Higher Education Funding Council for England

Annual report and accounts 2010-11

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Contents

Foreword

Tim Melville-Ross CBE, HEFCE Chair

The past year for HEFCE and higher education has been one of unprecedented change and considerable challenge. We have had a change of Government, two budgets, a major review of fees and higher education funding conducted by Lord Browne, followed by announcements on the spending review and new government plans for higher education reforms.

There has also been the Parliamentary decision on fee levels, a grant letter from the Department for Business, Innovation and Skills (BIS) requiring reductions in higher education funding in 2010-11 and 2011-12, and the announcement of the National Scholarship Programme. In March HEFCE announced the distribution of £6.5 billion in recurrent and capital funding in 2011-12 to 130 universities and colleges of higher education and 124 directly funded colleges of further education. This represents a 9.5 per cent reduction in funding on the current year.

Throughout this period HEFCE has remained focused on two overriding priorities.

Firstly, we have concentrated on the things that really matter – securing the interests of students, excellence in teaching and research, effective knowledge exchange and supporting the growth of a vibrant economy. Through our teaching funding we have aimed to protect participation levels of students from non-traditional backgrounds and enable institutions to provide extra support for those students who need it to complete their courses.

Secondly, we have concentrated on supporting a smooth transition to the new funding regime in 2012-13, when more funding will be routed to institutions via the student loans system.

One of HEFCE's main tasks is to monitor the financial health of universities and colleges and assess whether they are sufficiently robust to weather the challenges that lie ahead. The report we published in March – 'Financial health of the higher education sector: 2009-10 financial results and 2010-11 forecasts' (HEFCE 2011/06) – demonstrated that the majority are facing future uncertainties from a sound financial position. At the end of 2009-10 the sector had strong cash balances and healthy reserve levels, which will provide some cushion for the risks that lie ahead. Many institutions have taken the opportunity to restructure their cost bases ahead of the continuing pressures on public funding.

HEFCE's conclusions about the financial health of the sector were broadly supported in the recent report from the National Audit Office (NAO), 'Regulating financial sustainability in higher education'. The NAO report also concluded that HEFCE had delivered value for money and been cost-efficient in its approach to regulating financial sustainability in universities and colleges of higher education, while maintaining the confidence of the sector.

HEFCE has, during this period, been preparing for the forthcoming White Paper on higher education, and has responded positively to the Government's invitation to offer advice on many of the issues to be covered. We have also consolidated our own administrative arrangements, including delivering savings of £2 million in 2010-11, and are planning for 16 per cent real-terms savings over the four years 2011-12 to 2014-15.

While anticipating considerable changes following the White Paper, BIS has asked HEFCE to continue to perform its existing statutory role in 2011-12 and 2012-13. This means ‘business as usual’ in relation to a number of areas, including financial stewardship and other priorities such as continuing to develop the Research Excellence Framework and ensuring the continued effectiveness of the dual-support system in supporting world-class research.

But it also means taking account of the changing dynamics in higher education. Future arrangements will require close collaboration on a regulatory framework which will need to be transparent, fair and proportionate, and to protect the interests of students, the public and taxpayers. They will also need to include measures to further student choice and opportunities, while encouraging widening participation. Addressing this changing agenda will involve working more closely with other higher education bodies, including the Office for Fair Access, the Quality Assurance Agency for Higher Education, the Student Loans Company, UCAS and the Higher Education Statistics Agency.

With the emphasis over much of the year on the fiscal deficit and the need for reform, it is important that we do not forget the enduring and successful features of higher education in this country. Universities and colleges generated £59 billion for the economy over a one-year period and acted swiftly to support business through the recession. With 1 per cent of the world’s population, the UK achieves 12 per cent of the world’s science and research citations.

Universities and colleges provide a high-quality education for more than two million students enrolled in 2010-11. These include 1.5 million undergraduate students, more than 300,000 postgraduate students and about 600,000 students studying part time, as well as an ever-growing demand from overseas with nearly 230,000 students, 10 per cent more than the previous year.

Higher education in this country is held in high esteem across the world, but its future success cannot be taken for granted. It is important to understand the factors that underpin success. The Government has affirmed its commitment to one of these – the independence and autonomy of institutions. We thoroughly endorse this and will seek to ensure that the autonomy of institutions remains at the heart of our future policies.

It is also important to remember that the success of higher education is derived from a progressively reformed ‘public-private’ funding mix. As we move forward and the economy improves it is essential that we return in future to the question of public investment in universities and securing the right balance between the contributions of graduates and the state.

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

3 May 2011

Management commentary

HEFCE's role and responsibilities

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

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

HEFCE is therefore responsible for distributing public money to universities and colleges in England that provide HE. In 2010-11 we distributed £7.5 billion in public funds. Most of this went to 130 higher education institutions (this included University Campus Suffolk, a connected institution of the Universities of East Anglia and Essex). Some HEFCE funds supported HE courses in 124 FECs that we fund directly[1]. In total, 248 FECs received funds indirectly through an HEI in 2010-11. Of these, 140 FECs only received funding from us indirectly; 108 FECs also received funds directly from us[2].

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

Distribution of funding

Of the £7.5 billion in public funds we distributed during the 2010-11 financial year, the vast majority was provided as recurrent funding for teaching and research. This was allocated as a block grant which institutions may distribute internally as they wish to support their own priorities. The remaining funding – referred to as 'non-recurrent grant' – was allocated to support specific initiatives to deliver strategic objectives, and to fund national activities such as the Joint Information Systems Committee. Analysis by our strategic aims of both recurrent and non-recurrent funds distributed in 2010-11 is provided in Note 3 of the accounts.

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[1] Numbers of institutions can change through the year – for example due to mergers and transfers. The figures used here are for funding announced in 'Recurrent grants for 2010-11' (HEFCE 2010/30, available at www.hefce.ac.uk under Publications).

[2] Figures for institutions that receive funding from HEFCE only indirectly are taken from the Higher Education Statistics Agency student data for 2009-10.

The Secretary of State for Business, Innovation and Skills set out in his annual grant letter to HEFCE the public funding to be made available for HE for 2011-12. A total of £6.5 billion has been allocated for distribution by HEFCE in 2011-12. The grant letter for 2011-12 is available at www.hefce.ac.uk under Finance & assurance/Finance and funding/Grant letter from Secretary of State.

Our mission

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

To achieve our mission, we have set out our aims and objectives in our strategic plan for 2006-2011. It was updated in June 2009 and is available at www.hefce.ac.uk under Publications ('HEFCE strategic plan 2006-11: Updated June 2009', HEFCE 2009/21).

Our strategic aims

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

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

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

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

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

Underpinning these are two cross-cutting and supporting aims:

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

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

There is more information on developments in relation to our strategy on page 51.

Structure

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

HEFCE Board

Board members are appointed by the Secretary of State for Business, Innovation and Skills, normally for periods of two or three years. With the exception of the Chief Executive, Board members are non-executive. Membership of the HEFCE Board during 2010-11 was as follows:

Chair
Tim Melville-Ross CBE
Chief Executive
Sir Alan Langlands
Deputy Chair
Ed Smith Chair of Council, University of Birmingham; Chairman, Student Loans Company
Members
Professor Madeleine Atkins Vice-Chancellor, Coventry University
Alastair Balls CB Chairman, Centre for Life
Rob Douglas CBE Business Advisor, Douglas Associates Limited
Professor Ruth Farwell Vice-Chancellor, Buckinghamshire New University
Professor Malcolm Grant CBE President and Provost, University College London
Dame Patricia Hodgson Principal, Newnham College, Cambridge
René Olivieri Chairman, Tubney Charitable Trust
Professor Shirley Pearce CBE Vice-Chancellor, Loughborough University
Anil Ruia OBE Chair of Council, University of Manchester
Professor Paul Wellings Vice-Chancellor, University of Lancaster
John Widdowson Principal, New College Durham
Professor Sir Tim Wilson Former Vice-Chancellor, University of Hertfordshire

HEFCE Chair

Tim Melville-Ross CBE initially joined the Board in January 2008, to serve as Chair until December 2010, and was re-appointed for a further three years to December 2013. Until joining HEFCE, Tim Melville-Ross chaired the Council of the University of Essex. He continues to chair a number of companies which are detailed below. 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.

The Chair's registered interests are as follows:

Organisation in which interests exist	**Nature of interest**
DTZ Holdings plc	Chairman
Manganese Bronze Holdings plc	Chairman
Royal London Mutual Insurance	Chairman
National Employers Advisory Board	Board member

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

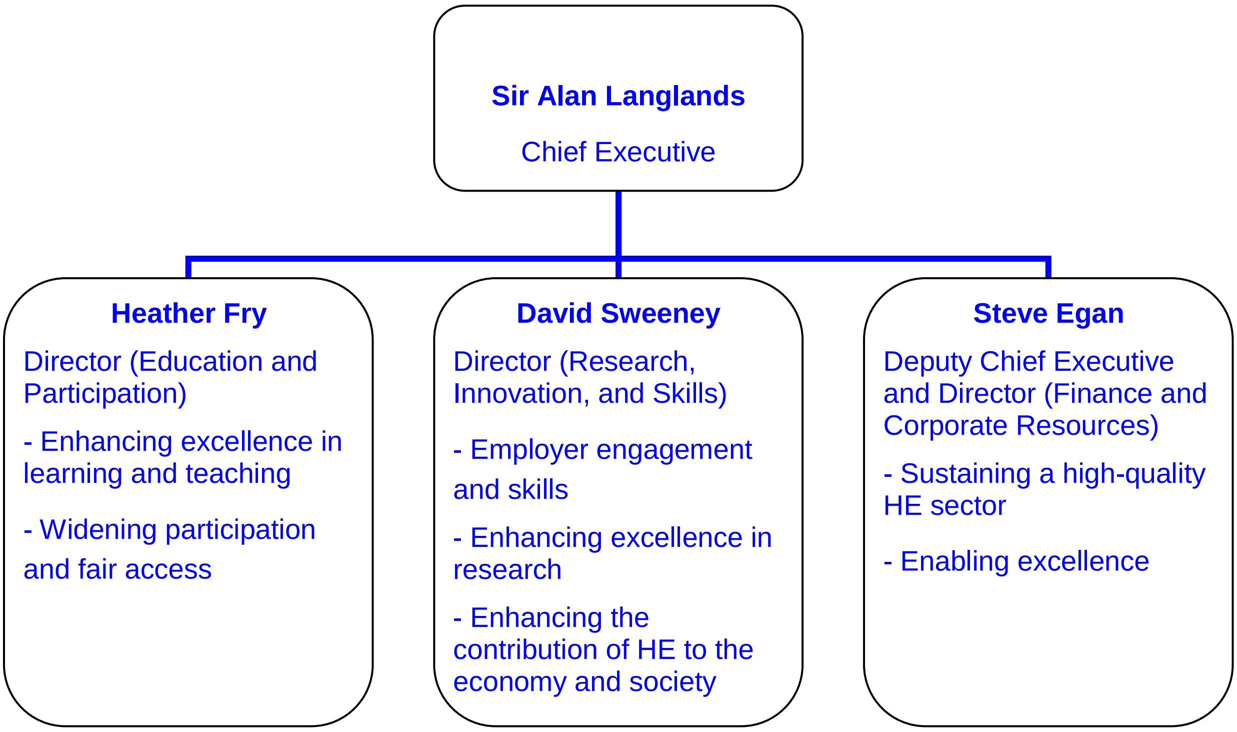
The HEFCE Executive

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

The HEFCE Executive is the top management group within HEFCE. It considers a wide range of issues relevant both to the work HEFCE does in the sector and to the Council's internal activities.

The core HEFCE Executive comprises the Chief Executive, the Deputy Chief Executive, two other Directors, the Associate Directors, and the Head of Organisational Development. The extended HEFCE Executive comprises the Head of Finance, the Head of Assurance, the Head of Corporate Communications and the Head of Analytical Services. HEFCE's staff work in teams based within the three directorates. Further information on HEFCE's Board, committees, the HEFCE Executive and staff is available at www.hefce.ac.uk under About us/Staff and structure.

HEFCE Chief Executive and Directors – March 2011



Our performance and achievements in 2010-11

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

Integral to the development of our strategic plan was a process of risk assessment. For each of the aims, we identify the key risks to achieving the aim. In developing the programme of activity to deliver our objectives, we took into account actions required to manage and mitigate the risks, and embedded them in the programme of activity set out in the plan. We have monitored our strategic risks through 2010-11, remaining aware of the possibility of new risks emerging.

Further information on risk management is included in the Chief Executive's statement on internal control (pages 78-83).

The programme of work required to deliver our strategic aims and objectives was set out further in our operating plan for 2010-11. For 2010-11, this contained 52 high-level work areas spread across our strategic aims. We took a dynamic approach to operational planning this year, meaning we added and removed work areas during the year to reflect changing priorities. We have developed an operating plan for 2011-12 which will be published at www.hefce.ac.uk under About us/Operating plan.

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

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

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

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

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

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

Strategic aim: Enhancing excellence in learning and teaching

Aim

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

Objectives

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

Key strategic risks

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

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

Making progress

Learning and teaching in higher education has been of growing interest to a large number of different individuals and groups, including the Coalition Government. It is no surprise that 2010-11 has been a period of continuing change in almost every aspect of our work in this area. Nevertheless, much progress has been achieved, especially on the provision of information for students, prospective students and others.

Credit-based provision and flexible learning

April to July	August to November	December to March
Green	**Green**	**Green**

We continue to support the work on credit and developing alternatives to the current degree classification system undertaken by the Burgess Implementation Steering Group. This group is considering ways of modernising the degree classification system with the intention of providing more detailed information about a student's learning and achievement. Credit plays an important role in promoting flexible and lifelong learning and supports student progression into, and within, higher education. The Higher Education Achievement Record for learners, which will be used alongside the current degree classification system and sets out the breadth and detail of student achievement, has the potential for supporting lifelong learning.

We are supporting eight higher education institutions that are piloting flexible approaches to study, including accelerated degrees. We have asked the Higher Education Academy to conduct a final evaluation of this initiative, and we expect this to be published by the Academy in April 2011.

In our grant letter from the Secretary of State for Innovation and Skills for 2010-11, we were asked to provide advice on the potential for encouraging diverse forms of higher education provision. We submitted this report in July 2010, and it was welcomed by ministers. We understand that flexible provision continues to be of interest to ministers and expect that further indications of their views will be provided in the forthcoming higher education White Paper.

In February 2011, we published three reports relating to flexible learning. These are 'Flexible learning pathfinders: key statistics 2008-09' (HEFCE 2011/05), 'Costing study of two-year accelerated degrees: a report to HEFCE by Liz Hart Associates' and 'Diverse provision: options and challenges'. These reports are intended to increase understanding of flexible and non-traditional modes of study, and will be of particular interest to institutions that are considering offering accelerated degrees and other forms of flexible provision. The three publications are available at www.hefce.ac.uk under Learning & teaching/Innovation/Flexible learning.

Quality assurance, standards and enhancement

April to July	August to November	December to March
Green	**Green**	**Green**

Our work has focused primarily on the new national quality assurance arrangements that will start to come into operation in the academic year 2011-12. During winter 2009-10, HEFCE, the Department for Employment and Learning (in Northern Ireland), Universities UK and GuildHE ran a consultation on the future of quality assurance. Following the consultation, the principles and objectives that will form the basis of the new quality assurance system were agreed. With our partner organisations, HEFCE then commissioned the Quality Assurance Agency for Higher Education (QAA) to develop an operational description for the new review method that takes these characteristics into account. QAA consulted on this in autumn 2010 and the final operational description will be published later in 2011, together with a new handbook for HE providers. The new approach should establish a system that is more accountable, rigorous, transparent, flexible, responsive and public-facing. It will include new judgements on threshold standards and quality enhancement.

Provision of information

April to July	August to November	December to March
		Green

HEFCE is committed to providing prospective students with meaningful, comparable and useful information that facilitates and aids choice. The provision of such information has always been important but we believe it will be more so as students begin to contribute a greater amount to the cost of their education. As such, HEFCE continues to prioritise this area of work. In August 2010, we published two research reports that have underpinned our subsequent policy development: 'Understanding the information needs of users of public information about higher education', by Oakleigh Consulting and Staffordshire University, identified the information that a range of users want and need to support decisions about going on to higher education; 'Enhancing and Developing the National Student Survey', by the Institute of Education, provided advice on whether and how the National Student Survey (NSS) should be updated or enhanced, and whether there were additional purposes for which the NSS should be used.

During winter 2010-11, we published a consultation document on the provision of information, of which a central theme was the Key Information Set (KIS) – a way of providing prospective students with information about the HE experience, which will be published on universities' and colleges' web-sites. In parallel, we also undertook development work on the KIS to inform its implementation. An outcomes paper will be submitted to Universities UK, HEFCE and GuildHE Board meetings later in 2011. The revised paper will then be published in July 2011 and technical guidance for institutions will follow shortly after that. It is expected that all institutions will publish KISs by September 2012 at the very latest.

HEFCE established an expert working group to consider the provision of enhanced salary data on the Unistats web-site. The sector was consulted on these recommendations in February 2011 and the proposals were accepted by the Higher Education Public Information Steering Group (HEPISG) in March. As such, enhanced salary information will be published on Unistats from August 2011. HEPISG will also consider whether this information, or a variation of it, should be included in the KIS.

For the publication of the NSS results in 2011, we will be including for the first time institutional benchmarks for the question on overall satisfaction. These take account of the characteristics of students and subjects therefore provide more meaningful comparative data.

Partnership between institutions and students

April to July	August to November	December to March
Green	Green	Green

We have continued to fund a joint project between the Higher Education Academy and the National Union of Students to improve student engagement processes. Outcomes from the first year (to October 2010) included research findings, a toolkit, a workbook and conferences. The second, and final, year aims to create a lasting 'legacy' impact on the sector and its student engagement work, including seeking to maximise the impact, reach and 'use value' of the outputs created in year one.

We have also continued to fund two posts at the National Union of Students, which work with institutions and students' unions to promote the NSS and help institutions to understand and make use of its findings.

Enhancing HE learning and teaching

April to July	August to November	December to March
Green	Green	Green

In January 2011, HEFCE published the final report of the Online Learning Task Force ('Collaborate to compete: Seizing the opportunity of online learning for UK higher education', HEFCE 2011/01). This was the culmination of a year's work of investigation into how the sector could maintain and develop its position as a world leader in online learning. The Task Force made six recommendations to the Government, national funding bodies and institutions, as part of its drive to ensure a more strategic and student-focused approach to online learning.

One of the recommendations was to continue to invest in open educational resources. The HEFCE Board has allocated a further £4 million for 2011-12 for a third phase of this programme. The second phase, jointly managed by the Joint Information Systems Committee and the Higher Education Academy, draws to an end in summer 2011 and has focused on promoting the use and reuse of open educational resources by academic staff.

In late 2010, HEFCE commissioned SQW to undertake a summative evaluation of the Centres for Excellence in Teaching and Learning (CETL) initiative. Focus is given to identifying key lessons learned from the programme, including a synthesis and analysis of individual CETL self-evaluation reports and assessment of the overall impact of the programme. The report is due to be published in late spring 2011.

HEFCE continues to support the Higher Education Academy to focus its activity on priority areas (as identified by the Academy and various stakeholders), including its activity focused on disciplines. We also support the Academy in continuing to enhance its reputation and impact through effective planning, practices, networking and dissemination, as demonstrated by its achievement of key targets and rationalisation of activity.

Teaching funding policy

April to July	August to November	December to March
Green	**Amber**	**Amber**

Following the publication of Lord Browne's Independent Review of Higher Education Funding and Student Finance and subsequent government statements, we resumed our comprehensive review of our teaching funding policy. This builds on our consultation in spring and summer 2010 on the principles and features of our teaching funding method, but goes beyond it in several respects. In particular, we now know that the Government intends the majority of funding for higher education to come from student fees, supported by the student loan system, and that HEFCE's funding for teaching will be greatly reduced. In the light of this, we need to reconsider all aspects of our approach to funding teaching, including the subjects we fund, the way we count students and the way we treat postgraduate study. We are also likely to need to consider the way in which student numbers are controlled in future.

To ensure that a new approach to teaching funding is in place for 2012-13, we need to consult with the sector as soon as possible, although this is unlikely to happen before later June 2011. However, several aspects of our consultation will depend on the views of the Government.

In our grant letter for 2011-12, the Government has requested that the top priorities for targeted funding should be supporting widening participation and fair access, and ensuring adequate provision of strategically important and vulnerable subjects. These priorities have been addressed through the provisional grant allocations for 2011-12. The grant letter also asks us to: re-examine the balance of funding between what is allocated through general funding formula and what is allocated through more targeted allocations; target our funding towards promoting policy priorities and meeting unavoidable costs; and consider which subjects, including arts, humanities and social sciences subjects, should in future be within the scope of our funding. These requests will be addressed through our forthcoming consultation on teaching funding and student numbers.

Shape and structure of the HE sector

April to July	August to November	December to March
Green	**Green**	**Green**

In 2010-11, we have supported two research projects related to higher education in further education colleges. These are an analysis of the higher education strategies submitted to HEFCE by further education colleges, and a broader piece of statistical work analysing the pattern of higher education provision throughout England. Both reports were published in April 2011.

Lord Browne's Independent Review of Higher Education Funding and Student Finance proposed that providers of higher education that are currently not funded by HEFCE should have access to public funding on the same terms as higher education institutions and further education colleges. In light of this, we have worked with the Government and with the Higher Education Statistics Agency (HESA) to better understand the size and shape of the non-HEFCE-funded sector. We expect the higher education White Paper to provide further indication of the Government's views in this area.

In summary

The pace of change in the short and medium term is unlikely to slacken, and may even accelerate when the anticipated White Paper on higher education is published. For us, the key areas are likely to continue to be the provision of information, which remains a government priority, and our teaching funding policy, which is key to an orderly transition to the new fee and funding arrangements.

Key performance target (KPT)	Progress to 31 March 2011
KPT1: At least 95 per cent of HEIs receive judgements of confidence in QAA institutional quality audits, completed by 2009-10.	**Not on target:** At 31 March 2011, performance was 92.9 per cent[3] (including audits since 2002-03) and therefore continues to be below target. It should be noted that, although performance is below the KPT, the 2.1 per cent shortfall consists of only 'limited confidence' judgements; no 'no confidence' judgements were made. No trends can be discerned in the judgements and, to date, institutions have rectified shortcomings to the QAA's satisfaction.

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

<table>
<tr><th>Key performance target (KPT)</th><th>Progress to 31 March 2011</th></tr>
<tr><td>KPT2: The proportion of students who are broadly satisfied with all aspects of teaching covered by the NSS increases between 2005 and 2009.</td><td> Target completed in 2009: By ‘broadly satisfied’ we mean an average score of at least 3 on the scale of 1 to 5 for each of the clusters of questions as defined on the survey. The table below sets out performance against this target since 2005. Weighted figures are adjusted to reflect changes in the number of students by institution and mode responding to the survey.
Overall, the weighted proportion of students who are broadly satisfied has increased by 7.4 per cent since 2005.
<table>
<tr><th colspan="3">Percentage of students broadly satisfied</th></tr>
<tr><td>Year</td><td>Unweighted</td><td>Weighted</td></tr>
<tr><td>2005</td><td>57.5</td><td>57.5</td></tr>
<tr><td>2006</td><td>58.0</td><td>59.0</td></tr>
<tr><td>2007</td><td>60.8</td><td>61.9</td></tr>
<tr><td>2008</td><td>63.2</td><td>64.2</td></tr>
<tr><td>2009</td><td>62.8</td><td>64.1</td></tr>
<tr><td>2010</td><td>64.5</td><td>64.9</td></tr>
</table></td></tr>
</table>

<table>
<tr><th>Key performance target (KPT)</th><th>Progress to 31 March 2011</th></tr>
<tr><td>KPT3: The continuation rate for students in English HEIs across the planning period is the same as, or better than, the benchmark value calculated from the start year 2002-03.</td>
<td>On target: The continuation rate for full-time first degree entrants in 2007-08 is at the benchmark level (89 per cent in round numbers). The rate for full-time other undergraduate entrants is 82 per cent, which is above benchmark of 80 per cent.[4]
<table>
<tr><th colspan="5">Continuation rate</th></tr>
<tr><td></td><td colspan="2">First degree</td><td colspan="2">Other undergraduate</td></tr>
<tr><td></td><td>Indicator</td><td>Bench-mark</td><td>Indicator</td><td>Bench-mark</td></tr>
<tr><td>2002-03</td><td>87.0</td><td>87.8</td><td>82.6</td><td>82.6</td></tr>
<tr><td>2003-04</td><td>87.9</td><td>88.4</td><td>82.2</td><td>82.7</td></tr>
<tr><td>2004-05</td><td>88.7</td><td>88.8</td><td>82.0</td><td>83.1</td></tr>
<tr><td>2005-06</td><td>89.0</td><td>88.9</td><td>80.3</td><td>83.0</td></tr>
<tr><td>2006-07</td><td>88.5</td><td>88.6</td><td>80.8</td><td>82.5</td></tr>
<tr><td>2007-08</td><td>88.7</td><td>88.6</td><td>82.3</td><td>80.2</td></tr>
</table>
In 2010 for the first time the non-continuation indicators (series T3) have been extended to cover high-intensity, part-time, first degree students. The continuation rate for high-intensity, part-time, first degree entrants for 2006-07 was 59.6 per cent.</td></tr>
</table>

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

Key performance target (KPT)	Progress to 31 March 2011
KPT4: To increase innovative, flexible approaches to the delivery of HE across the planning period.	**On target:** We have funded eight institutions as flexible learning pathfinders. The number of courses delivered through these pathfinders has increased from 14, in 2006-07, to around 75 in 2009-10. We recently analysed the HESA data related to the flexible learning pathfinders and this revealed that, in 2008-09, 2,790 students were engaged in flexible learning at a pathfinder institution (this figure is more robust than the institutional estimate referred to in previous annual reports). The figure has increased from around 109 students when the pathfinder initiative started in 2006-07. We are now collecting and analysing HESA 2009-10 data related to the flexible learning pathfinders, and expect to publish the results during 2011. The pathfinder institutions have now come to the end of their period of HEFCE funding, and we may in future wish to focus more broadly on understanding and enabling flexible learning throughout the sector. However, this will depend upon the Government's views as expressed in the anticipated higher education White Paper.

Strategic aim: Widening participation and fair access

Aim

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 (WP) in the corporate policy and practice of HEIs.

Risks

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

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

Making progress

Widening access and social mobility remain at the heart of the Government’s plans for higher education. HEFCE continues to work with the Department for Business, Innovation and Skills (BIS) to ensure that progress to date is built upon and enhanced wherever possible. Taking account of the broader widening participation agenda and student lifecycle approach this recognises that success in widening participation goes beyond outreach and pre-entry activities and includes an ongoing commitment to: enhance admissions policies and processes; enable and support successful participation in HE study; and deliver successful employment or further study outcomes. In December

2010, the HEFCE Board endorsed the continuing focus on widening participation as a strategic priority for the Council.

Widening participation as a strategic theme in institutions

April to July	August to November	December to March
Green	**Green**	**Green**

Our December 2010 grant letter from BIS confirmed that widening participation strategic assessments (WPSAs) will continue to be a requirement for all institutions that receive the WP allocation. In November 2010, Action on Access published a thematic review of all the current assessments submitted by HEIs which will be followed by a series of topic briefings over the coming months.

The first joint Office for Fair Access (OFFA)/HEFCE annual monitoring submissions for Access Agreements/WPSAs were submitted in January 2011 and we have begun the process of assessing them. This will help us understand the specific nature of the challenges for institutions with regards to WP in the current economic climate. HEFCE and OFFA plan to publish a short report on the outcomes of the annual monitoring process in July 2011.

Looking ahead, we continue to liaise with OFFA on the closer alignment of WPSAs and Access Agreements.

We also continue to fund the Supporting Professionalism in Admissions programme, which looks to support the sector in embedding best practice in admissions. We are also working closely with BIS to support the development of the National Scholarship Programme.

We will use our teaching funding consultation later this year to consider how to make best use of continued widening access and improving retention allocations, in light of changing priorities and reduced levels of overall teaching resource.

Disabled students

April to July	August to November	December to March
Green	**Green**	**Green**

The review of HEFCE policy as it relates to disabled students ('Outcomes of HEFCE review of its policy as it relates to disabled students', HEFCE 2009/49) concluded that our ongoing policy remained fit for purpose, but it did identify a number of specific areas for development. As a result we have commissioned the Higher Education Academy and Equality Challenge Unit to take forward four projects that respectively aim to: support institutions in engaging with disabled students; achieve institutional culture change through developing and embedding inclusive policy and practice; support institutions in meeting legislative requirements; and increase student disclosure of disability in order to improve the take-up of the Disabled Students' Allowance. We have also established an annual seminar for senior officers in the key stakeholder organisations, to provide an opportunity for the organisations to share ideas, exchange knowledge and set sector-wide strategy.

The mainstream disability allocation is part of the widening participation allocation and disabled students remain a target group for outreach activities. Action on Access is currently collating a briefing on equality and diversity as part of its thematic briefing series on WPSAs, which will be used to further embed good practice across the sector.

Supporting collaborative activities in widening participation

April to July	August to November	December to March
Green	Green	Green

We continue to fund and manage the Aimhigher programme which brings together partnerships of schools, colleges and universities to engage and motivate learners who might otherwise not consider higher education.

As part of the Aimhigher evaluation strategy three reports have been published: 'Qualitative evaluation of the Aimhigher Associates programme: pathfinder. Report to HEFCE by York Consulting', 'Review of Aimhigher Partnership Arrangements: Report to HEFCE by Grant Thornton', and 'Aimhigher summer schools: Participants and progression to higher education' (HEFCE 2010/32).

In November 2010 it was announced that funding for the Aimhigher programme will end in July 2011. We are now working with partnerships to manage a smooth run-out of the programme. We also wish to capture the wide experience and best practice that has been built up over the years to ensure that lessons learned from the programme inform the development of future policy initiatives. We have encouraged partnerships to work locally to explore whether strategies for maintaining some aspects of partnership working or activities can be put in place which will support the Government's strategies for schools, colleges and HEIs. The Aimhigher practitioner web-site administration team will work with us to deliver a suite of well-catalogued WP resources that can be transferred to a third party and ensure the sustained legacy of the Aimhigher programme.

Beyond Aimhigher, universities and colleges also work directly in partnership with many schools and colleges to support improved governance, curriculum development and support for learners and communities. This has been evidenced in WPSAs, and during 2009-10 we also published final research reports from our 'communities research' and HE-school links programmes (available at www.hefce.ac.uk under Publications/Research & evaluation). The reports offer locally based analysis and examples of good practice for institutions looking to enhance their partnership working.

Vocational progression and lifelong learning

April to July	August to November	December to March
Green	Green	Green

We continue to support Lifelong Learning Networks which aim to improve the coherence, clarity and certainty of progression opportunities for vocational learners into and through higher education. However, 21 of the 30 networks have now completed their HEFCE funding periods and the main focus for HEFCE is on securing their legacy and sustaining key activity in the light of the ongoing government commitment to improving vocational progression.

'Summative evaluation of the Lifelong Learning Network programme: A report to HEFCE by SQW' was published in November 2010. This suggested that, in the main, the networks met their intended aims and objectives, with some important successes to be seen through culture change within and across institutions, and the development of opportunities for progression for learners on vocational programmes.

HEFCE wishes to ensure the maximum return for its investment in the networks is achieved but needs to balance this with future government policy. In December 2010 we asked the networks' lead HEIs to update us on the extent to which the aims, activities and impact of the network had been embedded within the institution's policies and practice. These updates are currently being collated and reviewed – emerging information is encouraging.

Active networks still produce annual monitoring reports. However, in the light of the reduced number of networks involved and the publication of the summative evaluation, we do not plan to produce a formal analysis for publication.

Supporting student retention and success

April to July	August to November	December to March
Green	**Green**	**Green**

HEFCE and the Paul Hamlyn Foundation have jointly funded the 'What works? Student retention and success' programme to support projects that identify, evaluate and disseminate institutional analysis and good practice relating to student retention. There are seven projects which are now in their final year of activity. Projects and partners are working together to share key project findings and explore the relationship between them, and to discuss how to maximise the impact of programme outputs on policy and practice in the sector. This will be particularly important given the increased focus on retention and student success that is now required by OFFA in Access Agreements. We will therefore work closely with OFFA in monitoring the HESA performance indicators on completion, which institutions will be using when setting their milestones and targets as part of this process.

Furthermore, our ongoing review of teaching funding will consider how best to ensure that the widening participation allocation supports successful participation in HE.

Raising demand for science, technology, engineering and mathematics

April to July	August to November	December to March
Amber	**Moved within the operating plan**	

The HE science, technology, engineering and mathematics (STEM) programme is a £21 million, three-year Strategic Development Fund (SDF) initiative jointly funded with the Higher Education Funding Council for Wales as part of our wider approach to supporting strategically important and vulnerable subjects (SIVS). The programme aims to generate interest in STEM subjects among young people, enhance higher-level skills in the workplace and increase accessibility of HE courses in these subjects. This programme has previously been rated ‘amber’ due to delays in its initial year; we have since worked closely with the programme and its executive committee to review its overall strategy. We will in future report any significant changes to this work under the ‘employer engagement and skills’ strategic aim (page 26) to recognise that the STEM work is reviewed as part of the Council’s programme of work to address SIVS.

In summary

We have continued to work successfully with the sector across all areas. However, with the changing nature of HE funding and a period of considerable transition ahead, we now face significant and unprecedented challenges. Our current programme of work aims to continue progress in mainstreaming widening participation and embedding a lifecycle approach towards social mobility.

Key performance target (KPT)	Progress to 31 March 2011
KPT5: To increase participation in HE in line with the funding and policies set out in the Secretary of State’s annual grant letter.	**On target:** The Higher Education Initial Participation Rate for 2009-10 showed an increase of one percentage point compared to 2008-09, from 46 per cent to 47 per cent. Our analysis of young HE participation rates in England from 1994-95 to 2009-10, published in January 2010[5] showed that young participation in England increased from 30 per cent in the mid-1990s to 36 per cent at the end of the 2000s, making young people today over 20 per cent more likely to go on to higher education than in the mid-1990s. We will continue to monitor participation rates in line with emerging government priorities.

[5] ‘Trends in young participation in higher education: core results for England’ (HEFCE 2010/03).

Key performance target (KPT)	Progress to 31 March 2011
KPT6: To increase the proportion of students (full-time and part-time, both young and mature) from under-represented groups in HE.	**On target:** The performance indicators for 2009-10 show that, of the total number of young entrants to full-time undergraduate courses, 10.9 per cent come from low-participation neighbourhoods[6]. This is an increase of 0.3 per cent since 2008-09. In 2009-10 the proportion of mature, full-time, undergraduate entrants from low-participation neighbourhoods was 12 per cent – a small increase of 0.1 per cent since 2008-09. The proportion of part-time students from low-participation neighbourhoods rose remains at 7.3 per cent, showing no change since 2008-09. These types of entrant proportions can be affected by changes in the population as well as access trends. But our young participation work, which does take account of population changes, has shown that in the most disadvantaged areas of England there have been substantial, sustained increases in the proportion of young people entering HE since the mid-2000s. In particular, the participation rate of young people living in the most disadvantaged neighbourhoods has increased from 15 per cent to 19 per cent between the 2005-06 and 2009-10 cohorts: this rise of four percentage points represents a 30 per cent increase in the chances of entering HE for young people living in such neighbourhoods.

[6] The method for defining low-participation neighbourhoods changed in 2006-07 and indicators are now based on the new POLAR2 method. This new method is not comparable with the low-participation data produced previously and hence no comparison has been made between the two methods. The POLAR2 low-participation measure used is based on a UK-wide classification of areas into participation bands.

Strategic aim: Employer engagement and skills

Aim

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

Objectives

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

Key strategic risks

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

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

Making progress

We have provided a combination of development funding and funding to support growth in students co-funded by their employers in 2010-11 to achieve our objectives. The funding has focused on the infrastructure developments needed both to meet the immediate needs of employers for higher-level skills for their staff, and to provide a platform for longer-term growth in these workforce development activities. We have also invested in developments to ensure the HE sector could respond to the recession and aid recovery, including support for unemployed graduates and to support growth in businesses.

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

April to July	August to November	December to March
Green	**Green**	**Green**

A key plank of the workforce development programme is the co-funding model – where HEFCE funds half of what it would normally provide per full-time equivalent student, with the remaining 50 per cent recovered from employers. Projects funded under our workforce development programme continue to build momentum. This is reflected in the data monitoring where there is steady growth in the numbers of co-funded students recruited across the 2008-2011 spending review period. Many projects are still short of their HEFCE recruitment targets, but most are making progress year-on-year.

Recent discussions with Government have signalled that subsidising employers through the co-funding model is unlikely to be prioritised from 2012-13. The direction of travel for the co-funding, therefore, is that it will be phased out from August 2012. To build on our existing investment we want to support transition of operations built on the co-funding model to the new fees and student support system. We are therefore providing co-funding allocations in 2011-12 to enable institutions to continue to work with employers over the next year and move towards pricing set within the new fees system.

Throughout 2011, we will continue to gather evidence on the progress of the programme and performance of institutions, as well as information on how institutions are re-orientating their employer-facing operations to support sustainable workforce development in a student-driven fees system. A key component of evidence is our programme evaluation which is due to report in July 2011. This will feed into discussions with the Department for Business, Innovation and Skills and inform the transition process. The evaluation will also provide valuable information for the HE sector on successful approaches to workforce development in different contexts.

Support for graduate employability and employment

April to July	August to November	December to March
Green	**Green**	**Green**

Our work on graduate employability and employment in the last year has focused on three areas: improving the information available to prospective students; support to address the consequences of the recession for graduates; and maintaining resources to encourage enhancement of employability practices.

All HEIs and the majority of large further education colleges have now published an employability statement on the Unistats web-site (www.unistats.com). The statements were requested by the HE Minister to improve information about the support on offer for students entering HE in 2011. The Higher Education Academy has reviewed employability statements and will publish a paper on good practice, as well as providing a narrative to developments in this area. We are also working with HE sector partners to improve publication of employment data. This includes reviews of the two destinations of leavers surveys, developing nine items of salary data to include on the Unistats web-site in August 2011, and the development of new classifications for graduate jobs.

We have funded 8,060 graduate internships through to March 2011. Demand for places is strong, both from employers and from graduates. At the last monitoring point at September 2010, over 6,500 internships had been filled (completed or at the offer stage). We also supported a pilot of 852 undergraduate internships during summer 2010 for students from disadvantaged backgrounds to work with professional organisations. We have commissioned research to investigate internships and work placements in existence across the HE sector and the factors that will enable an increase in high-quality opportunities for students and graduates. This work incorporates evaluations of our two internship initiatives, and will be disseminated across the HE sector and key stakeholder organisations from spring 2011.

We are continuing to support employability practice through the HE Academy, which has created a repository of employability resources and innovative practice developed through the Centres for Excellence in Teaching and Learning.

Increasing demand from business for higher-level skills

April to July	August to November	December to March
Green	Amber	Amber

We have sought to link the supply-side changes we have funded with the activities of demand-side partners to encourage employers to invest in the development of their staff. In the current environment this has been more difficult as the focus of attention has been diverted by proposed changes to the fees and funding system, and by uncertainties and subsequent changes to the roles of some key demand-side organisations such as the UK Commission for Employment and Skills and the Sector Skills Councils.

A key issue in the new funding environment will be opportunities to progress from further education to HE for adult learners in the workplace. We are looking to increase our engagement with organisations such as the National Apprenticeships Service and Skills Funding Agency to identify implications of the new environment.

Foundation degrees

April to July	August to November	December to March
Green	Green	Green

Recent data on enrolments (HEFCE's Higher Education Students Early Statistics Survey and Higher Education in Further Education: Students Survey data) confirm there were more than 102,000 foundation degree enrolments in 2010-11 (including 51,350 entrants).

There has been a small drop in the number of entrants from 2009-10 (53,750) which is attributable to a drop in full-time students.

Long-term strategy and funding method to support workforce development

April to July	August to November	December to March
Amber	**Amber**	**Amber**

Following the radical funding changes proposed in Lord Browne's Independent Review of Higher Education Funding and Student Finance, and the Government's response, it appears unlikely that workforce development will be a policy priority from 2012-13. We will work with the workforce development projects and co-funded institutions to support a managed transition of activities to the new fees system. Progress is rated 'amber' to reflect the uncertainties over future decisions of Government and developing HEFCE policy, and the extent to which the HE sector is able to sustain workforce development activities initiated under the current programme.

Strategically important and vulnerable subjects

April to July	August to November	December to March
Green	**Green**	**Green**

We are currently investing £350 million over five years to support SIVS. Our SIVS advisory group, chaired by former HEFCE Board member Peter Saraga, published its third report in April 2010[7]. This was well received and has informed submissions to Lord Browne's Independent Review of Higher Education Funding and Student Finance and wider policy development, including future funding for priority subjects, and mitigating potential market failure within the new fees and funding regime.

The group is preparing to publish its final report, marking the end of this phase of SIVS policy. The group will provide pointers for HEFCE's future SIVS role and analyse postgraduate supply and demand, in line with a recommendation from Adrian Smith's postgraduate review ('One step beyond: Making the most of postgraduate education', available at http://www.bis.gov.uk/assets/BISCore/corporate/docs/P/10-704-one-step-beyond-postgraduate-education.pdf). We will also publish an evaluation of this phase of SIVS work: the findings show that the programme has delivered value for money, and the report above indicates the types of intervention that are likely to prove sustainable.

In tandem, we are conducting an informal consultation with stakeholders about future direction of policy in an environment where there is likely to be very limited (or no) discretionary funding.

[7] 'Strategically Important and Vulnerable Subjects: the HEFCE advisory group's 2009 report' (HEFCE 2010/09).

In summary

Although positive progress has been made in 2010-11, we are entering a new phase for employer engagement and skills policy. In 2011-12 we will disseminate our research and evaluation findings for internships and workforce development to encourage the wider HE sector and key stakeholders to consider what further developments are needed. We will continue to support graduate employability through the Higher Education Academy and by focusing on the information needs of students. We are encouraging the sustainability of workforce development activities, and from 2012-13 we will be able to test whether our workforce development programme achieves its intended outcome of providing a platform for longer-term growth.

Key performance target (KPT)	Progress to 31 March 2011
KPT7: 5,000, 10,000 and 20,000 employer co-funded entrants to accredited provision each year over the three-year period 2008-2011.	**On target:** HESA data indicate that we have met our co-funded entrants targets for 2008-09 and 2009-10 and we are on track to achieve the target in the final year. The HE sector recruited 8,038 additional entrants against the 5,000 target in 2008-09; and more than 15,000 entrants against the 10,000 target in 2009-10.
KPT8: The proportion of HEIs reporting high levels of employer involvement in the HE curriculum increases to 80 per cent by 2009.	**Target complete:** We met our target a year ahead of schedule – the 'Higher Education-Business and Community Interaction Survey: 2008-09' (HEFCE 2010/14) showed 80 per cent reported at the two highest levels of engagement in the curriculum. Figures for 2008-09 showed this dropped to 78 per cent, largely due to the reduction in the number of HEIs to 129. However, figures for 2009-10 show an increase to 81 per cent.

Strategic aim: Enhancing excellence in research

Aim

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

Objectives

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

Key strategic risks

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

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

Making progress

In delivering our objectives in this area we have focused on developing the framework for assessing research quality, including reaching agreement through consultation with our partners on how to assess research impact; and on developing our funding policies to differentially reward the highest-quality research.

Mainstream research funding

April to July	August to November	December to March
Green	**Green**	**Green**

We have maintained four streams of core research grant to institutions, but in view of the cash reduction to the overall total compared with 2010-11, we have altered the distribution between these four streams. We have announced £1,558 million total recurrent research funding for the 2011-12 academic year. From this total, we will allocate £1,053 million selectively on the basis of research quality, as assessed through the 2008 Research Assessment Exercise (RAE). This is a reduced amount compared with last year. We have also changed the scale of selectivity from that used in 2010-11 to increase the rate of funding for research of the very highest quality.

We have maintained at their 2010-11 levels the amounts we allocate to institutions through three further funding streams: to contribute to the costs of supervising postgraduate students; and to incentivise institutions to undertake research funded by major non-public charitable sources and research that directly meets the needs of businesses.

Research Excellence Framework

April to July	August to November	December to March
Green	Green	Green

Working with our funding council partners in Northern Ireland, Scotland and Wales, Government and the HE sector, we have continued to develop, and have begun to implement, the Research Excellence Framework (REF).This replaces the RAE as our means of assessing research quality.

We conducted a successful pilot to develop and test a method for assessing the wider impacts of research on the economy and society in the REF and published a detailed report on its findings in November 2010 ('Research Excellence Framework impact pilot exercise' available at www.hefce.ac.uk under Publications/Research & evaluation). We discussed the recommendation and findings of the report widely with the sector, Government and other relevant stakeholders. Having taken account of views from these discussions, we published in March decisions on how impact will be assessed in the REF.

We are now implementing the detailed operational plan for the first REF in 2014. We established the REF panel structure and appointed in January 2011 the membership of the four main panels and 36 sub-panels. Panels began meeting in February to develop the guidance that will determine REF submission requirements and the criteria by which they will assess submissions. To support the work of panels we have seconded and trained eight panel advisers and 11 panel secretaries from senior administrative roles in the HE sector. Work continues on the detailed specification of data collection systems for the REF.

The Research Excellence Framework is being delivered by a project team comprising HEFCE staff, acting on behalf of the four UK funding bodies.

Research collaboration, capability and capacity building

April to July	August to November	December to March
Green	Green	Green

Working with the Research Councils, we have continued to keep under review the possible need for additional action either to support collaborative effort or to sustain a viable body of excellent provision in specific areas. No new need of that kind requiring our action has emerged during 2010-11, though it should be noted that we have pulled back from encouraging new applications to our Strategic Development Fund at a time when we were uncertain as to the prospects for future funding.

In developing our proposals for the REF we have worked to make all necessary provision to ensure that where existing research collaboration in any form is generating excellent outcomes these will be given full credit in the 2014 exercise, through appropriate assessment criteria and procedures, and due recognition in our subsequent grant allocations. We have also sought to ensure that HEIs understand that the REF will provide a positive climate into which to launch further collaborations in the meantime.

Research degree programmes and research careers

April to July	August to November	December to March
Green	**Green**	**Green**

As part of our process for assuring the quality of postgraduate supervision we published in July 2010 a second set of research degree qualification rates (RDQRs) for individual higher education institutions, following an initial publication of such rates in 2007. Rates were published alongside a sector-adjusted benchmark, and cases of significant positive or negative variation from the benchmark were highlighted. We followed up directly with a small number of institutions whose rates gave rise to possible concern about their processes for and success in bringing postgraduate students to completion in a given timeframe. Publishing RDQRs has provided valuable information to institutions and the public about the sector’s success in supervising doctoral students to completion. The publication and our follow-up action has also provided a spur to the small number whose rates showed clear scope for improvement to scrutinise and enhance their supervision and monitoring arrangements.

In a further measure to ensure that postgraduate students are supervised in high-quality research environments, we have reviewed our allocation method for postgraduate research supervision funding and will consult from March 2011 on proposals to link this allocation more explicitly to indicators of research quality.

We have taken particular efforts this year to promote equality and diversity in research careers. In summer 2010 we established an Equality and Diversity Advisory Group to advise on the implementation of equality-related aspects of the REF. From October 2010 we have been funding a one-year project on equality and diversity in research careers. It includes a programme of strategic activity to ensure that equality and diversity in relation to research staff is understood, visible and prioritised in higher education institutions. It will also develop and deliver equality and diversity resources for principal investigators and higher education staff who support researchers. The project forms part of our ongoing implementation strategy for the Concordat to Support the Career Development of Researchers.

We have also completed, in collaboration with the Department of Health, the fifth and final annual round of a clinical lectureships award programme to enhance clinical academic careers in medicine and dentistry; and the first (of three) rounds of a similar programme for nurses, midwives and allied health professionals.

Research information

April to July	August to November	December to March
Green	**Green**	**Green**

We are funding two shared service initiatives that support the sector's research information needs. We are in the final stages of funding a £10 million project – the UK research reserve – that is reducing the amount of space that academic libraries need to devote to important but rarely accessed research material. In February 2011, we began a new £12.5 million initiative that will help universities and colleges deliver better efficiency and value for money through the development of shared services in cloud computing, shared IT infrastructure, support to deliver virtual servers, and storage and data management applications.

In spring 2011 we concluded a cost-based review of our support for five university libraries of national significance that we have designated as National Research Libraries, and announced the new funding allocations for these libraries for academic year 2011-12.

Researcher mobility

April to July	August to November	December to March
Green	**Complete**	**Complete**

In developing our operating plan for the first four months of 2010-11, we included a new work area on researcher mobility following a request (from the Secretary of State for Business, Innovation and Skills in our annual grant letter in December 2009) to promote increased flexibility in career paths for researchers moving between commercial businesses and universities. In March 2010 we published details on the provision we had made for this in planning the REF, by encouraging assessment panels to give due credit for the contribution to an institution's research made by researchers recruited from business or other sectors as well as academic staff spending time in other sectors.

In summary

In our mainstream research funding policy for 2011-12, and in developing proposals for postgraduate research funding from 2012-13, we have paid particular attention to ensuring that we prioritise funding for the highest-quality research, which makes the greatest contribution to developing and sustaining an internationally competitive research sector. We have also highlighted the attention that we consider institutions should pay to ensuring equality and diversity in research careers, particularly in the coming period of funding constraint.

In developing the REF we have focused on ensuring that the new framework for assessing the impact of research is robust and widely applicable and accepted across disciplines, so that we can more explicitly recognise high-quality research, in all subjects, that contributes to economic, social and cultural prosperity.

Key performance target (KPT)	Progress to 31 March 2011
KPT9: To maintain England's contribution to the UK's leading international position in research excellence throughout the planning period.	**On target:** BIS published its annual report on 'International comparative performance of the UK Research Base' in September 2009 (available at www.bis.gov.uk). That report showed the UK's performance against international competitors was generally maintained or improved in terms of its rank position despite increasingly intense competition from fast-developing nations. The UK is first in the G8 in terms of research productivity (papers per researcher), and its increase in share of world citations (to 12 per cent) is considered a firm indicator of the excellent quality of its published research output. BIS has invited tenders for an updated report.
KPT10: To develop a process for assessing research quality.	**On target:** The decisions on assessing impact within the REF have been published, panel membership has been announced and panels have started meeting. A detailed implementation timetable has also been published and the REF is on track with this. The next key milestone is to publish detailed guidance to institutions in July 2011.
KPT11: To demonstrate improved sustainability of the national research base by 2011.	**Partially on target:** The annual report on sectoral financial sustainability metrics, presented to the HE Research Base Funders' Forum in September 2010, showed continuous growth in total income and research income per academic, indicating that the people capacity and productivity metrics have improved further over the previous year. However, it also noted evidence from annual TRAC returns suggesting that the income HEIs receive to carry out research still does not fully cover the costs of undertaking this research: the TRAC research deficit as a percentage of income fell slightly from 31.5 per cent to 31.2 per cent.

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

Aim

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

Objectives

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

Key strategic risks

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

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

Making progress

Given expectations going in to the spending review, the maintenance of the Higher Education Innovation Fund (HEIF) in cash terms and encouraging data from the Higher Education Business and Community Interaction (HE-BCI) Survey are great successes. However, our grant letter from BIS also included fundamental changes to aspects of HEIF that are currently under consultation.

The turbulence of the economic downturn and uncertainty around future funding availability has challenged HE's contribution to the wider economy and society, and the sustainability of knowledge exchange activities. We continue to monitor the impact on the delivery of our aims, objectives and key performance targets, and to consider whether additional activity is needed to mitigate risks.

Higher Education Innovation Fund

April to July	August to November	December to March
Green	**Green**	**Green**

HEIs are in their third and final year of funding under HEIF round four.

We monitor progress in delivery of HEIF 4 strategies and planned use of funds by HEIs through our annual monitoring statement, and these returns show robustness of demand and supply across the sector, highlighting the value of flexible HEIF delivery plans.

Because of concerns about the effect that public spending cuts and future funding would have on the delivery of HEIF strategies, we asked for additional information in the annual monitoring statement around those areas. Responses from HEIs on 2009-10 activity suggest that there have been only small declines in external demand for services to date. However, when addressing the potential for future knowledge exchange delivery problems arising from the changed economic environment, responses revealed that the demise of the Regional Development Agencies, and general and cumulative funding uncertainty, are widespread concerns across the sector. Uncertainty about the future of HEIF was the most commonly raised single issue related to risks to knowledge exchange from changes to all HE funding stream, and published clarification about HEIF 2011-2015 funding should have alleviated much of this concern.

A strong focus of work in 2011-12 will be effective implementation of HEIF allocations which needs to happen rapidly and securely in a fairly constrained time period.

Business and community indicators

April to July	August to November	December to March
Green	**Green**	**Green**

The second year of data collection by the Higher Education Statistics Agency (HESA) has run relatively smoothly although there are still areas for improvement – for example, in handling queries. Data were processed and provided to HEFCE ahead of schedule to facilitate HEIF modelling. Early data suggest that the sector's third stream income is still growing at a significantly higher rate than GDP.

HEFCE is working with stakeholders in the UK (the UK Intellectual Property Office) and Europe (the European Commission) to enhance indicators around the exploitation of intellectual property, given the clear benefits to the growth agenda and the UK's realised and potential strength in this area.

Public and community engagement

April to July	August to November	December to March
Amber	**Amber**	**Amber**

Over the period we pursued a strategic commitment to supporting HE in public and community engagement through discretionary use of HEIF funding (alongside support for South East Coastal Communities, Beacons for Public Engagement and a social entrepreneurship awards programme with UnLtd). We formed part of a working group, with other research funders, to develop a concordat for engaging the public with research. This was launched by Universities Minister David Willetts in December 2010 and continues to gather signatory support.

Public and community engagement remains at 'amber' because we continue to review our approach towards the Beacons of Public Engagement programme jointly funded with Research Councils UK and the Wellcome Trust. Final decisions regarding future funding will be made in March 2011 and are likely to be limited to an extension of the National Co-ordinating Centre for Public Engagement (NCCPE).

Individual Beacons are on track and moving into active dissemination phases as the pilot draws towards a close. The NCCPE continues to engage the sector, supporting public engagement through the development of a manifesto for public engagement, to which institutions can sign up, and comprehensive practical guides and resources.

Funding for the South East Coastal Communities programme ended in March 2011, and the nine partner institutions are collaborating on appropriate dissemination and sustainability strategies.

As part of our strategic plan commitment to highlight the contribution of HE to society, we have continued the Social Entrepreneurship Awards scheme in partnership with UnLtd. To date we have made over 200 awards to social entrepreneurs working in HEIs, to help them develop their ideas and provide exemplars for social enterprise in the sector. A range of workshops, support materials and an online toolkit have been developed to stimulate interest and spread good practice in social enterprise, feeding into our broader development of knowledge exchange policy in the HE sector. The awards will culminate in a national conference where lessons learnt and good practice will be exchanged.

Third stream strategy and development

April to July	August to November	December to March
Green	**Green**	**Green**

While this will remain a theme under consideration, discrete active work streams were concluded in Summer 2010 with the publication of a series of research working papers, available through our web-site.

There was considerable work over the year to provide advice and evidence to the Government to inform policy on reform of HEIF and the funding settlement in the Spending Review. This included work on international comparisons of knowledge exchange, which will continue as a theme into the next year's work programme. There was also increased stakeholder engagement, with BIS and other funders of knowledge exchange and innovation, particularly in light of the wind-down of the Regional Development Agencies. Again this will be a strong focus next year in order to secure increased effectiveness of HEIF in a turbulent environment.

HE support to the economy and society in the economic downturn

April to July	August to November	December to March
Green	**Green**	**Complete**

We funded Universities UK to undertake a short programme of ‘From Recession to Recovery’ research looking into the impact of the recession on student demand and graduate employability, diversity of university income and international comparisons. These mini-reports and an overview discussion paper, ‘The future is more than tomorrow, the commentary’, written by Professor Geoff Crossick, were launched at the Universities UK conference in September and are available at www.universitiesuk.ac.uk/Publications/Pages/FromRecessionToRecovery2010.aspx. As the country moved out of recession, this work stream was concluded.

In summary

We anticipate that our continued work in this area will lead to an identifiable and increased return on HEIF investment and that developments to the HEIF template (the template completed by institutions to release their HEIF allocation) – along with reference to the well-established HE-BCI survey – will provide an invaluable base on which to base subsequent policy development and public spending case.

Key performance target (KPT)	Progress to 31 March 2011
KPT12: Throughout the period, to secure year-on-year increases in the total contributions (both direct contributions from users leveraged through HEFCE core funds for third stream, and support from a wider range of public sources to deliver public goods) for third stream activity in the HE sector.	**On target:** No formal analysis has been completed but validation checks and HEIF modelling strongly suggests continued growth of around 5 per cent.
KPT13: Throughout the period, to demonstrate year-on-year improvement in the impact of the HE sector on business and the community.	**On target:** As yet unpublished data from 2009-10 collected under the HE-BCI survey show that activity is still growing at a faster rate than GDP. Further analysis will be required although it is likely that changes to HEIF funding will have both positive and negative effects on activity measured in HE-BCI.

Strategic aim: Sustaining a high-quality HE sector

Aim

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

Objectives

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

Key strategic risks

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

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

Making progress

The English HE sector is internationally recognised for the excellence of its contribution to intellectual, social and economic well-being. We work with HEIs to maintain and enhance that reputation in both the immediate and the long term. Through our funding and other activities we aim to promote stakeholder confidence, enhance the capacity and capability of the HE workforce, foster leadership, governance and management development, and develop the physical infrastructure of HEIs.

Core funding

April to July	August to November	December to March
Green	**Green**	**Green**

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

We have implemented reductions to funding for the 2010-11 academic year, following June 2010 and December 2010 grant letters from BIS. Pro rata reductions have been implemented to give institutions as much flexibility as possible in managing them, and we are providing funds to moderate the most significant reductions. Although research funding has been partly protected, the reduction in teaching funding will increase the challenges faced by the sector as it prepares for the introduction of the demand-led funding settlement of 2012-13.

Policies for student numbers and growth

April to July	August to November	December to March
Amber	**Green**	**Green**

We develop and apply funding policies and mechanisms that enable student numbers and growth to be monitored and kept within government targets.

The ‘amber’ rating reflected the possibility of over-recruitment of students for 2010 entry. It moved to green as the student number control system was seen to be operating effectively. The data returns for the Higher Education Students Early Statistics Survey and Higher Education in Further Education: Students Survey were consistent with UCAS data on admissions in 2010-11, indicating that controls had been effective in limiting recruitment. Concerns about overall numbers and associated student support costs, and the teaching unit of funding, were clarified after the government Spending Review. HEIs were notified of student number controls for 2011 entry in February 2011 in accordance with the grant letter from the Secretary of State and Minister of State of December 2010.

Relationships with HEIs and directly funded FECs

April to July	August to November	December to March
Green	Green	Green

Our institutional teams work with HEIs to develop a range of missions that will meet the needs of their wide spectrum of stakeholders and to maintain the sector's international reputation for high-quality provision. They monitor institutional sustainability and work closely with our assurance team to provide support where appropriate.

We continue to work closely with institutions to ensure they are well informed about funding changes and, so far as we are able, to keep them abreast of emerging policy developments.

Risk-based accountability framework

April to July	August to November	December to March
Amber	Amber	Amber

We promote public confidence in the sector by obtaining, assessing and providing assurance that institutions' own accountability processes are working well and, on the rare occasions that they are not, that mitigating action is being taken. Our role in ensuring HEIs' accountability for the investment made in them by the public funding from the Government also supports the investment made by a range of stakeholders, including students, banks, donors and funders of research

Further information is given in the Chief Executive's Statement on Internal Control on pages 78-83.

The indicator for this objective has been set at 'amber' since December 2008. The scale of the current and future financial challenges remains considerable, particularly with the public funding reductions expected over the next year (before the new fee regime is introduced in 2012). Most HEIs had satisfactory financial results in 2009-10 and have to a large extent anticipated the future financial challenges. Our work during the recent past to support institutions at higher risk and to undertake regular monitoring of risk across the sector has been recognised in the recent National Audit Office report, which found that the Council had taken a cost-efficient approach and delivered value for money in these operations.

Medicine, dentistry, nursing and allied health professionals

April to July	August to November	December to March
Green	Green	Green

We work with the National Health Service and the other HE funding bodies to ensure effective provision of education for healthcare professionals, and our regional consultants liaise with Strategic Health Authorities. We participate in the UK Healthcare Education Advisory Committee and through it contribute to the Higher Education National Strategic

Exchange, which has acted as a liaison between the Department of Health and BIS since the end of 2008.

We have provided advice on widening participation in the healthcare professions and modernising scientific careers to facilitate career pathways between the health and HE sectors. The implications of the impending changes to funding models in both the health and HE sectors will be carefully monitored during 2011-12, particularly with respect to the clinical academic workforce.

Promote further development of leadership, governance and management

April to July	August to November	December to March
Green	**Amber**	**Amber**

The high quality of leadership, governance and management of English HEIs is demonstrated by the global reputation of the sector at a time when international competition has increased. Our work in this area includes funding of the Leadership Foundation for Higher Education (LFHE) and our use of the Leadership, Governance and Management (LGM) Fund to support the development and dissemination of good practice.

We have seen evidence of increasing pressure on the sector, which is now facing whole-system change that will involve new challenges for its senior staff and governors. The LFHE has developed new programmes and facilitated forums for discussion of emerging issues. Subscriptions to the LFHE have declined, however, from 97 per cent to 92 per cent of English HEIs, suggesting that financial pressures are beginning to affect the sector's ability to invest in leadership development.

The LGM Fund was closed in July 2010 as planned, and the absence of any replacement funding has reduced the Council's ability to support the sector through change of an unprecedented speed and scale. Good practice developed under the Leading Transformational Change initiative, supported by the LGM Fund in 2009, is beginning to become available and a programme of work to embed good governance practice was completed in February 2011.

Strategic Development Fund

April to July	August to November	December to March
Amber	**Amber**	**Amber**

The Strategic Development Fund (SDF) is our main tool to promote change and innovation in the English HE sector.

Over the period of the Government's 2008-2011 Spending Review, our funding through the SDF budget has been reduced, with a view to considering future priorities in the context of new government policies and funds. We are reviewing projects supported through the fund to date, to improve our understanding of achievements and lessons learned, and hence to secure greater value for money in the future.

Sustainable development

April to July	August to November	December to March
Green	**Green**	**Green**

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

There is growing engagement with sustainable development and some HEIs are making it a distinctive feature of their offer to students. We have observed increasing government recognition of the sector's achievements as demonstrated in successive grant letters. Our Leading Sustainable Development in HE initiative to develop good practice in the sector attracted strong interest. The Capital Investment Framework has successfully established a link between capital funding and carbon reduction and all institutions should have carbon management plans in place by 31 March 2011. Providing the investment required to deliver carbon reduction will, however, be more challenging with reduced capital funding. A further £10 million will be available for a second phase of the Revolving Green Fund, which will build on the success of the first round, and includes £4 million recycled from the first round plus additional funding over 2011-12 and 2012-13.

Supporting HE efficiencies

April to July	August to November	December to March
Amber	**Amber**	**Amber**

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

This indicator has been set at 'amber' throughout the period because the issue of unrecoverable VAT on shared services and outsourced provision remains unresolved. The £20 million made available in the University Modernisation Fund has been directed at data centres, research management, administrative systems within the computer networks known as the 'cloud environment', and procurement. These projects were chosen because of the efficiencies they will deliver over the next few years.

Continued investment in the HE infrastructure

April to July	August to November	December to March
Amber	**Amber**	**Amber**

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

The second Capital Investment Framework, implemented in 2010-11, has demonstrated the sector's progress over the previous three years in the areas of improved condition, functionality and use of space. Our ability to provide continued investment in the HE infrastructure has been affected by the capital reductions announced in the grant letters of December 2009 and December 2010, leading to the amber rating in this area.

Continuing development of people and organisational culture in HE

April to July	August to November	December to March
Amber	**Amber**	**Amber**

The HE sector is knowledge-based, so the performance of the people who work in it is crucial and they should be representative of society as a whole. We aim to support the continuing development of those people and to promote organisational cultures that enable HEIs to deliver high-quality provision.

Our indicator is set at amber through a combination of issues relating to the affordability of pensions, potential tensions around industrial relations and the pace of change required for adaptation to different delivery models. New equality legislation will also present challenges for HEIs. We have provided financial support through the Leadership, Governance and Management Fund and have used this to support the sector in developing tools for human resources professionals.

In summary

The programme of work that we have identified for this strategic aim remains on course, but the scale and nature of the challenges facing the English HE sector have changed considerably over the last two years, as it deals with contributing to the economic recovery, and prepares to deal with reduced public funding in the 2011-12 academic year and the introduction of a new approach to teaching funding in 2012-13.

Key performance target (KPT)	Progress to 31 March 2011
KPT14: To develop during 2009-10 in consultation with stakeholders a realistic strategy and target for carbon reductions which are sufficient to ensure satisfactory progress towards the government targets of reducing carbon emissions by 80 per cent against 1990 levels by 2050 and at least 34 per cent by 2020.	**Completed:** We published 'Carbon reduction target and strategy for higher education in England' (HEFCE 2010/01) and 'Carbon management strategies and plans: a guide to good practice' (HEFCE 2010/02). We are currently defining a baseline for 'scope 3' emissions[8] and developing good practice through 11 projects funded under the Leading Sustainable Development in HE initiative.

[8] The World Resource Institute classifies emissions into three 'scopes': 'scope 1' emissions are direct emissions from sources owned or controlled by the organisation, for example emissions from

Key performance target (KPT)	Progress to 31 March 2011
KPT15: Through increased influence of procurement expertise, and building on the £100 million of procurement efficiencies delivered in 2007-08 across all areas of non-pay expenditure, to deliver measurable benefits for re-investment across the sector worth an additional £67 million a year by 2010-11.	**On target:** As reported in the mid-year review against the 2007 Comprehensive Spending Review value for money delivery plan, actions to deliver the £67 million measurable benefits for re-investment by 2010-11 are in place and on track to meet the target.
KPT16: To operate a regulatory framework that encourages effective institutional accountability and successfully identifies and manages risks to institutional sustainability, only imposing cost or burden that is necessary to achieve these aims.	**On target:** The institutional risk assessment and management system has operated effectively during this year. The recent National Audit Office Report on regulating financial sustainability concluded that value for money was being delivered on this aspect of the Council's work. The Report made some recommendations to strengthen aspects of the system ahead of changes within the sector. We will need to review the risk system as the new regulatory system becomes clearer following the changes to the funding of higher education.
KPT17: By 2011 all HEIs to have provided information as specified in the Capital Investment Framework that demonstrates that they are investing at or progressing towards levels that demonstrate sustainable physical infrastructures.	**Largely on target:** All HEIs were assessed in 2007 against the requirements of the first Capital Investment Framework and most HEIs met them – a minority did not. The assessments against the second Capital Investment Framework (which has increased requirement in terms of carbon reduction and space utilisation) were completed in January 2011. This showed an increased number of HEIs had met the increased requirements. There will be reduced capital funding for those HEIs that did not, and they will be required to produce action plans to address those areas that require improvement. The evidence from the second Capital Investment Framework is of significant improvements in the condition, functional suitability and use of space across the HE sector.

combustion in owned or controlled boilers/furnaces/vehicles; 'scope 2' accounts for emissions from the generation of purchased electricity consumed by the organisation; 'scope 3' covers all other indirect emissions that are a consequence of the activities of the organisation, but occur from sources not owned or controlled by the organisation – for example, commuting and procurement.

Key performance target (KPT)	Progress to 31 March 2011
KPT18: By 2010-11 the HE workforce at a sector level will have increased proportions of female staff, disabled staff, and staff from black and minority ethnic groups in senior positions, taken from a baseline established in 2003-04.	**On target:** Proportions of female, disabled and ethnic minority staff at senior levels continue to increase. Absolute numbers of all senior staff have dropped, but numbers of senior staff in the target groups have fallen by a proportionately smaller amount. However, when comparing the overall senior management results to those observed for ‘professor and above’ and ‘senior lecturer and above’, only the proportion of ethnic minority staff increases for all three groups. The proportions of female and disabled staff have both dropped slightly for the other two senior grade groups.

Strategic aim: Enabling excellence (our role)

Aim

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

Objectives

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

Key strategic risks

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

- That we do not secure sufficient public funds to deliver our strategic aims.
- That there is a mismatch between the Government's priorities, the views of key stakeholders and our strategic aims.
- That our leadership, governance and management capability, and management of resources, do not effectively enable the delivery of our core strategic aims.
- That pressures on the student support budget lead to unexpected reductions in the funding available to HEFCE, negatively impacting on our ability to achieve our strategic aims.
- That pressures facing higher education lead to our role as an effective broker between the sector and government being compromised, reducing our effectiveness.

Making progress

How we perform as an organisation has a major impact on how substantial sums of public money invested in higher education is spent and 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 for higher education. It also affects stakeholders' perceptions of the English HE system – including students and employers, both here and overseas.

We have been working within a climate of considerable policy, funding and organisational uncertainty over the past year. There have been some clarifications at various points, for example by the inclusion of HEFCE in the Government's list of public bodies to be retained 'on grounds of performing a function which requires impartiality', the new funding settlement for higher education (October to December 2010), and policy steers in our grant letter from BIS (December 2010). The Government plans to set out its overall thinking and plans for HE in more detail in a White Paper. It says that this, taken together with the grant letter, 'will supersede all previous directions to the Council about policy objectives. In particular, the White Paper will set out our intentions for the future powers and functions of the Council'[9]. In the meantime, our most recent grant letter confirmed that BIS expected the Council to continue to perform its current role on its existing statutory basis for 2011-12 and 2012-13.

During the period of transition, we are aware that we need to be able to meet the expectations of our stakeholders by influencing, developing and delivering new approaches, while delivering 'business as usual'. We need to continue to achieve this while also delivering the further reductions in our administration costs; and managing within the various government spending controls.

Governance

April to July	August to November	December to March
Green	**Green**	**Green**

We endeavour to adopt good governance practices. However, for reasons of cost effectiveness, HEFCE does not adopt the 'comply or explain' principle[10]. The Board conducts an annual appraisal of its own effectiveness. This year's review included consideration of an appraisal report by the Chair following discussions with members, a report from the Deputy Chair on the Chair's performance, an assessment of the Board's governance risks and a comparison of HEFCE practices with the corporate governance codes for listed companies and government departments. A key outcome of this work has been to disclose more information about HEFCE's governance arrangements in this annual report and on our web-site, as well as to develop an action plan to enhance our governance practices further. Overall, the Board is content with its effectiveness and governance practices.

Board members are appointed by the Secretary of State. The diversity of the Board has improved since last year and we are committed to working with BIS to improve this further.

The Board is supported by Audit, Remuneration and Appointments Committees, as well as five strategic advisory committees, plus the Joint Advisory Committee for Church Universities and Colleges and the UK Healthcare Education Advisory Committee.

The Audit Committee operates to the standards we expect in the HE sector. There are seven members, two of whom (including the Chair) are Board members. The Committee meets four times a year in the presence of the internal and external auditors. Each HEFCE Director attends the Committee annually to present their risk management statement. The remit of the Committee includes both HEFCE and HEFCE's assurance

[9] For more information see 'Grant announcement for higher education 2011-12', available at www.hefce.ac.uk/news/hefce/2010/grant1112/

[10] The 'comply or explain' approach is a key trademark of UK corporate governance, whereby organisations either demonstrate compliance with a governance principle or explain how they meet their governance obligations in another way, for example to meet the individual circumstances of their business.

work with the HE sector. The Committee conducted a review of its own effectiveness during the year and agreed a plan of action to respond to the issues arising.

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

On 1 June 2010, HEFCE became the principal regulator of those HEIs in England that are exempt charities (that is, all but 19 of them). We have agreed a Memorandum of Understanding with the Charity Commission to assist us in meeting our new obligation to promote compliance with charity law.

Strategy, planning, and risk management

April to July	August to November	December to March
Amber	Amber	Amber

Our current 2006-2011 strategic plan expires at the end of March 2011. The Board decided not to develop a new plan as originally scheduled for 2010-11 in view of the changes taking place. We continue, however, to develop our approach and strategy, including through providing information and advice to Government as it develops the White Paper.

A plan for managing transition was approved by the Board at its December 2010 meeting. This aims to ensure that the operating plan and our strategic risks remain up to date, that key issues are reported to the Board, and that key changes are managed and overseen. We are also developing our planning framework and paying close attention to how we resource our plans. We are taking forward the actions set out in the HEFCE grant letter.

Reporting key performance results

April to July	August to November	December to March
Green	Green	Green

This year we have moved from reporting to the Board every three months to every four months, in an attempt to reduce administration costs but not accountability. We are in regular contact with BIS through its joint accountability group and are working on the development of a new approach to corporate planning.

Organisational development

April to July	August to November	December to March
Green	Amber	Amber

Organisational changes we have implemented in the past three years have been focused on increasing our flexibility and improving what we do in a cost-effective way. This has put us in a strong position to adapt and change. We have also recently established a transition group and made changes to the membership and focus of our Executive team.

This year we have completed two connected projects that looked deeply at HEFCE's organisational culture, and performance management and reward. These sought a better understanding of people's experiences and ways to unlock potential and creativity to help us all meet the major challenges that lie ahead. We have agreed to focus on some cultural shifts that we are aiming to achieve over time.

However, reductions in our administration costs, combined with continuing government controls on recruitment, pay, consultancy, information and communication technology (ICT), 'paid-for communications', procurement and facilities management, have impacted on several activities and we have concerns about the cumulative effect on our organisational performance. We are engaging with the wider outputs from the Government's Efficiency Reform Group and BIS's Commercial Strategy to help us manage the impact of these developments and build on the work we have already done to lower our costs while maintaining our service levels.

We have decided not to pursue further external validation through the European Foundation for Quality Management at this time. However we are still committed to using the model to support continuous improvement.

Partnership working

April to July	August to November	December to March
Amber	**Amber**	**Amber**

We regard working in partnership as essential for effective policy development and the delivery of our strategy and continue to engage systematically with our stakeholders, including universities and colleges, Government, the other UK funding bodies, representative bodies, businesses and employers. An internal review of our approach to partnership working identified those partners of particular significance requiring a close collaborative partnership. These include QAA, the Student Loans Company, OFFA, UCAS and the Higher Education Academy. Government restrictions on marketing and communications spending mean we did not conduct the planned 2010 satisfaction survey of HEIs and FECs.

Our annual conference in October 2010 presented a timely opportunity to look at the challenges and opportunities currently facing the higher education sector, coming so close after the spending review and publication of the Browne review.

An Ipsos MORI survey carried out in 2010 showed high levels of public awareness of HE, including the benefits of HE to the wider society, and public support for investment in HE.

People

April to July	August to November	December to March
Amber	**Amber**	**Amber**

On the census date of 31 March 2011, HEFCE employed 246.3 full-time equivalent (FTE) staff (272 headcount), of which around 234 FTE were actively engaged in HEFCE business[11]. The overarching principles of our people strategy are that: 'As a relatively small, knowledge-based organisation, our continued success depends on the expertise, talent, interpersonal skills and proactivity of our people. To be regarded as effective we need to be responsive to, and trusted by, our stakeholders. Therefore, we all rely on everyone in the organisation to be an "active citizen", committed to high performance and continuous improvement. We aspire to empower and appreciate each other and operate with the principles of fairness and integrity at all times.'

Our March 2011 report to the Board on progress against the aims of our people strategy and our diversity data are available on our web-site. We firmly believe we will be in a better position to achieve our aims as an organisation if we have a more diverse staff. Although we are making some progress, we recognise that we are unlikely to achieve our equality targets relating to men, disability and ethnicity in the timeframe we are aiming for – particularly in the context of reducing staff numbers and the government's recruitment controls.

In line with best practice, we are publishing our gender pay gap this year for the first time. On 31 March 2011 our pay gap was 44 per cent, which compares unfavourably with a public sector pay gap of 19 per cent[12]. While this is a cause for concern, we are confident that it stems from the uneven distribution of men and women between pay bands, in particular lower representation of men in lower pay bands, at HEFCE which is one of the issues highlighted by our equality targets. This view is also supported by our most recent equal pay audit (May 2010), which found that we had no significant equal pay issues.

The results from our 2011 employee survey have enabled us to maintain our one-star accreditation for 'first class' employee engagement from Best Companies and have led us to be ranked in the top 100 'Best Place to Work in the Public and Third Sector' by the Sunday Times. We are pleased to have maintained this level of satisfaction in the current climate, although we are not complacent about the continuing risks to staff morale.

At the organisational level we believe that sickness levels can be a useful indicator of staff wellbeing. Our sickness absence remains relatively low. In 2010-11 we lost 1,371 working days to sickness, an average of 5.6 days per person (a slight increase from 2009-10 at 5.1, but the same as the level two years ago). The level compares favourably to an average of 6.8 days for government public service bodies[13] and 6.6 days for private sector services[14]. 13.3 per cent of our sickness was long term[15].

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[11] The figure of 246.3 is the total number of FTE staff employed on the census date of 31 March 2011. It includes HEFCE staff working for JISC (11.2 FTE), but excludes HEFCE's Chair and Chief Executive. The figure of 234 actively engaged on HEFCE business excludes staff on maternity or adoption leave (8.1 FTE), and staff on outward secondment (4.3 FTE). The average number of staff employed over the year and quoted in the accounts (see Note 5) is 247 FTE (this excludes the Chair, Chief Executive and staff on secondment).

[12] Source: Office for National Statistics, April 2010.

[13] Source: 'Operational Efficiency Programme Benchmarking Report 2009-2010'.

[14] Source: 'Absence management: annual survey report', Chartered Institute of Personnel and Development, 2010.

Given the current climate, and government controls on recruitment and pay, we are concerned about whether we will be able to attract suitably talented and experienced staff to business-critical posts.

Knowledge

April to July	August to November	December to March
Green	Green	Green

Our commitment to partnership working is central to our approach to developing and sharing knowledge. We rely on a number of key data sets for funding and research, mostly collected by HESA. Maintaining and improving the integrity and quality of the data we hold is of paramount importance. We operate a risk-based approach to data audit.

We invest in research and evaluation to support policy developments, monitor trends in HE and contribute to policy debate. Strict government restriction on spending means we will be commissioning fewer research and evaluation reports over the next year, with more projects being carried out internally. Outputs this year include reports on lessons learned from the REF research impact pilot exercise; an evaluation of Aimhigher in relation to learner attainment and progression; a report on the information needs of the users of public information about HE to inform the development of the National Student Survey; and a report on carbon emission baselines. All of our 2010-11 research reports are available at www.hefce.ac.uk/pubs/rdreports/

To enable HEFCE to have good knowledge of the international context we monitor the world's media for articles relevant to HE issues and have access to research reports and briefings on international issues. So that the sector has access to good quality intelligence, we have funded the UK HE Europe Unit and UK HE International Unit, both hosted and managed by Universities UK.

We are committed to best practice in managing the information we hold and are implementing the requirements of the government's Security Policy Framework and meeting our obligations under information legislation.

Financial resources

April to July	August to November	December to March
Amber	Amber	Amber

The Government's Spending Review announced that the overall resource budget for higher education will reduce by 40 per cent from £7.1 billion to £4.2 billion by 2014-15. This budget reduction will take place in the context of the introduction of a new student finance system in 2012-13. On 20 December 2010 we received our grant letter setting out the allocations for the financial years 2011-12 and 2012-13 (indicative) with ring-fenced research funding for the whole period. The funding for 2011-12 includes reductions of £682 million (9.5 per cent on the corresponding value for 2010-11). These

[15] Defined as more than a month off work at any one time.

reductions are ahead of changes from the introduction of the new student finance system.

We have made the £2 million efficiency savings in administration costs and non-frontline services required of us in this current financial year. These savings have been achieved through: only recruiting to posts that are absolutely business-critical; substantially lower recruitment costs; a pay freeze for all staff earning more than £21,000; tighter cost controls; reduced investment in property; commissioning fewer policy development reports; reductions in the Joint Information Systems Committee communications spend; reductions in the administrative costs relating to specific aspects of activity. Achieving this has depended on staff commitment and flexibility, and reduced emphasis on lower-priority activity. Our indicative administration costs over 2011-12 to 2014-15 will require us to make further real-terms savings of 16 per cent.

To support the continued success of HEFCE while applying government spending restrictions consistently and sensibly, an internal spending controls group has been established to achieve administration cost reductions for 2010-11 and prepare the Council for 2011-12.

Facilities

April to July	August to November	December to March
Green	**Green**	**Green**

We continue to invest in maintaining our facilities in accordance with our lease obligations and statutory requirements. Where appropriate we also look to improving operational efficiency or contribute to reducing energy consumption. This year this included a major investment to replacing the windows of our Bristol office. We do not foresee any further significant investments before the lease expires in 2015.

We are keeping under review the government restrictions on spending for property and their potential impact on the forthcoming lease review for our London office in 2013.

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

Information systems and technology

April to July	August to November	December to March
Green	**Green**	**Green**

We have successfully implemented the first year of our ICT strategy covering 2010-2012. This provides an increased alignment of ICT resources to support the delivery of strategic objectives. In addition, increased engagement with key users will allow changes to the ICT services and activities to be determined by Council-wide priorities.

We have reviewed the ICT strategy for 2011-12 and our focus will be on maintaining core systems and services to support the delivery of strategic objectives, while continuing to devote significant resource to the development of IT systems for the Research Excellence Framework in 2014.

We are keeping within the government spending controls for ICT and will continue to work with BIS to contribute to the development of the ICT element of its commercial strategy. This, along with the end of our lease on our Bristol office at the end of 2015, will influence how the ICT strategy develops from 2013 onwards.

Corporate social responsibility

April to July	August to November	December to March
Green	**Green**	**Green**

We are committed to acting in a socially responsible way and encouraging our stakeholders to do likewise. Corporate social responsibility (CSR), in this context, means that we take account of the impact our work has on the economy, society and the environment. Our CSR policy for 2008-2014 sets out our overall aims, objectives and targets in this area. It covers operations at our offices, as well as the influence we have on the sector through our policies and services. Our CSR report for 2009-10 was published in August 2010.

A sustainability report is included in this annual report and accounts (page 59), which sets out progress against the targets set out in our CSR policy and our environmental performance indicators with data on carbon dioxide emissions, office energy consumption, water consumption, waste disposed to landfill and recycling.

Certification to ISO 14001, an international environmental management system standard, continues to support and develop our work on environment management generally. We use Universities that Count to benchmark our performance and in 2009-10 we achieved the Gold standard with a score of 90.8 per cent, an improvement on our Silver standard of the previous year. This compares well with a higher education sector average of 75.3 per cent and a corporate average of 86.1 per cent.

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

Key performance target (KPT)	Progress to 31 March 2011
KPT19: To maintain the European Foundation for Quality Management level 2 (‘Recognised for Excellence’) across the remainder of the planning period.	**Complete:** In 2008, HEFCE achieved ‘Recognised for Excellence’ status with a five-star rating – the highest level achievable under the award and well in excess of the minimum level set in the target. We decided not to pursue further external validation through the European Foundation for Quality Management in 2010. However we are still committed to using the model to support continuous improvement and have a Gold award from London Excellence, which can be used as a proxy measure of us maintaining this standard.
KPT20: Stakeholders’ satisfaction with the Council to at least match relevant external benchmarks and to show an improving trend over the planning period.	**On target:** The report from Ipsos MORI on the 2007 survey of communications and relations between HEFCE and universities and colleges demonstrated a strong and improving trend with regard to stakeholder satisfaction. Favourability towards HEFCE has continued a steep upwards trend since the survey conducted in 2000 (84 per cent in 2007, compared with 76 per cent in 2003 and 61 per cent in 2000). Three-quarters of respondents indicated that they were satisfied with the relationship their institution had with HEFCE, and 80 per cent thought that quality of staff was good compared with 67 per cent in 2003. The vast majority of stakeholders (94 per cent) felt that HEFCE communicated well with their organisation and 82 per cent thought that HEFCE kept them informed. Restrictions on marketing and communications expenditure mean we did not conduct the 2010 satisfaction survey of HEIs and FECs.

Key performance target (KPT)	Progress to 31 March 2011
KPT21: To review our effectiveness and efficiency in consultation with our stakeholders, including in the areas of policy development and advice to others, policy implementation, accountability for public funding and the promotion of best practice within HEIs.	**Complete:** The Independent Review Group, chaired by Dame Sandra Burslem, endorsed a report on the effectiveness and efficiency of HEFCE carried out by Oakleigh Consulting and produced a commentary ('Independent Review Group review of the effectiveness and efficiency of HEFCE: final report', HEFCE 2010/07). The report concluded that we are a high-performing organisation that has the confidence of the higher education sector and the Government, and provides good value for money to the taxpayer. We were found to be effective in delivering our core functions and efficient both in the use of our own resources and in the processes we administer for funding universities and colleges. The review also identified significant challenges that we and universities and colleges would face in the future. We have responded to recommendations in the report and commentary.

Sustainability report for 2010-11

We have gathered environmental performance annual data for the past nine years; they will be published in greater detail in our annual Corporate Social Responsibility (CSR) report. Our governance processes for management of sustainability performance follow HM Treasury draft guidance on sustainability reporting in the public sector.

In addition to the proposed minimum reporting requirements (scopes 1 and 2[16]) of emissions, waste and finite resource consumption, we also report on scope 3 emissions arising from all business travel which is under our budgetary control. Our reporting policy follows the spirit of the Prince's Trust 'Connected Reporting Framework' whose principle is that sustainability and more conventional financial information should be represented together in a clear and concise manner. In this, the second year of our annual sustainability report we are including data on only non-financial CSR indicators.

Our analysis of quantitative performance data follows DEFRA reporting guidelines. Our targets are aligned with those set out in Sustainable Operations on the Government Estate. We have also set our own annual milestones to measure interim performance against these targets.

There is no strategic plan key performance target for our environmental performance; however we use the same quarterly progress assessment system as for our strategic aims (see page 56 of this report). A CSR Steering Group oversees all aspects of our sustainability management and reporting, and the quality of data and data processes are subject to a triennial review. The next review will take place in 2011-12.

[16] See footnote 8.

Greenhouse gas emissions

Our target is to reduce our scope 1 and 2 emissions this year by 12.5 per cent against our baseline year of 2002-03. Emissions had reduced in the five years to 2009-10, but in 2010-11 they increased and are now 7 per cent above the baseline. This is explained below. We have set a target to reduce business travel emissions by 5 per cent this year against our baseline year of 2002-03. We have made significant progress in reducing emissions in the last eight years to 43 per cent below baseline, through reductions in car and air travel. The target has therefore been met.

Greenhouse gas emissions

tonne CO_2	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Total gross emissions* for scopes 1 and 2	390	387	346	355	351	374
Gross emissions attributable to scope 3, business travel	263	262	256	246	165	139
Total emissions	**653**	**649**	**602**	**601**	**516**	**513**

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

Greenhouse gas emissions: graphical analysis

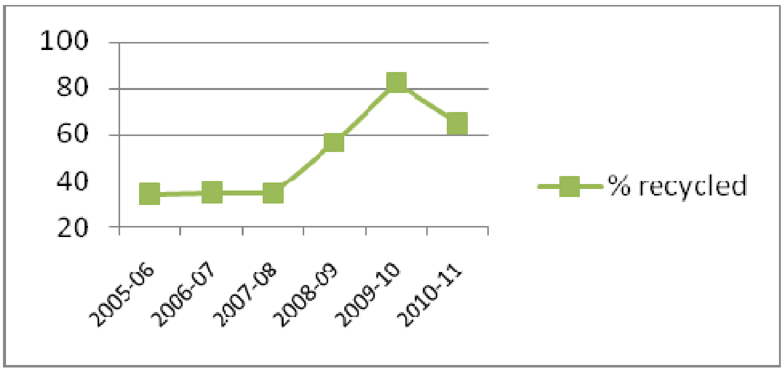
Waste

Our waste targets are to reduce our total waste this year by 5 per cent, and to increase the proportion of our total waste which is recycled to 60 per cent, compared to our baseline year of 2004-05. We have made progress towards these targets in the last six years. Although landfill waste increased compared to 2009-10, total waste decreased and was 39 per cent below baseline. Waste recycled was 65 per cent of the total, indicating that the targets have been met.

Waste

Tonne	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Total waste	58.3	50.1	49.8	53.9	33.1	31.4
Waste to landfill*	38.3	32.6	32.5	23.4	6.0	11.0
Waste recycled at source	20.0	17.5	17.3	30.5	27.1	20.5
Percent total waste recycled at source	34	35	35	57	82	65

Waste: graphical analysis



Finite resource consumption

Our water and energy consumption report combines available data for our main Bristol office and our second office in Centre Point, London. We gather accurate data on gas and electricity consumption for both sites, but the minor contribution made by water and heating oil consumption at Centre Point is currently based on data estimates supplied by the landlord.

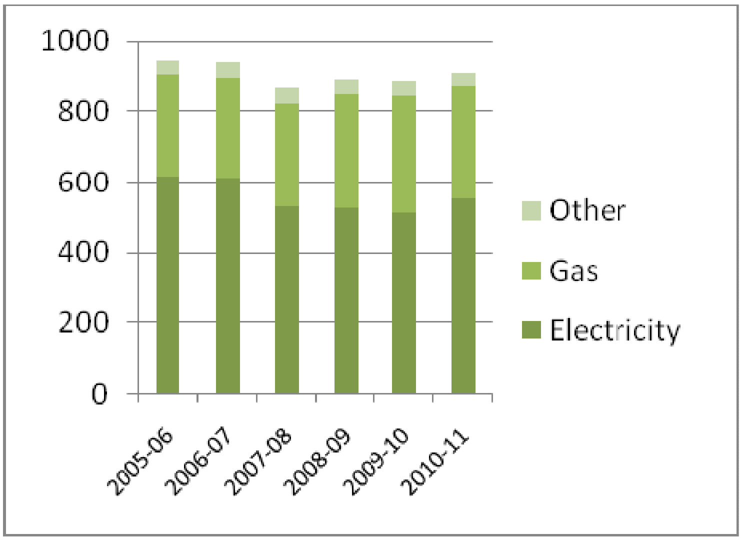
We adopted a target to reduce water consumption by 70 per cent by this year compared to the baseline year of 2004-05. Measures to conserve water and reduce leakage on our premises resulted in major improvements over the baseline in the first three years. Since 2006-07 we have not achieved further savings in our use of water, but consumption is 61 per cent below baseline.

We have a target to increase energy efficiency per m^2 office floor space this year by 15 per cent over the baseline year of 2002-03. Our office energy consumption is currently 3 per cent above the baseline. The baseline year represented a low point in consumption, but this is partly due to improvements since 2002-03 in the accuracy of data. Energy consumption has decreased by 3.8 per cent when compared to 2005-06, but in the last four years there has been an upward trend arising from a combination of factors. We have taken steps to control an increase in gas consumption since 2006-07 which have begun to take effect. However electricity use, which had reduced over a number of years, increased significantly in 2010-11 and this is being investigated.

Finite resource consumption

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**
metre^3						
Water	14.2	6.2	6.1	5.4	6.8	6.9
megawatt-h						
Electricity	616	612	531	527	513	552
Gas	290	286	292	321	329	318
Other*	43	43	43	43	43	43
Total energy	**949**	**941**	**866**	**891**	**885**	**913**

Finite resource consumption: graphical analysis



Accounting policies for non-financial data

Our policy is to restate data for prior years where there have been significant changes in accounting assumptions or improvements in accuracy in primary data and changes to conversion factors. In 2010-11 we restated our waste and scope 3 emissions data for the previous year.

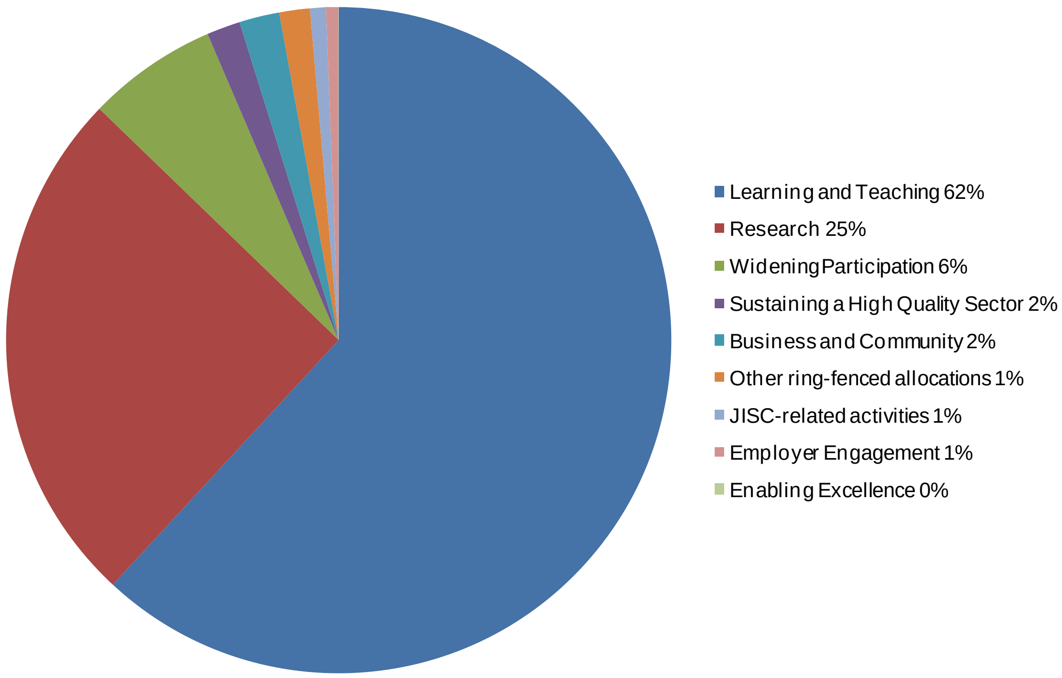
Total greenhouse gas emissions (GHGE) are calculated following guidance published by the Department for the Environment and Rural Affairs, using current conversion factors for the reporting year and conversion factors applicable in the baseline year where different. Grid rolling averages are used to calculate GHGE from electricity consumption data. There is no agreed level of data materiality. The CSR Steering Group aims to increase data accuracy and reduce assumptions every year. All our data assumptions are declared. In 2010-11 we applied assumptions to our energy, waste and business travel primary data leading to estimated accounting error margins of less than 10 per cent. These arise from cost proxy estimates on 30 per cent of our business travel emissions, sample estimates on our landfill waste disposal and estimates of water and heating oil consumption at our London office.

Financial results for 2010-11

Funding and expenditure in year

In delivering the strategic objectives outlined in the previous pages, HEFCE's total income for 2010-11 was £16 million (*2009-10: £19 million*). This figure does not include grant in aid received from BIS, since in accounting terms this is treated as financing (and taken directly to the balance sheet) rather than income. In 2010-11 HEFCE received a total of £7,515 million of grant and grant in aid (*2009-10: £7,955 million*).

Total expenditure in year was £7,498 million (2009-10*: £7,891 million*). Of this £7,481 million *(2009-10: £7,873 million)* relates to grants payable to institutions and others, paid under our strategic aims as follows:



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

In addition to the core/block grant, special funding and earmarked capital is provided for specific purposes and to promote change that cannot easily be achieved through other routes. We have taken steps to ensure that most of our earmarked capital is allocated by formula, and to rationalise the number of special funding programmes wherever possible and where this does not impact on outcomes in the sector. For 2010-11, the total allocated as special funding has decreased year-on-year and we now distribute less than 5 per cent of total grant in this way.

Savings and efficiency

We continue to seek value for money from the cost of delivering our activities and have achieved real-terms savings over recent years. This has included delivering £2 million of savings in the current financial year in our overall administration costs (across programmes and running costs). These savings have been achieved through: reductions in staff numbers achieved through natural turnover and reduced emphasis on lower-priority activity; substantially lower recruitment costs; a pay freeze for all staff earning more than £21,000; tighter cost controls; reduced investment in property; commissioning fewer policy development reports; reductions in JISC communications spend; and reductions in the administrative costs relating to specific aspects of our procurement, shared services and access and widening participation activity.

We have now received confirmation of our administrative cost budget for 2011-12 with indicative figures for the following three years. For 2011-12 our administrative budget represents a further 3.6 per cent real-terms reduction, and by 2014-15 the indicative figure represents real-terms savings of 16 per cent over the four years 2011-12 to 2014-15, so contributing to BIS' planning reduction in overall administrative costs over these years. We believe that continued emphasis on the actions we have in hand already to manage our costs should be sufficient to operate within these budgets.

Balances at year end

Each year HEFCE aims to distribute all funding received within that year. Our Financial Memorandum (FM) with BIS recognises that it may not always be possible to match receipts and payments exactly within year, and allows a cash carry-forward of up to 2 per cent of total grant in aid received. At 31 March 2011 our cash balance was £57 million *(£53 million in 2010*). The increase in cash balance reflects a movement in working capital.

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

Payment of creditors

We are fully committed to the prompt payment of suppliers and aim to pay all valid invoices as soon as possible. We support the Better Payment Practice Code (see www.payontime.co.uk/companies) which targets payment within 30 days, and monitor our performance in-year against this target. In 2010-11 we met this target for 98 per cent of invoices (*2009-10: 99 per cent*).

At year end our trade payables balance (that is to say, the amount owing to our suppliers) was £0.1 million. Comparing this balance with the aggregate amount invoiced by suppliers in year (£19.8 million) and expressing this as a number of days gives an indication of the average time we take to pay our bills: for the year ended 31 March 2011 our figure for 'creditor days' was 2.4.

In 2008 as a direct response to the risk of business failure arising from late payment, the Prime Minister committed all government departments to pay suppliers as soon as possible, and within 10 days. Following this, non-departmental public bodies (NDPBs) were asked to examine and review existing payment practices and performance, and to sustain or move as closely as possible to the 10-day payment commitment set for government departments wherever practical. HEFCE's performance against this new prompt payment target is currently 86 per cent (increased from 82 per cent in 2010 and 74 per cent in 2009). During 2011-12 we will look to sustain and improve on this performance, with the aim of moving towards a five-day payment target (currently 67 per cent), balancing this against the impact on our resources and the need to maintain effective internal controls.

Preparation of the annual report and accounts

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

The annual report and accounts were scrutinised by the Audit Committee on 26 April 2011 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2010-11. The Audit Committee is a standing committee of the HEFCE Board. It advises the Board and the Chief Executive as the Accounting Officer. The Committee's membership, including its chair, is appointed by the Board and consists of members with no executive responsibility for management of HEFCE or its funding activities. Membership is as follows.

Chair

Rob Douglas, CBE* Business Advisor, Douglas Associates Limited

Members

Professor Madeleine Atkins* Vice-Chancellor, University of Coventry

Stephen Dexter Former Partner, Grant Thornton UK LLP

Margaret Pratt Freelance consultant

Kathleen Tattersall, OBE Chair, University of Manchester Audit Committee

Frank Toop Secretary, City University

Alison Woodhams Director of Finance, University College London

* Audit Committee members who are also HEFCE Board members

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

The duties of the Audit Committee are to:

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

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

- Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector.

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

- The effectiveness of risk management in HEFCE and in the HE sector.
- The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
- The scope and effectiveness of the work carried out by HEFCE's Assurance Service. This will include planning, operation and follow-up work, and the Assurance Service annual report.
- The criteria for the selection and appointment of HEFCE's internal audit service, including assessing the adequacy of the resources available for the work required.
- Any reports from the National Audit Office and the BIS Audit Service, including the response to any management letters.
- The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
- The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

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

External audit information

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

Audit of the accounts

The Comptroller and Auditor General is the appointed statutory auditor of HEFCE's account. The audit fee for the financial year 2010-11 is £60,000. There was no other work for which a fee was payable.

Going concern

The balance sheet at 31 March 2011 shows net liabilities of £67 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grants-in-aid from HEFCE's sponsoring department, BIS. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need. Recurrent and capital resources for 2011-12, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in the department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the department's future sponsoring and future parliamentary approval will not be forthcoming. It is therefore appropriate to prepare these accounts on the 'going-concern' basis.

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

3 May 2011

Remuneration report

Part one (unaudited)

Remuneration Committee

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

Tim Melville-Ross CBE, HEFCE Chair and Chair of the Remuneration Committee
Dame Patricia Hodgson HEFCE Board member
Ed Smith HEFCE Board member
The Chief Executive normally attends meetings.

The terms of reference for the Remuneration Committee are to:

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

These terms of reference will be reviewed in 2011-12.

Remuneration arrangements

The Chief Executive's salary and non-consolidated performance pay are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Committee.

The aim is to enable us to recruit, retain and motivate a highly talented and experienced person who is capable of fulfilling the role. Normally, salary reviews take account of market pay data and the Government's decisions on the recommendations of the Senior Salaries Review Body. However, in 2010-11 Chief Executives of NDPBs were subject to a pay freeze. The level of non-consolidated performance pay (up to a maximum of 10 per cent of basic salary) relates to achievement of the Chief Executive's agreed objectives and is paid in the following financial year. In 2009-10, Sir Alan Langlands requested that no non-consolidated performance pay was paid to him. Non-consolidated performance pay for all staff was limited to 5 per cent of the total pay bill.

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

Normally, the Committee reviews the basic salary for each postholder, taking account of advice from the Chief Executive based on:

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

However, in 2010-11 these postholders (and all staff at HEFCE earning more than £21,000) were also subject to a pay freeze.

The assessment of individual and collective performance for the purpose of determining non-consolidated performance pay for 2010-11 took account of delivery of objectives, feedback from third parties, 360-degree feedback, and a self-assessment by the individual.

Contracts

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Business, Innovation and Skills. Sir Alan Langlands was appointed for a five-year term which began in April 2009 and his contract stipulates a 12-month notice period. Contracts for directors are open-ended and their notice period is six months.

Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination..

Membership of the Board

The Board consists of 12 to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, our Board members are appointed by the Secretary of State usually for a period of three years. They are appointed on the basis of their expertise in education, or their experience in industry or the professions. Candidates are identified by the Department, in consultation with us, mainly from responses to advertisements placed by the BIS in the national and educational press. Members can be reappointed subject to appraisal by the Chair.

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

Part two (audited)

HEFCE Chair

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

The total salary for **Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2011, was £47,350 *(2009-10: £47,350)*. He elected for his salary to be paid to a registered charity.

HEFCE Chief Executive

The Chief Executive's salary and non-consolidated performance bonus are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Remuneration Committee as described above.

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

Chief Executive's remuneration

		Year ended 31 March 2011 £	Year ended 31 March 2010 £
Salary paid in year	a	**230,000**	230,000
Taxable benefits	b	**3,295**	4,480
Employer's pension contributions	c	**36,800**	34,500
		272,800	268,980

a Sir Alan Langlands requested that no non-consolidated performance pay was paid to him for 2009-10 (this would normally be reflected in the most recent figure). Non-consolidated performance pay for 2010-11 is not determined until after year-end and is not included here.
b Taxable benefits in kind paid in 2010-11 relate to occasional provision of overnight accommodation in Bristol and travel to HEFCE's Bristol office (assessed for tax purposes as the permanent workplace).
c Sir Alan Langlands is a member of the Universities Superannuation Scheme.

Board members' remuneration

	Year ended 31 March 2011 £		Year ended 31 March 2010 £
Professor Madeleine Atkins (from October 2009)	**5,000**	*	2,083
Alastair Balls CB	**5,000**		5,000
Rob Douglas CBE	**5,000**		5,000
Professor Ruth Farwell (from October 2009)	**5,000**		2,083
Professor Malcolm Grant CBE	**5,000**	*	5,000
Dame Patricia Hodgson	**5,000**		5,000
Sir Paul Judge (to March 2010)	**-**		5,000
René Olivieri	**4,583**	*	5,000
Professor Shirley Pearce CBE (from December 2009)	**5,000**	*	1,667
Professor Sir Peter Rubin (to August 2009)	**-**		2,083
Anil Ruia OBE (from June 2010)	**4,167**		-
Ed Smith	**5,000**		5,000
Ann Tate CBE (to August 2009)	**-**		2,083
Professor Paul Wellings	**5,000**		5,000
John Widdowson CBE	**5,000**	*	5,000
Professor Dianne Willcocks CBE (to November 2009)	**-**		3,333
Professor Sir Tim Wilson	**5,000**		5,000
	63,750		63,332

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

Senior employees salaries and non-consolidated performance pay ('bonus')						
	Year ended 31 March 2011			Year ended 31 March 2010		
	£000			£000		
	Salary	**Bonus**		Salary	Bonus	
Sir Alan Langlands, Chief Executive	**230-235**	**-**		230-235	-	
Professor David Eastwood, Chief Executive (to March 2009)	**-**	**-**		-	15-20	*a*
Steve Egan, Deputy Chief Executive and Director – Finance and Corporate Resources	**120-125**	**5-10**		120-125	10-15	
Heather Fry, Director – Education and Participation	**100-105**	**0-5**	*b*	-	-	
John Selby, Director – Education and Participation (to April 2010)	**-**	**-**		105-110	5-10	*c*
David Sweeney, Director – Research, Innovation and Skills	**110-115**	**5-10**		110-115	5-10	

Non-consolidated performance pay relates to performance in the previous financial year as it is not determined until after year-end.

a Paid to David Eastwood in June 2009 but relating to performance in financial year 2008-09.

b Heather Fry took up her Director post on 23 April 2010. Her non-consolidated performance pay relates to her previous role and salary.

c John Selby's retirement date meant that he was not entitled to non-consolidated performance pay for the financial year 2009-10.

The remuneration shown includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the directors received any taxable benefits during the financial year 2010-11.

There were no exit packages paid to senior HEFCE employees in the financial year 2010-11.

Senior employees pensions	Accrued pension at pension age as at 31 March 2011 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2011 £000	CETV at 31 March 2010* or start date £000	Real increase in CETV £000
Sir Alan Langlands, Chief Executive					
Pension	**20-25**	0-2.5	**522**	379	111
Lump sum	**65-70**	5-7.5			
Steve Egan, Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	**50-55**	0-2.5	**937**	868	0
Lump sum	**150-155**	0-2.5			
Heather Fry, Director – Education and Participation					
Pension	**30-35**	10-12.5	**771**	484	259
Lump sum	**95-100**	30-32.5			
David Sweeney, Director – Research Innovation and Skills					
Pension	**50-55**	0-2.5	**1,175**	1,008	115
Lump sum	**160-165**	5-7.5			

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

Civil service pensions

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

For 2010-11, employers' contributions were payable at one of four rates in the range of 16.7 per cent to 24.3 per cent *(2009-10: 16.7 per cent to 24.3 per cent)* of pensionable pay based on salary bands. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay, and contribute a further 0.8 per cent of pensionable pay to PCSPS to cover the cost of centrally-provided risk benefits (death in service and ill health retirement). As at 31 March 2011 eight HEFCE employees had a partnership pension account *(2010:five employees)*. Contributions due to partnership providers for 2010-11 were £10,527 *(2010: £6,160)*.

Universities Superannuation Scheme

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

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

Cash Equivalent Transfer Value

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

Real increase in CETV

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

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

3 May 2011

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

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the Secretary of State for Business, Innovation and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the annual accounts.
- Prepare the annual accounts on a going concern basis.

The Accounting Officer for the Department for Business, Innovation and Skills has designated the Chief Executive as the Accounting Officer for HEFCE. The responsibilities of an Accounting Officer – including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HEFCE's assets – are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by HM Treasury and published in 'Managing Public Money'.

Statement by the Chief Executive on internal control

Scope of responsibility

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

Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council's strategic aims, policies and objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. The system of internal control has been in place in the Council for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

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

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

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

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

Against HEFCE's strategic aims as set out in our 2006-11 strategic plan, we have identified 27 strategic risks. Risks are allocated to either myself, the Deputy Chief Executive and Director (Finance and Corporate Resources), or one of the two other directors. Responsibility is shared between us for the risk that we fail to secure sufficient public funds to deliver our strategic aims. Assurance relating to these responsibilities is provided to me by each director in an annual risk management statement. These statements refer to the strategic risks that they have been responsible for managing, along with any other responsibilities that contribute to our risk management and internal control system (specifically including responsibilities relating to regions, HEIs, related bodies and key business processes).

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

The risk and control framework

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

Central to this policy is the clear relationship between our strategic risks and the achievement of our strategic objectives. We originally identified 21 strategic risks during the development of our 2006-11 strategic plan. We have since added six risks and modified others, so that there are now 27 strategic risks – these have not been changed during 2010-11. All our risks relate to the strategic aims identified in the plan. The monitoring of these strategic risks is fully embedded in the process to monitor our operational performance and the associated reports. These reports, which go to the HEFCE Executive and the Board, provide risk scores for all of the strategic risks: they highlight and provide comment on 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 monitoring system also supports the identification of new and changing risks. The risk register was reviewed as a whole as part of the 2009 annual update of the strategic plan, and consideration of emerging risks in the changing environment for higher education has occurred internally in 2010-11.

Our strategic plan for the period 2006-11 was published in March 2006 and was last updated in June 2009. The development of a new plan was deferred in 2008-09 in view of the then Government's plans to publish a 10-15 year framework for HE. Following the 2010 general election, the new Government has radically changed the way higher education will be funded in future. We provided advice and support to both the Browne review of student finance and funding and the Government during the year. As a result of the changes to HE funding announced during the year, we further deferred the development of our formal strategy. We are currently exploring the scope for making a strategic statement, outlining our view of the role of English higher education in the world and the role of HEFCE, in advance of a possible White Paper. Our preparation of such a statement will depend on how confident we are that it can be meaningful without pre-empting the government's own policy positions. We continue to provide advice and information to inform the planned HE White Paper expected later in 2011. As part of our planning process, a transition plan incorporating a number of 'transitional risks' was approved by the Board in December 2010. This work will continue in light of the changes the Government makes, and plans to make, to our role as a funder of higher education. Our mission statement remains unchanged.

Review of effectiveness

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

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

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

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

During the year, our control systems (which cover our internal controls and the risk management system for institutions and related bodies) have identified a small number of issues that required specific actions to manage the associated risks. Where significant, these issues are recorded in the individual assurance statements referred to above and are not indicative of significant weaknesses in our internal controls that warrant disclosure here. We are aware that the Government may wish to implement changes to our remit in the future; if so, there may be an impact on the design and operation of our internal control system.

The most significant other issues and developments connected to our internal control system arising during 2010-11 are as follows:

i. HEFCE's capacity and capability to continue to perform as an effective organisation which meets the expectations of its stakeholders is put at some risk by the constraints imposed on administration costs (11 per cent - £2m – reduction in 2010-11 and indicative real-terms savings of 16 per cent over the four years 2011-12 to 2014-15) and the impact of other Government spending controls. These incorporate a requirement to minimise consultancy, ICT, facilities management and marketing expenditure, and to minimise staff costs, including a pay freeze. For example, we are unable to replace non front-line staff who leave us by recruiting from outside the civil service without the approval of the Secretary of State. Inevitably, this affects our ability to seek staff from the widest talent pool and manage our resources and internal control system in the most efficient way possible. These controls impact on several activities and we have concerns about the cumulative effect on our organisational performance.

ii. In order to confirm that all HEIs were following our funding rules, and in order to ensure fairness of funding, we successfully completed an accelerated programme of data audits of HEIs' student number returns during 2010. We can now be more assured that HEIs are following our funding rules, and we will continue to test the reliability of HEIs returns through a risk based approach to data assurance.

iii. On 1 June 2010 we became the principal regulator of the English HEIs that are exempt charities. Our new statutory duty is to '*'promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity'.* In response, we have put in place appropriate systems and processes designed to meet this obligation. With good co-operation from the affected HEIs and having established a good relationship with the Charity Commission, we have satisfactorily fulfilled our new responsibilities in 2010-11.

iv. HEFCE is the largest funder of the Joint Information Systems Committee (JISC, www.jisc.ac.uk). During 2010-11, working with all of JISC's funders, the HEFCE Board commissioned a review of JISC, the report of which is published on the HEFCE web-site (publication 2011/04). The Review Group, chaired by Professor Sir Alan Wilson, was impressed by the range of evidence demonstrating the success of JISC over many years. The review made a number of recommendations connected to JISC's structure and operations, including that JISC should become a separate legal entity from HEFCE, which hosts the JISC executive. These recommendations will take some time to implement. There have been no significant internal control or risk implications arising from this work for HEFCE in 2010-11. We will work with JISC and its many stakeholders to implement the recommendations throughout 2011-12 and beyond, to help ensure a successful transfer to a separate legal entity that is able to meet the challenges posed by the review.

v. We continue to develop our information security and assurance arrangements in response to the issue of the HMG Security Policy Framework by the Cabinet Office. However, the pace of our work has significantly slowed down as a result of the previous postholder leaving us in September 2010 and this position not being filled in light of the recruitment controls. Our work and annual return in this area has been reviewed by internal audit. Progress with this work is also reported to our Audit Committee annually, which has its own obligations connected to this area of work. We have experienced no reportable losses of personal data in this period.

vi. Our Board and Audit Committee regularly receive information about the effects of the current economic climate on the HE sector and our response to this. This information includes reports on our institutional risk system, which is the process by which we assess and monitor the overall risk profile of each HE institution, and, where appropriate, implement support strategies to secure recovery. The system evolves in response to the changing risk environment. The current environment is now more challenging for institutions, particularly because of financial pressures, including reductions in public funding. The Assurance and Institutional Risk Team continues to use and refine a modelling tool to help us identify institutions whose financial risks are likely to be most severely affected by changes in funding. The number of institutions in financial difficulty could potentially rise over the medium term and for some of those the difficulties may potentially threaten institutional sustainability. This means that the demands on our assurance staff could increase because of the need to effectively monitor the changing position and support recovery. We currently anticipate that the demands will be manageable, but we are keeping under review the roles, responsibilities and workloads of our assurance and institutional risk team. In March 2011, we received the NAO VFM report on 'Regulating financial sustainability in higher education'. Among its conclusions, the NAO report stated that HEFCE 'is operating a cost-efficient approach to regulating financial sustainability' and 'has delivered value for money'. I gave evidence at the subsequent hearing of the Public Accounts Committee on 30 March 2011. The recommendations in the NAO report will be followed through in the context of the Government's emergent proposals on the future regulatory framework for higher education.

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

To my knowledge, and based on the advice I have received from those assigned responsibility for managing risks and the risk system, and other sources of assurance, and subject to the matters referred to above, I am not aware of any significant internal control problems for 2010-11.

Sir Alan Langlands

Chief Executive and Accounting Officer

Higher Education Funding Council for England

3 May 2011

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

I certify that I have audited the financial statements of the Higher Education Funding Council for England (HEFCE) for the year ended 31 March 2011 under the Further and Higher Education Act 1992. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

As explained more fully in the Statement of HEFCE's and the Chief Executive's Responsibilities**,** the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Further and Higher Education Act 1992. I conducted my audit in accordance with the International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to HEFCE's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HEFCE; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2011 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State under the Further and Higher Education Act 1992; and
- the information given in the sections entitled Management commentary, Financial results for 2010-11 and Preparation of the annual report and accounts within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
9 May 2011

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Note	**Year ended 31 March 2011 £000**	Year ended 31 March 2010 £000
Expenditure			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	*3*	**7,337,057**	7,773,741
Other ring-fenced allocations	*3*	**112,696**	80,608
Changes in provision	*13*	**30,904**	18,309
		7,480,657	7,872,658
Council administration costs			
Staff costs	*4*	**12,361**	11,992
Other administration	*5*	**5,408**	6,491
Depreciation	*7*	**30**	65
Changes in provision	*13*	**3**	12
		17,802	18,560
Total expenditure		**7,498,459**	7,891,218
Income	*8*	**(15,809)**	(19,327)
Net expenditure for the year transferred to general reserve		**7,482,650**	7,871,891

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

The notes on pages 90 to 112 form part of these accounts.

Statement of Financial Position as at 31 March 2011

	Note	**As at 31 March 2011 £000**	As at 31 March 2010 £000
Non-current assets			
Property, plant and equipment	*7*	**42**	42
Recoverable grants falling due after one year	*10a*	**38,992**	39,110
Trade and other receivables due after one year	*10b*	**33,179**	40,028
		72,213	79,180
Current assets			
Recoverable grants falling due within one year	*10a*	**7,642**	1,580
Trade and other receivables due within one year	*10b*	**67,322**	30,202
Cash and cash equivalents	*11*	**57,522**	53,435
		132,486	85,217
Total assets		**204,699**	164,397
Current liabilities			
Trade and other payables	*12*	**(9,094)**	(2,206)
Provisions for liabilities and charges within one year	*13*	**(28,708)**	(27,081)
Non-current assets plus net current assets		**166,897**	135,110
Non-current liabilities			
Provisions for liabilities and charges after one year	*13*	**(233,979)**	(256,220)
Assets less liabilities		**(67,082)**	(121,110)
Taxpayers' equity		**(67,082)**	(121,110)
		(67,082)	(121,110)

The financial statements on pages 86 to 89 were approved by the Board on 3 May 2011 and were signed on its behalf by;

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

The notes on pages 90 to 112 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2011

	Note	**Year ended 31 March 2011 £000**	Year ended 31 March 2010 £000
Cash flows from operating activities			
Net expenditure before interest		**(7,482,650)**	(7,871,891)
Depreciation and revaluation	*7*	**38**	65
Increase in receivables and recoverable grants	*10*	**(36,215)**	(741)
Increase/(Decrease) in payables	*12*	**6,888**	(24,784)
Payment from provisions	*13*	**(30,572)**	(30,838)
Movement in provisions	*13*	**31,357**	18,863
Net cash outflow from operating activities		**(7,511,154)**	(7,909,326)
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	**(32)**	(47)
Cash flows from financing activities			
Grants from parent department	*2*	**7,515,273**	7,955,120
Net increase in cash for the year		**4,087**	45,747
Net financing			
Cash and cash equivalents at the beginning of the period	*11*	**53,435**	7,688
Net increase in cash and cash equivalents in the period	*11*	**4,087**	45,747
Cash and cash equivalents at the end of the period		**57,522**	53,435

The notes on pages 90 to 112 form part of these accounts.

Statement of Changes in Taxpayers Equity for the year ended 31 March 2011

	As at 31 March 2011 £000	As at 31 March 2010 £000
Programmes		
Balance as at 1 April	**(116,909)**	(179,233)
Grant from parent department	**7,387,790**	7,857,754
Net expenditure for the year	**(7,352,711)**	(7,773,244)
Decrease/(increase) in provision	**21,399**	(22,186)
Balance as at 31 March	**(60,431)**	(116,909)
Other ring-fenced allocations		
Balance as at 1 April	**(4,268)**	(3,024)
Grant from parent department	**110,000**	79,364
Net expenditure for the year	**(112,696)**	(80,608)
Balance as at 31 March	**(6,964)**	(4,268)
Administration costs		
Balance as at 1 April	**59**	96
Grant from parent department	**17,483**	18,002
Net expenditure for the year	**(17,243)**	(18,039)
Balance as at 31 March	**299**	59
Revaluation reserve		
Balance as at 1 April	**8**	0
Revaluation in year	**(2)**	8
Balance as at 31 March	**6**	8
Total		
Balance as at 1 April	**(121,110)**	(182,161)
Grant from parent department	**7,515,273**	7,955,120
Net expenditure transferred in year	**(7,482,650)**	(7,871,891)
Decrease/(Increase) in provision	**21,399**	(22,186)
Revaluation reserve	**6**	8
Balance as at 31 March	**(67,082)**	(121,110)

1 Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Removal of cost of capital charge

As part of the HM Treasury's Clear Line of Sight project the cost of capital charge will no longer need to be reported in an entity's annual report and accounts. In response to this HEFCE will no longer be showing a notional costs note. It will also no longer be showing these costs on the face of its statement of comprehensive net expenditure.

This is to make reporting simpler and easier to understand.

For the financial years 2009-10 and 2010-11 this adjustment has no effect on the statement of comprehensive net expenditure as it was charged and reversed, and therefore the net expenditure for the year transferred to general reserve is unaffected.

Accounting convention

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

Consolidation

HEFCE contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the Higher Education (HE) sector as a whole, rather than with the intention of making a long-term investment. A full list of related bodies is given in note 15 of the accounts.

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

For the financial year ended 31 March 2011 HEFCE considers that where related bodies do meet the criteria for a subsidiary, joint venture or associate under IFRS, none are accounted for as such on the basis of materiality.

Going concern

The statement of financial position at 31 March 2011 shows net liabilities of £67 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future funding from HEFCE's sponsoring department, the Department for Business, Innovation and Skills (BIS). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Funding for 2011-12, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

Financial instruments

IFRS 7 and International Accounting Standards (IAS) 32 and 39 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure. As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity or interest rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

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

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

Grants from the Department for Business, Innovation and Skills

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

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

Income

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

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

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

Leases

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

Non current assets

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

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

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

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

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

Payment of grants

<u>Grants</u>

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

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

<u>Recoverable grants</u>

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

Pensions

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

Provisions for liabilities and charges

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

Segmental reporting

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

Staff costs and secondments

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

Taxation

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

IFRS issued but not effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. As at 31 March 2011 the following IFRS, none of which will be applicable to HEFCE's annual accounts, have been issued but are not effective:

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

IFRS 1 First-time adoption - revised and restructured but no change to substance - issued May 2010 effective 1 January 2011.

IFRS 7 Financial Instruments: Disclosures - strengthened in response to credit crisis - issued October 2010 effective 1 July 2011.

IAS 1 Presentation of Financial Statements - minor amendments - issued May 2010 effective 1 January 2011

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

1a Significant judgements

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

In particular, the provision for Inherited Staff Liabilities is, by its very nature, an estimation. The value of the provision is derived from an actuarial valuation of a sample of the underlying population, and is updated periodically to include movements in mortality and discount rates. Note 13 to the accounts gives further details of the provision and our assumptions.

The other area of significant judgement is in the recognition of programme holdback as pre-paid grant. This relates to adjustments to payment of grant funding to HEIs where student numbers fall outside a standard percentage threshold. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Further details are given in Note 1 (Accounting Policies) and Note 10b Trade and other receivables).

HEFCE has powers under the Further and Higher Education Act 1992 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met. In exercising these powers the Board may in some cases decide not to seek recoveries from institutions for periods prior to a certain year. In such cases the decision is taken on an individual basis with due regard to the overall financial position of the institution and the circumstances giving rise to a potential recovery.

2 HM Government grants received

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**6,855,808**	6,703,232
Grant in aid for capital expenditure in HE	**531,982**	1,154,522
	7,387,790	7,857,754
Other ring-fenced allocations		
Grant for Access to Learning Funds	**40,000**	44,928
Grant for ITT bursaries	**8,000**	11,936
Grant for voluntary giving	**62,000**	22,500
	110,000	79,364
Running costs		
Grant in aid from BIS for HEFCE running costs	**17,483**	18,002
Total grant and grant in aid received	**7,515,273**	7,955,120

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

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

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

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

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

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Recurrent grant [a]		
Learning and teaching	**4,396,663**	4,241,401
Widening participation	**411,088**	385,024
Research	**1,587,086**	1,500,174
Business and community	**144,940**	130,822
	6,539,777	6,257,421
Non-recurrent grant [b]		
Learning and teaching	**212,611**	569,788
Widening participation	**60,268**	63,963
Employer engagement	**43,860**	63,548
Research	**300,394**	602,070
Sustaining a high quality sector	**121,853**	141,049
Enabling excellence	**1,647**	1,428
JISC-related activities [c]	**56,647**	74,474
	797,280	1,516,320
Total recurrent and non-recurrent grant	**7,337,057**	7,773,741
Other ring-fenced allocations [d]	**112,696**	80,608
Total grant	**7,449,753**	7,854,349

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

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

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

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

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

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

4 Staff costs

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Staff costs		
Salaries	**9,374**	9,081
National Insurance contributions	**811**	770
Pension costs	**1,915**	1,713
	12,100	11,564
Costs of employing contract, agency and temporary staff	**261**	428
	12,361	11,992

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Pension costs		
Civil Service Pensions	**1,835**	1,649
Universities Superannuation Scheme	**80**	64
	1,915	1,713

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.

During the 2010-11 finance year all staff on salaries of £21,001 and higher have been subject to a pay freeze. Staff on salaries of £21,000 and lower have had a £250 pro-rated uplift. The pay freeze is for two years. Members of staff are eligible for a non-consolidated performance-related pay related to individuals' performance against objectives. Annual settlements are awarded from 1 August each year and relate to individuals' performance in the previous financial year.

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

The Council contributes to two pension schemes, Civil Service Pensions and the Universities Superannuation Scheme (USS). There are no outstanding or prepaid contributions as at 31 March 2011. Further details of HEFCE's pensions arrangements can be found in the remuneration report on page 74.

Staff costs (continued)

	Year ended 31 March 2011 FTE	Year ended 31 March 2010 FTE
Staff numbers		
Finance and Corporate Resources Directorate	**151**	152
Education and Participation Directorate	**50**	54
Research, Innovation and Skills Directorate	**42**	41
Chief Executive support staff	**4**	4
	247	251
Average number of contract, agency and temporary staff	**9**	14
	256	265

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

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

Although the FTE for Chief Executive and Chair is excluded from the above staff numbers, their costs are included within staff costs.

5 Other administration costs

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Non-pay running costs		
Staff related and general administrative expenditure	**1,214**	1,732
Research and evaluation costs	**1,184**	1,483
Premises costs	**1,078**	1,317
Rental payments under plant and machinery operating leases	**34**	26
Rental payments under other operating leases	**1,041**	1,053
Office costs	**680**	703
Board and committee members' fees and expenses	**109**	115
Audit fee	**60**	62
Non-cash items: revaluation of IT assets	**8**	0
	5,408	6,491

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

6 Commitments under leases

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	**1,134**	1,060
Later than one year and not later than five years	**4,297**	4,441
Later than five years	**226**	881
	5,657	6,382
Other		
Not later than one year	**36**	36
Later than one year and not later than five years	**28**	64
	64	100

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

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

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

7 Property, Plant and Equipment

	Leasehold improvements £000	Furniture and fittings £000	Information Technology £000	**Total £000**
Cost or valuation				
At 1 April 2010	**16**	**18**	**178**	**212**
Revaluation	**0**	**0**	**(5)**	**(5)**
Additions	**0**	**0**	**32**	**32**
Disposals	**0**	**0**	**(124)**	**(124)**
At 31 March 2011	**16**	**18**	**81**	**115**
Depreciation				
At 1 April 2010	**16**	**3**	**151**	**170**
Charge for period	**0**	**4**	**26**	**30**
Revaluation	**0**	**0**	**(3)**	**(3)**
Disposals	**0**	**0**	**(124)**	**(124)**
At 31 March 2011	**16**	**7**	**50**	**73**
Net book value				
At 1 April 2010	**0**	**15**	**27**	**42**
At 31 March 2011	**0**	**11**	**31**	**42**
Cost or valuation				
At 1 April 2009	16	19	196	231
Revaluation	0	0	18	18
Additions	0	17	30	47
Disposals	0	(18)	(66)	(84)
At 31 March 2010	16	18	178	212
Depreciation				
At 1 April 2009	15	17	147	179
Charge for period	1	4	60	65
Revaluation	0	0	10	10
Disposals	0	(18)	(66)	(84)
At 31 March 2010	16	3	151	170
Net book value				
At 1 April 2009	1	2	49	52
At 31 March 2010	0	15	27	42

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

8 Income

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Programmes		
Income receivable from other funding councils:		
Department for Employment and Learning	**734**	1,066
Higher Education Funding Council for Wales	**784**	767
Skills Funding Agency*	**9,338**	9,338
Scottish Funding Council	**814**	820
Income from Salix Finance Limited	**1,619**	4,871
Other programme income	**1,961**	1,944
	15,250	18,806
Running costs		
Income receivable from other funding councils:		
Department for Employment and Learning	**213**	217
Higher Education Funding Council for Wales	**50**	53
Scottish Funding Council	**107**	99
Receipts from the Office for Fair Access for services provided under the service level agreement	**90**	88
Income from conferences	**32**	48
Income from other activities	**67**	16
	559	521
Total income	**15,809**	19,327

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

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

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

*The Skills Funding Agency is one of two successor bodies to the Learning and Skills Council, established from 1 April 2010.

9 Financial Instruments

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

This could imply a financial risk to HEFCE. We have reviewed the balances of our supplier contracts for the financial year to 31 March 2011. We have found no evidence of material change in the fair value of current assets/liabilities.

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

10a Recoverable grants

	As at 31 March 2011 £000	As at 31 March 2010 £000
Recoverable grants		
Balances as at 1 April	**40,690**	38,250
Advanced during the year	**12,471**	10,931
Recovered during the year	**(6,527)**	(8,491)
Balances as at 31 March	**46,634**	40,690

	As at 31 March 2011 £000	As at 31 March 2010 £000
Balances at 31 March		
Within one year	**7,642**	1,580
After one year	**38,992**	39,110
	46,634	40,690

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

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

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

As at 31 March 2011, 15 organisations *(2010: 14)* had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £40,489,748 *(2010: £35,753,043)*.

10b Trade and other receivables

	As at 31 March 2011 £000	As at 31 March 2010 £000
Receivables due within one year		
Programme prepayments	**62,143**	26,526
Programme receivables	**4,499**	3,029
Trade prepayments	**525**	450
Trade receivables	**155**	197
Staff loans	**0**	0
	67,322	30,202
Receivables due after one year		
Programme prepayments	**33,179**	40,028
	100,501	70,230
Intra-government balances		
Other central government bodies	**4,259**	2,613
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	10
Balances with other government bodies	**4,259**	2,623
Balances with non-government bodies	**96,242**	67,607
Total as per receivables' notes	**100,501**	70,230

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

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

Trade prepayments includes payments made in advance for services.

Staff loans for the purchase of bus and train season tickets 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 the ticket.

11 Cash and cash equivalents

	As at 31 March 2011 £000	As at 31 March 2010 £000
Cash		
Cash held under GBS (programmes)	**56,522**	53,048
Cash held under GBS (running costs)	**959**	332
	57,481	53,380
Cash held at other banks and in hand	**13**	27
Cash held for the European Network and Programming Group	**28**	28
	57,522	53,435

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Programme funds		
Grant received	**7,497,790**	7,857,754
2 per cent thereof	**149,956**	157,155
Balances at year end	**56,513**	53,051
Running costs		
Grant received	**17,483**	18,002
2 per cent thereof	**350**	360
Balances at year end	**981**	356

In cash terms BIS advises a working balance at 31 March of 2 per cent of the total grant in aid for the financial year. HEFCE's balances relate to timing differences in the payment of expenditure committed in 2011-12.

12 Trade and other payables

	As at 31 March 2011 £000	As at 31 March 2010 £000
Amounts falling due within one year		
Trade payables	**130**	131
Running cost accruals	**505**	452
Tax and social security	**19**	15
Programme payables	**8,412**	1,580
Other payables: European Network and Programming Group	**28**	28
	9,094	2,206
Intra-government balances		
Other central government bodies	**7,036**	47
Local authorities		
NHS Trusts		
Public corporations and trading funds		
Balances with other government bodies		
	7,036	47
Balances with non-government bodies	**2,058**	2,159
Total as per payables' notes	**9,094**	2,206

Trade payables refers to non-pay running cost expenditure.

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

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

Programme payables include claims received but not yet paid for capital projects where funding is granted on submission of a claim or profile.

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

13 Provisions for liabilities and charges

	Staff inherited liabilities £000	Running cost provisions £000	**Total** **£000**
Provisions			
Balance of provision at 1 April 2009	273,000	90	273,090
Provision utilised in year	(30,800)	(38)	(30,838)
Additional provision/(reversed unused)	3,017	542	3,559
Unwinding of discount	8,736	2	8,738
Increase in provision	28,742	10	28,752
Balance of provision at 31 March 2010	**282,695**	**606**	**283,301**
Provision utilised in year	(29,998)	(574)	**(30,572)**
Additional provision/(reversed unused)	498	451	**949**
Unwinding of discount	8,198	2	**8,200**
Increase in provision	809	0	**809**
Balance of provision at 31 March 2011	**262,202**	**485**	**262,687**

Analysis of change in provision due to change in discount rate

Increase in provision	25,691	0	**25,691**
Decrease due to discount rate change	(24,882)	0	**(24,882)**
	809	0	**809**

Treatment of decrease in provision due to change in discount rate

Net expenditure account	(3,483)	0	**(3,483)**
Reserves	(21,399)	0	**(21,399)**
	(24,882)	0	**(24,882)**

Analysis of expected timing of discounted flows

In the remainder of the Spending Review period to 2012	28,669	39	**28,708**
Between 2012 and 2017	111,967	442	**112,409**
Between 2018 and 2028	102,177	4	**102,181**
Thereafter	19,389	0	**19,389**
	262,202	**485**	**262,687**

13 Provisions for liabilities and charges (continued)

HEFCE has three provisions as at 31 March 2011 (2010: three), one for **inherited staff liabilities** one for **early retirement costs and** one for **dilapidation costs**.
Provisions are discounted to net present value using the appropriate HM Treasury discount rate.

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

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

HEFCE has provided for these ongoing reimbursements. As the provision estimate is based on a sample and uses various assumptions, the valuation obtained may vary from that which would be obtained if the data of all pension scheme members was made available to allow a full actuarial valuation. An independent review is undertaken periodically in order to verify the reasonableness of the provision. The latest review in 2010-11 used a larger sample than previous reviews, and recommended an increase in the provision value to reflect increases in life expectancy and changes in the assumed profile of payments, derived from the larger sample used. The increase of £25.7m following this latest review has been largely offset by the decrease in provision of £24.9m due to the change in HM Treasury's discount rate at 31 March 2011 to 2.9% (previously 1.8%).

Current assumptions mean we expect payments to continue until at least 2035.

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 2.9 per cent per annum
- mortality based on PA92 year of birth tables
- payments based on 14 per cent early retirement compensation and 86 per cent pensions
- members with early retirement compensation have an average age of 78.4 years
- members with pension compensation have an average age of 79.1 years
- membership is 79 per cent male and 21 per cent female
- benefits contain a 50 per cent spouse's pension

Running cost provisions
HEFCE has provided for **early retirement costs** relating to three members of staff (*2010 two)* .
The balance of the provision for early retirement costs as at 31 March 2011 is £165,000
(2010: £64,000). Payments will continue until 2016.

HEFCE has also provided for the **dilapidation costs** for both Northavon House and Centrepoint, in advance of both operating leases ending in 2015 and 2017 respectively.
The balance of the provision for dilapidation costs as at 31 March 2011 is £320,000.

14 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2011 £000	As at 31 March 2010 £000
Commitments		
Grant committed for the period April to July	**2,463,228**	2,748,830
Grant committed for the next academic year	**6,507,000**	7,356,000
Grant committed for subsequent academic years	**1,361,491**	44,670

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

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2011-12 academic year (HEFCE 2011/07) is available on HEFCE's web-site at www.hefce.ac.uk under Publications.

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

As at 31 March 2011 there were no contingent liabilities (2010: *nil*).

15 Payments to related bodies

	Year ended 31 March 2011 £000	Year ended 31 March 2010 £000
Related bodies		
British Universities Film and Video Council (BUFVC)	**806**	730
Equality Challenge Unit (ECU)	**1,007**	1,047
Foundation Degree Forward (FDF)	**3,204**	4,500
HERO Limited (Higher Education and Research Opportunities in the United Kingdom)	**0**	199
Higher Education Academy (HEA)	**17,600**	24,065
Higher Education Policy Institute (HEPI)	**148**	184
Higher Education Statistics Agency (HESA)	**933**	292
JISC Content Procurement Company (JCPC), trading as JISC Collections	**3,041**	5,433
JNT Association trading as JANET UK	**48,193**	47,589
Leadership Foundation for Higher Education (LFHE)	**1,116**	1,173
Quality Assurance Agency for Higher Education (QAA)	**6,253**	4,915
Research Information Network (RIN)	**713**	1,365
JISC Services Management Company, trading as JISC Advance	**10,345**	3,557
	93,359	95,049

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

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

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

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

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

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

*JISC Advance expenditure for the financial year 2009-10 was included within total JISC-related activities line as shown in note 3.

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

16 Events after the balance sheet date

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

The financial statements were signed on 3 May 2011 by Sir Alan Langlands, HEFCE Chief Executive and Accounting Officer, and were authorised for issue on 9 May 2011.

17 Related party transactions

	Year ended 31 March 2011 £000
Grant funding to institutions and other organisations	
• University of Birmingham: **Ed Smith,** Pro Chancellor and Chair of Council	**147,718**
• Buckinghamshire New University: **Professor Ruth Farwell,** Vice-Chancellor.	**23,165**
• University of Cambridge: **Dame Patricia Hodgson,** Principal of Newnham College	**223,332**
• City University: **Frank Toop*,** Secretary.	**40,988**
• Coventry University: **Professor Madeleine Atkins,** Vice-Chancellor.	**62,128**
• New College, Durham: **John Widdowson,** Principal.	**4,365**
• Goldsmiths College: **Frank Toop***, member of the Audit Committee.	**27,419**
• University of Hertfordshire: **Professor Sir Tim Wilson,** former Vice-Chancellor.	**62,086**
• Heythrop College: **Frank Toop***, Governor.	**2,866**
• University of Lancaster: **Professor Paul Wellings**, Vice-Chancellor.	**51,062**
• University College, London: **Professor Malcolm Grant**, President and Provost; and **Alison Woodhams*,** Director of Finance.	**216,184**
• London Business School: **Professor Malcolm Grant**, Governor	**7,953**
• Loughborough University: **Professor Shirley Pearce**, Vice Chancellor	**74,059**
• University of Manchester: **Kathleen Tattersall,** Chair of the Audit Committee; and **Anil Ruia**, Chair of Board of Governors.	**223,675**
• University of Newcastle: **Alastair Balls**, member of the court; and **Rob Douglas**, advisory board member of Business School.	**119,834**
• University of Northampton: **Margaret Pratt,** Governor.	**30,045**
• University of Salford: **Anil Ruia**, assembly member.	**64,147**

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

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

University West of England is regarded as a related party as they own Northavon House in Bristol. HEFCE lease this building at an annual commercial rental of £887,090. During the financial year 2010-11 University West of England received £77,113,000 of funding.

There was one material outstanding balance at the end of 31 March 2011 relating to a recoverable grant of £10m with University of Manchester.

* HEFCE Audit Committee member only.

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

	Total for year ended 31 March 2011 £000	Total for year ended 31 March 2010 £000
Learning and teaching		
Capital for learning and teaching	171,433	471,298
Higher Education Academy*	12,833	17,898
Capital for further education colleges	11,200	20,000
Quality assurance (inc QAA*)	11,001	8,050
Open education resource	2,726	5,087
Quality enhancement	2,093	20,786
Centres for excellence in teaching & learning	1,325	26,368
	212,611	569,487
Widening Participation		
Aimhigher (and associated initiatives)	60,268	63,830
	60,268	63,830
Employer Engagement		
Employer Engagement	25,212	32,171
Economic Challenge Investment Fund	15,444	26,850
Foundation degrees (inc FDF*)	3,204	4,527
	43,860	63,548
Research		
Capital for research & infrastructure	284,049	580,026
Museums, galleries and collections	10,454	10,222
Overseas Research Students Award Scheme	4,757	9,563
Research Information Network* (RIN)	713	1,365
Research Excellence Framework	421	625
	300,394	601,801
Sustaining a high quality sector		
Strategic Development Fund	76,023	108,090
UMF Shared Services	19,967	0
London	15,458	14,879
Management Development Fund	3,680	2,265
Revolving Green Fund	3,240	11,176
Leadership Foundation for Higher Education*	1,123	1,235
Equal Opportunities (funded via ECU*)	960	1,058
Procurement initiatives	572	1,490
Costing and pricing initiative	460	222
SHQS Development Fund	287	177
Higher education regional associations	238	290
Other minor or finishing initiatives	(155)	870
	121,853	141,752
Enabling Excellence		
International Initiatives	811	738
Higher Education Policy Institute*	386	437
Higher Education Statistics Agency*	450	253
	1,647	1,428
JISC-related activities		
JISC (inc BUFVC, JCPC and JANET UK*)	56,647	74,474
	56,647	74,474
Total funding for initiatives	797,280	1,516,320

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

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

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

Earmarked capital

In 2010-11 HEFCE allocated a total of £531 million for earmarked capital grants. Most of the earmarked capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund. Capital funding under these two streams for 2008 to 2011 was announced in 'Capital Investment Fund: capital for learning and teaching, research and infrastructure 2008-2011' (HEFCE 2008/04).

Special funding

HEFCE allocate a small proportion of total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through the recurrent funding methods (such as support for national facilities). In 2010-11 HEFCE allocated a total of £266 million for special funding; this is £94 million less than last year.

The comparative figure from 2009-10 for other minor or finishing initiatives has increased from £167k to £870k, as it now comprises all the various initiatives that are ending. These include; Funding Share & Structure £119k, HERO £133k, Research policy development £152k, Research Assessment Exercise £117k, Student engagement and experience £182k and other minor or finishing initiatives £167k.

Pages 114 to 115 give a brief explanation of each programme.

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

Learning and teaching

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

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

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

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

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

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

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

Widening participation

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

Employer Engagement

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

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

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

Research

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

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

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

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

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

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.

UMF Shared Services
Universities Modernisation Fund was announced by the government following the budget statement on 24 March 2010. It was set up to enable more young people to enter higher education to gain skills that the economy needs whilst also supporting institutions to increase efficiency and reduce running costs.

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

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

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

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

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

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

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

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

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

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

Enabling excellence

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

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

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

JISC-related activities

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

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