distinctive practice, and commented on progress toward HEFCE objectives. Our commentary highlighted considerable progress in embedding third-stream activity appropriately within diverse missions in the sector (integrated with core research and teaching). It also highlighted vibrant community and public engagement activity and good progress in building capacity within HEIs. The commentary noted that further attention that would be needed in the future on outcomes assessment and engagement of academics in third-stream work.

<sup>8</sup> The 'third stream' refers to work to increase the impact of higher education on economic development and the strength and vitality of society as a 'third stream' of activity alongside, and complementary to, teaching and research.

We have also continued to monitor the formula and competition funds allocated for 2006-08 through the third round of HEIF, as well as Centres for Knowledge Exchange.

Over the year, we also oversaw a major evaluation of the progress of the HE sector in embedding third-stream activity and achieving culture change, from PACEC and the Centre for Business Research, University of Cambridge. The evaluation has completed extensive data-gathering and analysis and we published results in spring 2009. The evaluation calculates for the first time the value for money achieved by long-term public investment in HEIs working with the economy and society. It estimates that the close to £600 million that has been put into HE, primarily through HEIF, has generated a minimum of between £2.9 and £4.2 billion in value. It notes that the total value generated is likely to be much higher. These wider benefits include social impacts not best captured in monetary terms (for example, HEIs working for free with their local communities), increased engagement between industry and HE research, teaching and other activities (leading to, for example, new avenues of research), as well as other activities that are presently not well measured (encouraging public engagement and the value of high-tech spin-off companies).

### Performance improvement

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

Our monitoring of HEIF round three and analysis of HEIF round four strategies have reassured us that third-stream performance in the sector has continued to improve. The evaluation we have been undertaking over the year will give us further insights of areas for development. We have continued to work with knowledge transfer professional bodies and support joint projects. Our support to Praxis, the knowledge transfer training body, enabled the organisation to enhance their training offer, and we worked with Praxis and Dr Jeff Skinner of the London Business School in the year to run a pilot third-stream networking event for pro-vice chancellors. Our support to the Association for University Research and Industry Links for its continuing professional

development programme has achieved continuation as a joint development with the Leadership Foundation for HE.

### Third-stream indicators

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

The main source of information on HE's engagement and activity with business and the community is the Higher Education-Business and Community Interaction (HE-BCI) Survey.

In July 2008 we published data for HE-BCI for the year 2006-07 (which was also used to calculate HEIF round four allocations). Data showed improved performance of the sector across a range of indicators.

HE-BCI data for activity and income relating to 2007-08 were gathered between November 2007 and January 2008. Despite difficult economic conditions that started over that year, initial analysis of the data suggests healthy growth across much of the sector's activity. The results of the survey will be published in summer 2009.

The HE-BCI Survey has reached a state of maturity and we are aiming to transfer data collection to the Higher Education Statistics Agency for next year's survey. Good progress has been made in the year to work with the Higher Education Statistics Agency to effect a secure transfer that will not impair data quality.

### Long-term third stream strategic development

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

The overview we commissioned of HEIF round four strategies has provided us with an important evidence base to summarise the progress of the HE sector, and to identify residual policy challenges for the future. We will also use the evidence gathered through the evaluation to provide us with the basis for long-term strategic development in the future.

We have continued to monitor our joint<sup>9</sup> Beacons of Public Engagement programme

which, together with HEIF round four analysis, will provide information towards future development of the community engagement dimension to the third stream.

We have also supported Universities UK and GuildHE in demonstrating and promoting the HE contribution to assist through the economic downturn. This included the production of a brochure – 'Standing Together' – to highlight the types of support that HEIs may give to individuals, communities and businesses to help them thrive in the short and long terms.

In the next year, we expect to use evidence to enable us to move towards further embedding and improvement of the third stream in the HE sector. However, we also expect to need to keep a close eye on the potential destabilising effects of wider economic conditions on the achievement of our objectives.

<sup>9</sup> With Research Councils UK and the Wellcome Trust.

<b>Key performance targets and progress to March 2009</b>	
<p><b>KPT11:</b> By 2007-08 to achieve wide stakeholder acceptance of the validity and relevance of a set of measures describing what is delivered by each HEI, and by the sector as a whole.</p>	<p><b>Achieved:</b> The HE-BCI Survey has been approved by stakeholders as robust for long-term data collection through the Higher Education Statistics Agency. It has also been used as sound basis for allocating funds in HEIF round four. While we believe that the present set of metrics is fit for purpose (and hence the key performance target achieved), we should always seek improvement. We therefore intend to conduct development work on a potential broader set of metrics in the next year, and would subsequently seek stakeholder acceptance if any metrics emerge that are potentially valid and relevant.</p> 
<p><b>KPT12:</b> 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.</p>	<p><b>On target:</b> Allocations under round four of the HEIF have been made to all HEIs and represent a 36 per cent increase in funding over HEIF round three for the 2008-09 financial year. HEIF allocations are profiled for the following two years, representing increases of 20 per cent and 12 per cent for 2009-10 and 2010-11 respectively.</p> <p>Data from the most recently published HE-BCI Survey (2006-07) show increases in funding from other sources such as: collaborative research involving public funding (for example, Research Councils, European Union) and private funding; and regeneration funding from UK and European sources.</p> 
<p><b>KPT13:</b> By 2007, to support up to 10 pilot projects to test methods of increasing targeted engagement with users, and by 2009-10 to reflect the results of the pilots in funding.</p>	<p><b>Achieved:</b> Five pilot projects were supported and results were fed successfully into the design of HEIF round four.</p> 
<p><b>KPT14:</b> Throughout the period, to demonstrate year-on-year improvement in the impact of the HE sector on business and the community.</p>	<p><b>On target:</b> HE-BCI 2006-07 data showed real-terms increases in most indicators (such as consultancy and contract research), from the public and private sectors, including small and medium-sized enterprises. Very early indications of data returned for 2007-08 again suggest substantial increases across most indicators.</p> 

## 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.

### 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 changes in market conditions – for example the introduction of variable tuition fees, 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<sup>10</sup>.

<sup>10</sup> Risk added in December 2008.

### Society's development through sustaining a successful HE sector

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

The HE sector is recognised as world class and makes a contribution to intellectual, social and economic wellbeing, both nationally and internationally. To retain its reputation it must continue to develop a range of missions to meet the needs of a wide variety of stakeholders. Our institutional teams work with HEIs to achieve this objective, drawing on the resources of our Strategic Development Fund.

As costs have increased and the economy has slowed during the past 12 months, the challenges facing those who lead HEIs have increased. Reduced liquidity has made it more difficult to finance the transformational activity that might be necessary to respond to changing market conditions. It has also challenged institutions' aspirations for their physical infrastructure. New skills sets have been required from institutional leaders, who can no longer manage change through growth as readily as in the past.

Nonetheless, as the sector moves forward into 2009-10, there has been a good settlement of nearly £8 billion for allocation across the sector and capital funding is assured until 2011.

### Promote further development of leadership, governance and management

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

The leadership, governance and management of the English HE sector has demonstrated its capacity and capability by delivering an HE system with a global reputation in an environment of increasing competition from other English-speaking countries.

We have supported these developments by continuing to fund the Leadership Foundation for HE and to use our Leadership, Governance and Management Fund to enhance good practice. A highlight

of the year has been the programme of work to embed good governance, delivered by the Leadership Foundation under the auspices of the Committee of University Chairs. We have also published our second Sustainable Development Action Plan and launched a new Revolving Green Fund, which provides recoverable grants to institutions for projects that reduce their greenhouse gas emissions.

Leadership skills within the sector are challenged by the economic downturn, but there is no reason, as yet, for concluding that the sector will not cope with this challenge as it has coped with earlier ones. As the pressure for efficiency grows, however, our objective of supporting the sector through shared service initiatives will prove unattainable if the rules that make bought-in services subject to VAT remain unchanged. For this reason, and due to the challenges of the economic downturn, the indicator has been set at amber throughout the period under review.

### Risk-based accountability framework

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

Those who invest in HE, including students, banks, donors and funders of research, need to have confidence in the sector. We have a role to demonstrate value for public investment 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 52 to 54.

In order to offer effective support to HEIs we developed our information gathering through the 'single conversation', which brings together and streamlines a number of monitoring returns. This now forms the basis of our accountability framework for institutions.

We have monitored the increasingly volatile conditions caused by the economic downturn during this period and our institutional and assurance teams have worked closely with HEIs. The sector has responded positively to government strategies to address the economic situation.

However, we adjusted the indicator for this objective to amber in December 2008 in acknowledgement of the significant challenges and increased levels of risk faced by the sector as a result of the economic downturn, as well as concerns arising from a number of data audits. We end the year with an increased number of institutions assessed as being 'at higher risk', and we forecast that this number will increase in the next two years.

#### Continued investment in the HE infrastructure

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

Academic excellence is supported by good-quality buildings, equipment and information technology. We provide funding in these areas, based on the decisions made by HEIs themselves on the infrastructure that is appropriate to their needs.

Capital funding over 2008-2011 has been confirmed at the levels promised. HEIs have responded positively to our invitation to bring forward capital projects as a contribution to addressing the challenges of the economic downturn. We are conscious that liquidity issues within the banking sector may make it more difficult to raise the private finance that complements our funding. We are monitoring the situation and are assured that, since HE is considered a low-risk area, finance should be available, although margins may be higher than previously obtained.

We are working to develop our Capital Investment Framework to increase still further the emphasis on carbon reduction and possibly to include a requirement for sustainable building standards.

#### Continuing development of people and organisational culture

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

The success of the English HE sector owes much to the calibre of its staff. We provide information to assist HEIs in their strategic human resources planning by means of our Workforce Framework and our annual update on staff employed at HEFCE-funded HEIs. We continue to fund the Equality Challenge Unit and an evaluation is underway of its role of promoting a more diverse HE workforce and student population.

The indicator was set at amber in 2008-09 because the proportions of disabled people at senior positions in HE had remained unchanged. We have undertaken a programme of work on this, which is outlined below under key performance target 19. The indicator has also remained at amber because implementation of the pay award presented challenges to the sector in a period of rapidly rising non-pay costs and pensions pressures.

<b>Key performance targets and progress to March 2009</b>	
<p><b>KPT15:</b> To finalise during 2008-09 in consultation with stakeholders a revised strategy for sustainable development in HE, which features a realistic target for carbon reductions which are sufficient to ensure satisfactory progress towards the government targets of reducing carbon emissions by 60 per cent against 1990 levels by 2050 and at least 26 per cent by 2020.</p>	<p><b>On target, partly behind schedule:</b> We published 'Sustainable development in higher education – 2008 update to strategic statement and action plan' in February 2009 (HEFCE 2009/03). A research project is under way and is reporting in April 2009 on developing the realistic carbon reduction target. This includes how to establish a 1990 baseline and define what is in scope and what is outside of scope, how to measure whatever is in scope, and how to take account of variations in volumes of output. We expect to then consult on a carbon reduction strategy. We have already signalled that carbon reduction requirements will be stronger in the next round of capital funding.</p> 
<p><b>KPT16:</b> Through increased influence of procurement expertise across all areas of non-pay expenditure, to deliver measurable benefits for re-investment across the sector worth £100 million a year by 2007-08.</p>	<p><b>Achieved:</b> In 2007-08 we delivered procurement efficiencies totalling £103 million. A new target is under development to deliver measurable benefits for re-investment across the sector worth an additional £67 million a year by 2010-11.</p> 
<p><b>KPT17:</b> To provide annual assurances to Parliament that internal control, corporate governance and risk management in the sector are effective, and that value for money is being achieved. To do this while reducing the cost of accountability by 20 per cent between 2004 and 2007, and by a further 10 per cent by 2011.</p>	<p><b>On target:</b> PA Consulting assessed the burden on the sector as having been reduced by 21 per cent between 2004 and 2008.</p> 
<p><b>KPT18:</b> By 2008 all HEIs will be able to identify the level of investment required to sustain their physical infrastructure. From then on, actual levels of investment across the sector demonstrate progress towards achieving sustainable physical infrastructures.</p>	<p><b>On target:</b> All HEIs have been assessed against the requirements of the Capital Investment Framework. Most HEIs have met the requirements and we are working with the remaining HEIs to meet the requirements by March 2011. Annual monitoring against the Capital Investment Framework requirements are included as part of the single conversation, which brings together and streamlines a number of monitoring returns.</p> 

**Key performance targets and progress to March 2009**

**KPT19:** 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.

**Partially on target:** Proportions of female and minority ethnic staff at senior levels are increasing. Female appointments are increasing at a faster rate than might be anticipated from the rate of turnover in institutions. Proportions of disabled senior staff remain static, which may be caused by under-reporting, and HEIs are working to improve disclosure rates. A credibility check on the Higher Education Statistics Agency data record is being undertaken.

**Strategic aim: Enabling excellence (our role)**

To ensure that we can effectively deliver our 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.

**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.

## Leadership

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

How we perform as an organisation has a major impact on how over £7 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, both here and overseas.

We recognise that our continuing success depends on our ability to adapt to changing circumstances and continuously improve what we do. Since 2000 we have been using the European Foundation for Quality Management Excellence Model (EFQM) as a basis for identifying our strengths and areas for improvement. In May 2008 we were 'Recognised for Excellence' by EFQM. Following rigorous assessment, it awarded us recognition with five stars – the highest level available under the award. The lead EFQM assessor commented that HEFCE 'is an impressive, well-managed organisation packed with enthusiastic and knowledgeable staff'. This is a significant achievement that takes us a long way towards achieving our key performance target 20. We are now making use of the feedback received from the assessment to build on this success.

Over the year we have been implementing further changes to our organisational design, building on the move to a three-directorate structure in February 2008. The focus has been cultural change and process development supported by changes to structures and roles particularly in institutional teams (formerly regional teams), policy teams, analytical services, assurance and governance. Our three new associate directors took up their posts in September. These changes will enable us to build on a strong base, adapt to changing circumstances, and respond positively and creatively to the policy and economic environment, while continuously improving what we do in a cost-effective way. A key aim is to further enhance our relationship

with institutions and ensure that institutional perspectives are given full consideration in the development and evaluation of our policy. The changes are designed to make the most efficient and effective use of our staff.

Sir Alan Langlands replaced Professor David Eastwood as our Chief Executive on 1 April 2009. Public announcement of the appointment was made in November 2008.

## Governance

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

The Council's governance arrangements continue to reflect recognised good practice. The Chair of the Board, Tim Melville-Ross CBE, who was appointed on 1 January 2008, conducted an appraisal of the Board during the year through discussions with Board members. This appraisal, along with the annual assessment of the Council's governance risks, was discussed at the Board's annual away day in February 2009. The risk assessment is subject to audit each year to provide independent assurance that the risks are appropriately managed. Board members are appointed by the Secretary of State – their backgrounds and interests are published on our web-site. 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, JISC and the UK Healthcare Education Advisory Committee. In February 2009, the Chair recommended that the Board appoint a Deputy Chair both to stand in for the Chair when required and to lead on the appraisal of the Chair. The Board agreed to appoint Ed Smith to this position.

The Audit Committee continues to operate to standards consistent with our Audit Code of Practice with institutions. The Committee has three Board members, one of whom is the Chair, and four independent members. It meets four times each year in the presence of both internal and external auditors. Each of the Council's directors attends the Committee annually to present a report on how they manage the risks for which they are responsible. 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 the HE sector.

We have a strong system of internal control as evidenced through the Control Risk Self-Assessment process and the low number of higher-priority recommendations in internal audit reports. Further information is given in the Chief Executive's Statement of Internal Control on pages 53 to 55.

In the year we became aware of a security weakness within a confidential area of our Electronic Data Records Management (EDRM) system which contained some personal information about HEFCE colleagues. As a result of this weakness one member of staff gained unauthorised access to certain confidential documents. The EDRM security systems have now been tightened and appropriate action taken, including a management investigation, with all staff being reminded of our information security policy and the possibility of disciplinary action in the case of computer or information misuse.

There have been no incidents to report to the Information Commissioner's Office.

### People

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

We employ around 240 full-time equivalent staff. As a relatively small organisation we appreciate that our success depends on talented, flexible and proactive staff who are committed to continuous improvement.

We believe it is important for our effectiveness that we develop and reward high performance within a supportive learning culture. In our view, such a culture is best nurtured by a relatively flat structure and a non-bureaucratic style, where there is high respect for individual needs and diversity. We believe that the corporate leadership and management style needs to be participative and sensitive to the different needs of staff, always with an emphasis on sound relationships and integrity. We recognise that different people are motivated by different things and we are continuing to develop our framework of financial and non-financial rewards, including pay, personal development and respecting the need for work-life balance.

This approach is reflected in the aims of our people strategy and the way we are consulting with colleagues across the organisation in developing a shared understanding about responsibilities for delivering these aims.

In July 2008 we received confirmation that we had retained our 'Investors in People' status. The assessor felt that the Council demonstrated 'an ethos of inclusion, consultation, support, development, encouragement, empowerment and a high level of commitment to all staff'. We have now retained the standard for over 10 years which we believe is an endorsement of our continuous commitment to involving and developing our staff in a way that underpins our strategic plan and performance management system. Our most recent staff survey results show high levels of overall satisfaction among employees. For example, 80 per cent of respondents agreed or tended to agree that they were satisfied with HEFCE as an organisation to work for. This compares favourably with an external benchmark of 76 per cent<sup>11</sup>.

We also monitor sickness absence. For individuals the aim is to get early warning of any issues and to be able to support colleagues in dealing with any chronic health problems or returning to work after extended periods of sick leave. At the organisational level we believe that sickness is a useful indication of staff satisfaction and wellbeing. Absence due to sickness at HEFCE is very low compared to other organisations (an average of 4.7 working days lost for HEFCE, against a public sector median of 9.8 and an other sector median of 8). We have recently revised our data collection process for sick leave to ensure that as we go forward we are not under recording self-certified sick leave.

Our new equality and diversity targets were agreed by the Board in December 2008 (for more details see [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/HEFCE's Board). These targets support our aspirations for a more diverse workforce.

<sup>11</sup> Organisations whose commercial and financial performance is consistently above the average for their industry and who have a reputation for excellence in their management practices. Data provided by International Survey Research.

## Policy and strategy

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

We developed our strategic plan for 2006-2011 in consultation with our stakeholders, setting out our mission, aims, objectives and key performance targets. It also details what we consider to be the key strategic risks to achieving these objectives.

We had envisaged engaging our stakeholders in the development of a 2009-2014 strategy in 2008-09. However, we have decided to defer the process of developing this fully revised strategy, largely in anticipation of the publication by DIUS in 2009 of a 10-15 year framework for HE. We have therefore updated our 2006-2011 strategic plan for 2009 to reflect changing circumstances. Both we and the HE sector have had opportunities to contribute to the development of the Government's framework, and it will inform future HEFCE strategy.

We have taken steps to co-ordinate the advice we receive from our strategic committees, to make that advice more visible and in doing so to help our stakeholders into discussions of the long-term strategic issues we face. In October 2008 we brought our five strategic committees together for our inaugural strategic committees' conference with the theme of 'HE in 2023'. In April 2009, the HEFCE Annual Conference featured sessions led by our strategic committee chairs. These sessions outlined the major strategic challenges and invited attendees to debate the view taken by the committees.

We aim to develop policy openly, transparently, and to consistently high standards. We draw on evidence from data, research and evaluation, and international experience; advice from the Board's strategic advisory committees; and feedback from consultation and engagement with our stakeholders. Details of particular policy developments in 2008-09 are included in earlier sections of this report. Our specially commissioned research and evaluation reports are available on our web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), under Publications/Research & evaluation.

Our Board papers and minutes are available under About us/HEFCE's Board.

## Embedding international activity

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

The progress reported in the 2007-08 report on the development of the International Unit at Universities UK has continued through 2008-09 with a very positive report from external assessors on its first full year of operation. We will be working further with the International Unit this year to ensure that the resource that the UK HE funding councils and the British Council provide delivers value for money for the UK HE sector.

Over the year we have further embedded awareness of the international context for HE within HEFCE. We have made progress in information sharing, for example, through updated international information on our internal intranet site which is available to all our staff, and inclusion of international issues in the induction process for new staff. Policy teams have increased their engagement with the international context within which they work and have identified relevant areas of international interest. Work under our business and community strategic aim and research strategic aim in particular receives international attention for the lead which we are perceived to take by the rest of the HE world. Work continues to maintain and expand our international knowledge base and engagement with relevant policy developments.

## Partnership working

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

Working in partnership is essential for delivery of our strategy. We attach the greatest importance to engaging systematically with our stakeholders, for example universities and colleges, Government, the other UK funding bodies, businesses, employers and representative bodies.

Our annual conference in April 2008 'Unlocking the full potential of higher education' helped us to develop our

strategic thinking on how we can realise the full potential of HE to the benefit of the economy and society. The conference delegates heard ideas from a range of stakeholders including Government, students, businesses and HEIs. We were also able to engage with a wider group of stakeholders through innovative reporting on the conference via the HEFCE web-site and a conference blog. The blog attracted more than 1,600 visitors in two days.

A substantial report on 'HE in England' was published in February 2009. This is an overview of the character, size and scope of English HE. It draws attention to the considerable successes of the sector, and aims to explain core areas of its work where there is a perceived lack of public clarity. There has been a large demand from a wide group of stakeholders for copies of this book.

The results from the Ipsos MORI survey of communications and relations between HEFCE and its key non-HEI stakeholders and staff, now due to be published in summer 2009, will help to inform HEFCE's future stakeholder relations activity. This is the second survey of its kind. The previous survey was conducted in 2005.

#### Resource management

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

The 2008 grant letter to us from the Department for Innovation, Universities and Skills set out funding for 2008-2011. This included running costs for 2008-09 to 2010-11 at levels that enabled us to deliver additional activities while also delivering required efficiencies. These running costs remain at 0.27 per cent of the grant we distribute.

However, the economic downturn – along with the 2009 grant letter only covering 2009-10 – has led to uncertainty around the funding that will be available in 2010-11 and later years. This is the reason for the amber rating in January to March 2009.

Our organisational structure, planning framework and budgeting processes are integrated and designed to ensure our resources are aligned to deliver our strategic objectives. We are continuing to increase our understanding of the costs of

our activities and the factors that drive them, so that they can be managed even more effectively. This work is crucial in dealing with increased pressure around the allocation of scarce resources to activities. As part of this we are continuing to contribute to benchmarking exercises, particularly those around our support functions.

Due to other priorities, we delayed the development of an information and communications technology (ICT) strategy in 2008-09. IT will be developed in 2009-10 to support us in making even greater use of information and communications technology to support the delivery of our strategic objectives. We are also looking to secure better value from our own procurement spend as well as making better use of the available space within our main office space at Northavon House, Bristol.

We are continuing to develop our financial and management reporting, by extending the use of online reporting, already used for our running costs budgets, to our programme budgets.

#### Processes

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

We manage four key business processes: funding; stakeholder relationship management; institutional risk; and policy. This year we have expanded the role of our internal project management network to include process management. This will support further development of processes in line our work on the EFQM excellence model.

#### Corporate social responsibility

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

As a public sector organisation with a range of key stakeholders, we aim to behave 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. Our CSR report for 2007-08 was published in August 2008. In

November 2008 we published our new CSR policy for 2008-2011 and action plan for 2008-2010. Our 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 action plan sets out key actions planned until March 2010 designed to achieve the objectives and targets set out in our CSR policy.

In 2008 we gained certification to ISO 14001, an international environmental management system standard, and achieved the Carbon Trust Standard, which certifies that we have genuinely reduced our carbon footprint and are committed to making further reductions year on year.

We will publish our 2008-09 CSR report in summer 2009. This will include progress against the targets set out in our CSR policy and our environmental performance indicators, with data on carbon dioxide emissions, energy usage, water usage, waste disposed to landfill and recycling. We commissioned an independent review of our data collection processes and the findings will inform the calculation of this year's environmental performance indicators. Mid-year data suggests that we will meet our 2009 indicative milestones for our 2011 targets.

We are participating in the Business in the Community Corporate Responsibility index to benchmark our performance and will receive the results in summer 2009.

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

We continue to look to reduce the time taken to produce our annual report and accounts. Our 2007-08 annual report and accounts were laid before parliament on 22 May 2008.

#### Key performance results

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

As well as producing the annual report and accounts, we report quarterly by exception to the Board on progress against the operating plan, including details of issues relating to any of the key performance targets. The reports are subsequently published on [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Operating plan.

<b>Key performance targets and progress to March 2009</b>	
<p><b>KPT20:</b> By 2008, HEFCE to be assessed by the European Foundation for Quality Management (EFQM) as achieving level 2 ('Recognised for Excellence'), and thereafter to maintain this standard across the remainder of the planning period.</p>	<p><b>On target:</b> In May we were 'Recognised for Excellence' by the EFQM. Following rigorous assessment, EFQM awarded HEFCE recognition with five stars – the highest level available under the award.</p> 
<p><b>KPT21:</b> Stakeholders' satisfaction with the Council to at least match relevant external benchmarks and show an improving trend over the planning period.</p>	<p><b>On target:</b> The report from Ipsos MORI on the 2007 survey of communications and relations between HEFCE and universities and colleges demonstrated a strong and improving trend with regard to stakeholder satisfaction. Favourability towards HEFCE has continued a steep upwards trend since the survey conducted in 2000 (84 per cent in 2007, compared with 76 per cent in 2003 and 61 per cent in 2000). Three-quarters of respondents indicated that they were satisfied with the relationship their institution had with HEFCE, and 80 per cent thought that quality of staff was good compared with 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.</p> <p>We have changed the timing of the surveys to assess this target from the dates originally set out in our strategic plan 2006-11. We are planning a further Ipsos MORI survey of communications and relations between HEFCE and its key non-HEI stakeholders in 2009. The next survey of universities and colleges will be conducted in 2010.</p> 

**Key performance targets and progress to March 2009**

**KPT22:** To review our role in consultation with our stakeholders, to ensure we add maximum value in enabling the sector to meet the needs of students, the economy and society. In doing so we will consider whether any further activities could be devolved to institutions and sector-based bodies.

**On target, slightly behind schedule:** The context for this review has changed since the KPT was formulated. The Government is developing an HE framework which will be published in the summer of 2009, intended to inform policy development over the next 10-15 years. With the agreement of the Department for Innovation, Universities and Skills, the review of our role will be conducted in the context of whether our activities are delivered effectively and efficiently and are valued by the sector, and whether best practice or sector demand suggest more or less might be done. It will also consider HEFCE's capacity to deliver the vision outlined in the Government's policy framework. It is intended that the review be completed by the end of the 2009-10 financial year, slightly later than originally envisaged.

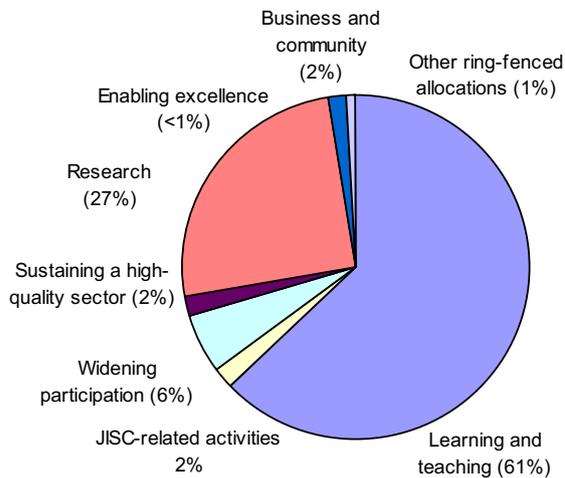


## Financial results for 2008-09

### Funding and expenditure in year

In delivering the strategic objectives outlined in the previous pages, HEFCE's total income for 2008-09 was £67 million (2007-08: £55 million). This figure does not include grant in aid received from DIUS, since in accounting terms this is treated as financing (and taken directly to the balance sheet) rather than income. In 2008-09 HEFCE received a total of £7,507 million of grant and grant in aid (2007-08: £7,342 million).

Total expenditure in year was £7,534 million (2007-08: £7,360 million). Of this £7,514 million relates to grants payable to institutions and others, paid under our strategic aims as follows:



### Efficiency in delivery

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 which 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 2008-09, the total allocated as special funding has decreased year on year, and we plan to continue this for 2009-10 so that the proportion declines from 5.4 per cent to 4 per cent of total grant.

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 2008-09 to 2010-11 we will make 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 DIUS's 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 DIUS 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 2009 our cash balance was £8 million (£25 million in 2008). The decrease in cash balance reflects a movement in working capital and does not impact on HEFCE's ability to meet its future liabilities or its status as a going concern.

In resource terms our FM with DIUS advises us that in normal circumstances we can 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 2009 our resource balance was £nil million for recurrent grant and £53 million for capital and other grant (2008: (£5 million) recurrent and £52 million capital and other). The 2009 capital balance relates to timing differences in the payment of grant for certain capital expenditure programmes which span financial years, and is carried forward for use in future years.

### 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 which targets payment within 30 days, and monitor our performance in year against this target. In 2008-09 we met this target for 98 per cent of invoices (2007-08: 98 per cent).

In November 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 has increased from 54 per cent in November 2008 to 74 per cent in March 2009. During 2009-10 we will look to sustain and improve on this performance, balancing the request to move towards a 10-day payment profile against the impact on our resources and the need to maintain effective internal controls.

### Financial reporting standards

HEFCE's 2008-09 annual accounts have been prepared under generally accepted accounting practice (UK Generally Accepted Accounting Principles). From 1 April 2009 HEFCE, in line with all relevant central government public sector organisations, will adopt International Financial Reporting Standards (IFRS).

As part of the preparation for IFRS, HM Treasury has advised all NDPBs of 'Trigger Points' – deadlines by which required actions must be completed. HEFCE has already met Trigger Point 1 (restatement of 31 March 2008 balance sheet onto an IFRS basis) and has received its Trigger Point 2 (audit of the above) report from the National Audit Office. The report raised no significant findings and confirmed HEFCE's readiness for this stage in the process.

We have already commenced work on the next exercise, Trigger Point 3, which involves the restatement of these annual accounts onto an IFRS basis. We fully expect this exercise to be successful and to prepare us for the complete implementation of IFRS reporting for the 2009-10 financial year.

## 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 28 April 2009 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2008-09. 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. For 2008-09 membership was as follows.

### Chair (from August)

**Rob Douglas, CBE\*** Business Advisor,  
Douglas Associates Limited

### Chair (to July)

**Professor Nigel Savage\*** Chief Executive,  
College of Law

### Members

**Alastair Balls, CB\*** Chairman, Centre for  
Life, (to December)

**Stephen Dexter** Former Partner, Grant  
Thornton UK LLP

**Sir Paul Judge\*** Businessman, (from  
December)

**Professor Peter Rubin\*** Professor of  
Therapeutics, University of Nottingham

**Michael Sheasby** Former Chair, Brunel  
University Audit Committee

**Kathleen Tattersall, OBE** Chair, University  
of Manchester Audit Committee

**Ninian Watt** Chair of Board of Governors,  
Leeds Metropolitan University

**Fraser Woodburn** Secretary, Open  
University

\* 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 higher education 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 DIUS 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 2008-09 is £50,000 plus £5,500 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 2009 shows net liabilities of £182 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, DIUS. 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 2009-10, 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*

7 May 2009

## Remuneration report

### Part one (unaudited)

#### Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2008-09 were:

##### Chair

**Tim Melville-Ross, CBE** HEFCE Chair

##### Members

**Jackie Fisher CBE** (to December), HEFCE Board member

**Peter Saraga OBE** (to July), HEFCE Board member

**Dame Patricia Hodgson** (from December), HEFCE Board member

**Ed Smith** (from December), 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 DIUS 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 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 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.

The salary increases and bonuses that came into effect from April 2008 for these postholders were calculated using the formula that applied to all staff (excluding the Chief Executive). The performance review scores that drove the formula were agreed by the Committee.

From August 2009 salaries and bonuses for these postholders will be calculated in a different way to all other staff (as is the case in many other Civil Service organisations). The Committee will review 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 higher education sector, the public sector, and the senior civil service.
- Performance, taking account of delivery of objectives, feedback from third parties, 360° 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 pay ranges with upper and lower limits are set, 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° feedback and a self-assessment by the individual and team.

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Innovation, Universities and Skills. Contracts for directors are open-ended. The contract for the Chief Executive stipulates a 12-month notice period; for directors, it has been increased to 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 Innovation, Universities and Skills. Appointments are made on the basis of expertise in the field of higher education 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 Innovation, Universities 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 2009, was £46,650 (2007-08: £45,735). For the year to 31 March 2009 Tim Melville-Ross CBE 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 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 total emoluments including taxable benefits for Professor David Eastwood, HEFCE Chief Executive, are shown in the following table.

**Chief Executive's remuneration**

		Year ended 31 March 2009 £	Year ended 31 March 2008 £
Salary paid in year	a	204,771	190,208
Taxable benefits	b	-	597
Employer's pension contributions	c	26,148	25,201
		<b>230,919</b>	<b>216,006</b>

a Including a non-consolidated performance related bonus of up to 10 per cent.

b No taxable benefits in year (2008 includes relocation costs).

c Professor David Eastwood is a member of the Universities Superannuation Scheme (USS).

Members of the HEFCE Board received remuneration in year as shown in the following table.

**Board members' remuneration**

		Year ended 31 March 2009 £	Year ended 31 March 2008 £
Alastair Balls, CB		5,000	5,000
Rob Douglas, CBE (from August)		3,333	-
Jackie Fisher, CBE (to December)		3,750 *	5,000
Professor Malcolm Grant (from December)		1,667 *	-
Dame Patricia Hodgson		5,000	5,000
Sir Paul Judge (from December)		1,667	-
Rene Olivieri		5,000	417
Professor Peter Rubin		5,000	5,000
Peter Saraga, OBE (to August)		1,667	5,000
Professor Nigel Savage (to August)		1,667 *	5,000
Ed Smith		5,000	5,000
Sir Richard Sykes (to September)		2,500 *	5,000
Ann Tate		5,000 *	5,000
Professor Paul Wellings		5,000	5,000
John Widdowson (from January)		1,250	-
Professor Dianne Willcocks, CBE		5,000 *	5,000
Professor Tim Wilson		5,000 *	5,000
		<b>62,501</b>	<b>60,417</b>

In addition to the payments shown above £1,000 (2008: £2,000) was paid to the independent advisory member **Georgina Butcher\*** for her services to September.

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. The 2008 figure for **Rene Olivieri** shows remuneration for the past year from March 2008 (full year equivalent £5,000).

<b>Senior employees' salaries</b>		
	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
<b>Professor David Eastwood</b> , Chief Executive	<b>200-205</b>	190-195
<b>Steve Egan</b> , Deputy Chief Executive and Director – Finance and Corporate Resources	<b>125-130</b>	115-120
<b>John Selby</b> , Director – Education and Participation	<b>105-110</b>	95-100
<b>Rama Thirunamachandran</b> , Director – Research Innovation and Skills (to June 2008) a	<b>25-30</b>	105-110
<b>David Sweeney</b> , Director – Research Innovation and Skills (from September 2008) b	<b>60-65</b>	-
<b>Liz Beaty</b> , Director – Learning and Teaching (to February 2008) c	-	90-95

a For the period to 16 June 2008; full year salary £105,000-110,000.

b From 1 September 2008; full year salary £110,000-115,000.

c Liz Beaty joined the University of Cumbria on 1 March 2008; prior year figures are retained for comparison purposes and are for the period to 29 February 2008 (full year salary £95,000-100,000).

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.

<b>Senior employees' pensions</b>					
	<b>Accrued pension age 60 at 31 March 2009 £000</b>	Real increase in pension at age 60 £000	<b>CETV at 31 March 2009 £000</b>	CETV at 31 March 2008* or start date £000	Real increase in CETV £000
<b>Professor David Eastwood</b> , Chief Executive					
Pension	<b>55-60</b>	2.5-5	<b>791</b>	834	(75)
Lump sum	<b>165-170</b>	(2.5-5)			
<b>Steve Egan</b> , Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	<b>45-50</b>	2.5-5	<b>840</b>	721	63
Lump sum	<b>135-140</b>	10-12.5			
<b>John Selby</b> , Director – Education and Participation					
Pension	<b>45-50</b>	2.5-5	<b>1,067</b>	984	60
Lump sum	<b>140-145</b>	7.5-10			
<b>David Sweeney</b> , Director – Research Innovation and Skills (from September)					
Pension	<b>40-45</b>	5-7.5	<b>771</b>	658	90
Lump sum	<b>130-135</b>	20-22.5			
<b>Rama Thirunamachandran</b> , Director – Research Innovation and Skills (to June)					
Pension	<b>20-25</b>	0-2.5	<b>321</b>	313	9
Lump sum	<b>70-75</b>	0-2.5			

\* 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 (PCSPS) 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](http://www.civilservice-pensions.gov.uk)).

For 2008-09, employers' contributions were payable at one of four rates in the range of 17.1 per cent to 25.5 per cent (*2007-08: 17.1 per cent to 25.5 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. From 2009-10 rates will be in the range of 16.7 per cent to 24.3 per cent. 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) or 1/60th (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 2009 three HEFCE employees had a partnership pension account (*2008: three employees*). Contributions due to partnership providers for 2008-09 were £6,281 (*2008: £4,070*).

### Universities Superannuation Scheme

Certain staff transferring from higher education 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. For 2008-09 the rate of employers' contributions was 14 per cent (*2007-08: 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*

*7 May 2009*

## 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 Innovation, Universities 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 Innovation, Universities 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 Innovation, Universities 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, I have responsibility for maintaining a sound system of internal control that supports the achievement of our strategic aims 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. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council's strategic aims 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 2009 and up to the date of approval of the annual report and accounts, and this statement 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](http://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.

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 23 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. Our strategic risks were identified alongside the development of our 2006-2011 strategic plan, and therefore 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 a summary of the 23 strategic risk scores: 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 aims to identify new and changing risks, to confirm that controls are operating in respect of the key risks, and to evaluate the effectiveness of those controls. The full risk register is reviewed as a whole as part of the 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 higher education. We are therefore issuing a further update of our 2006-2011 strategic plan in early 2009-10 to reflect changing circumstances. As part of this update, we have added a new strategic aim for employer engagement and skills to reflect the increased importance of this area of our work. 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, and a plan is in place 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 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. Specific developments during 2008-09 include:

- We implemented changes to the organisational structure and some roles, with the aim of ensuring that our limited resources are best able to secure the achievement of our strategic aims and to address the risks involved.
- After development and consultation, we issued a new financial memorandum between HEFCE and institutions, incorporating an updated accountability and audit code of practice, effective from 1 August 2008.
- We strengthened our data management arrangements in accordance with the Data Handling Procedures in Government Review, including enhancing our information assets register, and reviewed our status against the HMG Security Policy

Framework in anticipation of Departmental requirements.

- Our Board and Audit Committee have been kept informed of the effects of the current economic climate and 'credit crunch' on the sector and our response to this. The Assurance and Institutional Risk Team has been reshaped in response to increased demands resulting from this as well as additional work imposed by one particular HEI at higher risk.
- We were awarded five stars, which is the highest level, under the 'Recognised for Excellence' scheme by the European Foundation for Quality Management (EFQM). We have also been re-accredited as an Investor in People.
- We achieved ISO 14001, an international environmental system standard, and the Carbon Trust Standard which certifies that we have genuinely reduced our carbon footprint and are committed to making further reductions year on year.

Our internal control 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 these controls (via their assurance statements), and I then also review the key annual controls which inform this statement. I have received assurance from the previous Accounting Officer who carried out his interim effectiveness review on 24 March 2009. 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 and the Teaching, Quality, and the Student Experience Committee.

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 issues that required specific actions to manage the associated risks. Details of the most significant issues and the actions taken have been recorded in the individual assurance statements referred to above. I do not consider that any of these issues indicates a significant weakness in our internal controls which would warrant disclosure here.

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

*7 May 2009*

## 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 for the year ended 31 March 2009 under the Further and Higher Education Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Higher Education Funding Council for England, Chief Executive and auditor

The Higher Education Funding Council for England and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of HEFCE's and the Chief Executive's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills. I report to you whether, in my opinion, the information, which comprises Management commentary; Our mission; Our

performance and achievements in 2008-09; Strategic aim: Enabling excellence (our role); Financial results for 2008-09; and Preparation of the annual report and accounts, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword, the unaudited part of the Remuneration Report; Strategic aim: Enhancing excellence in learning and teaching; Strategic aim: Widening participation and fair access; Strategic aim: Enhancing excellence in research; Strategic aim: Enhancing the contribution of HE to the economy and society; Strategic aim: Sustaining a high-quality HE sector; and Appendix 1. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

### Opinions

#### Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills, of the state of the Higher Education Funding Council for England's affairs as at 31 March 2009 and of its net expenditure for the year then ended;
- the financial statements and the part of the remuneration report to be

audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Innovation, Universities and Skills; and

- information, which comprises the Management commentary; Our mission; Our performance and achievements during 2008-09; Strategic aim: Enabling excellence (our role); Financial results for 2008-09; and Preparation of the annual report and accounts, included within the Annual Report, is consistent with the financial statements.

#### Audit Opinion on Regularity

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

#### Report

I have no observations to make on these financial statements.

*T J Burr*  
*Comptroller and Auditor General*  
*National Audit Office*  
*151 Buckingham Palace Road*  
*Victoria*  
*London*  
*SW1W 9SS*

*8 May 2009*

## Income and expenditure account for the year to 31 March 2009

	<i>Note</i>	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
<b>Income</b>	3	<b>66,671</b>	55,456
<b>Expenditure</b>			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	4	<b>7,452,384</b>	7,273,515
Other ring-fenced allocations	4	<b>62,799</b>	69,420
Provision reversed unused in year	12	<b>(1,032)</b>	<b>(846)</b>
		<b>7,514,151</b>	7,342,089
Council administration costs			
Staff costs	5	<b>12,386</b>	11,765
Other administration	6	<b>7,853</b>	6,488
Depreciation	7	<b>69</b>	78
		<b>20,308</b>	18,331
Total expenditure		<b>7,534,459</b>	7,360,420
<b>Total net expenditure before interest</b>		<b>7,467,788</b>	7,304,964
Notional interest on capital	8	<b>(6,878)</b>	<b>(7,533)</b>
Unwinding of discount	12	<b>5,722</b>	5,726
Increase in provision	12	<b>36,410</b>	23,380
<b>Total net expenditure after interest</b>		<b>7,503,042</b>	7,326,537
Reversal of notional interest on capital		<b>6,878</b>	7,533
<b>Net expenditure for the year transferred to general reserve</b>		<b>7,509,920</b>	7,334,070

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

*The notes on pages 61 to 84 form part of these accounts.*

**Balance sheet as at 31 March 2009**

	<i>Note</i>	<b>As at 31 March 2009 £000</b>	<b>As at 31 March 2008 £000</b>
<b>Fixed assets</b>			
Tangible assets	7	52	103
<b>Current assets</b>			
Recoverable grants falling due within one year	9a	7,956	3,117
Recoverable grants falling due after one year	9a	30,294	31,012
Loans to staff	9b	1	1
Debtors falling due within one year	9c	34,313	26,730
Debtors falling due after one year	9c	37,615	3,052
Cash at bank and in hand	10	7,688	24,976
		<b>117,867</b>	<b>88,888</b>
<b>Creditors</b>			
Amounts falling due within one year	11	<b>(26,636)</b>	<b>(7,587)</b>
<b>Net current assets</b>		<b>91,231</b>	<b>81,301</b>
<b>Total assets less current liabilities</b>		<b>91,283</b>	<b>81,404</b>
<b>Provisions for liabilities and charges</b>	12	<b>(273,090)</b>	<b>(260,069)</b>
<b>Total net assets/(liabilities)</b>		<b>(181,807)</b>	<b>(178,665)</b>
<b>Represented by</b>			
<b>Reserves</b>			
General reserve	14	<b>(181,807)</b>	<b>(178,665)</b>
		<b>(181,807)</b>	<b>(178,665)</b>

*Sir Alan Langlands*

*Chief Executive and Accounting Officer  
Higher Education Funding Council for England*

*7 May 2009*

*The notes on pages 61 to 84 form part of these accounts.*

## Cash flow statement for the year to 31 March 2009

	<i>Note</i>	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
<b>Operating activities</b>			
Receipts			
Other programme receipts		67,643	50,078
Other running costs receipts		1,930	1,281
Repayment of recoverable grants		5,171	4,735
Repayment of staff loans		2	3
		<b>74,746</b>	<b>56,097</b>
Payments			
Programme funding paid in year		7,569,495	7,379,891
Running costs paid in year		20,004	18,163
Recoverable grants to institutions and others		9,292	15,296
Loans to staff for approved purposes		2	4
		<b>7,598,793</b>	<b>7,413,354</b>
<b>Net cash outflow from operating activities</b>	15a	<b>(7,524,047)</b>	<b>(7,357,257)</b>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	7	(19)	(110)
<b>Net cash outflow from capital expenditure</b>		<b>(19)</b>	<b>(110)</b>
<b>Financing</b>			
Grant and grant in aid received through the Department for Innovation Universities and Skills	2	7,506,778	7,341,926
<b>Decrease in cash for the year</b>	15b	<b>(17,288)</b>	<b>(15,441)</b>

The notes on pages 61 to 84 form part of these accounts.

## 1 Accounting policies

### Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Innovation, Universities and Skills, with the consent of the Treasury and in accordance with the Further and Higher Education Act 1992. They are prepared in accordance with the 2008-09 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

### Accounting convention

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

### Going concern

The balance sheet at 31 March 2009 shows net liabilities of £182 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 Innovation, Universities and Skills (DIUS). 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 2009-10, 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 the 'going concern' basis.

### 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 18 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 UK GAAP 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 2009 HEFCE considers that none of the related bodies should be consolidated.

### Financial instruments

UK GAAP and the FReM require an organisation to disclose information on the possible impact of financial instruments on its risk profile, and how these risks might affect the organisation's performance and financial condition. 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 Financial Reporting Standards (FRS) 25, 26 and 29. Trade debtors and creditors 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.

### Fixed assets

Tangible fixed assets are capitalised where the costs for an individual asset, or group of functionally interdependent assets, exceeds £10,000. On 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 fixed assets.

Depreciation is shown on all tangible fixed 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.

## Grants from the Department for Innovation, Universities and Skills

All grant in aid from DIUS 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.

DIUS also provides grants for Access to Learning funds and Postgraduate Certificates of Education. These grants are accounted for as financing and credited to the general reserve.

### Income

Income received 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

These joint activities do not create 'an entity carrying on a trade or business of its own' and so meet the definition of a 'joint arrangement that is not an entity' under FRS 9 on associates and joint ventures. The cashflows, programme and administration costs associated with these activities are accounted for in full within these accounts. The other funding bodies' share of the costs of these activities are accounted for as income rather than financing, on the basis that they are not controlling parties in terms of HEFCE's financial statements.

The difference between the cost of the other funding councils' share of the activities and the funding provided by them to HEFCE in the year is included within programme debtors or creditors as appropriate.

### Leases

Rentals payable for operating leases are charged to the income and expenditure account when they fall due.

## 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 of 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 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 debtor or creditor 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 HM Treasury's Financial Reporting Manual, as a defined contribution scheme. The Chief Executive is 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 FRS 12 provisions are discounted to their net present value where material.

## **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 5 of the accounts.

## **Taxation**

Most of HEFCE's activities are outside the scope of VAT. HEFCE is registered for VAT however, and where appropriate output tax is charged on certain services provided under service level agreements. Where output tax is charged, income is stated net of VAT. Input VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

## 2 HM Government grants received

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Programmes</b>		
Grant in aid for recurrent expenditure in HE	6,448,512	6,235,121
Grant in aid for capital expenditure in HE	978,006	1,021,540
	<u>7,426,518</u>	<u>7,256,661</u>
<b>Other ring-fenced allocations</b>		
Grant for Access to Learning Funds	49,914	56,113
Grant for ITT bursaries	11,686	12,070
Grant for voluntary giving	150	-
	<u>61,750</u>	<u>68,183</u>
<b>Running costs</b>		
Grant in aid from DIUS for HEFCE running costs	18,510	17,082
	<u>18,510</u>	<u>17,082</u>
<b>Total grant and grant in aid received</b>	<u><u>7,506,778</u></u>	<u><u>7,341,926</u></u>

This note shows the total grant and grant in aid received from the Department for Innovation, Universities and Skills (DIUS) 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](http://www.hefce.ac.uk) under Finance & assurance/Finance and funding/Grant letter from DIUS.

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').

### 3 Income

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Programmes</b>		
Income receivable from other funding councils:		
Dept for Children, Education, Lifelong Learning and Skills	1,961	1,422
Department for Employment and Learning	2,383	2,330
Higher Education Funding Council for Wales	3,910	3,088
Learning and Skills Council	36,114	32,952
Scottish Funding Council	12,030	8,967
Income from European Social Fund	1,118	1,882
Other programme income	7,522	3,156
	<b>65,038</b>	<b>53,797</b>
<b>Running costs</b>		
Income receivable from other funding councils:		
Dept for Children, Education, Lifelong Learning and Skills	157	159
Department for Employment and Learning	457	449
Higher Education Funding Council for Wales	271	277
Learning and Skills Council	157	159
Scottish Funding Council	428	437
Receipts from the Office for Fair Access for services provided under the service level agreement	87	105
Income from conferences	51	50
Income from other activities	25	23
	<b>1,633</b>	<b>1,659</b>
<b>Total income</b>	<b>66,671</b>	<b>55,456</b>

HEFCE receives income from other funding councils in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector within the whole UK. Such national initiatives include the Research Assessment Exercise (RAE) and the work of the Joint Information Systems Committee (JISC). As well as funding their share of the programme costs of the JISC, these other funding councils share the costs incurred by HEFCE in managing and administering these programmes. Parts of these activities are run from within certain universities and are provided under oversight arrangements monitored by JISC.

## 4 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Recurrent grant <sup>a</sup></b>		
Learning and teaching	4,140,984	4,018,937
Widening participation	358,198	351,809
Research	1,431,426	1,391,438
Business and community <sup>b</sup>	124,897	110,385
	<b>6,055,505</b>	<b>5,872,569</b>
<b>Non-recurrent grant <sup>c</sup></b>		
Learning and teaching	579,780	518,938
Widening participation	62,617	56,826
Research	474,026	558,613
Sustaining a high quality sector	142,583	155,034
Enabling excellence	1,560	1,279
JISC-related activities <sup>d</sup>	136,313	110,256
	<b>1,396,879</b>	<b>1,400,946</b>
<b>Total recurrent and non-recurrent grant</b>	<b>7,452,384</b>	<b>7,273,515</b>
Other ring-fenced allocations <sup>e</sup>	62,799	69,420
<b>Total grant</b>	<b>7,515,183</b>	<b>7,342,935</b>

This analysis of grant expenditure reflects HEFCE's strategic aims as published in the strategic plan for 2006-11 (HEFCE 2006/13, updated in May 2008 see HEFCE 2008/15), available to view at [www.hefce.ac.uk](http://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 and widening participation in line with the way the grant is announced.
- b **Business and community** - for 2008-09 the Higher Education Innovation Fund, and funding for strategically important and vulnerable subjects, both previously distributed as special funding, have been consolidated into core/block grant. The 2007-08 comparator figures have been amended to reflect this.
- c **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.
- d **JISC-related activities** - these are shown separately, as they are relevant to several of HEFCE's strategic aims.
- e **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 DIUS for specific purposes.

## 5 Staff costs

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Staff costs</b>		
Salaries	9,119	8,667
National Insurance contributions	777	747
Pension costs	1,783	1,729
	<u>11,679</u>	<u>11,143</u>
Costs of employing contract, agency and temporary staff	707	622
	<u>12,386</u>	<u>11,765</u>
	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Pension costs</b>		
Civil Service Pensions	1,744	1,704
Universities Superannuation Scheme	39	25
	<u>1,783</u>	<u>1,729</u>

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 (1 April for directors) 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.

Three 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 2009. Further details of HEFCE's pensions arrangements can be found in the remuneration report on page 46.

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**Staff costs (continued)**

	<b>Year ended 31 March 2009 FTE</b>	Year ended 31 March 2008 FTE
<b>Staff numbers</b>		
Finance & Corporate Resources Directorate	146	126
Education & Participation Directorate	50	64
Research Innovation & Skills Directorate	42	39
Chief Executive central and support staff	4	15
	<b>242</b>	<b>244</b>
Average number of contract, agency and temporary staff	22	19
	<b>264</b>	<b>263</b>

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This note shows the average Full Time Equivalent (FTE) number of staff employed excluding the Chief Executive but including the directors. The analysis reflects the three directorate structure in place since 1 February 2008. Last years numbers have been reanalysed to provide comparable figures.

## 6 Other administration costs

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Non-pay running costs</b>		
Staff related and general administrative expenditure	2,293	1,993
Research and evaluation costs	1,853	1,575
Premises costs	1,460	805
Rental payments under plant and machinery operating leases	44	42
Rental payments under other operating leases	1,104	1,081
Office costs	920	816
Board and committee members fees and expenses	122	131
Audit fee	56	43
Non-cash items: revaluation of IT assets	1	2
	<b>7,853</b>	<b>6,488</b>

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, utilities, building maintenance, equipment and furniture. **Office costs** includes IT costs, catering and room hire, telecommunications, stationery and publications.

The auditors received £50,000 for external audit work and an additional £5,500 for IFRS audit work. They received no remuneration for non-audit services.

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**Other administration costs (continued)**

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Land and buildings</b>		
Leases expiring within one year	-	-
Leases expiring within two to five years	-	-
Leases expiring after more than five years	1,098	1,110
	<b>1,098</b>	<b>1,110</b>
<b>Other</b>		
Leases expiring within one year	41	2
Leases expiring within two to five years	1	42
Leases expiring after more than five years	-	-
	<b>42</b>	<b>44</b>

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This note shows HEFCE's annual 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 Tangible fixed assets

	Leasehold improvements	Furniture and office equipment	Computer equipment	Total
	£000	£000	£000	£000
<b>Cost or valuation</b>				
At 1 April 2008	16	26	218	260
Revaluation	-	-	(2)	(2)
Additions	-	-	19	19
Disposals	-	(7)	(39)	(46)
At 31 March 2009	16	19	196	231
<b>Depreciation</b>				
At 1 April 2008	14	21	122	157
Charge for period	1	4	64	69
Revaluation	-	-	1	1
Disposals	-	(8)	(40)	(48)
At 31 March 2009	15	17	147	179
<b>Net book value</b>				
At 1 April 2008	2	5	96	103
<b>At 31 March 2009</b>	<b>1</b>	<b>2</b>	<b>49</b>	<b>52</b>

This note shows the capitalised value of HEFCE's tangible fixed assets. HEFCE's office premises at Bristol and London are rented under operating leases and are disclosed in note 6 to the accounts.

## 8 Notional costs

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Notional costs</b>		
Capital employed as at 1 April	(203,596)	(226,885)
Capital employed as at 31 March	(189,433)	(203,596)
Average capital employed	(196,515)	(215,241)
<b>Notional interest on capital</b>	<b>6,878</b>	<b>7,533</b>

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 income and expenditure account.

HEFCE's income and 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 12 to 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 income and expenditure account has to reflect that benefit and show a credit. However, the effect of this notional credit is reversed on the income and expenditure account so that the bottom line net expenditure for the year is not distorted.

The cost of capital for 2008-09 is calculated at a rate of 3.5 per cent (2007-08 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.

## 9a Recoverable grants

	<b>As at 31 March 2009 £000</b>	As at 31 March 2008 £000
<b>Recoverable grants</b>		
Balances as at 1 April	34,129	23,568
Advanced during the year	9,292	15,296
Recovered during the year	(5,171)	(4,735)
Balances as at 31 March	<u>38,250</u>	<u>34,129</u>
	<b>As at 31 March 2009 £000</b>	As at 31 March 2008 £000
Balances at 31 March recoverable within one year	7,956	3,117
Balances at 31 March recoverable after one year	<u>30,294</u>	<u>31,012</u>
	<u>38,250</u>	<u>34,129</u>

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
- Procurement
- Medical capital
- 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 2009, 11 organisations (2008: 10) had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £32,243,000 (2008: £29,495,000).

## 9b Staff loans

	<b>As at 31 March 2009 £000</b>	<b>As at 31 March 2008 £000</b>
<b>Staff loans</b>		
Balances as at 1 April	1	-
Advances during the year	2	4
Repayments during the year	(2)	(3)
Balances as at 31 March	<u>1</u>	<u>1</u>
	<b>As at 31 March 2009 £000</b>	<b>As at 31 March 2008 £000</b>
Balances at 31 March repayable within one year	1	1
Balances at 31 March repayable after one year	<u>-</u>	<u>-</u>
	<u>1</u>	<u>1</u>

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.

## 9c Debtors

	<b>As at 31 March 2009 £000</b>	As at 31 March 2008 £000
<b>Debtors</b>		
Programme prepayments due within one year	31,261	20,801
Programme debtors due within one year	2,297	4,902
Trade debtors	307	604
Running costs prepayments	448	423
	<b>34,313</b>	<b>26,730</b>
Programme prepayments due after one year	37,615	3,052
	<b>71,928</b>	<b>29,782</b>

**Programme prepayments** relate to recovery of grant funding (or 'holdback') due from institutions. Discussions around data and possible recovery of grant funding happen on a continuous basis as a result of the data 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.

**Programme debtors** 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 debtors**.

**Running costs prepayments** relate to payments made in advance for services.

## 10 Details of cash balances at year end

	<b>As at 31 March 2009 £000</b>	As at 31 March 2008 £000
<b>Cash</b>		
Cash held at the Bank of England (programmes)	7,356	25,085
Cash held at the Bank of England (running costs)	270	(154)
	<u>7,626</u>	<u>24,931</u>
Cash held at other banks and in hand	34	16
Cash held for the European Network and Programming Group	28	29
	<u>7,688</u>	<u>24,976</u>
	<b>Year ended 31 March 2009 £000</b>	Year ended 31 March 2008 £000
<b>Programme funds</b>		
Grant received	7,426,518	7,256,661
2 per cent thereof	148,530	145,133
Balances at year end	7,302	24,916
<b>Running costs</b>		
Grant received	18,510	17,082
2 per cent thereof	370	342
Balances at year end	358	31

In cash terms the DIUS 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.

HEFCE's main bank accounts are held at the Bank of England in an Office of HM Paymaster General account and in consequence any interest is retained to the benefit of the Exchequer.

## 11 Creditors: amounts falling due within one year

	<b>As at 31 March 2009 £000</b>	As at 31 March 2008 £000
<b>Creditors</b>		
Programme accruals	25,882	7,092
Trade creditors	608	305
Running costs accruals	107	149
Tax and social security	11	12
Other creditors: European Network and Programming Group	28	29
	<b>26,636</b>	<b>7,587</b>

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

The **tax and social security** creditor 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.

**Other creditors** 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](http://www.enpg.org).

## 12 Provisions for liabilities and charges

	As at 31 March 2009 £000	As at 31 March 2008 £000
<b>Provisions</b>		
Balance of provision at 1 April	260,069	260,555
Provision utilised in year	(28,079)	(28,746)
Provision reversed unused in year	(1,032)	(846)
Unwinding of discount	5,722	5,726
Increase in provision	36,410	23,380
<b>Balance of provision at 31 March</b>	<b>273,090</b>	<b>260,069</b>

HEFCE has two provisions as at 31 March 2009 (2008: two), one for **inherited staff liabilities**, and one for **early retirement costs**. Provisions are discounted to net present value using HM Treasury's discount rate of 2.2 per cent.

**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 1988 Education Reform Act 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 of £36 million (mainly caused by increases in life expectancy), offset by an increase in HM Treasury's net real rate for valuing pension liabilities from 2.5% to 3.2%, effective from 31 March 2009. Current assumptions mean we expect payments to continue until at least 2022.

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
- mortality based on PA92 year of birth tables
- payments based on 50 per cent early retirement compensation and 50 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

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 2009 is £90,000 (2008: £69,000). The increase in balance reflects the additional retiree provided for. Payments will continue until 2016.

### 13 Financial commitments and contingent liabilities as at end of period

	<b>As at 31 March 2009 £000</b>	As at 31 March 2008 £000
<b>Commitments</b>		
Grant committed for the period April to July	<b>2,683,199</b>	2,554,735
Grant committed for the next academic year	<b>7,994,000</b>	7,476,000
Grant committed for subsequent academic years	<b>591,664</b>	1,544,892

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 2008-09 academic year (HEFCE 2009/08) is available on HEFCE's web-site at [www.hefce.ac.uk](http://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 2010 onwards. This is mainly non-recurrent special funding for longer term capital programmes, since recurrent grant is only announced and allocated on an annual basis.

As at 31 March 2009 there are no contingent liabilities (2008: *nil*).

## 14 General reserve movements

	As at 31 March 2009 £000	As at 31 March 2008 £000
<b>Programmes</b>		
Balance as at 1 April	(177,307)	(185,990)
Grant in aid	7,426,518	7,256,661
Net expenditure for the year	(7,428,446)	(7,247,978)
Balance as at 31 March	<u>(179,235)</u>	<u>(177,307)</u>
<b>Other ring-fenced allocations</b>		
Balance as at 1 April	(1,975)	(738)
Grant	61,750	68,183
Net expenditure for the year	(62,799)	(69,420)
Balance as at 31 March	<u>(3,024)</u>	<u>(1,975)</u>
<b>Running costs</b>		
Balance as at 1 April	617	207
Grant in aid	18,510	17,082
Net expenditure for the year	(18,675)	(16,672)
Balance as at 31 March	<u>452</u>	<u>617</u>
<b>Total</b>		
Balance as at 1 April	(178,665)	(186,521)
Grant and grant in aid	7,506,778	7,341,926
Net expenditure transferred in year	(7,509,920)	(7,334,070)
<b>Balance as at 31 March</b>	<b><u>(181,807)</u></b>	<b><u>(178,665)</u></b>

This note reconciles the net expenditure as shown on the income and expenditure account to the accumulated general reserve as shown on the balance sheet. The large negative reserve reflects the provision for future payments under the inherited staff liabilities programme (see note 12).

**15a Reconciliation of net expenditure to net cash flow from operating activities**

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Reconciliation</b>		
Net expenditure before interest	(7,467,788)	(7,304,964)
Depreciation, amortisation, revaluation and write-off	70	80
(Increase) in debtors and recoverable grants	(46,267)	(25,399)
Increase in creditors	19,049	2,618
Payment from provisions	(28,079)	(28,746)
Provision reversed unused in year	(1,032)	(846)
<b>Net cash outflow from operating activities</b>	<b>(7,524,047)</b>	<b>(7,357,257)</b>

This note reconciles net expenditure as shown on the income and expenditure account to the net cash outflow shown on the cashflow statement.

**15b Reconciliation of net cash flow to movement in net debt**

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
Net funds at 1 April	24,976	40,417
Decrease in cash for the year	(17,288)	(15,441)
<b>Net funds at 31 March</b>	<b>7,688</b>	<b>24,976</b>

This note reconciles the net movement in funds for the year from the cash flow statement to the details of cash balances at year end (note 10).

## 16 Reconciliation of movement in funds

	As at 31 March 2009 £000	As at 31 March 2008 £000
Opening balance	(178,665)	(186,521)
Net expenditure for the year transferred from the income and expenditure account	(7,509,920)	(7,334,070)
Grant and grant in aid	7,506,778	7,341,926
<b>Closing balance: general reserve</b>	<b>(181,807)</b>	<b>(178,665)</b>

This note reconciles the net amount charged in year to the income and expenditure account with the change in the opening and closing balance of the general reserve.

## 17 Debtor and creditor balances with other government bodies

	Debtors as at 31 March 2009 £000	Creditors as at 31 March 2009 £000
Other central government bodies	909	60
Local authorities	-	-
NHS Trusts	-	-
Public corporations and trading funds	10	-
Balances with other government bodies	919	60
Balances with non-government bodies	71,009	26,576
<b>Total as per debtors' and creditors' notes</b>	<b>71,928</b>	<b>26,636</b>

This note provides enhanced disclosure of debtor and creditor balances between reporting entities within the public sector, and reconciles to the notes 9c and 11.

## 18 Payments to related bodies

	Year ended 31 March 2009 £000	Year ended 31 March 2008 £000
<b>Related bodies</b>		
British Universities Film and Video Council (BUFVC)	177	571
Equality Challenge Unit (ECU)	1,149	1,088
Foundation Degree Forward (FDF)	4,589	5,758
HERO Ltd (Higher Education and Research Opportunities in the United Kingdom)*	536	1,035
Higher Education Academy (HEA)*	20,527	21,855
Higher Education Policy Institute (HEPI)	273	224
Higher Education Statistics Agency (HESA)	448	215
JISC Content Procurement Company (JCPC), trading as JISC Collections	5,889	3,098
JNT Association trading as JANET UK (formerly UKERNA)	55,731	48,683
Leadership Foundation for Higher Education (LFHE)*	1,189	1,590
Quality Assurance Agency for Higher Education (QAA)	5,386	3,603
Research Information Network (RIN)	1,325	187
	<b>97,219</b>	<b>87,907</b>

This note discloses HEFCE's grant contribution to the funding of related bodies, none of which are consolidated into HEFCE's accounts (see Note 1 accounting policies). In certain cases funding is 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.

Further information on related bodies can be found at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Related bodies.

\*These related bodies also receive money through other non-recurrent grant lines.

## 19 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 7 May 2009 by Sir Alan Langlands, HEFCE Chief Executive and Accounting Officer, and were authorised for issue on 8 May 2009.

## 20 Related party transactions

	Year ended 31 March 2009 £000
<b>Grant funding to institutions and other organisations</b>	
● Brunel University: <b>Michael Sheasby</b> , former Chair of the Audit Committee.	52,306
● University of Cambridge: <b>Dame Patricia Hodgson</b> , Principal of Newnham College; and <b>Sir Paul Judge</b> , Founder Judge Business School, Trinity College finance committee.	222,056
● New College, Durham: <b>John Widdowson</b> , Principal.	4,283
● University of Hertfordshire: <b>Professor Tim Wilson</b> , Vice-Chancellor.	67,014
● Higher Education Policy Institute: <b>Professor David Eastwood</b> , advisory board member.	273
● Imperial College London: <b>Peter Saraga OBE</b> , visiting Professor in the Department of Electrics and Electronic Engineering; and <b>Sir Richard Sykes</b> , Rector.	194,811
● University of Lancaster: <b>Professor Paul Wellings</b> , Vice-Chancellor.	61,199
● Leeds Metropolitan University: <b>Ninian Watt</b> , Chair of Board of Governors.	74,680
● University College, London: <b>Professor Malcolm Grant</b> , President and Provost.	216,098
● University of Manchester: <b>Kathleen Tattersall OBE</b> , Chair of the Audit Committee.	225,665
● Newcastle College: <b>Jackie Fisher CBE</b> , Principal.	10,874
● University of Newcastle: <b>Alastair Balls CB</b> , member of the court.	124,358
● University of Northampton: <b>Ann Tate</b> , Vice-Chancellor.	29,750
● University of Nottingham: <b>Professor Peter Rubin</b> , Professor of Therapeutics.	138,496
● Open University: <b>Professor Nigel Savage</b> , Chief Executive of the College of Law (undertaking a joint venture with the university); and <b>Fraser Woodburn</b> , Secretary.	220,265
● University of Surrey: <b>Peter Saraga OBE</b> , Chair of the School of Electronics and Physical Sciences Advisory Board.	54,463
● University of Sussex: <b>Peter Saraga OBE</b> , member of the council.	51,241
● Teesside University: <b>Jackie Fisher CBE</b> , member of the board.	69,501
● York University: <b>Professor Nigel Savage</b> , Chief Executive of the College of Law (an organisation planning the establishment of a law school with the university).	66,757
● York St John University: <b>Professor Dianne Willcocks CBE</b> , Vice-Chancellor.	15,016
<b>Payments to other organisations</b>	
● PricewaterhouseCoopers: <b>Ed Smith</b> , former Global Chief Operating Officer.	720
● Universities Superannuation Scheme Limited: <b>Professor David Eastwood</b> , member of the board.	62

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](http://www.hefce.ac.uk) under About us/Board.

HEFCE is a non-departmental public body sponsored by DIUS. DIUS 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.

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

	Total for year ended 31 March 2009 £000	Institutional funding or national programme £000	Non- institutional funding £000	Special institutional funding £000	Total for year ended 31 March 2008 £000
<b>Learning and teaching</b>					
Capital for learning and teaching	420,696	420,696			363,944
Rewarding quality enhancement	56,069	56,069			55,817
Centres for excellence in teaching & learning	33,313	33,313			37,121
Employer engagement	20,651			20,651	10,150
Higher Education Academy*	18,046		18,046		18,454
Capital for further education colleges	14,989			14,989	14,955
Quality assurance (inc QAA*)	10,333		10,333		6,675
Foundation degrees (inc FDF*)	4,589		4,589		5,805
College fees	540			540	2,130
Research into learning and teaching	484		484		3,677
Dance and drama	70			70	210
	<b>579,780</b>	<b>510,078</b>	<b>33,452</b>	<b>36,250</b>	<b>518,938</b>
<b>Widening Participation</b>					
Aimhigher (and associated initiatives)	62,019	62,019			56,205
HERO*	517		517		513
Students with learning difficulties/disabilities	81			81	108
	<b>62,617</b>	<b>62,019</b>	<b>517</b>	<b>81</b>	<b>56,826</b>
<b>Research</b>					
Capital for research & infrastructure	411,779	411,779			44,001
Science research investment fund	27,726	27,726			485,290
Overseas Research Students Award Scheme	14,377	14,377			13,963
Museums, galleries and collections	10,161		10,161		10,433
Research Assessment Exercise	7,095			7,095	1,558
Research Information Resources* (RIN)	1,325		1,325		241
Copyright libraries	1,010			1,010	3,004
Research Excellence Framework	553			553	123
	<b>474,026</b>	<b>453,882</b>	<b>11,486</b>	<b>8,658</b>	<b>558,613</b>
<b>Sustaining a high quality sector</b>					
Strategic Development Fund	118,379	118,379			118,826
London	12,632			12,632	12,438
Revolving Green Fund	3,970	3,970			-
Management Development Fund	2,322			2,322	2,416
Procurement initiatives	1,992			1,992	1,110
Leadership Foundation for Higher Education*	1,169		1,169		1,516
Equal Opportunities (funded via ECU*)	1,038		1,038		1,088
Higher education regional associations	737	737			993
Other minor or finishing initiatives	156			156	402
Costing and pricing initiative	188			188	135
Inherited liabilities	0				16,110
	<b>142,583</b>	<b>123,086</b>	<b>2,207</b>	<b>17,290</b>	<b>155,034</b>
<b>Enabling excellence</b>					
International Initiatives	655			655	639
Higher Education Policy Institute*	457		457		425
Higher Education Statistics Agency*	448		448		215
	<b>1,560</b>	<b>-</b>	<b>905</b>	<b>655</b>	<b>1,279</b>
<b>JISC-related activities</b>					
JISC (inc BUFVC, JCPC and JANET UK*)	136,313		136,313		110,256
	<b>136,313</b>	<b>-</b>	<b>136,313</b>	<b>-</b>	<b>110,256</b>
<b>Total funding for initiatives</b>	<b>1,396,879</b>	<b>1,149,065</b>	<b>184,880</b>	<b>62,934</b>	<b>1,400,946</b>

## 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 4 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.

For 2008-09 the Higher Education Innovation Fund, and funding for strategically important and vulnerable subjects, both previously distributed as special funding, have been consolidated into core/block grant (see note 4). The 2007-08 comparator figure for total non-recurrent grant has been amended to reflect this.

### Earmarked capital

In 2008-09 we allocating a total of £984 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 2008-09 we allocated a total of £413 million for special funding; this is £85 million less than last year, and represents a decrease from 6.8 per cent to 5.5 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 2009/08:

- '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

#### **Learning and teaching infrastructure capital.**

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.

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

**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.

**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.

**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.

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

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

**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.

**College fees.** Additional funding to the Universities of Cambridge and Oxford following the abolition of the undergraduate tuition fee in 1999-2000, to be phased out over 10 years.

**Research into learning and teaching.** Funding to promote high-quality research on education, particularly teaching and learning, to increase capacity in educational research and to provide further research into higher education policy and practice.

**Dance and drama.** Funding for non-HEFCE institutions that provide high quality dance and drama training at HE level, to allow dance and drama students to develop their talents.

### Widening participation

**Aimhigher.** A joint initiative between the DIUS, 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, Partnerships 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.

### Research

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

**Science Research Investment Fund (SRIF).** Capital funding for major projects which will have a significant impact on HEIs' research infrastructure.

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

**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.

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

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

**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.

**Copyright libraries.** Continued funding for copyright libraries that allow free access to researchers from within the UK higher education community.

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

### 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.

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

**Procurement 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.

**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.

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

**Inherited liabilities.** Reimbursement in respect of liabilities inherited by institutions formerly under the control of local authorities, when these were incorporated as independent institutions.

### 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 Committee 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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