

Higher Education Funding Council for Wales **Annual report and accounts**

For the year ended 31 March 2013

Annual report

Introduction and background

Statutory background

The Higher Education Funding Council for Wales (HEFCW) was established under the Further and Higher Education Act 1992. On 7 May 1999, the National Assembly for Wales was created and took over the majority of the functions of the Welsh Office from 1 July 1999, which led to HEFCW becoming a sponsored body of the former National Assembly for Wales, (as constituted by the Government of Wales Act 1998). As a result of the Government of Wales Act 2006, HEFCW became an Assembly Government Sponsored Body and following the election of a new government in May 2011, became known as a Welsh Government Sponsored Body (WGSB).

These accounts have been prepared in accordance with the direction made by Welsh Ministers with the consent of HM Treasury, in exercise of powers conferred by paragraph 16 (2) of schedule 1 to the Further and Higher Education Act 1992. A copy of the direction can be obtained from HEFCW.

The accounts are prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context.

These statements cover the twentieth reporting period of HEFCW and reflect the continuing development of HEFCW's systems and policies.

The responsibilities of the Higher Education Funding Council For Wales

HEFCW is responsible for the administration of funds made available by the Welsh Government, and others, in support of the provision of education and the undertaking of research by higher education institutions in Wales and the provision of prescribed courses of higher education in further education institutions in Wales, and the performance of such supplementary functions as are required of it by the Further and Higher Education Act 1992. Our responsibilities for initial teacher training are covered under the Education (School Teachers' Qualifications) (Wales) Regulations 2004 and the Education Act 2005.

Employee involvement

Regular staff meetings and seminars ensure good internal communications and provide opportunities for staff to contribute to the workings of HEFCW. A Works Council, through which representatives can raise issues of concern to staff, meet on a regular basis. A formal consultation process is in place which supports the consultation mechanism for the Works Council and also the process for changes to policies and procedures.

In 2000, HEFCW achieved the Investors in People award. This award was re-assessed in March 2012 and HEFCW was still found to be meeting the required standard.

Annual report (continued)

Introduction and background (continued)

Employee involvement (continued)

HEFCW is committed to developing its diversity policies to ensure that all employees are treated fairly, irrespective of age, disability, gender reassignment, marital or civil partnership status, pregnancy, race, religion or belief, sex, sexual orientation or any other protected characteristic.

HEFCW's policy on recruitment is based on the ability of a candidate to perform the job. Full and fair consideration is given to applicants with a disability. If disablement should occur during employment HEFCW would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities. To reinforce this policy, in May 2009, HEFCW became qualified to use the 'Two Ticks' Disability symbol and has been reassessed annually as maintaining this standard. This symbol represents recognition given by Jobcentre Plus to employers who have agreed to make certain positive commitments regarding the employment, retention, training and career development of disabled individuals.

Sickness absence is monitored by HEFCW. At 1.31% of potential working time lost for 2012-13 (2011-12 – 1.45%), this is low compared to most other organisations in the public sector (average working time lost per CIPD Absence Management Annual Survey Report 2012 – Public Services 3.9%; Education 13.2%; Central Government 7.5%; Other Public Services 7.3%; Local Government 8.1%; and Public sector workforce size 50-249, 6.2%).

In 2009, HEFCW became the first organisation in Wales to be awarded the Welsh Government's small workplace health award at silver level. The award recognises measures taken in smaller organisations to help improve the health and well-being of staff. HEFCW was commended for the range of materials and resources available to employees, and the policies and procedures in place which promoted physical and mental health and well-being. Due to the reduction in staff resources during 2012-13, HEFCW revised its award target and was awarded the bronze standard in November 2012.

Personal data related incidents

There have been no reported personal data related incidents during the year.

Creditor payment policy

HEFCW is fully committed to the prompt payment of suppliers and aims to pay all valid invoices as soon as possible. HEFCW's performance against the Welsh Government's prompt payment target of 10 days in 2012-13 was 98.7% (2011-12 – 99.1%). During 2013-14 we will look to sustain and improve on this performance, with the aim of moving towards the Welsh Government's five day payment target. We will balance this request against the impact on our resources and the need to maintain effective internal controls.

Annual report (continued)

Introduction and background (continued)

Audit

The accounts of the Council are audited by the Auditor General for Wales as required by paragraph 16(1) of Schedule 1 to the Further and Higher Education Act 1992. External audit fees in respect of this and other audit work are shown at Note 6 to these accounts.

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

Council membership

The following persons served as Council members during the reporting year:

Chair

Mr Roger Thomas OBE (*reappointed 5 May 2011*)
Former Chair of Governors and Pro-Chancellor of the University of Glamorgan

Members

Dr David Blaney (*appointed 27 October 2012*)
Chief Executive, Higher Education Funding Council for Wales;
Professor Philip Gummatt CBE (*retired 26 October 2012*)
Chief Executive, Higher Education Funding Council for Wales;
Mr David Allen OBE (*reappointed 1 December 2011*)
Principal Consultant, Perrett Laver, Former Registrar and Deputy Chief Executive of the University of Exeter;
Dame Alexandra Burslem (*reappointed 1 December 2011*)
Former Vice-Chancellor of Manchester Metropolitan University;
Professor Mari Lloyd-Williams (*term of office ended 31 December 2012*)
Senior Clinical Academic, University of Liverpool;
Professor Katherine Oglesby OBE (*reappointed 1 December 2011*)
Former Senior Deputy Vice-Chancellor of the University of Teesside;
Professor Robin Williams CBE (*reappointed 1 August 2012*)
Former Vice-Chancellor, Swansea University;
Mrs Bethan Guilfoyle CBE (*appointed 1 April 2010, reappointed 1 April 2013*)
Former Head Teacher of Treorchy Comprehensive School;
Mr David Mason (*appointed 1 April 2010, reappointed 1 April 2013*)
Former Principal/Chief Executive of Coleg Gwent;
Ms Nina Park (*term of office ended 31 March 2013*)
Vice President, Human Resources for Control Techniques;
Professor Mark Smith (*appointed 1 January 2013*)
Vice-Chancellor, Lancaster University;
Professor Stephen Tomlinson, CBE (*appointed 1 January 2013*)
Former Vice-Chancellor, University of Wales College of Medicine;
Mr Ewart Wooldridge, CBE (*appointed 1 January 2013*)
Former Chief Executive of the Leadership Foundation for Higher Education.

Annual report (continued)

Introduction and background (continued)

Members (continued)

The following Council Members served on HEFCW's committees and panels during the year:

Committees	Members
Student experience, teaching and quality	Professor Katherine Oglesby (Chair), Mrs Bethan Guilfoyle.
Research, innovation and engagement	Professor Robin Williams (Chair), Ms Nina Park (to 25 January 2013), Professor Mark Smith (from 25 January 2013), Professor Stephen Tomlinson (from 25 January 2013).
Audit and risk	Mr David Mason (Chair), Mr David Allen (to 25 January 2013), Mr Ewart Wooldridge (from 25 January 2013).
Strategic development	Dame Alexandra Burslem (Chair), Mr David Mason (to 25 January 2013), Mr David Allen (from 25 January 2013), Professor Robin Williams, Professor Philip Gummatt (to 26 October 2012), Dr David Blaney (from 27 October 2012).
Human resources	Mr Ewart Wooldridge (Chair) (from 25 January 2013), Ms Nina Park (Chair and member to 25 January 2013), Dame Alexandra Burslem.
Remuneration	Mr Roger Thomas (Chair), Dame Alexandra Burslem, Ms Nina Park (to 25 January 2013), Mr Ewart Wooldridge (from 25 January 2013).

Annual report (continued)

Introduction and background (continued)

Members (continued)

Committees	Members
Appointments	Mr Roger Thomas (Chair), Mr David Mason, Dame Alexandra Burslem, Professor Katherine Oglesby, Professor Robin Williams, Ms Nina Park (to 25 January 2013), Mr Ewart Wooldridge (from 25 January 2013), Professor Philip Gummett (to 26 October 2012), Dr David Blaney (from 27 October 2012).

Assessor appointed by Welsh Ministers

Mr Neil Surman

Head of Higher Education Division, Department for Education and Skills, Welsh Government

The register of members' interests is available for inspection through the Council Secretary at HEFCW's offices in Llanishen. HEFCW's full address is Linden Court, The Orchards, Ilex Close, Llanishen, Cardiff CF14 5DZ.

Annual report (continued)

Introduction and background (continued)

Management board membership

The HEFCW Management Board is responsible for HEFCW's management and operation.

For the period 1 April to 30 September 2012, it was made up of the Chief Executive, the Director of Finance and Corporate Services, the Director of Strategic Development, the Head of Governance, Leadership and Information, the Head of Research, Business and Communities, the Head of Strategy, Learning and Funding and the Head of Resources. Following the restructuring of the organisation implemented on 1 October 2012, the Management Board is now made of the Chief Executive, the Head of Skills, Education and Funding, the Head of Institutional Engagement and the Head of Corporate Services.

Management commentary

The key elements of HEFCW's strategy have, throughout the year, remained those set out in its corporate strategy for 2010-11 to 2012-13, and are set out below.

Our mission and strategic aims

We strategically use resources from the Welsh Government and others to:

- secure higher education learning and research of the highest quality;
- make the most of the contribution of higher education to the culture, society and economy of Wales;
- Ensure high quality, accredited teacher training across Wales.

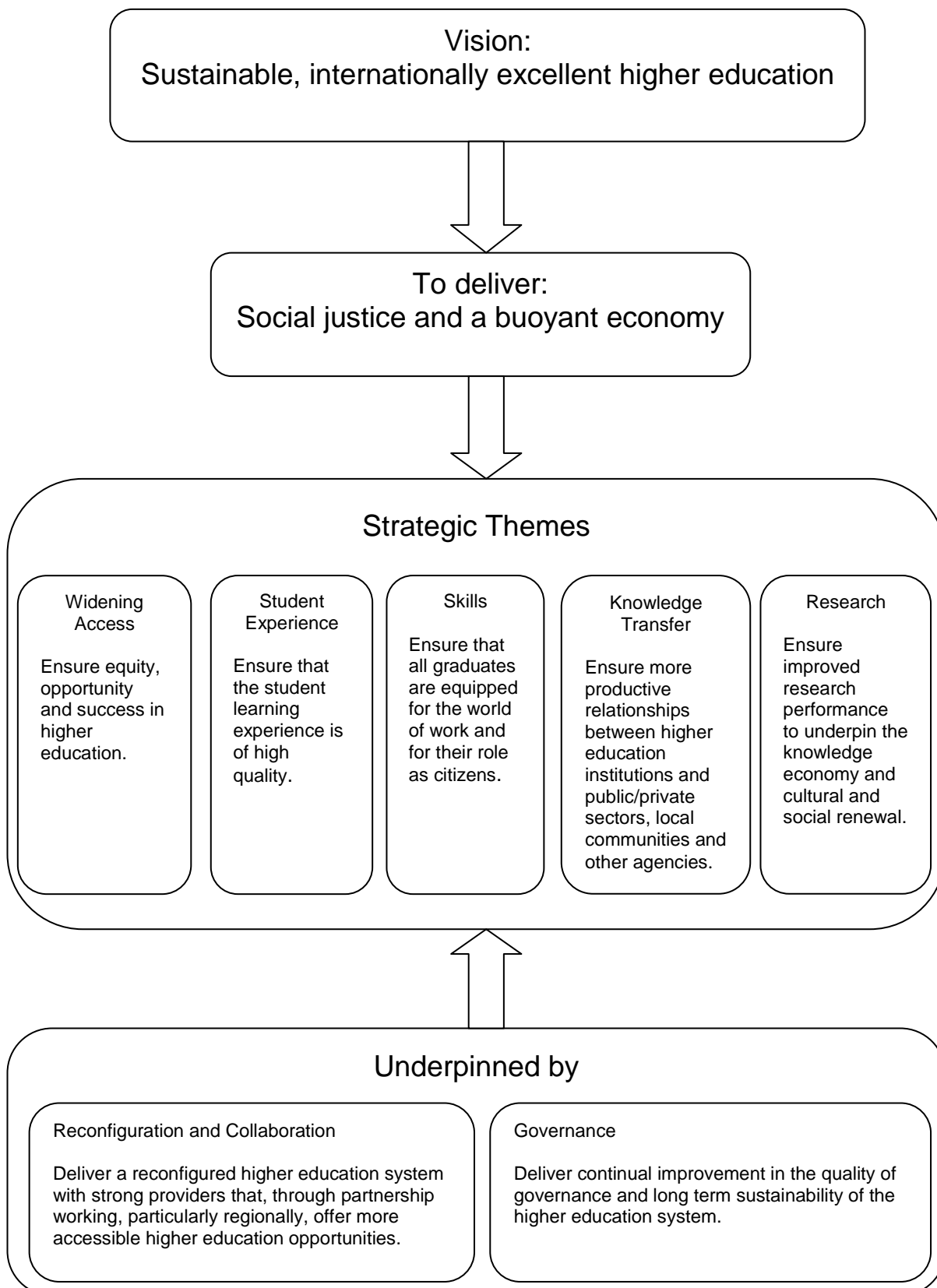
In order to:

- Enhance social justice;
- Support a buoyant economy

Annual report (continued)

Management commentary (continued)

Our strategic framework (as set out in the HEFCW Corporate Strategy 2010-11 to 2012-13 documents)



Annual report (continued)

Management commentary (continued)

Progress against Corporate Strategy measures

As a means of monitoring our progress over the last three years against the twelve measures set out in our Corporate Strategy 2010-11 to 2012-13 document, we set out below the latest available information for the academic year to 31 July 2012.

Strategic measure	Baseline	Progress	Progress	Progress
1 A 10% rise in the proportion of all Welsh domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are domiciled in the Welsh Communities First Areas from 15.6% in 2008/09 to 17.2% in 2012/13.	2008/09	2009/10	2010/11	2011/12
	15.6%	16.2%	16.5%	16.9%
2 A 2.7% rise in the module completion rate for undergraduate enrolments in Welsh higher education institutions from 87.6% in 2008/09 to 90% in 2012/13.	2008/09	2009/10	2010/11	2011/12
	87.6%	90.1%	92.5%	93.7%
3 The three year rolling average score for Wales in the National Student Survey 'overall satisfaction'* question will be equal to, or greater than the comparative score for the UK. * 'Score' means percentage of students who agreed with 'Overall, I am satisfied with the quality of my course'.	2007 to 2009 3-year rolling average	2009 to 2011 3-year rolling average	2010 to 2012 3 year rolling average	2011 to 2013 3 year rolling average
	Welsh HE institutions 83.3%	Welsh HE institutions 82.7%	Welsh HE institutions 83%	Welsh HE institutions Data not yet available
	UK HE institutions 81.7%	UK HE institutions 82.7%	UK HE institutions 83.7%	UK HE institutions Data not yet available

Annual report (continued)

Management commentary (continued)

Progress against Corporate Strategy measures (continued)

Strategic measure	Baseline	Progress	Progress	Progress
4 The number of Welsh domiciled students at Welsh higher education institutions and further education institutions undertaking some element of their course through the medium of Welsh will rise from 4,586 in 2008/09 to 5,509 in 2012/13. <i>*Baseline and target have been amended to reflect 2008/09 data correction.</i>	2008/09	2009/10	2010/11	2011/12
	4,586	4,612	4,690	4,328
5 The percentage growth in the number of overseas students attending higher education courses in Welsh higher education institutions will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding London and the South East).	2007/08 to 2008/09	2008/09 to 2009/10	2009/10 to 2010/11	2010/11 to 2011/12
	% growth	% growth	% growth	% growth
	Welsh HE institutions	Welsh HE institutions	Welsh HE institutions	Welsh HE institutions
	15.1%	26.7%	16.4%	-1.5%
	UK HE institutions (excl. London and SE England)	UK HE institutions (excl. London and SE England)	UK HE institutions (excl. London and SE England)	UK HE institutions (excl. London and SE England)
	10.4%	11.9%	8.5%	2.6%

Annual report (continued)

Management commentary (continued)

Progress against Corporate Strategy measures (continued)

Strategic measure	Baseline	Progress	Progress	Progress
6 The proportion of leavers obtaining first degrees from full-time courses who were employed, studying or both six months after leaving, will be equal to, or greater than the UK proportion by 2012/13.	2008/09 % employed / studying after 6 months	2009/10 % employed / studying after 6 months	2010/11 % employed / studying after 6 months	2011/12 % employed / studying after 6 months
	Welsh HE institutions 91.2%	Welsh HE institutions 91.9%	Welsh HE institutions 91.0%	Welsh HE institutions 91.6%
	UK HE institutions 89.9%	UK HE institutions 90.4%	UK HE institutions 90.3%	UK HE institutions 90.8%
7 The absolute participation rate within Welsh higher education providers of students in the five Universities Heads of the Valleys Institute unitary authorities will rise by 8% to the current national average by 2012/13 (from 2.5% to 2.7%).	2007/08	2008/09	2009/10	2010/11
	2.5%	2.5%	2.5%	Data not yet available
8 The total number of part-time students studying higher education courses in higher education institutions and further education institutions in Wales will rise from 54,714 in 2008/09 to 59,000 in 2012/13.	2008/09	2009/10	2010/11	2011/12
	54,714	50,243	50,020	49,136
9 The number of spin-off companies still active which have survived at least three years will increase by 10% from 252 in 2008/09 to 277 in 2012/13.	2008/09	2009/10	2010/11	2011/12
	252	301	376	445

Annual report (continued)

Management commentary (continued)

Progress against Corporate Strategy measures (continued)

Strategic measure	Baseline	Progress	Progress	Progress
<p>10 The annual percentage growth in income from Research Councils will be equal to, or greater than, the comparable figure for UK higher education institutions (excluding the 'golden triangle' of Oxford, Cambridge and London).</p> <p>[In 2008/09, Welsh HE income from the Research Councils accounted for 4.8% of the UK total excluding 'golden triangle' universities.]</p>	2007/08 to 2008/09	2008/09 to 2009/10	2009/10 to 2010/11	2010/11 to 2011/12
	% growth in income for Welsh HE institutions	% growth in income for Welsh HE institutions	% growth in income for Welsh HE institutions	% growth in income for Welsh HE institutions
	17.4%	3.0%	1.2%	-3.6%
	% growth in income for UK HE institutions	% growth in income for UK HE institutions	% growth in income for UK HE institutions	% growth in income for UK HE institutions
	13.9%	3.1%	-2.7%	-4.0%
<p>11 At least 75% of the Welsh higher education institutions will have an annual income in excess of the UK median (36% in 2008/09), with no institution to be in the lower quartile by 2012/13 (4 in 2008/09).</p>	2008/09	2009/10	2010/11	2011/12
	In excess of UK median 36%	In excess of UK median 45%	In excess of UK median 40%	In excess of UK median 40%
	(4 out of 11 institutions)	(5 out of 11 institutions)	(4 out of 10 institutions)	(4 out of 10 institutions)
	2008/09	2009/10	2010/11	2011/12
In lower quartile 36%	In lower quartile 36%	In lower quartile 30%	In lower quartile 30%	
(4 out of 11 institutions)	(4 out of 11 institutions)	(3 out of 10 institutions)	(3 out of 10 institutions)	

Annual report (continued)**Management commentary** (continued)**Progress against Corporate Strategy measures** (continued)

Strategic measure	Baseline	Progress	Progress	Progress
12 No higher education institution to be classified as 'high risk' under HEFCW institutional risk review processes.	2008/09 No of HE institutions classified as 'high risk'	2009/10 No of HE institutions classified as 'high risk'	2010/11 No of HE institutions classified as 'high risk'	2011/12 No of HE institutions classified as 'high risk'
	0	0	0	0

Remit letter

In March 2012, the Minister for Education and Skills issued the annual remit letter to the Council. This sets out the Welsh Government's guidance to HEFCW for the year and the priorities and outputs the Minister expects HEFCW to deliver and which should be reflected in HEFCW's operational plan. It also gives details of the funding allocations to HEFCW for 2012-13. The remit letter focused on a number of themes, on which HEFCW would need to take action by:

- Playing an active and supporting role in institutional merger and ensuring that institutions maintain performance during the period of reconfiguration;
- Developing a more direct line of sight into institutional governance and control frameworks;
- Maintaining control mechanisms for student numbers;
- Reiterating a subject focus on STEM, MFL and Welsh medium, with the addition of Welsh Studies (Welsh history and literature, culture, society and politics in both languages);
- Continuing emphasis on the student voice, including in governance arrangements;
- Continuing support for the Coleg Cymraeg Cenedlaethol;
- Promoting graduate employability, including higher level apprenticeships;
- Maintaining the drive to increase the volume and quality of research, including through selective funding and implementing the Science Policy;
- Supporting the HE internationalisation agenda;
- Stimulating discussion with institutions about the development of online resources on platforms such as iTunes University;
- Continuing emphasis on widening access, retention and success, building on the Child Poverty Strategy, including learners in the Heads of the Valleys and Communities First;

Annual report (continued)

Management commentary (continued)

Remit letter (continued)

- A condition of grant to be placed on HEFCW to be put on institutions to constrain fee levels for new entrants from 2012/13; robust monitoring of fee plans; and
- Taking decisions in a sustainable development framework.

In addition, in response to reports submitted by HEFCW to meet remit letter 2011-12 requirements on fee planning and part-time provision, the Minister sought further actions on the part-time agenda.

Operational plan

HEFCW then produced its operational plan on the basis of policies and actions identified in the remit letter. Of the 39 actions identified in the operational plan for 2012-13, including one carried forward from 2011-12, 34 were achieved. Two were no longer applicable because of external changes or delays and three were not achieved within the period of the plan, because of operational changes externally, and will be carried forward to the operational plan for 2013-14.

Some of the key operational plan actions were to:

- Seek fee plans for 2013/14;
- Develop and start to implement a part-time action plan;
- Put in place arrangements for assessing the impact of Student Charters;
- Assess the position of the disciplines of Welsh Studies;
- Complete the monitoring of Initial Teacher Training (ITT) reconfiguration and report to the Welsh Government;
- Oversee the delivery of the Universities Heads of the Valleys Initiative (UHOVI) and support the assessment of Phase 2 plans;
- Work with Higher Education Wales (HEW) to produce an International Action Plan;
- Work with the Chief Scientific Adviser to implement the Science Strategy for Wales;
- Deliver Jobs Growth Wales aspects of GO Wales;
- Develop and consult on a new corporate strategy 2013-16;
- Finalise a new organisational design; and
- Report to the Minister on the implementation of tuition fee arrangements.

In 2012-13 HEFCW has also been working through the implications of the new approach to student fees, and the consequences for funding, including implementing the Strategic Reallocation of Student Numbers and Maximum Fee Grant arrangements and consulting on high level proposals for fee planning.

Annual report (continued)

Management commentary (continued)

Financial review

The net operating costs for the year were £369.9 million (2011-12 net operating costs £386.7 million). The cumulative taxpayers' equity general fund at 31 March 2013 after crediting grant in aid funding of £373.7 million, was £11.8 million (31 March 2012 - £8.0 million). HEFCW's expenditure is planned on the basis of the funds available to it through annual receipts of grant in aid and other income and general fund balances. The financial accounts will always record a net operating costs result for the year as a result of the crediting of funding received to the taxpayers' equity general reserve in the Statement of Financial Position. HEFCW's activities are also planned to ensure that its cash carry forward remains within the two per cent of total grant in aid for the year allowed by the Welsh Government, although it should be noted that this cash carry forward limit was increased to a maximum of four per cent of total grant in aid by the Welsh Government as a one year arrangement.

Expenditure on property, plant and equipment amounted to £30k in the year.

International financial reporting standards

HEFCW's 2012-13 annual accounts have been prepared, in line with all relevant central government public sector organisations, under International Financial Reporting Standards (IFRS).

Future developments

HEFCW's role is changing as more of our funding is used to support student fees over the next few years. This will reduce our remaining funding available for core higher education priorities and necessitate using this funding more strategically to support these priorities. Funding will levels are also expected to be come under pressure as part of ongoing spending reviews at both national and UK level which could lead to further reductions in future years.

Our role as regulator is likely to increase with new powers from the National Assembly for Wales within the next few years to monitor universities and private providers and also to take on responsibilities arising from the proposed Sustainable Development Bill which will be introducing mandatory changes to both the way HEFCW works and to planning and reporting processes within the higher education sector.

Sustainability

The primary role of HEFCW is to develop and sustain internationally excellent higher education in Wales, for the benefit of individuals, society and the economy, in Wales and more widely. The 47 staff plus Council members who make up the organisation, operate from a single shared office building in North Cardiff. Our main direct environmental impact arises from the use of the office building and business travel.

HEFCW has been recording its environmental performance in relation to business travel since 2007-08. This has been supported by the development of an environmental management system at Green Dragon Level 2 and the use of the Welsh Government Sustainable Procurement Assessment Framework.

Annual report (continued)

Management commentary (continued)

Sustainability (continued)

In September 2012 HEFCW determined the previous lease of our office accommodation by exercising a break clause. HEFCW was successful in renewing the lease but on the basis of occupying only three of the four floors previously leased reducing the floor space occupied from 960 to 720 sq. mtrs. We anticipate that this will deliver significant savings in energy consumption, although this cannot be verified as yet, pending receipt of whole year data. Energy consumption is now largely monitored through sub-meters rather being apportioned by floor area as in previous years. This will result in accurate rather than pro rata figures for energy consumption in future years.

The table below compares CO2 and mileage recorded in relation to business travel between 2010-11 and 2012-13. From this it can be seen that we have continued to reduce business travel and over the last five years, have now cut this by over 60%, reducing miles travelled from over 200,000 to just under 63,000 with a consequent saving of over 37,000 Kg of CO2 per annum. This will have also generated significant cost and staff time savings. In 2010-11, we also commenced recording the use of our video conferencing suite as an alternative to travel. This shows that in 2012-13, 53 video conferences were recorded, a significant increase on the previous year, when only 26 conferences were recorded. Anecdotal evidence suggests that there have also been a significant number of telephone conferences over the last year, which will also have contributed to reductions in business travel, although these have not been recorded.

	2010-11		2011-12		2012-13	
	Miles	CO2 KG	Miles	CO2 KG	Miles	CO2 KG
Total	128,150	25,180	100,200	22,357	62,866	12,098

We will continue to promote the use of our video conferencing facilities and if travelling is unavoidable, seek to minimise the environmental impact of business travel.

HEFCW also records and monitors its purchases of paper, as well as ensuring photocopiers and printers default to two-side printing. We will also continue to provide a system of segregated waste collection. In line with the revision to the Display Energy Certificate regulations, HEFCW has obtained a certificate for the energy performance of the building which is recorded as an F. We are working with the landlord to look at cost-effective measures of improving this performance, although our options are limited given that our tenure of the building is for five years only. This has included the introduction of a temperature policy which seeks to avoid periods of over or under-heating which has been a feature of the office accommodation.

In terms of waste management, we already have some basic records in place to monitor paper usage and the quantity of bags of shredded and other waste paper disposals. The recycling of waste by staff is encouraged by providing recycling receptacles within the office to separately deposit plastic, cardboard, paper and batteries. We will continue to promote recycling within the office.

Annual report (continued)

Management commentary (continued)

Community matters

HEFCW has continued as part of its special leave policy, to give the option of members of staff taking up to two days' paid leave per annum to volunteer to support local charities or community groups. HEFCW has reinforced its links with local communities through its membership of SEWEN (South East Wales Equality Network).

Remuneration report

Remuneration policy

The remuneration of the Chair, the Council Members and the Chief Executive is set by the Welsh Government. The remuneration of the Chair and Council Members is governed by the Welsh Government's Scheme for Remunerating Chairs and Members of WGSBs and NHS Bodies introduced on 1 April 2004.

The former Chief Executive's remuneration was set by the Welsh Government and could include a performance related award of up to 10% based on the assessment of performance targets set by the Chair of the Council. The new Chief Executive's remuneration is also set by the Welsh Government but is not subject to performance related awards.

The directors' remuneration is set in accordance with the approved pay and grading system within HEFCW, which applies to all staff appointments. HEFCW's overall levels of remuneration and its annual pay remit, which apply to all staff including the directors, are approved by the Welsh Government.

No specific bonus is payable to directors although an annual performance award equivalent to an award percentage approved by the Welsh Government can be made in accordance with the performance appraisal process which applies to all staff appointments.

Remuneration committee

HEFCW has a Remuneration Committee which is responsible for reviewing annually the performance of the Chief Executive and the directors. The committee, consisting at any time of at least two members, both of whom are Council Members, has delegated authority from the Council to consider matters affecting the pay of the Chief Executive and in the case of the former Chief Executive, any performance bonus and make recommendations for approval to the Welsh Government accordingly.

Annual report (continued)**Remuneration report** (continued)**Senior employees' salaries and non-consolidated performance pay***

Position	Name	2012-13	2012-13	2011-12	2011-12
		Salary	Non- cons'd	Salary	Non- cons'd
		£'000	£'000	£'000	£'000
Chair	Roger Thomas	20-25	N/A	20-25	N/A
Former Chief Executive (retired 26 October 2012)	Professor Philip Gummett	60-65	10-15	105-110	5-10
Chief Executive (from 27 October 2012) (former Director of Strategic Development)	Dr David Blaney	105-110	N/A	100-105	N/A
Director of Finance and Corporate Services	Richard Hirst	95-100	N/A	95-100	N/A
Band of highest paid member of staff		105-110		110-115	
Total Remuneration (£'000)					
Median Total Remuneration		£41,517		£41,517	
Ratio		2.6		2.7	

Richard Hirst left under Voluntary Exit terms on 31 March 2013. In addition to the salary above he received a compensation payment of £135-140,000.

A vacancy for a new director post remained unfilled from 1 October 2012 through to 31 March 2013.

2012-13 is the second year in which reporting bodies are required to disclose the relationship between the remuneration of the highest paid senior employee in their organisation and the median remuneration of the organisation's staff. The banded remuneration of the most highly paid senior employee in HEFCW in 2012-13 was £105,000 to £110,000. This was 2.6 times the median salary of all staff, which was £41,517.

Annual report (continued)

Remuneration report (continued)

Senior employees' salaries and non-consolidated performance pay*(continued)

The ratio has shown a small decrease reflecting the reduction in the sum paid to the highest paid senior employee from 2011-12 (a band of £110,000 to £115,000) and the fact that there have been no revalorisation increases to staff in 2012-13, other than some awards to address low pay. As a result the median remuneration has remained unchanged this year. Due to the nature of the work undertaken at HEFCW, we have a higher proportion of staff at middle job levels, resulting in the median shown above.

The total salary for Roger Thomas for the year 2012-13 was £24,264 (2011-12 - £24,264). He waived his right to his salary and elected for payment to be made to a registered charity.

Each of the non-consolidated performance pay awards for Professor Philip Gummett payable were in respect of the previous respective performance year, with the exception of 2012-13 which also includes a sum payable in respect of the 2012-13 performance year up to the date of his retirement.

Annual report (continued)

Remuneration report (continued)

Senior employees' pensions*

Position	Name	Accrued pension at pension age at 31/03/13 & related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/13	CETV at 31/03/12	Real increase in CETV
		£'000	£'000	£'000	£'000	£'000
Chair	Roger Thomas	N/A	N/A	N/A	N/A	N/A
Former Chief Executive (retired 26 October 2012)	Professor Philip Gummett	15 - 20 pension plus 45 - 50 lump sum	0 – 2.5 pension plus 0 - 2.5 lump sum	347	338	10
Chief Executive (from 27 October 2012) (former Director of Strategic Developm't)	Dr David Blaney	45 - 50 pension	2.5 - 5 pension	669	578	55
Director of Finance and Corporate Services (to 30 Sept. 2012)	Richard Hirst	60 - 65 pension	2.5 – 5 pension	1,170	1,049	60

Annual report (continued)

Remuneration report (continued)

Salary and pension disclosures*

Richard Hirst and Dr David Blaney were both members of the Premium defined benefit scheme during the year, part of the Principal Civil Service Pension Scheme. The scheme benefits do not include the payment of an automatic lump sum on retirement (see 'pensions' below).

Dr David Blaney, the Chief Executive, has a permanent contract which stipulates a three-month notice period. Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination.

Directors also have permanent contracts, requiring a notice period of three months and the same terms as the Chief Executive in respect of contract termination.

The Chair and Council Members (excluding the Chief Executive) are not members of the Principal Civil Service Pension Scheme and do not receive any pension benefits paid for by HEFCW. Council Members (excluding the Chair and Chief Executive) receive a non-pensionable salary of £5,076 per annum.

All salaries stated are gross salaries only, as none of the Council Members or senior staff received any other remuneration or benefits in kind, other than as disclosed below.

* This information is subject to audit

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (classic, premium, or classic plus); or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 1.5% and 3.9% of pensionable earnings for classic and between 3.5% and 5.9% for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation.

Annual report (continued)

Remuneration report (continued)

Pensions (continued)

In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

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 figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Annual report (continued)

Remuneration report (continued)

Pensions (continued)

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Broadly by analogy (BBA) pensions

A BBA pension arrangement entitles the recipient to benefits that are similar to those provided by the PCSPS classic scheme described above, and obliges HEFCW and the member to make contributions in line with the PCSPS. HEFCW is responsible for funding future pension benefits and retaining pension contributions. A BBA pension is held by the Former Chair of Council, Professor Sir Roger Williams.

Exit packages

During 2011-12 HEFCW implemented a voluntary exit scheme in order to meet running cost reduction requirements. All departures took place during 2012-13. Compensation costs for nine of the ten departing members of staff were accounted for in 2011-12 and the balance in 2012-13.

Exit package cost band	Number of departures accounted for in 2012-13	Number of departures accounted for in 2011-12
<£10,000	-	1
£10,000 - £25,000	-	1
£25,000 - £50,000	-	3
£50,000 - £100,000	1	3
£100,000 - £150,000	-	1
Total number of exit packages	1	9
Total cost	£64,695	£468,292

Voluntary exit compensation costs are payable in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972.

Dr David Blaney
Chief Executive and Accounting Officer
26 July 2013

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

Under paragraph 16(2) of schedule 1 to the Further and Higher Education Act 1992, Welsh Ministers with the consent of the Treasury, have directed the Higher Education Funding Council for Wales to prepare for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of HEFCW and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

- observe the Accounts Direction issued by Welsh Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on the going concern basis.

The Principal Accounting Officer for the Welsh Ministers has designated the Chief Executive as Accounting Officer of the Higher Education Funding Council for Wales. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HEFCW's assets, are set out in the Accounting Officers' Memorandum published by the Welsh Government.

HEFCW Governance Statement 2012-13

HEFCW and its objectives

The Higher Education Funding Council for Wales (HEFCW) is a Welsh Government Sponsored Body (WGSB) responsible for using funding provided by the Welsh Government and others to secure higher education learning and research of the highest quality and to make the most of the contribution of higher education to the culture, society and economy of Wales in order to enhance social justice and a buoyant economy. Our strategic framework has been set out above as part of our Management Commentary.

Scope of responsibility

As Accounting Officer of HEFCW, I am accountable to the Permanent Secretary of the Welsh Government as its Accounting Officer for the discharge of my responsibility to maintain sound systems of governance, risk management and internal control. These systems support the achievement of our policies and strategic objectives, whilst safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Welsh Government guidance *Managing Welsh Public Money*. I am also responsible for ensuring that the public funds and assets assigned to HEFCW are used economically, efficiently and effectively. I also acknowledge my responsibilities in respect of the funds provided to HEFCW which are transmitted to higher and further education institutions and others for education, research and associated purposes.

Governance Framework

As a body which oversees governance at higher education institutions, HEFCW aspires to operate with a high level of corporate governance. The following paragraphs describe the Council's governance framework.

As a body which oversees governance at higher education institutions, HEFCW aspires to operate with as high a standard of corporate governance as possible. The following paragraphs describe the Council's governance framework.

The HEFCW Council comprises a minimum of 8 and a maximum of 12 members appointed by the Minister for Education and Skills in accordance with the requirements of the Further and Higher Education Act 1992. Following a process of open competition, the Minister approved the appointment of three new Council members to fill vacancies that arose during the year. In addition, a new Chief Executive, who is a member of the Council, was appointed during the year, again through a process of open competition.

The Council met on seven occasions during financial year 2012-13. Out of a possible 74 member attendances during the year, a total of 64 were made.

HEFCW Governance Statement 2012-13 (continued)

Governance Framework (continued)

The Council's meetings are attended by an observer from the Welsh Government; by the President of the National Union of Students (Wales) as an observer; and by observers from the Higher Education Funding Council for England (HEFCE) and the Scottish Funding Council (SFC). Likewise, we have observer status on the Board meetings of both HEFCE and the SFC. The Council is supported by Audit and Risk, Human Resources, Remuneration and Appointments Committees, as well as three strategic advisory committees covering areas of higher education policy which are important to HEFCW's remit. The background and declaration of interests of our Council members, and the structure and membership of our committees, along with other corporate governance information, are published on our website. The Council is also supported by a UK-wide advisory committee: the UK Healthcare Education Advisory Committee.

During the year the Council agreed a revised Complaints Policy based on the model Concern and Complaints Policy produced by the Public Services Ombudsman for Wales. No formal complaints against HEFCW were received during 2012-13.

The Council carries out an annual self-assessment effectiveness review of its governance, comprising an appraisal of the Council, including members' performance, by the Chair through discussions with members and a comparison of HEFCW's governance arrangements with the Financial Reporting Council's Corporate Governance Code. This annual effectiveness review was discussed at the Council's annual members' workshop in May 2012. Overall the Council was content with its effectiveness and governance practices, including with respect to the quality of information and data provided through Council and committee papers. The Council reached the view that its processes were compliant with the Corporate Governance Code.

Later in the year, the Council agreed a number of proposals on new ways of working which reflected two broad and interrelated objectives: making better use of Council and committee members' skills, knowledge and experience; and making better use of Council and committee time by focussing more on key, high-level strategic matters, and at an early stage in policy development. These new approaches are currently being worked through.

During the year we received a letter from the Minister outlining the Welsh Government's commitment to increasing the number of women and under-represented groups in public appointments in Wales, and asking us to report on the progress we were making in this area. In our response we set out the steps we had taken in recent Council member recruitment exercises to encourage more expressions of interest from under-represented groups, in particular more applications from women candidates to try and improve the gender balance on Council.

The Audit and Risk Committee has benchmarked its operation against the National Audit Office checklist for audit committees, which uses criteria derived from the HM Treasury Audit Committee Handbook. There are five members, two of whom (including the Chair) are members of HEFCW's Council. The Committee meets three times a year in the presence of the internal and external auditors. The minutes of the Committee are presented to the Council after each meeting, and the Chair of the Committee reports any matters of particular note to the Council. The remit of the Committee includes both HEFCW itself and HEFCW's assurance work with the HE sector. The Committee provides

HEFCW Governance Statement 2012-13 (continued)

Governance Framework (continued)

the Council with an annual report, which incorporates the Committee's opinion on governance, internal control and risk management. The Committee's opinion for 2012-13 is as follows

It is the opinion of the Audit and Risk Committee that:

- the Council's arrangements for governance, risk management and internal control, are effective;
- the frameworks of control at Welsh higher education institutions are adequate to safeguard public funds;
- the audited accounts can be relied upon; and
- the Accounting Officer is entitled to rely on the assurances that he and the Committee have received from the Head of Internal Audit, the Head of Institutional Engagement, and other HEFCW Officers.

The Head of Internal Audit has provided the following opinions to the Chief Executive and the Council:

- Sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's governance, risk management and internal control processes.
- Governance, risk management and internal controls arrangements for HEFCW have been generally adequate and effective during the year and the Council and Accounting Officer can therefore place reasonable reliance on them.
- There are however some limitations in the assurance that can be provided over the controls for the fee grant process, as operated by external bodies. Positive assurance has been received for 86% of the applications for fee grant in 2012-13. This issue is referred to in more detail below in the first part of the 'Significant issues/key risks considered by Council' section below.

The Council discharges its legal responsibility to ensure that provision is made to assess the quality of education in funded institutions through its Student Experience, Teaching and Quality Committee (SETQC) and its Quality Assessment and Enhancement Sub-Group (QAESG). The assessment is carried out primarily by the Quality Assurance Agency, which provides an annual academic year report on the outcomes of reviews, considered by QAESG, SETQC and the Council. The report for 2011/12 can be found on the Council's website.

HEFCW Governance Statement 2012-13 (continued)

Governance framework (continued)

QAESG also considers assessments undertaken in HE institutions by professional statutory and regulatory bodies, such as Estyn, as well as the outcomes of the UK National Student Survey.

We work in partnership with many other organisations to help us deliver our objectives, including the Quality Assurance Agency, Jisc, the Equality Challenge Unit, the Leadership Foundation for Higher Education, and the Higher Education Academy. These partner organisations provide HEFCW with useful sources of advice and information that enables it to benchmark Welsh performance and activities against the rest of the sector, and the arrangements have the benefit of economies of scale since the organisations have UK-wide remits. The Higher Education Funding Council for England (HEFCE), as the major UK funder, undertakes lead oversight of these bodies, and where appropriate there are supplemental agreements in place between HEFCW and the body to provide for any specific Welsh requirements. We monitor the deliverables from these organisations at a Wales level. HEFCE also has responsibility for oversight of the Open University as an institution, although HEFCW works directly with the Open University in Wales on the provision it delivers in Wales.

We have a memorandum of understanding with the Charity Commission which sets out how we will work together and share information to co-ordinate our regulatory activities with respect to higher education institutions in Wales.

We deliver a European funded project, GO Wales, which operates under European funding rules, and which is subject to audit on behalf of both WEFO and the European Commission. GO Wales outputs are monitored against targets on a quarterly basis, and we carry out 100% checks of quarterly financial claims from HEI partners. The current programme runs over the period 2009 to 2013, and we aim to carry out two monitoring visits to each delivering HEI during that time. The project is doing well in terms of many of the targets and indicators against which we are measured. We will exceed our target for employers supported, and are on course to achieve or get close to targets for individuals supported and placements completed by the end of the project. HEFCW is now involved in the delivery of the Welsh Government's Jobs Growth Wales initiative, operating a strand of the project aimed at unemployed graduates aged 24 or under. We are still in the relatively early stages of this project.

We are the major funder of the Coleg Cymraeg Cenedlaethol which was established in 2011 to work with the HE sector to support the development of Welsh medium higher education. This means that we undertake specific monitoring activity at a Wales level to ensure that objectives are met.

Funding is provided to us for the Universities Heads of the Valleys Institute. This initiative has been subject to additional monitoring arrangements agreed with the Department for Education and Skills.

We have regular interaction with the Department for Education and Skills, under the terms of the Management Statement and Financial Memorandum between the Department and HEFCW. The Department and HEFCW have a quarterly monitoring meeting at officer level, which enables the Department to monitor HEFCW's progress against our operational

HEFCW Governance Statement 2012-13 (continued)

Governance framework (continued)

plan and key performance indicators and to monitor our risk register and the actions we are taking to mitigate risk. The Council receives a report every term on progress against its Operational Plan targets, and an annual report on progress against its Corporate Strategy targets.

The Minister for Education and Skills has a quarterly meeting with the Chair and Chief Executive, which enables him to monitor HEFCW's delivery against our strategic objectives.

The risk and control framework

HEFCW operates a system of internal control which is designed to manage risk to an appropriate level in accordance with the organisation's agreed risk appetite in respect of its policies, aims and objectives; it is not possible to eliminate all risks. The risk and control framework therefore only aims to provide reasonable, and not absolute, assurance of effectiveness. The system is based on a continuing process designed to: identify and prioritise the risks to the achievement of HEFCW's policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them effectively. The system of internal control has been in place in HEFCW for the year ended 31 March 2013 and up to the date of the approval of the annual report and accounts, and accords with HM Treasury guidance.

Approach to risk management

HEFCW's risk management processes are overseen by the Audit and Risk Committee on behalf of the Council. Each team within HEFCW produces a risk register against the probability and impact definitions agreed by the Audit and Risk Committee. The Chief Executive also produces a risk register for cross-HEFCW risks. These risk registers are reviewed three times a year by HEFCW's senior management to ensure a consistent approach and to consider the range of risks identified by teams as being significant. If the combined score for probability and impact is above the tolerance boundary agreed by the Audit and Risk Committee, the risk goes on to the Corporate Risk Register. The Corporate Risk Register is reviewed by the Audit and Risk Committee three times a year, with the results being reported to Council. As part of the review by the Audit and Risk Committee we also provide early warning of possible future risks. We publish the latest version of our corporate risk register on our website.

The risk registers sit alongside the operational plan, which is updated and reported to Council on a termly basis, thereby providing scrutiny of our operational performance against which our risk analysis can be judged.

Alongside the main risk registers, each team produces a fraud risk register designed to ensure that fraud risks are identified and managed. Those risks above the tolerance boundary (as referred to above), are included in a Corporate Fraud Risk Register. The implications of the Bribery Act 2010 are included in the management of fraud risk.

HEFCW Governance Statement 2012-13 (continued)

Approach to risk management (continued)

The Audit and Risk Committee and Council receive regular reports on our institutional risk review system, the process by which we assess and monitor the overall risk profile of each HE institution.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks, I am supported in the process by advice from the Audit and Risk Committee and by other members of my senior management team. My review is also informed by the work of the internal auditor and the managers within HEFCW who have responsibility for the development and maintenance of the internal control framework, and by comments from the external auditors in their management letters.

HEFCW's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding the achievement of our policies and strategic objectives. The system is designed to manage risk in accordance with the organisation's risk appetite. It must also take into account the funds provided by HEFCW to legally independent and autonomous higher education institutions and other bodies for education, research and related purposes. HEFCW's assurance framework therefore needs to encompass our internal operational and financial controls and our controls in relations to organisations in receipt of our funding. It is for this reason that higher education institutions funded by HEFCW are required to comply with a financial memorandum, which helps us to secure accountability for the regularity and propriety of the use of public funds provided to them. We consider a comprehensive range of returns provided to us by institutions, including their annual accounts, as part of our work to ensure the protection of the public investment in institutions. This work includes seeking assurance that the public funds provided to institutions have been used for the purposes for which they were intended.

Based on our analysis of the latest annual accounts of each higher education institution in Wales (for the academic year 2011/12), and on the other information available to us, no institution faces immediate risk to its sustainability. We have identified as a key target outcome in our Corporate Strategy that no higher education institution in Wales should need to be classified as 'high risk' in accordance with our institutional risk review process. At the end of 2012-13 there were no institutions which we assessed as being at high risk.

Each of the key annual controls – the risk registers, the financial statements and the external auditors' report and comments thereon, internal audit reports and institutional risk reviews and assurance reports – has been considered by the Audit and Risk Committee with reports on to the Council. Our control systems have identified a small number of issues that required specific action to manage the associated risks. There were no significant weaknesses in our internal controls in 2012-13 which warrant disclosure here.

HEFCW Governance Statement 2012-13 (continued)

Significant issues/key risks considered by Council during the year

Student tuition fee grant arrangements

The most significant issue and development connected to our internal control system arising during 2012-13 related to the major changes made by the Welsh Government to how higher education is funded. This change resulted in incorporating an increase in tuition fee support for Welsh students and a commensurate reduction in HEFCW grant, with effect from the start of the academic year 2012/13. These policies have given rise to significant changes in the way HEFCW will fund institutions in future. These represent significant areas of risk for HEFCW in the future and various actions have been taken to ameliorate the impact.

As a consequence of allocating funds for tuition fee support for students for the first time, the remaining funds available to HEFCW have had to be utilised more strategically to meet appropriate priorities. A new method of allocating student numbers has also been introduced in order to lower the overall funding commitment.

As referred to above, the Head of Internal Audit has expressed the opinion that there are some limitations in the assurance that can be given over the controls over the student fee grant process, as operated by external bodies. HEFCW has therefore been responsible for paying out funding on the basis of eligibility judgements made by Local Authorities in the financial year 2012-13. This has amounted to £48.1million in the year to 31 March 2013. Given the financial benefits involved, there is a risk that students could have claimed Welsh domicile fraudulently. However, it is recognised by the Welsh Government that the fundamental underpinning rules regarding 'normal residency' which determine the success of an application by a student, cannot be defined easily. Local authority staff have been required to take care in making decisions and have had to make a judgement on each student's residency status, which if done in good faith, has had to be accepted by the Welsh Government.

Although HEFCW has little control over the basis of these payments, the Accounting Officer is still responsible for the regularity and probity of expenditure. It was agreed between HEFCW and the Welsh Government that it would not be sensible or feasible for HEFCW to carry out assurance work beyond that already performed by the Welsh Government and that reliance could be placed by HEFCW on this work.

The Welsh Government commissioned the Wales Audit Office (WAO) to carry out a review of practice in four local authorities. The WAO review found a number of weaknesses in procedures and processes adopted by the local authorities and made a number of recommendations for improvements. As a result of these findings, the Welsh Government wrote to all 22 local authorities in Wales requesting responses from Chief Executives to provide them with assurances over the level of controls in place, particularly in respect of student eligibility for funding.

HEFCW has worked closely with the Welsh Government over many months to address the issue of assurance over the controls operated by local authorities in respect of student applications for funding and has reviewed all the responses submitted by local authorities to the Welsh Government. HEFCW has also subsequently been in contact with many of the local authorities and obtained additional assurance, where considered

HEFCW Governance Statement 2012-13 (continued)

Significant issues/key risks considered by Council during the year (continued)

Student tuition fee grant arrangements (continued)

necessary, in respect of their controls over the fee grant application process. As a result, we have obtained positive direct assurance for 86% of the total value of applications for student fee grants in 2012-13, as referred to by the Head of Internal Audit, above.

Further evidence obtained consists of:

- Confirmation from the Welsh Government that reported cases of fraud by the Local Authorities to the SLC have only numbered 16 in the period covering both academic years 2011/12 and 2012/13, none of which related to the claiming of fee grants; and
- An analysis of Welsh HE data (from HESES) compared to the SLC payments for Welsh HEIs carried out by the Head of Internal Audit did not identify any increase in fee grant take-up rates compared to SLC forecasts, or any increase in fee grant awards and payments compared to forecasts.

Because of the degree of reliance being placed by HEFCW on assurances from the Welsh Government, as agreed by both parties, a statement on student fee arrangements has been provided to HEFCW by the Welsh Government covering the controls in place, any weaknesses in those controls and the impact these weaknesses have on the level of assurance available for the financial year.

The assurance statement from the Welsh Government confirms that there is some evidence of weaknesses in the processes and procedures in the control framework operated by local authorities, but after analysing the risk based approach developed by the Welsh Government in conjunction with the Wales Audit Office and HEFCW, there is no material evidence of fraud in respect of the 2012-13 financial year.

Based upon all of the evidence available to us, I consider that we have sufficient assurance to conclude that there is no evidence of fraud of a material value in 2012-13 in respect of our annual accounts, although risk still exists in respect of the probity of some expenditure for student fee grant support.

Finally in respect of the new arrangements for tuition fee support, HEFCW has channelled funding through the Student Loans Company in 2012-13 for the first time. We have been working closely with the SLC to prepare for the new arrangements, including agreeing a service agreement and supporting operational processes. This planning process culminated in the first payment of student fees' funding being made to the SLC in September 2012. Regular contact with the SLC has continued in order to monitor arrangements by holding monthly telephone conference calls between our two organisations. We were required by our Remit Letter to report to the Welsh Government upon the systems put in place to ensure that tuition fee grant payments in respect of eligible Welsh domiciled students, are made accurately and promptly to the relevant institutions. We duly reported to the Welsh Government in December 2012 confirming that we had evidence that payments were flowing to institutions as planned, but at the same time noting our concerns about the level of assurance available to us in

HEFCW Governance Statement 2012-13 (continued)

Significant issues/key risks considered by Council during the year (continued)

Student tuition fee grant arrangements (continued)

respect of the issue of Welsh domicile eligibility of applications from students, as referred to above.

In its assurance statement to HEFCW, referred to above, the Welsh Government also confirms that it has received an annual assurance statement from the Accounting Officer of the Student Loans Company. This statement confirms that all SLC financial arrangements have been in compliance with the terms set out by government departments and that all grants received have been used for the purposes intended. It also states that the Wales Audit Office has undertaken additional checks on the processes and controls supporting the payment of tuition fee grants to HE institutions for the 2012-13 financial year and that the WAO has confirmed that the outcome of this work is satisfactory. The statement from the Welsh Government concludes by confirming that it can also provide assurance on the effective control framework in place with the SLC for the 2012-13 financial year.

Organisational developments

In order to help meet our running costs targets and allow an investment to be made in the development of the organisation, we offered a voluntary exit scheme in 2011-12. This resulted in ten members of staff leaving under the scheme during 2012-13. In light of these changes, we implemented an organisational restructuring during 2012-13 to ensure that we were able to operate as effectively as possible with our reduced numbers and in the light of the new challenges we face. There remains a heightened level of risk to our effective operation whilst we adjust to the new staffing and structure. Part of this adjustment includes a comprehensive review of policies and procedures and a project to develop use of portable IT equipment to reduce the use of paper.

Notable achievements

During the year we retained ISO 27001 (the information security standard) accreditation. We continue to develop our information security and assurance arrangements in response to the Security Policy Framework required by the Welsh Government. There have been no major information security incidents during the year, nor have we experienced any reportable loss or compromise of personal data. An external auditor successfully undertook two surveillance visits during the year to review the suitability and stability of our ISO 27001 Information Security Management System. Both visits confirmed that there were no major non-conformities and the continuation of our accreditation was approved. The Wales Audit Office raised no concerns during its annual review of the IT systems to inform their decision on the adequacy of controls in place to support the annual accounts. Internal audit conducted a number of reviews that had information security implications. None of these reviews highlighted any major issues and the majority of the recommendations and observations identified have been implemented.

HEFCW Governance Statement 2012-13 (continued)

Notable achievements (continued)

Investors in People accreditation was confirmed and extended until 2015.

Health Challenge Wales awarded us the bronze certification in recognition of our achievements in workplace health and well-being.

We retained our Green Dragon Level 2 accreditation for environmental management systems throughout the year.

Conclusion

I have considered the evidence provided with regards to the production of the annual governance statement. The conclusion of my review is that HEFCW's overall governance and internal control structures have been appropriate for HEFCW's business and have worked satisfactorily throughout 2012-13.

Dr David Blaney
Chief Executive and Accounting Officer
26 July 2013

The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales

I certify that I have audited the financial statements of the Higher Education Funding Council for Wales for the year ended 31 March 2013 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Higher Education Funding Council for Wales' and Chief Executive's Responsibilities, the Chief Executive as Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report and the financial statements, in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' directions made there under and for ensuring the regularity of financial transactions.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Higher Education Funding Council for Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Higher Education Funding Council for Wales; and the overall presentation of the financial statements.

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

In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales (continued)

Opinion on Financial Statements

In my opinion the financial statements:

- give a true and fair view of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2013 and of its net operating costs after interest, recognised gains and losses and cash flows for the year then ended; and
- have been properly prepared in accordance with Welsh Ministers' directions issued under the Further and Higher Education Act 1992.

Opinion on Regularity

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

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Welsh Ministers' directions made under the Further and Higher Education Act 1992; and
- the information which comprises the Introduction and Background, Management Commentary and the unaudited part of the Remuneration Report, included within the Annual Report is consistent with the financial statements.

Matters on which I report by exception

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

- the Annual Governance Statement does not reflect compliance with HM Treasury guidance;
- proper accounting records have not been kept;
- information specified by HM Treasury regarding the remuneration and other transactions is not disclosed; or
- I have not received all of the information and explanations I require for my audit.

The Certificate and Report of the Auditor General for Wales to the National Assembly for Wales (continued)

Report

Please see my report on pages 38 to 40.

**Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
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29 July 2013

Report of the Auditor General for Wales to the National Assembly for Wales

Introduction

Under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992, I am required to examine, certify and report on the annual financial statements of the Higher Education Funding Council for Wales (HEFCW).

My audit certificate on pages 35 to 37 contains my opinion that the financial statements give a “*true and fair view*” in accordance with the Further and Higher Education Act 1992 and directions made there under by the Welsh Ministers.

It also includes my opinion that in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly for Wales and whether the financial transactions conform with the authorities that govern them. This is known as my “*regularity*” opinion.

New student finance arrangements in Wales commenced in September 2012 (for first year students). HEFCW have referred to the new arrangements as a significant risk in their Annual Governance Statement which can be found on pages 25 to 34. I share these concerns which is why I have decided to issue a narrative report alongside my audit certificate to draw attention to this matter.

New student finance arrangements

From September 2012, eligible Welsh students attending a full time higher education course at a UK university or college will be able to access a non means tested tuition fee loan up to £3,465; and a non means tested tuition fee grant to cover the difference between that and the maximum tuition fee actually charged by the UK university (a maximum grant of £5,535 if a tuition fee of £9,000 is charged).

The 2012-13 academic year which runs from the 1 August 2012 to 31 July 2013, is the first year where higher education institutions (HEIs) can charge higher level tuition fees. The Welsh Government policy is to meet the higher level fee costs of Welsh domiciled students, whether studying in Wales or elsewhere in the UK.

HEFCW is only responsible for the payment of the non means tested tuition fee grant with responsibility for the payment of the non means tested loan element remaining with Welsh Government. In terms of the funding flows, HEFCW makes payments to the Student Loans Company (SLC). The SLC then make payments to the HEIs in respect of their eligible Welsh students. It should be noted that Welsh domiciled students do not receive this funding directly.

Responsibility for assessing the eligibility of student loans and fee support, including the assessment of Welsh domicile (residency), rests with the 22 local authorities in Wales. HEFCW has little control over the basis of these payments but the Accounting Officer is still responsible for the regularity and probity of expenditure.

The sums paid to the SLC by HEFCW are considerable with £48.1m recorded in HEFCW’s financial statements for the year ended 31st March 2013 (with an estimated £100m expected to be paid to the SLC in respect of the first full 2012-13 academic year to 31 July 2013). This payment profile will increase over the next three years as the fees regime covers each new intake of students. Given the financial benefits involved, there is a risk

Report of the Auditor General for Wales to the National Assembly for Wales (continued)

New student finance arrangements (continued)

that non Welsh domiciled students could claim Welsh domicile leading to a potential risk of fraudulent claims.

In 2012, the Welsh Government commissioned the Wales Audit Office (WAO) to carry out a review of the controls in place at four local authorities in respect of student finance applications including the assessment of eligibility checks in respect of domicile. The WAO review found a number of weaknesses in procedures and processes adopted by the local authorities and made a number of recommendations for improvements in their report issued in September 2012.

Action taken by Welsh Government and HEFCW

As a result of these findings and recommendations included in the WAO report, the Welsh Government wrote to all 22 local authorities in Wales requesting responses from Chief Executives to provide them with assurances over the level of controls in place, particularly in respect of student eligibility for funding. These assurances were forwarded by Welsh Government to HEFCW for their assessment and consideration. Welsh Government has subsequently considered the matter and provided relevant assurances to HEFCW.

HEFCW has documented its response to the matter in its Annual Governance Statement. This states that HEFCW has worked closely with the Welsh Government over many months to address the issue of assurance over the controls operated by local authorities in respect of student applications for funding. The Head of Internal Audit has reviewed the responses submitted by local authorities to the Welsh Government and has been in contact with a number of local authorities to obtain additional assurance, where considered necessary, in respect of their controls over the fee grant application process. In addition, the Head of Internal Audit has undertaken further assurance work considering and assessing the levels of reported frauds and reviewing the levels of fee grant take-up rates compared to SLC forecasts to ensure there were no unexpected or unusual variances identified.

On the basis of the work undertaken by the Head of Internal Audit and the assurances provided by Welsh Government, HEFCW's Accounting Officer has concluded that he has sufficient assurance that there is no evidence of fraud of a material value in respect of his financial statements for the year ended 31 March 2013.

Having reviewed the action undertaken by the Accounting Officer, I am satisfied that he has taken appropriate and reasonable measures in order to arrive at this conclusion in respect of his financial statements for the year ended 31 March 2013. In my opinion, these measures have been undertaken against the backdrop of a funding route which has resulted in the HEFCW accounting officer having little control over the basis of the payments made to the SLC but still having responsibility for the regularity and probity of those payments. As detailed above, the responsibility for assessing student finance applications currently rests with local authorities. Arrangements are being made to transfer the responsibilities for the tuition fee grant application authorisation process from the Welsh local authorities to the SLC which will take place with effect from the 2014-15 academic year. In respect of the transfer arrangements, it is essential that robust control arrangements are established within the SLC to ensure that assurances are provided to both Welsh Government and HEFCW in respect of student finance application controls.

Report of the Auditor General for Wales to the National Assembly for Wales (continued)

Proposed action in 2013-14

Both the HEFCW Accounting Officer and Welsh Government recognise that risks still exist in respect of the regularity and probity of expenditure in respect of student fee grant support. In response to these concerns, the Welsh Government is in the process of commissioning further work by the WAO to review the operations of controls at a number of local authorities which will include a National Fraud Initiative (NFI) exercise on student applications in 2013-14. The NFI exercise will data match student finance applications with home addresses to ensure appropriate domicile can be determined. Both exercises are scheduled to take place in the autumn of 2013.

Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
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29 July 2013

Statement of comprehensive net expenditure for the year ended 31 March 2013

		2013		2012	
	Notes	£'000	£'000	£'000	£'000
Expenditure					
<i>Funding of higher education:</i>					
Recurrent expenditure	3	370,647		379,855	
Other purposes	5	18,324		21,819	
		<u>388,971</u>		<u>401,674</u>	
<i>Council expenditure:</i>					
Staff costs	7	2,293		2,728	
Depreciation	9	50		58	
Other expenditures	6	600		607	
		<u>2,943</u>		<u>3,393</u>	
Total expenditure			(391,914)		(405,067)
Income					
Income from activities	2		<u>22,048</u>		<u>18,406</u>
Net operating costs			(369,866)		(386,661)
Interest receivable			3		3
Appropriations	8		<u>(1)</u>		<u>(2)</u>
Net operating costs after interest transferred to taxpayers' equity			<u>(369,864)</u>		<u>(386,660)</u>

All activities are continuing.

There are no recognised gains or losses in either 2012-13 or 2011-12.

The notes on pages 45 to 61 form part of these accounts.

Statement of financial position as at 31 March 2013

	Notes	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Non-current assets			
Property, plant and equipment	9	115	135
Intangible assets	10	-	-
Total non-current assets		<u>115</u>	<u>135</u>
Current assets			
Trade and other receivables	11	12,668	1,477
Cash and cash equivalents	12	6,502	7,550
Total current assets		<u>19,170</u>	<u>9,027</u>
Total assets		19,285	9,162
Current liabilities			
Trade and other payables	13	(7,437)	(1,106)
Provisions for liabilities and charges within one year	14	<u>(1)</u>	<u>(1)</u>
Total non-current assets plus net current assets		11,847	8,055
Non-current liabilities			
Provisions for liabilities and charges after one year	14	(22)	(19)
Assets less liabilities		<u>11,825</u>	<u>8,036</u>
Taxpayers' equity			
General reserve		<u>11,825</u>	<u>8,036</u>
		<u>11,825</u>	<u>8,036</u>

The notes on pages 45 to 61 form part of these accounts.

Signed on behalf of HEFCW

Dr David Blaney
Chief Executive and Accounting Officer
26 July 2013

Statement of cash flows

for the year ended 31 March 2013

	Notes	2013	2012
		£'000	£'000
Cash flows from operating activities			
Net operating costs before interest		(369,866)	(386,661)
Depreciation charges		50	58
(Increase) in trade and other receivables		(11,191)	(673)
Increase in trade and other payables		6,331	179
Movement in provision for liabilities and charges due within one year		-	(6)
Movement in provisions		3	(3)
Net cash outflows from operating activities		<u>(374,673)</u>	<u>(387,106)</u>
Cash flows from returns on investments and servicing of finance			
Interest received		3	3
Interest surrendered to the Welsh Government		(1)	(2)
Net cash flows from returns on investments and servicing of finance		<u>2</u>	<u>1</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(30)	(9)
Net cash outflow from investing activities		<u>(30)</u>	<u>(9)</u>
Cash flows from financing activities			
Funding from the Welsh Government		373,653	389,149
Net cash flows from financing activities		<u>373,653</u>	<u>389,149</u>
Net (decrease)/increase in cash and cash equivalents		<u>(1,048)</u>	<u>2,035</u>
Cash and cash equivalents at beginning of period		7,550	5,515
Cash and cash equivalents at end of period	12	<u>6,502</u>	<u>7,550</u>
Net (decrease)/increase in cash		<u>(1,048)</u>	<u>2,035</u>

The notes on pages 45 to 61 form part of these accounts.

**Statement of changes in taxpayers' equity
for the year ended 31 March 2013**

	General Reserve £'000
Balance at 1 April 2012	<u>8,036</u>
Changes in taxpayers' equity 2012-13	
Net operating costs	<u>(369,864)</u>
Total recognised income and expense for 2012-13	<u>(369,864)</u>
Funding from the Welsh Government	373,653
Balance at 31 March 2013	<u><u>11,825</u></u>

The notes on pages 45 to 61 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

(a) Basis of accounting

These accounts are prepared in accordance with a direction issued by Welsh Ministers, with the consent of the Treasury, in exercise of the powers conferred by paragraph 16(2), schedule 1 to the Further and Higher Education Act 1992.

The accounts have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by H M Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCW for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCW are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

(b) Grants for European Union (EU) projects

Income:

HEFCW receives grant income relating to EU projects from two sources. Grant income from the Welsh Government in support of European Social Fund projects is credited to the general reserve in the year in which expenditure is incurred. EU income in support of European Social Fund projects is credited to the statement of comprehensive net expenditure in the year in which expenditure is defrayed.

Expenditure:

As the applicant for European projects contracting with third parties for the delivery, HEFCW's liability arises when a valid claim from the grant recipient is received.

(c) Funding

Grant in aid is received from the Welsh Government to fund general revenue activities. This amount of grant in aid is regarded as financing and is credited to the general reserve on receipt.

(d) Grants payable

These accounts are prepared on a financial year basis to 31 March, but grants payable are issued on an academic year basis to 31 July. Grants payable are recorded as expenditure in the period in which the recipient carries out the activity, which creates an entitlement. Those grants of a recurring nature, mainly the recurrent funding provided to Higher Education Institutions, are brought to account when paid. In the opinion of HEFCW, this treatment achieves in all material respects a match between grant funding brought to account and the pattern of financial activity at the Higher Education Institutions.

Tuition fee support grants are accounted for on a payable or accruals' basis. These grants are payable to the Student Loans Company (SLC). The SLC funds the Higher Education Institutions to pay, on behalf of students, the cost of the difference between the tuition fees charged by the Higher Education Institutions and the tuition fee loan available to students.

Notes to the accounts (continued)

1. Statement of accounting policies (continued)

(e) Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) arrangements. HEFCW recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS arrangements of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS arrangements.

A former Chair of HEFCW is covered by a pension scheme which is analogous with the PCSPS. HEFCW makes payments to the former Chair as they are due. However the expected cost of providing the pension is recognised through the building up of a provision for the future liability calculated using actuarially assessed assumptions.

(f) Property, plant and equipment

Property, plant and equipment are carried at fair value. Depreciated historical cost is used as a proxy for fair value for all classes of these assets as all have either short useful lives or low value, or both.

Information technology assets costing more than £500 and any other fixtures, fittings or equipment costing more than £1,000 are capitalised.

Depreciation is provided on all these assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life, being a realistic reflection of the consumption of the asset, as shown below. A full year's depreciation is charged in the year of acquisition.

Information	
technology assets	- 3 years
Electrical equipment	- 5 years
Fixtures and fittings	- 5 years

Any office alterations included within fixtures and fittings are amortised over the remaining period of the lease, from the date of purchase.

(g) Intangible fixed assets

Software licences costing more than £500 are capitalised.

Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost of each asset on a straight line basis over its expected useful life as shown below. A full year's amortisation is charged in the year of acquisition.

Software licences	- 3 years
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Notes to the accounts (continued)

1. Statement of accounting policies (continued)

(h) Value Added Tax

As HEFCW is not registered for VAT, all transactions in the accounts are stated inclusive of any attributable VAT.

(i) Operating leases

Operating lease rentals are charged to the operating cost statement in the year to which they relate.

(j) Financial instruments

Financial assets: Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Cash comprises cash at bank on instant access terms.

Financial liabilities: Trade payables are not interest bearing and are stated at their nominal value.

(k) Segmental reporting

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

(l) Staff costs and secondments

Staff on secondment normally continue to be paid by HEFCW. The reimbursement of costs for seconded staff is netted off against staff costs in note 7 to the accounts.

(m) IFRSs issued but not effective

International Accounting Standard (IAS) 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued, but is not yet effective. As at 31 March 2013, the following IFRSs, none of which will either be applicable or are likely to have an impact on HEFCW's annual accounts, have been issued but are not effective:

IFRS 9 – Financial instruments (effective for periods commencing on or after 1 January 2015)

IFRS 10 – Consolidated financial statements (effective on or after 1 January 2013)

IFRS 11 – Joints arrangements (effective on or after 1 January 2013)

IFRS 12 – Disclosure of interests in other entities (effective on or after 1 January 2013)

IFRS 13 – Fair value measurement (effective on or after 1 January 2013)

IAS 1 – Presentation of financial statements (effective on or after 1 July 2012)

IAS 19 – Employee benefits (effective on or after 1 January 2013)

IAS 27 – Consolidated financial statements (effective on or after 1 January 2013)

IAS 28 – Accounting for investments in associates and joint ventures (effective on or after 1 January 2013)

Notes to the accounts (continued)

2. Income from activities

	2013 £'000	2012 £'000
European Union – European Social Fund	2,223	3,220
Department for Business, Innovation & Skills – Research Capital Investment Fund	5,115	4,227
Welsh Government – Universities Heads of the Valleys Institute Year 3 Funding (a)	4,366	2,936
Y Coleg Cymraeg Cenedlaethol Scholarships	230	130
Former Reaching Higher Capital Commitments (b)	-	7,893
Welsh Government - ECTARC (c)	75	-
Jobs Growth Wales (d)	39	-
Welsh Government - Estates and Infrastructure Capital Funding (e)	6,000	-
Welsh Government – ICT infrastructure funding for merger of Higher Education Institutions (f)	4,000	-
	<u>22,048</u>	<u>18,406</u>

(a) This funding is paid to the University of Glamorgan.

(b) These are commitments to fund capital projects in HE institutions agreed under the former Reaching Higher initiative.

(c) This funding is in respect of ECTARC providing EU work placements for Welsh graduates.

(d) This is funding in respect of a project with the Welsh Government to provide graduates with job opportunities with businesses in Wales.

(e) This is funding for capital projects for estates or infrastructure purposes.

(f) This funding is in respect of ICT integration costs of the merger between the University of Glamorgan and the University of Wales, Newport.

Notes to the accounts (continued)

3. Funding of higher education

	2013 Recurrent	2012 Recurrent
	£'000	£'000
Higher Education Institutions		
Aberystwyth University	27,462	34,308
Bangor University	27,986	33,359
Cardiff University	100,577	113,880
Swansea University	35,884	42,018
Glyndŵr University	12,669	14,674
University of Wales, Newport	14,853	17,217
Cardiff Metropolitan University	18,838	26,399
Swansea Metropolitan University	9,089	12,095
University of Wales, Trinity Saint David	9,848	15,299
University of Glamorgan	43,114	49,066
University of Wales	450	557
Open University	10,604	9,362
Sub-total (a)	<u>311,374</u>	<u>368,234</u>
Further Education Institutions		
Bridgend College	33	60
Coleg Sir Gâr	1,060	1,518
Coleg Llandrillo	1,043	1,233
Neath Port Talbot College	151	118
Gower College Swansea	36	15
Sub-total	<u>2,323</u>	<u>2,944</u>
Carried forward	<u>313,697</u>	<u>371,178</u>

Notes to the accounts (continued)

3. Funding of higher education (continued)

	2013 Recurrent £'000	2012 Recurrent £'000
Brought forward	<u>313,697</u>	<u>371,178</u>
Other Organisations		
Awbery Management Centre	-	87
DTZ Debenham Tie Leung Ltd	13	39
Economic and Social Research Council	625	458
Equality Challenge Unit	58	59
Higher Education Funding Council for England (HEFCE)	1,340	3,881
HESA Services Ltd	42	2
The Higher Education Academy	709	926
Higher Education Wales	84	-
High Performance Computing Wales	1,000	1,400
JANET (UK) Ltd	1,937	-
KPMG LLP	25	30
National Union of Students	10	23
Parity Solutions Ltd	80	-
Quality Assurance Agency	283	219
Student Loans Company Ltd (a)	48,098	-
Universities UK	-	65
University of Southampton	-	250
Welsh Government	490	-
WJEC CBAC Ltd	56	-
Y Coleg Cymraeg Cenedlaethol	4,141	3,855
Other	531	611
Sub-total	<u>59,522</u>	<u>11,905</u>
Total	373,219	383,083
Less ESF funded expenditure (see note 5)	(2,533)	(3,228)
Less Jobs Growth Wales expenditure (see note 5)	(39)	-
Total	<u><u>370,647</u></u>	<u><u>379,855</u></u>

(a) AY 2012/13 is the first year where HEFCW pays funding for student tuition fee support grants to the Student Loans Company (SLC). The SLC then pays Higher Education Institutions (HEIs) in respect of their eligible students. As shown above, payments of £48.1m were made to the SLC in the financial year. This change in the flow of funding to HEIs from HEFCW, together with a 4% annual reduction in grant in aid funding from the Welsh Government in 2012-13, contributes to the reduction in total payments of recurrent funding to HEIs shown above.

Notes to the accounts (continued)

4. Grants to institutions

Included in these accounts are grants to institutions, which are subject to the recipients' external auditors' confirmation that they have been used for their intended purpose. The financial year of higher education institutions ends on 31 July and their audited accounts are provided to HEFCW by 31 December. A review by HEFCW staff of institutions' 2011/12 financial statements confirmed that each institution's external auditors had considered that grants had been used for their intended purpose and no adjustments to grants were necessary. Additionally, the audit of student numbers carried out in the summer of 2012 did not lead to any material adjustments. Any adjustment arising from the audit of 2012-13 accounts and student numbers will be made by HEFCW in future years.

HEFCW confirms that grants it has received from the Welsh Government have been used for their approved purposes.

5. Expenditure for other purposes

	2013 £'000	2012 £'000
European Social Fund (a)	2,533	3,228
Research Capital Investment Fund (b)	5,115	4,227
Pontio Project (c)	-	3,444
Universities Heads of the Valleys Institute (d)	4,365	2,936
Y Coleg Cymraeg Cenedlaethol Scholarships	197	91
Former Reaching Higher Capital Commitments (e)	-	7,893
ECTARC (f)	75	-
Jobs Growth Wales (g)	39	-
Estates and Infrastructure Capital Funding (h)	6,000	-
	<u>18,324</u>	<u>21,819</u>

- (a) The amounts relating to grant payments made to higher education institutions under the European Social Fund (ESF) are subject to separate audits. Any adjustment arising from these audits will be accounted for in future years.
- (b) An analysis of research capital funding by higher education institution is given below:

Notes to the accounts (continued)**5. Expenditure for other purposes (continued)**

	2013 £'000	2012 £'000
Aberystwyth University	760	591
Bangor University	570	466
Cardiff University	2,847	2,507
Swansea University	938	663
	<u>5,115</u>	<u>4,227</u>

- (c) This is Strategic Capital Investment Fund capital funding paid to Bangor University in respect of the Pontio Centre Project.
- (d) This payment was made to the University of Glamorgan in accordance with the Agreement between Welsh Ministers and HEFCW dated 16 February 2010. Payment of funding is dependent upon satisfactory progress against set targets and deliverables.
- (e) An analysis of former Reaching Higher Capital Commitment expenditure by higher education institution is given below:

	2013 £'000	2012 £'000
Aberystwyth University	-	4,893
University of Wales, Trinity Saint David	-	3,000
	<u>-</u>	<u>7,893</u>

- (f) This is funding paid to ECTARC to provide EU work placements for Welsh graduates.
- (g) These are costs in respect of a project to provide graduates with job opportunities with businesses in Wales.
- (h) This is capital funding for projects which support the development or maintenance of either non-residential estate or other infrastructure provisions.

An analysis of this capital funding is given below:

Notes to the accounts (continued)**5. Expenditure for other purposes (continued)**

	2013 £'000	2012 £'000
Aberystwyth University	445	-
Bangor University	334	-
Cardiff University	1,670	-
Swansea University	550	-
University of Wales, Trinity Saint David	409	-
University of Wales, Newport	643	-
Swansea Metropolitan University	452	-
University of Glamorgan	1,497	-
	<u>6,000</u>	<u>-</u>

6. Other expenditures

	2013 £'000	2012 £'000
Administration costs		
Accommodation costs	327	354
Office costs	36	33
Bought in services	44	29
Auditors' remuneration – Annual audit fee of HEFCW	22	17
Auditors' remuneration – Additional assurance report work	4	4
Council members' travel and subsistence costs	5	6
Council members' meeting costs	14	13
Staff travel and subsistence costs	16	20
Staff related expenditure on training, recruitment etc.	34	31
Information technology costs	98	100
	<u>600</u>	<u>607</u>

The auditor of HEFCW during the year was the Auditor General for Wales.
Administration costs exclude £8k charged to programme recurrent costs (2012 - £8k).

Notes to the accounts (continued)**7. Staff costs****(a) Analysis**

	Staff	2013 Council Members (inc Chief Executive)	Total	Staff	2012 Council Members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,901	181	2,082	1,968	184	2,152
Social security costs	163	16	179	165	16	181
Other pension costs	370	30	400	384	26	410
Voluntary exit costs	65	-	65	468	-	468
Total payroll costs	2,499	227	2,726	2,985	226	3,211
Less costs charged to programme recurrent costs	(433)	-	(433)	(483)	-	(483)
Administration payroll costs	2,066	227	2,293	2,502	226	2,728

Further details of the Voluntary Exit scheme are disclosed in the Remuneration Report on page 23 of these accounts.

(b) Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but HEFCW is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2012-13, employer's contributions of £397,981 were payable to the PCSPS (2011-12 - £410,696) at one of four rates in the range 16.7 to 24.3 per cent of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

A former Chair of Council receives pension benefits broadly by analogy (BBA) with the PCSPS.

The BBA pension provision is unfunded, with benefits being paid as they fall due and guaranteed by HEFCW. There is no fund and therefore no surplus or deficit or assets. The scheme liabilities for service are calculated by the Government Actuary's Department every two years and has been performed at the end of 2012-13 and amounted to £23,000 at 31 March 2013.

Notes to the accounts (continued)**7. Staff costs****(c) Average number of staff employed**

The Higher Education Funding Council for Wales employed an average of 47 full time equivalent staff during the financial year ending 31 March 2013, as follows:

	2013 Numbers	2012 Numbers
Senior Management	2	3
Strategic Development	-	19
Finance & Corporate Services	-	23
Chief Executive's Office	9	6
Institutional Engagement	13	-
Skills, Education and Funding	12	-
Corporate Services	11	-
	<u>47</u>	<u>51</u>

One member of staff included in Institutional Engagement (formerly Finance & Corporate Services) above was not a permanent member of staff. The analysis of staff numbers has been reclassified for 2013 to reflect the organisational design review implemented in October 2012.

(c) Average number of staff employed

	2013 Numbers	2012 Numbers
Staff with a permanent UK employment contract with HEFCW	46	50
Other staff engaged on the objectives of HEFCW	1	1
	<u>47</u>	<u>51</u>

(d) Sickness absence data

	2013	2012
Sickness absence rate (%)	1.31	1.45
Number of working days lost	186	204
Approximate cost of working days lost	<u>£23,178</u>	<u>£25,992</u>

The approximate cost of working days lost is based upon the salary at level 4 (step 4) a middle management staff level. The 2012 cost of working days lost has been restated to include national insurance and pension costs.

Notes to the accounts (continued)**8. Appropriations**

	2013 £'000	2012 £'000
Receipts surrenderable to the Welsh Government:		
Bank interest (net of bank charges)	<u>1</u>	<u>2</u>

9. Property, plant and equipment

	Information technology equipment £'000	Fixtures & fittings £'000	Total £'000
Cost			
At 1 April 2012	443	286	729
Additions	26	4	30
Disposals	(68)	(4)	(72)
At 31 March 2013	<u>401</u>	<u>286</u>	<u>687</u>
Depreciation			
At 1 April 2012	426	168	594
Charged during year	23	27	50
Released on disposals	(68)	(4)	(72)
At 31 March 2013	<u>381</u>	<u>191</u>	<u>572</u>
Net book value at 31 March 2013	<u>20</u>	<u>95</u>	<u>115</u>
Net book value at 1 April 2012	<u>17</u>	<u>118</u>	<u>135</u>
Asset financing			
Owned	<u>20</u>	<u>95</u>	<u>115</u>
Net book value at 31 March 2013	<u>20</u>	<u>95</u>	<u>115</u>

10. Intangible fixed assets

	Software licences £'000
Cost	
At 1 April 2012 and at 31 March 2013	<u>30</u>
Amortisation	
At 1 April 2012 and at 31 March 2013	<u>30</u>
Net book value at 31 March 2013	<u>-</u>
Net book value at 1 April 2012	<u>-</u>

Notes to the accounts (continued)**11. Trade receivables and other current assets**

	2013 £'000	2012 £'000
Amounts falling due within one year		
Trade receivables	6,000	20
Prepayments and accrued income	6,667	1,456
Other receivables	1	1
	<u>12,668</u>	<u>1,477</u>
Intra-government balances		
Other central government bodies	12,421	1,169
Local authorities	-	-
NHS Trusts	-	-
Public corporations and trading funds	-	-
Balances with other government bodies	<u>12,421</u>	<u>1,169</u>
Balances with non-government bodies	247	308
	<u>12,668</u>	<u>1,477</u>

'Trade receivables' consists of Welsh Government capital funding in respect of HE institutions' estates or infrastructure projects. 'Prepayments and accrued income' includes £4,000k receivable in respect of Welsh Government infrastructure funding for the merger between the University of Glamorgan and the University of Wales, Newport.

12. Cash and cash equivalents

	2013 £'000	2012 £'000
Cash held under Government Banking Service		
Balance at 1 April	-	-
Net change in cash and cash equivalent balances	3,058	-
Balance at 31 March	<u>3,058</u>	-
Cash held under commercial banks and cash in hand		
Balance at 1 April	7,550	5,515
Net change in cash and cash equivalent balances	(4,106)	2,035
Balance at 31 March	<u>3,444</u>	<u>7,550</u>
Total cash and cash equivalents	<u>6,502</u>	<u>7,550</u>

HEFCW commenced banking with the Government Banking Service (GBS) during 2012-13. This is a Government-wide banking service provided jointly by Citibank and the Royal Bank of Scotland and overseen centrally by the GBS team, ultimately controlled by HM Treasury. HEFCW does not earn any interest on any balance held in GBS accounts. HEFCW obtained HM Treasury authorisation to continue making payments using commercial banking facilities.

Notes to the accounts (continued)**13. Trade payables and other current liabilities**

	2013 £'000	2012 £'000
Amounts falling due within one year		
Accruals	7,436	1,106
Sundry creditors	1	-
	<u>7,437</u>	<u>1,106</u>

Included in these figures is (i) £6,000k in respect of the distribution of capital funding to HE institutions for estates or infrastructure projects; and (ii) £395k (2011-12 - £468k) relating to staff Voluntary Exit Scheme costs, details of which can be found in note 7 and in the Remuneration Report. Although the staff departing under the Voluntary Exit Scheme had left on or before 31 March 2013, the majority of the costs were not charged to HEFCW by the Cabinet Office until after the financial year end. Also included is a sum of £409k due to HEIs in respect of the GO Wales European Social Fund Convergence project. There are no intra-government balances included in the 'accruals' figure above.

14. Provisions for liabilities and charges

	2013 £'000	2012 £'000
Broadly by analogy pension liability (see note 7(b))	<u>23</u>	<u>20</u>
	<u>23</u>	<u>20</u>
Analysis of timing of liability		
Falling due within one year	1	1
Falling due between 2014 and 2019	6	6
Falling due between 2020 and 2030	16	13
Thereafter	<u>0</u>	<u>0</u>
	<u>23</u>	<u>20</u>

15. Commitments under leases**Operating leases**

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2013 £'000	2012 £'000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	82	120
Later than one year and not later than five years	283	329
Later than five years	<u>-</u>	<u>36</u>
	<u>365</u>	<u>485</u>

Expenditure in the year on leasing costs of £123k is included in note 6.

Notes to the accounts (continued)**16. Capital commitments**

2013	2012
£'000	£'000

Contracted capital commitments at 31 March 2013 not otherwise included in these accounts

Property, plant and equipment
Contracted

-	-
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17. Other financial commitments and contingent liabilities

2013	2012
£'000	£'000

Revenue grants (a)

131,584	137,561
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European projects (b)

9,942	12,498
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141,526	150,059
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(a) This amount will be funded by grant in aid from the Welsh Government to July 2013.

(b) European projects will be funded as follows:

2013	2012
£'000	£'000

European Social Fund grants
HEFCW

8,103	10,340
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1,839	2,158
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9,942	12,498
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The European projects also have financial commitments of £3,497k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

As at 31 March 2013, there were no contingent liabilities (2012 – nil).

18. Losses and special payments

2013	2012
£	£

Fruitless payments

418	-
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Notes to the accounts (continued)**19. Related parties**

The Higher Education Funding Council for Wales is a Welsh Government Sponsored Body. The Welsh Government is regarded as a related party. During the year, HEFCW has had various material transactions with the Welsh Government, which is regarded as the parent Department.

The following Council members and members of senior management have entered into relationships that are considered to be related parties, and which are shown in the table below: -

Name	Relationship
Mr Roger Thomas (Chair of Council)	◆ Honorary Doctor, University of Glamorgan
Mr David Mason (Council member)	◆ Honorary Fellow, University of Wales, Newport
Mrs Bethan Guilfoyle (Council member)	◆ Education Commissioner for Welsh Government in Blaenau Gwent ◆ Honorary Doctor of Education, University of Glamorgan
Professor Robin Williams CBE (Council member)	◆ Emeritus Professor, University of Wales ◆ Emeritus Professor, Swansea University ◆ Honorary Fellow, Cardiff University ◆ Honorary Fellow, Bangor University ◆ Honorary Fellow, Swansea University ◆ Honorary Graduate, University of Wales ◆ Member of the Advisory Board, CAFMaD, Bangor and Aberystwyth Universities ◆ Member, Advisory Group for Engineering, Swansea University ◆ Fellow of the Coleg Cymraeg Cenedlaethol ◆ Daughter employed by Swansea University
Professor Philip Gummett CBE (Former Chief Executive)	◆ Wife, part-time tutor at Swansea Metropolitan University
Professor Mark Smith (Council member)	◆ Board Member of HESA
Professor Stephen Tomlinson CBE (Council member)	◆ Emeritus Professor, Cardiff University

Any funds paid to the institutions and organisations noted above are detailed in note 3, otherwise the funds paid in the year were nil. None of the key managerial staff or other related parties has undertaken any material transactions with the Higher Education Funding Council for Wales.

Notes to the accounts (continued)

20. Financial instruments

IFRS 7 and International Accounting Standards (IAS) 32 and 39 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure.

Liquidity risks – In 2012-13 £373.6m or 94.4% of HEFCW's income was derived from the Welsh Government (2011-12: £389.1m or 95.5%). Of the remaining income £22.0m or 5.6% was derived from bank interest and income from activities (2011-12: £18.4m or 4.5%). HEFCW does not consider that its general activities are exposed to any significant liquidity risk, and is satisfied that future income is sufficient to meet its commitments.

Interest rate risks – Cash balances which are drawn down from the Welsh Government to pay funding commitments and operating costs are held in an instant access, variable rate bank account which on average carried an interest rate of 0.05% in the year (2011-12: 0.05%). The cash balance at the year end was £6.50m. HEFCW does not consider that its general activities are exposed to significant interest rate risks.

Foreign currency risk – The general activities of HEFCW are not exposed to any significant foreign exchange risks.

Cash flow risk – HEFCW is not exposed to any significant cash flow risks.

21. Events after the reporting period

There have been no events after the Statement of Financial Position date up to the date these financial statements were authorised for issue by the Accounting Officer on 26 July 2013, requiring an adjustment to the accounts.