

Higher Education Funding Council for Wales Annual report and accounts

For the year ended 31 March 2018



Noddir gan
Lywodraeth Cymru
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Annual report and accounts

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In this document financial year is shown as 2017-18 (April – March) and academic year is shown as AY16/17 or AY17/18 (August – July)

Performance report

Overview

The purpose of the 'overview' section is to give the user a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year.

Accounting Officer's statement on performance

2017 saw the full provisions of the Higher Education (Wales) Act 2015 ('the HE Act') coming into force. We have continued to modify our own role, with arrangements around fee planning and quality assurance changing, and our role as a higher education regulator strengthening. We continue to work with Welsh higher education providers, both universities and further education colleges, to secure a smooth transition and to ensure that our new duties are carried out effectively. We have also been working with Welsh Government colleagues in preparation for assuming responsibilities for Specific Designation of providers for which we will become responsible in 2018-19.

We have continued to give consideration to the most effective ways of targeting our funding, following a £21.3m reduction in our initial grant-in-aid funding allocation for 2017-18 compared with 2016-17. The impact of this reduction was largely offset by in-year additions to our grant-in-aid funding which amounted to £19.8m. We continue to work with Welsh Government to implement the recommendations of Professor Sir Ian Diamond on higher education and student finance arrangements. We welcome the indication from the Cabinet Secretary that we can expect to see annual increases in our budget, resulting from the Diamond implementation, in future years.

In October, we responded to the Welsh Government consultation 'Public Good and a Prosperous Wales – Building a reformed PCET system' which followed their acceptance in principle of the recommendations of the report 'Towards 2030' by Professor Ellen Hazelkorn. We continue to support the concept of a single intermediary body with responsibility for post-compulsory education and training and look forward to the publication of the next stage in the consultative process.

There are seventeen targets in HEFCW's [Corporate Strategy 2013-14 to 2016-17](#), baseline data for which was academic year 2011/12. These relate to the performance of the HE sector in Wales. Details [of progress against the Corporate Strategy](#) measures can be found on our website.

The tasks in our operational plan focus on priorities identified by the Welsh Government in its annual remit letter to us. Excellent progress was made, with 142 activities, from a total of 154 completed, with the remainder being deferred due to external factors.

About HEFCW

The Higher Education Funding Council for Wales (HEFCW) funds and regulates fee levels at higher education providers, ensures a framework is in place for assessing the quality of higher education and scrutinises the performance of universities and other designated providers.

HEFCW has a simple business model, to receive and to distribute its allocated funding each year by using resources from the Welsh Government and others to secure higher education (HE) learning and research of the highest quality and make the most of the contribution of HE to Wales's culture, society and economy and ensure high quality, accredited teacher training. This has been carried out within the context of a 1.2% decrease in total overall funding resources compared with 2016-17.

HEFCW is governed by a non-executive Council consisting of a Chair and up to ten other Council Members. In addition, HEFCW's Chief Executive is also a member of the Council. The HEFCW Management Board is responsible for HEFCW's management and operations. HEFCW has a staff of 44 divided into four teams, each headed by a member of the Management Board.

The key elements of our strategy for this period were set out in our Corporate Strategy 2013-14 to 2017-18 (extended with Welsh Government approval to end of August 2017), with the new corporate strategy operational from April 2018 to end of March 2020. The final year of the Corporate Strategy targets under the previous strategy is therefore 2017-18.

Our strategic themes are set out in the new HEFCW Corporate Strategy 2017 to 2020:

In pursuit of sustainable, accessible, internationally excellent higher education in Wales, we will:

- Fund higher education
- Regulate higher education providers
- Influence higher education with evidence-based advice and strong partnership working
- Work in partnership with students
- Operate effectively as an organisation.

Key developments in year

HEFCW's new regulatory powers under the *Higher Education (Wales) Act 2015* became law on 12 March 2017 and we were required to put in place from 1 August 2017 a range of regulatory processes and procedures. Our key activities this financial year with respect to our regulatory responsibilities included:

- Publishing a new [Financial Management Code](#), setting out provisions on the organisation and management of financial affairs of the institutions we regulate.
- Publishing a new [Quality Assessment Framework for Wales](#), setting out the mechanism through which we will get assurance that the quality of education, or courses of education, provided by or on behalf of regulated institutions, meets the needs of those receiving it. The new Framework places a greater emphasis on the role of the governing bodies in providing assurances about the quality and standards at their institutions.
- Introducing new [Student Charter Guidance](#) around ensuring that regulated providers have in place protective arrangements for students who have started courses, in the event the provider no longer has an approved fee and access plan.
- Introducing a new [gateway quality review process](#) setting out the quality threshold for fee and access plans for new providers wishing to apply for automatic designation.

We consulted with our stakeholders on a new [Corporate Strategy for 2017-20](#). Our new Strategy focuses on what we will do as an organisation rather than on what we expect HE providers to deliver. Achieving our Corporate Strategy objectives over the next three years also will contribute to our well-being objective as set out in our [Well-being Statement](#). We began this year to take forward one of our Corporate Strategy commitments by consulting on the development of a set of [national measures for higher education performance](#).

HEFCW published its equality annual report which is a requirement of the Equality Act 2010 and Public Sector Equality Duty, and included for the first time data and analysis on the gender pay gap.

The Welsh Government announced in January 2017 its support of the recommendations put forward by *The Review of Higher Education Funding and Student Finance Arrangements in Wales* (the Diamond Review). We have continued this year to contribute to the Welsh Government's Diamond Implementation Group. We took action on one of the Diamond Review recommendations by consulting on and publishing [guidance on how HEFCW will monitor and compare the prices of various student goods – the “basket of goods” - within HE providers](#). As the full set of Diamond recommendations are implemented, we look forward to seeing additional resource returning to HEFCW for allocation to HE providers in support of Welsh Government priority areas.

We also contributed this year to the Evidence Panel for the Welsh Government's [Review of government-funded research and innovation in Wales](#) being conducted by Professor Graeme Reid. We look forward next financial year to the publication of the Reid Review report and the Welsh Government's response to its recommendations.

In February 2018 we received confirmation from the Cabinet Secretary for Education that HEFCW would receive funding to support degree apprenticeships in Wales from academic year 2018/19. Around £20m is to be allocated to HEFCW for the first three years of the degree apprenticeships programme, £3m of which is expected to come next

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financial year to enable us to support delivery during 2018/19. We have been informed that initial Welsh Government priorities for degree apprenticeships are in the areas of IT/Computing and Engineering/Advanced Manufacturing.

During the year, the Welsh Government made a number of additional funding allocations, both revenue and capital for a range of purposes outlined in a [revision](#) to our remit letter.

We responded to the Welsh Government consultation on its White Paper *Public Good and a Prosperous Wales*, where we noted that we supported the fundamental idea in the proposals of establishing a single body to oversee all arrangements for post-compulsory education and training (PCET) in Wales. We have already commenced closer working across the PCET sector, including holding regular meetings with Colegau Cymru, National Training Federation Wales and Universities Wales to discuss options for closer working. We have sought to make a contribution to Welsh Government policy in this area as part of the PCET Stakeholders' Group along with other organisations such as Colegau Cymru and the Quality Assurance Agency.

During the year, we closely monitored developments in other parts of the UK that might potentially impact on higher education in Wales, in particular the proposals for a new regulatory framework in England. We continued to contribute to the joint planning arrangements for the next Research Excellence Framework, *REF 2021*.

The significant risks identified during the year are set out in our Governance Statement (part of our Accountability Report) on page 24.

Information in respect of community, human rights, anti-fraud and anti-bribery matters is provided as part of Remuneration and Staff Report on pages 34 and 35.

Performance in year - overview

We are required by the Welsh Government to have a corporate plan setting out our medium to long-term objectives and an operational plan for the financial year ahead. Quarterly updates and monitoring meetings are held with the Welsh Government to monitor progress against the operational plan.

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

Operational plan – outcomes

Of the 154 activities identified in our operational plan:

- 142 were completed
- 11 were not completed within the planning period due to external factors
- 1 was no longer applicable due to external factors.

Progress against corporate strategy measures

In 2017-18, we published our new Corporate Strategy 2017-20. Following [consultation](#), we submitted our new Corporate Strategy to the Cabinet Secretary for Education on 31 July 2017. We received confirmation of its approval in December 2017. Previous Corporate Strategies have set out ambitions for the higher education sector in Wales along with targets for the sector to deliver. With a reduction in the levers available to HEFCW and an uncertain policy environment, our new Corporate Strategy shifts from that approach to focus on HEFCW's functions and what it achieves as an organisation. There are twelve performance outcomes for HEFCW in the new Strategy. An objective in the new Corporate Strategy period is to develop [a set of national measures](#) that will monitor higher education sector performance in Wales in a range of policy areas that have previously shaped our Corporate Strategies.

Our previous 2013-17 Corporate Strategy was extended until 31 August 2018 and we continued to measure higher education performance against the targets in the strategy. There were seventeen targets in our previous [Corporate Strategy](#), baseline data for which were set in 2011/12. [Performance against our targets](#) can be found on our website.

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

Financial overview

<i>Performance in year</i>	2017-18 £000	2016-17 £000
Funding of higher education expenditure	(126,600)	(143,086)
Council expenditure	(2,846)	(2,691)
Income from activities	12,226	17,809
Grant in aid – funding from the Welsh Government	120,142	121,614
Increase/(decrease) in Taxpayers' Equity	2,922	(6,354)

Grant in aid funding from the Welsh Government has fallen by 1.2% since last year, alongside a decrease in 'income from activities'. The latter is mainly due to a reduction of £6.2m in the funding received from the UK Research Partnership Investment Fund (UKRPIF) (see note 2 to the accounts).

The decrease in 'Funding of Higher Education' expenditure is also largely attributable to the £6.2m funding from UKRPIF (see also note 5). Additionally, funding for Y Coleg Cymraeg Cenedlaethol previously funded through recurrent funding (2016-17 - £9.0m) became directly funded through the Welsh Government in 2017-18.

See the Statement of Comprehensive Net Expenditure and the Statement of Changes in Taxpayers' Equity on pages 39 and 42 for further details.

Expected future developments

Over the next twelve months, we will strengthen our capacity to deal with the requirements of being a regulator, while feeding into the Welsh Government's consultations on the formation of a new post-compulsory education and training body, as appropriate.

- We will continue to work towards implementing changes have arisen as a result of the implementation of the Diamond reforms.
- In addition to our annual funding cycle, we will monitor developments against new innovation and engagement, research and capital funding streams.
- We will work towards promoting and implementing new higher level degree apprenticeships in specified areas of shortage.

Performance analysis

Corporate strategy objectives – summary

The following table presents some of the key activities we undertook during the year in support of our corporate strategy.

<p><i>Widening Access: To secure inclusion, progression and success in higher education</i></p> <p>We provided guidance to the Reaching Wider Partnerships including on increasing university-school engagement and secured substantial support for equality of opportunity and the promotion of HE through approval and monitoring of annual fee and access plans.</p> <p>We published revised Strategic Equality Plan and annual equality report</p> <p>We published 2019/20 fee and access plan guidance and analysed 15/16 fee and access plan monitoring statements.</p> <p>We developed guidance for specific designation of courses.</p>	<p><i>Student Experience: To secure excellent quality higher education and student experience, enhanced by the student voice</i></p> <p>We finalised the new Quality Assessment Framework for Wales, which includes a strong focus on student partnership.</p>	<p><i>Skills, Employability and Enterprise: To secure graduates who are equipped for life and work, and universities that contribute to an upskilled workforce.</i></p> <p>We worked closely with Welsh Government to enable Degree Apprenticeships to be offered from 2018/19.</p>
<p><i>Innovation and Engagement: To secure the application and exploitation of knowledge to deliver social justice and a buoyant economy.</i></p> <p>We prepared two new funding streams for higher education providers to bid into for developments in HE in FE collaboration in I&E activity, and enhancing civic mission.</p>	<p><i>Research: To secure research of internationally excellent quality to deliver a buoyant economy and support social justice</i></p> <p>We developed arrangements for assessing the quality of research in partnership with other funding bodies, to inform future funding.</p>	<p>Funding HE</p> <p>In addition to funding research, teaching (with an emphasis on expensive subjects and part-time provision) and other activities, we worked with Welsh Government to compile and publish the prices of a basket of goods, to be agreed with Government, for each higher education provider.</p>
<p>Working in partnership with students</p>	<p>Regulating HE</p>	<p>Evidence-based advice and partnership working</p>

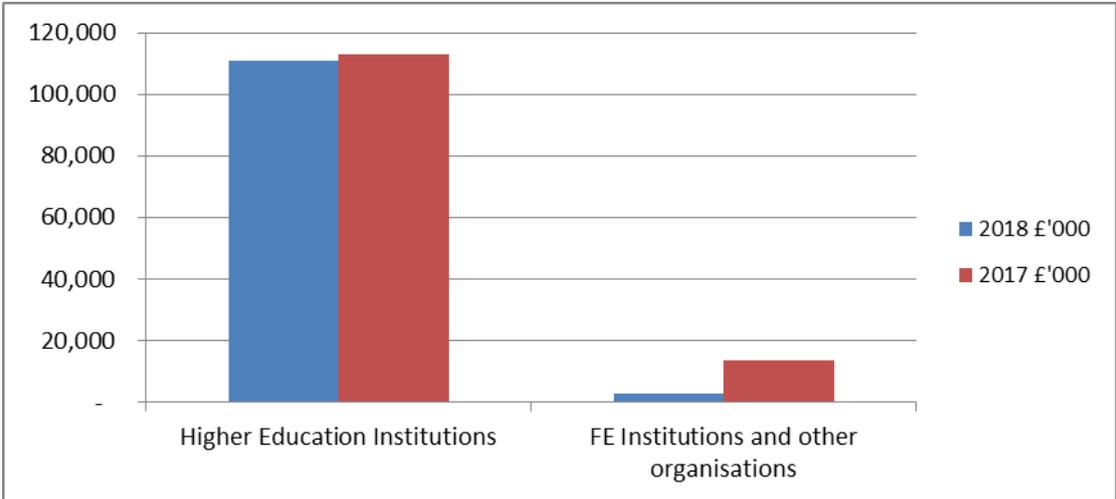
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<p>We developed guidance in partnership with NUS Wales to encourage student involvement in Fee and Access Planning.</p>	<p>We monitored the financial sustainability of HE providers, and the organisation and management of their financial affairs, with particular reference to the requirements of our Financial Management Code.</p>	<p>We engaged with the HESA Data Futures programme through data collection development and representation on the Data Futures Advisory Panel and the Data Futures Programme Board.</p>
<p>Working effectively as an organisation</p> <p>We drew up an implementation plan for the new Welsh language standards, and revised practices as necessary in order to ensure compliance.</p>		

Financial analysis

In delivering the strategic aims and objectives as set out, we received £120.1m of grant in aid funding from the Welsh Government (2016-17: £121.6m). This is an annual decrease in overall funding of £1.5m or 1.2%.

Funding of higher education expenditure (£'000)



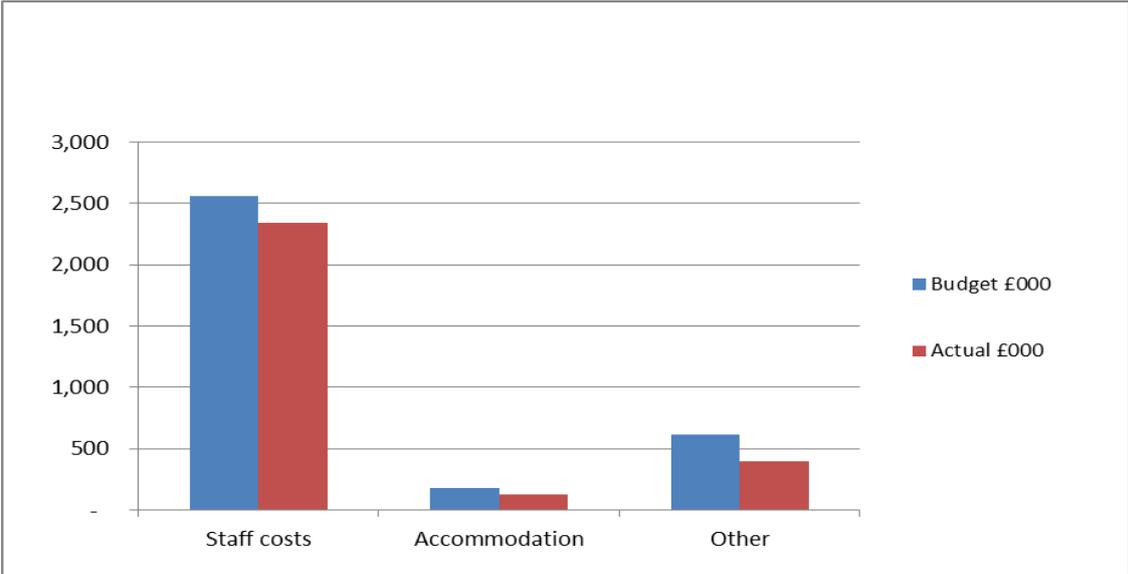
In addition to grant in aid funding from the Welsh Government, £12.2m of other income was receivable in 2017-18 (2016-17: £17.8m). The decrease of £5.6m is primarily due to the reduction in receipts of UK Research Partnership Investment Fund (UKRPIF) funding.

Total expenditure in 2017-18 was £129.4m (2016-17: £145.8m). Of this, £126.6m (2016-17: £143.1m) relates to the funding of the higher education and £2.8m (2016-17: £2.7m) to our own costs incurred in delivering our duties in respect of higher education in Wales. The decrease in the former is mainly attributable to the research project expenditure for Cardiff University referred to above.

The net operating costs for the year were £117.2m (2016-17: £128.0m). The cumulative taxpayers' equity general fund at 31 March 2018, after crediting the grant in aid funding referred to above, was £11.1m (31 March 2017: £8.1m). The financial accounts will always record a net operating costs' result for the year as a consequence of the crediting of funding received to the taxpayers' equity general reserve in the Statement of Financial Position. Our activities are also planned to ensure that our cash carry forward at the financial year end remains within the two per cent of total grant in aid for the year allowed by the Welsh Government.

Expenditure on property, plant and equipment amounted to £81k in the year (2016-17: £43k).

Other expenditure 2017-18 (£'000)



Other financial key performance indicators

The cash balance as at 31 March 2018 was £1.9m which represented 1.63 percent of total grant in aid funds available (2016-17: £1.8m, 1.49 percent) and remained within the maximum of 2% of total funding for the year permitted by the Welsh Government, as set out in the Framework Document.

We are operating under the Welsh Government’s target to pay suppliers of goods and services within ten working days of receiving a valid invoice. In 2017-18, we paid 97.0% of invoices within ten working days, with an average payment time of 1.46 days (2016-17: 95.0% and an average of 2.3 days).

Sustainability

The [Well-being of Future Generations \(Wales\) Act 2015](#) provides a legally-binding common purpose through its seven well-being goals and sustainability principle for national government, local government, local health boards and other specified public bodies. The Act details the ways in which specified public bodies must work, and work together, to improve the well-being of Wales.

As the Welsh Government Sponsored Body that regulates and funds higher education providers in Wales, we recognise the importance of ensuring sustainable development by setting and delivering against our well-being objectives and maximising our contribution to the Act’s well-being goals. By aligning our ways of working with those set out in the Act there will be benefits to higher education in Wales as well as the wider economy and society.

We will work closely with higher education institutions and other partners to secure our contribution to the Act’s well-being goals. We recognise that this will require action across a wide range of areas. We will monitor actions and performance to enable effective progress to be made.

In 2017 HEFCW published its [Corporate Strategy 2017-20](#). The Corporate Strategy (p4) confirms our commitment to working in accordance with the sustainable development principle and five ways of working: in a manner that seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs.

In developing its Corporate Strategy, HEFCW took account of consultation responses and responses to a draft HE Strategy for Wales, which it submitted to the Welsh Government in 2016. The HE Strategy was scoped against the Future Generations goals.

In March 2017, HEFCW published its [Well-being Statement and well-being objectives](#) which are consistent with our vision of ‘sustainable, accessible, internationally excellent higher education in Wales’ as set out in our Corporate Strategies for 2013 -17 and 2017-2020.

HEFCW’s well-being objectives identify HEFCW’s contribution to the delivery of the seven well-being goals and they are consistent with the sustainable development principle of the Act as set out in table 1 below.

Table 1: HEFCW’s well-being objectives

HEFCW Well-being Objectives	Well-being of Future Generations (Wales) Act Goals
Ensure that higher education in Wales is relevant and accessible to all who could benefit from it, or contribute to it.	A prosperous Wales; A healthier Wales; A more equal Wales; A Wales of vibrant culture and Welsh language.
Champion internationally excellent higher education that also works to support global well-being, and sustainable development.	A prosperous Wales; A resilient Wales; A healthier Wales; A globally responsible Wales.
Promote a system of HE that is financially, economically, socially, and environmentally sustainable.	A resilient Wales; A Wales of cohesive communities.
Ensure that HEFCW is an exemplar organisation where equality, partnership and sustainability are fundamental to delivery of our mission.	A more equal Wales; A prosperous Wales; A globally responsible Wales; A Wales of cohesive communities.

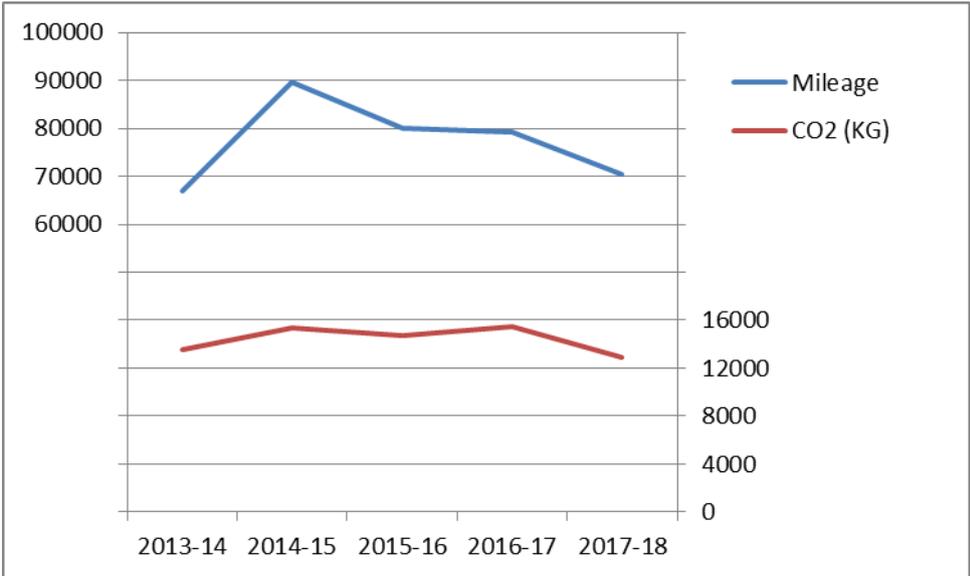
Under Schedule 1 of the Act, HEFCW must publish, in respect of each financial year, a report of the progress it has made in meeting its well-being objectives. The report must be published as soon as reasonably practicable following the end of the financial year to which the report relates.

As this will be HEFCW’s first Well-being of Future Generations report, we are publishing it in July 2018 as a separate document. In future years, this report will form part of HEFCW’s annual report and accounts.

Business Travel

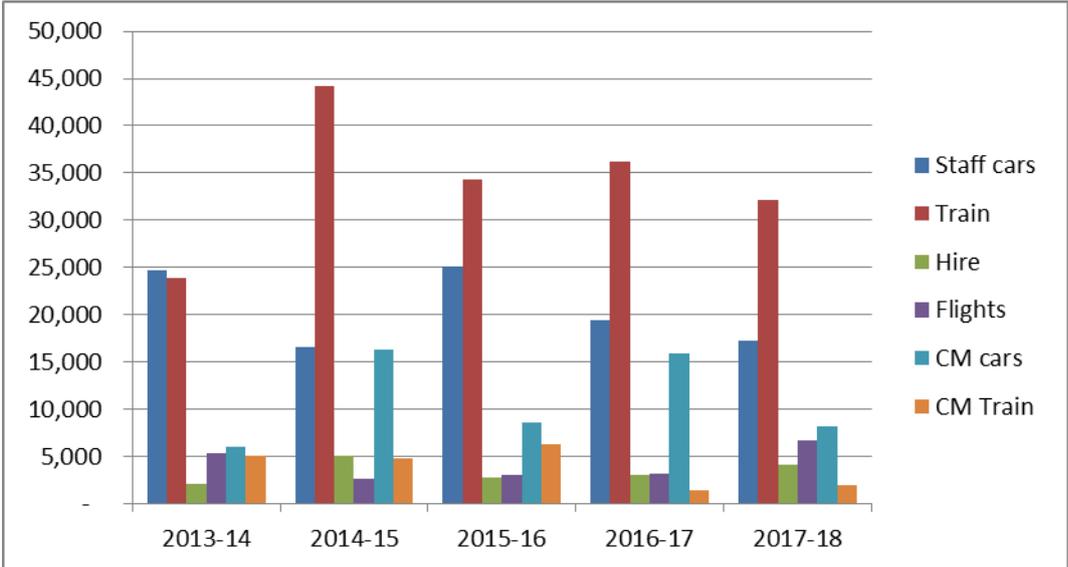
Carbon emissions associated with business travel have proved to be variable, in part due to changing workload together with changes in both the personnel and associated travelling pattern of Council members. As illustrated in the graph below, after a spike in 2014-15, business mileage reduced and has been broadly flat since then, although at a higher level than was recorded in the two years before 2014-15. There is some evidence that reduced business travel is being supported by increased use of video conferencing and tele-conferencing, although it is not practical to collect accurate evidence on tele-conferencing.

HEFCW Business Mileage and CO2



Having peaked in 2014-15, business mileage and CO2 subsequently fell, flattened slightly and then continued to fall over the last two years. However, annual mileage will always vary depending on the impact of changes to Council members' business travel and the general business need. As would be expected, the CO2 figure has reflected the changes in business mileage above.

Business Travel Breakdown



Waste Minimisation

Having moved to the Welsh Government building at Bedwas in 2016, we are no longer able to capture detailed data relating to our own consumption of energy.

Summary

The current year has seen a 16% decrease in carbon emissions arising from business travel (2,481KG), mirroring the overall decrease of business travel (8,790 miles), which has resulted from a change in the mix of travel modes between both staff and Council members. We continue to encourage staff to avoid business travel where possible and to use the train where viable, particularly for longer journeys.

Dr David Blaney
 Chief Executive and Accounting Officer
 12 July 2018

Accountability report

Corporate Governance report

The purpose of the Corporate Governance report is to explain the composition and organisation of HEFCW's governance structures and how they support the achievement of HEFCW's objectives.

Directors' report

Council membership

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

Chair

David Allen OBE (*Term of office: 5 May 2014 to 4 May 2020*). *Former Registrar and Deputy Chief Executive of the University of Exeter*

Chief Executive (and Accounting Officer)

Dr David Blaney

Other Council members:

Name	Personal history	Term of office	Committee membership
Dame Alexandra (Sandra) Burslem, Deputy Chair (to November 2017)	Former Vice-Chancellor, Manchester Metropolitan University	01/12/08 to 30/11/17	Strategic Development Committee (Chair) Human Resources Committee Remuneration Committee
David Mason Deputy Chair (from December 2017)	Former Principal/Chief Executive, Coleg Gwent	01/04/10 to 31/03/19	Audit and Risk Assurance Committee (Chair)
Professor Katherine (Leni) Oglesby OBE	Former Senior Deputy Vice-Chancellor, University of Teesside	01/12/08 to 30/11/17	Quality Assessment Committee (Chair) Strategic Development Committee

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Name	Personal history	Term of office	Committee memberships
Professor Robin Williams CBE, FRS	Former Vice-Chancellor, Swansea University	01/08/09 to 31/07/18	Research, Innovation and Engagement Committee (Chair) Strategic Development Committee
Bethan Guilfoyle CBE	Former Headteacher, Treorchy Comprehensive School	01/04/10 to 31/03/18	Student Opportunity and Achievement Committee (Chair) Quality Assessment Committee Strategic Development Committee
Professor Mark Smith	Vice-Chancellor, Lancaster University	01/01/13 to 31/12/18	Research, Innovation and Engagement Committee
Dr Arun Midha	Former Lay Council Member, Swansea University and Former Director of Strategy, School of Postgraduate Medical and Dental Education, Cardiff University	07/04/15 to 06/04/18	Student Opportunity and Achievement Committee Audit and Risk Assurance Committee
Dr Colin Wyatt	Independent consultant and Former Director of Business Development, Imperial College London	22/04/15 to 21/04/18	Human Resources Committee (Chair) Remuneration Committee Research, Innovation and Engagement Committee
Sarah John	Director, Acorn Learning Solutions Ltd, part of the Acorn Group in the UK	01/12/17 to 30/11/20	No Committee membership before 31/03/18

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Name	Personal history	Term of office	Committee membership
Professor Sir Keith Burnett FRS, FLSW	Vice-Chancellor of the University of Sheffield	01/12/17 to 30/11/20	No Committee membership before 31/03/18
James Davies	Executive Chair of Industry Wales	01/12/17 to 30/11/20	No Committee membership before 31/03/18
Professor Helen Marshall	Vice-Chancellor of the University of Salford	01/12/17 to 30/11/20	Quality Assessment Committee (Chair – from January 2018)

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

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

Observers appointed by the Welsh Government

Huw Morris

Director, Skills, Higher Education and Lifelong Learning, Welsh Government

Neil Surman

Deputy Director, Higher Education Division, Welsh Government

Chris Jones (reserve)

Acting Deputy Director, Higher Education Division, Welsh Government

Composition of Management Board

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

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

Declarations of interests

Details of Council members' declared interests are available on our website.

www.hefcw.ac.uk/council_and_committees/council_members/council_members.aspx

Personal data related incidents

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

Statement of Accounting Officer's Responsibilities

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

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

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

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

Accounting Officer's statement

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

Dr David Blaney
Chief Executive and Accounting Officer
12 July 2018

Governance Statement

Governance Framework / Corporate Governance

Scope of responsibility

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

HEFCW Council

This year we worked closely with Welsh Government on a recruitment exercise which saw the Council brought to its full complement of 12 members. This has strengthened Council membership with respect to the Welsh Government's developing post-compulsory education and training (PCET) agenda by bringing on more members with an FE or business background. At the same time, the Council continues to benefit from a diverse membership in terms of gender balance and the mix of skills, knowledge and experience. We continue to monitor closely the diversity and skills mix of the membership of the Council's various committees and when seeking new external representation will actively encourage applications from currently under-represented groups.

- During 2017-18 there were 6 Council meetings; 2 Council Workshops; and 4 Council visits to regulated providers. There were a total 55 out of 64 possible member attendances.
- Representatives from the Welsh Government; the Higher Education Funding Council for England; the Scottish Funding Councils, and also the President of NUS Wales, have observer status.
- The Council has established a number of committees to deal with particular areas of business outside of the main Council meetings - [Council and committees](#)

Governance effectiveness

Our Council conducts an annual self-assessment effectiveness review of its governance. This includes an appraisal of each Council member's performance by the Chair, and an annual review by the Council of its key corporate governance documents and of the remits of each Council committee. Every three years the Council conducts a detailed self-assessment review exercise based around questionnaires completed by each member, and the outcomes are discussed at a Council Workshop. The most recent such exercise was carried out in 2015-16, from which the Council concluded that, overall, it was content with the effectiveness and appropriateness of its governance processes and practices, including with respect to the quality of information and data provided through Council and committee papers. We are of the view that our processes continue to be compliant with the Corporate Governance Code to the extent relevant to a Welsh Government Sponsored Body. The Audit and Risk Assurance Committee conducts a detailed effectiveness review self-assessment exercise through which it benchmarks its

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operation against HM Treasury's Audit Committee Handbook. At the most recent review exercise in November 2017, the Committee was satisfied that, overall, it was operating in line with accepted best practice for audit committees.

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

All Council resolutions formally recorded in the minutes, and action taken on matters delegated to the executive are reported back via a standing Matters Arising paper. The Council receives feedback on the work of its Committees through updates from committee chairs at each Council meeting; the receipt of all committee minutes; and the receipt of an annual report from each committee.

Meeting our statutory responsibilities

Our regulatory powers have been enhanced through the Higher Education (Wales) Act 2015, including specific duties to approve and monitor higher education providers' compliance with fee and access plans and to assess the quality of education.

Higher education providers in Wales that wish for their courses to be automatically designated for student support must submit a [fee and access plan](#) to us. If that fee and access plan is approved, the provider may charge under-graduate fees for full-time under-graduates and EU students as set out in the plan up to the maximum tuition fee limit for Wales, and its students will be able to receive student support up to that amount.

We discharge our [statutory responsibilities for quality](#) under the Act through our Quality Assessment Committee. From AY 2016/17 we moved to revised quality assessment arrangements under our new [Quality Assessment Framework](#), which place greater responsibility on the governing bodies of regulated providers to be assured of the quality of the provision they make available and the awards offered.

This year we received our finalised Compliance Notice for the Welsh Language Standards from the Welsh Language Commissioner. The Council approved an annual report on the main actions taken by HEFCW with regard to its Welsh Language Scheme, and also an Implementation Plan setting out the actions we have taken to prepare for implementation of the Standards.

The Council's Standing Orders commit it to ensuring that its decisions will be made in accordance with the sustainable development principle of the *Well-being of Future Generations Act 2015* – that is, that HEFCW is acting in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs. The Council approved the HEFCW Well-being of Future Generations Annual Report setting out how the organisation was addressing the requirements of the Act.

The Council also approved this year the HEFCW Equality Annual Report 2016-17, and a revised Strategic Equality Plan 2016-20, setting out how we are addressing its statutory responsibilities under the Equalities Act 2010 and the Wales-specific duties of 2011.

Reporting to Welsh Government

We have regular communication with the Welsh Government's Department for Education and Skills under the terms of the Framework Document. Staff from the Department and HEFCW meet quarterly which enables the Department to monitor progress against our operational plan and key performance indicators, and to monitor our risk register and the actions we are taking to mitigate risk.

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We received our initial remit letter for 2017-18 in March 2017. In July 2017 we submitted to the Cabinet Secretary for Education our new Corporate Strategy 2017-20 and also our Operational Plan for 2017-18. We were notified in December 2017 that the Cabinet Secretary had approved both documents. Our Council receives regular reports on progress against our operational plan targets, and an annual report on progress against our corporate strategy targets.

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

We submit to Welsh Government each year an Annual Governance Assurance Statement, which gives our opinion on the quality of governance at higher education providers based on a wide range of institutional assurance work that we have carried out. The Statement is reviewed by our Audit and Risk Assurance Committee and approved by the Council prior to submission to Welsh Government. Our latest statement for financial year 2016-17 concluded that across the sector higher education providers' governance systems and procedures were operating broadly satisfactorily.

Dealing with complaints

We have a [Complaints Policy](#) based on the model Concern and Complaints Policy produced by the Public Services Ombudsman for Wales. This year we have amended our Complaints Policy to specify that it applies to any complaints about our compliance with the new Welsh Language Standards. No complaints against us were received during 2017-18.

This year we published a new procedure, [Complaints about institutions \(including concerns about standards and quality\)](#), setting out the types of complaint that we are able to deal with about institutions that we regulate.

Partnership working

We work with a range of partner bodies within Wales and the UK to achieve our objectives and meet Welsh Government priorities, and in many cases we have established formal agreements with these partner organisations.

hefcw.ac.uk/about_he_in_wales/he_policies_and_partners/partner_bodies.aspx

Effectiveness of the internal control system

We operate a system of internal control which is designed to: identify and prioritise the risks to the achievement of our policies and strategic objectives; evaluate the likelihood of those risks being realised and the impact should they be realised; and manage them effectively. This includes controls in relation to organisations in receipt of our funding. Welsh higher education providers funded by us are required to comply with a [Memorandum of Assurance and Accountability](#), which helps us to secure accountability for the regularity and propriety of the use of public funds provided to them. We consider a comprehensive range of returns provided to us by providers - including fee and access plans, their annual accounts and strategic plans - as part of our work to ensure the protection of the public investment in providers. This work includes seeking assurance that the public funds provided to providers have been used for the purposes for which they were intended.

Each of the key controls – the risk registers, the financial statements and the external auditors' report and comments thereon, internal audit reports and institutional risk reviews and assurance reports – has been considered by the Audit and Risk Assurance Committee which reports on them to our Council.

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The Audit and Risk Assurance Committee's annual opinion for 2017-18 highlighted no major issues or significant weaknesses in our internal controls in 2017-18 which warrant disclosure here.

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

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

Information about the quality of the data used by the board, and why the board finds it acceptable

We use information about higher education providers collected via a number of data surveys and information requests, including student data collected by the Higher Education Statistics Agency (HESA) and Welsh Government on our behalf. We use the data for a variety of purposes, including the calculation of funding allocations and monitoring equal opportunities. The data we use are subject to rigorous checking and auditing processes.

We have developed a Knowledge Management System for use by Council members and HEFCW staff which contains a wide-range of performance data on each Welsh institution.

The Audit and Risk Assurance Committee has this year discussed assurance frameworks and assurance mapping. It has been agreed that HEFCW should develop an assurance framework which will enable the Committee to identify and monitor more effectively all key sources of assurance and significant issues.

Tax assurance for off-payroll employees

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

Whistleblowing arrangements

Our whistleblowing policy and supporting procedures were revised this year and scrutinised by our Human Resources and Audit and Risk Assurance Committees. The aim of the policy is to encourage staff to report matters of proper concern considered by them to be in the public interest, either at the workplace or externally, about a danger, risk, malpractice or wrongdoing. There have been no whistleblowing matters reported during the 2017-18 and so it is not possible to report upon the effectiveness of these procedures. Our policy and procedures are next due for formal review in 2020, unless there are any matters reported before then which prompt changes to be made to improve the processes used.

Risk management

Our approach

We recognise that we must take risks to achieve our objectives. We do so in a controlled manner to reduce exposure to risks to a level deemed acceptable, while at the same

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time balancing this against a desire to support innovation and an imaginative use of resources to achieve benefits.

We have a Corporate Risk Register, underpinned by team risk registers, and an Issues Log onto which we transfer risks that have crystallised. The Corporate Risk Register and Issues Log are reviewed by the Audit and Risk Assurance Committee three times a year, and by the Council at least once a year.

Alongside the main Corporate Risk Register, we maintain a separate Fraud and Bribery Risk Register. Those risks above the tolerance boundary are included in a Corporate Fraud and Bribery Risk Register.

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

Significant risks identified during the year

We have been managing the following key risks this year through our Corporate Risk Register. The identification of these risks does not mean they will definitely occur. Rather, the Corporate Risk Register indicates that these are areas of risk which we need to be aware of and respond to in order to perform our role effectively. Monitoring and assessing key risks and current controls allows us to evaluate the effect of these major uncertainties on our corporate strategy and operational plan objectives. Where appropriate, we can then make adjustments to our control measures.

Area	Risks
Sustainability and assurance	<ul style="list-style-type: none"> • HE providers in Wales which are sub-optimal in scale may be susceptible to changes in funding and/or in demand, resulting in a need for action to maintain their financial sustainability.
Governance and assurance	<ul style="list-style-type: none"> • HE providers in Wales which have unsatisfactory governance standards may result in poor oversight of decision-making and/or finances, potentially leading to financial failure.
HEFCW operating risks	<ul style="list-style-type: none"> • Excessive workload in HEFCW may impede work-life balance, wellbeing and effective conduct of business. • Funding and frameworks to develop effective apprenticeships not established. • HEFCW unable to encourage Welsh Government to engage effectively with, and use, HEFCW in relation to the implementation of its Post-Compulsory Education and Training proposals. • HEFCW unable to implement the specific designation process effectively, resulting in students being unable to access student support.

We have also been monitoring and taking actions to address issues that have been identified on our Issues Log. These have included seeking closer dialogue with Welsh Government to try and achieve more sustained, consistent and effective communication, so that HEFCW can contribute more effectively to addressing Welsh Government

priorities. One of those priority areas relates to upskilling adults and widening access to higher education, and in this context we have been working closely with the sector to try and find ways to help it maintain sufficient opportunities for part-time higher education study in Wales.

Conclusion

As Accounting Officer of HEFCW, I am accountable to the Permanent Secretary of the Welsh Government as its Principal Accounting Officer for the discharge of my responsibility to maintain sound systems of governance, risk management and internal control. I have reviewed the evidence provided with regard to the production of the annual governance statement. The conclusion of my review is that our overall governance and internal control structures have been appropriate for our business, and have worked satisfactorily throughout 2017-18.

Dr David Blaney
Chief Executive and Accounting Officer
12 July 2018

Remuneration and staff report

Directors' remuneration policy and remuneration committee

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

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

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

We have a Remuneration Committee which is responsible for reviewing annually the performance of the Chief Executive and the directors. The committee, consisting of four members, three of which are Council members (including the Chair), has delegated authority from the Council to consider matters affecting the pay of the Chief Executive and can make recommendations for the approval of the Welsh Government.

The Committee met during the year and based upon a review of his performance, made a recommendation that the Chief Executive should receive the same annual increase as HEFCW staff for 2017-18. The percentage increase awarded to the Chief Executive was later confirmed as identical to that for HEFCW staff for 2017-18. As a result, the Chief Executive's salary increased from £124,860 to £127,544.

Remuneration (including salary) and pension entitlements

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

Senior employees' remuneration (salary and pensions)*

Single total figure of remuneration *

Name and position	2017-18 Salary £'000	2016-17 Salary £'000	2017-18 Pension benefits £	2016-17 Pension benefits £	2017-18 Total £'000	2016-17 Total £'000
David Allen (Chair)	20-25	20-25	N/A	N/A	20-25	20-25
Dr David Blaney (Chief Executive)	125-130	130-135	22,750	19,799	145-150	150-155
Celia Hunt (Director of Strategic Development)	85-90	90-95	14,210	40,289	100-105	130-135
Bethan Owen (Director of Institutional Engagement)	85-90	90-95	33,267	54,636	120-125	145-150

NB There were no benefits in kind or bonus payments in either 2017-18 or in 2016-17 for the above.

The 2016-17 salary figures for the Chief Executive and both Directors included backdated pay in respect of the three years 2013-14 to 2015-16. Actual salary figures as at 31 March 2017 fell into the bands £120,000 to £125,000 for the Chief Executive and £85,000 to £90,000 for both Directors.

The total salary for David Allen for the year 2017-18 was £24,264 (2016-17: £24,264).

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

NB The 'Pension Benefits' figure for 2016-17 of £54,636 for Bethan Owen included approximately £19,000 which resulted from additional personal pension contributions made by the Director during that year.

Senior employees' pensions*

Name	Position	Accrued pension at pension age at 31/03/18 & related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/03/18 £'000	CETV at 31/03/17 £'000	Real increase in CETV £'000
David Allen	Chair	N/A	N/A	N/A	N/A	N/A
Dr David Blaney	Chief Executive	65-70 pension	0-2.5 pension	1,128	1,040	18
Celia Hunt	Director of Strategic Development	25-30 pension plus 75-80 lump sum	0-2.5 pension plus 2.5-5 lump sum	581	529	14
Bethan Owen	Director of Institutional Engagement	25-30 pension	0-2.5 pension	418	365	16

Salary and pension disclosures*

Dr David Blaney was a member of the Premium defined benefit scheme throughout the year, whereas Bethan Owen was transitioned from the Premium defined benefit scheme to the Alpha pension scheme on 1 April 2016. Celia Hunt was a member of the Classic defined benefit scheme. All three schemes are part of the Principal Civil Service Pension Scheme. The Classic scheme benefits include the payment of an automatic lump sum on retirement, whereas the Premium and Alpha schemes do not (see 'Pensions' below).

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

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

The Chair and Council members (excluding the Chief Executive) are not members of the Principal Civil Service Pension Scheme and do not receive any pension benefits paid for by us. Council members (excluding the Chair and Chief Executive) receive non-pensionable remuneration of £5,076 per annum (see pages 16 to 18 for a full list of other Council Members).

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

* This information is subject to audit

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015, a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or 'Alpha', which provides benefits on a career average basis with a normal pension age equal to the member's state pension age (or 65 if higher). From that date, all newly appointed civil servants and the majority of those already in service, joined 'Alpha'. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis ('Classic', 'Premium' or 'Classic Plus') with a normal pension age of 60; and one providing benefits on a whole career basis ('Nuvos') with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus, Nuvos and Alpha, are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within ten years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between ten years and thirteen years and five months from their normal pension age on 1 April 2012 will switch into Alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to Alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave Alpha (the pension figures quoted for officials show pension earned in either PCSPS or in Alpha – as appropriate. Where the official has benefits in both PCSPS and in Alpha, the figure quoted is the combined value of their benefits in the two schemes). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (Partnership pension account).

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

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

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if

they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus, 65 for members of Nuvos, and the higher of 65 or State Pension Age for members of Alpha (the pension figures quoted for officials show pension earned either in PCSPS or in Alpha – as appropriate. Where the official has benefits in both PCSPS and Alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages).

Further details about the Civil Service pension arrangements can be found at www.civilservicepensionscheme.org.uk.

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

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

Real increase in CETV

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

Broadly by analogy (BBA) pensions

A BBA pension arrangement entitles the recipient to benefits that are similar to those provided by the PCSPS classic scheme described above. We are responsible for funding pension benefits. A BBA pension is held by the former Chair of Council, Professor Sir Roger Williams.

Fair Pay disclosures *

	2017-18 £'000	2016-17 £'000
Band of highest paid member of staff (total remuneration**)	125-130	120-125
Median total remuneration**	£ 36,817	£ 44,050
Ratio	3.5	2.8

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

The banded remuneration of our most highly paid senior employee in 2017-18 was £125,000 to £130,000 (2016-17 £120,000 to £125,000). This was 3.5 times (2016-17: 2.8) the median salary of all staff, which was £36,817 (2016-17: £44,050).

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

The median ratio has increased this year, from 2.8 in the previous year to 3.5. This is due to the impact of the 2017-18 pay increase being implemented together with a number of staff changes during the year. Several staff at the top of their salary scale left and their roles either remained vacant at year end or were replaced by staff at the lower end of their pay scale. As we are a small organisation, staff changes can have a disproportionate effect on our median calculation. Due to the nature of our work, we have a high proportion of staff at middle job levels, resulting in the median shown above.

In 2017-18, no employees (2016-17: none) received remuneration in excess of the highest-paid senior employee. Remuneration ranged from £17,655 to £127,544 (2016-17: £17,283 (restated) to £124,860).

Staff report

Staff numbers by category

We employed an average of 42 full time equivalent staff during the financial year ended 31 March 2018, as follows:

	2018 Number	2017 Number
Senior Management	3	3
Chief Executive's Office	6	7
Institutional Engagement	13	13
Strategic Development	11	8
Corporate Services	9	10
	<u>42</u>	<u>41</u>

Two members of staff included in Institutional Engagement above were not a permanent member of staff.

	2018 Numbers	2017 Numbers
Staff with a permanent UK employment contract with us	40	40
Other staff engaged on our objectives	2	1
	<u>42</u>	<u>41</u>

Staff costs

(a) Analysis *

	Staff	2018 Council members (inc Chief Executive)	Total	Staff	2017 Council members (inc Chief Executive)	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,760	196	1,956	1,747	191	1,938
Social security costs	196	19	215	197	19	216
Other pension costs	377	31	408	371	33	404
Total payroll costs	<u>2,333</u>	<u>246</u>	<u>2,579</u>	<u>2,315</u>	<u>243</u>	<u>2,558</u>
Staff on secondment	(46)	-	(46)	(13)	-	(13)
Less:						
charges to						
programme costs	<u>(194)</u>	<u>-</u>	<u>(194)</u>	<u>(491)</u>	<u>-</u>	<u>(491)</u>
Administration						
payroll costs	2,093	246	2,339	1,811	243	2,054

Included in the £491k for 2016-17 'charges to programme costs' was a sum of £250k. This was a contribution towards running costs' wages and salaries transferred from the programme budget in accordance with an agreement with the Welsh Government. This agreement ended in 2016-17. As at 31 March 2018, it should be noted that there are several job vacancies left unfilled due to staff turnover during the year. This was also the case as at 31 March 2017.

(b) **Pensions**

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as “Alpha”, are unfunded multi-employer defined benefit schemes, but HEFCW is unable to identify its share of the underlying assets and liabilities. The Scheme Actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2017-18, our employer’s contributions of £403,156 were payable to the PCSPS (2016-17 £418,194), at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18, to be paid when the member retires and not the benefits paid during this period to existing pensioners.

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

The BBA pension provision is unfunded, with benefits being paid as they fall due and guaranteed by us. There is no fund and therefore no surplus or deficit or assets. The scheme liabilities for service are calculated by the Government Actuary’s Department every two years and was performed at the end of 2016-17 and amounted to £26,000 at 31 March 2017.

(c) **Staff numbers by gender**

	2018	2017
<i>Male</i>		
Directors	1	1
Staff	15	13
<i>Female</i>		
Directors	2	2
Staff	26	31
Total	44	47

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

(d) **Sickness absence**

	2018	2017
Sickness absence rate (%)	2.02	1.21
Average working days lost	2.77	1.91
Number of working days lost	241	141
Approximate cost of working days lost	£34,402	£20,190

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

2.02% of potential working time was lost in 2017-18 as a result of sickness absences (2016-17 – 1.21%). This represents an increase from the previous year, which was particularly low, given that the 2015-16 figure was 2.84%. The CIPD did not publish any benchmark data for 2017, however in its more recent *Health and Wellbeing at Work* report (May 2018), it noted a sickness absence rate of 2.9% for the UK as a whole. The report also notes that the average number of days lost within the public sector was 8.5 days per employee, which is significantly higher than HEFCW's figure of 2.77 days.

* This information is subject to audit

Staff policies and other issues

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

- Flexible working procedures
- Homeworking procedures
- Pay policy

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

Employee engagement and Trade Union activity

Regular staff meetings and seminars help ensure good internal communications and provide opportunities for staff to contribute to the way we work.

HEFCW recognises the PCS Union as its trade union for staff and is involved and consulted upon on a regular basis. A Works Council, through which representatives can raise issues of concern to staff and which includes representation from the PCS union, meets on a regular basis.

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

Equality and diversity

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

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Our policy on recruitment is based on the Civil Service Recruitment Principles of appointments being made on merit on the basis of fair and open competition. We advertise all vacancies with the *Job Centre* and *Civil Service Jobs* in order to reach a diverse pool of applicants.

We have achieved the 'Disability Confident' accreditation and we are resolved to meeting the five commitments regarding recruitment, training, retention, consultation and disability awareness. This was re-assessed in April 2018.

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

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

Community and human rights matters

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

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

Health and safety at work

HEFCW has a Health and Safety and Environmental Management (HSEM) Group which operates to advise management on health and safety and environmental issues. It also reports to the HR Committee and to the Works Council. During the year, a full review of health and safety policies, procedures and guidance documents was completed to reflect the latest regulations and current best practices, using the Health and Safety Executive as the source for this information.

The group also reviewed risk assessments carried out by HEFCW's facilities' section and fire risk assessment reports carried out by external consultants, none of which identified any areas of concern. There was only one accident reported during the year, but this did not require reporting to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995.

Anti-fraud and anti-bribery matters

HEFCW's fraud and bribery policy and procedures were reviewed and updated during the year as part of our three-year review cycle of our policies. This is part of our practice to safeguard HEFCW against bribery and fraud and to ensure that we fully comply with the Bribery Act 2010 and the Fraud Act 2006 and to ensure that our business is conducted in a socially responsible manner. No instances of either fraud or bribery were reported in the year and as part of our annual review of our fraud and bribery risk register, no individual risks were assessed at a sufficiently high level to be included in a Corporate Risk Register which would then have been reportable to both the Audit and Risk Assurance Committee and to our Council.

Staff support and wellbeing

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

We have agreed to introduce a Wellbeing Hour from the start of 2018-19, which allows staff to take time during the working day to undertake an activity that is of benefit to their health and wellbeing.

Human capital management

As a small organisation, promotion opportunities can often be limited, however, when they do arise, we ensure that all staff are clearly aware of the vacancies to promote the opportunity for promotion. In support of this, we also offer training opportunities for staff, along with a structured performance management system. Staff will be given access to *Civil Service Learning* early in 2018-19, which will provide a bank of online training. These aspects support staff employability, whether it is internally, or if they were to move to another organisation.

We also support individuals who wish to undertake work experience within HEFCW to assist with their future employability. We have supported individuals through both the Graduate Opportunities (GO) Wales project (European Social Fund project funded partly by the Welsh Government), and those still in secondary education in Wales.

HEFCW's Management Board conducts workforce planning and assesses future workforce needs accordingly, making changes and plans for the future to ensure that HEFCW has the resources to deliver its objectives.

Consultancy expenditure

There was no consultancy expenditure during the year.

Off-payroll engagements

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

Exit Packages

There were no exit packages in 2017-18 (2016-17 – nil).

Dr David Blaney
Chief Executive and Accounting Officer
12 July 2018

The Certificate and independent auditor's report of the Auditor General for Wales to the National Assembly for Wales

Report on the audit of the financial statements

Opinion

I certify that I have audited the financial statements of the Higher Education Funding Council for Wales for the year ended 31 March 2018 under Paragraph 16(3) of Schedule 1 to the Further and Higher Education Act 1992. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and related notes, including a summary of significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

The financial reporting framework that has been applied in their preparation is applicable law and HM Treasury's Financial Reporting Manual based on International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the Higher Education Funding Council for Wales' affairs as at 31 March 2018 and of its net expenditure, for the year then ended; and
- have been properly prepared in accordance with Welsh Ministers' directions issued under the Further and Higher Education Act 1992.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK (ISAs (UK)). My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Accounting Officer is responsible for the other information in the annual report and accounts. The other information comprises the information included in the annual report other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and, except to the extent

otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

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

Opinion on regularity

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

Report on other requirements

Opinion on other matters

In my opinion, the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with Welsh Ministers' directions made under the Further and Higher Education Act 1992.

In my opinion, based on the work undertaken in the course of my audit:

- the information given in the Governance Statement (included within the Accountability Report) for the financial year for which the financial statements are prepared is consistent with the financial statements and the Governance Statement has been prepared in accordance with Welsh Ministers' guidance;
- the information given in the Performance and Accountability Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and the Annual Report has been prepared in accordance with Welsh Ministers' guidance.

Matters on which I report by exception

In the light of the knowledge and understanding of the body and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance Report.

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

- proper accounting records have not been kept;
- the financial statements and the part of the Remuneration Report are not in agreement with the accounting records and returns;
- information specified by Welsh Ministers regarding the remuneration and other transactions is not disclosed; or
- I have not received all of the information and explanations I require for my audit.

Report

I have no observations to make on these financial statements.

Responsibilities

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for preparing the financial statements in accordance with the Further and Higher Education Act 1992 and Welsh Ministers' directions made there under, for being satisfied that they give a true and fair view and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the body's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Responsibilities for regularity

The Accounting Officer is responsible for ensuring the regularity of financial transactions.

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

Huw Vaughan Thomas
Auditor General for Wales

24 Cathedral Road
Cardiff
CF11 9LJ

18 July 2018

Statement of comprehensive net expenditure

for the year ended 31 March 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Expenditure					
<i>Funding of higher education:</i>					
Recurrent expenditure	3	107,909		125,538	
Capital expenditure	3	5,995		-	
Other purposes	5	12,696		17,548	
		<u>126,600</u>		<u>143,086</u>	
<i>Council expenditure:</i>					
Staff costs		2,339		2,054	
Depreciation	7	56		57	
Amortisation	8	6		-	
Loss on disposal of property, plant and equipment		-		30	
Other expenditures	6	445		550	
		<u>2,846</u>		<u>2,691</u>	
Total expenditure		(129,446)		(145,777)	
Income					
Income from activities	2	12,226		17,809	
		<u>12,226</u>		<u>17,809</u>	
Net operating costs transferred to taxpayers' equity		(117,220)		(127,968)	

All activities are continuing.

There are no recognised gains or losses in either 2017-18 or 2016-17.

The notes on pages 44 to 57 form part of these accounts.

Details of staff costs are shown on page 32 as part of the Remuneration and Staff Report.

Statement of financial position

as at 31 March 2018

	Notes	As at 31 March 2018 £'000	As at 31 March 2017 £'000
Non-current assets			
Property, plant and equipment	7	66	41
Intangible assets	8	12	-
Repayable grants falling due after one year	9a	5,550	6,150
Total non-current assets		5,628	6,191
Current assets			
Repayable grants falling due within one year	9a	600	600
Trade and other receivables	9b	3,831	1,314
Cash and cash equivalents	10	1,956	1,810
Total current assets		6,387	3,724
Total assets		12,015	9,915
Current liabilities			
Trade and other payables	11	(935)	(1,755)
Provisions for liabilities and charges within one year	12	(1)	(1)
Total non-current assets plus net current assets		11,079	8,159
Non-current liabilities			
Provisions for liabilities and charges after one year	12	(23)	(25)
Assets less liabilities		11,056	8,134
Taxpayers' equity			
General reserve		11,056	8,134
		11,056	8,134

The notes on pages 44 to 57 form part of these accounts.

Signed on behalf of HEFCW

Dr David Blaney
Chief Executive and Accounting Officer
12 July 2018

Statement of cash flows

for the year ended 31 March 2018

	Notes	2018	2017
		£'000	£'000
Cash flows from operating activities			
Net operating costs before interest		(117,220)	(127,968)
Depreciation charges		56	57
Amortisation charges		6	-
Loss on disposal of property, plant and equipment		-	30
(Increase)/decrease in trade and other receivables due within one year		(2,517)	5,061
Decrease in repayable grants due after one year		600	-
(Decrease)/increase in trade and other payables		(820)	1,457
Movement in provisions		(2)	3
Net cash outflows from operating activities		(119,897)	(121,360)
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(81)	(43)
Purchase of intangible fixed assets	8	(18)	-
Net cash outflow from investing activities		(99)	(43)
Cash flows from financing activities			
Funding from the Welsh Government		120,142	121,614
Net cash flows from financing activities		120,142	121,614
Net increase in cash and cash equivalents		146	211
Cash and cash equivalents at beginning of period		1,810	1,599
Cash and cash equivalents at end of period	10	1,956	1,810
Net increase in cash		146	211

The notes on pages 44 to 57 form part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2018

	General Reserve £'000
Balance at 1 April 2017	8,134
Changes in taxpayers' equity 2017-18	
Net operating costs	(117,220)
Total recognised income and expense for 2017-18	(117,220)
Funding from the Welsh Government	120,142
Balance at 31 March 2018	11,056

The notes on pages 44 to 57 form part of these accounts.

Notes to the accounts

1. Statement of accounting policies

(a) Basis of accounting

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

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

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

(b) Grants for European Union (EU) projects

Income:

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

Expenditure:

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

(c) Funding

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

(d) Grants payable

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

(e) Repayable grants

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

(f) Pension costs

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

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

(g) Property, plant and equipment

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

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

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

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

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

(h) Intangible fixed assets

Software licences costing more than £500 are capitalised.

Amortisation is provided on all intangible fixed assets at rates calculated to write off the cost of each asset on a straight-line basis over its expected useful life as shown below. A full year's amortisation is charged in the year of acquisition.

Software licences	- 3 years
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(i) Value Added Tax

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

(j) Operating leases

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

(k) Financial instruments

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

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

(l) Segmental reporting

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

(m) Staff costs and secondments

Staff on secondment normally continue to be paid by us. The reimbursement of costs for seconded staff is netted off against staff costs in the note included within the Staff Report on page 30, which forms part of the Accountability Report.

2. Income from activities

	2018 £'000	2017 £'000
European Union – European Social Fund	860	556
Department for Business, Innovation & Skills – Research Capital Investment Fund	6,960	6,960
Y Coleg Cymraeg Cenedlaethol Scholarships	330	330
UK Research Partnership Investment Fund (a)	1,657	7,876
UK Joint Academic Network 6 (Janet 6) (b)	65	125
Police Knowledge Fund project (c)	-	203
Global Challenges Research Fund (d)	2,319	1,200
Newton Fund (e)	-	227
ITT Competency Certificates (f)	-	87
Prevent (g)	35	35
Sub total	12,226	17,599
Premium for lease surrender (h)	-	210
	12,226	17,809

(a) This is funding from the UK Research Partnership Investment Fund (UKRPIF) for the Research Foundation in Compound Semiconductor Technology at Cardiff University.

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

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

(d) Official Development Assistance (ODA) Research funding provided under the Global Challenges Research Fund (GCRF) is for the support of cutting-edge research that addresses the challenges faced by developing countries.

(e) ODA Research funding provided under the Newton Fund was to be used solely for investment in research that supports the economic development and wellbeing of developing countries.

Higher Education Funding Council For Wales

- (f) This was funding to facilitate development and implementation of a pan-Wales Welsh language ITT competence certificate with the aim of award to all prospective teachers who wish to teach through the medium of Welsh.
- (g) This is funding to report on compliance with the Prevent duty by higher education (HE).
- (h) Premium for lease surrender received from HEFCW's former landlord following HEFCW's office move from Llanishen to Bedwas in 2016.

3. Funding of higher education

	Recurrent £'000	2018 Capital £'000	Total £'000	2017 Total £'000
Higher Education Providers				
Aberystwyth University	6,729	500	7,229	6,527
Bangor University	7,857	500	8,357	7,392
Cardiff University	47,476	1,000	48,476	48,961
Swansea University	16,742	3,000	19,742	18,135
Wrexham Glyndŵr University	2,393	-	2,393	2,315
Cardiff Metropolitan University	1,359	-	1,359	1,580
University of Wales, Trinity Saint David	2,829	-	2,829	3,931
University of South Wales	11,265	995	12,260	14,054
University of Wales	162	-	162	179
Open University	8,251	-	8,251	9,607
Sub-total	105,063	5,995	111,058	112,681
Further Education Providers				
Grŵp Llandrillo Menai	480	-	480	535
Grŵp NPTC Group	46	-	46	56
Gower College Swansea	24	-	24	38
Sub-total	550	-	550	629
Total carried forward	105,613	5,995	111,608	113,310

Higher Education Funding Council For Wales

	Recurrent £'000	2018 Capital £'000	Total £'000	2017 Total £'000
Total brought forward from previous page	105,613	5,995	111,608	113,310
Other Organisations				
Elsevier	-	-	-	23
Equality Challenge Unit	62	-	62	41
Hardisty Jones Associates Ltd	29	-	29	-
Higher Education Funding Council for England (HEFCE)	226	-	226	416
HESA	120	-	120	116
The Higher Education Academy	24	-	24	239
JANET (UK) Ltd	2,066	-	2,066	2,126
KPMG LLP	17	-	17	52
Leadership Foundation for Higher Education	69	-	69	-
National Centre for Universities and Business	22	-	22	31
National Union of Students	40	-	40	40
Quality Assurance Agency	55	-	55	211
The Conversation Trust (UK) Limited	20	-	20	30
Universities UK	43	-	43	48
Welsh Government (a)	699	-	699	-
Y Coleg Cymraeg Cenedlaethol	-	-	-	8,973
Other (see (b) below)	234	-	234	547
Sub-total	3,726	-	3,726	12,893
Total	109,339	5,995	115,334	126,203
Less ESF funded expenditure (see note 5)	(1,430)	-	(1,430)	(665)
Total	107,909	5,995	113,904	125,538

(a) The Welsh Government leads and manages the Sêr Cymru I programme. This funds additional Research Fellows and a number of Research Chairs in universities in Wales in order to boost research capacity. HEFCW provides its funding contribution for the programme to the Welsh Government which makes the payments to universities.

(b) In 2016-17 this included a contribution of £250k from the programme budget towards running costs wages and salaries as disclosed in the Staff Costs' note on page 32.

Capital funding of higher education

Welsh Government capital funding of £5.9m was the first capital funding provided to HEFCW since 2010-11. The funding has been allocated to fund projects that will either directly leverage external competitive match funding to allow HEIs in Wales to participate in high-value UK-wide projects, or proposals that will leverage or enhance funding from internal sources.

4. Grants to providers

Included in these accounts are grants to higher education providers, which are subject to the recipients' external auditors' confirmation that they have been used for their intended purpose. The financial year of higher education providers ends on 31 July and their audited accounts are provided to us by 31 December. A review by us of providers' 2016/17 financial statements confirmed that each provider's external auditors had considered that grants had been used for their intended purpose and no adjustments to grants were necessary. The end of year calculation of clawback for credit-based teaching funding for 2016/17 resulted in a clawback of £1,495k. Any adjustment arising from the audit of 2017/18 accounts and student numbers will be made by us in future years.

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

5. Expenditure for other purposes

	2018 £'000	2017 £'000
European Social Fund	1,430	665
Research Capital Investment Fund (a)	6,960	6,960
Y Coleg Cymraeg Cenedlaethol Scholarships	330	330
UK Research Partnership Investment Fund (b)	1,657	7,876
Police Knowledge Fund Project (c)	-	203
Global Challenges Research Fund (d)	2,319	1,200
Newton Fund (e)	-	227
ITT Competency Certificates (f)	-	87
	<u>12,696</u>	<u>17,548</u>

(a) An analysis of research capital funding by higher education provider is given below:

	2018 £'000	2017 £'000
Aberystwyth University	937	958
Bangor University	617	727
Cardiff University	3,845	3,671
Swansea University	1,561	1,604
	<u>6,960</u>	<u>6,960</u>

(b) This is funding from the UK Research Partnership Investment Fund (UKRPIF) for the Research Foundation in Compound Semiconductor Technology at Cardiff University.

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

(d) ODA Research funding provided under the Global Challenges Research Fund (GCRF) is for the support of cutting-edge research that addresses the challenges faced by developing countries.

Higher Education Funding Council For Wales

- (e) ODA Research funding provided under the Newton Fund was to be used solely for investment in research which supports the economic development and wellbeing of developing countries.
- (f) This was funding to facilitate development and implementation of a pan-Wales Welsh language ITT competence certificate with the aim of award to all prospective teachers who wish to teach through the medium of Welsh.

6. Other expenditures

	2018 £'000	2017 £'000
Administration costs		
Accommodation costs	127	245
Office costs	40	52
Bought-in services	11	40
Auditors' remuneration – Annual audit fee of HEFCW	25	25
Council members' travel and subsistence costs	24	29
Council members' meeting costs	12	12
Staff travel and subsistence costs	58	41
Staff related expenditure on training, recruitment etc.	34	17
Information technology costs	114	89
	<u>445</u>	<u>550</u>

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

During 2016-17, HEFCW relocated its offices from Cardiff to Bedwas, Caerphilly resulting in an additional £96k of relocation expenses included within accommodation costs above.

7. Property, plant and equipment

	Information technology equipment £'000	Fixtures & fittings £'000	Total £'000
Cost			
At 1 April 2017	409	50	459
Additions	58	23	81
Disposals	-	-	-
At 31 March 2018	<u>467</u>	<u>73</u>	<u>540</u>
Depreciation			
At 1 April 2017	369	49	418
Charged during year	48	8	56
Released on disposals	-	-	-
At 31 March 2018	<u>417</u>	<u>57</u>	<u>474</u>
Net book value at 31 March 2018	<u>50</u>	<u>16</u>	<u>66</u>
Net book value at 1 April 2017	<u>40</u>	<u>1</u>	<u>41</u>
Asset financing			
Owned assets			
Net book value at 31 March 2018	50	16	66

8. Intangible fixed assets

	Software licences £'000
Cost	
At 1 April 2017	30
Additions	18
Disposals	-
At 31 March 2018	48
Amortisation	
At 1 April 2017	30
Charged for the year	6
Released on disposal	-
	36
Net book value at 31 March 2018	12
Net book value at 1 April 2017	-

9a. Repayable grants

	2018 £'000	2017 £'000
Repayable grants		
Balances as at 1 April	6,750	6,750
Advanced during the year	-	-
Repaid during the year	(600)	-
Balances as at 31 March	6,150	6,750
Balances as at 31 March		
Within one year	600	600
After one year	5,550	6,150
Balances as at 31 March	6,150	6,750

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

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

None of the above grants is interest-bearing.

As at 31 March 2018, there was one provider (2017 – one) with repayable grants outstanding.

9b. Trade receivables and other current assets

	2018 £'000	2017 £'000
Amounts falling due within one year		
Prepayments and accrued income	518	401
Other receivables	3,313	913
	3,831	1,314
Intra-government balances		
Other central government bodies	411	241
Balances with other government bodies	-	-
Balances with non-government bodies	3,420	1,073
	3,831	1,314

At 31 March 2018, 'Other receivables' included £1,600k of funding due to be recovered from higher education providers relating to sector related costs paid on their behalf and the clawback of £1,495k funding following the 2016/17 audit of student numbers.

10. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash held under Government Banking Service		
Balance at 1 April	1,519	979
Net change in cash and cash equivalent balances	(141)	540
Balance at 31 March	1,378	1,519
Cash held under commercial banks and cash in hand		
Balance at 1 April	291	620
Net change in cash and cash equivalent balances	287	(329)
Balance at 31 March	578	291
Total cash and cash equivalents	1,956	1,810

The Government Banking Service (GBS) is a Government-wide banking service that is provided by the Royal Bank of Scotland (RBS). We do not earn any interest on any balance held in GBS accounts. We have HM Treasury authorisation to continue making payments using commercial banking facilities.

11. Trade payables and other current liabilities

	2018 £'000	2017 £'000
Amounts falling due within one year		
Accruals	935	1,755
Other taxation and social security	-	-
Sundry creditors	-	-
	<u>935</u>	<u>1,755</u>

Intra-government balances		
Central government bodies	-	1
Other central government bodies	-	66
Balances with other government bodies	<u>-</u>	<u>67</u>
Balances with non-government bodies	935	1,688
	<u>935</u>	<u>1,755</u>

12. Provisions for liabilities and charges

	2018 £'000	2017 £'000
Broadly by analogy pension liability (see Staff Costs note on pages 30 and 33)	<u>24</u>	<u>26</u>
Analysis of timing of liability		
Falling due within one year	1	1
Falling due between 2019-20 and 2023-24	7	7
Falling due between 2024-25 and 2033-34	<u>16</u>	<u>18</u>
	<u>24</u>	<u>26</u>

13. Commitments under leases

Operating leases

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

	2018 £'000	2017 £'000
Obligations under operating leases comprise:		
Buildings		
Not later than one year	63	63
Later than one year and not later than five years	<u>26</u>	<u>90</u>
	<u>89</u>	<u>153</u>

Expenditure in the year on leasing costs of £63k is included in note 6.

14. **Capital commitments**

	2018 £'000	2017 £'000
Contracted capital commitments at 31 March 2018 not otherwise included in these accounts		
<i>Property, plant and equipment</i>		
Contracted	4	-

15. **Other financial commitments and contingent liabilities**

	2018 £'000	2017 £'000
Revenue grants (a)	42,938	48,203
European projects (b)	7,111	5,421
	50,049	53,624

(a) This amount will be funded by grant in aid from the Welsh Government to July 2018 with the exception of £600k which is committed to be spent in October 2018.

(b) European projects will be funded as follows:

	2018 £'000	2017 £'000
European Social Fund grants	4,837	4,120
HEFCW	2,274	1,301
	7,111	5,421

The European projects also have financial commitments of £843k to be funded by external match-funding contributions from HE providers and small and medium-sized enterprises.

As at 31 March 2018, there were no contingent liabilities (2017 – nil).

16. **Related parties**

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

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

Name	Relationship with related party
David Allen (Chair of Council)	◆ Son studying at Swansea University
Dr David Blaney (Chief Executive)	◆ Fellow, Higher Education Academy ◆ Daughter studying at Cardiff University
David Mason	◆ Honorary Fellow, University of Wales, Newport (now University of South Wales)
Bethan Guilfoyle CBE	◆ Honorary Doctor of Education, University of Glamorgan (now University of South Wales)
Dr Arun Midha	◆ Partner employed by Cardiff University
Professor Leni Oglesby OBE	◆ TDAP Reviewer, Quality Assurance Agency
Professor Robin Williams CBE, FRS	◆ Emeritus Professor, University of Wales ◆ Emeritus Professor, Swansea University ◆ Honorary Fellow, Cardiff University ◆ Honorary Fellow, Bangor University ◆ Honorary Fellow, Swansea University ◆ Honorary Fellow, Aberystwyth University ◆ Member, Advisory Group for Engineering, Swansea University ◆ Honorary Fellow, Coleg Cymraeg Cenedlaethol ◆ Member of Council, The Learned Society for Wales ◆ Daughter employed by Swansea University
Professor Mark Smith	◆ Board Member, HESA ◆ Member, the Strategic Advisory Network, EPSRC ◆ Trustee, Jisc ◆ Trustee, AQA ◆ Member, Leadership, Management and Governance Committee, HEFCE ◆ Board member, Universities and Colleges Employers Association
Professor Sir Keith Burnett FRS, FLSW	◆ Fellow, The Learned Society for Wales ◆ Member, Universities UK ◆ Member, HEFCE ◆ Director (Non-Exec), National Centre for Universities and Business
James Davies	◆ Honorary Fellow, University of Wales, Trinity Saint David

Name	Relationship with related party
Sarah John	<ul style="list-style-type: none"> ◆ Director, Apprenticeship Learning Solutions Ltd (ALS) which is part of the Cardiff and Vale College Group of Companies. ALS has commercial undertakings with the following institutions: Cardiff Metropolitan University University of South Wales Swansea University University of Wales, Trinity Saint David Open University
Professor Helen Marshall	<ul style="list-style-type: none"> ◆ Academic Reviewer, Quality Assurance Agency

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

17. Financial instruments

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

Liquidity risks – In 2017-18 £120.1m or 90.8% of our income was derived from the Welsh Government (2016-17: £121.6m or 87.2%). The remaining income, £12.2m or 9.2% was derived from income from activities (2016-17: £17.8m or 12.8%).

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

Interest rate risks – Cash balances are currently not held in interest-bearing accounts and therefore our general activities are not exposed to interest rate risks.

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

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

18. Events after the reporting period

There have been no events, after the Statement of Financial Position date up to the date these financial statements were authorised for issue by the Accounting Officer on 12 July 2018, requiring an adjustment to the accounts.