

Higher Education Funding Council for England

# **Annual report and accounts 2005-06**

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## Management commentary

### HEFCE's role and responsibilities

The Higher Education Funding Council for England (HEFCE) was established on 6 May 1992 under Section 62 of the Further and Higher Education Act 1992. It assumed its funding responsibilities from its predecessor councils on 1 April 1993. Its role is set out in the Further and Higher Education Act 1992 and can be summarised as:

- To administer funds to support education and research in higher education institutions.
- To administer funds to support prescribed higher education courses in further education colleges.
- To provide the Secretary of State for Education and Skills with information relating to all aspects of higher education teaching and research, including the financial needs of the sector.
- To secure the assessment of the quality of education at institutions that receive HEFCE funding.

HEFCE is therefore responsible for distributing public money to universities and colleges in England that provide higher education. In 2005-06 we distributed £6.7 billion in public funds. Most of this went to the 130 universities and higher education colleges in England. Some HEFCE funds support higher education courses in 152 directly-funded further education colleges. Details of allocations made to individual institutions for 2005-06 are provided in 'Recurrent grants for 2005-06: final allocations' (reference HEFCE 2005/43).

Our statutory duty to secure the assessment of the quality of education at institutions that receive HEFCE funding is carried out on our behalf by the Quality Assurance Agency for Higher Education.

### Our mission

'Working in partnership, we promote and fund high-quality, cost-effective teaching and research, meeting the diverse needs of students, the economy and society.'

To achieve our mission, we have set out in our strategic plan for 2003-08 (revised in April 2005) our broad vision for the development of higher education (HE) over the next decade, and our strategy and proposed activities for moving towards it. The 2003-08 strategic plan was the outcome of a lengthy period of discussion and consultation within the Council and with our partners and stakeholders.

### Our strategic aims

Our 2003-08 strategic plan sets out our four core strategic aims:

- **Widening participation and fair access** To provide the opportunity of higher education to all those who could benefit from it.
- **Enhancing excellence in learning and teaching** To ensure that all higher education students benefit from a high-quality learning experience fully meeting their needs and the needs of society.

- **Enhancing excellence in research** To develop and sustain a dynamic research sector that holds a strong position among the world leaders, and makes a major contribution to economic prosperity and national wellbeing and to the expansion and dissemination of knowledge.
- **Enhancing the contribution of HE to the economy and society** To support all institutions in making a significant and measurable contribution, through knowledge transfer and related activities, to economic development and the strength of communities.

Underpinning these are three cross-cutting and supporting aims:

- Building on institutions' strengths To ensure excellent provision across the full range of activity within HE, by supporting institutions to focus on achieving excellence in what they do best and to collaborate based on their strengths.
- Developing leadership, governance and management To provide support, through a broad-based partnership, to enhance further the sector's leadership, governance and management.
- Excellence in delivery: organisational development within HEFCE To ensure HEFCE can effectively deliver this strategic plan, working to the highest standards in all that we do.

Integral to the development of our strategic plan was a process of risk assessment. For each of the seven aims, we identified the key risks to achieving the aim and its associated objectives. In developing the programme of activity to deliver these objectives we took into account actions required to manage and mitigate the risks.

### **Distribution of funding for 2005-06**

Of the £6,745 million in public funds distributed during the 2005-06 financial year, the vast majority is provided as recurrent funding for teaching and research. This is allocated as a block grant which institutions can then decide how to distribute internally to support their own priorities. The remaining funding – referred to as 'non-recurrent grant' – supports specific initiatives to deliver strategic objectives, and to fund national activities such as the Joint Information Systems Committee. Analysis by our strategic aims of both recurrent and non-recurrent funds distributed in 2005-06 is provided in Note 4 of the accounts.

### **Our strategic direction for 2006-11**

We update our strategic plan each year but undertake a full review every three years. During 2005-06 we have been developing our next strategic plan, covering the period 2006-11. The strategic policy developments for this period are evolving from the 2003-08 strategic plan, so our mission statement and four core strategic aims will remain unchanged. The strategic plan for 2006-11 is available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us. As this plan has been developed, we have revisited and updated the strategic risks that could prevent delivery of the objectives within it.

The Secretary of State for Education and Skills set out in his annual grant letter to HEFCE the public funding to be made available for higher education for 2006-07. A total of £6,564 million has been allocated for distribution by HEFCE in the financial year 2006-07, with an indicative figure for 2007-08 of £6,894 million.

## **HEFCE Board during 2005-06**

Board members are appointed by the Secretary of State for Education and Skills, normally for periods of two or three years. In turn, the Board appoints a Chief Executive to lead the organisation and to advise the Board; he serves as the HEFCE Accounting Officer. Membership of the HEFCE Board for 2005-06 was as follows:

<b>Chairman</b>	Mr David Young
<b>Chief Executive</b>	Sir Howard Newby (until 31 January 2006) Steve Egan (Acting Chief Executive from 1 February 2006)
<b>Members</b>	Mr Steve Bundred (to September 2005) Mr Richard Coldwell Professor David Eastwood (from August 2005) Mrs Jackie Fisher Dame Patricia Hodgson (from October 2005) Mrs Ann Lloyd (to July 2005) Dr Beverly Malone Professor Sir Gareth Roberts (to August 2005) Professor Peter Rubin Mr Peter Saraga OBE Professor Nigel Savage Professor Peter Scott Mr Ed Smith Sir Richard Sykes Mrs Ann Tate Professor Tim Wilson (from August 2005)

Professor David Eastwood has been appointed as Chief Executive from 1 September 2006.

Information on each member and their interests is on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work. Current membership of these committees is also available on our web-site.

## **Our performance and achievements during 2005-06**

Within the 2003-08 strategic plan, and for each of our seven aims, we have identified the objectives, strategic risks and key performance targets for the planning period. These are set out below along with our principal achievements against these objectives and progress towards our key performance targets during 2005-06.

## **Widening participation and fair access**

### **Objectives**

- To make measurable progress, while maintaining standards, to increase participation in higher education towards 50 per cent of those aged 18 to 30 by the end of the decade, in keeping with the Government's target.
- To make measurable progress towards widened participation, without increasing student non-completion, while maintaining standards of excellence and recognising and building on institutional strengths and diversity.
- To stimulate new sources of student demand and adjust supply accordingly.
- To improve opportunities for all students through lifelong learning.

### **Risks**

The key risks to achieving our strategic objectives under this aim are:

- That there is insufficient additional demand for higher education places from 18-30 year-olds to meet the participation target by 2010, through aspirations and attainment not being raised sufficiently.
- That the participation target can be achieved by 2010, but that there is no, or insufficient, increase in representation from the under-represented socio-economic groups.
- That the supply of places created to meet the participation target does not match the demand from students, in terms of level or mode or location.
- That the Council fails to meet its obligations to support the Office for Fair Access in accordance with the service level agreement.

### **Achievements**

For the 2005-06 academic year universities and colleges will receive £280 million to support their work in widening participation. This money typically pays for extra teaching support or advisory services for students, to help them successfully complete their courses. It also supports outreach work with local schools and colleges to encourage pupils to aim for university.

#### *Aimhigher*

A further £29 million a year is being distributed through Aimhigher, a joint initiative with the Department for Education and Skills (DfES). Aimhigher supports hundreds of national and regional projects, many focused on young people before they take their GCSEs, and offers residential and non-residential summer schools across the country to give them a taste of university life. Evaluation of the initiative found that students who took part in Aimhigher achieved higher than expected exam results, compared to their peers in control groups who were not involved in Aimhigher activities.

### *Lifelong Learning Networks*

To make the whole higher education offer available to vocational learners across a lifetime of work and study, we have funded 15 Lifelong Learning Networks (LLNs), and others are in development in every region.

LLNs will combine the strengths of a number of diverse institutions. Each network will involve both further education colleges and higher education institutions (HEIs), including at least one research-intensive institution. It will also have links with the local Learning and Skills Council, Regional Skills Partnerships, appropriate Sector Skills Councils and other key stakeholders.

A key focus will be to support learners on vocational courses, with information, advice and guidance. LLNs will value vocational learning outcomes and provide opportunities for vocational learners to build on earlier learning and to re-engage with learning throughout their lifetime.

By taking this lifelong learning approach, LLNs will ensure that learners have access to a range of opportunities and can move between different kinds of vocational and academic programmes as their interests, needs and abilities develop.

Options for students to progress on academic pathways are well established and clear, but this is not the case for those on vocational pathways. The networks aim to bring greater clarity, coherence and certainty to opportunities for progression. LLNs will centre around progression agreements, and how institutions will deliver them to meet learners' needs.

### *Strategically important and vulnerable subjects*

We have identified some subjects that are strategically important to the economy and society, but may be vulnerable because of a mismatch between supply and demand. We are currently working with a number of learned societies such as the Royal Society of Chemistry, the Institute of Physics and the Royal Academy of Engineering to develop and deliver pilot projects to raise demand for science, technology, engineering and mathematics (STEM) subjects. All of the projects awarded funding under this initiative will be expected to work with non-traditional students and students from under-represented groups.

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<p><i>KPT 1:</i> To increase participation in higher education in line with the funding and policies set out in the annual grant letter provided by the Secretary of State.</p>	<p><b>On target</b>            In the December 2004 grant letter, the Secretary of State for Education and Skills planned for 50,000 foundation degree places by 2005-06. In 2005-06, the sector reported 46,000 foundation degree places. A further 15,200 additional student numbers have been allocated for foundation degrees in 2006-07. In terms of participation overall, the Higher Education Initial Participation Rate fell in 2004-05 but we expect it to increase for 2005-06. This information will be available in April 2007.</p>
<p><i>KPT 2:</i> Across the planning period, the non-completion rate for English HEIs will remain the same as, or be less than, the benchmark value calculated from the start year 2002-03.</p>	<p><b>On target</b>            The performance indicators for non-completion published in September 2005 were for non-continuation from 2002-03. The performance indicators for 2003-04 will be published at the end of July 2006.</p>

## **Enhancing excellence in learning and teaching**

### **Objectives**

- To achieve the successful implementation of the new quality assurance framework for higher education.
- To promote activities to enhance the quality of learning and teaching across the sector.
- To provide rewards to celebrate and encourage excellence in all modes, pedagogies and approaches to teaching, and to promote the professional development of teaching staff.
- To support the continuing development of the physical infrastructure for learning and teaching, so that this remains fully fit for purpose and delivers excellent provision.
- To support the supply of HE student places matching the changing needs of learners and other stakeholders.
- To review and put in place funding methods for learning and teaching that will support the achievement of these objectives.

### **Risks**

The key risks to achieving our strategic objectives under this aim are:

- That teaching quality and standards decline as universities and colleges are unable to recruit and retain suitable academic and support staff and/or maintain appropriate physical resources.
- That national capacity for learning and teaching does not match the demand from students, in terms of mode or level or location.
- That the new quality assurance framework does not successfully deliver the agreed principles (including assuring high quality, taking action on poor quality, accountability and provision of information).

### **Achievements**

#### *Enhancing quality*

We have consolidated a number of existing funding streams to support HEIs in enhancing the quality of their learning and teaching. For the first time further education colleges providing HE to 100 or more full-time students were included in the allocations. Over the next three years we plan to distribute £160 million to institutions to enable them to continue their work in developing excellent learning and teaching strategies, supporting professional standards, and offering volunteering opportunities to staff and students.

This total includes new funding to support teaching informed by research. It is aimed at institutions that do not have a strong research base, and recognises the importance of staying in touch with research developments in order to develop and renew the teaching curriculum in HE.

Along with the other funding bodies for UK higher education and the sector's representative bodies, Universities UK and SCOP, we supported the development of a framework for professional teaching standards in HE. Led by the Higher Education Academy, this will ensure that all staff new to teaching in higher education will receive training and development accredited by the Academy as meeting required standards. We believe this is an important step forward in helping the sector to ensure the quality of learning and teaching.

#### *Investing in excellence*

In support of our strategic aim for learning and teaching we are keen to reward, recognise and invest in excellence and innovation. We therefore continued our support for the Centres of Excellence in Teaching and Learning (CETLs) established in 2004-05. We announced an additional £21 million to enable institutions to extend and strengthen partnerships, work with further education colleges, and support strategic and vulnerable subjects. The investment in CETLs has seen some innovative collaborations focusing on excellent learning and teaching provision.

#### *Informing student choice*

The results from the first National Student Survey (NSS) were published in 2005. They will help prospective students to make better informed choices about what and where to study, and help institutions to identify areas for improvement.

The survey received a very good response rate, from nearly two-thirds of students in their final year of study, and revealed that 80 per cent of those students were satisfied with the quality of their course. For the 2006 survey more institutions are taking part, including some Scottish and private institutions. The information gathered by the NSS is available on the web-site for teaching quality information, [www.tqi.ac.uk](http://www.tqi.ac.uk), along with further data to inform student choice.

#### *Reviewing the funding method for teaching*

This year saw an extensive consultation with institutions and other stakeholders about how we fund teaching in the future. We received valuable and interesting insights from the sector about the implications of changing the funding method, and this has helped to inform the next steps.

We want to ensure that, after the introduction of variable tuition fees, the sector remains stable, innovative and responsive to change. We are planning to consult further on the details of the funding method next year and will begin to implement changes from 2008 onwards.

#### *Increasing employer involvement*

We have worked extensively with officials at the DfES, Sector Skills Council representatives and Foundation Degree Forward to look at ways to increase HEIs' engagement with employers. We share the view of the DfES that employability of students is enhanced when employers are able to have an input into course and curriculum design. Foundation degrees, in particular, demonstrate how institutions are contributing to the success of the UK economy by providing graduates with the high-level skills that are in demand by employers.

We plan to extend the scope of our approach to employer engagement by initiating a programme of pilots in flexible learning, including compressed honours degrees.

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<i>KPT 3:</i> All new staff in HE to be trained to agreed professional national teaching standards by 2006.	<p><b>Achieved</b></p> <p>The Higher Education Academy published the framework for professional teaching standards in February 2006, following consultation with and agreement by stakeholders. The framework ensures that all staff new to a substantial teaching responsibility in HE will be enrolled on courses which have been accredited by the Academy as meeting the required standards.</p>
<i>KPT 4:</i> At least 95 per cent of institutions being audited by the Quality Assurance Agency (QAA) receive judgements of broad confidence throughout the plan period.	<p><b>Achieved</b></p> <p>Of the QAA audit reports published between January 2005 and March 2006, 96.3 per cent resulted in judgements of broad confidence (53 reports out of 55 audits). Two reports resulted in judgements of limited confidence.</p> <p>Since the beginning of the planning period, 121 reports have been published, with 116 judgements of broad confidence – 95.8 per cent of audits.</p>
<i>KPT 5:</i> The impact of the Higher Education Academy, which was set up in 2004 to support quality enhancement in learning and teaching, will be reviewed by 2008.	<p><b>On target</b></p> <p>The Academy is in its second year of operation. Consultation on the format and structure of the evaluation is taking place during 2006-07, in order to report on the impact of the Academy in autumn 2008.</p>
<i>KPT 6:</i> Seventy centres of excellence in teaching and learning (CETL) will be established by 2005 and their impact evaluated by 2008.	<p><b>Achieved</b></p> <p>Seventy-four CETLs have been established, receiving funding of £294 million in an initial allocation. This was followed by an additional £21 million that focused on three areas:</p> <ul style="list-style-type: none"> <li>• strengthening or extending partnerships between institutions</li> <li>• enabling further education colleges to access excellence</li> <li>• supporting strategic and vulnerable subjects, or where excellence contributes to a regional skills agenda.</li> </ul> <p><b>On target</b></p> <p>Working with the Higher Education Academy, we are planning an evaluation of the CETLs programme that will review both impact at the institutional level and impact of the overall programme. Initial findings will be reported in 2007.</p>

<i>Key Performance Target</i>	<b>Progress to 31 March 2006</b>
<i>KPT 7:</i> We will consult on and implement a new funding method which supports our strategic plan priorities and the Government's policies on higher education.	<b>On target</b> The results of the first stage of our consultation were published in February 2006. We received broad support for our proposals, but a number of issues were raised by the sector and by stakeholders. The result of the consultation and our evaluation of the existing method concluded that the most appropriate point to begin to implement the new method would be from 2008-09. We are publishing a second stage of consultation in January 2007. This will look at how we might develop a consistent national framework for the costing of teaching, moving from a system based on premiums to one based on allocations, and address the issue of funding for students who only partly complete their studies.

## Enhancing excellence in research

### Objectives

- To maintain a research sector that holds a strong position among the world leaders, with the capacity to respond flexibly to a changing research environment.
- To work with the sector to develop a system for assessing research that not only informs funding but also demonstrates the power of the national research base and helps institutions to identify and foster excellence.
- To work with the sector to develop robust research costing methods for institutions, to ensure that the research effort can be supported without prejudice to their long-term financial well-being or the delivery of other public interest activities.
- To develop a funding policy that:
  - supports and rewards world-class research, encourages effective collaboration, and provides capacity for developing and extending research capability in new areas of work
  - fully reflects both the economic and social benefits of research
  - is responsive to changes in the research environment and in the demands made on researchers
  - enhances skill levels and working conditions for researchers and research students.

### Risks

The key risks to achieving our strategic objectives under this aim are:

- That universities and colleges are not recovering the full economic costs of research from funders and sponsors, leading to deterioration in the research infrastructure.
- That the process and outcomes of the 2008 Research Assessment Exercise (RAE) fail to win the confidence of the sector and/or the Government.
- That research quality declines as universities and colleges are unable to recruit and retain suitable staff.

### Achievements

#### *Research assessment*

Steady progress has been made on the administration of the 2008 RAE, achieving all the key milestones in the project plan. The assessment panels successfully completed two rounds of meetings, and their criteria and working methods were published following a full consultation process. Successful communication and briefing workshops have been conducted with institutions. Good progress has been made on developing the data collection system and operational planning for the assessment phase of the exercise.

*Partnerships to make effective use of funding*

We have worked in partnership with the Research Councils and other government departments to support several initiatives to build research capacity. The Board set aside an additional £15 million to support such initiatives (making a total of £25 million), much of which has already been committed. A review of our Research Capability Fund concluded that it had enabled HEIs to make considerable progress thus far, and recommended continued funding.

A further partnership, the UK Clinical Research Collaboration, aims to enhance clinical academic careers in medicine and dentistry. We have supported this with the Department of Health through the Clinical Senior Lectureship Awards: up to 200 posts will be funded over five years. We are also likely to support further initiatives in nursing and allied health professions.

*A sustainable research base*

A third round of the Science Research Investment Fund has been announced, with a total of £903 million for 2006-08. This is a joint initiative by the DfES and the Office of Science and Technology (now the Office of Science and Innovation, OSI). It contributes to HEIs' long-term sustainable research strategies and addresses past under-investment in research infrastructure.

In addition, to help institutions take a more strategic approach to investment in their physical infrastructure, we are consulting the sector on a new approach to the way we allocate capital funding. And we are continuing to support HEIs in implementing the Transparent Approach to Costing (TRAC) methodology, to ensure that they recover the full economic costs of research commissioned by industry and the public sector.

We introduced a new element to our recurrent funding for research to provide extra money to institutions which undertake research funded by charities. This reflects the established convention that research grants paid by charities cover only a proportion of the work to be done, with institutions finding the remainder from other sources. We have allocated £135 million in 2006-07 academic year and £180 million in 2007-08 academic year.

We will be monitoring HEIs' long-term sustainability, drawing on existing data, sustainability frameworks that institutions have submitted to us, and a new set of 'trigger metrics' developed by the Research Base Funders' Forum – a group of public and private funders of research.

*Better information and training for researchers*

The Research Information Network is now fully operational. It will lead and co-ordinate developments in collaborative provision of research information for the benefit of researchers in the UK.

The new code of practice for the training and supervision of postgraduate research students has been introduced, and a review by the Quality Assurance Agency of HEIs' adherence to the code is under way.

We have simplified processes for the Overseas Research Students Awards Scheme, a fund to encourage high-quality international postgraduates to do research in the UK. We have announced allocations for 2006-07, which will be fixed for three years.

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<p><i>KPT 8:</i> To maintain the UK's leading international position in research excellence throughout the planning period.</p>	<p><b>On target</b></p> <p>We have continued to make reforms in support of the Government's 2004 policy statement on research and innovation, notably in the creation of the new support element within our block grant for research income from charities.</p> <p>New initiatives to fund capacity building have been launched in partnership with the Research Councils and Department of Health. These have included programmes in area studies, mammalian biology and vulnerable areas of the physical sciences; and awards for senior clinical lectureships.</p>
<p><i>KPT 9:</i> To develop and implement a new process for assessing research by 2008 that informs stakeholders about relative performance and recognises the diversity of outputs of research effort in different disciplines.</p>	<p><b>On target</b></p> <p>We are progressing with the administration and management of the 2008 Research Assessment Exercise. We are also participating in the inter-departmental review group on a metrics-based system for assessing research quality and allocating quality-related research funding, which was announced by the Chancellor of the Exchequer in his 2006 Budget speech.</p>
<p><i>KPT 10:</i> To demonstrate improved sustainability of the national research base by 2008.</p>	<p><b>On target</b></p> <p>We are continuing to develop and implement the transparent approach to costing (TRAC) methodology. We are supporting institutions in their application of TRAC methodology and working with key funders and stakeholders (including the Research Councils and Government) to ensure that the full economic costs of research are recovered.</p>

## **Enhancing the contribution of HE to the economy and society**

### **Objectives**

- That all institutions – in conjunction with other institutions and local, regional, national or international partners – continue to develop and enhance their engagement with regional and national businesses and communities.
- That all institutions develop and implement strategies, based on their strengths, to optimise this engagement, in conjunction with other institutions and local, regional and national partners.
- Working with other national and regional agencies, to develop a permanent funding base allowing all institutions to plan and execute targeted activities and deliver beneficial outcomes over a number of years. This should be sufficient to support an enhanced and highly developed level of activity in institutions wishing to make this a key element in their mission.
- To develop robust quantitative and objective qualitative criteria to inform the funding for these activities and to support institutional management.

### **Risks**

The key risks to achieving our strategic objectives under this aim are:

- That there is a lack of consistency, coherence or collaboration between the funders of the economic and social contributions of higher education.
- That business and the wider community do not express informed demand for the resources of the HE sector, and that HEIs do not develop and sustain strategies that respond sufficiently to that demand.
- That there is insufficient evidence from the performance of HEIs to support commitment to continuing third stream funding.

### **Achievements**

#### *Embedding funding*

The year 2005-06 has seen the culmination of a major stage of work to embed a stream of funding for knowledge exchange in HE. The development of this 'third stream' funding – alongside the public funds for teaching and research – began in 1999 with the Higher Education Reach Out to Business and the Community fund (HEROBC). It continued with successive rounds of the Higher Education Innovation Fund (HEIF).

This year, in partnership with the OSI, we consulted on and implemented a third round of HEIF. Under this round, £184 million has been provided in formula funds for every HEI to support their own strategic priorities and plans, as well as to sustain Centres for Knowledge Exchange announced in the HE White Paper. A further £54 million is available as competitive funding to support projects to drive innovation in third stream activities.

This transition to largely formula funds has also been enabled by the coming of age of the Higher Education-Business and Community Interaction (HE-BCI) survey, run by us in partnership with a range of stakeholders. The survey collects a comprehensive set of data and information on HEIs' third stream activities, and enables stakeholders and the sector itself to track trends in performance. Information from the survey has been used to allocate formula funds under HEIF 3.

#### *Promoting good practice*

Following informal consultation with the sector and investigation of alternative approaches, we have launched an initiative, in partnership with OSI, to identify, distill and disseminate good practices in knowledge exchange. A national steering group has been established and six working groups, each addressing a knowledge exchange stream within the knowledge exchange/transfer process, have begun this cross-sector collaborative work. The objective is to deliver validated, transferable good practices in summer 2006, to be disseminated in the autumn.

The fruits of this work will complement the HE-BCI survey by providing a narrative and qualitative base of evidence, as well as guidance and models for continuous improvement for the sector. In parallel, we are investing in joint research projects with Research Councils focused on understanding the impact of HE and knowledge exchange and knowledge transfer activities.

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<i>KPT 11: By 2007 we will be able to demonstrate the year on year improvement in the collaborative and individual interactions of all HEIs with business and the community, related to national social and economic benefit, building on the progress to 2005 and evaluated from annual collection of robust data.</i>	<b>Achieved</b> The 2005 HE-BCI survey report, to be published in June 2006, shows positive trends in many aspects of HE knowledge exchange. The report contains useful data on a range of knowledge exchange activities, including new indicators on interactions with Sector Skills Councils. There has also been early work on the long-term goal of moving from demonstrating improvement in <u>interactions</u> toward demonstrating improvement in <u>impact</u> .
<i>KPT 12: To develop by 2005-06 a set of objective measures of what is delivered over the planning period from an established baseline.</i>	<b>Achieved</b> The HE-BCI survey has now stabilised in operation over several years and has demonstrated its robustness through use in HEIF 3 formula allocations. There has also been early work on impact as described in KPT 11, and on targeted initiatives to explore the range of HE offerings and how these might be measured.
<i>KPT 13: By 2008, we intend to have secured funding to support these activities at an aggregate annual level across the sector greater than that announced in the 2004 spending review.</i>	<b>On target</b> This KPT has not yet been achieved because the Government's Spending Review has been delayed, but work is in hand to secure enhanced third stream funding from a range of sources.

## **Building on institutions' strengths**

### **Objectives**

- To provide more effective means of recognising and rewarding excellence in provision across the full range of activities set out in our strategic plan.
- To maximise the benefits which the HE sector delivers to its students, staff, employers and civil society across the full range of its activities, by encouraging more collaborative working.
- To encourage and support all HEIs to develop for themselves a clear and distinctive mission and strategy, building upon identified areas of relative strength while also sustaining the shared aims and common expectations of all HEIs across key common areas of activity.
- To support HEIs investing in their areas of strength, and to help institutions to reposition themselves within the sector as they pursue their specific mission.

### **Risks**

The key risks to achieving our strategic objectives under this aim are:

- That institutions do not develop clear and distinctive missions that build on or develop their specific strengths regionally, nationally and internationally (as appropriate) in order to create a suitably diverse sector.
- That institutions do not manage change effectively (for example the introduction of variable fees) or do not allocate their resources appropriately in order to support the achievement of excellence in their chosen mission.

### **Achievements**

#### *Focus on plans and priorities*

During the period, our approach to institutions' corporate plans has developed. For example, when assessing applications for funding we have made increasing use of the plans produced by institutions for their own purposes. This reduces the burden associated with bidding processes and provides valuable information about the institutions' strategic priorities and direction.

We have also engaged in detailed dialogue with institutions in relation to identifying regional characteristics, regional HE priorities and how institutions intend to address these. In many cases this dialogue has led to proposals being funded via our Strategic Development Fund to assist institutions in refining and reshaping their activities, particularly in relation to collaboration between different HEIs, and between HEIs and further education colleges.

We have continued to contribute some funding for the nine regional associations in England that promote the role of higher education in their areas. The associations place a particular emphasis on fostering collaboration between HEIs, and building partnerships between higher education and other organisations within their regions. During 2005-06 we commissioned a study to gain a better understanding of the current role and activities, and the future potential, of these regional associations. The full study is available on our website under Regions.

*Focus on sustainability*

Underpinning this new approach has been a growing emphasis on the need for institutions to demonstrate that their activities are sustainable (in all senses of the word). In future, our emphasis will increasingly be on ensuring that HEIs' own systems and procedures can address sustainability issues explicitly and robustly. For example, institutions now make use of the Transparent Approach to Costing (TRAC) which is yielding valuable information for them about the costs of undertaking research. Our expectation is that this information would be used in determining the institution's approach to research in terms of whether it is a major area of strength.

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<p><i>KPT 14:</i> By 2006, all HEI corporate plans to identify clearly both how the institution will develop and sustain distinctive excellence in one or more of its areas of relative strength, and its plans for collaboration related to its mission.</p>	<p><b>Review completed</b>            We have reviewed our approach to corporate planning guidance for institutions. We are now piloting the 'single conversation' approach to accountability in a small number of HEIs, with a view to rolling this out to the sector in 2007-08. We have also planned a major evaluation of the impact of the Strategic Development Fund. This will take place during 2006, now that we have a sufficiently large set of approved projects mature enough to show their achievements. This evaluation will feed in to both the longer-term future of the fund and our approach to institutional corporate plans.</p>

## **Developing leadership, governance and management**

### **Objectives**

- To help HEIs enhance their capacity in leadership, governance and management, equipping themselves to respond to the challenges posed by a more competitive national and international HE market, as well as changes in the policy environment.
- To develop a new accountability relationship with the HE sector based on increasing stakeholder confidence (both by promoting success and by helping to minimise the risk of avoidable failings).
- To promote a more sustainable approach to rewarding and developing staff who work in HE.
- To help institutions develop a more demonstrably fair and supportive environment for their staff.

### **Risks**

The key risks to achieving our strategic objectives under this aim are:

- That the leadership, governance and management of institutions do not continue to have the capability or capacity to ensure long-term viability and compliance with our Financial Memorandum.
- That stakeholders perceive that the quality of leadership, governance and management within HEIs is poor, leading to an increase in the accountability burden.

### **Achievements**

#### *Disseminating good practice*

In partnership with others, we continue to support leadership, governance and management in HE, a role which was widely endorsed by the sector in the consultation on our strategic plan for 2006-11. The Leadership, Governance and Management Fund, launched in 2003, continues to fund high-quality sector-led projects to help institutions develop and promote good practice. To date we have allocated £3.2 million for 32 projects on a range of topics, including equality and diversity, ethics, human resources management, sustainable development and quality improvement. We have a further 15 projects under consideration.

We continue to fund the Leadership Foundation, set up by the sector's representative bodies (Universities UK and SCOP) to develop the management and leadership skills of existing and future leaders of HE. We have commissioned an evaluation of the organisation to ensure that satisfactory performance and good value for money are being delivered.

In July 2005 we published 'Sustainable development in higher education' (HEFCE 2005/28) which sets out our approach to promoting the sustainable development agenda. We have started a strategic review of HEIs' activity on sustainable development, which will allow us to demonstrate sector performance to stakeholders and to learn from institutions' experiences.

*Efficient use of space*

The ambitious programme from the UK Higher Education Space Management Group has produced further reports, including the promotion of space efficiency in building design. Understanding of the issues involved in space management is increasing significantly and a valuable array of resources is now available at [www.smg.ac.uk](http://www.smg.ac.uk). Rising energy costs further emphasise the importance of this work, and should increase the dividends from efficient space management.

*Developing staff and promoting equality*

We have continued to support staff development in the sector. Following consultation with the sector we are publishing a framework in which we consider the higher education workforce: what it looks like now, and how it will need to adapt in order to meet the challenges of the future. The development of a self-assessment tool for people management in HEIs has allowed us to mainstream funds from our Rewarding and Developing Staff initiative. This approach is being implemented across the sector: approximately 18 HEIs will have completed their self-assessments by May 2006.

The Equality Challenge Unit (ECU) has undergone a full review during 2005-06. This showed that its activities have had a real impact in the sector. Building on these strengths, the ECU has been reconstituted with a new remit to include students as well as staff, and embedding culture change for equality in the HE sector. We have published the key findings and recommendations of a major programme of research into equal opportunities and diversity for staff in HE (reference HEFCE 2005/19).

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<p><i>KPT 15:</i> By 2008 all HEIs will show measurable improvements in at least one dimension of equal opportunities.</p>	<p><b>On target</b></p> <p>Activity in this area since April 2003 has focused on improving capacity within the sector to implement equal opportunities within HEIs. There is good evidence that HEIs have made measurable improvements. There are four sources of evidence:</p> <ul style="list-style-type: none"> <li>• The independent and selective review of progress in the HE sector towards implementing the Race Relations (Amendment) Act 2000. This found that two-thirds of the HEIs sampled were making excellent or reasonable progress towards effective implementation; and that all HEIs now have race equality policies and action plans in place.</li> <li>• Data from the Higher Education Statistics Agency for 1995-96 to 2004-05 show an impressive improvement in the representation of women and minority ethnic groups in senior positions in HE, and this trend looks set to continue in future years.</li> <li>• The KPMG evaluation of the Rewarding and Developing Staff initiative found that the investment had supported real improvements in equality in HE, with the biggest effects seen for women and staff from minority ethnic groups.</li> <li>• An independent evaluation of the Equality Challenge Unit in 2005 found that the HE sector had improved its understanding and commitment to equal opportunities issues, giving them a higher profile and strategic importance.</li> </ul>

## **Excellence in delivery**

### **Objectives**

Our strategic priorities for our own organisational development across the planning period are:

- To ensure that the needs of our stakeholders are met.
- To ensure optimum use of our staff and other resources.

### **Risks**

The key risks to achieving our strategic objectives under this aim are:

- That there is a mismatch between the Government's priorities, the views of key stakeholders and our core strategic aims.
- That our leadership, governance, and management (of resources, key processes and relationships) and system of internal control do not effectively support delivery of our core strategic aims.

### **Achievements**

#### *Developing as an organisation*

We have been re-accredited as an Investor in People, and our target by 2008 is to be assessed by the European Foundation for Quality Management as maintaining our status as 'Recognised for Excellence'. We have commissioned an external review of our progress towards this target, from which we know it is achievable. We are now moving into a new phase in this project, with more dedicated resources and more detailed planning as we approach the target date.

A survey of our external stakeholders, on how they see us and the service we provide them, produced very good results, comparing favourably with other public sector bodies.

As an organisation we are committed to continuous improvement in the way we operate. We have implemented a new integrated financial and management information system, and have thoroughly revised our intranet site. The new requirements of the Freedom of Information Act have been managed effectively, and we continue to develop our approach to efficient electronic records management.

#### *Supporting staff*

We have committed to establishing a 'total reward' framework for staff – encompassing working conditions, benefits, and training and development as well as pay – and have developed our approach to reward for 2006 and 2007.

The outcomes of the 2005 staff survey were very good, with the benchmarked items either meeting or exceeding the external benchmark (comparing HEFCE with a group of high performing companies).

We have overhauled our performance review system, and trained all staff in the new system. We are confident that the new system will better meet the needs of the organisation and our staff, mainly because it aligns the definitions of performance with the culture we need to achieve business success.

We have continued to offer support for action learning to colleagues, and to run a programme for developing managers. Using this experience, we have extended this approach to a programme for developing administrators.

HEFCE recognises the Public and Commercial Services (PCS) union, as specified in our partnership agreement, and regularly consults with all staff and the PCS on changes concerning employee relations within the organisation, taking into account the differing views and opinions of colleagues. Full details of our pension arrangements can be found in the Remuneration Report on page 28.

#### *Equality and diversity*

We published our Race Equality Scheme in May 2002, as required under the Race Relations (Amendment) Act 2000; this is available on our web-site under About us. In response to the two latest pieces of legislation (the Disability Discrimination Act 2005 and the Equality Act 2006) we have decided to adopt a single approach to all our equality and diversity work through a single equality scheme. This will set out our general approach to equality and diversity, will include our three statutory equality schemes (race, disability and gender) and cover our approach to religion and belief, sexual orientation and age. We aim to publish the single scheme by December 2006.

#### *Corporate social responsibility*

As a public body we believe it is important to behave in a socially responsible way, both as an organisation and through the conduct of our staff. Our active engagement with the higher education sector on sustainability issues also requires that we take our corporate social responsibilities seriously. During 2005-06 we have developed a new corporate social responsibility policy which identifies five key areas of our operations.

Our policy states that we are committed to acting in a socially responsible way, and that we will seek to continually improve our performance and meet all relevant legislation regarding:

- conservation of natural resources used in our offices
- minimising adverse environmental effects of people travelling to and from our offices, on Council business and to HEFCE events
- the behaviour of suppliers and contractors used by HEFCE
- our impact on the local and wider community
- processes that affect our employee relations and the wellbeing of our people.

Each operating year, we will review our performance in these five key areas and set objectives to secure continuous improvement. Part of this review process will be to publish our environmental performance indicators each year. These indicators, produced following government guidance, include data on carbon dioxide emissions, energy usage, water usage, waste disposal to landfill, and recycled paper. The indicators will be updated annually and are available on the web at [www.hefce.ac.uk](http://www.hefce.ac.uk) under About us.

<i>Key Performance Target</i>	<i>Progress to 31 March 2006</i>
<p><i>KPT 15:</i> By the end of the planning period, HEFCE to be assessed by the European Foundation for Quality Management as maintaining level 2 – ‘Recognised for Excellence’.</p>	<p><b>On target</b>                      An external report on our progress towards this target concluded that it is achievable, if we dedicate resources to the project plan in the run-up to the 2008 external assessment. We are in the process of resourcing this activity.</p>

## Financial results for 2005-06

These accounts cover the year 1 April 2005 to 31 March 2006. HEFCE's total income for the year was £6,713.3 million (*2004-05: £6,202.8 million*). The vast majority of our income is from grant-in-aid. HEFCE's total expenditure for the year was £6,766.9 million (*2004-05: £6,110.0 million*). Of this, £6,748.2 million relates to grants payable to institutions and others (*2004-05 £6,091.5 million*) and the remaining £18.6 million (*2004-05: £18.5 million*) relates to our internal running cost expenditure.

The result for the year is a deficit of £81.6 million (*2004-05: surplus of £163.1 million*) after taking notional interest charges into account. The deficit this year reflects increased expenditure on capital programmes in 2005-06, as well as the effect of a change in the HM Treasury discount rate used to calculate the provision for inherited staff liabilities.

We aim to distribute the funds received each year within that year. The Financial Memorandum between us and the DfES recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently we are permitted to carry forward up to 2 per cent on a cash basis of the grant-in-aid provided for distribution to institutions and for our running costs.

The balance sheet as at 31 March 2006 shows a cash balance of just £4.8 million (*£89.3 million in 2005*). This reduction is in response to requests from DfES and Treasury to minimise the amount we hold in our bank accounts.

For the year ended 31 March 2006 we have a resource balance of £0.8 million which is made up of £18.8 million for capital (*2004-05: £159.7 million*) and £19.6 million for recurrent programmes (*2004-05: -£72.9 million*). The reduction in the overall resource balance from 2004-05 reflects the increase in expenditure on capital programmes and a reduction in recurrent expenditure. This expenditure is within budget and has been agreed with the DfES.

The accounts are audited by the Comptroller and Auditor General, who is appointed by statute. The audit fee is £33,300 and he did not provide any non-audit services during 2005-06. HEFCE was involved in piloting a new efficiency tool being developed by the National Audit Office.

## Preparation of the annual report and accounts

Our annual report and accounts are prepared in accordance with a direction given by the Secretary of State with the approval of the Treasury, in pursuance of paragraph 16(1) of Schedule 1 of the Further and Higher Education Act 1992. The annual report and accounts for 2005-06 were scrutinised by our Audit Committee on 5 June 2006 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2005-06.

Members of the Audit Committee during 2005-06 were as follows.

<b>Chairman</b>	Mr Steve Bundred* (until September 2005) Chief Executive, Audit Commission Professor Nigel Savage* (from October 2005) Chief Executive, College of Law in England and Wales
<b>Members</b>	Mr James Aston MBE Partner, Charity and Education, BDO Stoy Hayward Mrs Ann Lloyd* (until July 2005) Director, NHS Wales Mr Michael Sheasby Chairman, Brunel University Audit Committee Professor Tim Wilson* (from September 2005) Vice-Chancellor, University of Hertfordshire Mr Fraser Woodburn Secretary, Open University

\* Audit Committee members who are also HEFCE Board members.

The duties of the Audit Committee are to:

1. Consider the adequacy of risk management and internal control within HEFCE and in HEIs through reviewing:
  - a. The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
  - b. The planned activity of internal and external audit designed to (inter alia) assess the systems operated by HEFCE and HEIs to achieve effective internal control and risk management.
  - c. The annual results of internal and external audit activity, including the consequences of any shortfall against the full range of activities planned.
  - d. The adequacy of HEFCE management responses to issues identified by audit activity.
  - e. Formal assurances given by HEFCE management relating to the corporate governance requirements for the organisation, and summary information about corporate governance reporting in the sector.

2. On the basis of the above consideration, advise the HEFCE Board and the Chief Executive on:
  - a. The effectiveness of risk management in HEFCE and in the HE sector.
  - b. The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
  - c. The scope and effectiveness of the work carried out by HEFCE's Assurance Service. This will include planning, operation and follow-up work, and the Assurance Service annual report.
  - d. The criteria for the selection and appointment of HEFCE's internal audit service, including assessing the adequacy of the resources available for the work required.
  - e. Any reports from the National Audit Office and the DfES Audit Service, including the response to any management letters.
  - f. The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
  - g. The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

So far as the Accounting Officer is aware, there is no relevant audit information of which HEFCE's auditors are unaware. The Accounting Officer has taken all the steps he ought to have taken to make himself aware of any relevant audit information and to establish that HEFCE's auditors are aware of that information.

### **Going concern**

The balance sheet at 31 March 2006 shows net liabilities of £260.3 million. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from HEFCE's other sources of income, may only be met by future grants or grants-in-aid from HEFCE's sponsoring department, the DfES. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Recurrent and capital resources for 2006-07, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, have already been included in the department's estimates for that year, which have been approved by Parliament. There is no reason to believe that the department's future sponsoring and future parliamentary approval will not be forthcoming. It has therefore been considered appropriate to prepare these accounts on a 'going concern' basis.

### **Payment of creditors**

We are fully committed to the prompt payment of suppliers and we support HM Treasury's Better Payment Practice Code. We aim to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is later. All suppliers have been notified of this commitment and have been given clear guidelines to help us achieve this aim. Throughout the year we monitor performance against the 30 day target. During the financial year 2005-06 the target was met for 93 per cent of invoices (*2004-05: 98 per cent*).

## Remuneration report

(unaudited)

### Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2005-06 were:

David Young, chairman of HEFCE  
Jackie Fisher, HEFCE Board member  
Peter Saraga, HEFCE Board member

The terms of reference for the remuneration committee are as follows:

- To make recommendations to the Board on the terms and conditions of employment of the Chief Executive
- To support the Chairman in monitoring the performance of the Chief Executive and in assessing his entitlement to performance-related pay
- To agree the terms and conditions of employment of other Directors
- To carry out an annual review of the remuneration of Directors
- To review the aims of the annual Pay Remits, which seek authority from the DfES for the nature and scale of pay awards to Council staff, delegating the details to the Chief Executive

For the Chief Executive post, remuneration is determined by approval of the Secretary of State for Education and Skills. Each year, the Remuneration Committee assesses the performance of the Chief Executive, resulting in a one off cash bonus (up to a maximum of 10 per cent for 2005-06) determined in accordance with a scale agreed in advance with the DfES (and subsequently approved by the Secretary of State for Education and Skills). Any revalorisation of base pay is, subject to the approval of the Secretary of State for Education and Skills, normally in accordance with Senior Salaries Review Body (SSRB) guidelines.

For Directors, the Remuneration Committee reviews performance, based on the same performance review system as used for all other Council staff, with pay consequences being determined by the pay system which governs all other staff in the Council.

The length of contracts of employment for the Chief Executive is determined by the Secretary of State for Education and Skills. Contracts for Directors are open ended. The contract for Chief Executive stipulates a 12 month notice period. For Directors, the notice period is three months. Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination. We have just appointed a new Chief Executive to a six year contract which begins in September 2006.

### Membership of the Board

The Board consists of up to 15 members, including the Chairman and Chief Executive of the Council. With the exception of the Chief Executive, Board members are appointed for a term of two or three years by the Secretary of State for Education and Skills. Appointments are made on the basis of expertise in the field of higher education or experience in industry or the professions.

The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State.

(audited)

### Emoluments of the Chairman

The HEFCE Chairman receives a salary but does not participate in the Council's pension scheme, the Principal Civil Service Pension Scheme (PCSPS). The total salary for **David Young**, HEFCE Chairman for the year ended 31 March 2006 was £43,959 (2004-05: £42,762).

### Emoluments of the Chief Executive

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual personal responsibility plan agreed by the Chairman. The bonus is also approved by the Secretary of State. On 31 January 2006 Sir Howard Newby CBE left his post as HEFCE Chief Executive to take up a position at the University of The West of England. On 1 February 2006 Steve Egan was appointed Acting Chief Executive. The relevant details for both these individuals are shown below.

The total emoluments including taxable benefits for **Sir Howard Newby CBE**, HEFCE Chief Executive to 31 January 2006 were as follows:

		Year Ended 31 March 2006 £	Year Ended 31 March 2005 £
Salary	a	<b>131,558</b>	148,500
Taxable benefits	b	<b>15,578</b>	18,000
Employer's pension contributions	c	<b>18,708</b>	18,899
Total		<b>165,844</b>	185,399

- a For the period to 31 January 2006; full year equivalent £155,075 (including a performance-related bonus of up to 10 per cent).
- b Payment of a gross monthly accommodation allowance of £1,538 (as approved by the Remuneration Committee and the Secretary of State) in lieu of hotel costs; and allowance for home Broadband connection, full year equivalent £216.
- c For the period to 31 January 2006; full year equivalent £22,000. Sir Howard Newby was a member of the Universities Superannuation Scheme (USS).

The total emoluments including taxable benefits for **Steve Egan**, HEFCE Acting Chief Executive from 1 February 2006 were as follows:

		Year Ended 31 March 2006 £	Year Ended 31 March 2005 £
Salary	a	20,000	-
Taxable benefits	b	36	-
Employer's pension contributions	c	4,920	-
<b>Total</b>		<b>24,956</b>	<b>-</b>

a For the period from 1 February 2006; full year equivalent £120,000.

b Allowance for home Broadband connection; full year equivalent £216.

c For the period from 1 February 2006; full year equivalent £29,520.

### Emoluments of Board members

Non Executive Board members are eligible to receive an annual honorarium of £5,000, which is not pensionable.

	Year Ended 31 March 2006 £	Year Ended 31 March 2005 £
Steve Bundred (to September 2005)	2,500	5,000
Richard Coldwell	5,000	5,000
Professor David Eastwood (from August 2005)	3,333	-
Jackie Fisher	5,875	5,875
Dame Patricia Hodgson (from October 2005)	2,500	-
Ann Lloyd (to July 2005)	0	0
Dr Beverly Malone	5,875	5,875
Professor Sir Gareth Roberts (to August 2005)	2,083	5,000
Professor Peter Rubin	5,000	5,000
Peter Saraga OBE	5,000	5,000
Professor Nigel Savage	5,875	5,875
Professor Peter Scott	5,875	5,875
Ed Smith	5,875	5,875
Sir Richard Sykes	5,875	5,875
Ann Tate	5,875	5,000
Professor Tim Wilson (from August 2005)	3,917	-
	<b>70,458</b>	<b>65,250</b>

In lieu of an honorarium the following Board members are paid directly by their employing institutions, with the subsequent reimbursement from HEFCE to these institutions including VAT. Of the total reimbursement to the institution the Board member receives £5,000 in lieu of an honorarium for their services provided.

- **Jackie Fisher** is paid by Newcastle College.
- **Dr Beverly Malone** is paid by the Royal College of Nursing.
- **Professor Nigel Savage** is paid by the College of Law.
- **Professor Peter Scott** is paid by Kingston University.
- **Ed Smith** is paid by PriceWaterhouse Coopers.
- **Sir Richard Sykes** is paid by the Imperial College of Science, Technology and Medicine.
- **Ann Tate** is paid by the University of Northampton.
- **Tim Wilson** is paid by Hertfordshire University.

For the period to 31 July 2005 **Ann Lloyd** waived her right to an honorarium valued at £1,667 (£5,000 for the full year in 2004-05).

### Salary and pension entitlements for senior employees

The Council is structured around four directorates which align with the core strategic aims in HEFCE's 2003-08 strategic plan. Salary and pension details are given for the senior employees responsible for these directorates during 2005-06. Figures shown are full year values unless otherwise stated.

#### Salary

		<b>Year Ended 31 March 2006 £000</b>	Year Ended 31 March 2005 £000
<b>Sir Howard Newby CBE</b> , Chief Executive (to 31 January 2006)	a	<b>145-150</b>	165-170
<b>Steve Egan</b> , Acting Chief Executive (from 1 February 2006)	b	<b>20-25</b>	-
<b>Steve Egan</b> , Director - Finance and Corporate Resources (to 31 January 2006)	c	<b>80-85</b>	95-100
<b>Robin Jackson</b> , Acting Director - Corporate Resources (from 1 January 2006)	d	<b>20-25</b>	-
<b>Ian Lewis</b> , Acting Principal Finance Officer (from 23 January 2006)	e	<b>15-20</b>	-
<b>Liz Beaty</b> , Director - Learning and Teaching	f	<b>90-95</b>	90-95

**Salary (continued)**

		<b>Year Ended 31 March 2006 £000</b>	Year Ended 31 March 2005 £000
<b>John Rushforth</b> , Director – Widening Participation* f		<b>80-85</b>	90-95
(to 5 February 2006)			
<b>John Selby</b> , Acting Director - Widening Participation g		<b>10-15</b>	-
(from 16 January 2006)			
<b>Rama Thirunamachandran</b> , Director - Research and Knowledge Transfer		<b>90-95</b>	90-95

- a For the period to 31 January 2006, full year equivalent £170-£175k.
- b For the period from 1 February 2006, full year equivalent £120-125k.
- c For the period to 31 January 2006, full year equivalent £100-£105k.
- d For the period from 1 January 2006, full year equivalent £85-90k.
- e For the period from 23 January 2006, full year equivalent £70-75k.
- f For the period to 5 February 2006, full year equivalent £90-£95k.
- g For the period from 16 January 2006, full year equivalent £85-90k.

\* John Rushforth was also Deputy Director of OFFA from 1 July 2004 to 5 February 2006. Under a service level agreement between HEFCE and OFFA 40 per cent of his time was charged to OFFA under this agreement. During the year ending 31 March 2006 HEFCE charged OFFA £51,099 (including VAT) for this role (2005: £41,011).

Remuneration shown above includes both salary and benefits in kind. Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances, ex-gratia payments and any other taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by the Inland Revenue as a taxable emolument. The only benefit in kind payable to staff other than the Chief Executive is an allowance of up to £216 per annum for the use of broadband. Full details of the taxable benefits paid to the Chief Executive and Acting Chief Executive are shown on pages 29 and 30.

**Pension Benefits**

	<b>Accrued pension at age 60 at 31 March 2006 £000</b>	Real increase in pension at age 60 £000	<b>CETV at 31 March 2006 £000</b>	CETV at 31 March 2005 or start date £000	Real increase in CETV £000
<b>Sir Howard Newby CBE*</b> , Chief Executive (to 31 January 2006)					
Pension	<b>25-30</b>	2.5-5	<b>533</b>	444	82
lump sum	<b>85-90</b>	10-12.5			
* member of the Universities Superannuation Scheme					
<b>Steve Egan</b> , Acting Chief Executive (from 1 February 2006)					
Pension	<b>35-40</b>	0-2.5	<b>611</b>	439	39
lump sum	<b>105-110</b>	5-10			
<b>Robin Jackson</b> , Acting Director - Corporate Resources (from 1 January 2006)					
Pension	<b>10-15</b>	0-2.5	<b>226</b>	149	41
lump sum	<b>n/a</b>	n/a			
<b>Ian Lewis</b> , Acting Principal Finance Officer (from 1 January 2006)					
Pension	<b>20-25</b>	0-2.5	<b>410</b>	313	23
lump sum	<b>n/a</b>	n/a			
<b>Liz Beaty</b> , Director - Learning and Teaching					
Pension	<b>5-10</b>	0-2.5	<b>89</b>	50	23
lump sum	<b>n/a</b>	n/a			
<b>John Rushforth</b> , Director - Widening Participation (to 5 February 2006)					
Pension	<b>10-15</b>	0-2.5	<b>242</b>	182	20
lump sum	<b>35-40</b>	2.5-5			
<b>John Selby</b> , Acting Director - Widening Participation (from 16 January 2006)					
Pension	<b>25-30</b>	2.5-5	<b>663</b>	515	77
lump sum	<b>80-85</b>	7.5-10			
<b>Rama Thirunamachandran</b> , Director - Research and Knowledge Transfer					
Pension	<b>15-20</b>	0-2.5	<b>256</b>	170	15
lump sum	<b>55-60</b>	2.5-5			

## **Civil Service Pensions**

The Civil Service pension is an unfunded multi-employer defined benefit scheme notionally backed by the Government. The Council is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)). For 2005-06 employers' contributions were payable at one of four rates in the range of 16.2 per cent to 24.6 per cent of pensionable pay based on salary bands. Employer contribution rates are reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

There are three Civil Service pension schemes, Classic, Classic Plus, and Premium, providing benefits on a final salary basis at a normal retirement age of 60. Benefits accrue at a rate of 1/80th (Classic) or 1/60th (Classic Plus and Premium) of pensionable pay for each year of service. A lump sum equivalent to three years' pension can be payable on retirement, either automatically (Classic), or in return for a reduction in the annual pension (Classic Plus and Premium). Members of the Civil Service pension pay contributions of 1.5 per cent (Classic) or 3.5 per cent (Classic Plus and Premium) of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service the scheme pays a lump sum benefit of twice pensionable pay (Classic) or three times pensionable pay (Classic Plus and Premium) and also provides a service enhancement on computing the spouse's pension. Medical retirement is possible in the event of serious ill-health. In this case pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

## **Universities Superannuation Scheme**

Certain staff transferring from higher education institutions can opt to remain in the Universities Superannuation Scheme (USS). The USS is a multi-employer defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. The Council is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis. USS members pay contributions of 6.35 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the USS pays a lump sum benefit of three times pensionable pay.

In accordance with HM Treasury guidance HEFCE has accounted for both Civil Service and USS pensions as if they were defined contribution schemes.

Employees joining the Council after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension from one or more of a panel of four appointed stakeholder pension providers with an employer contribution. As at 31 March 2006 one HEFCE employee has a partnership pension account.

### **Cash Equivalent Transfer Value**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their costs. CETVs are calculated within the guidelines and framework prescribed by the Institute of Actuaries.

### **Real increase in CETV**

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

*Steve Egan*  
*Acting Chief Executive and Accounting Officer*  
*Higher Education Funding Council for England*

*15 June 2006*

## **Statement of the Council's and the Chief Executive's responsibilities**

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for England (HEFCE) is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Education and Skills, with the consent of the Treasury. The accounts are prepared on an accruals basis (modified by the revaluation of fixed assets) and must show a true and fair view of HEFCE's state of affairs at the year end, and of its income and expenditure and cash flows for the financial year.

In preparing the accounts, the 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 the Secretary of State for Education and Skills, 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 annual accounts;
- prepare the annual accounts on a going concern basis.

The Accounting Officer for the Department for Education and Skills has designated the Chief Executive as the Accounting Officer for HEFCE. 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 HEFCE's assets are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

## **Statement by the Acting Chief Executive on internal control**

### **Scope of responsibility**

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HEFCE's strategic aims and objectives, whilst safeguarding the public funds and HEFCE assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I also acknowledge my responsibilities in respect of the funds provided to HEFCE which are transmitted to higher and further education institutions and others for education, research and associated purposes.

### **The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our strategic aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HEFCE for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **Capacity to handle risk**

Our current approach to risk management is set out in our 'Assurance Framework' which was approved by the Board in April 2003 and is available on both our internal and external websites. The Assurance Framework explains our risk management policy, defines key roles and responsibilities, and sets out how risk management has been embedded in our strategic and operational planning processes.

While I am ultimately responsible for ensuring the system of internal control is effective in managing our risks. I am supported in this process by my Directors and senior management team.

Against the strategic aims and cross-cutting themes as set out in HEFCE's 2003-08 strategic plan we have identified a total of 20 strategic risks. Each strategic aim or cross-cutting theme is allocated to one of my four directors and as a result they are also the identified owners of the related strategic risks. Assurance relating to these responsibilities is provided to me by each director in an annual risk management statement. These statements refer to the strategic risks that they have been responsible for managing along with any other responsibilities which contribute to our risk management and internal control system (specifically including responsibilities relating to regions, HEIs, related bodies and key business processes).

The directors are supported in this process by their own directorate assurance team (DAT) who provides them with assurance as appropriate on the management of their strategic risks and associated responsibilities within their directorate. I also received a risk management statement from my Principal Finance Officer which covers the risks, key financial processes and controls that he is directly responsible for.

### **The risk and control framework**

Our approach to risk management is based on a process designed to identify the significant risks to achieving HEFCE's strategic aims and objectives, to evaluate the nature and extent of these risks and to manage them effectively, efficiently and economically. HEFCE's Assurance Framework sets out more fully our risk management policy. Central to this policy is the clear relationship between our strategic risks and the achievement of our strategic objectives. During 2004-05 we developed a planning framework which provides an overview of our approach to planning, resourcing and risk management. It is a high level document which outlines the broad principles we would expect to be adopted throughout HEFCE and provides sources of further information or guidance. The framework also sets out the responsibilities of the key roles and teams involved in the planning process, in relation to planning, risk management and resourcing.

Our strategic risks for 2005-06 were identified alongside the development of our 2003-08 strategic plan (as updated for 2005) and therefore relate directly to one of the seven strategic aims or cross-cutting themes identified in the plan. The monitoring of these strategic risks is now fully embedded in the process to monitor our operational performance and the associated reports. Quarterly reports, which go to the Chief Executive's Group (CEG) and the Board, provide a summary of the 20 strategic risk scores, highlighting the highest scoring risks, explaining any movements in risk scores and providing a total risk score for the portfolio of risks to enable the overall movement in the risk portfolio to be monitored over time. This quarterly monitoring system endeavours to identify new and changing risks, confirm the controls are operating in respect of the key risks and provide an evaluation of the effectiveness of those controls.

We update our strategic plan each year but undertake a full review of the plan every three years. During 2005-06 we have been developing our next strategic plan to covering the period 2006-11. As we felt we could accommodate our strategic policy developments for this period by evolving the 2006-11 strategic plan from the 2003-08 strategic plan, our mission statement and four core strategic aims remain unchanged. Again as the new strategic plan has been developed we have identified the strategic risks that could prevent delivery of the objectives as set out in the plan.

### **Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within HEFCE who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

HEFCE's system of internal control provides a framework for all the processes and activities designed to give reasonable assurance regarding achievement of objectives. The system is designed to manage, rather than eliminate, the risk of failure. Our system of internal control must also take into account the funds provided by HEFCE which are transmitted to higher and further education

institutions (and related bodies) for education, research and associated purposes. Our accountability framework therefore needs to encompass our internal operational and financial controls and our controls in relation to higher and further education institutions (and related bodies).

The accountability framework consists of policies, procedures, monitoring and communication which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. Specific developments during 2005-06 include: development of a Board-level risk assessment as part of their ongoing effectiveness review process, consultation on our new accountability framework for HEIs, and a control risk self assessment of our new management information system (integrating our existing grants and running costs systems) which has been in place since April 2005.

Ongoing review and monitoring of these controls is also carried out by each director and the Principal Finance Officer (PFO). As part of the effectiveness review process I have sought assurance from my directors and the PFO on these controls (via their risk management statements) and I then also review the key annual controls which inform this statement. I also receive a statement on internal control from the Executive Secretary of the Joint Information Systems Committee and an annual opinion from the Audit Committee and the Quality Assessment Learning and Teaching Committee to inform my review of effectiveness.

Each of the key annual controls (directors' & PFO's risk management statements, the production of the financial statements, the Assurance Service annual report and the Internal Audit annual report) has been considered by the Audit Committee (with onward reports to the Board). I have discussed my effectiveness review with the Audit Committee and the Board and taken advice from them on the implications and, where appropriate, action has been taken or is planned to address the issues arising.

During the year, our control systems (which cover our internal controls and the institutions' and related bodies' risk management system) have identified issues that have required specific actions to be taken to manage the associated risks. Details of the most significant issues identified in the year and the actions taken have been recorded in the individual risk management statements prepared by each of my directors and the PFO. I do not consider that any of these issues indicate a significant weakness in our internal controls which would warrant disclosure here.

*Steve Egan*  
*Acting Chief Executive and Accounting Officer*  
*Higher Education Funding Council for England*

*15 June 2006*

## **The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament**

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

### **Respective responsibilities of the Higher Education Funding Council for England, Chief Executive and auditor**

The Higher Education Funding Council for England and Chief Executive are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Higher Education Funding Council for England and the Chief Executive's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Higher Education Funding Council for England has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 37 to 39 reflects the Higher Education Funding Council for England's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Higher Education Funding Council for England's corporate governance procedures or its risk and control procedures.

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

## **Basis of audit opinion**

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

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

## **Opinions**

### **In my opinion:**

- the financial statements give a true and fair view, in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills, of the state of the Higher Education Funding Council for England's affairs as at 31 March 2006 and of its deficit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
*Comptroller and Auditor General*  
*National Audit Office*  
*157-197 Buckingham Palace Road*  
*Victoria*  
*London*  
*SW1W 9SP*

26 June 2006

**Income and Expenditure account for the year to 31 March 2006**

	<i>Note</i>	<b>Year Ended 31 March 2006 £'000</b>	Year Ended 31 March 2005 £'000
<b>Income</b>			
HM Government Grants received	2	<b>6,653,244</b>	6,127,746
Transfer from Deferred Grant account	14	<b>3,356</b>	3,121
Other income	3	<b>56,668</b>	71,873
		<b><u>6,713,268</u></b>	<u>6,202,740</u>
<b>Expenditure</b>			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	4	<b>6,661,903</b>	5,999,154
Access and hardship funds	4	<b>83,103</b>	91,056
Amortisation and impairment	7b	<b>3,189</b>	2,870
Additional provision used in year	12	<b>15</b>	(1,579)
		<b><u>6,748,210</u></b>	<u>6,091,501</u>
Council administration costs			
Staff costs	5	<b>11,262</b>	10,260
Other administration	6	<b>7,238</b>	8,044
Depreciation	7a	<b>158</b>	219
		<b><u>18,658</u></b>	<u>18,523</u>
Total expenditure		<b><u>6,766,868</u></b>	<u>6,110,024</u>
<b>Operating surplus/(deficit) before interest</b>		<b><u>(53,600)</u></b>	<u>92,716</u>
Notional interest on capital	8	<b>9,303</b>	10,981
Unwinding of discount	12	<b>(6,261)</b>	(13,545)
Decrease/(increase) in provision	12	<b>(21,783)</b>	83,955
<b>Operating surplus/(deficit) after interest</b>		<b><u>(72,341)</u></b>	<u>174,107</u>
Reversal of notional interest on capital		<b>(9,303)</b>	(10,981)
<b>Surplus/(deficit) for the period</b>		<b><u><u>(81,644)</u></u></b>	<u><u>163,126</u></u>

All HEFCE operations are continuing.

*The notes on pages 46 to 68 form part of these accounts.*

**Statement of Total Recognised Gains and Losses as at 31 March 2006**

	<b>Year Ended 31 March 2006 £'000</b>	<b>Year Ended 31 March 2005 £'000</b>
Surplus/(deficit) per Income and Expenditure account	<b>(81,644)</b>	163,126
Unrealised surplus/(deficit) on revaluation	<b>0</b>	1
<b>Total Recognised Gains and Losses for the year</b>	<b><u>(81,644)</u></b>	<b><u>163,127</u></b>

*The notes on pages 46 to 68 form part of these accounts.*

**Balance Sheet as at 31 March 2006**

	<i>Note</i>	<b>As at 31 March 2006 £'000</b>	<b>As at 31 March 2005 £'000</b>
<b>Fixed assets</b>			
Tangible assets	<i>7a</i>	<b>96</b>	219
Intangible assets	<i>7b</i>	<b>2,086</b>	3,376
		<b>2,182</b>	3,595
<b>Current assets</b>			
Repayable grants to institutions	<i>9a</i>		
falling due within one year		<b>2,540</b>	2,433
falling due after one year		<b>17,376</b>	14,066
Loans to staff	<i>9b</i>	<b>2</b>	1
Debtors	<i>9c</i>	<b>24,136</b>	8,949
Cash at bank and in hand	<i>10</i>	<b>4,847</b>	89,301
		<b>48,901</b>	114,750
<b>Creditors</b>			
Amounts falling due within one year	<i>11</i>	<b>(28,041)</b>	(10,989)
<b>Net current assets</b>		<b>20,860</b>	103,761
<b>Total assets less current liabilities</b>		<b>23,042</b>	107,356
<b>Provisions for liabilities and charges</b>	<i>12</i>	<b>(283,341)</b>	(284,598)
<b>Total net assets/(liabilities)</b>		<b>(260,299)</b>	(177,242)
<b>Represented by</b>			
<b>Accruals and deferred income</b>			
Deferred Government Grant	<i>14</i>	<b>2,182</b>	3,595
<b>Reserves</b>			
General reserve	<i>15</i>	<b>(262,481)</b>	(180,837)
		<b>(260,299)</b>	(177,242)

Steve Egan  
Acting Chief Executive  
Higher Education Funding Council for England

15 June 2006

The notes on pages 46 to 68 form part of these accounts.

**Cash Flow Statement for the year to 31 March 2006**

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
<b>Operating activities</b>		
Receipts		
HM Government Grant funds received through the Department for Education and Skills:		
Programme funds	6,636,396	6,110,720
Running costs	16,848	17,026
Other receipts	41,481	76,036
Repayment of institution loans	2,458	6,246
Repayment of staff loans	3	0
	<u>6,697,186</u>	<u>6,210,028</u>
Payments		
Programme funding paid in year	6,757,190	6,116,871
Running costs paid in year	18,571	18,038
Loans to institutions	5,875	3,225
Loans to staff for approved purposes	4	1
	<u>6,781,640</u>	<u>6,138,135</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(84,454)</b>	<b>71,893</b>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(44)	(173)
Purchase of intangible fixed assets	<u>(2,246)</u>	<u>(6,246)</u>
<b>Net cash outflow from capital expenditure</b>	<b>(2,290)</b>	<b>(6,419)</b>
<b>Financing</b>		
Transfer to Deferred Government Grant:		
Running costs	44	173
Programmes	2,246	6,246
<b>Net cash inflow/(outflow)</b>	<b><u>(84,454)</u></b>	<b><u>71,893</u></b>

*The notes on pages 46 to 68 form part of these accounts.*

## **1 Accounting policies**

### **Basis of accounting**

These accounts are drawn up in accordance with a Direction given by the Secretary of State for Education and Skills, with the consent of the Treasury and in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1). The accounts are prepared under the historical cost convention, modified by revaluation of fixed assets and in accordance with the requirements of the Companies Act 1985 and applicable Accounting Standards issued or adopted by the Accounting Standards Board with the exception of the requirements of FRS 3 for the inclusion of a note showing historical cost profits and losses. In accordance with FRS 18 the accounting policies and estimation techniques used are those that are judged to be the most appropriate for the purpose of giving a true and fair view. These policies are reviewed regularly to ensure they remain the most appropriate.

### **Basis of consolidation**

The Council contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the HE sector as a whole, rather than for investment purposes, and HEFCE does not retain any residual rights in these organisations. Based on the requirements of Generally Accepted Accounting Practice and HM Treasury guidance for Executive Non-Departmental Annual Reports and Accounts the Council will consider, subject to the materiality of these bodies in aggregate, whether each related body meets all the necessary requirements for consolidation. For the financial year ended 31 March 2006 the Council is satisfied that in aggregate our related bodies are not material.

### **Deferred Government Grant**

In accordance with Treasury Accounting Guidance for Non Departmental Public Bodies, where an asset's value is increased as a result of revaluation, the increase is credited to the Deferred Government Grant reserve. Where an asset is impaired as a result of downward revaluation the charge is taken to the Income and Expenditure account with a corresponding release from Deferred Government Grant. On disposal of an asset any profit or loss is taken to the Income and Expenditure account with a corresponding transfer from the Deferred Government Grant. The balance on the Deferred Government Grant reserve is then transferred to the General reserve.

### **Financial Instruments**

FRS 13 requires organisations to disclose information on the possible impact of financial instruments on its risk profile, and how these risks might affect the organisation's performance and financial condition. As a Non Departmental Public Body funded by the Government HEFCE can confirm that it is not exposed to any liquidity or interest rate risks. The Council has no overseas operations and does not operate any foreign currency bank accounts; as such it is not subject to any foreign currency risks.

## Fixed Assets

### Intangible Fixed Assets

Expenditure on the acquisition of information content licences, where there are fee-generating sub-licences to subscribers (one of the roles of the JISC) which represent a future economic benefit, are capitalised as intangible fixed assets. These licences were brought in for the first time in 2004-05. The licences are capitalised at the value of the minimum payments guaranteed by the licensor and amortised over the term of the licence (or over a maximum of 5 years if the licence is granted in perpetuity), where the cost of the licence exceeds £10,000. An impairment review is carried out in the first year of capitalisation and annually thereafter.

### Tangible Fixed Assets

Expenditure on the acquisition of tangible fixed assets is capitalised at the lower of cost or net book value where the costs for an individual asset, or group of functionally interdependent assets, exceeds £10,000 (from 1 April 2005, previous threshold £2,500).

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

Buildings	10 years
Fixtures, Fittings & Furniture	5 years
Office Equipment	4 years
Computer Equipment	3 years

A full year's depreciation is provided in the year of acquisition and none in the year of disposal. Assets are revalued each year in accordance with indices produced by the Office for National Statistics.

### **Going concern**

Parliament has voted grant in aid to HEFCE for the 12 months following the balance sheet date. Therefore, despite the balance sheet position of net liabilities, HEFCE trades as a going concern.

### **Grants from the Department for Education and Skills**

Institutional grants are accounted for in accordance with the purpose of the grant and are credited to the Income and Expenditure account in the year of receipt. Grant in Aid to finance Access Funds is accounted for separately. Grants for the Council's running costs are credited to the Income and Expenditure account when applied for recurrent purposes, but credited to the Deferred Grant account when applied to meet the cost of acquiring or constructing assets which are capitalised. The Deferred Grant account is released to the Income & Expenditure account over the estimated useful life of the related assets.

## **Joint arrangements**

The Council has certain agreements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Council includes its share of assets, liabilities and cashflows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Council's interest in the joint arrangement. The Joint Information Systems Committee (JISC) meets the definition of a joint arrangement that is not an entity under FRS 9. Funding is provided to the JISC from the Council, which also distributes funds from the other UK funding bodies. This income and expenditure is accounted for gross in HEFCE's financial statements.

## **Leases**

Rentals payable for operating leases are charged to the Income and Expenditure account when they fall due.

## **Notional costs**

Treasury guidance in respect of Non Departmental Public Bodies' Annual Reports and Accounts requires NDPBs to disclose the full cost of their activities in their accounts. The Council has therefore included in its accounts charges for the notional cost of capital. The cost of capital has been arrived at by calculating a rate of 3.5 per cent to the average capital employed. In accordance with HM Treasury guidance, non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

## **Payment of grants to institutions**

Grants to institutions are recognised when they fall due for payment. Grants to institutions to finance specific capital expenditure are subject to repayment in full, or in part, if the assets purchased are disposed of. The Council has discretion to allow such sale proceeds to be used to finance new capital projects.

Repayable grants to institutions are recognised when they fall due for payment. Repayable grants are normally for three to five years, but can be made for up to ten years and are interest free. Repayments are achieved through deductions from future grants.

## **Pension costs**

Employees of the Council are members of the Principal Civil Service Pension Scheme (PCSPS), and the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply to the employees of the Council. The PCSPS, is a multi-employer defined benefit scheme (treated for accounting purposes as a defined contribution scheme). In the year ended 31 March 2006 the Council paid contributions of £1,535,000 (2004-05: £1,054,000) to the PCSPS. Contribution rates are determined from time to time by the Government Actuary and advised by the Treasury. For 2005-06 these rates varied between 12 per cent and 18.5 per cent (2004-05: 12 per cent and 18.5 per cent) of salary depending on staff salary bands.

For staff transferred from a higher education institution the Council pays contributions to the Universities Superannuation Scheme. During the year there has been one member of staff to whom this relates. For 2005-06 these contributions amounted to £19,000 (2004-05: £19,000). For 2005-06 the rate of employer's contribution was 14 per cent (2004-05: 14 per cent) of salary.

### **Provisions for liabilities and charges**

Provisions are recognised when the Council has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

A provision has been recognised for inherited staff liabilities. These costs are expected to be incurred until 2017 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act HEFCE is responsible for funding staff-related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet as long-term liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value. The discount factor used is the HM Treasury prescribed rate of 2.2 per cent (2004-05 3.5 per cent).

### **Taxation**

The Council does not trade and hence is not liable for Corporation Tax. Most of HEFCE's activities are outside the scope of VAT. Output tax is however charged on certain services, such as the services provided to OFFA, as a result the Council became registered for VAT from 1 January 2005. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

## 2 HM Government Grants received

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
<b>Programme funds</b>		
Funding for Recurrent expenditure	5,667,674	5,285,389
Funding for Capital expenditure	<u>888,350</u>	<u>742,300</u>
	<b>6,556,024</b>	<b>6,027,689</b>
Transferred to Deferred Grant in respect of HEFCE capital spend	(1,899)	(6,246)
	<u><b>6,554,125</b></u>	<u><b>6,021,443</b></u>
<b>Other grant income</b>		
Access funds	71,760	77,931
Postgraduate Certificate in Education	10,511	11,346
	<u><b>82,271</b></u>	<u><b>89,277</b></u>
<b>Running costs</b>		
Administration costs	16,892	17,199
Transferred to Deferred Grant	(44)	(173)
	<u><b>16,848</b></u>	<u><b>17,026</b></u>
<b>Total Grant received</b>	<u><u><b>6,653,244</b></u></u>	<u><u><b>6,127,746</b></u></u>

This note shows the Grant received from the Department for Education and Skills during the year. The Grant received is paid from the Department's Resource Accounts.

The Council receives ring-fenced grants for programme expenditure, access funds, and the funding of its own running costs, and these are shown separately in the note above. The transfer to Deferred Grant represents the amount of funding used to purchase capital assets in year.

The Council is advised of its total Grant in the annual grant letter from the Secretary of State. As well as setting out the details of the funding made available to the Council the letter outlines the main policy areas and strategic objectives within which the Council is expected to operate.

The grant letter is available on the Council's website [www.hefce.ac.uk/news/hefce/2006/grant](http://www.hefce.ac.uk/news/hefce/2006/grant).

### 3. Other income

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
<b>Programmes</b>		
Funding receivable from other Councils:		
Department for Employment and Learning Northern Ireland	1,446	1,368
Higher Education Funding Council for Wales	2,798	1,971
Learning and Skills Councils	33,133	47,117
National Council for Education and Training Wales	1,169	1,283
Scottish Further Education Funding Council	1,983	1,933
Scottish Higher Education Funding Council	4,969	6,167
 Miscellaneous programme income	 9,916	 10,912
	<u>55,414</u>	<u>70,751</u>
<b>Running costs</b>		
Contributions receivable from other Councils:		
Department for Employment and Learning Northern Ireland	257	222
Higher Education Funding Council for Wales	59	46
Learning and Skills Councils	414	373
National Council for Education and Training Wales	24	22
Office of Science and Technology	45	18
Scottish Further Education Funding Council	39	35
Scottish Higher Education Funding Council	141	110
 Receipts from the Office For Fair Access for services provided under the service level agreement	 177	 183
 Income from activities:		
Conferences	37	34
Publications	4	12
Reimbursement for international projects	36	16
Miscellaneous	21	51
	<u>1,254</u>	<u>1,122</u>
 <b>Total Other Income</b>	 <u><u>56,668</u></u>	 <u><u>71,873</u></u>

The income HEFCE receives from other funding Councils is in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector within the whole of the UK. Such national initiatives include the Research Assessment Exercise (RAE) and the work of the Joint Information Systems Committee (JISC). As well as contributing towards the funding for such programmes, other Councils also make contributions towards the costs incurred by HEFCE in managing and administering these programmes.

HEFCE also receives income from the Office For Fair Access (OFFA) for services provided under a service level agreement covering financial, payroll, IT and other office services. As with the other activities detailed above, these are not profit making exercises, and the objective of such arrangements is to recover contributions against costs, rather than to generate additional income.

#### 4 Analysis of Recurrent and Non-recurrent Grant Expenditure

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
<b>Recurrent grant <sup>a</sup></b>		
Learning and teaching	4,083,388	*
Widening participation	175,872	*
Research	774,122	*
	<b>5,033,382</b>	<b>4,884,197</b>
<b>Non-recurrent grant <sup>b</sup></b>		
Learning and teaching	634,730	316,463
Widening participation	57,915	83,519
Research	552,133	434,492
Business and community	100,634	103,634
Building on institutions' strengths	203,869	85,523
Leadership, governance and management	6,318	6,812
Excellence in delivery	1,210	743
JISC related activities <sup>c</sup>	71,712	83,771
	<b>1,628,521</b>	<b>1,114,957</b>
<b>Total recurrent and non-recurrent grant</b>	<b>6,661,903</b>	<b>5,999,154</b>
Access and hardship funds <sup>d</sup>	<b>83,103</b>	<b>91,056</b>
<b>Total grant</b>	<b>6,745,006</b>	<b>6,090,210</b>

The analysis of grant expenditure shown above has been presented in a different classification this year, in order to more fully reflect the seven strategic aims as set out in the strategic plan for 2003-08, which is available to view on the Council's website [www.hefce.ac.uk](http://www.hefce.ac.uk).

The HEFCE Board certifies that Government grants have been used by the Council only for approved purposes.

- <sup>a</sup> **Recurrent grant\*** - the grant allocated to institutions as a block grant. For 2005-06 we have analysed this across teaching, research and widening participation in line with the way the grant is announced. In previous years it has not been possible to accurately disaggregate the component parts of recurrent grant; therefore the 2004-05 comparison is shown in total only.
- <sup>b</sup> **Non-recurrent grant** - this is summary of the grant expenditure on special funding initiatives and earmarked capital. A detailed analysis of non-recurrent grant expenditure by strategic aim is provided at Appendix 1 to the Accounts.
- <sup>c</sup> **JISC related activities** - these are shown separately, as they are relevant to several of HEFCE's strategic aims.
- <sup>d</sup> **Access and hardship funds** - this is shown separately as these funds are granted to HEFCE by the DfES specifically for HEIs to provide financial help to those whose access to higher education is inhibited by financial considerations or who face difficulties associated with their living costs.

## 5 Staff Costs

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Staff directly employed by HEFCE		
Salaries	8,112	7,656
National Insurance contributions	701	659
Pension costs	1,554	1,073
	<u>10,367</u>	<u>9,388</u>
Costs of employing contract, agency and temporary staff	895	872
	<u>11,262</u>	<u>10,260</u>

### Staff Numbers

	Year Ended 31 March 2006 FTE	Year Ended 31 March 2005 FTE
The average Full Time Equivalent number of staff employed excluding the Chief Executive but including the four directors, was:		
Finance & Corporate Resources Directorate	126	128
Learning & Teaching Directorate	30	30
Research & Knowledge Transfer Directorate	32	30
Widening Participation Directorate	35	36
Central and support staff	19	20
	<u>242</u>	<u>244</u>
Average number of contract, agency and temporary staff	28	29
	<u>270</u>	<u>273</u>

In order to provide enhanced information staff numbers are shown as Full Time Equivalents (FTEs). 2005 figures have been restated from the 2004-05 Accounts where they were shown as actuals rather than FTEs.

### Salaries

Salary includes gross salary, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pay settlements consist of an element of revaluation to take account of the effects of inflation, and an element of progression related to performance against objectives. Annual settlements are awarded from 1 August each year (1 April for Directors) and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non consolidated lump sums above it. Members of staff are also eligible for a non-consolidated performance related bonus.

### Staff Costs (continued)

#### Pensions

The Council contributes to two pension schemes, Civil Service Pensions and the Universities Superannuation Scheme (USS). Pension contributions payable by HEFCE for the year ending 31 March 2006 were as follows:

	<b>Year Ended 31 March 2006 £'000</b>	Year Ended 31 March 2005 £'000
Civil Service Pensions	<b>1,535</b>	1,054
Universities Superannuation Scheme	<b>19</b>	19
	<b><u>1,554</u></b>	<u>1,073</u>

There are no outstanding or prepaid contributions as at 31 March 2006.

Full details of the Council's pensions arrangements can be found in the Remuneration Report on page 34.

## 6 Other Administration

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Audit fee; external audit	33	32
Committee members, advisers and associated travel and subsistence costs	199	232
Consultancy fees	1,916	2,600
Council Board members honoraria and associated travel and subsistence costs	80	71
General administrative payments	1,236	1,281
Hospitality	9	12
Premises costs	729	704
Publications, printing, publicity	193	227
Recruitment and training	552	451
Relocation expenditure	2	14
Rental payments under operating leases:		
Hire of plant and machinery	45	46
Other operating leases	1,085	1,102
Revaluation of assets	9	32
Telephone and postage	187	227
Travel and subsistence for staff	963	1,013
	7,238	8,044

The auditors received no remuneration for non audit services.

**Consultancy fees** include research and evaluation studies into policy formation, implementation, and value for money.

**General administrative payments** include the cost of organising conferences, legal fees, software purchase and maintenance, equipment repair, and the purchase of books and periodicals.

**Premises costs** include the cost of rates and utility payments for the Council's offices at Bristol and London, but not the rental costs of these premises which is shown separately under **Rental payments under other operating leases**.

**Other Administration (continued)**

		<b>Year Ended 31 March 2006 £'000</b>	Year Ended 31 March 2005 £'000
Annual commitments under operating leases are as follows:			
<b>Land and Buildings</b>			
Leases expiring within:	One year	226	0
	Two to five years	0	226
	More than five years	869	869
		<u>1,095</u>	<u>1,095</u>
<b>Others</b>			
Leases expiring within:	One year	31	10
	Two to five years	5	27
	More than five years	0	0
		<u>36</u>	<u>37</u>

The Council's lease on its offices at Northavon House in Bristol expires on 24 December 2015.

The Council's lease on its offices at Centrepoint in London expires on 23 June 2006. An extension to this lease is currently under review.

Operating leases shown in the **Other** category relate to the rental of office equipment.

**7a Tangible Fixed Assets**

	Buildings	Furniture and Office Equipment	Information Technology	Total
	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>				
At 1 April 2005	16	82	575	673
Revaluation (impairment)		(1)	(18)	(19)
Additions			44	44
Disposals		(11)	(193)	(204)
At 31 March 2006	<u>16</u>	<u>70</u>	<u>408</u>	<u>494</u>
<b>Depreciation</b>				
At 1 April 2005	13	52	389	454
Charge for period		14	144	158
Revaluation (impairment)			(10)	(10)
Disposals		(11)	(193)	(204)
At 31 March 2006	<u>13</u>	<u>55</u>	<u>330</u>	<u>398</u>
<b>Net Book Value</b>				
At 31 March 2005	3	30	186	219
<b>At 31 March 2006</b>	<u><u>3</u></u>	<u><u>15</u></u>	<u><u>78</u></u>	<u><u>96</u></u>

**7b Intangible Fixed Assets**

	Information content licences £'000
<b>Cost or Valuation</b>	
At 1 April 2005	6,246
Impairment	(2,246)
Additions	1,899
At 31 March 2006	<u>5,899</u>
<b>Amortisation</b>	
At 1 April 2005	2,870
Charge for period	1,577
Impairment	(634)
At 31 March 2006	<u>3,813</u>
<b>Net Book Value</b>	
At 31 March 2005	3,376
<b>At 31 March 2006</b>	<u><u>2,086</u></u>

The licensing of information content allows the JISC to generate income through sub-licences to subscribers within the higher education sector, thereby giving it access to future economic benefits.

## 8 Notional Costs

The cost of capital for 2005-06 has been arrived at by calculating a rate of 3.5 per cent (2004-05 3.5 per cent) to the average capital employed.

In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Capital employed as at 1 April	(266,494)	(361,016)
Capital employed as at 31 March	<u>(265,114)</u>	<u>(266,494)</u>
Average capital employed	<u>(265,804)</u>	<u>(313,755)</u>
<b>Notional interest on capital</b>	<u><u>9,303</u></u>	<u><u>10,981</u></u>

The notional cost of capital is designed to show the opportunity cost of funding the net assets needed to provide a particular service. It is a non-cash charge shown on the Income and Expenditure (I&E) account.

HEFCE is in the unusual position of having a credit charge on the I&E account. This is because instead of showing overall net assets on its balance sheet the Council has overall net liabilities due to its provision for future payments under the Inherited Liabilities programme (as detailed in note 12 to the accounts).

It follows that as there is a net liability position the accounts need to show a cost of capital credit as the Exchequer is in essence being funded by those to whom it has a liability. In a sense therefore the Exchequer benefits from having these liabilities and so the I&E account has to reflect that benefit. However, the effect of this notional credit is reversed on the I&E account so that the bottom line surplus or deficit for the year is not distorted.

**9a Repayable grants to institutions**

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Balances as at 1 April	16,499	19,520
Advances during the year	5,875	3,225
Repayments during the year	(2,458)	(6,246)
Balances as at 31 March	<u>19,916</u>	<u>16,499</u>

None of the above repayable grants are interest bearing.

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Balances at 31 March repayable:		
within one year	2,540	2,433
after one year	17,376	14,066
	<u>19,916</u>	<u>16,499</u>

The HEFCE Board has agreed the principles for providing repayable grants to institutions. These repayable grants are provided within the total budgets of the relevant programmes (the Poor Estates Initiative, the Restructuring and Collaboration Fund, and the Strategic Development Fund). Repayable grants are only provided for projects which meet the criteria for the particular programme. Amounts provided are within the total funding for the programme approved by the Board. Repayable grants are normally for three to five years, but can be made for up to ten years and are interest free. Repayments are achieved through deductions from future grants.

As at 31 March 2006, three institutions (2005: six) had repayable grants outstanding in excess of £1,000,000. The total value of these grants was £14,291,975 (2005: £13,656,000).

**9b Staff Loans**

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Balances as at 1 April	1	0
Advances during the year	4	1
Repayments during the year	(3)	0
Balances as at 31 March	<u>2</u>	<u>1</u>

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Balances at 31 March repayable within:		
One year	2	1
Two to five years	0	0
	<u>2</u>	<u>1</u>

Loans for the purchase of bus and train season tickets are available to all HEFCE staff after a qualifying period of three months' service. These loans are interest free and are repayable through the Council's payroll over a period no greater than the duration of ticket.

**9c Debtors**

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Programme debtors	23,339	8,175
Trade debtors	385	374
Prepayments	412	400
	<u>24,136</u>	<u>8,949</u>

**Programme debtors** include contributions to national initiatives due from other funding councils.

**Prepayments** relate to running costs payments made in advance for services including rental of Council premises and maintenance contracts.

**10 Details of Balances at year end**

	<b>As at 31 March 2006 £'000</b>	<b>As at 31 March 2005 £'000</b>
Cash held at the Bank of England:		
in respect of programme funds	5,101	89,060
in respect of running costs	<u>(286)</u>	<u>192</u>
	<b>4,815</b>	<b>89,252</b>
Cash held at other banks and in hand	1	0
Other funds held for the ENPG	31	49
	<u><b>4,847</b></u>	<u><b>89,301</b></u>

The main bank accounts of the Council are held at the Bank of England in an Office of HM Paymaster General account and in consequence any interest is retained to the benefit of the Exchequer.

In cash terms the DfES authorises a working balance at 31 March of 2 per cent of the total Grant in Aid for the financial year. The cash balances above are within the margins, as follows:

	<b>Year Ended 31 March 2006 £'000</b>	<b>Year Ended 31 March 2005 £'000</b>
<b>Programme Funds</b>		
Grant received	6,556,024	6,027,689
2% thereof	131,120	120,554
Balances at year end	5,071	89,060
<b>Running Costs</b>		
Grant received	16,892	17,199
2% thereof	338	344
Balances at year end	(255)	192

**11 Creditors: Amounts falling due within one year**

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Programme accruals	27,611	10,479
Trade creditors	227	156
Running costs accruals	162	265
Tax and social security	10	40
Other creditors: European Networking Group	31	49
	<b><u>28,041</u></b>	<b><u>10,989</u></b>

**Programme accruals** include invoices received after year end for those capital projects where funding is granted on submission of claim.

The **tax and social security** creditor is the element of VAT charged to OFFA on the HEFCE Service Level Agreement (SLA), which is then paid to HM Revenue and Customs (HMRC). The SLA is charged quarterly and the VAT owing to HMRC for the quarter to 31 March is accrued.

**Other creditors** relates to funds held by the Council on behalf of the European Network and Programming Group, an independent self-financing organisation which acts as a forum for research networking across Europe. Further details of ENPG activities can be found on their website at [www.enpg.org](http://www.enpg.org).

The Council is fully committed to the prompt payment of its suppliers' invoices and supports HM Treasury's Better Payment Practice Code. The Council aims to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is the later. All suppliers have been notified of this commitment and have been given clear guidelines to help the Council achieve this aim. Throughout the year the Council monitors actual performance against the 30 day target. During the financial year 2005-06 the target was met for 93 per cent of invoices (2004-05: 98 per cent).

## 12 Provisions for Liabilities and Charges

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Balance of provision at 1 April	284,598	387,008
Additional charge in year	15	0
Provision utilised in year	(29,316)	(30,421)
Provision reversed unused in year	0	(1,579)
Unwinding of discount	6,261	13,545
Increase/(Decrease) in provision	21,783	(83,955)
<b>Balance of provision at 31 March</b>	<b><u>283,341</u></b>	<b><u>284,598</u></b>

Provisions are recognised when:

- there is a present legal or constructive obligation as a result of a past event
- it is probable that a transfer of economic benefit will be required to settle the obligation
- a reliable estimate can be made of the amount of the obligation.

Inherited staff liabilities are certain staff-related commitments of previously local authority maintained universities and college of higher education. These liabilities were transferred from the local authority to HEIs on incorporation. Consequently, the 1988 Education Reform Act made it a statutory responsibility of the Polytechnics and Colleges Funding Council (PCFC) to reimburse certain institutions and local education authorities for staff-related liabilities.

Upon its formation the Council took over from the PCFC the statutory responsibility under section 67 of the Further and Higher Education Act 1992 to meet staff-related liabilities.

The liabilities for which we provide reimbursement relate to three main categories:

- early retirement or redundancy compensation payments
- protection of salary
- pension increase under the Local Government Superannuation Scheme for former non teaching staff of institutions formerly funded by the PCFC.

As a result of its statutory obligations, the Council has recognised a provision for Inherited Staff Liabilities on the Balance Sheet as a long term liability.

An independent review is undertaken every three years in order to verify the level of provision required. The last review, in 2004-05 led to a revision in the estimated date when payments will cease, from 2021-22 to 2016-17. The next review of the provision will take place in 2007-08.

In 2005-06 the HM Treasury discount rate, the basis used to calculate the current value of future payments, changed from 3.5 to 2.2 per cent. This results in a change in the level of provision needed and a net impact on the Income and Expenditure account of £21,783,000.

### 13 Financial Commitments and Contingent Liabilities as at end of period

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July). As at 31 March 2006 there are no contingent liabilities.

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
The amount of grant committed for the period April to July 2006 is:	<b>2,183,632</b>	2,036,288
The amount of grant committed for the academic year 2006-07 is:	<b>6,706,000</b>	6,332,000

Whilst there is no statutory obligation to do so, the HEFCE funds certain capital commitments for universities and colleges that were previously maintained by local authorities. Where this represents value for money, such commitments are bought out.

### 14 Deferred Government Grant

	<b>As at 31 March 2006 £'000</b>	As at 31 March 2005 £'000
Balances at 1 April	<b>3,595</b>	296
Allocated from Grant in Aid (purchase of capital assets)	<b>1,943</b>	6,419
Revaluation increase	<b>0</b>	1
Released for the year	<b>(3,356)</b>	(3,121)
<b>Balances at 31 March</b>	<b><u>2,182</u></b>	<b><u>3,595</u></b>

Deferred capital grant represents funding used to finance the purchase of tangible and intangible fixed assets. The release to the Income and Expenditure (I&E) account in year represents the depreciation charge together with the charge to the I&E account for impairment of fixed assets (downward revaluation).

## 15 General Reserve movements

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
<b>Access and Hardship Funds</b>		
Balance as at 1 April	(741)	1,038
Surplus/(deficit) for the year	<u>(833)</u>	<u>(1,779)</u>
Balance as at 31 March	(1,574)	(741)
<b>Programme Grant</b>		
Balance as at 1 April	(180,708)	(345,737)
Surplus/(deficit) for the year	<u>(80,423)</u>	<u>165,029</u>
Balance as at 31 March	(261,131)	(180,708)
<b>Running Costs</b>		
Balance as at 1 April	612	736
Surplus/(deficit) for the year	<u>(388)</u>	<u>(124)</u>
Balance as at 31 March	224	612
<b>Total</b>		
Balance as at 1 April	(180,837)	(343,963)
Surplus/(deficit) for the year	<u>(81,644)</u>	<u>163,126</u>
<b>Balance as at 31 March</b>	<u><u>(262,481)</u></u>	<u><u>(180,837)</u></u>

This note reconciles the surplus or deficit for the year as shown on the Income and Expenditure account to the accumulated general reserve as shown on the Balance Sheet.

The large negative reserve reflects the provision for future payments under the Inherited Liabilities for Staff programme (see note 12).

**16a Reconciliation of operating surplus to net cash flow from operating activities**

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Operating surplus/(deficit)	(53,600)	92,716
Depreciation and impairment	3,356	3,121
Release from Deferred Government Grant	(3,356)	(3,121)
Decrease/(increase) in debtors and loans	(18,605)	7,182
Increase/(decrease) in creditors	17,052	3,995
Payment from provisions	(29,316)	(30,421)
Additional provision used in year	15	(1,579)
<b>Net cash inflow/(outflow) from operating activities</b>	<u><u>(84,454)</u></u>	<u><u>71,893</u></u>

This note reconciles the operating surplus or deficit shown on the Income and Expenditure account to the net cash inflow or outflow shown on the Cashflow Statement.

**16b Reconciliation of net cash flow to movement in net debt**

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
Net funds at 1 April	89,301	17,408
Increase/(decrease) in cash for the year	(84,454)	71,893
<b>Net funds at 31 March</b>	<u><u>4,847</u></u>	<u><u>89,301</u></u>

This note reconciles the net movement in funds for the year from the Cashflow Statement to the Details of balances at year end (note 10).

**17 Reconciliation of movement in funds**

	As at 31 March 2006 £'000	As at 31 March 2005 £'000
Opening balance	(180,837)	(343,963)
Surplus/(deficit) per Income and Expenditure account	(81,644)	163,126
<b>Closing balance: General reserve</b>	<b><u>(262,481)</u></b>	<b><u>(180,837)</u></b>

**18 Debtors and creditors balances with other government bodies**

	Debtors As at 31 March 2006 £'000	Creditors As at 31 March 2006 £'000
Other central government bodies	4,878	2,233
Local authorities	0	1,779
NHS Trusts	0	0
Public corporations and trading funds	0	0
Balances with other government bodies	<u>4,878</u>	<u>4,012</u>
Balances with non government bodies	19,258	24,029
<b>Total as per notes on Debtors and Creditors</b>	<b><u>24,136</u></b>	<b><u>28,041</u></b>

**19 Special payments**

	Year Ended 31 March 2006 £'000	Year Ended 31 March 2005 £'000
<b>Special payments</b>	<b><u>1,625</u></b>	<b><u>0</u></b>

The Council is required to disclose all special payments in excess of an aggregated total of £250,000. For the year ended 31 March 2006 two special payments were made for a total of £1,625,000 (*no special payments were made in 2004-05*).

An ex gratia special payment of £1,600,000 was paid on 28 April 2006 to support the wind-down of UK eUniversities Worldwide Limited, under the terms of the Company Voluntary Agreement. This amount is included within the total for programme accruals as at 31 March 2006, and was disclosed as a contingent liability in the 2004-05 accounts.

## 20 Related Party Transactions

The Council is a non-departmental public body sponsored by the DfES. The DfES is regarded as a related party, as are sister funding bodies: the Scottish Higher Education Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Training and Development Agency, and the Learning and Skills Councils. The British Academy and the Economic and Social Research Council are also related parties.

In the course of allocating funding during the year, the Council entered into material transactions with the following related parties, to which the board members stated below are related parties:

- Grants to City University, where **Steve Bundred** is a member of the council.
- Grants to The Institute of Education, where **Richard Coldwell** is a member of the council, and payments to Foundation Degree Forward where he is Chair.
- Grants to the University of East Anglia where **Professor David Eastwood** is Vice-Chancellor.
- Payments to Universities Superannuation Scheme Limited where **Steve Egan** is a member of the board.
- Grants to Newcastle College, where **Jackie Fisher** is Principal.
- Grants to Royal College of Nursing, where **Dr Beverly Malone** is General Secretary.
- Payments to the University of the West of England where **Sir Howard Newby** is now Vice-Chancellor.
- Grants to Wolfson College Oxford, where **Professor Sir Gareth Roberts** is President; and payments to Universities Superannuation Scheme Limited where he is a board member.
- Grants to the University of Nottingham where **Professor Peter Rubin** is Professor of Therapeutics.
- Payments to the Office for Fair Access (OFFA) where **John Rushforth** was Deputy Director.
- Grants to Brunel University, where **Peter Saraga OBE** is a member of the university court; to the University of Surrey, where he is a member of the council, and to Imperial College where he has been a visiting Professor in the Department of Electric and Electronic Engineering.
- Grants to Kingston University, whose Vice-Chancellor is **Professor Peter Scott**; to St. George's Hospital Medical School, where he is a member of the council; and to the University of Bolton where he is chair of an advisory committee.
- Grants to Imperial College of Science, Technology and Medicine, where **Sir Richard Sykes** is Rector.
- Grants to the University of Northampton, where **Ann Tate** is Rector.
- Grants to the University of Hertfordshire, where **Professor Tim Wilson** is Vice-Chancellor.

The Council has had no material transactions with companies whose directors are closely associated with the Council. In this context, closely associated refers to existing or former Council board members, or directors. Board members, former board members and directors have other relationships through family members who are employees or students at institutions funded by the Council or through membership of governing bodies. These do not give rise to material transactions which need to be disclosed. Details of relationships are held in the Council's register of interests and are also available on our website at [www.hefce.ac.uk/aboutus/board](http://www.hefce.ac.uk/aboutus/board).

**Appendix 1 Full analysis of non-recurrent grant by strategic aim: unaudited**

<b>As summarised in Note 4 to the Accounts</b>	<b>Total for Year Ended 31 March 2006 £'000</b>	<b>Institutional funding or national programme £'000</b>	<b>Non- institutional funding £'000</b>	<b>Special institutional funding £'000</b>
<b>Learning and Teaching</b>				
Learning and Teaching infrastructure capital	435,442	435,442		
Centres for excellence in teaching & learning	82,841	82,841		
Rewarding quality enhancement	39,723	39,723		
E-learning (including UK eUniversities*)	34,261	34,261		
Tomlinson	9,741			9,741
HE Academy*	8,904		8,904	
Quality Assurance Agency*	6,706		6,706	
College fees	5,045			5,045
Foundation Degree Forward	4,662		4,662	
Other minor or finishing initiatives	3,547	3,547		
Dance and drama	1,340			1,340
Research into learning and teaching	1,366		1,366	
New Technology Institutes	854	854		
National flying laboratory centre	298			298
	<b>634,730</b>	<b>596,668</b>	<b>21,638</b>	<b>16,424</b>
<b>Widening Participation</b>				
Aimhigher (and associated initiatives)	55,790	55,790		
Students with learning difficulties & disabilities	1,738			1,738
HERO*	387		387	
	<b>57,915</b>	<b>55,790</b>	<b>387</b>	<b>1,738</b>
<b>Research</b>				
Science Research Investment Fund	521,470	521,470		
Overseas Research Students Award Scheme	14,181	14,181		
Museums, galleries and collections	9,925		9,925	
Copyright libraries	2,855			2,855
Research support libraries programme	1,469			1,469
Research Assessment Exercise	1,027			1,027
Finishing joint capital initiatives	1,041	1,041		
Research Information Network*	165		165	
	<b>552,133</b>	<b>536,692</b>	<b>10,090</b>	<b>5,351</b>
<b>Business and community</b>				
Higher Education Innovation Fund	91,062	91,062		
Higher Education Active Community Fund	5,103	5,103		
Knowledge Transfer Capability Fund	4,469			4,469
	<b>100,634</b>	<b>96,165</b>	<b>0</b>	<b>4,469</b>
<b>Building on institutions' strengths</b>				
Inherited liabilities	153,166			153,166
Strategic Development Fund (includes R&CF)	37,633	37,633		
London	12,832			12,832
Higher Education Regional Associations	238	238		
	<b>203,869</b>	<b>37,871</b>	<b>0</b>	<b>165,998</b>

**Full analysis of non-recurrent grant by strategic aim: unaudited (continued)**

<b>As summarised in Note 4 to the Accounts</b>	<b>Total for Year Ended 31 March 2006 £'000</b>	<b>Institutional funding or national programme £'000</b>	<b>Non- institutional funding £'000</b>	<b>Special institutional funding £'000</b>
<b>Leadership, governance and management</b>	<b>2,538</b>		2,538	
Management Development Fund/LGM Fund	1,682			1,682
Equality Challenge Unit	819		819	
Procurement initiatives	529			529
Costing and pricing initiative	472			472
Other minor or finishing initiatives	278			278
	<b>6,318</b>	<b>0</b>	<b>3,357</b>	<b>2,961</b>
<b>Excellence in delivery</b>				
International Initiatives	388			388
R&E consultancy	358		358	
Miscellaneous grant	268		268	
Higher Education Policy Institute*	196		196	
	<b>1,210</b>	<b>0</b>	<b>822</b>	<b>388</b>
<b>JISC related activities</b>				
JISC initiatives (including UKERNA*)	71,712		71,712	
	<b>71,712</b>	<b>0</b>	<b>71,712</b>	<b>0</b>
<b>Total funding for initiatives</b>	<b>1,628,521</b>	<b>1,323,186</b>	<b>108,006</b>	<b>197,329</b>

**Institutional funding or national programme** is funding that is available to all institutions.

**Non-institutional funding** is funding provided to sector bodies (with related bodies identified by \*).

**Special institutional funding** is provided in specific areas to achieve objectives on behalf of the sector.

## Full analysis of non-recurrent grant by strategic aim: unaudited (continued)

### Learning and teaching

**Learning and teaching infrastructure capital:** Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure. This encompasses the HE in FECs Development Fund and funding for medical expansion.

**Centres for excellence in teaching and learning (CETLs):** Funding to reward excellent teaching practice, and to further invest in that practice so that CETLs funding delivers substantial benefits to students, teachers and institutions.

**Rewarding quality enhancement:** Institutional, subject and individual strands to promote and reward excellence in teaching. This includes the National Teaching Fellowships Scheme, the fund for the development of teaching and learning (FDTL) and the Learning and Teaching Support Network (LTSN).

**E-learning:** Funding to support HEFCE's strategy to integrate e-learning into higher education, including the ongoing capital costs for the UK eUniversities project.

**Tomlinson:** Grant towards the capital cost of the reorganisation of medical education and research in London.

**HE Academy:** Funding for the HE Academy to develop as a major resource for the sector to support quality enhancement, professional development and dissemination of good practice aimed at improving student learning experience.

**Quality Assurance Agency:** Funding to secure the assessment of the quality of education provided by individual institutions.

**College fees:** Additional funding to the Universities of Cambridge and Oxford following the abolition of the undergraduate tuition fee in 1999-2000, to be phased out over 10 years.

**Foundation Degree Forward (FDF)/FDF development:** Funding to develop and launch new intermediate-level qualifications, in partnership with employers. FDF has been set up to provide a support network of expertise in Foundation Degree development.

**Dance and drama:** Scheme to allow dance and drama students to exploit their talents through the provision of funding for non-HEFCE institutions that provide high quality dance and drama training at HE level.

**Research into learning and teaching:** Fund to promote high quality research on education, particularly teaching and learning to increase capacity in educational research and to provide further research into higher education policy and practice.

**New Technology Institutes (NTIs):** Funding for the establishment of regional institutions designed to meet the demand for information technology skills and to help small and medium sized enterprises to more efficiently exploit new technology and innovative business practices.

**National flying laboratory centre:** Funding for a national facility offering flying time for aeronautical courses.

**Other minor or finishing initiatives:** Funding for the teaching and learning technology programme (TLTP) early rounds of FDTL and minority subjects funding.

## Widening participation

**Aimhigher:** A joint initiative between the DfES, HEFCE and the LSC funding regional partnerships between HE, FE and schools in order to widen and increase participation in higher education. This encompasses funding for Excellence fellowships, Partnerships for Progression and summer schools.

**Students with Learning Difficulties and Disabilities (SLDD):** Targeted funding to promote widening participation in under-represented social groups. SLDD specifically encourages institutions to develop high quality provision for students with disabilities.

**Higher Education and Research Opportunities (HERO):** Funding for the development of a web-based resource to support transparency of information to inform student choice, incorporating the National Student Survey.

## Research

**Science Research Investment Fund (SRIF):** Capital funding for major projects which will have a significant impact on HEIs' research infrastructure.

**Overseas Research Students Award Scheme (ORSAS):** The Council's contribution to a scheme to attract high quality overseas research students to UK HEIs.

**Museums galleries and collections:** Funding to support advanced research in the arts and humanities and to promote and support excellence in research in these fields. Also HEFCE's contribution towards the costs of operating and maintaining museums, galleries and collections at individual institutions but accessible by all institutions.

**Copyright libraries:** Continued funding for copyright libraries that allow free access to researchers from within the United Kingdom higher education community.

**Research support libraries programme:** Funding to recognise additional costs of providing external access to major research libraries.

**Research Assessment Exercise (RAE):** Joint funding with other funding bodies to support the next peer review exercise in 2008 to evaluate the quality of research in UK higher education institutions.

**Research Information Network (RIN):** A joint initiative with the Research Councils and the British Library to create a new national framework for UK research information provision.

**Finishing joint capital initiatives:** Residual funding for the Joint Infrastructure Fund (JIF) and the Joint Research Equipment Initiative (JREI) which have both now finished.

## Business and Community

**Higher Education Innovation Fund (HEIF):** Funding for activities that will increase HEIs' capability to respond to the needs of business where this will lead to identifiable economic benefits.

**Higher Education Active Community Fund:** Funding to enhance the key role played by HEIs in the local community. Part of the Government's wider Active Community initiative which aims to involve more people in voluntary activity in their local communities.

**Knowledge Transfer Capability Fund (KTCF):** Funding to continue to support core knowledge transfer activity at eligible institutions.

## **Building on institutions' strengths**

**Inherited liabilities:** Reimbursement in respect of liabilities inherited by institutions formerly under the control of local authorities when these were incorporated as independent institutions. This also includes funding to buy out these commitments.

**Strategic Development Fund (SDF):** Discretionary funding to facilitate constructive development and change, at a strategic level, within the higher education sector. The SDF took over from the Restructuring and Collaboration Fund (R&CF) in 2003.

**London:** Contribution toward the additional costs of operating in London, including supplementary pensions.

**Higher Education Regional Associations:** Funding towards the costs of nine HE regional associations. These are membership organisations that represent HEIs in their regions.

## **Leadership, governance and management**

**Leadership Foundation for Higher Education:** A resource to develop world-class programmes for leaders, governors and managers in higher education. The foundation will incorporate the activities of the Higher Education Staff Development Agency (HESDA).

**Management Development Fund/LGM Fund:** Funding for projects that develop the application of good management practice in HEIs.

**Equality Challenge Unit:** Promoting improved equal opportunities in HE. Funding includes the Equality Challenge Unit which supports the work of UK HE institutions in improving equal opportunities for their staff and providing a sector level view of progress.

**Procurement initiatives:** Promotion of effective procurement and increased collaboration within the higher education sector.

**Costing and pricing initiative:** Promotion of increased accountability to stakeholders, improved management information and the integration of academic and financial decision making.

**Other minor or finishing initiatives:** Residual funding for a number of small initiatives including Estates Good Practice, Golden Hellos, Public Private Partnerships (PPP) and Private Finance Initiatives (PFI).

## **Excellence in delivery**

**International initiatives:** Funding for specific projects to assist promotion of UK higher education overseas.

**R&E consultancy:** Funding to support our research and evaluation programme.

**Miscellaneous:** Other minor funding for teaching and research which does not directly relate to the above allocations.

**Higher Education Policy Institute (HEPI):** The HEPI is a company limited by guarantee whose function is to consider, develop, and promulgate policy advice and related matters in the field of UK higher education.

## **JISC related activities**

Funding to the JISC to support strategic guidance, advice and opportunities in the use of information and communications technology (ICT) in the higher education sector. Funding is also provided for the development of SuperJANET 4 and to increase the capacity and capability of the transatlantic network.

Further information on HEFCE is available on its web-site: [www.hefce.ac.uk](http://www.hefce.ac.uk)

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