Annual report and accounts

2011-12

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND
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HC 3

£21.25

Higher Education Funding Council for England

Annual report and accounts 2011-12

Presented to Parliament pursuant to Schedule 1, paragraph 16 of the Further and Higher Education Act 1992

Ordered by the House of Commons to be printed on 10 May 2012

HC 3 LONDON: The Stationery Office £21.25

Any enquiries regarding this publication should be sent to us at s.hollingsworth@hefce.ac.uk, 0117 931 7305.

This publication is also available on http://www.official-documents.gov.uk/

ISBN: 9780102977554

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID: 2488715 05/12

Printed on paper containing 75% recycled fibre content minimum.

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Contents

Foreword

Tim Melville-Ross CBE, HEFCE Chair

2011-12 has been another eventful year in higher education during which the dominant theme, for both HEFCE and the sector, has been that of preparing for change. In June 2011, the Government published its White Paper on the future of higher education in England. It set out plans for the reform of funding and regulation, and proposed new roles and responsibilities for HEFCE, including a duty to safeguard the collective student interest.

In July 2011, we consulted on a new method for teaching funding and the implementation of the Government's policy on student number controls for 2012-13. (The second stage of the consultation, on arrangements from 2013-14 and beyond, was published in February of this year.) In the autumn the HEFCE Board agreed the distribution of student places following the bidding process for the 20,000 'margin', and arrangements for the operation of the 'AAB+' policy in 2012-13.

Our annual grant letter from BIS in January 2012, and our subsequent grant allocation announcement in March, reflected the introduction of increased tuition fees for students entering higher education from this September. As a greater proportion of teaching funding flows from publicly funded tuition fee loans, HEFCE will increasingly invest on behalf of students to meet the costs incurred by universities and colleges which cannot be covered by tuition fees alone: supporting excellence and diversity in learning and teaching, and ensuring that people with the potential to benefit from participation in higher education have the opportunity to do so.

There has been continuity as well as change. Work on the 2014 Research Excellence Framework has progressed well; we have maintained our focus on the provision of improved information for prospective students through the development of the Key Information Set; and our funding for knowledge exchange activity has made a significant contribution to economic recovery and growth. We continued to ensure effective financial stewardship of the sector, maintaining the confidence of Parliament, students and the public. Throughout the year, we worked closely with students, the sector and our partner organisations.

Our strategy statement, published in July 2011, set out the principles of opportunity, choice and excellence that have guided us this year. These principles provided a sound platform for action in 2011-12, and they will inform our approach in 2012-13. We will continue to play our part in ensuring a smooth transition to the new funding arrangements, and to implement the Government's reforms in a way that makes sense to students and to the wider higher education community. We remain committed to promoting the creation, dissemination and application of knowledge, supporting successive generations of students, the wider academic community and the positive contribution that higher education makes to the economy and society.

Finally, I want to thank HEFCE staff for their unfailing professionalism and for the tremendous support they have given to the HEFCE Board, the Executive and the wider higher education sector.

Tim Melville-Ross CBE
Chair

Higher Education Funding Council for England
11 April 2012

About HEFCE

The Higher Education Funding Council for England (HEFCE) is a public sector body which distributes money to universities and colleges in England. We invest on behalf of students and the public to promote opportunity, choice and excellence in teaching, research and knowledge exchange. We ensure effective financial stewardship of our funding to maintain the confidence of Parliament, students and the public, and we encourage and support the positive contribution that higher education (HE) makes to the economy and society.

HEFCE was established by the Further and Higher Education Act 1992. We are a non-departmental public body (NDPB). We work within a policy framework set by the Secretary of State for Business, Innovation and Skills, but we are independent of Government.

A description of HEFCE's structure, including a list of Board members, can be found on page xx.

What we do

- We fund universities and colleges (including further education colleges) for higher education teaching, research, knowledge exchange, and related activities.
- We ensure that the quality of teaching in higher education provision we fund is assessed.
- We monitor the financial health of HEFCE-funded universities and colleges, and undertake regular governance reviews of these institutions.
- We support the development of higher education by funding specific initiatives and providing best practice guidance.
- We provide information on higher education to students, potential students, Government, other funders of research and all those with an interest in it.
- As principal regulator for higher education institutions as charities, we have a statutory responsibility to promote compliance by institutions' trustees with their obligations under charity law.
- We provide the Secretary of State for Business, Innovation and Skills with information and advice on higher education.

During the financial year 2011-12 we distributed £6.8 billion in public money. Most of this was used to support teaching and research in universities and colleges. The remainder funded innovation and knowledge exchange work, projects to improve the efficiency and sustainability of the higher education estate, and key national activities such as the Joint Information Systems Committee.

Summary of our achievements in 2011-12

HEFCE's approach to our work is set out in our strategy statement and business plan[1]. Three key principles – of **opportunity**, **choice** and **excellence** in higher education – underpin all our activities:

Opportunity: People with the potential to benefit from higher education should have the opportunity to do so, regardless of their income or background. This encourages a higher education offer that is socially and culturally distinctive, and creates a diverse student population that is essential to vibrant intellectual enquiry and a resilient knowledge economy.

Choice: HEFCE will support a higher education sector that offers a diverse, flexible range of provision, embracing all academic disciplines and building on the wide range of qualifications currently available through full- or part-time study and accelerated learning. Potential students should have access to the information they need to make informed choices about what, where and how to study.

Excellence: Higher education in England has an excellent international reputation. We need to maintain and build on this reputation. This means a renewed commitment to high-quality provision that gives the best possible student experience and which helps improve social mobility. We will continue to promote world-leading research through the dual support system, and to fund high-performance knowledge exchange activity.

Over the past year HEFCE has continued to support the core academic activities of **learning and teaching**, **research** and **knowledge exchange**. These are the essential elements of a successful higher education system. They contribute to social mobility and a strong economy, and they enrich individual lives. They are interdependent, and HEFCE's remit allows us to ensure that our work in each area is coordinated and complementary.

The ways in which we support these activities – our practices – include an emphasis on high-quality **information**; a proportionate approach to **regulation**; **investment** for public benefit; and a commitment to working in **partnership** with Government, students, universities and colleges, and other national agencies. Our role in safeguarding the collective interests of students runs through all of our work.

[1] www.hefce.ac.uk under About HEFCE/How we operate

Learning, teaching and student choice

Enhancing information to support student choice

Students and prospective students need accurate, accessible information in order to make informed choices about what and where to study. The provision of such information is a key priority for Government and the higher education sector. Over the past year we have worked with students, the sector and our partners to extend and improve the availability of information about universities and colleges and their courses. We remain conscious that enhanced advice and guidance needs to be part of this picture.

The Unistats web-site and the Key Information Set

During 2011-12 we have worked on developing and enhancing the available information on higher education for students, prospective students and their families, careers advisers, and employers. This work is ongoing. A key element is the development of the Key Information Set (KIS), a standardised set of data about higher education courses in the UK. The KIS has been designed with a firm focus on the information needs of prospective students, and will be publicised at course level on universities' and colleges' web-sites from September 2012. It will link to a new Unistats web-site, which will enable comparison of data between different courses.

The information needs of taught postgraduate students

We have issued the tenders for projects to investigate the information needs of taught postgraduate students. The first project will examine the kinds of information students find most useful in making informed choices about taught postgraduate courses, and the best way of delivering this to them. The second will assess the feasibility of conducting a national survey of taught postgraduate students, including the sorts of questions that might be included. If the indications are that such a survey would be useful and achievable, we will run a short pilot study with a small number of institutions.

Student module evaluations

HEFCE is collaborating with the Quality Assurance Agency for Higher Education (QAA) and the Higher Education Academy (HEA) to investigate good practice in student module evaluation. We are looking at how student evaluation surveys are currently used; how survey results are communicated to students; who uses the survey data; and what enhancement and engagement activities take place as a consequence. The aim is to build existing good practice to provide advice to universities and colleges about publishing student evaluation surveys on their web-sites.

Student charters

The Student Charter Group has been reconvened to consider whether student charters should be mandatory for all universities and colleges. It will also consider whether and how universities and colleges should publish information about how they are using income from student tuition fees. The group will report in July 2012.

83%
of students in England were satisfied overall with their course

84%
of students in England were satisfied with the quality of teaching on their courses

National Student Survey

The 2011 National Student Survey was the most successful in the survey's seven year history. There were 267,000 responses from a sample size of over 406,000 students across the UK, the largest number of students ever to take part in the survey. This represents an overall response rate for NSS 2011 of 66 per cent, the highest response rate the NSS has achieved in its seven years.

The satisfaction rate for students studying at higher education institutions and further education colleges in England remained high, with 83 per cent saying they were satisfied overall with their course.

Following consultation in 2010 we added a new question to NSS 2012 to seek students' views on how satisfied they are with their students' union, association or guild. The 2012 survey is being conducted at the time of publication.

Assuring quality and standards in higher education

HEFCE works closely with the QAA to ensure the robust assessment of quality and standards in higher education teaching. Over the past year, QAA review and audit processes have identified numerous examples of good practice in higher education institutions and further education colleges, as well as areas for development or improvement.

In the period covered by this report, the QAA has introduced a new institutional review method for assuring academic quality and standards in higher education institutions in England and Northern Ireland. Among other things, this has brought a more focused, but flexible, approach. Good progress has been made in establishing arrangements for reviewing the quality of higher education programmes provided by further education colleges, and the QAA has recently consulted on a revised method for these reviews.

Student members of review teams continue to play a key role in the QAA's review process. They bring a valuable perspective to discussions with higher education institutions. Students feel that their participation helps them to make their voices heard. They also say that it provides them with a useful insight into the review process, and helps them to understand what their universities and colleges are doing to support them.

Supporting continuous improvement of teaching

HEFCE remains committed to ensuring that universities and colleges deliver high-quality education. We do this by supporting continuous improvement in education in all its forms. Below are four examples of such work.

Higher Education Academy

We continue to support the Higher Education Academy (HEA) during 2011-12. The HEA promotes excellent learning and teaching in higher education, focusing on academic practice development, teacher excellence, and institutional strategy and change. Over the past year, the HEA has been restructured to deliver better value, ensuring that subject and discipline work remain at the heart of its mission.

Evaluation of CETLs

The Centres for Excellence in Teaching and Learning (CETL) programme represents HEFCE's largest single funding initiative in teaching and learning to date, with a total of £315 million made available from 2005-06 to 2009-10. The CETL programme sought to establish centres of excellence to reward good teaching at departmental level and to promote best practice.

In December 2011, an evaluation of the CETL programme was published. The evaluation notes that the CETLs were extraordinarily and intentionally diverse, and specific aims and activities varied widely. The report provides evidence of good examples of disciplinary and thematic collaboration, and raises questions for funders and institutions to consider in relation to further sustaining activity. The report concludes that the legacy of the programme rests largely in individual staff and in those institutions that have embedded CETL developments, and we will be working with the HEA to ensure that the lessons and legacy of this programme are secured.

Student engagement

We have continued to work in partnership with the QAA, the HEA, the National Union of Students (NUS), Universities UK and GuildHE to support student engagement across a broad range of learning and teaching policy and practice within universities and colleges.

We have funded a joint HEA and NUS student engagement project since November 2009. A key output from this project, a student engagement toolkit, has been commended throughout the sector and by Government. Following the launch of the toolkit, NUS has been working to promote it within institutions and students' unions, with a focus on encouraging the development of innovative approaches to engaging students in shaping their learning. The project has also supported work to identify and support staff and student development needs, and to develop and disseminate advice, guidance and best practice on student engagement with postgraduates, students studying HE courses in further education colleges, students who undertake placements, part-time students and work-based learners.

Open educational resources

Open educational resources (OER) are digital materials that can be re-used for teaching, learning and research, made freely available through open licences. The open educational resources initiative, led jointly by the Joint Information Systems Committee (JISC) and the HEA on behalf of HEFCE, is nearing the end of its third year of investment.

Seventy per cent of all English higher education institutions have engaged with HEFCE-funded OER activity. A vast range of materials is now openly available for use worldwide, supporting prospective students in choosing courses, educators in sourcing the best quality materials to use in teaching, and institutions in making a case for the quality and applicability of their provision.

Student places

The Government continues to require HEFCE to play its part in the close control of student support costs. At the same time, the Government wishes to increase student choice and support a more diverse higher education sector. To this end, after consultation, we established a competitive ‘margin’ of 20,000 places for 2012-13 entry. Bids for places from the margin were invited from all publicly funded higher education institutions and further education colleges that committed to charging an average full-time undergraduate fee of no more than £7,500 (net) and could show demand for quality provision. Margin places were awarded in March 2012.

Additionally for 2012-13, students with entry qualifications equivalent to, or higher than, grades AAB at A-level, will be excluded from the number control, allowing universities and colleges to enrol as many of these high performing students as they wish.

We implemented these government policies with appropriate protection for those specialist institutions that admit students on the basis of audition or portfolio, and with protection for those subjects identified as being strategically important and vulnerable, and with a guaranteed minimum core to ensure fair admissions were not jeopardised by the way the numbers were awarded.

Focusing our funding for teaching on priority areas

2012-13: In the light of government changes to the way teaching will be funded at undergraduate level in England from 2012-13, we have consulted on and implemented a new method of funding for 2012-13. This represents only an interim stage in our approach to distribution of funding for teaching, maintaining key elements of the old teaching funding method, so as to smooth the transition to the new funding arrangements. It focuses our teaching funding on the highest priority areas, as identified by Government and through consultation. Funding for students entering under the old fee arrangements will remain little changed.

Beyond 2012-13: We are currently consulting on a longer-term approach to distributing funding for teaching. This will continue to reflect government priorities, use funds in the public interest and support a smooth transition to the new finance arrangements. This consultation considers how we should provide funding for widening participation, high-cost subjects, strategic and vulnerable subjects, flexible provision, small and specialist institutions, and postgraduate study.

£143 million
Total funds delivered to HE providers in academic year 2011-12 for widening access

£13 million
Funds specifically for provision and support for disabled students

£225 million
Additional funding to support success through improved retention

Providing funding to enhance social mobility and successful higher education outcomes

Support for widening participation and student retention remains a key priority for HEFCE. In 2011-12, under the old arrangements, we continued to fund widening participation activity, and to facilitate the coordination and dissemination of good practice. Our funding helps universities and colleges to deliver their widening participation aims and objectives, and to engage in work that delivers longer-term benefits.

Widening participation strategic assessments

In 2009, HEFCE asked institutions with more than 100 full-time equivalent (FTE) HEFCE-fundable students to set out their plans for recruiting and supporting students from disadvantaged backgrounds through to successful outcomes over the next three years. We asked them to do this in a return referred to as a widening participation strategic assessment (WPSA). To reduce potential duplication with requests from OFFA for similar information, we have developed a joint monitoring process with OFFA so that institutions are able to report on the totality of their activity across their access agreement and WPSA in a single return. Recognising that changes to the HE system since the WPSAs were originally submitted may have impacted on institutions' plans, we have sought, through monitoring, to determine whether commitments have changed or whether activity has reduced. The monitoring undertaken to date shows the continued commitment to widening participation within institutions, and that widening participation activity continues to be well resourced and prioritised.

Widening participation and equalities

Ethnicity and degree attainment

We have continued to work with the HEA and the Equality Challenge Unit (ECU) to investigate what might be done to address differences in degree attainment between students from different ethnic groups. The programme of work includes identifying positive ways in which the curriculum, assessment, and learning and teaching practice may affect degree attainment, retention and success.

Improving provision for disabled students

HEFCE is committed to improving provision for disabled students in higher education. We provide targeted funding to universities and colleges, and work in partnership with the ECU and the sector to ensure that consideration of disabled students informs the broader equality, learning and teaching, and widening participation agendas.

We facilitate the Disability Sector Strategy Group, which meets two or three times a year to share best practice and contribute to equalities and widening participation policy. Its members include the ECU, the National Association of Disability Practitioners (NADP), the Disability Alliance, the HEA, JISC TechDis and the UK funding councils.

We also fund a number of projects with the ECU to assess institutions' equalities schemes and to consider how data collection and management could be improved to better support disabled students.

Aimhigher

In July 2011, Aimhigher came to an end. We worked closely with all 42 Aimhigher partnerships to manage the closure of the programme while maintaining the delivery of activity through to July. Securing the legacy has been a key priority, and we have worked with the HEA and other partners to ensure that resources, evaluation and good practice from the initiative will continue to be available to practitioners in universities and colleges and across the wider education sector.

National Scholarship Programme

The National Scholarship Programme (NSP) will benefit eligible students from households with a residual income of £25,000 or less through the provision of fee waivers, institutional services and cash awards. It is supported by government and institutional funding. HEFCE administers the programme on behalf of the Government.

In April 2011, we issued guidance to institutions on the operation, management, funding, monitoring and review of the National Scholarship Programme. In its first year (2012-13), the programme will deliver £50 million in scholarships to support students from disadvantaged backgrounds, rising to £100 million in 2013-14 and £150 million in 2014-15.

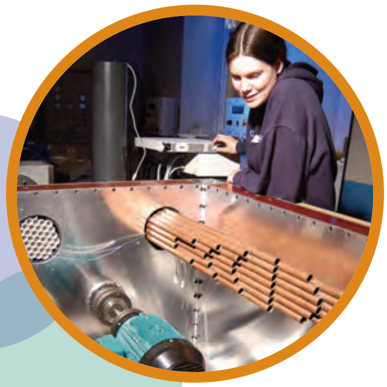
Protecting and promoting the collective student interest

The 2011 White Paper, 'Higher education: students at the heart of the system', proposes a new responsibility for HEFCE to protect and promote the interests of students. HEFCE already acts in the student interest, but the White Paper places a new and welcome emphasis on this aspect of our work.

We have begun to explore this new responsibility, looking in particular at defining its scope.

A deeper understanding of how we can best protect and promote the interests of students will be important as this new responsibility begins to underpin our work. We have established a closer partnership with the NUS to explore issues relating to the student interest. The NUS President is an observer at HEFCE Board meetings and is regularly invited to contribute to discussions.

Research



2011 saw the publication of further compelling evidence for the excellence and efficiency of the higher education and wider research base in England and the UK. 'International comparative performance of the UK research base', published by the Department for Business, Innovation and Skills (BIS) in October 2011, reaffirmed the UK's leading position in terms of quantity and quality of published output: of the top five research nations, UK researchers produce more articles and more citations per researcher and among comparable nations, and UK research receives the most citations per pound (or equivalent) spent on research.

£1,558 million
Research funding allocations for 2012-13

£160 million
Research capital funding for 2012-13

HEFCE is committed to supporting universities and colleges in England to play their full part in maintaining this lead. Over the past year we have sustained, and we will maintain in 2012-13, our investment in research across a broad range of fields, while targeting our funding more selectively on research of the very highest quality. In February 2012, we announced research funding allocations for the 2012-13 academic year totalling £1,558 million. We will allocate the majority (£1,050 million) by reference only to research activity assessed as being of either internationally excellent or world-leading quality, the latter funded at three times the rate of the former. Allocations totalling £198 million will incentivise institutions to continue to undertake research funded by major non-public charitable sources. Further allocations totalling £64 million will incentivise research that directly meets the needs of businesses.

As the imperative grows in our uncertain economic climate for university research to make the greatest possible contribution to economic recovery and social wellbeing, we have finalised arrangements for assessing both the quality and impact of research in the Research Excellence Framework (REF) in 2014. In January 2012 the REF team, which works on behalf of the four UK higher education funding bodies, published assessment criteria and working methods for the REF assessment panels. The criteria reflect extensive consultation with researchers, research users and other partners throughout 2011. They incorporate for the first time measures for assessing the impact of research on the economy, society and culture.

We have worked hard over the last year to encourage universities and colleges to embed equality and diversity for researchers throughout their operations and especially when preparing REF submissions. We have also enhanced arrangements for assessing equitably in the REF the research contributions of people whose personal circumstances have constrained their ability to work productively throughout the assessment period, and of those who are at the early stages of their research career.

We have renewed our commitment to supporting the next generation of excellent researchers, including early career staff and doctoral students, to ensure the long-term sustainability of the research workforce. To this end, we have increased to £240 million the funding we will allocate for 2012-13 as a contribution to the costs of supervising postgraduate research students, and adjusted the allocation method in order to target funds more explicitly towards high-quality environments for their training and supervision.

The last year has also seen one of our long-term research investments reap measurable rewards for the higher education sector. In partnership with the sector and the British Library, HEFCE has contributed £9.8 million over five years to enable university libraries to manage their collections and space more efficiently by rationalising journal holdings, and collaborating with other libraries to ensure continued access to low-use journals. So far the UK Research Reserve (UKRR) has freed up over 42 km of space within 29 universities and colleges, which they can redeploy to meet the changing needs of academic library users. Our funding has also supported the upgrade of the British Library's document supply system. This provides an essential service to students and academics by sustaining breadth of access to journal articles, in particular those not available online. The new document supply system is due to be fully operational by the end of April 2012.

Every Researcher Counts

A unique pack of training resources addressing equality and diversity in research staff careers has been published through the HEFCE-funded Every Researcher Counts project. The project, run by career development organisation Vitae, aimed to break down structural and cultural barriers to advancement by providing tools for universities to support research staff. The free resource packs are designed to help principal investigators and other managers of research staff to:

- hold effective conversations with their team members on equality and diversity issues
- help research staff manage their careers
- use the Researcher Development Framework, a Vitae career development resource
- be more aware of their behaviour and attitude towards team members.

More information is available on the Vitae web-site[2].

2 www.vitae.ac.uk/policy-practice/375-467021/New-resources-to-help-improve-equality-and-diversity-among-researcher.html

Knowledge exchange

Knowledge exchange is used to describe the process by which higher education institutions' knowledge, expertise and intellectually linked assets are applied through two-way interaction with businesses, public and third sectors, community bodies and the wider public: for example, through the commercialisation of new knowledge; the delivery of professional training, consultancy and services; and activities intended to have social benefits.

HEFCE announced funding of £150 million per annum over the period 2011-12 to 2014-15 for universities and colleges to help with the recovery and growth of the economy, and to contribute to wider society. In an increasingly knowledge-based world economy our universities and colleges support our economy and society with their research, ideas and expertise.

Funding for knowledge exchange

HEFCE's current funding route for knowledge exchange is Higher Education Innovation Funding (HEIF). It provides incentives for universities and colleges to work with business and community partners. A comprehensive evaluation in 2009 of the achievements from knowledge exchange funding to date found that, on average, an investment of £1 in knowledge exchange activities by HEFCE produced a return of at least £5[3]. Government recognised the impact of this funding and in December 2010 – at a time of tight public finances – announced that it would match the previous cash level of investment in HEIF of £150 million per year, committing funds for a further four years (to 2015).

£600 million
Funding to support the UK economy and society

HEIF funding is allocated by a formula using earned income from knowledge exchange as a proxy for impact and the institution's performance in terms of delivering benefit for the economy and society. In the most recent period of funding (2011-2015), HEFCE responded to Government's wish to sharpen the rewards for performance by focusing the formula entirely on income and introducing a cut-off point to allocations, so that only universities and colleges that exceed a threshold through their metrics can receive funding.

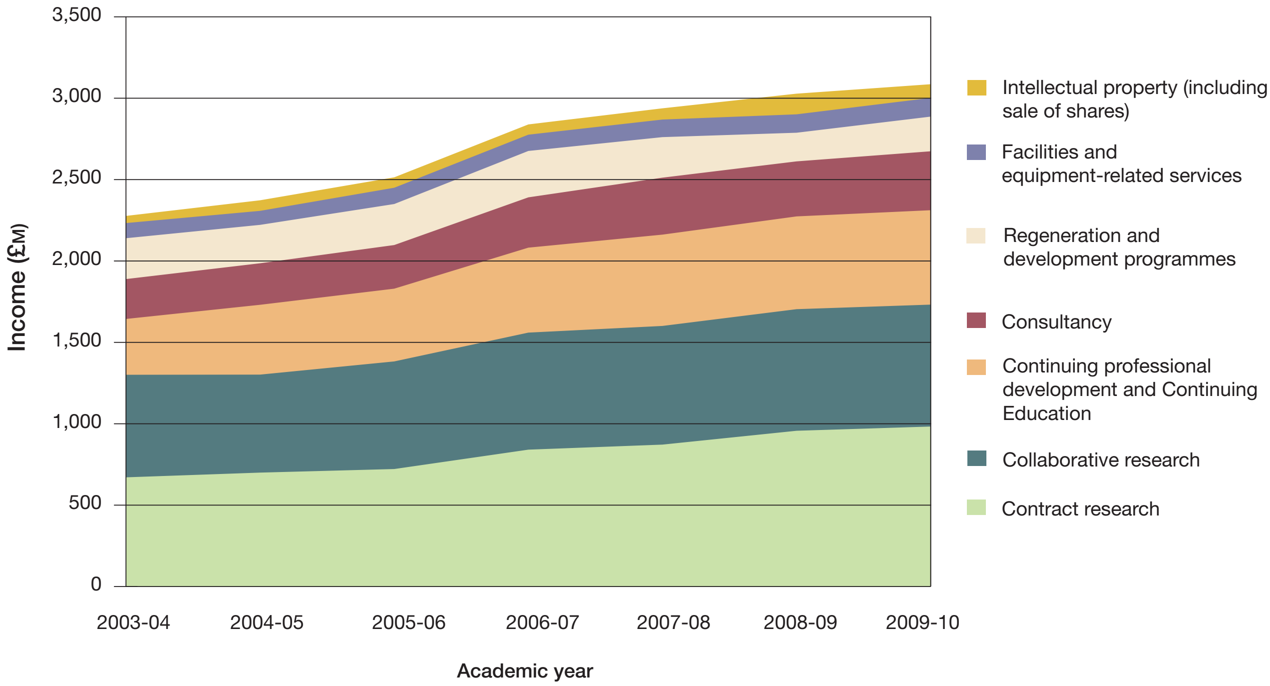
In May 2011 provisional allocations were announced for 99 universities. To ensure rapid implementation, funding for 2011-12 was released in August 2011. To release funds for 2012-2015, institutions had to provide a strategy by July to be assessed against programme criteria. In the strategies institutions were required to provide data to provide robust evidence about the state of knowledge exchange in the HE sector, and enable the effectiveness and value for money of the funding to be evaluated.

Embedding knowledge exchange in institutions' missions

Knowledge exchange activity in the HE sector has now matured to a point where it is embedded in most institutions' missions. It is individual universities that determine the most effective ways to interact with their chosen partners in business or wider society, and these partners may be locally, regionally, nationally or globally based (and are often drawn from across all four groups). HEIF additionally also supports staff and student entrepreneurship, including the development of social enterprises. Knowledge exchange activity provides an important source of income for institutions.

3 'Evaluation of the effectiveness and role of HEFCE/OSI third-stream funding', HEFCE 2009/15.

Selected HE-BCI income streams 2003-2010 (real terms)[4]



Review of Business-University Collaboration

In February 2012, Sir Tim Wilson published a review of business-university collaboration in England. The review highlighted a significant improvement in the level and quality of business-university collaboration during the last decade, including how the Government's long-term commitment to Higher Education Innovation Funding (HEIF) through HEFCE has helped to embed knowledge exchange with business as a core mission for higher education in England.

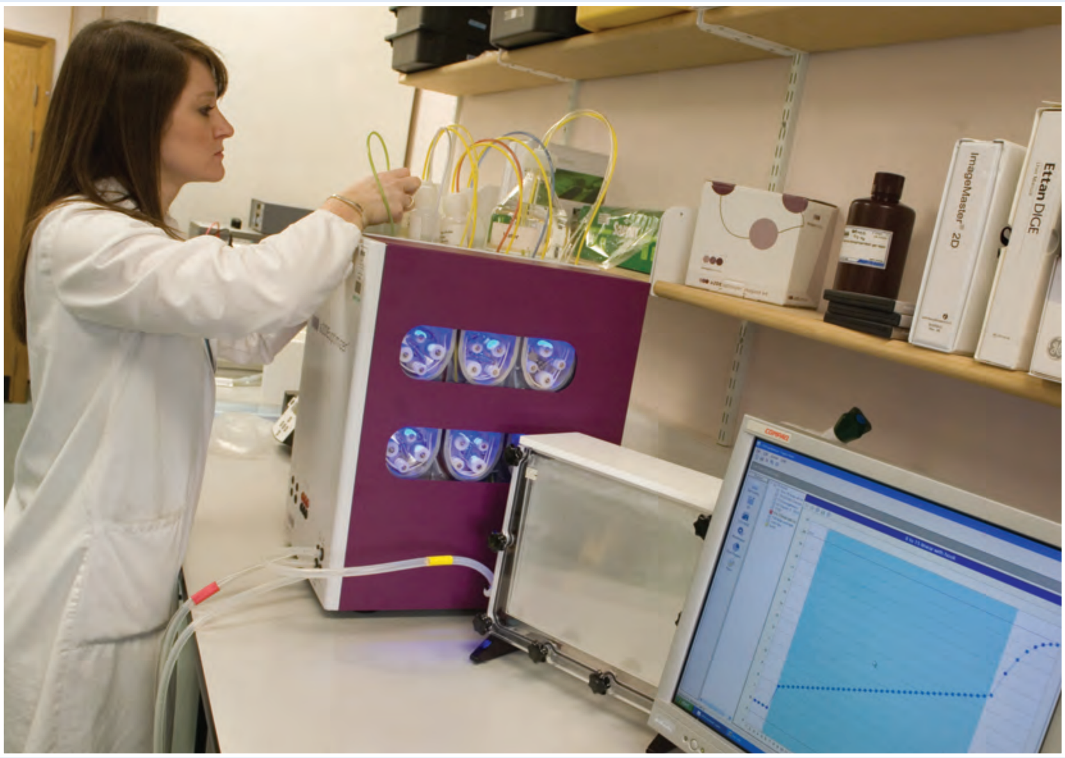
As the review acknowledged, universities and business now face new challenges due to the wider economic climate and the Government’s reforms to HE funding. HEFCE’s funding and information will play a key role in supporting universities and their graduates to drive economic growth. Sir Tim Wilson’s wide-ranging recommendations will help to shape HEFCE's work in this area during the coming years.

4 The annual Higher education-business and community interaction (HE-BCI) survey examines the exchange of knowledge between universities and the wider world, and informs the strategic direction of ‘third stream’ activity that funding bodies and higher education institutions in the UK undertake. This graph shows that income to higher education institutions from the main HE-BCI indicators for 2003-2010 has grown by around 35 per cent, and by around 4 per cent between 2008-09 and 2009-10. Data for academic year 2010-11 will be made available later in 2012.

N8 Industry Innovation Forum

HEFCE is committed to taking additional steps to support universities help with the economic growth and recovery, including through use of its Catalyst Fund. An early investment has been in the N8 Industry Innovation Forum. The N8 Research Partnership launched the forum in February 2012, supported by HEFCE and the Technology Strategy Board. The forum is bringing together global companies involved in research and development (R&D) and world leading experts from the eight multidisciplinary research universities in the north of England (the Universities of Durham, Lancaster, Leeds, Liverpool, Manchester, Newcastle, Sheffield and York). The forum aims to maximise linkages and market 'pull' between private sector R&D, industrial and consumer needs and the research base, to drive innovation and economic growth. guidance.

The project is one of the first in the UK to address the challenge of research collaboration and cluster development (including anchoring R&D-intensive firms in the UK and creating a cluster with the research base in the north), and is highlighted in the Government's 'Innovation and Research Strategy for Growth' report. Over 120 academics and industrialists attended the first forum event in February 2012.



Activities which span our priorities

Strategically important and vulnerable subjects

Since 2005 HEFCE has provided extra funding to support subjects that have been recognised by Government as strategically important and vulnerable (SIVS)[5]. In the light of the shift in funding of higher education from a controlled system to one that will be based on student choice, we recognise that there is a need for a more flexible approach to identifying subjects that need increased support. The second stage of our teaching funding consultation sets out a new policy approach to supporting SIVS that is not limited to a fixed list of subjects. Those subjects supported through the SIVS programme to date will continue to receive tailored support.

Working with partners such as the Research Councils and the National Academies, we will monitor a wide range of risks to subjects across English higher education, and we will make interventions where we consider there may an undesirable reduction in the scale of provision. These interventions may be through our recurrent funding or through the new Catalyst Fund. The immediate steps we are taking to support postgraduate taught programmes, are to continue our support for the highest-cost STEM programmes, to exclude a number of STEM and all modern languages subjects from the core and margin process, and to agree in principle further support for demand- and attainment-raising in modern foreign languages. At present, demand for STEM subjects appears to be sound, but we have concerns about modern foreign languages, on which we are particularly active.

£120 million
HEFCE funding for taught postgraduate programmes in 2012-13

£240 million
HEFCE funding for postgraduate research programmes in 2012-13

Postgraduate study

Postgraduate courses make a huge contribution to the UK economy and society. They variously provide research training, open doors to countless professional roles, and allow people to broaden and deepen their own personal and intellectual journey. Masters courses account for a huge share of international students coming to England.

There has been a shift over the past 13 years from direct public funding of universities and colleges for teaching and learning to a greater dependence on student fees. While the undergraduate economy is supported by the existence of income-contingent loans making courses free at the point of use, no such loans are available for postgraduate provision. Many able students will therefore struggle to raise the money they need.

HEFCE has continued to support postgraduate taught courses in a tight funding environment. In March we announced that we will spend more than £120 million on support for the taught postgraduate sector in 2012-13. We also announced £240 million to support postgraduate research programmes in 2012-13.

We have adopted a strategy of targeting our investment in postgraduate research degree programmes on the basis of the quality of research; ensuring that public support focuses on those most capable of providing the researchers of the future with the best intellectual environment and infrastructure that we can offer.

5 Chemistry, engineering, maths, physics; modern foreign languages; quantitative social science; see www.hefce.ac.uk under What we do

We have begun a programme of work which will focus on building up a better understanding of the postgraduate sector. In particular we will look for any vulnerabilities that may come about as a result of the shift in the way HE is funded. We have begun to take a more co-ordinated approach to all of our postgraduate-related work, and to work with other organisations such as the Research Councils to ensure a complementary approach to postgraduate funding and policy.

18,500 tonnes every year

RGF2 projects' predicted contribution to CO_2 emission reduction

Sustainable development

HEFCE has long-standing commitments to sustainable development which are reflected in our funding and regulatory activity and our own practice.

In 2011-12 we:

- made the receipt of capital funding conditional upon satisfactory carbon management plans and improved environmental performance
- began distributing £10.8 million for projects funded under the second round of the Revolving Green Fund (RGF2). This is predicted to save 18,500 tonnes of CO_2 per annum
- led a project to measure Scope 3 carbon emissions[6] in order to enhance the capacity of universities and colleges to manage these emissions
- supported 11 sustainable development projects through our Leading Sustainable Development in Higher Education initiative.

In addition HEFCE also:

- retained certification to ISO14001[7]
- achieved re-certification to the Carbon Trust Standard[8]
- ran events to raise staff awareness of corporate social responsibility under the banner 'CSR month'.

Further information is found in our Sustainability Report, on pages 33 to 37.

6 Scope 3 emissions are indirect emissions that organisations produce through their activities, but occur from sources not owned or controlled by the organisation. Examples include business travel, supply chain (procurement), waste and water.

7 ISO14001 is an international environmental management system standard. Further information is available at www.iso.org/iso/iso_14000_essentials

8 The Carbon Trust Standard certifies that an organisation has reduced its carbon emissions and is committed to making further reductions. Further information is available at www.carbontruststandard.com

Harper Adams' anaerobic digester

The anaerobic digester at Harper Adams University College was funded through HEFCE's Revolving Green Fund. It was constructed and started generating heat and power in 2011. Using farm and food waste, it is anticipated to offset campus carbon emissions more than three times over. Renewable electricity is produced, and it provides a highly effective waste management system. The anaerobic digester unit has won a number of awards, including a Renewable Energy Infrastructure Award.

Information

Information is crucial for a smoothly functioning higher education system that works in the interests of students and the wider public. It informs student choice, helps ensure that public money is used for the intended purposes, facilitates orderly and efficient regulation, helps shape future policy, and enables public scrutiny. We are committed to minimising the burden of collecting information.

Information landscape

The higher education White Paper asked HEFCE to work with the Higher Education Statistics Agency (HESA) and the Higher Education Better Regulation Group, in collaboration with the Information Standards Board (ISB), to redesign the information landscape for higher education. The aim is to review the way that data are currently collected and used, while ensuring that the upcoming new funding and regulatory framework for English HE is supported by a data collection system that is appropriate and not burdensome to HE providers. The work is being overseen by the Interim Regulatory Partnership Group, and the project began in January 2012. A feasibility assessment for the development of a new data and information system to underpin higher education is due in June 2012.

The observatory for higher education

HEFCE and the Government need timely information to assess whether their policies are working so that adjustments can be made if necessary. To support this, we will establish an observatory to monitor higher education in England, to look for opportunities and risks, and, if necessary, to prompt action. We expect that the observatory will begin its work fully during 2012.

Transparency

We are making more information available in a re-usable format, and encouraging others to do the same. The data section on our updated web-site places for the first time a range of data in one easily accessible location.

Transparent approach to costing

HEFCE collects data on the costs of teaching and research from the institutions it funds through the Transparent Approach to Costing (TRAC) exercise. The Government has asked us to consult with the sector on radically streamlining the reporting requirements of the TRAC, while considering how TRAC data might be used to promote greater transparency and help inform the choices of prospective students. A review group, has been established, chaired by HEFCE Board member Sara Weller, to consider the scope and content of such a consultation, which is due to be published in autumn.

Regulation

Institutional financial sustainability

Overall, the financial results for the higher education sector in 2010-11 are stronger than those reported for 2009-10 (and much stronger than indicated in the sector's forecasts for 2010-11 submitted to us in April 2011). Most of the key financial indicators are the best on record (since 1994-95), with the sector reporting strong surpluses, large cash balances and healthy reserve levels. These will help the sector manage any financial challenges arising from the transition to the new funding arrangements.

Over the past decade the sector has seen its overall financial position strengthen. Future income is likely to be less predictable for some institutions than in previous years, and they will need to respond decisively to the new funding and policy priorities. The most recent financial results show that many institutions are beginning to see the results of their strategies to restructure their cost bases in preparation for the transition to the new funding arrangements. In fact, in 2010-11, the sector recorded a real-terms reduction in its largest expenditure category – staff costs – for the first time since 1998.

The BIS grant letter to HEFCE of 25 January 2012 sets out the total HEFCE grant for financial year (April to March) 2012-13 as £5.8 billion; plus additional ring-fenced allocations of £80 million and tuition fee loans (via BIS) of £3.6 billion. This gives a combined total of £9.5 billion for financial year 2012-13 and represents an increase of £200 million on the £9.3 billion for 2011-12. Funding allocated by HEFCE for the academic year (August to July) 2012-13 is £5.3 billion.

A key risk to future financial sustainability that was reported by institutions in 2011 was an unexpected fall in student recruitment and retention that may result from the new fee proposals. The sector's financial forecasts for 2012-13 and beyond are not due to be submitted to us until June 2012. However, UCAS data indicate that student demand for 2012-13, at sector level, appears to still exceed the supply of places available in 2012-13. Therefore at a sector level the immediate risk of an unexpected reduction in student numbers in 2012-13 is low. Nevertheless, due to changes in government policy on student number controls for 2012-13, some higher education institutions may have fewer full-time undergraduate students starting studies in 2012-13 and future years, though the financial impact of such reductions may be offset by increases in student fees. A further area of uncertainty is whether a more student-led system will lead to a fall in support for some subjects.

Better regulation

Well-founded and proportionate regulation has significant benefits for the sector. In particular, it provides a framework within which autonomous universities and colleges can respond and innovate to meet students' needs. Good regulation also helps to maintain confidence in higher education in England, which is crucial in attracting students, staff and investment. In this way, good regulation is enabling rather than restrictive, and builds on the principle of institutional autonomy. We aim for all our regulatory work to be transparent, accountable, proportionate, consistent, and targeted only where needed.

Single regulatory framework

The Government, through the HE White Paper and the technical consultation on a new regulatory framework, proposes a number of changes to HEFCE's regulatory functions and powers. Our response to the technical consultation is available on our web-site. We await the outcomes of the consultation and Government decisions on the way forward.

We have also continued to act as the principal regulator for those universities and colleges that are exempt charities.

Charity regulation

HEFCE is principal regulator for most English HEIs as charities. In partnership with the Charity Commission, we have continued to meet our statutory objective to promote compliance by institutions' trustees with their obligations under charity law and best practice. In particular, we completed a review of all HEIs' public benefit reports and issued updated guidance; we ensured that the charity information 'gateway' pages on exempt charity HEIs' web-sites included the required content; and we confirmed with most HEIs that they hold appropriate records of their connected charities.

Investment

Catalyst Fund

In 2011-12, we began work to establish a new Catalyst Fund. The fund will drive excellence and efficiency by supporting innovative higher education activity and helping universities and colleges to manage the transition to new funding arrangements and beyond. In identifying proposals we may wish to fund, the focus will be exclusively on the student interest and the public interest, rather than the strategy of the universities and colleges. This will replace the Strategic Development Fund.

Strategic Development Fund

The Strategic Development Fund (SDF) supports change and innovation in the HE sector via large-scale strategic change projects that might be too risky for an individual institution to invest in by itself, as well as collaborations. Often, SDF funding has enabled a project to attract funding from other sources.

It funds a wide variety of projects, ranging from research collaboration to large-scale institutional transformations. Projects funded through the SDF have contributed to a range of HEFCE priorities, including social mobility, employer engagement, local economic and social development, and have supported strategically important disciplines such as science, technology, engineering and medicine.

The SDF is being replaced by our new Catalyst Fund. The SDF will continue to be used to support projects that address our key priorities if opportunities arise before the Catalyst Fund is fully operational.

Design London

Design London is a project funded from the SDF, run by the Royal College of Art and Imperial College. Design London aims to stir together the disciplines of creative design, engineering and business, and pioneer new approaches for interdisciplinary design-led innovation.

With funding of £5.8 million from HEFCE, NESTA and the two parent institutions, it delivers teaching programmes to MBA, MEng, MSc, PhD and MA students in both institutions; undertakes research on design-led innovation in products and services; pioneers advanced technologies to support innovation; and incubates new design-led, interdisciplinary ventures.

Investments in infrastructure for a sustainable higher education system

We allocate capital funds to support the physical infrastructure of higher education, recognising that good-quality buildings, equipment and information technology are essential to achieving world class standards in teaching and research. We allocated almost £315 million for capital funding in 2011-12.

When allocating our capital funds we ask that universities and colleges meet the requirements of the Capital Investment Framework. This framework assesses the way universities and colleges approach capital investment by asking them to demonstrate that they are managing their physical infrastructure as an integral part of their strategic planning and are ensuring that their plans are environmentally sustainable.

We have continued to use our funding to invest in cross-system activities and organisations where direct public investment is needed. This includes supporting key activities, currently carried out by organisations such as JISC, HEA, ECU, the Leadership Foundation for Higher Education (LFHE), HESA, the British Universities Film & Video Council, QAA and the Research Information Network.

Investing in leadership

We have renewed our investment partnership with the LFHE, recognising its unique role as an agent of change in the sector. In partnership with the other UK funding bodies, we have targeted £2.7 million over three years to support the promotion of good governance in HE, the leadership of transition and change, and research into the workings and future needs of the English HE system.

Voluntary giving

The matched funding scheme for voluntary giving in HE ran from 2008 to 2011. Over the three years around £580 million of eligible gifts for universities and colleges in England have been raised, and these donations have secured over £140 million of matched funding under the scheme.

£140 million
Total matched funding for voluntary giving provided by HEFCE to universities and colleges over three years

HEFCE is undertaking a review of the progress in philanthropic giving to universities and colleges, which will build on the landmark report 'Increasing Voluntary Giving to Higher Education' (known as 'The Thomas Report') published in 2004. Recommendations will be made to Government, universities and colleges, and donors on the challenges that need to be addressed if the level of progress made to date is to be sustained in the coming 10 years. Further information can be found at: www.hefce.ac.uk under News & events/02 February 2012.

Aston Brain Centre

The Aston Brain Centre[9] was opened in October 2011. The centre, providing cutting-edge diagnostic services for the NHS and conducting research into brain disorders, was part-funded by HEFCE under the Research Capital Investment Framework (RCIF).

The centre brings together a unique suite of equipment and facilities for related areas of brain research, from child development to healthy ageing. The centre specialises in areas including epilepsy, dyslexia, autism, ADHD, sleeping disorders and metabolic disease. The Aston Brain Centre will also provide a referral service for the NHS, providing innovative diagnostic services unavailable within the NHS.

The facility will house:

- a whole-brain paediatric magnetoencephalography (MEG) scanner. This is the only scanner of its kind in Europe and one of only three in the world
- a new human brain tissue lab with specialist electrophysiology rigs for the study of brain cell function
- Sleep Research Laboratories providing the first facility for the study of neurological and psychiatric sleep disorders, with particular interest in diagnosis and drug therapies
- a Dyslexia and Developmental Assessment Unit to provide psychological assessments for dyslexia for both children and adults
- a Human Brain Tissue Laboratory, run in collaboration with the Birmingham Children's Hospital and University of Newcastle.

9 http://www1.aston.ac.uk/about/campus-redevelopment/aston-brain-centre/

Partnership

Institutional engagement

Our institutional teams maintain an ongoing dialogue with universities and colleges, informing them of key funding and policy developments, and responding to their issues and questions. A key theme this year is to understand how potential students are responding to the change in fees and funding arrangements, and how this is affecting institutions' planning and positioning.

This year we are engaging in direct dialogue with more further education colleges than in 2011-12 and have strengthened our relationship with the Association of Colleges.

Interim Regulatory Partnership Group

The Interim Regulatory Partnership Group (IRPG) was established in September 2011 by HEFCE and the Student Loans Company to advise on and oversee the transition to the new funding and regulatory arrangements, subject to the outcomes of government consultation and legislation.

The other members of the group are HESA, OFFA, the Office of the Independent Adjudicator, and the QAA. Universities UK, GuildHE, the NUS and UCAS attend meetings as observers.

During 2011-12 the IRPG focused on two projects:

- an exercise to map the current higher education system in England, as a first step in the development of new operating models for funding and regulation
- a review of the data and information landscape.

In this work the IRPG is engaging with the sector, other higher education groups and organisations, and with BIS. In due course it will make recommendations for a permanent group to be set up to take forward future partnership work.

Working with the Office for Fair Access

HEFCE works with a range of stakeholders and partner bodies, including the representative bodies, UCAS, ECU and HEA, to promote and support widening participation in higher education. Our key partner in widening participation activity is OFFA; we work closely on policy matters and to ensure that our work avoids duplication. We jointly make arrangements for monitoring access agreements and WPSAs, and are currently reviewing our working arrangements to ensure clarity of roles and responsibilities and to identify further opportunities to collaborate.

Partnerships in research and knowledge exchange

In 2011-12 we continued to work with the Research Councils, the Technology Strategy Board (TSB), research charities and business bodies to ensure a co-ordinated approach to research and knowledge exchange policy and funding. We are supporting implementation of the Government's Innovation and Research Strategy through work with Research Councils UK (RCUK) on a framework for assessing and funding collaborative research proposals, and by pursuing opportunities with TSB and RCUK on collaboration and cluster developments. Through initiatives such as our project with TSB and RCUK on higher education engagement with the Catapults programme, we are working to support economic recovery and growth.

Partnerships with governors

We continued in 2011-12 to work in partnership with the Committee of University Chairs (CUC). The CUC supported us in the development of a shared strategy for relationship management with institutional governing bodies, and this was published in March 2011.

Training and professional development for teachers

We maintained links with the Training and Development Agency for Schools in 2011-12 to ensure coherence in funding for teacher training and professional development.

Partnerships for healthcare

In 2011-12 we maintained links with NHS bodies involved in healthcare education and research, including the Health Education National Strategic Exchange and the UK Healthcare Education Advisory Committee.

Clinical Senior Lectureship Awards

In May 2011, HEFCE and the Wellcome Trust jointly celebrated the success of the Clinical Senior Lectureship Awards (CSLA) at a meeting of over 100 of the award holders. Senior lecturers in clinical medicine and dentistry came together to share their experiences; reflect on the challenges and opportunities associated with a dual career as a researcher and a clinician; network with other award-holders; and hear from senior colleagues.

HEFCE has invested up to £50 million since 2005 to support 188 individual awards. The awards are jointly funded posts with an NHS trust, and have been awarded to people who have completed their professional training in a clinical specialism and shown considerable promise during their parallel training and early experience in research.

The awards aim to increase the number of high-quality clinical academic staff, and to secure long-term sustainability and enhanced outcomes in research and teaching at senior lecturer level. The launch of the scheme followed growing concern over a drop of around 500 in the number of clinical academic staff in medical disciplines and clinical dentistry between 2000 and 2004.

Partnerships for shared services and efficiency

In November 2011, the Chancellor of the Exchequer announced that the Government would implement exemption from VAT for cost sharing projects. This creates significant opportunities for efficiencies through shared services projects.

In 2010, HEFCE was allocated £20 million from the Government's University Modernisation Fund (UMF) to support universities and colleges in delivering economies through the increased use of shared services, particularly in support functions, and collaborative procurement. The focus was expected to be on more vigorous use of shared services across the range of academic support functions, including core IT systems, support services and procurement, drawing on the wide range of available benchmarking data to inform proposals for cost savings.

The money was allocated across a range of activities, including cloud-based ICT provision, e-procurement and other shared services pilot schemes. All projects within the UMF shared services funding have the twin objectives of creating sustainable services beyond the term of the UMF funding, and to deliver efficiencies for the sector. The projects are at various stages of development, but efficiencies totalling almost £15 million have already been realised.

Innovation and Transformation Fund

A fund to support work on promoting efficiency in the HE sector was launched on 25 January. The Innovation and Transformation Fund is a joint initiative of the LFHE and HEFCE, and will make available £1 million over two years. The fund is designed to support projects that will have a clear benefit to the higher education sector as a whole, take a collaborative approach to enhancing efficiency, and effect transformational change. Expressions of interest were received in January and February, and a selection have been invited to develop full proposals for consideration by a selection panel over the coming months. Further information is available from the LFHE web-site: www.lfhe.ac.uk/news/itffund.html

International partnerships

HEFCE's work is informed by our understanding and knowledge of HE in other countries. We support and engage with the UK Higher Education International Unit, which is based at Universities UK. Recently, the unit has been instrumental in gaining additional resource for the UK HE sector (through the Science without Borders initiative with Brazil) and providing a repository of knowledge and expertise about international HE.

We have also sought to explore international issues through our relationships with our partners, including BIS, QAA, Universities UK, GuildHE, UCAS and the UK Border Agency.

Delivering the plan

All that we have achieved in the last year has been thanks to the expertise, talent and motivation of our staff. To be effective we need to be responsive to, and trusted by, our stakeholders. In order to attain this we rely on everyone in the organisation to be proactive, and committed to high performance and continuous improvement. We aspire to empower and appreciate each other, and to operate to the principles of fairness and integrity at all times.

In early 2012 we received the results of our annual staff survey, run by Best Companies. Over three-quarters of staff took part. We scored positively across all eight areas of the survey. Compared with other 'not for profit' organisations, we showed particularly strong results in the 'giving something back' category, reflecting a high level of commitment to social responsibility.

Our People Strategy[10] affirms our commitment to high performance and continuous improvement. It helps us to ensure that our people are supported to do their jobs to the best of their ability.

We believe that a diverse and inclusive organisational culture – one in which everyone feels valued and can learn or work to their full potential – makes for a more effective and productive workforce. This applies both within HEFCE and in the higher education sector. It also contributes to a better functioning society.

In January 2012, we published a new Equality and Diversity Scheme[11]. This sets out our approach to equality and diversity, both within HEFCE and in its work with the higher education sector, for the next three years. This includes our approach to meeting the requirements of the Equality Act 2010.

Staffing and sickness

On the census date of 31 March 2012, HEFCE employed 229.4 full-time equivalent (FTE) staff (255 headcount), of which around 202 FTE were actively engaged in HEFCE business[12].

In line with best practice, we are publishing our gender pay gap. On 31 March 2012 our pay gap was 40 per cent, which compares less favourably with a public sector pay gap of 19 per cent and a private sector pay gap of 27 per cent[13]. While this is a cause for concern, we are confident that it stems from the uneven distribution of men and women between pay bands, particularly lower representation of men in lower pay bands, which is one of the issues highlighted by our equality targets. This view is supported by our most recent equal pay audit (May 2010), which found that we had no significant equal pay issues.

At the organisational level we believe that sickness levels can be a useful indicator of staff wellbeing. Our sickness absence remains relatively low. In 2011-12 we lost 1,333 working days to sickness, an average of 5.2 days per person, showing a decrease from 5.6 days per person in 2010-11. The level compares favourably to an average of 9.1 days for government public service bodies and 7.1 days for private sector services[14]. Six per cent of absence due to sickness was long term[15].

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10 www.hefce.ac.uk under About HEFCE/Our staff and structure/People developments

11 www.hefce.ac.uk under What we do/Leadership

12 The figure of 229.4 is the total number of FTE staff employed on the census date of 31 March 2012. It excludes HEFCE's Chair and Chief Executive, and includes HEFCE staff working for JISC. The figure of 202 actively engaged on HEFCE business excludes staff on maternity or adoption leave, and staff on outward secondment or unpaid leave.

13 Source: Office for National Statistics, March 2012

14 Source: 'Absence management: annual survey report', Chartered Institute of Personnel and Development, 2011

15 Defined as more than a month off work at any one time.

Corporate social responsibility

We are committed to acting in a socially responsible way and encouraging our stakeholders to do likewise. Corporate social responsibility (CSR) means that we take account of the impact our work has on the economy, society and the environment. Our CSR policy for 2011-2015 sets out our overall aims, objectives and targets in this area covering operations at our offices, as well as the influence we have on the sector. Our CSR report for 2010-11 highlights progress and includes performance data for energy, travel, waste and water. A brief sustainability report is also included in this annual report and accounts (page 33).

In 2011, we achieved re-certification to the Carbon Trust Standard for making a 12.9 per cent absolute reduction in carbon emissions based on the compliance period of 1 April 2009 to 31 March 2011. The Carbon Trust Standard certifies that an organisation has reduced its carbon emissions and is committed to making further reductions.

Certification to ISO 14001, an international environmental management system standard, continues to support and develop our work.

Our CSR report, policy and action plan can be read at www.hefce.ac.uk under About HEFCE/How we operate/Corporate social responsibility.

Our strategic risks

In December 2011, our Board agreed a new register of HEFCE's key strategic risks. This register of risks is structured to reflect the themes of our business plan for 2011-2015 (HEFCE 2011/34). These are the main risks we face, that, if they came to pass, would have the greatest material effect on the functioning of HEFCE and/or the higher education system as a whole.

By considering such risks we can assess the continuing viability of our strategy and business plan against changes in circumstance, and to make adjustments when necessary. This does not mean we expect the risks to materialise – instead it indicates that these are areas of risk which we need to be aware of and to consider how to respond to in order to perform our role effectively.

Further information on our approach to managing our strategic risks can be found in the Governance statement on page 51.

Risk no.	Risk area	Main risk
1.	Student support	The cost of student support and/or tuition fee loans prompts Government to make reductions to direct public funding for higher education.
2.	Collective student interest	The higher education system does not meet the interests of students.
3.	Public interest	Public investment in the higher education system does not benefit the public to the degree that might reasonably be expected.
4.	Reputation of higher education	There is a decline in the overall reputation of English higher education nationally and internationally.
5.	Investment	Private and/or public investment in higher education is insufficient to sustain a diverse and high quality sector that can meet the needs of the economy, students and the policy aims of Government.
6.	Institutional sustainability	Disorderly institutional failure exceeds our capacity to protect the interests of students and the public.
7.	Regulatory partnership	Failures of coordination between the higher education regulatory bodies result in failures within the system and a loss in the confidence of Government, students and the wider public.
8.	Economic and social impact	Higher education does not adequately contribute to economic and social prosperity.
9.	Transition	The complexity of the higher education reforms, the number and heterogeneity of the actors who have to respond to them, and/or an exacting timetable result in disorderly transition.

Risk no.	Risk area	Main risk
10.	Policy and processes	HEFCE fails to develop, implement and monitor key policies and processes effectively and efficiently to achieve the intended outcomes.
11.	Regulation	HEFCE's regulatory activity is not transparent, accountable, proportionate, consistent, targeted and/or effective.
12.	HEFCE reputation	HEFCE's reputation is damaged as a result of action, inaction or a lack of understanding, for example in fulfilling its responsibilities to promote the student interest.
13.	People	HEFCE does not have the necessary human resources or skills to carry out its role.

Sustainability report for 2011-12

We have gathered data on our environmental performance annually for the past 10 years; the 2011-12 data will be published in detail in our next corporate social responsibility report. Our governance processes for management of sustainability performance follow draft guidance provided by Her Majesty's Treasury: 'Public Sector Annual Reports: Sustainability Reporting; Guidance for 2011-12 Reporting'.

In addition to the proposed minimum reporting requirements (Scope 1 and 2) of emissions, waste and finite resource consumption, we report on Scope 3 emissions arising from all business travel that is under our budgetary control. Our reporting policy follows the spirit of the Prince's 'Connected Reporting Framework', whose principle is that sustainability and more conventional financial information should be presented together in a clear and concise manner.

This is the third year in which we have reported on sustainability in our annual report. In this section we include data only on non-financial CSR indicators.

Our analysis of data follows Defra reporting guidelines, which are set out in 'Greening Government commitments: operations and procurement' (updated Defra, July 2011). During 2011-12 we updated our targets in our 2011-15 CSR policy.

Unlike 2010-11, there is no key performance target (KPT) for our environmental performance, since the requirement on HEFCE to work to and report on KPTs has been paused. A CSR steering group oversees all aspects of our sustainability management and reporting, and the quality of data and data processes are subject to a triennial review. The next review, originally planned for 2011-12, will take place early in 2012-13.

Greenhouse gas emissions

Our target is to reduce our combined greenhouse gas emissions from energy use on our estate and through business transport by 25 per cent by 2015-16 against a baseline level in 2009-10. In the same period we plan to reduce our emissions from domestic air travel by 20 per cent. We have restated our energy and business travel emissions data for 2010-11. Total emissions in 2011-12 declined by 13 per cent by comparison with the previous year. Emissions have decreased progressively in the time we have been reporting them. For this reason we believe we are in a good position to meet our target. Carbon emissions from business travel on domestic flights alone were 6.6 tonnes in the baseline year, 6.1 tonnes in 2010-11, and 7.2 tonnes in 2011-12. Air travel activity overall increased significantly in 2011-12 largely due to travel incurred as part of the Research Excellence Framework.

Tonnes of CO_2	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Total gross emissions* for Scopes 1 and 2	390	387	346	355	351	374	306
Gross emissions attributable to Scope 3, business travel	263	262	256	246	165	149	150
Total emissions	**653**	**649**	**602**	**601**	**516**	**523**	**456**

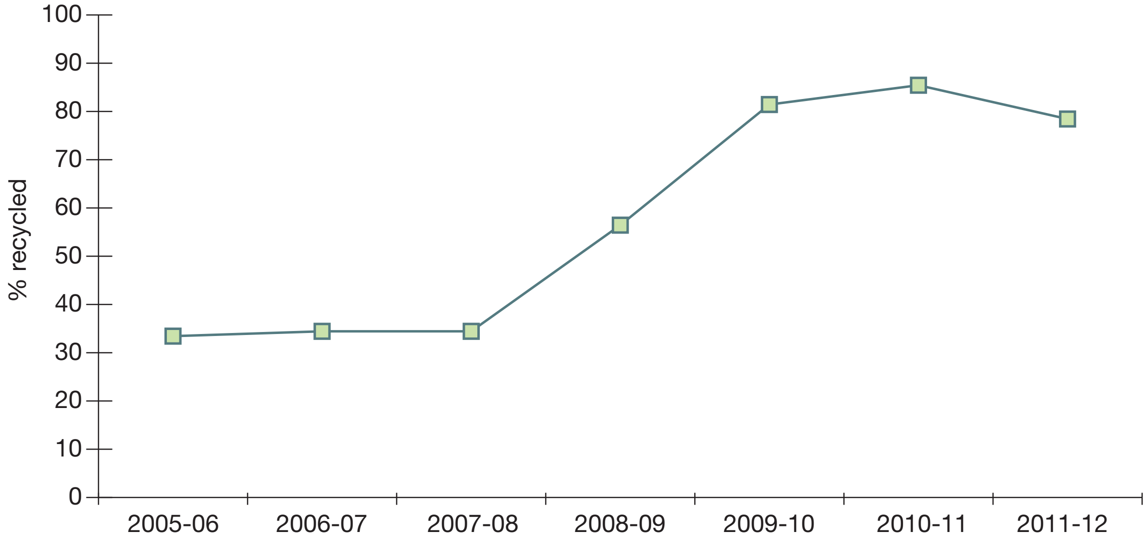
* We do not take into account net emissions for use of renewable tariffs and carbon offsets.

Waste

Our target is to reduce the total quantity of waste material we generate on our estate by 25 per cent by 2015-16 against a baseline level in 2009-10. We have also planned to reduce our paper use by 10 per cent in 2011-12. Landfill waste was higher than that reported for the baseline year, but was lower than in all other previous years, except 2009-10. Printer paper procurement for 2010-11 was 5.9 tonnes, and for 2011-12 was 4.4 tonnes. This indicates that we have exceeded our target for reducing paper use. With the exception of 2010-11, we have increased the mass of waste materials which we have recycled at source over the duration of reporting.

Tonnes	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total waste	58.3	50.1	49.8	53.9	33.1	48.7	39.0
Waste to landfill*	38.3	32.6	32.5	23.4	6.0	6.8	8.3
Waste recycled at source	20.0	17.5	17.3	30.5	27.1	42.1	30.7
Percentage of total waste recycled at source	**34**	**35**	**35**	**57**	**82**	**86**	**79**

* Assumes the provider recycles none.



Finite resource consumption

This report on water and energy consumption combines available data for our main Bristol office and our second office in Centre Point, London. We gather accurate data on gas and electricity consumption for both sites, but the minor contribution made by water and heating oil consumption at Centre Point is currently based on data estimates supplied by the landlord.

We have adopted a new five-year target to reduce water consumption compared to the baseline year of 2009-10. Consumption is reported per staff FTE. We attribute the upward trend observed in the latest figures partly to a decline in our staff numbers.

There was a decline in carbon emissions from energy use, resulting from reduced levels of consumption of electricity and gas in our offices. This continues the downward trend in our consumption of finite resources.

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Cubic metres							
Water*	14.2	6.2	6.1	5.4	6.9	6.9	7.5
Megawatt-hours							
Electricity	616	612	531	527	513	552	497
Gas	290	286	292	321	329	318	175
Other**	43	43	43	43	43	43	43
Total energy	**949**	**941**	**866**	**891**	**885**	**913**	**715**

* Consumption per staff FTE.

** Estimated consumption of heating oil at our London office.

Gross expenditure attributable to energy consumption

Under HM Treasury guidance on Sustainability Reporting in the Public Sector, from 2011-12 we are required to report on gross expenditure attributable to energy consumption through utilities and official business travel. There is no expenditure under the Carbon Reduction Commitment (CRC) Energy Efficient Scheme as our annual energy use falls below the compliance threshold for the scheme. The cost of gas 2011-12 takes into account climate change levy in and the increase in the gas unit charge.

	£000	
	2010-11	**2011-12**
Utilities		
Electricity	58	57
Gas	10	9
Water	4	5
	72	**71**
Business travel		
Car	20	16
Taxis	38	34
Rail	319	343
Air	22	18
	399	**411**

Accounting policies for non-financial data

Our policy is to restate data for earlier years where there have been significant changes in accounting assumptions in primary data or conversion factors. In 2011-12 there have been three restatements.

Total greenhouse gas emissions (GHGE) are calculated following guidance published by Defra, using current conversion factors for the reporting year and conversion factors applicable in the baseline year where different. Grid rolling averages are used to calculate GHGE from electricity consumption data. There is no agreed level of data materiality. The CSR steering group aims to increase data accuracy and reduce assumptions every year. All our data assumptions are declared.

In 2011-12 we applied assumptions to our energy, waste and business travel primary data leading to estimated accounting error margins of less than 10 per cent. These arise from cost proxy estimates on 73 per cent of our business travel emissions, sample estimates on our landfill and recycled paper waste disposal, and estimates of water and heating oil consumption at our London office.

HEFCE's Structure

HEFCE Board

HEFCE's Board is responsible for the strategic direction of the organisation. Board members are appointed by the Secretary of State for Business, Innovation and Skills, normally for periods of two or three years. Board members bring a variety of knowledge and experience from a range of backgrounds, including higher education and industry. With the exception of the Chief Executive, Board members are non-executive.

In 2011-12, membership of the Board was:

Chair

Tim Melville-Ross CBE

Chief Executive (and Accounting Officer)

Sir Alan Langlands

Members

Professor Madeleine Atkins CBE, Vice-Chancellor, Coventry University

Alastair Balls, Chairman, Centre for Life

Rob Douglas, Business Advisor, Douglas Associates Ltd

Professor Ruth Farwell, Vice-Chancellor, Buckinghamshire New University

Professor Malcolm Grant, President and Provost, University College London

Professor Anne Greenough, Head of the School of Medicine, King's College London

René Olivieri, former Chief Executive, Blackwell Publishing

Professor Shirley Pearce, Vice-Chancellor, Loughborough University

Hugh Ross, Director, Hehir-Ross Partnership

Anil Ruia, Director, Wrengate Ltd; Chair, University of Manchester

Sara Weller, Non-Executive Director, Lloyds Banking Group and United Utilities

John Widdowson CBE, Principal, New College, Durham

Board members who retired during 2011-12:

Dame Patricia Hodgson, Principal, Newnham College, Cambridge

Ed Smith, Chair, Student Loans Company

Professor Paul Wellings, Vice-Chancellor, University of Lancaster

Professor Sir Tim Wilson, former Vice-Chancellor, University of Hertfordshire

HEFCE Board meetings are attended by an Assessor from the Department for Business, Innovation and Skills, and Observers from the Scottish Funding Council, the National Union of Students, the Department for Employment and Learning, Northern Ireland, the Higher Education Funding Council for Wales, and the Training and Development Agency for Schools.

HEFCE committees

A number of standing and advisory committees and working groups advise the Chief Executive and the Board on specific issues. The Board has established audit and remuneration committees, a complaints panel, and a range of strategic committees to support its work.

HEFCE Executive

The HEFCE Executive is responsible for HEFCE's management and operation.

It is made up of the Chief Executive, the three Directors, three Associate Directors, and the Head of Organisational Development. The Head of Finance, the Head of Assurance, the Head of Corporate Communications, and the Head of Analytical Services also attend Executive meetings to discuss specific issues as relevant.

Further information

HEFCE Board, committees and staff

Further information is available at www.hefce.ac.uk under About HEFCE/Our staff and structure

HEFCE strategy statement and business plan

HEFCE's strategy statement gives a high-level overview of our objectives. Our business plan provides more detail on our objectives and activities. Further information can be found at: www.hefce.ac.uk under About HEFCE/How we operate

Students and potential students

HEFCE distributes money to English universities and colleges. We do not fund individual students. Information on sources of financial support for students and potential students is on our web-site: www.hefce.ac.uk under FAQ/General

Frequently asked questions

Answers to frequently asked questions can be found at: www.hefce.ac.uk under FAQ

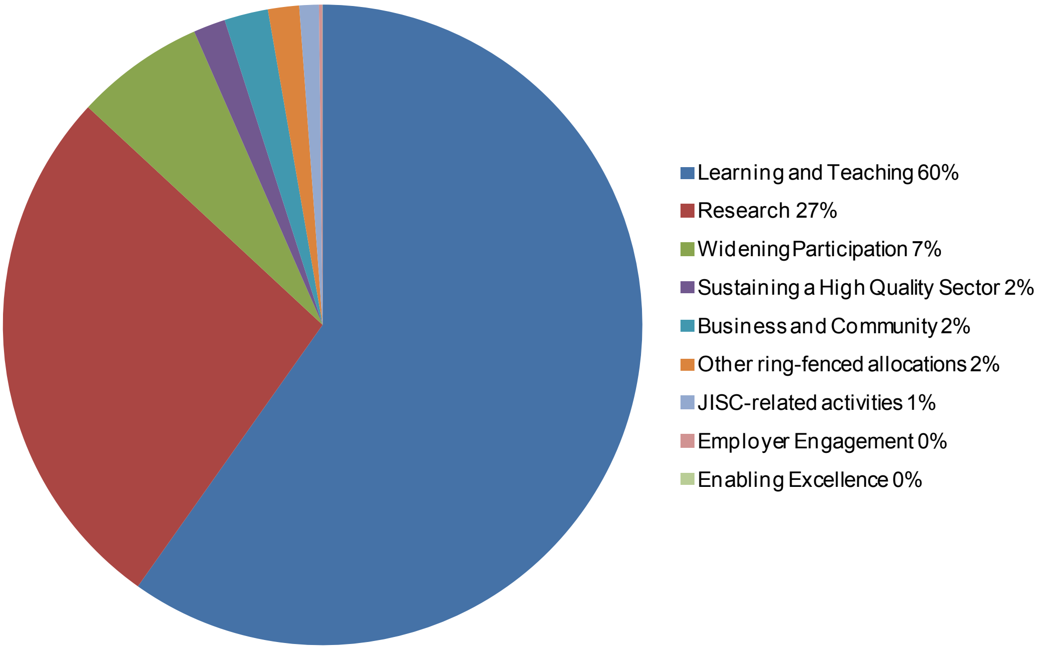
Financial results for 2011-12

Funding and expenditure in year

In delivering the strategic objectives outlined in the previous pages, HEFCE received a total of £6,814 million of grant and grant in aid from BIS (*2010-11: £7,515 million*). Grant in aid is treated as financing and taken directly to reserves. HEFCE's total income for 2011-12 was £4 million (*2010-11: £16 million*).

The overall reduction in HEFCE resource primarily relates to the reduction in recurrent teaching funding which reflects the anticipated increase in graduate contributions. Government reforms of higher education financing mean that in future much more income for institutions is expected to come through students' tuition fees and much less through HEFCE block grants. The cost of tuition fees is to be met (for most undergraduates) through the availability of loans, which will generally be repayable after the student has finished their studies. The reductions to HEFCE grant contribute to meeting the cost to government of providing these loans.

Total expenditure in year was £6,847 million (*2010-11: £7,498 million*). Of this £21 million *(2010-11: £18 million)* relates to the administration costs we incur in managing and distributing grant funding to the sector. £6,817 million *(2010-11: £7,450 million)* relates to grants payable to institutions and others, paid under our strategic aims as follows:



We aim to provide as much of our funding as is possible through the core/block grant for teaching and research, as the most efficient means of distributing funding to the sector. This is in line with our financial strategy, which presents us with a framework for securing sufficient resources to deliver our strategic objectives, applying those funds to deliver those objectives, and ensuring that we deliver outcomes that represent value for money. All of this is to be achieved within an environment of sound internal controls and management of key risks.

In addition to the core/block grant, special funding and earmarked capital is provided for specific purposes and to promote change that cannot easily be achieved through other routes. We have taken steps to ensure that most of our earmarked capital is allocated by formula, and to rationalise the number of special funding programmes wherever possible and where this does not impact on outcomes in the sector. For 2011-12, the total allocated as special funding has decreased year-on-year and we now distribute less than 3 per cent of total grant in this way.

Savings and efficiency

We continue to seek value for money from the cost of delivering our activities and within the extremely challenging spending environment being faced by the public sector, we have achieved real terms savings and efficiencies over recent years. These savings have been achieved through: reductions in staff numbers through natural turnover and reduced emphasis on lower priority activity; substantially lower recruitment costs; a pay freeze for all staff earning more than £21,000; tighter cost controls; reduced investment in property; commissioning fewer policy development reports; and reductions in the administrative costs relating to specific aspects of our procurement, shared services and access and widening participation activity.

The Spending Review set challenging efficiency targets for all departments and public sector bodies over the four year period from 2011, and we expect to make further contributions in the coming financial years to the Department's overall real terms reductions in administrative budgets by 2014-15. We believe that continued emphasis on the actions we have in hand already to manage our costs should be sufficient to operate within our administration cost budgets.

Balances at year end

At 31 March 2012 HEFCE's Statement of Financial Position shows net liabilities of £95 million *(2011: £67 million)*. This reflects the inclusion of liabilities falling due in future years (mainly HEFCE's provision for Inherited Staff Liabilities as disclosed at note 12) which will be met from BIS' future sponsorship and which does not affect HEFCE's 'going concern'.

In resource terms we aim distribute all funding received from BIS in year. Our Financial Memorandum (FM) with BIS recognises that it may not always be possible to match receipts and payments exactly within year, and allows a cash carry-forward of up to 2 per cent of total grant in aid received. At 31 March 2012 our cash balance was £33 million *(£58 million in 2011*). The decrease in cash balance reflects a movement in working capital.

Payment of creditors

We are fully committed to the prompt payment of suppliers and aim to pay all valid invoices as soon as possible. We support the Better Payment Practice Code (available at www.payontime.co.uk/companies) which targets payment within 30 days, and monitor our performance in-year against this target. In 2011-12 we met this target for 98 per cent of invoices (*2010-11: 98 per cent*).

We also monitor our performance against a 10 day payment measure and aim to sustain or move as closely as possible to this measure wherever possible. HEFCE's performance against this new prompt payment measure is currently 92 per cent (increased from 86 per cent in 2011 and 84 per cent in 2010). During 2011-12 we will look to sustain and improve on this performance, with the aim of moving towards a five day payment measure, currently 82 per cent *(2010-11: 67 per cent)*, balancing this against the impact on our resources and the need to maintain effective internal controls.

At year end our trade payables balance (that is to say, the amount owing to our suppliers) was £0.8 million. Comparing this balance with the aggregate amount invoiced by suppliers in year (£27 million) and expressing this as a number of days gives an indication of the average time we take to pay our bills: for the year ended 31 March 2012 our figure for 'creditor days' was 10.8 days *(2.4 days in 2011)*.

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 were scrutinised by the Audit Committee on 26 April 2012 along with the Assurance Service Annual Report and the Internal Audit Annual Report for 2011-12. The Audit Committee is a standing committee of the HEFCE Board. It advises the Board and the Chief Executive as the Accounting Officer. The Committee's membership, including its chair, is appointed by the Board and consists of members with no executive responsibility for management of HEFCE or its funding activities. Membership is as follows.

Chair

Rob Douglas, CBE* Business Advisor, Douglas Associates Limited

Members

Professor Madeleine Atkins, CBE* Vice-Chancellor, University of Coventry

Stephen Dexter Former Partner, Grant Thornton UK LLP

Margaret Pratt Freelance consultant

Hugh Ross* Director of the Hehir-Ross Partnership

Frank Toop Secretary, City University

Alison Woodhams Director of Finance, University College London

* Audit Committee members who are also HEFCE Board members

The purpose of the Committee is to advise and support the Board and the Accounting Officer by giving them independent assurance as to the effectiveness of the Council's internal control, corporate governance and risk management. In particular, the Committee will recommend the audited accounts to the Board, and give a formal opinion on the adequacy of internal control. Consistent with HEFCE's responsibilities in the HE sector, this remit extends to assurance to the Board about internal control, corporate governance and risk management by institutions and related bodies receiving funding from HEFCE ('funded institutions').

The duties of the Audit Committee are to:

1. Consider the adequacy of corporate governance, risk management and internal control within HEFCE and in HEIs through reviewing:

- The mechanisms (principles and approach) adopted by the management of HEFCE for the assessment and management of risk.
- The planned activity of internal and external audit designed to (inter alia) assess the systems operated by HEFCE and HEIs to achieve effective corporate governance, risk management and internal control.
- The annual results of internal and external audit activity, in HEFCE and in the HE sector.
- The adequacy of HEFCE management and institutional responses to issues identified by audit activity.
- 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 Accounting Officer on:

- The effectiveness of risk management in HEFCE and in the HE sector.

- The effectiveness of the financial and other control systems, including those for ensuring the proper protection of assets, within HEFCE and within institutions.
- 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.
- 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.
- Any reports from the National Audit Office and the BIS Audit Service, including the response to any management letters.
- The remuneration of the National Audit Office for the audit work undertaken on the Board's annual accounts.
- The arrangements in place to promote economy, efficiency and effectiveness within HEFCE and the sector.

The full terms of reference for the Audit Committee can be found on our web-site under About us/HEFCE's Board and committees.

External audit information

So far as the Accounting Officer is aware, there is no relevant audit information of which HEFCE's external auditor is 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 external auditor is aware of that information.

Audit of the accounts

The Comptroller and Auditor General is the appointed statutory auditor of HEFCE's account. The audit fee for the financial year 2011-12 is £62,000. There was no other work for which a fee was payable.

Going concern

The statement of financial position at 31 March 2012 shows net liabilities of £95 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, BIS. 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 2012-13, 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 is therefore appropriate to prepare these accounts on the 'going-concern' basis.

Sir Alan Langlands
Chief Executive and Accounting Officer
Higher Education Funding Council for England

30 April 2012

Remuneration report

Part one (unaudited)

Remuneration Committee

The Remuneration Committee is one of HEFCE's standing committees. Members of the committee for 2011-12 were:

Tim Melville-Ross CBE, HEFCE Chair and Chair of the Remuneration Committee

Alastair Balls HEFCE Board member

Sara Weller HEFCE Board member

The Chief Executive normally attends meetings.

The terms of reference for the Remuneration Committee are to:

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

These terms of reference were reviewed in May 2011.

Remuneration arrangements

The Chief Executive's salary and non-consolidated performance pay are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Committee.

The aim is to enable us to recruit, retain and motivate a highly talented and experienced person who is capable of fulfilling the role. Normally, salary reviews take account of market pay data and the Government's decisions on the recommendations of the Senior Salaries Review Body. However, in 2011-12 Chief Executives of NDPBs were subject to a pay freeze. The level of non-consolidated performance pay (up to a maximum of 10 per cent of basic salary) relates to achievement of the Chief Executive's agreed objectives and is paid in the following financial year. In 2010-11, Sir Alan Langlands requested that no non-consolidated performance pay was paid to him. Non-consolidated performance pay for all staff was limited to 5 per cent of the total pay bill.

Working within the context of the annual Treasury pay guidance and pay remit process, the pay system for the Deputy Chief Executive, and Directors aims to enable us to recruit, retain, and motivate highly talented people to lead on specific areas in HEFCE's strategic plan, and to work together with the Chief Executive to lead the organisation.

Normally, the Committee reviews the basic salary for each post holder, taking account of advice from the Chief Executive based on:

- job size, as measured by HEFCE's job evaluation system
- market pay, and pay movement data gathered from comprehensive reviews covering the wider economy, the HE sector, the public sector, and the senior civil service
- performance, taking account of delivery of objectives, feedback from third parties, 360-degree feedback, and a self-assessment by the individual
- affordability, based on the Treasury pay guidance and approved remit and acceptability to HEFCE and our stakeholders.

However, in 2011-12 these post holders (and all staff at HEFCE earning more than £21,000) were also subject to a pay freeze.

The assessment of individual and collective performance for the purpose of determining non-consolidated performance pay for 2011-12 took account of delivery of objectives, feedback from third parties, 360-degree feedback, and a self assessment by the individual.

Contracts

The length of the contract of employment for the Chief Executive is determined by the Secretary of State for Business, Innovation and Skills. Sir Alan Langlands was appointed for a five year term which began in April 2009 and his contract stipulates a 12-month notice period. Contracts for directors are open-ended and their notice period is six months.

Other than the possibility of payment in lieu of notice, there are no explicit contractual provisions for compensation for early termination.

Membership of the Board

The Board consists of 12 to 15 members, including the Chair and Chief Executive of the Council. With the exception of the Chief Executive, our Board members are appointed by the Secretary of State usually for a period of three years. They are appointed on the basis of their expertise in education, or their experience in industry or the professions. Candidates are identified by the Department, in consultation with us, mainly from responses to advertisements placed by the BIS in the national and educational press. Members can be reappointed subject to appraisal by the Chair.

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

Part two (audited)

HEFCE Chair

Remuneration of the Chair is decided by the Department for Business, Innovation and Skills. The HEFCE Chair receives a salary but does not participate in the Council's pension scheme. The position is for two days per week.

The total salary for **Tim Melville-Ross CBE**, HEFCE Chair for the year ended 31 March 2012, was £47,350 *(2010-11: £47,350)*. He elected for his salary to be paid to a registered charity.

HEFCE Chief Executive

The Chief Executive’s salary and non-consolidated performance bonus are determined by the Secretary of State for Business, Innovation and Skills after considering proposals from the Remuneration Committee as described above.

The total emoluments including taxable benefits for **Sir Alan Langlands**, HEFCE Chief Executive are shown in the following table.

Chief Executive's remuneration

		Year ended 31 March 2012 £	Year ended 31 March 2011 £
Salary paid in year	a	**230,000**	230,000
Taxable benefits	b	**3,478**	3,295
Employer's pension contributions	c	**36,800**	36,800
		270,278	270,095

a Sir Alan Langlands requested that no non-consolidated performance pay was paid to him for the last two years (2009-10 and 2010-11). Non-consolidated performance pay for 2011-12 is not determined until after year-end and is not included here.

b Taxable benefits in kind paid in 2011-12 relate to occasional provision of overnight accommodation in Bristol and travel to HEFCE's Bristol office (assessed for tax purposes as the permanent workplace). The value is calculated at year end.

c Sir Alan Langlands is a member of the Universities Superannuation Scheme.

Board members' remuneration

	Year ended 31 March 2012 £		Year ended 31 March 2011 £	
Professor Madeleine Atkins	**5,000**	*	**5,000**	*
Alastair Balls CB	**5,000**	#	**5,000**	
Rob Douglas CBE	**5,000**		**5,000**	
Professor Ruth Farwell	**5,000**		**5,000**	
Professor Malcolm Grant CBE	**5,000**		**5,000**	*
Professor Anne Greenough (from September 2011)	**2,917**	*	**-**	
Dame Patricia Hodgson (to September 2011)	**2,500**		**5,000**	
René Olivieri	**5,000**	*	**4,583**	*
Professor Shirley Pearce	**5,000**	*	**5,000**	*
Hugh Ross (from October 2011)	**2,500**		**-**	
Anil Ruia OBE	**5,000**		**4,167**	
Ed Smith (to May 2011)	**833**		**5,000**	
Sara Weller (from July 2011)	**3,750**	*	**-**	
Professor Paul Wellings (to November 2011)	**3,333**		**5,000**	
John Widdowson CBE	**5,000**	*	**5,000**	*
Professor Sir Tim Wilson (to July 2011)	**1,666**		**5,000**	
	62,500		**63,750**	

All Board members are eligible to receive an annual honorarium of £5,000. The honorarium is not pensionable. Some members are paid directly by their place of employment, with subsequent reimbursement by HEFCE and thus can incur VAT where appropriate. These members are indicated by * in the table above. Some members have elected that their honorarium be paid direct to a registered charity, indicated by # in the table above.

Senior employees' salaries and non-consolidated performance pay							
	Year ended 31 March 2012 £000			Year ended 31 March 2011 £000			
	Salary	**Non-cons**	**Total**	Salary	Non-cons	Total	
Sir Alan Langlands, Chief Executive	**230-235**	**-**	**230-235**	230-235	-	230-235	
Steve Egan, Deputy Chief Executive and Director – Finance and Corporate Resources	**120-125**	**10-15**	**135-140**	120-125	5-10	130-135	
Heather Fry, Director – Education and Participation	**100-105**	**5-10**	**110-115**	100-105	0-5	105-110	a
David Sweeney, Director – Research, Innovation and Skills	**110-115**	**5-10**	**120-125**	110-115	5-10	120-125	
Band of Highest Paid Director's Total Remuneration (£000s)	**230-235**			230-235			
Median Total Remuneration	**33,423**			32,966			
Ratio	**7.0**			7.1			

Non-consolidated performance pay relates to performance in the previous financial year as it is not determined until after year-end.

a Heather Fry took up her Director post on 23 April 2010. Her non-consolidated performance pay relates to her previous role and salary.

The remuneration shown includes salary and benefits in kind. Salary includes gross salary, reserved rights to London weighting or allowances, recruitment and retention allowances, and any taxable allowances or payments. The monetary value of benefits in kind covers any benefit provided by the employer and treated by HMRC as a taxable emolument. None of the directors received any taxable benefits during the financial year 2011-12, apart from the Chief Executive as stated above.

There were no exit packages paid to senior HEFCE employees in the financial year 2011-12.

As part of Central Government's commitment to increase transparency and accountability, HEFCE is reporting the median earnings of its workforce and the ratio between this and the earnings of its Chief Executive. The disclosure will also allow some comparability over time and across the public sector and private sector, where similar disclosures of Chief Executive remuneration and pay multiples are made.

Senior employees' pensions					
	Accrued pension at pension age as at 31 March 2012 and related lump sum	Real increase in pension and related lump sum at pension age	**CETV at 31 March 2012**	CETV at 31 March 2011* or start date	Real increase in CETV
	£000	£000	**£000**	£000	£000
Sir Alan Langlands, Chief Executive					

Pension	**25-30**	0-2.5	**616**	522	62
Lump sum	**75-80**	5-7.5			
Steve Egan, Deputy Chief Executive and Director – Finance and Corporate Resources					
Pension	**50-55**	0	**1,015**	958	0
Lump sum	**155-160**	0			
Heather Fry, Director – Education and Participation					
Pension	**35-40**	2.5-5	**891**	768	80
Lump sum	**105-110**	7.5-10			
David Sweeney, Director – Research Innovation and Skills					
Pension	**55-60**	0-2.5	**1,361**	1,175	137
Lump sum	**170-175**	2.5-5			

* This figure will be different from the closing figure in last year's accounts as the actuarial factors used in the calculation of the Cash Equivalent Transfer Values (CETV) were changed during 2011.

Civil service pensions

The Principal Civil Service Pension Scheme (PSCPS) is an unfunded multi-employer defined benefit scheme notionally backed by the Government. HEFCE is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2011-12, employers' contributions were payable at one of four rates in the range of 16.7 per cent to 24.3 per cent *(2010-11: 16.7 per cent to 24.3 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 four civil service pension schemes, 'classic', 'classic plus', 'premium' and 'nuvos', providing benefits on a final salary basis at a normal retirement age of 60 (age 65 for new entrants). Benefits accrue at a rate of 1/80th (classic) or1/60th (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 Consumer Prices Index. On death, pensions are payable to the surviving spouse (or partner) 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.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay, and contribute a further 0.8 per cent of pensionable pay to PCSPS to cover the cost of centrally-provided risk benefits (death in service and ill health retirement). As at 31 March 2012 eight HEFCE employees had a partnership pension account *(2011:eight employees)*. Contributions due to partnership providers for 2011-12 were £12,319 *(2011: £10,527)*.

Universities Superannuation Scheme

Certain staff transferring from HE 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. HEFCE 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. The rate of employers’ contributions is 16 per cent. 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.

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 cost. 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.

Sir Alan Langlands

Chief Executive and Accounting Officer

Higher Education Funding Council for England

30 April 2012

Statement of HEFCE's and the Chief Executive's responsibilities

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury has directed the Higher Education Funding Council for England (HEFCE) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of HEFCE and of its income and expenditure, changes in taxpayers' equity 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 Business, Innovation 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; and.
- Prepare the annual accounts on a going concern basis.

The Accounting Officer of Department of Business, Innovation and Skills has designated the Chief Executive as Accounting Officer of 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 Managing Public Money published by HM Treasury.

HEFCE Governance Statement 2011-12

Scope of responsibility

As Accounting Officer of HEFCE, I am accountable to the Secretary of State for the Department for Business Innovation and Skills (BIS) and the Permanent Secretary of BIS as its Accounting Officer in my responsibility for maintaining sound systems of governance, risk management and internal control. These systems support the achievement of our policies and strategic objectives, while safeguarding the public funds and Council assets for which I am personally responsible, in accordance with the responsibilities assigned to me in the Treasury guidance 'Managing Public Money'. I am also responsible for using the public funds and Council assets assigned to HEFCE economically, efficiently and effectively. I also acknowledge my responsibilities in respect of the funds provided to the Council which are transmitted to higher and further education institutions and others for education, research and associated purposes.

Governance Framework

The HEFCE Board comprises 12-15 members appointed by the Secretary of State for Business Innovation and Skills in accordance with the requirements of the Further and Higher Education Act 1992. The Board is supported by Audit, Remuneration and Appointments Committees, as well as five strategic advisory committees covering areas of higher education policy which are important to HEFCE's remit. The background and registered interests of Board and Audit Committee members are published on our web-site. The Board is also supported by three UK-wide advisory committees: the Joint Information Systems Committee, the Joint Advisory Committee for Church Universities and Colleges and the UK Healthcare Education Advisory Committee. Attendance at Board and Committee meetings is consistently high. We plan to publish information about the diversity characteristics of our Board and its committees on our web-site in 2012/13. The Board has an independent procedure for hearing complaints against decisions of the Executive, the Complaints Panel, which did not meet in 2011/12. Further details about our committees and other corporate governance information are available at www.hefce.ac.uk under About HEFCE/Our staff and structure.

The Council continues to seek out and adopt good governance practices. The Board has carried out an annual effectiveness review, comprising an appraisal of the Board in early 2012 by the Chair through discussions with members, a review of the Chair's performance by the Chair of the Audit Committee involving discussions with members, and a management-led review of governance risks and an updated review of governance practice, by comparing our practices with the corporate governance codes for listed companies and central government departments. Our assessment process to consider our governance risks has itself been subject to review by internal audit, providing independent assurance that the risks are appropriately assessed and managed. Our review against the corporate governance codes concluded there has been a high level of compliance with relevant parts of both the FRC Code and the Government's Corporate Governance Code in 2011/12. This annual effectiveness review was discussed at the Board's annual strategy and planning day in March 2012. Overall, the Board was content with its effectiveness and governance practices. The most significant issue arising is that the Board plans to review its advisory committee structure in 2012/13.

The Audit Committee operates in accordance with the principles and good practice described in the HM Treasury Audit Committee Handbook. There are seven members, three of whom (including the Chair) are members of HEFCE's Board. The Committee meets four times a year in the presence of the internal and external auditors. Each of the Council's Directors attended the Committee to discuss how they have managed the strategic risks for which they have responsibility. The Chair of the Committee presents a report to the Board after each meeting and minutes of each meeting are available to Board members. The remit of the Committee includes both HEFCE itself and HEFCE's assurance work with the HE sector. The Committee last conducted a full review of its own effectiveness in 2010/11, the recommendations of which have now been implemented. The Committee provides the Board with an annual report, which incorporates the Committee’s opinion on governance, internal control and risk management. The Committee’s opinion for 2011/12 is as follows:

HEFCE Audit Committee opinion to the Board 2011/12

Having taken account of:

- Our work throughout the year
- Assurances received through the Committee’s discussions with the Chief Executive and the Directors on risk management in their areas of responsibility
- The formal opinions of the Head of Internal Audit on the effectiveness of the Council’s framework for corporate governance, internal control, risk management and value for money
- The formal opinions of the Interim Head of Assurance on the sector’s institutions and related bodies, including on value for money
- The formal opinion on the accounts and the management report of the external auditors following the audit of the accounts.

It is the opinion of the Audit Committee that the Council’s arrangements for its own corporate governance, internal control, risk management and value for money are sound.

We are satisfied that, at the present time, the Council also has appropriate arrangements in place for oversight of institutional risk and regularity in the higher education sector, including risk management, internal control, corporate governance and value for money. However, we recognise that the environment in which HEFCE operates remains uncertain and that those arrangements will need to be kept under review as the role of the Council undergoes significant change. We continue to express our concern about on-going pressure on administration costs, resources and staffing levels and the effect this could have on the Council in carry out its existing and new remits effectively.

We are satisfied that the accounts can be relied upon, that the Accounting Officer is entitled to rely on the assurances he has received from Internal Audit and Assurance, and that the Board can approve the accounts for 2011-12.

In accordance with good practice, we provide an annual summary of progress and issues arising with our information security obligations to the Audit Committee, particularly those connected to the implementation of the recommendations of the Government’s Security Policy Framework. In 2011/12, there were no incidents or losses of data that required a report to the Information Commissioner’s Office.

The Teaching, Quality and the Student Experience Committee provides an annual statement incorporating assurance to the Board on the Council’s work in meeting its legal obligation to ensure that provision is made to assess the quality of education in funded institutions. In 2011/12, this was a positive statement, which highlighted the following key issues:

The Quality Assurance System operated satisfactorily for the financial year 2011-12.

The QAA delivered its contractual outputs effectively for the financial year 2011-12 and has continued to safeguard and support the academic standards and quality of higher education in the sector.

The relationship between HEFCE and the QAA remains professional and robust. Information sharing and joint working between our two organisations is generally very constructive.

Under the Charities Act 2011, HEFCE is the principal regulator of all the HEIs that are exempt charities. We have agreed a Memorandum of Understanding with the Charity Commission to assist us in meeting our obligations. We have continued to exercise our statutory duty to ‘promote compliance by the charity trustees with their legal obligations in exercising control and management of the administration of the charity’. There were no significant issues arising in 2011/12 requiring regulatory intervention from either HEFCE or the Charity Commission in respect of our principal regulator obligations.

We work in partnership with many other organisations to help us deliver our objectives. In the last year, in response to the Government's HE White Paper, we jointly established an 'Interim Regulatory Partnership Group' with the Student Loans Company, which enables a number of national agencies, with sector bodies and the NUS present, to discuss issues of common interest, so enabling us all to provide advice to Government on the development of its policies for higher education. Further information is available at www.hefce.ac.uk under About HEFCE/Introduction/Working in partnership/Interim Regulatory Partnership Group.

We also work with a number of other organisations that we describe as 'related bodies', including the Quality Assurance Agency, the Equality Challenge Unit and the Higher Education Academy. The activities of each related body will in some way contribute to the achievement of our objectives, and it is on this basis that their oversight is assigned to specific directorates within our structure. Accountability for our funding is secured through the operation of our Related Bodies Corporate Framework, and specific accountability arrangements will normally be described in a funding agreement, a service-level agreement or a memorandum of understanding. Further information on our related bodies is available at www.hefce.ac.uk under About HEFCE/Introduction/Working in partnership/Partner organisations/Related bodies.

We have regular interaction with the Department for Business, Innovation and Skills, including through the Joint Accountability Group which specifically reviews HEFCE performance. For the period April 2011 to March 2012, the Department for Business, Innovation and Skills temporarily suspended requirements in the Revised Management Statement for HEFCE (June 2006) for provision of a Corporate Plan and Key Performance Targets, asking instead that HEFCE should operate on the basis of ministerial letters of 20 December 2010 and 28 June 2011.

The risk and control framework

HEFCE operates a system of internal control that 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 is based on a continuing process designed to: identify and prioritise the risks to the achievement of the Council's policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them efficiently, effectively and economically. In the context of our changing risk environment as discussed further below, the system of internal control has been in place in the Council for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Approach to risk management

The Council's long-standing approach to risk management is set out in HEFCE's Assurance Framework, which was approved by the Board in May 2007 and is available on our web-site, www.hefce.ac.uk under About us/How HEFCE is accountable for the funds it administers. The Assurance Framework, which is an element in our overall Accountability Framework, explains the Council's risk management policy, defines key roles and responsibilities and sets out how risk management has been embedded in the Council's strategic and operational planning processes. As part of the changes we are currently making to our risk management system, this Assurance Framework is under review.

As a public body, our approach to handling risk takes account of the delivery of the government's priorities and objectives for HE. In this respect, HEFCE has been operating in an uncertain policy environment during 2010/11 and 2011/12 as policy decisions have emerged following the election of the current Government in May 2010. Subsequent to announcements about tuition fees for undergraduate students in 2010, the Government published its HE White Paper on 28 June 2011. This was followed by a Technical Consultation on 4 August 2011, which detailed a Government commitment to introduce a new, fit-for-purpose regulatory framework for higher education, and to establish HEFCE as lead regulator for the higher education sector.

Through this extended period of increased uncertainty, we retained and reported on the 27 risks derived from our 2006-11 strategic plan until the end of that period, providing a final report on them to the Board in October 2011. During 2010/11, as the Government began to clarify its priorities and objectives for HE, we identified a large number of 'transition risks', which we reported to the Board in December 2010 and again in July 2011. This allowed the Board to discuss specific issues relating to the uncertain environment in which HEFCE found itself. Following the issue of the HE White Paper in late June 2011, we published our strategy in the form of a strategic statement and our business plan, following Board approval in July and October 2011 respectively. In October 2011, the HEFCE Board also discussed what principles we should use and what approach we should take to the identification, assessment and management of risks in the future. In December 2011, the Board approved a new risk register comprising 13 high-level strategic risks. These recognise the systemic issues facing the HE sector (and which are relevant to us in our need to understand systemic risk in the sector), the objectives described in our strategic statement and business plan and the specific risks facing HEFCE as an organisation. A detailed assessment by management of the 13 risks is well advanced. A list of the risks may be found in the strategic risk section of this annual report. They cover risk in the areas of: student support; the collective student interest; the public interest in HE; the reputation of HE; investment in HE; institutional sustainability; regulatory partnership; economic and social impact of HE; transition through the HE reforms; HEFCE policy and processes; HEFCE regulatory activity; HEFCE reputation; and HEFCE's people.

In response to the very different type of strategic risk we have adopted compared with the objective-based risks attached to our 2006-11 plan, we have designed new assessment, monitoring and reporting processes, including the establishment of a new risk group and a risk co-ordinator post. These processes can expect to remain 'in development' during 2012/13. Our ongoing assessment of the 13 strategic risks will be based on finer-grained indicators and more in-depth assessment, and will rely on contributions from across the organisation. These processes and resources will help to ensure that we capture the wide range of information we need about our new strategic risks in an effective way, so we can report on this to the Audit Committee and the Board, allowing decision-making in response to risk to be enhanced.

In recognising 13 high level risks, I accept that the Council should manage these as effectively as possible, even though we have only limited influence in mitigating some of them. We work closely with a wide range of stakeholders, including universities, colleges and Government, to raise awareness of risk issues and, where necessary, to develop responses to risk. While the mix of our risks is challenging, tolerable and well-balanced, the residual risks are relatively high. This is partly because we are largely reliant on the HE sector (universities, colleges and many other organisations) to help us mitigate them. Our risk appetite for our strategic risks is often also dependent on Government risk appetite as we implement Government policy. Our risk appetite for many of our subsidiary operational risks remains relatively low, reflecting our desire to protect our credibility as both a funder and regulator, while enhancing our effectiveness as a high-performing organisation. Through the broader 13 risks on our risk register, we are looking to develop a stronger sense of how we might grasp opportunities offered by the environment in which we operate.

We report to the Board three times each year on our operational performance. Apart from the development period for the new risk register in 2011-12, this has incorporated an updated review of the status of our strategic risks and the action we are taking in response to risks requiring additional attention. In 2012/13, we plan to incorporate a detailed review of a small number of risks into these reports, for consideration by the Board. In addition, as for many years, all relevant Board papers include comments on the strategic and key operational risk implications arising from the issues discussed in the paper.

The above mentioned internal risk group and part-time risk co-ordinator role will support senior management and all staff in monitoring and reporting on risks. To supplement these resources, all staff have access to intranet-based tools and guidance, as well as training, coaching and mentoring in risk management, partly through our approach to promoting project management and also through internal audit, acting in its advisory role.

In previous years, assurance relating to the Council's strategic and other risks was provided to me by the directors, as risk owners, in an annual risk management statement. Each director discussed their draft statements with the Audit Committee once each year. The preparation of these statements was accomplished through a separate reporting system from that used for reporting to the Board. While the new higher level strategic risks are owned by individual directors, they are mostly cross-Council in nature. Consequently, although we retained the directors' risk management statements for 2011/12, we now plan to adopt a common reporting format for both the Board and Audit Committee which means that the directors' statements are no longer needed. Instead, the Audit Committee will be invited to challenge the risk management process through examination of the general and specific risk monitoring information, and through discussions with the relevant risk owners, who are all directors, or an appropriate senior manager.

The Council also has many operational risk assessments in place that support the strategic risk management process. In five key areas of our business (finance, governance, information technology, human resources and analytical services), we have adopted the 'control risk self assessment' approach to risk management, whereby the operational risk assessments are subject to a formal process of review at least once each year, culminating in a report to management or the Board on the outcome. Independent assurance on the quality of these assessment processes has been obtained from internal audit.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. While I am ultimately responsible for ensuring the system of internal control is effective in managing the Council's risks I am supported in this process by my Deputy Chief Executive, directors and senior management team. My review is also informed by the work of the internal auditors and the executive managers within the Council 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, including on any action taken to address weaknesses and ensure continuous improvement of the system.

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. It must also take into account the funds provided by the Council which are transmitted to legally independent and autonomous higher and further education institutions and related bodies for education, research and associated purposes. The Council's 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 approaches to communication, which collectively contribute to the delivery of strategic objectives and maintenance of a sound system of internal control. In particular, all institutions and related bodies funded by HEFCE are required to comply with a financial memorandum or funding agreement. These documents are designed to help us secure accountability and regularity for the public funds provided to them, partly by requiring various accountability returns to be provided to us for review. These returns include the annual accounts, which we consider as part of our work to ensure the protection of the public investment in institutions and other organisations. This work includes seeking assurance that the public funds provided to institutions and other organisations have been used for the purposes for which they were intended.

Our internal control system is also subject to regular review and monitoring by the Deputy Chief Executive and directors. As part of the effectiveness review process I have sought assurance from them on the controls for which they have responsibility (via their risk management statements), and I then also review the key annual controls which inform this statement. I also receive a governance statement from the Executive Secretary of the Joint Information Systems Committee and an annual opinion from the Audit Committee on our internal control framework and the Teaching, Quality, and the Student Experience Committee on our statutory obligation connected to teaching quality. In addition, I exchange letters with the Skills Funding Agency each year in order to obtain assurance about the regularity of the use of HEFCE funds by further education colleges.

Each of the key annual controls (directors' risk management statements, the financial statements and the external auditors report and comments thereon, and annual reports on Assurance and Institutional Risk and Internal Audit) 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 its implications. Where issues have arisen, action has been taken or is planned.

During the year, our control systems (which cover our internal controls and the risk management system for institutions and related bodies) have identified a small number of issues that required specific actions to manage the associated risks. Where significant, these issues are reported to the Audit Committee under an agreed protocol and/or recorded in the individual assurance statements referred to above. There were no significant weaknesses in our internal controls in 2011/12 that warrant disclosure here. We are aware that the Government is planning to implement changes to our remit in the future; if so, there is likely to be an impact on the design and operation of our internal control system.

The most significant other issues and developments connected to our internal control system arising during 2011-12 are as follows:

i. As noted above, following the Government's publication of the HE White Paper and Technical Consultation in 2011, HEFCE is in discussion with the Government about how best to implement its various policy proposals for HEFCE and the HE sector.

ii. HEFCE's capacity and capability to continue to perform as an effective organisation which meets the expectations of its stakeholders is put at some risk by the constraints imposed on administration costs (real-terms savings of 16 per cent over the four years 2011-12 to 2014-15) and the impact of other Government spending controls. These incorporate a requirement to minimise consultancy, ICT, facilities management and marketing expenditure, and to minimise staff costs, including a two-year pay freeze (three years for senior staff), with continuing constraints thereafter. We continue to need Secretary of State approval to replace non front-line staff from outside the Civil Service. Inevitably, this affects our ability to fill posts as well as seek staff from the widest talent pool and manage our resources and internal control system in the most efficient way possible. These controls impact on several activities and we have increasing concerns about the cumulative effect on our organisational performance. In light of the Government's plans for HEFCE, we are discussing our future resource requirements with our sponsor department, BIS. This work on resource requirements has been informed by an independent review of our regulatory capability and capacity.

iii. The Government has made significant changes to how higher education is funded, incorporating an increase in tuition fees for students and a commensurate reduction in HEFCE grant, with effect from the academic year 2012/13. The Government has also encouraged policies designed to achieve greater dynamism and competition in the HE sector. These policies have given rise to significant changes in the way HEFCE will fund institutions in future. In particular, as the funding changes work their way through the system, we will be providing teaching funding for institutions in two separate ways, representing the wind-down of the previous system of funding and the scaling up of our evolving new system of funding. The accompanying control of student numbers requires us to verify the student data provided to us by institutions to a greater level of detail than previously. In his January 2012 grant letter, the Secretary of State asked HEFCE for "an initial assessment, by December 2012, to inform the next grant letter, of how the new funding arrangements are affecting students and institutions". This will enable HEFCE to provide BIS with information about any unforeseen consequences of the new approach to funding higher education.

iv. One of the key risks facing HEFCE relates to the control of student numbers, as over-recruitment by HE institutions and other providers of higher education can lead to a higher than predicted call on the student support budget with consequent reductions in the HEFCE grant available to support other policy priorities. This was made clear in the Secretary of State's January 2012 grant letter to HEFCE, which stated "we are reiterating our overarching warning that we may transfer HEFCE grant for 2012-13 or future years back to the Department to meet unanticipated pressures, such as student support costs resulting from any over recruitment". The Government also asked HEFCE to "keep in place its mechanisms for minimising and preferably eliminating over recruitment in 2012/13" and signalled its intention to set out its approach to managing the costs of over-recruitment in subsequent years once it has determined the Council's future powers and responsibilities.

v. HEFCE is the largest funder of the Joint Information Systems Committee (JISC, www.jisc.ac.uk). During 2010-11, working with all of JISC's funders, the HEFCE Board commissioned a review of JISC, the report of which is published on the HEFCE web-site (publication 2011/04). A key recommendation arising from the review was that JISC should become a separate legal entity from HEFCE, which hosts the JISC executive. Following the commissioning of options reviews by consultants, this recommendation is in the process of being implemented. In March 2012, the HEFCE Board approved the establishment of a legal entity to create an independent JISC. If the other UK-wide funders of JISC similarly approve the new arrangements, I anticipate that JISC will become separate from HEFCE during 2012/13.

vi. A substantial part of HEFCE's funding for JISC is used to contribute to the cost of running the Joint Academic Network (JANET), the UK's research and education network. Network traffic has historically doubled approximately every 18 months and is expected to continue to do so. This network is due for a substantial upgrade in 2013 so that it is fit to meet the needs of the higher education sector for the following five year period, among other things taking account of increasing research data requirements and the use of cloud computing. We obtained specialist independent assurance on the approach being adopted by our network provider to procuring the network. With an average expected cost of more than £50m per annum, we have sought permission from the Cabinet Office, via BIS, to proceed with the procurement. The Cabinet Office approved the outline business case in early April 2012, allowing the proposal to move towards a full business case, which will be prepared for approval in summer 2012.

vii. We continue to develop our information security and assurance arrangements in response to the issue of the HMG Security Policy Framework by the Cabinet Office. Our work and annual return in this area has been reviewed by internal audit. Progress with this work is also reported to our Audit Committee annually, which has its own obligations in this area. We have experienced no reportable losses of personal data in this period.

viii. Our Board and Audit Committee regularly receive reports on our institutional risk system, which is the process by which we assess and monitor the overall risk profile of each HE institution, and, where appropriate, implement support strategies to secure recovery of institutions in difficulty. This includes information about the effects of the current economic climate on the HE sector and our response to this. The system regularly evolves in response to the changing risk environment. Based on our assessments of the annual accounts of HEIs for 2010/11, the sector as a whole is in a strong financial position and, with only a small and reducing number of institutions facing risks to their medium term financial sustainability, the sector presents a relatively low risk profile at present. While our resources to manage this work is sufficient at current levels of activity and risk, the new fees and funding regime present a range of uncertainties for institutions that require us to both continually monitor the evolving HE environment and keep the levels of resource for this work under regular review.

ix. We successfully retained the following international standards in the year: ISO 14001, the environmental system standard; the Carbon Trust Standard; ISO27001, the information security standard (for our ITS team); and OHSAS18001, the health & safety standard.

I have been advised on the implications of the result of the review of effectiveness of the system of governance, including internal control and risk management, by the Board's Audit Committee and there is a plan in place to address any weaknesses arising and ensure continuous improvement.

I have considered the evidence provided with regards to the production of the Annual Governance Statement. The conclusion of the review is that HEFCE's overall governance and internal control structures have been appropriate for HEFCE's business and working satisfactorily throughout 2011-12.

Sir Alan Langlands

Chief Executive and Accounting Officer

Higher Education Funding Council for England

30 April 2012

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 (HEFCE) for the year ended 31 March 2012 under the Further and Higher Education Act 1992. The financial statements comprise; the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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

As explained more fully in the Statement of HEFCE's and the Chief Executive's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Further and Higher Education Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to HEFCE's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HEFCE; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HEFCE's affairs as at 31 March 2012 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Further and Higher Education Act 1992 and Secretary of State directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions issued by the Secretary of State for Business, Innovation and Skills under the Further and Higher Education Act 1992; and
- the information given in the sections entitled Management commentary, Financial results for 2011-12 and Preparation of the annual report and accounts within the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

2 May 2012

Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	Note	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Expenditure			
Grants payable to institutions and others			
Recurrent and non-recurrent grant	3	**6,709,794**	7,337,057
Other ring-fenced allocations	3	**107,300**	112,696
Changes in provision	12	**8,513**	30,904
		6,825,607	7,480,657
Council administration costs			
Staff costs	4	**11,944**	12,361
Other administration	5	**9,093**	5,408
Depreciation	7	**39**	30
Changes in provision	12	**28**	3
		21,104	17,802
Total expenditure		**6,846,711**	7,498,459
Income	6	**(4,084)**	(15,809)
Net expenditure for the year transferred to general reserve		**6,842,627**	7,482,650

All HEFCE operations are continuing.
There were no gains or losses other than the net expenditure for the year.

The notes on pages 65 to 87 form part of these accounts.

Statement of Financial Position as at 31 March 2012

	Note	**As at 31 March 2012 £000**	As at 31 March 2011 £000
Non-current assets			
Property, plant and equipment	*7*	**47**	42
Recoverable grants falling due after one year	*9a*	**39,798**	38,992
Trade and other receivables due after one year	*9b*	**17,563**	33,179
		57,408	72,213
Current assets			
Recoverable grants falling due within one year	*9a*	**10,471**	7,642
Trade and other receivables due within one year	*9b*	**48,903**	67,322
Cash and cash equivalents	*10*	**32,794**	57,522
		92,168	132,486
Total assets		**149,576**	204,699
Current liabilities			
Trade and other payables	*11*	**(2,428)**	(9,094)
Provisions for liabilities and charges within one year	*12*	**(27,300)**	(28,708)
Non-current assets plus net current assets		**119,848**	166,897
Non-current liabilities			
Provisions for liabilities and charges after one year	*12*	**(215,134)**	(233,979)
Assets less liabilities		**(95,286)**	(67,082)
Taxpayers' equity			
Revaluation reserve		**6**	6
General reserve		**(95,292)**	(67,088)
		(95,286)	(67,082)

The financial statements on pages 61 to 64 were approved by the Board on 30 April 2012 and were signed on its behalf by;

Sir Alan Langlands
Chief Executive and Accounting Officer
Higher Education Funding Council for England

The notes on pages 65 to 87 form part of these accounts.

Statement of Cash Flows for the year ended 31 March 2012

	Note	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Cash flows from operating activities			
Net expenditure		**(6,842,627)**	(7,482,650)
Adjustment for non-cash transactions	*7*	**8,580**	31,395
Decrease/(increase) in receivables and recoverable grants	*9*	**30,400**	(36,215)
(Decrease)/increase in payables	*11*	**(6,666)**	6,888
Use of provisions	*12*	**(28,794)**	(30,572)
Net cash outflow from operating activities		**(6,839,107)**	(7,511,154)
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	**(44)**	(32)
Cash flows from financing activities			
Grants from parent department	*2*	**6,814,423**	7,515,273
Net (decrease)/increase in cash for the year		**(24,728)**	4,087
Net financing			
Cash and cash equivalents at the beginning of the period	*10*	**57,522**	53,435
Net (decrease)/increase in cash and cash equivalents in the period	*10*	**(24,728)**	4,087
Cash and cash equivalents at the end of the period		**32,794**	57,522

The notes on pages 65 to 87 form part of these accounts.

Statement of Changes in Taxpayers Equity for the year ended 31 March 2012

	Note	General Reserve £000	Revaluation Reserve £000	Total Reserves £000
Changes in Taxpayers' Equity 2010-11				
Balance as at 1 April 2010		(121,110)	8	(121,102)
Grant from sponsoring department	2	7,515,273		7,515,273
Comprehensive expenditure for the year		(7,482,650)		(7,482,650)
Decrease in provision		21,399		21,399
Movement in reserves			(2)	(2)
Balance as at 31 March 2011		(67,088)	6	(67,082)
Changes in Taxpayers' Equity 2011-12				
Balance as at 1 April 2011		(67,088)	6	(67,082)
Grant from sponsoring department	2	6,814,423		6,814,423
Comprehensive expenditure for the year		(6,842,627)		(6,842,627)
Movement in reserves			0	0
Balance as at 31 March 2012		(95,292)	6	(95,286)

General Reserve
This reserve consists of programme and administration funding (GIA) from the Deparment, and the net expenditure relating to programme and administration costs.

Revaluation Reserve
The revaluation reserve relates to upward revaluation of tangible fixed assets. Any downard revaluation or impairment is taken directly to the Statement of Comprehensive Net Expenditure.

The notes on pages 65 to 87 form part of these accounts.

1 Accounting policies

Basis of accounting

The financial statements are drawn up in accordance with a direction given by the Secretary of State for Business, Innovation and Skills, with the consent of HM Treasury and in accordance with the Further and Higher Education Act 1992. They have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy the accounting policy which is judged to be most appropriate to the particular circumstances of HEFCE for the purpose of giving a true and fair view has been selected. The particular policies adopted by HEFCE are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Accounting convention

The accounts are prepared under the historical cost convention, modified by revaluation of IT assets. The currency used to prepare the accounts is sterling, and are rounded to the nearest £1,000.

Consolidation

HEFCE contributes to the funding of certain other organisations (referred to as related bodies). Funding is given through grants for the purpose of benefiting the Higher Education (HE) sector as a whole, rather than with the intention of making a long-term investment. A full list of related bodies is given in note 15 of the accounts.

These related bodies are examined both individually and in aggregate, to assess whether they meet the requirements for consolidation in line with IFRS and the FReM. For each body the level of HEFCE influence is considered, together with the materiality of the grant funding given during the financial year.

For the financial year ended 31 March 2012 HEFCE considers that where related bodies do meet the criteria for a subsidiary, joint venture or associate under IFRS, none are accounted for as such on the basis of materiality.

Going concern

The statement of financial position at 31 March 2012 shows net liabilities of £95 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 funding from HEFCE's sponsoring department, the Department for Business, Innovation and Skills (BIS). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such funding may not be issued in advance of need.

Funding for 2012-13, taking into account the amounts required to meet HEFCE's liabilities falling due in that year, has already been included in the Department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the Department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to prepare these financial statements on a 'going concern' basis.

Financial instruments

IFRS 7 and International Accounting Standards (IAS) 32 and 39 require an organisation to present and disclose information on the possible impact of financial instruments on its financial position and performance, and on the extent of its risk exposure. As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity or interest rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

Assets and liabilities that meet the definition of financial instruments are accounted for under IAS 32, IAS 39 and IFRS 7. Trade receivables and payables are measured at cost on the basis that this is a reasonable approximation of fair value.

Recoverable grants and grant based receivables do not meet the definition of financial instruments and are measured at cost.

Grants from the Department for Business, Innovation and Skills

All grant in aid from BIS is treated as financing as it is a contribution from controlling parties giving rise to a financial interest. It is recorded as financing in the cash flow statement and credited to the general reserve.

BIS also provides grants for Access to Learning Funds, Post-Graduate Certificates of Education, and Voluntary Giving. These grants are accounted for as financing and credited to the general reserve, and are disclosed in the accounts as 'other ring-fenced allocations'.

Income

Income received from other sources, including income from the Office for Fair Access (OFFA) in respect of services provided under a service level agreement covering financial, payroll, IT and other office services, is accounted for on the accruals basis.

Joint initiatives and national programmes which benefit the higher education sector in the UK

For those joint activities that meet the definition of jointly owned operations under IAS 31, HEFCE is required to show only its share of the income and expenditure for both programme and administration costs within these accounts.

Leases

Under IAS 17 leases are reviewed against key indicators to determine whether they are finance or operating leases. HEFCE's leases do not transfer the risks and rewards incidental to ownership of an asset to HEFCE, and as such are classified as operating leases. Rentals payable for operating leases are charged to the Statement of Comprehensive Net Expenditure when they fall due.

Non current assets

Property, plant and equipment are capitalised where the costs for an individual asset, or group of functionally interdependent assets, exceeds £10,000. On initial recognition, assets are measured at cost. IT assets are revalued each year based on indices produced by the Office for National Statistics. Given their low value, depreciated historic cost is used as a proxy for fair value for the other categories of property, plant and equipment.

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

Leasehold improvements	10 years *
Fixtures, fittings and furniture	5 years
Office equipment	4 years
Computer equipment	3 years

*or the remaining term of the lease, whichever is less.

A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

Payment of grants

<u>Grants</u>

Grants are recognised at the payment dates agreed with the organisations concerned. Most grants are paid on agreed profiles, and as such no financial year end accruals are expected for these streams of expenditure.

The exception to this is holdback of institutional basic grant arising from revised student numbers, where a debt arises at the point where there is sufficient certainty on the revised numbers, and future profile payments will be adjusted when there is sufficient certainty over the value of the resulting funding adjustment. These adjustments could result in a net receivable or payable balance at year end. The period over which a holdback recovery is made can be up to five years.

<u>Recoverable grants</u>

Recoverable grants are recognised at the dates agreed with the organisations concerned and are recovered through planned deductions from future profile payments. Where there is not sufficient certainty over recoverability, grants are accounted for as in year expenditure.

Pensions

HEFCE employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). This is a multi-employer defined benefit scheme treated for accounting purposes, in accordance with the FReM, as a defined contribution scheme. Some senior managers transferring to HEFCE from universities, are covered by the provisions of the Universities Superannuation Scheme (USS), which is also treated for accounting purposes as a defined contribution scheme. These schemes are described in more detail in the remuneration report.

Provisions for liabilities and charges

Provisions are recognised when HEFCE 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. In accordance with IAS 37 provisions are discounted to their net present value where material.

Segmental reporting

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

Staff costs and secondments

Staff on secondment (including those seconded on a fixed-term basis to OFFA) normally continue to be paid by HEFCE. The reimbursement of costs for seconded staff is netted off against staff costs in note 4 of the accounts.

Taxation

HEFCE's income generating activities are not intended to produce surpluses, and therefore considered as not liable for corporation tax. Most of HEFCE’s activities are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of property, plant and equipment.

IFRS issued but not effective

IAS 8 on Accounting Policies requires organisations to disclose details of any IFRS that has been issued but is not yet effective. As at 31 March 2012 the following IFRS, none of which will be applicable to HEFCE's annual accounts, have been issued but are not effective:

IAS 1 - Presentation of financial statements - Other Comprehensive Income - effective June 2012

IFRS 7 - Financial Instruments - amendments to disclosure requirements - effective January 2011

IFRS 9 - Financial Instruments - issued August 2011 effective January 2015

IFRS 10 - Consolidated Financial Statements, 11 - Joint Arrangements, 12 - Disclosure of Interests in Other Entities, IAS27 - Separate Financial Statements, IAS28 - Investments in Associates and Joint Ventures - new and amended standards that effect the consolidation and reporting of subsidiaries, associates and joint ventures - effective January 2013

The above impacts have not been quantified but are not expected to be material.

1a Significant judgements

In preparing these accounts HEFCE makes certain judgements on key areas of income, expenditure, assets and liabilities.

In particular, the provision for Inherited Staff Liabilities is, by its very nature, an estimation. The value of the provision is derived from an actuarial valuation of a sample of the underlying population, and is updated periodically to include movements in mortality and discount rates. Note 12 to the accounts gives further details of the provision and our assumptions.

The other area of significant judgement is in the recognition of programme holdback as pre-paid grant. This relates to adjustments to payment of grant funding to HEIs where student numbers fall outside a standard percentage threshold. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Further details are given in Note 1 (Accounting Policies) and Note 9b Trade and other receivables).

HEFCE has powers under the Further and Higher Education Act 1992 to determine amounts of grant to recover from institutions where the terms and conditions of grant have not been met. In exercising these powers the Board may in some cases decide not to seek recoveries from institutions for periods prior to a certain year. In such cases the decision is taken on an individual basis with due regard to the overall financial position of the institution and the circumstances giving rise to a potential recovery.

2 HM Government grants received

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Programmes		
Grant in aid for recurrent expenditure in HE	**6,420,346**	6,855,808
Grant in aid for capital expenditure in HE	**263,769**	531,982
	6,684,115	7,387,790
Other ring-fenced allocations		
Grant for Access to Learning Funds	**39,985**	40,000
Grant for ITT bursaries	**7,000**	8,000
Grant for voluntary giving	**61,000**	62,000
	107,985	110,000
Administration costs		
Grant in aid from BIS for HEFCE administration costs	**22,323**	17,483
Total grant and grant in aid received	**6,814,423**	7,515,273

This note shows the total grant and grant in aid received from the Department for Business, Innovation and Skills (BIS) during the year. Grant and grant in aid is paid from the Department's resource accounts and is taken to the general reserve.

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

The grant letter is available on our web-site www.hefce.ac.uk under Finance & assurance/Finance and funding/Grant letter from BIS.

HEFCE receives grant in aid for programmes and administration costs expenditure, and ring-fenced grant for other specific purposes. In the analysis above, grant funding is shown as 'Other ring-fenced allocations' (previously 'Access and hardship funds').

From 2011-12 onwards HEFCE's old "running costs" budget has been redefined as administration costs as this now incorporates the administrative costs of specific activities previously funded from programmes, and all the administrative costs relating to JISC. This has increased the grant in aid for administration costs accordingly.

3 Analysis of recurrent and non-recurrent grant expenditure

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Recurrent grant [a]		
Learning and teaching	**4,003,464**	4,396,663
Widening participation	**426,824**	411,088
Research	**1,632,899**	1,587,086
Business and community	**151,004**	144,940
	6,214,191	6,539,777
Non-recurrent grant [b]		
Learning and teaching	**73,376**	211,286
Widening participation	**18,083**	60,268
Employer engagement	**11,795**	43,860
Research	**213,950**	300,394
Sustaining a high quality sector	**110,502**	123,178
Enabling excellence	**652**	1,647
JISC-related activities [c]	**67,245**	56,647
	495,603	797,280
Total recurrent and non-recurrent grant	**6,709,794**	7,337,057
Other ring-fenced allocations [d]	**107,300**	112,696
Total grant	**6,817,094**	7,449,753

This analysis of grant expenditure reflects HEFCE's strategic aims as published in the strategic plan for 2006-11 (HEFCE 2006/11, updated in June 2009 see HEFCE 2009/21), available to view at www.hefce.ac.uk under Publications.

The Board certifies that government grants have been used by HEFCE only for approved purposes.

a **Recurrent grant** - the grant allocated to institutions as a block grant, analysed across teaching, research, widening participation and business and community in line with the way the grant is announced.

b **Non-recurrent grant** - this is a summary of the grant expenditure on special funding programmes and earmarked capital. A detailed analysis of non-recurrent grant expenditure by strategic aim is provided at Appendix 1 to the Accounts.

c **JISC-related activities** - these are shown separately, as they are relevant to several of HEFCE's strategic aims.

d **Other ring-fenced allocations** - this relates to grant administered on behalf of the government and covers Access to Learning Funds, ITT bursaries and voluntary giving. HEFCE distributes this funding, which is granted by BIS for specific purposes.

4 Staff costs

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Staff costs		
Salaries	**8,998**	9,374
National Insurance contributions	**809**	811
Pension costs	**1,651**	1,915
	11,458	12,100
Costs of employing contract, agency and temporary staff	**486**	261
	11,944	12,361

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Pension costs		
Civil Service Pensions	**1,572**	1,835
Universities Superannuation Scheme	**79**	80
	1,651	1,915

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

For the financial year 2011-12 all staff on salaries of £21,001 and higher have been subject to the second year of a pay freeze. Staff on salaries of £21,000 and lower have had a £250 pro-rated uplift. Members of staff are eligible for a non-consolidated performance-related pay related to individuals' performance against objectives. Annual settlements are awarded from 1 August each year and relate to individuals performance in the previous financial year.

Four members of staff on the HEFCE payroll are seconded on a fixed-term basis to the Office For Fair Access (OFFA). The reimbursement of costs from OFFA is netted off against expenditure in the statements shown above.

The Council contributes to two pension schemes, Civil Service Pensions and the Universities Superannuation Scheme (USS). There are no outstanding or prepaid contributions as at 31 March 2012. Further details of HEFCE's pensions arrangements can be found in the remuneration report on page 44.

Staff costs (continued)

	Year ended 31 March 2012 FTE	Year ended 31 March 2011 FTE
Staff numbers		
Finance and Corporate Resources Directorate	**142**	151
Education and Participation Directorate	**48**	50
Research, Innovation and Skills Directorate	**39**	42
Chief Executive support staff	**5**	4
	234	247
Average number of contract, agency and temporary staff	**15**	9
	249	256

This note shows the average Full Time Equivalent (FTE) number of staff employed excluding the Chair.

Full Time Equivalent are classed as those staff who are employed on either permanent HEFCE contracts or fixed term contracts and paid directly from HEFCE payroll, including those on maternity leave. The staff numbers do not include any outward seconded staff.

Although the FTE for Chair is excluded from the above staff numbers, their costs are included within staff costs.

5 Other administration costs

	Year ended 31 March 2012 £000		Year ended 31 March 2011 £000
Non-pay administration costs			
Research and evaluation costs	**1,944**		1,184
Staff related and general administrative expenditure	**1,253**		1,214
Rental payments under other operating leases	**1,136**		1,041
Office costs	**864**		680
Premises costs	**751**		1,078
Board and committee members' fees and expenses	**176**		109
Rental payments under plant and machinery operating leases	**60**		34
Audit fee	**62**		60
Non-cash items: revaluation of IT assets	**0**		8
HEFCE Administration costs	**6,246**		5,408
Administration costs for JISC-related activities	**2,847**	*	
Total Administration costs	**9,093**		5,408

The analysis of expenditure shown above reflects the in-year management accounting process whereby HEFCE monitors and reports on its running costs. **Staff related and general administrative expenditure** includes costs of recruitment, training, and staff travel. **Research and evaluation** costs includes other consultancy-related expenditure. **Premises costs** includes expenditure on rates, heat and light, building maintenance, equipment and furniture. **Office costs** include IT costs, catering and room hire, telecommunications, stationery and publications.

Administration costs for JISC-related activities relate to staff pay costs, office costs and travel & subsistence costs for staff employed at King's College and University of Bristol. Following the reclassification of BIS administration costs for 2011-12, these costs are now charged to HEFCE's administraction costs whereas in previous years these were charged to programmes.

*The associated costs for JISC-related activities for 2010-11 if they had been included within the administrative expenditure would have been £2,763m.

6 Income

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Programmes		
Income receivable from other funding councils:		
Department for Employment and Learning	**561**	734
Higher Education Funding Council for Wales	**781**	784
Skills Funding Agency*	**0**	9,338
Scottish Funding Council	**781**	814
Other programme income	**1,349**	3,580
	3,472	15,250
Administration		
Income receivable from other funding councils:		
Department for Employment and Learning	**207**	213
Higher Education Funding Council for Wales	**39**	50
Scottish Funding Council	**94**	107
Receipts from the Office for Fair Access and HEPI for services provided under the service level agreement **	**146**	90
Income from conferences	**19**	32
Income from other activities	**107**	67
	612	559
Total income	**4,084**	15,809

HEFCE receives income from other funding councils and associated organisations in respect of agreed contributions towards joint initiatives and national programmes which benefit the higher education sector within the whole UK. These initiatives and national programmes do not meet the definition of jointly owned operations under IAS 31, and are therefore shown above.

As well as funding their share of the programme costs of these national programmes, the other funding councils share the costs incurred by HEFCE in managing and administering these programmes.

*The Skills Funding Agency only contributes to the Aimhigher programme which ceased this financial year.

** The service level agreement with HEPI is for £2,000 for provision of IT support.

7 Property, Plant and Equipment

	Leasehold improvements £000	Furniture and fittings £000	Information Technology £000	**Total £000**
Cost or valuation				
At 1 April 2011	**16**	**18**	**81**	**115**
Revaluation	**0**	**0**	**0**	**0**
Additions	**0**	**0**	**44**	**44**
Disposals	**0**	**0**	**(20)**	**(20)**
At 31 March 2012	**16**	**18**	**105**	**139**
Depreciation				
At 1 April 2011	**16**	**7**	**50**	**73**
Charge for period	**0**	**4**	**35**	**39**
Revaluation	**0**	**0**	**0**	**0**
Disposals	**0**	**0**	**(20)**	**(20)**
At 31 March 2012	**16**	**11**	**65**	**92**
Net book value				
At 1 April 2011	**0**	**11**	**31**	**42**
At 31 March 2012	**0**	**7**	**40**	**47**
Cost or valuation				
At 1 April 2010	16	18	178	212
Revaluation	0	0	(5)	(5)
Additions	0	0	32	32
Disposals	0	0	(124)	(124)
At 31 March 2011	16	18	81	115
Depreciation				
At 1 April 2010	16	3	151	170
Charge for period	0	4	26	30
Revaluation	0	0	(3)	(3)
Disposals	0	0	(124)	(124)
At 31 March 2011	16	7	50	73
Net book value				
At 1 April 2010	0	15	27	42
At 31 March 2011	0	11	31	42

This note shows the capitalised value of HEFCE's property, plant and equipment. HEFCE's office premises at Bristol and London are rented under operating leases and are disclosed in note 13 to the accounts.

Embedded instruments in trade receivables/payables. The fair value of an asset (or liability) may change when the carrying cost is affected by derivatives designed to hedge the forward cost of any contract for sale.

This could imply a financial risk to HEFCE. We have reviewed the balances of our supplier contracts for the financial year to 31 March 2012. We have found no evidence of material change in the fair value of current assets/liabilities.

As a non-departmental public body (NDPB) funded by the Government, HEFCE is not exposed to any liquidity rate risks. HEFCE has no overseas operations and does not operate any foreign currency bank accounts. It is not subject to any foreign currency, credit or market risks.

9a Recoverable grants

	As at 31 March 2012 £000	As at 31 March 2011 £000
Recoverable grants		
Balances as at 1 April	**46,634**	40,690
Advanced during the year	**12,164**	12,471
Recovered during the year	**(8,529)**	(6,527)
Balances as at 31 March	**50,269**	46,634

	As at 31 March 2012 £000	As at 31 March 2011 £000
Balances at 31 March		
Within one year	**10,471**	7,642
After one year	**39,798**	38,992
	50,269	46,634

The HEFCE Board has agreed the principles for providing recoverable grants. These recoverable grants are provided within the total budgets of the following programmes:

- Joint Information Systems Committee
- Poor estates
- Revolving Green Fund
- Strategic Development Fund
- Employer Engagement

None of the above recoverable grants are interest bearing. Recoverable 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. Recoverable grants are normally for three to five years, but can be made for up to 10 years.

As at 31 March 2012, 18 organisations *(2011: 15)* had recoverable grants outstanding in excess of £1,000,000. The total value of these grants was £46,739,649 *(2011: £40,489,748)* .

9b Trade and other receivables

	As at 31 March 2012 £000	As at 31 March 2011 £000
Receivables due within one year		
Programme prepayments	**47,213**	62,143
Programme receivables	**1,148**	4,499
Trade prepayments	**347**	525
Trade receivables	**195**	155
	48,903	67,322
Receivables due after one year		
Programme prepayments	**17,563**	33,179
	66,466	100,501
Intra-government balances		
Other central government bodies	**1,285**	4,259
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**1,285**	4,259
Balances with non-government bodies	**65,181**	96,242
Total as per receivables' notes	**66,466**	100,501

Programme prepayments relate to recovery of grant funding (or 'holdback') due from institutions. This relates to adjustments to payment of grant funding to HEIs (non-government bodies) where student numbers fall outside a standard percentage threshold. HEFCE's policy is to recognise such adjustments as debts only when there is sufficient certainty of recovery. Recovery is made through adjustments to institutions' future grant funding. Discussions around data and possible recovery of grant funding happen on a continuous basis as a result of the data collection and audit programmes that run each year. Consequently, at year end, there may be continuing data audits or investigations where the outcomes, and any potential holdback, are not yet certain. Such amounts are not included within the above balances.

Programme receivables include contributions to national initiatives due from other funding councils. Contributions to HEFCE's running costs for managing and administering these initiatives are included under **trade receivables.**

10 Cash and cash equivalents

	As at 31 March 2012 £000	As at 31 March 2011 £000
Cash held under GBS		
Balance at 1 April 2011	**57,481**	53,380
Net change in cash and cash equivalent balances	**(24,690)**	4,101
Balance at 31 March 2012	**32,791**	57,481
Cash held under commercial banks and cash in hand		
Balance at 1 April 2011	**41**	55
Net change in cash and cash equivalent balances	**(38)**	(14)
Balance at 31 March 2012	**3**	41
Total cash and cash equivalents	**32,794**	57,522

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Programme funds		
Grant received	**6,792,100**	7,497,790
2 per cent thereof	**135,842**	149,956
Balances at year end	**28,337**	56,513
Administration		
Grant received	**22,323**	17,483
2 per cent thereof	**446**	350
Balances at year end	**4,457**	981

In cash terms BIS advises a working balance at 31 March of 2 per cent of the total grant in aid for the financial year. HEFCE's balances relate to timing differences in the payment of expenditure committed in 2012-13.

11 Trade and other payables

	As at 31 March 2012 £000	As at 31 March 2011 £000
Amounts falling due within one year		
Trade payables	**784**	130
Administration accruals	**1,309**	505
Tax and social security	**25**	19
Programme payables	**310**	8,412
Other payables: European Network and Programming Group	**0**	28
	2,428	9,094
Intra-government balances		
Other central government bodies	**184**	7,036
Local authorities	**0**	0
NHS Trusts	**0**	0
Public corporations and trading funds	**0**	0
Balances with other government bodies	**184**	7,036
Balances with non-government bodies	**2,244**	2,058
Total as per payables' notes	**2,428**	9,094

Trade payables refers to non-pay running cost expenditure.

Administration accruals contains staff annual leave accrual which is included to reflect the requirements of IAS 19.

The **tax and social security** payable is the element of VAT charged to OFFA on the HEFCE service level agreement, which is then paid to HM Revenue and Customs (HMRC). The agreement is charged quarterly and the VAT owing to HMRC for the quarter to 31 March is accrued.

Programme payables include claims received but not yet paid for capital projects where funding is granted on submission of a claim or profile.

Other payables relates to funds held by HEFCE on behalf of the European Network and Programming Group, an independent self-financing organisation which acts as a forum for research networking across Europe, administered by HEFCE until 2011. Further details of its activities can be found on its web-site at www.enpg.org.

12 Provisions for liabilities and charges

	Staff inherited liabilities £000	Admin provisions £000	**Total** **£000**
Provisions			
Balance of provision at 1 April 2010	282,695	606	**283,301**
Provision utilised in year	(29,998)	(574)	**(30,572)**
Increase in provision	1,307	451	**1,758**
Unwinding of discount	8,198	2	**8,200**
Balance of provision at 31 March 2011	**262,202**	**485**	**262,687**
Provision utilised in year	**(28,757)**	**(37)**	**(28,794)**
Increase in provision	**1,171**	**14**	**1,185**
Unwinding of discount	**7,342**	**14**	**7,356**
Balance of provision at 31 March 2012	**241,958**	**476**	**242,434**

Analysis of expected timing of discounted flows

In the remainder of the Spending Review period to 2013	27,237	63	**27,300**
Between 2013 and 2018	105,663	413	**106,076**
Between 2019 and 2029	92,916	0	**92,916**
Thereafter	16,142	0	**16,142**
	241,958	**476**	**242,434**

12 Provisions for liabilities and charges (continued)

HEFCE has three provisions as at 31 March 2012 (2011: three), one for **inherited staff liabilities** one for **early retirement costs and** one for **dilapidation costs**.
Provisions are discounted to net present value using the appropriate HM Treasury discount rate.

Inherited staff liabilities are certain staff-related commitments of HEIs that were previously Local Authority (LA) maintained. These liabilities were transferred from LAs to HEIs on incorporation and the Education Reform Act 1988 gave powers to the Polytechnics and Colleges Funding Council (PCFC) to reimburse institutions and LAs for such liabilities. Upon its formation HEFCE assumed the PCFC's main responsibilities and now provides funding for reimbursements as follows:

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

HEFCE has provided for these ongoing reimbursements. As the provision estimate is based on a sample and uses various assumptions, the valuation obtained may vary from that which would be obtained if the data of all pension scheme members was made available to allow a full actuarial valuation. An independent review is undertaken periodically in order to verify the reasonableness of the provision. The latest review in 2010-11 used a larger sample than previous reviews, and recommended an increase in the provision value to reflect increases in life expectancy and changes in the assumed profile of payments, derived from the larger sample used.

Current assumptions mean we expect payments to continue until at least 2035.

The provision value is an estimate based upon a sample of the underlying population, projected payments, mortality rates and other actuarial assumptions. The main assumptions used in the latest review were as follows:

- net real discount rate of 2.8 per cent per annum
- mortality based on PA92 year of birth tables
- payments based on 14 per cent early retirement compensation and 86 per cent pensions
- members with early retirement compensation have an average age of 78.4 years
- members with pension compensation have an average age of 79.1 years
- membership is 79 per cent male and 21 per cent female
- benefits contain a 50 per cent spouse's pension

Administration cost provisions
HEFCE has provided for **early retirement costs** relating to two members of staff (*2011 three)* .
The balance of the provision for early retirement costs as at 31 March 2012 is £124,000 (2011: £165,000). Payments will continue until 2016.

HEFCE has also provided for the **dilapidation costs** for both Northavon House and Centrepoint, in advance of both operating leases ending in 2015 and 2013 respectively.
The balance of the provision for dilapidation costs as at 31 March 2012 is £351,000.

13 Commitments under leases

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	**1,134**	1,134
Later than one year and not later than five years	**2,423**	4,297
Later than five years		226
	3,557	5,657
Other		
Not later than one year	**29**	36
Later than one year and not later than five years	**21**	28
	50	64

This note shows HEFCE's future commitments under operating leases.

HEFCE leases its office buildings in Bristol and London. 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 28 February 2017 (subject to a three month notice period by either party). HEFCE will be vacating its offices at Centrepoint by 31 March 2013, and are currently in the process of finding new offices in London.

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

14 Financial commitments and contingent liabilities as at end of period

	As at 31 March 2012 £000	As at 31 March 2011 £000
Commitments		
Grant committed for the period April to July	**2,170,007**	2,463,228
Grant committed for the next academic year	**5,300,000**	6,507,000
Grant committed for subsequent academic years	**36,391**	1,361,491

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July).

Grant funding to the HE sector for the forthcoming academic year (commencing 1 August) is announced by HEFCE each March. The publication detailing the 2012-13 academic year (HEFCE 2012/08) is available on HEFCE's web-site at www.hefce.ac.uk under Publications.

The figure under 'grant committed for following academic years' shows funding allocated to individual institutions for payment from August 2012 onwards. This is mainly non-recurrent special funding for longer term capital programmes which is announced over spending review periods.

As at 31 March 2012 there were no contingent liabilities (2011: *nil*).

15 Payments to related bodies

	Year ended 31 March 2012 £000	Year ended 31 March 2011 £000
Related bodies		
British Universities Film and Video Council (BUFVC)	**974**	806
Equality Challenge Unit (ECU)	**587**	1,007
Foundation Degree Forward (FDF)	**894**	3,204
Higher Education Academy (HEA)	**17,453**	17,600
Higher Education Policy Institute (HEPI)	**41**	148
Higher Education Statistics Agency (HESA)	**20**	933
JISC Content Procurement Company (JCPC), trading as JISC Collections	**3,724**	3,041
JNT Association trading as JANET UK	**46,690**	48,193
Leadership Foundation for Higher Education (LFHE)	**1,146**	1,116
Quality Assurance Agency for Higher Education (QAA)	**4,862**	6,253
Research Information Network (RIN)	**864**	713
JISC Services Management Company, trading as JISC Advance	**14,500**	10,345
	91,755	93,359

The term 'related body' describes an entity that is not a higher education institution or further education college, whose mission and activities are congruent with the broad strategic objectives of HEFCE and with whom HEFCE has a formal grant-funding relationship (or in the case of QAA, where the organisation is delivering a statutory function to HEFCE).

The relationship is governed by a funding agreement which sets out the terms and conditions of the grant, though it is important to note that the services of related bodies are received by the HE sector in general, not by HEFCE itself.

HEFCE has no power of control over most related bodies, who are legally owned by sector representative bodies such as Universities UK and Guild HE, and who are independent of HEFCE in terms of corporate governance and operational management. The exceptions are HEPI (classed as a subsidiary of HEFCE), and JISC Collections and JISC Advance (classed as associates of HEFCE). In financial terms these related bodies are immaterial to HEFCE and so are not consolidated into HEFCE's accounts, in line with our accounting policies (see note 1). Similarly, the requirement under the FReM to provide information under the Companies Act 2006 does not apply on the grounds of materiality.

It should be noted that HEFCE ceased funding HEPI on 31 July 2011.

For certain related bodies, grants are paid to the host organisation, rather than directly to the related body:

- Funding to Foundation Degree Forward is paid via the University of Staffordshire
- Funding to the Research Information Network is paid via the British Library.

Further information on related bodies can be found at www.hefce.ac.uk under About us/Related Bodies.

16 Events after the Reporting Period

There have been no events after the statement of financial position date and up to the date the accounts were authorised for issue requiring an adjustment to the financial statements. The date the accounts were authorised for issue is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

17 Related party transactions

	Year ended 31 March 2012 £000
Grant funding to institutions and other organisations	
● University of Birmingham: **Ed Smith,** Pro Chancellor and Chair of Council	**140,499**
● Buckinghamshire New University: **Professor Ruth Farwell,** Vice-Chancellor.	**20,937**
● University of Cambridge: **Dame Patricia Hodgson,** Principal of Newnham College	**204,694**
● City University: **Frank Toop*,** Secretary.	**36,331**
● Coventry University: **Professor Madeleine Atkins,** Vice-Chancellor.	**56,801**
● New College, Durham: **John Widdowson,** Principal.	**4,179**
● Goldsmiths College: **Frank Toop***, member of the Audit Committee.	**26,254**
● University of Hertfordshire: **Professor Sir Tim Wilson,** former Vice-Chancellor.	**59,472**
● Heythrop College: **Frank Toop***, Governor.	**1,718**
● Kings College London: **Professor Anne Greenough,** Head of School of Medicine	**145,846**
● University of Lancaster: **Professor Paul Wellings**, Vice-Chancellor.	**49,574**
● University College, London: **Professor Malcolm Grant**, President and Provost; and **Alison Woodhams*,** Director of Finance.	**200,552**
● London Business School: **Professor Malcolm Grant**, Governor	**7,203**
● Loughborough University: **Professor Shirley Pearce**, Vice Chancellor	**68,237**
● University of Manchester: **Kathleen Tattersall*,** Chair of the Audit Committee; and **Anil Ruia**, Chair of Board of Governors.	**206,317**
● University of Newcastle: **Alastair Balls**, member of the court; and **Rob Douglas**, advisory board member of Business School.	**109,330**
● University of Northampton: **Margaret Pratt*,** Governor.	**28,142**
● University of Salford: **Anil Ruia**, assembly member.	**59,276**

In the course of allocating funding during the year, HEFCE entered into material transactions with these organisations to which the current Board members, Audit Committee members, and senior employees shown above are related parties. HEFCE has had no material transactions with companies whose directors are closely associated with it. In this context, closely associated refers to Board members, Audit Committee members, or directors. These individuals may have other relationships through family members who are employees or students at institutions funded by HEFCE, or through membership of governing bodies. Details of relationships are held in HEFCE's register of interest and available on our web-site at www.hefce.ac.uk under abouthefce/Board.

HEFCE is a non-departmental public body sponsored by BIS. BIS is regarded as a related party, as are sister funding bodies including the Scottish Funding Council, the Higher Education Funding Council for Wales, the Department for Employment and Learning in Northern Ireland, the Training and Development Agency for Schools, and the Skills Funding Agency.

The University of the West of England is regarded as a related party as they own Northavon House in Bristol. HEFCE lease this building at an annual commercial rental of £887,090. During the financial year 2011-12, the University of the West of England received £68,502,724 of funding.

Included in the above figure paid to Kings College London is £2,335,382 which is the contribution towards the administration costs of the JISC-related activity.

There was one material outstanding balance at the end of 31 March 2012 relating to a recoverable grant of £10m with the University of Manchester.

* HEFCE Audit Committee member only.

Appendix 1 Analysis of non-recurrent grant by strategic aim: unaudited

	Total for year ended 31 March 2012 £000	Total for year ended 31 March 2,011 £000
Learning and teaching		
Capital for learning and teaching	**43,069**	171,433
Higher Education Academy*	**15,059**	12,833
Capital for further education colleges	**3,000**	11,200
Quality assurance (inc QAA*)	**8,131**	11,001
Open education resource	**2,538**	2,726
National Teaching Fellowships	**1,579**	2,093
	73,376	211,286
Widening Participation		
Aimhigher (and associated initiatives)	**18,083**	60,268
	18,083	60,268
Employer Engagement		
Employer Engagement/ECIF	**10,801**	40,656
Foundation degrees (inc FDF*)	**994**	3,204
	11,795	43,860
Research		
Capital for research	**201,205**	284,049
Museums, galleries and collections	**10,495**	10,454
Overseas Research Students Award Scheme	**0**	4,757
Research Information Network* (RIN)	**864**	713
Research Excellence Framework	**1,386**	421
	213,950	300,394
Sustaining a high quality sector		
Strategic Development Fund	**87,821**	76,023
UMF Shared Services	**0**	19,967
London	**15,574**	15,458
Leadership, Governance and Management Fund	**1,688**	3,680
Revolving Green Fund	**2,789**	3,240
Leadership Foundation for Higher Education*	**1,067**	1,123
Equal Opportunities (funded via ECU*)	**576**	960
Procurement initiatives	**209**	572
Promoting Efficiencies	**351**	460
SHQS Development Fund	**0**	287
Higher education regional associations	**163**	238
Management costs for capital	**220**	0
Other minor or finishing initiatives	**44**	1,170
	110,502	123,178
Enabling Excellence		
International Initiatives	**605**	811
Higher Education Policy Institute*	**47**	386
Higher Education Statistics Agency*	**0**	450
	652	1,647
JISC-related activities		
JISC (inc BUFVC, JCPC and JANET UK*)	**67,245**	56,647
	67,245	56,647
Total funding for initiatives	**495,603**	797,280

The analysis on the previous page gives a breakdown of HEFCE's non-recurrent grant expenditure as shown in note 3 to the accounts.

HEFCE aim to provide as much as possible of funding for learning and teaching, widening participation, research, and business and community engagement through the core/block grant. Further non-recurrent funding, in the form of earmarked capital and special funding, is provided for specific purposes and to promote change that cannot easily be achieved through other routes.

Earmarked capital

In 2011-12 HEFCE allocated a total of £301 million for earmarked capital grants. Most of the earmarked capital is allocated by formula, the two main elements being the Learning and Teaching Capital Investment Fund and the Research Capital Investment Fund. Capital funding under these two streams for 2008 to 2011 was announced in 'Capital Investment Fund: capital for learning and teaching, research and infrastructure 2008-2011' (HEFCE 2008/04).

Special funding

HEFCE allocate a small proportion of total funding to support special funding programmes, to promote specific policies (such as widening participation), or to contribute towards additional costs for institutions that are not recognised through the recurrent funding methods (such as support for national facilities). In 2011-12 HEFCE allocated a total of £183 million for special funding.

Pages 90 to 91 give a brief explanation of each programme.

Learning and teaching

Capital for learning and teaching
Formulaic distribution of earmarked funding to assist with improving teaching and learning infrastructure. This encompasses the HE in FECs Development Fund and funding for expansion of places in medical school.

Capital funding for directly funded FECs:
A formulaic distribution of earmarked capital funding to directly funded FECs to assist with improving teaching and learning infrastructure.

Higher Education Academy. Funding for the Higher Education Academy to develop as a major resource for the sector to support quality enhancement, professional development and dissemination of good practice.

Quality assurance. Funding to secure the assessment of the quality of education provided by individual institutions.

Open education resource. Capital funding to support the development of on-line learning.

Widening participation

Aimhigher. A joint initiative between the BIS, HEFCE and the Skills Funding Agency 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.

Employer Engagement

Employer engagement. Funding to support co-funded workforce development; to appreciate the requirements of the employers, and the general employability skills that are increasingly wanted in the workplace; to provide and adapt courses swiftly in response.

Economic Challenge Investment Fund. Funding to help the higher education sector respond rapidly and flexibly to the recession through targeted support to individuals and businesses vulnerable to the recession.

Foundation degrees (including FDF). Funding to develop and promote intermediate-level qualifications, in partnership with employers. Foundation Degree Forward has been set up to provide a support network of expertise in foundation degree development.

Research

Capital for research. Distribution of earmarked funding to assist with improving the infrastructure for research and knowledge transfer.

Museums, galleries and collections. Funding to support museums and galleries in the sector where the cost of stewardship goes beyond what universities could be expected to meet from mainstream funding for teaching and research.

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

Research information resources. A joint initiative with the Research Councils and the British Library to create a new national framework for UK research information provision.

Research Excellence Framework (REF). Funding for the new system for assessing the quality of research in the UK higher education institutions to be completed in 2014.

Sustaining a high quality HE sector

Strategic Development/Catalyst Fund. The Strategic Development Fund was set up in 2003 to support change and innovation in the sector. This will be replaced by the Catalyst Fund from 2012-13 which will support two broad streams of activity: managing transition and promoting and enhancing activities for the public benefit.

UMF Shared Services
Universities Modernisation Fund was announced by the government following the budget statement on 24 March 2010. It was set up to enable more young people to enter higher education to gain skills that the economy needs whilst also supporting institutions to increase efficiency and reduce running costs.

London. Targeted funding to support specific national facilities in London.

Revolving green fund. Funding to enable HEIs to overcome initial capital costs in order to implement sustainable development, undertaking projects which reduce greenhouse gas emissions.

Leadership governance and management fund. Funding for projects that develop the application of good management practice in the higher education sector.

Procurement and shared services initiatives. Promotion of effective procurement and increased collaboration within the higher education sector.

Leadership Foundation for Higher Education (LFHE). A resource to develop world-class programmes for leaders, governors and managers in higher education.

Equal opportunities. Funding for the Equality Challenge Unit (ECU) to support the work of HEIs in improving equal opportunities for their staff and to provide a sector-level view of progress.

Higher education regional associations. Funding towards the costs of the HE regional associations - which are membership organisations that represent HEIs in the regions.

Promoting efficiency. Funding to support various initiatives to promote efficiency in the sector, including our costing and pricing activities, the Innovation and Transformation Fund and our ongoing support to the HE better regulation review group.

SHQS Development Fund. Funding to support development of specific policy with the SHQS strategic aim.

Other minor or finishing initiatives. Residual funding for a number of small initiatives including estates good practice, golden hellos for staff in specific subjects, Public Private Partnerships and Private Finance Initiatives.

Enabling excellence

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

Higher Education Policy Institute (HEPI). The institute 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.

Higher Education Statistics Agency (HESA). Joint funding with other funding bodies to support studies into student destinations after HE.

JISC-related activities

Recurrent and capital funding to support strategic guidance, advice and opportunities in the use of information and communications technology in the higher education.

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ISBN 978-0-10-297755-4
9 780102 977554