

Annual Report

2006-2007



The Higher Education Funding Council for Wales is an Assembly Government Sponsored Body. Under the Further and Higher Education Act 1992, HEFCW 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, HEFCW 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. HEFCW 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 HEFCW's financial year and the academic year:

Financial Year (1 April to 31 March) 2006-07

Academic Year (1 August to 31 July) 2006/07

Further copies

Further copies of this report are available from:
Higher Education Funding Council for Wales
Linden Court
Ilex Close
Llanishen
Cardiff
CF14 5DZ

Telephone: 029 276 1861

Fax: 029 2076 3163

Email: info@hefcw.ac.uk

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HEFCW'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; and
- ensure high quality, accredited teacher training provision across Wales

In all that we do, we are committed to maintaining and upholding the enduring core higher education values of:

Scholarship and Learning

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

Civic responsibility

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

Lifelong learning

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

Sustainability

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

We have seven core strategic aims:

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: 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

Making it Work: 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

We funded 13 higher education institutions (HEIs) in the academic year 2006/07, including the teaching activities of the Open University in Wales. Once again, we were pleased to be able to be able to give each HEI in Wales a real terms increase on their grants from the previous year.

As we moved into the fourth year of the Welsh Assembly Government's strategy for higher education in Wales, *Reaching Higher*, we were able to take stock of developments thus far and how realistic achieving the strategy's targets might become.

Many of the *Reaching Higher* target areas – such as widening access, research income and Welsh medium – have funding tied in with them to help institutions reach the goals as well as gain benefits for themselves, the community, the economy and students. Furthermore, institutions which showed a commitment to the *Reaching Higher* priorities of reconfiguration and collaboration benefited to the collective tune of some £25 million for projects initiated in 2006/07, made available by the Welsh Assembly Government for this purpose.

The major developments which took advantage of this fund included the Wales Centre for Mathematical and Computational Sciences, created by the universities at Aberystwyth, Bangor, Cardiff and Swansea (£5 million); the integration of services and administrative functions at Swansea University, Swansea Institute and Trinity College, Carmarthen (£7.5 million); and the strategic alliance between the Royal Welsh College of Music and Drama – Wales's National Conservatoire – and the University of Glamorgan (£12.75 million).

We set aside nearly £7 million through the Strategic Development Fund, which backed strategic changes which did not meet the criteria for the Reconfiguration and

Collaboration Fund. Through this fund we supported a strengthening of NEWI's position in north east Wales, a project between the universities of Newport and Glamorgan to broaden HE opportunities in the south Wales valleys and a UWIC-led project to explore models to develop work-based learning in HE.

2006/07 heralded a new era in funding for institutions in Wales, with HEIs gearing up to charge students flexible fees from 2007/08. Given the Welsh Assembly Government's commitment not to allow flexible fees until 2007/08, we allocated some £33.5 million in 'supplementary income' to institutions in 2006/07, which matched the additional funding institutions would have received had they been permitted to charge flexible fees from 2006/07. Following Assembly guidelines, we ensured that at least 15% of this additional funding at each institution was used on projects to widen access or promote higher education.

We distributed £5.5 million to a key *Reaching Higher* priority area through our widening access premiums. We allocated an additional £2 million through our Reaching Wider initiative, which was reviewed during this year with a view to making it even more effective. The latest Performance Indicators for HE showed that Wales continued to outperform the UK as whole in a number of widening access dimensions.

We reviewed our research policy in 2006/07 in consultation with the HE sector in Wales and published a revised statement of policy objectives, which will help us shape the future funding framework on research. In the meantime, we made sure that we maintained the substantial level of support – more than £4 million – through our Research Investment Fund, in addition to the funding we give institutions through our recurrent grant for the highest rated research. We targeted a further

£5 million to support institutions in their preparations for the 2008 Research Assessment Exercise.

We distributed more than £5.1 million for third mission activities, which apply and exploit knowledge which, in turn, benefit social, cultural and economic development in Wales. We consulted on how our Third Mission Fund had operated thus far, and agreed to set aside some funding for collaborative developments and to reward satisfactory performers.

There were major developments in science during the year, which saw us work closely with colleagues in the Welsh Assembly Government during the preparatory work before the launch of the science strategy for Wales. We supported the Wales Institute of Cognitive Neuroscience and the aforementioned Wales Institute of Mathematical and Computational Sciences, and contributed to Cardiff University's Centre for Integrated Renewable Energy Generation and Supply. We also distributed the first instalment of the £46.5 million provided to institutions through the UK-wide Science Research Investment fund (SRIF3).

Other areas where we continued to work with partners included initial teacher training, modern foreign languages, part-time provision, foundation degrees, e-learning, sustainable development and Welsh medium higher education.

We continued to work closely with Higher Education Wales (HEW), and Chairs of Higher Education Wales (CHEW), the bodies representing vice-chancellors and principals, and chairs of higher education institutions, respectively. We also continued with our cycle of visits to Wales's HEIs, which has helped us engage with them on individual and sector-wide concerns.

Our Council members continued to provide valuable guidance for the work of HEFCW. We welcomed two new members during the year: Professor Mari Lloyd-Williams, who holds a personal chair at the University of Liverpool Faculty of Medicine, where she is also a consultant in palliative medicine and director of one of the largest community medical education programmes in the UK; and Mr Ken Richards, whose expertise is in finance and economics and is an Honorary Research Fellow at the Cardiff School of Social Sciences. Professor Garel Rhys CBE was reappointed for a further three-year term and we said farewell to Wendy Heppell, to whom I would like to extend my thanks for her contributions over her three-year tenure.

This is the last full year in which I will report as HEFCW's Chairman. I wish to take this final opportunity, on behalf of all the Council, to thank HEFCW's staff, not only during this reporting year, but over all the years I have been Chairman, acting Chairman, and, before that, a Council member. The commitment and expertise of the staff has been vital in helping us to balance the requirements and guidance of the Assembly Government with the needs and wishes of the higher education sector in Wales, and I am grateful to them all. It has also been both a pleasure and a privilege for me to work alongside all the Council members who have served during my time at HEFCW.

Chief Executive's Statement

The Chairman's Report has already referred to the sector's targets, which were outlined in *Reaching Higher*, the Welsh Assembly Government's strategy for higher education. The latest figures show that we are on course to achieve most of these by 2010/11. However, both we and the sector will need to renew our efforts in order to achieve a number of others.

The Welsh sector has performed strongly in recruiting from Communities First areas, with 11.5% of Welsh domiciled undergraduate new entrants to Welsh HEIs in 2005/06 coming from these areas. Underpinned by our *Reaching Wider* initiative, there is still some work to do to ensure an increase in the 9.9% of Welsh domiciled undergraduate new entrants from Communities First areas on HE courses at institutions around the UK.

As well as receiving a highly satisfactory learning experience at Wales's universities and colleges, as attested by the results of the National Student Survey, Welsh students are also increasingly choosing to study in Wales, with 63.1% of full-time students doing so, against the 2010/11 target of 70%.

Wales has stayed ahead of the rest of the UK (excluding the unique pull of London and the south east of England) in increasing its recruitment of overseas students, rising by 11.8% in Wales in 2005/06 compared to 3.3% in the UK as a whole.

The aim to increase, from 5.3% to 7%, the proportion of Welsh domiciled HE students in Welsh HEIs and FEIs undertaking some element of their course through the medium of Welsh has proved to be more challenging. This is why we are working with the sector, Higher Education Wales (HEW) and the *Mantais* campaign to increase momentum on both the supply and demand sides by training more lecturers to teach through the medium of Welsh, making more modules available for students and encouraging

applicants to follow at least some of their HE course in Welsh.

Another demanding target is that for reducing the sector's overhead costs in relation to those HEIs in the rest of the UK (excluding London and the south east), though here we need to recognise that costs in Wales remain lower than the UK average.

The percentage of Research Council funding attracted by HEIs in Wales has remained around the 3.3% mark, rather than rising to the target of 4.5%, but we remain optimistic that a number of research-related investments through the Reconfiguration and Collaboration Fund will soon lead to further progress. In contrast, institutions are well on target to increase research income from non-Research Council sources by 60% on the 2000/01 figure by 2007/08.

Finally on targets, not only do the latest UK Higher Education Business and Community Interaction Survey data show that, between 2004 and 2006, Wales generated 13.5% of all higher education business spinout and staff start-up activity and of all UK graduate start-ups, but we know that the HE sector has already achieved the 2010/11 target of doubling the number of profitable spin-out companies from 21 to 42.

During the reporting year, we were also pleased to see that the overall financial position of the sector improved. However, we will continue to monitor closely the situation to help mitigate the possible impact of any operating deficits in individual institutions.

Lastly, we include in this report a summary of the operational plan activities which we were tasked to carry out by the Welsh Assembly Government. We have achieved most of these, the remainder are in hand. This could not have been achieved without the dedication and professionalism of staff in HEFCW's small executive.

The HE Sector in Wales in 2006/07

HEFCW funded 13 higher education institutions (HEIs) in 2006/07, including the teaching activities of the Open University in Wales.

The size of HE institutions in the sector ranged from 26,789 enrolments at Cardiff University to 2,057 at Trinity College, Carmarthen.

Some higher education courses can be taken at further education colleges (FECs). We directly fund some higher education provision at FECs. However, most higher education courses at FECs are provided through franchise arrangements with higher education institutions.

Statistics collected in 2006/07 showed that there were 119,993 enrolments on higher education courses at institutions which receive HEFCW funding. Of these 103,342 were eligible for HEFCW funding.

Cardiff University had the highest 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 FEIs.

Enrolments by Fee Status, Level and Mode 2006/07

		Full-time Enrolments	Sandwich Year Out Enrolments	Part-time Enrolments	Total Enrolments
Home & EC fundable	Undergraduate	50,043	646	34,610	85,298
	Undergraduate non-degree	3,219	30	0	3,249
	Postgraduate taught	4,039	0	8,180	12,219
	Postgraduate research	1,665	0	911	2,576
	Total	58,966	676	43,701	103,342
Home & EC non-fundable	Undergraduate	5,074	0	1,225	6,299
	Undergraduate non-degree	515	0	0	515
	Postgraduate taught	194	0	140	334
	Postgraduate research	77	0	136	213
	Total	5,860	0	1,501	7,361
Overseas (includes Channel Islands and Isle of Man)	Undergraduate	3,418	62	576	4,056
	Undergraduate non-degree	242	0	0	242
	Postgraduate taught	3,029	0	979	4,008
	Postgraduate research	817	0	168	985
	Total	7,505	62	1,723	9,290
Total	72,331	738	46,925	119,993	

Source: End of Year Monitoring of Higher Education Enrolments (EYM) 2006/07

- Notes: (1) Sandwich students counted as 1
 (2) Includes fundable, non-fundable, overseas and island enrolments
 (3) Figures may not sum to totals due to rounding

Enrolments by Institution, Level and Mode 2006/07

	Undergraduate Degree			Undergraduate non-degree			Undergraduate (UG)			Postgraduate Taught			Postgraduate Research			Total	
	Full-time	Sandwich Year Out	Year Out	Full-time	Sandwich Year Out	Year Out	Part-time (excl. FO)	Part-time (FO)	Full-time	Sandwich Year Out	Year Out	Part-time	Full-time	Sandwich Year Out	Year Out		Part-time
University of Glamorgan	8,807	98		1,552	0		5,992	1,676	1,055	0		1,880	199	0		218	21,456
Aberystwyth University	5,662	82		105	30		2,025	20	549	0		706	242	0		62	9,482
Bangor University	5,444	38		105	0		1,453	40	803	0		617	367	0		124	8,990
Cardiff University	15,229	328		149	0		5,518	0	1,933	0		2,193	1,067	0		372	26,789
University of Wales, Lampeter	939	0		62	0		1,645	13	207	0		547	97	0		108	3,618
Swansea University	8,170	93		72	0		2,252	0	728	0		590	417	0		146	12,468
University of Wales Institute, Cardiff	5,630	63		559	0		830	82	1,065	0		409	98	0		99	8,834
University of Wales, Newport	2,959	0		171	0		1,978	2,134	260	0		1,028	27	0		16	8,573
North East Wales Institute of Higher Education	2,134	0		248	0		2,900	1,110	137	0		292	33	0		29	6,883
Swansea Institute of Higher Education	2,125	6		661	0		1,313	0	399	0		567	13	0		41	5,125
Trinity College Carmarthen	1,133	0		0	0		728	0	127	0		69	0	0		0	2,057
Bridgend College	0	0		26	0		12	0	0	0		0	0	0		0	38
Coleg Sir Gâr	236	0		0	0		74	0	0	0		0	0	0		0	310
Coleg Llandrillo	67	0		140	0		731	0	0	0		0	0	0		0	938
Coleg Menai	0	0		0	0		23	0	0	0		0	0	0		0	23
Neath Port Talbot College	0	0		24	0		39	0	0	0		0	0	0		0	63
Coleg Morgannwg	0	0		87	0		0	0	0	0		0	0	0		0	87
Swansea College	0	0		16	0		1	0	0	0		0	0	0		0	17
The Open University in Wales	0	0		0	0		3,822	0	0	0		421	0	0		0	4,243
Total	58,535	708		3,976	30		31,336	5,075	7,262	0		9,299	2,559	0		1,215	119,993

Source: End of Year Monitoring of Higher Education Enrolments (EYM) 2006/07

Notes:

(1) Sandwich year out students counted as 1

(2) Includes fundable, non-fundable, overseas and island enrolments

(3) Franchised out = FO

(4) Part-time Undergraduate includes degree and non degree enrolments

(5) Figures may not sum to totals due to rounding

EYM 06/07 Enrolments By Level and Mode

Undergraduate	Full-time/Sandwich	59,242
Undergraduate non-degree	Full-time/Sandwich	4,006
Undergraduate	Part-time	36,411
Postgraduate taught	Full-time/Sandwich	7,262
	Part-time	9,299
Postgraduate research	Full-time/Sandwich	2,559
	Part-time	1,215

EYM 06/07 Enrolments By Level

Undergraduate	99,658
Postgraduate taught	16,561
Postgraduate research	3,774

EYM 06/07 Enrolments By Mode

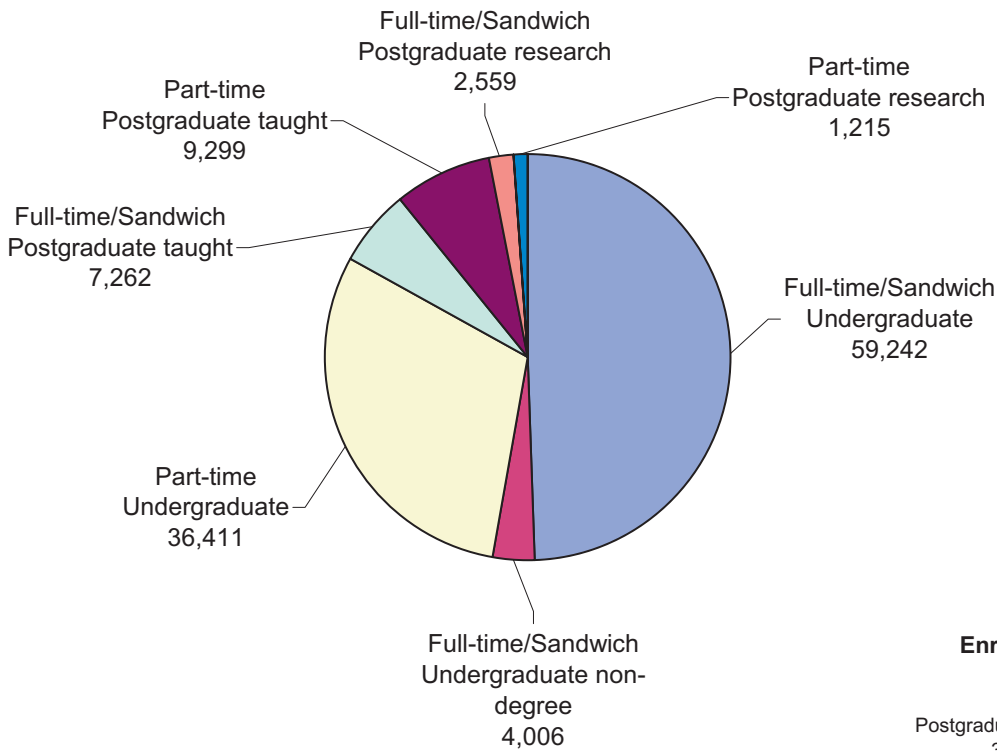
Full-time	72,331
Sandwich year out	738
PT Other	41,850
PT Franchised Out UG	5,075

Source: End of Year Monitoring of Higher Education Enrolments (EYM) 2006/07

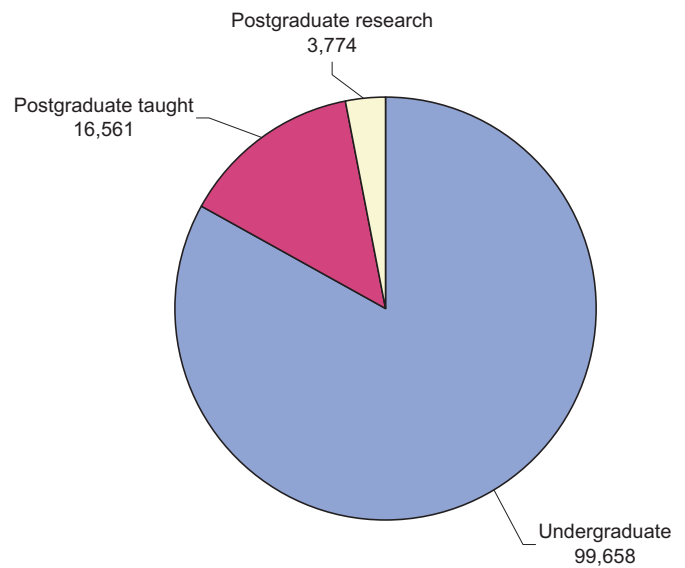
- Notes:
- (1) Sandwich year out students counted as 1
 - (2) Includes fundable, non-fundable, overseas and island enrolments
 - (3) Franchised out includes part-time undergraduate only
 - (4) Part-time Undergraduate includes degree and non degree enrolments
 - (5) Figures may not sum to totals due to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

PT = part-time
UG = undergraduate

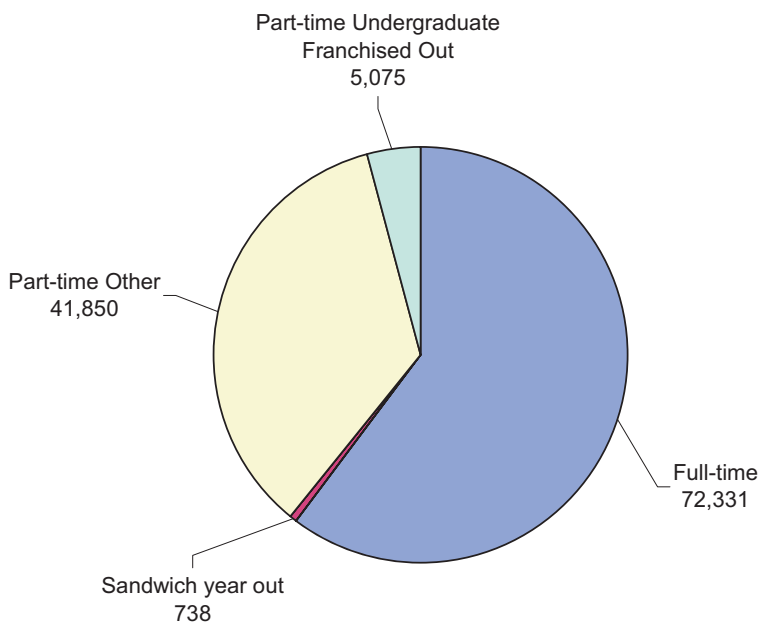
Enrolments by level and mode



Enrolments by level



Enrolments by mode



Funding the HE sector in Wales in Academic Year 2006/07

Our grant from the Welsh Assembly Government in FY 2006-07

We receive our grant from the Welsh Assembly Government on a financial year (FY) basis (1 April to 31 March), but allocate most of our funding on an academic year (AY) basis (1 August to 31 July).

In FY 2006-07, our grant from the Assembly totalled **£411.8 million**. This included:

Recurrent programme funds of **£364.7 million**;
Above baseline funding of **£14 million** to support *Reaching Higher* objectives;
Reaching Higher capital of **£4 million**
Capital funds of **£18.4 million**;
Running costs of **£3 million**; and
Open University programme funds of **£7.7 million**.

Formula funding for the HE sector in Wales

This financial year settlement let us allocate **£343.4 million** in formula grant to the sector for teaching, third mission, research and postgraduate research training.

All HEIs saw real terms increases on their grants for 2006/07. In cash terms, the overall increase for HEIs on their 2005/06 grants was 2.84%.

Premium funding

We made 'premium', or extra, payments for widening access, disabled and Welsh medium students. We allocated an additional £215 per eligible student for widening access and continued to pay the additional premium, also set at £215, per eligible student from

Communities First areas. We distributed £5.5 million through the combined widening access premiums.

HEIs received an additional £215 per eligible disabled student, taking funding in this area over the £0.6 million mark. Some £1.3 million was distributed through Welsh medium premium allocations.

Research

We increased the resource for all 5*, 5 and 4 rated research by 2.46%, and for postgraduate research training (PGR) by 2.1%. We maintained the substantial level support through our £4.1 million Research Investment Fund, which is used to bring on emerging research, enhance existing areas of strength or reshape their research portfolio.

Formula funding allocations in AY 2006/07

£268.1 million for teaching
£65.8 million for research
£5.2 million for postgraduate research training
£5.1 million for third mission
£7.7 million for the Open University in Wales

Above baseline *Reaching Higher* funding (translated to academic year funding)

Above baseline funding under the Welsh Assembly Government's 10-year strategy *Reaching Higher* saw £12.5 million supporting reconfiguration and collaboration in the sector, £2.1 million being allocated to widen access and a further £2 million being earmarked for capital funding.

Third mission

Our Third Mission Fund increased by £1 million to £5.1 million. Spending for graduate employment initiatives totalled £2.54 million.

Non-formula funding

Non-formula funding totalled £8.1 million for teaching-related grants, which included support for students, initial teacher training and learning and teaching. We also contributed £1.6 million towards the Teachers' Pension Scheme.

Joint initiatives

We contributed towards a number of joint initiatives, totalling £8.9 million, with our partner UK funding bodies, such as to the Joint

Information Systems Committee (JISC, £2.285 million) which provides the joint academic network (JANET).

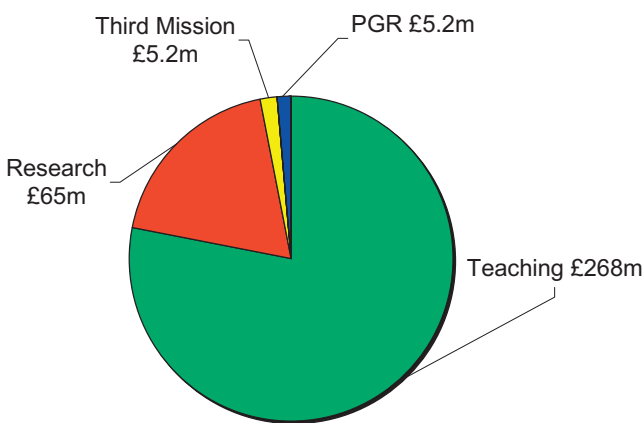
Capital funding

Our grant from the Welsh Assembly Government includes earmarked capital funding to support infrastructure development for research and for learning, teaching and IT. We allocated £18.4 million in this area in 2006/07.

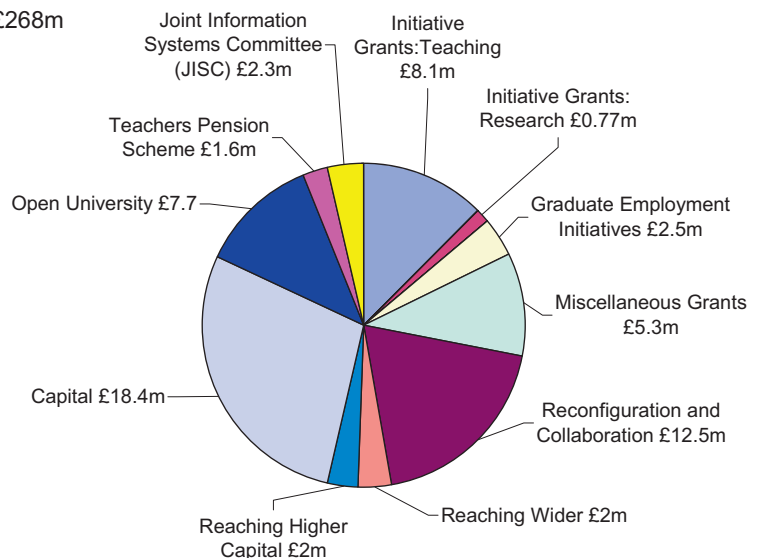
Total formula and non-formula HE sector funding in AY 2006/07

The total of our recurrent - formula and non-formula - and capital grant allocations for 2006/07 amounted to £407.99 million.

Formula Funding Allocation Totals 2006/07



Other Allocations 2006/07



HEFCW Funding for Academic Year 2006/07

RECURRENT GRANT	Spend to July 2007 (£)
Grant for Teaching	
Main formula grant	256,212,719
Per capita	4,395,017
Widening access premium	5,513,870
Welsh Medium premium	1,331,726
Disabilities premium	602,800
TOTAL	268,056,132
Open University	7,671,000
Training Related Grants	
Widening access	1,742,852
Learning and Teaching Fund	2,176,355
Welsh medium (Unit and Special Initiatives)	384,110
ITT Special Initiatives	70,000
ITT Strategy	1,131,380
ERASMUS fee reimbursement	361,200
PT fee waiver	1,000,000
NW Clinical School	1,013,100
ITT partnerships	254,010
TOTAL	8,133,007
Teachers Pension Scheme	1,623,700
Grants for Research	
RAE based grant (QR)	60,889,715
Research Investment Fund (RIF)	4,140,959
Initiatives - including Research Board, Overseas Research Students Awards Scheme and University of Wales Board & Press	766,760
TOTAL	65,797,434
Grant for postgraduate research training	5,226,366
Third Mission Grants	
Third Mission Fund	5,128,070
Graduate Employment Initiatives	2,535,000
TOTAL	7,663,070
Non Mainstream Grants	
including - Learning and Teaching Support Network, Joint Information Systems Committee, HE Quality Assurance programmes, funding for disabilities	8,890,176
HE Strategy Funding (allocation on a FY basis translated into AY)	
Reconfiguration and Collaboration (comprises Assembly earmarked funds & funds from Council baseline grant)	12,471,332
Reaching Wider	2,060,000
Reaching Higher Capital	2,000,000
TOTAL	16,531,332
RECURRENT TOTAL	389,592,217
CAPITAL (allocation on FY basis translated in AY)	18,396,000
including infrastructure for research and teaching and learning	
GRAND TOTAL	407,988,217

Formula Funding Allocations 2006/07

Institution	Total Formula Funding for Teaching	Research (QR) & (RIF)	Third Mission Fund Allocations	PGR	Grand Total
	£	£	£	£	£
University of Glamorgan	41,243,826	1,886,728	338,687	335,799	43,805,040
Aberystwyth University	23,915,971	6,015,734	404,609	387,273	30,723,587
Bangor University	22,280,992	8,181,487	668,296	549,670	31,680,445
Cardiff University	64,293,207	37,126,452	1,732,122	2,860,178	106,011,959
University of Wales, Lampeter	4,695,835	1,282,456	140,922	89,041	6,208,254
Swansea University	26,929,538	8,497,250	668,296	903,774	36,998,858
University of Wales Institute, Cardiff	24,490,326	1,177,096	338,687	64,524	26,070,633
University of Wales, Newport	17,983,635	420,432	272,765	30,461	18,707,293
North East Wales Institute	14,358,838	120,202	140,922	0	14,619,962
Swansea Institute of Higher Education	14,128,696	81,218	140,922	5,646	14,356,482
Trinity College Carmarthen	5,637,161	0	140,922	0	5,778,083
Royal Welsh College of Music and Drama	5,201,552		140,922		5,342,474
University of Wales Registry	0	241,618		0	241,618
Coleg Sir Gâr	1,072,749	0		0	1,072,749
Coleg Llandrillo	1,189,260	0		0	1,189,260
Swansea College	47,799	0		0	47,799
Neath Port Talbot College	115,438	0		0	115,438
Bridgend College	68,069	0		0	68,069
Coleg Morgannwg	340,715	0		0	340,715
Coleg Menai	62,523	0		0	62,523
TOTAL	268,056,133	65,030,672	5,128,072	5,226,363	343,441,241

*Figures may not sum exactly to totals due to rounding

Reaching Wider

Reaching Wider Partnerships

We want to increase the opportunities to access higher education for all with the potential to benefit from it.

We encourage higher education institutions to consider applications from all communities. However, we recognise that there are some potential university applicants who might need additional support, skills development or confidence-building before they might consider embarking upon a higher education course.

The four Welsh *Reaching Wider* Partnerships tackle these issues by providing activities to raise educational aspirations and academic skills with groups, of all ages, which are generally under-represented in higher education – for example, in some of the most disadvantaged communities in Wales. They also work with people from black and minority ethnic communities, disabled people and people who want to study at university through the medium of Welsh. £2 million was allocated to the *Reaching Wider* initiative in 2006/07.

In early 2007, we published, and consulted on the findings in, a report on the *National Evaluation of Widening Access Activities and the Reaching Wider Initiative*.

The report concluded that:

- higher education institutions vary in the way in which they implement their strategies to widen access to under-represented groups;
- HEIs should continue to develop ways of assessing the impact of their activities;
- HEIs continue to make progress towards the *Reaching Higher* targets, although the lead time between the inception of the *Reaching Wider* programme and

attendance at university means that it can be difficult to assess the impact of the projects;

- HEIs are increasing the focus on student support and retention for those already in the system;
- *Reaching Wider* Partnerships would benefit from longer-term funding;
- *Reaching Wider* Partnerships should be encouraged to develop their work with adults, as well as young people and children; and
- the needs of care leavers in higher education should particularly be considered.

The responses informed our final advice on future widening access policy development to the Welsh Assembly Government.

Strategies to widen access

We allocated to institutions an additional £215 per student from a low affluence area and £215 per student from a Communities First area. In addition, we allocated £1.3m for students with non-traditional qualifications on entry. In total, we gave more than £5.5 million in widening access premium funding to further and higher education institutions.

In addition to this premium funding, we awarded institutions some £1.74 million in 2006/07 for them to implement their strategies to widen access, which included strengthening the links between activities in these strategies and the work of the *Reaching Wider* Partnerships.

We received the new three-year strategies in the autumn. We asked institutions to pay particular attention to educational aspiration-raising activities, developing academic and vocational skills and confidence, policies for

care leavers, progression routes to and through HE and admissions and retention policies.

We also agreed that widening access to higher education, including support for part-time students, should become one of our priority areas when we came to consider distributing our core funding more strategically.

Supporting disabled students

We recognise that HEIs might incur additional costs when putting structures in place to support disabled students. For the first time, our disability premium fund reached more than £600K. Institutions told us how they planned to use this additional funding through their widening access strategies.

Last year, we employed Wales's first dedicated national co-ordinator to help universities and colleges put their equalities policies into practice. The Disability and Diversity Co-ordinator works with institutions to give them practical support and guidance about how to make equality of opportunity a reality for students.

Supporting care leavers and looked-after children

We held a conference in November to launch the Frank Buttle Trust's new Care Leavers Quality Mark in higher education in Wales. The Quality Mark was devised to recognise institutions' achievements in providing support to young people with a care background.

Funding support for students

Higher education institutions in Wales will charge students flexible fees a year after their counterparts in England introduced them in 2006/07. Instead, the Welsh Assembly

Government introduced a scheme that would benefit students without disadvantaging the institutions financially. This *Supplementary Income Stream* saw us allocating additional funding to Wales's HEIs based on what their extra fee income would have been had they been allowed to charge flexible fees in 2006/07.

We asked institutions to provide plans outlining what they would do with this 'supplementary income' and paid the funding on condition that they set aside 15% of it for activities to widen access, increase participation and promote HE. This enabled HEIs to offer a raft of new bursaries and scholarships to under-represented groups or to encourage recruitment to subjects such as science, technology, engineering, maths and modern foreign languages, and to Welsh medium courses.

We set aside £1 million for our fee waiver scheme, which supports part-time students who receive benefits.

We continued to administer the Welsh Assembly Government's Financial Contingency Fund, which helps students who face difficulty in meeting their living costs. From 2007/08, the Assembly Government will be wholly responsible for administering this fund.

Large-scale developments

We announced a major investment to support regeneration and education in the Heads of the Valleys area. The £1.5 million project will see the University of Glamorgan and the University of Wales, Newport provide learning opportunities in some of Wales's most disadvantaged communities. Tutors will be available through schemes such as 'science shops', which will be accessed through community venues to help local groups solve problems by using hands-on scientific methods.

Our committees

We reorganised the Reaching Wider National Steering Group to become a sub-committee of our Council, and renamed the Widening Access Committee.

Performance indicators

Latest Performance Indicators in HE for 2005/06 showed that the sector in Wales continued to outperform the UK as a whole in:

- Recruiting young, full-time undergraduate entrants from state schools (92.2%) or low participation neighbourhoods (16.9%), or full-time undergraduate mature entrants (23.7%); and
- Recruiting an increasing proportion of full-time undergraduates who receive a Disabled Students' Allowance (DSA). 5.2% of these students in Wales received a DSA in 2005/06, compared to 4.6% in the previous year. This compared favourably with the 4.0% for the UK as a whole.

The 'Deal for Students'

Enhancing learning and teaching

Our fund for learning and teaching encourages HEIs to promote excellent teaching and review and continuously improve the student learning experience.

Through the fund, we:

- allocated £845,345 to support HEIs strategies for learning and teaching; and
- covered, for the third and final year, institutional subscriptions to the Higher Education Academy.

Following an equality impact assessment we invited new three-year strategies to be submitted by the autumn 2007.

The Higher Education Academy, the UK-wide body which helps institutions and staff to provide the best possible learning experience for their students, worked closely with us in a range of activities including e-learning, sustainability, Welsh medium provision and work-based learning and employability.

Enhancing quality

We help Wales's higher education institutions to uphold teaching excellence so that the student experience is of high quality.

The Quality Assurance Agency (QAA) is the body which reviews quality and standards in HEIs. The QAA carried out three institutional reviews (IR) in 2006-07, the fourth year of its current six-year cycle of reviews. In addition, the QAA's Review of provision in China included a report on the collaborative provision of one of the HEIs in Wales.

To meet our statutory responsibilities in the assessment of funded provision, we are working with the QAA and the sector to develop a

method for reviewing directly-funded HE provision in further education colleges, to take place in 2007/08.

During the year, we consulted on changes to institutional review definitions in Wales. As a result we implemented a new 'confidence judgement' to align with other parts of the UK. Other changes will await a full review of the IR process, scheduled for 2007/08.

E-learning

During the year, we started to develop an e-learning - or 'technology-assisted learning' - strategy, helped by an expert sub-group of the Learning and Teaching Committee. The first stage of the development was a consultation on a statement on e-learning.

Foundation Degrees

In accordance with our remit, we commissioned a study of Foundation Degrees in Wales by SQW Ltd. We endorsed the consultants' recommendations and reported to the Assembly Government.

The student voice

The results of the second National Student Survey showed that some 80% of respondents in 2006 were satisfied with their courses. Not only was there an improvement on the previous year in a number of questions, but students were particularly struck by the enthusiasm of staff and the intellectual stimulation their courses offered.

Following this, we reported on how universities and colleges in Wales encouraged students to have their say. The report into student representation structures looked at how student involvement, which institutions considered to be crucial, helped safeguard the quality of courses by ensuring that student views are fed back to,

and acted upon by the university. The study showed that institutions had generally well-developed systems for involving students, with good formal and informal links between senior management and the president of the Students' Union.

Our committees

HEFCW's Learning and Teaching Committee (LTC) meets four times a year and reports annually to our Council on the enhancement of learning and teaching in higher education institutions. A sub-group of the membership of LTC, the Quality Assessment Committee, meets twice a year and monitors our agreement with the QAA.

Courses for students through the medium of Welsh

Reaching Higher set a target of 7% of Welsh domiciled students in Wales taking some element of their course through the medium of Welsh by 2010.

In July 2006, Arad Consulting Ltd delivered its report on potential models for the delivery of Welsh medium HE provision in the future. The report recommended establishing a strong national strategic framework to lead the development of greater opportunities to study through Welsh.

In late 2006, in a major step forward, the higher education sector, through HEW, committed to the establishment of the strategic framework, and a comprehensive development plan. The work is being driven by a new Welsh Medium Higher Education Sector Group which has senior representation from all HEIs in Wales. The Group held its first meeting in February 2007, chaired by Professor Hazel Walford Davies.

We continued to support the Welsh Medium Teaching Development Centre, which will have an

enhanced role within the new strategic framework. The *Mantais* marketing campaign, organised by the Centre in association with the sector, encourages students to study through the medium of Welsh.

The Centre administers the HEFCW-funded Welsh Medium Postgraduate Scholarship and Teaching Fellowship Schemes. They enable students who are about to embark upon or who have already completed a research degree to gain experience of teaching and developing modules through the medium of Welsh. 2006/07 saw the introduction of a pilot scheme for vocational fellowships in subject areas where a research degree was not necessarily the route to HE teaching.

We made available a Welsh Medium Provision Development Fund of £325K to support institutions in developing their portfolios.

We also published, in September 2006, a report by London Economics on the costs of Welsh medium provision. Following consultation with institutions, we introduced a change which allowed more provision to be eligible for our Welsh medium premium, which is paid to institutions to recognise the extra costs of providing Welsh medium modules. We allocated more than £1.3 million in this way in 2006/07.

Targeting areas for development

We set up a development of fund of £100k to help HEIs fulfil some of the recommendations of our review of modern foreign languages in higher education through collaboration with other organisations. We received a single, joint proposal from a number of institutions in the sector, led by the Open University in Wales and in partnership with CILT (the National Centre for Languages) Cymru.

Research Excellence

Funding quality research

We distribute most of our funding for research through our formula funding allocations:

- Quality Research (QR) allocations are based on the outcomes of the last Research Assessment Exercise (RAE) in 2001 and amounted to £60.9 million in 2006/07; and
- the Research Investment Fund (RIF), which allowed institutions to invest strategically by developing, strengthening or re-shaping their research profiles, totalled £4.1 million.

Assessing research

In preparation for the next UK-wide exercise to review research, we awarded institutions an additional £5 million to help support their preparations for the 2008 Research Assessment Exercise (RAE).

We will need to revise the way we fund research following the 2008 RAE. In preparation for this, we reviewed our research policy in 2006/07 in consultation with the sector. It resulted in the publication of a revised statement of policy objectives which will help us shape the future funding framework for research.

The Quality Assurance Agency (QAA) reported on its special review of research degree programmes in Wales. This was done at our request to help institutions assess the 'goodness of fit' between institutional practice and the QAA's revised Code of Practice on research degree programmes. It concluded that, overall, the procedures in place in HEIs to secure and enhance the quality and standards of research degree programmes are generally appropriate and satisfactory.

Investing in science research

The first instalment of the £46.5 million provided through the UK-wide Science Research Investment Fund (SRIF3) was made available in 2006-07. HEIs will use this money to invest in the research infrastructure, such as buildings, facilities and equipment. These are essential for institutions to carry out first-class research, especially in science and technology.

Examples of funded projects include:

- investment in equipment and facilities to support the Aberystwyth University and Bangor University Research and Enterprise Partnership;
- a programme of major refurbishment of laboratories for medical research at Cardiff University;
- investment in new IT facilities to support e-research and research collaborations; and
- equipment and facilities for the new Institute of Life Sciences at Swansea University.

The Science and Innovation Awards Scheme, which is run by the Engineering and Physical Sciences Research Council (EPSRC) in partnership with the four UK higher education funding bodies, is designed to stimulate and strengthen research in areas which will help research in the UK to remain competitive. Cardiff University was the only institution in the UK to receive an award for research in the area of renewable energy in the 2006 round of the scheme. The award will support the establishment of the Centre for Integrated Renewable Energy Generation and Supply at the University's School of Engineering.

New Centre for Bilingualism

The Economic and Social Research Council (ESRC) announced £5million funding for a new research centre to study bilingualism, to which HEFCW and the Welsh Assembly Government contributed.

Based at Bangor University, the centre aims to create greater understanding of bilingualism across the world. Research will focus on the nature of the relationship between the two languages of individual bilingual speakers as well as amongst the wider community.

Benefiting the Economy and Society

Funding Third Mission activities

Third mission activities at higher education institutions (HEIs) apply and exploit knowledge which, in turn, benefits social, cultural and economic development in Wales.

In any given year, HEIs in Wales contribute more than £1 billion in gross expenditure to the Welsh economy and turn out more than 30,000 graduates and postgraduates.

Our Third Mission Fund requires institutions to produce strategies which outline how they will benefit HE and the economy, and support social and cultural well-being in the local community and Wales as a whole. We distributed more than £5.1 million through this fund in 2006/07, which had increased by £2 million since its inception two years before.

We reflected on how the Fund had operated over its three-year incarnation. In the autumn 2006, following a consultation exercise and workshop, respondents suggested that they broadly supported proposals to set aside some third mission funding for collaborative developments, adjust the overall formula for allocating funding, and reward satisfactory

performers.

Working with partners

Our goal is to benefit the economy and society through delivering more productive relationships between higher education institutions and the public and private sectors, other agencies and local communities.

The Welsh Assembly Government launched its science strategy for Wales in the autumn 2006. We worked closely with Assembly colleagues in its preparation and have already progressed that agenda, for example through our support for the Wales Institute of Cognitive Neuroscience and the Wales Institute of Mathematical and Computational Sciences. HEFCW has also been closely involved in efforts to better commercialise science activities.

We continued to encourage increased engagement between HEIs and the Sector Skills Councils (SSCs). Institutions provided details of how they would spend the £20K made available either to foster links with SSCs or enable support for the delivery of the Assembly Government's Wales Spatial Plan.

HEFCW responded to the independent – 'Webb' – review of further education in Wales, highlighting the opportunity to transform progression routes between FE and HE. We underlined the importance of effective employer engagement through high quality Foundation Degrees, which should carry the reputation of a higher education qualification awarded by a higher education institution.

We recommended that they should be developed and provided collaboratively between HE/FE employer partnerships – avoiding unnecessary competition between providers – with a strong work-based learning element. We concluded that there would be a cost to this, which would not be achieved without additional funded places.

How Wales's institutions perform

HE in Wales once again continued to exceed its weight in its contribution to economic and social well-being. The 2006 UK-wide Higher Education and Community Interaction Survey (HEBCIS) survey showed that, while Welsh higher education represents some 5% of HE provision in the UK, Wales:

- accounted for 11% of income from collaborative research involving both public funding and funding from business, outperforming six out of nine English RDA regions. Welsh income generation has increased in this area by more than 70% since 2001/02;
- accounted for almost 9% of UK income from consultancy contracts with small and medium-sized enterprises (SMEs). Since 2001/02, the number of consultancy contracts with Welsh HEIs has increased by over 300%;
- has almost 7% of the UK higher education sector's cumulative portfolio of active patents, again outperforming seven out of nine English RDA regions. Welsh patent activity has increased significantly since 2001/02; and
- generated 13.5% of all higher education business spinout and staff start-up activity and 13.5% of all UK graduate start-ups. Since 2001/02 the number of spinout companies and staff start-ups which have survived for more than three years has increased by 88%, with the estimated turnover of all active firms increasing by over 69% to more than £37 million.

Promoting sustainable development

HEFCW increased its responsibilities in this area following the publication of the Welsh Assembly Government's strategy for Education for Sustainable Development and Global Citizenship (ESDGC) in September 2006. We asked HEIs, for the first time, to provide a separate section within their Strategic Plans to cover their activities in relation to ESDGC. These gave us useful information about the range of activities across the sector, which were mostly in relation to environmental or estates-related activities.

Graduate employability

A major HEFCW-funded study by the Institute for Employment Studies (IES) reported that the value of a degree remains high. *Welsh Graduates and their Jobs: Employment and Employability in Wales* looked at the labour market experience and performance of graduates in Wales.

The report showed that, despite some fears that the expansion of higher education would

result in oversupply, graduates still had a positive return on their degrees, particularly those with postgraduate level qualifications. Employment rates for graduates were marginally higher in Wales than for the rest of the UK. The study also revealed that graduates in Wales earn around 46% more per year than those qualified to A-level.

GO Wales

The study also found that Wales is at the forefront of employability initiatives in the UK, with schemes such as HEFCW's GO Wales which have strengthened employer links with universities. This part ESF-funded programme brings graduates and business together by supporting work placements.

The latest figures from GO Wales showed that:

- more than 12,000 students and graduates and 2,500 small and medium-sized companies benefited from the service;
- more than 1,300 students and graduates were placed with SMEs into project based work placements and over 800 students and graduates undertook a short period of voluntary work experience; and
- almost $\frac{3}{4}$ of host organisations offered their student or graduate further employment.

A skilled workforce in Wales

The HE sector plays a crucial part in ensuring that Wales can offer the higher level skills needed to attract new business and to enable our existing companies to compete successfully. HE in Wales is often thought to be ahead of the rest of the UK in many areas of the skills and employment agenda.

Three major reviews ran in 2006-07 to underpin

and inform this agenda, two of which we contributed to and will play a part in implementing (SQW's HEFCW-funded study of foundation degrees and the Webb review of further education). With the third, the Leitch review of skills, we will work closely with Assembly Government colleagues and the sector to ensure Wales takes the necessary steps to uplift and sustain the high level skills needed by business and commerce.

Committees

Our Third Mission Committee oversees this area of HEFCW activity. The Committee includes partners from the Welsh HE sector, business and the Welsh Assembly Government.

Medical education

We contributed to developments in medical education and research on a UK stage through our membership of the UK Healthcare Education Advisory Committee (UKHEAC).

Medical training at undergraduate level is delivered as a 'hub' based at Cardiff University, with clinical training 'spokes' in Swansea, Bangor and Newport. A graduate entry scheme operates collaboratively between Cardiff and Swansea Universities.

European and international developments

Wales International Consortium (WIC) and international student recruitment

For the fourth successive year Wales has achieved record figures in numbers of international students choosing Wales for their higher education. More than 7,000 students registered for study in 2006/07, which is an 8% increase on the previous year's figure and a 20% increase in the last four years.

Of the 12 institutions that comprise the Wales International Consortium (to which HEFCW is still a major funder), eight have recorded significant increases in international student figures.

A study in October 2006, commissioned by Higher Education Wales (HEW), revealed that the total gross value added by HE to Welsh economy in 2004/05 was over £1.6 billion, of which £69.7 million was attributable directly to international students. HEIs recorded £50.7m in international income in the same year.

Welsh Higher Education Brussels (WHEB)

Welsh Higher Education Brussels (WHEB) was launched in March 2006 and was fully staffed

in August. WHEB is a partnership, established through the co-operation of Welsh higher education institutions, HEW and HEFCW, which is its major sponsor. It is located in Wales House, Brussels.

The key aim of WHEB is to maximise the benefits to the Welsh HE sector of engaging with wider Europe, by adding value to existing capacity and service provision in Brussels.

WHEB is unique in Europe, as the only Brussels office that specifically represents an entire national HE sector of the equivalent to one of Europe's regions.

Initial Teacher Training (ITT)

We support higher education institutions (HEIs) in Wales in their delivery of high-quality, newly qualified teachers and work with them to reach intake targets set by the Welsh Assembly Government for trainee teachers at primary and secondary level.

HEIs continued to attract high numbers of trainee primary teachers, with 1,059 recruited against a target of 1,036. We maintained financial and other efforts to control over-recruitment to primary courses.

We monitor closely recruitment to secondary subjects, as attracting trainees into secondary teaching has often proved challenging, particularly in shortage subjects. We worked with institutions to establish realistic targets for

recruiting to secondary courses, while paying attention to areas where there were shortages of teachers, such as science or Welsh medium courses.

HEIs recruited 1,123 trainees to secondary courses, against a target of 1,280. This included 807 recruited to priority subject areas, where the target was 792.

Reconfiguring teacher training in Wales

In 2006-07, we began modelling the implications of changes in the ITT sector, agreed by the Minister for Education, Lifelong Learning and Skills following the recommendations of the Furlong review of ITT in Wales.

Working with the sector and the Assembly Government, we are shaping a reconfiguration of ITT provision in Wales. This includes reducing the overall number of teachers trained in Wales, particularly given an oversupply of primary teachers. We reduced primary intake targets by 5% in 2006/07, with funding equivalent to the reduction in target numbers being shared between institutions to continue to support provision and ensure courses remained viable.

Strategies for initial teacher training

We fund institutions to plan more strategically in this area and to take account of the priorities set by HEFCW, Estyn and the Welsh Assembly Government. We allocated £1,131,380 in 2006/07. We gave more than £0.25 million to HEIs to develop their partnerships with schools, which remain an integral part of teacher training courses.

Despite the uncertainties in the sector presented by the review of ITT, institutions continued to plan how to increase recruitment from under-represented groups and expand and support provision through the medium of Welsh and for Welsh learners.

We continued to work with partners to address recruitment issues in secondary teaching by attending Teacher Training Wales, a network for those involved in teacher recruitment in HE institutions. We also worked with the Training and Development Agency for Schools' (TDA) Teacher Recruitment Adviser for Wales, contracted by the Welsh Assembly Government to promote teaching as a career in Wales.

Upholding the quality of teacher training

2006/07 was the penultimate year in the current cycle of Estyn inspections of ITT

provision at institutions in Wales. Aberystwyth University was inspected during this year.

Performance information

Latest information on teacher training showed that Wales continued to be a popular destination for trainee teachers with, in all, 3,793 training in 2005/06. Some 2,406 were training to teach at primary level, with the remainder at secondary level.

1,923 students gained Qualified Teacher Status (QTS) in 2005/06; around 16% trained through the medium of Welsh.

Making it work: the HE sector in Wales

Reconfiguration and collaboration

The Welsh Assembly Government remains committed to increasing HEIs' competitiveness and further build up their performance. Reshaping the HE sector in Wales remains key to achieving this in Wales.

Our Reconfiguration and Collaboration Fund helps make this a reality for institutions. We earmarked more than £25 million for new developments in 2006/07. These included:

- £5 million for the universities in Aberystwyth, Bangor, Cardiff and Swansea to develop the Wales Centre for Mathematical and Computational Sciences, which will improve the competitiveness of research in this area in Wales, increase income for research and work with industry to encourage research which will benefit Wales's 'knowledge economy'.
- £12.75 million for the development of a Strategic Alliance between the Royal Welsh College of Music and Drama and the University of Glamorgan. This Strategic Alliance will help ensure the future success of the Royal Welsh College of Music and Drama, Wales's National Conservatoire, by enabling it to develop its facilities substantially further than would otherwise be possible. It will also allow the College to benefit from links with the University's new Cardiff School of Creative and Cultural Industries.
- £7.5 million for collaboration between Swansea University, Swansea Institute of Higher Education and Trinity College Carmarthen that will lead to the integration of a wide range of services and administrative functions, including student records and intranet systems; the creation

of a south west Wales 'virtual' library and careers service; collaboration in estates management functions, and a co-ordinated approach to environmental sustainability. This collaboration is increasing the efficiency of back office functions, enhancing services and providing an improved learning experience to the students at the three institutions.

Following the report published in the previous year relating to the provision of post-92 HE in south east Wales, we convened a meeting between the Chairs, Governors, Academic Board members and Vice-Chancellors of these institutions in December 2006. The meeting, chaired by Professor Sir Ron Cooke, agreed that a strategy group, including Chairs and Vice-Chancellors, be convened to consider a mutually acceptable way forward.

Funding for strategic developments

The Strategic Development Fund (SDF) is used to support less expensive collaborations and other, UK-wide, strategic initiatives. Last year, we set aside:

- £5.3 million over three years to NEWI to strengthen its position as Wales's higher education institution in north east Wales and to improve the learning environment;
- £1.5m shared between the University of Glamorgan and the University of Wales, Newport for a two-year project to broaden the higher education opportunities available to residents of the South Wales Valleys; and
- nearly £230k for a project led by the University of Wales Institute, Cardiff to explore models for the development of work based learning in higher education.

The new tuition fee regime in Wales

We took on responsibility for approving HEIs' tuition fee plans, following confirmation that institutions would be permitted to introduce flexible fees in 2007/08.

In 2006/07 we allocated additional Assembly funding to institutions based on what their additional fee income would have been had they been permitted to charge flexible fees in 2006/07. We asked institutions to provide plans outlining what they would do with this 'supplementary income', and paid the funding on condition that they set aside 15% of it for activities to widen access, increase participation and promote HE.

Strategic planning

Understanding HEIs through their strategic plans is a fundamental part of our ongoing dialogue with them. It also helps inform our input into Welsh Assembly Government policies.

This was the fourth year in which institutions reported on progress against *Reaching Higher* targets (see the section later in the report). We monitored their progress, provided feedback to them on the plans and worked with them on areas of performance which needed a boost. We also checked progress against a number of strategies through receiving annual monitoring statements from institutions.

Subjects of broader importance

Within the context of a developing HE marketplace and encouragement from the Welsh Assembly Government to use our core funding more strategically, we reported on action to be taken to safeguard or promote the provision of subjects of broader importance to Wales.

Given the Wales-England context of recruitment to higher education, we concluded that, with the exception of Welsh language, literature and culture, and those professional areas which respond to a specifically Welsh context, there are currently no subjects which merit supply side intervention.

However, we will continue to monitor the situation, seek appropriate measures with England to stimulate increased demand for subjects where demand is relatively low and pay close attention to the provision of science subjects in the context of the Assembly Government's Science Policy.

Using core funding strategically

We considered new measures to use our core funds in a more strategic way and target areas which might benefit from strategic intervention in current funding arrangements. These would provide better incentives for the sector to meet HEFCW priorities.

These included possible financial steers in the areas of Welsh medium provision, skills, research capacity, graduate employment, sustainability and widening access.

Financial monitoring

We review the five year forecasts of institutions, their financial mid-year returns and their annual audited financial statements.

The review of financial statements for 2005/06, received in December 2006, showed:

- the overall financial position of the sector improved, with an operating surplus of £11.9m;

- the operating surplus represented 1.29% of total income;
- three institutions reported an operating deficit, compared to two the previous year; and
- solvency improved over the previous year, with the sector's net liquid assets increasing by £23m.

Governance

The quality of governance is critical in institutions' effective performance. We pay close attention to institutional governance systems and have judged them to be operating broadly satisfactorily.

Dialogue with the sector

We continued with our three-year cycle of institutional visits to all of Wales's higher education institutions. This has been an excellent opportunity for us to:

- engage more fully with individual institutions;
- increase Council members' and Management Team's knowledge and understanding of those institutions; and
- improve our methods of feedback to institutions.

Not only were we able to discuss, at the highest levels, the major issues institutions face and what they see as their next steps, we were also guided around some of the institutions' most impressive facilities, including art and design centres and research facilities.

Estates

We received new estates strategies from institutions last year, where institutions took account of their individual estates needs

according to their requirements, as well as the accommodation requirements of students and the sustainability of the estate in relation to financial, environmental, and capacity issues.

The estates strategies suggest that the modest increase in capital expenditure witnessed over the last three years will continue and accelerate over the next five years with a number of substantial capital projects proposed. Increased reporting on environmental sustainability indicates that further progress is required in this area.

Funding for capital

We provide capital funding to institutions to support investment in buildings and equipment for teaching and research.

In 2006-07, institutions received capital funding for learning and teaching of just over £7 million. We made an additional capital allocation of £7.1 million at the end of 2005-06 for institutions to spend in the following financial year. These allocations supported the development of the learning and teaching and IT infrastructure, which should be consistent with institutional strategies such as those for learning and teaching, estates, widening access and disability.

Early in 2007, we consulted with the sector on proposals for a revised approach to capital funding from 2008-09 to encourage institutions to take a longer-term approach to capital investment.

Promoting equality

We continued to co-fund the Equality Challenge Unit (ECU) with the other UK funding bodies, which provided assistance to institutions on a range of equality matters.

We employed Wales's first dedicated national co-ordinator to help universities and colleges put their equalities policies into practice.

We commissioned the Gus John Partnership (GJP) to review institutional Race Equality Policies and action plans and provided institutions with detailed feedback.

Our Race, Disability and Gender Equality Action Plans include commitments to embed equality considerations into all our strategic aims.

Making it work: HEFCW and the Business of the Council

Accountability of the Higher Education Funding Council for Wales

The relationship between HEFCW and the Assembly Government is defined in a Management Statement and Financial Memorandum.

The Chief Executive is accountable to the Welsh Assembly Government and to the National Assembly for use of the public funds made available to HEFCW. The Minister holds an annual review meeting with the Chairman and Chief Executive, and Assembly Government officials conduct quarterly performance review meetings with the Chief Executive and HEFCW officers.

Our records and accounts are audited by the independent office of the Auditor General for Wales (Wales Audit Office).

Corporate and Operational Planning

We produce in a single document:

- a corporate strategy (setting out our long-term strategic outcomes);
- a corporate plan for the three financial years ahead; and
- a detailed operational plan covering the first of those three years.

The operational plan includes targets and actions set out in the Welsh Assembly Government's annual Remit Letter to HEFCW. Progress against the targets in the plans is reviewed quarterly both by our 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 a 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 encourage major partnerships. We also use our Strategic Development Fund to support strategic change which does not meet the criteria for the Assembly Government's Reconfiguration and Collaboration Fund.

Improving Efficiency

We aim to work effectively and efficiently, and be a model employer, having maintained the Investors in People standard. We are committed to keeping 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 2006 there were eight members of the Council, including the Chairman. During the year:

- No members completed their final terms of office on Council;
- One member left the Council;
- Two new members joined Council; and
- One existing member was re-appointed to serve an additional term.

By the end of 2006-07, there were 11 members, with one vacancy remaining to be filled.

The Council met eight times in 2006-07. An assessor from the Assembly Government attends the meetings. The Chief Executives of the Higher Education Funding Council for England and the Scottish 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 2006-07 was 57. This included all HEFCW staff, including part-time, job-share, fixed term appointments and staff on long and short-term secondments, as well as students working on placements.

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 and from the website.

Bilingualism

We are committed to treating the Welsh and English languages on the basis of equality in providing services to the public in Wales.

We have a Welsh Language Scheme, approved by the Welsh Language Board, and a Welsh Language Mainstreaming Strategy approved by the Welsh Assembly Government. This outlines how we intend to embed consideration of the Welsh language into our policy making and service delivery processes.

We made good progress in our second year of implementing our Welsh Language Scheme and feedback from the Welsh Language Board has been positive. The annual compliance report is available on our website.

Complaints procedure

We operate a Complaints Procedure and HEFCW can be investigated by the Welsh Administration Ombudsman.

We received one request to consider a complaint under the Complaints Procedure during the year.

Providing information

HEFCW'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 our website or in hard copy.

Equality Schemes

We have published Race Equality and Disability Equality Schemes. We have also published a draft Gender Equality Scheme.

These are continually evolving documents, which take account of the comments and

requirements of bodies such as the Commission for Racial Equality Cymru, the Disability Rights Commission, the Equal Opportunities Commission (superseded by the Commission for Equality and Human Rights in October 2007), the Equality Challenge Unit and the HE sector in Wales. We also involve and consult with staff and other interested stakeholders in the development of the schemes and subsequent action plans.

The plans include actions addressing both HEFCW as an employer and policies related to the HE sector in Wales.

For the purposes of monitoring the effectiveness of the application process and related employment policies, and so we can find out whether all applicants and staff are treated equally, we have been and will be monitoring gender, age, disability, marital status, racial or ethnic origin, sexual orientation, religion or belief of our staff and applicants. However, as a small organisation, we were not able to publish our 2005-06 data without identifying individuals.

Our website includes equality monitoring data on the HE sector in Wales and on HEFCW as an employer. At the time of printing, we had not yet finalised staff figures for 2006-07.

Council committees and working groups

Quality Assessment Committee / Learning and Teaching Committee

Chair: Professor Philip Gummatt

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 Gummatt

Welsh Medium Provision in Higher Education Steering Group

Chair: Mr Andrew Green

Widening Access Committee

Chair: Professor Philip Gummatt

Strategic Development Fund Assessment Panel

Chair: Professor Sir Roger Williams

Research Sounding Group

Chair: Professor Sir Brian Smith

Members of the Council during 2006-07

Professor Sir Roger Williams, Chairman

Former Vice-Chancellor, University of Reading

First appointed to Council in 1995

Appointed Chairman in 2002

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. After a period with the National Coal Board in Operational Research, he was on the staff of the University of Manchester from 1966 to 1993 with periods of secondment in the US, Canada and Australia. He was Vice-Chancellor of the University of Reading from 1993 to 2002.

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.

Sir Roger joined the Council in 1995 and was appointed Chairman on 1 March 2002 for a period of 3 years, to 28 February 2005 and reappointed to February 2008. He was awarded a knighthood in the 2006 Queen's Birthday Honours list in recognition of his services to Higher Education.

Professor Philip Gummett, Chief Executive

Interim Chief Executive from December 2003

Chief Executive from May 2004

Professor Gummett is Chief Executive of HEFCW. He 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.

Professor Gummett was 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

Recently retired senior lecturer at the University of Wales Institute, Cardiff

First appointed in 2002

Re-appointed for a three-year term in 2005

Dr Len Arthur has 35 years experience in further and higher education in England and Wales, and was 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 Wendy Heppell

Formerly Director – Publicly Funded Services, at Business West

Appointed for a three-year term in 2003

Left August 2006

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, she spent eleven years working in the chemical industry.

Mrs Heppell was a member of the University College, Oxford Bursary Committee since its inception in 1999 and was a Trustee for the College's Old Members' Trust.

Professor Mari Lloyd-Williams

*Professor and Director of Academic Palliative and Supportive Care Studies Group, University of Liverpool
Appointed for a three-year term in January 2007*

Professor Lloyd-Williams has held a personal chair at the University of Liverpool Faculty of Medicine since 2003, where she is also a consultant in palliative medicine and Director of one of the largest community medical education programmes in the UK. She was lately Honorary Senior Lecturer and Medical Lead of the LOROS Hospice, Leicester. She has an international profile for her research on psychosocial aspects of cancer for patients and families, and also palliative care for non cancer patients, and is principal investigator for several major grants.

Professor Lloyd-Williams has wide experience on regional and national committees, including the professional conduct committee of the GMC Department of Health committee on psychosocial care. A fluent Welsh speaker, she is a trustee of St Kentigern Hospice and the congregational chapel, and is a magistrate.

Mr Tim Rees

*Chartered Accountant
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

*Former Director of the Centre for Automotive Industry Research, Cardiff University
First appointed 2003
Re-appointed for a three-year term in 2006*

Professor Emeritus Garel Rhys was Director of the Centre for Automotive Industry Research at Cardiff University's Business School and held the Society of Motor Manufacturers and Traders chair in Motor Industry Economics. He headed the Business School's Economics Section until 1999.

Professor Rhys is chairman of the Welsh Automotive Forum. He has also advised various Select Committees. He is currently chair of the Welsh Assembly's Economic Research Advisory Panel and a member of the Ministerial Advisory Group to DE&T. He is also a member of the Motor Racing Industry Advisory Panel. He is Professor Emeritus at Cardiff University.

Mr Kenneth Richards

*Honorary Research Fellow at the Cardiff School of Social Sciences
Appointed for a three-year term in January 2007*

Mr Ken Richards was educated at University College, Cardiff and the Economics Department of the Massachusetts Institute of Technology. He spent most of his career as an academic at Aberystwyth University, where he was latterly Senior Lecturer in Taxation and Finance in the School of Management and Business.

Mr Richards was a member of both independent reviews into student finance in Wales, chaired by Professor Teresa Rees, and has published a number of academic papers on this topic. He is Treasurer of the University of Wales Guild of Graduates, a member of the Investments Committee of Aberystwyth University, and sits on the Executive Committee of the Pantyfedwen Trust.

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. Sir Brian is International Ambassador for Cardiff University.

Mrs Tina Stephens

*Former 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

*Head of Continuing Education Department, Oxford University and President of Kellogg College
First appointed in 2003
Re-appointed for a three-year term in 2006*

Dr Geoffrey Thomas is a native Welshman and a graduate of the Swansea University. His postgraduate degree was obtained at Cambridge University. He has spent periods as a visiting scholar at the Smithsonian Institution in Washington, DC, at Harvard University, the University of California at Berkeley, and the University of Washington. He has also been a Council Member of the British Association, and 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 Nigel Stott CBE

*Emeritus Professor of General Practice in Wales
First appointed for a three-year term in 2006*

Professor Nigel Stott is currently Emeritus Professor of General Practice in Wales (based at Cardiff University) and he was awarded the CBE for Services to Medicine in 2001. He was awarded an Honorary Fellowship of Cardiff University in July 2007 and is a fellow of the Royal College of Physicians Edinburgh, the Royal College of General Practitioners and the Academy of Medical Sciences. He has been a member of the Joint Medical Committee of the higher education funding councils, Standing Committee for Post-Graduate Education in Wales, Council of RCGP Wales and the Research Strategy Committee for UWCM. He has also served as a non-executive member of the UHW Trust Board and was appointed by the National Assembly to chair the reference group that advanced a Primary Care Strategy for Wales in 2001.

Performance against Remit Letter tasks 2006-07

Strategic Aim	Action	Outcome
Reaching Wider	Undertake a full evaluation of the Reaching Wider initiative and review our widening access policy, and report to the Assembly by January 2007.	✓ Achieved, including an initial report to the Welsh Assembly by the end of January 2007.
Deal for Students	Complete work to provide preliminary advice on subjects of broader importance in a Welsh context, including on what action, if any, should be taken to safeguard or promote the teaching of those subjects, and report to the Assembly by October 2006 [this task also included below under strategic aim 'Making it Work: The Higher Education Sector in Wales']	✓ Achieved. Advice letter sent to Minister in July 2006.
Deal for Students	In light of the Options Appraisal of models for future sustainable Welsh-medium provision and of the study of the costs of Welsh medium provision, provide advice to the Assembly on the way forward, including a clear identification of priorities, by December 2006.	✓ Following discussions with the Assembly it was agreed that advice would be submitted in two stages. The first stage was submitted in January 2007.
Deal for Students	Working with the HE Academy and others, and through the Council's Learning and Teaching Committee, to draw up an outline programme of action by December 2006 which highlights areas where concerted activity at a national level could enrich the learning experience within individual institutions.	✓ Achieved. Programme of action prepared by HE Academy and submitted to the Minister by the December deadline.
Deal for Students	Contribute to the formulation of an Assembly Government response to the recommendations arising from Graham Review of part-time students, once these have been published.	✓ Achieved. Evidence submitted to ELL Committee in June 2006. [This issue also referenced in 2007-08 Remit Letter.]

Strategic Aim	Action	Outcome
Deal for Students	Provide advice to the Assembly on promoting greater student mobility in the context of proposals for future funding of Erasmus students by the first quarter of 2006-07.	✓ Advice and costings put to the Assembly on 17 February 2006.
Research Excellence	Begin a review of research policy in preparation for revision of our research funding method	✓ Achieved. Consultation document issued as Circular W07/04HE in February 2007 and responses received in April. Review to be completed in 2007-08.
Benefiting Economy and Society	Work with Sector Skills Councils and other key stakeholders to develop an evidence base concerning the contribution which foundation degrees might make towards fulfilling higher level skills needs in Wales, including research into the market for foundation degrees from both students and employers. This work to inform advice to the Assembly on strengthening the sector's role in support of the skills agenda to be provided by December 2006.	✓ Achieved. Initial advice on strengthening the sector's role in support of the skills agenda submitted to the Assembly in January 2007. Assembly agreed a revised submission date for Foundation Degrees advice of March 2007.
Benefiting Economy and Society	Implement advice provided to the Assembly in Autumn 2005 (including Minister's response) on steps to strengthen still further the economic development role of the HE sector including a key role in delivering the Assembly's new Science Policy.	Being taken forward via 3M Committee, which has been reconstituted in light of Assembly merger process. Awaiting clarification on how Science Policy is to be implemented.
Initial Teacher Training	Work with the sector to produce a plan for the reconfiguration of ITT provision, incorporating expected reductions in ITT numbers, for submission to the Assembly in November 2006.	✓ Achieved. Recommendations submitted to the Minister 30 November 2006.

Strategic Aim	Action	Outcome
Making it Work: HE sector	Complete discussions with the HE sector on managing the finance implications of the demand-led nature of student finance from academic year 2006/07 and, should it not prove possible to agree a satisfactory control mechanism, develop arrangements to recover the wider cost of overshooting agreed student recruitment targets. Provide advice to the Assembly on these matters by April 2006.	✓ Discussions completed early summer 2006 and final Assembly position reported to the sector
Making it Work: HE sector	Refine the analysis undertaken during 2005-06 on comparative funding levels for HE between Wales and other parts of the UK, and submit an updated report to the Assembly by September 2006.	✓ Analysis published on HEFCW's website.
Making it Work: HE sector	In light of feedback from the Assembly on proposals put forward in 2005-06, work with the Assembly and the HE sector further to refine the strategic use of Reaching Higher and core funding, and report to the Assembly by October 2006.	✓ Advice submitted to Minister in Summer 2006. [This issue also referenced in 2007-08 Remit Letter.]
Making it Work: HE sector	Complete the process of agreeing plans for the 2006/07 Supplementary Income Stream (SIS), and also of agreeing fee plans for the period 2007/08 to 2011/12, and report their final content to the Assembly Government by October 2006.	Not all SIS Plans or Fee Plans had been received or agreed by October 2006. However, all SIS plans were agreed in 2006-07, while a number of institutions were not able to send us their Fee Plans until they had submitted acceptable SIS Plans.

Strategic Aim	Action	Outcome
Making it Work: HE sector	Review progress being made by the sector towards the Reaching Higher targets for 2010 and make recommendations for additional action that should now be taken for any areas where progress is less than those targets required. Report to the Assembly on these matters by February 2007.	Taken forward for completion in 2007-08.
Making it Work: HE sector	Continue with work to generate the evidence base to enable the Assembly to respond to the demands arising from the implementation of the new pay framework for the sector [due for completion summer 2007], including continued participation in the cross-cutting work being undertaken by the Assembly on equal pay issues.	In hand. Initial evidence provided to WAG. Further evidence to be presented in summer 2007.
Making it Work: HEFCW	In light of the detailed standards, associated guidance and good practice advice to be issued by the Assembly in the autumn of 2006, we will review our services against the core standards for 'customer service' and 'public engagement' set out in Delivering the Connections.	No advice or guidance received.
Making it Work: HEFCW	In light of forthcoming guidance from the Assembly on arrangements for formal reporting of value for money gains, further refine the targets and key actions included in our Value for Money Action Plan under Making the Connections, reflecting as far as possible the targets for the sector already agreed under Reaching Higher.	✓ Institutions reported their value for money procurement savings for 2005-06 in March 2007, to enable HEFCW to report progress to the Assembly by April 2007. Other aspects of vfm targets will also be reported.

Progress towards Reaching Higher targets 2000/01 to 2005/06 (as at June 2007)

Progress towards Reaching Higher Targets 2000/01 to 2005/06 – as at June 2007

In all the following targets except the overhead costs and spinout targets, data shown up to 2005/06 are actual data taken from HESA records for UK HEIs and the Lifelong Learning Wales Record (LLWR) (or equivalent) for UK FEIs. For the overhead costs target, data up to 2004/05 are actual data from HESA statistics. For the spinout target, data up to 2005/06 are actual data taken from the HEBCI survey. In May 2007, the Welsh medium target was amended by The Welsh Assembly Government and now applies to Welsh domiciled students only. The Wales as a destination of first choice target also was amended to 70%.

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		2004/05		2005/06	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
Welsh HEIs	2,733	26.848	3,036	27.857	3,408	28.903	3,401	29.577	3,448	29.687	3,325	28.937
UK HEIs and FEIs	3,484	39.056	4,053	42.181	4,364	43.077	4,450	44.300	4,351	42.589	4,244	42.912
Lowest/highest (Welsh HEIs)	2.0% - 15.8%		2.2% - 16.4%		2.6% - 17.4%		4.2% - 16.0%		3.3% - 16.0%		2.8% - 15.6%	

- 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 previously included data for UK FEIs from 2000/01 as an estimate. The figures presented here include actual UK FEIs data for 2000/01 to 2005/06.

Welsh Medium (current target)

Target – the proportion of Welsh domiciled HE students in Welsh HEIs and FEIs undertaking some element of their course through the medium of Welsh to increase from 5.3% in 2000/01 to 7% in 2010/11.

	2000/01		2001/02		2002/03		2003/04		2004/05		2005/06	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
Welsh HEIs	3,473	63.681	3,205	67.792	3,412	71.301	3,523	72.315	3,404	74.118	3,625	73.539
Welsh HEIs and FEIs	3,495	65.800	3,246	69.993	3,412	72.436	3,540	73.415	3,421	75.083	3,647	74.751
Lowest/highest (Welsh HEIs)	0.0% - 38.0%		0.0% - 27.7%		0.0% - 22.3%		0.0% - 33.7%		0.0% - 41.3%		0.3% - 38.6%	

- 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.

Welsh Medium (previous target)

Target - the proportion of HE students in Welsh HEIs and FEIs undertaking some element of their 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		2004/05		2005/06	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
Welsh HEIs	3,786	3.5%	3,523	3.1%	3,819	3.2%	3,877	3.2%	3,735	2.9%	3,921	3.0%
Welsh HEIs and FEIs	3,808	3.4%	3,564	3.1%	3,819	3.2%	3,894	3.1%	3,752	2.9%	3,943	3.0%
Lowest/highest (Welsh HEIs)	0.0% - 18.8%		0.0% - 27.1%		0.0% - 21.7%		0.0% - 31.4%		0.0% - 38.2%		0.3% - 35.3%	

- Students are counted as having some element of their courses 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 provisions 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 (current target)

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 70% in 2010/11.

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

	2000/01		2001/02		2002/03		2003/04		2004/05		2005/06	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
Welsh HEIs	31,772	46.9%	33,729	49.1%	34,917	48.8%	35,816	48.6%	36,028	47.7%	36,053	47.1%
Lowest/highest (Welsh HEIs)	29.5% - 84.7%		30.8% - 85.8%		28.1% - 87.3%		27.9% - 86.6%		27.5% - 85.0%		27.7% - 82.8%	

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		2004/05		2005/06	
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%
Total UK HEIs	31,772	60.1%	33,729	62.0%	34,917	62.6%	35,816	62.6%	36,028	63.0%	36,053	63.1%

- 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		2004/05		2005/06							
	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%	NO.	%						
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%	9,644	129,231	7.5%	10,779	131,842	8.2%
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%	154,169	1,576,133	9.8%	159,199	1,610,800	9.9%
Lowest/highest (Welsh HEIs)	0.5% - 9.5%		0.6% - 10.1%		1.2% - 11.2%		0.2% - 11.6%		1.2% - 11.9%		1.6% - 12.3%							

Year on Year change

	2000/01 - 2001/02		2001/02 - 2002/03		2002/03 - 2003/04		2003/04 - 2004/05		2004/05 - 2005/06	
Total Welsh HEIs	10.4%		23.3%		15.1%		15.6%		11.8%	
Total UK HEIs (excl London and SE)	10.3%		21.1%		14.0%		2.9%		3.3%	
Lowest/highest (Welsh HEIs)	-7.7% - 97.6%		2.8% - 93.8%		-94.2% - 64.1%		-5.2% - 875.0%		-18.8% - 143.6%	

- Overseas is taken to 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		2003/04		2004/05	
Welsh HEIs Median (£)	2,476		2,642		2,855		3,157		3,264	
Percentage of UK (excl. London and SE) HEIs with administration cost	45%		44%		46%		51%		46%	
UK (excl. London and SE) HEIs Median (£)	2,659		2,802		2,888		3,140		3,358	
Lowest/highest (Welsh HEIs) (£):	1,483 - 5,419		1,603 - 5,801		1,760 - 6,663		1,635 - 7,354		1,876 - 5,665	

- 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 (with the exception of some Welsh for Adults students for whom FTE data are not available for 2000/01 to 2004/05).
- 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 for 2000/01 to 2003/04.

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	2004/05	2005/06
Welsh HEIs Total	22,915,000	27,077,000	27,856,000	28,657,000	28,660,000	34,465,000
Total UK	695,065,000	805,172,000	819,804,000	832,981,000	926,145,000	1,073,233,000
Wales as % of UK	3.3%	3.4%	3.4%	3.4%	3.1%	3.2%

- Data relating to the Centre for Advanced Welsh and Celtic Studies have not been included in these figures.

Target (b) – The research income from sources other than the Research Councils to rise by 60% on £55.6 million by 2007/08 and 100% by 2010/11.

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Welsh HEIs Total	55,645,000	60,663,000	67,495,000	67,943,000	76,751,000	86,717,000
Increase as % of baseline		9.0%	21.3%	22.1%	37.9%	55.8%

- Data relating to the Centre for Advanced Welsh and Celtic Studies have not been included in these figures.

Spinout

Target – The number of profitable spin out companies produced from HEIs in Wales to double from 21 to 42.

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
Welsh HEIs Total	25	31	14*	17	15	26
Lowest/highest (Welsh HEIs)	0/7	0/7	0/4	0/5	0/5	0/6

- Data shows actual and predicted new spinout companies to be formed each academic year. *Officers believe that the drop in 2002/03 might be explained in part by the sector's awareness of the impending 2003 Financial Act, which disincentivised academic engagement with spinout activity (HMT has been made aware and is considering the situation).

Higher Education Funding Council for Wales

Annual Report and Accounts year ended 31 March 2007

ANNUAL REPORT

INTRODUCTION AND BACKGROUND

STATUTORY BACKGROUND

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

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

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

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

THE RESPONSIBILITIES OF THE HIGHER EDUCATION FUNDING COUNCIL FOR WALES

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 and the Education Act 1994.

SEPARATION FROM THE NATIONAL COUNCIL FOR EDUCATION AND TRAINING FOR WALES

From 1 April 2001, the HEFCW shared a number of services with The National Council for Education and Training for Wales (NCETW). On 14 July 2004, the First Minister announced the decision to incorporate the work of the NCETW, but not the HEFCW, directly into the Welsh Assembly Government from 1 April 2006. As a result, the comparative figures in these accounts for 2005-06 represent the last year before formal separation from the NCETW.

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 October 2006 and the Council was still found to be meeting the Investors in

People standard. The HEFCW's accreditation is in place until October 2009.

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 disabled people 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.

CREDITOR PAYMENT POLICY

The Council is fully committed to the prompt payment of its suppliers' bills and supports the Confederation of British Industry's Prompt Payment Code. An analysis of the Council's 2006-07 payment performance indicated that 97.8 per cent of invoices (2005-2006: 95.3%) were paid in accordance with agreed contractual conditions, or where no condition existed, within 30 days of the presentation of a valid invoice.

AUDIT

The accounts of the Council are audited by the Auditor General for Wales as required by paragraph 16(1) of Schedule 1 to the Further and Higher Education Act 1992. External audit fees in respect of this and other audit work are shown at Notes 4 and 7 to these accounts.

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

Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Council's auditors are aware of that information.

COUNCIL MEMBERSHIP

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

Chairman

Professor Sir Roger Williams

(also member of 1 & 11 - see below)

Former Vice Chancellor, University of Reading

Members

Professor Philip Gummatt

(also member of 2, 3, 10 & 11 - see below)

Chief Executive, Higher Education Funding Council for Wales

Mrs Wendy Heppell

(resigned 31 August 2006) (also member of 4, 5, 11 & 12 until 31 August 2006 - see below)

Director, Publicly Funded Services, Business West

Dr Geoffrey P Thomas

(also member of 8 - see below)

Head of Continuing Education Department, Oxford University and President of Kellogg College

Mr R P V (Tim) Rees

(also member of 4, 6 & 8 - see below)

Chartered Accountant; former Chair of Governors at the University of Glamorgan

Professor Sir Brian Smith

(also member of 11 & 13 - see below)

Former Vice Chancellor, Cardiff University

Dr Len Arthur

(also member of 5 & 9 - see below)

Lecturer at University of Wales Institute, Cardiff

Professor D Garel Rhys OBE
(also member of 6 & 8 – see below)
*Director of the Centre for Automotive Industry
Research at Cardiff University's Business School*

Mrs Tina Stephens
(also member of 1, 5 & 6 – see below)
*Specialist in management and staff
development; Chief examiner for Chartered
Institute of Personnel and Development*

Professor Nigel Stott CBE
(also member of 4 – see below)
*Emeritus Professor, Wales College of Medicine,
Cardiff University*

Professor Mari Lloyd-Williams
(appointed 1 January 2007)
*Director of Community Studies, University of
Liverpool*

Mr Kenneth Richards
(appointed 1 January 2007)
*Former Senior Lecturer in Taxation and Finance,
University of Wales, Aberystwyth*

Assessor appointed by Welsh Ministers

Dr David Bacon
*Head of Higher Education Division, Department
for Education, Culture and the Welsh Language,
Welsh Assembly Government*

1 Remuneration Committee; 2 Widening Access Committee; 3 Quality Assessment Committee; 4 Audit & Risk Committee; 5 Corporate Governance Working Group; 6 Human Resources Committee; 7 Welsh Medium Strategy Steering Group; 8 Reconfiguration Panel; 9 Third Mission Committee; 10 Learning and Teaching Committee; 11 Strategic Development Fund Assessment Panel; 12 IIT Accreditation Panel; 13 Research Sounding Group.

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

MANAGEMENT COMMENTARY

Mission statement and strategic aims

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 economy of Wales; and to
- ensure high quality, accredited teacher training provision across Wales.

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

Scholarship and Learning

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

Civic Responsibility

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

Lifelong Learning

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

Sustainability

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

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;
- vi) **Making it Work: The Higher Education Sector in Wales:** a strong emphasis on reconfiguration, collaboration and other measures to sustain improved performance of individual institutions and the HE system as a whole; and
- vii) **Making it Work: HEFCW:** being an effective public body by (i) having the capability and infrastructure that enables us to work effectively internally and with all our stakeholders and partners (especially the Welsh Assembly Government and the

HE sector in Wales); and (ii) being an employer of choice.

Remit Letter

In February 2006 the Minister for Education and Lifelong Learning issued the annual remit letter to the Council. This sets out the Welsh Assembly Government's guidance to the Council for the year and the priorities and outputs the Minister expects the Council to deliver and which should be reflected in the Council's Operational Plan.

Operational Plan

Of the 46 actions identified in the Operational Plan for 2006-07, 40 were achieved, four were partially achieved, with the balance of these carried forward to the 2007-08 Operational Plan, and two were carried forward in their entirety.

Some of the key Operational Plan actions were to:

- *Undertake a full evaluation of the Reaching Wider initiative and review our widening access policy, and report to the Assembly by January 2007. A report was submitted in January 2007.*
- *Provide advice to the Welsh Assembly Government on what further steps might need to be taken to support preparation for the next Research Assessment Exercise (RAE) and to strengthen capacity more broadly, by January 2007. Advice submitted on further allocation of Reaching Higher funding in support of the 2008 RAE and £5m subsequently allocated.*
- *Review outcomes of the Council's first three year third mission funding cycle and adjust the funding methodology in readiness for the next three year cycle commencing in*

2007/08. Achieved and resultant revised allocations will be shared with the sector in 2007/08.

- *Work with the sector to produce a plan for the reconfiguration of Initial Teacher Training (ITT) provision, incorporating expected reductions in ITT numbers, for submission to the Assembly in November 2006.* This was achieved, and recommendations were submitted on 30 November 2006.
- *Refine the analysis undertaken during 2005-06 on comparative funding levels for HE between Wales and other parts of the UK, and submit an updated report to the Assembly in September 2006.* This was achieved.

These actions were in addition to the Council's successful achievement of its regular activities which included issuing the recurrent grant allocations, making prompt payments to institutions and analysing and providing feedback on institutions' strategic plans.

Financial review

This year's accounts reflect a change in the way in which revenue grants and grant in aid plus general capital grants are accounted for, in accordance with the Government Financial Reporting Manual for 2006-07. Such payments from a controlling party (the Welsh Assembly Government) are required to be regarded as funding and credited to the general fund in the balance sheet rather than as operating income for the year, or as a movement on the government grant reserve. The detailed impact on the 2005-06 comparative figures as prior year adjustments is shown in notes 2 and 15.

As a result, the net operating costs for the year were £429.2 million (2005-06 net operating costs £388 million). The cumulative general

fund at 31 March 2007 after crediting grant in aid funding of £433.5 million, was £11.8 million (2005-06 £7.2 million). The Council's expenditure is planned on the basis of the funds available to it through annual receipts of grant in aid and other income and general fund balances. The financial statements will always record a net operating costs result for the year as a result of the crediting of funding received to the general fund in the balance sheet. The Council's activities are also planned to ensure that its cash carry forward remains within the two per cent of total grant in aid for the year allowed by the Welsh Assembly Government. Expenditure on fixed assets amounted to £43,000 in the year.

REMUNERATION REPORT

Remuneration policy

The remuneration of the Chairman, the Council Members and the Chief Executive is set by the Welsh Assembly Government.

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

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

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

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

Remuneration Committee

The HEFCW has a Remuneration Committee

which is responsible for reviewing annually the performance of the Chief Executive and the director. The committee, consisting at any time of at least two members, both of whom are Council Members, has delegated authority to consider matters affecting the pay and performance bonus of the Chief Executive and make recommendations for approval to the Welsh Assembly Government accordingly.

Salary and pension disclosures*

Position	Name	Salary £	Real Increase in Pension & Lump Sum £'000	Pension at 31/03/07 & Lump Sum £'000	CETV at 01/04/06 (Restated) £'000	CETV at 31/03/07 £'000	Real increase in CETV as funded by employer £'000
Chairman	Professor Sir Roger Williams	£15,168 (2005-06 14,760)	N/A	N/A	N/A	N/A	N/A
Chief Executive	Professor Philip Gummett	£107,053 (2005-06 97,375)	0 - 2.5 pension plus 2.5 - 5 lump sum	5 - 10 pension plus 20 - 25 lump sum	163	199	29
Director of Finance and Corporate Services	Richard Hirst	£81,787 (2005-06 76,064)	0 - 2.5 pension	35 - 40 pension	622	674	30

Richard Hirst is a member of the Premium defined benefit scheme, part of the Principal Civil Service Pension Scheme. The scheme benefits do not include the payment of an automatic lump sum on retirement (see 'pensions' below).

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 £4,752 per annum.

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

* This information is subject to audit

Pensions

Pension benefits are provided through the Civil Service Pension ("CSP") arrangements. From 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 in 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 from a selection of approved products. The employee does not have to contribute but where they do make contributions, the employer will match these up

to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach 60 or immediately on ceasing to be an active member of the scheme if they are already 60. 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 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 Cabinet Office's Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing

additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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.



Professor Philip Gummatt
Chief Executive and Accounting Officer
11 July 2007

Statement of Council's and Chief Executive's responsibilities

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

In preparing the financial statements the Council is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the accounts direction issued by Welsh Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Council will continue in operation.

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

Statement on Internal Control

Scope of responsibility

1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of 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 AGSB 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, the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the HEFCW for the year ended 31 March 2007 and up to the date of approval of the accounts and accords with Treasury Guidance.

Capacity to handle risk

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

- a) the corporate risk register is reviewed at each meeting of the Audit and Risk Committee and quarterly by the Council;
- b) the Management Board, which comprises all the senior managers in the organisation, reviews and updates the corporate risk register on a quarterly basis before it goes to the Audit Committee and Council;
- c) individual members of the Management Board are responsible for managing the key corporate risks arising from their areas of responsibility and for assessing and managing the operational risks arising in their areas; and
- d) all senior managers have been briefed on the Council's *Risk Management Policy and Guidelines* and are aware of their responsibilities for risk management both individually and as heads of 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;
- 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.

Review of effectiveness

5 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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Council and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

6 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.

7 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. In addition, the Council's own processes identified an instance where a contract value had been exceeded and Welsh Assembly Government approval should have been obtained. The Welsh Assembly Government has subsequently given retrospective approval. Procedures have been reviewed and strengthened to prevent similar instances occurring.



Professor Philip Gummatt
Chief Executive and
Accounting Officer

11 July 2007

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

I certify that I have audited the financial statements of the Higher Education Funding Council for Wales for the year ended 31 March 2007 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Operating Cost Statement, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Council, the Chief Executive and the Auditor General for Wales

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' Directions issued thereunder. I report to you whether, in my opinion, certain

information given in the Annual Report, which comprises Introduction and Background, Management Commentary and the unaudited part of the Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Higher Education Funding Council for Wales has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed. I review whether the Statement on Internal Control on pages 50 and 51 reflects the Higher Education Funding Council for Wales' compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of the Higher Education Funding Council for Wales' corporate governance procedures or its risk and control procedures.

I also read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis,

of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Council and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Higher Education Funding Council for Wales' circumstances, consistently applied and adequately disclosed.

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

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by Welsh Ministers, of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2007 and of its net operating costs and cash

flows for the year then ended;

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

Audit Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
23 July 2007

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

Operating Cost Statement

for the Year Ended 31 March 2007

	Note	2007		2006 restated	
		£'000	£'000	£'000	£'000
EXPENDITURE					
<i>Funding of higher education:</i>					
Recurrent expenditure	4	403,703		358,310	
Capital expenditure	4	11,564		15,026	
Other purposes	6	30,440		32,301	
		445,707		405,637	
<i>Council expenditure:</i>					
Administration costs	7	795		841	
Staff costs	8	2,006		1,847	
Depreciation	11	113		109	
Amortisation	12	9		10	
Notional charges - cost of capital	9	331		267	
		3,254		3,074	
TOTAL EXPENDITURE			448,961		408,711
INCOME FROM ACTIVITIES	3		19,752		20,682
Net operating costs before interest and appropriations			(429,209)		(388,029)
Interest receivable	10		356		299
Appropriations	10		(356)		(299)
Net operating costs for the year transferred to the general fund			(429,209)		(388,029)
Movement on general fund					
Balance brought forward			7,150		8,134
Net operating costs for year			(429,209)		(388,029)
WAG grant in aid			433,496		386,778
Notional cost of capital adjustment			331		267
Balance carried forward			11,768		7,150

All activities are continuing.

There are no recognised gains and losses in either 2006-07 or in 2005-06.

The notes on pages 57 to 67 form part of these accounts.

Balance Sheet as at 31 March 2007

	Note	2007		2006 restated	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets	11		117		187
Intangible fixed assets	12		10		19
			<u>127</u>		<u>206</u>
CURRENT ASSETS					
Debtors	13	6,036		2,100	
Cash at bank and in hand	22	6,230		6,616	
		<u>12,266</u>		<u>8,716</u>	
CREDITORS					
Amounts falling due within one year	14	(625)		(1,772)	
Net current assets			11,641		6,944
NET ASSETS			<u>11,768</u>		<u>7,150</u>
FINANCED BY :					
CAPITAL AND RESERVES					
General fund	15		11,768		7,150
TOTAL GOVERNMENT FUNDS	15		<u>11,768</u>		<u>7,150</u>

The notes on pages 57 to 67 form part of these accounts.

Signed on behalf of the Council



Professor Philip Gummatt
 Chief Executive and Accounting Officer
 11 July 2007

Cashflow Statement for the Year Ended 31 March 2007

	Notes	2007 £'000	2006 restated £'000
Operating activities			
Net cash outflow from operating activities	21	(434,170)	(383,834)
Returns on investments and servicing of finance			
Interest received		346	306
Interest surrendered to the Welsh Assembly Government		(346)	(306)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(43)	(226)
Payments to acquire intangible fixed assets		-	(29)
Net cash outflow before financing		(434,213)	(384,089)
Financing			
Welsh Assembly Government Funding		433,496	386,778
Welsh Assembly Government notional cost of capital adjustment		331	267
(Decrease)/increase in cash	22	(386)	2,956
The notes on pages 57 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 Welsh Ministers, with the consent of the Treasury, in exercise of the powers conferred by paragraph 16(2), schedule 1 to the Further and Higher Education Act 1992.

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

(b) Grants for European Union (EU) projects

Income:

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

Expenditure:

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

(c) Funding

Grant in aid is received from the Welsh

Assembly Government to fund its general revenue and capital activities. This amount of grant in aid is regarded as financing and is credited to the general fund on receipt.

(d) Grants payable

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

Until 31 March 2006, 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 were allocated directly to the financial statements of the relevant Council. However, there were joint costs that could not reasonably be allocated directly to the two Councils and, following an annual internal review, these costs were apportioned on the basis of activity undertaken for each Council. On 1 April 2006, the National Council merged into the Welsh Assembly Government.

(f) Notional charges

Cost of Capital:

As directed by Welsh Ministers, a notional

capital charge reflecting the cost of capital employed, is included in operating costs and calculated at 3.5% (2005-06 - 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 shown below. A full year's depreciation is charged in the year of acquisition.

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

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

(i) Intangible fixed assets

Software licences costing more than £500 are capitalised.

Amortisation is provided on all intangible fixed assets at rates calculated to write off

the cost of each asset on a straight line basis over its expected useful life as shown below. A full year's amortisation is charged in the year of acquisition.

Software licences	3 years
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(j) Value Added Tax

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

(k) Operating Leases

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

2. Change of accounting policy

The Government Financial Reporting Manual for 2006-07 has introduced a change from 2006-07, in the way that revenue grants and grant in aid plus general capital grants should be accounted for. Under these changes such payments from a controlling party are required to be regarded as funding and credited to the general fund rather than as operating income for the year, or as a movement on the government grant reserve. This change will also impact on the presentation of this funding in the cash flow statement. For these purposes, the Welsh Assembly Government is regarded as a controlling party.

Prior year adjustments have therefore been made to the 2005-06 comparative figures as follows (see also note 15):

- Crediting grant in aid of £386,778,000 and the related notional cost of capital adjustment of £241,000 to the general fund rather than to the operating cost statement (with corresponding changes to the cash flow statement);
- Transferring £70,000 from the opening balance of the government grant reserve to the opening balance of the general fund in 2005-06.

These changes do not affect the overall level of taxpayers' equity as represented by capital and reserves.

In addition, in order to better reflect the reclassification of this funding as financing, the net operating results are no longer required to be included in a statement of total recognised gains and losses. As a result no statement of recognised gains and losses is necessary this year.

3. Income from activities

Welsh Assembly Government – Financial contingency and mature students' access bursary funds (a)
 European Union – European Social Fund
 Office of Science & Technology – Science Research Infrastructure Fund

	2007 £'000	2006 £'000
	5,278	5,109
	1,992	1,894
	12,482	13,679
	19,752	20,682

(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

	Recurrent £'000	2007 Capital £'000	Total £'000	2006 Total restated £'000
Higher Education Institutions				
University of Wales, Aberystwyth	37,551	980	38,531	34,901
University of Wales, Bangor	37,174	944	38,118	34,417
Cardiff University	114,283	2,845	117,128	111,308
University of Wales Swansea	43,210	1,102	44,312	40,464
University of Wales, Lampeter	7,100	225	7,325	6,818
North East Wales Institute	16,830	545	17,375	15,529
University of Wales, Newport	20,928	682	21,610	19,987
University of Wales Institute, Cardiff	29,960	947	30,907	27,491
Swansea Institute of Higher Education	17,234	539	17,773	16,326
Trinity College Carmarthen	6,828	243	7,071	6,161
University of Glamorgan (see (a) below)	51,949	1,642	53,591	44,646
Royal Welsh College of Music and Drama (see (a) below)	4,856	140	4,996	5,593
University of Wales Registry	1,420	-	1,420	1,286
Open University (see (b) below)	7,258	430	7,688	4,182
Sub-total	396,581	11,264	407,845	369,109
Further Education Institutions				
Bridgend College	67	-	67	24
Coleg Sir Gâr	1,170	-	1,170	1,014
Coleg Llandrillo	1,332	-	1,332	1,076
Coleg Menai	53	-	53	22
Neath Port Talbot College	115	-	115	110
Coleg Morgannwg	412	-	412	423
Swansea College	37	-	37	67
Sub-total	3,186	-	3,186	2,736
Other Organisations				
Arad Consulting Ltd	40	-	40	-
Economic and Social Research Council	1,000	-	1,000	-
EKOS Consulting	24	-	24	-
Equality Challenge Unit	30	-	30	-
Evidence Ltd	21	-	21	-
Centre for Higher Education Research & Information	-	-	-	37
Department of Employment and Learning Northern Ireland	-	-	-	21
Higher Education Funding Council for England (HEFCE)	2,937	300	3,237	2,641
HERO Ltd	28	-	28	25
The Higher Education Academy	885	-	885	596
Institute of Employment Studies	49	-	49	29
Integrated Web Systems Ltd	20	-	20	-
London Economics	27	-	27	-
NCETW	-	-	-	24
OPM	-	-	-	104
PMMS Limited	-	-	-	184
Quality Assurance Agency	77	-	77	68
SQW Ltd	21	-	21	-
UKERNA	146	-	146	36
Universities UK	56	-	56	81
Wales Audit Office – audit fees, EU-funded projects	14	-	14	26
York Consulting Ltd	27	-	27	-
Other	451	-	451	374
Sub-total	5,853	300	6,153	4,246
Total	405,620	11,564	417,184	376,091
Less ESF funded expenditure (see note 6)	(1,917)	-	(1,917)	(2,755)
Total	403,703	11,564	415,267	373,336

(a) On 1 January 2007 the Royal Welsh College for Music and Drama (RWCMD) became a wholly owned subsidiary of the University of Glamorgan. As a result, funding for the RWCMD above is for the period to 31 December 2006 and funding for the University of Glamorgan includes funding for RWCMD from 1 January 2007.

(b) The responsibility for the funding of the Open University in Wales together with the associated funding, was transferred from HEFCE to HEFCW as from August 2005.

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' 2005/06 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 2006 did not lead to any material adjustments. Any adjustment arising from the audit of 2006/2007 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

Financial contingency and mature students access bursary funds (a)
European Social Fund (b)
Science Research Infrastructure Fund

	2007 £'000	2006 £'000
	5,279	5,109
	1,917	2,755
	23,244	24,437
	30,440	32,301

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

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

7. Administration costs

Accommodation costs
Office costs
Bought in services
Auditors' remuneration – Annual audit fee of the HEFCW
Auditors' remuneration – Additional assurance report work
Council members' travel and subsistence costs
Council members' meeting costs
Staff travel and subsistence costs
Staff related expenditure on training etc.
Information technology costs

	2007 £'000	2006 £'000
	347	262
	90	78
	47	208
	16	16
	4	3
	9	13
	22	18
	44	48
	105	102
	111	93
	795	841

Administration costs exclude £22k charged to programme recurrent costs (2006 - £32k).

8. Staff costs

(a) Analysis

Wages and salaries
 Social security costs
 Other pension costs
 Total payroll costs
 Less costs charged to programme
 recurrent costs
 Administration payroll costs

Staff	2007			2006		
	Council Members (inc. Chief Executive)	Total	Staff	Council Members (inc. Chief Executive)	Total	
£'000	£'000	£'000	£'000	£'000	£'000	
1,788	160	1,948	1,626	156	1,782	
140	14	154	113	14	127	
328	25	353	280	24	304	
2,256	199	2,455	2,019	194	2,213	
(449)	-	(449)	(366)	-	(366)	
1,807	199	2,006	1,653	194	1,847	

(b) Pensions

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

For 2006-07, employers' contributions of

£353,045 were payable to the PCSPS (2005-06 £303,613) at one of four rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.2% and 24.6%). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08, the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

(c) Average Number of Staff Employed

The Higher Education Funding Council for Wales employed an average of 57 full time equivalent staff during the financial year ending 31 March 2007, as follows:

Senior Management
 Policy Teams
 Finance & Corporate Services

Staff with a permanent UK employment contract
 Other staff - temporary
 Other staff - seconded

2007 Numbers	2006 Numbers
2	2
30	32
25	23
57	57
54	51
1	3
2	3
57	57

9. Notional charges

Cost of capital - 3.5 % (2006 - 3.5%) of capital employed

2007 £'000	2006 restated £'000
331	267

10. Appropriations

Receipts surrenderable to the Welsh Assembly Government:

Bank interest

2007 £'000	2006 £'000
356	299

11. Tangible fixed assets

Cost

At 1 April 2006

Additions

At 31 March 2007

Depreciation

At 1 April 2006

Charged during year

At 31 March 2007

Net book value at 31 March 2007

Net book value at 1 April 2006

IT Equipment £'000	Fixtures & Fittings £'000	Electrical Equipment £'000	Total £'000
264	31	43	338
36	-	7	43
300	31	50	381
125	12	14	151
91	13	9	113
216	25	23	264
84	6	27	117
139	19	29	187

12. Intangible fixed assets

Cost

At 1 April 2006

Additions

At 31 March 2007

Amortisation

At 1 April 2006

Charged during year

At 31 March 2007

Net book value at 31 March 2007

Net book value at 1 April 2006

Software licences £'000

29

-

29

10

9

19

10

19

13. Debtors

	2007 £'000	2006 restated £'000
Trade debtors	-	9
Prepayments and accrued income	4,801	1,617
Balances with other central government bodies	1,235	474
	6,036	2,100

14. Creditors: Amounts falling due within one year

	2007 £'000	2006 £'000
Trade creditors	107	-
Accruals	518	1,352
Balances with other central government bodies	-	420
	625	1,772

15. Effects of prior year adjustments on general funds

a) General fund

	2006 restated £'000
At 1 April 2005	
As originally stated	8,064
Transfer from government grant reserve (note 15(b))	70
As restated at 1 April 2005	8,134
Net operating costs for year	(388,857)
WAG grant in aid	386,778
WAG notional cost of capital adjustment	241
Prepaid programme recurrent expenditure	854
As restated at 31 March 2006	7,150

b) Government grant reserve

At 1 April 2005	
As originally stated	70
Transfer to general fund (note 15 (a))	(70)
As restated at 1 April 2005	-

The prior year adjustment in respect of the programme recurrent expenditure in the general fund above, relates to the correction of an omission of a prepayment at 31 March 2006. All other prior year adjustments detailed above result from the change in accounting policy referred to in note 2 to these accounts.

16. Lease obligations

	2007 £'000	2006 £'000
Amounts charged to the operating cost statement for operating lease rentals in respect of accommodation	157	108
Annual commitment on leases expiring within:		
One year	68	-
Two to five years	-	154
Over five years	91	-

17. Capital commitments

	2007 £'000	2006 £'000
Contracted	4	-

18. Financial commitments

	2007 £'000	2006 £'000
Revenue grants (a)	157,553	147,885
European projects (b)	23	3,430
	157,576	151,315

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

(b) European projects will be funded as follows:

	2007 £'000	2006 £'000
European Social Fund grants	23	2,584
Grant in aid from the Welsh Assembly Government	-	846
	23	3,430

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

19. Losses and special payments

	2007	2006
Fruitless payments	708	2,425

20. Related party transactions

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

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

Name	Relationship
Dr Len Arthur (Council member)	Senior Lecturer; University of Wales Institute, Cardiff.
Mr RPV (Tim) Rees (Council member)	Son-in Law, European Commission, Framework 7 Consultation. Member & Chairman of Audit Committee, Representative Body of the Church in Wales.
Professor Sir Brian Smith (Council member)	International ambassador, Cardiff University
Mrs Tina Stephens (Council member)	Member of Advisory Board for School of Business & Regional Development at UW Bangor.
Professor D Garell Rhys, OBE (Council member)	Chairman, Economic Research Advisory Panel of the National Assembly for Wales. Emeritus Professor, Cardiff University. Member of Ministerial Advisory Group (DEIN) Honorary Fellow, Swansea Institute of Higher Education.
Professor Nigel Stott, CBE (Council Member)	Daughter in Law, Lecturer at University of Wales, Newport. Emeritus Professor, Wales College of Medicine, Cardiff University.
Mr Kenneth Richards (Council Member)	Treasurer, University of Wales Guild of Graduates Member, University of Wales, Aberystwyth Investments Committee
Professor Mari Lloyd-Williams (Council Member)	Son, student at University of Wales, Bangor
Professor Philip Gummatt (Chief Executive)	Wife, part-time tutor at Swansea Institute of Higher Education.
Mr Richard Hirst (Director of Finance & Corporate Services)	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.

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

	2007 £'000	2006 restated £'000
Net operating costs	(429,209)	(388,029)
Amortisation charges	9	10
Depreciation charges	113	109
(Increase)/decrease in debtors	(3,926)	4,276
Decrease in creditors	(1,157)	(200)
Net cash outflow from operating activities	(434,170)	(383,834)

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

	2007 £'000	2006 £'000
(Decrease)/increase in cash	(386)	2,956
Net funds as at 1 April	6,616	3,660
Net funds as at 31 March	6,230	6,616
Analysis of net funds:		
Cash at bank and in hand	6,230	6,616

23. Derivatives and other financial instruments

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

24. Post balance sheet events

The Accounting Officer authorised these financial statements for issue on 24 July 2007.