

# Higher Education Funding Council for Wales Annual report and accounts

For the year ended 31 March 2016



Noddir gan  
**Lywodraeth Cymru**  
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## Annual report and accounts

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# Performance report

## Overview

### Accounting Officer's statement on performance

The reporting year has brought in significant changes for us, with the Higher Education (Wales) Act 2015 ('the HE Act') becoming law. We have started to modify our own role, with arrangements around fee planning and quality assurance changing, and our role as a higher education regulator strengthening.

Welsh higher education providers, both universities and further education colleges, will be adjusting to the changes in our relationship, and we continue to work with them to secure a smooth transition and to ensure that our new duties are carried out effectively. Dialogue, partnership, engagement and understanding, which have always been the basis of our relationship with providers, are all key to being a good regulator. As direct public funding from us diminishes however, the HE Act gives us powers to intervene if required.

Changes are in train in the realm of assessing the quality of higher education. We, along with higher education funders in England and Northern Ireland, spent much of the year looking for potential new ways of assessing the quality of higher education that will sit comfortably within a UK framework, while meeting our distinct Welsh needs. We have dealt with the practical aspects of our change in role against a backdrop of major reports and announcements.

We have balanced our funds carefully for a number of years, but the decision by the Welsh Government to fund tuition fee grants directly to the Student Loans Company from 1 April 2015, rather than through HEFCW, resulted in a major reduction in our grant-in-aid funding of over 65%, from £362.5 million to £125.7 million. Since the year-end on 31 March 2016, we have needed to give additional consideration to the most effective ways of targeting our funding, following a £10 million reduction in our budget for the 2016-17 financial year, with a further £21 million at risk of moving from our budget and being put towards tuition fee grant funding later in 2016-17.

Towards the end of 2015-16, the Welsh Government published Professor Ellen Hazelkorn's '*Towards 2030*'. This review of the regulation arrangements for post-compulsory education and training in Wales recommended replacing HEFCW with a single new authority to regulate, oversee and co-ordinate all post-16 education and training. We await with interest the response of the Welsh government to Professor Hazelkorn's report.

Finally, since the end of 2015-16, Professor Sir Ian Diamond published his interim report on higher education funding and student finance arrangements in Wales, which provided a distillation of the evidence submitted so far. We await the publication of his final report and are optimistic that the final outcomes of this evidence-based policymaking process during 2016-17 will reflect the need to secure a world-class Welsh higher education system; a system which supports jobs and growth but which also makes a major contribution to culture, the arts and to equality and social cohesion .

We showcased many of the successes coming from the higher education sector in our January 2016 publication 'Higher Education for the Nation ii: the contribution of Welsh universities'. We highlighted the numerous positive contributions of Welsh higher education institutions to the economic and social prosperity of our country. Individually and

## Higher Education Funding Council For Wales

collectively, we should be proud of our universities. They are an investment which contributes to Wales as a vibrant nation, and well-resourced higher education institutions find it easier to uphold their reputations, attract students and meet the broader needs of Wales. For the foreseeable future, we will continue both to invest in these HE providers and to hold them to account, making sure students have a first-rate experience at strong, sustainable institutions.

## About HEFCW

The Higher Education Funding Council for Wales (HEFCW) is the public body that sits between universities and the Welsh Government. We regulate fee levels at higher education (HE) providers, ensure a framework is in place for assessing the quality of higher education and scrutinise the performance of universities. We distribute resources for higher education teaching and research, and help to deliver Welsh Government priorities for higher education for the wider benefit of society and the economy.

We are Welsh Government Sponsored Body, originally established under the Further and Higher Education Act 1992. The Higher Education (Wales) Act 2015 has given us an enhanced role as a regulator of HE in Wales.

## Purpose and activities of HEFCW

A two-year transitional period for HEFCW's duties under the new Act commenced on 1 September 2015, which will be fully implemented from 1 September 2017.

We regulate fee levels at universities, ensure a framework is in place for assessing the quality of higher education and scrutinise the financial, governance and risk performance of universities.

We distribute funding for HE provided by the Welsh Government. This includes:

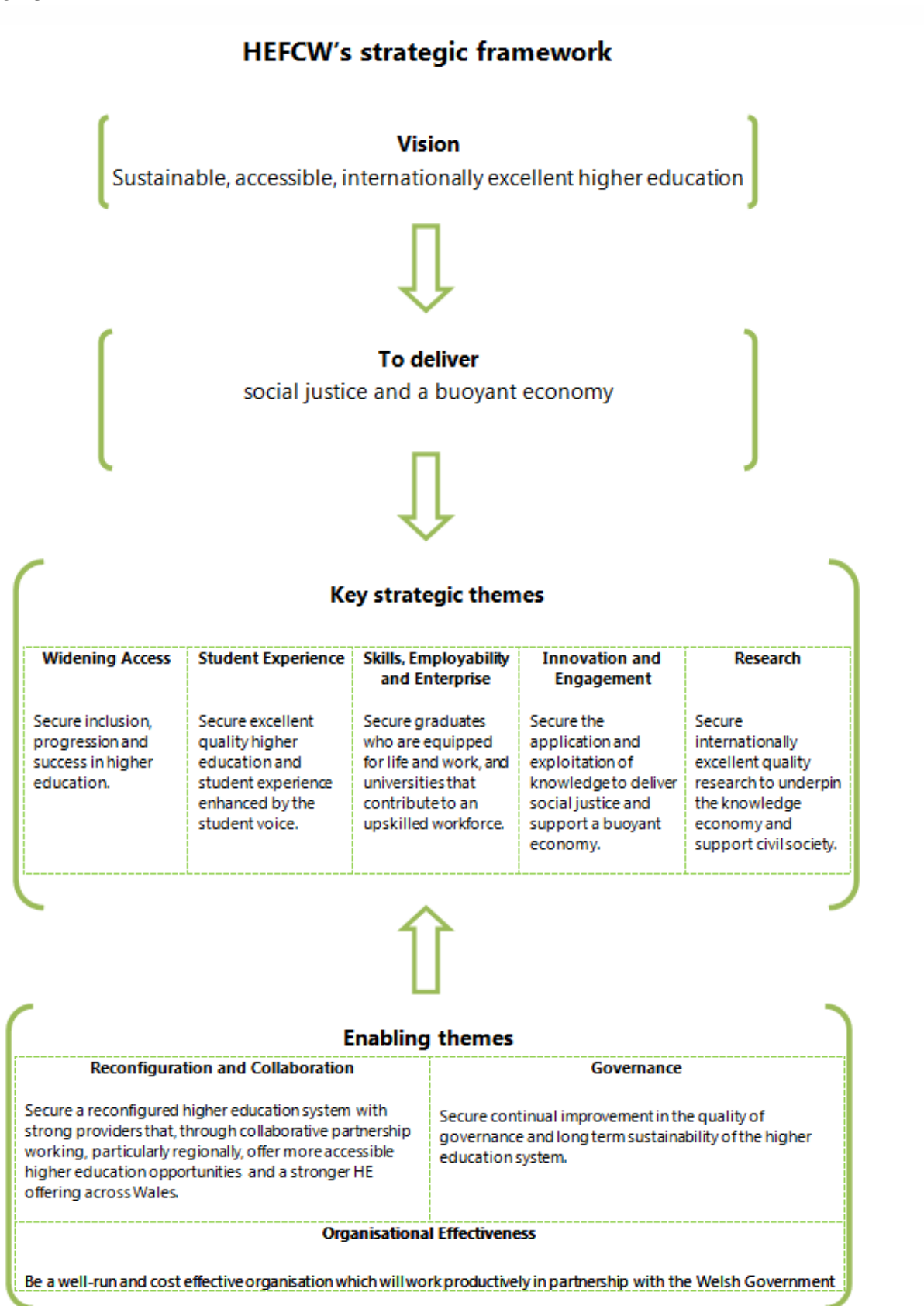
- Teaching, research and other funding to Welsh universities.
- Funding for HE courses at some further education colleges.

We support the HE system in Wales in delivering Welsh Government priorities, securing high quality learning, teaching and research and contributing to Welsh culture and society and the economy.

We also accredit providers of initial teacher training (ITT) for school teachers. Our responsibilities for ITT are covered under the Education (School Teachers' Qualifications) (Wales) Regulations 2004 and the Education Act 2005.

The key elements of our strategy have, throughout the year, been those set out in our corporate strategy for 2013-14 to 2015-16 and are set out below.

Our strategic framework is set out in the HEFCW Corporate Strategy 2013-14 to 2015-16 as follows:



## Key issues and risks

Key issues for HEFCW during the year are detailed as ‘significant risks’ in our Governance Statement on pages 31 to 38. In summary, they consisted of:

- Significant budget reductions
- Welsh Government’s reviews of higher education funding and of governance arrangements for post-compulsory education in Wales (*Diamond* and *Hazelkorn* Reviews)
- The introduction of the Higher Education (Wales) Act 2015 –the transitional period of implementation commenced on 1 September 2015
- Developments in England and the potential impact on Welsh higher education

A revised corporate risk register of our key strategic risks was agreed by our Council in March 2016, and is subject to regular review.

The corporate risk register is structured to reflect all significant risks assessed by our teams in relation to their objectives and projects, including all appropriate corporate and operational plan objectives. Were these risks to materialise they would have a significant negative impact on HEFCW and/or on the higher education sector in Wales as a whole.

This does not mean these risks will definitely occur; rather, the risk register indicates that these are areas of risk which we need to be aware of and respond to in order to perform our role effectively. Monitoring and assessing key risks and current controls allows us to evaluate the effect of these major uncertainties on our corporate strategy and operational plan objectives. Where appropriate we can then make adjustments to our control measures.

<b>Risk area</b>	<b>Main risk(s)</b>
Sustainability and assurance	<ul style="list-style-type: none"> <li>• Higher education providers fail to maintain effective regional partnerships.</li> <li>• HE institutions unable to maintain their long term financial sustainability.</li> </ul>
Widening access	<ul style="list-style-type: none"> <li>• Failure of sector to meet part-time corporate strategy target.</li> </ul>
Student experience	<ul style="list-style-type: none"> <li>• HE sector fails to meet our Corporate Strategy target for Welsh medium provision.</li> <li>• Failure to secure effective delivery of Initial Teaching Training.</li> <li>• Failure to secure excellent quality higher education and student experience in context of funding changes which is competitive in the UK and in the international environment.</li> <li>• HEFCW unable to meet its statutory responsibilities for quality under the HE (Wales) Act in light of changes to quality assurance arrangement and the Teaching Excellence Framework.</li> </ul>
Research	<ul style="list-style-type: none"> <li>• HE sector fails to meet Welsh Government expectations of improved research performance and the related expectation of an increase in UK research council income. This risk increases as quality research falls.</li> </ul>

Risk area	Main risk(s)
HEFCW operating risks	<ul style="list-style-type: none"> <li>• Workload increases beyond staff capacity.</li> <li>• Welsh Government fails to engage with, and utilise, HEFCW effectively in relation to HE developments.</li> <li>• HEFCW funding, post fee grant changes, is inadequate to support strategic investments and core priorities.</li> <li>• Risk of continuing increase in Welsh domiciled students choosing to study elsewhere, especially in the light of the lifting of the student number cap in England and initiatives to promote recruitment to high tariff universities.</li> <li>• HEFCW unable to implement Higher Education (Wales) Act 2015 effectively.</li> <li>• Capacity to operate within substantially reduced future running costs' budgets.</li> <li>• Some institutions fail to deliver effective Fee and Access plans.</li> <li>• Inability to agree and implement pay proposals for 2013-14 and 2014-15 due to affordability and sustainability and/or resistance from the Welsh Government.</li> </ul>

## Performance in year - summary

### Operational plan – progress against priorities

The tasks in our operational plan have been largely based on priorities identified by the Welsh Government in its annual remit letter to us. Quarterly updates and monitoring meetings with the Welsh Government ensure a continual assessment of our achievements and give us an opportunity to address areas that might not be progressing satisfactorily.

The format for the Operational Plan was revised in 2015-16 in response to steers from the Welsh Government that we should amend our annual plan to detail the wider range of activities carried out by us every year, and not just activities set out in the annual remit letter. This meant that there were 176 activities in the latest plan, compared to 34 the previous year. 162 of these were completed (see 'Operational Plan – outcomes' below on page 10).

### Corporate strategy – progress against measures

There are seventeen targets in HEFCW's Corporate Strategy 2013-14 to 2015-16<sup>1</sup>, baseline data for which was academic year 2011/12. As a means of monitoring our progress over the last four years against the targets, we set out below the latest available information for the academic year to 31 July 2015. The Welsh Government agreed to an extension of our current Corporate Strategy to 2016-17<sup>2</sup>. Details of progress made are given in 'Progress against Corporate Strategy measures – analysis' below on pages 11 to 17.

<sup>1</sup> [www.hefcw.ac.uk/documents/publications/corporate\\_documents/Corporate%20Strategy%202013-14-2015-16.pdf](http://www.hefcw.ac.uk/documents/publications/corporate_documents/Corporate%20Strategy%202013-14-2015-16.pdf)

<sup>2</sup> Paragraph 10 of [W15/02HE](#)

## Financial overview

### *Performance in year*

	2016 £000	Restated 2015 £000
Funding of higher education	133,975	373,201
Council expenditure	2,752	2,580
Other income	(8,046)	(20,519)
Interest payable	1	-
Grant in aid – funding from the Welsh Government	<u>(125,747)</u>	<u>(362,518)</u>
(Decrease)/increase in Taxpayers' Equity	<u>(2,935)</u>	<u>7,256</u>

Grant in aid has fallen significantly in the year due to the Welsh Government's decision to fund tuition fee grants directly to the Student Loans Company from 1 April 2015.

The reduction of £12.5 million of 'Other income' is primarily due to the end of ESF project funding and one-off UKRPIF funding received for Swansea University in 2014-15.

See the Statement of Comprehensive Net Expenditure and the Statement of Changes in Taxpayers' Equity on pages 53 and 56 and note 7 to the accounts (in respect of the restated 2015 figures) for further details.

## Expected future developments

Over the next twelve months, we will better forge our own identity and develop the strategic direction for higher education in Wales, while continuing to implement the requirements of the Higher Education (Wales) Act 2015.

- Our new corporate strategy will take effect in April 2017. In the meantime, we will be carrying out an extensive consultation on its development.
- Parallel to this, we will be working with higher education providers on a brand new strategy for higher education that will prepare them for the challenges that lie ahead over the coming years. We will be looking at how to sustain and develop a strong HE system in the context of Welsh Government priorities and wider UK changes.
- Under the Higher Education (Wales) Act 2015, we have specific duties relating to: fee and access plans; the quality of education; a Financial Management Code for regulated institutions; and a Statement of Intervention, showing what happens if a regulated institution fails to reimburse excess student fees or fails to address identified quality issues. We will carry on with our formal consultations on a number of aspects of our new requirements over the current 'transitional period', while continuing to talk to providers about any issues or concerns they have before the full execution of our new duties in September 2017.



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- We await the final outcomes of Professor Sir Ian Diamond's independent review of higher education funding and student finance arrangements, and will be fully engaged in implementing any changes that arise as a result of subsequent Welsh Government actions.
- We will also be supporting the Welsh Government in implementing any changes to our remit once it considers in more detail the recommendations of Professor Ellen Hazelkorn's review *Towards 2030*.
- Finally, we expect to publish an analysis of the effects of the Welsh Government's current fees and funding framework on universities' income in Wales for the first three years of its operation, as part of our drive to make funding information transparent and publicly accessible.

## Performance analysis

HEFCW is required by the Welsh Government to have a corporate plan setting out our medium to long term objectives and an operational plan for the financial year ahead. The plan was amended in 2015-16 to detail a wider range of activities undertaken as well as the activities set out in the annual remit letter. Quarterly updates and monitoring meetings are held with the Welsh Government to monitor progress against the operational plan.

The Framework Document, which sets out the terms of the relationship between the Welsh Government and HEFCW, requires us to set budgets and monitor expenditure. This is achieved by issuing monthly budget reports and re-profiling cash expenditure on a quarterly basis. We also monitor our cash balances on a monthly basis to ensure that they are kept within prescribed limits.

## Operational plan - outcomes

Of the 176 activities identified in our operational plan:

- 162 were completed (of which 152 were achieved in the timescale set).
- 8 were not completed within the planning period.
- 6 were no longer applicable due to external factors.

Some delays were as a result of having to implement our new statutory responsibilities within the necessary timescales. Others had no set end date or had flexible end dates to ensure that we are able to deliver the required outcomes.

Our achievements in 2015-16 included:

- Developing new guidance for 2017-18 fee and access plans.
- Developing new quality assurance arrangements that meet the needs of Wales, and are appropriate to the requirements of the Higher Education (Wales) Act 2015.
- Our continuing work with the Higher Education Funding Council for England (HEFCE) on the review of public information, including the National Student Survey.
- Publishing our 'transitional statement of intervention', which details how we will proceed if a regulated institution fails to reimburse excess student fees or fails to address identified quality issues.
- Piloting the collection and analysis of in-year international student and transnational education data in conjunction with Universities Wales and universities.
- Developing and securing funding for a new GO Wales programme.
- Developing a new financial memorandum between us and higher education providers.
- Producing a report for the Education Minister on the latest position regarding senior pay based on HE institutions' financial statements and annual reports.
- Engaging with Wales and UK developments around research and innovation, including feeding into UK-wide reviews of structures and support.

## Progress against corporate strategy measures – analysis

There are seventeen targets in our Corporate Strategy 2013-14 to 2015-16<sup>3</sup>, baseline data for which was 2011/12. As a means of monitoring our progress over the last four years against the targets, we set out below the latest available information for the academic year to 31 July 2015. Last year, the Welsh Government agreed to an extension of our current Corporate Strategy to 2016-17<sup>4</sup>, in effect providing a further year to reach the targets.

Looking at 2014/15 data and rolling this performance forward, it is possible that the following targets will be met: Widening access (Target T1), Participation (T2); Retention (T3, Full-time); Welsh medium (T6) (5 credit target only); CPD (T12), Collaborative research income (T13); and REF (T15). However, institutional forecasts are yet to be received and may show a different picture for some of these targets.

A number of targets are comparative to UK performance or await data on performance and cannot therefore be assessed. This applies to Part-time (T4); NSS (T5); Overseas students (T7); Quality (T8); ITT (T9); Employment (T10); Research Council income (T14); Income (T16) and Governance (T17).

Performance based on 2014/15 indicates that two targets will not be met: Retention (T3, Part-time) and Welsh medium (T6) (40 credits). Data for Employability (T11) is not yet available, and as indicated above, institutional forecasts may show a different picture.

We will continue to monitor progress and work with the higher education sector to encourage improved performance in these policy areas, noting that changes to our powers and funding constrain the extent to which we are able to exercise leverage in these areas.

	Baseline	Progress	Progress	Progress
<b>1</b>	A rise in the proportion of all Welsh domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are domiciled in the bottom quintile of Lower Super Output Areas in the Welsh Index of Multiple Deprivation or in Communities First cluster areas, <b>from 20.1% in 2011/12 to 22.4% in 2016/17 (a rise of 11.6%)</b>			
	*Baseline and target have been amended to reflect late inclusion of an area in the Communities First initiative			
	2011/12	2012/13	2013/14	2014/15
	20.1%	20.7%	20.9%	21.6%

<sup>3</sup> [www.hefcw.ac.uk/documents/publications/corporate\\_documents/Corporate%20Strategy%202013-14-2015-16.pdf](http://www.hefcw.ac.uk/documents/publications/corporate_documents/Corporate%20Strategy%202013-14-2015-16.pdf)

<sup>4</sup> Paragraph 10 of [W15/02HE](#)

	Baseline	Progress	Progress	Progress
<b>2</b> An increase in the proportion of all UK domiciled students studying higher education courses at higher education institutions and further education institutions in Wales who are from UK low participation areas <b>from 33.2% in 2011/12 to 35.3% in 2016/17 (a rise of 6.3%)</b>				
	2011/12	2012/13	2013/14	2014-15
	33.2%	34.0%	34.3%	35.2%
<b>3 (a)</b> A decrease in the percentage of full-time undergraduate students no longer in higher education following year of entry <b>from 9.2% in 2011/12 to 8.2% in 2016/17 (a drop of 10.7%)</b>				
	2011/12	2012/13	2013/14	2014-15
	9.2%	7.5%	7.5%	8.2%
<b>3 (b)</b> A decrease in the percentage of part-time first degree students no longer in higher education two years following year of entry <b>from 33.7% in 2011/12 to 30.1% in 2016/17 (a drop of 10.7%)</b>				
	2011/12 (2009/10 entry)	2012/13 (2010/11 entry)	2013/14 (2011/12 entry)	2014/15 (2012/13 entry)
	33.7%	30.9%	35.5%	34.4%
<b>4</b> The percentage change in the number of part-time students attending higher education courses in Welsh higher education institutions and further education institutions to be <b>equal to, or greater than, the comparable figure for the UK</b>				
	2010/11 to 2011/12 % growth	2011/12 to 2012/13 % growth	2012/13 to 2013/14 % growth	2013/14 to 2014/15 % growth
	<b>Welsh</b> institutions	<b>Welsh</b> institutions	<b>Welsh</b> institutions	<b>Welsh</b> institutions
	-2.2%	-4.8%	-3.4%	-4.0%
	<b>UK</b> institutions	<b>UK</b> institutions	<b>UK</b> institutions	<b>UK</b> institutions
	-6.0%	-13.8%	-7.3%	-5.1%

	Baseline	Progress	Progress	Progress
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**5** The three year rolling average score for Wales in the National Student Survey 'overall satisfaction'\* question will be **equal to, or greater than the comparative score for the UK**

\* 'Score' means percentage of students who agreed with 'Overall, I am satisfied with the quality of my course'.

	2010 to 2012 3-year rolling average	2011 to 2013 3-year rolling average	2012 to 2014 3-year rolling average	2013 to 2015 3 year rolling average
<b>Welsh</b> institutions	83.3%	83.7%	84.3%	84.7%
<b>UK</b> institutions	83.3%	84.3%	85.3%	85.7%

**6** The number of students studying higher education courses at higher education institutions and further education institutions in Wales undertaking at least 5 credits of their course through the medium of Welsh, per annum, will rise from 4,335 in 2011/12 to 5,600 in 2016/17, including a rise from 2,269 to 3,030 in the number of those studying at least 40 credits per annum

	2011/12	2012/13	2013/14	2014/15
<b>5+ credits</b>	4,335	4,881	4,858	5,228
<b>40+ credits</b>	2,269	2,359	2,445	2,484

	Baseline	Progress	Progress	Progress
<b>7</b> The percentage change year on year in the number of overseas students attending higher education courses in Welsh higher education institutions will be <b>equal to, or greater than, the comparable figure for UK higher education institutions</b> (excluding London and the South East)				
	2010/11 to 2011/12 % growth	2011/12 to 2012/13 %growth	2012/13 to 2013/14 % growth	2013/14 to 2014/15 % growth
	<b>Welsh HE institutions</b>  -1.5%	<b>Welsh HE institutions</b>  -1.4%	<b>Welsh HE institutions</b>  7.4%	<b>Welsh HE institutions</b>  -5.1%
	<b>UK HE institutions (excl London and SE England)</b>  2.6%	<b>UK HE institutions (excl London and SE England)</b>  0.7%	<b>UK HE institutions (excl London and SE England)</b>  4.1%	<b>UK HE institutions (excl London and SE England)</b>  0.3%
<b>8</b> All institutions being reviewed in the Corporate Strategy period to receive QAA Institutional Review outcomes of ' <b>commended</b> ' or ' <b>Meets UK expectations</b> ' for all <b>judgements</b> ' Data complete as at 31 May 2016				
		2013/14	2014/15	2015/16
	Number reported in period	1	3	2
	Number 'commended' or 'Meets UK expectations'	1	3	2

	Baseline	Progress	Progress	Progress
<p><b>9</b> Welsh Government intake targets for ITT undergraduate primary, postgraduate primary, undergraduate secondary, postgraduate secondary priority and postgraduate secondary other subjects to be <b>met annually</b></p> <p>NB: Intake targets are monitored at individual centre, phase, level and subject using HESES data and if any individual target is over-recruited to by more than 5% a penalty is applied. No penalties were applied in 2012/13, 2013/14 or 2014/15. Under-recruitment is allowed but is monitored<sup>5</sup>. The Corporate Strategy target is monitored at sector level using HESA data.</p>				
		2012/13	2013/14	2014/15
	Primary UG	2%	-1%	-3%
	Primary PG	4%	2%	-1%
	Secondary UG	-15%	-52%	-69%
	Secondary PGCE-priority	-18%	-12%	-31%
	Secondary PGCE - other	3%	-1%	-14%
<p><b>10</b> The proportion of leavers from Welsh higher education institutions obtaining undergraduate qualifications through full-time or part-time study who were employed, studying or both six months after leaving will be <b>equal to, or greater than, the UK proportion</b></p>				
	2010/11	2012/13	2013/14	2014/15
	<b>Welsh</b> institutions	<b>Welsh</b> institutions	<b>Welsh</b> institutions	<b>Welsh</b> institutions
	92.2%	93.5%	94.2%	Data not yet available
	<b>UK</b> institutions	<b>UK</b> institutions	<b>UK</b> institutions	<b>UK</b> institutions
	91.5%	93.1%	93.8%	Data not yet available

5

[www.hefcw.ac.uk/documents/publications/circulars/circulars\\_2013/W13%2008HE%20Initial%20Teacher%20Training%20Controls%20n%20recruitment%20against%20intake%20targets.pdf](http://www.hefcw.ac.uk/documents/publications/circulars/circulars_2013/W13%2008HE%20Initial%20Teacher%20Training%20Controls%20n%20recruitment%20against%20intake%20targets.pdf)

	Baseline	Progress	Progress	Progress
<b>11</b> The proportion of leavers who were working or working and studying who were working in a managerial/professional job six months after leaving to rise from <b>67.5% in 2010/11 to 72.7% in 2016/17 (a rise of 7.7%)</b>				
	2010/11	2012/13	2013/14	2014/15
	67.5%	68.4%	70.2%	Data not yet available
<b>12</b> The total number of learner days delivered by Welsh higher education institutions for continuing professional development will rise from <b>202,498 in 2011/12 to 226,000 in 2016/17 (a rise of 11.6%)</b>				
	2011/12	2012/13	2013/14	2014/15
	202,498	213,534	206,147	248,867
<b>13</b> The total amount of income from collaborative research involving both public funding and funding from business will rise <b>from £65,294k in 2011/12 to £72,000k in 2016/17 (a rise of 10.3%)</b>				
	2011/12	2012/13	2013/14	2014/15
	65,294k	70,006k	83,135k	83,669k
<b>14</b> The annual percentage change in income from Research Councils will <b>exceed the comparable figure for UK higher education institutions</b> (excluding the 'golden triangle' of Oxford, Cambridge and London)				
	2010/11 to 2011/12 % growth	2011/12 to 2012/13 %growth	2012/13 to 2013/14 % growth	2013/14 to 2014/15 % growth
	<b>Welsh</b> HE institutions	<b>Welsh</b> HE institutions	<b>Welsh</b> HE institutions	<b>Welsh</b> HE institutions
	-3.6%	-10.1%	5.7%	9.9%
	<b>UK</b> HE institutions	<b>UK</b> HE institutions	<b>UK</b> HE institutions	<b>UK</b> HE institutions
	-4.0%	1.6%	6.6%	7.4%



	Baseline	Progress	Progress	Progress
<b>15 An increased proportion</b> of research submitted to REF by Welsh higher education institutions will achieve 3* and 4* in the Research Excellence Framework <b>2014 from a baseline of 35% at 3* and 14% at 4*</b> in the 2008 Research Assessment Exercise.				
	2008 RAE	2014 REF		
	4* 14%	4* 30%		
	3* 35%	3* 47%		
<b>16 At least 75% of the Welsh higher education institutions</b> to have an annual income in excess of the UK median, with <b>no institution to be in the lower quartile by 2016/17</b>				
	2011/12	2012/13	2013/14	2014/15
	In excess of UK median	In excess of UK median	In excess of UK median	In excess of UK median
	40%	50%	50%	50%
	(4 out of 10 institutions)	(4 out of 8 institutions)	(4 out of 8 institutions)	(4 out of 8 institutions)
	In lower quartile	In lower quartile	In lower quartile	In lower quartile
	30%	13%	13%	13%
	(3 out of 10 institutions)	(1 out of 8 institutions)	(1 out of 8 institutions)	(1 out of 8 institutions)
<b>17 No higher education institution</b> to be classified as 'high risk' in accordance with HEFCW institutional risk review processes				
	2011/12	2012/13	2013/14	2014/15
	0	0	1	1

## Corporate strategy objectives and outcomes

### *Widening Access: To secure inclusion, progression and success in higher education*

We have worked closely with universities to encourage individuals from groups traditionally under-represented in higher education to consider higher-level learning and skills opportunities. Care leavers are one such group: only some 6% of care leavers in Wales aged 19 were in full-time post-16 education in 2013. During the reporting year, Carers Trust Wales and the University of Wales Trinity Saint David hosted the biggest gathering of young adult carers ever seen in Wales, which encouraged them to learn more about university life. Twenty young people with a care background took part in a summer school at Cardiff University, aimed at encouraging those from traditionally underrepresented groups to think about going to university. Students who have been in care are offered year-round university accommodation and additional support through a Care Leaver Bursary scheme, which contributes towards costs for graduation, travel and clothes for interviews.

We funded the Wales Institute of Social and Economic Research, Data & Methods (WISERD) (based at Aberystwyth, Bangor, Cardiff, South Wales and Swansea Universities) to study pupil access to higher education in considerable detail. A Cardiff University WISERD report in September 2015 concluded that Welsh school pupils' chances of getting into university vary dramatically according to the school they attend and the local authority in which it is situated, irrespective of their individual educational attainment. Pupils attending schools with strong records of higher education participation were almost three times as likely to participate in higher education compared with those at schools with average levels of higher education participation, regardless of their educational attainment, socio-economic or ethnic background.

### *Skills, Employability and Enterprise: To secure graduates who are equipped for life and work, and universities that contribute to an upskilled workforce.*

Our investment in part-time courses helps universities ensure that their fees for part-time courses are kept down, helping to make learn-as-you-earn or improving skills affordable for more people. Universities have pointed to their successes in improving the 'employability' of their graduates, with high proportions of graduates not only employed but in graduate jobs. During the year, the UK Commission for Employment and Skills (UKCES) chose five organisations to test new ways to develop skills for innovation in manufacturing. Two of these projects are led by universities - Cardiff Metropolitan and Swansea.

Cardiff Metropolitan University and Acorn Learning Ltd developed a foundation degree in Applied Professional Practice, designed to develop employees' skills. And staff working at all levels in the education sector can now access the OU in Wales's online resources for professional development through 'OpenLearn' and 'FutureLearn'.

In June 2015, business leaders, entrepreneurs, careers advisers and student employability experts met in Cardiff to look at how universities prepared graduates for the world of work. Our Insight into Employability conference brought together the main influencers on graduates' careers to share their experiences in giving their students the 'edge' in employment. The then Deputy Minister for Skills underlined the importance of delivering what employers want: graduates with work experience, a capacity for critical thinking, subject knowledge and technical skills, in order to retain highly-skilled graduates in the

## Higher Education Funding Council For Wales

Welsh economy. A series of workshops provided a glimpse into employability programmes at universities, including the University of South Wales's Grad Edge Award, the Open University's coaching for students from disadvantaged areas and the Swansea University Employability Academy.

The University of Wales Trinity Saint David's Creative Bubble has seen hundreds of students had make a positive social and economic impact on Swansea city centre while improving their employability and entrepreneurship skills. Students have organised street performances, art exhibitions, pop-up craft fairs, drop-in workshops and managed a summer stage in the city centre from the Creative Bubble city centre premises, while entrepreneurs dropped by to talk to students about opportunities. Through these connections and Creative Bubble, students had been offered paid employment, placements and internships.

*Student Experience: To secure excellent quality higher education and student experience, enhanced by the student voice*

85% of students in Wales are satisfied with their overall higher education experience, according to last year's survey of universities and further education colleges. The National Student Survey showed that overall satisfaction remained steady, and there were particular gains in the areas of learning resources and satisfaction with the students' union.

Jake Sallaway-Costello, who graduated from Bangor University in 2015 with a BSc (Hons) degree in Psychology with Clinical and Health Psychology, recalled his time at Bangor University, which he says saw him transform from a worker to a professional. He highlighted the opportunities in Bangor to participate in paid internships, language classes, co-curricular volunteering projects, international education and a world-class personal-professional-development programme. The University provided him with career-enhancing experiences, and Jake graduated with a strong professional network and a number of awards under his belt, and entered the jobs market with both skills and confidence. Bangor University now has plans to work with Horizon Nuclear Power: on student employability, work placements and graduate employment; to share researchers and facilities; and to promote science, technology, engineering and maths (STEM) subjects.

The University of South Wales opened a £3.3 million development of its Aerospace Centre, building on its partnership with British Airways which gives the airline's staff the opportunity to develop their skills at the University, while aerospace students are given access to real aircraft to improve their career prospects while they study for their degree.

*Innovation and Engagement: To secure the application and exploitation of knowledge to deliver social justice and a buoyant economy*

The results of the HE-BCI survey once again showed how successfully university researchers collaborated with commerce, community bodies and the public sector. For example, the survey showed that Wales's universities were particularly effective at creating the right conditions for their academic staff and their graduates to start spin-off companies, some of which are part-owned by a university.

The University of Wales Trinity Saint David and Cardiff Metropolitan University lead Wales's Institute for Sustainable Design. Through this they run the Cerebra Innovation

## Higher Education Funding Council For Wales

Centre, which offers bespoke design services for products that benefit children with neurological conditions. Not only has the Institute been working with a national charity, it has also commercialised some of the products in partnership with third party manufacturers under licensing agreements.

Glyndŵr University scientists have now finished polishing prototype mirrors for the world's largest telescope (the European-Extremely Large Telescope) down to less than 7.5 nanometres - the size of a molecule - after four years of work.

Swansea University opened Europe's first Centre for NanoHealth, which offers access to academic staff, NHS health board clinicians and industry, and provides a technology and innovation base for businesses.

Aberystwyth University has attracted £20 million of European funding towards its Innovation and Enterprise Campus, a facility designed to attract further research funding for companies and researchers to collaborate on projects to generate innovative new products, services and spin-out companies in sustainable food, health, biotechnology and renewable energy sectors.

Cardiff University's expertise in researching and developing innovative technologies for the UK healthcare sector will support Precision Medicine Catapult's Cardiff Centre, funded by Innovate UK. This is one of six centres of excellence to identify and resolve barriers to building a leading UK precision medicine industry.

*Research: To secure research of internationally excellent quality to deliver a buoyant economy and support social justice*

Universities attract funding for research and development, generating jobs and growth. The latest Research Excellence Framework (REF) 2014 showed that half of the research submitted by Welsh universities was world-leading in terms of its impact on life beyond academia. Universities have continued to contribute to a more prosperous, more equal Wales. HEFCW research funding has been a launch pad for numerous projects that have gone on to secure Welsh or UK government, European or private funding, such as Swansea University's £522 million investment in its Bay Campus development programme.

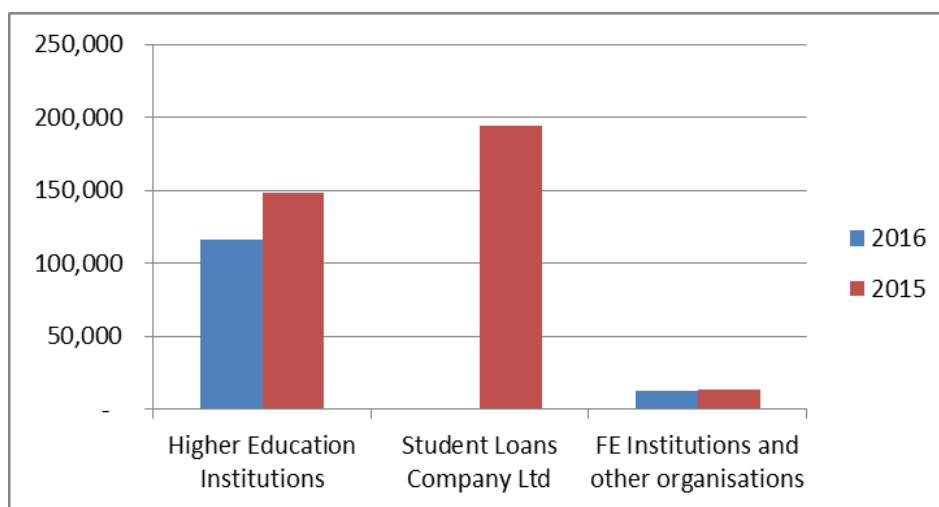
Bangor is the university lead for Menai Science Park, a £20 million development which aims to: encourage hi-tech industry and scientific research partnerships in north-west Wales; create skilled long-term employment opportunities; and be an economic hub in sectors such as low carbon, energy and environment and information and communications technology. The Department of Law and Criminology at Aberystwyth University was awarded £890,000 from the Big Lottery Fund as part of a £1.3 million research project on justice for older people who are abused in their own homes.

Cardiff University's £300 million development of the Maindy Road site includes plans to build the world's first Social Science Research Park, which would be able to turn world-leading research into solutions to pressing problems facing society and the world. The University's Compound Semiconductor cluster has the potential to create up to 5,000 jobs in the region over the next five years, and is part of efforts to reclaim high value technology manufacturing from global competitors. Meanwhile, its Sustainable Places Research Institute is conducting research into the Welsh Government Food Policy, exploring issues of food poverty and the impact of food production and consumption. Cardiff University is the biggest single recipient of HEFCW research funding.

## Financial analysis

In delivering the strategic aims and objectives as set out, we received a total of £125.7 million of grant in aid funding from the Welsh Government (2014-15: £362.5 million). This represents an annual decrease in overall funding of £236.8 million and is primarily due to the change in the method of payment of tuition fee funding to the Student Loans Company (SLC) whereby this funding was paid directly to the SLC by the Welsh Government from 1 April 2015.

### Funding of higher education expenditure (£'000)



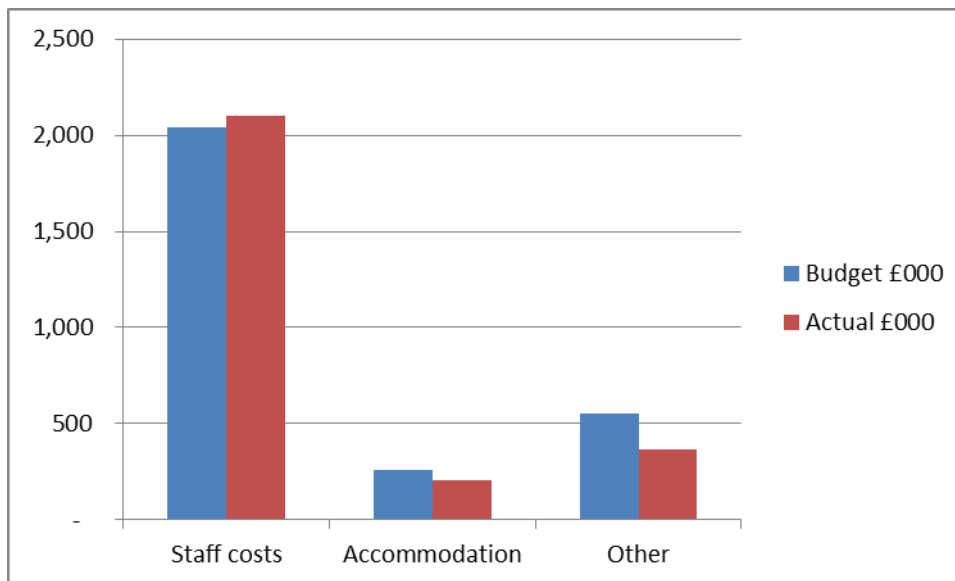
In addition to grant in aid funding from the Welsh Government, £8.0 million of other income was receivable in 2015-16 (2014-15: £20.5 million). The reduction of £12.5 million is primarily due to the end of ESF project funding and one-off UKRPIF funding received for Swansea University in 2014-15.

Total expenditure in 2015-16 was £136.7 million (2014-15: £375.8 million (restated)). Of this, £134.0 million (2014-15: £373.2 million (restated)) relates to the funding of the higher education and £2.8 million (2014-15: £2.6 million) to our own costs incurred in managing and distributing grant funding to the higher education sector. The fall in the former is attributable to the change in the method of funding the tuition fee grants to the SLC.

The net operating costs for the year were £128.7 million (2014-15: £355.3 million (restated)). The cumulative taxpayers' equity general fund at 31 March 2016, after crediting the grant in aid funding referred to above, was £14.5 million (31 March 2015: £17.4 million (restated)). The financial accounts will always record a net operating costs result for the year as a consequence of the crediting of funding received to the taxpayers' equity general reserve in the Statement of Financial Position. Our activities are also planned to ensure that our cash carry forward at the financial year end remains within the two per cent of total grant in aid for the year allowed by the Welsh Government.

Expenditure on property, plant and equipment amounted to £36k in the year.

### Council expenditure 2015-16 (£'000)



### Other financial key performance indicators

The cash balance as at 31 March 2016 was £1.6m which represented 1.27 percent of total grant in aid funds available (2014-15: £4.1m, 1.14 percent) and remained within the maximum of 2% of total funding for the year permitted by the Welsh Government, as set out in the Framework Document.

HEFCW is operating under the Welsh Government's target to pay suppliers of goods and services within ten working days of receiving a valid invoice. In 2015-16, HEFCW paid 95.1% of invoices within ten working days, with an average payment time of 2.2 days (2014-15: 96.5% and an average of 1.7 days).

## Sustainability

Our primary role is to develop and sustain internationally excellent higher education in Wales, for the benefit of individuals, society and the economy, in Wales and more widely. The 46 staff, plus Council members, who make up the organisation, operate from a single shared office building in north Cardiff. Our main direct environmental impact arises from the use of the office building and business travel.

HEFCW has been recording its environmental performance since 2007-08. This has been supported by the use of an environmental management system, which has driven improvements in our environmental management processes. HEFCW has also sought to drive improvements through procurement, as is evidenced by the actions set out within the annual Sustainable Procurement and Environmental Improvement Plan and the use of framework contracts, which include a higher level of environmental performance than we could, realistically, have achieved, when negotiating directly with these contractors. The development and ongoing actions required under the environmental management system are co-ordinated through the HEFCW Health and Safety / Sustainability Group.

In April 2016, the Well-being of Future Generations (Wales) Act came into force. This places further duties upon HEFCW to ensure that sustainability is fully embedded within our decision-making and management processes, both in relation to internal actions and our engagement with the higher education sector.

### Electricity Consumption

In 2013-14 we were successful in persuading the landlord to introduce separate sub-metering for each floor of the building which provides detailed and accurate electricity consumption for each part of the building as well as accurate billing. In 2014-15 the landlord also installed voltage optimisation equipment which undoubtedly accounts for some of the energy savings achieved in electricity consumption in that year (9.5%). In 2015-16, a further mild winter has assisted in achieving a further reduction of 3.2% in both consumption and CO2 emissions.

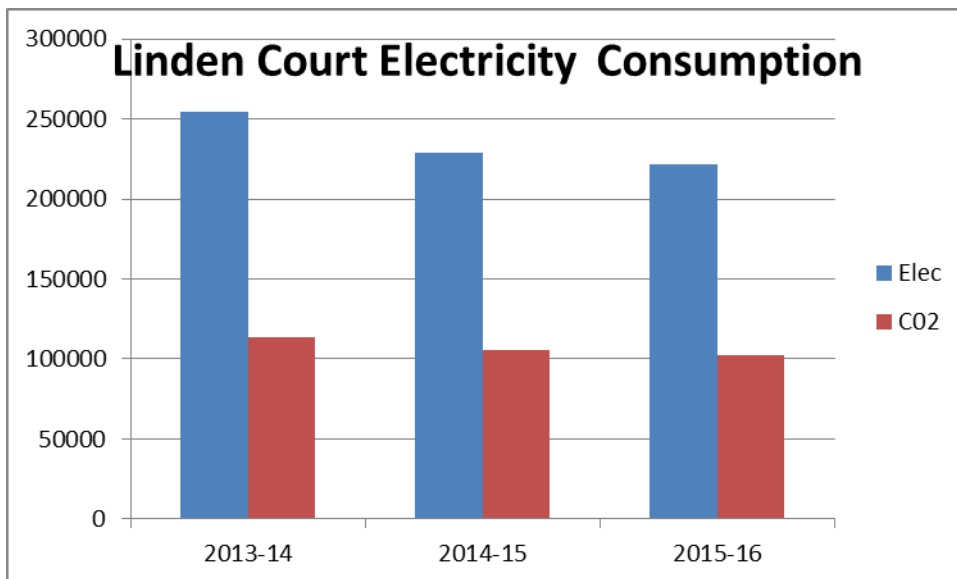


Table1

**Business Travel**

Carbon emissions associated with business travel declined by 60% during the period 2008-09 to 2012-13. Since then, business travel has been erratic with an increase of over 40% in business mileage over the two previous years and a reduction of 10.6% in 2015-16. Recorded use of video conferencing as an alternative to travel, has also increased in 2015-16 with recorded savings of over 10,000 miles compared with 7,225 in the previous year. It is also worth noting that use of video conferencing saved nearly 240 hours of staff time.

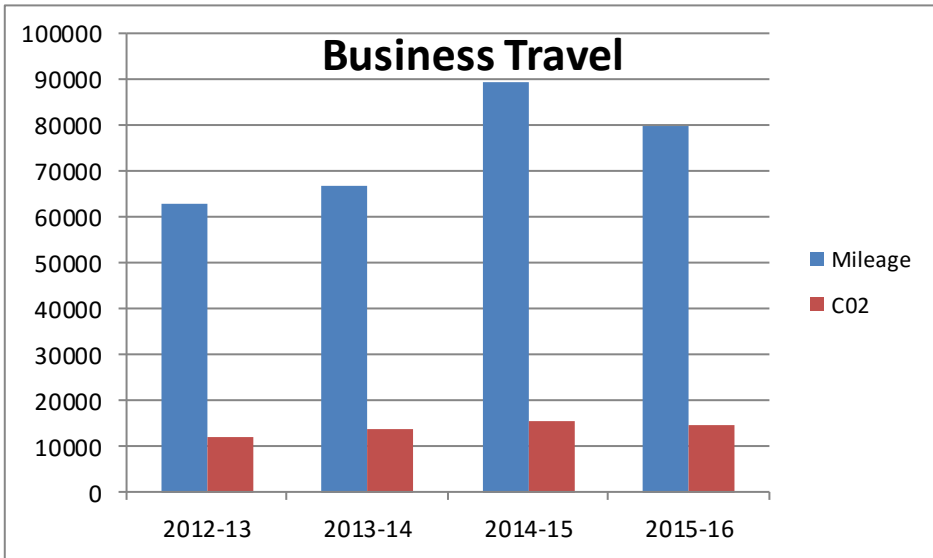


Table 2

The components of business travel are variable between years with significant changes evident between rail travel and staff using their own vehicles, particularly evident.

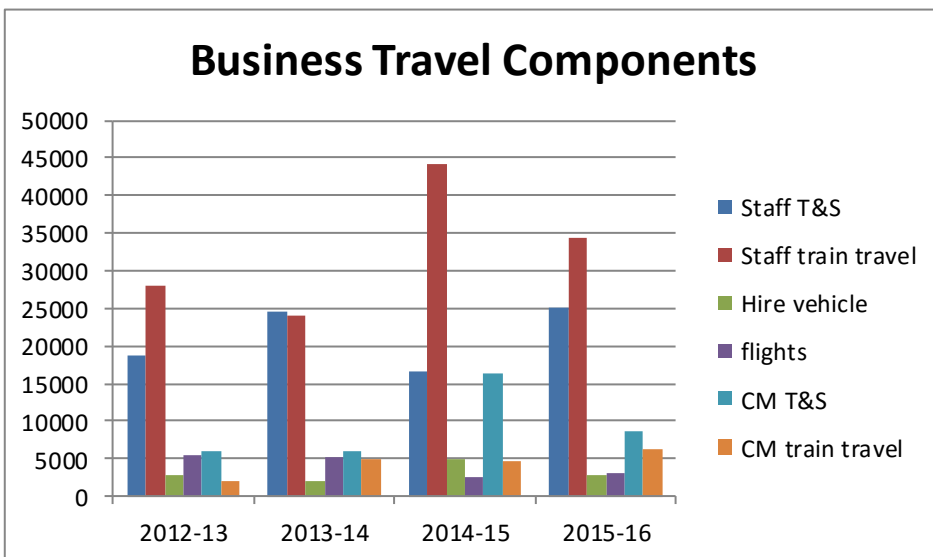


Table 3



## **Waste Minimisation**

Redundant ICT constitutes a significant potential source of hazardous waste for HEFCW. Recent changes in legislation require manufacturers to recycle waste electronic equipment. However, much of the surplus ICT equipment generated by HEFCW is capable of providing further service in a less technically demanding context. The previous framework agreement has now expired and will need to be renewed to cope with anticipated ICT disposals in 2016-17.

HEFCW continues to provide segregated waste collection allowing recycling of paper, plastics and metals. Provision for disposal of other hazardous waste including batteries and fluorescent light bulbs is provided via existing maintenance contractors. All batteries purchased are, where possible, rechargeable.

## **Summary**

The current year has witnessed progress being made in all three areas of environmental performance which we seek to measure (electricity, business travel and waste minimisation). It is encouraging to see increased use of video conferencing which has increased by nearly 25% over the previous year. The continued reduction in the use of paper has now continued every year for the last 5 years, as increasingly paper use is minimised through the use of electronic filing systems. Paper consumption is now approximately 40% of the amount first recorded in 2007-08. The modest reduction in electricity consumption has been achieved against a background of a further mild winter comparable to 2014-15. All of the reductions achieved offer financial as well as environmental benefits.

Dr David Blaney  
Chief Executive and Accounting Officer  
14 July 2016

## Accountability report

### Corporate Governance report

#### Directors' report

#### Council membership

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

#### Chair

Mr David Allen OBE (*First term: 5 May 2014 to 4 May 2017*). *Former Registrar and Deputy Chief Executive of the University of Exeter*

#### Chief Executive (and Accounting Officer)

Dr David Blaney

#### Other Council members:

Name	Personal history	Term of office	Committee membership
Dame Alexandra (Sandra) Burslem, Deputy Chair	Former Vice-Chancellor, Manchester Metropolitan University	First term: 01/12/08 to 30/11/11  Second term: 01/12/11 to 30/11/14  Third term: 01/12/14 to 30/11/17	Strategic Development Committee (Chair)  Human Resources Committee  Remuneration Committee
Mrs Bethan Guilfoyle CBE	Former Headteacher, Treorchy Comprehensive School	First term: 01/04/10 to 31/03/13  Second term: 01/04/13 to 31/03/16  Third term: 01/04/16 to 31/03/17	Student Experience, Teaching and Quality Committee  Student Opportunity and Achievement Committee (Chair)  Quality Assessment Committee  Strategic Development Committee

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Name	Personal history	Term of office	Committee membership
Mr David Mason	Former Principal/Chief Executive, Coleg Gwent	First term: 01/04/10 to 31/03/13  Second term: 01/04/13 to 31/03/16  Third term: 01/04/16 to 31/03/17	Audit and Risk Assurance Committee (Chair)
Dr Arun Midha	Former Lay Council Member, Swansea University and Director of Strategy, School of Postgraduate Medical and Dental Education, Cardiff University	First term: 07/04/15 to 06/04/18	Student Opportunity and Achievement Committee  Audit and Risk Assurance Committee
Professor Katherine (Leni) Oglesby OBE	Former Senior Deputy Vice-Chancellor, University of Teesside	First term: 01/12/08 to 30/11/11  Second term: 01/12/11 to 30/11/14  Third term: 01/12/14 to 30/11/17	Student Experience, Teaching and Quality Committee (Chair)  Quality Assessment Committee (Chair)  Strategic Development Committee
Professor Mark Smith	Vice-Chancellor, Lancaster University	First term: 01/01/13 to 31/12/15  Second term: 01/01/16 to 31/12/18	Research, Innovation and Engagement Committee
Professor Stephen Tomlinson CBE	Former Vice-Chancellor, University of Wales College of Medicine	First term: 01/01/13 to 31/12/15	Research, Innovation and Engagement Committee
Professor Robin Williams CBE, FRS	Former Vice-Chancellor, Swansea University	First term: 01/08/09 to 31/07/12  Second Term: 01/08/12 to 31/07/15  Third term: 01/08/15 to 31/07/18	Research, Innovation and Engagement Committee (Chair)  Strategic Development Committee

Name	Personal history	Term of office	Committee membership
Mr Ewart Wooldridge CBE	Former Chief Executive, Leadership Foundation for Higher Education	First term: 01/01/13 to 31/12/15	Human Resources Committee (Chair until 31/12/15)  Remuneration Committee  Audit and Risk Assurance Committee
Dr Colin Wyatt	Independent consultant and Former Director of Business Development, Imperial College London	First term: 22/04/15 to 21/04/18	Human Resources Committee (Chair from 01/01/16)  Remuneration Committee  Research, Innovation and Engagement Committee

The Chair of Council chairs the Appointments Committee (whose membership includes the Chairs of each of the other committees listed above) and the Remuneration Committee. He is also a member of the Strategic Development Committee.

The Chief Executive was a member of the Strategic Development Committee.

In July 2015 the Student Experience, Teaching and Quality Committee was replaced by the Quality Assessment Committee and the Student Opportunity and Achievement Committee.

### Observers appointed by the Welsh Government

Mr Huw Morris,  
*Director, Skills, Higher Education and Lifelong Learning, Welsh Government*

Mr Neil Surman  
*Deputy Director, Higher Education Division, Welsh Government*

### Composition of Management Board

The HEFCW Management Board is responsible for our management and operation.

It consists of the Chief Executive, the Director of Strategic Development, the Director of Institutional Engagement and the Head of Corporate Services.

## **Declarations of interests**

Details of Council members' declared interests are available on our website  
[http://www.hefcw.ac.uk/council\\_and\\_committees/council\\_members/council\\_members.aspx](http://www.hefcw.ac.uk/council_and_committees/council_members/council_members.aspx)

## **Personal data related incidents**

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

## Statement of Accounting Officer's Responsibilities

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

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

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

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

### Accounting Officer's statement

So far as I, as the Accounting Officer, am aware, there is no relevant audit information of which our auditors are unaware; and I, as the Accounting Officer, have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that our auditors are aware of that information. I also confirm that the annual report and accounts as a whole, is fair, balanced and understandable; and I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Dr David Blaney  
Chief Executive and Accounting Officer  
14 July 2016

## Governance Statement

### Scope of responsibility

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

### Developments in-year

Since the beginning of FY 2015-16, the element of our grant funding previously associated with tuition fee grant payments for Welsh domiciled students has been managed directly by the Welsh Government. Consequently, our budget for 2015-16 was reduced by 65%, corresponding to the amount which the Welsh Government estimated would be needed to meet tuition fee grant commitments for the coming year.

Our remaining grant to higher and further education institutions in Wales continues to be focused strategically to address both Welsh Government and our Council's priorities and takes account of the Minister's expectations as set out in the annual remit letter to HEFCW. Higher Education grant funding is allocated to Higher Education providers on an Academic Year basis being the 12 months ending 31 July. The Academic Year is coterminous with the financial year for higher and further education institutions. Our annual grant funding allocations circular provides the detail of the provision that we fund and the basis for distribution of that funding between providers. The circular for AY 2015/16 is published and available on our website<sup>6</sup>.

The reduction in funding for HEFCW to distribute is significantly affecting our policy leverage, and thus it is more difficult to find ways of ensuring delivery on key priority areas. The key mechanism which we currently have in place for doing so is our designated responsibility for approving Welsh institutions' fee and access plans. These plans currently set out their commitment to invest a reasonable proportion of their tuition fee income above the basic fee rate of £4,000 on measures to improve equality of opportunity and promote higher education. However, the Welsh Government has recognised that the policy shift away from our institutional grants to a system where a significant proportion of institutional income is derived from student tuition fees requires new legislation and a revised regulatory system for higher education in Wales. It therefore introduced a new Higher Education (Wales) Act which became law on 12 March 2015, more details on the introduction of which are provided near the end of this Governance Statement.

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<sup>6</sup> Circular W16/16HE, *HEFCW's Funding Allocations 2016/17* ([www.hefcw.ac.uk/publications/circulars/circulars.aspx](http://www.hefcw.ac.uk/publications/circulars/circulars.aspx))

### Governance Framework

We are responsible for administering resources for higher education provided by the Welsh Government. We work with the Welsh Government to inform higher education policy in Wales, and we work with higher education providers to enable them to meet those policy priorities. We regulate fee levels at higher education providers, ensure a framework is in place for assessing the quality of higher education and scrutinise the financial, governance and risk performance of universities.

Our Council is appointed by the Minister for Education and Skills in accordance with the requirements of the Further and Higher Education Act 1992. As Accounting Officer and Chief Executive, I am a member of the Council. In May 2014 the Welsh Government appointed a new Chair of Council. During the year the Council reached its full complement of 12 members, the gender balance of which, was nine male (including the Chair) and three female Council members. In December 2015 two male Council members reached the end of their terms on the Council and were not re-appointed by the Minister, so that at the end of 2015-16 the Council comprised 10 members.

The Council met on six occasions during financial year 2015-16. Out of a possible 68 member attendances during the year a total of 67 were made.

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

We have a Complaints Policy based on the model Concern and Complaints Policy produced by the Public Services Ombudsman for Wales. No complaints against us were received during 2015-16.

We carry out an annual self-assessment effectiveness review of our governance. This comprises an appraisal of the Council - including members' performance - by the Chair through discussions with members and a comparison of our governance arrangements with the Financial Reporting Council's Corporate Governance Code. We also conduct annual reviews of our key corporate governance documents, and review the remits of all Council's committees. In 2015-16 the Council conducted a detailed self-assessment review exercise based around questionnaires completed by each member, and discussed the outcomes at one of the Council's Workshops. The Council concluded that, overall, it was content with the effectiveness and appropriateness of its governance processes and practices, including with respect to the quality of information and data provided through Council and committee papers. The Council agreed there was more to be done to try and reduce the volume of paperwork, and also that to improve expediency it would explore



## Higher Education Funding Council For Wales

options for moving to full electronic distribution of Council papers. We are of the view that our processes continue to be compliant with the Corporate Governance Code to the extent relevant to a Welsh Government Sponsored Body. Since a review in 2013 of new ways of working, we have continued during 2015-16 to seek ways of making better use of Council and committee time, including through a more strategic focus for business.

We discharge our legal responsibility to ensure that arrangements are made to assess the quality of education in funded institutions through our Quality Assessment Committee. Quality assessments are carried out primarily by the Quality Assurance Agency (QAA), which provides an annual academic year report on the outcomes of reviews which are considered by the Quality Assessment Committee and the Council. The report for AY 2014/15 can be found on our website. During FY 2015-16 QAA conducted Institutional Reviews of: University of South Wales; University of Wales Trinity Saint David; Grŵp Llandrillo Menai; and Neath Port Talbot College Group. The QAA review reports include recommendations and features of good practice, and are available on the QAA website.

In September 2014 our Council was informed that HEFCE would be publicly tendering for the future contract to assess the quality of higher education in England. Our Council endorsed the desirability of remaining part of a UK-wide approach to quality assessment and therefore agreed that we would participate in the procurement exercise. The review process got underway in 2014-15, and the consultations on revised quality arrangements are expected to conclude in 2015-16. This will then be followed by a piloting of the new arrangements in 2016/17, followed by full implementation in Wales from academic year 2018/19.

We conducted an Annual Compliance Review against the requirements placed upon us in the *Framework Document*, which showed us to be fully compliant.

The Audit and Risk Assurance Committee has five members, two of whom (including the Chair) are members of our Council. The Committee meets three times a year and meetings are attended by the Chief Executive; the Head of Internal Audit; representatives from the external auditors (the Wales Audit Office); and relevant members of our staff. The minutes of the Committee are presented to our Council, and the Chair of the Committee reports any matters of particular note to Council. The remit of the Committee includes both HEFCW and our assurance work with the HE sector. The Committee provides our Council with an annual report, which incorporates the Committee's opinion on governance, internal control and risk management. The Committee reviewed the actions it had agreed last year as part of its effectiveness review self-assessment exercise, through which it had benchmarked the Committee's operation against the National Audit Office checklist for audit committees, based on the HM Treasury Audit Committee Handbook. The Committee also reflected on the competencies of its membership compared against best practice identified in the HM Treasury Handbook. The Committee concluded that its membership covered the full range of competencies – skills, knowledge and experience – identified as desirable for all audit committees. The Committee concluded that this continued to be the case following some changes to its membership which took place during the year. The Committee also undertook the annual review of its remit and agreed some minor changes, which were subsequently agreed by the Council. The Committee continued to be satisfied that overall it was operating in line with accepted best practice for audit committees.

The Audit and Risk Assurance Committee's opinion for 2015-16 highlighted no major issues, except to note some concerns relating to institutional financial sustainability.

## Higher Education Funding Council For Wales

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

- Sufficient internal audit work has been undertaken to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's governance, risk management and internal control processes.
- Governance, risk management and internal controls arrangements for HEFCW have been adequate and effective during the year and the Council and Accounting Officer can therefore place reasonable reliance on them.

We work with the higher education sector and in partnership with many other organisations to help us deliver our objectives. These partners include the QAA, Jisc, the Equality Challenge Unit, the Leadership Foundation for Higher Education, and the Higher Education Academy. These partner organisations provide us with useful sources of advice and information that enable us to benchmark Welsh performance and activities against the rest of the UK, and the arrangements have the benefit of economies of scale since the organisations have UK-wide remits. HEFCE, as the major UK HE funder, traditionally undertakes lead oversight of these bodies, and where appropriate there are supplemental agreements in place between HEFCW and the body to provide for any specific Welsh requirements. We monitor the deliverables from these organisations at a Wales level. HEFCE also has responsibility for oversight of the Open University as an institution, although we work directly with the Open University in Wales on the provision it delivers in Wales. We also provide funding for the Coleg Cymraeg Cenedlaethol to support the development of Welsh medium higher education provision and the take-up of Welsh medium opportunities by students, including via the Coleg's scholarship schemes, academic staffing scheme and strategic development projects. We have a memorandum of understanding with the Charity Commission which sets out how we will work together and share information to co-ordinate our regulatory activities with respect to higher education institutions in Wales.

We have regular interaction with the Welsh Government's Department for Education and Skills, under the terms of the Framework Document between the Department and HEFCW. Staff from the Department and HEFCW meet quarterly which enables the Department to monitor progress against our operational plan and key performance indicators, and to monitor our risk register and the actions we are taking to mitigate risk. We received our remit letter for 2015-16 in March 2015, and our Operational Plan 2015-16 was submitted to the Welsh Government for approval in July 2015. We were notified in September 2015 that the Education Minister had noted the Plan and was content with the revised format that we had introduced in response to a request from our sponsor division. Our Council receives regular reports on progress against our operational plan targets, and an annual report on progress against our corporate strategy targets.

The Minister for Education and Skills has a quarterly meeting with the Chair and Chief Executive, which enables the Minister to monitor our delivery against our strategic objectives and provides an opportunity for us to advise the Minister.

### **Effectiveness of the internal control system**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. I am supported in this process by advice from the Audit and Risk Assurance Committee and by other members of my senior management team. My review

is also informed by the work of the internal auditor and our managers who have responsibility for the development and maintenance of the internal control framework, and by comments from the external auditors in their management letters.

Our system of internal control provides an assurance framework for managing risks associated with our internal operational and financial controls, and our controls in relation to organisations in receipt of our funding. For this reason, Welsh higher education institutions funded by us are required to comply with a Memorandum of Assurance and Accountability, which helps us to secure accountability for the regularity and propriety of the use of public funds provided to them. We consider a comprehensive range of returns provided to us by institutions - including their annual accounts, fee plans, and strategic plans - as part of our work to ensure the protection of the public investment in institutions. This work includes seeking assurance that the public funds provided to institutions have been used for the purposes for which they were intended.

Each of the key annual controls – the risk registers, the financial statements and the external auditors' report and comments thereon, internal audit reports and institutional risk reviews and assurance reports – has been considered by the Audit and Risk Assurance Committee which reports on to our Council. Our control systems have identified a small number of minor issues that required specific action to manage the associated risks. There were no significant weaknesses in our internal controls in 2015-16 which warrant disclosure here.

### **Approach to risk management**

We operate a system of internal control which is designed to: identify and prioritise the risks to the achievement of our policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them effectively. Our risk management processes are overseen by the Audit and Risk Assurance Committee on behalf of our Council.

Each team manages a risk register which is reviewed three times a year. I manage a risk register which sits alongside the operational plan, thereby providing scrutiny of our operational performance against which our risk analysis can be judged. If the combined score for probability and impact is above the tolerance boundary agreed by the Audit and Risk Assurance Committee, the risk goes on to the Corporate Risk Register. The Corporate Risk Register is reviewed by the Audit and Risk Assurance Committee three times a year, with the results being considered by our Council.

Alongside the main risk registers, each team produces a fraud and bribery risk register. Those risks above the tolerance boundary are included in a Corporate Fraud and Bribery Risk Register.

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

During the year we agreed in discussion with the Audit and Risk Assurance Committee a number of high level principles to inform a review of our current approach to risk management. This will be taken forward next year in discussion with the Council.

## **Tax assurance for off-payroll employees**

There have been no payments to off-payroll employees during this year or in the previous year.

## **Whistleblowing arrangements**

HEFCW has its own whistleblowing policy and supporting procedures in place for use by staff. The aim of the policy is to encourage staff to report matters of proper concern considered by them to be in the public interest, either at the workplace or externally, about a danger, risk, malpractice or wrongdoing. When such matters are brought forward by staff it must be without fear of reprisal or victimisation, while protecting staff and HEFCW from unfounded and malicious allegations. This policy and its supporting procedures are available to staff via the intranet and our website. There have been no whistleblowing matters reported during the year and so it is not possible to report upon the effectiveness of these procedures. Our policy and procedures are next due for formal review in late 2017, unless there are any matters reported before then which prompt changes to be made to improve the processes used.

## **Significant risks considered by Council during the year**

### *Significant budget reductions*

Since the introduction of the new fee regime in AY 2012/13 the funding available to us to allocate to Higher Education providers has reduced significantly. Between Academic Year (AY) 2011/12 and AY 2015/16, HEFCW funding to HE providers in Wales has reduced by £216m to £151m, a reduction of approximately 60%, on account of the increasing cost of the Welsh Government fee grant for students over that period.

As a consequence, the Council has had to make difficult decisions with funding reductions having to be implemented in areas of strategic priority including innovation, part time provision and strategic funding. The remaining HEFCW recurrent funding is allocated mainly to the priority areas of research, part-time provision and expensive subjects (medicine, dentistry and performing arts).

There is a risk that continuing reductions in funding available for investment in Higher Education provision in Wales will have a detrimental impact on the capacity of Welsh Higher Education providers to continue to compete successfully with other UK providers and global competitors in attracting students, staff and securing research grants and contracts. The impact of the funding changes affects higher education providers differentially and consequently the impact on the longer term financial sustainability of some providers will be more significant than others.

### *Welsh Government reviews of higher education funding and of governance arrangements for post-compulsory education in Wales (Diamond and Hazelkorn Reviews)*

During the year, the review commissioned by the Welsh Government and chaired by Professor Sir Ian Diamond to explore issues of the funding of higher education has continued to make progress. The outcome of that review, and the government response to its recommendations, will inevitably have a significant impact on the future funding available for Higher Education providers in Wales and on our future operations. We have

continued to work with the review secretariat, providing information as requested, and I have sat as an official observer to the review panel. In parallel, the Welsh Government commissioned Professor Ellen Hazelkorn to undertake a review of the governance arrangements for post-compulsory education in Wales, with particular reference to the role of HEFCW. Again, the government response to Professor Hazelkorn's report could have major implications for HEFCW in the future, including, potentially, its closure. We have responded to this process by engaging positively with Professor Hazelkorn, and with a range of other stakeholders, to offer suggestions for future arrangements. The report has been published but we await the Welsh government's response.

One of the key risks for HEFCW as an organisation lies in ensuring that we maintain a good working relationship with the Welsh government and, in particular, its sponsor division. We work hard to seek to minimise misunderstandings and resultant frustrations arising and will continue in these efforts.

### *Higher Education (Wales) Act 2015*

We are now in the transitional period in the implementation of the HE (Wales) Act 2015, which commenced formally on 1 September 2015. A key corporate risk relating to HEFCW being unable to implement the Act effectively is being ameliorated through the establishment of an internal Project Implementation Group, including the establishment of four workstreams (fee planning; quality assessment; financial management code and statement of intervention); close liaison with Welsh Government centrally and through the workstreams; close monitoring of implementation timetables and risks. In addition, workshops were held with Welsh Government and papers (including minutes and timetables) were exchanged with the WG project Group. We prepared clear timetables for implementation and gained legal advice as required. Nevertheless, work has been extensive in developing arrangements to address the requirements of the Act and working out how it could be implemented. This has included the consultation and development of a Transitional Statement of Intervention<sup>7</sup> covering how HEFCW would use its new powers during the period to full implementation of the Act in September 2017; work with other funders on the development of quality assessment arrangements; developing fee and access plan guidance for 2017/18; and development of a draft Financial Management Code. Work in all these areas will continue in 2016-17. All existing institutions with a fee and access plan approved by HEFCW (all current universities and directly-funded FEIs) are now 'regulated institutions' under the terms of the Act.

### *Developments in England and their potential impact on Welsh higher education*

In November 2015 the Westminster Government published the higher education Green Paper 'Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice'.<sup>8</sup> The paper set out various proposals which, despite being focussed on higher education in England, would impact across the UK. For that reason, HEFCW chose to respond to the consultation on the Green Paper.<sup>9</sup> Particular areas of concern included the proposed establishment by the Department for Business, Innovation and Skills of a Teaching Excellence Framework in England. The funding councils have long experience of working collectively to achieve shared objectives at UK level. Officers are working with WG officials

<sup>7</sup>[www.hefcw.ac.uk/working\\_with\\_he\\_providers/he\\_wales\\_act\\_2015/statement\\_of\\_intervention.aspx](http://www.hefcw.ac.uk/working_with_he_providers/he_wales_act_2015/statement_of_intervention.aspx)

<sup>8</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/474266/BIS-15-623-fulfilling-our-potential-teaching-excellence-social-mobility-and-student-choice-accessible.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/474266/BIS-15-623-fulfilling-our-potential-teaching-excellence-social-mobility-and-student-choice-accessible.pdf)

<sup>9</sup>[www.hefcw.ac.uk/documents/publications/hefcw\\_responses\\_to\\_consultations/HEFCW%20response%20to%20BIS%20Green%20Paper%2015jan16.pdf](http://www.hefcw.ac.uk/documents/publications/hefcw_responses_to_consultations/HEFCW%20response%20to%20BIS%20Green%20Paper%2015jan16.pdf)

and others to ameliorate the impact of this type of development being taken forward by BIS, at a stage removed from a Welsh Government Sponsored Body and we look forward to working with HEFCE in taking the TEF implementation arrangements forward. Other issues to be monitored include proposals to move research funding in England into an overarching body to cover both HEFCE quality research (QR) funding for England and the UK Research Councils, and proposals for the further deregulation of the higher education market in England, including for profit providers.

## **Conclusion**

I have reviewed the evidence provided with regard to the production of the annual governance statement. The conclusion of my review is that our overall governance and internal control structures have been appropriate for our business, and have worked satisfactorily throughout 2015-16.

Dr David Blaney  
Chief Executive and Accounting Officer  
14 July 2016

## Remuneration and staff report

### Directors' remuneration policy and remuneration committee

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

The Chief Executive's remuneration is approved by the Welsh Government and is not subject to performance-related awards.

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

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

There was no change in the salary of the Chief Executive during the year. The Committee met during the year and based upon a review of his performance, made recommendations that the Chief Executive should receive the same annual increases as those to be awarded to HEFCW staff for both 2013-14 and 2014-15. Pay proposals for staff were still awaiting the approval of the Welsh Government as at 31 March 2016 and therefore any awards payable to the Chief Executive were also yet to be determined at the year-end. The Committee's assessment of the performance of the Chief Executive in 2014-15 will form the basis of a possible pay award for 2015-16. This assessment will take place at the Committee's meeting in May 2016.

## Remuneration (including salary) and pension entitlements

The following sections provide details of the remuneration and pension interests of Council members and senior management.

### Senior employees' remuneration (salary and pensions)\*

#### Single total figure of remuneration \*

Name and position	2015-16 Salary	2014-15 Salary	2015-16 Pension benefits	2014-15 Pension benefits	2015-16 Total	2014-15 Total
	£'000	£'000	£	£	£'000	£'000
David Allen (Chair) appointed 5 May 2014	20-25	20-25	-	N/A	20-25	20-25
Roger Thomas (Chair) retired 4 May 2014	-	0-5	N/A	N/A	-	0-5
Dr David Blaney (Chief Executive)	115-120	115-120	45,023	16,607	165-170	135-140
Celia Hunt (Director of Strategic Development)	75-80	75-80	30,404	43,511	105-110	120-125
Bethan Owen (Director of Institutional Engagement)	75-80	75-80	32,628	39,151	110-115	115-120

NB There were no benefits in kind or bonus payments in either 2015-16 or in 2014-15 for the above.

The total salary for David Allen for the year 2014-15 was £21,963 (for the period 5 May 2014 to 31 March 2015). Mr Allen was remunerated as a Council member up until he became Chair on 5 May 2014, at £5,076 per year. The total salary for Roger Thomas for the year 2014-15 was £2,209. Mr Thomas waived his right to his salary and elected for payment to be made to a registered charity. The equivalent full year's salary in 2014-15 for both David Allen and Roger Thomas was £24,264.

The 'Pension benefits' figures above, are calculated for disclosure purposes, by our pension administrators. These figures are calculated as the 'real increase in pension' (see 'Senior employees' pensions' table below) multiplied by 20, plus the 'real increase' in any lump sum, less contributions made by the employee in the financial year.



**Senior employees' pensions\***

<b>Name</b>	<b>Position</b>	<b>Accrued pension at pension age at 31/03/16 &amp; related lump sum</b>	<b>Real increase in pension and related lump sum at pension age</b>	<b>CETV at 31/03/16</b>	<b>CETV at 31/03/15</b>	<b>Real increase in CETV</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
David Allen	Chair	N/A	N/A	N/A	N/A	N/A
Dr David Blaney	Chief Executive	55-60 pension	2.5-5.0 pension	952	838	35
Celia Hunt	Director of Strategic Development	20-25 pension plus 60-65 lump sum	0-2.5 pension plus 2.5-5.0 lump sum	456	396	29
Bethan Owen	Director of Institutional Engagement	15-20 pension	0-2.5 pension	298	240	23

**Salary and pension disclosures\***

Dr David Blaney and Bethan Owen were both members of the Premium defined benefit scheme during the year, whereas Celia Hunt was a member of the Classic defined benefit scheme, both schemes being part of the Principal Civil Service Pension Scheme. The Classic scheme benefits include the payment of an automatic lump sum on retirement, whereas the Premium scheme does not (see 'Pensions' below).

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

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

The Chair and Council members (excluding the Chief Executive) are not members of the Principal Civil Service Pension Scheme and do not receive any pension benefits paid for by us. Council members (excluding the Chair and Chief Executive) receive non-pensionable remuneration of £5,076 per annum (see pages 26 to 28 for a full list of other Council Members).

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

\* This information is subject to audit

## Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or 'alpha', which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service, joined 'alpha'. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS).

The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60; and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus, nuvos and alpha are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April, 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and thirteen years and five months from their normal pension age on 1 April 2012 will switch into alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave alpha. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for classic (and members of alpha who were members of classic immediately before joining alpha) and between 4.6% and 8.05% for members of premium, classic plus, nuvos and all other members of alpha. Benefits in classic accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60<sup>th</sup> of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on their pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in alpha build up in a similar way to nuvos, except that the accrual rate is 2.32%. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and between 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

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

Further details about the Civil Service pension arrangements can be found at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.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 pension benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

### **Real increase in CETV**

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

### **Broadly by analogy (BBA) pensions**

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

**Fair Pay disclosures \***

	2015-16 £'000	2014-15 £'000
Band of highest paid member of staff (total remuneration**)	115-120	115-120
	£	£
Median total remuneration**	40,411	38,487
Ratio	3.0	3.1

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid senior employee in their organisation and the median remuneration of the organisation's staff.

The banded remuneration of our most highly paid senior employee in 2015-16 was £115,000 to £120,000 (2014-15: £115,000 to £120,000). This was 3.0 times (2014-15: 3.1) the median salary of all staff, which was £40,411 (2014-15: £38,487).

\*\*For the purposes of calculating the 'highest paid member of staff' and the 'median total remuneration' above, 'total remuneration' only consists of salary costs. It does not include employer pension contributions or the annual 'pension benefits', shown above.

The median ratio has decreased marginally from 3.1 in the previous year to 3.0 due to the impact of a number staff salary increases, but without any change in the highest paid salary. Due to the nature of our work, we have a high proportion of staff at middle job levels, resulting in the median shown above

In 2015-16, no employees (2014-15: none) received remuneration in excess of the highest-paid senior employee. Remuneration ranged from £16,610 to £120,000 (2014-15: £16,610 to £120,000).

## Staff report

### Staff numbers by category

We employed an average of 43 full time equivalent staff during the financial year ended 31 March 2016, as follows:

	2016 Numbers	2015 Numbers
Senior Management	3	3
Chief Executive's Office	7	7
Institutional Engagement	13	13
Strategic Development	10	11
Corporate Services	10	10
	<u>43</u>	<u>44</u>

One member of staff included in Institutional Engagement above was not a permanent member of staff.

	2016 Numbers	2015 Numbers
Staff with a permanent UK employment contract with us	42	41
Other staff engaged on our objectives	<u>1</u>	<u>3</u>
	<u>43</u>	<u>44</u>

**Staff costs****(a) Analysis \***

	Staff	2016 Council members (inc Chief Executive)	Total	Staff	2015 Council members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,783	192	1,975	1,722	185	1,907
Social security costs	156	20	176	145	17	162
Other pension costs	381	29	410	336	34	370
Total payroll costs	2,320	241	2,561	2,203	236	2,439
Staff on secondment	(17)	-	(17)	(49)	-	(49)
Less: charges to programme costs	(447)	-	(447)	(474)	-	(474)
Administration payroll costs	1,856	241	2,097	1,680	236	1,916

Included in the £447k (2014-15 - £474k) charged to programme costs in 2015-16 is a sum of £250k (2014-15 - £250k). This is a contribution towards running costs wages and salaries transferred from the programme budget in accordance with an agreement with the Welsh Government.

**(b) Pensions**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “alpha”, are unfunded multi-employer defined benefit schemes, but we are unable to identify our share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2015-16, our employer’s contributions of £380,106 were payable to the PCSPS (2014-15 - £359,062), including CSOPS (alpha) contributions, at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16, to be paid when the member retires and not the benefits paid during this period to existing pensioners.

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

## Higher Education Funding Council For Wales

The BBA pension provision is unfunded, with benefits being paid as they fall due and guaranteed by us. There is no fund and therefore no surplus or deficit or assets. The scheme liabilities for service are calculated by the Government Actuary's Department every two years and was performed at the end of 2014-15 and amounted to £25,000 at 31 March 2015.

### (c) Staff numbers by gender

	2016	2015
<i>Male</i>		
Directors	1	1
Staff	14	15
<i>Female</i>		
Directors	2	2
Staff		
	<u>29</u>	<u>31</u>
	<u>46</u>	<u>49</u>

NB In the tables above staff employed are reported as full time equivalent numbers, however the gender breakdown is reported as actual numbers.

### (d) Sickness absence

	2016	2015
Sickness absence rate (%)	2.84	1.31
Number of working days lost	342	161
Approximate cost of working days lost	<u>£46,690</u>	<u>£21,929</u>

The approximate cost of working days lost is based upon the salary at level 4 (step 4), a middle management staff level (including overhead costs).

We monitor sickness absence. At 2.84% of potential working time lost for 2015-16 (2014-15 – 1.31%), although higher than the previous year, this remains low compared to most other organisations in the public sector (average working time lost per CIPD Absence Management Annual Survey Report 2014 – Public Services 4.1%; Education 4.4%; Central Government 4.0%; Local Government 3.5%; Other Public Services 3.5%; Public sector workforce size 1-49, 4.2%; and UK (across all sectors) 3.7%).

\* This information is subject to audit

## Staff policies and other issues

We have introduced and/or reviewed a number of policies and procedures this year:

- Annual leave
- Paternity leave
- Career break scheme
- Shared parental leave

Each policy is subject to a full staff consultation for comment and its impact assessed in line with equalities, the Welsh language and sustainability. These policies are then reviewed by our Works Council (see below) and presented to the HR Committee for approval before being implemented.

### *Employee involvement*

Regular staff meetings and seminars help ensure good internal communications and provide opportunities for staff to contribute to the way we work. A Works Council, through which representatives can raise issues of concern to staff and which includes representation from the PCS union, meets on a regular basis.

In 2000, we achieved the Investors in People award. This award is re-assessed every three years and we obtained re-accreditation in June 2015.

### *Equality and disability*

We are committed to developing our equality and diversity policies to ensure that all employees are treated fairly, irrespective of any protected characteristic as defined by the Equality Act.

Our policy on recruitment is based on the Civil Service Recruitment Principles of appointments being made on merit on the basis of fair and open competition.

We have achieved the 'Two Ticks' disability symbol and we are resolved to meeting the five commitments regarding recruitment, training, retention, consultation and disability awareness. This was re-assessed in April 2015.

In line with the disability symbol, all applications by disabled persons are given full and fair consideration and our recruitment policy guarantees each disabled person who meets the minimum role requirements, an interview. This would also apply to any disabled employee who applied internally for a promotion.

Reasonable adjustments are also made, where possible, following discussions between an employee in post, who has declared a disability, their line manager and HR, or an employee returning to work following an absence that may have an impact on their ability to meet their job responsibilities.

### *Community and human rights matters*

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

We embody the principles of Human Rights in our Equality and Diversity practices and our policy on Dignity at Work aims to ensure that all employees' rights are respected.



*Other staff-related issues*

We conduct biennial Staff Attitude Surveys which support staff engagement. The survey is based upon the Civil Service People Survey and actions arising from this survey and other evaluations such as Investors in People, are included in our organisational action plan which is accessible to all staff on our intranet.

Employees have access to an Employee Assistance Programme which provides access to advice and counselling 24 hours a day, 365 days a year. The resource is available on both our website and as a mobile application and promotes fitness, a healthy lifestyle and provides mental health support.

**Consultancy expenditure**

There was no consultancy expenditure during the year.

**Off-payroll engagements**

There have been no payments to off-payroll employees during the year.

**Exit Packages**

There were no exit packages in 2015-16 (2014-15 – nil).

Dr David Blaney  
Chief Executive and Accounting Officer  
14 July 2016

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

I certify that I have audited the financial statements of the Higher Education Funding Council for Wales for the year ended 31 March 2016 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report that is described in that report as having been audited.

### **Respective responsibilities of the Chief Executive and auditor**

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

My responsibility is to audit, certify and report on the financial statements in accordance with applicable law and with International Standards on Auditing (UK and Ireland). These standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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

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

In addition, I read all the financial and non-financial information in the Annual Report with the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my certificate and report.

### **Opinion on Financial Statements**

In my opinion the financial statements:

- give a true and fair view of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2016 and of its net expenditure for the year then ended; and
- have been properly prepared in accordance with Welsh Ministers' directions issued under the Further and Higher Education Act 1992.

### **Opinion on Regularity**

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

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with Welsh Ministers' directions made under the Further and Higher Education Act 1992; and
- the information in the Annual Report is consistent with the financial statements

### **Matters on which I report by exception**

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

- the Governance Statement does not reflect compliance with HM Treasury guidance;
- proper accounting records have not been kept;
- the financial statements and the part of the Remuneration and Staff Report to be audited, are not in agreement with the accounting records and returns;
- information specified by HM Treasury/Welsh Ministers regarding the remuneration and other transactions is not disclosed; or
- I have not received all of the information and explanations I require for my audit.

**Report**

I have no observations to make on these financial statements.

**Huw Vaughan Thomas  
Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ**

19 July 2016

The maintenance and integrity of the Higher Education for Wales' website is the responsibility of the Accounting Officer; the work carried out by auditors does not involve consideration of these matters and accordingly auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

## Statement of comprehensive net expenditure

for the year ended 31 March 2016

		2016		Restated 2015	
	Notes	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
<i>Funding of higher education:</i>					
Recurrent expenditure	3	126,043		349,143	
Other purposes	5	<u>7,932</u>		<u>24,058</u>	
		<u>133,975</u>		<u>373,201</u>	
<i>Council expenditure:</i>					
Staff costs		2,097		1,916	
Depreciation	8	<u>83</u>		<u>90</u>	
Other expenditures	6	<u>572</u>		<u>574</u>	
		<u>2,752</u>		<u>2,580</u>	
<b>Total expenditure</b>			(136,727)		(375,781)
<b>Income</b>					
Income from activities	2		8,046		20,519
<b>Net operating costs</b>			<u>(128,681)</u>		<u>(355,262)</u>
Interest payable			<u>(1)</u>		<u>-</u>
<b>Net operating costs after interest transferred to taxpayers' equity</b>			<u>(128,682)</u>		<u>(355,262)</u>

All activities are continuing.

There are no recognised gains or losses in either 2015-16 or 2014-15.

The notes on pages 57 to 71 form part of these accounts.

Details of staff costs are shown on page 46 as part of the Remuneration and Staff Report.

The 2014-15 figures have been restated as per note 7 to these accounts.

## Statement of financial position

as at 31 March 2016

	Notes	As at 31 March 2016 £'000	Restated As at 31 March 2015 £'000
<b>Non-current assets</b>			
Property, plant and equipment	8	85	132
Repayable grants falling due after one year	9a	<u>6,750</u>	<u>4,750</u>
<b>Total non-current assets</b>		<u>6,835</u>	<u>4,882</u>
<b>Current assets</b>			
Repayable grants falling due within one year	9a	-	-
Trade and other receivables	9b	6,375	9,437
Cash and cash equivalents	10	<u>1,599</u>	<u>4,121</u>
<b>Total current assets</b>		<u>7,974</u>	<u>13,558</u>
<b>Total assets</b>		14,809	18,440
<b>Current liabilities</b>			
Trade and other payables	11	(298)	(992)
Provisions for liabilities and charges within one year	12	<u>(1)</u>	<u>(1)</u>
<b>Total non-current assets plus net current assets</b>		14,510	17,447
<b>Non-current liabilities</b>			
Provisions for liabilities and charges after one year	12	(22)	(24)
<b>Assets less liabilities</b>		<u>14,488</u>	<u>17,423</u>
<b>Taxpayers' equity</b>			
General reserve		<u>14,488</u>	<u>17,423</u>
		<u>14,488</u>	<u>17,423</u>

The notes on pages 57 to 71 form part of these accounts.  
The 2015 figures have been restated as per note 7 to these accounts.

Signed on behalf of HEFCW

Dr David Blaney  
Chief Executive and Accounting Officer  
14 July 2016

## Statement of cash flows

for the year ended 31 March 2016

	Notes	2016	Restated 2015
		£'000	£'000
<b>Cash flows from operating activities</b>			
Net operating costs before interest		(128,681)	(355,262)
Depreciation charges		83	90
Decrease/(increase) in trade and other receivables due within one year		3,062	(4,849)
Increase in repayable grants due after one year		(2,000)	(1,000)
Decrease in trade and other payables		(694)	(270)
Movement in provision for liabilities and charges due within one year		-	-
Movement in provisions		(2)	4
<b>Net cash outflows from operating activities</b>		<u>(128,232)</u>	<u>(361,287)</u>
<b>Cash flows from returns on investments and servicing of finance</b>			
Interest received		-	-
Interest paid		(1)	-
<b>Net cash flows from returns on investments and servicing of finance</b>		<u>(1)</u>	<u>-</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(36)	(100)
<b>Net cash outflow from investing activities</b>		<u>(36)</u>	<u>(100)</u>
<b>Cash flows from financing activities</b>			
Funding from the Welsh Government		125,747	362,518
<b>Net cash flows from financing activities</b>		<u>125,747</u>	<u>362,518</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(2,522)</u>	<u>1,131</u>
<b>Cash and cash equivalents at beginning of period</b>		4,121	2,990
<b>Cash and cash equivalents at end of period</b>	10	1,599	4,121
<b>Net (decrease)/increase in cash</b>		<u>(2,522)</u>	<u>1,131</u>

The notes on pages 57 to 71 form part of these accounts.

The 2015 figures have been restated as per note 7 to these accounts.

## Statement of changes in taxpayers' equity for the year ended 31 March 2016

	<b>General Reserve £'000</b>
<b>Balance at 1 April 2015</b>	
As previously stated	12,673
<b>Prior periods' adjustments</b>	
Previously unrecognised repayable grants (see note 7):	
2013-14 and earlier	3,750
2014-15	1,000
<b>Balance at 1 April 2015 – restated</b>	<u>17,423</u>
<b>Changes in taxpayers' equity 2015-16</b>	
Net operating costs	(128,682)
<b>Total recognised income and expense for 2015-16</b>	<u>(128,682)</u>
Funding from the Welsh Government	125,747
<b>Balance at 31 March 2016</b>	<u><u>14,488</u></u>

The notes on pages 57 to 71 form part of these accounts.



## Notes to the accounts

### 1. Statement of accounting policies

#### (a) Basis of accounting

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

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

There are no new accounting standards issued but not yet effective that would have a material effect on these financial statements had they been applied in this reporting period.

#### (b) Grants for European Union (EU) projects

##### *Income:*

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

##### *Expenditure:*

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

#### (c) Funding

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

#### (d) Grants payable

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

Tuition fee support grants were accounted for on a payable or accruals basis. These grants were payable to the Student Loans Company (SLC). The SLC funded the higher education institutions to pay, on behalf of students, the cost of the difference between the tuition fees charged by the higher education institutions and the tuition fee loan available to students.

**(e) Repayable grants**

Repayable grants are funds provided to institutions on an individual basis to support the initial costs of specific projects, which are normally recovered via an adjustment to their future funding.

**(f) Pension costs**

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

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

**(g) Property, plant and equipment**

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

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

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

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

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

**(h) Value Added Tax**

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

**(i) Operating leases**

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

**(j) Financial instruments**

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

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

**(k) Segmental reporting**

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

**(l) Staff costs and secondments**

Staff on secondment normally continue to be paid by us. The reimbursement of costs for seconded staff is netted off against staff costs in the note included within the Staff Report on page 46, which forms part of the Accountability Report.

## Higher Education Funding Council For Wales

### 2. Income from activities

	2016 £'000	2015 £'000
European Union – European Social Fund	(5)	3,833
Department for Business, Innovation & Skills – Research Capital Investment Fund	7,406	5,708
Y Coleg Cymraeg Cenedlaethol Scholarships	330	330
Welsh Government - ectarc Ltd (a)	-	102
Jobs Growth Wales (b)	14	1,555
UK Research Partnership Investment Fund (c)	-	8,991
UK Joint Academic Network 6 (Janet 6) (d)	98	-
Police Knowledge Fund project (e)	203	-
	<u>8,046</u>	<u>20,519</u>

(a) This funding was in respect of ectarc Ltd providing EU work placements for Welsh graduates. 2014-15 was the final year of funding for this project.

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

(c) This is funding from the UK Research Partnership Investment Fund (UK RPIF) for the Energy Safety Research Institute at Swansea University which ceased in 2015.

(d) This is funding to support the costs of providing 'Janet 6' to enable joint academic network (Janet) services to continue to be provided to higher education institutions in Wales. This funding is paid to Jisc.

(e) This is funding for the Open Source Communications, Analytics and Research (OSCAR) Development Centre at Cardiff University.

3. Funding of higher education

	2016	Restated 2015
	£'000	£'000
<b>Higher Education Institutions</b>		
Aberystwyth University	6,842	9,621
Bangor University	7,752	10,243
Cardiff University	43,020	62,060
Swansea University	15,610	20,536
Glyndŵr University	3,151	5,464
Cardiff Metropolitan University	2,262	3,148
University of Wales, Trinity Saint David	5,234	8,039
University of South Wales	19,301	21,020
University of Wales	209	424
Open University	9,768	6,482
<b>Sub-total</b>	<u>113,149</u>	<u>147,037</u>
Student Loans Company Ltd (see (a) below)	<u>-</u>	<u>194,178</u>
<b>Further Education Institutions</b>		
Bridgend College	-	1
Coleg Llandrillo	433	296
Grwp NPTC Group (formerly) Neath Port Talbot College	66	45
Gower College Swansea	37	31
<b>Sub-total</b>	<u>536</u>	<u>373</u>
<b>Total carried forward</b>	<u>113,685</u>	<u>341,588</u>

## Higher Education Funding Council For Wales

	2016	Restated 2015
	£'000	£'000
<b>Total brought forward from previous page</b>	<u>113,685</u>	<u>341,588</u>
<b>Other Organisations</b>		
Economic and Social Research Council	-	167
Engineering and Physical Sciences Research Council	-	21
Equality Challenge Unit	76	58
Hardisty Jones Associates Ltd	-	65
Higher Education Funding Council for England (HEFCE)	404	585
HESA Services Ltd	-	44
HESA	31	-
The Higher Education Academy	314	582
High Performance Computing Wales	-	575
JANET (UK) Ltd	2,178	2,310
KPMG LLP	23	-
National Centre for Universities and Business	34	34
National Union of Students	-	41
Miller Research	-	33
Old Bell 3 Ltd	-	52
Parity Solutions Ltd	-	46
Quality Assurance Agency	282	262
The Conversation Trust (UK) Limited	20	-
UCAS	20	21
Universities UK	48	71
Universities Wales (formerly Higher Education Wales)	60	45
Welsh Government	-	245
WJEC CBAC Ltd	-	20
Y Coleg Cymraeg Cenedlaethol	8,384	7,324
Other (see (b) below)	483	503
<b>Sub-total</b>	<u>12,357</u>	<u>13,104</u>
<b>Total</b>	126,042	354,692
<b>Add/(less) ESF funded expenditure (see note 5)</b>	15	(3,993)
<b>Less Jobs Growth Wales expenditure (see note 5)</b>	(14)	(1,556)
<b>Total</b>	<u>126,043</u>	<u>349,143</u>

- (a) The Welsh Government decision to directly fund the Student Loans Company (SLC) with tuition fee support grants from April 2015 means that we no longer have this responsibility from 2015-16. This has resulted in a significant reduction in the level of total funding made available to us by the Welsh Government for the HE sector.

Academic Year 2014/15 was the third year where we paid funding for student tuition fee support grants to the SLC. The SLC then paid higher education institutions in respect of their eligible students. As shown above, payments of £194.2 million were made to the SLC in the previous financial year, 2014-15.

- (b) This includes a contribution of £250k from the programme budget towards running costs wages and salaries as disclosed in the Staff Costs' note on page 46.

#### 4. Grants to institutions

Included in these accounts are grants to higher education institutions, which are subject to the recipients' external auditors' confirmation that they have been used for their intended purpose. The financial year of higher education institutions ends on 31 July and their audited accounts are provided to us by 31 December. A review by us of institutions' 2014/15 financial statements confirmed that each institution's external auditors had considered that grants had been used for their intended purpose and no adjustments to grants were necessary. The audit of student numbers carried out in the summer of 2015 resulted in a clawback of £1,433k. Any adjustment arising from the audit of 2015/16 accounts and student numbers will be made by us in future years.

We confirm that grants we have received from the Welsh Government have been used for their approved purposes.

#### 5. Expenditure for other purposes

	2016 £'000	2015 £'000
European Social Fund (a)	(15)	3,993
Research Capital Investment Fund (b)	7,406	5,708
Y Coleg Cymraeg Cenedlaethol Scholarships	324	320
ectarc Ltd (c)	-	102
Jobs Growth Wales (d)	14	1,556
Improving Environmental Performance through Student Engagement (e)	-	17
UK Research Partnership Investment Fund (f)	-	8,991
Capital contribution towards merger (g)	-	3,371
Police Knowledge Fund Project (h)	203	-
	<u>7,932</u>	<u>24,058</u>

- (a) The European Social Fund (ESF) projects were completed at the end of the financial year. This underpayment relates to expenditure submitted which was subsequently deemed ineligible and disallowed.

An amount of £4k (2015 - £3k) has been paid during the year to the Wales Audit Office for work undertaken on European grant claims.

- (b) An analysis of research capital funding by higher education institution is given below:

	2016 £'000	2015 £'000
Aberystwyth University	1,020	796
Bangor University	836	643
Cardiff University	3,913	3,111
Swansea University	1,637	1,158
	<u>7,406</u>	<u>5,708</u>

- (c) This was funding paid to ectarc Ltd to provide EU work placements for Welsh graduates.
- (d) These are costs in respect of a project to provide graduates with job opportunities with businesses in Wales. This project was completed in May 2015.
- (e) This work was undertaken by the NUS Charitable Services in conjunction with six higher education institutions in Wales.
- (f) This was funding from the UK Research Partnership Investment Fund (UK RPIF) for the Energy Safety Research Institute at Swansea University.
- (g) This was capital funding paid to the University of South Wales (formerly the University of Glamorgan) towards the costs associated with its merger with the University of Wales, Newport on 11 April 2013.
- (h) This is funding for the Open Source Communications, Analytics and Research (OSCAR) Development Centre at Cardiff University.

## 6. Other expenditures

	2016 £'000	2015 £'000
<b>Administration costs</b>		
Accommodation costs	207	211
Office costs	45	43
Bought-in services	70	48
Auditors' remuneration – Annual audit fee of HEFCW	24	30
Council members' travel and subsistence costs	16	13
Council members' meeting costs	25	12
Staff travel and subsistence costs	33	33
Staff related expenditure on training, recruitment etc.	26	34
Information technology costs	126	150
	<u>572</u>	<u>574</u>

Our auditor during the year was the Auditor General for Wales.

During the year there was an HMRC Compliance inspection looking at staff and council members' travel and subsistence and expenses. As a result of anomalies identified, HEFCW paid PAYE and national insurance amounting to £33k (£15k salaries included in salary costs shown on page 46 of the Remuneration and Staff Report, £17k Council members' travel and subsistence and meeting costs included above) covering the periods 2010-11 to 2015-16. This included interest of £1k as shown of the Statement of Comprehensive Net Expenditure.



## 7. Prior periods' adjustment

A prior periods' adjustment in respect of the overstatement of programme recurrent expenditure relates to an error in respect of the non-recognition of £4.75 million of repayable grants due from a higher education institution. This expenditure covered the period from 2006-07 to 2014-15, as detailed below.

In 2006-07, a funding package of £12.75 million was agreed with a higher education institution which included a repayable grant of £3.75 million, which was paid out over the financial years 2006-07 to 2009-10. In 2012-13, a funding package of £24.9 million was agreed with a higher education institution which included a repayable grant of £3 million. £1 million of this grant was paid out in the financial year 2014-15 and the balance of £2 million, in the current year, 2015-16.

In both cases, the payment of repayable grants was mistakenly accounted for as 'higher education recurrent expenditure' in the Statement of Comprehensive Net Expenditure, rather than as 'repayable grants' in the Statement of Financial Position.

Corrections made in these accounts consist of:

### *Statement of Comprehensive Net Expenditure*

£000

#### Overstatement of 'higher education recurrent expenditure'

In 2014-15 - as previously stated	350,143
Adjustment	<u>(1,000)</u>
As restated	<u>349,143</u>
Prior periods 2006-07 to 2009-10 - adjustment	<u>(3,750)</u>
Total prior periods' adjustment	<u>(4,750)</u>

### *Statement of Financial Position*

#### Understatement of 'repayable grants' (see note 9a)

As at 31 March 2015 – as previously stated	-
Prior periods' adjustment	<u>4,750</u>
Restated as at 31 March 2015	<u>4,750</u>

### *Statement of Changes in Taxpayers' Equity*

Understatement of Taxpayers' equity (see details of prior periods' adjustment on page 56)

As at 31 March 2015	<u>4,750</u>
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## 8. Property, plant and equipment

	Information technology equipment	Fixtures & fittings	Total
	£'000	£'000	£'000
<b>Cost</b>			
At 1 April 2015	534	286	820
Additions	35	1	36
Disposals	(52)	-	(52)
At 31 March 2016	<u>517</u>	<u>287</u>	<u>804</u>
<b>Depreciation</b>			
At 1 April 2015	445	243	688
Charged during year	67	16	83
Released on disposals	(52)	-	(52)
At 31 March 2016	<u>460</u>	<u>259</u>	<u>719</u>
Net book value at 31 March 2016	<u>57</u>	<u>28</u>	<u>85</u>
Net book value at 1 April 2015	<u>89</u>	<u>43</u>	<u>132</u>
<b>Asset financing</b>			
Owned assets			
Net book value at 31 March 2016	<u>57</u>	<u>28</u>	<u>85</u>

## 9a. Repayable grants

	2016 £'000	Restated 2015 £'000
<b>Repayable grants</b>		
Balances as at 1 April	4,750	3,750
Advanced during the year	2,000	1,000
Repaid during the year	-	-
Balances as at 31 March	<u>6,750</u>	<u>4,750</u>
<b>Balances as at 31 March</b>		
Within one year	-	-
After one year	<u>6,750</u>	<u>4,750</u>
Balances as at 31 March	<u>6,750</u>	<u>4,750</u>

Repayable grants are funds provided to institutions on an individual basis to support approved projects from the appropriate part of the programme budget.

The commencement of the repayment and the duration of the period over which the grants are repayable vary according to the conditions of the grant agreed with the institution.

None of the above grants is interest-bearing.

## Higher Education Funding Council For Wales

As at 31 March 2016, there was one institution (2015 – one) with repayable grants outstanding.

The 2015 figures have been restated as set out in note 7.

### 9b. Trade receivables and other current assets

	2016 £'000	2015 £'000
<b>Amounts falling due within one year</b>		
Prepayments and accrued income	132	4,466
Other receivables	6,243	4,971
	<u>6,375</u>	<u>9,437</u>
<b>Intra-government balances</b>		
Other central government bodies	-	4,352
Balances with other government bodies	-	4,352
Balances with non-government bodies	6,375	5,085
	<u>6,375</u>	<u>9,437</u>

'Other receivables' includes £1,804k of funding due to be recovered from higher education institutions relating to sector agency funding, a short-term loan for cash flow support (which has been fully repaid since the year-end) and the claw back of £1,433k funding following the 2014/15 audit of student numbers (see note 4).

### 10. Cash and cash equivalents

	2016 £'000	2015 £'000
<b>Cash held under Government Banking Service</b>		
Balance at 1 April	2,077	2,413
Net change in cash and cash equivalent balances	(1,098)	(336)
Balance at 31 March	<u>979</u>	<u>2,077</u>
<b>Cash held under commercial banks and cash in hand</b>		
Balance at 1 April	2,044	577
Net change in cash and cash equivalent balances	(1,424)	1,467
Balance at 31 March	<u>620</u>	<u>2,044</u>
Total cash and cash equivalents	<u>1,599</u>	<u>4,121</u>

The Government Banking Service (GBS) is a Government-wide banking service. Until February 2016 it was provided jointly by Citibank and the Royal Bank of Scotland and overseen centrally by the GBS team, ultimately controlled by HM Treasury. From February 2016, it was provided solely by the Royal Bank of Scotland (RBS). We do not earn any interest on any balance held in GBS accounts. We have HM Treasury authorisation to continue making payments using commercial banking facilities.

11. Trade payables and other current liabilities

	2016 £'000	2015 £'000
<b>Amounts falling due within one year</b>		
Accruals	298	901
Other taxation and social security	-	90
Sundry creditors	-	1
	<u>298</u>	<u>992</u>
<b>Intra-government balances</b>		
Other central government bodies	-	90
Balances with other government bodies	-	90
Balances with non-government bodies	298	902
	<u>298</u>	<u>992</u>

12. Provisions for liabilities and charges

	2016 £'000	2015 £'000
Broadly by analogy pension liability (see Staff Costs note on pages 46 and 47)	<u>23</u>	<u>25</u>
<b>Analysis of timing of liability</b>		
Falling due within one year	1	1
Falling due between 2016 and 2021	7	7
Falling due between 2022 and 2032	15	17
	<u>23</u>	<u>25</u>

13. Commitments under leases

**Operating leases**

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

	2016 £'000	2015 £'000
<b>Obligations under operating leases comprise:</b>		
Buildings		
Not later than one year	82	82
Later than one year and not later than five years	37	119
	<u>119</u>	<u>201</u>

Expenditure in the year on leasing costs of £82k is included in note 6.

14. **Capital commitments**

2016	2015
£'000	£'000

Contracted capital commitments at 31 March 2016 not otherwise included in these accounts

*Property, plant and equipment*

Contracted	9	2
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15. **Other financial commitments and contingent liabilities**

2016	2015
£'000	£'000

Revenue grants	39,272	23,850
	39,272	23,850

This amount will be funded by grant in aid from the Welsh Government to July 2016.

As at 31 March 2016, there were no contingent liabilities (2015 – nil).

16. **Losses and special payments**

2016	2015
£	£

Fruitless payments	90	4,043
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## 17. Related parties

We are a Welsh Government Sponsored Body. The Welsh Government is regarded as a related party. During the year, we had various material transactions with the Welsh Government, which is regarded as the parent Department.

The following Council members have entered into relationships with organisations that are considered to be related parties, details of which are shown in the table below:

Name	Relationship with related party
Dr David Blaney (Chief Executive and Council member)	<ul style="list-style-type: none"> <li>◆ Fellow, Higher Education Academy</li> <li>◆ Daughter studying at Cardiff University</li> </ul>
Mr David Mason (Council member)	<ul style="list-style-type: none"> <li>◆ Honorary Fellow, University of Wales, Newport (now University of South Wales)</li> </ul>
Mrs Bethan Guilfoyle CBE (Council member)	<ul style="list-style-type: none"> <li>◆ Honorary Doctor of Education, University of Glamorgan (now University of South Wales)</li> </ul>
Dr Arun Midha (Council member)	<ul style="list-style-type: none"> <li>◆ Partner employed by Cardiff University</li> </ul>
Professor Robin Williams CBE (Council member)	<ul style="list-style-type: none"> <li>◆ Emeritus Professor, University of Wales</li> <li>◆ Emeritus Professor, Swansea University</li> <li>◆ Honorary Fellow, Cardiff University</li> <li>◆ Honorary Fellow, Bangor University</li> <li>◆ Honorary Fellow, Swansea University</li> <li>◆ Honorary Fellow, Aberystwyth University</li> <li>◆ Member, Advisory Group for Engineering, Swansea University</li> <li>◆ Fellow of the Coleg Cymraeg Cenedlaethol</li> <li>◆ Daughter employed by Swansea University</li> </ul>
Professor Mark Smith (Council member)	<ul style="list-style-type: none"> <li>◆ Board Member, HESA</li> <li>◆ Member, the Strategic Advisory Network, EPSRC</li> <li>◆ Trustee, Jisc</li> <li>◆ Trustee, AQA</li> <li>◆ Member, Leadership, Management and Governance Committee, HEFCE</li> <li>◆ Board member, Universities and Colleges</li> </ul>
Professor Stephen Tomlinson CBE (Council member to 31/12/15)	<ul style="list-style-type: none"> <li>◆ Emeritus Professor, Cardiff University</li> <li>◆ Lay Member, Biological Standards Committee, Cardiff University</li> </ul>
Mr Ewart Wooldridge CBE (Council member to 31/12/15)	<ul style="list-style-type: none"> <li>◆ Honorary Fellow, Cardiff University</li> </ul>

Any funds paid to the institutions and organisations noted above are detailed in note 3, otherwise the funds paid in the year were nil. None of the above individuals has undertaken any material transactions with us.

## 18. Financial instruments

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

*Liquidity risks* – In 2015-16 £125.7 million or 94.0% of our income was derived from the Welsh Government (2014-15: £362.5 million or 94.6%). The remaining income £8.0 million or 6.0% was derived from income from activities (2014-15: £20.5 million or 5.4%).

We do not consider that our general activities are exposed to any significant liquidity risk, and we are satisfied that future income is sufficient to meet our commitments.

*Interest rate risks* – Cash balances are no longer held in interest-bearing accounts and therefore our general activities are not exposed to interest rate risks.

*Foreign currency risk* – Our general activities are not exposed to any significant foreign exchange risks.

*Cash flow risk* – We are not exposed to any significant cash flow risks.

## 19. Events after the reporting period

There have been no events, after the Statement of Financial Position date up to the date these financial statements were authorised for issue by the Accounting Officer on 14 July 2016, requiring an adjustment to the accounts.