

Annual Report

2005-2006



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

Conventions

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

Financial Year (1 April to 31 March) 2005-06

Academic Year (1 August to 31 July) 2005/06

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The Council's Mission

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

Working with partners, we deploy funds from the Assembly and others in order to:

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

We have six 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:

A) The HE sector in Wales - a strong emphasis on reconfiguration, collaboration, and other measures to sustain improved performance of individual institutions and the HE system as a whole

B) HEFCW - being an effective public sector body by:

- having the capability and infrastructure that enables us to work effectively internally and with all our stakeholders and partners (especially the Welsh Assembly Government and the HE sector in Wales)
- being an employer of choice

Chairman's Report

Our financial settlement for 2005–06 enabled us to give all 12 higher education institutions (HEIs) in Wales real term increases on their 2004/05 grants. Each HEI received an average increase in their grant of 4.95%. Resources for teaching for the academic year 2005/06 were increased in real terms by 1% over 2004/05 levels. In addition, we responded to concerns over science provision by supporting growth of 1.6% in full-time and sandwich student places in a range of science subjects.

This year was the third under the Assembly Government's long-term strategy for higher education in Wales, *Reaching Higher*. Under this strategy the Council's baseline grant is tied to inflation year-on-year, but there is additional funding available to HEIs which show commitment to the *Reaching Higher* priorities of reconfiguration and collaboration and widening access. The level of this supplementary funding in 2005/06 was £14.5 million – £12.5 million to support reconfiguration and collaboration and £2 million to support widening access through four Reaching Wider partnerships.

We were pleased to be able to announce this year a commitment of £16 million from our Reconfiguration and Collaboration Fund to support two major research collaborations – nearly £11 million for a Research and Enterprise Partnership between the UW Aberystwyth and the UW Bangor, and over £5 million for the UW Bangor, Cardiff University and the UW Swansea to establish the new multi-centre Wales Institute of Cognitive Neuroscience.

We also established this year a new Strategic Development Fund, at an initial level of £3 million per annum, which we will use to complement our Reconfiguration and Collaboration Fund by providing support, at Council's discretion, to less expensive

collaborations and other (eg UK-wide) strategic initiatives.

Still on the theme of reconfiguration and collaboration, we received this year the report of the work we commissioned from Professor Sir Ron Cooke (former Vice-Chancellor of the University of York) and Professor John Bull (former Vice-Chancellor of the University of Plymouth) on the future of post-92 higher education institutions in South East Wales. Initial responses suggested broad support for the vision outlined, though there are differing opinions as to how that vision might best be achieved. We remain struck by the prospect offered of the benefits of collaboration in SE Wales, and by the risks to the institutions concerned if action of the sort proposed is not taken. In view of this, we will continue to seek to avoid committing funds in ways that might impede the realisation of the vision proposed by the report and will continue to encourage the institutions to meet Assembly Government expectations that they should plan their futures together, recently reaffirmed in the Learning Country 2: Vision Into Action

We made significant contributions to the other *Reaching Higher* priority of widening access by increasing our widening access premium payments. We allocated an additional £8000K from our teaching funding for a Communities First based widening access premium and an allocation in respect of students from non-traditional backgrounds.

There were a number of other key achievements during the year which should be mentioned.

We continued our support for strong research in Welsh higher education by increasing by 1% in real terms the resource for all 5*, 5 and 4 rated research and also for postgraduate research

training. We maintained the substantial level of support (£4.1 million) for research development through our Research Investment Fund. We also allocated an additional £3 million selectively to those higher education institutions considered most likely to benefit to help boost their preparations for the next Research Assessment Exercise (RAE) in 2008. With the Assembly's agreement, £2 million of this funding came from *Reaching Higher* funds, which was a first step by the Council towards adopting a more strategic approach to the use of these funds, as steered by the Assembly in our 2005–06 Remit Letter.

Looking ahead in relation to research, we anticipate in the coming year the outcome of the consultation announced by the Chancellor in his March 2006 Budget Statement on the Government's "preferred option for a metrics-based system for assessing research quality and allocating QR funding". Alongside these developments, we are conducting a review of research policy in preparation for establishing a revised approach to research funding in Wales beyond 2009.

On support for HEIs' Third Mission activities, we were pleased to be able to increase significantly our Third Mission Fund. In 2005/06 the Fund stood at £4.1 million, some 32% above its introductory level in 2004/05. Our intention remains to double the size of this Fund over three years.

The 'Devolution of Student Support and Tuition Fee Regime to Wales' report (Rees Review) was published in May 2005. The Assembly's agreed way forward included new arrangements for a National Bursary Scheme, a Supplementary Income Stream (SIS) for 2006/07, and the introduction of flexible fees from 2007/08. As part of these developments, HEFCW has been given responsibility for approving and monitoring

progress against institutions' SIS and Fee Plans.

Other major developments which took place this year, and which will have implications for 2006–07 and beyond, include the Assembly's response to the major review it commissioned into initial teacher training in Wales (the Furlong Report); the consultation on the Assembly's proposed Science Policy; and the Graham review of part-time provision in Wales.

Our Strategic Dialogue meetings with Higher Education Wales (HEW) and Chairs of Higher Education Wales (CHEW) continue on a twice-yearly basis, and the Council has an on-going programme of formal visits to each higher education institution. These processes are extremely valuable to Council in terms of its engagement on sector-wide issues and with individual institutions.

There were changes in Council membership during the year. We said farewell to Professor Gwyn Thomas and Mrs Eleri Wynne Jones, to both of whom I express my sincere thanks for their contributions to Council over the years. We welcomed new Council member Professor Nigel Stott, Emeritus Professor of General Practice in Wales, based at Cardiff University. And five of our existing members – Dr Len Arthur, Mr Tim Rees, Professor Sir Brian Smith, Mrs Tina Stephens, and Dr Geoffrey Thomas – were re-appointed by the Assembly this year to serve further terms on Council.

Finally, on behalf of the Council, I should like to thank all the HEFCW staff for their continued work and support during the year. Like all members of the Council, I am highly conscious of how much we owe to the dedication and professionalism of this staff. In a lifetime in higher education, I have encountered no better.

Chief Executive's Statement

In addition to progressing the twin priorities of reconfiguration/ collaboration and widening access, there are a number of other specific output targets under the *Reaching Higher* strategy for delivery by 2010/11. The current picture on progress towards those targets is somewhat mixed, with the HE sector well on course to achieve or even exceed some targets, while other areas will require a more concerted effort.

On widening access, in 2004/05 10.2% of all full- and part-time Welsh-domiciled undergraduate new entrants to HE courses at UK higher and further education institutions came from Welsh Community First areas. There remains some way to go to reach the *Reaching Higher* target of 11.4% by 2010/11. However, the annual UK performance indicators continue to demonstrate a strong Welsh sector performance in recruiting students from backgrounds without a tradition of entering higher education.

Steady progress is being made on increasing the proportion of Welsh domiciled full-time students choosing to study at Welsh HEIs. In 2004/05 the figure for the sector had increased to 63%; the 2010/11 target is to raise this to 66%. In relation to the target on overseas students, the Welsh sector has continued to stay ahead of the rest of the UK¹ in terms of year-on-year growth in recruitment of overseas students.

Wales is performing well in terms of the number of profitable spin-out companies produced by HEIs, having already achieved the 2010/11 *Reaching Higher* target of doubling the total number of profitable companies from 21 to 42. In addition, the latest Higher Education Business Interaction Survey, covering data from the academic year 2003/04, shows Welsh HE

continues to punch above its weight in UK terms.

We remain committed to the expansion of Welsh medium teaching. We recognise, though, that the *Reaching Higher* target of 7% of students doing some element of their HE course through the medium of Welsh by 2010/11 is challenging. At 2.9%, the 2004/05 figure leaves the sector much to do. Two key studies were commissioned this year to inform Welsh medium provision policies: an options appraisal of potential models for the future delivery of Welsh-medium provision, and a detailed study into the costs of Welsh-medium provision. We will be taking forward the outcomes of these reviews in 2006/07.

The HE sector's performance against the *Reaching Higher* research targets is mixed. It appears to be on course to make the requisite increase to the proportion of research income gained from sources other than Research Councils. However, more needs to be done to secure Wales' target share of income from the Research Councils themselves.

Another target that will require a more concerted effort is that on reducing the Welsh HE sector's overhead costs relative to the rest of the UK¹. Recent figures show these costs to be rising, in relative terms, rather than falling, although costs in Wales remain lower than the UK average.

Institutions need more than ever to be in excellent financial health. It was pleasing to see an improvement in the financial health of the sector during the year in terms of the size of the operating surplus. However, in most institutions the level of operating surplus remains too low to generate cash for future investment. We will continue to use our

¹ Excluding London and the South East

financial monitoring processes to identify potential or actual difficulties as soon as possible.

I am pleased to report that we achieved the vast majority of actions in our Operational Plan for 2005-06. A small number of activities are on-going and/or have been carried forward to 2006-07. My thanks go to the staff of HEFCW's small Executive for their unstinting commitment and hard work, which have made this possible.

The HE Sector in Wales 2005/06

In 2005/06 there were twelve institutions of higher education (HEIs) in Wales which received funding from the Council.

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

Statistics collected in autumn 2005 showed that there were 116,191 enrolments on higher education courses at institutions receiving funding from the Council. 99,753 of the enrolments were eligible for Council funding.

The size of HE institutions in the sector ranged from 25,894 students at Cardiff University to 613 at the Royal Welsh College of Music and Drama. Cardiff University had the greatest number of full-time students. The University of Glamorgan was the largest provider of part-time undergraduate courses; the University of

Wales, Newport was the largest provider of part-time provision franchised to FEIs.

We also from this year began to provide funding to support the teaching activities of the Open University in Wales, following a transfer of funding arrangements from the Higher Education Funding Council for England (HEFCE) to HEFCW.

Enrolments by Fee Status, Level and Mode 2005/06

		Full-time Enrolments	Sandwich Year Out Enrolments	Part-time Enrolments	Total Enrolments
Home & EC fundable	Undergraduate	49,377	704	32,138	82,219
	Undergraduate non-degree	3,313	34	0	3,347
	Postgraduate taught	4,161	0	7,536	11,697
	Postgraduate research	1,590	0	901	2,491
	Total	58,440	738	40,575	99,753
Home & EC non-fundable	Undergraduate	5,071	0	1,613	6,684
	Undergraduate non-degree	468	0	0	468
	Postgraduate taught	133	0	178	311
	Postgraduate research	72	0	124	196
	Total	5,744	0	1,915	7,659
Overseas (includes Channel Islands and Isle of Man)	Undergraduate	3,167	27	1,065	4,259
	Undergraduate non-degree	233	1	0	224
	Postgraduate taught	2,568	0	855	3,423
	Postgraduate research	709	0	164	873
	Total	6,667	28	2,084	8,779
Total	70,851	766	44,574	116,191	

EYM 05/06 Enrolments By Level and Mode

Undergraduate	Full-time/Sandwich	58,346
Undergraduate non-degree	Full-time/Sandwich	4,039
Undergraduate	Part-time	34,816
Postgraduate taught	Full-time/Sandwich	6,862
	Part-time	8,569
Postgraduate research	Full-time/Sandwich	2,371
	Part-time	1,189

EYM 05/06 Enrolments By Level

Undergraduate	97,200
Postgraduate taught	15,431
Postgraduate research	3,560

EYM 05/06 Enrolments By Mode

Full-time	70,851
Sandwich Year Out	766
PT Other	39,355
PT Franchised Out UG	5,219

Source:

End of Year Monitoring of Higher Education Enrolments (EYM) 2005/06

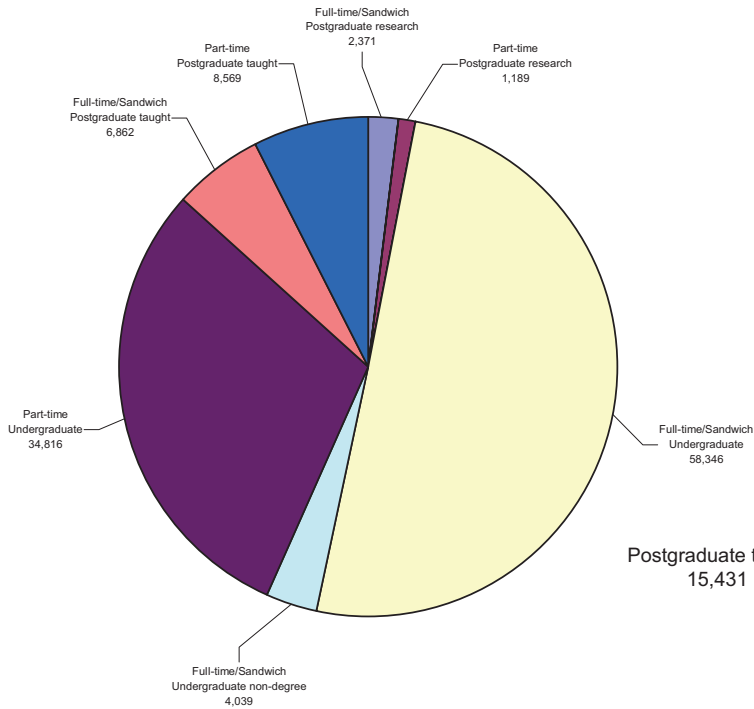
Notes:

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

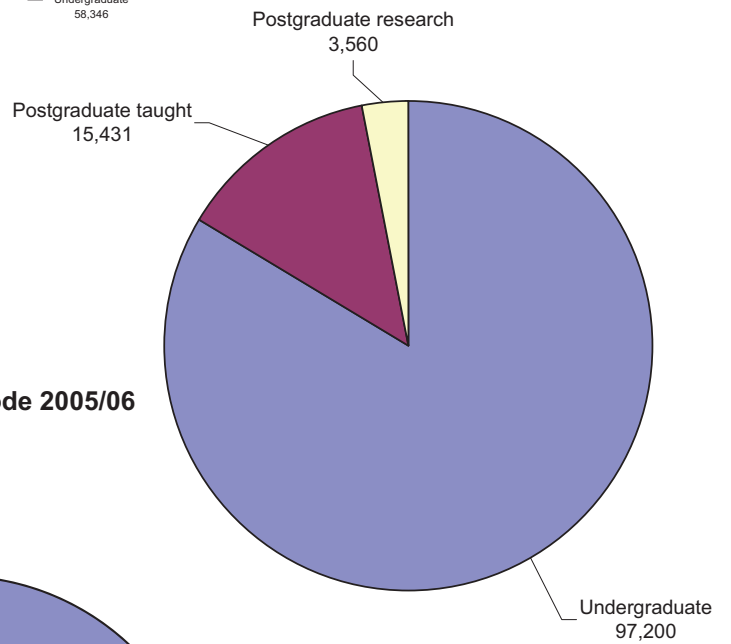
Enrolments by Institution, Level and Mode 2005/06

	Undergraduate degree		Undergraduate non-degree		Undergraduate (UG)		Postgraduate Taught		Postgraduate Research		Total		
	Full-time	Sandwich Year Out	Full-time	Sandwich Year Out	Part-time (excl. FO)	Part-time (FO)	Full-time	Sandwich Year Out	Full-time	Sandwich Year Out			
University of Wales, Newport	2,812	0	165	0	2,274	2,219	228	0	953	29	0	7	8,687
North East Wales Institute of Higher Education	2,227	0	390	0	3,239	1,335	81	0	257	33	0	24	7,585
University of Wales Institute, Cardiff	5,421	65	609	3	1,028	103	938	0	431	77	0	85	8,760
University of Glamorgan	7,972	125	1,363	0	6,647	1,482	990	0	1,849	198	0	230	20,856
Swansea Institute of Higher Education	2,131	9	707	0	1,416	0	430	0	544	12	0	33	5,282
Trinity College Garmarthen	1,171	0	0	0	660	0	113	0	93	0	0	0	2,037
University of Wales, Lampeter	874	0	90	0	1,973	15	149	0	519	88	0	109	3,817
University of Wales, Aberystwyth	5,877	81	97	32	2,096	21	522	0	758	236	0	54	9,774
University of Wales, Bangor	5,211	45	172	0	1,652	44	723	0	542	353	0	117	8,858
Cardiff University	15,214	306	0	0	4,801	0	2,059	0	2,184	957	0	373	25,894
University of Wales Swansea	7,997	100	129	0	2,719	0	590	0	374	388	0	157	12,454
Royal Welsh College of Music and Drama	480	0	28	0	0	0	40	0	65	0	0	0	613
Bridgend College	0	0	26	0	10	0	0	0	0	0	0	0	36
Coleg Sir Gâr	211	0	24	0	85	0	0	0	0	0	0	0	320
Coleg Llandrillo	18	0	103	0	908	0	0	0	0	0	0	0	1,029
Coleg Morgannwg	0	0	78	0	17	0	0	0	0	0	0	0	95
Swansea College	0	0	8	0	5	0	0	0	0	0	0	0	13
Coleg Menai	0	0	0	0	21	0	0	0	0	0	0	0	21
Neath Port Talbot College	0	0	15	0	47	0	0	0	0	0	0	0	62
Total	57,615	731	4,004	35	29,597	5,219	6,862	0	8,569	2,371	0	1,189	116,191

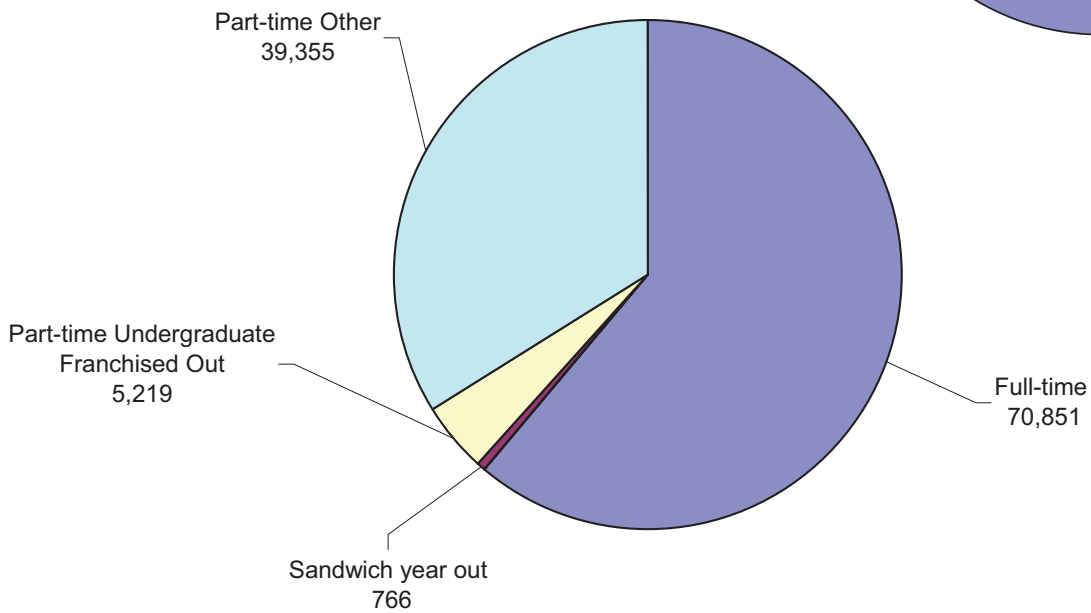
Enrolments by level and mode 2005/06



Enrolments by level 2005/06



Enrolments by mode 2005/06



Funding

In 2005–06, our grant in aid totalled £386.8 million, including recurrent programme funds of £343.7 million, £13.7 million above baseline funding to support *Reaching Higher* objectives, capital funds of £22.4 million, running costs of £2.9 million and Open University programme funds of £4.1 million (of which £0.3 million was used for capital expenditure).

We receive our grant from the Welsh Assembly Government on a financial year (FY) basis (1 April to 31 March) but allocate the majority of our funding on an academic year (AY) basis (1 August to 31 July). The 2005–06 FY settlement enabled us to announce formula grant allocations to the sector for the academic year 2005/06 of £333.3 million for teaching, third mission, research and postgraduate research training. All of the sector's 12 HEIs saw real terms increases on their grants for 2004/05. In cash terms, the average increase for HEIs on 2004/05 grants was 4.95%.

We increased the resource for teaching in real terms by 1% over 2004/05 levels and supported growth of 1.6% in full-time student places in a range of science subjects.

We maintained 'premium', or extra payments, for widening access and disabilities support at the levels of £215 per eligible student for widening access and £200 per eligible student for disabilities support. We also allocated an additional £800k for widening access based on 'students in Community First areas and students with non-traditional qualifications'.

We increased the resource for all 5*, 5 and 4 rated research, and for postgraduate research training, by 1% in real terms. And we maintained the substantial level of support provided through our Research Investment Fund, introduced last year, at £4.1 million, for strategic use by HEIs at their discretion to bring on emerging research, enhance existing areas of research strength, or reshape their research portfolio.

We increased our Third Mission Fund by 32% to £4.1 million, and remain on track to double the Fund over

the three years following its inception in 2004.

Formula driven allocations for 2005/06 totalled £260.5 million for teaching, £63.6 million for research and £5.1 million for postgraduate research training. In addition, we provided from this year funding totalling £7.3 million to the Open University in Wales following the completion of the transfer of funding arrangements from HEFCE to HEFCW.

Above baseline funding for AY 2005/06 under the Welsh Assembly Government's 10-year strategy *Reaching Higher* was £12.6 million – £10.6 million for supporting reconfiguration and collaboration, and £2 million for widening access. At the request of the Minister, we are continuing to examine additional strategic uses of the *Reaching Higher* funding.

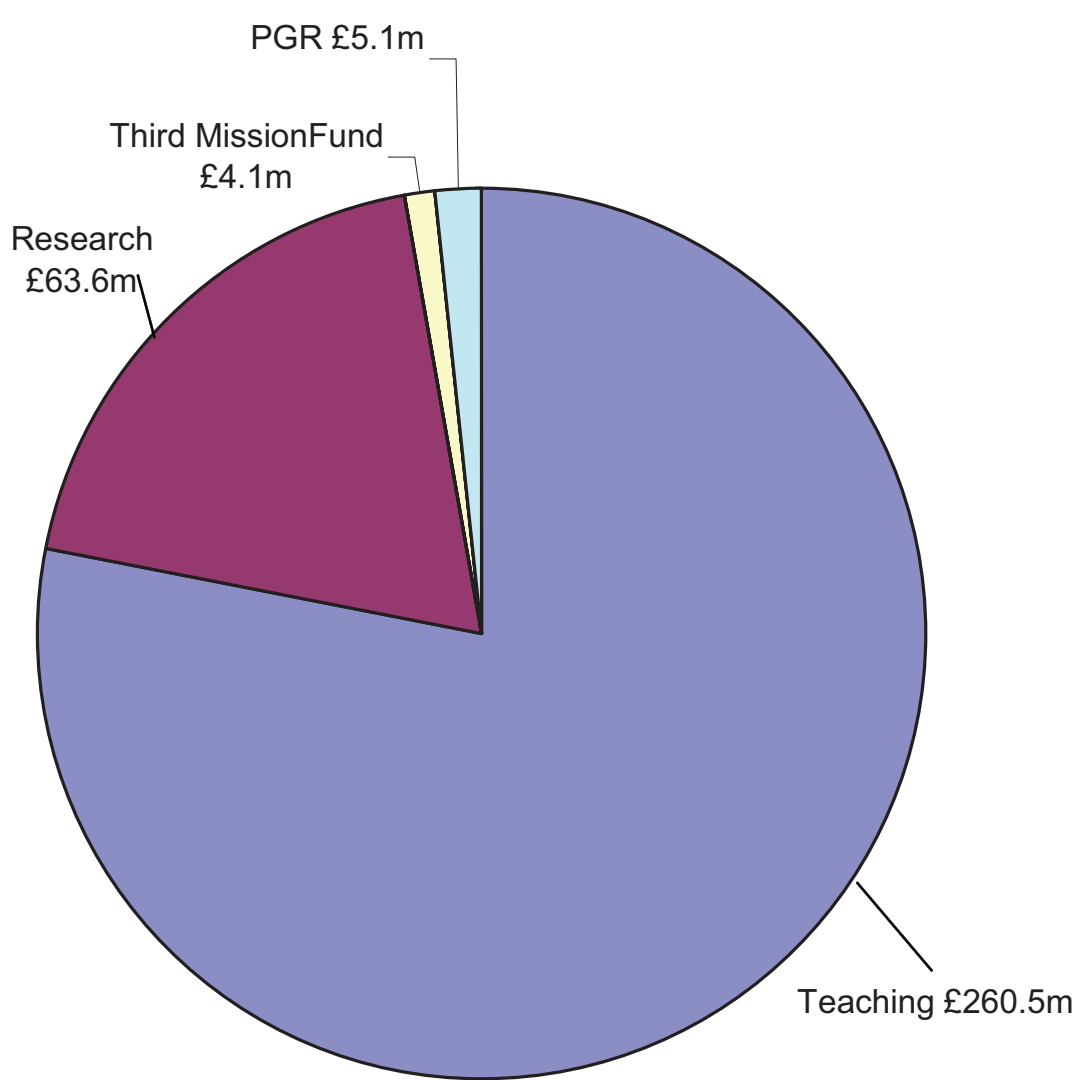
Non-formula funding in AY 2005/06 totalled £8 million for teaching related grants, which included support for specific teaching, programmes to widen access to HE, and a range of student support measures; £3.8 million for research related initiatives; and £1.7 million in support of various graduate employment initiatives. We also contributed £2.2 million in support of the Teachers Pension Scheme.

We contributed £7.3 million in 2005/06 towards a number of joint initiatives with our sister UK funding councils, including the Joint Information Systems Committee (JISC), providing the joint academic network (JANET); and the Higher Education Academy.

Our grant-in-aid includes earmarked capital funding to support infrastructure development both for research, and for learning, teaching and IT. In 2005/06 £21.1 million in capital allocations were made to institutions.

The total of our recurrent (formula and non-formula) and capital grant allocations for AY 2005/06 amounted to £397.4 million.

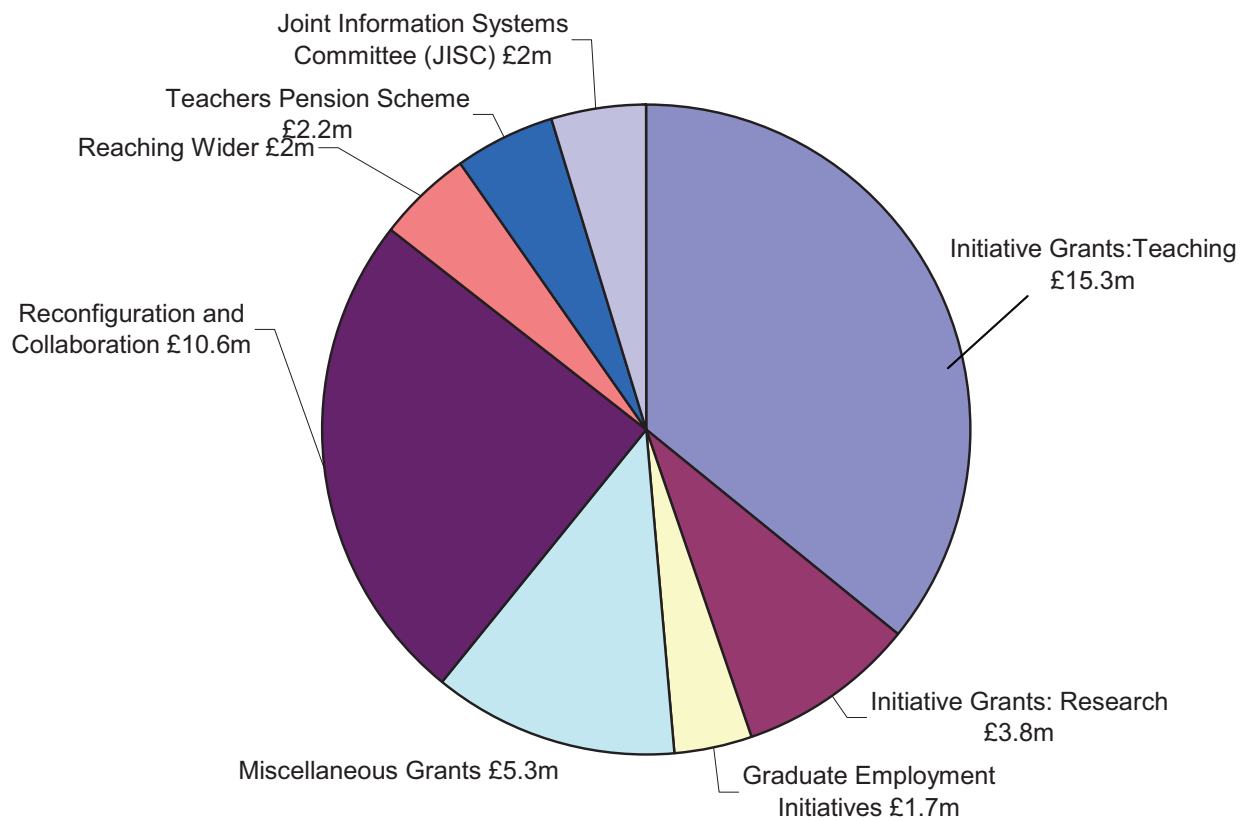
Formula Funding Allocation Totals 2005/06



HEFCW Funding for Academic Year 2005/06

RECURRENT GRANT	Spend to July 2006 (£)
Grant for Teaching	
Main formula grant	250,793,490
Per capita	4,306,722
Widening access premium	3,622,520
Welsh Medium premium	1,230,494
Disabilities premium	561,800
TOTAL	260,515,026
Open University	7,318,000
Teaching Related Grants	
Widening access	1,707,839
Learning and teaching fund	2,075,586
Welsh medium (Fund, Unit and Special Initiatives)	450,220
ITT Special Initiatives	73,296
ITT Strategy	1,079,250
E-University	100,000
ERASMUS fee reimbursement	317,250
PT fee waiver	1,000,000
NW Clinical School	968,800
ITT Partnerships	248,904
TOTAL	8,021,145
Teachers Pension Scheme	2,248,200
Grants for Research	
RAE based grant (QR)	59,427,791
Additional RAE Allocation	3,000,000
Research Investment Fund (RIF)	4,140,959
Initiatives - including Research Board, Overseas Research Students Awards Scheme and University of Wales Board & Press.	827,311
TOTAL	67,396,061
Grant for postgraduate research training	5,121,367
Third Mission Grants	
Third Mission Fund	4,128,070
Graduate Employment Initiatives	1,735,000
TOTAL	5,863,070
Non Mainstream Grants	
including - HE Academy, Joint Information Systems Committee, HE Quality Assurance programmes, funding for disabilities	7,290,571
HE Strategy Funding (allocation on a FY basis translated into AY)	
Reconfiguration and Collaboration (comprises Assembly earmarked funds & funds from Council baseline grant)	10,633,333
Reaching Wider	1,950,000
TOTAL	12,583,333
RECURRENT TOTAL	376,356,773
CAPITAL (allocation on FY basis translated in AY)	
including infrastructure for research and teaching and learning	21,062,667
GRAND TOTAL	397,419,440

Other Allocations 2005/06



Formula Funding Allocations 2005/06

Institution	Total Formula Funding for Teaching	Research (QR) & (RIF)	Third Mission Fund	PGR	Grand Total*
	£	£	£	£	£
University of Glamorgan	39,842,343	1,826,464	274,481	423,611	42,366,899
University of Wales, Aberystwyth	23,407,426	5,926,795	324,586	375,657	30,034,464
University of Wales, Bangor	21,893,031	7,930,524	523,726	518,914	30,866,195
Cardiff University	62,225,212	36,237,974	1,347,328	2,728,292	102,538,806
University of Wales, Lampeter	4,598,803	1,243,937	124,425	86,565	6,053,730
University of Wales Swansea	25,765,396	8,415,642	537,662	888,034	35,606,734
University of Wales Institute, Cardiff	24,008,458	1,151,167	274,115	55,373	25,489,113
University of Wales, Newport	17,389,008	397,227	224,046	29,432	18,039,713
North East Wales Institute	13,956,782	120,202	124,425	8,593	14,210,002
Swansea Institute of Higher Education	13,820,805	81,218	124,425	6,898	14,033,346
Trinity College Carmarthen	5,479,273	0	124,425	0	5,603,698
Royal Welsh College of Music and Drama	5,088,533	0	124,425	0	5,212,958
University of Wales Registry	0	237,597		0	237,597
Coleg Sir Gâr	1,053,552	0		0	1,053,552
Coleg Llandrillo	1,166,291	0		0	1,166,291
Swansea College	75,083	0		0	75,083
Neath Port Talbot College	109,625	0		0	109,625
Bridgend College	64,854	0		0	64,854
Coleg Morgannwg	520,211	0		0	520,211
Coleg Menai	50,342	0		0	50,342
TOTAL	260,515,031	63,568,746	4,128,069	5,121,366	333,333,213

*Figures may not sum exactly to totals due to rounding

Reaching Wider

Reaching Higher – Reaching Wider

Working together, Welsh higher and further education institutions aim to put higher education within the reach of more people in Wales. Our Reaching Wider initiative, involving all HEIs in Wales, has supported four HE/FE partnerships covering North Wales, West and Mid Wales, South West Wales and South East Wales. Reaching Wider activities provide support and skills development for people of all ages and sections of the community who could succeed in college or university, by improving their skills, increasing their confidence or raising their aspirations to apply.

Reaching Wider works towards the Assembly targets for widening access set out in *Reaching Higher* by focusing its work on Communities First groups, people who wish to study in Welsh, people from black and other ethnic minority communities and disabled people.

In 2005/06 we announced funding for a two year period, until August 2008, totalling £2 million a year, from the Welsh Assembly Government, in support of the initiative.

The Assembly Government was keen for us to work with the Reaching Wider partnerships to improve the co-ordination of all widening access activities across Wales. It was particularly eager to establish how the Reaching Wider partnerships influenced other institutional widening access activities, how they integrated with institutions' widening access strategies and how they could be used for collaborative developments.

In 2006, we are undertaking a national evaluation of widening access funded activities and the Reaching Wider initiative to ensure that we maintain progress towards widening access to higher education for those people with the ability to benefit from it. We will report our findings to the Assembly in January 2007.

Supporting HEIs in Widening Access

We supported institutions in implementing their widening access strategies in 2005/06 with a Fund of £1.7 million. The total 'premium' funding paid to institutions in 2005/06 – which recognises the extra costs of recruiting and retaining students from non-traditional backgrounds – increased to £2.8 million.

We carried out a consultation on a study by JM Consulting on the costs of widening access in Welsh higher education institutions. Taking account of the findings of the study and institutions' reactions, we announced that we would make additional funding available to enhance HEIs' performance in widening access by:

- reducing the gap identified between funding and costs in England and Wales;
- widening the range of measures used to define widening access students in Wales;
- operating a new premium, worth £215 per eligible student, for all students recruited from Communities First areas; and
- providing additional funding to institutions to support 'hard to retain' students.

UK Performance Indicators in Higher Education for 2004/05 showed that Wales overall continued to out-perform the UK as a whole in widening participation to higher education by:

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

Funding Support for Students

One of the student support arrangements we have in place to widen access to higher education is the 'fee waiver' scheme, which helps part-time undergraduates on benefit or low income. Fees totalling almost £400K were waived in 2005/06, helping 1,390 students. Another is the Financial Contingency Fund, which helps students who face difficulty in meeting their living costs, and which we administer on behalf of the Assembly Government.

Support for Disabled Students

We recognise the extra costs HEIs may incur in providing for disabled students by including premium payments in our annual formula funding allocations, which increased to more than £560K in 2005/06. We not only want to encourage institutions to comply with disability legislation – we also want them to anticipate changes rather than merely be reactive, and provide the best facilities they can for disabled people. As part of this commitment, we ask HEIs to provide ongoing plans for spending their disability premium funding on developing provision for disabled students.

HEIs were able to use some of their £2.6 million in capital funding for learning and teaching infrastructure in 2005–06 to help them meet the requirements of disability legislation through making buildings accessible and purchasing specialist equipment.

Following a recommendation in the Disability Rights Commission's report, *Taking Away the Strain*, and a consultation with a wide pool of interested parties, including HEIs and bodies representing disabled people, Council agreed to create a post dedicated to co-ordinate disability

and other diversity matters in HE in Wales. The post-holder would work closely with higher education institutions in Wales to give them practical support and guidance on how best to make equality of opportunity a reality for students, and would also play a significant role in shaping HEFCW's own disability and diversity policies.

Credit and Qualifications Framework for Wales

Working with other education partners, HEFCW, ELWa and ACCAC continued to develop the Credit and Qualifications Framework for Wales (CQFW), which would allow learners to accumulate credits for their studies on a timescale that suits their requirements throughout their lives. The *Building on Experience* conference looked at the operation of the CQFW thus far and issues arising in the future, including the use of credit in HE.

The 'Deal for Students'

Promoting Excellence

One of our key aims is for teaching excellence and a high quality student learning experience in our higher education institutions in Wales. One of the ways in which we do this is through the quality assurance and standards framework. Under this framework, the Quality Assurance Agency for Higher Education (QAA) carried out the third year of the current cycle of institutional reviews in 2005/06.

The QAA completed two institutional reviews (IR) during 2005-06, both of which were combined with the degree awarding powers process. In addition, the QAA undertook a special review of Research Degree Programmes in Wales and a number of progress reviews. The QAA also held a Wales-specific round table event in Spring 2006 to facilitate discussion and share good practice regarding the assessment of students, language issues and credit arrangements.

A newly-established HEFCW Learning and Teaching Committee (LTC) advises the Council on all matters relating to the promotion of teaching excellence in higher education and the enhancement of the student learning experience. It meets quarterly. A small sub group of the LTC forms the reconvened HEFCW Quality Assessment Committee (QAC), which meets biannually. The QAC undertakes the Council's statutory responsibilities in respect of quality assurance. The QAA has observer status on both committees.

As part of our commitment to promoting best practice, we continued to support the Higher Education Academy (HEA), the new UK-wide body for the enhancement of learning and teaching in HE. An enhancement event was organised by the HE Academy in Wales in December 2005 which was attended by

representatives from all Welsh HEIs. Another significant activity by the HE Academy was its development, on behalf of UUK/GuildHE (formerly SCOP) and the funding bodies, of the Professional Standards Framework.

Through the HEFCW Learning and Teaching fund, we encourage HEIs to promote excellent teaching and boost the quality of the student learning experience.

Through the fund, we:

- Made £828,362 available to support HEIs' Learning and Teaching Strategies;
- Made available an additional £102K to cover Welsh institutional subscriptions to the Higher Education Academy; and
- Received feedback from the HE Academy on HEIs' strategies for learning and teaching.

Following the publication of a report from KPMG which evaluated HE provision in further education institutions, we consulted on guidance for partnerships relating to this provision.

Targeting areas for development

Responding to the Welsh Assembly Government's strategy for modern foreign languages (MFL) *Languages Count*, we launched a major review of MFL in higher education in Wales. The review, undertaken by Robert Huggins Associates, found that:

- The decline in MFL full-time equivalents at HEIs in Wales between 1998/99 and 2001/02 was less marked than across the UK for the same period;
- There had been a gradual increase in the proportion of MFL students studying on a part-time basis in recent years;

- An increase in overall take-up on all MFL modules in Wales contrasted with a substantial decline in England. This might be attributed to the growth of new joint honours courses and in non-specialist provision across Welsh HEIs;
- MFL remained an attractive field of study for the highest achieving A-level students;
- Numbers on PGCE MFL courses increased, although trainees remained overwhelmingly female;
- Whilst MFL graduates enter a wide range of careers, the possession of language skills was considered a low priority by employers; and
- At research level there was a mixed picture, with MFL departments improving their RAE ratings, although the number of postgraduate students has fallen consistently during the period covered by the Review.

The report indicated that, in many ways, the problems faced in Wales were less acute than elsewhere in the UK, although the success rates in recruiting to MFL courses varied between institutions.

The report was published as part of a consultation to discuss the recommendations and next steps, which included a seminar on possible future action. Subsequently, funding was made available to support collaborative action in a number of areas, including the promotion and marketing of MFL to schools, colleges and other potential pools of entrants and engagement with employers.

Student information and feedback

In 2005/06, we continued to work with the other UK HE funding bodies and HERO (Higher Education and Research Opportunities) Ltd. to develop a website which publishes information in a student-friendly way.

The Teaching Quality Information (TQI) website provides a range of information for prospective students about the quality of higher education and was launched in September 2005. The website included the results of the first ever National Student Survey (NSS) for students in England, Wales and Northern Ireland, which showed that more than 80 per cent of students were satisfied with the quality of their higher education courses. Overall, students in Wales responded well to the survey, with the results pointing to a very positive learning experience for students in Wales.

Welsh Medium Provision: A Strategic Approach

In *Reaching Higher*, the Welsh Assembly Government set a target of 7 per cent of students in Wales taking some element of their course through the medium of Welsh by 2010. We started or supported a number of new and existing projects which would help the sector achieve this challenging goal.

We supported UKERNA's new WVN-Rhwydiaith interpretation service, launched on the Welsh Video Network, which provides extra facilities to support bilingual teaching and meetings.

The Welsh Medium Postgraduate Scholarship and Teaching Fellowship Schemes, supported through £2.9 million from the Reconfiguration and Collaboration Fund, are designed to increase the future supply of Welsh medium academic staff. The Schemes are administered by the Welsh Medium Teaching Development Centre. The scholarships, which can be for up to five years, enable students to obtain a research degree but also to gain experience of Welsh medium teaching and provision development. The Teaching Fellowships, usually for a year, give similar opportunities to those

who have already completed a research degree. In 2005/06, nine scholarships and five fellowships were awarded.

Two new studies

The Welsh Medium Provision Steering Group's strategy recommended that we undertook a study to establish the additional costs of Welsh medium provision. In autumn 2005, we announced that London Economics would carry out the study which would also consider whether premium funding was the most effective way of providing mainstream support.

Arad Consulting Limited were also appointed to carry out an 'options appraisal' of potential models for the delivery of Welsh medium provision on behalf of the sector.

The two studies will feed into the proposals which we will put to the Minister in December

2006 on the future development of Welsh medium provision and how we determine future methods for funding Welsh medium provision.

Institutions continued to have the opportunity to plan strategically by using Welsh Medium Provision funding. We gave more than £200K to the largest providers of Welsh medium provision (UW Aberystwyth, UW Bangor and Trinity College, Carmarthen) so that they could develop their portfolios. We gave a smaller core allocation to UWIC, with the remaining funding being used for it and other providers to develop proposals. These proposals were submitted to the Welsh Medium Teaching Development Centre, whose role is to support developments across the HE sector. We encourage all institutions, whatever the extent of their Welsh medium provision, to increase both recruitment and collaboration in this area.

Research Excellence

Assessing and Funding Quality Research

Most of our funding for research is distributed by formula, based on the outcomes of the UK-wide Research Assessment Exercise. These Quality Research (QR) allocations, along with the Research Investment fund, totalled some £63.6 million in 2005/06 and were based on the outcomes of the last RAE in 2001. They are the largest single contribution to funding research in Wales.

The Research Investment Fund, totalling £4.1 million in 2005/06, continued to allow HEIs to invest strategically in support of their research policy by, for example, bringing on emerging

research, enhancing existing research strengths and re-shaping their research profile.

In 2005/06, we also announced an additional £3 million to assist institutions with their preparations for the 2008 Research Assessment Exercise. This funding was allocated to institutions selectively on the basis of the number of 4-rated departments in the previous RAE.

The Council will need to introduce a revised research funding method after the 2008 RAE. Before embarking on work on the funding method, however, it is important to be clear about policy objectives and the purposes for

which the funding is provided. The Council therefore agreed in January 2006 to undertake a review of its research policy and, in order to support that work, established a Research Sounding Group and commissioned an evaluation of its Research Capacity Development Fund, which had come to an end in 2004/05. We plan to publish a consultation paper on the proposed revised research policy in Spring 2007.

In March 2006, the Chancellor announced in his Budget Statement a commitment to consult on the Government's 'preferred option for a metrics-based system for assessing research quality and allocating QR funding'. We have played a full part in subsequent UK-wide discussions.

Science Research Investment Fund (SRIF)

We continue to encourage investment in the physical infrastructure for research – buildings, facilities and equipment – which is essential to the conduct of first-class research, particularly in science and technology. In 2005–06 we paid the second installments from round two of the UK-wide Science Research Investment Fund (SRIF2), which enables investment in state of the art equipment and facilities for research. For SRIF 2, we joined our capital funding for research with an allocation of £21.5 million from the Office of Science and Technology (OST – now OSI) to create a total fund of £46.7 million for 2004–05 and 2005–06. Projects supported included:

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

Along with SRIF1 and the £46.5 million for SRIF3, which has already been announced for 2006–07 and 2007–08, the total SRIF investment in Wales since 2002 will amount to £128.6 million.

Review of funding arrangements for postgraduate research training (PGR)

We are keen to ensure that HEIs' postgraduate research students receive training of the highest quality. We consulted on the proposal to consolidate the PGR funding stream with QR funding in order to create a more logical and transparent funding method. Following a sector-wide consultation and the concerns expressed that changes would have a destabilising effect on research funding in the critical run-up to the 2008 RAE, we agreed to defer the establishment of the new funding stream until 2009/10 as part of the wider changes in research funding that would be required at that time.

In 2005/06, the Council also commissioned the Quality Assurance Agency to undertake a special, one-off review of research degree provision in Wales against the Agency's revised Code of Practice for such degrees. This was the final phase of work which the Council had undertaken jointly with the other UK funding bodies on the development of minimum standards for research degree programmes.

European developments

We anticipate that the establishment of the new collaborative body in Brussels (WHEB) will help the sector to maximize opportunities arising from, for example, the new Framework Programme (FP7) and the European Research Council (ERC) which will support frontier research in science and social science.

Benefiting The Economy And Society

Funding Third Mission

Third mission activities in higher education institutions are those that encourage the application and exploitation of knowledge for the benefit of the social, cultural and economic development of Wales. Our HEIs contribute more than £1 billion a year in gross expenditure to the Welsh economy, in addition to producing more than 30,000 new graduates and postgraduates.

In support of these important areas of activity, we allocated through our Third Mission Fund £4.1 million to support strategic developments that benefit HE and the Welsh economy, as well as supporting social and cultural well-being in Wales. The fund for 2005/06 was increased by 32% on the previous year and provides a lever to secure funds from other sources. We remain committed to doubling the Fund from its introductory 2004/05 level by the end of 2007/08.

Members of our Third Mission Committee, which oversees this area of HEFCW activity, represent not only the Welsh HE sector but also business and HEFCW's 'Team Wales' public sector partners. An overview of the Third Mission Committee's work is set out in the Committee Chair's annual report.

Joint Agendas

Fostering an entrepreneurial culture in Wales is central to Assembly Government economic development policies. We promote this by encouraging institutions to embed entrepreneurship in their Third Mission Strategies.

In seeking to increase the HE sector's contribution to the knowledge economy in

Wales, we continue to work closely with strategic partners and are progressing well in developing our role in the joint working arrangements sought by the Assembly Government. The Assembly sought our advice on how to strengthen further the economic development role of the HE sector in line with the principles of *Reaching Higher*, and we reiterated the added value of further collaborative activity between HEIs, particularly through our Reconfiguration and Collaboration or Strategic Development funds.

We also continued to develop our relationship with the Sector Skills Councils (SSCs). We successfully held the first HE/SSC conference in March 2005 and encouraged increased engagement between HEIs and the SSCs.

We responded to the National Assembly for Wales's consultation on a Science Policy for Wales in March 2006, which sought views on how a science policy could more effectively support the development of a knowledge-based economy, in the context of areas such as HE excellence, technology transfer and innovation.

The annual UK-wide Higher Education and Business and Community Interaction Survey (HEBCIS) tracks the contribution of the HE sector to economic and social well-being. The 2005 survey, which covers the academic year 2003/04, shows that Welsh HEIs continue to out-perform their nominal 5% weighting of UK HE activity in a number of key areas and that they are improving in others. For example:

- HEIs in Wales increased their research consultancy contract income by 18% on the previous year, accounting for more than 11% - around £24 million - of UK-wide income from HE consultancy services;
- The Welsh HE sector helped to create new

businesses in 2003/04, including 17 new spinout companies and four new staff start-ups. Turnover from all active spinout companies in Wales is estimated at around £25 million;

- Business start-ups by graduates in Wales rose by 5%, accounting for more than 14% of graduate business start-ups across the UK;
- Income from collaborative research involving both public and business funding was up by 20%, accounting for 9.9% of total UK income; and
- Welsh HEIs increased their total of licences granted from 16 to 79 and in 2003/04 accounted for 7.5% of all UK software licences.

Graduate employability

Work on a major report into graduate employability drew to a close in 2005/06. The report, by the Institute for Employment Studies, looked at trends in the graduate labour market, the relationship between graduates and employers and the benefit graduates brought to the economy. The report will be available in 2006–07.

GO Wales enters a new phase

Our Graduate Opportunities – GO – Wales Programme is a part ESF-funded programme with all twelve HEIs in Wales. It helps students and graduates based in Wales to find training or jobs and encourages Welsh businesses, particularly SMEs, to use graduates to meet their high-level skills needs.

Services for graduates through the programme include:

- Work placements in SMEs;
- Financial help to support training and development and short periods of work experience;
- Information and advice about working in

Wales; and

- Useful online applications such as a website and a reflective diary.

Phase 2 of the programme, which started in April 2005, has seen, so far:

- more than 14,000 students and graduates and 2,000 small and medium sized companies benefiting from it;
- more than 1,200 students and graduates being placed with SMEs;
- around 50% of graduates placed being employed with their host or another organisation;
- 470 graduates in SMEs being supported in their training and development; and
- 3,000 companies advertising their vacancies suitable for graduates on the GO Wales Jobs web site.

European and International developments

Working in partnership with HEW, all HEIs in Wales, and the Welsh Assembly Government, we have enabled a dedicated Welsh Higher Education presence in Brussels (WHEB) to be established. WHEB was officially launched by the European Commissioner for Science and Research, in March 2006. It aims to enable the Higher Education sector to engage more fully with European priorities such as the Lisbon Strategy and the Bologna Process and to encourage and support interaction between HEIs, European institutions and regional partners across Europe.

We have been working closely with stakeholders at Europe, UK and national level to ensure that HE is properly played into the arrangements for the new Structural Funding Programme (2007–13), which highlights the Lisbon and Gothenburg agendas. In November 2005 we hosted the UK HE Europe Unit's High Level Policy Forum in Cardiff and presented a paper entitled 'EU Structural Funds Post-2006: opportunities and challenges for the HE sector'.

HEFCW and all twelve members of the Wales International Consortium (WIC), decided to continue to allocate funding to the consortium through to 2009. While many UK universities have been losing out in the competition to recruit more international students, Wales has been experiencing steady increases across the sector. Figures released in March 2006 showed that Wales welcomed more than 6,200 international students this year, an annual increase of 4.3%. It is estimated that this has brought £92m to the economy of Wales in this last year and that this is only a fraction of the longer-term impact expected through international links and investment.

Sustainability

Recognising the Welsh Assembly Government's statutory responsibility towards sustainable development, in November 2005 we responded to the consultation *Education for Sustainable Development and Global Citizenship*, which sought views on how higher education, alongside

the school, youth, further education and work-based learning, and continuing education sectors in Wales, might contribute to the Assembly Government's overarching Sustainable Development Action Plan.

Medical Education

Undergraduate medical education in Wales continues to be delivered on the basis of a "hub", based at Cardiff University, with clinical training "spokes" based in Swansea, Bangor and Newport. In addition, there continues to be a thriving accelerated graduate entry scheme operated collaboratively between Cardiff University and the University of Wales Swansea which is now operating at its planned student intake target. We continue to contribute to the UK funding bodies' Joint Medical Advisory Committee, which co-ordinates approaches to medical education and research across the UK.

Initial Teacher Training (ITT)

We support our higher education institutions in their delivery of high-quality, newly qualified teachers and work with the sector to achieve intake targets set by the Welsh Assembly government for trainee teachers at primary and secondary level.

Performance against targets for 2005/06 was:

New entrant enrolments for:	Target	Outcome
• Primary phase training	1,090	1,135
• Secondary phase training	1,320	1,168
• Secondary shortage subjects within the secondary phase target	883	774

We continue to take measures to improve secondary recruitment, particularly in shortage subjects, and have maintained financial and other efforts to control the over-recruitment to primary provision, particularly in the light of a changing context for teacher training in Wales.

The main force behind this change was the report on the outcomes of the Welsh Assembly Government's review of ITT in Wales – the Furlong Report – which was published in January 2006 and to which the Minister for Education, Lifelong Learning and Skills responded in March.

In 2006-07 we will be modelling the implications of the actions agreed by the Minister in her ITT

remit letter to HEFCW and will be working with the sector to deliver a reconfigured ITT provision.

Initial Teacher Training Strategic Funding

The ITT Strategic Fund promotes a more strategic focus for institutions by:

- taking account of the ITT priorities of HEFCW, Estyn and the Assembly Government; and
- giving them greater autonomy to plan in this area.

More than £1 million was awarded through the Fund in 2005/06. Given a 5% reduction in primary intake targets in 2005/06, we agreed to ring-fence the monetary equivalent of the reduced student target numbers for two years, which amounted to an increase in strategy funding of almost a quarter of a million pounds, and ensured the viability of our ITT providers until the outcomes of the Furlong review were known.

Institutions identified a wide range of collaborative activities in their strategies, including those designed to:

- increase recruitment to secondary shortage subject areas, particularly from under-represented groups, including trainees from black and minority ethnic groups;
- address the widening access and diversity agenda as a whole; and
- expand Welsh medium provision and support Welsh medium learners.

New Innovative Provision Initiative

The second phase of our New Innovative Provision Initiative helped the sector to develop courses and projects to bring new groups of applicants into ITT. Courses which ran in 2005/06 included:

- *Prepare to Teach*, a collaboration led by the Open University in Wales and including UWIC, the University of Wales, Aberystwyth, and the University of Wales, Newport. This taster course enables participants to make an informed decision about a future career in secondary teaching and prepares them to take a Postgraduate Certificate in Education (PGCE);
- *Teach Again*, run by the Open University in Wales with University of Wales, Aberystwyth. It provides returning teachers with learning materials to help them return to the classroom; and
- *Module in professional Welsh Teaching Studies*. Run by UWIC, this is aimed at those who want to develop their ability to teach Welsh as a second language.

Performance Information

Latest information on teacher training showed that Wales continued to be a popular destination for trainee teachers with, in all, 3,817 training in 2004/05. Some 2,462 were training to teach at primary level, with the remainder at secondary level.

2,066 students gained Qualified Teacher Status (QTS) in 2004/05; around 15 % trained through the medium of Welsh.

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

Making It Work

Reconfiguration and Collaboration

Our Reconfiguration and Collaboration Fund (RCF) is designed to reshape the HE sector in Wales, as part of the Welsh Assembly Government's commitment to increase HEIs' competitiveness and improve performance even further in the future.

The fund totalled almost £14 million in 2005–06. Highlights for the year included:

- integration of Merthyr College within the University of Glamorgan – substantive support from ELWa/WAG and £242K from HEFCW;
- Research and Enterprise Partnership between UW Aberystwyth and UW Bangor (£10.95 million); and
- £5.17 million for UW Bangor, Cardiff University and UW Swansea to establish the new multi-centre Wales Institute of Cognitive Neuroscience.

The independent report, commissioned by HEFCW from Professors John Bull and Sir Ron Cooke, relating to the provision of post '92 higher education in south east Wales, was published in 2005 and offered a vision of how the University of Glamorgan, the University of Wales Institute, Cardiff and the University of Wales, Newport, working together and building upon existing strengths, could develop distinctive and ambitious teaching-led provision. The report indicated that it was highly desirable that a single, new institution would emerge from the three current organisations and that the alternative was to risk decline in the face of competition both from England and between the three themselves.

Initial responses suggested broad support for the vision outlined in the report but differing opinions about how best to achieve that vision. In taking the discussions forward, HEFCW remains struck by the prospect which is offered of the benefits of collaboration across the three institutions and by the risks to the institutions if action of the sort proposed is not taken. In the light of this, we will continue to seek to avoid committing funds in ways that might impede the realisation of the vision proposed by the report and will continue to encourage the institutions to meet Assembly Government expectations that they should plan their futures together, recently reaffirmed in the Learning Country 2: Vision Into Action.

Strategic development fund

A new Strategic Development Fund (SDF) of £3 million per annum was established this year. Complementing our RCF, it is used to support less expensive collaborations and other, UK-wide, strategic initiatives, at Council's discretion.

Highlights for the year included:

- Establishment of a project to explore opportunities for collaboration in the Welsh HE sector with the Open University in Wales;
- Support for the initial development of the Welsh National Bursary Scheme;
- Support for a project designed to expand and improve collaborative procurement in Welsh higher education.

The Rees review and the new tuition fee regime in Wales

The 'Devolution of Student Support and Tuition Fee Regime to Wales' report (Rees Review) was published in May 2005. The Welsh Assembly Government decided that:

- New arrangements would include a National Bursary Scheme, a Supplementary Income Stream for 2006/07, and the introduction of flexible fees from 2007/08; and
- HEFCW would be responsible for approving HEIs' SIS and Tuition Fee Plans.

Also arising from the Assembly debate on the Rees Review, HEFCW was asked to undertake a comparison of HE funding between Wales and rest of UK. We submitted our analysis to the Assembly in November 2005 and published it on our website in January 2006.

Open University in Wales

The transfer to HEFCW of responsibility for teaching funding for the Open University in Wales was completed in January 2006.

Strategic Planning

The strategic planning process is central to our dialogue with individual institutions and helps us represent the sector to the Assembly Government on issues of significance to higher education.

Each year we provide detailed feedback on the strategic plans submitted by institutions. 2005–06 was the third year in which HEIs reported progress against a range of targets which collectively show the sector's progress towards the outcome targets for 2010 set out in *Reaching Higher*.

We have been working with the sector to improve the achievement of particular targets where shortfalls have been identified. We also continued to develop the process of receiving annual monitoring statements from institutions, which should reduce the burden on them preparing separate progress reports against individual initiatives.

Subjects of a broader importance in a Welsh context

In response to a Remit Letter request, initial advice was provided to the Minister for Education, Lifelong Learning and Skills in the Summer of 2006 in respect of those subjects which might be of broader importance to Wales.

Financial Monitoring

Our annual financial monitoring process involves reviewing the latest five years' forecasts of the institutions, their financial mid-year returns and their annual audited financial statements.

The review of the financial statements for 2004/05 received in December 2005 showed the following:

- An improvement in the sector's financial position, with an increased operating surplus compared to 2003/04;
- The overall operating surplus of 1.9% of total income, whilst representing an improvement on the 1.4% level achieved in 2003/04, is still considered to be too low for the sector to achieve sustained re-investment;
- The sector's balance sheet has been strengthened, with general reserves increasing to £360 million; and
- The sector's solvency indicators show a slight deterioration from 2003/04.

Governance

The quality of governance is of critical importance to the effective performance of institutions and the Council acknowledges the commitment and dedication of members of governing bodies, who give their time on a voluntary and unpaid basis. The governance of HEIs has continued to receive close attention and the Council's assessment is that, across the sector, institutional governance systems and procedures are operating broadly satisfactorily.

To help institutions to develop their governance and management practices further, a review of the governance processes for the remuneration of senior staff was completed. The conclusion of the review was that the senior staff remuneration governance processes across the sector were broadly sound with no examples identified of clearly indefensible practice.

Dialogue with the sector

Our formal process of Strategic Dialogue with the HE sector includes biannual meetings between HEFCW, Higher Education Wales (HEW) and Chairs of Higher Education Wales (CHEW).

We visited five institutions in 2005–06 as part of our series of formal institutional visits, whereby Council members and officers visit each institution on a three-yearly cycle. These visits provide a further opportunity for the discussion of strategic matters with governors and senior management.

We are particularly keen to ensure that activities in this area add value to the performance of individual HEIs and the Welsh HE sector as a whole and are working with the Leadership Foundation to further develop their focus on Welsh requirements.

Estates

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

The increased statutory regulation of estates and facilities continued to place a significant burden on Welsh HEIs to bring their estate up to the required standards. The dedicated capital funding of £2.6 million, which we provided in 2005–06, has helped institutions tackle the need to comply with the requirements of the Disability Discrimination Act 2005.

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

Promoting Equality

The Equality Challenge Unit (ECU), funded by the UK HE Funding bodies, provides assistance to institutions on equal opportunities matters, mainly in relation to staff. The Unit provided feedback on HEIs' race equality policies and, collectively, we monitored institutional performance in this area and encouraged institutions to develop their race equality policies. Additionally, we:

- Were involved in discussions and events with other higher education funding bodies on equality issues;
- Continued our support and involvement in conferences on disability equality; and
- Created the role of Disability and Diversity Co-ordinator in HEFCW to work with the

sector on their equalities policies and help us with our own commitments in this area.

Business Of The Council

Accountability of the Council

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

Corporate and Operational Planning

We produce in a single document a combined corporate strategy (setting out our long-term strategic outcomes), corporate plan for the three financial years ahead, and detailed operational plan covering the first of those three years. The operational plan includes targets and actions required by the Welsh Assembly Government as set out in its annual Remit Letter to HEFCW. Progress against the targets in the plans is reviewed quarterly both by the Council and at meetings with the Assembly Government.

Responding to the Environment and Managing Risk

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

HE in Wales is part of a UK and wider international market for students and staff. Developments elsewhere impact on the competitiveness of the sector in Wales. To manage this, we maintain dialogue with the Welsh Assembly Government regarding the need for funding at a level appropriate to this reality.

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

Improving Efficiency

As a Council, we aim to ensure that we work effectively and efficiently, and are a model employer. We are committed to maintaining the Investor in People standard. The separation of the staffs of HEFCW and ELWa was completed at the end of 2005-06 with the absorption of the latter into the Welsh Assembly Government. We will continue to keep HEFCW's 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 2005 there were 11 members of the Council, including the Chairman. During the year, two members completed their final terms of office on Council; one new member joined Council; and five existing members were re-appointed to serve additional terms. By the end of 2005-06, there were 10 members, with two vacancies remaining to be filled.

The Council met eight times in 2005-06. Meetings are attended by an assessor from the Assembly Government. 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 2005-06 was 50. This includes all the staff of the Council, including part-time, job-share, fixed term

appointments and staff on long and short-term secondments, as well as students working on placements. Some 5.2 full-time equivalents worked for both HEFCW and the National Council - ELWa.

Code of Practice and register of interests

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

Bilingual policy

We are committed to the principle that in providing services to the public in Wales, the Welsh and English languages should be treated on the basis of equality. We have a Welsh Language Scheme, approved by the Welsh Language Board, and a Welsh Language Mainstreaming Strategy approved by the Assembly Government, which outlines how we intend to mainstream consideration of the Welsh language into our policy making and service delivery processes. We have made good progress in our first year of implementing our Welsh Language Scheme and feedback from the Welsh Language Board has been broadly positive. The annual compliance report is available on our website.

Complaints procedure

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

Information Provision

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

Race Equality Scheme

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

Our website includes race equality monitoring data on the HE sector in Wales and on HEFCW as an employer. For 2005/06 we were unable to publish data on staff and included the following statement in relation to our role as employer: *HEFCW undertakes regular monitoring of the ethnic origin of our staff and applicants. However, as a small organisation, we are not able to publish data without identifying individuals in an inappropriate manner.*

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

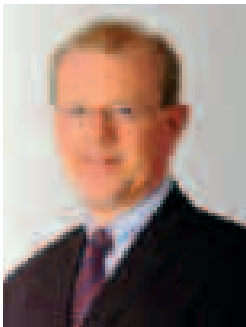
Chair: Mr Andrew Green

Members of the Council During 2005-06



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

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



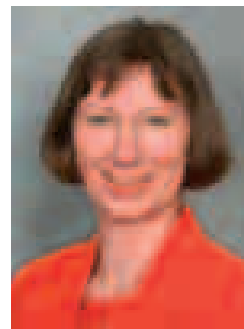
Professor Philip Gummatt, Chief Executive
Interim Chief Executive from December 2003; Chief Executive from May 2004

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



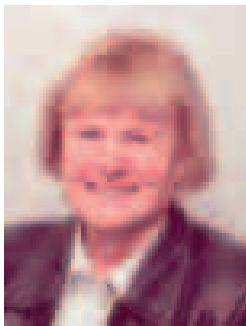
Dr Len Arthur
Senior Lecturer at the University of Wales Institute, Cardiff
First appointed 2002; re-appointed for a three-year term in 2005

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



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

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



Ms Eleri Wynne Jones
*Former Part-time Lecturer,
University of Wales, Bangor
First appointed in 2000;
re-appointed in 2003;
left 2005.*

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



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

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



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

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



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

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



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

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



Dr Geoffrey Thomas
Director of the Department for Continuing Education, Oxford University and President of Kellogg College.
First appointed in 2000; re-appointed in 2003 and 2006

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



Professor Nigel Stott, CBE
First appointed in 2006

Professor Nigel Stott is Emeritus Professor of General Practice in Wales (based at Cardiff University) and was awarded the CBE for Services to Medicine in 2001. He 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 HEFC, 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.



Professor Gwyn Thomas
Former Professor of Welsh, University of Wales, Bangor
First appointed in 2000; re-appointed in 2003; left 2005.

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

Performance Against Operational Plan 2005-06

* = task from 2005-06 Remit Letter

Strategic Aim	Action	Outcome
Benefiting Economy and Society	Deliver increased levels of funding in support of HEI third mission activities from October 2005 onwards	Achieved. Funding Allocations confirmed Autumn 2005.
	Provide advice to the Assembly by autumn 2005 on steps to strengthen still further the economic development role of the HE sector in line with <i>Reaching Higher</i> principles *	Achieved.
	If an appropriate proposal is forthcoming, support the creation of a Brussels-based successor body to the Wales European Centre from autumn 2005 to maximise sector gains from participation in European programmes and initiatives	Achieved.
	Increase throughout the year HEFCW's representation on pan-Wales groups and networks in order to enhance the sector's profile in the delivery of key Assembly economic and social objectives.	Achieved, but ongoing in light of WAG merger process.
	Work with ELWa and the WDA (and their successor bodies) to maximise the HE sector's contribution to: i) meeting Assembly priorities for skills and employment, services to business and innovation and research and development;	Well in hand, but ongoing in light of WAG merger process.
	ii) the Sector Skills Agreements being developed for a number of key sectors by July 2005, ensuring they take full account of HE interests;	Achieved. Four Pathfinder SSAs completed by July 2005 with full HEFCW input; six phase 2 SSAs completed March 2006.
	iii) Report twice yearly to the Ministers for Education and Lifelong Learning and Economic Development, Transport and Knowledge Exploitation.	Achieved. Meetings held with Ministers on 3 May and 7 November 2005, with Chairman in attendance in May.

Strategic Aim	Action	Outcome
Benefiting the Economy and Society	Work with the Assembly, in conjunction with NHS Wales, to implement the expansion in medical education provided for in the latest spending round *	Achieved. Clinical Schools expansion across Wales underway with HEFCW involvement.
Deal for Students	Implementation of HE Academy programme of thematic engagements commencing autumn 2005	Achieved. Initial launch event held in December 2005. Further details of programme to be monitored throughout 2005/06 by HEFCW Learning and Teaching Committee.
	Make recommendations to the Assembly by October 2005 on developing a more sustainable pattern of Welsh medium provision in the HE sector, based on evidence of the pattern of demand *	Achieved. Extension to deadline for interim report agreed by Assembly in light of continuing activities. Report submitted December 2005.
	Provide preliminary advice and proposed options to the Assembly on subjects which have a broader importance in a Welsh context, and which may be difficult to sustain, by January 2006 *	[Carried forward to 2006-07 Operational Plan]
	Encourage institutions, individually and collectively, to consider e-learning possibilities by spring 2006, and assist ELWa and others to meet the 2005 Skills and Employment Action Plan target to develop proposals for an integrated e-learning network by July 2005	The Higher Education Academy has been tasked to work with officers to draft an e-learning strategy for the Council under the arrangements set out in its grant letter 2005/06. The deadline for completing this has been moved to the end of the academic year and beyond the scope of this plan. [Carried forward to 2006-07 Operational Plan]
	Take forward GO Wales Phase 2 between April 2005 and December 2006	Phase 2 well underway and Phase 3 bid under preparation (for post-2006).

Strategic Aim	Action	Outcome
Initial Teacher Training	Take forward the outcomes of consultation on ITT partnership arrangements by summer 2005	Achieved.
	Work with the Assembly on its review of ITT, scheduled to be completed by March 2006	Achieved. Review Report launched January 2006.
	Support implementation of the Assembly's Welsh Medium Incentive Supplement Scheme, when conclusions emerge, by spring 2006	Ongoing. Report yet to be received but further action will be considered as part of the ITT Review outcomes.
Making it Work: HE sector	Develop a clear framework to enable the HE sector to deliver its share of the efficiency savings target and other targets within the framework of the Assembly's Making the Connections policy, articulated in particular through the submission of value for money action plans submitted to the Assembly by April 2005 *	Achieved. Action Plan submitted. Seminar with sector on 28 June 2005 to engage institutions.
	Submit to the Assembly by June 2005: i) detailed proposals for the utilisation of the <i>Reaching Higher</i> budget in 2005-06 *; and ii) advice on options for using core funding more strategically to promote the reconfiguration and collaboration agenda, including the possibility of using student numbers to provide a sharper incentive for securing changes which will strengthen the sector in Wales as a whole. *	Achieved. Advice sent to Minster September 2005.
	Introduce the Council's new Strategic Development Fund by June 2005	Achieved. Circular issued 20 May 2005 (W05/27HE). First panel meeting held on 01/07/05.
		Achieved, but further consideration to be given to this issue next year. [Carried forward to 2006-07 Operational Plan].

Strategic Aim	Action	Outcome
Making it work: HE sector	Review our processes for analysing and monitoring institutions' plans and performance, and improve our capacity to offer a strategic response by June 2005	Achieved. Integrated institutional planning and performance review underway. Further refinement of processes planned for 2005/06 cycle.
	Commission consultancy support to assist HE institutions in the development of human resources strategies by April 2005, with specific involvement from the Equality Challenge Unit to address equal opportunities matters arising from the development work	Achieved. Project to run to October 2005.
	Monitor and evaluate ongoing reconfiguration and collaboration projects against targets and deliverables, and liaise with the sector to develop submissions to the Reconfiguration and Collaboration Fund with targets and deliverables to be confirmed for each proposal prior to the release of funding.	Ongoing.
	Work with the HE sector to provide the evidence base to implement the new pay framework for the sector by September 2005	Ongoing role analysis/job evaluation work likely to take at least 18 months to complete.
Making it Work: HEFCW	Submit <i>Making the Connections</i> action plan to the Assembly by April 2005	Achieved.
	Commence implementation of our Welsh Language mainstreaming strategy by spring 2005	Achieved.
	Undertake a major review of HEFCW's Race Equality Scheme, including in relation to policies and functions, by spring 2005	Achieved.
	Review HEFCW's research and evaluation programme by June 2005	Achieved. New database developed capturing HEFCW's planned/ongoing and historical R&E activities. Summary details to be included within Corporate Plan 2006-09.

Strategic Aim	Action	Outcome
Making it Work: HEFCW	Separate fully from ELWa and establish new organisational design for HEFCW, appropriately staffed, by October 2005	Staff separation complete. Accommodation separation end March 2006.
	Develop and implement response to the first HEFCW Staff Satisfaction Survey by October 2005	Results of work since the survey presented to staff meeting, 20.09.05. Follow up being managed through action plan agreed by Management Board.
	Conduct a baseline stakeholder survey by February 2006	Council agreed to defer survey until 2006-07. [Carried forward to 2006-07 Operational Plan].
	Conduct an accommodation options appraisal by the end of July 2005	Timescale slipped. Options appraisal now to be completed by May 2006. [Carried forward to 2006-07 Operational Plan].
Reaching Wider	Introduction of collaborative disability support arrangements for the sector, autumn 2005	Paper on the outcomes of consultation presented to Council in September 2005. Further, more detailed, discussions about the shape of the service took place in the autumn, including a restructuring of the post within the Learning and Teaching team.
	Require Reaching Wider partnerships to report on progress, including on Assembly priorities, by summer 2005 *	Achieved. Submission deadline revised to October 2005 to enable Partnership reports to include summer period. Reported to Council December 2005.
	Review of institutional race equality policies to contribute to further action on student recruitment, spring 2006	After further consideration it was agreed that the timetable should be revised to align with the strategic planning timetable. This would allow the review to include a consideration of institutions' annual reports on their race equality policies. [Carried forward to 2006-07 Operational Plan.]

Strategic Aim	Action	Outcome
Reaching Wider	Development of HE in FE Code of Practice by spring 2006	On schedule for completion by end March 2006, with publication soon afterwards.
Research Excellence	<p>Monitor the level of income secured by the sector from the Research Councils and other external funders of research by May 2005, and take other measures as appropriate to help stimulate grant capture (including a sector-wide seminar on Engineering and Physical Sciences Research Council funding in May 2005)</p>	<p>Achieved. Paper submitted to Council 6 May 2005. Sector wide seminar on EPSRC funding held on 12 May 2005.</p>
	<p>Commission the QAA to undertake a one-off review of research degree provision in Wales against its revised Code of Practice. Review to commence by August 2005</p>	<p>Achieved. QAA consulted HEIs on terms of the review in Spring 2005 and finalised the arrangements in October 2005.</p>
	<p>Continue to apply the Reconfiguration and Collaboration Fund and the Strategic Development Fund to strengthen the higher education sector in Wales in advance of the 2008 RAE exercise, throughout the year</p>	<p>Ongoing, with a number of bids under consideration for research partnerships.</p>
	<p>Continue to play a full role in UK-wide arrangements for the 2008 RAE, throughout the year</p>	<p>Engagement with RAE Steering Group has continued throughout the year.</p>

Progress towards Reaching Higher Targets 2000/01 to 2010/11 (as at March 2006)

In all the following targets (except the 'Reducing Overhead Costs' and 'Spinout' targets) data shown up to 2004/05 are actual data taken from HESA records. For the 'Reducing Overhead Costs' target, data up to 2003/04 are actual data taken from HESA statistics. For the 'Spinout' target, data up to 2003/04 are actual data taken from the HEBCIS survey.

Widening Access

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

	2000/01			2001/02			2002/03			2003/04			2004/05		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	2,733	26,848	10.2%	3,036	27,857	10.9%	3,408	28,903	11.8%	3,401	29,577	11.5%	3,448	29,687	11.6%
UK HEIs and FEIs*	3,484	39,056	8.9%	4,053	42,181	9.6%	4,364	43,077	10.1%	4,450	44,300	10.2%			
Lowest/highest (Welsh HEIs):	2.0% - 15.8%			2.2% - 16.4%			2.6% - 17.4%			4.2% - 16.0%			3.3% - 16.0%		

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

*The UK figures for 2001/02 and 2002/03 include data for UK FEIs from 2000/01 as an estimate. The figures presented here include actual UK FEIs data for 2001/02 to 2003/04. Data for UK FEIs for 2004/05 are not yet available

Welsh Medium

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

	2000/01			2001/02			2002/03			2003/04			2004/05		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	3,786	108,427	3.5%	3,523	112,960	3.1%	3,819	119,789	3.2%	3,877	122,859	3.2%	3,735	127,715	2.9%
Welsh HEIs and FEIs	3,808	110,546	3.4%	3,564	115,161	3.1%	3,819	120,924	3.2%	3,894	123,959	3.1%	3,752	128,680	2.9%
Lowest/highest (Welsh HEIs):	0.0% - 18.8%			0.0% - 27.1%			0.0% - 21.7%			0.0% - 31.4%			0.0% - 38.2		

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

Wales as Destination of First Choice

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

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

	2000/01			2001/02			2002/03			2003/04			2004/05		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	31,772	67,742	46.9%	33,729	68,669	49.1%	34,917	71,506	48.8%	35,816	73,695	48.6%	36,028	75,462	47.7%
Lowest/highest (Welsh HEIs):	29.5% – 84.7%			30.8% – 85.8%			28.1% – 87.3%			27.9% – 86.6%			27.5% – 85.0%		

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		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Total UK HEIs	31,772	52,882	60.1%	33,729	54,442	62.0%	34,917	55,747	62.6%	35,816	57,204	62.6%	36,028	57,165	63.0%

- 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		
	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%	NO.	Total	%
Welsh HEIs	5,322	109,765	4.8%	5,878	114,387	5.1%	7,250	121,156	6.0%	8,345	124,221	6.7%	9,644	129,231	7.5%
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%	154,168	1,576,133	9.8%
Lowest/highest (Welsh HEIs):	0.5% – 9.5%			0.6% – 10.5%			1.2% – 11.2%			0.2% – 11.6%			1.2% – 11.9%		

Year on year change

	2000/01–2001/02	2001/02–2002/03	2002/03–2003/04	2003/04–2004/05
Total Welsh HEIs	10.4%	23.3%	15.1%	15.6%
Total UK HEIs (excl London and SE)	10.3%	21.1%	14.0%	2.9%
Lowest/highest (Welsh HEIs):	-7.7% – 97.6%	2.8% – 93.9%	-94.2% – 64.1%	-5.2% – 875.0%

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

Reducing Overhead Costs

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

	2000/01	2001/02	2002/03	2003/04
Welsh HEIs Median (£)	2,476	2,642	2,855	3,157
Percentage of UK (excl. London and SE) HEIs with administration cost per FTE student below Welsh median	45%	44%	46%	51%
UK (excl. London and SE) HEIs Median (£)	2,659	2,802	2,888	3,140
Lowest/highest (Welsh HEIs) (£):	1,483 – 5,419	1,603 – 5,801	1,760 – 6,663	1,635 – 7,354

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

Research Income

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

	2000/01	2001/02	2002/03	2003/04	2004/05
Welsh HEIs Total	22,915,000	27,077,000	27,856,000	28,657,000	28,660,000
Total UK	695,065,000	805,172,000	819,804,000	832,981,000	926,145,000
Wales as % of UK	3.3%	3.4%	3.4%	3.4%	3.1%

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.

	00/01	01/02	02/03	03/04	04/05
Welsh HEIs Total	55,645,000	60,663,000	67,495,000	67,943,000	76,751,000
Increase as % of baseline		9.0%	21.3%	22.1%	37.9%

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

Spinout

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

	2000/01	2001/02	2002/03	2003/04
Welsh HEIs Total	25	31	14 *	17
Lowest/highest (Welsh HEIs)	0/7	0/7	0/4	

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

Higher Education Funding Council For Wales

Annual Report & Accounts year ended 31 March 2006

ANNUAL REPORT

INTRODUCTION & 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.

These accounts have been prepared in accordance with the direction made by the National Assembly for Wales, 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 thirteenth 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 National Assembly for Wales, 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 National Assembly for Wales from 1 April 2006. As a result, work to carry through separation began and continued well into 2005-06 and was completed prior to formal separation on 1 April 2006.

EMPLOYEE INVOLVEMENT

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

On 26 January 2000, the Council achieved the Investors in People award. This award was re-assessed during September 2003 and the Council was still found to be meeting the Investors in People standard. The HEFCW's accreditation is in place until October 2007.

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

The Council's policy on recruitment is based on the ability of a candidate to perform the job. Full and fair consideration is given to applications for employment from the disabled where they have the appropriate skills and

abilities to perform the job. If disablement should occur during employment the Council would make every effort to maintain employment and to ensure the availability of adequate retraining and career development facilities.

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 2005-06 payment performance indicated that 95.3 per cent of invoices (2004-2005: 93%) 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 Gummett

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

Chief Executive, Higher Education Funding Council for Wales

Mrs Wendy Heppell

(also member of 4, 5, 11 & 12 - see below)

Director, Publicly Funded Services, Business West

Ms Eleri Wynne Jones

(term of office ended 30 September 2005) (also member of 1, 5 & 6 - see below)

Retired part-time lecturer, formerly at the University of Wales, Bangor

Professor Gwyn Thomas

(term of office ended 30 September 2005) (also member of 6 & 7 - see below)

Retired Professor of Welsh, University of Wales, Bangor

Dr Geoffrey P Thomas

(term of office ended 30 September 2005 - reappointed 1 January 2006) (also member of 4 until 30 September 2005; member of 8 until 30 September 2005 and from 1 January 2006 - see below) Head of Continuing Education

Department, Oxford University and President of Kellogg College

Mr R P V (Tim) Rees

(also member of 4 & 8 - see below)

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

Professor Sir Brian Smith
(also member of 11 – 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 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
(appointed 1 January 2006) (also member of 4 – see below)
Emeritus Professor, Wales College of Medicine, Cardiff University

Assessor appointed by the National Assembly for Wales

Richard Davies
Director of Training and Education Department, National Assembly for Wales

1 Remuneration Committee; 2 Reaching Wider Steering Group; 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 ITT Accreditation Panel.

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.

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 National Assembly for Wales and the HE sector in Wales); and (ii) being an employer of choice.

Remit Letter

In February 2005 the Minister for Education and Lifelong Learning issued the annual remit letter to the Council. This sets out the 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 40 actions identified in the Operational Plan for 2005–06, 33 were achieved, two were partially achieved, with the balance carried forward to the 2006–07 Operational Plan, and five were carried forward in their entirety.

Some of the key Operational Plan actions were to:

- *Make recommendations to the Assembly Government on developing a more sustainable pattern of Welsh medium provision, based on evidence of the pattern of demand.* A report was submitted in December 2005.

- *Deliver increased levels of funding in support of institutions' third mission activities.* Funding allocations were confirmed in autumn 2005. *Submit i) detailed proposals for the utilisation of the Reaching Higher budget and ii) advice on options for using core funding more strategically to promote the reconfiguration and collaboration agenda.* Both actions were achieved although further advice on the second was required and the action has been carried forward to the 2006–07 Operational Plan.
- *Introduce the Council's new Strategic Development Fund.* This was achieved, with the first allocations being made in September 2005.
- *Submit an action plan under Making the Connections.* This was achieved.

In addition, during the year the Council was required to prepare and submit advice to the Assembly Government on the extent of the funding gap between Wales and England. This was a substantial piece of additional work which resulted in extra funding being made available for the sector in 2006–07.

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

The deficit for the year was £1.974 million (2004–05 surplus £2.293 million). Cumulative retained reserves at 31 March 2006 were £6.296 million (2004–05 £8.134 million). The Council's expenditure is planned on the basis of the funds available to it through annual receipts of grant

in aid and other income and reserve balances. The financial statements may record an operating surplus or deficit as a result of planned activity or as a result of the timing of payments to institutions. The Council's activities are also planned to ensure that its cash carry forward remains within the two per cent of total grant in aid for the year allowed by the National Assembly for Wales. Expenditure on fixed assets amounted to £255,000 in the year.

REMUNERATION REPORT

Remuneration policy

The remuneration of the Chairman, the Council Members and the Chief Executive is set by the National Assembly for Wales.

The remuneration of the Chairman and Council Members is governed by the National Assembly for Wales'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 National Assembly for Wales 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 National Assembly for Wales.

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 National Assembly for Wales accordingly.

Salary and pension disclosures*

Position	Name	Salary £	Real Increase in Pension & Lump Sum £'000	Pension at 31/03/06 & Lump Sum £'000	CETV at 01/04/05 £'000	CETV at 31/03/06 £'000	Real Increase in CETV as funded by employer £'000
Chairman	Professor Sir Roger Williams	14,760 (2004-05 14,400)	N/A	N/A	N/A	N/A	N/A
Chief Executive	Professor Philip Gummett	97,375 (2004-05 93,418)	0 – 2.5 pension plus 5 – 7.5 lump sum	5 – 10 pension plus 20 – 25 lump sum	107	159	28
Director of Finance and Corporate Services	Richard Hirst	76,064 (2004-05 71,617)	0 – 2.5 pension	30 – 35 pension	411	542	22

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 £4,612 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.

At the year end, a sum of £6,865 was payable to a former Chief Executive of HEFCW, Mr Steve Martin, in respect of arrears of salary and a related bonus*.

* 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).

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 include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The factors used to calculate the CETV were revised on 1 April 2005 on advice of the Scheme Actuary. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

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
24 July 2006

Statement of Council's and Chief Executive's Responsibilities

Under paragraph 16(2) of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for Wales is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the National Assembly for Wales, with the consent of the Treasury. The accounts are prepared on an accruals basis and must show a true and fair view of the Council's state of affairs at the year end and of its income and expenditure, 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 the National Assembly for Wales, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards 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 of the National Assembly for Wales has designated the Chief Executive of the Higher Education Funding Council for Wales as the Accounting Officer. His relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which he is answerable for the keeping of proper records and for safeguarding the Council's assets, are set out in the National Assembly for Wales' Accounting Officers' Memorandum.

Statement on Internal Control

Scope of responsibility

1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievements of the HEFCW's policies, aims, and objectives whilst safeguarding the public funds and other assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Government Accounting*. My role and responsibilities as Accounting Officer for the HEFCW are set out in the memorandum *The*

Responsibilities of an ASPB Accounting

Officer. I also attend regular meetings with officers in the Higher Education Division of the National Assembly for Wales 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 2006 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) during 2005–06 a Management Board was established. This comprises all the senior managers in the organisation, and one of its roles is to review and update 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) during the year revised *Risk Management Policy and Guidelines* were introduced and all senior managers have been briefed on the guidelines and on 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 National Assembly for Wales;
 - 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.
- 5 The priority areas for risk management throughout the year have related to the delivery of the National Assembly for Wales's reconfiguration and collaboration agenda, *Reaching Higher*, the management of issues surrounding the separation of the HEFCW's services from the National Council–ELWa and the introduction of a new finance system.

Review of effectiveness

- 6 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and executive managers within the HEFCW who have responsibility for the development and maintenance of the

internal control framework, and comments made by the external auditors in their management letter and other reports. 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.

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

which reports regularly to Council the findings and conclusions of audit work; and

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

- 8 The internal audit service has identified a number of areas where controls require strengthening during the year and up to the date of signature of the statement. In each case an action plan has been agreed with the relevant manager for addressing the weakness. One area of weakness, which was identified last year was the implementation of agreed actions. I confirm that over the year improvements have been made in this respect.



Professor Philip Gummett
Chief Executive and
Accounting Officer

24 July 2006

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

I certify that I have audited the financial statements of the Higher Education Funding Council for Wales for the year ended 31 March 2006 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Council, the Chief Executive and Auditor

The Council and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Further and Higher Education Act 1992 and the National Assembly for Wales' directions made thereunder, and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Council's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements 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 part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and National Assembly for Wales' directions made thereunder. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Council 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 pages 49 to 51 reflects the Council's compliance with Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and 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 Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements 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.

Jeremy Colman
Auditor General for Wales
3 August 2006

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the National Assembly for Wales, of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2006 and of its deficit 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 National Assembly for Wales' directions made thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

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

Income and Expenditure Account

for the year ended 31 March 2006

	Note	2006		2005	
		£'000	£'000	£'000	£'000
GROSS INCOME					
Grant in aid	2(a)	386,523		372,315	
Release from government grant reserve	2(b)	119		38	
Other income	3	20,682		18,826	
TOTAL INCOME			407,324		391,179
EXPENDITURE					
<i>Funding of higher education:</i>					
Recurrent expenditure	4	359,164		340,504	
Capital expenditure	4	15,026		14,926	
Other purposes	6	32,301		31,328	
		406,491		386,758	
<i>Council expenditure:</i>					
Administration costs	7	841		614	
Staff costs	8	1,847		1,476	
Depreciation	11	109		38	
Amortisation	12	10		-	
Notional charges - cost of capital	9	241		244	
		3,048		2,372	
TOTAL EXPENDITURE			409,539		389,130
(Deficit) / Surplus on operating activities			(2,215)		2,049
Interest receivable	10		299		342
Adjustment for notional charge (cost of capital)	9		241		244
Appropriations	10		(299)		(342)
(Deficit) / Surplus for the year transferred to reserves			(1,974)		2,293
Movement on reserves			2006		2005
			£'000		£'000
Retained surplus brought forward			8,064		5,771
(Deficit) / Surplus for year			(1,974)		2,293
Retained surplus carried forward			6,090		8,064
All activities are continuing.					

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

Statement of total recognised gains and losses

	Note	2006 £'000	2005 £'000
(Deficit) / Surplus for year		(1,974)	2,293
Movement in government grant reserve	2(b)	136	47
Total recognised gains and losses relating to year		(1,838)	2,340

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

Balance Sheet as at 31 March 2006

	Note	2006		2005	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible fixed assets	11		187		70
Intangible fixed assets	12		19		-
			206		70
CURRENT ASSETS					
Debtors	13	1,246		6,376	
Cash at bank and in hand	22	6,616		3,660	
		7,862		10,036	
CREDITORS					
Amounts falling due within one year	14	(1,772)		(1,972)	
Net current assets			6,090		8,064
NET ASSETS			6,296		8,134
FINANCED BY :					
CAPITAL AND RESERVES					
Income and expenditure account			6,090		8,064
Government grant reserve	2(b)		206		70
TOTAL GOVERNMENT FUNDS			6,296		8,134

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
24 July 2006

Cashflow Statement for the year ended 31 March 2006

	Note	2006 £'000	2005 £'000
Operating activities			
Net cash inflow / (outflow) from operating activities	21	2,956	(2,734)
Returns on investments and servicing of finance			
Interest received		306	330
Interest surrendered to the National Assembly for Wales		(306)	(330)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(226)	(85)
Payments to acquire intangible fixed assets		(29)	-
Net cash inflow / (outflow) before financing		2,701	(2,819)
Financing			
Government grant reserve	2	255	85
Increase / (decrease) in cash	22	2,956	(2,734)
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 the National Assembly for Wales, with the consent of the Treasury, in exercise of the powers conferred by paragraph 16(2), schedule 1 to the Further and Higher Education Act 1992.

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

(b) Grants for European Union (EU) projects

Income:

The Council receives grant income relating to EU projects from two sources. Grant income from the National Assembly for Wales in support of European Social Fund projects is credited to the account in the year in which expenditure is incurred. EU income in support of European Social Fund projects is credited to the account in the year in which expenditure is defrayed.

Expenditure:

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

(c) Grant in aid

Grant in aid is received from the National Assembly for Wales for operating

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

(d) Grants payable

Grants payable are recorded as expenditure in the period in which the recipient carries out the activity, which creates an entitlement. Those grants of a recurring nature, mainly the recurrent and capital funding provided to Higher Education Institutions, are brought to account when paid. In the opinion of the Council, this treatment achieves in all material respects a match between grant funding brought to account and the pattern of financial activity at the Higher Education Institutions.

(e) Joint costs

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 with the National Assembly for Wales.

(f) Notional charges

Cost of Capital:

As directed by the National Assembly for Wales, a notional capital charge reflecting the cost of capital employed, is included in operating costs and calculated at 3.5% (2004-05 - 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

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

2. Reconciliation of grant in aid

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

	2006 £'000	2005 £'000
(a) Revenue grant in aid received		
Grant in aid received	386,778	372,400
Less amounts used for capital expenditure - intangible	(29)	-
- tangible	(226)	(85)
	386,523	372,315
(b) Government grant reserve		
Balance at 1 April	70	23
Capital grants received in year	255	85
Less amounts released to income and expenditure account	(119)	(38)
Balance at 31 March	206	70

3. Other Income

	2006 £'000	2005 £'000
National Assembly for Wales – Financial contingency and mature students' access bursary funds (a)	5,109	5,115
National Assembly for Wales – Knowledge Exploitation Fund	-	4
European Union – European Social Fund –	1,894	2,156
Office of Science & Technology – Science Research Infrastructure Fund	13,679	11,551
	20,682	18,826

(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

	2006			2005
	Recurrent £'000	Capital £'000	Total £'000	Total £'000
Higher Education Institutions				
University of Wales, Aberystwyth	33,562	1,389	34,951	31,460
University of Wales, Bangor	33,110	1,353	34,463	32,325
Cardiff University (see (a) below)	107,689	3,717	111,406	99,802
University of Wales College of Medicine (see (a) below)	-	-	-	8,010
University of Wales Swansea	39,005	1,555	40,560	37,302
University of Wales, Lampeter	6,537	319	6,856	6,164
North East Wales Institute	14,827	755	15,582	17,196
University of Wales, Newport	19,153	946	20,099	22,148
University of Wales Institute, Cardiff	26,269	1,298	27,567	26,321
Swansea Institute of Higher Education	15,681	702	16,383	14,114
Trinity College Carmarthen	5,853	334	6,187	6,278
University of Glamorgan	42,824	2,016	44,840	44,748
Royal Welsh College of Music and Drama	5,274	327	5,601	5,445
University of Wales Registry	1,286	-	1,286	736
Open University (see (b) below)	4,182	-	4,182	-
Sub-total	355,252	14,711	369,963	352,049
Further Education Institutions				
Bridgend College	24	-	24	80
Coleg Sir Gâr	1,014	-	1,014	909
Coleg Llandrillo	1,076	-	1,076	1,171
Coleg Menai	22	-	22	79
Neath Port Talbot College	110	-	110	127
Pembrokeshire College	-	-	-	5
Coleg Morgannwg	423	-	423	472
Swansea College	67	-	67	80
Sub-total	2,736	-	2,736	2,923
Other Organisations				
Centre for Higher Education Research & Information	37	-	37	-
Department of Employment and Learning Northern Ireland	21	-	21	29
Higher Education Funding Council for England (HEFCE)	2,326	315	2,641	1,867
HERO Ltd	25	-	25	33
The Higher Education Academy	596	-	596	200
Institute of Employment Studies	29	-	29	-
NCETW	24	-	24	-
OPM	104	-	104	-
PMMS Limited	184	-	184	-
Quality Assurance Agency	68	-	68	-
Arts and Humanities Research Council	-	-	-	1,704
UKERNA	36	-	36	109
Universities UK	81	-	81	85
Wales Audit Office - audit fees, EU-funded projects	26	-	26	8
Education Data Surveys	-	-	-	67
Newidiem Cyf	-	-	-	69
Wales European Centre	-	-	-	25
Scottish Higher Education Funding Council	-	-	-	(21)
Other	374	-	374	184
Sub-total	3,931	315	4,246	4,359
Total	361,919	15,026	376,945	359,331
Less ESF funded expenditure (see note 6)	(2,755)	-	(2,755)	(3,901)
Total	359,164	15,026	374,190	355,430

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

(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' 2004/05 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 2005 did not lead to any material adjustments. Any adjustment arising from the audit of 2005/2006 accounts and student numbers, will be made by the Council in future years.

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

6. Expenditure for other purposes

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

	2006 £'000	2005 £'000
Financial contingency and mature students access bursary funds (a)	5,109	5,115
Knowledge Exploitation Fund (b)	-	4
European Social Fund – (b)	2,755	3,901
Science Research Infrastructure Fund	24,437	22,308
	32,301	31,328

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

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

7. Administration costs

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

	2006 £'000	2005 £'000
Accommodation costs	262	155
Office costs	78	143
Bought in services	208	94
Auditors' remuneration – Annual audit fee of the HEFCW	16	16
Auditors' remuneration – Additional assurance report work	3	3
Council members' travel and subsistence costs	13	11
Council members' meeting costs	18	-
Staff travel and subsistence costs	48	39
Staff related expenditure on training etc.	102	124
Information technology costs	93	29
	841	614

Administration costs exclude £32k charged to programme recurrent costs (2005 - £nil).

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

	2006 Numbers	2005 Numbers
	51	37
	3	2
	3	2
	57	41

9. Notional charges

Cost of capital - 3.5% (2005 - 3.5%) of capital employed

	2006 £'000	2005 £'000
	241	244

10. Appropriations

Receipts surrenderable to the National Assembly for Wales:
 Bank interest

	2006 £'000	2005 £'000
	299	342

11. Tangible fixed assets

Cost

	IT Equipment £'000	Fixtures & Fittings £'000	Electrical Equipment £'000	Total £'000
At 1 April 2005	215	216	68	499
Written off in year	(132)	(216)	(39)	(387)
Additions	181	31	14	226
At 31 March 2006	264	31	43	338

Depreciation

At 1 April 2005	169	216	44	429
Released on write-offs	(132)	(216)	(39)	(387)
Charged during year	88	12	9	109
At 31 March 2006	125	12	14	151

Net book value at 31 March 2006

Net book value at 1 April 2005

	IT Equipment £'000	Fixtures & Fittings £'000	Electrical Equipment £'000	Total £'000
	139	19	29	187
	46	-	24	70

The assets written off in the year represent jointly owned assets with the National Council with a nil net book value. They have been written out of HEFCW's accounts as a result of separation from the National Council which took place on 1 April 2006.

12. Intangible fixed assets

	Software licences £'000
Cost	
Additions	29
At 31 March 2006	29
Amortisation	
Charged during year	10
At 31 March 2006	10
Net book value at 31 March 2006	19
Net book value at 1 April 2005	-

13. Debtors

	2006 £'000	2005 £'000
Trade debtors	9	62
Prepayments and accrued income	763	590
Balances with other central government bodies	474	614
Other debtors (a)	-	5,110
	1,246	6,376

(a) At 31 March 2005 this included an interest-free loan of £4.95 million to University of Wales Swansea in respect of an advance of funding to meet the cost of purchasing a high powered computer which is part of UW Swansea's Institute of Life Science Project. National Assembly for Wales funding for this project was not due to be available to UW Swansea until the Assembly's new financial year commencing in April 2005. The loan was made with the approval of the National Assembly for Wales and was recovered in two installments in April and May 2005.

14. Creditors: Amounts falling due within one year

	2006 £'000	2005 £'000
Accruals	1,352	1,365
Balances with other central government bodies	420	607
	1,772	1,972

15. Reconciliation of movement in government funds

	2006 £'000	2005 £'000
Retained (deficit) / surplus for the year	(1,974)	2,293
Movement on government grant reserve	136	47
Movement in government funds	(1,838)	2,340
Government funds at 1 April	8,134	5,794
Government funds at 31 March	6,296	8,134

16. Lease obligations

	2006 £'000	2005 £'000
Amounts charged to the Income and Expenditure Account for operating lease rentals in respect of accommodation	108	69
Annual commitment on leases expiring within:		
One year	-	-
Two to five years	154	69
Over five years	-	-

17. Capital Commitments

	2006 £'000	2005 £'000
Contracted	-	-

18. Financial commitments

	2006 £'000	2005 £'000
Revenue grants (a)	147,885	132,696
European projects (b)	3,430	261
	151,315	132,957

(a) This amount will be funded by grant in aid from the National Assembly for Wales

(b) European projects will be funded as follows:

	2006 £'000	2005 £'000
European Social Fund grants	2,584	100
Grant in aid from the National Assembly for Wales	846	161
	3,430	261

The European projects also have financial commitments of £2,410k to be funded by external match funding contributions from Higher Education institutions and small and medium sized enterprises.

19. Losses and special payments

	2006	2005
Fruitless payments	2,425	603

20. Related party transactions

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

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

Name	Relationship
Dr Len Arthur (Council member)	Senior Lecturer; University of Wales Institute, Cardiff.
Mr RPV (Tim) Rees (Council member)	Son-in Law, European Commission, Framework 7 Consultation.
Professor Sir Brian Smith (Council member)	Member, Representative Body of the Church in Wales.
Mrs Tina Stephens (Council member)	Member of Board of Governors, University of Glamorgan.
	North Wales representative on Wales Management Council.
	Member of Advisory Board for School of Business & Regional Development at UW Bangor.
Professor Gwyn Thomas (Council member)	Daughter works for National Assembly for Wales.
Professor D Garel Rhys, OBE (Council member)	Chairman, Economic Research Advisory Panel of the National Assembly for Wales; Emeritus Professor, Cardiff University.
	Honorary Fellow, Swansea Institute of Higher Education.
	Daughter in Law, Lecturer at University of Wales, Newport.
Professor Nigel Stott, CBE (Council Member)	Emeritus Professor, Wales College of Medicine, Cardiff University.
	Member, Governing Body of Church in Wales.
Ms Eleri Wynne Jones (Council Member)	Member of Rees Commission on Devolution of Student Fees until May 2005.
Professor Philip Gummett (Chief Executive)	Wife, part-time tutor at Swansea Institute of Higher Education.
Mr Richard Hirst (Director of Finance & Corporate Services) Limited.	Director of Higher Education and Research Opportunities (HERO)

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 (deficit)/surplus for the year to net cash inflow / (outflow) from operating activities

	2006 £'000	2005 £'000
Operating (deficit) /surplus (before financing and appropriations)	(2,215)	2,049
Amortisation charges	10	-
Depreciation charges	109	38
Amount released from deferred government grant reserve	(119)	(38)
Notional charge - cost of capital	241	244
Decrease/(increase) in debtors	5,130	(4,666)
(Decrease) in creditors	(200)	(361)
Net cash inflow/(outflow) from operating activities	2,956	(2,734)

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

	2006 £'000	2005 £'000
Increase/(decrease) in cash	2,956	(2,734)
Net funds as at 1 April	3,660	6,394
Net funds as at 31 March	6,616	3,660
Analysis of net funds:		
Cash at bank and in hand	6,616	3,660

23. Derivatives and other financial instruments

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