

Annex B The Funding Councils

B.1 Before 1992, there were two funding bodies for higher education with different funding policies: the Universities Funding Council (UFC) and the Polytechnics and Colleges Funding Council (PCFC). The HEFCE was formed under the terms of the Further and Higher Education Act 1992, to bring together all higher education in England into one funding system. At the same time separate funding bodies were set up in Wales and Scotland to fulfil a similar funding role.

B.2 The main role of the Funding Councils is to distribute public funds made available through the Department for Education and Employment and to advise on the funding needs of higher education as a whole. In England, this advice is provided to the Secretary of State for Education and Employment. In Wales, such advice is provided to the Welsh Assembly.

Relationship of the Funding Councils with Government Bodies

B.3 The main source of funding for higher education is the grant made available annually to the Funding Councils. The HEFCE receives its grant from the Department for Education and Employment. The HEFCW currently receives its grant from the Welsh Assembly. The grant to the HEFCE and HEFCW is determined after the announcement of the Government's public expenditure plans. The grant to DHFETE is determined as part of the Northern Ireland block settlement.

B.4 It is the responsibility of the Funding Councils to determine how the grant is to be allocated to individual institutions. They determine annually:

- assumptions about the total number of students in the sector
- assumptions about the number of additional students to be funded
- the block grant for teaching and research allocated to each HEI
- special funding allocations for each HEI, and the purposes for which those funds must be spent.

B.5 In making the grant available to the Funding Councils, the Secretary of State or in the case of Wales, the National Assembly, can impose conditions which must be met by all institutions, or by all institutions of a particular category. Conditions cannot be imposed on individual institutions, nor can they be framed by reference to particular courses or programmes of research (including the content of such courses or programmes and how they are taught, supervised or assessed), nor can they refer to the criteria for selecting and appointing academic staff or admitting students.

B.6 Members of the HEFCE Board are appointed by the Secretary of State; a representative of the Secretary of State is entitled to attend HEFCE's Board meetings, but not to take part in the decision-making process. In Wales, the National Assembly appoints to HEFCW's Council; and in Northern Ireland, members of the Northern Ireland Higher Education Council are

appointed by the Minister with responsibility for higher education in Northern Ireland.

Lines of Accountability

B.7 The National Audit Office or, in Northern Ireland, the Northern Ireland Audit Office, is responsible for auditing the accounts of government departments and certain public bodies, and for reporting on them to Parliament. The National Audit Office and the Northern Ireland Audit Office are each headed by a Comptroller and Auditor General.

B.8 The National Audit Office audits HEFCE's accounts. This includes ensuring that the resources made available to it have been used economically, efficiently and effectively. This examination covers not only the running costs of the Funding Council, but also the use of Funding Council funds by individual institutions. Similarly, the Northern Ireland Audit Office examines the accounts of DHFETE and the use of its funding by the Northern Ireland universities; in Wales this is the responsibility of the Audit Committee of the National Assembly.

B.9 The Chief Executive of the HEFCE and the Permanent Secretary of DHFETE are the Accounting Officers who are answerable for the use of these funds. They may be summoned to appear before the Public Accounts Committee of the House of Commons to give evidence and answer questions. The Public Accounts Committee may also summon heads of institutions, as designated office holders, to give evidence. In Wales the functions of the Public Accounts Committee are delegated to the Audit Committee of the National Assembly.

B.10 To ensure that institutions are making proper arrangements for financial management and accounting, and are using Funding Council funds in ways which are consistent with the purposes for which they have been allocated, the HEFCE and HEFCW have each established an Audit Service. The Audit Services have the right of access to all information held by their parent Funding Council and by the individual institutions they fund. Over a cycle, the Audit Services review the financial and non-financial management systems of the individual institutions, and report their findings to the Audit Committee of the HEFCE or HEFCW, and through the Audit Committee to their Chief Executives. This process involves visits by the Audit Service to the institution under consideration. The HEFCE Audit Service is contracted to carry out similar reviews in Northern Ireland universities and report its findings to DHFETE.