

# Higher Education Funding Council for England **Annual report and accounts 2007-08**



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Higher Education Funding Council for England  
**Annual report and accounts 2007-08**

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All HEFCE documents referred to in this annual report and accounts are available from our web-site at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications.

## Chair's foreword

The very high quality of teaching and research in universities and colleges in England is recognised throughout the world. The number of international students has almost doubled over the past 10 years and the UK is now second to the United States in terms of international student numbers. The UK is also punching well above its weight in terms of research. With 1 per cent of the world's population we carry out 5 per cent of the published research.

HEFCE's role, through the effective distribution of public funding, policy development and better regulation, is key to maintaining the dynamism of higher education in England. We very much appreciate the Government's recognition of the importance of higher education and its continuing commitment to maintaining the unit of public funding. Also, the capacity and ingenuity of higher education institutions in attracting other types of funding is continuing to grow. These factors provide the conditions for English higher education to prosper and continue to deliver benefits to students, the economy and society.

With our support, universities and colleges are addressing a wide variety of challenges. Through interaction with employers and the community, they stimulate innovation, enriching our lives and strengthening the economy. They also have a key role in ensuring that all who are able to benefit from higher education have the opportunity to do so. We are committed to working with universities and colleges in tackling the inequalities in access to higher education. We are also bringing higher education to parts of England where there is under-provision. This places us in a good position to tackle the Government's new 'University Challenge'.

We are continuing to invest in quality and to underpin the research base to maintain the UK's leading international position. We will do this by developing the Research Excellence Framework as a new system of assessment that will offer a lighter touch. We also regard the growing demand for innovation as vital to the country's global competitiveness, and are supporting it through the Higher Education Innovation Fund.

Just as the Government has refined its focus with a new Department for Innovation, Universities and Skills, we have been reviewing our own organisation. We are making some internal changes so that we can more effectively respond to changing priorities and challenges. We have a strong platform to work from, as demonstrated by a recent Ipsos MORI survey which revealed that universities and colleges have a high regard for our role and our work.

Behind all our activities lies one overriding objective: to ensure that our higher education system matches the best in the world. By combining new investment and new opportunities with the talent of those who work in our universities and colleges, we can realise this ambition together.

*Tim Melville Ross CBE  
Chair  
Higher Education Funding Council for England  
8 May 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 2007-08 we distributed £7.3 billion in public funds. Most of this went to 131 universities and higher education colleges in England. Some HEFCE funds supported higher education courses in 128 FECs that we fund directly<sup>1</sup>. An additional 154 FECs received HEFCE funding indirectly through an HEI<sup>2</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 the Quality Assessment, Learning and Teaching committee.

### Distribution of funding

Of the £7.3 billion in public funds distributed during the 2007-08 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 2007-08 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 2008-09. A total of £7.5 billion has been allocated for distribution by HEFCE in 2008-09. The grant letter for 2008-09 is available at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Finance and assurance/Finance and funding/Grant letter from Secretary of State.

<sup>1</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 2007-08: final allocations' (reference HEFCE 2007/32, available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under Publications).

<sup>2</sup> Figures for institutions that receive funding from HEFCE only indirectly are taken from the Higher Education Statistics Agency (HESA) student data for 2006-07 for franchised provision; and the 2007 Higher Education Students Early Statistics Survey (HESES) and the 2007 Higher Education in Further Education: Student survey (HEIFES) for consortia provision for 2007-08.

## 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 2006-11. The plan was the outcome of a lengthy period of discussion and consultation with a wide range of partners and stakeholders.

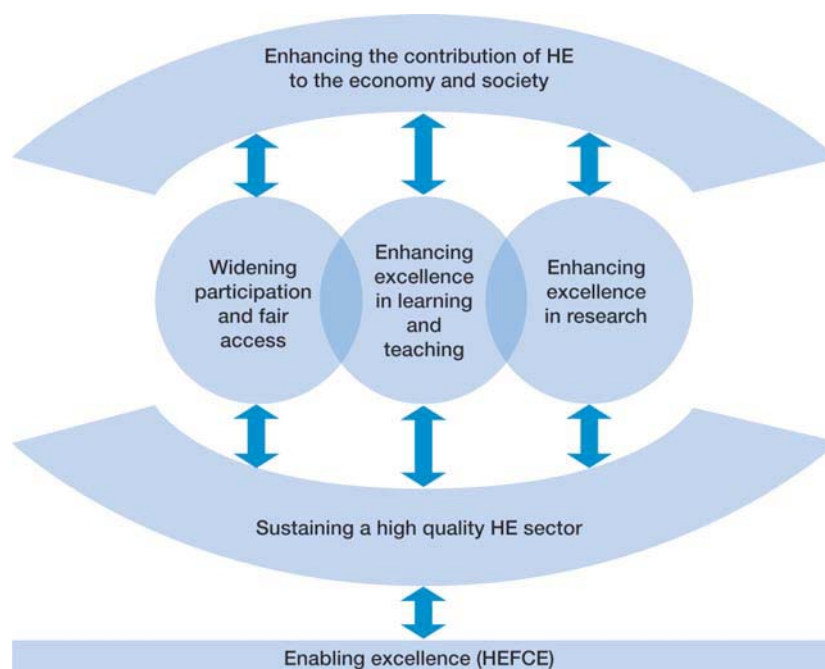
## Our strategic aims

The strategic plan for 2006-11 (reference HEFCE 2008/15) is available on the web 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 fundamentally review our strategic plan every three years, which enables us to refresh our strategy for a new five-year period. During 2008-09 we will engage with universities, colleges, Government and our many other stakeholders to develop a strategy for higher education for the period 2009-14.

## Structure

HEFCE's policies are decided by Board members who are responsible for the strategic direction of the organisation. A number of standing 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 for 2007-08 was as follows:

<b>Chair</b>	Tim Melville-Ross, CBE (from 1 January 2008) David Young, CBE (to 31 December 2007)
<b>Chief Executive</b>	Professor David Eastwood
<b>Members</b>	Alastair Balls, CB Jackie Fisher, CBE Dame Patricia Hodgson Professor Peter Rubin Rene Olivieri (from 1 March 2008) Peter Saraga, OBE Professor Nigel Savage Ed Smith Sir Richard Sykes Ann Tate Professor Paul Wellings Professor Dianne Willcocks Professor Tim Wilson

## HEFCE Chair

During 2007 a new Chair was appointed: Tim Melville-Ross, who 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.

Our previous chair, David Young, who served from 2001 to 2007, was awarded a CBE for services to education in the Queen's Birthday 2007 Honours list, reflecting his wide-ranging contribution over many years. David was also treasurer and a member of council of the Open University from 1996 to 2001.

Information on each Board member and their interests is available on the web 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.

HEFCE's Chief Executive's Group comprises Professor David Eastwood 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.

Director	Key strategic area
<b>John Selby</b> Director (Education and Participation)	Enhancing excellence in learning and teaching (except employer engagement and skills) Widening participation and fair access
<b>Rama Thirunamachandran</b> Director (Research, Innovation, and Skills)	Enhancing excellence in research Enhancing the contribution of HE to the economy and society Employer engagement and skills
<b>Steve Egan</b> Deputy Chief Executive and Director (Finance and Corporate Resources)	Sustaining a high-quality HE sector Enabling excellence

During the year Liz Beaty has taken up the post of Director, Strategic Academic Practices and Partnerships at the new University of Cumbria. She was previously Director of Learning and Teaching at HEFCE, where she made a wide-ranging and enduring contribution in leading a key strand of HEFCE's work in an important period for higher education.

## Organisational structure

HEFCE moved from a four- to a three-directorate structure in February 2008. We have also announced that from September we plan to replace existing regional teams with three institutional teams, each led by an Associate Director. They will work with HEFCE regional consultants and others in the Council to develop and maintain effective and collaborative relationships with key stakeholders in the sector. More details are set out in the report on our strategic aim for 'Enabling Excellence', which covers our own role (page 29).

Further information on HEFCE's Board, committees and staff is available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Staff and structure.

## Our performance and achievements during 2007-08

For each of our six aims in the 2006-11 strategic plan 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 2006-11 (HEFCE 2007/09).

Integral to the development of our strategic plan was a process of risk assessment. For each of the six aims, we identified the key risks to achieving the aim. In developing the programme of activity to deliver the 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 the first two years of the 2006-11 strategic plan, remaining aware of the possibility of new risks emerging. Through this process, we have added a new risk to our strategic aim for learning and teaching: that our strategy for employer engagement fails to secure sufficient funding contributions from employers. We have also revised two risks in our strategic aims for research and for learning and teaching to reflect changing issues in relation to research excellence and funding for teaching. Further information on risk management is included in the Chief Executive's statement on internal control (pages 47-49).

The programme of work required to deliver our strategic aims and objectives is set out in our operating plan for 2006-09 (available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Operating plan). For 2007-08, this contained 31 high-level activities spread across our six strategic aims.

We have reported progress against these activities during the past year to our Board and, via our web-site, to our stakeholders. Every three months we have used 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.

## 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 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 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 (updated February 2008).
- That our strategy for employer engagement fails to secure sufficient funding contributions from employers.

### Making progress

This year saw some significant developments in our support for excellent learning and teaching in English HEIs and FECs. We continued to work on facilitating partnerships between institutions and employers that will investigate innovative modes of delivery and encourage new students into HE. Our consultation on HE in FECs has led to us establishing a pilot for HE strategies from a number of FECs. Results from the 2007 National Student Survey (NSS) were published on a new web-site at [www.unistats.co.uk](http://www.unistats.co.uk). We have also extended the scope of the National Student Survey to include students studying at FECs, which will be included in the next set of results.

In developing the implementation of the new equivalent or lower qualification (ELQ) policy we spent a lot of time working closely with institutions to understand the impact of the funding changes and to ensure that this was mitigated as much as possible

### Continuous improvement in learning and teaching

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

The first evaluation of the Higher Education Academy provided us with useful evidence about how the organisation is helping to make a difference to the student learning experience. It has

also provided valuable information that will support the Academy in developing its work with institutions.

We have worked with the Higher Education Academy and with the Quality Assurance Agency to develop a better understanding of how quality assurance can help institutions to develop and improve provision for students. Key aspects of this were our continuing review of the Quality Assurance Framework and the ongoing development of the National Student Survey, which this year includes students at FECs. We also re-launched the web-site for prospective students seeking information about courses, [www.unistats.co.uk](http://www.unistats.co.uk); it went live at the end of 2007.

Student engagement and involvement in institutional activity has become a major focus of the new Department for Innovation, Universities and Skills. As well as our work with students during the development of Unistats, we have also been working closely with government to understand how students may be able to engage more fully in developing HE.

We continued to develop our approach to HE in FECs. A pilot group of colleges began to develop HE strategies and this work will inform how the approach will be extended to all colleges. In addition, we continue to look at ways to strengthen the provision of HE in FECs, including more work on our proposals to establish Centres for Higher Education Excellence in FECs. We also worked closely with DIUS to identify new areas in England that would benefit from an increased higher education provision.

#### Flexible lifelong learning

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

Our long-term support continues for pathfinder projects at five institutions to pilot flexible approaches to study. We also support innovative and flexible approaches to delivery through work with Centres for Excellence in Teaching and Learning, through our employer engagement co-funded projects and through the already-mentioned work with FECs.

This year we commissioned a review into our strategy for e-learning. Although this will report next year, it has informed the direction of our policy to work closely with JISC and with the Higher Education Academy to ensure that technology is used effectively to enhance the learning and teaching experience.

#### Facilitating stakeholder engagement

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

Employer engagement and co-funding became increasingly more important this year as we seek to establish capacity in the HE sector to deliver the government's Public Service Agreement (PSA) workforce qualification target. We have developed a programme to invest more than £100 million in institutions in development and employer co-funding. To date we have funded 22 projects on demand-led workforce development which will be supported through a more flexible approach to co-funding. This will enable us to deliver the co-funded student number target we have been set for 2008-09 and begin to establish a platform for future growth. Alongside this we are working with HE agencies including the Quality Assurance Agency, the Higher Education Academy and Foundation Degree Forward to provide greater support to the HE sector to enhance its support for workforce development. We are seeking to develop joint projects with those Sector Skills Councils prioritising HE skills, to ensure provision meets the needs of employers. The three Higher Level Skills Pathfinders are continuing to develop their support for demand-led regional approaches to employer engagement and are beginning to draw in funding from other bodies and employers and promote joined-up approaches to skills. Employer engagement policy is becoming a central plank in extending higher education to new

learners, developing their knowledge and skills as part of our key strategic aim to ensure a high-quality learning experience that meets the needs of students, the economy and society. Over the next year we will seek to put in place appropriate mechanisms to evaluate and learn from the pathfinder projects and to ensure dissemination of good practice to the sector.

### Innovation and new technology

April to June	July to September	October to December	January to March
Green	Green	Green	Green

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. It will combine this knowledge with other work on learning spaces, and with information gained from the experiences of the Centres for Excellence in Teaching and Learning, to provide guidance, direction and research evidence in this area.

### International connections and competitiveness

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We continue to participate in initiatives to embed international engagement across the Council via the International Programme Board. We maintain awareness of Bologna Process, European Union and other overseas developments and activities as they relate to learning and teaching policy. Via the Europe Unit, International Unit and other information sources, we maintain an overview of the overseas student market, the competitiveness of English HE, and the extent to which English HEIs are engaging with internationalisation. We have been represented on steering groups for the Prime Minister's Initiative (PMI2) Overseas Student Experience and Employment Group and DIUS's Transnational HE project (researching the extent of the UK sector's delivery of HE overseas).

### Developing the funding policy to meet strategic objectives

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Throughout this year, we have continued to review and develop our teaching funding method. The aim of this process is to ensure that our teaching funding method remains fit for purpose, particularly in the new funding environment created by the introduction of variable fees. Key developments are as follows:

- In January 2008, the Small and Specialist Institution Review Group reported to the Board. Following this report, the Board agreed that small and specialist premiums of less than 10 per cent should be added to institutions' mainstream grants. While this does not imply a reduction in funding, some institutions may need to recruit additional students in order to remain within their contract range. Small and specialist premiums with a value of more than 10 per cent will be converted into 'institutional targeted allocations' for 2008-09, but subject to scrutiny in future years.
- In February 2008, institutions submitted a second round of TRAC(T) data (TRAC(T) is the national framework for costing teaching in English HEIs, based on Transparent Approach to Costing (TRAC) principles). These data report the full economic costs of teaching, disaggregated at a subject level. They therefore provide us with a comprehensive picture of the relative costs of teaching different subjects – something that has not previously been available. We will use the TRAC(T) data to inform a review of our price group weightings.

- In March 2008, we published grant tables that reflect the conversion of the premiums to targeted allocations (agreed through consultation in 2005 and 2007). Like the premiums, the targeted allocations will contribute towards the high costs of certain activities that we consider to be of strategic importance. But unlike the premiums they will be allocated outside the tolerance band, meaning changes in student numbers may be reflected by changes in funding. We believe the targeted allocations will therefore provide a more effective way to support our priorities. In 2008-09, we will provide the following targeted allocations: part-time provision; accelerated and intensive provision; old and historic buildings; foundation degrees; institutional; and strategically important and vulnerable subjects. This allocation will protect strategically important and vulnerable subjects from the impact of the ELQ policy.

This year DIUS announced the policy to withdraw funding for students aiming for an ELQ. We consulted extensively on the implementation of this policy in autumn 2007, and as a result of this process agreed with the Board a series of mitigations to the ELQ policy. These include exemptions and protections for certain subjects and forms of provision, and 'safety net' funding to ensure that no institution's mainstream teaching grant falls in cash terms from its 2007-08 level as a result of the ELQ policy. We will continue to work with institutions that are most affected or have concerns about the ongoing impact of the policy.

Key Performance Target	Progress to 31 March 2008
<p><b>KPT1:</b> At least 95 per cent of HEIs receive judgements of confidence in institutional quality audits by the Quality Assurance Agency, completed by 2008-09.</p>	<p><b>On target:</b> Current average percentage since 2002-03 is 95 per cent.</p>
<p><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.</p>	<p><b>On target:</b> This is measured by calculating the proportion of students giving an average score of at least three on the scale of one to five on each of the clusters of questions defined on the survey. The clusters are: teaching and learning; assessment and feedback; academic support; organisation and management; learning resources; and personal development. The figure for 2005 was 57.5 per cent (England only). There are two figures for 2006 and 2007. The first is a raw unweighted figure. Response rates by HEIs vary significantly from year to year and it would therefore be possible to observe a change in satisfaction rate simply because an institution's response rate varied. In addition, for the second and subsequent years of the survey the number of part-time students is significantly reduced because we do not re-survey part-time students on flexible programmes every year. We therefore also include the second figure, a weighted figure that replicates the number of respondents by institution and mode from the 2005 survey. In 2006 the figures were: unweighted 58 per cent; weighted 59 per cent. In 2007 the figures were: unweighted 60.8 per cent; weighted 61.9 per cent.</p>
<p><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.</p>	<p><b>On target:</b> Actual figures about retention are published by the Higher Education Statistics Agency (HESA) as part of the performance indicators in June. For 2005-06 the actual continuation rate was the same (to within 0.2 per cent) as the benchmark value (91.8 per cent).</p>
<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 pathfinders funded by the Strategic Development Fund has increased from five in 2006-07 to eight in 2007-08. The number of flexible/innovative courses piloted has increased from 14 to 32, with 109 and 400 students respectively. Programmes include a range of approaches: two-year, compressed degrees; four-year, extended degrees, work-based learning and blended-learning foundation degrees.</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> The proportion of HEIs reporting the two highest levels in 2007 was 79 per cent, according to figures from the Higher Education – Business and Community Interaction survey. This is up from 2006, when 78 per cent reported at the highest two levels.</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.

### Making progress

For the 2007-08 academic year universities and colleges received £354 million to support their work in widening participation (WP). The funds within the WP allocation typically pay for extra teaching support or advisory services for students to help them successfully complete their courses. It also supports outreach work with local schools, colleges and communities to encourage and assist young people and older learners to aim for and access higher education.

### Supporting collaborative activities

April to June	July to September	October to December	January to March
Amber	Amber	Amber	Amber

The latest data in participation in higher education was released in March 2008. The Higher Education Initial Participation Rate for 2005-06 was 42 per cent (up from 40 per cent in 2004-05), whereas for 2006-07 the provisional rate is 40 per cent. As can be seen from the above, the 2005-06 HEIPR showed a rise of two percentage points compared to the 2004-05 HEIPR, mainly driven by 18 year olds. We now believe that this rise was largely due to some English 18 year olds in 2005 'bringing forward' their entry to HE, rather than entering at age 19 in 2006. We believe that the fall of 2 percentage points in the HEIPR for 2006-07 is the result of two main factors: the 18 year old participation rate falling from its inflated 2005-06 level to a more usual level; and the 19 year old participation rate falling due to the cohort being depleted by those who 'brought forward' their participation when they were 18.



The latest HE performance indicators (PIs) were published in summer 2007 by the Higher Education Statistics Agency, based on 2005-06 data. These data had shown a slight increase in the proportions of students accessing HE from lower socio-economic classes. The PI for young, full-time undergraduate entrants in 2005-06 showed the proportion of those from NS-SEC 4-7 as 29.6 per cent, as opposed to 28.3 per cent in 2004-05. The PIs for 2006-07 will be published in July 2008. But it is important to note when looking at the PI data that they measure the distribution of entrants across institutions and are one of the measures of fair access. They do not measure the absolute rates of participation from lower socio-economic groups, because this would require a comparison of numbers entering HE from these groups with the numbers in the wider population.

As noted in the previous annual report, our review of WP revealed that improved evidence at the local level was needed to help determine which WP activities are particularly effective. In response, we instigated a programme of work to provide evaluation support to institutions and Aimhigher partnerships to enable them to build the necessary capacity. This activity has progressed well with consultancies undertaken in a number of case study institutions. An outcome of this work will be the development of an evaluation tool kit. It will be disseminated to the sector and Aimhigher partnerships during the early part of 2008.

In addition to the work to gather more robust evidence at the local level, analysts within HEFCE have been updating the analysis of young participation in HE. We anticipate an up-to-date national picture of young participation rates in summer 2008.

We are also working to ensure the mechanisms to support the aim of increasing and widening participation to HE are delivered in the most efficient and effective way. Therefore, in May 2007, we issued guidance to Aimhigher partnerships and institutions on effective targeting. The document, 'Higher education outreach: targeting disadvantaged learners', refines the definition of the target group for outreach activities, provides a methodology to make targeting more effective and sets out a process for measuring the effectiveness of the targeting process. Also, the announcement in December 2007 that the Government would continue to support Aimhigher for a further three years has enabled us to change the structure of Aimhigher so that more of the available resource will be delivered directly to the Area Partnerships. This more efficient targeting of the resource should mean Area Partnerships can deliver and evaluate activity on the ground more effectively.

Evidence to date from both the review of WP and the evaluation of Aimhigher has shown that summer schools are considered to be one of the most effective types of outreach activity. Consequently, we have secured funding to continue the summer schools programme to 2010. A large proportion of the funding will continue to be delivered to Aimhigher partnerships for the Aimhigher summer schools. But we will also be delivering a proportion of the funding directly to HEIs, through a light-touch bidding process, as matched funding for institutional summer schools to supplement and complement the Aimhigher programme. We are introducing this matched funding element of summer schools in order to continue our work to embed WP in institutions and to encourage the long-term sustainability of this key outreach activity.

We continue to support institutions in meeting the needs of disabled students by providing the mainstream disability allocation within the WP allocation. This amounted to £12.9 million for the 2007-08 academic year. We also fund the Disability Equality Partnership, which delivers support to the sector through Action on Access (the national co-ordination team for WP), the Equality Challenge Unit and the Higher Education Academy. In November 2007, we announced our intention to undertake a review of our policy as it relates to disabled students. Consequently, we have 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. The research and the evaluation will report in August 2008. They will inform the development of our policy and determine the nature of any updated guidance to the sector. We continue to support activity to increase and widen participation in strategically important and vulnerable subjects, specifically chemistry, physics, engineering and mathematics. We currently fund four demand-raising pilot projects in each of these disciplines and we will work with these

projects over the next year to develop an integrated national HE programme. This programme will bring the four individual projects together into a coherent programme. It is anticipated that such a programme will be delivered from August 2009.

### Vocational progression and lifelong learning

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

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 £103 million to 29 networks spanning 120 HEIs and more than 300 FECs. The Centre for Higher Education Research and Information has undertaken a formative evaluation of LLNs. It found that the LLNs are making real progress in encouraging institutions to put in place procedures and curricula that could significantly increase progression opportunities for vocational learners. As well as establishing successful collaborative partnerships, this includes progress in concrete activities, among them: improving the accessibility and coherence of relevant information, advice and guidance; offering new curricula and improving the alignment between curricula offered at different levels; and improving the transition between different episodes of learning experienced by individuals.

With regard to the 14-19 curriculum changes, five LLNs were contracted to make progress towards developing progression agreements for the first five diploma lines to be delivered from September 2008. It is the intention that all LLNs will be involved in developing such agreements for all diploma lines as they become available.

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 higher education is available to all who could benefit from it. By working with schools and colleges on the 14-19 diplomas, and with employers and employees, we hope to encourage a culture whereby a wide variety of entry qualifications are deemed not only acceptable but desirable by HEIs.

### Embedding widening participation

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

We are working with institutions to embed WP. As such we continue to engage with a number of institutions across different regions. Through three-way communication between HEFCE, the institution's senior managers and WP staff, we are exploring the way WP is being shaped and how this is expected to develop in the next three to five years. Some of the issues considered in these discussions are: what mainstreamed WP might or does look like; how the aims of WP can be sustained in the longer term; how the institution sits within the local community and how this shapes its strategic development; the level of investment being made to embed WP across management and departments; how and if WP is shifting the culture within the institution and how success is being measured.

As part of this strand, we are commissioning further studies to build on the work undertaken in four areas of very low HE participation; a report on this work was published at the end of 2007. The HEIs that agree to undertake the next tranche of studies will be expected to commit to acting on the findings of the research and, as part of this, develop deeper, more structured links with the schools in those communities. In addition, in February 2008, we published our revised WP and fair access research strategy. The strategy comprises three strands of work which, as with the work above, will give us a much deeper understanding of the factors that affect participation in HE.

## In summary

Over the coming year our overall aim remains to ensure that WP becomes embedded in the corporate policies and practices of institutions across the sector, to ensure that all those who are able to benefit from HE have the opportunity to do so. We will do this by continuing to collect robust evidence at both national and local level about what works most effectively; working to ensure that academic and non-academic entry qualifications are both desired by institutions; and by continuing to encourage and facilitate the strategic engagement of HEIs with schools, colleges and employers.

Key Performance Target	Progress to 31 March 2008
<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> Although the 2006-07 HEIPR shows a drop of two percentage points compared to the 2005-06 HEIPR, we do not think this reflects a real change in the chances of young people entering HE. Instead this decline springs from a weakness in how the HEIPR represents participation, which is exposed when young people decide to enter HE earlier than usual.</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 PIs for 2005-06 show that, of the total number of young entrants to HE, the proportion of those from lower socio-economic groups rose from 28.3 per cent for 2004-05 to 29.6 per cent in 2005-06 (with 14 per cent coming from low-participation neighbourhoods in 2005-06, as opposed to 13.7 per cent in 2004-05). Similarly in 2005-06 the proportion of mature students from low participation neighbourhoods was 15.2 percent (up from 14.9 per cent in 2004-05). Part-time students over the same period showed a slight decrease from 17.7 per cent in 2004-05 to 17.1 per cent in 2005-06.</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 (updated September 2007).
- That growing competition from emerging research economies impacts on the UK's international position in research excellence.

### Making progress

In 2007-08 we continued to focus on identifying and supporting research excellence. The 2008 RAE will produce quality profiles for each submission of research activity made by HEIs. We intend to use the quality profiles to determine their grant for research to HEIs from 2009-10. The exercise is progressing as planned, with submissions from institutions received in November 2007. Panels are meeting throughout 2008 to advise on research quality profiles, with the exercise on track to be completed by December 2008.

We have worked 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. We have completed a consultation on the key elements in this.

We have continued to provide targeted funding to help build capability for research in key strategic areas. We have also initiated the third round of Clinical Senior Lectureship Awards and, with the Engineering and Physical Sciences Research Council, a fourth round of Science and Innovation Awards. A review of the Overseas Research Student Awards Scheme is underway and we have completed a review of the special funding streams for research libraries.

### Research excellence

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

Throughout the year, the RAE has progressed according to plan. We received 2,363 research submissions from HEIs in November 2007, and panels are assessing these submissions and

advising on research quality profiles throughout 2008. The results are due to be published in December 2008.

We continued to develop detailed proposals for the research assessment and funding arrangements to replace the RAE, building on commissioned expert advice regarding bibliometric indicators. We hosted a seminar for the research strategic committees of HEFCE and Universities UK in August 2007 to discuss the potential of these indicators and reported progress to the Secretary of State for Innovation, Universities and Skills in September. We published our proposals for the Research Excellence Framework in a consultation document in November 2007. A range of informal meetings was held with stakeholders before and during the consultation phase and we hosted three public consultation events in London and Manchester in January 2008, attended by over 100 HEIs overall.

We are currently analysing the responses to the consultation, which closed on 14 February 2008, and are reporting progress to the HEFCE Board in April 2008. We intend to run a pilot of the bibliometric assessment with a range of HEIs during 2008 and to develop proposals for the role of light-touch peer review and expert panels within the framework over the coming year.

### Research funding

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

We have continued to allocate quality-related research (QR) funding, which is our core grant to HEIs for research. We distributed £1,415 million in the 2007-08 academic year. Of that, £180 million was to support institutions undertaking research funded by charities, and £60 million was to incentivise research that directly meets the needs of business. We made no significant changes to the funding allocation method pending the outcomes of the 2008 RAE.

We continued to develop our policy to support strategic research collaboration between HEIs and engaged in a number of conversations with colleagues at HEIs. Some of those may result in applications to our Strategic Development Fund over the coming year to develop research collaborations.

### The research base

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

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 fourth round of Science and Innovation Awards in December 2007. Five new programmes with a total value of £23 million will support strategic areas in the physical sciences that are particularly at risk of losing the capacity needed for research and postgraduate training. We are also contributing to a £18 million programme led by the Economic and Social Research Council to build advanced quantitative methods in social science research. We will contribute up to £4 million towards specialist centres and a range of initiatives to support high-quality research and methods training throughout the UK in order to increase the capacity for research excellence in this area of the social sciences.

We contributed an annual report in April 2007 to the Research Base Funders Forum (a group of public and private funders of research) which monitored the sustainability of the UK HE research base using indicators first introduced in 2006.

A review of the Research Information Network was completed in November 2007, this being a network set up in 2005 by the four UK HE funding bodies, the eight UK Research Councils and the three UK National Libraries with a mission 'to lead and coordinate new developments in the

collaborative provision of research information for the benefit of researchers in the UK'. The review resulted in agreement to fund the network for a further three years until 2011. We also reviewed our special funding streams for research libraries and agreed revised designations of the funding. The report was published in March 2008.

We funded a pilot of the UK Research Reserve, which 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. The pilot demonstrated that there is strong support for this initiative and we invited the British Library to submit a proposal for a full scheme to us by March 2008.

### People in research

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We received a report from the Quality Assurance Agency for Higher Education of its 2006 review of the standards of research degree programmes. It established that all HEIs are working towards securing the standards of their programmes and we agreed how to monitor this in future. We published qualification rates of research degree students for each institution in October 2007.

We continued to allocate funds for the Overseas Research Students Awards Scheme during 2007-08 and commissioned a review of the scheme in January 2008. We expect to announce how funding allocations should be determined for future years in August 2008. We also provided input into the revision of the UK Concordat and Code of Practice for Researchers. 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. The concordat is due to be launched by Research Councils UK in June 2008.

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 2007-08 we announced 38 Clinical Senior Lectureship Awards in round two of the scheme, to help develop high-quality capacity and enhanced outcomes in research and teaching at senior lecturer level. We received 69 applications to the third round of awards in February 2008, the outcomes of which will be announced in June 2008.

### In summary

In 2008-09 we will continue to undertake significant work to develop and implement the Research Excellence Framework for research assessment and funding. We will also announce the results of the 2008 RAE and will determine the future QR funding method based on these. The exercise will continue to influence research funding until the Research Excellence Framework is fully phased in fully, in 2014. 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 ensure that the Council's investment in the research base responds to the challenges set out in the Government's White Paper 'Innovation Nation'.

Key Performance Target	Progress to 31 March 2008
<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> The Office of Science and Innovation (now integrated in the Department for Innovation, Universities and Skills) published its annual report on 'PSA target metrics for the UK research base' in July 2007 (available on the web at <a href="http://www.berr.gov.uk">www.berr.gov.uk</a>). That report again showed the UK's continuing strong international position.</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 RAE has proceeded to schedule. We have developed proposals for the Research Excellence Framework, reported progress to the Secretary of State for Innovation, Universities and Skills, and completed a major consultation. We intend to refine and pilot these proposals over the coming year.</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 2007 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.

### Making progress

We have made considerable progress in 2007-08 toward the objectives set out for this strategic aim. In particular, we achieved an increased level of funding for this ‘third stream’ of HE activity, alongside and integrated with teaching and research, through the fourth round of the Higher Education Innovation Fund (HEIF 4). HEIF is now fully embedded in our recurrent formula funding processes, which recognises secure and solid delivery across all the main activities in this area: secure monitoring of HEIF allocations; delivery of improved third-stream performance as indicated by the Higher Education - Business and Community Interaction Survey; and successful outcomes of policy and strategy work (feeding into the Sainsbury Review of Science and Innovation, the Government’s Comprehensive Spending Review and the Government’s White Paper ‘Innovation Nation’). This progress has enabled us to put all our activity areas in this aim at green and to report on all KPTs as on target.

### Higher Education Innovation Fund

April to June	July to September	October to December	January to March
Amber	Green	Green	Green

We stress in our 2006-11 strategic plan the importance of increasing and embedding the funding for the third stream through HEIF, and, as part of this, shifting further toward allocating funding by formula and ensuring all HEIs have support to play to their third-stream strengths. The outcomes of the Government’s Comprehensive Spending Review and the Sainsbury Review of Science and Innovation, published in October 2007, have enabled us to meet these



objectives. The Government announced increased funding for HEIF from 2008-09 until 2010-11, with HEIF rising to £150 million in the last year. HEIF 4 will be allocated by formula across all HEIs and from 2008-09 will be considered as core funding (which institutions can spend according to their own priorities, within our broad guidelines) instead of special funding (funds that are provided for a fixed period and a specified purpose, allocated by formula or in response to competitive bids). The distribution of funding will enable a great range of HEIs to develop distinctive approaches to the third stream. In particular, it will enable HEIs to engage further with small and medium-sized enterprises and a diversity of new sectors, including creative industries and the services sector. In January 2008, HEFCE 2008/02 'Higher Education Innovation Fund round 4: Invitation and guidance for institutional strategies' set out the policies and approaches to HEIF 4 in full.

We have continued to monitor the formula and competition funds allocated for 2006-08 through the third round of HEIF. Centres for Knowledge Exchange – which are innovative partnerships aimed at developing good practice in knowledge exchange between institutions and businesses and within a specific locality, region or sector – have continued to receive funding. We have made arrangements for the fifth and final year of their funding (2008-09).

The activity was at amber in the first three months of 2007-08 due to awaiting the outcome of the Comprehensive Spending Review. We have now moved it to green because the long-term future and adequate funding support for the third stream has been secured.

### Performance improvement

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We have provided support to the Institute of Knowledge Transfer (an organisation for knowledge transfer professionals) to assist its work on development of professional standards and accreditation. It now has a blog.

We have continued to support Praxis (a national training programme aimed at technology transfer professionals working in universities, research institutions and industry) and the Association for University Research and Industry Links with grants to support their continuing professional development programmes. These organisations have also initiated work with the Institute of Knowledge Transfer on accreditation issues.

We have provided funding to the University of Leeds to support the third-stream good practice programme that was initiated in 2005. We are in discussion with this programme and the Institute of Knowledge Transfer to integrate activity and ensure sustainability.

### Third-stream indicators

April to June	July to September	October to December	January to March
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 2007 we published data for HE-BCI for the years 2004-05 and 2005-06. Data showed improved performance of the HE sector across a range of indicators.

HE-BCI data for activity and income relating to 2006-07 were gathered between November 2007 and January 2008. The returns from this were processed to timetable early in 2008 and were used to confirm to institutions their final allocations in HEIF 4. Initial analysis of this data

suggests healthy growth across much of the sector's third-stream activity. The survey will be published in summer 2008.

### Long term third-stream strategic development

April to June	July to September	October to December	January to March
Green	Green	Green	Green

HEFCE's long-term strategic work on the third stream was reflected in the outcomes of the Government's 2007 Comprehensive Spending Review and the Sainsbury Review of Science and Innovation.

As part of work to feed into the Comprehensive Spending Review and Sainsbury Review, we supported a number of pilot projects on approaches to engagement with small and medium-sized enterprises. We also commissioned independent evaluators for periodic evaluations of the six pilot projects that began in 2006-07. In autumn 2007 the evaluators completed the interim evaluation of the projects, which suggested they were making good progress in unlocking demand from small and medium-sized enterprises and the capacity in HEIs to engage with them. The evaluation report was published in March 2008.

In November 2007 we announced six Beacons for Public Engagement, in collaboration with the other UK funding bodies, the Research Councils and the Wellcome Trust, to establish a co-ordinated approach to recognising, rewarding and building capacity for public engagement in HE. The beacons are based in Manchester, Newcastle, Norwich, London, Cardiff and Edinburgh with a national co-ordinating centre based in Bristol. These are now in their set-up phase and an initial baseline evaluation began in late 2007.

Consultancy firm PACEC is conducting a full evaluation of our third-stream funding. It seeks to describe the achievements of the sector since the start of third-stream funding in 1999 and assess the contribution to this from HEIF, and its predecessor, the Higher Education Reach-Out to Business and the Community programme. This evaluation and other policy activity has informed the Government's White Paper 'Innovation Nation'.

### In summary

Work delivered in the year has provided a very good basis for achievement of our objectives and KPTs. We expect to generate a considerable evidence base within the next year, through metrics from the HE-BCI, HEIF 4 assessments, and evaluations of the third stream overall and of specific projects. This evidence will enable us to support innovation and continuous improvement in the third stream in the HE sector, as well as help deliver the Government's strategic goals on the creative industries, innovation, enterprise, and science and society.

Key Performance Target	Progress to 31 March 2008
<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> We have conducted a sector impact assessment to determine whether the burdens of data collection are proportionate to the benefits, in terms of demonstrating value for public funds and informing robust funding allocation systems. Stakeholder acceptance of the measures was tested as part of widespread consultation and development during the Sainsbury Review of Science and Innovation. From 2008-09 we are transferring the collection of data for the HE-BCI survey to the Higher Education Statistics Agency to embed this with HEIs' other data submissions. The HE-BCI survey stakeholders' group will monitor the handover process to ensure we continue to get more benefit for less burden.</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> The Government announced increased funding for HEIF from 2008-09 until 2010-11, with HEIF rising to £150 million in the last year. HEIF 4 will be allocated by formula across all HEIs and will be considered as core funding instead of special funding from 2008-09. Successive HE-BCI surveys have continued to demonstrate increased income to HEIs from third stream activity from a variety of commercial, public and third sector 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> We commissioned five pilot projects in 2006 and early results fed into the Comprehensive Spending Review and the Sainsbury Review of Science and Innovation. This informed the approach and method for HEIF 4, so that funds are allocated to support enhanced activity with small and medium-sized enterprises, and to support a broader range of contributions from the HE sector responding to the diverse needs of the economy and society. We will continue to evaluate the projects over the plan period for further policy insights.</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> In July 2007 we published data from the HE-BCI survey for 2004-05 and 2005-06. Data showed improved performance of the sector across a range of indicators. Data for activity and income relating to 2006-07 were gathered between November 2007 and January 2008, and will be published in summer 2008.</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.

### Making progress

In order to enhance English HE's global reputation for excellence, we are committed to supporting a flexible, responsive and sustainable sector. We work with HEIs in enhancing the capacity and capability of HE staff, ensuring the sustainability of the HE infrastructure and promoting stakeholder confidence in the sector.

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

April to June	July to September	October to December	January to March
Green	Green	Green	Green

The HE sector makes a contribution to the intellectual, social and economic well-being of the nation and the world. In order to continue making this contribution, HEIs must build on their strengths, developing a range of missions that meet the needs of a wide variety of stakeholders.

Our regional teams work with HEIs to deliver this objective. Drawing on the resources of our Strategic Development Fund, individual institutions have brought about internal transformation to support diverse missions. There have been 60 awards from the fund, totalling nearly £125 million, which include employer engagement projects, promoting creativity in art and design, and supporting the 2012 Olympic and Paralympic Games initiative through developing sport. Our recently completed review of specialist institutions also demonstrates our commitment to the diversity of missions across the HE sector.

Access to HE has been improved by the development of provision in areas where, in the past, no HE has been delivered locally. This work is now contributing to the Government's new 'University Challenge', which seeks to open the opportunities of HE in more communities and to regenerate or develop the local economy. We continue to address specific subject-based issues through our programme of work on strategically important subjects, including the science, technology, engineering and mathematics strands which are of national importance. Islamic studies was added as a strategic subject in June 2007.

UCAS data from January 2008 indicates increased applications demonstrating continuing demand from students.

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

April to June	July to September	October to December	January to March
Amber	Amber	Amber	Amber

Continuous improvement in leadership, governance and management in HE continues to be essential if the sector is to respond to a challenging global environment in which there is increasing competition, particularly from the rest of Europe and from other English-speaking countries.

We have continued to support the Leadership Foundation for Higher Education as a means of enhancing capability in these areas in the sector. We are working with the Leadership Foundation on the allocation of our Leadership, Governance and Management Fund, so that good practice can be disseminated within the sector and areas for strategic change can be identified and addressed. A key output during the year has been the Handbook for Members of Audit Committees in Higher Education Institutions, which was published by the Committee of University Chairmen, and which we supported. A programme of work to embed good practice in governance, led by the Committee of University Chairmen and delivered by the Leadership Foundation, is under way.

Our strategic review of sustainable development in HE has reported and is contributing to the development of a second sustainable development action plan. The plan will outline how we will support the sector in its contribution, both in research and in its estates activity, to the national response to the challenges of climate change.

The HE sector has much to celebrate in meeting the targets set in the Government's efficiency review. We believe, however, that more use of shared services, such as information technology server farms, can offer further benefits to the sector. Those benefits cannot yet be delivered because current regulations make bought-in services subject to VAT, which is not reclaimable, thus negating a significant proportion of the potential savings. We have therefore set the indicator for this objective at amber throughout the year, because delays in changing the regulations have been a barrier to achieving the efficiency review targets. We will work towards achieving the targets through higher savings in other areas.

### Risk based accountability framework

April to June	July to September	October to December	January to March
Green	Green	Green	Green

Investors in HE, including students, banks, donors and those who fund research, need to have confidence in the sector. Our role is to provide assurance that institutions' own accountability processes are working well and to demonstrate value for money for public investment.

We have again been able to provide assurance that internal control, corporate governance and risk management in the sector are effective and that value for money is being achieved. We report this to our Audit Committee, which oversees this area on behalf of the Board and our Accounting Officer, the Chief Executive. The Accounting Officer's review of 2007-08 is included on pages 47 to 49 of this report.

We are implementing the new accountability framework for institutions, which involves a 'single conversation' with institutions where the submission of a minimal number of financial and other returns takes place once each year, in early December, rather than at different times. The single conversation has been piloted and will be implemented fully in 2008-09. We introduced a new approach to our own audits of HEIs, called the HEFCE Assurance Review, in 2007-08, and have adopted a new strategy to derive greater assurance about the quality of data submitted by institutions for funding purposes. These changes were reflected in our draft Financial Memorandum and Audit Code which were published for consultation in January 2008. Responses to this consultation will be considered at the May Board meeting. The new Financial Memorandum and Audit Code will be introduced from 1 August 2008.

#### Continued investment in the HE infrastructure

April to June	July to September	October to December	January to March
Amber	Amber	Green	Green

Good-quality buildings, equipment and information technology support academic excellence. We believe that individual institutions are best placed to make decisions about developing the infrastructure that is appropriate for their needs.

The announcement of detailed outcomes of the 2007 Comprehensive Spending Review was not made until 11 December 2007, leading us to set the indicator at amber for half of the year. Past under-investment in the research infrastructure has now been addressed and a new permanent stream of research capital funding was included in the allocation. There is still more to be done on the learning and teaching infrastructure, but capital investment in this area remains the same in cash terms for 2008-09 and 2009-10 and will significantly reduce the backlog of investment requirements.

We have also developed and put in place a new Capital Investment Framework. This replaces single project-based methods of monitoring capital allocation to institutions with a strategic evaluation of institutions' long-term investment in their physical infrastructure. The implementation of the framework recognises the progress made by the sector in recent years in managing its own capital investment.

#### Continuing development of people and organisational culture

April to June	July to September	October to December	January to March
Green	Green	Green	Amber

The people who work in HE are its most significant asset as well as its greatest cost, with institutions typically spending 55 to 60 per cent of their total resources on their staff. Our HE Workforce Framework, published in 2006, reports on workforce trends in HE and provides background information to inform institutions' own strategic planning. We are preparing a second workforce framework document to be published in 2009, and have established a



Workforce Steering Group to oversee the programme of research to support the framework. Our update on staff employed at HEFCE-funded HEIs indicates that the HE workforce increased by 6 per cent in the two years to 2005-06. Salaries have increased for academic and professional staff, and the number of staff on short-term contracts continues to decline.

We continue to fund the Equality Challenge Unit in its work to support institutions in promoting a more diverse workforce and student population. Our data indicate that the proportion of the workforce from international backgrounds is increasing. However, the proportions of senior staff with disabilities or from minority ethnic backgrounds are showing little growth from 2003-04, leading to an amber rating for this activity in early 2008. The Equality Challenge Unit is managing a project to examine disability disclosure rates for staff in HE.

In the Universities and Colleges Employers' Association survey, those HEIs that have implemented local pay agreements estimate the cost of the agreements to be in the range of 0.8 per cent to 12 per cent in the first year of implementation. This, along with the third year of a higher-than-inflation pay settlement and increased pension contributions, will lead to financial pressures on institutions in coming years.

Key Performance Target	Progress to 31 March 2008
<b>KPT15:</b> By 2008, to develop a baseline assessment of how the HE sector contributes to the sustainable development of society, and to demonstrate progress in this area by 2011.	<b>On target:</b> The strategic review report was published in January 2008. We are updating our 2005 sustainable development strategy and will be consulting on a new action plan in summer 2008, which will set out how we will assess progress by 2011.
<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.	<b>On target:</b> Universities UK has established a Higher Education Strategic Procurement Group, which is now the lead body to promote effective procurement in HE. It is working with Leadership Foundation for Higher Education and the Association of University Procurement Officers on the development of a procurement directors' leadership development programme (EXCEED).
<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.	<b>On target:</b> We are recalculating the costs of accountability through a project 'Assessing the cost of accountability', which will report by March 2009. We have continued to provide assurances that internal control, corporate governance and risk management in the sector are effective, and that value for money is being achieved.
<b>KPT18:</b> By 2008 all institutions 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.	<b>On target:</b> The Capital Investment Framework is now in place. Its creation involved a process by which institutions provided assurance of their capability to manage their physical infrastructure appropriately for their academic mission.
<b>KPT19:</b> 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.	<b>Partially on target:</b> While the proportion of the workforce from international backgrounds is increasing, the proportions of senior staff with disabilities or from minority ethnic backgrounds are showing little growth. The Equality Challenge Unit is managing a project on institutional reporting of disability. More positively, numbers of female staff at senior levels are showing year-on-year increases.

## 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.

### Making progress

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 HEFCE's 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 as a basis for identifying our strengths and areas for improvement.

### Leadership

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

Tim Melville-Ross CBE took up his post as Chair of HEFCE in January 2008.

Over the year we have been reviewing our organisational structure and are now in the process of implementing changes. We have moved to a three-directorate structure and, from September, we will replace existing regional teams with three institutional teams, each led by an Associate Director. This restructure will be cost-neutral.

The previous structure was created mainly to respond to the challenges of the 2003 Higher Education White Paper. The environment in which we work has moved forward significantly since then. The new arrangements will enable us to build on a strong base, adapt to changing circumstances, and continuously improve what we do in a cost-effective way. They will enable us to manage our relationship with HEIs and FECs and stakeholders within regions more effectively. The changes will also enable us to respond positively and creatively to the policy environment, and to improve our dealings with government departments, in particular DIUS. The new arrangements are designed to make the most efficient and effective use of our greatest resource: our staff.



We are pleased with the application we have made to be 'Recognised for Excellence' by the European Foundation for Quality Management. Our assessment is scheduled to take place in May 2008.

## People

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

HEFCE employs around 240 full-time equivalent staff, mostly based at our head office in Bristol, with a small secretariat at Centre Point in London. 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.

We won the 2007 London Excellence Award for People Involvement and Development. Assessors commented that we demonstrated an 'exceptional combination of purpose and vision'. This external recognition represents an outstanding achievement for the Council and is a powerful endorsement of our commitment to developing our staff. Our most recent staff survey results show high levels of satisfaction among employees. For example, 81 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 73 per cent<sup>3</sup>.

However, we have not made the progress we would have liked in increasing the diversity of our staff (as set out in our November Board paper available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/HEFCE's Board). As a result we have agreed a set of diversity aspirations and are now developing interim targets towards achieving these.

Over the next year we will develop new people and information technology strategies that will flow directly from HEFCE's strategic plan to support continuous improvement in our approach to management of our resource.

## Policy and strategy

April to June	July to September	October to December	January to March
<b>Green</b>	<b>Green</b>	<b>Green</b>	<b>Green</b>

Our strategic plan for 2006-11 was developed in consultation with our stakeholders. It sets out our mission and overarching vision as well as our aims, objectives, key strategic risks and key performance targets. The 2008 update is available on our web-site (HEFCE 2008/15). Over the next year, we will be engaging our stakeholders in developing a new strategic plan for 2009-14.

We aim to develop policy openly, transparently and to consistently high standards. In doing so, we draw on evidence from data, research and evaluation and international experience; advice from the Board's strategic advisory committees; and feedback from consultations. Details of particular policy developments in 2007-08 are included in the earlier sections of this report. Our

<sup>3</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.

pecially commissioned research and evaluation reports are on our web-site, [www.hefce.ac.uk](http://www.hefce.ac.uk), under Publications/Research & evaluation. Our Board papers and minutes are available on our web-site under About us/HEFCE's Board.

This year we implemented a new approach to assessing all our new policies and initiatives for their impact on sustainable development, on the regulatory burden for our stakeholders, and on their positive contribution to equality.

### Embedding international activity

April to June	July to September	October to December	January to March
Green	Green	Amber	Amber

Over the year we have made progress towards embedding awareness of the international HE agenda across the Council. An International Programme Board has been set up and its membership has been active in taking on a leadership role within policy and regional teams.

The momentum has been slower than planned because it has taken more time to transfer some HEFCE international commitments to the newly created, and partly HEFCE-funded, International Unit at Universities UK. Therefore, we have assessed the progress as amber. But we expect to make considerable further progress in the coming six months because we will be able to divert HEFCE staff time from establishing the Unit to supporting the embedding process.

The International Unit at Universities UK was formally launched in September 2007. Its progress to date has been good and initial feedback on its work has been positive from the sector.

### Partnership working

April to June	July to September	October to December	January to March
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, including universities and colleges, different parts of Government, the other UK funding bodies, employers and representative bodies.

The results in the report from Ipsos MORI on the 2007 survey of communications and relations between HEFCE and universities and colleges are very encouraging. The report demonstrates a strong and improving trend with regard to stakeholder satisfaction, and Ipsos MORI has confirmed that our performance compares very well with similar organisations. (Further details are included in the progress report on the relevant key performance target at the end of this section.) We discussed the findings of the survey at the Board 'away day', and are also doing so in the senior management team and throughout the Council to identify lessons on how to improve our performance still further.

Our annual conference in April 2007 – 'Higher education, the economy and society: future challenges and opportunities' – helped us develop our strategic thinking on how HE can engage effectively with employers, businesses, the workforce and the community.

Work continues on a substantial report on HE in England. This is due to be published in autumn 2008. It will provide an overview of the characteristics and strengths of the HE system and opportunities for the future. It is planned to lead to a wider understanding and appreciation of the role, context and importance of HE in this country.

## Resource management

April to June	July to September	October to December	January to March
Green	Green	Amber	Green

The Government announced the outcome of the 2007 Comprehensive Spending Review in October 2007. This was a good overall settlement for HE in the context of the fiscal climate at the time and the overall levels of public expenditure announced for 2008-11. The amber rating for the third quarter related to the delay in us receiving our running costs settlement.

Over the three years 2005-06 to 2007-08 we have delivered a 10 per cent real-terms reduction in our running costs. We are committed to achieving the further efficiencies now required over 2008-09 to 2010-11.

HEFCE's organisational structure, planning framework and budgeting processes are designed to ensure that our allocation of available resources support the delivery of our strategic objectives. This year we developed a clearer understanding of our costs through an activity costing exercise and a review of the available quantitative and qualitative benchmarking information on a range of our functions. An external advisory group expressed confidence in the robustness of our approach.

We have strong systems of internal control as evidenced by the low number of high-priority recommendations in internal audit reports.

We have continued through 2007-08 to develop our financial and management reporting. Our CODA management information system now provides on-line financial management information to those involved in managing budgets. The 2007-08 financial accounts were approved by the HEFCE Board on 8 May 2008. We aim to improve still further the speed of producing accounts in 2009.

## Processes

April to June	July to September	October to December	January to March
Green	Green	Green	Green

We manage four key business processes: funding, stakeholder relationship management, institutional risk, and developing and implementing policy. We continue to develop these processes in light of our work on the European Foundation for Quality Management excellence model and internal audit reports.

Agreed actions from the 2006-07 internal audit review of the Council's business continuity management arrangements are now almost complete.

## Corporate social responsibility

April to June	July to September	October to December	January to March
Amber	Amber	Amber	Green

We believe it is important to behave in a socially responsible way, both as an organisation and through the conduct of our staff. Our corporate social responsibility (CSR) policy commits us to continually improving our performance and meeting all relevant legislation. We publish an annual CSR report that includes 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 disposal to landfill and recycled). It can be read at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Corporate Social Responsibility.

This activity was rated as amber over the first three-quarters of this operating year due to concerns about progress towards two targets: a 10 per cent reduction in our carbon emissions from energy use by March 2008 and a 15 per cent rise in the number of staff using sustainable methods of commuting by March 2008 (both relative to 2002-03). We had a number of initiatives underway, but did not have the data available to measure their success. This activity is now rated as green because predictions for the year based on current data suggest we will meet our targets (subject to final confirmation of the data). We are now confident that we will meet our target for reducing our carbon emissions from energy use because we are purchasing 'green' electricity, and we believe that we have also reduced energy consumption. This has been achieved through initiatives such as closing our Bristol office on Saturdays, removing electric fan heaters, replacing kettles and water coolers with hydro taps and general awareness-raising.

We will be reviewing our CSR policy and targets in April 2008.

### Key performance results

April to June	July to September	October to December	January to March
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 KPTs. An internal audit of the exception reporting process, done in 2007, concluded that the use of exception reporting has generally increased the value of the report to the Board. The reports are subsequently published on [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us/Operating plan.

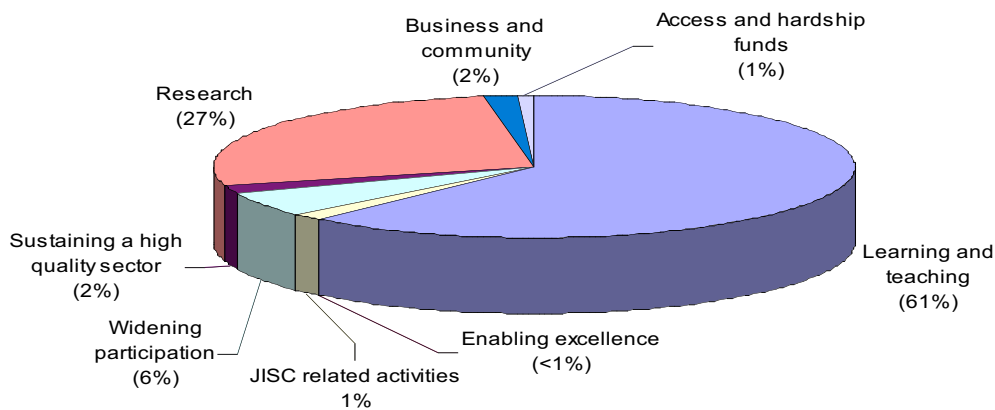
Key Performance Target	Progress to 31 March 2008
<p><b>KPT20:</b> By 2008, HEFCE to be assessed by the European Foundation for Quality Management as achieving level 2 ('Recognised for Excellence'), and thereafter to maintain this standard across the remainder of the planning period.</p>	<p><b>On target:</b> We have submitted our application to the European Foundation for Quality Management. Our assessment is scheduled to take place in May 2008.</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> We received the final report from Ipsos MORI on the 2007 survey of communications and relations between HEFCE and universities and colleges. The report demonstrates 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 indicate that they are satisfied with the relationship their institution has with HEFCE. And 80 per cent think that quality of staff is good, compared with 67 per cent in 2003. Positive coverage of HEFCE in the media has also improved, from 35 per cent in 2003 to 58 per cent in 2007. The vast majority of stakeholders (94 per cent) feel that HEFCE communicates well with their organisation and 82 per cent think that HEFCE keeps them informed.</p> <p>We are planning a further survey of non-HEI stakeholders in February 2009, which will include a review of HEFCE stakeholder relations managers. The next survey of universities and colleges will be conducted in autumn 2010.</p>
<p><b>KPT22:</b> 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.</p>	<p><b>On target:</b> Work is underway to meet this target in 2009.</p>

**Financial results for 2007-08**

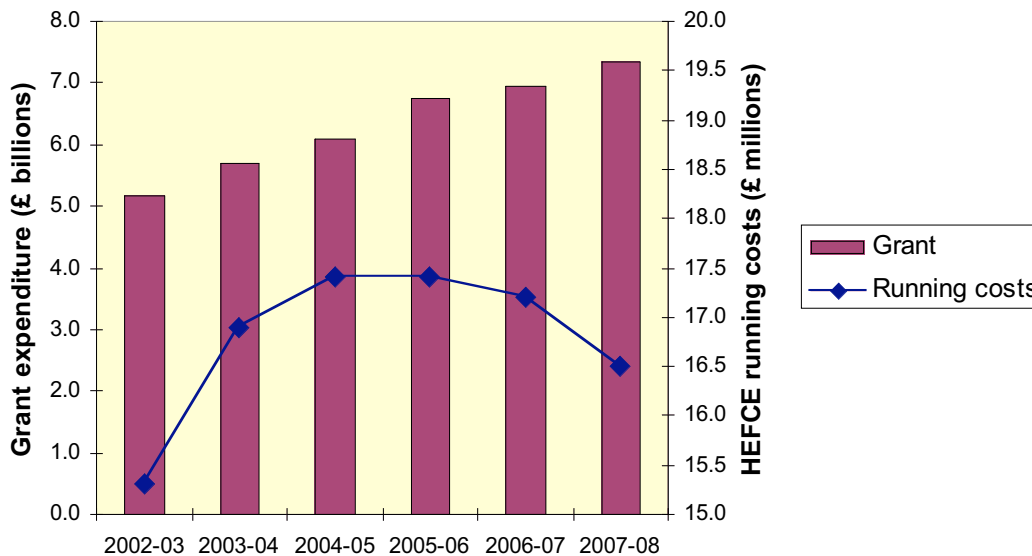
**Funding and expenditure in year**

In delivering the strategic objectives outlined in the previous pages, HEFCE's total income for the year 1 April 2007 to 31 March 2008 was £55 million (2006-07: £60 million). This figure does not include grant-in-aid received from the Department for Innovation, Universities and Skills (DIUS) because this is treated as financing (and so taken to the balance sheet) rather than as income shown on the income and expenditure account. In 2007-08 HEFCE received £7,342 million of grant and grant-in-aid (2006-07: £6,983 million).

HEFCE's total expenditure for the year was £7,360 million (2006-07: £6,963 million). Of this £7,342 million (2006-07: £6,945 million) relates to grants payable to institutions and others and is paid in relation to our strategic aims as follows:



The remaining £18 million expenditure (2006-07: £18 million) relates to our internal running costs. This figure is the gross expenditure incurred in HEFCE's own running costs, and is partially offset by income contributions of £2 million (2006-07: £1 million) giving a net total of £16 million (2006-07: £17 million). As part of the Government's Efficiency Review, HEFCE has committed to a 10 per cent real-terms reduction in its baseline running costs by 2007-08 compared with 2004-05, despite an increase in the volume and value of the grant we distribute each year. This savings target, monitored by DIUS on a quarterly basis, has been achieved.



For the current year HEFCE's running costs represent 0.23 per cent (*2006-07: 0.25 per cent*) of the total grant we distribute to the sector.

### Balances at year end

We aim to distribute the funds received each year within that year. Our Financial Memorandum with DIUS recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently we are permitted to carry forward up to 2 per cent on a cash basis of the grant-in-aid provided for distribution to institutions and for our running costs. The balance sheet as at 31 March 2008 shows a cash balance of £25 million (*£40 million in 2007*) which is within DIUS's limit.

In resource terms we are advised by DIUS 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 the Treasury. We therefore aim to manage our expenditure to ensure low balances, and hence reduce any risk that the sector may be penalised. The resource balances at 31 March 2008 were as follows:

Resource balances		
	Year ended 31 March 2008 £M	Year ended 31 March 2007 £M
Access and hardship funds	1	1
Capital	51	55
Recurrent	(5)	(6)
<b>Total</b>	<b>47</b>	<b>50</b>

These balances are within the thresholds advised by DIUS. The balance on capital and other reflects timing differences in the payment of grant for certain capital expenditure programmes.

### Payment of creditors

We are fully committed to the prompt payment of suppliers and we support HM Treasury's Better Payment Practice Code. We aim to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is later. All suppliers have been notified of this commitment and have been given clear guidelines to help us achieve this aim. Throughout the year we monitor performance against the 30 day target. During the financial year 2007-08 the target was met for 98 per cent of invoices (*2006-07: 99 per cent*).

### Financial reporting standards

The 2008 Budget announced that, from 2009-10, the annual financial statements of government departments and other entities in the public sector will be prepared using International Financial Reporting Standards adapted as necessary for the public sector. HEFCE is already preparing for this change and will apply international standards from 1 April 2009 onwards.

## 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.

### HEFCE Audit Committee

The annual report and accounts for 2007-08 were scrutinised by our Audit Committee on 29 April 2008 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2007-08. The Audit Committee is a standing committee of the HEFCE Board. It advises both 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 the management of HEFCE or its funding activities. Members of the Audit Committee during 2007-08 were as follows.

<b>Chair</b>	<b>Professor Nigel Savage*</b> Chief Executive, College of Law in England and Wales
<b>Members</b>	<b>Alastair Balls, CB*</b> Chairman, Centre for Life <b>Stephen Dexter</b> Former Partner, Grant Thornton UK LLP <b>Professor Peter Rubin*</b> Professor of Therapeutics, University of Nottingham <b>Michael Sheasby</b> Former Chair, Brunel University Audit Committee <b>Kathleen Tattersall, OBE</b> Chair, University of Manchester Audit Committee <b>Ninian Watt</b> Chair of Board of Governors, Leeds Metropolitan University <b>Fraser Woodburn</b> 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 give a formal opinion to the Board on the audited accounts, including the Statement on Internal Control, before they are approved. 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:
  - a. The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
  - b. 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.
  - c. The annual results of internal and external audit activity, in HEFCE and in the HE sector.



- d. The adequacy of HEFCE management and institutional responses to issues identified by audit activity.
  - e. 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:
- a. The effectiveness of risk management in HEFCE and in the HE sector.
  - b. The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
  - c. 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.
  - d. 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.
  - e. Any reports from the National Audit Office and the DIUS Audit Service, including the response to any management letters.
  - f. The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
  - g. 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 auditors are 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 auditors are aware of that information.

### **Audit of the accounts**

The accounts are audited by the Comptroller and Auditor General, who is appointed by statute. The audit fee for the financial year 2007-08 is £42,500 and he did not provide any non-audit services during this year. The NAO is currently undertaking a VfM examination in the area of Widening Participation. The report is expected to be published during 2008.

### **Going concern**

The balance sheet at 31 March 2008 shows net liabilities of £179 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 2008-09, 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 a 'going-concern' basis.

*Professor David Eastwood*  
*Chief Executive and Accounting Officer*  
*Higher Education Funding Council for England*  
*8 May 2008*

## Remuneration report

Part one - unaudited

### Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2007-08 were:

**Tim Melville-Ross CBE**, HEFCE Chair (from 1 January 2008)

**David Young CBE**, HEFCE Chair (to 31 December 2007)

**Jackie Fisher CBE**, HEFCE Board member

**Peter Saraga OBE**, HEFCE Board member

The terms of reference for the Remuneration Committee are as follows:

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

For the Chief Executive post, remuneration is determined by approval of the Secretary of State for Innovation, Universities and Skills. Each year, the committee assesses the performance of the Chief Executive, resulting in a one-off cash bonus (up to a maximum of 10 per cent of basic salary) determined in accordance with an agreed scale. Any bonus or revalorisation of base pay is, subject to the approval of the Secretary of State, normally in accordance with Senior Salaries Review Body guidelines.

For directors, the Remuneration Committee reviews performance, based on the same performance review system as used for all other Council staff, with pay consequences being determined by the pay system which governs all HEFCE staff.

The length of contracts 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 is now six months. Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination. The current Chief Executive was appointed for a six-year contract which began in September 2006.

### 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.

### Emoluments of the Chair

Emoluments of the Chair are 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 and was held by David Young (until 31 December 2007) and thereafter by Tim Melville-Ross.

The total salary for **Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2008, was £11,434. This equates to a full year salary of £45,735 (*2006-07: not in post*). For the period to 31 March 2008 Tim Melville-Ross CBE waived his right to a salary and elected for payment to be made to a charity.

The total salary for **David Young**, HEFCE Chair for the period to 31 December 2007 was £34,302. This equates to a full year salary of £45,735 (*2006-07: £46,838, including a non-consolidated bonus of £2,000*).

## Emoluments of the Chief Executive

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual personal responsibility plan agreed by the Chair. The bonus is also approved by the Secretary of State. On 1 September 2006 David Eastwood was appointed HEFCE Chief Executive. From 1 February 2006 until that time Steve Egan was Acting Chief Executive. To provide meaningful comparatives, the relevant details for both these individuals are shown below.

The total emoluments including taxable benefits for **Professor David Eastwood**, HEFCE Chief Executive, were as follows (with last year's comparative figures showing emoluments from 1 September 2006):

Chief Executive		
	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Salary paid in year	a 190,208	112,291
Taxable benefits	b 597	126
Employer's pension contributions	c 25,201	14,292
Total	<u>216,006</u>	<u>126,709</u>

- a Including a non-consolidated performance related bonus of up to 10 per cent.
- b Payment of a taxable allowance in respect to relocation costs.
- c Professor David Eastwood is a member of the Universities Superannuation Scheme (USS).

From the period 1 February 2006 to 31 August 2006 **Steve Egan** was HEFCE Acting Chief Executive. His total emoluments for the period within financial year 2006-07 were as follows:

Acting Chief Executive (2006-07)		
	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Salary paid in year	-	a 57,000
Taxable benefits	-	b 90
Employer's pension contributions	-	c 12,750
Total	<u>-</u>	<u>62,840</u>

- a For the period to 31 August 2006; full year equivalent £127,000 (including a non-consolidated performance related bonus of £7,000).
- b Allowance for home Broadband connection; full year equivalent £216.
- c For the period to 31 August 2006; full year equivalent £30,600.

## Emoluments of other Board members

Other Board members are eligible to receive an annual honorarium of £5,000, which is not pensionable.

### HEFCE Board members

	Year ended 31 March 2008 £	Year ended 31 March 2007 £
Alastair Balls CB (from 1 December 2006)	5,000	1,667
Richard Coldwell (to 30 November 2006)	-	3,333
Professor David Eastwood (to 31 August 2006)	-	2,083
Jackie Fisher CBE	5,875	5,875
Dame Patricia Hodgson	5,000	5,000
Dr Beverly Malone (to 31 December 2006)	-	4,406
Professor Peter Rubin	5,000	5,000
Rene Olivieri (from 1 March 2008)	417	-
Peter Saraga OBE	5,000	5,000
Professor Nigel Savage	5,875	5,875
Professor Sir Peter Scott (to 30 November 2006)	-	3,917
Ed Smith	5,656	5,875
Sir Richard Sykes	5,875	5,875
Ann Tate	5,875	5,875
Professor Paul Wellings (from 1 September 2006)	5,000	2,917
Professor Dianne Willcocks (from 1 December 2006)	5,875	1,960
Professor Tim Wilson	5,875	5,875
	<b>66,323</b>	<b>70,533</b>

In addition to the payments shown above, £2,350 (2007: £1,175) was charged for the services of the independent advisory member **Georgina Butcher**.

In lieu of an honorarium some of the Board members shown above are paid directly by their employing institutions, with the subsequent reimbursement from HEFCE to these institutions including VAT. Of the total reimbursement to the institution the Board member receives £5,000 in lieu of an honorarium for their services provided.

- **Jackie Fisher CBE** is paid by Newcastle College.
- **Dr Beverly Malone** was paid by the Royal College of Nursing.
- **Professor Nigel Savage** is paid by the College of Law.
- **Professor Sir Peter Scott** was paid by Kingston University.
- **Ed Smith** was paid by PricewaterhouseCoopers until his retirement.
- **Sir Richard Sykes** is paid by Imperial College London.
- **Ann Tate** is paid by the University of Northampton.
- **Professor Dianne Willcocks** is paid by York St John University.
- **Professor Tim Wilson** is paid by the University of Hertfordshire.

## Salary and pension entitlements for senior employees

The Council is structured around three directorates (from 1 February 2008) which align with the core strategic aims in HEFCE's strategic plan. Salary and pension details are given for the senior employees responsible for these directorates. Figures shown are full-year values unless otherwise stated.

<b>Salary entitlements</b>			
	<b>Year ended 31 March 2008 £'000</b>		Year ended 31 March 2007 £'000
<b>Professor David Eastwood</b> , Chief Executive	<b>190-195</b>	<i>b</i>	110-115
<b>Steve Egan</b> , Deputy Chief Executive and Director – Finance and Corporate Resources	<b>115-120</b>	<i>c</i>	60-65
<b>Liz Beaty</b> , Director - Learning and Teaching (to 29 February 2008)	<b>90-95</b>	<i>a</i>	90-95
<b>John Selby</b> , Director – Education and Participation	<b>95-100</b>		85-90
<b>Rama Thirunamachandran</b> , Director - Research Innovation and Skills	<b>105-110</b>		90-95

a For the period to 29 February 2008; full year salary £95,000-£100,000.

b For the period from 1 September 2006; full year salary £190,000-£195,000.

c This note shows remuneration for the post of Director – Finance and Corporate Resources which Steve Egan held for the period from 1 September 2006; full year salary £100,000-£105,000. Remuneration for the post of Acting Chief Executive is shown earlier in the remuneration report.

Remuneration shown above includes both salary and benefits in kind. Salary includes gross salary, performance pay or bonuses, reserved rights to London weighting or London 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 the Inland Revenue as a taxable emolument. The only benefit in kind payable to staff other than the Chief Executive is an allowance of up to £216 per annum for home use of broadband. Full details of taxable benefits paid to the Chief Executive are shown on page 41.

<b>Pension benefits</b>					
	<b>Accrued pension age 60 at 31 March 2008</b>	Real increase in pension at age 60	<b>CETV at 31 March 2008</b>	CETV at 31 March 2007 or start date	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000
<b>Professor David Eastwood</b> , Chief Executive					
Pension	<b>55-60</b>	0-2.5	<b>749</b>	623	99
Lump sum	<b>165-170</b>	5-7.5			
<b>Steve Egan</b> , Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	<b>40-45</b>	0-2.5	<b>765</b>	667	-5
Lump sum	<b>120-125</b>	0-2.5			
<b>Liz Beaty</b> , Director - Learning and Teaching (to 31 February 2008)					
Pension	<b>5-10</b>	0-2.5	<b>170</b>	120	30
Lump sum	<b>n/a</b>	n/a			
<b>John Selby</b> , Director – Education and Participation					
Pension	<b>40-45</b>	0-2.5	<b>1,058</b>	948	60
Lump sum	<b>125-130</b>	5-7.5			
<b>Rama Thirunamachandran</b> , Director - Research Innovation and Skills					
Pension	<b>20-25</b>	0-2.5	<b>341</b>	269	22
Lump sum	<b>65-70</b>	2.5-5			

\*CETV: Cash Equivalent Transfer Value.

### Civil service pensions

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

For 2007-08, employers' contributions were payable at one of four rates in the range of 17.1 per cent to 25.5 per cent (*2006-07: 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. 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 three civil service pension schemes, Classic, Classic Plus, and Premium, 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.



## 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 2007-08 the rate of employers' contributions was 14 per cent (*2006-07: 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.

Employees joining the Council after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension from one or more of a panel of four appointed stakeholder pension providers with an employer contribution. As at 31 March 2008 three HEFCE employees had a partnership pension account (*2007: no employees*).

## 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.

*Professor David Eastwood  
Chief Executive and Accounting Officer  
Higher Education Funding Council for England  
8 May 2008*

## 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; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Council for the year ended 31 March 2008 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, see [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 and cross-cutting themes as set out in our 2006-11 strategic plan, we have identified 22 strategic risks. Each strategic aim or cross-cutting theme is allocated to either the Deputy Chief Executive or one of the two other directors, and as a result they are also the identified owners of the related strategic risks. Assurance relating to these responsibilities is provided to me by each director in an annual assurance 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 their assigned but independent directorate assurance team (DAT), who provide them with assurance as appropriate on the management of their strategic risks and associated responsibilities within their directorate. The assurance statement from the Deputy Chief Executive in his capacity as Director of Finance also covers the key financial processes and controls that he is directly responsible for. In 2007-08 we introduced a specific assurance from the Head of Analytical Services Group and Funding to confirm that the data we use and generate are fit for purpose, and this feeds into the Deputy Chief Executive's assurance 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. 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 planning framework provides an overview of our approach to planning, resourcing and risk management. It is a high-level document that outlines the broad principles we would expect to be adopted throughout the Council, and provides sources of further information or guidance. The framework also sets out the responsibilities of the key roles and teams involved in the planning process, in relation to planning, risk management and resourcing.

Our current strategic risks were identified alongside the development of our 2006-11 strategic plan, and therefore relate directly to one of the six strategic aims or cross-cutting themes 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 (CEG) and Board, provide a summary of the 22 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.

We update our strategic plan each year but undertake a full review every three years. Our strategic plan for the period 2006-11 was published in March 2006 and the latest update was in April 2007. Our mission statement and strategic aims remain 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 to address weaknesses and ensure continuous improvement of the system is in place.

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 2007-08 include:

- I instigated a review of the organisational structure 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. My plans for the reorganisation were announced in January 2008. They include a reduction in directorates from four to three and the establishment

**Income and expenditure account for the year to 31 March 2008**

	Note	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
<b>Income</b>	3	<b>55,456</b>	59,982
<b>Expenditure</b>			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	4	7,273,515	6,867,533
Access and hardship funds	4	69,420	76,821
Capitalised assets transferred as grant	7	-	1,651
Amortisation, impairment and write-off	7	-	435
Provision reversed unused in year	12	(846)	(1,480)
		<b>7,342,089</b>	6,944,960
Council administration costs			
Staff costs	5	11,765	11,388
Other administration	6	6,488	6,979
Depreciation	7	78	87
		<b>18,331</b>	18,454
Total expenditure		<b>7,360,420</b>	6,963,414
<b>Total net expenditure before interest</b>		<b>7,304,964</b>	6,903,432
Notional interest on capital	8	(7,533)	(8,610)
Unwinding of discount	12	5,726	6,043
Increase in provision	12	23,380	-
<b>Total net expenditure after interest</b>		<b>7,326,537</b>	6,900,865
Reversal of notional interest on capital		7,533	8,610
<b>Net expenditure for the year transferred to general reserve</b>		<b>7,334,070</b>	6,909,475

All HEFCE operations are continuing.

There were no gains or losses other than the net expenditure for the year.

*The notes on pages 55 to 80 form part of these accounts.*

**Balance sheet as at 31 March 2008**

	Note	As at 31 March 2008 £'000	As at 31 March 2007 £'000
<b>Fixed assets</b>			
Tangible assets	7	103	73
<b>Current assets</b>			
Recoverable grants			
falling due within one year	9a	3,117	4,235
falling due after one year	9a	31,012	19,333
Loans to staff	9b	1	-
Debtors			
falling due within one year	9c	26,730	14,945
falling due after one year	9c	3,052	-
Cash at bank and in hand	10	24,976	40,417
		<b>88,888</b>	<b>78,930</b>
<b>Creditors</b>			
Amounts falling due within one year	11	(7,587)	(4,969)
<b>Net current assets</b>		<b>81,301</b>	<b>73,961</b>
<b>Total assets less current liabilities</b>		<b>81,404</b>	<b>74,034</b>
<b>Provisions for liabilities and charges</b>	12	(260,069)	(260,555)
<b>Total net assets/(liabilities)</b>		<b>(178,665)</b>	<b>(186,521)</b>
<b>Represented by</b>			
<b>Reserves</b>			
General reserve	14	(178,665)	(186,521)
		<b>(178,665)</b>	<b>(186,521)</b>

Professor David Eastwood  
 Chief Executive and Accounting Officer  
 Higher Education Funding Council for England

8 May 2008

The notes on pages 55 to 80 form part of these accounts.

**Cash flow statement for the year to 31 March 2008**

	<i>Note</i>	<b>Year ended 31 March 2008 £'000</b>	Year ended 31 March 2007 £'000
<b>Operating activities</b>			
Receipts			
Other programme receipts		50,078	62,623
Other running costs receipts		1,281	1,402
Repayment of recoverable grants		4,735	2,717
Repayment of staff loans		3	4
		<b>56,097</b>	<b>66,746</b>
Payments			
Programme funding paid in year		7,379,891	6,989,962
Running costs paid in year		18,163	18,027
Recoverable grants to institutions and others		15,296	6,369
Loans to staff for approved purposes		4	2
		<b>7,413,354</b>	<b>7,014,360</b>
<b>Net cash outflow from operating activities</b>	<i>15a</i>	<b>(7,357,257)</b>	<b>(6,947,614)</b>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets		(110)	(69)
<b>Net cash outflow from capital expenditure</b>		<b>(110)</b>	<b>(69)</b>
<b>Financing</b>			
Grant and grant in aid received through the Department for Innovation, Universities and Skills	<i>2</i>	7,341,926	6,983,253
<b>(Decrease)/increase in cash for the year</b>	<i>15b</i>	<b>(15,441)</b>	<b>35,570</b>

The notes on pages 55 to 80 form part of these accounts.



of three new positions of Associate Director. We will complete the reorganisation in 2008-09.

- We undertook an activity costing exercise to inform our organisational design and to provide information about value for money. We also undertook a benchmarking exercise, which was independently reviewed. These provided positive evidence of our efficiency and effectiveness.
- Our financial regulations were updated during the year, in particular to emphasise that all staff have a duty to bring significant control weaknesses or errors to the attention of senior management.
- Our internal audit service underwent a quality assurance review in line with professional standards with a positive outcome which provides assurance to myself and the Audit Committee.
- We agreed a new data assurance strategy, designed to provide greater assurance about the data generated by institutions for funding purposes.
- We developed a new financial memorandum and audit code between HEFCE and institutions which was subject to consultation at the beginning of 2008.
- We reorganised the institutional risk team within the Assurance Service, to maintain and enhance the team's performance as we enter the period of our new accountability framework. This included the establishment of a new position of Head of Institutional Risk.
- Our Information Technology and Systems team had its ISO27001 accreditation confirmed in October 2007. An external review of our data security undertaken for the Cabinet Office found our procedures robust, albeit with a small number of recommendations for improvement which we are implementing.
- We commissioned an independent review of our ethical culture and the policies and practices involved, the report of which found a 'positive impression of a strong ethical culture'. The report made some suggestions for further improvement which we are acting on.

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 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 Quality Assessment Learning and Teaching Committee.

Each of the key annual controls (directors' assurance statements, the production of the financial statements, the 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.

*Professor David Eastwood*  
*Chief Executive and Accounting Officer*  
*Higher Education Funding Council for England*  
*8 May 2008*

## 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 2008 under the Further and Higher Education Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow 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 the Higher Education Funding Council for England 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, certain information given in the Annual Report, which comprises the Chair's Foreword and Management Commentary, 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. 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 2008 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 given within the Annual Report, which comprises the Chair's Foreword and Management Commentary, 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.

*TJ Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS  
12 May 2008*

## 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 2007-08 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 2008 shows net liabilities of £179 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 2008-09, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

### **Basis of 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 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 2008 HEFCE considers that none of the related bodies should be consolidated.

### **Financial instruments**

Financial Reporting Standard (FRS) 13 requires organisations 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; as such it is not subject to any foreign currency risks.

## 2 HM Government grants received

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 as shown below.

	<b>Year ended 31 March 2008 £'000</b>	Year ended 31 March 2007 £'000
<b>Access and hardship funds</b>		
Grants from DIUS:		
Access to Learning Funds	56,113	65,719
Post Graduate Certificate in Education (PGCE)	12,070	11,938
	<b>68,183</b>	<b>77,657</b>
<b>Programmes</b>		
Grant in aid from DIUS:		
Financing for recurrent expenditure in HE	6,235,121	5,895,835
Financing for capital expenditure in HE	1,021,540	992,663
	<b>7,256,661</b>	<b>6,888,498</b>
<b>Running costs</b>		
Grant in aid from DIUS:	17,082	17,098
<b>Total grant and grant in aid received</b>	<b><u>7,341,926</u></b>	<b><u>6,983,253</u></b>

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 and assurance/Finance and funding/Grant letter from DIUS.

### 3 Income

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
<b>Programmes</b>		
Income receivable from other funding councils:		
Department for Children, Education, Lifelong Learning and Skills*	1,422	1,725
Department for Employment and Learning Northern Ireland	2,330	2,352
Higher Education Funding Council for Wales	3,088	3,791
Learning and Skills Council	32,952	31,693
Scottish Further Education Funding Council	2,800	1,797
Scottish Higher Education Funding Council	6,167	7,585
Income from European Social Fund	1,882	3,217
JISC subscription income	-	1,449
Other programme income	3,156	5,130
	<b>53,797</b>	<b>58,739</b>
<b>Running costs</b>		
Income receivable from other funding councils:		
Department for Children, Education, Lifelong Learning and Skills	159	113
Department for Employment and Learning Northern Ireland	449	298
Higher Education Funding Council for Wales	277	132
Learning and Skills Council	159	223
Scottish Further Education Funding Council	159	117
Scottish Higher Education Funding Council	278	169
Receivable from the Office for Fair Access for services provided under the service level agreement	105	109
Income from activities:		
Conferences	50	42
Publications	3	4
Reimbursement for international projects	1	13
Miscellaneous	19	23
	<b>1,659</b>	<b>1,243</b>
<b>Total income</b>	<b>55,456</b>	<b>59,982</b>

\* Formerly the National Council for Education and Training Wales

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 2008 £'000	Year ended 31 March 2007 £'000
<b>Recurrent grant <sup>a</sup></b>		
Learning and teaching	4,003,546	3,849,383
Widening participation	351,809	321,898
Research	1,391,438	1,306,949
	<b>5,746,793</b>	<b>5,478,230</b>
<b>Non-recurrent grant <sup>b</sup></b>		
Learning and teaching	534,329	522,038
Widening participation	56,826	62,238
Research	558,874	491,591
Business and community	110,385	115,326
Sustaining a high quality sector	154,773	100,808
Excellence in delivery	1,279	965
JISC-related activities <sup>c</sup>	110,256	96,337
	<b>1,526,722</b>	<b>1,389,303</b>
<b>Total recurrent and non-recurrent grant</b>	<b>7,273,515</b>	<b>6,867,533</b>
Access and hardship funds <sup>d</sup>	69,420	76,821
<b>Total grant</b>	<b>7,342,935</b>	<b>6,944,354</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 April 2007 see HEFCE 2007/09), 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.

- <sup>a</sup> **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.
- <sup>b</sup> **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.
- <sup>c</sup> **JISC-related activities** - these are shown separately, as they are relevant to several of HEFCE's strategic aims.
- <sup>d</sup> **Access and hardship funds** - this covers both Access to Learning Funds and PGCE and is shown separately as these funds are granted by DIUS specifically for HEIs to provide financial help for those whose access to higher education is inhibited by financial considerations or who face difficulties associated with their living costs.



## 5 Staff costs

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Staff directly employed by HEFCE		
Salaries	8,667	8,367
National Insurance contributions	747	729
Pension costs	1,729	1,765
	<u>11,143</u>	<u>10,861</u>
Costs of employing contract, agency and temporary staff	622	527
	<u><u>11,765</u></u>	<u><u>11,388</u></u>

### Staff numbers

	Year ended 31 March 2008 FTE	Year ended 31 March 2007 FTE
The average Full Time Equivalent (FTE) number of staff employed excluding the Chief Executive but including the four directors, was:		
Finance and Corporate Resources Directorate	126	125
Learning and Teaching Directorate	30	31
Research and Knowledge Transfer Directorate	39	35
Widening Participation Directorate	34	35
Chief Executive central and support staff	15	14
	<u>244</u>	<u>240</u>
Average number of contract, agency and temporary staff	19	16
	<u><u>263</u></u>	<u><u>256</u></u>

The analysis of staff numbers above reflect the four directorate structure in place for the majority of the year. From 1 February 2008 HEFCE moved to a three-directorate structure (see page 29 for further details).

### Salaries

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.

**Staff costs (continued)**
**Pensions**

The Council contributes to two pension schemes, Civil Service Pensions and the Universities Superannuation Scheme (USS). Pension contributions payable by HEFCE for the year ending 31 March 2008 were as follows:

	<b>Year ended 31 March 2008 £'000</b>	Year ended 31 March 2007 £'000
Civil Service Pensions	<b>1,704</b>	1,751
Universities Superannuation Scheme	<b>25</b>	14
	<b><u>1,729</u></b>	<u>1,765</u>

There are no outstanding or prepaid contributions as at 31 March 2008

Further details of HEFCE's pensions arrangements can be found in the remuneration report on page 39.

## 6 Other administration costs

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Staff related and general administrative expenditure (including recruitment, training, travel, and organising conferences)	1,993	1,932
Research and evaluation costs (and other consultancy-related expenditure)	1,575	1,737
Premises costs (including rent, rates, heat and light, maintenance, equipment and furniture)	805	1,235
Rental payments under operating leases:		
Hire of plant and machinery	42	45
Other operating leases	1,081	1,110
Office costs (including IT costs, catering and room hire, telecommunications, stationery and publications)	816	726
Board and committee members fees and expenses	131	145
Audit fee	43	40
Audit fee (previous year)	-	4 *
Non-cash items:		
Revaluation of IT assets	2	5
	<b>6,488</b>	<b>6,979</b>

The auditors received no remuneration for non-audit services.

The analysis of expenditure shown above reflects the in-year management accounting process whereby HEFCE monitors and reports on its running costs.

\* Cost of additional audit fee agreed after the certification of 2005-06 accounts.

**Other administration costs (continued)**

	<b>Year ended 31 March 2008 £'000</b>	Year ended 31 March 2007 £'000
Annual commitments under operating leases are as follows:		
<b>Land and buildings</b>		
Leases expiring within:		
one year	-	-
two to five years	-	-
more than five years	<b>1,110</b>	1,095
	<b>1,110</b>	1,095
<b>Others</b>		
Leases expiring within:		
one year	<b>2</b>	2
two to five years	<b>42</b>	43
more than five years	-	-
	<b>44</b>	45

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 Centrepont 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 2007	16	70	248	334
Revaluation	-	-	(4)	(4)
Additions	-	-	110	110
Disposals	-	(44)	(136)	(180)
At 31 March 2008	16	26	218	260
<b>Depreciation</b>				
At 1 April 2007	13	60	188	261
Charge for period	1	5	72	78
Revaluation	-	-	(2)	(2)
Disposals	-	(44)	(136)	(180)
At 31 March 2008	14	21	122	157
<b>Net book value</b>				
At 1 April 2007	3	10	60	73
<b>At 31 March 2008</b>	<b>2</b>	<b>5</b>	<b>96</b>	<b>103</b>

## 8 Notional costs

The cost of capital for 2007-08 has been arrived at by calculating a rate of 3.5 per cent (2006-07 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.

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Capital employed as at 1 April	(226,885)	(265,114)
Capital employed as at 31 March	(203,596)	(226,885)
Average capital employed	<u>(215,241)</u>	<u>(246,000)</u>
<b>Notional interest on capital</b>	<u><b>7,533</b></u>	<u><b>8,610</b></u>

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 is in the position of having a credit charge on the income and expenditure account. This is because instead of showing overall net assets on its balance sheet, HEFCE has overall net liabilities due to its provision for future payments under the Inherited Staff Liabilities programme (as detailed in note 12 to the accounts).

It follows that as there is a net liability position, the accounts need to show a cost of capital credit, as the Exchequer is in essence being funded by those to whom it has a liability. This means that the Exchequer benefits from having these liabilities, and so the income and expenditure account has to reflect that benefit. 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.

### 9a Recoverable grants

	<b>As at 31 March 2008 £'000</b>	As at 31 March 2007 £'000
Balances as at 1 April	23,568	19,916
Advanced during the year	15,296	6,369
Recovered during the year	(4,735)	(2,717)
Balances as at 31 March	<u><u>34,129</u></u>	<u><u>23,568</u></u>
None of the above recoverable grants are interest bearing.		
	<b>As at 31 March 2008 £'000</b>	As at 31 March 2007 £'000
Balances at 31 March recoverable:		
Within one year	3,117	4,235
After one year	31,012	19,333
	<u><u>34,129</u></u>	<u><u>23,568</u></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

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 2008, ten organisations (2007: six) had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £29,495,000 (2007: £16,560,000).



**9b Staff loans**

	<b>As at 31 March 2008 £'000</b>	As at 31 March 2007 £'000
Balances as at 1 April	-	2
Advances during the year	4	2
Repayments during the year	(3)	(4)
Balances as at 31 March	<u>1</u>	<u>0</u>
	<b>As at 31 March 2008 £'000</b>	As at 31 March 2007 £'000
Balances at 31 March repayable within:		
one year	1	-
two to five years	-	-
	<u>1</u>	<u>0</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

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
Programme prepayments due within one year	20,801	13,243
Programme debtors due within one year	4,902	1,183
Trade debtors	604	226
Running costs prepayments	423	293
	<u>26,730</u>	<u>14,945</u>
Programme prepayments due after one year	3,052	-
	<u>29,782</u>	<u>14,945</u>

**Programme prepayments** relate to recovery of grant funding (or 'holdback') due from institutions.

1. 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.

2. Previous accounts only included the recovery agreed in that financial year; amounts not recovered by the following financial year-end were not included in later sets of accounts. As at 31 March 2007 the unrecognised amounts totalled £10.8 million (of which £2.5 million was due in more than one year). The corresponding amounts as at 31 March 2008 totalled £10.1 million (of which £3.1 million is due in more than one year).

**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 2008 £'000</b>	As at 31 March 2007 £'000
Cash held at the Bank of England:		
In respect of programme funds	<b>25,085</b>	40,196
In respect of running costs	<b>(154)</b>	168
	<b>24,931</b>	<u>40,364</u>
Cash held at other banks and in hand	<b>16</b>	22
Cash held for the European Network and Programming Group	<b>29</b>	31
	<b>24,976</b>	<u>40,417</u>

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.

In cash terms 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 follows:

	<b>Year ended 31 March 2008 £'000</b>	Year ended 31 March 2007 £'000
<b>Programme funds</b>		
Grant received	<b>7,256,661</b>	6,888,498
2 per cent thereof	<b>145,133</b>	137,770
Balances at year end	<b>24,916</b>	40,204
<b>Running costs</b>		
Grant received	<b>17,082</b>	17,098
2 per cent thereof	<b>342</b>	342
Balances at year end	<b>31</b>	182

**11 Creditors: amounts falling due within one year**

	<b>As at 31 March 2008 £'000</b>	As at 31 March 2007 £'000
Programme accruals	7,092	4,692
Trade creditors	305	184
Running costs accruals	149	51
Tax and social security	12	11
Other creditors: European Network and Programming Group	29	31
	<u><u>7,587</u></u>	<u><u>4,969</u></u>

**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 2008 £'000	As at 31 March 2007 £'000
Balance of provision at 1 April	260,555	283,341
Provision utilised in year	(28,746)	(27,718)
Provision reversed unused in year	(846)	(1,480)
Unwinding of discount	5,726	6,043
Increase in provision	23,380	-
Provisions created in year	-	369
<b>Balance of provision at 31 March</b>	<b>260,069</b>	<b>260,555</b>

HEFCE has two provisions as at 31 March 2008 (2007: three), one for inherited staff liabilities, and one for **early retirement costs**. Provisions are discounted to net present value using the HM Treasury discount rate of 2.2 per cent.

**Inherited staff liabilities** are certain staff-related commitments of HEIs that were previously local authority maintained. These liabilities were transferred from the local authority to HEIs on incorporation and the 1988 Education Reform Act gave powers to the Polytechnics and Colleges Funding Council (PCFC) to reimburse certain institutions and local education authorities for staff-related liabilities.

Upon its formation HEFCE agreed to take over from the PCFC this responsibility under section 67 of the Further and Higher Education Act 1992. The liabilities for which we provide reimbursement relate to three main categories:

- 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.

Based on the previous valuation the provision value as at 31 March 2008 would have been £236,620,000 (2007: £260,186,000). As set out below, the provision estimate is based on a sample and uses various assumptions, and the valuation estimate 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 every three years to verify the reasonableness of the amount provided and the estimated date when payments will cease. The latest independent review was undertaken during 2007-08. This gives a revised valuation as at 31 March 2008 of £260,000,000. The full increase in the provision value of £23,380,000 has been charged to the income and expenditure account. The increase is mainly due to an increase in life expectancy, meaning the payments are expected to continue until 2022 (previously 2017), offset by an increase in HM Treasury's net real rate for valuing pension liabilities from 1.8% to 2.5%, effective from 31 March 2008.

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 2.5 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 one member of staff. The balance of the provision for early retirement cost as at 31 March 2008 is £69,000 (2007: £107,000). Payments will continue until 2011-12.

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

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July). As at 31 March 2008 there are no contingent liabilities.

	<b>As at 31 March 2008 £'000</b>	As at 31 March 2007 £'000
The amount of grant committed for the period April to July is:	<b>2,554,735</b>	2,392,463
The amount of grant committed for the next academic year is:	<b>7,476,000</b>	7,137,000
The amount of grant committed for following academic years is:	<b>1,544,892</b>	149,244

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 2008/12) 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 2009 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

## 14 General reserve movements

	As at 31 March 2008 £'000	As at 31 March 2007 £'000
<b>Access and hardship funds</b>		
Balance as at 1 April	(738)	(1,574)
Grant	68,183	77,657
Net expenditure for the year	(69,420)	(76,821)
Balance as at 31 March	<u>(1,975)</u>	<u>(738)</u>
<b>Programmes</b>		
Balance as at 1 April	(185,990)	(259,045)
Grant in aid	7,256,661	6,888,498
Net expenditure for the year	(7,247,978)	(6,815,443)
Balance as at 31 March	<u>(177,307)</u>	<u>(185,990)</u>
<b>Running costs</b>		
Balance as at 1 April	207	320
Grant in aid	17,082	17,098
Net expenditure for the year	(16,672)	(17,211)
Balance as at 31 March	<u>617</u>	<u>207</u>
<b>Total</b>		
Balance as at 1 April	(186,521)	(260,299)
Grant and grant in aid	7,341,926	6,983,253
Net expenditure transferred in year	(7,334,070)	(6,909,475)
<b>Balance as at 31 March</b>	<u><u>(178,665)</u></u>	<u><u>(186,521)</u></u>

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 2008 £'000	Year ended 31 March 2007 £'000
Net expenditure before interest	(7,304,964)	(6,903,432)
Depreciation, amortisation, revaluation and write-off	80	527
Capitalised assets transferred as grant	-	1,651
Decrease/(increase) in debtors and loans	(25,399)	5,541
Increase/(decrease) in creditors	2,618	(23,072)
Payment from provisions	(28,746)	(27,718)
Provision reversed unused in year	(846)	(1,111)
<b>Net cash outflow from operating activities</b>	<b><u>(7,357,257)</u></b>	<b><u>(6,947,614)</u></b>

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

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

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
Net funds at 1 April	40,417	4,847
(Decrease)/increase in cash for the year	(15,441)	35,570
<b>Net funds at 31 March</b>	<b><u>24,976</u></b>	<b><u>40,417</u></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 2008 £'000	As at 31 March 2007 £'000
Opening balance	(186,521)	(260,299)
Net expenditure for the year transferred from the income and expenditure account	(7,334,070)	(6,909,475)
Grant and grant in aid	7,341,926	6,983,253
<b>Closing balance: general reserve</b>	<b><u>(178,665)</u></b>	<b><u>(186,521)</u></b>

### 17 Debtor and creditor balances with other government bodies

	Debtors as at 31 March 2008 £'000	Creditors as at 31 March 2008 £'000
Other central government bodies	5,357	3,964
Local authorities	40	-
NHS Trusts	-	-
Public corporations and trading funds	-	-
Balances with other government bodies	<u>5,397</u>	<u>3,964</u>
Balances with non-government bodies	24,385	3,623
<b>Total as per debtors' and creditors' notes</b>	<b><u>29,782</u></b>	<b><u>7,587</u></b>

## 18 Payments to related bodies

	Year ended 31 March 2008 £'000	Year ended 31 March 2007 £'000
British Universities Film and Video Council (BUFVC)	571	836
Equality Challenge Unit (ECU)	1,088	802
Foundation Degree Forward (FDF)	5,758	2,003
HERO Ltd (Higher Education and Research Opportunities in the United Kingdom)*	1,035	749
Higher Education Academy (HEA)*	21,855	22,472
Higher Education Policy Institute (HEPI)	224	26
Higher Education Statistics Agency (HESA)	215	378
JISC Content Procurement Company (JCPC), trading as JISC Collections	3,098	1,973
JNT Association trading as JANET UK (formerly UKERNA)	48,683	50,897
Leadership Foundation for Higher Education (LFHE)*	1,590	2,053
Quality Assurance Agency for Higher Education (QAA)	3,603	3,017
Research Information Network (RIN)	187	966
	<b>87,907</b>	<b>86,172</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 authorised for issue on 12 May 2008 by Professor David Eastwood.

## 20 Related party transactions

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. In the course of allocating funding during the year, HEFCE entered into material transactions with the following organisations, to which the current Board members, Audit Committee members, and senior employees stated below are related parties.

	Year ended 31 March 2008 £'000
<b>Grant funding to institutions and other organisations</b>	
• Brunel University: <b>Michael Sheasby</b> , former Chair of the Audit Committee.	46,103
• University of Cambridge: <b>Dame Patricia Hodgson</b> , Principal of Newnham College.	227,767
• University of Essex: <b>Tim Melville-Ross CBE</b> , former chair of the university council.	45,098
• University of Hertfordshire: <b>Professor Tim Wilson</b> , Vice-Chancellor.	67,603
• Higher Education Policy Institute: <b>Professor David Eastwood</b> , advisory board member.	224
• Imperial College London: <b>Peter Saraga OBE</b> , visiting Professor in the Department of Electrics and Electronic Engineering; <b>Sir Richard Sykes</b> , Rector.	210,921
• University of Lancaster: <b>Professor Paul Wellings</b> , Vice-Chancellor.	53,919
• Leeds Metropolitan University: <b>Ninian Watt</b> , Chair of Board of Governors.	71,538
• University of Manchester: <b>Kathleen Tattersall OBE</b> , Chair of the Audit Committee.	215,733
• Newcastle College: <b>Jackie Fisher CBE</b> , Principal.	8,922
• University of Newcastle: <b>Alastair Balls CB</b> , member of court.	123,594
• University of Northampton: <b>Ann Tate</b> , Vice-Chancellor.	25,826
• University of Nottingham: <b>Professor Peter Rubin</b> , Professor of Therapeutics.	131,385
• Open University: <b>Professor Nigel Savage</b> , Chief Executive of the College of Law (an organisation undertaking a joint venture with the university); <b>Fraser Woodburn</b> , Secretary.	212,506
• University of Surrey: <b>Peter Saraga OBE</b> , Chair of the School of Electronics and Physical Sciences Advisory Board.	48,053
• University of Sussex: <b>Peter Saraga OBE</b> , member of the council.	56,814
• Teesside University: <b>Jackie Fisher CBE</b> , member of the board.	60,658
• 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).	66,940
• York St John University: <b>Professor Dianne Willcocks</b> , Vice-Chancellor.	14,146
<b>Payments to other organisations</b>	
• PricewaterhouseCoopers: <b>Ed Smith</b> , former Global Chief Operating Officer.	107
• Grant Thornton UK LLP: <b>Stephen Dexter</b> , former partner.	149
• Universities Superannuation Scheme Limited: <b>Professor David Eastwood</b> , member of the board.	31

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.

## Fixed assets

### Tangible fixed assets

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

**Appendix 1 Full analysis of non-recurrent grant by strategic aim: unaudited**

<b>As summarised in note 4 to the accounts</b>	<b>Total for year ended 31 March 2008 £'000</b>	<b>Institutional funding or national programme £'000</b>	<b>Non- institutional funding £'000</b>	<b>Special institutional funding £'000</b>
<b>Learning and teaching</b>				
Learning and teaching infrastructure capital	363,944	363,944		
Rewarding quality enhancement	55,817	55,817		
Centres for excellence in teaching & learning	37,121	37,121		
Higher Education Academy*	18,454		18,454	
Strategically important and vulnerable subjects	15,391			15,391
Capital for further education colleges	14,955			14,955
Employer engagement	10,150			10,150
Quality assurance (including QAA*)	6,675		6,675	
Foundation degrees (including FDF*)	5,805		5,805	
Research into learning and teaching	3,420		3,420	
College fees	2,130			2,130
Dance and drama	210			210
E-learning	182	182		
National Flying Laboratory Centre	75			75
	<b>534,329</b>	<b>457,064</b>	<b>34,354</b>	<b>42,911</b>
<b>Widening Participation</b>				
Aimhigher (and associated initiatives)	56,205	56,205		
HERO*	513		513	
Students with learning difficulties & disabilities	108			108
	<b>56,826</b>	<b>56,205</b>	<b>513</b>	<b>108</b>
<b>Research</b>				
Science research investment fund	485,290	485,290		
Research capital	44,001	44,001		
Overseas Research Students Award Scheme	13,963	13,963		
Museums, galleries and collections	10,433		10,433	
Copyright libraries	3,004			3,004
Research Assessment Exercise	1,558			1,558
Finishing joint capital initiatives	261	261		
Research Information Resources (including RIN*)	241		241	
Research Excellence Framework	123			123
	<b>558,874</b>	<b>543,515</b>	<b>10,674</b>	<b>4,685</b>
<b>Business and community</b>				
Higher Education Innovation Fund	110,385	110,385		
	<b>110,385</b>	<b>110,385</b>	<b>0</b>	<b>0</b>

**Full analysis of non-recurrent grant by strategic aim: unaudited (continued)**

<b>As summarised in note 4 to the accounts</b>	<b>Total for year ended 31 March 2008 £'000</b>	<b>Institutional funding or national programme £'000</b>	<b>Non-institutional funding £'000</b>	<b>Special institutional funding £'000</b>
<b>Sustaining a high quality sector</b>				
Strategic Development Fund	118,826	118,826		
Inherited liabilities	16,110			16,110
London	12,438			12,438
Management Development Fund	2,416			2,416
Leadership Foundation for Higher Education*	1,516		1,516	
Procurement initiatives	1,110			1,110
Equal Opportunities (funded via ECU*)	1,088		1,088	
Higher education regional associations	993	993		
Other minor or finishing initiatives	141			141
Costing and pricing initiative	135			135
	<b>154,773</b>	<b>119,819</b>	<b>2,604</b>	<b>32,350</b>
<b>Enabling excellence</b>				
International Initiatives	639			639
Higher Education Policy Institute*	425		425	
Higher Education Statistics Agency*	215		215	
	<b>1,279</b>	<b>0</b>	<b>640</b>	<b>639</b>
<b>JISC-related activities</b>				
JISC (including BUFVC, JCPC and JANET UK*)	110,256		110,256	
	<b>110,256</b>	<b>0</b>	<b>110,256</b>	<b>0</b>
<b>Total funding for initiatives</b>	<b>1,526,722</b>	<b>1,286,988</b>	<b>159,041</b>	<b>80,693</b>

**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.

**Full 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

**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.

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

**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.

**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

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

**Research into learning and teaching.** Fund 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.

**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.

**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.

**E-learning.** Funding to support HEFCE's strategy to integrate e-learning into higher education, including the costs for the eChina project.

**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.

**National flying laboratory centre.** Funding for the national facility at Cranfield University offering flying time for aeronautical courses.

**Strategically important and vulnerable subjects.** Funding to support high cost subjects which are strategically important to the economy and society or vulnerable because of relatively low student demand.



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

### Widening participation

**Aimhigher.** A joint initiative between 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

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

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

**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.

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

**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.

**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.

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

**Finishing joint capital initiatives.** Residual funding for the Joint infrastructure Fund and the Joint Research Equipment Initiative, which have both now finished.

### Business and community

**Higher Education Innovation Fund (HEIF).** Funding for activities that will increase HEIs' capability to respond to the needs of business where this will lead to identifiable economic benefits.

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

#### 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. This fund replaced the Restructuring and Collaboration Fund in 2003.

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

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

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

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

**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.

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

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

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

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

#### Enabling excellence

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

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

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

#### JISC-related activities

Funding to the Joint Information Systems 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.

## **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 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 adjustments arising from revised student numbers which are recognised at the point there is agreement on the student numbers between HEFCE and the relevant institution. These result in a net debtor or creditor balance, to the extent that the funding adjustments made to future profile payments have not been fully made or recovered before the financial year end. These include holdback of funds where the institution fails to meet student numbers, and reinstatement of funds held back where institutions meet student number targets that they failed to meet in the previous academic year. The period over which a holdback recovery is made is agreed with the relevant institution and can be up to five years.

Recoverable grants are recognised at the payment date agreed with the organisation concerned. Recoverable grants are repaid through profiled deductions from future grants.

## **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**

HEFCE does not trade and hence is not liable for corporation tax. Most of HEFCE's activities are outside the scope of VAT. Output tax is however charged on services provided to OFFA, and as a result HEFCE became registered for VAT from 1 January 2005. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.



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