

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

Higher Education Funding Council for England Account 2004-2005

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Foreword

Members of the Board of the Council during 2004-2005

Mr David Young (Chairman)
Sir Howard Newby (Chief Executive)
Mr Steve Bundred
Mr Richard Coldwell
Mrs Jackie Fisher
Mrs Ann Lloyd
Dr Beverly Malone
Professor Sir Gareth Roberts
Professor Peter Rubin
Mr Peter Saraga
Professor Nigel Savage
Professor Peter Scott
Mr Ed Smith
Sir Richard Sykes
Mrs Ann Tate

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 Skills with information relating to all aspects of higher education teaching and research, including the financial needs of the sector; and
- 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 have identified four strategic aims and three cross-cutting themes in which we aim to

- a provide the opportunity of higher education to all those who could benefit from it;
- b ensure that all higher education students benefit from a high-quality learning experience fully meeting their needs and the needs of society;
- c develop and sustain a dynamic research sector that holds a strong position among the world leaders, and makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge;
- d support all institutions in making a significant and measurable contribution, through knowledge transfer and related activities, to economic development and the strength of communities;
- e ensure excellent provision across the full range of activity within HE, by supporting institutions to focus on achieving excellence in what they do best and to collaborate based on their strengths;

- f Provide support, through a broad-based partnership, to enhance further the sector's leadership, governance and management; and
- g Ensure HEFCE can effectively deliver this strategic plan, working to the highest standards in all that we do.

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 to 13 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. The 2004-2005 financial statements were scrutinised by the Audit Committee on 2 June 2005 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2004-2005. Members of the Audit Committee were

| | |
|---------------------------|--|
| Mr Steve Bundred (Chair)* | Chief Executive, Audit Commission |
| Mr James Aston MBE | Partner, Charity and Education, BDO Stoy Hayward |
| Mrs Ann Lloyd* | Director, NHS Wales |
| Professor Nigel Savage* | Chief Executive, College of Law in England and Wales |
| Mr Michael Sheasby | Chairman, Brunel University Audit Committee |
| Mr Fraser Woodburn | Secretary, Open University |

* also members of HEFCE's Board

Financial results for 2004-2005

These accounts cover the year 1 April 2004 to 31 March 2005. The vast majority of the Council's income is from Grant-in-Aid. In 2004-2005 this was £6,134,165,000 (2003-2004: £5,717,952,000). Within this sum the amount used for capital purposes (purchase of assets) was £6,419,000 (2003-2004: £267,000). Total income for the year was £6,202,740,000 (2003-2004: £5,765,641,000).

The Council aims to distribute the funds received each year within that year. The Financial Memorandum between the Department for Education and Skills (DfES) 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 on a cash basis, of the Grant-in-Aid provided for distribution to institutions and for its running costs.

In resource terms the Council is authorised to carry forward the relevant amount relating to slippage on capital programmes, and a further £10,000,000 relating to other programmes. This gives the Council some flexibility which enables us to plan expenditure efficiently. For the year ended 31 March 2005 the Council has resource balances of £159,677,000 for capital (2003-2004: £23,769,000) and -£72,922,000 for recurrent programmes (2003-2004: £5,425,000). In addition, there is a non cash reduction in the provision for inherited staff liabilities (explained in more detail below). This reduction in Recurrent resource expenditure more than offsets the negative balance of -£72,922,000 referred to above. DfES has confirmed that it is content for these balances to be carried forward.

Since 2001-2002 a provision has been recognised for the ongoing costs of inherited staff liabilities. These costs are now expected to be incurred until 2017 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 as long term liabilities.

During 2004-2005 the Council commissioned a review of the information content licences held by the JISC. The licensing of information content allows the JISC to generate income through sub-licences to subscribers within the higher education sector, thereby giving it access to future economic benefits. Having reviewed the nature of these licences and established their present value it is now considered appropriate to capitalise these licences as intangible fixed assets. The value on the balance sheet at 31 March 2005 is £3,376,000.

The results for 2004-2005 show a surplus of £163,126,000 (2003-2004: deficit of £36,109,000). This surplus is higher than would be expected due to a significant movement in the provision for inherited staff liabilities. Following an independent review of this provision during 2004-2005 the estimated average expected payment period has been reduced to just over 12 years (from 16 years). Based on these revised assumptions we have released from the provision £83,955,000 to the Income and Expenditure account. If the effect of this change is removed the results would show a surplus of £88,451,000. This represents the timing difference between receipt of Grant-in-Aid and the actual payments.

The accounts are audited by the Comptroller and Auditor General, who is appointed by Statute. The audit fee is £32,000 and he did not provide any non-audit services during 2004-2005.

Achievements in 2004-2005

During 2004-2005 the Council's principal achievements, its key performance targets (from the 2003-2008 strategic plan) and its performance against these targets, by strategic aim or cross-cutting theme were as follows

Widening participation and fair access

Strategic aim: To provide the opportunity of higher education to all those who could benefit from it.

Key Performance Target.

KPT 1: To increase participation in higher education in line with the funding and policies set out in the annual grant letter provided by the Secretary of State.

Achievements to 31 March 2005

On target

In the January 2004 grant letter, the SoS planned for 50,000 Foundation Degree places by 2005-2006. We are on course to achieve that target with 37,000 reported on HESES/HEIFES 2004-2005. Precise data on other forms of participation, which can be confirmed with the planning numbers set out for all HE participation in the grant letter, will be available later on this year.

KPT 2: Across the planning period the non-completion rate for English HEIs will remain the same as, or be less than, the benchmark value calculated from the start year 2002-2003.

On target

The performance indicators for non-completion published in September 2004 showed that the overall non-completion rate for English HEIs has not changed significantly from the previous year.

Enhancing excellence in learning and teaching

Strategic aim: To ensure that all higher education students benefit from a high-quality learning experience fully meeting their needs and the needs of society.

Key Performance Target.

KPT 3: All new staff in HE to be trained to agreed professional national teaching standards by 2006.

Achievements to 31 March 2005

On target

The HE Academy is developing a draft professional standards framework for consultation with the sector in summer 2005 with the aim of publishing the final framework in October 2005. Once the standards have been agreed all staff new to a substantial teaching responsibility in HE will be enrolled on courses which have been accredited by the HE Academy as meeting the required new standards.

KPT 4: At least 95 per cent of institutions being audited by the Quality Assurance Agency receive judgements of broad confidence throughout the plan period.

On target

43 of the 46 QAA audit reports published between January 2004 and December 2004 show a judgement of broad confidence (93.5%). The percentage for the total number of institutional audit reports (70) published to December 2004 is 95.7%.

KPT 5: A new Academy to support quality enhancement in learning and teaching will be set up by the end of 2004 and its impact reviewed by 2008.

Achieved

The Higher Education Academy began operating from May 2004 and was officially launched in October 2004.

On target

The Academy is finalising its strategic plan, due to be submitted in May 2005. The annual operating plan will incorporate key performance indicators which will inform our review of the Academy's impact by 2008.

KPT 6: Seventy centres of excellence in teaching and learning (CETL) will be established by 2006 and their impact evaluated by 2008.

Achieved

We announced 74 funded CETLs in January 2005. Interim evaluation of CETLs is planned in 2007 with a full evaluation at the end of the five-year funding period in 2010.

KPT 7: We will consult on and implement a new funding method which supports our strategic plan priorities and the Government's policies on higher education.

On target

A progress report on our review of teaching funding will be published in May 2005. Sector representative bodies will then be invited to comment on the proposed aims for the new method. We will consult on the principles and mechanisms for the new method towards the end of 2005 and finalise our intentions for how a new method might operate in spring 2006.

Enhancing excellence in research

Strategic aim: To develop and sustain a dynamic research sector that holds a strong position among the world leaders, and makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.

Key Performance Target.

KPT 8: To maintain the UK's leading international position in research excellence throughout the planning period.

Achievements to 31 March 2005

On target

We have continued to make reforms in accordance with the outcomes of the 2003 Review of Research Funding and recent government policy. These included the introduction of new funding arrangements for post graduate research students. In addition capital funding grants for 2006-2008 have been published. We are working in partnership with the Research Councils to fund capacity building initiatives, and have just completed the first round of one such scheme with EPSRC. In partnership with the Department of Health, we shall be funding 200 'new blood' senior lectureships.

KPT 9: To develop and implement a new process for assessing research by 2008 that informs stakeholders about relative performance and recognises the diversity of outputs of research effort in different disciplines.

On target

We are progressing with the administration and management of the 2008 Research Assessment Exercise.

KPT 10: To demonstrate improved sustainability of the national research base by 2008.

On target

We are continuing to develop and implement the transparent approach to costing (TRAC) methodology. We are working with key funders and stakeholders (including the research councils and Government) to ensure that the full economic costs of research are recovered.

Enhancing the contribution of HE to the economy and society (business and community)

Strategic aim: To support all institutions in making a significant and measurable contribution, through knowledge transfer and related activities, to economic development and the strength of communities.

Key Performance Target.

KPT 11: By 2005 we will be able to demonstrate the year on year improvement in the collaborative and individual interactions of all HEIs with business and the community, related to national social and economic benefit and evaluated from annual collection of robust data.

Achievements to 31 March 2005

Achieved

The HE-business and community interaction (HEBCI) survey carried out in 2004 has been published (HEFCE 2005-2007) and shows a further significant increase in the third stream performance of the UK HE sector.

KPT 12: To develop by 2005-2006 a set of objective measures of what is delivered over the planning period from an established baseline.

On target

In 2004 there was a significant refinement of measures to provide longitudinal comparison of both business and Social, Civic and Community (SCC) interactions. The intention is not to make major changes for the next two to three years. The Survey deductions are being widely used within Government and by other key stakeholders as the most comprehensive set of measures available.

KPT 13: By 2008, we intend to have secured funding to support these activities at an aggregate annual level across the sector greater than that announced in the 2002 spending review.

Achieved

Funding for HEIF 3 (2006-2007 and 2007-2008) has been confirmed at a total of £238 million, an increase of over 25% on the £187 million available for HEIF 2.

Building on institutions' strengths

Strategic aim: To ensure excellent provision across the full range of activity within HE, by supporting institutions to focus on achieving excellence in what they do best and to collaborate based on their strengths.

Key Performance Target

KPT 14: By 2006, all HEI corporate plans to identify clearly both how the institution will develop and sustain distinctive excellence in one or more of its areas of relative strength, and its plans for collaboration related to its mission.

Achievements to 31 March 2005

Under review

Our approach to institutional corporate planning and the advice we provide is being reviewed in the light of our commitment to reduce accountability burden and specifically in relation to the 'single conversation' approach being developed.

Developing leadership, governance and management

Strategic aim: To provide support, through a broad-based partnership, to enhance further the sector's leadership, governance and management.

Key Performance Target

KPT 15: By 2008 all HEIs will show measurable improvements in at least one dimension of equal opportunities.

Achievements to 31 March 2005

On target

Activity in 2003-2004 and 2004-2005 has focussed on improving capacity within the sector to implement equal opportunities within HEIs. A recent review of the Rewarding and Development Staff initiative has shown that much has been done to date in improving equality of opportunity for women and staff from black and minority ethnic groups. HESA data (1995-1996 to 2003-2004) shows an impressive improvement in equal opportunities outcomes for women and minority groups, and this trend looks set to continue in future years. We are concentrating now on refining our tools for measuring progress in the sector, and are awaiting the results of the next HESA data collection of all staff.

Excellence in delivery

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

Key Performance Target

KPT 16: By the end of the planning period, HEFCE to be assessed by the European Foundation for Quality Management as maintaining level 2 – 'Recognised for Excellence'.

Achievements to 31 March 2005

On target

The results of the 2005 staff survey continue to show results which either match or exceed the external benchmarks drawn from a norm group consisting of UK high performing companies. We continue to develop effective ways of improving and measuring ways of meeting our stakeholders' needs. HEFCE continues to promote a culture of open communication, involvement with staff and creativity. Work continues on the development of the five key business processes, including stakeholder management and the policy cycle. Many other processes have been actively developed using the principles of the Excellence Model. We are in the process of developing a policy and associated plan for Corporate Social Responsibility.

Consultation with employees

The Council recognises the Public and Commercial Services (PCS) union as specified in our partnership agreement and regularly consults with all staff and the PCS union on changes concerning employee relations within the organisation, taking into account the differing views and opinions of colleagues. The Council, along with other public bodies, has published its Race Equality Scheme (May 2002) as required under the Race Relations (Amendment) Act 2000. As part of this scheme the Council remains committed to consult with staff from all ethnic groups about any changes to the Council's equal opportunities policies to ensure appropriateness and effectiveness.

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 itself. 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 updated its Diversity and Equal Opportunities policy in line with its Race Equality Scheme and in order to comply with the Race Relations Amendment Act 2000. The Council is committed to making race equality and equal treatment – irrespective of gender, disability, sexuality, age or religious belief – a core element in the way services are delivered and in the way the Council is managed.

Going concern

The balance sheet at 31 March 2005 shows net liabilities of £177,242,000. 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, the DfES. 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.

Grant and Grant-In-Aid for 2005-2006 taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in the departments estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future sponsoring and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Management information and financial systems

During 2003-2004 the Council reviewed its computerised financial systems, which were installed in 1996. The review highlighted a number of key issues which were making existing systems obsolete, and a number of areas where a modern, integrated system would deliver significant benefits to the Council and to the HE sector as a whole. During 2004-2005 the Council has developed and implemented a new management information system which will enable us to deliver benefits through more efficient business processes and improved management information to both internal and external stakeholders. The new system went live on 1 April 2005.

Payment of creditors

The Council is fully committed to the prompt payment of its suppliers' invoices and supports HM Treasury's Better Payment Practice Code. The Council aims to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is the later. All suppliers have been notified of this commitment and have been given clear guidelines to help the Council achieve this aim. Throughout the year the Council monitors actual performance against the 30 day target. During the financial year 2004-2005 the target was met for over 98 per cent of invoices (2003-2004: 99 per cent).

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 Howard Newby
Chief Executive and Accounting Officer
Higher Education Funding Council for England

16 June 2005

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 Skills, 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 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 have been followed and disclose and explain material departures in the financial statements; and
- 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 Skills 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 Internal Control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Council's strategic aims and objectives, whilst safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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.

The 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 of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's strategic aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Council for the year ended 31 March 2005 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 April 2003 and is available on both our internal and external websites. The Assurance Framework explains the Council's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in the Council's strategic and operational planning processes.

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

Against the strategic aims and cross-cutting themes as set out in HEFCE's 2003-2008 strategic plan the Council has identified a total of 20 strategic risks. Each strategic aim or cross-cutting theme is allocated to one of my four directors and as a result they are also the identified owners of the related strategic risks. These responsibilities are acknowledged by each director in an annual risk management statement, which sets out the strategic risks that they have been responsible for managing. These statements also acknowledge any other responsibilities directors have which contribute to our risk management and internal control system (specifically including responsibilities relating to regions, HEIs, related bodies and key business processes). To support them in this process they in turn receive an annual assurance statement from their own directorate assurance team (DAT) which provides them with assurance as appropriate on the management of their strategic risks and associated responsibilities within their directorate.

The risk and control framework

The Council's approach to risk management is based on a process designed to identify the significant risks to achieving HEFCE's strategic aims and objectives, to evaluate the nature and extent of these risks and to manage them effectively, efficiently and economically. HEFCE's Assurance Framework sets out more fully the Council's risk management policy. Central to this policy is the clear relationship between our strategic risks and the achievement of our strategic objectives. During 2004-2005 we have developed a planning framework which provides an overview of the Council's approach to planning, resourcing and risk management. It is a high level document which outlines the broad principles we would expect to be adopted throughout the Council and provides sources of further information or guidance. The framework also sets out the responsibilities of the key roles and teams involved in the planning process, in relation to planning, risk management and resourcing.

The 20 strategic risks were identified alongside the development of our 2003-2008 strategic plan and therefore relate directly to one of the seven strategic aims or cross-cutting themes identified in the plan. In addition, the monitoring of strategic risks is fully embedded in the process to monitor our operational performance and the associated reports. Quarterly reports, which go to the Chief Executive's Group (CEG) and the Board, provide a summary of the 20 strategic risk scores, highlighting the highest scoring risks, explaining any movements in risk scores and providing a total risk score for the portfolio of risks to enable the overall movement in the risk portfolio to be monitored over time. This quarterly monitoring system endeavours to identify new and changing risks, confirm the controls are operating in respect of the key risks and provide an evaluation of the effectiveness of those controls.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control 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, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. Our system of internal control must also take into account the funds provided by the Council which are transmitted to higher and further education institutions (and related bodies) for education, research and associated purposes. The Council's accountability framework therefore needs to encompass our operational controls, our financial controls and compliance controls.

The accountability framework consists of policies, procedures, monitoring and communication which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. Specific developments during 2004-2005 include; an effectiveness review of both the Board and the Audit Committee, an independent review of our internal audit function, further extension of our assurance and risk work to related bodies and the development of a new management information system which will integrate our existing grants and running costs system from April 2005.

Ongoing review and monitoring of these controls is also carried out by each director. As part of the effectiveness review process I seek assurance from my directors on these controls (via their risk management 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 to inform my review of effectiveness.

Each of the key annual controls (Director's risk management statements, the production of the financial statements, the Assurance Service 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 the implications and, where appropriate, action has been taken or is planned to address the issues arising.

During the year, our control systems (which cover our internal controls and the institutions and related bodies risk management system) have identified issues that have required specific actions to be taken to manage the associated risks. Details of the most significant issues identified in the year and the actions taken have been recorded in the individual risk management statements prepared by each of my directors. I do not consider that any of these issues indicate a significant weakness in our internal controls which would warrant disclosure here.

Sir Howard Newby
Chief Executive and Accounting Officer
Higher Education Funding Council for England

16 June 2005

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 40 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 20 to 22.

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

As described on page 10, the Council and the 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 Skills, and for ensuring the regularity of financial transactions. The Council and the Chief Executive are also responsible for the preparation of the Foreword. In discharging my responsibilities, as independent auditor, I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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 Skills, whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and whether 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 Council's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by HM Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

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 the 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 2005 and of the surplus, 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 Skills; 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

13 July 2005

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

Income and Expenditure account for the year to 31 March 2005

| | Notes | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|--|-------|---|---|
| Income | | | |
| HM government grants receivable | 2 | 6,127,746 | 5,717,685 |
| Transfer from deferred grant account | 14 | 3,121 | 226 |
| Other income | 3 | 71,873 | 47,730 |
| | | 6,202,740 | 5,765,641 |
| Expenditure | | | |
| <i>Grants payable to institutions</i> | | | |
| Recurrent and capital expenditure | 4 | 5,999,154 | 5,593,656 |
| Access and Hardship funds | 4 | 91,056 | 110,192 |
| Amortisation and impairment | 7b | 2,870 | 0 |
| Provision reversed unused in year | 12 | (1,579) | (3,544) |
| <i>Council administration costs</i> | | | |
| Staff costs | 5c | 10,260 | 9,544 |
| Other administration | 6 | 8,044 | 7,954 |
| Depreciation | 7a | 219 | 204 |
| | | 6,110,024 | 5,718,006 |
| Operating surplus/(deficit) before interest | | 92,716 | 47,635 |
| Notional interest on capital | 8 | 10,981 | 11,856 |
| Unwinding of discount | 12 | (13,545) | (11,734) |
| Decrease/(increase) in provision | 12 | 83,955 | (72,010) |
| Operating surplus/(deficit) after interest | | 174,107 | (24,253) |
| Reversal of notional interest on capital | | (10,981) | (11,856) |
| Surplus/(deficit) for the period | | 163,126 | (36,109) |

All HEFCE operations are continuing.

The notes on pages 20 to 40 form part of these accounts.

Statement of Total Recognised Gains and Losses as at 31 March 2005

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Surplus/(deficit) per income and expenditure account | 163,126 | (36,109) |
| Unrealised surplus/(deficit) on revaluation | 1 | 0 |
| Total recognised gains and losses for the year | 163,127 | (36,109) |

Balance Sheet as at 31 March 2005

| | Notes | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--|-------|--|------------------------------------|
| Fixed assets | | | |
| Tangible assets | 7a | 219 | 296 |
| Intangible assets | 7b | 3,376 | 0 |
| | | 3,595 | 296 |
| Current assets | | | |
| <i>Repayable grants to institutions</i> | | | |
| Falling due within one year | 9a | 2,433 | 6,246 |
| Falling due after one year | | 14,066 | 13,274 |
| Loans to staff | 9b | 1 | 0 |
| Debtors | 9c | 8,949 | 13,111 |
| Cash at bank and in hand | 10 | 89,301 | 17,408 |
| | | 114,750 | 50,039 |
| Creditors | | | |
| amounts falling due within one year | 11 | (10,989) | (6,994) |
| Net current assets | | 103,761 | 43,045 |
| Total assets less current liabilities | | 107,356 | 43,341 |
| Provisions for liabilities and charges | 12 | (284,598) | (387,008) |
| Total net assets/(liabilities) | | (177,242) | (343,667) |
| Represented by | | | |
| <i>Accruals and deferred income</i> | | | |
| Deferred government grant | 14 | 3,595 | 296 |
| Reserves | | | |
| General reserve | 15 | (180,837) | (343,963) |
| | | (177,242) | (343,667) |

Sir Howard Newby
Chief Executive
Higher Education Funding Council for England

16 June 2005

The notes on pages 20 to 40 form part of these accounts.

Cash Flow Statement for the year to 31 March 2005

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|--|---|---|
| Operating activities | | |
| <i>Receipts</i> | | |
| HM government grant funds received through the Department for Education and Skills | | |
| Programme funds | 6,110,720 | 5,700,896 |
| Running costs | 17,026 | 16,633 |
| Other receipts | 76,036 | 41,989 |
| Repayment of institution loans | 6,246 | 4,688 |
| Repayment of staff loans | 0 | 2 |
| | 6,210,028 | 5,764,208 |
| <i>Payments</i> | | |
| Funding paid to institutions | 6,116,871 | 5,733,982 |
| Administration costs | 18,038 | 17,448 |
| Loans to institutions | 3,225 | 4,324 |
| Loans to staff for approved purposes | 1 | 0 |
| | 6,138,135 | 5,755,754 |
| Net cash inflow/(outflow) from operating activities | 71,893 | 8,454 |
| Capital expenditure | | |
| Purchase of tangible fixed assets | (173) | (267) |
| Purchase of intangible fixed assets | (6,246) | 0 |
| Sale of fixed assets | 0 | 0 |
| Net cash outflow from capital expenditure | (6,419) | (267) |
| Financing | | |
| <i>Transfer to deferred government grant</i> | | |
| Running costs | 173 | 267 |
| Programmes | 6,246 | 0 |
| Net cash inflow/(outflow) | 71,893 | 8,454 |

Reconciliation of operating surplus to net cash flow from operating activities

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|--|---|---|
| Operating surplus/(deficit) | 92,716 | 47,635 |
| Depreciation and impairment | 3,121 | 226 |
| Release from deferred government grant | (3,121) | (226) |
| Decrease/(increase) in debtors and loans | 7,182 | (3,968) |
| Increase/(decrease) in creditors | 3,995 | (3,213) |
| Payment from provisions | (30,421) | (28,456) |
| Provision reversed unused in year | (1,579) | (3,544) |
| Net cash inflow/(outflow) from operating activities | 71,893 | 8,454 |

Reconciliation of net cash flow to movement in net debt

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|--|---|---|
| Net funds at 1 April | 17,408 | 8,954 |
| Increase/(decrease) in cash for the year | 71,893 | 8,454 |
| Net funds at 31 March | 89,301 | 17,408 |

Notes to the Accounts

1 Accounting policies

Basis of accounting

These accounts are drawn up in accordance with a Direction (see Appendix 2) given by the Secretary of State for Education and Skills, 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 historical cost convention, modified by revaluation of fixed assets and in accordance with the requirements of the Companies Act 1985 and applicable Accounting Standards issued or adopted by the Accounting Standards Board with the exception of the requirements of FRS 3 for the inclusion of a note showing historical cost profits and losses. In accordance with FRS 18 the accounting policies and estimation techniques used are those that are judged to be the most appropriate for the purpose of giving a true and fair view. These policies are reviewed regularly to ensure they remain the most appropriate.

Basis of consolidation

The Council contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the HE sector as a whole, rather than for investment purposes, and HEFCE does not retain any residual rights in these organisations. Based on the requirements of Generally Accepted Accounting Practice and HM Treasury guidance for Executive Non-Departmental Annual Reports and Accounts the Council will consider, subject to the materiality of these bodies in aggregate, whether each related body meets all the necessary requirements for consolidation. For the financial year ended 31 March 2005 the Council is satisfied that in aggregate our related bodies are not material.

Deferred government grant

In accordance with Treasury Accounting Guidance for Non Departmental Public Bodies, where an asset's value is increased as a result of revaluation, the increase is credited to the Deferred Government Grant reserve. Where an asset is impaired as a result of downward revaluation the charge is taken to the Income and Expenditure account with a corresponding release from Deferred Government Grant. On disposal of an asset any profit or loss is taken to the Income and Expenditure account with a corresponding transfer from the Deferred Government Grant. The balance on the Deferred Government Grant reserve is then transferred to the General reserve.

Financial instruments

FRS 13 requires organisations to disclose information on the possible impact of financial instruments on its risk profile, and how these risks might affect the organisation's performance and financial condition. As a Non Departmental Public Body funded by the Government HEFCE can confirm that it is not exposed to any liquidity or interest rate risks. The Council has no overseas operations and does not operate any foreign currency bank accounts; as such it is not subject to any foreign currency risks.

Fixed assets

Intangible fixed assets

Expenditure on the acquisition of information content licences, where there are fee-generating sub-licences to subscribers (one of the roles of the JISC) which represent a future economic benefit, are capitalised as intangible fixed assets. These have been brought in for the first time in 2004-2005. These licences are capitalised at the value of the minimum payments guaranteed by the licensor and amortised over the term of the licence (or over a maximum of five years if the licence is granted in perpetuity). An impairment review is carried out in the first year of capitalisation and annually thereafter.

Tangible 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.

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

| | |
|----------------------------------|----------|
| Buildings | 10 years |
| Fixtures, fittings and 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. Assets are revalued each year in accordance with indices produced by the Office for National Statistics.

Going concern

Parliament has voted Grant-In-Aid to HEFCE for the 12 months following the balance sheet date. Therefore, despite the balance sheet position of net liabilities, HEFCE trades as a going concern.

Grants from the Department for Education and Skills

Institutional grants 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. Grant in Aid to finance Access Funds is 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. The Deferred Grant account is released to the Income & Expenditure account over the estimated useful life of the related assets.

Joint arrangements

The Council has certain agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Council includes its share of assets, liabilities and cashflows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Council's interest in the joint arrangement. The Joint Information Systems Committee (JISC) meets the definition of a joint arrangement that is not an entity under FRS 9. Funding is provided to the JISC from the Council, which also distributes funds from the other UK funding bodies. This income and expenditure is accounted for gross in the HEFCE's financial statements.

Leases

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

Notional costs

Treasury guidance in respect of Non Departmental Public Bodies' Annual Reports and Accounts 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 3.5 per cent to the average capital employed. In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

Payment of grants 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.

Repayable grants to institutions are recognised when they fall due for payment. Repayable grants are normally for three to five years, but can be made for up to ten years and are interest free. Repayments are achieved through deductions from future grants.

Pension costs

Employees of the Council are members of the Principal Civil Service Pension Scheme (PCSPS), and the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply to the employees of the Council. The PCSPS, is a multi employer defined benefit scheme (treated for accounting purposes as a defined contribution scheme). In the year ended 31 March 2005 the Council paid contributions of £1,054,000 (2003-2004: £998,000) to the PCSPS. Contribution rates are determined from time to time by the Government Actuary and advised by the Treasury. For 2004-2005 these rates varied between 12 per cent and 18.5 per cent (2003-2004: 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 has been one member of staff to whom this relates. For 2004-2005 these contributions amounted to £19,000 (2003-2004: £18,000). For 2004-2005 the rate of employers contribution was 14 per cent (2003-2004: 14 per cent) of salary.

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 2017 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 as long term liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value. The discount factor used is the HM Treasury prescribed rate of 3.5 per cent.

Taxation

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

2 HM Government Grants receivable

This note shows the Grant in Aid receivable from the Department for Education and Skills during the year. The Grant received is part of the Department's Resource Accounts.

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|--|---|---|
| Programmes | | |
| Recurrent and capital expenditure | 6,027,689 | 5,592,161 |
| Transferred to deferred grant | (6,246) | 0 |
| | 6,021,443 | 5,592,161 |
| Running costs | | |
| Administration costs | 17,199 | 17,056 |
| Transferred to deferred grant | (173) | (267) |
| | 17,026 | 16,789 |
| Other grant income | | |
| Access funds | 77,931 | 97,525 |
| Post graduate certificate in education | 11,346 | 11,210 |
| | 89,277 | 108,735 |
| Total Grant-In-Aid | 6,127,746 | 5,717,685 |

3 Other income

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Programmes | | |
| <i>Funding receivable from other Councils for joint initiatives</i> | | |
| Department for Employment and Learning | 1,368 | 1,056 |
| Higher Education Funding Council for Wales | 1,971 | 1,724 |
| Learning and Skills Councils | 47,117 | 33,796 |
| National Council for Education and Training Wales | 1,283 | 969 |
| Scottish Further Education Funding Council | 1,933 | 1,503 |
| Scottish Higher Education Funding Council | 6,167 | 3,015 |
| Miscellaneous programme income | 10,912 | 4,851 |
| | 70,751 | 46,914 |
| Running costs | | |
| <i>Contributions receivable from other Councils for administration costs</i> | | |
| Department for Employment and Learning Northern Ireland | 222 | 198 |
| Higher Education Funding Council for Wales | 46 | 36 |
| Learning and Skills Councils | 373 | 359 |
| National Council for Education and Training Wales | 22 | 21 |
| Office of Science and Technology | 18 | 0 |
| Scottish Further Education Funding Council | 35 | 34 |
| Scottish Higher Education Funding Council | 110 | 87 |
| Payment from the Office for Fair Access for services provided under the service level agreement | 183 | 0 |
| <i>Income from activities</i> | | |
| Conferences | 34 | 29 |
| Publications | 12 | 20 |
| Reimbursement for international projects | 16 | 13 |
| Miscellaneous | 51 | 19 |
| | 1,122 | 816 |
| Total other income | 71,873 | 47,730 |

4 Analysis of recurrent and capital grants

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Basic recurrent grant | 4,824,963 | 4,356,405 |
| Rewarding and developing staff | 59,234 | 159,354 |
| Learning and teaching | 316,221 | 328,012 |
| Widening participation | 83,519 | 44,482 |
| Research | 434,492 | 465,040 |
| Business and community | 103,634 | 54,715 |
| Building institutions' strengths | 85,523 | 111,148 |
| Leadership, governance and management | 6,812 | 5,905 |
| Excellence in delivery | 743 | 541 |
| JISC related activities | 83,771 | 67,453 |
| Residual special funding | 242 | 601 |
| Total recurrent and capital grants | 5,999,154 | 5,593,656 |
| Access and hardship funds | 91,056 | 110,192 |
| Total | 6,090,210 | 5,703,848 |

A detailed analysis of the grant expenditure summarised above is given in Appendix 1 to the Accounts. The above list has been reclassified this year to more fully reflect the four strategic aims and three cross-cutting themes as set out in the strategic plan for 2003-2008, and to align with grant funding announcements.

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

5 Salaries and wages

5a Board members' emoluments and expenses

The Board consists of up to 15 members, including the Chairman and Chief Executive of the Council. With the exception of the Chief Executive, Board members are appointed for a term of two or three years by the Secretary of State for Education and Skills. The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State.

Emoluments of the Chairman

The Chairman's total emolument consists of a salary. The Chairman does not participate in the Council's pension scheme, the Principal Civil Service Pension Scheme (PCSPS). The total salary for David Young, HEFCE Chairman for the year ended 31 March 2005 was £42,762 (2003-2004: £41,923).

Emoluments of the Chief Executive

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual personal responsibility plan agreed by the Chairman. The bonus is also approved by the Secretary of State.

The total emoluments for Sir Howard Newby CBE, HEFCE Chief Executive including taxable benefits were as follows

| | Year ended 31 March 2005 £ | Year ended 31 March 2004 £ |
|------------------------------------|---|-------------------------------------|
| Salary | 148,500 | 138,345 |
| Taxable benefits* | 18,000 | 4,500 |
| Employers pension contributions ** | 18,899 | 17,607 |
| Total | 185,399 | 160,452 |

* The Remuneration Committee has secured agreement from the Secretary of State to the payment of a gross monthly accommodation allowance of £1,500 towards the cost of private accommodation in London instead of hotel costs. This payment took effect from January 2004.

** The Chief Executive is a member of the Universities Superannuation Scheme (USS), rather than the PCSPS. Further details of his pension entitlement is set out in note 5b.

Emoluments of Board members

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

| | Year ended 31 March 2005 £ | Year ended 31 March 2004 £ |
|---|---|-------------------------------------|
| Non-executive honoraria | | |
| Mr Steve Bundred | 5,000 | 5,000 |
| Mr Richard Coldwell | 5,000 | 5,000 |
| Professor Sir Ron Cooke (to August 2003) | 0 | 2,083 |
| Mrs Jackie Fisher | 5,875 | 5,875 |
| Mrs Ann Lloyd | 0 | 0 |
| Dr Beverly Malone (from April 2004) | 5,875 | 0 |
| Dr David Potter CBE (to August 2003) | 0 | 2,083 |
| Professor Sir Gareth Roberts | 5,000 | 5,000 |
| Professor Peter Rubin (from September 2003) | 5,000 | 3,333 |
| Mr Peter Saraga | 5,000 | 5,000 |
| Professor Nigel Savage | 5,875 | 5,875 |
| Professor Peter Scott | 5,875 | 5,000 |
| Mr Ed Smith (from April 2004) | 5,875 | 0 |
| Sir Richard Sykes | 5,875 | 5,875 |
| Ms Ann Tate (from September 2003) | 5,000 | 3,333 |
| Sir John Taylor OBE (to December 2003) | 0 | 0 |
| Ms Dorma Urwin (to August 2003) | 0 | 2,083 |
| | 65,250 | 55,540 |

In lieu of an honorarium the following Board members are paid directly by their employing institutions, with the subsequent reimbursement from the HEFCE to these institutions including VAT. Of the total reimbursement to the institution the Board member receives £5,000 in lieu of an honorarium for their services provided in 2004-2005.

- Mrs Jackie Fisher is paid by Newcastle College.
- Dr Beverly Malone is paid by the Royal College of Nursing.
- Professor Nigel Savage is paid by the College of Law.
- Professor Peter Scott is paid by the Kingston University.
- Mr Ed Smith is paid by PricewaterhouseCoopers.
- Sir Richard Sykes is paid by the Imperial College of Science, Technology and Medicine.

For the year 2004-2005 Mrs Ann Lloyd again waived her right to an honorarium valued at £5,000 (£5,000 in 2003-2004).

5b Senior employees

This note details the salary and pension entitlements of the most senior members of HEFCE. The Council is structured around four directorates which align with the four strategic aims in HEFCE's 2003-2008 strategic plan. Salary and pension details are given for the four directors currently in post along with that of the Chief Executive.

Remuneration

The remuneration of the most senior management of HEFCE were as follows. Figures shown are full year values unless otherwise stated.

| | Year ended 31 March 2005 salary £'000 | Year ended 31 March 2004 salary £'000 |
|--|--|---|
| Sir Howard Newby CBE <i>Chief Executive</i> | 165-170 | 140-145 |
| Dr Liz Beaty, Director <i>Learning and Teaching</i> | 90-95 | 80-85 |
| Steve Egan, Director <i>Finance and Corporate Resources</i> | 95-100 | 85-90 |
| John Rushforth, Director* <i>Widening Participation</i> | 90-95 | 80-85 |
| Rama Thirunamachandran, Director <i>Research and Knowledge Transfer</i> | 90-95 | 80-85 |

* As of 1 July 2004 John Rushforth became Deputy Director of OFFA. This is provided through a service level agreement between HEFCE and OFFA. Under this agreement 40 per cent of his time is charged to OFFA. During the year ending 31 March 2005 HEFCE charged OFFA £41,010.68 (including VAT) for this role.

Salary

Salary includes gross salary; performance pay or bonuses; overtime; and any other taxable allowances or payments.

Benefits in kind

The monetary value of benefits in kind covers any benefit provided by the employer and treated by the Inland Revenue as a taxable emolument. None of the above received benefits in kind during 2004-2005.

Pension benefits

| | Accrued pension at age 60 at 31 March 2005 and related lump sum £000 | Real increase in pension and related lump sum at age 60 £000 | CETV at 31 March 2005 £000 | CETV at 31 March 2004 £000 | Real increase in CETV £000 |
|--|---|---|-------------------------------|-------------------------------|-------------------------------|
| Sir Howard Newby CBE* <i>Chief Executive</i> refers to USS pension scheme* | 25.0-30.0 plus lump sum of 80.0-85.0 | 0 -2.5 plus lump sum of 5.0-7.5 | 432 | 357 | 56 |
| Dr Liz Beaty, Director <i>Learning and Teaching</i> | 0 -5.0 | 0-2.5 | 46 | 24 | 18 |
| Steve Egan, Director <i>Finance and Corporate Resources</i> | 25.0-30.0 plus lump sum of 85.0-90.0 | 2.5-5.0 plus lump sum of 12.5-15.0 | 430 | 343 | 63 |
| John Rushforth <i>Widening Participation</i> | 10.0-15.0 plus lump sum of 30.0-35.0 | 0-2.5 plus lump sum of 5-7.5 | 170 | 135 | 26 |
| Rama Thirunamachandran, Director <i>Research and Knowledge Transfer</i> | 15.0-20.0 plus lump sum of 45.0-50.0 | 0-2.5 plus lump sum of 5.0-7.5 | 176 | 144 | 21 |

Cash equivalent transfer values

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 from 2003-2004 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 own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

5c Staff costs

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Staff directly employed by the HEFCE | | |
| Salaries | 7,656 | 7,230 |
| National Insurance contributions | 659 | 617 |
| Pension costs | 1,073 | 1,016 |
| | 9,388 | 8,863 |
| Costs of employing contract, agency and temporary staff | 872 | 681 |
| | 10,260 | 9,544 |

Staff numbers

The average actual number of staff employed excluding the Chief Executive but including the four directors, was

| | Year ended 31 March 2005 number | Year ended 31 March 2004 number |
|--|--|--|
| Finance and Corporate Resources Directorate | 139 | 137 |
| Learning and Teaching Directorate | 33 | 30 |
| Research and Knowledge Transfer Directorate | 31 | 28 |
| Widening Participation Directorate | 38 | 36 |
| Central and support staff | 23 | 23 |
| | 264 | 254 |
| Average number of contract, agency and temporary staff | 29 | 22 |
| | 293 | 276 |

Salaries

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 settlements consist of an element of revaluation and an element of progression related to performance against objectives. Annual settlements are awarded from 1 August each year (1 April for Directors) and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non consolidated lump sums above it. Members of staff are also eligible for a non-consolidated performance related bonus.

Pensions

The Council contributes to two pension schemes, the PCSPS and the USS.

The PCSPS is an unfunded multi-employer defined benefit scheme notionally backed by the Government. The Council is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-2005 employers' contributions were payable to the PCSPS at one of four rates in the range of 12 per cent to 18.5 per cent of pensionable pay based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

There are three PCSPS schemes, Classic, Classic Plus, and Premium, providing benefits on a final salary basis at a normal retirement age of 60. Benefits accrue at a rate of 1/80th (Classic) or 1/60th (Classic Plus and Premium) of pensionable pay for each year of service. A lump sum equivalent to three years' pension can be payable on retirement, either automatically (Classic), or in return for a reduction in the annual pension (Classic Plus and Premium).

Members of the PCSPS pay contributions of 1.5 per cent (Classic) or 3.5 per cent (Classic Plus and Premium) of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay (Classic) or three times pensionable pay (Classic Plus and Premium) and also provides a service enhancement on computing the spouse's pension. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

Certain staff transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. The Council 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. 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.

Employees joining the Council after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension from one or more of a panel of four appointed stakeholder pension providers with an employer contribution. As at 31 March 2005 2 HEFCE employees had opted to open a partnership pension account.

In accordance with HM Treasury guidance the Council has accounted for both the PCSPS and the USS as if they were defined contribution schemes.

Pension contributions payable by the HEFCE for the accounting period 2004-2005 are as follows

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|--|---|---|
| Principal Civil Service Pension Scheme | 1,054 | 998 |
| Universities Superannuation Scheme | 19 | 18 |
| | 1,073 | 1,016 |

There are no outstanding or prepaid contributions as at 31 March 2005.

6 Other administration

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|---|---|---|
| Audit fee; external audit | 32 | 29 |
| Committee members, advisers and associated travel and subsistence costs | 232 | 280 |
| Consultancy fees | 2,600 | 2,775 |
| Board members honoraria and associated travel and subsistence costs | 71 | 62 |
| General administrative payments | 1,281 | 839 |
| Hospitality | 12 | 10 |
| Premises | 704 | 730 |
| Publications, printing, publicity | 227 | 217 |
| Recruitment and training | 451 | 573 |
| Relocation expenditure | 14 | 11 |
| <i>Rental payments under operating leases</i> | | |
| Hire of plant and machinery | 46 | 50 |
| Other operating leases | 1,102 | 1,107 |
| Revaluation/(impairment) of assets | 32 | 22 |
| Telephone and postage | 227 | 249 |
| Travel and subsistence for staff | 1,013 | 1,000 |
| | 8,044 | 7,954 |

The auditors received no remuneration for non audit services.

Annual commitments under operating leases are as follows

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|-------------------------------|---|---|
| a Land and buildings | | |
| <i>Leases expiring within</i> | | |
| One year | 0 | 0 |
| Two to five years | 226 | 226 |
| More than five years | 869 | 869 |
| | 1,095 | 1,095 |
| b Others | | |
| <i>Leases expiring within</i> | | |
| One year | 10 | 21 |
| Two to five years | 27 | 16 |
| More than five years | 0 | 0 |
| | 37 | 37 |

7a Tangible fixed assets

| | Buildings £'000 | Furniture and office equipment £'000 | Information technology £'000 | Total £'000 |
|--------------------------|--------------------|---|------------------------------------|------------------------|
| Cost or valuation | | | | |
| At 1 April 2004 | 16 | 130 | 549 | 695 |
| Revaluation | 0 | 2 | 0 | 2 |
| Revaluation (impairment) | 0 | 0 | (58) | (58) |
| Additions | 0 | 21 | 152 | 173 |
| Disposals | 0 | (71) | (68) | (139) |
| At 31 March 2005 | 16 | 82 | 575 | 673 |
| Depreciation | | | | |
| At 1 April 2004 | 12 | 104 | 283 | 399 |
| Charge for period | 1 | 18 | 200 | 219 |
| Revaluation | 0 | 1 | 0 | 1 |
| Revaluation (impairment) | 0 | 0 | (26) | (26) |
| Disposals | 0 | (71) | (68) | (139) |
| At 31 March 2005 | 13 | 52 | 389 | 454 |
| Net book value | | | | |
| At 31 March 2004 | 4 | 26 | 266 | 296 |
| At 31 March 2005 | 3 | 30 | 186 | 219 |

7b Intangible fixed assets*Information content licences**

| | As at 31 March 2005 £'000 |
|--------------------------|--|
| Cost or valuation | |
| At 1 April 2004 | 0 |
| Additions | 6,246 |
| Disposals | 0 |
| At 31 March 2005 | 6,246 |
| Amortisation | |
| At 1 April 2004 | 0 |
| Charge for period | 2,236 |
| Impairment | 634 |
| Disposals | 0 |
| At 31 March 2005 | 2,870 |
| Net book value | |
| At 31 March 2004 | 0 |
| At 31 March 2005 | 3,376 |

* The licensing of information content allows the JISC to generate income through sub-licenses to subscribers within the higher education sector, thereby giving it access to future economic benefits. Following a review of the nature of these licenses during 2004-2005 they have been capitalised as intangible fixed assets at their present value.

8 Notional costs

The cost of capital for 2004-2005 has been arrived at by calculating a rate of 3.5 per cent to the average capital employed.

In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|-------------------------------------|---|---|
| Capital employed as at 1 April | (361,016) | (316,490) |
| Capital employed as at 31 March | (266,494) | (361,016) |
| Average capital employed | (313,755) | (338,753) |
| Notional interest on capital | 10,981 | 11,856 |

9a Repayable grants to institutions

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|---------------------------------------|--|------------------------------------|
| Balances as at 1 April | 19,520 | 19,884 |
| Advances during the year | 3,225 | 4,324 |
| Repayments during the year | (6,246) | (4,688) |
| Balances as at 31 March | 16,499 | 19,520 |
| Balances at 31 March repayable | | |
| Within one year | 2,433 | 6,246 |
| After one year | 14,066 | 13,274 |
| | 16,499 | 19,520 |

The HEFCE Board has agreed the principles for the provision of repayable grants to institutions (previously referred to as loans). These repayable grants are provided within the total budget of Strategic Development fund (which replaces the restructuring and collaboration fund) and the poor estates initiative. Repayable 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. Repayable grants are normally for three to five years, but can be made for up to ten years and are interest free. Repayments are achieved through deductions from future grants. As at 31 March 2005, 6 institutions (2004: 7) had repayable grant outstanding in excess of £1,000,000. The total value of these grants was £13,656,000 (2004: £16,465,000).

9b Staff loans

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--------------------------------|--|------------------------------------|
| Balances as at 1 April | 0 | 2 |
| Advances during the year | 1 | 0 |
| Repayments during the year | 0 | (2) |
| Balances as at 31 March | 1 | 0 |

Loans for the purchase of bus and train season tickets are available to all HEFCE staff after a qualifying period of three months' service. These loans are interest free and are repayable through the Council's payroll over a period no greater than the duration of ticket.

Balances at 31 March repayable within

| | | |
|-------------------|----------|---|
| One year | 1 | 0 |
| Two to five years | 0 | 0 |
| | 1 | 0 |

9c Debtors

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--|--|------------------------------------|
| Programme debtors: contributions due from other Councils | 8,175 | 12,304 |
| Trade debtors | 374 | 397 |
| Other debtors | 0 | 29 |
| Prepayments | 400 | 381 |
| | 8,949 | 13,111 |

10 Details of balances at year end

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|---|--|------------------------------------|
| <i>Cash held at the Bank of England</i> | | |
| In respect of programme funds | 89,060 | 17,311 |
| In respect of running costs | 192 | 38 |
| <i>Cash held at other banks and in hand</i> | | |
| For running costs | 0 | 13 |
| Other funds held for the JISC European Networking Group | 49 | 46 |
| | 89,301 | 17,408 |

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.

In cash terms the DfES authorises a working balance at 31 March of 2 per cent of the total Grant in Aid for the financial year. The cash balances above are within the margins, as follows

| | Year ended 31 March 2005 £'000 | Year ended 31 March 2004 £'000 |
|------------------------|---|---|
| Programme funds | | |
| Grant received | 6,027,689 | 5,592,161 |
| 2% thereof | 120,554 | 111,843 |
| Balances as above | 89,060 | 17,311 |
| Running costs | | |
| Grant received | 17,199 | 17,056 |
| 2% thereof | 344 | 341 |
| Balances as above | 192 | 51 |

The DfES authorises a working balance in resource terms at 31 March of the relevant amount relating to slippage on capital programmes and a further £10,000,000 relating to other programmes. The HEFCE's resource balances at 31 March 2005 are as follows

Programme funds

| | | |
|-------------------|-----------------|--------|
| Capital and other | 159,677 | 23,769 |
| Recurrent | (72,922) | 5,425 |
| | 86,755 | 29,194 |

There is a £102,410,000 reduction in the provision for Inherited Staff Liabilities (see note 12). This reduction in Recurrent resource expenditure more than offsets the Recurrent balances (of £72,922,000) shown above. DfES has confirmed that it is content for these balances to be carried forward.

11 Creditors: amounts falling due within one year

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--|------------------------------------|------------------------------------|
| Programme accruals | 10,479 | 6,721 |
| Trade creditors | 156 | 68 |
| Running costs accruals | 265 | 131 |
| Tax and social security | 40 | 0 |
| Other creditors: European Networking Group | 49 | 74 |
| | 10,989 | 6,994 |

12 Provisions for liabilities and charges

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|---|------------------------------------|------------------------------------|
| Balance of provision at 1 April* | 387,008 | 335,264 |
| Additional charge in year | 0 | 0 |
| Provision utilised in year | (30,421) | (28,456) |
| Provision reversed unused in year | (1,579) | (3,544) |
| Unwinding of discount | 13,545 | 11,734 |
| Increase/(decrease) in provision** | (83,955) | 72,010 |
| Balance of provision at 31 March | 284,598 | 387,008 |

* A provision has been recognised for inherited staff liabilities. These costs will be incurred 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. The provision has been recognised on the Balance Sheet as a long term liability and the value shown has been discounted to its net present value at the HM Treasury prescribed rate of 3.5 per cent.

** An independent review of this provision was undertaken during 2004-2005 which has led to a reduction in the estimated average expected payment period from 16 down to 12.5 years. Based on these revised assumptions we have released from the provision £83,955,000 to Income and Expenditure account. The net impact of this change on the Income and Expenditure account in 2004-2005 is £74,675,000 (which reflects the full release to the provision of £83,955,000 less the £9,280,000 that would have been released under the previous set of assumptions).

13 Financial commitments and contingent liabilities as at end of period

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

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--|--|------------------------------------|
| The amount of grant committed for the period April to July 2005 is | 2,036,288 | 1,904,794 |
| The amount of grant (including repayable grant) committed for the academic year 2005-2006 is | 6,332,000 | 5,993,000 |

HEFCE has agreed to provide grant of up to £1,600,000 to support the wind down of UK eUniversities Worldwide Ltd, on the condition that a Company Voluntary Agreement is effected and finalised by 30 July 2006.

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 their value for 2005-2006 cannot be accurately measured (the equivalent value in the financial year 2004-2005 was £56,152,204).

14 Deferred government grant

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--|--|------------------------------------|
| Balances at 1 April | 296 | 255 |
| Allocated from Grant in Aid (purchase of capital assets) | 6,419 | 267 |
| Revaluation increase | 1 | 0 |
| Released for the year | (3,121) | (226) |
| Balances at 31 March | <u>3,595</u> | <u>296</u> |

Deferred capital grant represents funding used to finance the purchase of fixed assets. The release to the Income and Expenditure account in year represents the depreciation charge together with the charge to the Income and Expenditure for impairment of fixed assets (downward revaluation).

15 General reserve movements

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|----------------------------------|--|------------------------------------|
| Access and Hardship funds | | |
| Balance as at 1 April | 1,038 | 2,495 |
| Surplus/(deficit) for the year | (1,779) | (1,457) |
| Balance as at 31 March | (741) | 1,038 |
| Programme grant | | |
| Balance as at 1 April | (345,737) | (310,956) |
| Surplus/(deficit) for the year | 165,029 | (34,781) |
| Balance as at 31 March | (180,708) | (345,737) |
| Running costs | | |
| Balance as at 1 April | 736 | 607 |
| Surplus/(deficit) for the year | (124) | 129 |
| Balance as at 31 March | 612 | 736 |
| Total | | |
| Balance as at 1 April | (343,963) | (307,854) |
| Surplus/(deficit) for the year | 163,126 | (36,109) |
| Balance as at 31 March | (180,837) | (343,963) |

16 Reconciliation of movement in funds

| | As at 31 March 2005 £'000 | As at 31 March 2004 £'000 |
|--|--|------------------------------------|
| Opening balance | (343,963) | (307,854) |
| Surplus/(deficit) per Income and Expenditure account | 163,126 | (36,109) |
| Net increase/(reduction) in funds | 163,126 | (36,109) |
| Closing balance: General reserve | (180,837) | (343,963) |

17 Debtors and creditors balances with other government bodies

| | Debtors balance as at 31 March 2005 £'000 | Creditors balance as at 31 March 2005 £'000 |
|---|--|--|
| Other central government bodies | 5,279 | 2,630 |
| Local authorities | 47 | 423 |
| NHS Trusts | 0 | 0 |
| Public corporations and trading funds | 0 | 0 |
| Balances with other government bodies | 5,326 | 3,053 |
| Balances with non government bodies | 3,623 | 7,936 |
| Total as per Debtors and Creditors notes | 8,949 | 10,989 |

18 Related party transactions

The Council is a non-departmental public body sponsored by the DfES. The DfES is regarded as a related party, as is the Office for Fair Access (OFFA) and our sister funding bodies: the Scottish Higher Education Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Teacher Training Agency, and the Learning and Skills Councils. The higher education institutions and related bodies (asterixed in Appendix 1) in receipt of our funding are also considered to be related parties.

In the course of allocating funding during the year, the Council entered into material transactions with the following related parties, to which the board members stated below are related

- grants to City University, where Mr Steve Bundred is a member of the council;
- grants to The Institute of Education, where Mr Richard Coldwell is a member of the council. and payments to Foundation Degree Forward where he is Chair;
- grants to Newcastle College, where Mrs Jackie Fisher is Principal;
- grants to Royal College of Nursing, where Dr Beverly Malone is General Secretary;
- payments to Univerities Superannuation Scheme Limited where Sir Howard Newby is a board member;
- grants to Wolfson College Oxford, where Professor Sir Gareth Roberts is President; and payments to Univerities Superannuation Scheme Limited where he is a board member;
- grants to the University of Nottingham where Professor Peter Rubin is Professor of Therapeutics;
- payments to the Office for Fair Access (OFFA) where Mr John Rushforth is Deputy Director;
- grants to Brunel University, where Mr Peter Saraga OBE is a member of the university court; to the University of Surrey, where he is a member of the council and to Imperial College where he has been a visiting Professor in the Department of Electric and Electronic Engineering;
- grants to Kingston University, whose Vice-Chancellor is Professor Peter Scott; to St.George's Hospital Medical School, where he is a member of the council; and to the University of Bolton where he is chair of an advisory committee;
- payments to PricewaterhouseCoopers, where Mr Ed Smith is the Global Strategy Leader for Assurance;
- grants to Imperial College of Science, Technology and Medicine, where Sir Richard Sykes, is Rector; and
- grants to University College Northampton, where Mrs Ann Tate is Rector.

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 these relationships are held in the Council's register of interests and are also available on HEFCE's website www.hefce.ac.uk under 'About us'.

Appendix 1

Full analysis of Recurrent and Capital Grants for 2004-2005 as summarised in Note 4 to the Annual Accounts: unaudited

| | Total for year ended 31 March 2005 £'000 | Institutional funding or national programme ¹ £'000 | Non- institutional funding ² £'000 | Special institutional funding ³ £'000 |
|---|---|--|--|---|
| Basic recurrent grant | 4,824,963 | | | |
| Rewarding and developing staff | 59,234 | | | |
| Learning and teaching | | | | |
| Centres for excellence in teaching and learning | 8,633 | 8,633 | | |
| Chinese studies initiative | 335 | | | 335 |
| College fees | 6,358 | | | 6,358 |
| Dance and drama | 2,856 | | | 2,856 |
| E-learning (including UK eUniversities*) | 9,142 | | 9,142 | |
| Foundation degree development (including FDF) | 6,198 | | 6,198 | |
| HE in FECs development fund | 2,725 | 2,725 | | |
| Medical expansion | 15,956 | | | 15,956 |
| Minority subjects | 2,867 | | | 2,867 |
| National flying laboratory centre | 402 | | | 402 |
| New Technology Institutes | 4,066 | 4,066 | | |
| Poor estates initiative | 21,920 | | | 21,920 |
| Project capital (for infrastructure) | 161,729 | 161,729 | | |
| Quality Assurance Agency* | 5,408 | | 5,408 | |
| Research into learning and teaching | 3,739 | | 3,739 | |
| Teaching Quality Enhancement Fund (including the HE Academy*) | 46,228 | 46,228 | | |
| Tomlinson | 17,634 | | | 17,634 |
| Existing projects | 25 | | | 25 |
| | 316,221 | 223,381 | 24,487 | 68,353 |
| Widening participation | | | | |
| Aimhigher: Partnerships for Progression | 71,657 | 71,657 | | |
| Aimhigher student portal | 307 | | 307 | |
| Excellence fellowships | (14) | | | (14) |
| HERO* | 553 | | 553 | |
| SLDD and regional collaborative projects | 7,672 | | | 7,672 |
| Summer schools | 3,344 | | | 3,344 |
| | 83,519 | 71,657 | 860 | 11,002 |

Full analysis of Recurrent and Capital Grants for 2004-2005 as summarised in Note 4 to the Annual Accounts: unaudited (*continued*)

| | Total for year ended 31 March 2005 £'000 | Institutional funding or national programme ¹ £'000 | Non- institutional funding ² £'000 | Special institutional funding ³ £'000 |
|--|---|--|--|---|
| Research | | | | |
| Arts and Humanities Research Board* | 72,345 | | 72,345 | |
| Copyright libraries | 2,785 | | | 2,785 |
| Joint Infrastructure Fund | 8,900 | 8,900 | | |
| Joint Research Equipment Initiative | 715 | 715 | | |
| Overseas Research Students Awards Scheme | 10,357 | 10,357 | | |
| Research support libraries programme | 4,406 | | | 4,406 |
| Research Libraries Network* | 90 | | 90 | |
| Research Assessment Exercise | 720 | | | 720 |
| Science Research Investment Fund | 334,174 | 334,174 | | |
| | 434,492 | 354,146 | 72,435 | 7,911 |
| Business and community | | | | |
| Higher Education Active Community Fund | 9,730 | 9,730 | | |
| HEROBC | 5,662 | | | 5,662 |
| Higher Education Innovation Fund | 85,594 | 85,594 | | |
| Knowledge Transfer Capability Fund | 2,648 | | | 2,648 |
| | 103,634 | 95,324 | 0 | 8,310 |
| Building on institutions' strengths | | | | |
| Inherited liabilities | 56,152 | | | 56,152 |
| London | 12,981 | | | 12,981 |
| Restructuring and Collaboration Fund | 9,843 | 9,843 | | |
| Strategic Development Fund | 6,547 | 6,547 | | |
| | 85,523 | 16,390 | 0 | 69,133 |
| Leadership, governance and management | | | | |
| Costing and pricing initiative | 451 | | | 451 |
| Equal opportunities | 603 | | 603 | |
| Estates good practice | 121 | | | 121 |
| Golden hellos | 1,400 | 1,400 | | |
| Leadership Foundation for Higher Education* | 2,640 | | 2,640 | |
| Good management practice programme | 1,069 | | | 1,069 |
| PPP/PFI initiatives | 70 | | | 70 |
| Procurement initiatives | 458 | | | 458 |
| | 6,812 | 1,400 | 3,243 | 2,169 |
| Excellence in delivery | | | | |
| Higher Education Policy Institute* | 229 | | 229 | |
| International Initiatives | 514 | | | 514 |
| | 743 | 0 | 229 | 514 |

Full analysis of Recurrent and Capital Grants for 2004-2005 as summarised in Note 4 to the Annual Accounts: unaudited (*continued*)

| | Total for year ended 31 March 2005 £'000 | Institutional funding or national programme ¹ £'000 | Non- institutional funding ² £'000 | Special institutional funding ³ £'000 |
|---|---|--|--|---|
| JISC related activities | | | | |
| IT Infrastructure | 7,883 | | 7,883 | |
| JISC initiatives (including UKERNA*) | 69,631 | | 69,631 | |
| SuperJANET 4 | 2,754 | | 2,754 | |
| SuperJANET transatlantic network | 3,503 | | 3,503 | |
| | 83,771 | 0 | 83,771 | 0 |
| Residual special funding | | | | |
| DfES Innovations fund | 44 | | | 44 |
| Miscellaneous | 198 | | | 198 |
| | 242 | 0 | 0 | 242 |
| Total funding for initiatives | 1,114,957 | 762,298 | 185,025 | 167,634 |
| Total recurrent and capital grants | 5,999,154 | | | |
| Access and Hardship funds | 91,056 | | | |
| | 6,090,210 | | | |

Notes on column headings

- 1 Institutional funding or national programme is funding that is available to all institutions.
- 2 Non-institutional funding is funding provided to sector bodies (those that are treated as related bodies are asterixed).
- 3 Special institutional funding is funding provided in specific areas to achieve objectives on behalf of the sector or part of the sector.

Full analysis of Recurrent and Capital Grants for 2004-2005 as summarised in Note 4 to the Annual Accounts: unaudited (*continued*)

Basic recurrent grant: Block grant for teaching and research.

Rewarding and Developing Staff: Funding for HEIs strategies to recruit, retain, and develop staff, and to help modernise human resource management processes in the sector.

Learning and teaching

Centres for excellence in teaching and learning: 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.

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

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

Dance and drama: Scheme to allow dance and drama students to exploit their talents through the provision of funding for non-HEFCE institutions that provide high quality dance and drama training at HE level.

E-learning: Funding to support HEFCE's strategy to integrate e-learning into higher education, including the ongoing capital costs for the UK eUniversities project.

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

HE in FECs Development Fund: Fund to promote the development of higher education in further education colleges.

Medical expansion: Contributions to capital and start up costs resulting from the expansion of intakes to medical schools.

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.

National flying laboratory centre: Funding for a national facility offering flying time for aeronautical courses.

New Technology Institutes (NTIs): Funding for the establishment of regional institutions designed to meet the demand for information technology skills and to help small and medium sized enterprises to more efficiently exploit new technology and innovative business practices.

Poor estates initiative: Funding to replace or refurbish sector buildings that are in poor condition.

Project capital: Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure.

Quality Assurance Agency: Funding to secure the assessment of the quality of education provided by individual institutions.

Teaching and learning research programme: Fund to promote high quality research on education, particularly teaching and learning.

Teaching Quality Enhancement Fund (TQEF): Institutional, subject and individual strands to promote and reward excellence in teaching. This includes the National Teaching Fellowships Scheme, the fund for the development of teaching and learning (FDTL) and the Learning and Teaching Support Network (LTSN).

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

Existing projects: Funding for the teaching and learning technology programme (TLTP) to encourage the greater use of IT in teaching and learning and early rounds of FDTL.

Widening participation

Aimhigher/Partnerships for Progression: A joint initiative between the DfES, HEFCE and the LSC funding regional partnerships between HE, FE and schools in order to widen and increase participation in higher education.

Aimhigher Student Portal: Funding for a project to widen awareness of HE opportunities to potential students via the internet.

Excellence fellowships: A special initiative under the Aimhigher programme which funds HEI placements for teachers designed to raise the aspirations and attainment of young people to enter higher education.

Higher Education and Research Opportunities (HERO): Funding to allow the HE internet portal to develop its services during the second stage of operation to August 2005.

Students with learning difficulties and disabilities (SLDD) and other regional collaborative projects: Targeted funding to promote widening participation in under-represented social groups. SLDD specifically encourages institutions to develop high quality provision for students with disabilities.

Summer schools: Part of the Aimhigher initiative, this programme provides year 11 school pupils with an opportunity to experience higher education for a week at selected universities and colleges.

Support for access administration costs: Contribution to the administration costs of Access Funds borne by HEIs.

Research

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 HEFCE's contribution towards the costs of operating and maintaining museums, galleries and collections at individual institutions but accessible by all institutions.

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

Joint infrastructure fund: 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.

Joint research equipment initiative (JREI): 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.

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

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

Research libraries network (RLN): A joint initiative with the Research Councils and the British Library to create a new national framework for UK research information provision.

Research support libraries programme: Funding to recognise additional costs of providing external access to major research libraries.

Science research investment fund (SRIF): Capital funding for major projects which will have a significant impact on HEI's research infrastructure.

Business and Community

Higher Education Active Community Fund: Funding to enhance the key role played by HEIs in the local community. Part of the Government's wider Active Community initiative which aims to involve more people in voluntary activity in their local communities.

Higher Education Reach Out to Business and the Community (HEROBC): Funding to promote the application of knowledge from teaching and research activities in collaboration with industry, business and the community.

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

Knowledge Transfer Capability Fund (KTCF): Funding to continue to support core knowledge transfer activity at eligible institutions.

Building on institutions' strengths

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

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

Restructuring and Collaboration Fund: Funding to support strategic changes within the higher education sector and to support collaborative activity between HEIs.

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

Leadership, governance and management

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

Equal opportunities: Promoting improved equal opportunities in HE. Funding includes the Equality Challenge Unit which supports the work of UK HE institutions in improving equal opportunities for their staff and providing a sector level view of progress.

Estates good practice: Promoting research, innovation and strategic change in estates and facilities management.

Golden hellos: A recruitment and retention incentive scheme for new teachers in higher education.

Leadership Foundation for Higher Education: A resource to develop world-class programmes for leaders, governors and managers in higher education. The foundation will incorporate the activities of the Higher Education Staff Development Agency (HESDA).

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

Public Private Partnerships and Private Finance Initiatives: Promotion of the Private Finance Initiative (PFI) and other forms of Public Private Partnership (PPP) through the use of pathfinders; and addressing VAT barriers to PFI solutions.

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

Excellence in delivery

Higher Education Policy Institute (HEPI): The HEPI 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.

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

JISC related activities

IT infrastructure: Funding of projects to support IT infrastructure including the development of the distributed National Electronic Resource (DNER) and development of new and existing Metropolitan Area Networks (MANs).

JISC initiatives: Funding to the JISC to support strategic guidance, advice and opportunities in the use of information and communications technology (ICT) in the higher education sector.

SuperJANET 4: The development of SuperJANET 4 to increase bandwidth, capacity and resilience of the JANET (Joint Academic Network) backbone and the MANs that link to it.

SuperJANET transatlantic network: Specific funding programmes to increase the capacity and capability of the transatlantic network.

Residual special funding

DfES innovations fund: Funding to support development projects which apply new ideas to important current issues in HE, and which have a real prospect of leading to significant and widespread improvements.

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

Access and Hardship funds: Funding to HEIs to provide financial help to those whose access to higher education is inhibited by financial considerations or who face difficulties associated with their living costs. Includes bursaries for teacher training (Post Graduate Certificate in Education).

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