

Higher Education Funding Council for England account : 2001-02

Contributors

Higher Education Funding Council for England
Great Britain. National Audit Office

Publication/Creation

London : Stationery Office 2002

Persistent URL

<https://wellcomecollection.org/works/ct682cqe>

License and attribution

You have permission to make copies of this work under a Creative Commons, Attribution license.

This licence permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited. See the Legal Code for further information.

Image source should be attributed as specified in the full catalogue record. If no source is given the image should be attributed to Wellcome Collection.



Wellcome Collection
183 Euston Road
London NW1 2BE UK
T +44 (0)20 7611 8722
E library@wellcomecollection.org
<https://wellcomecollection.org>

FURTHER AND HIGHER EDUCATION ACT 1992

Account, prepared pursuant to Section 62 and paragraph 16 of Schedule 1 to the Further and Higher Education Act 1992, of the Higher Education Funding Council for England for the period 1 April 2001 to 31 March 2002, together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 71 of 2001-2002).

Presented pursuant to Act 1992, c. 13, Sch. 1 paragraph 16 (1)

Higher Education Funding Council for England Account 2001-2002

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 4 JULY 2002



22501071309

Contents

	Page
Foreword	3
Statement of the Council's and Chief Executive's responsibilities	10
Statement by the Chief Executive on the system of internal control	11
Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	13
Income and Expenditure account	15
Statement of Total Recognised Gains and Losses	16
Balance Sheet	17
Cash Flow Statement	18
Notes to the Accounts	20
Appendix 1: Full analysis of Recurrent and Capital Grants	40
Appendix 2: Accounts Direction given by the Secretary of State for Education and Skills	47

WELLCOME LIBRARY
INFORMATION SERVICE

17 APR 2003

WELLCOME
LIBRARY

Ann Rep

W28

.B65

H63

2001-02

Foreword

Members of the Board of the Council during 2001-2002

David Young (Chairman)
 Sir Michael Checkland (Chairman to October 2001)
 Sir Howard Newby (Chief Executive)
 Sir Brian Fender CMG (Chief Executive to October 2001)
 Mr Anthony Booth CBE (to December 2001)
 Mr Stephen Bundred
 Mr Richard Coldwell
 Professor Sir Ron Cooke
 Ms Caroline Neville
 Dr David Potter CBE
 Professor Sir Gareth Roberts
 Professor Peter Scott
 Ms Barbara Stephens (to October 2001)
 Professor Lord Stewart Sutherland (to December 2001)
 Dr John Taylor
 Ms Dorma Urwin

The Council's role and responsibilities

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

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

The Council's mission

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

Strategic aims

To achieve our mission, we aim to

- a Develop and sustain effective partnerships with institutions, employers, other funding and professional bodies, and others with a stake in higher education, by providing clear and open information and promoting collaboration between them.
- b Advise Government and other stakeholders on higher education's needs and aspirations, and help make widely known the achievements and opportunities offered by higher education, particularly to students.
- c Promote and support productive interaction between HE and business and the community in order to encourage the transfer of knowledge and expertise and enhance the relevance of programmes of teaching and research to the needs of employers and the economy.
- d Promote high standards of education so as to advance knowledge and scholarship, encourage improvement, enterprise and innovation, and enhance students' learning experiences and employment prospects.
- e Promote high standards of research so as to advance knowledge and scholarship and encourage improvement, enterprise and innovation.

- f Use consultation, research and benchmarking to increase knowledge and understanding of higher education, and inform policy development.
- g Promote effective financial management, accountability for the use of public funds, and value for money.
- h Contribute to the healthy development of higher education in this country and overseas by learning from international experience, and helping to promote the reputation of UK higher education abroad.
- i Encourage institutions to increase access, secure equal opportunities, support lifelong learning, and maximise achievement for all who can benefit from higher education.
- j Maintain and encourage the development of a wide variety of institutions, with a diversity of missions that build upon their local, regional, national and international strengths and are responsive to change, within a financially healthy sector.

And our organisational aim to support the above aims

- k Enable our staff to provide a high quality service, within an open and supportive working environment.

System of internal control

The Chief Executive has made a statement on the Council's internal control systems. This statement is reproduced on pages 11 and 12 of these accounts.

Preparation of financial statements

The Council's financial statements 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. This direction is reproduced on page 47 of these accounts.

Financial results for 2001-2002

These accounts cover the year 1 April 2001 to 31 March 2002. The vast majority of the Council's income is from Grant-in-Aid. In 2001-2002 this was £4,776,692,000 (2000-2001: £4,432,020,000). Within this sum the amount used for capital purposes (purchase of assets) was £225,000 (2000-2001: £358,000). Total income for the year was £4,802,401,000 (2000-2001: £4,452,770,000).

The Council aims to distribute the funds received each year within that year. The Financial Memorandum between the Department for Education and Skills (DfES) and the Council recognises that it may not always be possible to match receipts and payments exactly within the year. Consequently the Council is permitted to carry forward up to 2 per cent of the Grant-in-Aid provided for distribution to institutions and for its running costs.

In addition to these arrangements for the carry over of cash amounts the DfES, from financial year 2001-2002 onwards, measures year end balances in terms of resource accounting. In resource terms the Council is authorised to carry forward the relevant amount relating to slippage on capital programmes, and a further £10,000,000 relating to other programmes. This gives the Council limited flexibility and enables us to plan expenditure efficiently. For the year ended 31 March 2002 the Council has resource balances of £18,220,000 for capital projects and £6,072,000 for other programmes.

A provision has been recognised for the ongoing costs of inherited staff liabilities. These costs are expected to be incurred until 2020 (rather than 2025 as estimated in the Annual Accounts for 2001-2002) as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet as long term liabilities.

The results for 2001-2002 show a surplus of £64,921,000 (2000-2001 deficit of £33,438,000). Included in this surplus is a net amount of £47,200,000 relating to a reduction in the provision needed to pay for inherited staff liabilities. The effect of this reduction is to show a higher surplus than would otherwise be the case. When this is taken into consideration the surplus for the year is £17,721,000. This surplus represents a timing difference between receipt of Grant-in-Aid and the actual payments.

Achievements in 2001-2002

During 2001-2002 the Council's principal achievements, its key performance targets and its performance against these targets were as follows

Strategic aim	2001-2002 Key performance target	Achievement at 31 March 2002
1 Develop and sustain effective partnerships with institutions, employers, other funding and professional bodies, and others with a stake in higher education, by providing clear and open information and promoting collaboration between them.	1.1 Meet the standards stated in the code of practice (currently in preparation) for the consultations and special initiatives exercises conducted by the Council (or where in exceptional cases that is not feasible give a clear explanation why not).	Achieved.
	1.2 To achieve a ratio of overall satisfaction compared with dissatisfaction of at least 6:1, as measured by the customer satisfaction survey.	The next customer satisfaction survey will take place from November 2002 until March 2003.
	1.3 Support at least ten major collaborations per year through the Restructuring and Collaboration Fund.	Achieved. 13 major collaborations were funded in 2001-2002.
2 Advise Government and other stakeholders on higher education's needs and aspirations, and help make widely known the achievements and opportunities offered by higher education, particularly to students.	2.1 Increased number of hits on HEFCE web-site by 50 per cent against the 2001-2002 baseline by 2006.	On target.
	2.2 Increased usage of HERO by 350 per cent (from 2001 baseline) by 2006.	On target.
3 Promote and support productive interaction between HE and business in the community in order to encourage the transfer of knowledge and expertise and enhance the relevance of programmes of teaching and research to the needs of employers and the economy.	3.1 All HEIs to have implemented their plans for enhancing the employability of graduates via the Teaching Quality Enhancement Fund by July 2002.	On target.

Strategic aim	2001-2002 Key performance target	Achievement at 31 March 2002
	3.2 Significantly improve the range and volume of interactions between HE and business, in aggregate, against a quantitative baseline to be defined in 2001.	89 awards totalling over £77 million have been made to support knowledge transfer projects between single institutions and business, under the HE Innovation Fund.
	3.3 Successful implementation of 40 prototype foundation degree programmes, offering at least 2,200 places from autumn 2001.	37 prototype programmes successfully launched, offering at least 2,000 places. Three further prototype programmes to begin in September 2002.
4 Promote high standards of education so as to advance knowledge and scholarship, encourage improvement, enterprise and innovation, and enhance students' learning experiences and employment prospects.	4.1 80 per cent of all institutions are evaluated as progressing towards achievement of their learning and teaching strategies target outcomes by July 2002.	On target.
	4.2 Student numbers in 2000-2001 to be within 2 per cent of the Secretary of State's target.	Achieved.
	4.3 New quality assurance framework operational in England from January 2002.	This target has been overtaken by the agreement that more fundamental revision was needed of the principles and scope of the new method. Good progress has been made in reaching agreement among all parties on a more focused method, and the information requirements associated with it, which will be introduced from the spring of 2003.
5 Promote high standards of research so as to advance knowledge and scholarship and encourage improvement, enterprise and innovation.	5.1 An improvement on average between RAE 2001 and the previous exercise in 1996.	Achieved.
	5.2 An increase in staff in units rated 5* in the RAE 2001 compared with RAE 1996.	Achieved.
6 Use consultation, research and benchmarking to increase knowledge and understanding of higher education, and inform policy development.	6.1 By December 2001 to publish the third set of performance indicators including employability outcomes.	The third set of performance indicators was published in December 2001.

Strategic aim	2001-2002 Key performance target	Achievement at 31 March 2002
7 Promote effective financial and human resource management, accountability for the use of public funds, and value for money.	7.1 By 2004, 75 per cent of all the sector's estate will be classified as A or B (as new or sound, or only minor deterioration).	Data from Estate Management Statistics for 1999-2000 show that 64 per cent of the sector's buildings are now in condition categories A or B. This represents an improvement of 1 per cent on the previous year. The target is unlikely to be achieved within current resource levels.
	7.2 All HEIs to meet reporting requirements of transparency review for 1999-2000 in July 2001 and 2000-2001 in January 2002.	Achieved for 1999-2000 and 2000-2001 reporting.
	7.3 20 per cent of purchases to be made through Procureweb and other collaborative projects by end 2003.	On target.
	7.4 All HEIs to have comprehensive equal opportunities policies and monitoring procedures in place by 2002.	HR strategies submitted in June 2001 identified equal opportunities policies, targets and monitoring procedures to be implemented and in place by June 2002.
	7.5 All HEIs to be implementing human resource strategies from autumn 2001.	All HEIs are implementing the human resource strategies submitted to the HEFCE in June 2001.
8 Contribute to the healthy development of higher education in this country and overseas by learning from international experience, and helping to promote the reputation of UK higher education abroad.	8.1 Establish six collaborative programmes in strategic countries involving ourselves and other appropriate national partners, by 2004.	Additional collaborative programmes have been agreed with Japan and Thailand. Programmes with Brazil, China, India, South Africa and the US have already been established and are ongoing. Programmes with France and Australia are under discussion.
9 Encourage institutions to increase access, secure equal opportunities, support lifelong learning, and maximise achievement for all who can benefit from higher education.	9.1 Participation by socio-economic groups currently under-represented in HE rises faster than growth in overall numbers between 1999 and 2004.	On target.
	9.2 Significant increase in the number of HEIs using performance indicators in order to set widening participation targets. Quantitative and qualitative analysis by Action on Access of strategic action plans.	On target.

Strategic aim	2001-2002 Key performance target	Achievement at 31 March 2002
10 Maintain and encourage the development of a wide variety of institutions, with a diversity of missions that build upon their local, regional, national and international strengths and are responsive to change, within a financially healthy sector.	10.1 e-University to be operational by the end of 2002.	Finance Director and Learning Programmes Director appointed and in post. Interviewing for sales and marketing/business development director. Technology platform in prototype and to be delivered by November 2002. Pilots signed. Invitation to bid for additional student numbers issued.
	10.2 Within eight weeks of an institution being identified as in immediate financial difficulties, to identify the problems and to agree the necessary action.	Achieved.
11 Enable our staff to provide a high quality service, within an open and supportive working environment.	11.1 To be among the top 20 per cent of UK public sector organisations, as measured by the Excellence Model, by December 2004.	On target. We have reviewed this objective in the context of the likely 2003-2008 strategic plan objective for organisational development.
	11.2 98 per cent of payments to suppliers to be within 30 days' receipt of a valid invoice.	Achieved.
	11.3 All profiled grant payments paid in accordance with our published payments schedule, to 100 per cent accuracy over the planning period.	Achieved.

Arts and Humanities Research Board

The Arts and Humanities Research Board (AHRB) supports advanced research and promotes excellence in arts and humanities research. On 1 April 2001 the AHRB became a separate legal entity and was able to employ its own staff and enter into contracts from that date. Though it is no longer legally a part of the Council it will continue to advise the HEFCE on the distribution of funding to institutions.

Conversion to the single currency

In accordance with the guidance issued by the Euro Preparations Unit of HM Treasury, the HEFCE has prepared and submitted an outline of its plans and preparations for conversion of its systems and procedures to the single European currency. This plan relates only to the Higher Education Funding Council for England and does not take into account the Higher Education sector in England.

It is anticipated that the HEFCE would be able to successfully convert its systems and procedures from sterling to the Euro at a relatively low cost and with little reorganisation. No significant cost has been incurred to date.

Equal opportunities

The Council has an equal opportunities policy, which takes account of issues of harassment in the workplace. The Council has been awarded the Disability Symbol, signifying that it meets specified standards when dealing with disabled people. As part of the equal opportunities policy, all disabled applicants for vacancies who meet the essential criteria are guaranteed an interview.

Payment of creditors

The Council is fully committed to the prompt payment of its suppliers' invoices and supports HM Treasury's Better Payment Practice Code. The Council aims to pay invoices in accordance with agreed contractual conditions or, where no such conditions exist, within 30 days of receipt of satisfactory goods or services or the presentation of a valid invoice, whichever is the later. All suppliers have been notified of this commitment and have been given clear guidelines to help the Council achieve this aim.

Throughout the year the Council monitors the actual payment performance against the 30 day target. During the financial year 2001-2002 the target was met for 99 per cent of invoices (2000-2001: 99 per cent).

Quality Assurance Agency

The Council has a statutory role to secure the assessment of the quality of education at institutions in receipt of its funding. A contract with the Quality Assurance Agency for Higher Education fulfils this role.

Sir Howard Newby

Chief Executive and Accounting Officer
Higher Education Funding Council for England

20 June 2002

Statement of the Higher Education Funding Council for England and the Chief Executive's responsibilities

Under section 16 of schedule 1 to the Further and Higher Education Act 1992, the Higher Education Funding Council for England (the Council) is required to prepare a statement of accounts for each financial year in the form and on the basis determined by the Secretary of State for Education and Skills (appendix 2), with the consent of the Treasury. The accounts are prepared on an accruals basis (modified by the revaluation of fixed assets) and must show a true and fair view of the Council's state of affairs at the year end and of its income and expenditure and cash flows for the financial year.

In preparing the accounts the Council is required to

- observe the accounts direction issued by the Secretary of State for Education and Skills, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the body will continue in operation.

The Accounting Officer for the Department for Education and Skills has designated the Chief Executive as the Accounting Officer for the Council. His relevant responsibilities as Accounting Officer, including his responsibilities for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the non-departmental public bodies Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.

Statement by the Chief Executive on the system of internal control

As Accounting Officer, I acknowledge my responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, set by the HEFCE Board, whilst safeguarding the public funds and Council assets for which I am personally responsible. I also acknowledge my responsibilities in respect of the funds provided to the Council which are transmitted to higher and further education institutions for education, research and associated purposes. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control encompasses the Council's financial, operational, governance and risk management controls. It is based on regular management information, segregation of duties, and a system of delegation and accountability. It is an ongoing process designed to identify the key risks to achieving the HEFCE's objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively, and economically. The process to identify, evaluate and manage key risks was introduced during the year ended 31 March 2002 and was in place at that date and up to the date of approval of the annual report and accounts and accords with Treasury guidance. This process will be further developed and strengthened during the forthcoming year to the extent that I expect to have the procedures in place by March 2003 necessary to implement the guidance given in DAO 13/00, 'Corporate Governance: Statement on Internal Control'.

The Council commenced its risk management process in 2000-2001. An internal control and risk management framework document was approved by management and the HEFCE Audit Committee in that year, and by the Board in June 2001. This framework, which demonstrates the Council's attitude to risk in the achievement of its objectives and how the HEFCE is implementing its risk management strategy, has been made available to all staff.

As part of the Council's strategy the following processes have been established

- risk management and internal control is considered on a regular basis by the Board and the Audit Committee;
- the Chair of the Audit Committee makes a formal report to the HEFCE Board after each Committee meeting;
- a full risk and control assessment was completed in March 2002;
- risk management has been included in the decision making and reporting process of the Council;
- risk management has been incorporated into strategic planning within the Council.

In addition to the above the Council has, during the year, implemented the following initiatives in its treatment of risks

- promoted risk awareness throughout the Council;
- made available guidance on risk management to all Council staff involved in project management;
- arranged facilitated workshops as required to identify risks facing the Council; and
- prepared a draft organisation-wide risk register.

Action will be taken over the forthcoming year to embed risk management further and to continue to develop it as an integral part of the strategic planning process. This will include the establishment of key performance and risk indicators.

The Council has an internal audit service, which operates to standards defined in the Government Internal Audit Manual. The work of the internal audit service is informed by an analysis of the risks to which the HEFCE is exposed, and annual internal audit plans take account of this analysis. The analysis of risk and the internal audit plans are endorsed by the Council's Audit Committee and approved by me.

The HEFCE Audit Service has adopted the new Government Internal Audit Manual standards with effect from 1 April 2002 and has based its audit strategy primarily on the key risks identified by the Council. Internal audit work will incorporate some work on the risk assessment process each year. The HEFCE Audit Service also reviews the internal control arrangements in higher education institutions and provides me with an opinion on the state of internal control in the HE sector each year. From 1 April 2002, this work will become even more risk-based and also take account of the risk management arrangements in institutions.

At least annually, the Chief Auditor provides me with a report on internal audit activity in the Council. The report includes his independent opinion on the adequacy and effectiveness of the Council's system of internal control.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the Audit Committee which oversees the work of the internal auditor, the Directors and senior managers within the Council who have responsibility for the development and maintenance of the control framework, and comments made by the external auditors in their management letter and other reports.

Where improvements that could be made to the system of internal control are identified, and specific actions are agreed, they are implemented within a pre-determined time scale.

Sir Howard Newby
Chief Executive and Accounting Officer
Higher Education Funding Council for England

20 June 2002

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

I certify that I have audited the financial statements on pages 15 to 39 under the Further and Higher Education Act 1992. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 20 and 21.

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

As described on page 10 the Council and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Further and Higher Education Act 1988 and directions made thereunder by the Secretary of State for Education and Skills, and for ensuring the regularity of financial transactions. The Council and the Chief Executive are also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

I review whether the statement on pages 11 and 12 reflects the Council's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion

- The financial statements give a true and fair view of the state of affairs of the Higher Education Funding Council for England at 31 March 2002 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Further and Higher Education Act 1992 and directions made thereunder by the Secretary of State for Education and Skills; and
- In all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

25 June 2002

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure account for the year to 31 March 2002

	Note	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Income			
HM government grants receivable	2	4,776,396	4,431,701
Transfer from deferred grant account	14	296	319
Other income	3	25,709	20,750
		4,802,401	4,452,770
Expenditure			
Grants payable to institutions			
Recurrent and capital expenditure	4	4,642,910	4,356,369
Access and hardship funds	4	95,600	92,465
Provision reversed unused in year	12	(40,618)	0
Council administration costs			
Staff costs	5c	7,301	6,898
Other administration	6	8,435	6,106
Depreciation	7	230	274
		4,713,858	4,462,112
Operating surplus/(deficit) before interest		88,543	(9,342)
Notional interest on capital	8	21,855	23,612
Unwinding of discount	12	(23,622)	(24,096)
Operating surplus/(deficit) after interest		86,776	(9,826)
Reversal of notional interest on capital		(21,855)	(23,612)
Surplus/(deficit) for the period		64,921	(33,438)

All operations are continuing.

The notes on pages 20 to 39 form part of these accounts.

Statement of Total Recognised Gains and Losses as at 31 March 2002

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Surplus/(deficit) per income and expenditure account	64,921	(33,438)
Unrealised surplus/(deficit) on revaluation	2	(1)
Total recognised gains and losses for the year	64,923	(33,439)
Prior year adjustment	0	(399,005)
Total gains and losses recognised since last annual report	64,923	(432,444)

Balance Sheet as at 31 March 2002

	Note	As at 31 March 2002 £000	As at 31 March 2001 £000
Fixed assets			
Tangible assets	7	240	309
Current assets			
Loans to institutions	9a		
falling due within one year		631	261
falling due after one year		11,444	8,512
Debtors	9b	5,352	6,692
Loans to staff	9c	4	8
Cash at bank and in hand	10	17,299	7,055
		<u>34,730</u>	<u>22,528</u>
Creditors			
Amounts falling due within one year	11	(8,208)	(13,727)
Net current assets		<u>26,522</u>	<u>8,801</u>
Total assets less current liabilities		<u>26,762</u>	<u>9,110</u>
Provisions for liabilities and charges	12	(346,496)	(393,696)
Total net assets/(liabilities)		<u>(319,734)</u>	<u>(384,586)</u>
Represented by			
Deferred government grant	14	240	309
Reserves			
General reserve	15	(319,974)	(384,895)
		<u>(319,734)</u>	<u>(384,586)</u>

Sir Howard Newby

Chief Executive

Higher Education Funding Council for England

20 June 2002

The notes on pages 20 to 39 form part of these accounts.

Cash Flow Statement for the year to 31 March 2002

	Year Ended 31 March 2002		Year Ended 31 March 2001	
	£000	£000	£000	£000
Operating activities				
<i>Receipts</i>				
HM Government grant funds received through the DfES				
Programme funds		4,761,854		4,417,444
Running costs		14,542		12,027
Other receipts		28,301		18,021
Repayment of institution loans		261		397
Repayment of staff loans		6		6
		<u>4,804,964</u>		<u>4,447,895</u>
<i>Payments</i>				
Funding paid to institutions		4,775,499		4,465,606
Administration costs		15,704		13,080
Loans to institutions		3,563		6,575
Loans to staff for approved purposes		2		2
		<u>4,794,768</u>		<u>4,485,263</u>
Net cash inflow/(outflow) from operating activities		10,196		(37,368)
Capital expenditure				
Purchase of tangible fixed assets	(225)		(358)	
Sale of fixed assets	<u>48</u>		<u>1</u>	
Net cash outflow from capital expenditure		(177)		(357)
Financing				
Transfer to deferred government grant		<u>225</u>		<u>358</u>
Net cash inflow/(outflow)		<u>10,244</u>		<u>(37,367)</u>

1 Reconciliation of operating surplus to net cash flow from operating activities

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Operating surplus/(deficit)	88,543	(9,342)
Depreciation and impairment	248	287
Release from deferred government grant	(296)	(319)
Decrease/(increase) in debtors and loans	(1,958)	(9,082)
Increase/(decrease) in creditors	(5,519)	13,088
Payment from provisions	(30,204)	(32,000)
Provision reversed unused in year	(40,618)	0
Net cash inflow/(outflow) from operating activities	10,196	(37,368)

2 Reconciliation of net cash flow to movement in net debt

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Net funds at 1 April	7,055	44,422
Increase/(decrease) in cash for the year	10,244	(37,367)
Net funds at 31 March	17,299	7,055

Notes to the Accounts for the year to 31 March 2002

Accounting policies

1 Basis of accounting

These accounts are drawn up in accordance with a Direction (see Appendix 1) given by the Secretary of State for Education and Skills, with the consent of the Treasury and in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1). The accounts are prepared under the historic cost convention, modified by revaluation of fixed assets and in accordance with the requirements of the Companies Act 1985 and Accounting Standards issued or adopted by the Accounting Standards Board with the exception of the requirements of FRS 3 for the inclusion of a note showing historical cost profits and losses.

In accordance with FRS 18 the accounting policies and estimation techniques used are those that are judged to be the most appropriate for the purpose of giving a true and fair view. These policies are reviewed regularly to ensure they remain the most appropriate.

Change in accounting policy for deferred government grant

In accordance with changes in HM Treasury's NDPB Accounting Guidance, movements in the value of fixed assets are no longer taken to the Revaluation Reserve. Where an asset's value is increased as a result of revaluation, the increase is now credited to the Deferred Government Grant reserve. Where an asset is impaired as a result of downward revaluation the charge is taken to the Income and Expenditure account with a corresponding release from Deferred Government Grant. For the year ended 31 March 2001 the Council's Revaluation Reserve was zero. Therefore this change does not result in a Prior Year Adjustment. On disposal of an asset any profit or loss is taken to the I&E account with a corresponding transfer from the Deferred Government Grant. The balance on the Deferred Government Grant reserve is then transferred to the General reserve.

Fixed assets

Expenditure on the acquisition of tangible fixed assets is capitalised at the lower of cost or net book value where the costs for an individual asset, or group of assets, exceed £2,500. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation of each asset evenly over its expected useful life, as follows:

Land and buildings	10 years
Fixtures, fittings and furniture	5 years
Office equipment	4 years
Computer equipment	3 years

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

Grants from the Department for Education and Skills

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

Leases

Rentals payable for operating leases are charged to the I&E account when they fall due.

Grants to institutions

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

Notional costs

Guidance given by the Treasury in respect of NDPBs' Annual Reports and Accounts requires NDPBs to disclose the full cost of their activities in their accounts. The Council has therefore included in its accounts charges for the notional cost of capital. The cost of capital has been arrived at by calculating a rate of 6 per cent to the average capital employed. In accordance with HM Treasury guidance non-interest bearing bank balances with the Office of the Paymaster General and the Bank of England are excluded from the calculation of capital employed.

Pension costs

Employees of the Council are members of the Principal Civil Service Pension Scheme (PCSPS), and the conditions of the Superannuation Acts 1965 and 1972 and subsequent amendments apply to the employees of the Council. The PCSPS is a multi employer defined benefit scheme (treated for accounting purposes as a defined contribution scheme). In the year ended 31 March 2002 the Council paid contributions of £820,000 (2000-2001: £753,000) to the PCSPS. Contribution rates are determined from time to time by the Government Actuary and advised by the Treasury. For 2001-2002 these rates varied between 12 per cent and 18.5 per cent (2000-2001: 12 per cent and 18.5 per cent) of salary depending on staff salary bands.

For staff transferred from a higher education institution the Council pays contributions to the Universities Superannuation Scheme. During the year there have been two members of staff to whom this relates. For 2001-2002 these contributions amounted to £12,000 (2000-2001: £11,000). For 2001-2002 the rate of employers contribution was 14 per cent (2000-2001: 14 per cent) of salary.

Provisions for liabilities and charges

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

A provision has been recognised for inherited staff liabilities. These costs are expected to be incurred until 2020 as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff-related commitments of certain universities and colleges of higher education that were previously maintained by local authorities. These commitments have been recognised on the Balance Sheet as long term liabilities. In accordance with FRS 12 the value shown has been discounted to its net present value at a rate of 6 per cent.

Taxation

The Council does not trade and hence is not liable for Corporation Tax. HM Customs and Excise has granted the HEFCE an exemption from registration for VAT on the basis that taxable supplies made by the Council are wholly or mainly zero-rated.

2 HM Government Grants Receivable

This note shows the Grant in Aid receivable from the DfES during the year. The Grant received is part of the DfES's Resource Account.

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Programmes		
Recurrent and capital expenditure	4,665,435	4,325,457
Vired to running costs	(8)	(133)
Transferred from the Teacher Training Agency	0	2,230
	<u>4,665,427</u>	<u>4,327,554</u>
Running costs		
Administration costs	14,759	12,252
Vired from recurrent programme expenditure	8	133
Transferred to deferred grant	(225)	(358)
	<u>14,542</u>	<u>12,027</u>
Other grant income		
Access funds	87,572	86,568
Post Graduate Certificate in Education	8,855	5,552
	<u>96,427</u>	<u>92,120</u>
Total Grant in Aid	<u>4,776,396</u>	<u>4,431,701</u>

3 Other Income

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Programmes		
<i>Funding receivable from other Councils for joint initiatives</i>		
DEL	1,000	1,248
HEFCW	1,407	2,893
LSC	14,979	9,786
NCETW	269	-
SFEFC	1,300	1,386
SHEFC	2,664	4,357
Miscellaneous programme income	2,760	52
	24,379	19,722
Running costs		
<i>Contributions receivable from other Councils for administration costs</i>		
DEL	225	161
HEFCW	201	113
LSC	205	159
NCETW	12	-
SFEFC	19	0
SHEFC	473	256
<i>Income from activities</i>		
Administration of Foundation Degrees	35	20
Conferences	0	36
Publications	44	44
Reimbursement for international projects	66	11
Service Level Agreement (AHRB)	32	-
Sub-letting of part of premises	0	200
Miscellaneous	18	28
	1,330	1,028
Total other income	25,709	20,750

<i>Glossary</i>	<i>DEL: Department for Employment and Learning (in Northern Ireland)</i>
	<i>HEFCW: Higher Education Funding Council for Wales</i>
	<i>LSC: Learning and Skills Councils</i>
	<i>NCETW: National Council for Education and Training Wales</i>
	<i>SFEFC: Scottish Further Education Funding Council</i>
	<i>SHEFC: Scottish Higher Education Funding Council</i>

4 Analysis of Recurrent and Capital grants

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Basic Recurrent grant	3,904,585	3,880,601
Rewarding and developing staff	53,383	-
Strategic learning and teaching	39,474	43,995
Strategic access and participation	26,684	18,589
Strategic research	29,677	26,116
Strategic business and the community	30,807	22,347
Strategic sector	47,084	25,165
Strategic international	12,926	13,143
Inherited activities	66,226	69,566
National facilities	81,327	64,843
Value for Money, research and development	8,926	6,291
Capital	103,707	84,532
Earmarked capital	238,104	101,181
Total recurrent and capital grants	4,642,910	4,356,369
Access and hardship funds	95,600	92,465
Total	4,738,510	4,448,834

A detailed analysis of the grant expenditure summarised above is given in Appendix 1 to the Accounts.

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

Included in this account are grants to institutions which are subject to verification by the recipients' external auditors that they have been used for their intended purposes. The financial year of institutions ends on 31 July. When this account was prepared all of the audit opinions for the year ended 31 July 2001 had been received and none had been qualified.

5 Salaries and wages

a Board members' emoluments and expenses

The Board consists of up to 15 members, including the Chairman and Chief Executive of the Council. With the exception of the Chief Executive, members are appointed for a term of two or three years by the Secretary of State for Education and Skills. The Chief Executive is appointed by the other members of the Board with the approval of the Secretary of State. Non Executive Board members are eligible to receive an annual honorarium, which is not pensionable. The Chairman's total emolument consists of a salary. The Chairman does not participate in the Council's pension scheme, the Principal Civil Service Pension Scheme (PCSPS).

The amount of the Chief Executive's bonus is decided by the Remuneration Committee, who review performance against an annual personal responsibility plan agreed by the Chairman. The bonus is also approved by the Secretary of State.

During the financial year 2001-2002 a new Chairman and a new Chief Executive were appointed. On 1 October 2001 David Young replaced Sir Michael Checkland as Chairman, and Sir Howard Newby replaced Sir Brian Fender as Chief Executive. The contracts of the current Chairman and Chief Executive will expire on 30 September 2004.

The salary and pension entitlements of the Chairman are given below. Figures shown are full year values unless otherwise stated.

	Year Ended 31 March 2002 £	Year Ended 31 March 2001 £
<i>Emoluments of the Chairman, David Young</i>		
Age at 31 March 2002	60	
Number of years service at 31 March 2002	1	
Basic salary upon appointment 1 October	40,000	-
Remuneration received during the financial year*	20,000	-
<i>Emoluments of the previous Chairman, Sir Michael Checkland</i>		
Age at 31 March 2002	66	
Number of years service at 31 March 2002	4	
Basic salary as at 1 April	42,965	38,100
Remuneration received during the financial year**	28,497	38,100

* From 1 October 2001 until 9 March 2002 David Young was paid directly by John Lewis plc. The subsequent reimbursement from the HEFCE includes VAT at the standard rate. As a result the total paid for David Young's services during the year was £22,947.

** The remuneration received by Sir Michael Checkland during the financial year 2001-2002 includes £7,010 relating to back pay for the period from 1 April 1998 to 31 March 2001.

Board members' emoluments and expenses (continued)

The salary and pension entitlements of the Chief Executive are given below. Figures shown are full year values unless otherwise stated.

	Year Ended 31 March 2002 £	Year Ended 31 March 2001 £
<i>Emoluments of the Chief Executive, Sir Howard Newby CBE</i>		
Age at 31 March 2002	54	
Number of years service at 31 March 2002	1	
Basic salary upon appointment 1 October	120,000	-
Pay increase including performance related pay	0	-
Basic salary as at 31 March	120,000	-
Bonus	12,000	-
Pension contributions (USS)*	16,800	-
Salary (including pension contributions)	148,800	-
Additional travel costs (benefit in kind)	126	-
	148,926	-
Remuneration received during the financial year	66,126	-
Pension increase (net of inflation)	812	-
Total accrued pension at 31 March	46,463	-
<i>Emoluments of the previous Chief Executive, Sir Brian Fender CMG</i>		
Age at 31 March 2002	67	
Number of years service at 31 March 2002	6	
Basic salary as at 1 April	104,100	101,100
Pay increase including performance related pay	3,200	3,000
Basic salary as at 31 March	107,300	104,100
Bonus	10,730	10,410
Pension contributions (PCSPS)	19,851	19,259
Salary (including pension contributions)	137,881	133,769
Allowance for additional travel costs	16,000	16,000
	153,881	149,769
Remuneration received during the financial year	67,016	149,769
Pension increase (net of inflation)	582	1,282
Total accrued pension at 31 March	8,588	7,157

- * As a member of staff recently transferred from a higher education institution the Chief Executive is a member of the Universities Superannuation Scheme, rather than the PCSPS. Employers contributions to the USS were paid by the University of Southampton until 30 September 2002, and by the HEFCE thereafter.

Board members' emoluments and expenses (continued)

Non Executive Honoraria		Year Ended 31 March 2002 £	Year Ended 31 March 2001 £
Mr Anthony Booth CBE	(to December 2001)	2,667	4,000
Mr Stephen Bundred		4,000	4,000
Professor Marilyn Butler	(to September 2000)	-	2,000
Mr Richard Coldwell	(from December 2000)	4,000	1,333
Professor Sir Ron Cooke		4,700	4,700
Dr David Fussey	(to March 2000)	-	4,000
Ms Caroline Neville		4,000	4,000
Dr David Potter CBE		4,000	4,000
Professor Sir Gareth Roberts		4,000	4,000
Professor Peter Scott	(from December 2000)	4,000	1,333
Ms Barbara Stephens	(to October 2001)	2,000	4,000
Professor Lord Stewart Sutherland	(to December 2001)	2,667	4,000
Dr John Taylor		0	0
Ms Dorma Urwin		4,000	4,000
		40,034	45,366

In lieu of an honorarium Professor Sir Ron Cooke is paid directly by the University of York. The subsequent reimbursement from the HEFCE to the University of York includes VAT. Of the total payment this year Professor Sir Ron Cooke received £4,000 in lieu of an honorarium for his services provided in 2001-2002.

Before his death in March 2000 Dr David Fussey was re-appointed by the DfES for the whole of the financial year 2000-2001, hence his honorarium was paid in full.

Dr John Taylor is a Board member as part of his duties for the Office of Science and Technology and therefore is not entitled to an honorarium.

b Senior employees

The salary and pension entitlements of the most senior members of the HEFCE were as follows:

		Year Ended 31 March 2002 £	Year Ended 31 March 2001 £
<i>Emoluments of the Director of Finance and Corporate Resources, Steve Egan</i>			
Age at 31 March 2002	44		
Number of years service at 31 March 2002	5		
Basic salary as at 1 April		70,124	67,040
Pay increase including performance related pay		7,012	3,084
Basic salary as at 31 March		77,136	70,124
Pension contributions		14,274	12,974
Salary (including pension contributions)		91,410	83,098
Pension increase (net of inflation)		1,292	915
Total accrued pension at age 60 at 31 March		5,303	3,944
<i>Emoluments of the Director for Institutions, Stephen Marston</i>			
Age at 31 March 2002	40		
Number of years service at 31 March 2002	3		
Basic salary as at 1 April		67,017	64,070
Pay increase including performance related pay		6,702	2,947
Basic salary as at 31 March		73,719	67,017
Pension contributions		13,642	12,399
Salary (including pension contributions)		87,361	79,416
Pension increase (net of inflation)		2,138	1,009
Total accrued pension at age 60 at 31 March		17,048	14,660
<i>Emoluments of the Director of Policy, Bahram Bekhradnia</i>			
Age at 31 March 2002	53		
Number of years service at 31 March 2002	9		
Basic salary as at 1 April		75,316	71,906
Pay increase including performance related pay		4,733	3,226
Increase in London weighting		43	184
Basic salary as at 31 March		80,092	75,316
Non consolidated bonus		462	0
Pension contributions		14,820	13,935
Salary (including pension contributions)		95,374	89,251
Pension increase (net of inflation)		2,454	1,239
Total accrued pension at age 60 at 31 March		30,459	26,821

c Staff costs

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Salaries	5,974	5,659
National Insurance contributions	478	475
Pension costs	849	764
	7,301	6,898

Salaries

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

During 2001-2002 the HEFCE agreed with its staff a three year deal on annual pay settlements. Pay settlements consist of an element of revaluation to take account of the effects of inflation, and an element of progression related to performance against objectives. Annual settlements are awarded from 1 August each year (1 April for Directors) and relate to individuals' performance in the previous financial year. Awards are paid as consolidated increases in basic pay up to the maximum rate for the job, and as non consolidated lump sums above it. Members of staff are also eligible for a non consolidated performance related bonus.

Pension benefits

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is a defined benefit scheme notionally funded and backed by the UK Government. It provides benefits on a final salary basis at a normal retirement age of 60. Benefits accrue at a rate of 1/80th of pensionable salary for each year of service. In addition a lump sum equivalent to three years' pension is payable on retirement.

Members of the PCSPS pay contributions of 1.5 per cent of pensionable earnings. Pensions increase in payment in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed ten years. 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.

For staff transferred from a higher education institution the Council pays contributions to the Universities Superannuation Scheme (USS). The USS is a defined benefit scheme which publishes its own accounts and has its own assets and liabilities held in trust. Members of the USS pay contributions of 6.35 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of three times pensionable pay.

Staff costs (continued)**Pensions**

The Council contributes to two pension schemes, the PCSPS and the USS.

The PCSPS is an unfunded multi employer defined benefit scheme notionally backed by the Government. The Council is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2000 and details can be found in the separate scheme statement of the PCSPS. For 2001-2002 normal employer contributions were payable to the PCSPS at rates in the range of 12 per cent to 18.5 per cent of pensionable pay. It has been agreed that contributions will remain at this level for the next two years. Employer contribution rates are reviewed every three years following a scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and they reflect past experience of the scheme.

The USS is a multi employer defined benefit scheme and the Council is unable to identify its share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis.

In accordance with HM Treasury guidance the Council has accounted for both these schemes as if they were defined contribution schemes.

Pension contributions payable by the HEFCE for the accounting period 2001-2002 are as follows:

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Principal Civil Service Pension Scheme	820	753
Universities Superannuation Scheme	12	11
	832	764

In addition to the expenditure shown above, during 2001-2002 the HEFCE made payments to PCSPS for a total of £17,000 in respect of back dated contributions for individual members of staff. There are no outstanding or prepaid contributions as at 31 March 2002.

Staff numbers

	Year Ended 31 March 2002 Number	Year Ended 31 March 2001 Number
The average number of staff employed excluding the Chief Executive, was		
Directorate of Finance and Corporate Resources	79	75
Directorate for Institutions	78	75
Policy Directorate	83	86
Central and Support staff	5	4
	245	240

6 Other administration

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Agency costs; temporary staff	502	285
Audit fee; external audit	28	28
Committee members, advisers and quality assessment inspectors fees and associated travel and subsistence costs	2,511	650
Consultancy fees	210	195
Council members honoraria and associated travel and subsistence costs	55	55
General administrative payments	788	806
Hospitality	6	6
Premises	2,034	1,999
Publications, printing, publicity	439	317
Recruitment and training	477	570
Relocation expenditure	2	6
Revaluation of assets	18	13
Telephone and postage	421	293
Travel and subsistence for staff	944	884
Less profit on sale of fixed assets	0	(1)
	8,435	6,106

The auditors received no remuneration for non audit services.

Annual commitments under operating leases are as follows

a Land and buildings

Leases expiring within

One year	0	0
Two to five years	226	0
More than five years	869	961
	1,095	961

b Others

Leases expiring within

One year	5	28
Two to five years	38	22
More than five years	0	0
	43	50

7 Tangible fixed assets

	Land & buildings	Furniture & office equipment	Computers & vehicles	Total
	£000	£000	£000	£000
Cost or valuation				
At 1 April 2001	10	665	1,535	2,210
Revaluation	0	4	(33)	(29)
Additions	0	7	218	225
Disposals	0	(450)	(1,458)	(1,908)
At 31 March 2002	<u>10</u>	<u>226</u>	<u>262</u>	<u>498</u>
Depreciation				
At 1 April 2001	8	585	1,308	1,901
Charge for period	1	43	186	230
Revaluation	0	2	(15)	(13)
Disposals	0	(450)	(1,410)	(1,860)
At 31 March 2002	<u>9</u>	<u>180</u>	<u>69</u>	<u>258</u>
Net book value				
At 31 March 2001	<u>2</u>	<u>80</u>	<u>227</u>	<u>309</u>
At 31 March 2002	<u>1</u>	<u>46</u>	<u>193</u>	<u>240</u>

During the year assets with a net book value of £48,000 were transferred to the Arts and Humanities Research Board as a result of the AHRB becoming a separate legal entity. This transfer of assets is shown in the figures above.

8 Notional costs

The cost of capital has been arrived at by calculating a rate of 6 per cent to the average capital employed.

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

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Capital employed as at 1 April	(391,548)	(395,502)
Capital employed as at 31 March	(336,949)	(391,548)
Average capital employed	<u>(364,248)</u>	<u>(393,525)</u>
Notional interest on capital at 6.00%	<u>21,855</u>	<u>23,612</u>

9a Loans to institutions

	As at 31 March 2002 £000	As at 31 March 2001 £000
Balances as at 1 April	8,773	2,595
Advances during the year	3,563	6,575
Repayments during the year	(261)	(397)
Balances as at 31 March	<u>12,075</u>	<u>8,773</u>

None of the above loans are interest bearing.

	As at 31 March 2002 £000	As at 31 March 2001 £000
Balances at 31 March repayable		
within one year	631	261
after one year	11,444	8,512
	<u>12,075</u>	<u>8,773</u>

As at 31 March 2002, 4 institutions (2001: 3) had loans outstanding of £1,000,000 or more. The total value of these loans was £8,887,500 (2001: £7,000,000).

9b Debtors

	As at 31 March 2002 £000	As at 31 March 2001 £000
Programme debtors: contributions due from other Councils	4,656	5,863
Trade debtors	220	176
Other debtors	76	353
Prepayments	400	300
	<u>5,352</u>	<u>6,692</u>

9c Staff loans

	As at 31 March 2002 £000	As at 31 March 2001 £000
Balances as at 1 April	8	12
Advances during the year	2	2
Repayments during the year	(6)	(6)
Balances as at 31 March	<u>4</u>	<u>8</u>

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

	As at 31 March 2002 £000	As at 31 March 2001 £000
Balances at 31 March repayable within		
One year	3	4
Two to five years	<u>1</u>	<u>4</u>
	<u>4</u>	<u>8</u>

As at 31 March 2002, no members of staff (2001: 2) had loans outstanding in excess of £2,500.

10 Details of balances at year end

	As at 31 March 2002 £000	As at 31 March 2001 £000
Cash held at the Bank of England		
in respect of programme funds	17,110	6,871
in respect of running costs	105	91
Cash held at other banks and in hand		
for running costs	1	12
other funds held for the JISC European Networking Group	83	81
	17,299	7,055

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

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

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Programme funds		
Grant received	4,665,427	4,325,324
2% thereof	93,309	86,506
Balances as above	17,110	6,871
Running costs		
Grant received	14,767	12,385
2% thereof	295	248
Balances as above	106	103

From the financial year 2001-2002 onwards the DfES authorises a working balance in resource terms at 31 March of the relevant amount relating to slippage on capital programmes and a further £10,000,000 relating to other programmes. The HEFCE's resource balances at 31 March 2002 are as follows

Programme funds	
Capital	18,220
Programmes	6,072
	24,292

11 Creditors: amounts falling due within one year

	As at 31 March 2002 £000	As at 31 March 2001 £000
Programme accruals	7,942	13,476
Trade creditors	52	59
Running costs accruals	131	111
Other creditors: European Networking Group	83	81
	8,208	13,727

12 Provisions for liabilities and charges

	As at 31 March 2002 £000	As at 31 March 2001 £000
Balance of provision at 1 April	393,696	401,600
Additional charge in year	0	509
Provision utilised in year	(30,204)	(32,509)
Provision reversed unused in year	(40,618)	0
Unwinding of discount	23,622	24,096
Balance of provision at 31 March	346,496	393,696

A provision has been recognised for inherited staff liabilities. These costs will be incurred as a result of the Council's statutory obligation arising from section 67 of the Further and Higher Education Act 1992. Under this section of the Act the HEFCE is responsible for funding staff related commitments of certain universities and colleges of higher education that were previously maintained by local authorities.

During the year a review by the HEFCE has indicated that these costs are likely to be incurred until 2020, rather than until 2025 as previously estimated. As a result the amount of provision necessary is significantly lower than last year. The provision reversed unused during the financial year reflects the revised estimate of costs to be incurred.

The provision has been recognised on the Balance Sheet as a long term liability. In accordance with FRS 12 the value shown has been discounted to its net present value at a rate of 6 per cent.

13 Financial commitments and contingent liabilities as at end of period

Recurrent expenditure for institutions is approved by the HEFCE Board on an academic year basis (1 August to 31 July). As at 31 March 2002 there are no contingent liabilities.

	As at 31 March 2002 £000	As at 31 March 2001 £000
The amount of grant committed for the period April to July 2002 is	1,598,590	1,461,888
The amount of grant committed for the academic year 2002-2003 is	5,076,000	4,757,000

Whilst there is no statutory obligation to do so, the HEFCE funds certain capital commitments for universities and colleges that were previously maintained by local authorities. These commitments are claim based and their value for 2002-2003 cannot be accurately measured (the equivalent value in the financial year 2001-2002 was £38,700,000).

14 Deferred government grant

	As at 31 March 2002 £000	As at 31 March 2001 £000
Balances at 1 April	309	270
Allocated from Grant in Aid (purchase of capital assets)	225	358
Revaluation increase	2	0
Released for the year	(296)	(319)
Balances at 31 March	240	309

Deferred capital grant represents funding used to finance the purchase of fixed assets. The release to the Income and Expenditure account in year represents the depreciation charge together with the charge to the I&E for impairment of fixed assets (downward revaluation) and the remaining net book value of any assets sold (in this case £48,000 to AHRB as detailed in Note 7).

15 General reserve movements

	As at 31 March 2002 £000	As at 31 March 2001 £000
Access and hardship funds		
Balance as at 1 April	673	1,018
Surplus/(deficit) for the year	827	(345)
Balance as at 31 March	1,500	673
Programme grant		
Balance as at 1 April	(386,096)	(352,907)
Surplus/(deficit) for the year	63,892	(33,189)
Balance as at 31 March	(322,204)	(386,096)
Running costs		
Balance as at 1 April	528	433
Surplus/(deficit) for the year	202	96
Deficit on revaluation reserve	0	(1)
Balance as at 31 March	730	528
Total		
Balance as at 1 April	(384,895)	(351,456)
Surplus/(deficit) for the year	64,921	(33,438)
Deficit on revaluation reserve	0	(1)
Balance as at 31 March	(319,974)	(384,895)

16 Reconciliation of movement in funds

	As at 31 March 2002 £000	As at 31 March 2001 £000
Opening balance	(384,895)	(351,456)
Surplus/(deficit) per Income and Expenditure account	64,921	(33,438)
Other recognised gains and losses for the year	0	(1)
Net reduction in funds	64,921	(33,439)
Closing balance: general reserve	(319,974)	(384,895)

17 Related party transactions

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

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

- Grants to the University of Surrey, where **Anthony Booth** is a governor.
- Grants to City University, where **Stephen Bundred** is a member of the council.
- Grants to the University of Brighton, where **Sir Michael Checkland**, HEFCE Chairman to September 2001, is a governor.
- Grants to the University of North London, where **Richard Coldwell** was Chair of governors until June 2000; and to The Institute of Education where he has been a member of the council since February 2001.
- Grants to the University of York, whose Vice-Chancellor is **Professor Sir Ron Cooke**; and to UK eUniversities Worldwide Ltd where he is a director.
- Grants to UK eUniversities Worldwide Ltd, where **Sir Brian Fender**, a board member to September 2001, is a director.
- Grants to Norwich City College of Further and Higher Education, whose Principal is **Caroline Neville**; and to Anglia Polytechnic University where she is a governor.
- Grants to the University of Southampton, where **Sir Howard Newby**, a board member from October 2001, was Vice-Chancellor until September 2001.
- Grants to Imperial College, where **Dr David Potter**, a board member, is Chairman of the College Seed Fund.
- Grants to the University of Sheffield, whose Vice-Chancellor until December 2000 was Professor Sir Gareth Roberts; and to Wolfson College Oxford, where he is President.
- Grants to Kingston University, whose Vice-Chancellor is **Professor Peter Scott**; and to St George's Hospital Medical School, where he is a member of the council.
- Though the HEFCE allocates grants only to English institutions it should be noted that **Professor Lord Stewart Sutherland** is Principal of the University of Edinburgh.
- Grants to University College Worcester, whose Principal is **Dorma Urwin**; to the University of Coventry, where she is a governor; and to UK eUniversities Worldwide Ltd, where she is a director.
- Funding allocations to the Open University, where **David Young**, a board member from June 2001, was Honorary Treasurer until May 2001.

The Council has had no material transactions with companies whose directors are closely associated with the Council. In this context, closely associated refers to existing or former Council board members, or directors.

Board members, former board members and directors have other relationships through family members who are employees or students at institutions funded by the Council or through membership of governing bodies. These do not give rise to material transactions which need to be disclosed.

Details of relationships are held in the Council's register of interests which is available for inspection at the Council's offices in Bristol by appointment.

Appendix 1

Full analysis of recurrent and capital grants as summarised in Note 4 to the Annual Accounts: unaudited

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Basic recurrent grant	3,904,585	3,880,601
Rewarding and developing staff	53,383	-
Strategic learning and teaching		
Existing projects	940	2,757
Higher Education in Further Education colleges	2,747	5,037
Learning and teaching development	27,273	26,302
Minority subjects	3,005	3,675
Quality Assurance Agency	5,509	6,224
	39,474	43,995
Strategic access and participation		
Excellence challenge	6,000	-
Foundation degrees/graduate apprenticeships	5,600	1,561
Initiatives (access and participation)	9,340	9,309
Millennium summer schools	3,577	5,319
Support for access administration costs	2,167	2,400
	26,684	18,589
Strategic research		
Collaborative research scheme	17,447	17,021
Research into teaching and learning	3,077	386
Research support libraries programme	8,575	7,742
Specialist research libraries in the humanities	578	967
	29,677	26,116
Strategic business and the community		
Active community fund	612	-
HEROBC	21,699	20,120
Higher Education Innovation fund	4,723	-
DfES Innovations fund	3,773	2,227
	30,807	22,347
Strategic sector		
Collaboration and restructuring fund	32,156	25,059
e-University	14,928	106
	47,084	25,165
Strategic international		
Chinese studies initiative	1,221	948
International Initiatives	118	236
Overseas Research Students Awards Scheme	11,587	11,959
	12,926	13,143

Full analysis of recurrent and capital grants: unaudited (continued)

	Year Ended 31 March 2002 £000	Year Ended 31 March 2001 £000
Inherited activities		
College fees	9,325	10,527
Dance and drama	6,174	3,939
Inherited liabilities	38,700	43,111
London	10,602	9,909
Miscellaneous	(578)	0
Tomlinson staff restructuring	2,003	2,080
	66,226	69,566
National facilities		
Arts and Humanities Research Board	32,717	22,327
Copyright libraries	2,592	2,529
HERO phase two	43	-
Joint Information Systems Committee	45,244	39,241
Marine biology field station	314	266
National flying laboratory centre	417	480
	81,327	64,843
Value for money, research and development		
Costing and pricing initiative	946	850
Equal opportunities	350	162
Estates good practice	268	280
Fund for development of good management practice	2,810	1,488
PPP/PFI initiatives	1,202	994
Procurement initiatives	263	105
VFM and institutional studies	3,087	2,412
	8,926	6,291
Capital		
Joint research equipment initiative	17,526	21,888
Laboratory refurbishment initiative	2,769	4,714
MAN initiative	2,077	3,930
Medical capital	22,126	4,136
Poor estates initiative	53,883	49,275
Tomlinson	5,326	589
	103,707	84,532
Earmarked capital		
Access to electronic information	2,493	2,102
Science Research Investment fund	27,343	-
Project capital	156,887	60,961
Joint Infrastructure fund	43,510	15,464
SuperJANET network	7,871	22,654
	238,104	101,181
Total recurrent and capital grants	4,642,910	4,356,369
Access and hardship funds	95,600	92,465
	4,738,510	4,448,834

Full analysis of recurrent and capital grants: unaudited (continued)

Basic recurrent grant

Block grant for teaching and research.

Rewarding and developing staff

Funding for HEIs strategies to recruit, retain, and develop staff, and to help modernise management processes in the sector.

Existing projects

Fund for the development of teaching and learning (FDTL): a joint initiative with DEL to stimulate developments in teaching and learning, and to promote the dissemination of good practice. Teaching and learning technology programme (TLTP): the Council's contribution to the Teaching and Learning Technology Programme to encourage the greater use of Information Technology in teaching and learning.

Higher Education in Further Education colleges

Funding to promote the development of higher education in further education colleges.

Learning and teaching development

Institutional, subject and individual strands of the Teaching Quality Enhancement fund to promote and reward excellence in teaching.

Minority subjects

Additional funding for subjects which are unlikely to attract a ratio of students to staff that could be maintained through basic recurrent grant.

Quality Assurance Agency

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

Excellence challenge

Grant for institutions, plans to increase access, raise aspirations, and widen the participation in higher education of under represented groups.

Foundation degree prototypes and graduate apprenticeships

Foundation Degrees: funding to develop and launch new intermediate-level qualifications, in partnership with employers. Graduate Apprenticeships: frameworks combining existing HE qualifications with work-based learning underpinned by NVQ and Key Skills unit.

Initiatives (access and participation)

Targeted funding to promote widening participation in under-represented social groups. Under the scheme projects investigate new approaches to widening participation and to improving graduate employability amongst disabled students and those from ethnic minority backgrounds.

Millennium summer schools

Part of the Excellence in Cities initiative, this programme provides year 11 and 12 school pupils to experience higher education for a week at selected universities and colleges.

Support for access administration costs

Contribution to the administration costs of Access Funds borne by HEIs.

Full analysis of recurrent and capital grants: unaudited (continued)**Collaborative research scheme**

Funding to encourage collaborative research, primarily between former Polytechnics and Colleges Funding Council funded institutions.

Research into teaching and learning

Programme to support pedagogic research into teaching and learning.

Research support libraries programme

Funding to recognise additional costs of providing external access to research libraries.

Specialist research libraries in the humanities

Funding to support the additional costs of certain specialised research collections widely used by researchers throughout the higher education sector.

Active community fund

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

Higher Education Reach Out to Business and the Community (HEROBC)

Funding to promote the application of knowledge from teaching and research activities in collaboration with industry, business and the community.

Higher Education Innovation fund

Special funding for activities that will increase HEI's capability to respond to the needs of business where this will lead to identifiable economic benefits.

Innovations fund

Funding to support development projects which apply new ideas to important current issues in HE, and which have a real prospect of leading to significant and widespread improvements.

Collaboration and restructuring fund

Funding to support strategic changes within the higher education sector and to support collaborative activity between higher education institutions.

e-University

Start up and capital costs for the eUniversity project.

Chinese studies initiative

Funding to strengthen and expand the provision for teaching and research in Chinese studies.

International initiatives

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

Overseas Research Students Award Scheme

The Council's contribution to the Overseas Research Students Awards Scheme to attract high quality overseas research students to institutions in Britain.

Full analysis of recurrent and capital grants: unaudited (continued)

College fees

Phasing out over ten years of additional funding to the Universities of Cambridge and Oxford following the abolition of the undergraduate tuition fee in 1999-2000.

Dance and drama

Scheme to allow dance and drama students to exploit their talents through the provision of funding reflecting the average costs of courses, taking account of student contributions to fees.

Inherited liabilities

Reimbursement in respect of liabilities inherited by the institutions formerly under the control of local authorities or former colleges of advanced technology, when these were incorporated as independent institutions, including the reimbursement of leasehold rentals.

London

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

Miscellaneous

Other funding for teaching and research not included in formula allocations or included above.

Tomlinson staff restructuring

Contributions to joint programme with Department of Health to meet costs of clinical staff reductions following integration of free-standing undergraduate medical schools into the multi-faculties colleges of the University of London.

Arts and Humanities Research Board

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

Copyright libraries

Additional funding for copyright libraries that allow free access to researchers from within the United Kingdom higher education community.

Higher Education and Research Opportunities (HERO) phase two

Funding to allow this HE portal to develop its services during the second stage of operation to August 2005.

Joint Information Systems Committee

The Council's contribution to the Joint Information Systems Committee (JISC) to fund sector wide networking and access to datasets.

Marine biology field station

Funding for national cold water marine station at Millport.

National flying laboratory centre

Funding for national facility offering flying time for aeronautical courses.

Costing and pricing initiative

Promotion of increased accountability to stakeholders, improved management information and the integration of academic and financial decision making.

Full analysis of recurrent and capital grants: unaudited (continued)**Equal opportunities**

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

Estates good practice

Promoting research, innovation and strategic change in estates and facilities management.

Fund for the development of good management practice

Funding for projects that develop the application of good management practice in HEIs.

Public Private Partnerships and Private Finance Initiatives

Promotion of the Private Finance Initiative (PFI) and other forms of Public Private Partnership (PPP) through the use of pathfinders; and addressing VAT barriers to PFI solutions.

Procurement initiatives

Promotion of effective procurement and increased collaboration within the HE sector.

Value For Money (VFM) and institutional studies

Project funding for specific topic or institutional studies. Includes funding of projects within the Council's own research and development programme in support of its strategic aims.

Joint research equipment initiative

Funding, in conjunction with the Research Councils, to enable institutions to purchase expensive pieces of research equipment with the help of matched funding from industry.

Laboratory refurbishment initiative

Funding to refurbish laboratories to address the infrastructure shortfall as a whole, as identified by surveys of research equipment.

Metropolitan Area Networks (MAN) initiative

Funding to enable the development of new Metropolitan Area Networks (MANs), the enhancement of existing MANs.

Medical capital

Contributions to the capital and start up costs resulting from the expansion of intakes to medical schools.

Poor estates initiative

Funding to replace or refurbish sector buildings that are in poor condition.

Tomlinson

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

Access to electronic information

The development of the Distributed National Electronic Resource (DNER): infrastructure and content to support research, teaching and learning.

Full analysis of recurrent and capital grants: unaudited (continued)

Science Research Investment fund

Funding for major projects which will have a significant impact on HEI's research infrastructure.

Project capital

Formulaic distribution of earmarked funding to assist with improving research and teaching facilities, laboratories and equipment.

Joint Infrastructure fund

Earmarked funding to address past under-investment in the research infrastructure. Specific project funding for institutions' priority areas and to contribute to the joint infrastructure fund.

SuperJANET network

The development of SuperJANET 4 to increase bandwidth, capacity and resilience of the JANET backbone and the MANs that link to it.

Access and hardship funds

Funding to HEIs to provide financial help to those whose access to higher education is inhibited by financial considerations or who face difficulties associated with their living costs. Includes bursaries for teacher training (Post Graduate Certificate in Education).

Appendix 2

Accounts Direction given by the Secretary of State for Education and Skills in respect of Accounts from 1 April 2001

The Secretary of State for Education and Skills with the approval of the Treasury, in accordance with the Further and Higher Education Act 1992 (paragraph 16(1) of Schedule 1) and the Financial Memorandum between the Department for Education and Skills and the Higher Education Funding Council for England, gives the following Accounts Direction.

- 1 The annual accounts shall give a true and fair view of the income and expenditure and cash flows for the financial year, and the state of affairs as at the year-end.
- 2 Subject to this requirement the HEFCE shall prepare accounts for the financial year from 1 April 2001 to 31 March 2002 and subsequent financial years in accordance with
 - a Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance;
 - b other guidance which the Treasury may issue from time to time in respect of accounts which are required to give a true and fair view;
 - c any other specific disclosures required by the Secretary of State;

except where agreed otherwise with the Treasury, in which case the exception shall be described in the notes to the accounts.

Signed by authority of the Secretary of State for Education and Skills

Michael Hipkins
 Divisional Manager
 Higher Education Funding and Organisation Division
 Department for Education and Skills

9 October 2001

Appendix 2

Accounts Direction given by the Secretary of State for

Education and Skills in respect of Accounts from 1 April 2001

The Secretary of State for Education and Skills has given the following directions to the Higher Education Funding Council for England (HEFCE) in respect of its accounts from 1 April 2001:

1. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994.

2. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994, as amended from time to time.

3. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994, as amended from time to time.

4. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994, as amended from time to time.

5. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994, as amended from time to time.

6. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994, as amended from time to time.

7. The annual accounts shall be prepared in accordance with the provisions of the Companies Act 1985 and the Companies (Accounts) Regulations 1994, as amended from time to time.

✓

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline

Lo-call 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

