

FURTHER AND HIGHER EDUCATION ACT 1992

Accounts, prepared pursuant to Section 62 and paragraph 16 of Schedule 1 to the Further and Higher Education Act 1992, of the Higher Education Funding Council for England for the period 1 April 1999 to 31 March 2000, together with the reports of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No 698 of 1999-2000)

Presented pursuant to Act 1992, c.13, sch 1, paragraph 16(1)

Higher Education Funding Council for England Account 2000-2001

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Contents

	Page
Foreword	1
Statement of Council's and Chief Executive's responsibilities	10
Chief Executive's statement on the System of Internal Control	11
The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	13
Income and Expenditure Account	14
Statement of Total Recognised Gains and Losses	15
Balance Sheet	16
Cash Flow Statement	17
Notes to the Accounts	20
Accounts Direction given by the Secretary of State for Education and Employment	43

Foreword

Members of the Board during 2000-01

Sir Michael Checkland (Chairman)
 Sir Brian Fender CMG (Chief Executive)
 Mr Anthony Booth CBE
 Mr Stephen Bundred
 Professor Marilyn Butler (to September 2000)
 Mr Richard Coldwell (from December 2000)
 Professor Ron Cooke
 Ms Caroline Neville
 Dr David Potter CBE
 Professor Sir Gareth Roberts
 Professor Peter Scott (from December 2000)
 Ms Barbara Stephens
 Professor Sir Stewart Sutherland
 Dr John Taylor
 Ms Dorma Urwin

The Council's Role and Responsibilities

The Higher Education Funding Council for England (the Council) 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.
- To administer funds to support prescribed higher education courses in further education institutions.
- To provide the Secretary of State for Education and Employment with information relating to all aspects of higher education teaching and research, including the financial needs of the sector.
- To secure the assessment of the quality of education at institutions in receipt of Council funding.

The Council's 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.

Strategic Aims

To achieve our mission, we aim to:

- a. Develop and sustain effective partnerships with institutions, employers, other funding and professional bodies, and others with a stake in higher education, by providing clear and open information and promoting collaboration between them.
- b. Advise Government and other stakeholders on higher education's needs and aspirations, and help make widely known the achievements and opportunities offered by higher education, particularly to students.

- c. Promote and support productive interaction between HE and business and the community in order to encourage the transfer of knowledge and expertise and enhance the relevance of programmes of teaching and research to the needs of employers and the economy.
- d. Promote high standards of education so as to advance knowledge and scholarship, encourage improvement, enterprise and innovation, and enhance students' learning experiences and employment prospects.
- e. Promote high standards of research so as to advance knowledge and scholarship and encourage improvement, enterprise and innovation.
- f. Use consultation, research and benchmarking to increase knowledge and understanding of higher education, and inform policy development.
- g. Promote effective financial management, accountability for the use of public funds, and value for money.
- h. Contribute to the healthy development of higher education in this country and overseas by learning from international experience, and helping to promote the reputation of UK higher education abroad.
- i. Encourage institutions to increase access, secure equal opportunities, support lifelong learning, and maximise achievement for all who can benefit from higher education.
- j. Maintain and encourage the development of a wide variety of institutions, with a diversity of missions that build upon their local, regional, national and international strengths and are responsive to change, within a financially healthy sector.

And our organisational aim to support the above aims:

- k. Enable our staff to provide a high quality service, within an open and supportive working environment.

System of Internal Control

The Chief Executive has made a statement on the Council's internal control systems. This statement is reproduced on pages 11 and 12 of these accounts.

Preparation of Financial Statements

The Council's financial statements 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.

Financial Results for 2000-01

These accounts cover the year 1 April 2000 to 31 March 2001. The vast majority of the Council's income is from Grant-in-Aid. In 2000-01 this was £4,431,975,000 (1999-2000: £4,187,183,000). Within this sum the amount used for capital purposes (purchase of assets) was £358,000 (1999-2000: £187,000). Total income for the year was £4,452,770,000 (1999-2000: £4,191,812,000).

The Council aims to distribute the funds received each year within that year. The Financial Memorandum between the Department for Education and Employment (DfEE) and the Council recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently the Council is permitted to carry forward up to 2 per cent of the Grant-in-Aid provided for distribution to institutions and for its running costs.

The figures for 1999-2000 have been re-stated due to a prior year adjustment relating to Loans to Institutions. Previously these loans were treated as part of recurrent grant; whilst they are now disclosed separately. The value of this prior year adjustment is £2,595,000.

In addition, a provision has been recognised for the first time for inherited staff liabilities

These costs are expected to be incurred until 2025 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet for the first time as long term liabilities.

The results for 2000-01 show a deficit of £33,438,000 (1999-2000 surplus of £7,313,000, re-stated to account for Prior Year Adjustments). The deficit has been deducted from the balances carried forward at 31 March 2000, and represents a timing difference between receipt of Grant-in-Aid and the actual payments.

The accumulated deficit at 31 March 2001 was £384,895,000 (1999-2000: £351,456,000, re-stated to account for Prior Year Adjustments).

Achievements in 2000-01

During 2000-01 the Council's principal achievements, its key performance targets and its performance against these targets were as follows:

Strategic aim	2000-01 Key performance target	Achievement at 31 March 2001
<p>1 Develop and sustain effective partnerships with institutions, employers, other funding and professional bodies, and others with a stake in higher education, by providing clear and open information and promoting collaboration between them.</p>	<p>1.1 Through the customer satisfaction surveys, to review and monitor our performance to ensure that we are increasingly working in partnership and providing an effective service. To achieve a ratio of overall satisfaction compared with dissatisfaction of at least 6:1, as measured by the customer satisfaction survey.</p>	<p>An action plan has been agreed as a result of the customer satisfaction survey. Benchmarks have been set for future surveys. Our standards of service will be publicised on our web-site in June 2001. The last customer satisfaction survey was carried out in 1999-2000 and showed a ratio of 6:1. The next survey will be in April 2002.</p>

Strategic aim	2000-01 Key performance target	Achievement at 31 March 2001
<p>2 Advise Government and other stakeholders on higher education's needs and aspirations, and help make widely known the achievements and opportunities offered by higher education, particularly to students.</p>	<p>2.1 By 2001, information services for HE will be significantly improved through the launch and further development of HERO.</p>	<p>The HERO site became operational in December 2000.</p>
<p>3 Promote and support productive interaction between HE and industry and commerce in order to encourage the transfer of knowledge and expertise and enhance the relevance of programmes of teaching and research to the needs of employers and the economy.</p>	<p>3.1 At least 85 per cent of HEIs have a strategy for building their capability to develop links with industry, and begin implementation of their action plans to deliver this in 2000-01.</p> <p>3.2 All institutions to be implementing their plans for enhancing the employability of their graduates, as included in their learning and teaching strategies, in 2000-01.</p> <p>3.3 Use existing data sources to produce performance indicators for measuring student employability outcomes, to be published in 2000.</p>	<p>Over 95 per cent of HEIs have been awarded HEROBC funding. This award requires the HEI to have a strategy for developing links with industry.</p> <p>Research into teaching and learning strategies and employability completed in December 2000. Guidance based on existing good practice will be issued to institutions as part of the learning and teaching good practice guide in July 2001. Institutions continue to implement and improve their plans for enhancing the employability of graduates.</p> <p>Student employability performance indicator developed (data available on the HEFCE web-site from April 2001). HEFCE 01/21 'Indicators of employment' published in April 2001.</p>

Strategic aim	2000-01 Key performance target	Achievement at 31 March 2001
<p>4 Promote high standards of education so as to advance knowledge and scholarship, encourage improvement, enterprise and innovation, and enhance students' learning experiences and employment prospects.</p>	<p>4.1 New quality assurance framework operational in England from 2002.</p> <p>4.2 Student numbers in 2000-01 to be within 2 per cent of the Secretary of State's target.</p>	<p>Contracts for each development stage have been agreed, funded and monitored. Financial report on intensive preparatory works and reports on pilots with institutions. Agreement reached in March 2001 with Universities UK and SCOP on approach to sampling in new method.</p> <p>Recruitment in 2000-01 was within 2 per cent of the target.</p>
<p>5 Promote high standards of research so as to advance knowledge and scholarship and encourage improvement, enterprise and innovation.</p>	<p>5.1 An improvement on average between RAE 2001 and the previous exercise in 1996.</p> <p>5.2 An increase in staff in units rated 5* in the RAE in 2001.</p> <p>5.3 Improve electronic network provision to research users by enhancing the JANET backbone by 300 per cent by 2001.</p>	<p>Figures will be available in December 2001 after the submissions have been analysed.</p> <p>RAE project is on target; assisted institutions to interpret the guidance and make their submissions (April 2001). RAE data application software finalised in summer 2000. Established institution's submission intentions.</p> <p>SuperJANET 4 backbone was launched in April 2001, enhancing the backbone by 300 per cent.</p>

Strategic aim	2000-01 Key performance target	Achievement at 31 March 2001
6 Use consultation, research and benchmarking to increase knowledge and understanding of higher education, and inform policy development.	6.1 In 2000-01 to publish the second tranche of performance indicators.	The second tranche of performance indicators was published in October 2000.
7 Promote effective financial management, accountability for the use of public funds, and value for money.	<p>7.1 By 2004, 75 per cent of all the sector's estate will be classified as A or B (as new or sound, or only minor deterioration).</p> <p>7.2 Development throughout the sector of a guidance manual to assist with consistent and transparent costing methodology, by summer 2000.</p> <p>Initial reporting on total costs for teaching, research and other activities in aggregate for the sector, by summer 2001.</p> <p>Improved co-operative procurement arrangements to be in place by 2003.</p> <p>All HEIs have comprehensive equal opportunities policies and monitoring procedures in place by 2002.</p>	<p>Support has been provided to HEIs that failed with their third round poor estates bid. The fourth round of the poor estates initiative has been delivered. Estates Management Statistics data for 1998-99 shows that 64 per cent of the sector's estate is now in categories A and B.</p> <p>The guidance manual "Transparency Approach to Costing" was published in August 2000.</p> <p>Pilot universities reported on their costs for 1998-99 in July 2000 and on 1999-2000 in January 2001.</p> <p>E-procurement developed rapidly; approach confirmed by JPPSG in June 2001. E-procurement advisor being recruited.</p> <p>Equality Challenge Unit set up in January 2001. Director appointed February 2001.</p>

Strategic aim	2000-01 Key performance target	Achievement at 31 March 2001
<p>8 Contribute to the healthy development of higher education in this country and overseas by learning from international experience, and helping to promote the reputation of UK higher education abroad.</p>	<p>8.1 Establish six collaborative programmes in strategic countries involving ourselves and other appropriate national partners, by 2004.</p>	<p>Collaborative programme agreed with Indonesia. Collaborative programmes under discussion with France, Japan, Thailand and Australia. (Previously established programmes that are ongoing include Brazil, China, India, South Africa and USA).</p>
<p>9 Encourage institutions to increase access, secure equal opportunities, support lifelong learning, and maximise achievement for all who can benefit from higher education.</p>	<p>9.1 Participation by socio-economic groups currently under-represented in HE rises faster than growth in overall numbers between 1999 and 2004.</p> <p>9.2 Effective incorporation of FECs providing HE within our funding and quality assurance methods.</p>	<p>Performance indicators covering participation of under-represented groups in higher education were published in December 1999 and October 2000.</p> <p>The development fund for HE learning and teaching in FECs, has been implemented. Procedures for the quality assurance of HE in FECs developed and programme and funding will be agreed within negotiations about QAA's service level agreement for the current academic year.</p>
<p>10 Maintain and encourage the development of a wide variety of institutions, with a diversity of missions that build upon their local, regional, national and international strengths and are responsive to change, within a financially healthy sector.</p>	<p>10.1 Within eight weeks of an institution being identified as in immediate financial difficulties, to identify the problems and to agree the necessary action.</p>	<p>Achieved.</p>

Strategic aim	2000-01 Key performance target	Achievement at 31 March 2001
<p>11 Enable our staff to provide a high quality service, within an open and supportive working environment.</p>	<p>11.1 To be among the top 20 per cent of public sector organisations, as measured by the Excellence Model, by 2004.</p>	<p>Assessment against the Business Excellence Model phase 1 completed. Three improvement projects identified and in progress.</p>
	<p>11.2 All profiled grant payments paid in accordance with our published payments schedule, to 100 per cent accuracy over the planning period.</p>	<p>Achieved.</p>
	<p>11.3 98 per cent of payments to suppliers to be within 30 days' receipt of a valid invoice.</p>	<p>99 percent achieved.</p>

Arts and Humanities Research Board

The Arts and Humanities Research Board (AHRB) supports advanced research and promotes excellence in arts and humanities research. On 1 April 2001 the AHRB became a separate legal entity and was able to employ its own staff and enter into contracts from that date. Though it is no longer constitutionally a part of the Council it will continue to advise the HEFCE on the distribution of funding to institutions.

Conversion to the Single Currency

In accordance with the guidance issued by the Euro Preparations Unit of HM Treasury, the HEFCE has prepared and submitted an outline of its plans and preparations for conversion of its systems and procedures to the single European currency. This plan relates only to the Higher Education Funding Council for England and does not take into account the Higher Education sector in England.

It is anticipated that the HEFCE would be able to successfully convert its systems and procedures from sterling to the Euro at a relatively low cost and with little reorganisation. No significant cost has been incurred to date.

Equal Opportunities

The Council has an equal opportunities policy, which takes account of issues of harassment in the workplace. The Council has been awarded the Disability Symbol, signifying that it meets specified standards when dealing with disabled people. As part of the equal opportunities policy, all disabled applicants for vacancies who meet the essential criteria are guaranteed an interview.

Payment of Creditors

The Council is fully committed to the prompt payment of its suppliers' bills and supports HM Treasury's Better Payment Practice Code. The Council aims to pay bills in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid bill, whichever is the later. All suppliers have been notified of this commitment and have been given clear guidelines to help the Council achieve this aim.

The Council's accounting systems allow the actual payment performance against the 30 day target to be monitored. During the financial year 2000-01 the target was met for 99 per cent of invoices (1999-2000: 98 percent).

**Quality Assurance
Agency**

The Council has a statutory role to secure the assessment of the quality of education at institutions in receipt of its funding. A contract with the Quality Assurance Agency for Higher Education fulfils this role.

Sir Brian Fender CMG
Chief Executive and Accounting Officer
Higher Education Funding Council for England

14 June 2001

Statement of the Higher Education Funding Council for England 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 (the Council) 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 Education and Employment (appendix 1), with the consent of the 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 the Council'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 Council is required to:

- observe the accounts direction issued by the Secretary of State for Education and Employment, 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 have been followed and disclose and explain material departures in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the body will continue in operation.

The Accounting Officer for the Department for Education and Employment has designated the Chief Executive as the Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Statement by the Chief Executive on the System of Internal Control

As Accounting Officer, I acknowledge my responsibility for ensuring that an effective system of internal control is maintained and operated by the Council. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control encompasses HEFCE's financial controls that are based on regular management information, segregation of duties, and a system of delegation and accountability. It is based on an ongoing process designed to identify the key risks to achieving HEFCE's objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively, and economically. I expect to have the procedures in place by March 2002 necessary to implement Treasury guidance. This takes account of the time needed to embed the processes that the Council has agreed should be established and improve their robustness.

In January 2001 the Chief Executive and Directors considered a risk management framework. This framework has been agreed by the Audit Committee and the Board, and is the basis of the HEFCE Risk Management Strategy. A copy of this Strategy will be made available to all staff setting out the Council's attitude to risk in the achievement of its objectives.

Following the development of the Council's risk management framework, work has commenced on implementation of the way in which the HEFCE treats risks:

- risk management and internal control will continue to be considered on a regular basis by the Board and the Audit Committee
- a full risk and control assessment is planned to be completed before March 2002
- risk management has been incorporated into corporate planning within the Council.

In addition to the above the Council intends over the coming year to:

- promote risk awareness throughout the Council
- incorporate risk management into the Council's approach to project management
- arrange facilitated workshops as required to identify risks facing the Council
- establish key performance and risk indicators
- further develop the incorporation of risk management into the decision making and reporting process of the Council
- develop and maintain a Council-wide risk register.

The Council has an internal audit service, which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit service is informed by an analysis of the risks to which HEFCE is exposed, and annual internal audit plans take account of this analysis. The analysis of risk and the internal audit plans are endorsed by the Council's Audit Committee and approved by me. At least annually, the Head of Internal Audit provides me with a report on internal audit activity in the Council. The report includes his independent opinion on the adequacy and effectiveness of the Council's system of internal control.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditor, the Directors and senior managers within the Council who have responsibility for the development and maintenance of the control framework, and comments made by the external auditors in their management letter and other reports.

Where improvements that could be made to the system of internal control are identified, and specific actions are agreed, they are implemented within a pre-determined time scale.

Sir Brian Fender CMG
Chief Executive and Accounting Officer
Higher Education Funding Council for England

14 June 2001

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

I certify that I have audited the financial statements on pages 15 to 46 under the Further and Higher Education Act 1992. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 21 and 22

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

As described on page 10, the Council and Chief Executive are responsible for the preparation of the financial statements in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Employment, and for ensuring the regularity of financial transactions. The Council and Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Employment, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 11 and 12 reflects the Higher Education Funding Council for England's compliance with Treasury's guidance, "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements for disclosure specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Higher Education Funding Council for England at 31 March 2001 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Employment; and
- 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.

I have no observations to make on these financial statements

John Bourn
Comptroller and Auditor General
20 June 2001

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account for the Year to 31 March 2001

		Year Ended 31 March 2001	Year Ended 31 March 2000 re-stated
	Note	£'000	£'000
Gross Income			
HMG Grants Receivable	2	4,431,701	4,186,944
Transfer from Deferred Grant Account	14	319	239
Other Income	3	20,750	4,629
		<u>4,452,770</u>	<u>4,191,812</u>
Expenditure			
Grants payable to Institutions			
Recurrent and Capital Expenditure	4	4,356,369	4,066,810
Access Funds	4	92,465	80,516
Council Administration Costs			
Staff costs	5c	6,898	6,049
Other Administration	6	6,106	6,307
Depreciation	7	274	239
		<u>4,462,112</u>	<u>4,159,921</u>
Operating Surplus/(Deficit) before Interest		<u>(9,342)</u>	<u>31,891</u>
Notional Interest on capital	8	23,612	24,009
Unwinding of Discount	12	(24,096)	(24,544)
Operating Surplus/(Deficit) after Interest		<u>(9,826)</u>	<u>31,356</u>
Reversal of Notional Interest on capital		(23,612)	(24,009)
Appropriations to DfEE		—	(34)
Surplus/(Deficit) for the Period		<u>(33,438)</u>	<u>7,313</u>

All operations are continuing.

The notes on pages 18 to 42 form part of these accounts.

Statement of Total Recognised Gains and Losses as at 31 March 2001

		Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 re-stated £'000
Surplus/(Deficit) per Income and Expenditure Account	Note	(33,438)	7,313
Unrealised Surplus/(Deficit) on Revaluation	16	(1)	—
Total Recognised Gains and Losses for the year		<u>(33,439)</u>	<u>7,313</u>
Prior Year Adjustment	1,9a,12	<u>(399,005)</u>	
Total Gains and Losses recognised since last annual report		<u>(432,444)</u>	

Balance Sheet as at 31 March 2001

	Note	As at 31 March 2001 £'000	As at 31 March 2000 re-stated £'000
Fixed Assets			
Tangible Assets	7	309	241
Current Assets			
Loans to Institutions	9a		
falling due within one year		261	397
falling due after one year		8,512	2,198
Debtors	9b	6,692	3,784
Loans to Staff	9c	8	12
Cash at Bank and In Hand	10	7,055	44,422
		22,528	50,813
 Creditors			
Amounts falling due within one year	11	(13,727)	(639)
 Net Current Assets		8,801	50,174
 Total Assets less Current Liabilities		9,110	50,415
 Provisions for Liabilities and Charges	12	(393,696)	(401,600)
Total Net Assets/(Liabilities)		(384,586)	(351,185)
 Represented by			
Deferred Government Grant Reserves			
Deferred Government Grant	14	309	270
General Reserve	15	(384,895)	(351,456)
Revaluation Reserve	16	—	1
		(384,586)	(351,185)

Sir Brian Fender CMG

Chief Executive

Higher Education Funding Council for England

14 June 2001

The notes on pages 18 to 42 form part of these accounts.

Cash Flow Statement for the Year to 31 March 2001

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Operating Activities		
Receipts		
HMG grant funds received through the DfEE:		
Programme Funds	4,417,444	4,171,627
Running Costs	12,027	11,483
Other receipts	18,021	11,152
Repayment of institution loans	397	—
Repayment of staff loans	6	18
	<u>4,447,895</u>	<u>4,194,280</u>
Payments		
Funding paid to institutions	4,465,606	4,181,420
Administration costs	13,080	12,303
Loans to institutions	6,575	2,595
Loans to staff for approved purposes	2	14
	<u>4,485,263</u>	<u>4,196,332</u>
Net Cash Inflow/(Outflow) from Operating Activities	(37,368)	(2,052)
Capital Expenditure		
Purchase of Tangible Fixed Assets	(358)	(187)
Sale of Fixed Assets	1	—
	<u>1</u>	<u>—</u>
Net Cash Outflow from Capital Expenditure	(357)	(187)
Financing		
Transfer to Deferred Government Grant	358	187
Grant-in-Aid surrendered to DfEE	—	(34)
	<u>—</u>	<u>(34)</u>
Net Cash Inflow/(Outflow)	(37,367)	(2,086)

1 Reconciliation of Operating Deficit to net cash flow from operating activities

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 re-stated £'000
Operating Surplus/(Deficit)	(9,342)	31,891
Depreciation charges	274	239
Release from Deferred Government Grant	(319)	(239)
Decrease/(Increase) in Debtors and Loans	(9,082)	(1,936)
Revaluation adjustment	13	7
Increase/(Decrease) in Creditors	13,088	(14)
Payment from Provisions	(32,000)	(32,000)
Net cash inflow/(outflow) from operating activities	(37,368)	(2,052)

2 Reconciliation of net cash flow to movement in net debt

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Net funds at 1 April 2000	44,422	46,508
Increase/(Decrease) in cash for the year	(37,367)	(2,086)
Net funds at 31 March 2001	7,055	44,422

3 Reconciliation of grant received to payments made to institutions

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 re-stated £'000
Grant from DfEE	4,417,444	4,171,627
Grant transferred from the Teacher Training Agency	2,230	7,476
Income from other Funding Councils	14,754	2,825
Other Income	24	71
	<u>4,434,452</u>	<u>4,181,999</u>
Grants paid to Higher Education Institutions:		
Recurrent and Capital	4,140,566	3,934,512
RCA Bursaries	—	356
Grants paid to Further Education Institutions:		
Recurrent and Capital	142,017	110,087
Grants paid to Other bodies:		
Recurrent and Capital	91,412	55,094
Access Funds paid to:		
Higher Education Institutions	91,254	81,253
Further Education Institutions	236	—
The Teacher Training Agency	121	118
Total grants paid to Institutions and others	<u>4,465,606</u>	<u>4,181,420</u>
Underspend/(Overspend) of grants to Institutions and others	(31,154)	579
Net payment of loans to Institutions	(6,178)	(2,595)
Cash at Bank Brought forward	<u>44,203</u>	<u>46,219</u>
Cash at Bank Carried Forward	<u>6,871</u>	<u>44,203</u>

Notes to the Accounts for the Year to 31 March 2001

Accounting Policies

1 Basis of Accounting

These accounts are drawn up in accordance with a direction (see Appendix 1) given by the Secretary of State for Education and Employment, with the consent of the Treasury and in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1).

The accounts are prepared under the historic cost convention, modified by revaluation of fixed assets and in accordance with the requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board with the exception of the requirements contained in FRS3 for the inclusion of a note showing historical cost profits and losses.

Fixed Assets

Expenditure on the acquisition of tangible fixed assets is capitalised at the lower of cost or net book value where the costs for an individual asset, or group of assets, exceed £2,500.

Tangible Assets

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

Land & Buildings	10 years
Fixtures, Fittings & Furniture	5 years
Office Equipment	4 years
Computer Equipment	3 years

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

Grants from the Department for Education and Employment

These are accounted for in accordance with the purpose of the grant and are credited to the Income and Expenditure Account in the year of receipt. Access Funds are accounted for separately. Grants for the Council's running costs are credited to the Income and Expenditure Account when applied for recurrent purposes, but credited to the Deferred Grant Account when applied to meet the cost of acquiring or constructing assets which are capitalised. Grant held in the Deferred Grant Account is released to the Income & Expenditure Account over the estimated useful life of the related assets.

Grants to Institutions

Grants to institutions are recognised when they fall due for payment. Grants to institutions to finance specific capital expenditure are subject to repayment in full, or in part, if the assets purchased are disposed of. The Council has discretion to allow such sale proceeds to be used to finance new capital projects.

Accounting Policies
(continued)

1 Taxation

The Council does not trade and hence is not liable for Corporation Tax.

Pension Costs

Employees of the Council are members of the Principal Civil Service Pension Scheme. The conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply to the employees of the Council. For 2000-01 contributions of £753,433 (1999-2000: £673,964) were paid to the Paymaster General at rates determined from time to time by the Government Actuary and advised by the Treasury. For 2000-01 these rates varied between 12 per cent and 18.5 per cent (1999-2000: 12 per cent and 18.5 per cent) of salary depending on staff salary bands.

For staff transferred from a higher education institution the Council pays contributions to the Universities Superannuation Scheme. During the year there have been two members of staff to whom this relates. For 2000-01 these contributions amounted to £10,640 (1999-2000: £11,200). For 2000-01 the rate of employers contribution was 14 per cent (1999-2000: 14 per cent) of salary.

Leases

Rentals payable for operating leases are charged directly to the Income and Expenditure account.

Prior Year Adjustments

a) Loans to Institutions

On occasion the Council issues repayable, non-interest bearing loans to institutions. These loans are disclosed in Note 9a to the accounts. For the financial year 1999-2000 such loans were treated as recurrent grant. This is a change in accounting policy and in accordance with FRS 3 comparative figures for 1999-2000 have therefore been amended. The effects of this prior year adjustment have been shown in the Statement of Total Recognised Gains and Losses.

b) Provisions for Liabilities and Charges

Provisions are recognised when the Council 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.

A provision has been recognised for inherited staff liabilities. These costs are expected to be incurred until 2025 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet for the first time as long term liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value at a rate of 6%.

This is a change in accounting policy and in accordance with FRS 3 comparative figures for 1999-2000 have therefore been amended.

Without the changes in accounting policies detailed above the annual operating deficit for 2000-01 would have been £47,520,000 (1999-2000: deficit of £2,738,000).

HMG Grants Receivable 2 This note deals with Grant-in-Aid receivable from the DfEE (Class 1, Vote 1) during the year. The Grant received is part of the DfEE's Resource Account.

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Programmes		
Recurrent and Capital Expenditure	4,325,457	4,091,297
Vired to Running Costs	(133)	(1,205)
Transferred from the Teacher Training Agency	2,230	3,834
	<u>4,327,554</u>	<u>4,093,926</u>
Running Costs		
Administration Costs	12,252	10,465
Vired from Recurrent Programme Expenditure	133	1,205
Transferred to Deferred Grant	(358)	(187)
	<u>12,027</u>	<u>11,483</u>
Other Grant Income		
Access Funds	86,568	81,535
Post Graduate Certificate in Education	5,552	—
	<u>92,120</u>	<u>81,535</u>
Total Grant-in-Aid	<u>4,431,701</u>	<u>4,186,944</u>

Other Income	3	Year Ended	Year Ended
		31 March	31 March
		2001	2000
		£'000	£'000
Programmes			
Funding receivable from other Councils for joint initiatives:			
DHFETE		1,248	577
FEFC		9,786	—
HEFCW		2,893	1,325
SHEFC		5,743	1,783
Miscellaneous income		52	74
		<u>19,722</u>	<u>3,759</u>
Running Costs			
Contributions to administration costs for joint initiatives:			
DHFETE		23	33
FEFC		159	19
HEFCW		113	94
SHEFC		256	279
Advisory services provided to the DHFETE		138	134
Income from Activities:			
Conferences		36	18
Publications		44	49
Sub-letting of part of premises		200	168
Miscellaneous		59	42
		<u>1,028</u>	<u>836</u>
Other Operating Income			
Access Funds returnable to the DfEE		—	34
Total Other Income		<u>20,750</u>	<u>4,629</u>

From April 1999 the Council has been permitted to redistribute Access Funds unspent by HEIs, rather than returning this funding to the DfEE. The amount returned to the DfEE in 1999-2000 relates to 1997-98 funding unspent by HEIs.

Glossary

DfEE: Department for Education and Employment
DHFETE: Department of Higher and Further Education, Training and Employment
FEFC: Further Education Funding Council
HEFCW: Higher Education Funding Council for Wales
SHEFC: Scottish Higher Education Funding Council

Analysis of Recurrent and Capital Grants	4	Year Ended	Year Ended
		31 March 2001 £'000	31 March 2000 re-stated £'000
Basic Recurrent Grant		3,880,601	3,765,570
Strategic Learning and Teaching			
Existing projects (FDTL/TLTP/NCT/CTI)		2,757	8,039
Learning & Teaching development		26,302	8,731
Minority subjects (including FSEES)		3,675	5,010
Quality Assurance Agency		6,224	5,821
Strategic Access and Participation			
Initiatives (SLDD, Access & Participation, NABCE)		9,309	7,265
HE in FE Colleges		5,037	—
Support for Access administration costs		2,400	—
Foundation Degrees/Graduate Apprenticeships		1,561	—
Millennium Summer schools		5,319	—
Strategic Research			
Collaborative Research Scheme		17,021	16,606
Innovations Fund		2,227	—
Specialist Research Libraries in the Humanities		967	1,305
Research Support Libraries Programme		7,742	4,005
Research into Teaching and Learning		386	425
Strategic Business and the Community			
Continuing education and development		—	5,247
HEROBC		20,120	4,798
Strategic Sector			
Collaboration & Restructuring Fund		25,059	12,613
Medical Schools		4,136	—
Pilot Site Licences		—	(1,621)
Strategic International			
Overseas Research Students Awards Scheme		11,959	10,451
International Initiatives		236	112
Chinese studies initiative		948	608
Inherited Activities			
Inherited Liabilities		43,111	45,441
College Fees		10,527	(874)
New Appointments Scheme for Clinical Academics		—	615
Royal College of Art Bursaries		—	356
Dance and Drama		3,939	1,594
London		9,909	10,014
Tomlinson Staff Restructuring		2,080	1,478
Miscellaneous		—	3

Analysis of Recurrent and Capital Grants <i>(continued)</i>	4	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 re-stated £'000
National Facilities			
Copyright Libraries		2,529	2,467
National Flying Laboratory Centre		480	514
Marine Biology Field Station Millport		266	298
Arts & Humanities Research Board		22,327	18,710
Joint Information Systems Committee		39,241	26,674
Value for Money, Research & Development			
PPP/PFI Initiatives		994	652
Procurement Initiatives		105	151
Costing and Pricing Initiative		850	673
Estates Good Practice		280	—
VFM & Institutional Studies		2,079	853
Equal Opportunities		162	—
Fund for Development of Good Management Practice		1,488	—
Research & Development Programme		333	1,042
Capital			
Joint Research Equipment Initiative		21,888	19,842
Poor Estates Initiative		49,275	43,982
Laboratory Refurbishment Initiative		4,714	22,244
MAN Initiative		3,930	2,544
Tomlinson		589	10,275
Earmarked Capital			
Project Capital		60,961	—
Access to Electronic information		2,102	—
Super Janet Network		22,654	—
Research Infrastructure Initiative		15,464	2,277
E University		106	—
Total Recurrent and Capital grants		4,356,369	4,066,810
Access Funds		92,465	80,516
		4,448,834	4,147,326

The Board Members certify that Government grants have been used by the Council only for approved purposes.

Included in this account are grants to institutions which are subject to verification by the recipients' external auditors that they have been used for their intended purposes. The financial year of institutions ends on 31 July. When this account was prepared all of the audit opinions for the year ended 31 July 2000 had been received and none had been qualified.

Analysis of Recurrent and Capital Grants

(continued)

4 Basic recurrent grant

Block grant for teaching and research.

FDTL—Fund for the development of teaching and learning

A joint initiative with DHFETE to stimulate developments in teaching and learning, and to promote the dissemination of good practice.

TLTP—Teaching and learning technology programme

The Council's contribution to the Teaching and Learning Technology Programme to encourage the greater use of Information Technology in teaching and learning.

Learning and Teaching Development

Institutional, subject and individual strands of the Teaching Quality Enhancement Fund to promote and reward excellence in teaching.

Minority subjects

Additional funding for subjects which are unlikely to attract a ratio of students to staff that could be maintained through basic recurrent grant.

Quality Assurance Agency

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

Access and participation

Targeted funding to promote widening participation in under-represented social groups. Projects supported under the scheme investigate new approaches to widening participation and to improving graduate employability including for disabled students and those from ethnic minority backgrounds.

HE in FE Colleges

Funding to promote the development of higher education in further education colleges.

Support for Access Administration Costs

Contribution to the administration costs of Access Funds borne by HEIs.

Foundation Degree prototypes and Graduate Apprenticeships

Foundation Degrees: funding to develop and launch new intermediate-level qualifications, in partnership with employers. Graduate Apprenticeships: frameworks combining existing HE qualifications with work-based learning underpinned by NVQ and Key Skills unit.

Millennium Summer Schools

Part of the Excellence in Cities initiative, this programme provides year 11 and 12 school pupils to experience higher education for a week at selected universities and colleges.

Collaborative research scheme

Funding to encourage collaborative research, primarily between former Polytechnics and Colleges Funding Council funded institutions.

Innovations Fund

The Innovations fund was set up by the DfEE to support development projects which apply new ideas to important current issues in higher education, and which have a real prospect of leading to significant and widespread improvements on the ground.

**Analysis of Recurrent
and Capital Grants**
(continued)

4 Specialist Research Libraries in the Humanities

Funding to support the additional costs of certain specialised research collections widely used by researchers throughout the higher education sector.

Research Support Libraries Programme

Funding to recognise additional costs of providing external access to research libraries.

Research into Teaching and Learning

Programme to support pedagogic research into teaching and learning.

Continuing education development

Funding for vocational and non vocational continuing education development in former Universities Funding Council funded institutions.

HEROBC

Funding to promote the application of knowledge from teaching and research activities in collaboration with industry, business and the community.

Collaboration and Restructuring Fund

Funding to support strategic changes within the higher education sector and to support collaborative activity between higher education institutions.

Medical Schools

Contributions to the capital costs associated with the increase in medical intakes.

Pilot Site Licences

An initiative to establish whether, by working with publishers, it is possible to make academic journals cheaper and more accessible for academic staff and students.

ORSAS

The Council's contribution to the Overseas Research Students Awards Scheme to attract high quality overseas research students to institutions in Britain.

International initiatives

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

Chinese studies initiative

Funding to strengthen and expand the provision for teaching and research in Chinese studies.

Inherited liabilities

Reimbursement in respect of liabilities inherited by the institutions formerly under the control of local authorities or former colleges of advanced technology, when these were incorporated as independent institutions, including the reimbursement of leasehold rentals.

College Fees

Phasing out over 10 years of additional funding to the Universities of Cambridge and Oxford following the abolition of the undergraduate tuition fee in 1999-2000.

New appointments scheme for clinical academics

Funding to promote the recruitment to new clinical posts in advance of retirements.

**Analysis of Recurrent
and Capital Grants**
*(continued)***4 RCA Bursaries**

Bursaries to students of the Royal College of Art on behalf of the DfEE.

Dance and drama

Scheme to allow dance and drama students to exploit their talents through the provision of funding reflecting the average costs of courses, taking account of student contributions to fees.

London

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

Tomlinson staff restructuring

Contributions to joint programme with Department of Health to meet costs of clinical staff reductions following integration of free-standing undergraduate medical schools into the multi-faculties colleges of the University of London.

Miscellaneous

Other funding for teaching and research not included in formula allocations or included above.

Copyright Libraries

Additional funding for copyright libraries that allow free access to researchers from within the United Kingdom higher education community.

National flying laboratory centre

Funding for national facility offering flying time for aeronautical courses.

Marine biology field station Millport

Funding for national cold water marine station.

Arts and Humanities Research Board

Funding to support advanced research in the Arts and Humanities and to promote and support excellence in research in these fields. Also the Council's contribution towards the costs of operating and maintaining museums, galleries and collections at individual institutions but accessible by all institutions.

JISC

The Council's contribution to the Joint Information Systems Committee to fund sector wide networking and access to datasets.

PPP/PFI initiatives

Promotion of the Private Finance Initiative and other forms of public private partnership through the use of pathfinders; and addressing VAT barriers to PFI solutions.

Procurement initiatives

Promotion of effective procurement and increased collaboration within the HE sector.

Costing and pricing initiative

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

Estates Good Practice

Promoting research, innovation and strategic change in estates and facilities management.

**Analysis of Recurrent
and Capital Grants**
(continued)

4 VFM and institutional studies

Project funding for specific topic or institutional studies.

Equal Opportunities

Promoting improved equal opportunities in HE. Funding includes the setting up of an Equality Challenge Unit supporting the work of UK HE institutions in improving equal opportunities for their staff and providing a sector level view of progress.

Fund for the Development of Good Management Practice

Funding for projects that develop the application of good management practice in HEIs.

Research and development programme

Funding of projects within the Council's own research and development programme in support of its strategic aims.

Joint Research Equipment Initiative

Funding, in conjunction with the Research Councils, to enable institutions to purchase expensive pieces of research equipment with the help of matched funding from industry.

Poor estates initiative

Funding to replace or refurbish sector buildings that are in poor condition.

Laboratory refurbishment initiative

Funding to refurbish laboratories to address the infrastructure shortfall as a whole, as identified by surveys of research equipment.

MAN/LAN initiative

Funding to enable the development of new Metropolitan Area Networks (MAN), the enhancement of existing MANs and the strategic improvement of Local Area Networks (LANs).

Tomlinson

Grant towards the capital cost of the reorganisation of medical education and research in London.

Project Capital

Formulaic distribution of earmarked funding to assist with improving research and teaching facilities, laboratories and equipment.

Access to Electronic information

The development of the Distributed National Electronic Resource (DNER): infrastructure and content to support research, teaching and learning.

Super Janet Network

The development of SuperJANET 4 to increase bandwidth, capacity and resilience of the JANET backbone and the MANs that link to it.

Research infrastructure initiative

Earmarked funding to address past under-investment in the research infrastructure. Specific project funding for institutions' priority areas and to contribute to the Joint Infrastructure Fund.

E-University

Start up and capital costs for the e-University project.

Salaries and Wages 5**Board members' emoluments and expenses**

- 5a The Board consists of up to 15 members, including the Chairman and Chief Executive of the three years by the Secretary of State for Education and Employment. The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State. Non Executive Board members are eligible to receive an annual honorarium, which is not pensionable. The Chairman's total emolument consists of a salary. The Chairman does not participate in the Principal Civil Service Pension Scheme.

The Chief Executive, Sir Brian Fender CMG, was appointed on 1 October 1995. In common with all Council staff, the Chief Executive of the Council is a member of the Principal Civil Service Pension Scheme. The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual Personal Responsibility Plan agreed by the Chairman. The bonus is also approved by the Secretary of State.

The contracts of both the Chairman and the Chief Executive expire on 30 September 2001.

The salary and pension entitlements of the Chairman and Chief Executive were as follows:

		Year Ended 31 March 2001 £	Year Ended 31 March 2000 £
<i>Emoluments of the Chairman, Sir Michael Checkland</i>			
Age at 31 March 2001	65		
Number of years service at 31 March 2001	3		
Basic salary as at 1 April		38,100	38,100
<i>Emoluments of the Chief Executive, Sir Brian Fender CMG</i>			
Age at 31 March 2001	66		
Number of years service at 31 March 2001	5		
Basic salary as at 1 April		101,100	96,840
Performance related pay increase		3,000	4,260
Basic salary as at 31 March		104,100	101,100
Pension contributions		19,259	18,704
Salary (including pension contributions)		123,359	119,804
Bonus		10,410	8,088
Allowance for additional travel costs		16,000	16,000
		149,769	143,892
Pension increase (net of inflation)		1,282	1,315
Total accrued pension at 31 March		7,157	5,687

Board members' emoluments and expenses (<i>continued</i>)	5a Non Executive Honoraria	Year Ended	Year Ended
		31 March 2001	31 March 2000
		£	£
Mrs Joan Bingley	(to August 1999)	—	1,000
Mr Anthony Booth CBE		4,000	4,000
Mr Stephen Bundred		4,000	2,333
Professor Marilyn Butler	(to September 2000)	2,000	4,000
Mr Richard Coldwell	(from December 2000)	1,333	—
Professor Ron Cooke		4,700	8,225
Dr David Fussey	(to March 2000)	4,000	4,000
Ms Caroline Neville		4,000	4,000
Dr David Potter CBE		4,000	4,000
Professor Sir Gareth Roberts		4,000	4,000
Professor Peter Scott	(from December 2000)	1,333	—
Ms Barbara Stephens		4,000	4,000
Professor Sir Stewart Sutherland		4,000	4,000
Dr John Taylor		—	—
Dr Keith Taylor	(to January 2000)	—	—
Ms Dorma Urwin		4,000	4,000
		<u>45,366</u>	<u>47,558</u>

In lieu of an honorarium Professor Ron Cooke is paid directly by the University of York. The subsequent reimbursement from the HEFCE to the University of York includes VAT. Of the total payment this year Professor Cooke received £4,000 in lieu of an honorarium for his services provided in 2000-01.

Before his death in March 2000 Dr David Fussey was re-appointed by the DfEE for the whole of the financial year 2000-01, hence his honorarium has been paid in full.

Dr John Taylor is a Board member as part of his duties for the Office of Science and Technology and therefore is not entitled to an honorarium.

For the year 1999-2000 Dr Keith Taylor waived his right to an honorarium (valued at £3,000).

Senior Employees

5b The salary and pension entitlements of the most senior members of HEFCE were as follows:

		Year Ended 31 March 2001 £	Year Ended 31 March 2000 £
<i>Emoluments of the Director of Policy, Bahram Bekhradnia</i>			
Age at 31 March 2001	52		
Number of years service at 31 March 2001	8		
Basic salary as at 1 April		71,906	67,836
Performance related pay increase		3,226	4,070
Increase in London Weighting		184	—
Basic salary as at 31 March		75,316	71,906
Pension contributions		13,935	13,303
Salary (including pension contributions)		89,251	85,209
Pension increase (net of inflation)		1,239	1,543
Total accrued pension at age 60 at 31 March		26,821	24,765
<i>Emoluments of the Director of Finance and Corporate Resources, Steve Egan</i>			
Age at 31 March 2001	43		
Number of years service at 31 March 2001	4		
Basic salary as at 1 April		67,040	62,970
Performance related pay increase		3,084	4,070
Basic salary as at 31 March		70,124	67,040
Pension contributions		12,974	12,402
Salary (including pension contributions)		83,098	79,442
Pension increase (net of inflation)		915	902
Total accrued pension at age 60 at 31 March		3,944	2,933
<i>Emoluments of the Director for Institutions, Stephen Marston</i>			
Age at 31 March 2001	39		
Number of years service at 31 March 2001	2		
Basic salary as at 1 April		64,070	60,000
Performance related pay increase		2,947	4,070
Basic salary as at 31 March		67,017	64,070
Pension contributions		12,399	11,853
Salary (including pension contributions)		79,416	75,923
Pension increase (net of inflation)		1,009	1,217
Total accrued pension at age 60 at 31 March		14,660	13,214

Senior Employees
(continued)

5b "Salary" includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pay progression in a job is only possible by means of annual settlements. It is HEFCE's policy that these settlements are differentiated by performance. Annual settlements are awarded from 1 August each year (1 April for Directors) and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non consolidated, non pensionable lump sums above it.

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). This is a statutory scheme which provides benefits on a "final salary" basis at a normal retirement age of 60. Benefits accrue at a rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement.

Members of the PCSPS pay contributions of 1.5 per cent of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. 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.

Staff Costs

5c

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Staff Salaries	5,659	4,960
Staff Social Security	475	420
Staff Pension costs	764	669
	<u>6,898</u>	<u>6,049</u>

In the 1999-2000 annual accounts Staff Costs included payments to staff agencies for the services of temporary staff. This year such costs have been included in Note 6 Other Administration; comparative figures for 1999-2000 have also been re-classified.

	Year Ended 31 March 2001 Number	Year Ended 31 March 2000 Number
The average number of staff employed during the year to 31 March, excluding the Chief Executive, was:		
Senior Management staff	34	27
Management staff	59	54
Operational staff	92	63
Support staff	55	57
	<u>240</u>	<u>201</u>

Other Administration	6	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Council Members' honoraria and associated travel and subsistence costs		55	58
Committee members, advisers and quality assessment inspectors fees and associated travel and subsistence costs		650	894
Agency Costs		285	346
General administrative payments		806	881
Telephone & postage		293	358
Recruitment & training		570	471
Travel & subsistence for staff		884	862
Publications, printing, publicity		317	391
Hospitality		6	5
Premises		1,999	1,866
Audit fee		28	30
Consultancy fees		195	118
Relocation expenditure		6	20
Adjustment re Revaluation of Assets		13	7
<i>less Profit on Sale of Fixed Assets</i>		(1)	—
		<u>6,106</u>	<u>6,307</u>

The auditors received no remuneration for non audit services.

Annual commitments under operating leases are as follows:

a) Land and Buildings			
Leases expiring within:			
One year	—	263	
Two to five years	—	—	
More than five years	961	961	
	<u>961</u>	<u>1,224</u>	
b) Others			
Leases expiring within:			
One year	28	—	
Two to five years	22	27	
More than five years	—	—	
	<u>50</u>	<u>27</u>	

Tangible Fixed Assets	7	Furniture &			Total
		Land & Buildings £'000	Office Equipment £'000	Computers & Vehicles £'000	
Cost or Valuation					
At 1 April 2000		10	656	1,518	2,184
Revaluation in year		—	(1)	(256)	(257)
Additions		—	50	308	358
Disposals		—	(40)	(35)	(75)
At 31 March 2001		10	665	1,535	2,210
Depreciation					
At 1 April 2000		7	587	1,349	1,943
Charge for period		1	25	133	159
Additions		—	12	103	115
Revaluation		—	1	(242)	(241)
Disposals		—	(40)	(35)	(75)
At 31 March 2001		8	585	1,308	1,901
Net Book Value					
At 31 March 2000		3	69	169	241
At 31 March 2001		2	80	227	309

From 1 April 2000 the HEFCE has adopted a different style of disclosing financial information relating to the historic cost of its fixed assets. In previous years the effects of revaluation of assets and of revaluation on depreciation have been netted off against each other. From the financial year 2000-01 these effects are shown gross, in accordance with Generally Accepted Accounting Practice in the UK.

It is important to note that this change does not affect the Net Book Value of fixed assets as at 31 March 2001 and is not a change of accounting policy.

Notional Costs

- 8 Guidance given by the Treasury in respect of NDPBs' Annual Reports and Accounts (published in March 1996), requires NDPBs to disclose the full cost of their activities in their accounts. The Council has therefore included in its accounts charges for the notional cost of capital.

The cost of capital has been arrived at by calculating a rate of 6 per cent to the average capital employed.

For the financial year 1999-2000 average capital employed was defined as a simple average of total assets less current liabilities at 1 April 1999 and 31 March 2000.

For the financial year 2000-01 the Financial Reporting Advisory Board agreed an amendment to the Executive NDPB Annual Reports and Accounts Guidance. This guidance states that non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are to be excluded from the calculation of capital employed.

For this reason the 1999-2000 capital employed figures have been re-stated to provide a meaningful comparative.

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Capital employed as at 1 April	(395,502)	(404,813)
Capital employed as at 31 March	<u>(391,548)</u>	<u>(395,502)</u>
Average capital employed	(393,525)	(400,158)
Notional Interest on capital @ 6.00%	23,612	24,009

Loans to Institutions

9a

	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Balances as at 1 April	2,595	—
Advances during the year	6,575	2,595
Repayments during the year	<u>(397)</u>	<u>—</u>
Balances as at 31 March	<u>8,773</u>	<u>2,595</u>
None of the above loans are interest bearing.		
Balances at 31 March repayable:		
within one year	261	397
after one year	<u>8,512</u>	<u>2,198</u>
	<u>8,773</u>	<u>2,595</u>

As at 31 March 2001, 3 institutions (2000: 1) had loans outstanding of £1,000,000 or more. The total value of these loans was £7,000,000 (2000: £1,000,000).

In the 1999-2000 annual account loans to institutions were treated as recurrent grant. These loans, and their effects in reducing the level of grant payable to institutions, have been restated for last year in order to provide a meaningful comparative. This restatement also affects the Income and Expenditure Account, STRGL, Balance Sheet, and Cashflow Statement.

Debtors	9b	As at	As at
		31 March 2001 £'000	31 March 2000 £'000
	Contributions due from other Councils for administrative costs and joint ventures	5,863	986
	Trade Debtors	176	14
	Other Debtors	353	2,381
	Prepayments	300	403
		<u>6,692</u>	<u>3,784</u>

Staff Loans	9c	As at	As at
		31 March 2001 £'000	31 March 2000 £'000
	Balances as at 1 April	12	16
	Advances during the year	2	14
	Repayments during the year	(6)	(18)
	Balances as at 31 March	<u>8</u>	<u>12</u>

None of the above loans are interest bearing.

	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Balances at 31 March repayable within:		
One year	4	5
Two to five years	4	7
	<u>8</u>	<u>12</u>

As at 31 March 2001, 2 members of staff (2000: 2) had loans outstanding in excess of £2,500. The total value of these loans was £6,369 (2000: £9,245).

Details of Balances at year end	10	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Cash held at the Bank of England:			
in respect of running costs		91	114
in respect of programme funds		6,871	44,203
Cash held at other banks and in hand:			
for running costs		12	4
other funds held for the JISC European Networking Group		81	101
		<u>7,055</u>	<u>44,422</u>

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

The DfEE authorises a working balance at 31 March of 2 per cent of the total Grant in Aid for the financial year. The figures above are within the margins, as follows:

	Year Ended 31 March 2001 £'000	Year Ended 31 March 2000 £'000
Programme Funds		
Grant received	4,325,324	4,090,092
2% thereof	86,506	81,802
Balances as above	6,871	44,203
Running Costs		
Grant received	12,385	11,483
2% thereof	248	230
Balances as above	103	118

Creditors: Amounts falling due within one year	11	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Trade creditors		59	22
Other creditors		81	101
Accruals (Programmes)		13,476	314
Accruals and deferred income (Running Costs)		111	202
		<u>13,727</u>	<u>639</u>

**Provisions for Liabilities 12
and Charges**

	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Balance of provision at 1 April	401,600	409,056
Additional charge in year	509	496
Provision utilised in year	(32,509)	(32,496)
Unwinding of discount	24,096	24,544
Balance of provision at 31 March	<u>393,696</u>	<u>401,600</u>

A provision has been recognised for inherited staff liabilities. These costs are expected to be incurred until 2025 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities.

These commitments have been recognised on the Balance Sheet for the first time as long term liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value at a rate of 6%.

**Financial Commitments 13
and contingent liabilities
as at end of period**

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July). As at 31 March 2001 there are no contingent liabilities.

	As at 31 March 2001 £'000	As at 31 March 2000 £'000
The amount of grant committed for the period April to July is	1,461,888	1,415,427
The amount of grant committed for the academic year 2001-02 is	4,757,000	4,382,000

Whilst there is no statutory obligation to do so, the HEFCE funds certain capital commitments for universities and colleges that were previously maintained by local authorities. These commitments are claim based and so their value for 2001–02 cannot be accurately measured (their value in the financial year 2000-01 was £42,602,000).

Deferred Government Grant	14	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Balances at 1 April		270	322
Allocated from Grant-in-Aid (purchase of capital assets)		358	187
Released for the year		(319)	(239)
Balances at 31 March		<u>309</u>	<u>270</u>

Deferred capital grant represents funding used to finance the purchase of fixed assets.

General Reserve Movements	15	As at 31 March 2001 £'000	As at 31 March 2000 £'000
Access Funds			
Balance as at 1 April		1,018	—
Surplus/(Deficit) for the year		(345)	1,018
Balance as at 31 March		<u>673</u>	<u>1,018</u>
Programme Grant			
Balance as at 1 April		(352,907)	(359,238)
Surplus/(Deficit) for the year		(33,189)	6,331
Balance as at 31 March		<u>(386,096)</u>	<u>(352,907)</u>
Running Costs			
Balance as at 1 April		433	469
Surplus/(Deficit) for the year		96	(36)
Deficit on Revaluation Reserve		(1)	—
Balance as at 31 March		<u>528</u>	<u>433</u>
Total			
Balance as at 1 April		(351,456)	(358,769)
Surplus/(Deficit) for the year		(33,438)	7,313
Deficit on Revaluation Reserve		(1)	—
Balance as at 31 March		<u>(384,895)</u>	<u>(351,456)</u>

Revaluation Reserve	16	As at	As at
		31 March	31 March
		2001	2000
		£'000	£'000
	Balance as at 1 April	1	1
	Indexation of Fixed Assets	(1)	—
	Balance at 31 March	—	1
<hr/>			
Reconciliation of Movement in funds	17	As at	As at
		31 March	31 March
		2001	2000
		£'000	re-stated £'000
	Opening balance of funds (including Prior Year Adjustment)	(351,456)	(358,769)
	Surplus/(Deficit) per Income and Expenditure Account	(33,438)	7,313
	Other Recognised Gains and Losses for the year	(1)	—
	Net reduction in funds	(33,439)	7,313
	Closing Balance of funds	(384,895)	(351,456)

Related Party Transactions

18 The Council is a non-departmental public body sponsored by the DfEE. The DfEE is regarded as a related party, as are sister funding bodies: the Scottish Higher Education Funding Council, the Higher Education Funding Council for Wales, the Department of Higher and Further Education Training and Employment in Northern Ireland, the Teacher Training Agency, and the Further Education Funding Council for England. The British Academy and the Economic and Social Research Council are also related parties.

During the year, the Council entered into the following material transactions with the following related parties, to which board members are related parties:

- Funding allocations to the University of Surrey, a governor of which is Anthony Booth, a board member.
- Funding allocations to City University, where Stephen Bundred, a board member, is a Member of the Council.
- Funding allocations to the University of Oxford, where Professor Marilyn Butler, a board member to September 2000, is Rector of Exeter College.
- Funding allocations to the University of Brighton, where Sir Michael Checkland, HEFCE Chairman, has accepted a position as governor with effect from October 2001.
- Funding allocations to the University of North London, where Richard Coldwell, a board member, was Chair of Governors until June 2000, and to The Institute of Education where he has been a Member of the Council since February 2001.
- Funding allocations to the University of York, whose Vice-Chancellor is Professor Ron Cooke, a board member.
- Funding allocations to Norwich City College of Further and Higher Education, whose Principal is Caroline Neville, a board member, and to Anglia Polytechnic University where she is a governor.
- Funding allocations to the University of Sheffield, whose Vice-Chancellor until December 2000 was Professor Sir Gareth Roberts, a board member, and to Wolfson College Oxford, where Professor Roberts is now President.
- Funding allocations to Kingston University, whose Vice-Chancellor is Professor Peter Scott, a board member.
- Funding allocations to University College Worcester, whose Principal is Ms Dorma Urwin, a board member.

The Council has had no material transactions with companies whose directors are closely associated with the Council. In this context, closely associated refers to existing or former Council board members, or directors. Board members, former board members and directors have other relationships through family members who are employees or students at institutions funded by the Council or through membership of governing bodies. These do not give rise to material transactions which need to be disclosed.

Details of relationships are held in the Council's register of interests which is available for inspection at the Council's offices in Bristol by appointment.

Appendix 1

Higher Education Funding Council for England (HEFCE): Accounts Direction given by the Secretary of State for Education and Employment in respect of Accounts from 1 April 2000

The Secretary of State for Education and Employment with the approval of the Treasury, in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1) and the Financial Memorandum between the Department for Education and Employment and the Higher Education Funding Council for England, gives the following Accounts Direction. The Direction applies both to the HEFCE and to the HEFCE Group (defined below).

1. “The HEFCE Group” (the Group) includes the HEFCE and any subsidiary undertakings. “Subsidiary undertakings” are as defined in the Companies Act and amplified by Financial Reporting Standard (FRS)2.
2. The accounts shall be entitled overall as “Consolidated financial statements of the Higher Education Funding Council for England”.
3. The financial statements which it is the duty of the HEFCE to prepare in respect of the period from 1 April 1997 to 31 March 1998 and thereafter on an annual basis (with comparatives) shall comprise and be ordered as follows:
 - a. the Board Members’ Responsibility Statement¹;
 - b. Accounting Officer’s Statement on Internal Control;
 - c. the audit report;
 - d. a foreword in respect of the Group and entitled “Group Foreword”;
 - e. a statement of performance targets and results for the group; and
 - f. in respect of the HEFCE and the Group using a side by side presentation:
 - i. an income and expenditure account;
 - ii. a balance sheet;
 - iii. a cash flow statement using the direct method² according to FRS1; and
 - iv. if there are any changes in net assets that have not been reflected in the income and expenditure account, a statement of total recognised gains and losses according to FRS3.

For i) to iv) above, such notes should be included as may be necessary to comply with paragraph 4 below.

¹In accordance with Auditing Standard 600 (SAS 600)

²Under the direct method operating receipts and payments are separately disclosed.

4. The HEFCE shall observe all relevant guidance given in “Government Accounting” and in “Executive NDPBs: Annual Reports and Accounts guidance” as amended or augmented from time to time.
5. The accounts shall be produced under the historical cost basis of accounting (modified by any revaluations) to give a true and fair view of the surplus or deficit, state of affairs, recognised gains and losses and cash flow of the HEFCE and the Group. Subject to the foregoing requirement, the annual accounts shall also without limiting the information given and save as prescribed in Schedule 1 to this Direction meet:
 - a. the accounting and disclosure requirements of the Companies Act;
 - b. Generally Accepted Accounting Practice in the United Kingdom (UK GAAP) with the exception of the requirement contained in FRS3 for the inclusion of a note showing historical cost profits and losses;
 - c. any disclosure and accounting requirements which the Treasury may issue from time to time in respect of financial statements which are required to give a true and fair view; and
 - d. any additional disclosure requirements contained in “The Fees and Charges Guide”.
6. The income and expenditure account and balance sheet shall be prepared under the historical cost convention modified by the inclusion of:
 - a. fixed assets at their value to the business by reference to current costs; and
 - b. stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.
7. The HEFCE shall follow the guidance issued by the Treasury in March 1996 requiring NDPBs to disclose in their accounts the full costs of their activities. Accordingly, the accounts shall include notional charges to reflect the cost of interest on capital employed. The notional cost shall be reversed before calculation of the carried forward balance on the Income and Expenditure account.
8. The accounts of the HEFCE and the HEFCE Group shall also include information set out in Schedule 2 to this Direction.
9. This Direction shall be reproduced as an appendix to the accounts.

Signed by authority of the Secretary of State

Divisional Manager, Higher Education Funding Division, Department for Education and Employment

11 May 2001

Appendix 1: Schedule 1

1. This schedule relates to the HEFCE and the Group.
2. The disclosure exemptions permitted by the Companies Acts will not apply unless specifically authorised by the Secretary of State.
3. The income and expenditure accounts and the balance sheets shall respectively follow format 2 and format 1 prescribed in Schedule 4 to the Companies Act 1985 to the extent that such requirements are relevant. Regard should be had to the need to strike the balance sheet totals at "Total Assets less Current Liabilities".
4. The financial statements should be compiled on a gross basis consistent with the overriding requirement to show a true and fair view. The primary financial statements should be drawn to the nearest £'000.
5. All the disclosure requirements set out in this Direction must be complied with except where nil values arise for both the current accounting period and the comparative value.
6. The foreword and balance sheet should be signed and dated by the HEFCE Accounting Officer.

Appendix 1: Schedule 2

1. The foreword as a minimum shall contain the relevant information required by the Companies Act 1985 to be disclosed in the Director's report. Additionally it should:
 - a. describe the statutory authority for the accounts and include a brief history of the body and its statutory background together with the names of the Board members who served from the start of the financial accounting period until the accounts are approved by the Board;
 - b. include a reference to the financial statements being 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; and
 - c. be elaborated with such additional information as the Council may consider to be useful to the readers of the financial statements.
2. The notes to the accounts shall include details of the key corporate targets agreed with the Secretary of State together with the performance achieved.
3. The Income and Expenditure account or notes for HEFCE and the Group shall show where relevant, inter alia:
 - a. Under "Income":
 - i. total grant-in-aid from the Department for Education and Employment (DfEE) (see further 6(a));
 - ii. total earmarked grants from DfEE (see further 6(a));
 - iii. grants from other departments and exchequer bodies, e.g. for advice given to the Department of Higher and Further Education, Training and Employment (DHFETE);
 - iv. income from activities, such as receipts from the sale of occasional publications;
 - v. transfer from deferred grant account in respect of the utilisation of grant-in-aid for capital;
 - vi. expenditure in the year under review; and
 - vii. other operating income.
 - b. Under "Expenditure":
 - i. grants paid to institutions measured on an accruals basis (see further 6(c));
 - ii. grants paid to subsidiary undertakings measured on an accruals basis (in the case only of HEFCE); and

- iii. administration costs analysed on the face of, or in the notes to, the accounts (see 6 (g) below).
4. The Balance Sheet for the Group and the HEFCE shall show where relevant, inter alia:
 - a. Tangible fixed assets: the HEFCE in consultation with the DfEE shall determine a de minimis value for capitalising fixed assets in the balance sheet which for the time being should be no higher than £2,500.
 5. The cash flow statement drawn on the direct method for the Group and the HEFCE shall disclose inter alia:
 - a. grants received from DfEE (see further note 6(a) below);
 - b. grants paid to institutions (see further note 6(a) below); and
 - c. grants paid to subsidiary undertakings (HEFCE only).
 6. The notes to the annual financial statements shall disclose:
 - a. by way of note to the cash flow statement a schedule of total grants paid to the institutions shown by type of grant matched against grants paid to the Council by the DfEE. The note shall also disclose under or overspends according to the types of grant and in total. Examples of the types of grants dealt with by this heading are: recurrent expenditure of institutions (HEIs and FEIs disclosed separately), Access Grants and RCA bursaries;
 - b. the working cash balance at the year end compared to the amount authorised by DfEE, divided between programme and running costs;
 - c. a reconciliation statement between 6(a) and 6(b) above and the grants income and grant expenditure disclosed in the income and expenditure account;
 - d. amounts of receipts from institutions in respect of Exchequer funded assets sold by them and repaid to the Consolidated Fund through the DfEE;
 - e. amounts of gross interest receivable together with amounts surrendered to the DfEE;
 - f. amounts of any other income received, together with amounts surrendered to the DfEE;
 - g. administration costs analysed by pay and non-pay costs by main types of expenditure;
 - h. details of staff costs, analysed between wages and salaries, social security costs and pension costs. The note shall also disclose the average number of persons employed (excluding staff seconded to other organisations but including staff seconded from other organisations) analysed by category of employment in a way which reflects the manner in which the Council's activities are organised.

- i. details for the Chief Executive and the other most senior managers of the Council, by named individuals, of
 - i. the aggregate of the remuneration payable for the year (defined in accordance with paragraph B07 of the Greenbury Code) and of pension entitlements (calculated on the basis set out in PCSPS circular PC/107);
 - ii. service contracts with a notice period in excess of 12 months; and
 - iii. any business interests defined in accordance with paragraph B11 of the Greenbury Code.
- j. an analysis of full cost expenditure of the main activities which the Council is undertaking in accordance with its operational plan;
- k. a note that Board members confirm that Government grants received have been used only for approved purposes; and
- I. a note on Related Party Transactions.

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