

Cyngor Cyllido Addysg
Uwch Cymru
Higher Education Funding
Council for Wales

hefcw

Annual Report

2004-2005



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

The Higher Education Funding Council for Wales is an Assembly Sponsored Public Body. Under the Further and Higher Education Act 1992, the Council is responsible for the administration of funds made available by the Welsh Assembly Government in support of the provision of education, the undertaking of research by higher education institutions, and the provision of prescribed higher education courses at further education institutions. Under the Education Act 1994, the Council is also responsible for accrediting providers of initial teaching training for school teachers and commissioning research to improve the standards of teachers and teacher training. The Council was established in May 1992 and assumed responsibility for funding higher education in Wales on 1 April 1993.

Conventions

The following convention is used for designating the Council's financial year and the academic year:

Financial Year (1 April to 31 March) 2004-05

Academic Year (1 August to 31 July) 2004/05

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The Council's Mission

Our 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, we deploy funds from the Assembly 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;
- ensure high quality, accredited teacher training provision across Wales

Reaching Wider:

delivering wider participation and access in support of social inclusion and economic upskilling

The 'Deal for Students':

delivering the highest quality learning and related support

Research Excellence:

delivering improved research performance to underpin the knowledge economy and cultural and social renewal

Benefiting the Economy and Society:

delivering more productive relationships between higher education institutions and the public and private sectors, other agencies and local communities

Initial Teacher Training:

delivering newly qualified teachers of high quality

Making it Work:

A) The HE 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

B) HEFCW being an effective public sector body by:

- 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)
- being an employer of choice

Chairman's Report

Our financial settlement for 2004-05 enabled us to maintain resources for teaching for the academic year 2004/05 in real terms at their 2003/04 level, and also to support some growth in full-time student places.

Overall Council grants for 2004/05 gave eight of our 13 higher education institutions (HEIs) real term increases on 2003/04 funding, with the other five having their grants maintained in real terms at 2003/04 levels. Each HEI received an average increase in their grant of 3.3%.

We were pleased that the Assembly Government was able to recognise the sector's commitment to the key themes of its *Reaching Higher* strategy by providing supplementary funding of £10 million to support the two priority areas of reconfiguration and collaboration (£8 million) and widening access (£2 million).

We allocated the additional £2 million widening access funding from the Assembly to support the work of our four regional Reaching Wider partnerships, whose projects with schools and community groups in some of Wales's most deprived communities are helping to make higher education a real option for many more people.

An announcement by the Minister for Education and Lifelong Learning in June 2004 confirmed the Assembly's continuing commitment to pursuing reconfiguration and collaboration in the sector. The following month we announced Phase 2 of our Reconfiguration and Collaboration Fund, which is designed to reshape the HE sector in Wales in a way that will increase competitiveness and improve performance even further in the future. The

Fund totalled £8 million in 2004-05, a one-third increase on the previous year.

We were especially pleased this year to use our Reconfiguration and Collaboration Fund to back the merger of Cardiff University and the University Of Wales College Of Medicine. With the approval of the Assembly Government, we provided a grant of £15 million to fund the merger process and to support the new institution's research plans, and in addition offered a potential repayable grant of up to £8 million to assist cash flow. The two institutions formally merged on 1 December 2004. We look forward to the new Cardiff University bringing considerable benefits to Wales, above all in the further development of world-class teaching and research.

We also supported the rationalisation of the nursing, law and education courses offered by University of Wales Swansea and Swansea Institute of Higher Education, and exploration of closer collaboration between University of Wales, Bangor and North East Wales Institute. We were also able to provide, with the Assembly's approval, £2.9m to support an innovative and collaborative scheme to extend Welsh medium provision in higher education in Wales, administered by the Welsh Medium Teaching Development Centre.

Still on the theme of reconfiguration and collaboration, we commissioned an audit review of the reasons for the breakdown of merger talks between the University of Wales Institute, Cardiff and the University of Glamorgan. Later in the year, we announced that we had commissioned Professor Sir Ron Cooke, former Vice-Chancellor of the University of York, and Professor John Bull, former Vice-Chancellor of the University of Plymouth, to undertake a review of the future of post-92 higher education institutions in South East Wales.

I should like to highlight a few other key achievements during the year.

This year was the second in the six-year cycle of institutional reviews carried out by the Quality Assurance Agency under the new quality assurance framework. As part of these new arrangements, we supported the development of a new Teaching Quality Information website which will provide prospective students a range of information about UK HEIs. We also worked with our sister funding councils on a new National Student Survey which was undertaken in the spring of 2005.

Aware of the increasing need to focus support on research departments best placed to gain competitive advantage, we took the decision that from academic year 2004/05 our quality based grant for research (QR) would be available only to 5*, 5 and 4 rated departments. At the same time we introduced a new £4 million Research Investment Fund to support HEIs' research strategies. Following a detailed consultation exercise, we agreed jointly with our sister UK HE funding bodies changes to arrangements for the next Research Assessment Exercise in 2008, and began to make preparations for it.

We rolled out a dedicated, permanent stream of funding to support institutions' 'third mission' activities – that is, activities which relate to the sector's key role in promoting economic development and social and cultural well-being. Our Third Mission Fund totalled £3.1 million in 2004/5 and will increase to £6.1 million by 2007/08.

We began this year a new, formal process of 'Strategic Dialogue' with Higher Education Wales (HEW) and Chairs of Higher Education Wales (CHEW). In addition, we started a programme of formal Council visits to institutions. These developments will help us to

engage more fully with both the sector and individual institutions, and also inform our representations to the Assembly Government on issues of significance to higher education in Wales.

There were changes in Council membership during the year. We said farewell to member Perminder Dhillon, to whom I express my sincere thanks for her contributions to Council, and I was re-appointed as Chair for a further three years in March 2005. It continues to be deeply fulfilling to be allowed to occupy this role at what must be the most exciting time in the whole history of Welsh higher education. The Council believes that, with the Assembly's support, it has had considerable success in strengthening the sector in Wales, but it remains under no illusion as to how much there is for it and the governing bodies of institutions still to do to ensure that all of the Assembly's goals for Welsh higher education are realised.

Finally, on behalf of the Council, I should like to thank all the HEFCW staff for their continued work and support during the year.

Chief Executive's Statement

Widening access activities continue to be a major focus, and to deliver positive results.

The sector is well on course to achieving the 2010/11 *Reaching Higher* target of 11.4% of all full- and part-time Welsh-domiciled undergraduate new entrants to HE courses at UK higher and further education institutions coming from Welsh Community First areas, with 2002/03 figures at 10%. In addition, annual UK performance indicators continue to demonstrate a strong Welsh sector performance in recruiting students from backgrounds without a tradition of entering higher education.

Steady progress is also being made on increasing the proportion of Welsh domiciled full-time students choosing to study at Welsh HEIs. In 2002/03 the figure for the sector stood at 62.6%, which bodes well for achieving the 2010/11 target of 66%. In relation to the target on overseas students, the Welsh sector has managed to stay slightly ahead of the rest of the UK¹ in terms of year-on-year growth in recruitment of overseas students.

After good early success in increasing the annual number of profitable spin-out companies, the figures for 2002/03 showed a large drop. We believe this may have been due to disincentivised academic engagement with spinout activity in the context of the impending 2003 Financial Act. We have reason to believe HE spinout activity will begin to pick up again in subsequent years, and place the sector well on course to achieving the *Reaching Higher* target of 42 profitable spin-out companies annually by 2010/2011. Also worth noting are the findings from the latest Higher Education Business Interaction Survey covering the academic year 2003/04, which shows Wales accounting for 9% of total UK income from collaborative research involving public and

business funding, 11% of UK-wide income from HE consultancy services, and over 9.5% of funding to UK HEIs from regeneration and development programmes. In addition, Welsh HEIs established 17 new spinout companies and four new staff start-ups – over 12% of the UK total – and accounted for 14% of all UK graduate business start-ups.

The first phase of our GO Wales programme was completed at the end of 2004–05. Over the year, GO Wales helped more than 11,000 Wales-based students and graduates to find training or jobs, benefiting some 1,500 companies in the process.

Other *Reaching Higher* targets will require a more concerted effort across the sector for their achievement. We are committed to the expansion of Welsh medium teaching, but the Assembly Government's target is proving to be a challenge. The 2002/03 figures showed 3.2% of students doing some element of their HE course through the medium of Welsh, which leaves a considerable distance to travel to the *Reaching Higher* ambition of increasing this to 7% by 2010/11. We have developed a new national strategy for the development of Welsh medium provision to guide best use of resources and achieve a marked increase in provision. Concrete actions have included support for Welsh Medium Teaching Fellowships, a continued strategic focus of our Welsh Medium Provision Fund, and the use of our Reconfiguration and Collaboration Fund to support a collaborative project, led by the Welsh Medium Teaching Development Centre, to extend Welsh medium provision in the HE sector.

On research, latest figures show that more needs to be done to secure research income

¹ excluding London and the South East

from sources other than HEFCW, particularly with respect to funding from the Research Councils. To support the sector in this work, we instigated a programme of seminars to provide guidance on securing Research Council grants. We will continue to work with the sector to see how further progress can be made, not least through substantial research collaboration.

Reconfiguration and collaboration within the sector continues to be the Assembly Government's chief priority within its *Reaching Higher* strategy. The Minister for Education and Lifelong Learning reinforced this message when she presented Phase Two of *Reaching Higher* in June 2004. We responded, in July, by publishing a second phase of our Reconfiguration and Collaboration Fund. We will continue to press ahead vigorously with discussions with Vice-Chancellors and Principals and their senior staff to explore specific proposals consistent with the substantial, structurally coherent and sustainable collaborations sought by the Minister. We have also reviewed our procedures in the light of the audit report we commissioned into the breakdown of merger talks between the University of Glamorgan and University of Wales Institute, Cardiff.

Higher education in Wales is part of a UK and wider international market for students and staff. Competitive pressures are compounding the challenges faced by the sector, particularly with respect to the impact of variable tuition fees being introduced in England from academic year 2006/07, and related decisions in Wales following the Rees Review, commissioned by the Welsh Assembly Government to explore student support arrangements in Wales and how the Assembly should use its new powers over university tuition fees.

Institutions need more than ever to be in excellent financial health. It was pleasing to see an improvement in the financial health of

the sector during the year in terms of the size of the operating surplus. However, the fact that in most institutions the level of operating surplus remains low in terms of generating cash for future investment shows that there is no room for complacency. We will continue to use our financial monitoring processes to identify potential or actual difficulties as soon as possible.

We have been making changes to our internal organisation in the light of the Rawlings Review and the Assembly's agreement to the proposal put forward by HEFCW and the National Council for Education and Training for Wales that they should fully separate their operations.

I am pleased to report that we achieved the vast majority of actions in our Operational Plan for 2004-05. A small number of activities are on-going and/or have been carried forward to 2005-06. My thanks go to the staff of HEFCW's small Executive for their unstinting commitment and hard work, which have made this possible.

The HE Sector in Wales 2004/05

In 2004/05 there were thirteen institutions of higher education (HEIs) in Wales which received funding from the Council: the University of Glamorgan, four colleges and institutes of higher education, and six constituent institutions and two colleges of the University of Wales.

Some higher education courses, particularly non-degree diploma courses, can be taken at further education institutions (FEIs). These courses are mainly provided through franchise arrangements with a higher education institution, although we also fund some provision at FEIs directly.

Statistics collected in autumn 2004 showed that there were 115,288 enrolments on higher education courses at institutions receiving

funding from the Council. 99,296 of the enrolments were eligible for Council funding.

The size of institutions in the sector ranged from approximately 25,600 students at Cardiff University² to around 590 at the Royal Welsh College of Music and Drama. Cardiff University had the greatest number of full-time students. The University of Glamorgan was the largest provider of part-time undergraduate courses; the University of Wales, Newport was the largest provider of part-time provision franchised to further education colleges.

There were also students in Wales registered with the Open University, which receives funding in Wales through the Higher Education Funding Council for England (HEFCE).

Enrolments by Fee Status, Level and Mode 2004/05

		Full-time Enrolments	Sandwich Enrolments	Part-time Enrolments	Total Enrolments
Home & EC fundable	Undergraduate	48,641	670	32,815	82,126
	Undergraduate non-degree	3,331	44	0	3,375
	Postgraduate taught	4,250	0	7,186	11,436
	Postgraduate research	1,509	0	852	2,361
	Total	57,729	714	40,853	99,296
Home & EC non-fundable	Undergraduate	4,822	3	1,911	6,735
	Undergraduate non-degree	860	0	0	860
	Postgraduate taught	118	0	140	258
	Postgraduate research	101	0	107	208
	Total	5,900	3	2,158	8,060
Overseas (includes Channel Islands and Isle of Man)	Undergraduate	2,865	26	1,019	3,910
	Undergraduate non-degree	211	0	0	211
	Postgraduate taught	2,388	0	572	2,960
	Postgraduate research	685	0	167	852
	Total	6,148	26	1,758	7,932
Total	69,776	743	44,769	115,288	

² Cardiff University and the University of Wales College of Medicine undertook activities jointly from 1 August 2004, and formally merged on 1 December 2004. Enrolment data for the two institutions was collected jointly under the name Cardiff University.

EYM 04/05 Enrolments By Level and Mode

Undergraduate	Full-time/Sandwich	57,026
Undergraduate non-degree	Full-time/Sandwich	4,445
Undergraduate	Part-time	35,745
Postgraduate taught	Full-time/Sandwich	6,755
	Part-time	7,898
Postgraduate research	Full-time/Sandwich	2,294
	Part-time	1,126

EYM 04/05 Enrolments By Level

Undergraduate	97,215
Postgraduate taught	14,653
Postgraduate research	3,420

EYM 04/05 Enrolments By Mode

Full-time	69,776
Sandwich	743
PT Other	39,423
PT Franchised Out UG	5,346

Source:

End of Year Monitoring of Higher Education Enrolments (EYM) 2004/05

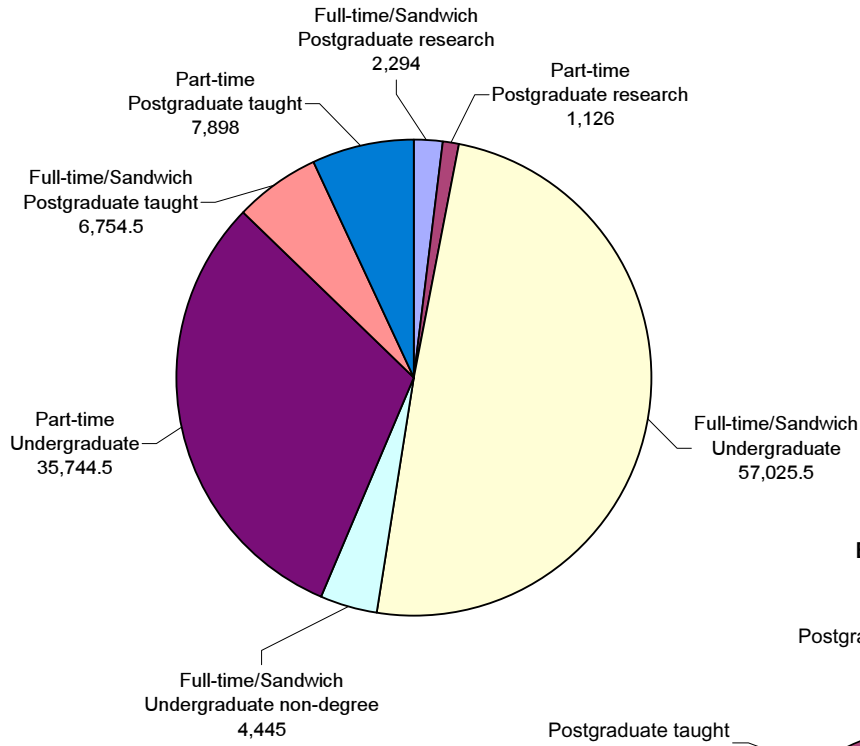
Notes:

- (1) Sandwich students counted as 1
- (2) Includes fundable, non-fundable, overseas and island enrolments
- (3) Franchised out includes part-time undergraduate only
- (4) Part-time Undergraduate includes degree and non degree enrolments
- (5) Figures may not sum to totals due to rounding

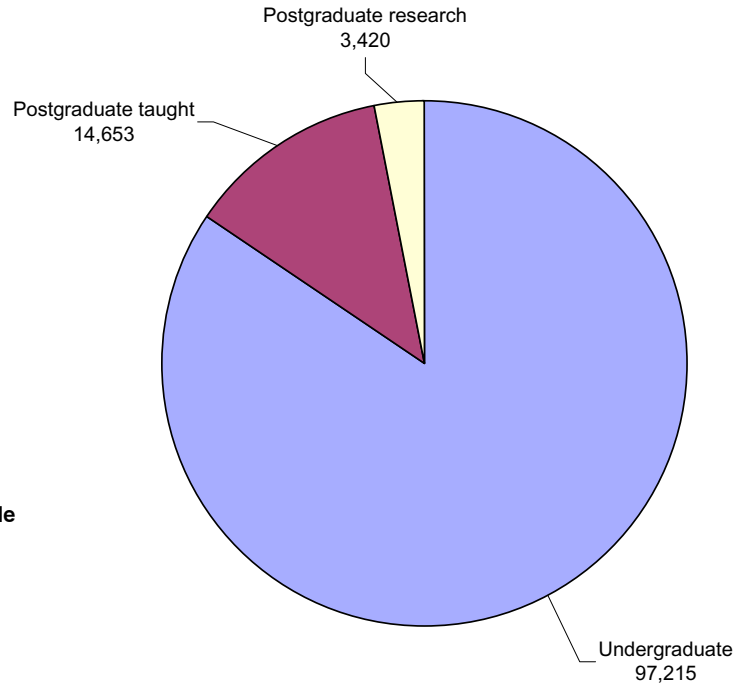
Enrolments by Institution, Level and Mode 2004/05

	Undergraduate degree		Undergraduate non-degree		Undergraduate (UG)		Postgraduate Taught			Postgraduate Research			Total
	Full-time	Sandwich	Full-time	Sandwich	Part-time (excl. FO)	Part-time (FO)	Full-time	Sandwich	Part-time	Full-time	Sandwich	Part-time	
University of Wales, Newport	2,586	0	148	0	2,470	2,171	259	0	940	29	0	2	8,605
North East Wales Institute of Higher Education	2,079	0	336	0	2,704	1,036	41	0	247	26	0	21	6,490
University of Wales Institute, Cardiff	5,244	70	619	2	1,135	152	853	0	434	63	0	87	8,659
University of Glamorgan	7,770	136	1,453	0	6,444	1,857	943	0	1,842	195	0	239	20,878
Swansea Institute of Higher Education	2,073	18	688	0	1,514	0	494	0	393	8	0	32	5,220
Trinity College Carmarthen	1,210	0	0	0	669	0	154	0	114	0	0	0	2,147
University of Wales, Lampeter	758	0	99	0	2,872	23	123	0	407	94	0	114	4,490
University of Wales, Aberystwyth	5,849	96	91	42	2,141	17	653	0	733	221	0	48	9,891
University of Wales, Bangor	5,011	41	323	0	1,610	90	725	0	539	306	0	120	8,765
Cardiff University	15,416	237	0	0	4,991	0	1,891	0	1,830	951	0	317	25,633
University of Wales Swansea	7,646	101	316	0	3,027	0	570	0	369	401	0	146	12,576
Royal Welsh College of Music and Drama	466	0	28	0	0	0	49	0	50	0	0	0	593
Bridgend College	0	0	18	0	7	0	0	0	0	0	0	0	25
Coleg Sir Gâr	188	0	23	0	98	0	0	0	0	0	0	0	309
Coleg Llandrillo	32	0	134	0	646	0	0	0	0	0	0	0	812
Coleg Morgannwg	0	0	102	0	15	0	0	0	0	0	0	0	117
Swansea College	0	0	9	0	10	0	0	0	0	0	0	0	19
Coleg Menai	0	0	0	0	17	0	0	0	0	0	0	0	17
Neath Port Talbot College	0	0	15	0	29	0	0	0	0	0	0	0	44
Total	56,327	699	4,401	44	30,399	5,346	6,755	0	7,898	2,294	0	1,126	115,288

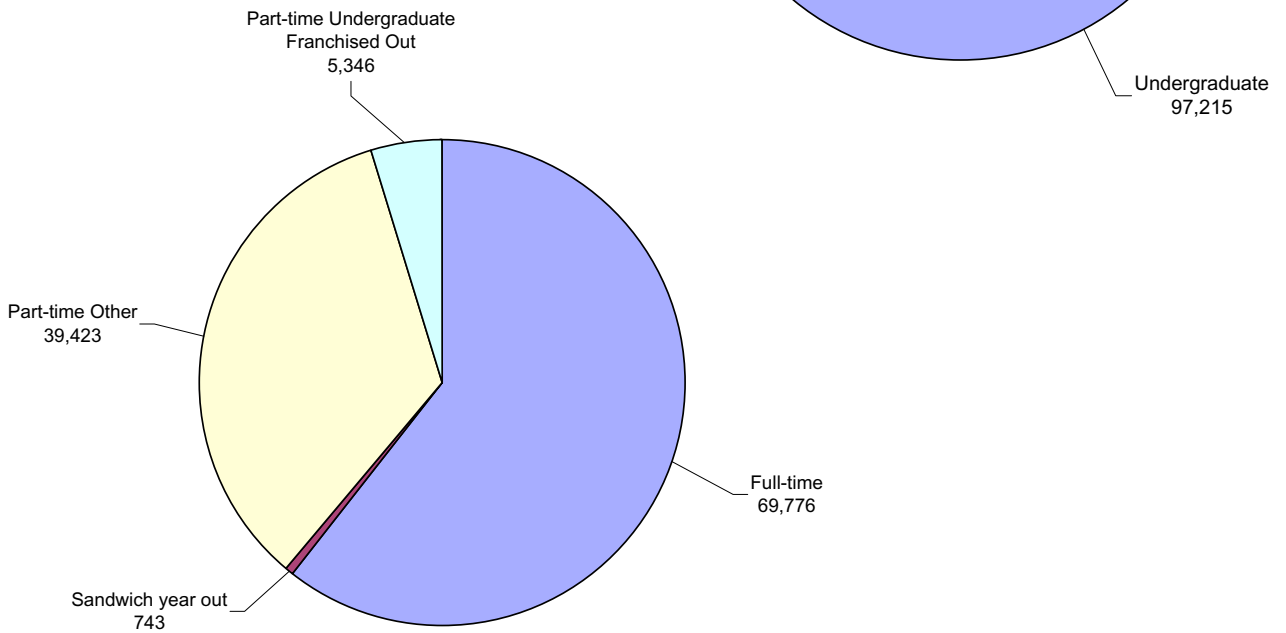
Enrolments by level and mode



Enrolments by level



Enrolments by mode



Funding

In 2004-05, our grant in aid totalled £372.3m, including recurrent programme funds of £335m, £10m above baseline funding to support *Reaching Higher* objectives, capital funds of £25.4m, and running costs of £1.9m. We receive our grant from the Welsh Assembly Government on a financial year (FY) basis (1 April to 31 March) but allocate the majority of our funding on an academic year (AY) basis (1 August to 31 July).

The settlement enabled us to announce formula grant allocations to the sector of £333.4 million for teaching, research and postgraduate research training in the academic year 2004/05. Eight of the sector's 13 HEIs saw real terms increases on their grants for 2003/04; the other five had their grants maintained in real terms. In cash terms, the average increase on 2003/04 grants was 3.4%.

We maintained the resource for teaching in real terms at 2003/04 levels and supported growth of 1.7% in full-time student places to meet Welsh Assembly Government expectations for the size of the sector. The increase included the first intake of 35 students to the Graduate Entry Medical course at the new Clinical School at UW Swansea.

We maintained 'premium', or extra payments, for widening access and disabilities support at the levels of £200 per eligible student for widening access and £200 per eligible student for disabilities support.

We also maintained the resource for all 5*, 5 and 4 rated research, and for postgraduate research training, in real terms. Up to 2004/05 HEFCW had been alone among the UK HE Funding Councils in extending funding to all research rated 3 in the 2001 Research Assessment Exercise. From 2004/05 we announced that our quality based grant for research (QR) would only be available to 5*, 5

and 4 rated departments. However, as an ancillary to QR funding, we introduced this year a new, £4.1m Research Investment Fund for strategic use by HEIs at their discretion (for example, to bring on emerging research, enhance existing areas of research strength, or reshape their research portfolio).

Formula driven allocations for 2004/05 totalled £246m for teaching, £61.5m for research and £4.9m for postgraduate research training. We also announced Third Mission Fund allocations of £3.1m. The combined formula funding allocations for the 2004/05 academic year totalled £320.9m.

The Welsh Assembly Government's 10-year strategy *Reaching Higher*, published in March 2002, indicates that year-on-year increases in our core grant would be kept within inflation but that there would be supplementary funding on a 'something for something' basis, provided the sector showed itself to be committed to the strategy with its twin priorities of reconfiguration and widening access. The performance of the sector enabled the Assembly Government to commit supplementary funding totalling £10m in support of these *Reaching Higher* priorities - £8m for reconfiguration and collaboration, and £2m for widening access.

Non-formula based provision included support for specific teaching and research initiatives, a range of student support measures, and programmes to widen access to higher education. In a number of areas we notified institutions of allocations and released funds on receipt of acceptable plans.

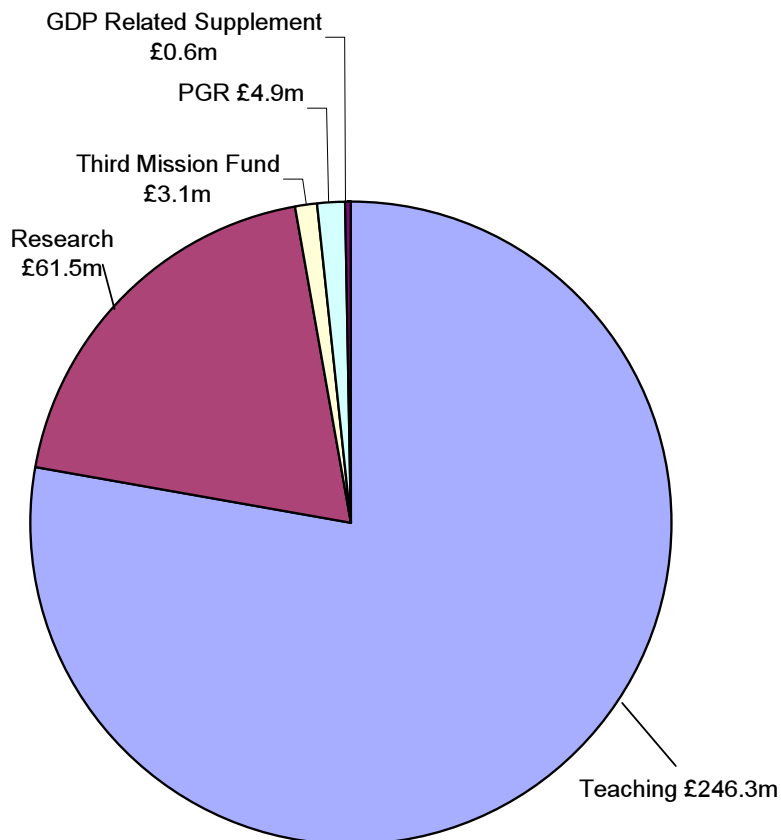
We also contributed to joint initiatives with our sister UK funding councils. These included PROC-HE, assisting institutions in securing best value in procurement; the Joint Costing and Pricing Steering Group, assisting the sector in the introduction of the transparent approach to

costing and full costing; the Joint Information Systems Committee (JISC), providing the joint academic network (JANET); and a range of network and support services.

Our grant-in-aid includes earmarked capital funding to support infrastructure development both for research, and for learning, teaching and IT. Of the £25.4m available in 2004-05, £9.6m was targeted at supporting capital developments to enable HE institutions to comply with disability legislation (for example, to carry out building adaptations or other estates work, or to purchase special equipment, including IT equipment, to make courses accessible to disabled students).

Welsh HEIs also benefited from a second round of the Science Research Investment Fund ('SRIF 2'), a major programme of investment in physical infrastructure for research funded jointly by the four UK Higher Education Funding Bodies and the Office of Science and Innovation (formerly the Office of Science and Technology (OST)). SRIF 2 funding for the Welsh HE sector over the two financial years 2004-05 and 2005-06 is £46.8m, £21.5m of which is provided by HEFCW.

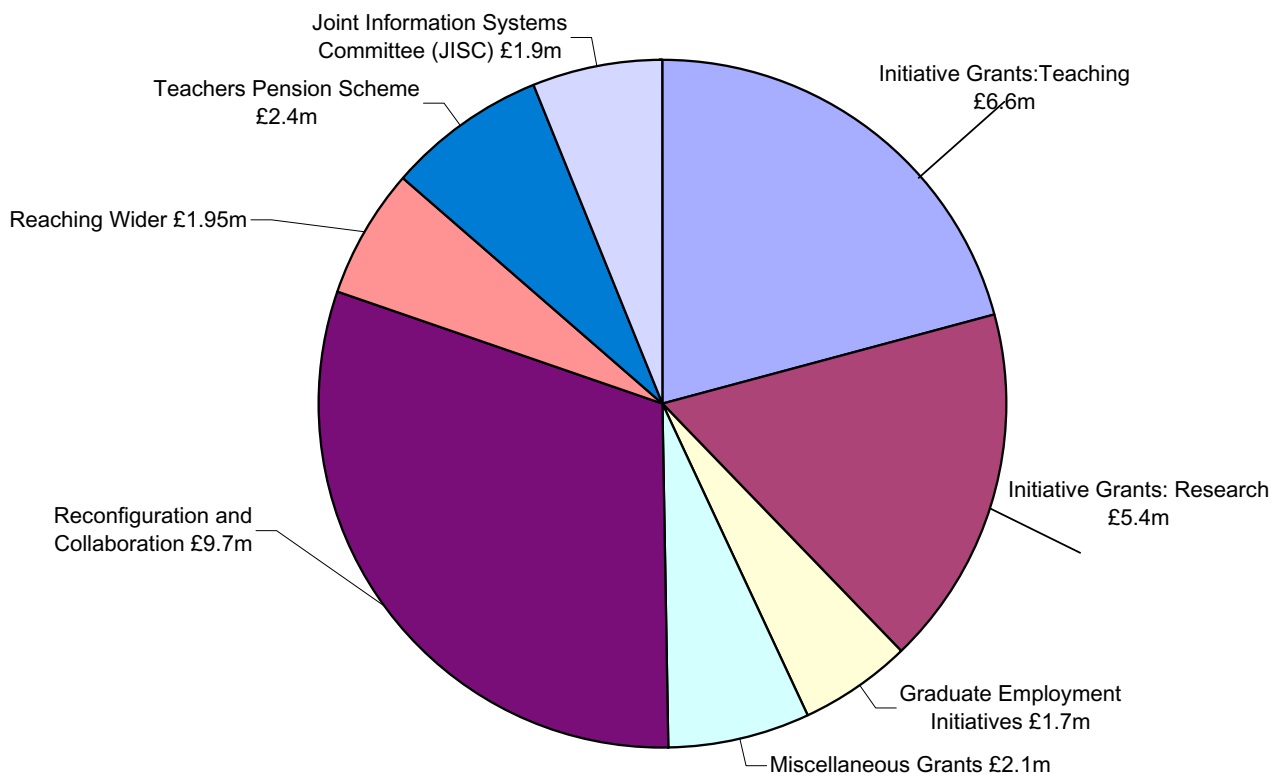
Formula Funding Allocation Totals 2004/05



HEFCW Funding for Academic Year 2004/05

RECURRENT GRANT	Spend to July 2005 (£)
Grant for Teaching	
Main formula grant	237,914,872
Per capita	4,200,860
Widening access premium	2,611,600
Welsh Medium premium	1,130,432
Disabilities premium	497,000
TOTAL	246,354,764
Teaching Related Grants	
Widening access	1,649,366
Teaching and learning strategies	1,850,000
Welsh medium (Fund, Unit and Special Initiatives)	437,370
ITT Special Initiatives	75,000
ITT Strategy	1,013,330
ERASMUS fee reimbursement	305,459
PT fee waiver	1,000,000
E-University	300,000
TOTAL	6,630,525
Teachers Pension Scheme	2,400,000
Grants for Research	
RAE based grant (QR)	57,393,091
Research Investment Fund (RIF)	4,140,959
Initiatives - including Research Capacity Development Fund, Arts and Humanities Research Board, Overseas Research Students Awards Scheme and University of Wales Board & Press.	5,382,062
TOTAL	66,916,112
Grant for postgraduate research training	4,946,021
Third Mission Grants	
Third Mission Fund	3,128,070
Graduate Employment Initiatives	1,735,000
4,863,070	
Non Mainstream Grants	
including - Learning and Teaching Support Network, Joint Information Systems Committee, HE Quality Assurance programmes, funding for disabilities	4,061,063
HE Strategy Funding (allocation on a FY basis translated into AY)	
Reconfiguration and Collaboration (comprises Assembly earmarked funds & funds from Council baseline grant)	9,666,666
Reaching Wider	1,950,000
11,616,666	
GDP Related Supplement	600,522
RECURRENT TOTAL	348,388,743
CAPITAL (allocation on FY basis translated in AY)	
including infrastructure for research and teaching and learning	18,396,000
GRAND TOTAL	366,784,743

Other Allocations 2004/05



Formula Funding Allocations 2004/05

Institution	Total Formula Funding for Teaching	Research (QR) & (RIF)	Third Mission Fund allocations	PGR	GDP Related Supplement	Grand Total*
	£	£	£	£	£	£
University of Glamorgan	38,462,932	1,800,884	217,884	398,156	0	40,879,856
University of Wales, Aberystwyth	22,414,885	5,878,032	272,442	420,444	277,069	29,262,872
University of Wales, Bangor	20,883,063	7,713,964	392,398	500,872	219,389	29,709,686
Cardiff University**	45,791,492	28,343,444	1,047,245	1,416,636	0	76,598,817
University of Wales, Lampeter	4,192,750	1,178,884	60,928	77,792	42,458	5,552,812
University of Wales Swansea	23,516,955	8,313,605	537,662	900,192	6,936	33,275,350
University of Wales College of Medicine**	12,219,403	6,347,510	0	1,130,345	0	19,697,258
University of Wales Institute, Cardiff	22,450,010	1,121,114	193,710	41,820	0	23,806,654
University of Wales College, Newport	16,610,523	399,797	145,463	26,164	0	17,181,947
North East Wales Institute	13,369,870	120,202	60,928	27,616	0	13,578,616
Swansea Institute of Higher Education	13,140,190	81,218	77,553	5,984	0	13,304,945
Trinity College Carmarthen	5,077,617	0	60,928	0	54,671	5,193,216
Royal Welsh College of Music and Drama	4,910,043	0	60,928	0	0	4,970,971
University of Wales Registry	0	235,392	0	0	0	235,392
Coleg Sir Gâr	1,078,153	0	0	0	0	1,078,153
Coleg Llandrillo	1,276,071	0	0	0	0	1,276,071
Swansea College	105,721	0	0	0	0	105,721
Neath Port Talbot College	140,436	0	0	0	0	140,436
Bridgend College	89,603	0	0	0	0	89,603
Coleg Morgannwg	537,127	0	0	0	0	537,127
Coleg Menai	75,128	0	0	0	0	75,128
TOTAL	246,341,975	61,534,045	3,128,069	4,946,018	600,523	316,550,631

*Figures may not sum exactly to totals due to rounding

**Funding allocations for Cardiff University and UWCM were made before the institutions formally merged in December 2004.

Reaching Wider

Reaching Higher – Reaching Wider

Welsh higher and further education institutions continue to work closely together to place higher education within the reach of more people in Wales.

Our Reaching Higher – Reaching Wider initiative, which has been running since 2003, has supported four HE/FE partnerships covering North Wales, West and Mid Wales, South West Wales and South East Wales, and all Welsh HEIs are involved. The partnerships operate large-scale, innovative projects aimed at widening access to higher education, with their efforts focused on some of the most deprived communities in Wales. They also work with people who wish to study in Welsh, people from black and other minority ethnic groups and disabled people.

The Reaching Wider initiative responds to the targets for widening access set out in the Welsh Assembly Government's strategy for higher education, *Reaching Higher*. It provides programmes of support and skills for people of all ages and sections of the community who have the potential to succeed in college or university, but without the skills, confidence or aspiration to apply.

In 2004/05 we announced additional funding for a second year, totalling £1.95m, from the Welsh Assembly Government in support of the initiative. This was a positive endorsement of the achievements of the initiative in its first year, and enabled the four Welsh partnerships to continue to develop their work.

Supporting HEIs in Widening Access

We operated a Widening Access Fund, totalling £1.6 million in 2004/05, to support institutions in implementing widening access strategies. We also recognised the extra costs involved in

recruiting and retaining students from non-traditional backgrounds by including 'premium' funding for widening access in our formula funding allocations to HEIs (totalling £2.6m in 2004/05).

UK Performance Indicators in Higher Education showed that Wales overall continued to out-perform the UK as a whole in widening participation to higher education:

- Wales was more successful in recruiting young full-time undergraduate entrants from state schools, lower socio-economic groups and neighbourhoods with low participation in HE; and
- the Welsh HE sector recruited a higher percentage of mature, full-time undergraduates from a low participation background and with no previous experience of HE.

Funding Support for Students

Student support arrangements are in place, which are aimed at widening access to higher education. The Council has a 'fee waiver' scheme that helps part-time undergraduates on benefit or low income. Fees totaling almost £400K were waived in 2004/05, helping 1,295 students. We also administer the Financial Contingency Fund on behalf of the Assembly Government, which helps students who face difficulty in meeting their living costs.

Support for Disabled Students

The Council wants HEIs to provide the best facilities they can for disabled students and meet the requirements of disability legislation. We recognise the extra costs HEIs may incur in providing for disabled students by including premium payments in our annual formula funding allocations, which amounted to almost £500K in 2004/05. We ask HEIs to provide

ongoing plans for spending their disability premium funding on developing provision for disabled students.

In addition, we announced additional capital funding for 2004-05, totalling £9.6m, to help HE institutions meet the requirements of disability legislation. The funding was used to adapt buildings and other estates work in order to provide access and facilities for disabled students, and to purchase specialist equipment.

Credit and Qualifications Framework for Wales

HEFCW, ELWa and ACCAC, working with the education sector, made major progress in developing a Credit and Qualifications

Framework for Wales (CQFW). This aims to give learners the capacity to accumulate credit for their study on a timescale that suits their requirements throughout their lives. The UK Socrates Erasmus Council, along with CQFW and HEFCW, held a major conference in June 2005 to discuss the implications of the Bologna process for Wales, including credit developments. The Welsh Assembly Government's Minister for Education and Lifelong Learning attended.

The 'Deal For Students'

Promoting Excellence

Teaching excellence and a high quality student learning experience remain key aims of higher education in Wales.

2004/05 was the second year of the six-year cycle of Institutional Review by the Quality Assurance Agency for Higher Education (QAA) under the new quality assurance and standards framework. The framework helps ensure a high quality experience for students while, at the same time, avoiding unnecessary administrative burden for HEIs.

In addition, the QAA implemented a range of activities to support the Institutional Review process in Wales. They included providing support to institutions getting ready for review, specific guidance for students preparing their student written submissions and working with the Credit

and Qualification Framework for Wales (CQFW). The QAA also established a 'Team Wales' to help the flow of information between HEFCW, the QAA and the sector in Wales.

The new framework entails HEIs publishing regulated information about quality and standards. In view of that, we continued to work with the other UK HE funding bodies and HERO (Higher Education and Research Opportunities) Ltd. to develop a website which publishes information in a student-friendly way. The Teaching Quality Information (TQI) website provides comprehensive information for prospective students on higher education in the UK. In 2004-05 HEFCW held an event, in partnership with HERO, about the TQI website and how HEIs should best present information about themselves to students.

Student feedback is a mainstay of the quality assurance process:

- We worked with the QAA and the National Union of Students in Wales to help secure a stronger role for students in ensuring their education is of the highest quality; and
- The funding bodies worked together to develop the National Student Survey, a satisfaction survey for final year students in much of the UK. The first survey took place in spring 2005 and the results have now been published on the TQI website, contributing to the supply of robust student information.

As part of our commitment to promoting best practice, we support the Higher Education Academy – the new UK-wide body for the enhancement of learning and teaching in HE – which was launched in October 2004. Funding for the HE Academy in 2004/05 was provided to address UK-wide priorities such as:

- the development of a framework of professional teaching standards;
- initial staff training;
- strengthening the external examiner system; and
- collaborating with the Joint Information Systems Committee (JISC) on the development of a Portal for the learning and teaching community.

We and our partners also provided funding to support the costs of running the Academy and its 24 Subject Centres.

We encourage HEIs to promote continuously excellent teaching and boost the quality of the student learning experience through the HEFCW Learning and Teaching fund.

Through the fund, we:

- Made £800K available to support HEIs' Learning and Teaching Strategies;
- Made available an additional £102K to cover

Welsh institutional subscriptions to the Higher Education Academy; and

- Commissioned the HE Academy to provide feedback to HEIs on their strategies for learning and teaching, to be used as a basis for developing thematic and subject enhancement activities in Wales.

In 2004/05 we consulted on our KPMG-commissioned report which evaluated HE provision in further education institutions – HE in FE. As a result, our Council agreed that future development of HE in FE should be through a franchise route; consequently, we announced that we would be preparing best practice guidance on franchise arrangements.

Welsh Medium Provision: A Strategic Approach

By 2010, 7 per cent of students in Wales should be taking some element of their course through the medium of Welsh. This is the challenging target set for expanding Welsh medium provision in *Reaching Higher*, the Welsh Assembly Government's strategy for higher education.

We supported five new Welsh Medium Teaching Fellowships for the academic year 2004/05, following the two fellowships awarded in the previous year. The Fellowships help increase the supply of staff who can teach through Welsh, thus expanding the Welsh medium options available for students. Those awarded Fellowships develop new courses in their subject area and are encouraged to build collaboration between institutions.

We continued with the strategic focus of our Welsh Medium Provision Fund, giving more than £200K to the three institutions with the largest volume of Welsh medium provision available to students (UW Aberystwyth, UW Bangor and Trinity College, Carmarthen, as well as a smaller allocation to UWIC). The funding helps them to expand their Welsh medium portfolios, improve recruitment and explore the potential for

collaborative developments. We also allocated funding to the UW Welsh Medium Teaching Development Unit – now called the Welsh Medium Teaching Development Centre – to support developments across the HE sector. The Centre is located within the University of Wales but works on behalf of all HEIs in Wales.

Our establishment of a Steering Group for Welsh medium provision in higher education, which includes membership from the sector, our Council and the Welsh Medium Teaching Development Centre, played a vital role in preparing a national strategy to develop Welsh medium provision in higher education. Following consultation on the draft strategy in summer 2004, the final version was presented to the Minister for Education, Lifelong Learning and Skills in October 2004.

In October 2004, the Minister announced £2.9m funding for an innovative and collaborative scheme to extend Welsh medium provision in the higher education sector in Wales through

the HEFCW Reconfiguration and Collaboration Fund. The three-year scheme, administered by the Welsh Medium Teaching Development Centre, is made up of two components – a Postdoctoral Teaching Fellowship scheme, building on the earlier HEFCW scheme, and a Postgraduate Research Scholarship scheme. These appointments will help increase Welsh medium teaching capacity in the sector and are an integral part of the strategy developed by the Welsh Medium Provision Steering Group.

We also had discussions with Assembly Government officials and the sector on implementing other aspects of the strategy, such as staff development and marketing and promoting Welsh medium provision. These led to subsequent successful bids to the Reconfiguration and Collaboration Fund in the summer of 2005 for an assessment of potential models for delivering Welsh medium provision in the future and enhancing the support which the Welsh Medium Teaching Development Centre gives to the sector.

Research Excellence

Assessing and Funding Quality Research

Quality Research (QR) accounts for most of our funding for research and is distributed by formula using the outcomes of periodic UK-wide Research Assessment Exercises (RAEs).

QR allocations, together with the new Research Investment Fund, totalled some £61.5m in 2004/05 and were based on the outcomes of the last RAE in 2001. These allocations continue to be the largest single contribution to funding research in Wales.

We took the view that adjustments needed to be made within our research funding method for 2004/05. We were aware that the focus of funding in other parts of the UK was increasingly on the top-rated research departments, potentially placing them in a position of competitive advantage.

In order to target the available funding most effectively and ensure that support for top-rated research in Wales remains competitive, we agreed that, from 2004/05, QR funding would be provided only to departments rated 5*, 5 and

4. At the same time as we ceased providing QR for 3a and 3b departments, we also established a Research Investment Fund (RIF) for HEIs to use flexibly in support of their research strategies. The new arrangements have helped safeguard excellence and competitiveness in 5* and 5 departments, maintain dynamism in 4 rated departments, and help HEIs take forward their research strategies.

The Research Investment Fund, which totalled £4.1m in 2004/05, has enabled HEIs to invest strategically in support of their research policy by, for example, bringing on emerging research, enhancing existing research strengths and re-shaping their research profile.

Along with the other UK HE funding bodies, we need to ensure that the next RAE is as full and fair a process as possible for assessing research carried out in UK HEIs. Following a major review and widespread consultation, we jointly agreed changes to arrangements and embarked on the preparations for the next RAE in 2008, which included agreeing an annual contribution in the years leading up to the exercise. We all agreed that the RAE would produce profiles showing the proportions of work in a department that reach each of four defined levels of quality; these will replace the seven point grading scale used in previous exercises.

One concern we noted in 2004/05 was how the previous upward trend in the HE sector's share of total research income had begun to level off. This would need to be monitored closely in the context of the 2010 *Reaching Higher* Research targets for research income.

Science Research Investment Fund (SRIF)

Investment in the physical infrastructure for research – buildings, facilities and equipment – is essential to the conduct of first-class research, particularly in science and technology. 2004-05 saw the first payments from a second

round of the UK-wide Science Research Investment Fund (SRIF2), which was established to enable investment in state of the art equipment and facilities for research. For SRIF2, we once again joined our capital funding for research with an allocation of £21.5m from the Office of Science and Technology (OST – now OSI) to create a total fund of £46.7m for 2004-05 and 2005-06. Projects supported included:

- new buildings for research in international politics and environmental sciences;
- facilities for biomedical imaging research; and
- research studio facilities for art, media and design.

In 2004-05, it was also announced that Welsh HEIs would receive £46.5 million over the two financial years 2006-07 and 2007-08 through the third round of the Science Research Investment Fund (SRIF3) to support further investment in research infrastructure. This meant that of the total SRIF3 funding for Wales, we would provide Welsh HEIs with £21.5 million in addition to £25 million from the OST. This will bring the total SRIF investment in Wales since 2002 to £128.6 million.

Building Research Capacity to Benefit Wales

Our Research Capacity Development Fund is building research capability in areas of importance to the Welsh economy, culture and society. The Fund encourages institutions to work together on research initiatives. Between 2002/03 and 2004/05, we supported eight collaborative projects valued at approximately £8.5 million. The projects included work to inform public policy on health and social affairs and to take forward developments in nanotechnology and biosciences.

Postgraduate Research Degree Programmes

It is widely known that researchers-in-training – HEIs' postgraduate research students – are the future of the research base. To ensure these students receive training of the highest quality, we joined with the other UK funding councils to develop threshold standards for postgraduate research degree programmes (PGR) and an accompanying good practice framework. The standards were finalised following a sector consultation and the Quality Assurance Agency for Higher Education (QAA) has incorporated them in its revised code of practice for PGR, to form part of its ongoing Institutional Review process.

European developments

We worked with the Wales European Centre (WEC) and the Welsh European Liaison Officers (WELO) from five HEIs in Wales to hold a collaborative event entitled *Sustainability in Europe – Regional Solutions through European Research*. It aimed to raise the profile of Welsh higher education in Europe and encourage links between the sector and potential partners in Europe. The event, on 1 March 2005, was attended by more than 100 delegates from around Europe, including Commission officials, Vice-Chancellors and MEPs.

Benefiting The Economy And Society

Funding Third Mission

Third mission activities in HEIs are those that encourage the application and exploitation of knowledge to the benefit of the social, cultural and economic development of Wales.

On top of producing 20,000 new graduates and 7,000 postgraduates every year, higher education institutions (HEIs) contribute more than £1 billion per annum in gross expenditure to the Welsh economy.

A significant achievement during the year was the development of a new permanent stream of HEFCW funding for third mission activities to stand alongside our funds for teaching and research. In June 2004, we asked HEIs to submit strategies for the period 2004/05 to 2006/07 to support the new Third Mission Fund and held a

workshop for institutions in July 2004 to help ensure they would use the funds in ways that would benefit both HE and the Welsh economy.

The Third Mission Fund acknowledges the value of the sector's work in supporting social and cultural well-being in Wales and beyond, as well as its contribution to economic development. The Fund – totalling £3.1m in 2004 but due to rise to £6.1m by 2007/08 – helps HEIs adopt a strategic approach across the whole range of third mission activities and provides a lever to secure funds from other sources.

Reflecting the diverse nature of the sector in Wales, some HEIs operate on an international stage whilst others focus their activities much more locally. Strengths in learning and teaching help those institutions with a more local focus engage with economy and society, whilst research expertise helps other HEIs

operate internationally. Institutions are also key players in cultural and community developments across Wales.

In developing the Fund, we took account of the recommendations of Assembly Government's *Nexus Report* on the role of the HE sector in economic development, and the outcomes of two major UK reviews of HEIs' third mission activities - Richard Lambert's *Review of Business-University Collaboration* and Lord Sainsbury's *Innovation Report: Competing in the Global Economy*.

Members of our Third Mission Committee, which oversees this area of HEFCW activity, represent not only the Welsh HE sector but also business and HEFCW's 'Team Wales' public sector partners. One of the Committee's main tasks in 2004/05 was to consider the outcomes of the analysis of institutions' first third mission strategies. An overview of the Third Mission Committee's work is set out in the Committee Chair's annual report.

Joint Agendas

In seeking to increase the HE sector's contribution to the knowledge economy in Wales, we continue to work closely with strategic partners and are progressing well in developing the joint working arrangements sought by the Assembly Government. In 2004-05 we responded to the Assembly's updated Skills and Employability Action Plan for Wales (SEAP 2) and instigated the transfer of the Knowledge Exploitation Fund (KEF) to the WDA, which is now part of the Welsh Assembly Government.

The annual UK-wide Higher Education and Business and Community Interaction Survey (HEBCIS) tracks the contribution of the HE sector to economic and social well-being. The 2005 survey, which covers the academic year 2003/04, shows that Welsh HEIs continue to

out-perform their nominal 5% weighting of HE activity in a number of key areas and that they are improving in other key areas. For example:

- HEIs in Wales increased their research consultancy contract income by 18% on the previous year, accounting for more than 11% - around £24m - of UK-wide income from HE consultancy services;
- The Welsh HE sector helped to create new businesses in 2003/04, including 17 new spinout companies and four new staff start-ups. Turnover from all active spinout companies in Wales is estimated at around £25m;
- Business start-ups by graduates in Wales rose by 5%, accounting for more than 14% of graduate business start-ups across the UK;
- Income from collaborative research involving both public and business funding was up by 20%, accounting for 9.9% of total UK income; and
- Welsh HEIs increased their total of licences granted from 16 to 79 and in 2003/04 accounted for 7.5% of all UK software licences.

Successful First Phase for GO Wales

The first phase of our Graduate Opportunities - GO - Wales Programme ended in March 2005. This part ESF-funded programme is a partnership with all twelve HEIs in Wales. The programme helps Wales-based students and graduates find training or jobs in Wales and encourages Welsh businesses, particularly SMEs, to use graduates to meet their high level skills needs.

The programme offers a variety of services including subsidised, project-based work placements in SMEs, financial help for graduates in SMEs to support their training and development and short periods of work experience - work tasters - to help students and

graduates find out more about careers which interest them. Students and graduates are also given information and advice about working in Wales. The programme offers online applications such as a reflective diary and an email guidance service through gowales.co.uk.

In phase one of the programme:

- more than 11,000 students and graduates and 1,500 companies benefited from it;
- more than 1,600 students and graduates were placed with SMEs;
- around 60% of graduates placed found that their placement led to employment with their host or another organisation;
- 600 graduates in SMEs were supported in their training and development; and

- 2,000 companies advertised their casual vacancies for students via GO Wales.

Medical Education

Following our involvement in discussions with the Welsh Assembly Government about the plans for clinical schools in Swansea, Bangor and Newport, we were pleased to see 35 medical students enrol at UW Swansea in September 2004, on the new joint accelerated programme with Cardiff University. We continue to contribute to the UK funding bodies' Joint Medical Advisory Committee, which co-ordinates approaches to medical education and research across the UK.

Initial Teacher Training (ITT)

We are committed to delivering high-quality, newly qualified teachers.

We work with the sector to achieve intake targets set by the Welsh Assembly government for trainee teachers at primary and secondary level. Performance against targets for 2004/05 was:

Target:

1,150 new entrant enrolments for primary phase training and 1,320 for secondary phase training (of which 883 were for secondary shortage subjects).

Outcome:

1,207 new entrant enrolments for primary phase training and 1,171 new entrant enrolments for secondary phase training (of which 776 related to secondary shortage subjects).

We have continued to take measures to improve secondary recruitment, particularly in shortage subjects, and have maintained financial and other efforts to control the over-recruitment to primary provision.

Initial Teacher Training Strategic Funding

The ITT Strategic Fund was designed to promote a more strategic focus for institutions in two ways: by taking account of the ITT priorities of HEFCW, Estyn and the Assembly Government, and by giving them greater autonomy to plan in this area. More than £700K was awarded through the Fund in 2004/05, the second year in which the three-year plans were funded.

Institutions identified a wide range of collaborative activities in their strategies. They focused on increasing recruitment to secondary shortage subject areas, particularly from under-represented groups, including trainees from

black and minority ethnic groups. They showed a commitment to addressing the widening access and diversity agenda as a whole and proposed a range of activities for expanding Welsh-medium provision and supporting Welsh-medium learners.

Initial Teacher Training Partnership Study

Teacher training courses are run as partnerships between HEIs and schools. We commissioned Education Data Surveys (EDS) to undertake a study of ITT partnerships in 2004, which included the cost and operational aspects of partnership and the good practice already developed across the HE sector in England and Wales. We asked EDS to identify a range of options for future developments in this area and consulted with the sector on these options early in 2005.

Respondents to the consultation generally agreed about the benefits of HEFCW establishing a common and transparent financial framework for partnerships and a willingness to work with us to develop good practice guidelines. They reiterated the importance of cross-sector collaboration to develop innovative and imaginative solutions to ensure the long-term stability of ITT partnership arrangements in Wales.

New Innovative Provision Initiative

The second phase of our New Innovative Provision Initiative helped the sector to develop courses and projects to bring new groups of applicants into ITT. Courses which have run since 2004/05 include:

- *Prepare to Teach*, a collaboration between UWIC, the University of Wales, Aberystwyth, the University of Wales, Newport and the Open University in Wales. This taster course enables participants to make an informed decision about a future career in secondary teaching and prepares them to take a Postgraduate Certificate in Education (PGCE); and
- *Teach Again*, run by the University of Wales, Aberystwyth and the Open University in Wales. It provides returning teachers with learning materials to help them return to the classroom.

Performance Information

Performance information on teacher training published in 2005 showed that Wales continued to be a popular destination for trainee teachers with, in all, 3,856 training in 2003/04. Some 65% were training to teach at primary level, with the remainder at secondary level.

2,090 students gained Qualified Teacher Status (QTS) in 2003/04; around one student in eight trained through the medium of Welsh.

Initial Teacher Training in Wales – Performance Information, published by HEFCW, is designed to help potential teachers find a suitable teacher training course in Wales.

Making It Work

Reconfiguration and Collaboration

In a statement in June 2004 on the Assembly Government's strategy for HE *Reaching Higher*, the Minister for Education and Lifelong Learning confirmed the Assembly's continued commitment to pursuing reconfiguration and collaboration in the sector.

Our Reconfiguration and Collaboration Fund is designed to reshape the HE sector in Wales in a way that will increase competitiveness and improve performance even further in the future. We announced that Phase 2 of the Fund would total £8m in 2004-05, a one-third increase on the previous year.

With the Assembly Government's support, we backed the merger of Cardiff University and the University of Wales College of Medicine with a grant of £15 million over the period 2003-04 to 2005-06, both to fund the merger process and to facilitate the new institution's ambitious research plans. We also offered a potential repayable grant of up to £8 million to assist cashflow.

Ahead of the formal completion of the merger, the two institutions began to operate as a single establishment from August 2004. Wales should reap the benefits of the merger through the new institution's development of world-class teaching and research, a strengthening of the health service, and the potential creation of 3,000 new jobs and a range of new high technology companies.

HEFCW supported the rationalisation of education, law and healthcare courses offered by UW Swansea and Swansea Institute of Higher Education and funded Welsh medium Postgraduate Scholarship and Postdoctoral Teaching Fellowship Schemes. This was also a year in which the strategic alliance between NEWI and the University of Wales, Bangor was

strengthened. Numerous expressions of interest for other collaborative ventures were received. In 2004-05 we commissioned an audit review of the reasons for the breakdown of merger talks between the University of Wales Institute, Cardiff and the University of Glamorgan, which will help us and institutions with any future negotiations of a similar nature.

In December 2004 we announced that we would commission a review of the future of post-92 higher education institutions in South East Wales. Professor Sir Ron Cooke, former Vice-Chancellor of the University of York, and Professor John Bull, former Vice-Chancellor of the University of Plymouth, began their review towards the end of 2004-05.

Strategic Planning

The strategic planning process is central to our dialogue with individual institutions and helps us represent the sector to the Assembly Government on issues of significance to higher education. Each year we provide detailed feedback on the strategic plans submitted by institutions. 2004-05 was the second year in which HEIs reported progress against a range of targets which collectively show the sector's progress towards the outcome targets for 2010 set out in *Reaching Higher*. We work with the sector to improve the achievement of particular targets where shortfalls have been identified. We also consulted institutions on moving towards a process of submitting annual monitoring statements, which would reduce the burden on them preparing separate progress reports against individual initiatives.

Financial Monitoring

Systematic financial monitoring of HEIs continues through analysis of the audited financial statements, financial forecasts and mid-year returns they submit to us. The audited financial statements for 2004/05 showed an improvement in the financial health of the sector in terms of the size of the operating surplus, although there was a decrease in short-term liquidity. However, the overall level of operating surplus remains low in terms of generating cash for future investment. Our financial monitoring process seeks to identify potential or actual financial difficulties as early as possible, enabling officers to work with HEIs to ensure that prompt remedial action is taken.

Governance

The governance of HEIs has continued to receive close attention and the Council's assessment is that, across the sector, institutional governance systems and procedures are operating broadly satisfactorily.

In 2004, we helped institutions to further develop governance and management practices. Specifically, we:

- commissioned consultants to provide further advice and guidance on the development and implementation of institutions' human resource strategies; and
- supported UK-wide work to revise the Committee of University Chairmen's *Guide for Members of HE Governing Bodies in the UK and Governance Code of Practice*, which was launched in November 2004.

Dialogue with the sector

A formal process of Strategic Dialogue with the HE sector was established in 2004, which included biannual meetings between HEFCW,

Higher Education Wales (HEW) and Chairs of Higher Education Wales (CHEW). In addition, Council began a series of formal institutional visits, whereby Council members and officers visit each institution on a three-yearly cycle, providing a further opportunity for discussion of strategic matters with governors and senior management. Three institutions were visited in 2004-05.

We continue to support the Leadership Foundation for Higher Education, established to enhance the competitiveness, efficiency and effectiveness of the sector by further developing the professionalism of leadership, governance and management. We were particularly keen to ensure that activities in this area added value to the performance of individual HEIs and the Welsh HE sector as a whole.

Estates

The second phase of the Science Research Investment Fund supported significant developments in Wales's research-led institutions, with almost £10m of funding being allocated for new building work in 2004-05 and 2005-06, and more than £8m being set aside for refurbishment. The developments supported included the provision of new accommodation in the University of Wales, Bangor for environmental sciences and a major programme of laboratory refurbishment in Cardiff University to create up-to-date and flexible accommodation.

The increased statutory regulation of estates and facilities continued to place a significant burden on Welsh HEIs to bring their estate up to the required standards. The dedicated capital funding of £9.6m, which we provided in 2004-05, has helped institutions tackle the need to comply with the requirements of the Disability Discrimination Act 2005.

Overall, while progress has been made, the sector still faces a considerable challenge in dealing with 1960's and '70's buildings which are reaching the end of their economic lives and must now be refurbished or replaced.

Promoting Equality

The Equality Challenge Unit (ECU), funded by the UK HE Funding bodies, provides assistance to institutions on equal opportunities matters, mainly in relation to staff. The Unit provided feedback on HEIs' race equality policies and,

collectively, we monitored institutional performance in this area and encouraged institutions to develop their Race Equality policies.

We also co-funded a Race Equality Communication and Consultation Toolkit for higher education institutions, which provided guidance on consultation and communication methods appropriate to higher education institutions, to help them fulfill their duties under the Race Relations (Amendment) Act (2000).

Business Of The Council

Accountability of the Council

The Chief Executive is accountable to the Welsh Assembly Government and to the National Assembly for use of the public funds made available to the Council.

The relationship between HEFCW and the Assembly Government is defined in a Management Statement and Financial Memorandum. Our records and accounts are open to inspection by the National Assembly for Wales' auditors and by the independent office of the Auditor General for Wales (National Audit Office). The Assembly Government conducts quarterly performance review meetings with the Chairman and Chief Executive.

Corporate and Operational Planning

Each year we produce a combined corporate strategy (setting out our long-term strategic outcomes), corporate plan for the three financial years ahead, and detailed operational

plan covering the first of those three years. The operational plan includes targets and actions required by the Welsh Assembly Government as set out in its annual Remit Letter to HEFCW. Progress against the targets in the plans is reviewed quarterly both by the Council and at meetings with the Assembly Government.

Responding to the Environment and Managing Risk

As an intermediary body between the Assembly and the HE sector in Wales, we act within an environment over which we exercise influence rather than control. We maintain a high-level corporate risk register which identifies risks associated with the delivery of our corporate plan objectives, and with the broader environment within which we operate, and measures for managing those risks.

HE in Wales is part of a UK and wider international market for students and staff.

Developments elsewhere impact on the competitiveness of the sector in Wales. To manage this, we maintain dialogue with the Welsh Assembly Government regarding the need for funding at a level appropriate to this reality.

In taking forward the Assembly Government's strategy, *Reaching Higher*, we will take any necessary action to maintain both the confidence of the sector and our own capacity to facilitate change. We actively manage the reconfiguration and collaboration process and work with HEIs to help prevent major partnerships stalling and minor ones being too restrictive to make an impact.

Improving Efficiency

As a Council, we aim to ensure that we work effectively and efficiently, and are a model employer. We are committed to maintaining the Investor in People standard. In the light of the Rawlings Report, we submitted a case for full separation of the staffs of the Council and ELWa to the Assembly Government in July 2004. We will continue to keep our staffing and support structure under review, and also our financial and other systems, to ensure that they continue to be appropriate to safeguard public funds and deliver value for money.

Composition of the Council

In April 2004 there were 12 members of the Council, including the Chairman. One Member resigned from the Council during the year. Two members, one of whom being the Chairman, were re-appointed during the year by the Assembly to serve on Council for a further term. The Council met eight times in 2004-05. Meetings are attended by an assessor from the Assembly Government. The Chief Executives of the Higher Education Funding Council for England and the Scottish Higher Education Funding Council, the Deputy Secretary

responsible for higher education at the Department for Employment and Learning Northern Ireland, and the Director General of the Research Councils have observer status on the Council.

The Executive

The average number of full-time equivalent posts supporting the Council in 2004-05 was 41. This includes all the staff of the Council, including part-time, job-share, fixed term appointments and staff on long and short-term secondments, as well as students working on placements. Some 4.5 full-time equivalents worked for both HEFCW and the National Council - ELWa.

Code of Practice and register of interests

All Council members and staff are required to abide by a Code of Practice and to register financial, political and other interests relevant to the business of the Council. The register of interests is available on request from the Clerk to the Council.

Bilingual policy

We are committed to the principle that in providing services to the public in Wales, the Welsh and English languages should be treated on the basis of equality. We have held a public consultation on our Welsh Language Scheme and have submitted the Scheme to the Welsh Language Board for approval. We have also submitted our Welsh Language Mainstreaming Strategy to the Assembly Government, which outlines how we intend to mainstream consideration of the Welsh language into our policy making and service delivery processes.

Complaints procedure

We operate a Complaints Procedure. No requests to consider a complaint under the Complaints Procedure were received during the year. We can be investigated by the Welsh Administration Ombudsman.

Information Provision

The Council's Publication Scheme, drawn up under Section 19 of the Freedom of Information Act 2000 sets out: the information we publish, or intend to publish, as a matter of course; how this information will be published; and whether the information is available free of charge or on payment. The Publication Scheme is available on the Council's website or in hard copy from the Clerk to the Council.

Race Equality Scheme

We have a published Race Equality Scheme. This is a continually evolving document, which has been amended to take account of the comments of the Commission for Racial Equality Cymru, the Equality Challenge Unit and the sector. The Scheme includes actions addressing both the Council as an employer and policies related to the HE sector in Wales. Following further consultation, we re-assessed our statement of relevant policies and priorities.

Council committees and working groups

Quality Assessment Committee / Quality Working Group

Chair: Professor Philip Gummett

Audit and Risk Committee

Chair: Mr Tim Rees

Human Resources Committee

Chair: Mrs Tina Stephens

Remuneration Committee

Chair: Professor Sir Roger Williams

Third Mission Committee

Chair: Dr Len Arthur

Reconfiguration Panel

Chair: Dr Geoffrey Thomas

Reaching Wider National Steering Group

Chair: Professor Philip Gummett

Welsh Medium Provision in Higher Education Steering Group

Chair: Mr Andrew Green

Members of the Council During 2004-05



Professor Sir Roger Williams, Chairman
Former Vice-Chancellor, University of Reading
First appointed to Council in 1995; appointed Chairman in 2002 and re-appointed for a three-year term in 2005

Professor Sir Roger Williams was educated at Tredegar Grammar School and is a physics graduate of Oxford. He was Special Adviser to the House of Lords Select Committee on Science and Technology from 1986 to 1992 and was Chairman of the Joint Committee of the Science and Engineering Research Council and the Economic and Social Research Council. Professor Williams joined the Council in 1995. He was appointed Chairman on 1 March 2002 for a period of 3 years, to 28 February 2005, and reappointed to February 2008.



Professor Philip Gummatt, Chief Executive
Interim Chief Executive from December 2003; Chief Executive from May 2004

Professor Gummatt is the Chief Executive at the Higher Education Council for Wales (HEFCW). Professor Gummatt joined HEFCW from Manchester University, where he was Pro Vice-Chancellor, former Head of the Department of Government and Professor of Government and Technology Policy. He is a founder member and non-executive director of PREST (Policy Research in Engineering, Science and Technology) at Manchester – one of the leading science policy research centres globally, and is a former member, and Chair of the Board of Examiners, of the Training Board of the Economic and Social Research Council.



Dr Len Arthur
Senior Lecturer at the University of Wales Institute, Cardiff
First appointed 2002; re-appointed for a three-year term in 2005

Dr Len Arthur has 27 years experience in further and higher education in England and Wales, and is currently a senior lecturer at the University of Wales Institute, Cardiff and Director of Research and Enterprise at the Institute's Business School. Dr Arthur has played a leading role in the National Association of Teachers in Further and Higher Education.



Mrs Perminder Dhillon
(to July 2004)
Senior lecturer, University of Central Lancashire and Consultant/Trainer (Equality and Diversity)
First appointed 2002; left July 2004

Mrs Perminder Dhillon is a senior lecturer in the Faculty of Health at the University of Central Lancashire where she works on health and ethnicity issues that include drug prevention education and research, and teaching and training on Equality and Diversity. As a Consultant and Trainer, she has over twenty years of working on equality and, specifically, race equality issues within the public, voluntary and private sectors. Mrs Dhillon was a member of the Alcohol Education Research Council and is involved with a number of trusts.



Mrs Wendy Heppell
Director - Publicly Funded Services, Business West
Appointed for a three-year term in 2003

Between January 2002 and February 2005, Wendy Heppell was Director - Enterprise at Chwarae Teg, the leading agency for the economic development of women in Wales. Before that, Mrs Heppell spent eleven years working in the chemical industry. She has been a member of the University College, Oxford Bursary Committee since its inception in 1999 and is also a Trustee for the College's Old Members' Trust.



Ms Eleri Wynne Jones
Former Part-time Lecturer, University of Wales, Bangor
First appointed in 2000; re-appointed in 2003

Ms Eleri Wynne Jones is a retired part-time lecturer in Sociology and Counselling, formerly based at the University of Wales, Bangor. She is a former member of the University Councils of Bangor and Aberystwyth Universities, and a founder member of the North Wales Mediation Service. Apart from her academic work, she has a notable background in broadcasting, having been a board member of both S4C and Channel Four television, and the member for Wales on the Independent Television Commission.



Mr Tim Rees
Chartered Accountant; former Chair of Governors at the University of Glamorgan
First appointed in 2002; re-appointed for a three-year term in 2005

Mr Tim Rees is a Chartered Accountant with extensive experience of the public, private and voluntary sectors. He served on the Board of the University of Glamorgan from 1992 and was Chair of Governors from 1996 until his appointment to HEFCW. Mr Rees has previously served with the Land Authority for Wales, the Welsh Development Agency and the Welsh Health Common Services Authority.



Professor D Garel Rhys
OBE
Director of the Centre for Automotive Industry Research, Cardiff University
First appointed in 2003

Professor Garel Rhys is Director of the Centre for Automotive Industry Research at Cardiff University's Business School and he holds the Society of Motor Manufacturers and Traders chair in Motor Industry Economics. He headed the Business School's Economics Section until 1999. He is chairman of the Welsh Automotive Forum and was a special advisor to the Welsh Development Agency, having previously served on its Board. He has also advised various Select Committees. He is currently chair of the Welsh Assembly's Economic Research Advisory Panel.



Professor Sir Brian Smith
*Former Vice-Chancellor,
Cardiff University
First appointed in 2002;
re-appointed for a three-
year term in 2005*

Sir Brian was appointed Vice-Chancellor of Cardiff in 1993, and retired in 2001. Prior to that, he was master of St Catherine's College, University of Oxford. He was awarded a knighthood in 1999 in recognition of his successes in building mutually profitable links between the University and industry and commerce. Sir Brian has also served on the Welsh Development Agency from October 1998, assisting in opening up markets for Wales in India and China.



Mrs Tina Stephens
*Specialist in management
and staff development
First appointed in 2002;
re-appointed for a three-
year term in 2005*

Mrs Tina Stephens is a specialist in management and staff development and a Chief examiner for the Chartered Institute of Personnel and Development. She has 26 years experience in higher education and was Head of the Wrexham Business School, part of the North East Wales Institute. Mrs Stephens is Chair of the North Wales Associate Groups, a network that promotes the mutual development of SMEs to foster economic and employment opportunities.



Dr Geoffrey Thomas
*Director of the Department
for Continuing Education,
Oxford University and
President of Kellogg College.
First appointed in 2000;
re-appointed in 2003*

Dr Geoffrey Thomas is Head of the Continuing Education Department at Oxford University, and President of Kellogg College. Dr Thomas is a native Welshman and a graduate of the University of Wales Swansea. His postgraduate degree was obtained at Cambridge University. He has been a Council Member of the British Association, Executive Committee member of the Universities Association for Continuing Education, and a member of Cabinet Office Committee of Inquiry on the Public Understanding of Science.



Professor Gwyn Thomas
*Former Professor of Welsh,
University of Wales, Bangor
First appointed in 2000;
re-appointed in 2003*

Professor Gwyn Thomas is a former Professor of Welsh at the University of Wales, Bangor. He is a former member of the Arts Council for Wales and former Chair of its Literature Committee. He has been Secretary to and Chair of the Language and Literature Committee of the University of Wales Board of Celtic Studies, and Chair of the National Curriculum Working Party for Welsh.

Performance Against Remit Letter Tasks 2004-05

Remit Letter tasks

(organised under HEFCW Strategic Aims)

OUTCOME

Reaching Wider

Encourage an holistic approach to widening access.

Work closely with the Reaching Wider partnerships to improve the co-ordination of widening access initiatives across Wales.

Reaching Wider National Steering Group established to direct the operation of the Reaching Higher-Reaching Wider partnerships.

HEIs continued to submit Widening Access strategy updates and expenditure reports.

Guidance on Third Mission strategies required HE institutions to demonstrate links with Widening Access strategies. This will also be reflected in the guidance on the new round of three-year Widening Access strategies for 2005/06 to 2007/08.

Reaching Wider partnerships to link with Careers Wales and Aimhigher to improve information flows and raise attainment and aspiration.

Initial links established with Careers Wales with regard to the widening access agenda. One *Reaching Wider* partnership already includes a Careers Wales representative.

HEFCW's *Reaching Wider* Coordinator sits on Aimhigher Coordinating Group and partnerships are working with road show organisers.

Continue guiding and monitoring HEIs to ensure they meet their statutory obligations with respect to diversity, equal opportunities and race equality in the HE sector.

Assisted institutions in development of their race equality policies. Monitored institutional race equality policies via strategic planning process in July 2004.

Council to encourage engagement with relevant Community First Partnerships, to assist in the formulation and delivery of Community Action Plans. In particular, ensure that the sector is properly engaged with these partnerships on widening access initiatives.

Engaged with *Reaching Wider* partnerships to encourage them to engage with Community First Partnerships. Discussions on-going with Assembly officials about the nature of these engagements.

Remit Letter tasks (organised under HEFCW Strategic Aims)	OUTCOME
Deal For Students	
Welsh medium provision <ul style="list-style-type: none"> - provide the Minister with early notification of timescale for receipt of the High Level Welsh-medium Steering Group's strategy and proposals to meet 7% target by 2010, including proposals for the production of regular progress reports. - provide the Minister with evidence based proposals from High Level Welsh-medium Steering Group on mainstreaming Welsh medium provision. - encourage institutions to mainstream Welsh medium provision, through the use of core funding as well as opportunities presented by initiative funding – specifically, the opportunities presented by the reconfiguration and collaboration agenda and associated funding. 	Worked through the Welsh Medium Steering Group to develop a national strategy for Welsh medium provision, and reported to the Minister in April 2004.
Council to review 'additional funding opportunities' to support teaching and learning from within its internal resource allocation.	Commissioned a review of learning and teaching strategies and provided feedback to institutions.
Emphasis on reviewing pedagogical practices as a means of ensuring that teaching methods evolve to meet the needs of all learners, especially those of non-traditional students.	HE Academy in place from April 2004. Academy undertaking a programme of sectoral thematic and subject enhancement activities [outcomes to be made available in 2005-06].
Credit framework <ul style="list-style-type: none"> - Continue to work closely with the National Council - ELWa and ACCAC on the development and implementation of the Credit and Qualifications Framework for Wales. 	Council Chairman met with counterparts from the National Council and ACCAC on regular basis to monitor progress.

Remit Letter tasks (organised under HEFCW Strategic Aims)	OUTCOME
Deal For Students	
- report on opportunities and next steps in relation to opportunities presented by European developments (especially the Bologna process) in the development of a credit framework.	<p>Bi-monthly meetings held between HEFCW and CQFW officers, in addition to HEFCW officer attendance at Credit Policy Reference Group.</p> <p>Worked with the Welsh Higher Education Credit Consortium on promulgating the HE Credit Specification and Guidance [to be taken forward via consultancy, reporting in 2005-06].</p> <p>Contributed to publication of Europe Unit's Guide to Bologna, and also to England, Wales and NI Diploma supplement description of HE sector (both published February 2005).</p>
Council to co-operate fully with the Devolution of Student Support Project (Rees group) and support Assembly staff in the preparatory stages, through the provision of data and policy advice and guidance.	Chief Executive serving on Welsh Assembly Government project for transfer of student support. HEFCW Council member invited to serve on Rees group.
HE sector to maintain positive momentum on overseas recruitment, and Council to continue to support it financially.	All HEIs have agreed to subscribe to Wales International Consortium up to 2006/07. Core functions delivery well in hand. [Future funding arrangement to be considered in 2005-06].
Research Excellence	
Council to review its research funding method in the light of the English White Paper and the UK wide review of research assessment, taking into account the dual objectives of maintaining and enhancing research excellence and supporting growth and improved performance in emerging areas, especially those of significant importance to Wales.	Council agreed adjustments to funding arrangements in January 2004, including the establishment of a new Research Investment Fund from 2004/05.

Remit Letter tasks (organised under HEFCW Strategic Aims)	OUTCOME
Research Excellence	
Review the contribution that reconfiguration could make to achieving research objectives in <i>Reaching Higher</i> .	Held discussions with the Assembly about taking forward the call on HEFCW to "determine a number of additional fields, in research, etc where a collaborative approach will bring greater returns than unilateral action" [ELL Minister's statement to the Assembly, 9 June 2004]. Working with Sector to identify candidate fields. Some proposals under review.
Continued emphasis on sector increasing its proportion of Research Council funding.	In AY 2003/04: - Wales' share of UK Research Council income was 3.5%; and - the research income from external sources other than Research Councils increased by 22.3% over 2002/03. Council continues to monitor closely levels of external research funding secured by Welsh HEIs.
Benefiting the Economy and Society	
Knowledge Exploitation Fund - Following transfer of KEF to WDA, Council to continue to engage with the strategic direction of KEF, especially in the context of the WDA's proposed review of the programme. - HEIs to build knowledge transfer into their core activities and to utilise KEF to maximise their economic contribution.	Maintained officer engagement in KEF activities and strategic direction [implementation awaits outcome of merger with Assembly]. HEI and KEF usage monitored via Third Mission strategies. Council's Third Mission Committee has set up a task and finish group to progress this issue.

Remit Letter tasks (organised under HEFCW Strategic Aims)	OUTCOME
Benefiting the Economy and Society	
Council to continue its involvement in the Better Jobs task force.	Membership of Better Jobs task force sought through SEAP 2 response in July 2004.
Council to input to the preparation of the Wales Spatial Plan, and to support action to address key issues arising from it.	HEFCW officer engagement through membership of key steering groups overseeing WSP policy implementation.
Council to encourage HEIs to input to the preparation and delivery of local authorities' Community Strategies.	Progress monitored via analysis of institutions' Third Mission strategies.
Initial Teacher Training	
No specific Remit Letter tasks for 2004-05 in relation to ITT.	Activities and achievements: <ul style="list-style-type: none"> • Held tripartite meetings with Estyn/Welsh Assembly Government termly, supplemented by bipartite meetings with Estyn, to consider means of improving quality and standards in ITT. • Commissioned an evaluation of the costs and structure of ITT partnership arrangements between higher education institutions and schools. • Published annual ITT Performance Information in October 2004. • Received and monitored ITT strategies. • Revised and published an Action Plan for recruitment to Welsh Secondary ITT.

Remit Letter tasks (organised under HEFCW Strategic Aims)	OUTCOME
Initial Teacher Training	<ul style="list-style-type: none"> • Allocated Teacher Training Recruitment Scheme bursary funding to institutions. • Worked with sector to encourage completion of Hyfforddi Athrawon/Teacher Training (HATT) project for distance learning ITT. • Requested monitoring reports from institutions on innovative provision pilots.
Making It Work	<p>Briefing material provided for meeting between ELL Minister, Chairman and Chief Executive on 26 April 2004.</p> <p>[HEFCW was not required to submit a formal Budget Planning Round bid to the Assembly this year].</p>
<p>Reconfiguration and collaboration</p> <p>Provide to the Minister a strategic analysis and progress report on reconfiguration, including details of proposals for evaluating projects, by 31 May 2004.</p> <p>Provide data and evidence that the sector as a whole has embraced the reconfiguration/collaboration agenda, to support bids for the Assembly's Spending Review and the Budget Planning Round.</p>	<p>Briefing material provided for meeting between ELL Minister, Chairman and Chief Executive on 26 April 2004.</p> <p>[HEFCW was not required to submit a formal Budget Planning Round bid to the Assembly this year].</p>
<p>Equal opportunities</p> <ul style="list-style-type: none"> - Continue guiding and monitoring HEIs to ensure they meet their statutory obligations with respect to diversity, equal opportunities and race equality in the HE sector. - Continue to work with the Equality Challenge Unit to drive forward the equalities agenda. 	<p>Established a Standing Group on Equalities.</p> <p>Monitored institutional race equality policies via strategic planning process, July 2004</p> <p>Assisted institutions in development of their race equality policies, with feedback provided by the Equality Challenge Unit and guidance provided by the Council. A good result with all institutions assessed as largely compliant with the relevant legislation.</p>

Remit Letter tasks (organised under HEFCW Strategic Aims)	OUTCOME
Making It Work	
Continue to encourage HE institutions to modernise their HR strategies.	Reported to the Assembly on the outcome of initial Equal Pay Pilot Audits report, and also on the outcome of the HERA project in April 2004. In addition, received report commissioned from OPM on institutions' HR strategies.
Report on substantive progress in publishing the Council's Welsh Language and Race Equality Schemes, and provide assurance that appropriate attention is being given to the Council's obligations under the Disability Discrimination Act.	Held a public consultation on our Welsh Language Scheme and submitted the Scheme to the Welsh Language Board for approval. Also submitted to the Assembly HEFCW's Welsh Language Mainstreaming Strategy. Published a Race Equality Scheme, which includes actions addressing both the Council as an employer and policies related to the HE sector in Wales.
Work with Assembly officials to review the Assembly's Management Statement / Financial Memorandum with HEFCW.	Comments provided on draft model Financial Memorandum / Management Statement received in September 2004.

Progress towards Reaching Higher Targets 2000/01 to 2010/11 (as of March 2005)

In all the following targets except the overhead costs and spinout targets, data shown up to 2003/04 are actual data taken from HESA records for HEIs or the ISR for FEIs. For the overhead costs target, data up to 2002/03 are actual data taken from HESA statistics. For the spinout target, data up to 2002/03 are actual data taken from the HEB CIS survey.

Widening Access

Target – the percentage of all Welsh domiciled undergraduate new entrants to HE courses at UK HEIs or FEIs who are domiciled in the Welsh Community First areas to rise from 8.9% in 2000/01 to 11.4% in 2010/11.

	2000/01			2001/02			2002/03			2003/04		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	2,733	26,848	10.2%	3,036	27,857	10.9%	3,408	28,903	11.8%	3,401	29,577	11.5%
UK HEIs and FEIs*	3,484	39,056	8.9%	3,705	38,457	9.6%	4,147	41,339	10.0%			
Lowest/highest (Welsh HEIs):	2.0% - 15.8%			2.2% - 16.4%			2.6% - 17.4%			4.2% - 16.0%		

- The Community First areas correspond to the 100 most deprived electoral divisions according to the Assembly Multiple Index of Deprivation. Students domiciled within the Community First areas are those whose home postcode lies within these divisions.
- The percentage of students domiciled in the Community First areas is out of Welsh domiciled students at the institution with known wards.
- Welsh domiciled students are taken to be those with a Welsh home postcode.
- All modes of study are included.
- In 2003/04, one institution had a large proportion of unmappable postcodes (16%) and this may have affected the percentage domiciled in the Welsh community first areas.

*The UK figures for 2001/02 and 2002/03 include data for UK FEIs from 2000/01 as an estimate. UK FEIs data for 2003/04 are not yet available.

Welsh Medium

Target – the proportion of HE students in Welsh HEIs and FEIs undertaking some element of their HE course through the medium of Welsh to increase from 3.4% in 2000/01 to 7% in 2010/11.

	2000/01			2001/02			2002/03			2003/04		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	3,786	108,427	3.5%	3,523	112,960	3.1%	3,819	119,789	3.2%	3,877	122,859	3.2%
Welsh HEIs and FEIs	3,808	110,546	3.4%	3,564	115,161	3.1%	3,819	120,924	3.2%			
Lowest/highest (Welsh HEIs):	0.0% - 18.8%			0.0% - 27.1%			0.0% - 21.7%			0.0% - 31.4%		

- Students are counted as having some element of their course through the medium of Welsh if they are flagged as taking a module that is available wholly or partly through the medium of Welsh or if any of the modules they are taking has a greater than zero percentage of provision through the medium of Welsh. Courses in Welsh language and literature are included.
- All modes of study are included.

Wales as Destination of First Choice

Target – the proportion of all Welsh domiciled full-time HE students enrolled at UK HEIs who are studying at HEIs in Wales to increase from 60.1% in 2000/01 to 66% in 2010/11.

Proportion of full-time HE students in Welsh HEIs who are Welsh domiciled:

	2000/01			2001/02			2002/03			2003/04		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	31,772	67,742	46.9%	33,729	68,669	49.1%	34,917	71,506	48.8%	35,816	73,695	48.6%
Lowest/highest (Welsh HEIs):	29.5% - 84.7%			30.8% - 85.8%			28.1% - 87.3%			27.9% - 86.6%		

Proportion of Welsh domiciled full-time HE students enrolled at UK HEIs who are studying in Welsh HEIs:

	2000/01			2001/02			2002/03			2003/04		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Total UK HEIs	31,772	52,882	60.1%	33,729	54,442	62.0%	34,917	55,747	62.6%	35,816	57,204	62.6%

- Welsh domiciled students are taken to be those with a Welsh home postcode.
- Full-time and sandwich modes of study are included.

Overseas Students

Target – the percentage change in the number of overseas students attending HE courses in Welsh HEIs to be equal to, or greater than, the comparable figure for UK HEIs (excluding London and the SE) by 2010/11.

	2000/01			2001/02			2002/03			2003/04		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	5,322	109,765	4.8%	5,878	114,387	5.1%	7,250	121,156	6.0%	8,345	124,221	6.7%
UK HEIs (excl London and SE)	98,381	1,366,391	7.2%	108,496	1,430,036	7.6%	131,358	1,489,600	8.8%	149,805	1,548,260	9.7%
Lowest/highest (Welsh HEIs):	0.5% - 9.5%			0.6% - 10.5%			1.2% - 11.2%			0.22% - 11.6%		

Year on year change

	2000/01-2001/02	2001/02-2002/03	2002/03-2003/04
Total Welsh HEIs	10.4%	23.3%	15.1%
Total UK (excl London and SE) HEIs	10.3%	21.1%	14.0%
Lowest/highest (Welsh HEIs):	-7.7% - 97.6%	2.8% - 93.9%	-94.2% - 64.1%

- Overseas is taken to be those students not domiciled in the EU, the Channel Islands or the Isle of Man and includes incoming exchange students.
- All modes of study are included.

Reducing Overhead Costs

Target - the median administration cost per FTE student for Welsh HEIs to drop from the 45th percentile of administration costs per FTE student in UK HEIs (excl. London and the SE) to the 40th by 2007/08 and the 25th by 2010/11.

	2000/01	2001/02	2002/03
Welsh HEIs Median (£)	2,476	2,642	2,855
Percentage of UK (excl. London and SE) HEIs with administration cost per FTE student below Welsh median	45%	44%	46%
UK (excl. London and SE) HEIs Median (£)	2,659	2,802	2,888
Lowest/highest (Welsh HEIs) (£):	1,483 - 5,419	1,603 - 5,801	1,760 - 6,663

- Administration costs include academic departmental costs (excluding academic staff costs), academic services expenditure and expenditure on administration and central services (and exclude expenditure on premises). The FTE calculation includes all HE, FE and non-credit bearing students.
- Data are taken from institutional level higher education management statistics published on CD each year by HESA.
- HESA data for Cardiff University and UWCM have not been combined in this table.

Research Income

Target (a) - The percentage of Research Council funding attracted by HEIs in Wales to rise from 3.3% to 4.5%.

	2000/01	2001/02	2002/03	2003/04
Welsh HEIs Total	22,915,000	27,077,000	28,049,000	28,840,000
Total UK	695,157,000	805,360,000	819,997,000	833,164,000
Wales as % of UK+	3.3%	3.4%	3.4%	3.5%

Target (b) - The research income from sources other than the Research Councils to rise by 60% on £55.7 million by 2007/08 and 100% by 2010/11.

	2000/01	2001/02	2002/03	2003/04
Welsh HEIs Total	55,645,000	60,663,000	67,551,000	68,033,000
Total UK	1,512,071,000	1,628,058,000	1,775,448,000	1,881,427,000
Increase as % of baseline		9.0%	21.4%	22.3%

Spinout

Target - The number of profitable spinout companies produced annually from HEIs in Wales to double from 21 to 42.

	2000/01	2001/02	2002/03
Welsh HEIs Total	25	31	14 *
Lowest/highest (Welsh HEIs)	0/7	0/7	0/4

- Data shows actual and predicted new spinout companies to be formed each academic year.
- * Officers believe that the drop in 02/03 might be explained in part by the sector's awareness of the impending 2003 Financial Act, which disincentivised academic engagement with spinout activity.

Higher Education Funding Council For Wales

Financial Statements for the year ended 31 March 2005

FOREWORD

HISTORY OF THE COUNCIL AND BACKGROUND INFORMATION

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 the HEFCW becoming a sponsored body of the National Assembly for Wales.

These accounts have been prepared in accordance with the direction made by the Welsh Assembly Government, 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.

THE RESPONSIBILITIES OF THE HIGHER EDUCATION FUNDING COUNCIL FOR WALES

The 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.

REVIEW OF ACTIVITIES AND DEVELOPMENTS

The surplus for the year was £2.293 million (2003-04 surplus £0.981 million). Cumulative retained reserves at 31 March 2005 were £8.134 million (2003-04 £5.794 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 reserve balances. The financial statements may record an operating surplus or deficit as a result of planned activity or as a result of the timing of payments to institutions. 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 £85,000 in the year.

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

THE COUNCIL'S MISSION STATEMENT AND STRATEGIC AIMS

The Council'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, the Council 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 the economy of Wales; and
- ensure high quality, accredited teacher training provision across Wales.

The Council'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; and
- vi. **Making it Work:** a strong emphasis on reconfiguration, collaboration and other measures to sustain improved performance of individual institutions and the HE system as a whole.

A more detailed description and explanation of the aims and objectives of the Council is contained in the Annual Report.

SEPARATION FROM THE NATIONAL COUNCIL FOR EDUCATION AND TRAINING FOR WALES

Last year's foreword reported that a joint submission had been made during the year by the two Councils to the Welsh Assembly Government proposing the complete separation of the two Councils. On 14 July 2004, the First Minister announced the decision to incorporate the work of the National Council for Education and Training for Wales, but not the HEFCW,

directly into the Welsh Assembly Government from 1 April 2006. As a result, work to carry through separation began during the year and is continuing. In particular, staff with contracts with both Councils are being given the choice of which Council they wish to work for. The Council will be introducing new systems: for example, a new accounting system from October 2005 and the installation of its new website from Autumn 2005, where they are necessary for it to be able to operate independently.

EMPLOYEE INVOLVEMENT

Regular staff meetings and seminars ensure good internal communications and provide opportunities for staff to contribute to the workings of the Council. A Works Council, through which representatives can raise issues of concern to staff, met on a regular basis.

On 26 January 2000, the Council achieved the Investors in People award. This award was re-assessed during September 2003 and the Council was still found to be meeting the Investors in People standard.

The Council is committed to developing its Equal Opportunities Policy to ensure that all employees are treated fairly, irrespective of sex, age, marital status, disability, racial or ethnic origin.

The Council's policy on recruitment is based on the ability of a candidate to perform the job. Full and fair consideration is given to applications for employment from the disabled where they have the appropriate skills and abilities to perform the job. If disablement should occur during employment the Council would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

CBI PROMPT PAYMENT CODE

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 2004-05 payment performance indicated that 93 per cent of invoices (2003-2004: 83%) were paid in accordance with agreed contractual conditions, or where no condition existed, within 30 days of the presentation of a valid invoice.

AUDITORS

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.

COUNCIL MEMBERSHIP

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

Chairman

Professor Roger Williams
(member of 1 - see below)
Former Vice Chancellor, University of Reading

Members

Professor Philip Gummett
(member of 2 & 3 - see below)
Chief Executive, Higher Education Funding Council for Wales (from May 2004), Interim Chief Executive (April 2004)

Mrs Wendy Heppell
(member of 4 & 5 - see below)
Director of Enterprise, Chwarae Teg

Ms Eleri Wynne Jones
(member of 1, 5 & 6 - see below)
Retired part-time lecturer, formerly at the University of Wales Bangor
Professor Gwyn Thomas
(member of 6 & 7 - see below)

*Retired Professor of Welsh,
University of Wales, Bangor*

Dr Geoffrey P Thomas
(member of 4 & 8 - see below)
*Head of Continuing Education Department,
Oxford University and President of Kellogg
College*

Mrs Perminder Dhillon
(to July 2004)
*Senior lecturer at the University of Central
Lancashire*

Mr R P V (Tim) Rees
(member of 4 & 8 - see below)
*Chartered Accountant; former Chair of Governors
at the University of Glamorgan*
Professor Sir Brian Smith
Former Vice Chancellor, Cardiff University

Dr Len Arthur
(member of 5 & 9 - see below)
Lecturer at University of Wales Institute, Cardiff

Professor D Garell Rhys OBE
(member of 8 - see below)
*Director of the Centre for Automotive Industry
Research at Cardiff University's Business School*

Mrs Tina Stephens
(member of 1 & 5 - see below)
*Specialist in management and staff
development; Chief examiner for Chartered
Institute of Personnel and Development.*

1. Remuneration Committee;
2. Reaching Wider Steering Group;
3. Quality Working Group;
4. Audit & Risk Committee;
5. Corporate Governance Working Group;
6. Human Resources Committees;
7. Welsh Medium Strategy Steering Group;
8. Reconfiguration Panel;
9. Third Mission Committee.

Assessor appointed by the
National Assembly for Wales

Richard Davies

*Director of Training and Education Department,
National Assembly for Wales*

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



Professor Philip Gummatt
*Chief Executive and Accounting Officer
2 August 2005*

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 the National Assembly for Wales, 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 and cash flows for the financial year.

In preparing the financial statements the Council is required to:

- observe the accounts direction issued by the National Assembly for Wales, including the relevant accounting and disclosure

requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain 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 of the National Assembly for Wales 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 and for the keeping of proper records, are set out in the National Assembly for Wales' 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 the 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 Government Accounting. My role and responsibilities as Accounting Officer for the HEFCW are set out in the memorandum *The Responsibilities of an ASPB Accounting Officer*. I also attend regular meetings with officers in the Higher Education Division of the Welsh Assembly Government where the priorities for the 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 eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the HEFCW's policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the HEFCW for the year ended 31 March 2005. The system of internal control accords with Treasury Guidance.

Capacity to handle risk

3 The following processes have been established to manage risk within the HEFCW:

- a) The risk register is reviewed at each meeting of the Audit and Risk Committee and quarterly by the Council;
- b) individual managers are responsible for assessing and managing the key risks arising from their areas of responsibility;
- c) Senior Managers review and update the risk register on a quarterly basis; and
- d) an *Opportunity and Risk Policy and Guidelines* document was developed in 2001-02. Training was provided for senior staff who then took responsibility for championing risk management within their teams.

The risk and control framework

- 4 The key elements of the HEFCW's risk management strategy are as follows:
 - a) The HEFCW's objectives are established through the preparation of its Corporate Strategic and Operational Plans that are approved by the Welsh Assembly Government;
 - b) the HEFCW has a Risk Assurance section that provides the HEFCW's internal audit service and is available to provide advice and guidance to groups of staff and individual managers. Because of staff shortages arising from the separation of the HEFCW and the National Council, the HEFCW's internal audit requirements for 2004-05 have been provided by Bentley Jennison;
 - c) risks are prioritised according to their likelihood and impact and actions are identified to be proportionate with the scale of the exposure; and
 - d) the Council, advised by myself as Accounting Officer and by the Audit and Risk Committee through its routine consideration of the risk register, determines risk appetite.

5 The priority areas for risk management throughout the year have related to the delivery of the Welsh Assembly Government's reconfiguration and collaboration agenda, *Reaching Higher* and the management of issues surrounding the potential separation of the HEFCW's services from the National Council.

Review of effectiveness

6 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 executive managers within the 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.

7 The following processes have been established to review the effectiveness of the system of internal control within the HEFCW:

- a) The HEFCW's internal audit service operates in accordance with Government Internal Audit Standards; audit plans are based on an assessment of risk linked to the organisation wide risk register. The Head of Risk Assurance provides an independent opinion on the adequacy and effectiveness of the HEFCW's system of risk management, control and governance each year, together with recommendations for improvement;
- b) the work of the internal audit service is overseen by the Audit and Risk Committee, which reports regularly to Council the findings and conclusions of audit work; and

c) managers provide a statement of assurance about the systems and procedures operating in their area of responsibility.

8 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 area of weakness, which has been identified, is the implementation of agreed actions. I have now taken personal responsibility for ensuring that these actions are implemented and for reporting the position to the Audit Committee.



Professor Philip Gummatt
Chief Executive and
Accounting Officer
2 August 2005

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

I certify that I have audited the financial statements on pages 50 to 67 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 53 and 54.

Respective responsibilities of the Council, the Chief Executive and Auditor

As described on page 45, the Council and Chief Executive are responsible for the preparation of the financial statements in accordance with the Further and Higher Education Act 1992 and the National Assembly for Wales directions made thereunder, and for ensuring the regularity of financial transactions. The Council and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Further and Higher Education Act 1992 and National Assembly for Wales directions made thereunder, and 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Council has not kept proper accounting records, or if I have not received all

the information and explanations I require for my audit.

I review whether the statement on pages 46 & 47 reflects the Council's compliance with Treasury's guidance on the 'Statement on Internal Control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control, covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales

and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Higher Education Funding Council for Wales at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the National Assembly for Wales; and

- 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. I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
22 August 2005

Wales Audit Office
2-4 Park Grove
Cardiff
CF10 3PA

Income and Expenditure

for the year ended 31 March 2005

	Note	2005		2004	
		£'000	£'000	£'000	£'000
GROSS INCOME					
Grant in aid	2(a)	372,315		350,179	
Release from government grant reserve	2(b)	38		45	
Other income	3	18,826		16,323	
TOTAL INCOME			391,179		366,547
EXPENDITURE					
Funding of higher education:					
Recurrent expenditure	4	340,504		322,792	
Capital expenditure	4	14,926		13,331	
Other purposes	6	31,328		27,277	
		386,758		363,400	
Council expenditure:					
Administration costs	7	614		557	
Staff costs	8	1,476		1,591	
Depreciation	11	38		18	
Notional charges - cost of capital	9	244		186	
		2,372		2,352	
TOTAL EXPENDITURE			389,130		365,752
Surplus on operating activities			2,049		795
Interest receivable	10		342		274
Adjustment for notional charge (cost of capital)	9		244		186
Appropriations	10		(342)		(274)
Surplus for the year transferred to reserves			2,293		981
Movement on reserves			2005		2004
			£'000		£'000
Retained surplus brought forward			5,771		4,790
Surplus for year			2,293		981
Retained surplus carried forward			8,064		5,771

All activities are continuing.

The notes on pages 53 to 67 form part of these accounts.

Statement of total recognised gains and losses


	Note	2005 £'000	2004 £'000
Surplus for year		2,293	981
Movement in government grant reserve	2(b)	47	(18)
Total recognised gains and losses relating to year		2,340	963

The notes on pages 53 to 67 form part of these accounts.

Balance Sheet as at 31 March 2005

	Note	2005		2004	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets	11		70		23
CURRENT ASSETS					
Debtors	12	6,376		1,698	
Cash at bank and in hand	21	3,660		6,394	
		10,036		8,092	
CREDITORS					
Amounts falling due within one year	13	(1,972)		(2,321)	
Net current assets			8,064		5,771
NET ASSETS			8,134		5,794
FINANCED BY :					
CAPITAL AND RESERVES					
Income and expenditure account			8,064		5,771
Government grant reserve	2(b)		70		23
TOTAL GOVERNMENT FUNDS	14		8,134		5,794

The notes on pages 53 to 67 form part of these accounts.
Signed on behalf of the Council



Professor Philip Gummert
Chief Executive and Accounting Officer
2 August 2005

Cashflow Statement for the year ended 31 March 2005

	Note	2005 £'000	2004 £'000
Operating activities			
Net cash outflow from operating activities	20	(2,696)	(335)
Returns on investments and servicing of finance			
Interest received		330	252
Interest surrendered to the National Assembly for Wales		(368)	(252)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(85)	(27)
Net cash outflow before financing		(2,819)	(362)
Financing			
Government grant reserve	2	85	27
Decrease in cash	21	(2,734)	(335)
The notes on pages 53 to 67 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 the National Assembly for Wales, 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 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 Knowledge Exploitation Fund and European Social Fund projects is credited to the account in the year in which expenditure is incurred. EU income in support of Knowledge Exploitation Fund and European Social Fund projects is credited to the account 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) Grant in aid

Grant in aid is received from the Welsh Assembly Government for operating expenditure and capital expenditure. Where

Grant in aid expenditure has been used for the purchase of tangible fixed assets, the grant in aid receivable for capital expenditure is credited to the Government Grant Reserve and released to the Income and Expenditure Account over the estimated useful lives of the relevant fixed assets on a basis consistent with the depreciation policy.

(d) Grants payable

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) Joint costs

The structure of the Higher Education Council and The National Council – ELWa, was planned to take into account the individual policies and statutory responsibilities of each of the two Councils, whilst recognising that a joint executive provided a cost effective solution for the provision of professional services. Wherever possible, the costs of those Divisions with joint responsibilities are allocated directly to the financial statements of the relevant Council. However, there are joint costs that cannot reasonably be allocated directly to the two Councils and, following an annual internal review, these costs are apportioned on the basis of activity undertaken for each council.

(f) Notional charges

Cost of Capital:

As directed by the National Assembly for Wales, a notional capital charge reflecting the cost of capital employed, is included in operating costs and calculated at 3.5% (2003-04 - 3.5%) of capital employed.

(g) 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.

(h) 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 follows:

IT equipment	3 years
Electrical equipment	5 years
Fixtures and fittings	5 years

(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 Income and Expenditure Account in the year to which they relate.

2. Reconciliation of grant in aid

The following note reconciles the cash amounts received from the National Assembly for Wales as grant in aid for the year with the financial statements.

	2005 £'000	2004 £'000
(a) Revenue grant in aid received		
Grant in aid received	372,400	350,206
Less amounts used for capital expenditure	(85)	(27)
	372,315	350,179
(b) Government grant reserve		
Balance at 1 April	23	41
Capital grants received in year	85	27
Less amounts released to income and expenditure account	(38)	(18)
Less capital amounts reclassified as revenue	-	(27)
Balance at 31 March	70	23

3. Other Income

	2005 £'000	2004 £'000
Welsh Assembly Government – Financial contingency and mature students' access bursary funds (a)	5,115	5,129
Welsh Assembly Government – Knowledge Exploitation Fund	4	1,145
European Union – European Social Fund – Old projects	-	(587)
European Union – European Social Fund – New projects	2,156	858
Office of Science & Technology – Science Research Infrastructure Fund	11,551	9,291
Other	-	487
	18,826	16,323

(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.

4. Funding of Higher Education

	2005			2004
	Recurrent £'000	Capital £'000	Total £'000	Total £'000
Higher Education Institutions				
University of Wales, Aberystwyth	30,086	1,374	31,460	30,662
University of Wales, Bangor	31,041	1,284	32,325	30,478
Cardiff University (see (a) below)	96,808	2,994	99,802	83,682
University of Wales College of Medicine (see (a) below)	7,815	195	8,010	19,048
University of Wales Swansea	35,834	1,468	37,302	36,134
University of Wales, Lampeter	5,789	375	6,164	5,986
North East Wales Institute	16,375	821	17,196	14,816
University of Wales, Newport	21,125	1,023	22,148	17,757
University of Wales Institute, Cardiff	24,946	1,375	26,321	23,945
Swansea Institute of Higher Education	13,348	766	14,114	12,700
Trinity College Carmarthen	5,675	603	6,278	5,693
University of Glamorgan	42,572	2,176	44,748	43,725
Royal Welsh College of Music and Drama	5,057	388	5,445	5,174
University of Wales Registry	736	-	736	679
Sub-total	337,207	14,842	352,049	330,479
Further Education Institutions				
Bridgend College	80	-	80	106
Coleg Sir Gâr	909	-	909	1,060
Coleg Llandrillo	1,171	-	1,171	1,192
Coleg Menai	79	-	79	110
Neath Port Talbot College	127	-	127	120
Pembrokeshire College	5	-	5	6
Coleg Morgannwg	472	-	472	505
Swansea College	80	-	80	96
Sub-total	2,923	-	2,923	3,195
Other Organisations				
HERO Ltd	33	-	33	13
Higher Education Funding Council for England	1,867	-	1,867	1,717
Quality Assurance Agency	-	-	-	42
Arts and Humanities Research Council	1,704	-	1,704	1,587
United Kingdom Education & Research Networking Association	25	84	109	186
KPMG LLP	-	-	-	45
OPM	-	-	-	89
Scottish Higher Education Funding Council	(21)	-	(21)	212
Universities UK	85	-	85	33
Wales European Centre	25	-	25	25
Department of Employment and Learning	29	-	29	-

Education Data Surveys
 Newidïem Cyf
 The Higher Education Academy
 Other organisations
Sub-total
Total

Less ESF funded expenditure (see note 6)
New projects
Total

	2005			2004
	Recurrent £'000	Capital £'000	Total £'000	Total £'000
	67	-	67	-
	69	-	69	-
	200	-	200	-
	192	-	192	37
	4,275	84	4,359	3,986
	344,405	14,926	359,331	337,660
	(3,901)	-	(3,901)	(1,537)
	340,504	14,926	355,430	336,123

No payments of funding for old ESF or KEF projects are included in the above figures. They are disclosed in note 6 only.

(a) These two institutions entered into a legal agreement for the joint undertaking of activities from 1 August 2004 and funding was amalgamated from that date. They formally merged on 1 December 2004.

5. 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' 2003/04 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 2004 did not lead to any material adjustments. Any adjustment arising from the audit of 2004/2005 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.

6. Expenditure for other purposes

	2005 £'000	2004 £'000
Financial contingency and mature students access bursary funds (a)	5,115	5,129
Knowledge Exploitation Fund (b)	4	1,145
European Social Fund – Old projects	-	(587)
European Social Fund – New projects	3,901	1,537
Science Research Infrastructure Fund	22,308	20,053
	31,328	27,277

(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) and Knowledge Exploitation Fund (KEF) are subject to separate audits. Any adjustment arising from these audits will be accounted for in future years.

7. Administration costs

	2005 £'000	2004 £'000
Accommodation costs	155	155
Office costs	143	163
Bought in services	94	58
Auditors' remuneration – Annual audit fee of the HEFCW	16	13
Auditors' remuneration – Additional assurance report work	3	3
Council members' travel and subsistence costs	11	20
Staff travel and subsistence costs	39	43
Staff related expenditure on training etc.	124	80
Information technology costs	29	22
	614	557

8. Staff Costs

(a) Analysis

Wages and salaries	1,316	140	1,456	1,260	177	1,437
Social security costs	88	12	100	90	14	104
Other pension costs	143	17	160	163	15	178
Total payroll costs	1,547	169	1,716	1,513	206	1,719
Less costs charged to programme recurrent costs	(240)	-	(240)	(128)	-	(128)
Administration payroll costs	1,307	169	1,476	1,385	206	1,591

	2005			2004		
	Staff	Council Members (inc Chief Executive)	Total	Staff	Council Members (inc Chief Executive)	Total
	£'000	£'000	£'000	restated £'000	£'000	restated £'000
Wages and salaries	1,316	140	1,456	1,260	177	1,437
Social security costs	88	12	100	90	14	104
Other pension costs	143	17	160	163	15	178
Total payroll costs	1,547	169	1,716	1,513	206	1,719
Less costs charged to programme recurrent costs	(240)	-	(240)	(128)	-	(128)
Administration payroll costs	1,307	169	1,476	1,385	206	1,591

In the published 2003-04 accounts, the costs of temporary staff were included as a separate item within staff costs. They are now included within 'wages and salaries' above and prior year figures have been amended accordingly.

(b) Salary and pension disclosures

Position	Name	Salary	Real Increase in Pension & Lump Sum	Pension at 31/03/05 & Lump Sum	CETV at 01/04/04	CETV at 31/03/05	Real Increase in CETV as funded by employer
		£	£'000	£'000	£'000	£'000	£'000
Chairman	Roger Williams	14,400	N/A	N/A	N/A	N/A	N/A
Chief Executive (from May 2004) (formerly Interim Chief Executive)	Philip Gummett	93,418	0 - 2.5 plus 5 - 7.5 lump sum	5 - 10 plus 15 - 20 lump sum	64	97	29
Director of Finance	Richard Hirst	71,617	0 - 2.5	30 - 35	353	377	1
Director of Corporate Services (from May 2004 - January 2005)	Jo Thorne	56,070	0 - 2.5	0 - 5	0	9	7

The Director of Corporate Services' salary has been included within these accounts (note 8(a)) in accordance with the basis of apportionment set out in note 1(e).

Richard Hirst and Jo Thorne 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 also note 8(c)).

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 £4,500 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.

(c) Pensions

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the HEFCW is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05, employers' contributions of £160,327 were payable to the PCSPS (2003-04 £177,665) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. The scheme actuary reviews

employer contributions every four years following a full scheme valuation. From 2005-06, the salary bands will be revised and the rates will be in a range between 16.2% and 24.6%. The contribution rates reflect benefits as they accrue, not the costs as they are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the Civil Service Pension ("CSP") arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder arrangement 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 and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

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. 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).

Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a particular member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The

pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

(d) Average Number of Staff Employed

The Higher Education Funding Council for Wales employed an average of 41 full time equivalent staff during the financial year ending 31 March 2005, as follows:

Senior Management
Higher Education Directorate
Corporate Services Directorate
Finance & Risk Directorate

	2005 Numbers	2004 Numbers
	2	3
	26	25
	8	7
	5	4
	41	39

9. Notional charges

	2005 £'000	2004 £'000
Cost of capital - 3.5% (2004 - 3.5%) of capital employed	244	186

10. Appropriations

	2005 £'000	2004 £'000
Receipts surrenderable to the National Assembly for Wales		
Bank interest	342	274

11. Tangible fixed assets

	IT Equipment £'000	Fixtures & Fittings £'000	Electrical Equipment £'000	Total £'000
Cost				
At 1 April 2004	159	216	39	414
Additions	56	-	29	85
At 31 March 2005	215	216	68	499
Depreciation				
At 1 April 2004	137	216	38	391
Charged during year	32	-	6	38
At 31 March 2005	169	216	44	429
Net book value at 31 March 2005	46	-	24	70
Net book value at 1 April 2004	22	-	1	23

12. Debtors

	2005 £'000	2004 £'000
Trade debtors	62	-
Prepayments and accrued income	590	187
Balances with other central government bodies	614	924
Other debtors (a)	5,110	587
	6,376	1,698

(a) This includes an amount of £160k recoverable from HE institutions (see note 6) (2004 - £587k). This also includes an interest-free loan of £4.95 million to University of Wales Swansea in respect of an advance of funding to meet the cost of purchasing a high powered computer which is part of UW Swansea's Institute of Life Science Project. Welsh Assembly Government funding for this project was not due to be available to UW Swansea until the Assembly's new financial year commencing in April 2005. The loan was made with the approval of the Welsh Assembly Government and was recovered in two instalments in April and May 2005.

13. Creditors: Amounts falling due within one year

	2005 £'000	2004 £'000
Trade creditors	-	27
Accruals	1,365	709
Balances with other central government bodies	607	1,585
	1,972	2,321

14. Reconciliation of movement in government funds

	2005 £'000	2004 £'000
Retained surplus for the year	2,293	981
Movement on government grant reserve	47	(18)
Movement in government funds	2,340	963
Government funds at 1 April	5,794	4,831
Government funds at 31 March	8,134	5,794

15. Lease obligations

	2005 £'000	2004 £'000
Amounts charged to the Income and Expenditure Account for operating lease rentals in respect of accommodation	69	69
Annual commitment on leases expiring within:		
One year	-	-
Two to five years	69	69
Over five years	-	-

16. Capital Commitments

	2005 £'000	2004 £'000
Contracted	-	-

17. Financial Commitments

	2005 £'000	2004 £'000
Revenue grants (a)	132,696	129,704
European projects (b)	261	4,325
	132,957	134,029

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

(b) European projects will be funded as follows:

	2005 £'000	2004 £'000
European Social Fund grants	100	2,737
Grant in aid from the Welsh Assembly Government	161	1,588
	261	4,325

The European projects also have financial commitments of £186k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

At the financial year end, phase two of the existing European projects was subject to Welsh European Funding Office approval and therefore no specific commitments can be disclosed in these accounts.

18. Losses and special payments

	2005 £	2004 £
Bad debts	-	227
Fruitless payments	603	1,526
	603	1,753

19. Related party transactions

The National Assembly for Wales and the Welsh Assembly Government are regarded as related parties. During the year, the HEFCW has had various material transactions with the Welsh Assembly Government and with other entities for which the National Assembly for Wales is regarded as the parent Department, viz: the NCETW.

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: -

Name	Relationship
Dr Len Arthur (Council member)	<ul style="list-style-type: none"> • Senior Lecturer; University of Wales Institute, Cardiff & Director Research & Enterprise UWIC Business School: Member of UWIC Academic Board. • Wales Regional Council Executive of NATFHE (National Association of Teachers in Further & Higher Education). • Member of Higher Education Academy. • Board Member and Trustee, Promo-Cymru Ltd. • Daughter, Executive Officer; National Assembly for Wales. • Son-in Law, Senior Patent Examiner, Patent Office, Newport – on secondment to European Commission.
Mr RPV (Tim) Rees (Council member)	<ul style="list-style-type: none"> • PricewaterhouseCoopers, receives a pension. • Independent Member, Council Audit Panel, City and County of Cardiff. • Treasurer, Order of St John Wales. • Deputy Chairman, Investment Committee; Representative Body of the Church in Wales. • Panel Member, Compensation Scheme; Institute of Chartered Accountants in England and Wales. • Governor, Llandaff Cathedral School.
Professor Sir Brian Smith (Council member)	<ul style="list-style-type: none"> • Member of Board of Governors, University of Glamorgan. • Director of Higher Aims Limited. • International ambassador for Cardiff University. • Vice Chair of Trustees, Oxford University Society. • Board Member, International Festival of Musical Theatre, Cardiff.
Mrs Tina Stephens (Council member)	<ul style="list-style-type: none"> • North Wales representative on Wales Management Council • Member of Advisory Board for School of Banking & Regional Development at UW Bangor
Professor Gwyn Thomas (Council member)	<ul style="list-style-type: none"> • Daughter works for Welsh Assembly Government

Name	Relationship
Mrs Wendy Heppell (Council member)	<ul style="list-style-type: none"> • Director of Enterprise, Chwarae Teg & overseeing research project with UW, Lampeter. • Member, Royal Society of Chemistry. • Director of Business West, which has direct relationship with University of Bristol and University of West of England. • Partner in Knowledge West, a consortium with 6 Higher Education Institutions in West of England. • Husband, student at Cardiff University Business School. • Member of Bursary Committee, University College, Oxford.
Professor D Garel Rhys, OBE (Council member)	<ul style="list-style-type: none"> • Chairman, Economic Research Advisory Panel of the Welsh Assembly Government. • Member of Motor Racing Industry Development Board of the Department of Trade & Industry. • Daughter in Law, Lecturer at University of Wales, Newport.
Professor Philip Gummatt (Chief Executive)	<ul style="list-style-type: none"> • Member of Institute of Learning & Teaching, now part of the Higher Education Academy. • Wife, part-time tutor at Swansea Institute of Higher Education. • Brother, part-time student at UW Lampeter.
Mr Richard Hirst (Director of Finance & Risk)	<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 4, 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 surplus for the year to net cash (outflow) from operating activities

	2005 £'000	2004 £'000
Operating surplus (before financing and appropriations)	2,049	795
Depreciation charges	38	18
Fixed assets reclassified	-	27
Amount released from deferred government grant reserve	(38)	(45)
Notional charge - cost of capital	244	186
(Increase) in debtors	(4,666)	(1,175)
(Decrease) in creditors	(323)	(141)
Net cash (outflow) from operating activities	(2,696)	(335)

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

	2005 £'000	2004 £'000
Decrease in cash	(2,734)	(335)
Net funds as at 1 April	6,394	6,729
Net funds as at 31 March	3,660	6,394
Analysis of net funds:		
Cash at bank and in hand	3,660	6,394

22. Transfer of the Knowledge Exploitation Fund

In May 2003, the Welsh Assembly Minister for Economic Development requested that the Welsh Development Agency ("WDA") take over responsibility for the Knowledge Exploitation Fund ("KEF"), a fund that was set up to encourage entrepreneurship and innovation in Further and Higher Education Institutions in Wales. This fund was previously managed by the Higher Education Funding Council for Wales together with the National Council for Education and Training for Wales.

The transfer took place in 2004, by which time Phase 1 of the KEF programme was substantially complete. An arrangement to manage Phase 1 was therefore agreed between the WDA and the two Councils, under which the WDA administers the remaining elements of Phase 1 on

behalf of the Councils until its completion, although the ultimate responsibility for Phase 1 remains with the Councils' Accounting Officers. From the date of transfer, responsibility for the operation, delivery and completion of Phase 2 passed in its entirety to the WDA.

As a consequence of the transfer of responsibility, the Councils are required to pay to the WDA, European grant monies previously held by the two Councils. This funding package was intended to cover all KEF commitments previously entered into by the two Councils, which remained outstanding to 31 March 2004. In the event of any shortfall, the Councils will recompense the WDA and therefore a contingent liability exists which cannot be quantified. This remained the situation at 31 March 2005.

23. Derivatives and other financial instruments

The Council has no borrowings and relies primarily on National Assembly for Wales 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.