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THE HIGHER EDUCATION ACADEMY

Report and Financial Statements
Year ended
31 July 2006

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**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2006**

Company

The Academy was incorporated as a company limited by guarantee on 14 October 2003. The Academy was established for the purpose of:

- providing strategic advice and co-ordination to the higher education sector, government, funding bodies and others on policies and practices that will impact on and enhance the student experience;
- supporting and advancing curriculum and pedagogic development across the whole spectrum of higher education activity; and
- facilitating the professional development and increasing the professional standing of all staff in higher education.

The Academy obtained charitable status as a registered charity for the purposes of the Charities Act 1993.

Mission

The Academy's mission is to help institutions, discipline groups and all staff to provide the best possible learning experience for their students.

Objectives

The Academy's strategic aims are:

1. To be an authoritative and independent voice on policies that influence student learning experiences
2. To support institutions in their strategies for improving the student learning experience
3. To lead, support and inform the professional development and recognition of staff in higher education
4. To promote good practice in all aspects of support for the student learning experience
5. To lead the development of research and evaluation to improve the quality of the student learning experience
6. To be a responsive, efficient and accountable organisation

Transparency arrangements

The Academy conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the full Board of the Academy. Full minutes of all meetings are available on the Academy's website (www.heacademy.ac.uk) and are also available from the Company Secretary at:

The Higher Education Academy
Innovation Way
York Science Park
Heslington
York
YO10 5BR
United Kingdom

The Company Secretary maintains a register of financial and personal interests of the directors and trustees. The register is available for inspection at the above address.

The Higher Education Academy

Report of the Directors and Trustees

For the year ended 31 July 2006

Finances

The Academy incurred an operating deficit in the year of £329,000 as part of a managed reduction in reserves levels to the level specified in the reserves policy.

At the beginning of the year, the Academy took over direct responsibility for funding the Subject Centres from the four funding bodies (Higher Education Funding Council for England, Scottish Funding Council, Higher Education Funding Council for Wales and the Department of Employment and Learning). This has resulted in significantly increased income and expenditure as well as moving towards further integration of activities within the Academy.

Post Balance Sheet Events

There were no post balance sheet events that had material significance.

Staff Involvement

The Academy considers good communication with its staff to be very important, and to this end it has established a formal consultative committee, seeking representation from all staff and senior management. It holds monthly staff briefings, to which all staff are invited and holds an annual staff 'away day' each year.

Taxation

The Academy's activities do not fall to be charged to corporation tax.

Employment of Persons with a Disability

The Academy considers all applications for employment from disabled persons, bearing in mind the aptitudes of the individuals concerned and its duty to make reasonable adjustments. Where an existing employee becomes disabled, reasonable adjustments are made to ensure that employment with the Academy continues. The Academy's policy is to provide training, career development and opportunities for promotion that are, as far as possible, comparable to those for other employees and to make reasonable adjustments in that regard.

Disability Statement

The Academy seeks to achieve the objectives set down in the Disability Discrimination Act 2000.

Directors and Trustees

The Directors and Trustees who served on the Board during the year were as follows:

Table 1. Directors and Trustees serving on the board during 2005/2006

	<i>Date of appointment</i>	<i>Date of resignation</i>	<i>Status of appointment</i>	<i>Committees served</i>
Professor L. Wagner	26 March 2004		Universities UK and GuildHE	Chair: Board Chair: Remuneration; Chair: Nominations Finance and General Purposes
Mr G Attle	26 October 2004		Co-opted	Audit
Mrs C. Baume	23 June 2005		Council	Audit
Professor J. Beer	26 March 2004		Funding Councils	Chair: Audit; Nominations
Professor R. Brown	26 March 2004	31 October 2005	Universities UK and GuildHE	Chair: Finance and General Purposes, Nominations, Remuneration

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2006**

	Date of appointment	Date of resignation	Status of appointment	Committees served
Professor B. Burgess	26 March 2004		Universities UK and GuildHE	(To 31 October 2005) Audit (From 31 October 2005) Chair: Finance and General Purposes, Nominations, Remuneration
Dr L. Elvidge	26 March 2004		Council	Nominations, Finance and General Purposes
Professor P. Goodhew	26 March 2004		Council	Finance and General Purposes
Professor B. King	9 January 2006		Universities UK and GuildHE	Remuneration
Mr J. Nicholds	15 July 2005	7 July 2006	NUS/NPC	
Professor J. Simons	9 May 2005		Council	
Mr W. Streeting	7 July 2006		NUS/NPC	
Mr D. Thomas	26 October 2004		Co-opted	Remuneration
Professor R. H. Trainor	26 March 2004		Funding Councils	(To 31 October 2005) Remuneration (From 31 October 2005) Audit
Professor D. Willcocks	31 October 2005		Universities UK and GuildHE	Finance and General Purposes

Professional Advisers

External Auditors:
RSM Robson Rhodes LLP
St George House
40 Great George Street
Leeds
LS1 3DQ

Bankers:
The Royal Bank of Scotland
York Branch
6 Nessgate
York
North Yorkshire
YO1 9FY

Company number
Registered Charity number

Internal Auditors:
Uniac
Manchester Metropolitan University
All Saints Building
Manchester
M15 6BH

Solicitors:
Beachcroft Wansborough
100 Fetter Lane
London
EC4A 1BN

Lupton Fawcett
Yorkshire House
East Parade
Leeds
LS1 5BD

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Professor L. Wagner

Chair

14 November 2006



The Higher Education Academy
Financial Statements
For the year ended 31 July 2006
Statement of Corporate Governance and Internal Control

The Academy is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the Academy has applied the principles set out in section 1 of the *Combined Code on Corporate Governance* issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The Academy endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership).

In the opinion of the Board, the Academy has been working towards compliance with the provisions of the Combined Code so far as they apply to the Higher Education Sector. The Academy has maintained steady improvement towards achieving full compliance during the year. The Academy was fully compliant with the provisions of the Combined Code as at 31 July 2006.

The Board

The composition of the Board is set out on page 4. It is the Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.

The Board is provided with regular and timely information on the overall financial performance of the Academy together with other information such as performance against targets, proposed capital expenditure, quality matters and personnel related matters such as health and safety and environmental issues. The Board meets four times per year.

The Board conducts its business through a number of committees. Each committee has terms of reference, which have been approved by the Board. These committees are finance and general purposes, remuneration, nominations and audit. The decisions of these committees are formally reported to the Board.

All directors/trustees are able to take independent professional advice in furtherance of their duties at the Academy's expense and have access to the Company Secretary, who is responsible to the Board for ensuring compliance with all applicable procedures and regulations. The appointment, evaluation and removal of the Company Secretary are matters for the Board as a whole.

Formal agendas, papers and reports are supplied to directors/trustees in a timely manner, prior to Board meetings. Briefings are also provided on an ad-hoc basis.

The Board has a strong and independent non-executive element and no individual or group dominates its decision making process. The Board considers that each of its non-executive members is independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

There is a clear division of responsibility in that the roles of the Chair and Chief Executive are separate.

The Chief Executive is the head of the Academy and has a general responsibility to the Board for the organisation, direction and management of the Academy.

Appointments to the Board

Any new appointments to the Board are a matter for the consideration of the Board as a whole (other than those that are the responsibility of nominating bodies as specified in the Articles of Association). The Board has a nominations committee comprised of four members of the Board, which is responsible for the selection and nomination of any new member for the Board's consideration. The Board is responsible for ensuring that appropriate training is provided as required.

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2006
Statement of Corporate Governance and Internal Control
(continued)**

Members of the Board are appointed for a term of office not exceeding three years.

Audit Committee

The Audit Committee comprises four members of the Board (excluding the Chair) and a co-opted member. The Committee operates in accordance with written terms of reference approved by the Board.

The Audit Committee meets three times per year and provides a forum for reporting by the Academy's internal and financial statements auditors, who have access to the Committee for independent discussion, without the presence of Academy management.

The Academy's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan of input and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed recommendations and internal audit undertake periodic follow up reviews to ensure that such recommendations have been implemented.

The Audit Committee also advises the Board on the appointment of internal and external auditors and their remuneration for both audit and non-audit work.

Remuneration Committee

Throughout the year ended 31 July 2006, the Academy's remuneration committee comprised four members of the Board. The committee's responsibilities are to set the remuneration and benefits of the Chief Executive and other senior post-holders.

Internal Control

Scope of responsibility

The Board is ultimately responsible for the Academy's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, not absolute assurance, against material misstatement or loss.

The Board has delegated the day to day responsibility to the Chief Executive for maintaining a sound system of internal control that supports the achievement of the Academy's policies, aims and objectives, whilst safeguarding the funds and assets for which he is responsible. He is also responsible for reporting to the Board any material weaknesses or breakdowns in internal control.

The purpose of the system of internal control

A system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The Academy's system of internal control is being developed through processes designed to identify and prioritise the risks to the achievement of Academy policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control is currently being further refined with assistance from the Academy's internal auditors.

Capacity to handle risk

The Board has reviewed the key risks to which the Academy is exposed, together with the operating, financial and compliance controls that have been implemented to mitigate those risks. In the opinion of the Board, a formalised process for identifying, evaluating and managing the Academy's significant

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2006
Statement of Corporate Governance and Internal Control
(continued)**

risks has been in place throughout the year and a process for identifying, evaluating and managing operational risks has been developed, in conjunction with the Academy's internal audit service.

The risk and control framework

The system of internal control is based on a framework of regular management information, administrative procedures including the segregation of duties, and a system of delegation and accountability. In particular, it includes:

- comprehensive budgeting systems with an annual budget, which is reviewed and agreed by the Board;
- regular reviews by the Board of periodic and annual financial reports which indicate financial performance against forecasts;
- setting targets to measure financial and other performance;
- clearly defined capital investment control guidelines; and
- the adoption of formal project management disciplines, where appropriate.

The Higher Education Academy has an internal audit service, which operates in accordance with the requirements of the Higher Education Funding Council for England Audit Code. The work of the internal audit service has been informed by an analysis of the risks to which the Academy is exposed, and annual internal audit plans are based on this analysis. The analysis of risks and the internal audit plans are endorsed by the Academy's Board on the recommendation of the audit committee. Annually, the Head of Internal Audit (HIA) provides the audit committee with a report on internal audit activity in the Academy. The report includes the HIA's independent opinion on the adequacy and effectiveness of the Academy's system of internal control, risk management controls and governance processes.

Review of effectiveness

The Chief Executive has responsibility for reviewing the effectiveness of the system of internal control. His review of the effectiveness of the system of internal control is informed by:

- the work of the internal auditors;
- the work of the executive managers within the Academy who have responsibility for the development and maintenance of the internal control framework;
- comments made by the Academy's financial statements auditors in their management letters.

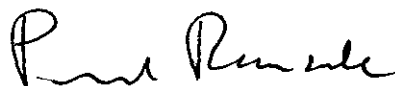
The Senior Executive Group and the audit committee receive regular reports from internal audit, which include recommendations for improvement. The audit committee's role in this area is confined to a high-level review of the arrangements for internal control.

Going Concern

After making appropriate enquiries, the Board considers that the Academy has adequate resources to continue in operational existence for the foreseeable future. For this reason it continues to adopt the going concern basis in preparing the financial statements.



Professor L. Wagner (Chair)
14 November 2006



Professor P. Ramsden (Chief Executive)

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2006**

Statement of the Directors' and Trustees' Responsibilities

The directors and trustees are required to present audited financial statements for each financial year.

Company and charity law requires the directors and trustees respectively to prepare financial statements which give a true and fair view of the state of affairs of the Academy and of its results for the period.

In preparing the financial statements, the directors and trustees are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare financial statements on the going concern basis, unless it is inappropriate to assume that the Academy will continue in operation.

The directors and trustees are responsible for keeping proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Academy, and which enable it to ensure that the financial statements are prepared in accordance with the relevant legislation of incorporation and other relevant accounting standards. It is responsible for taking steps that are reasonably open to it in order to safeguard the assets of the Academy and to prevent and detect fraud and other irregularities.

Directors and Trustees must ensure that there are appropriate financial and management controls in place in order to safeguard public and other funds and to ensure they are used properly. In addition, directors and trustees are responsible for securing economical, efficient and effective management of the Academy's resources and expenditure.

The directors are also responsible for ensuring that the Directors' report is prepared in accordance with company law in the United Kingdom.



**Signed on behalf of the Board
14 November 2006
Professor L. Wagner**

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2006**

Independent Auditors' Report to the Board of Directors and Trustees of the Higher Education Academy

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Board of Directors and Trustees of The Higher Education Academy, as a body, in accordance with the Higher Education Funding for England Code of Practice. Our audit work has been undertaken so that we might state to the Board those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board, for our audit work, for this report or for the opinion we have formed.

Respective responsibilities of the Board of Directors and Trustees and auditors

As described in the Statement of Directors' and Trustees' Responsibilities the Board of Directors and Trustees is responsible for preparing the Report of the Directors and Trustees and financial statements in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

We also report to you whether income from funding bodies, grants and income for specific purposes from other restricted funds administered by the Academy have been properly applied only for the purposes for which they are received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Funding Agreement with the Higher Education Funding Council for England.

We also report to you if, in our opinion, the Report of the Directors and Trustees is not consistent with the financial statements, if the Academy has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Report of the Directors and Trustees and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of opinion

We conducted our audit in accordance with International Auditing Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board of Directors and Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Academy's circumstances, consistently applied and adequately disclosed.

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2006**

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

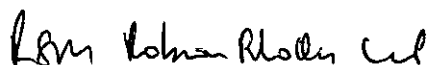
Opinion

In our opinion:

i. The financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Academy at 31 July 2006, and of the deficit of expenditure over income, recognised gains and losses and cashflows of the Academy for the year then ended; and the statements have been properly prepared in accordance with the Companies Act and the Statement of Recommended Practice on Accounting in Higher Education Institutions.

ii. In all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council and grants and income for specific purposes and from other restricted funds administered by the Academy have been applied only for the purposes for which they were received.

iii. In all material respects, income has been applied in accordance with the Academy's statutes and where appropriate in accordance with the funding agreement with the Higher Education Funding Council for England.



RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Leeds

Date 29th November 2006

**The Higher Education Academy
Income and Expenditure Account
Year ended 31 July 2006**

	Notes	Year ended 31 July 2006	Year ended 31 July 2005
		£000	£000
Income			
Funding body grants	2	22,089	6,471
Other income	3	2,505	3,164
Interest receivable	4	116	164
Total income		24,710	9,799
Expenditure			
Staff costs	5	(3,671)	(2,767)
Subject Centres	7	(12,018)	-
Other operating expenses	7	(9,065)	(4,929)
Depreciation	9	(282)	(199)
Interest payable and similar charges	8	(3)	(6)
Total expenditure		(25,039)	(7,901)
(Deficit)/Surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets		(329)	1,898
(Deficit)/Surplus for the period		(329)	1,898

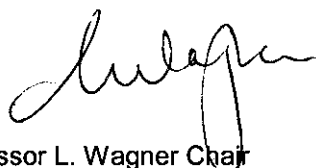
The income and expenditure account is in respect of continuing activities

There were no gains and losses other than those reported in the income and expenditure account.

**The Higher Education Academy
Balance Sheet
As at 31 July 2006**

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	9	<u>680</u>	<u>759</u>
		680	759
Current assets			
Debtors	10	1,242	870
Cash at bank and in hand	15	<u>2,502</u>	<u>4,636</u>
		3,744	5,506
Creditors: amounts falling due within one year	11	<u>(2,661)</u>	<u>(4,173)</u>
Net current assets		1,083	1,333
NET ASSETS		1,763	2,092
Reserves			
Capital reserve	20	117	117
General reserve	20	1,646	1,975
TOTAL RESERVES		1,763	2,092

The financial statements on pages 12 to 27 were approved by the Board on 14 November 2006 and were signed on its behalf by:-



Professor L. Wagner Chair

**The Higher Education Academy
Cash Flow statement for
the year ended 31 July 2006**

	Notes	Year ended 31 July 2006	Year ended 31 July 2005
		£000	£000
Cash flow from operating activities	12	(2,041)	2,588
Returns on investment and servicing of finance	13	113	158
Capital expenditure and financial investment	14	(206)	(797)
Cash(outflow)/inflow before management of liquid resources and finan		<u>(2,134)</u>	<u>1,949</u>
Management of liquid resources		-	-
Financing		-	-
(Decrease)/Increase in cash in the period	15	<u><u>(2,134)</u></u>	<u><u>1,949</u></u>
Reconciliation of net cash flow to movement in net funds			
(Decrease)/Increase in cash in the period	15	(2,134)	1,949
Change in net debt resulting from cash flows		<u>-</u>	<u>-</u>
Movement in net funds in the period		(2,134)	1,949
Net funds at 1 August		4,636	2,687
Net funds at 31 July		<u><u>2,502</u></u>	<u><u>4,636</u></u>

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2006**

1 Statement of Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2003, the Companies Act 1985 and in accordance with applicable Accounting Standards.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Recognition of income

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income receivable from the Funding bodies is recognised in the accounts in the year in which the related expenditure is incurred.

Pension schemes

Retirement benefits to employees of the Academy are provided by the Universities Superannuation Scheme (USS). These are defined benefit schemes, which are externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS). Contributions to the schemes are charged to the income and expenditure account, so as to spread the cost of pensions over employees' working lives with the Academy in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll.

The contributions are determined by qualified actuaries on the basis of triennial valuations using the projected unit method for the USS.

Tangible fixed assets

Computer equipment costing less than £1,000 is written off to the income and expenditure account in the period of acquisition. All other equipment (excluding computer software and licences) and furniture and fittings is capitalised at cost, where the aggregated or individual costs is £1,000 or more.

All tangible fixed assets are depreciated on a straight line basis over their useful economic life as follows:

Equipment	-	three years;
Computer equipment	-	three years;
Furniture and Fittings	-	five years.

Leased assets

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Taxation

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2006**

The Academy is a registered charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act 1988 (ICTA 1988).

Accordingly, the Academy is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The Academy receives no similar exemption in respect of Value Added Tax.

Liquid resources

Liquid resources include sums on short-term deposits with recognised banks, building societies and government securities.

Provisions

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

The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2006

2 Funding body grants

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Higher Education Funding Council for England	16,815	3,741
Scottish Funding Council	1,959	1,180
Higher Education Council for Wales	816	306
Department for Employment and Learning Northern Ireland	327	-
Joint Information System Council (JISC)	1,582	1,072
Department for Education and Skills	25	159
Other Grant Income	292	13
Learning and Skills Council	273	-
	<u>22,089</u>	<u>6,471</u>

3 Other income

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Registration and accreditation income	143	750
Institutional subscriptions	1,993	2,009
Other income	369	405
	<u>2,505</u>	<u>3,164</u>

4 Interest receivable

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Interest receivable	116	164
	<u>116</u>	<u>164</u>

The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2006

5 Staff numbers and costs

The average number of persons (including senior post holders) employed by the Academy during the year, expressed as full time equivalents, was:

	Year ended 31 July 2006	Year ended 31 July 2005
	No.	No.
Chief Executive team	3	3
Service Support	32	23
Operational	34	42
Research and Evaluation	11	2
TechDis	8	7
	<u>88</u>	<u>77</u>

The average staff number for the year is 88.

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Staff costs for the above persons:		
Wages and salaries	3,046	2,297
Social security costs	223	182
Pension costs	361	283
Restructuring costs	41	5
	<u>3,671</u>	<u>2,767</u>
Chief Executive	236	216
Service Support	952	681
Operational	1,735	1,511
Research and Evaluation	457	85
TechDis	291	274
	<u>3,671</u>	<u>2,767</u>

The restructuring costs were approved by the Board as part of the restructuring of the senior management team, to better align it with the Academy's strategy.

Staff numbers have altered from previous years due to the reallocation of staff into support areas from operational areas and due to recruitment during the year. Average salaries for Research and Evaluation and for TechDis have decreased from the previous year because more staff at junior levels have been recruited during the year.

There was no average annual pay award, as all staff, other than senior post holders, received pay awards as a result of job evaluation and performance assessment. Senior post holders did not undergo job evaluation but did receive pay awards that were based on performance assessment; these did not differ from the percentages applied to other staff.

The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2006

6 Senior post holders

Senior post holders are defined as the Chief Executive and holders of the other posts that the Board has designated as senior posts for the purposes of the articles of government of the Academy.

	Year ended 31 July 2006	Year ended 31 July 2005
	No.	No.
The number of Senior Post Holders including the Chief Executive was	6	5

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Senior post-holders' emoluments are made up as follows:		
Salaries	400	329
Benefits in kind	1	1
Pension Contributions	54	46
Compensation for loss of Office	24	-
Total emoluments	<u>479</u>	<u>376</u>

The number of senior post-holders who received emoluments, including pension contributions and benefits in kind in the following ranges from £70,000:

	Year ended 31 July 2006	Year ended 31 July 2005
	No.	No.
£70,001 to £80,000	2	1
£80,001 to £90,000	-	1
£90,001 to £100,000	1	-
£100,001 to £110,000	-	-
£110,001 to £120,000	-	1
£120,001 to £130,000	1	-
	<u>4</u>	<u>3</u>

No other staff received emoluments within these ranges.

The benefits in kind relate to health insurance incurred on behalf of the Chief Executive.

The above emoluments include amounts payable to the Chief Executive (who is also the highest paid senior post holder) of:

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2006**

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Salary	113	107
Benefits in kind	1	1
Pension Contributions	16	15
Total emoluments	<u>130</u>	<u>123</u>

The pension contributions in respect of the Chief Executive and senior post holders are in respect of employer's contributions to the USS pension scheme and are paid at the same rate as for other employees.

The members of the Academy other than the Chair did not receive any payment from the Academy other than reimbursement of travel and subsistence expenses incurred in the course of their duties.

7 Other operating expenses

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Subject Centre grants	12,018	-
Academy Operational costs	6,250	2,830
Rent and rates	358	295
Travel and subsistence	389	405
Postage, printing, stationery and telephone	249	274
Professional fees	611	128
Office equipment and computer maintenance	583	357
General expenses	478	218
Public relations and fund raising	147	260
Recruitment costs	35	95
Bad debt	(38)	57
Loss on disposal of fixed assets	3	10
	<u>21,083</u>	<u>4,929</u>

**The Higher Education Academy
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	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Other operating expenses include:		
Auditors' remuneration		
- external audit	23	21
- external auditors' other services	9	-
- internal audit	28	20
Hire of buildings – operating leases	317	152
Loss on disposal of fixed assets	3	10

There were no material overseas activities undertaken during the year.

8 Interest payable and similar charges

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Bank charges	3	6
	<u>3</u>	<u>6</u>

9 Tangible fixed assets

	Computer Equipment £000	Equipment £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
Opening balance	316	113	537	966
Additions	154	7	45	206
Disposals	(4)	-	-	(4)
At 31 July 2006	<u>466</u>	<u>120</u>	<u>582</u>	<u>1,168</u>
Depreciation				
Opening balance	118	30	59	207
Provision for the period	131	33	118	282
Disposals	(1)	-	-	(1)
Asset Reclassification	3	4	(7)	-
At 31 July 2006	<u>251</u>	<u>67</u>	<u>170</u>	<u>488</u>
Net book value				
At 31 July 2006	<u>215</u>	<u>53</u>	<u>412</u>	<u>680</u>
Net book value				
At 31 July 2005	<u>198</u>	<u>83</u>	<u>478</u>	<u>759</u>

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10 Debtors

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Amounts falling due within one year:		
Debtors	128	263
Bad debt provision	(2)	(55)
	<u>126</u>	<u>208</u>
Prepayments and accrued income	1,116	662
	<u>1,242</u>	<u>870</u>

**The Higher Education Academy
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11 Creditors: amounts falling due within one year

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Creditors	734	551
Other taxation and social security	-	1
HEFCE grant income deferred	584	1,485
TechDis grant income deferred	155	809
JISC grant income deferred	199	-
Project income deferred	-	221
Other accruals and deferred income	989	1,106
	<u>2,661</u>	<u>4,173</u>

12 Reconciliation of consolidated operating surplus to net cash flow from operating activities

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
(Deficit)/Surplus on continuing operations after depreciation of assets at valuation and tax	(329)	1,898
Depreciation (note 9)	282	199
(Increase) in debtors	(372)	(473)
(Decrease)/increase in creditors	(1,512)	1,112
Interest receivable (note 4)	(116)	(164)
Interest payable (note 8)	3	6
Loss on disposal of fixed assets (note 9)	3	10
Net cash flow from operating activities	<u>(2,041)</u>	<u>2,588</u>

13 Returns on investments and servicing of finance

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Other interest received	116	164
Interest paid	(3)	(6)
Net cash inflow from returns on investments and servicing of finance	<u>113</u>	<u>158</u>

**The Higher Education Academy
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14 Capital expenditure and financial investment

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Purchase of tangible fixed assets	206	797
Net cash outflow from capital expenditure and financial investment	<u>206</u>	<u>797</u>

15 Analysis of changes in net funds

	Opening	Cash Flow	At 31 July 2006
	£000	£000	£000
Cash at bank	4,636	(2,134)	2,502
Total	<u>4,636</u>	<u>(2,134)</u>	<u>2,502</u>

**The Higher Education Academy
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16 Pensions and similar obligations

The Academy participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P).

The assets of the scheme are held in a separate trustee administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities, it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at the valuation date and under the Pensions Protections Fund regulations introduced by the Pensions Act 2004 it was 110% funded.

The institution contributions rate required for future service benefits alone at the date of valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the Academy's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16th March 2006, USS positioned itself as a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme. The next formal actuarial valuation is due as at 31 March 2008 when the above rates will be reviewed.

The total pension cost for the Academy was £360,655 (2005 £282,626). The contribution rate payable by the institution was 14% of pensionable salaries.

17 Capital commitments

There were no capital commitments contracted for at 31 July 2006, (2005:nil).

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18 Financial commitments

At 31 July 2006 the Higher Education Academy had annual commitments under non-cancellable operating leases as follows:

	Year ended 31 July 2006	Year ended 31 July 2005
	£000	£000
Land and buildings		
Expiring within one year	-	-
Expiring within two and five years inclusive	-	-
Expiring in over five years	301	301
	<u>301</u>	<u>301</u>

19 Related party transactions

Due to the nature of the Academy's operations and the composition of the Board (being drawn from the higher education sector) it is inevitable that transactions will take place with organisations in which a director of the board or a member of the Academy may have an interest. All transactions involving organisations in which a director of the board or a member of the Academy may have an interest are conducted at arms' length.

Director/Trustee	Institution	Sales	Purchases	Total	Balance outstanding at 31 July 2006
		£	£	£	£
Professor L Wagner	Not associated	-	-	-	-
Mr G Attle	Not associated	-	-	-	-
Mrs C Baume	The Open University	69,170	38,704	107,874	-
Professor J Beer	Manchester Metropolitan University	36,665	7,238	43,903	6,130
Professor R Brown	Southampton Solent University	12,850	3,000	15,850	3,000
Professor R Burgess	University of Leicester	14,400	82,347	96,747	-
Dr L Elvidge	University of Cambridge	26,050	-	26,050	-
Professor P Goodhew	University of Liverpool	30,135	510,051	540,186	-
Professor B King	University of Abertay Dundee	7,240	893	8,133	-
Mr J Nicholds	Not associated	-	-	-	-
Professor J Simons	De Montfort University	27,780	1,360	29,140	-
Mr W Streeting	Not associated	-	-	-	-
Mr D Thomas	Not associated	-	-	-	-
Professor R Trainor	Kings College, London	28,000	641,960	669,960	-

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Director/Trustee	Institution	Sales	Purchases	Total	Balance outstanding at 31 July 2006
Professor D Willcocks	York St John, University College	10,565	5,152	15,717	-

During the period there were no material transactions (neither income nor expenditure) with organisations with which any director of the Board or member of the Academy may have an interest.

20 Reserves

	Capital reserve £000	General reserve £000	Total £000
As at 31 July 2005	117	1,975	2,092
Deficit for the period	-	(329)	(329)
At 31 July 2006	117	1,646	1,763