

Higher Education Funding Council for Wales

Annual report and accounts

For the year ended 31 March 2008

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 National Assembly for Wales (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 is now an Assembly Government Sponsored Body.

These accounts have been prepared in accordance with the direction made by Welsh Ministers with the consent of the 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 the Council.

The accounts are prepared in accordance with the requirements of the Companies Acts and Accounting Standards issued or adopted by the Accounting Standards Board, so far as these requirements are appropriate.

These statements cover the fifteenth reporting period of the Council and reflect the continuing development of the Council'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 Assembly 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 local authority or 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 and the Education Act 1994.

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, met on a regular basis.

On 26 January 2000, HEFCW achieved the Investors in People award. This award was re-assessed during October 2006 and the Council was still found to be meeting the Investors in People standard. HEFCW's accreditation is in place until October 2009.

HEFCW is committed to developing its Diversity policies to ensure that all employees are treated equally, irrespective of gender, age, marital status, disability, racial or ethnic origin, sexual orientation, religion or belief.

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 where they have the appropriate skills and abilities to perform the job. 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.

Annual report (continued)

Introduction and background (continued)

Creditor payment policy

The Council is fully committed to the prompt payment of its suppliers' bills and supports the Confederation of British Industry's Prompt Payment Code. An analysis of the Council's 2007-08 payment performance indicated that 98.5 per cent of invoices (2006-2007: 97.8%) were paid in accordance with agreed contractual conditions, or where no condition existed, within 30 days of the presentation of a valid invoice.

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 Notes 3 and 6 to these accounts.

So far as the Accounting Officer is aware, there is no relevant audit information of which the Council'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 the Council's auditors are aware of that information.

Council membership

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

Chairman

Professor Sir Roger Williams
Former Vice Chancellor, University of Reading

Members

Professor Philip Gummatt
Chief Executive, Higher Education Funding Council for Wales;
Dr Len Arthur
Senior Lecturer at University of Wales Institute, Cardiff;
Professor Mari Lloyd-Williams
Director of Community Studies, University of Liverpool;
Mr R P V (Tim) Rees
Chartered Accountant; former Chair of Governors at the University of Glamorgan;
Professor D Garel Rhys CBE
Former Director of the Centre for Automotive Industry Research, Cardiff University;
Mr Kenneth Richards
Former Senior Lecturer in Taxation and Finance, University of Wales, Aberystwyth;
Professor Sir Brian Smith
Former Vice Chancellor, Cardiff University;
Mrs Tina Stephens
Specialist in management and staff development; Chief examiner for Chartered Institute of Personnel and Development;
Professor Nigel Stott CBE
Emeritus Professor of General Practice in Wales, Cardiff University;
Dr Geoffrey P Thomas
Former Head of Continuing Education Department, Oxford University and President of Kellogg College;
Mrs Pauline Thomas (*appointed 1 April 2007*)
Head of Abertillery Comprehensive School.

Annual report (continued)

Introduction and background (continued)

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

Committee/panel	Members
Remuneration	Professor Sir Roger Williams (Chair), Mrs Tina Stephens
Widening access	Professor Philip Gummett (Chair)
Quality assessment	Professor Philip Gummett (Chair)
Audit & risk	Mr Tim Rees (Chair), Professor Nigel Stott
Human resources	Mrs Tina Stephens (Chair), Mr Tim Rees, Professor Garel Rhys
Reconfiguration & collaboration	Dr Geoffrey Thomas (Chair), Mr Tim Rees, Professor Garel Rhys
Third mission	Dr Len Arthur (Chair)
Learning & teaching	Professor Philip Gummett (Chair)
Strategic development fund assessment	Professor Sir Roger Williams (Chair), Professor Sir Brian Smith, Professor Philip Gummett
Research sounding group	Professor Sir Brian Smith (Chair)
Appointments	Professor Sir Roger Williams (Chair), Dr Len Arthur, Mr Tim Rees, Mrs Tina Stephens, Professor Philip Gummett

Assessor appointed by Welsh Ministers

Dr David Bacon

Head of Higher Education Division, Department for Children, Education, Lifelong Learning and Skills, Welsh Assembly Government

The register of members' interests is available for inspection through the Clerk to the Council at the Council's offices in Llanishen.

Management commentary

Mission statement and strategic aims

HEFCW's mission is to promote internationally excellent higher education in Wales, for the benefit of individuals, society and the economy, in Wales and more widely.

Working with partners, HEFCW deploys funds from the Welsh Assembly Government and others in order to:

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

HEFCW's mission is to promote internationally excellent higher education in Wales, for the benefit of individuals, society and the economy, in Wales and more widely.

Annual report (continued)

Management commentary (continued)

Mission statement and strategic aims (continued)

In all that HEFCW does it is committed to maintaining and upholding the enduring core higher education values of:

Scholarship and learning

Sustaining a culture which demands disciplined thinking and intellectual integrity, encourages curiosity, challenges existing ideas and generates new ones.

Civic responsibility

Playing a major role in encouraging good citizenship and in shaping a democratic, inclusive society founded on respect for the rights of the individual and their responsibilities to society as a whole.

Lifelong learning

Enabling individuals to develop their capabilities to their highest potential throughout life.

Sustainability

Working to ensure that the sector develops structurally in a manner that best supports the delivery of the strategic aims and remains internationally competitive.

HEFCW's strategic aims in discharging its responsibilities are:

- i) **Reaching wider:** delivering wider participation and access in support of social inclusion and economic upskilling;
- ii) **The 'deal' for students:** delivering the highest quality learning and related support;
- iii) **Research excellence:** delivering improved research performance to underpin the knowledge economy and cultural and social renewal;
- iv) **Benefiting the economy and society:** delivering more productive relationships between higher education institutions and the public and private sectors, other agencies and local communities;
- v) **Initial teacher training:** delivering newly qualified teachers of high quality;
- vi) **Making it work: The higher education sector in Wales:** a strong emphasis on reconfiguration, collaboration and other measures to sustain improved performance of individual institutions and the HE system as a whole; and
- vii) **Making it work: HEFCW:** being an effective public body by (i) having the capability and infrastructure that enables us to work effectively internally and with all our stakeholders and partners (especially the Welsh Assembly Government and the HE sector in Wales); and (ii) being an employer of choice.

Remit letter

In February 2007 the Minister for Education, Lifelong Learning and Skills issued the annual remit letter to the Council. This sets out the Welsh Assembly 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 the HEFCW's operational plan. Significant items in the remit letter included a re-emphasis on reconfiguration and collaboration and on widening access, the implementation of the Graham review, the reconfiguration of initial teacher training (ITT), and public sector reform, as set out in *Making the Connections* and *Delivering the Connections*.

Annual report (continued)

Management Commentary (continued)

Operational plan

Of the 52 actions identified in the operational plan for 2007-08, 47 were achieved, one was partially achieved, one was dropped as no longer applicable, and three were carried forward to 2008-09.

Some of the key operational plan actions were to:

- *Implement a programme of action to improve retention in HE.* Programme of action produced and implementation begun, for example work on institutional student tracking and monitoring;
- *Seek new three-year teaching and learning strategies and provide feedback, to include encouragement to institutions to identify how the UK Professional Standards Framework for teaching and supporting learning could be supported.* Strategies submitted by all institutions;
- *Complete the review of research policy by July 2007 and publish outcomes by August 2007.* Statement of research policy objectives and broad supporting funding scenario agreed by Council and published in July 2007;
- *Launch second three-year third mission funding cycle.* New third mission strategies produced and funding began in December 2007;
- *Work with ITT sector to implement plans for the reconfiguration of ITT.* Detailed plans received from institutions, followed by dialogue between Council and institutions, including testing of assumptions. Report submitted to the Assembly Government;
- *Liaise with the sector to develop submissions to the Reconfiguration and Collaboration Fund, with targets and deliverables.* Targets and deliverables confirmed for partnerships approved in 2007-08: functional administrative collaboration in South West Wales and the Low Carbon Research Institute.

HEFCW and the HE sector have also played a full part in the Assembly Government's Making the Connections initiative. In work carried out jointly by the Welsh Assembly Government and the Wales Audit Office on preparedness and delivery of Making the Connections in the central government area, HEFCW was assessed as doing particularly well against the theme of working together, and encouragingly against the themes of making better use of resources and preparing and developing the workforce.

In addition HEFCW has carried out a significant organisational restructuring during 2007-08, in order to enable the organisation to focus more strongly on the key areas of strategic interaction with the sector and the Welsh Assembly Government, including institutions' strategic plans and long term sustainability, and leadership, governance and management. The restructuring has involved the creation of two directorates rather than one, and a reduction in the number of heads of teams from nine to four. The Works Council and staff generally were consulted throughout the process, which involved two heads of team taking voluntary redundancy at a cost of £53,000.

Financial review

The net operating costs for the year were £444.7 million (2006-07 (restated) net operating costs £433.7 million). The cumulative general fund at 31 March 2008 after crediting grant in aid funding of £443.6 million, was £6.3 million (2006-07 (restated) £7.2 million). The Council'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 statements will always record a net operating costs result for the year as a result of the crediting of funding received to the general fund in the balance sheet. The Council'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 Assembly Government. Expenditure on fixed assets amounted to £258,000 in the year.

Annual report (continued)

Remuneration report

Remuneration policy

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

The Chief Executive's remuneration is set by the Welsh Assembly Government and may include a performance related bonus of up to 10% based on the assessment of performance targets set by the Chairman of the Council.

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

No specific bonus is payable to the directors although an annual performance award equivalent to one step increment on salary bandings can be made in accordance with the performance appraisal process which applies to all staff appointments.

Remuneration committee

The 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 to consider matters affecting the pay and performance bonus of the Chief Executive and make recommendations for approval to the Welsh Assembly Government accordingly.

Salary and pension disclosures*

Position	Name	Salary	Real Increase in Pension & Lump Sum	Pension at 31/03/08 & Lump Sum	CETV at 01/04/07	CETV at 31/03/08	Real increase in CETV as funded by employer
		£	£'000	£'000	£'000	£'000	£'000
Chairman	Prof Sir Roger Williams	£15,552 (2006-07 : 15,168)	N/A	N/A	N/A	N/A	N/A
Chief Executive	Prof Philip Gummett	£107,794 (2006-07 : 107,053)	0 - 2.5 pension plus 2.5 - 5 lump sum	5 - 10 pension plus 25 - 30 lump sum	199	248	23
Director of Finance and Corporate Services	Richard Hirst	£85,445 (2006-07 : 81,787)	0 - 2.5 pension	40 - 45 pension	633	765	38
Director of Strategic Development	David Blaney	£34,418 (2006-07: nil)	2.5 - 5 pension	20 - 25 pension	240	328	44

Due to certain factors being incorrect in last year's CETV calculator, there may be a slight difference between the final period CETV for 2006-07 and the start of period CETV for 2007-08.

David Blaney was appointed as a director on 1 November 2007. The full year equivalent of his salary shown above is £82,602. The CETV of £240k shown above is the balance at 31 October 2007, the day before his appointment as director.

Richard Hirst and David Blaney are members of the Premium defined benefit scheme, 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).

Annual Report (continued)

Remuneration Report (continued)

Salary and pension disclosures* (continued)

The Chief Executive has a permanent contract and is an ordinary member of the Principal Civil Service Pension Scheme.

The Chairman 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 the HEFCW. Council Members (excluding the Chairman and Chief Executive) receive a non-pensionable salary of £4,878 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 ("CSP") arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a 'final salary' scheme (classic, premium, and 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 changes in the Retail Price Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a good quality 'money purchase' stakeholder pension with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. 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' 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 in respect of service from October 2002 calculated as in premium. In nuvos, a member builds up a pension based on his 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 RPI. 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 www.civilservice-pensions.gov.uk.

Annual Report (continued)

Remuneration Report (continued)

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 individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries 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 drawn.

Real increase in CETV

This reflects the increase in CETV effectively 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.

Professor Philip Gummett
Chief Executive and Accounting Officer
15 July 2008

Statement of Council's and Chief Executive's responsibilities

Under paragraph 16(2) of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for Wales is required to prepare a statement of accounts for each financial year in the form and on the basis determined by Welsh Ministers, with the consent of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Council's state of affairs at the year end and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

In preparing the financial statements the Council 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 financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Council will continue in operation.

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

Statement on internal control

Scope of responsibility

- 1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of HEFCW's policies, aims, and objectives whilst safeguarding the public funds and other assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Treasury guidance '*Managing Public Money*'. My role and responsibilities as Accounting Officer for HEFCW are set out in the memorandum *The Responsibilities of an AGSB Accounting Officer*. I also attend regular meetings with officers in the Higher Education Division of the Welsh Assembly Government where the priorities for HEFCW and the key risks facing the organisation are reviewed.

The purpose of the system of internal control

- 2 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance. The system of internal control is based on a continuing process designed to identify and prioritise the risks to the achievement of HEFCW's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in HEFCW for the year ended 31 March 2008 and up to the date of approval of the accounts, and accords with Treasury Guidance.

Capacity to handle risk

- 3 HEFCW's approach to risk management is set out in its risk management policy and guidelines, which were updated in February 2008. Risk management involves a planned and systematic approach to the identification, assessment and mitigation of the risks that could hinder the achievement of strategic objectives. The stages HEFCW goes through to integrate risk management into its processes are summarised below.
- 4 HEFCW's key objectives are set out in its Corporate Strategy and Corporate & Operational Plan. Responsibility for the activities and processes undertaken to achieve those objectives resides with the various teams within HEFCW. Teams are responsible for identifying and assessing the risks associated with the delivery of their objectives, and for capturing this information in team risk registers.
- 5 Risks to the delivery of HEFCW's objectives which are assessed as 'significant' in terms of their probability of occurrence and their potential impact are regarded as corporate level risks. These risks are identified on a separate corporate risk register, as well as in team registers, and are subject to close and regular scrutiny by Management Board, the Audit and Risk Committee, and Council. Each team is expected to:
 - Establish clear objectives for their areas of operation, including those from the latest Corporate Strategy and Corporate & Operational Plan, and identify and evaluate the key risks to achieving those objectives;
 - Incorporate risk responses into a system of internal control that is designed to address opportunities, facilitate effective and efficient operations, protect HEFCW's interests and ensure compliance with applicable laws and guidance;
 - Design, operate and monitor the system of internal control;
 - Ensure that emerging risks are identified and an appropriate response is affected;
 - Monitor the effectiveness of the system of risk and internal control management, and report significant weaknesses or non-compliance to the Management Board;
 - Ensure that a risk-based approach to internal control is communicated to all their team's staff and embedded in operational processes;
 - Provide an annual assurance in the form of a statement of internal control by the relevant Director or Head of Team to the Chief Executive on the extent of compliance with this Policy.

Statement on internal control (continued)

The risk and control framework

6 The particular roles and responsibilities of the various groups and individuals within HEFCW are set out below.

Body	Key responsibilities
HEFCW Council	To approve the risk management strategy and policies, and to determine HEFCW's 'risk appetite', advised by the Audit and Risk Committee, the Chief Executive and the Management Board.
Audit and Risk Committee	To review the adequacy of the structures, processes and responsibilities for identifying and managing key risks facing HEFCW, and advise the Council on the effectiveness of measures to safeguard HEFCW's assets and the prevention and detection of fraud and irregularity.
The Chief Executive	<p>As Accounting Officer, the Chief Executive remains ultimately accountable for the organisation and its management of risk. He must:</p> <ul style="list-style-type: none"> • have a clear understanding and assessment of the risks that could prevent delivery of objectives • ensure that the organisation has effective risk management and control processes • be provided with assurance that the processes and the key strategic risks are being effectively managed
Management Board	Owners of the corporate risk register responsible for reviewing it on a regular basis (at least three times a year ahead of each Audit and Risk Committee meeting) to ensure that the key risks for HEFCW are recorded and are being effectively managed.
Directors and Heads of Teams	<p>Directors are responsible for overseeing and signing-off of Team risk registers.</p> <p>Heads of Teams are the owners of Team (operational) risk registers and project risk registers for their own Teams.</p> <p>Responsible for ensuring that:</p> <ul style="list-style-type: none"> • registers are prepared, covering the key risks that exist in relation to activities or projects managed by the Team; • risks are assessed against HEFCW's common evaluation criteria, in particular to ensure that registers distinguish clearly between significant (corporate) risks and minor risks; • systems are established to regularly monitor and update the registers (at least on a three times a year); • actions identified to manage the key risks are effective and sufficient.

Statement on internal control (continued)

The risk and control framework (continued)

Body	Key responsibilities
Risk Assurance Section	<p>Advising on the development and implementation of the risk management policy and guidelines and facilitating implementation.</p> <p>Developing a risk-based audit plan (in consultation with members of the Management Board and for approval by the Audit and Risk Committee) such that audit assurance is focussed on the effectiveness of controls in place to manage the most significant risks.</p> <p>Providing an annual opinion, based on the risk-based audit plan, to the Accounting Officer on the effectiveness of corporate governance, risk management and internal control.</p>
All Other Staff	<p>Identification and management of operational and project risks.</p> <p>Drawing the attention of their line manager to key risks, which may be sufficiently serious to require monitoring at corporate level.</p>

Review of effectiveness

- 7 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and directors and heads of teams within HEFCW who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Council and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

- 8 Specific developments during 2007-08 to strengthen our ability to achieve HEFCW's strategic objectives and manage risk include:
 - I instigated a review of the organisational structure with the aim of ensuring that HEFCW's resources are best able to secure the achievement of our strategic aims and to address the risks involved. The new structure was implemented in stages through the year and included the appointment of an additional director, and a reduction in the number of heads of teams from nine to four;
 - Following an independent review HEFCW received ISO 27001 certification for its Information Security Management Systems. I regard this as particularly significant given the current emphasis on the importance of data security;
 - We implemented a new data assurance strategy, designed to provide greater assurance about the data generated by institutions for funding purposes.

- 9 The internal audit service has identified a number of areas where controls require strengthening during the year and up to the date of signature of the statement. In each case an action plan has been agreed with the relevant manager for addressing the weakness. One of the issues identified by our control systems is some delay in implementing the agreed actions. However, I do not consider that any of the issues raised indicates a significant weakness which would warrant disclosure here, and I am satisfied that the system of internal control has developed effectively over the course of the year.

Professor Philip Gummatt
 Chief Executive and
 Accounting Officer
 15 July 2008

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 2008 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Operating Cost Statement, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and the auditor

The Chief Executive as accounting officer is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Council's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions made thereunder. I report to you whether, in my opinion, the information which comprises the Introduction and Background, Management Commentary and the unaudited part of the Remuneration Report in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition, I report to you if in my opinion, the Higher Education Funding Council for Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Higher Education Funding Council for Wales' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Higher Education Funding Council for Wales' corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Introduction and Background, Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Higher Education Funding Council for Wales' circumstances, consistently applied and adequately disclosed.

The certificate and report of the Auditor General for Wales to the National Assembly for Wales (continued)

Basis of audit opinion (continued)

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by Welsh Ministers, of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2008 and of its net operating costs and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions made thereunder; and
- information which comprises Introduction and Background, the Management Commentary and the unaudited part of the Remuneration Report given within the Annual Report is consistent with the financial statements.

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.

Report

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

16 July 2008

Operating cost statement for the year ended 31 March 2008

		2008		2007 restated	
	Note	£'000	£'000	£'000	£'000
Expenditure					
<i>Funding of higher education:</i>					
Recurrent expenditure	3	422,881		408,291	
Capital expenditure	3	7,828		11,564	
Other purposes	5	23,325		30,440	
		<u>454,034</u>		<u>450,295</u>	
<i>Council expenditure:</i>					
Administration costs	6	708		795	
Staff costs	7	2,186		2,006	
Depreciation	10	129		113	
Amortisation	11	10		9	
Notional charges - cost of capital	8	237		250	
		<u>3,270</u>		<u>3,173</u>	
Total expenditure			457,304		453,468
Income from activities	2		<u>12,563</u>		<u>19,752</u>
Net operating costs before interest and appropriations			(444,741)		(433,716)
Interest receivable	9		460		356
Appropriations	9		<u>(460)</u>		<u>(356)</u>
Net operating costs for the year transferred to the general fund			<u>(444,741)</u>		<u>(433,716)</u>
Movement on general fund					
			2008		2007 restated
			£'000		£'000
Balance brought forward			7,180		7,150
Net operating costs for year			(444,741)		(433,716)
WAG grant in aid			443,646		433,496
Notional cost of capital adjustment			237		250
Balance carried forward			<u>6,322</u>		<u>7,180</u>

All activities are continuing.

There are no recognised gains and losses in either 2007-08 or in 2006-07.

The notes on pages 19 to 29 form part of these accounts.

Higher Education Funding Council For Wales

Balance sheet as at 31 March 2008

		2008		2007 restated	
	Notes	£'000	£'000	£'000	£'000
Fixed assets					
Tangible fixed assets	10		246		117
Intangible fixed assets	11		-		10
			<u>246</u>		<u>127</u>
Current assets					
Debtors	12	844		1,448	
Cash at bank and in hand	21	<u>6,001</u>		<u>6,230</u>	
		6,845		7,678	
Creditors					
Amounts falling due within one year	13	<u>(769)</u>		<u>(625)</u>	
Net current assets			<u>6,076</u>		<u>7,053</u>
Net assets			<u><u>6,322</u></u>		<u><u>7,180</u></u>
Financed by :					
Capital and reserves					
General fund	14		<u>6,322</u>		<u>7,180</u>
Total government funds	14		<u><u>6,322</u></u>		<u><u>7,180</u></u>

The notes on pages 19 to 29 form part of these accounts.

Signed on behalf of the Council

Professor Philip Gummett
Chief Executive and Accounting Officer
15 July 2008

Cashflow statement for the year ended 31 March 2008

	Notes	2008 £'000	2007 restated £'000
Operating activities			
Net cash outflow from operating activities	20	(443,854)	(434,089)
Returns on investments and servicing of finance			
Interest received		448	346
Interest surrendered to the Welsh Assembly Government		(448)	(346)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets	10	(258)	(43)
Net cash outflow before financing		<u>(444,112)</u>	<u>(434,132)</u>
Financing			
Welsh Assembly Government Funding		443,646	433,496
Welsh Assembly Government notional cost of capital adjustment	8	237	250
Decrease in cash	21	<u><u>(229)</u></u>	<u><u>(386)</u></u>

The notes on pages 19 to 29 form part of these accounts.

Notes to the accounts

1. 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 are prepared under the modified historical cost convention and in accordance with the requirements of the Companies Act 1985, the Government Financial Reporting Manual and Accounting Standards issued or adopted by the Accounting Standards Board so far as these requirements are appropriate. Fixed assets are valued at historic cost less depreciation and have not been revalued as, in the opinion of the Council, such adjustment would not be material.

(b) Grants for European Union (EU) projects

Income:

The Council receives grant income relating to EU projects from two sources. Grant income from the Welsh Assembly Government in support of European Social Fund projects is credited to the general fund in the year in which expenditure is incurred. EU income in support of European Social Fund projects is credited to the operating cost statement in the year in which expenditure is defrayed.

Expenditure:

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

(c) Funding

Grant in aid is received from the Welsh Assembly Government to fund its general revenue and capital activities. This amount of grant in aid is regarded as financing and is credited to the general fund 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 and capital funding provided to Higher Education Institutions, are brought to account when paid. In the opinion of the Council, 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.

(e) Notional charges

Cost of Capital:

As directed by Welsh Ministers, a notional capital charge reflecting the cost of capital employed, is included in operating costs and calculated at 3.5% (2006-07 - 3.5%) of capital employed.

(f) Pension costs

Past and present employees are covered by the provisions of the Civil Service Pension (CSP) arrangements. The Council 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 CSP arrangements of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the CSP arrangements.

Notes to the accounts (continued)

1. Accounting policies (continued)

(g) Tangible fixed assets

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

Depreciation is provided on all tangible 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 depreciation is charged in the year of acquisition.

IT equipment	- 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.

(h) 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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(i) Value Added Tax

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

(j) Operating leases

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

2. Income from activities

	2008 £'000	2007 £'000
Welsh Assembly Government – Financial contingency, mature students' access bursary and Open University student support funds (a)	81	5,278
European Union – European Social Fund	-	1,992
Office of Science & Innovation - Science Research Infrastructure Fund	<u>12,482</u>	<u>12,482</u>
	<u><u>12,563</u></u>	<u><u>19,752</u></u>

- (a) These funds are received from the Welsh Assembly Government for onward distribution to the HE sector. Principally, these funds exist to provide financial assistance to students in hardship. From 2007-08, all funds except Open University student support funds are distributed directly by the Welsh Assembly Government.

Higher Education Funding Council For Wales

Notes to the accounts (continued)

3. Funding of higher education

	2008		Total £'000	2007 Total restated £'000
	Recurrent £'000	Capital £'000		
Higher Education Institutions				
Aberystwyth University	38,322	621	38,943	39,087
Bangor University	37,467	581	38,048	38,638
Cardiff University	123,398	1,643	125,041	117,773
Swansea University	48,179	679	48,858	44,888
University of Wales, Lampeter	7,612	121	7,733	7,401
North East Wales Institute	17,097	369	17,466	17,545
University of Wales, Newport	21,654	459	22,113	21,884
University of Wales Institute, Cardiff	29,903	636	30,539	31,305
Swansea Metropolitan University (see (a) below)	16,301	366	16,667	18,016
Trinity College Carmarthen	7,872	139	8,011	7,147
University of Glamorgan (see (a) below)	56,705	1,662	58,367	54,604
Royal Welsh College of Music and Drama (see (b) below)	-	-	-	4,996
University of Wales Registry	769	-	769	1,420
Open University	8,850	-	8,850	7,688
Sub-total	414,129	7,276	421,405	412,392
Further Education Institutions				
Bridgend College	99	-	99	67
Coleg Sir Gâr	1,115	-	1,115	1,183
Coleg Llandrillo	1,291	-	1,291	1,350
Coleg Menai	59	-	59	53
Neath Port Talbot College	112	-	112	115
Coleg Morgannwg	60	-	60	420
Swansea College	32	-	32	38
Sub-total	2,768	-	2,768	3,226
Other Organisations				
Department for Children, Schools and Families	49	-	49	-
Arad Consulting Ltd	-	-	-	40
Economic and Social Research Council	690	-	690	1,000
EKOS Consulting	-	-	-	24
Equality Challenge Unit	45	-	45	30
The Gus John Partnership	26	-	26	-
Evidence Ltd	-	-	-	21
Higher Education Funding Council for England (HEFCE)	3,346	315	3,661	3,237
HERO Ltd	29	-	29	28
The Higher Education Academy	894	-	894	885
JANET (UK) Ltd	134	214	348	-
Institute of Employment Studies	-	-	-	49
Integrated Web Systems Ltd	-	-	-	20
London Economics	-	-	-	27
Quality Assurance Agency	232	-	232	77
SQW Ltd	-	-	-	21
UKERNA	-	-	-	146
Universities UK	56	-	56	56
Wales Audit Office – audit fees, EU-funded projects	-	-	-	14
York Consulting Ltd	-	-	-	27
Other	483	23	506	452
Sub-total	5,984	552	6,536	6,154
Total	422,881	7,828	430,709	421,772
Less ESF funded expenditure (see note 5)	-	-	-	(1,917)
Total	422,881	7,828	430,709	419,855

(a) In January 2008, Swansea Institute of Higher Education changed its name to Swansea Metropolitan University.

(b) On 1 January 2007 the Royal Welsh College for Music and Drama (RWCMD) became a wholly owned subsidiary of the University of Glamorgan.

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 audited accounts are expected to be received by the Council by 31 December. A review by Council staff of institutions' 2006/07 financial statements disclosed that the 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 2007 did not lead to any material adjustments. Any adjustment arising from the audit of 2007/2008 accounts and student numbers, will be made by the Council in future years.

The Council confirms that grants received from the Welsh Assembly Government have been used for their approved purposes.

5. Expenditure for other purposes

	2008 £'000	2007 £'000
Financial contingency and mature students access bursary funds (a)	81	5,279
European Social Fund (b)	-	1,917
Science Research Infrastructure Fund	23,244	23,244
	<u>23,325</u>	<u>30,440</u>

(a) This expenditure relates to the onward distribution of funds from the Welsh Assembly Government for the purpose of providing financial assistance to students in hardship.

(b) The amounts relating to grant payments made under the European Social Fund (ESF) are subject to separate audits. Any adjustment arising from these audits will be accounted for in future years.

6. Administration costs

	2008 £'000	2007 £'000
Accommodation costs	357	347
Office costs	61	90
Bought in services	16	47
Auditors' remuneration – Annual audit fee of the HEFCW	16	16
Auditors' remuneration – Additional assurance report work	4	4
Council members' travel and subsistence costs	10	9
Council members' meeting costs	20	22
Staff travel and subsistence costs	36	44
Staff related expenditure on training etc.	89	105
Information technology costs	99	111
	<u>708</u>	<u>795</u>

Administration costs exclude £22k charged to programme recurrent costs (2007 - £22k).

Notes to the accounts (continued)

7. Staff costs

(a) Analysis

	2008			2007		
	Staff	Council Members (inc Chief Executive)	Total	Staff	Council Members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,834	172	2,006	1,788	160	1,948
Social security costs	146	13	159	140	14	154
Other pension costs	367	27	394	328	25	353
Redundancy costs	53	-	53	-	-	-
Total payroll costs	2,400	212	2,612	2,256	199	2,455
Less costs charged to programme recurrent costs	(426)	-	(426)	(449)	-	(449)
Administration payroll costs	1,974	212	2,186	1,807	199	2,006

(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. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £394,150 were payable to the PCSPS (2006-07 £353,045) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands (the rates were unchanged from 2006-07). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2008-09, the salary bands will be revised but the rates will remain the same (the rates will be changing from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

(c) Average number of staff employed

The Higher Education Funding Council for Wales employed an average of 56 full time equivalent staff during the financial year ending 31 March 2008, as follows:

	2008 Numbers	2007 Numbers
Senior Management	2	2
Policy Teams	29	30
Finance & Corporate Services	25	25
	<u>56</u>	<u>57</u>

Notes to the accounts (continued)

7. **Staff costs** (continued)

(c) **Average number of staff employed** (continued)

	2008	2007
	Numbers	Numbers
Staff with a permanent UK employment contract	54	54
Other staff - temporary	1	1
Other staff - seconded	1	2
	<u>56</u>	<u>57</u>

8. **Notional charges**

	2008	2007
	£'000	restated £'000
Cost of capital - 3.5 % (2007 – 3.5%) of capital employed	<u>237</u>	<u>250</u>

9. **Appropriations**

	2008	2007
	£'000	£'000
Receipts surrenderable to the Welsh Assembly Government:		
Bank interest	<u>460</u>	<u>356</u>

10. **Tangible fixed assets**

	IT equipment	Fixtures & fittings	Electrical equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2007	300	31	50	381
Additions	88	170	-	258
Disposals	(18)	-	-	(18)
At 31 March 2008	<u>370</u>	<u>201</u>	<u>50</u>	<u>621</u>
Depreciation				
At 1 April 2007	216	25	23	264
Charged during year	103	16	10	129
Released on disposals	(18)	-	-	(18)
At 31 March 2008	<u>301</u>	<u>41</u>	<u>33</u>	<u>375</u>
Net book value at 31 March 2008	<u>69</u>	<u>160</u>	<u>17</u>	<u>246</u>
Net book value at 1 April 2007	<u>84</u>	<u>6</u>	<u>27</u>	<u>117</u>

Notes to the accounts (continued)

11. Intangible fixed assets

	Software licences £'000
Cost	29
At 1 April 2007 and at 31 March 2008	<u>29</u>
Amortisation	
At 1 April 2007	19
Charged during year	10
At 31 March 2008	<u>29</u>
Net book value at 31 March 2008	-
Net book value at 1 April 2007	<u><u>10</u></u>

12. Debtors

	2008	2007 restated
	£'000	£'000
Trade debtors	1	-
Prepayments and accrued income	158	213
Balances with other central government bodies	685	1,235
	<u>844</u>	<u>1,448</u>

Prepayments at 31 March 2007 have been restated to remove prepayments of £4.588m in order to correctly reflect accounting policy 1(d) by recognising grants when paid (see note 14).

13. Creditors : Amounts falling due within one year

	2008	2007
	£'000	£'000
Trade creditors	-	107
Accruals	769	518
	<u>769</u>	<u>625</u>

Notes to the accounts (continued)

14. Effect of prior period adjustment on general funds

General fund

	2007 restated £'000
At 31 March 2007	
As originally stated	11,768
Adjustment to prepayments (see note 12)	(4,588)
At 31 March 2007 - restated	<u>7,180</u>

15. Lease obligations

	2008 £'000	2007 £'000
Amounts charged to the operating cost statement for operating lease rentals in respect of accommodation	<u>157</u>	<u>157</u>
Annual commitment on leases expiring within:		
One year	-	68
Two to five years	-	-
Over five years	<u>164</u>	<u>91</u>

16. Capital commitments

	2008 £'000	2007 £'000
Contracted	<u>-</u>	<u>4</u>

Notes to the accounts (continued)

17. Financial commitments

	2008 £'000	2007 £'000
Revenue grants (a)	143,623	157,553
European projects (b)	23	23
	<u>143,646</u>	<u>157,576</u>

(a) This amount will be funded by grant in aid from the Welsh Assembly Government

(b) European projects will be funded as follows:

	2008 £'000	2007 £'000
European Social Fund grants	23	23
	<u>23</u>	<u>23</u>

The European projects also have financial commitments of £38k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

18. Losses and special payments

	2008 £	2007 £
Fruitless payments	<u>249</u>	<u>708</u>

19. Related party transactions

The Welsh Assembly Government is regarded as a related party. During the year, the HEFCW has had various material transactions with the Welsh Assembly Government for which it is regarded as the parent Department.

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

Higher Education Funding Council For Wales

Notes to the accounts (continued)

19. Related party transactions (continued)

Name	Relationship
Dr Len Arthur (Council member)	<ul style="list-style-type: none"> ◆ Senior Lecturer; University of Wales Institute, Cardiff. ◆ Son-in Law, European Commission, Framework 7 Consultation.
Mr RPV (Tim) Rees (Council member)	<ul style="list-style-type: none"> ◆ Member & Chairman of Audit Committee, Representative Body of the Church in Wales.
Professor Sir Brian Smith (Council member)	<ul style="list-style-type: none"> ◆ International ambassador, Cardiff University
Mrs Tina Stephens (Council member)	<ul style="list-style-type: none"> ◆ Member of Advisory Board for School of Business & Regional Development at UW Bangor.
Professor D Garel Rhys, OBE (Council member)	<ul style="list-style-type: none"> ◆ Chairman, Economic Research Advisory Panel to Wales Assembly Government ◆ Emeritus Professor, Cardiff University. ◆ Member of Ministerial Advisory Group (DE&T) ◆ Member of Motor Racing Advisory Board (DTI) ◆ Honorary Fellow, Swansea Metropolitan University ◆ Daughter in Law, Senior Lecturer at University of Wales, Newport.
Professor Nigel Stott, CBE (Council Member)	<ul style="list-style-type: none"> ◆ Emeritus Professor, Wales College of Medicine, Cardiff University.
Mr Kenneth Richards	<ul style="list-style-type: none"> ◆ Executive Committee member, James Pantyfedwen Trust ◆ Honorary Research Fellow, Cardiff University School of Social Sciences ◆ Member, University of Wales, Aberystwyth Investments Committee
Professor Mari Lloyd-Williams	<ul style="list-style-type: none"> ◆ Son, student at University of Wales, Bangor
Mrs Pauline Thomas	<ul style="list-style-type: none"> ◆ Honorary Secretary, Association of School and College Leaders
Professor Philip Gummatt (Chief Executive)	<ul style="list-style-type: none"> ◆ Wife, part-time tutor at Swansea Metropolitan University.
Mr Richard Hirst (Director of Finance & Corporate Services)	<ul style="list-style-type: none"> ◆ Director of Higher Education and Research Opportunities (HERO) Limited.

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.

20. Reconciliation of net operating costs for the year to net cash outflow from operating activities

	2008	2007
	£'000	restated £'000
Net operating costs	(444,741)	(433,716)
Amortisation charges	10	9
Depreciation charges	129	113
Decrease in debtors	592	662
Increase/(decrease) in creditors	156	(1,157)
Net cash outflow from operating activities	(443,854)	(434,089)

Notes to the accounts (continued)

21. Reconciliation of net cash flows to movement in net funds

	2008 £'000	2007 £'000
Decrease in cash	(229)	(386)
Net funds as at 1 April	6,230	6,616
Net funds as at 31 March	6,001	6,230
Analysis of net funds:		
Cash at bank and in hand	6,001	6,230

22. Derivatives and other financial instruments

The Council does not issue or trade in financial instruments such as loans and has no borrowings. It relies primarily on Welsh Assembly Government grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits and all material assets and liabilities are denominated in sterling, so it is not exposed to interest rate or currency risk.

23. Post balance sheet events

The Accounting Officer authorised these financial statements for issue on 17 July 2008.