

4931031

THE HIGHER EDUCATION ACADEMY

Report and Financial Statements
Year ended
31 July 2007



| Contents | Page(s) |
|--|----------------|
| Directors' and trustees' report | 3 - 8 |
| Statement of corporate governance and internal control | 9 - 11 |
| Statement of directors' and trustees' responsibilities | 12 |
| Auditors' report | 13 - 14 |
| Income and expenditure account | 15 |
| Balance sheet | 16 |
| Cash flow statement | 17 |
| Reconciliation of net cash flow to movement in net funds | 18 |
| Notes | 19 - 29 |

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2007**

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

Academy Annual Review

Much of the detail of the Academy's activities is captured in the Annual Report 2006-2007, which is available from the Company Secretary (details below). However, particular highlights during 2006-2007 have been

- Completion of a review of our accreditation scheme to ensure that it recognizes the now considerable experience of delivering professional development programmes across the sector and moves beyond a single focus on award-bearing programmes
- The third successful Change Academy programme. Over 50 universities and colleges have now participated in our programme, which enables them to make major strategic change through teamwork
- Further work to develop understanding of the research-teaching nexus, including progress with Research Councils UK on establishing a joint policy group

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2007**

- Contributions by our Subject Centres to national policy developments, including advising Sector Skills Councils on content for the proposed 14-19 diplomas and measures to increase the supply of students to strategically important subjects
- Introduction of a professional recognition scheme Individual staff can now apply for professional recognition as Associates, Fellows or Senior Fellows of the Higher Education Academy, accolades that link directly to the criteria set out in the sector-owned Professional Standards Framework Even greater focus will be given to professional development in 2007-2008 and beyond as we build a programme to look at the different ways of rewarding excellence in teaching and learning run by institutions
- Our role in partnership with the Scottish Funding Council, QAA Scotland and Universities Scotland, in assisting Scottish institutions with their employability strategies
- Intensive work with a group of institutions on their National Student Survey results, enabling them to improve teaching and learning through sharing good practice
- High levels of institutional engagement in our research into the postgraduate student experience
- A greater emphasis on policy work related to teaching and learning, including a high level think tank on the impact of different methods of research assessment, the first Academy lecture, delivered by Baroness Susan Greenfield on the topic of 'Inspiring the next generation of academics', and the first Academy debate, on the motion that "Excellence has become a meaningless term in higher education"
- Further developments of the successful network of Pro-Vice-Chancellors and Deputy-Vice-Chancellors
- Work with the Higher Education Funding Council for Wales to develop a Welsh e-learning strategy
- Developments in HE in FE, including publication of a national directory of provision
- The launch of a new web portal, making it easier for academic staff and others to find, use and respond to information and resources from across the Academy
- Commencement of a major project, commissioned by the Government, looking at factors that may affect degree attainment by students from minority ethnic backgrounds and at institutional strategies

Finances

The Academy incurred an operating deficit in the year of £235,000 as part of a managed reduction in reserves levels to the level specified in the reserves policy This reduction is now complete and the Academy aims to break even or generate a small surplus in future years

Principal risks and uncertainties facing the Academy

The principal uncertainty facing the Academy is the level of funding support that will be provided by the four UK funding bodies over the next five years (with effect from 1 August 2008) This has a major impact on the level of support for the quality enhancement of teaching and learning that the Academy is able to provide Other risks are detailed in the Academy's risk register An assessment of specific financial risks is set out below

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2007**

Financial instruments

The Academy's operations expose it to a variety of financial risks including the effects of changes in interest rates on bank deposits, credit risk and liquidity risk

The Academy does not have material exposures in any of the areas identified above and, consequently does not use derivative instruments to manage these exposures

The Academy's principal financial instruments comprise sterling cash and bank deposits together with trade debtors and trade creditors that arise directly from its operations

The main risks arising from the company's financial instruments can be analysed as follows

Price risk

The Academy has no significant exposure to securities price risk, as it holds no listed equity investments

Foreign currency risk

The Academy has no significant exposure to foreign currency risk, as it does not trade overseas

Credit risk

The Academy's principal financial assets are bank balances, cash, and institutional debtors, which represent the company's maximum exposure to credit risk in relation to financial assets

The Academy's credit risk is primarily attributable to its institutional debtors. Credit risk is managed by monitoring the aggregate amount and duration of exposure to any one institution. The amounts presented in the balance sheet are net of allowances for doubtful debts, estimated by the Academy's management based on prior experience and their assessment of the current economic environment

Liquidity risk

The Academy has no significant exposure to liquidity risk, as it does not have any loans or asset financing arrangements

Cash flow interest rate risk

The Academy has no significant exposure to cash flow interest rate risk, as it does not have any loans or interest charging facilities in place

Environment

The Academy's policy with regard to the environment is to ensure that we understand and effectively manage the actual and potential environmental impact of our activities. Our operations are conducted such that we comply with all legal requirements relating to the environment in all areas where we carry out our business. During the period covered by this report the company has not incurred any fines or penalties or been investigated for any breach of environmental regulations

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 from the Company Secretary at

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2007**

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.

During the year, the Board conducted a review of its governance arrangements and recommendations to change the nature of the academic governance of the Academy were approved at the Board meeting on 28 June 2007 and approved by special resolution of the owners of the Academy on 30 June 2007. This has resulted in the creation of a new Academic Council, as a fifth Board committee, which draws on wider sector representation to advise the Board more closely on academic matters. The Academic Council's first meeting is expected in Autumn 2007.

Post Balance Sheet Events

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

Employees

The Academy considers good communication with its employees 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 two staff 'away days' each year. Employees' performance is aligned to the Academy's objectives through an annual performance review process that is carried out with all employees.

Taxation

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

Equality and Diversity

The Academy has revised its equality and diversity policy in line with current legislation. In view of the contractual requirements of its funders, the Academy has decided to discharge its responsibilities with regard to equality and diversity by introducing a single equality scheme to include the Academy's measures to avoid discrimination on the grounds of race, age, disability, gender, sexual orientation and religious belief and to affirm the Academy's values with regard to equality and diversity. This is in preparation and will be implemented during 2007-2008.

Employment of Disabled Persons

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, identical 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.

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2007**

Directors and Trustees

The Directors and Trustees who served on the Board during the year and up to the date of signature of this report were as listed in Table 1

Table 1.

| | <i>Date of appointment</i> | <i>Term of Office (to following AGM)</i> | <i>Date of resignation</i> | <i>Status of appointment</i> | <i>Committees served</i> |
|-----------------------|----------------------------|--|----------------------------|------------------------------|---|
| Professor L Wagner | 15 November 2006 | 2 years | 31 July 2007 | Universities UK and GuildHE | Chair Board Chair Remuneration, Chair Nominations Finance and General Purposes |
| Mr G Attle | 26 October 2004 | 3 years | | Co-opted | Audit |
| Mrs C Baume | 23 June 2005 | 1 year | 31 July 2007 | Council | Audit (to 31 July 2007) |
| Professor J Beer | 26 March 2004 | 3 years | | Funding Councils | Chair Audit, Nominations |
| Professor P Broadfoot | 1 August 2007 | 3 years | | Universities UK and GuildHE | |
| Professor B Burgess | 15 November 2006 | 2 years | | Universities UK and GuildHE | Chair Finance and General Purposes (to 31 July 2007), Nominations, Remuneration Chair Board from 1 August 2007 |
| Dr L Elvidge | 15 November 2006 | 2 years | 31 July 2007 | Council | Nominations, Finance and General Purposes (to 31 July 2007) |
| Professor P Goodhew | 15 November 2006 | 2 years | 31 July 2007 | Council | Finance and General Purposes (to 31 July 2007) |
| Professor B King | 9 January 2006 | 3 years | | Universities UK and GuildHE | Remuneration |
| Professor J Simons | 9 May 2005 | 3 years | 31 July 2007 | Council | |
| Mr W Streeting | 15 November 2006 | 1 year | | NUS/NPC | |
| Mr D Thomas | 15 November 2006 | 2 years | | Co-opted | Remuneration |
| Professor R H Trainor | 15 November 2006 | 2 years | | Funding Councils | Audit |
| Professor D Willcocks | 31 October 2005 | 3 years | | Universities UK and GuildHE | Finance and General Purposes (Chair from 1 August 2007) |

Ms C Mortimer, Company Secretary, acted as Secretary to the Board until 31 May 2007 Mr M Wilkinson, Company Secretary, acted as Secretary to the Board from 1 June 2007

Auditors

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with that of Grant Thornton

**The Higher Education Academy
Report of the Directors and Trustees
For the year ended 31 July 2007**

UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton Robson Rhodes resigned as auditors on 9 July 2007, creating a casual vacancy which the Senior Executive Group have filled by appointing Grant Thornton

Professional Advisers

External Auditors

Grant Thornton UK LLP
St George House
40 Great George Street
Leeds
LS1 3DQ

Internal Auditors

(From 1 February 2007)
Price Waterhouse Coopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

(To 31 January 2007)
Uniac
Manchester Metropolitan
University
All Saint Building
Manchester
M15 6BH

Bankers

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

Solicitors

Beachcroft Wansborough
100 Fetter Lane
London
EC4A 1BN

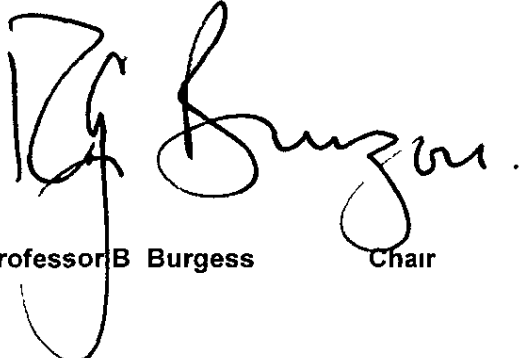
Lupton Fawcett
Yorkshire House
East Parade
Leeds
LS1 5BD

Company number

4931031

Registered Charity number

1101607

 14.11.07

Professor B Burgess

Chair

**The Higher Education Academy
Financial Statements
For the year ended 31 July 2007**

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 the revised *Combined Code on Corporate Governance* issued by the London Stock Exchange in July 2003. 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 fully compliant with the provisions of the Combined Code throughout the year.

The Board

The composition of the Board is set out on page 7. 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 2007**

Statement of Corporate Governance and Internal Control (continued)

Members of the Board are appointed for a term of office not exceeding three years and may be reappointed for a second term

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 external auditors and their remuneration for both audit and non-audit work and has delegated authority to appoint and set the remuneration for internal auditors.

Remuneration Committee

Throughout the year ended 31 July 2007, 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 continuously being improved with assistance from the Academy's internal auditors.

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2007**

Statement of Corporate Governance and Internal Control (continued)

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 risks has been in place throughout the year and up to the date of approval of the annual report and accounts 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

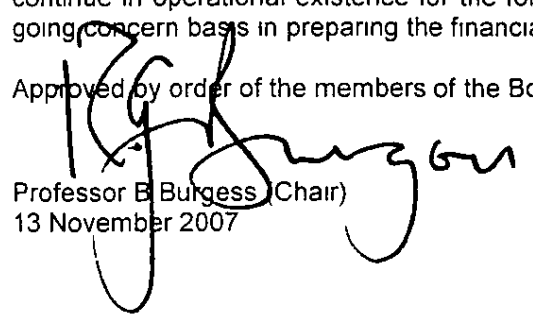
- the work of the internal auditors,
- the work of the executive managers within the Academy who have responsibility for the development and maintenance of the internal control framework,
- comments made by the Academy's financial statements auditors in their management letters

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.

Approved by order of the members of the Board and signed on its behalf by


Professor B Burgess (Chair)
13 November 2007


Professor P Ramsden (Chief Executive)

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2007**

Statement of the Directors' and Trustees' Responsibilities

The directors and trustees are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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

In preparing those 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 them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Academy and hence for taking reasonable steps for the prevention and detection of 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

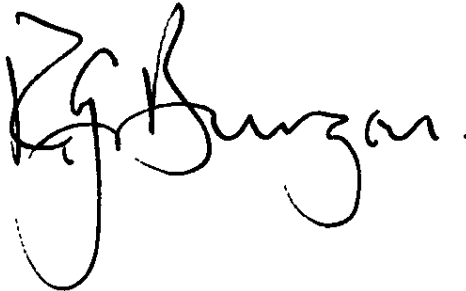
The directors are also responsible for ensuring that the Directors' report is prepared in accordance with company law in the United Kingdom

Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 7, confirm the following

- so far as each director is aware, there is no relevant information needed by the Academy's auditors in connection with preparing their report of which the Academy's auditors are unaware, and
- each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant information needed by the Academy's auditors in connection with preparing their report and to establish that the Academy's auditors are aware of that information

Signed on behalf of the Board
Professor B. Burgess
13 November 2007



**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2007**

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

We have audited the financial statements of The Higher Education Academy for the year ended 31 July 2007, which comprise the principal accounting policies, the income and expenditure account, the balance sheet, the cash flow statement and notes 2 to 20. These financial statements have been prepared under 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 Section 235 of the Companies Act 1985. 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the governing body and auditors

The directors' and trustees' responsibilities 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) are set out in the Statement of the Directors' and Trustees' Responsibilities.

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 Companies Act 1985 and the Statement of Recommended Practice - Accounting for Further and Higher Education. We also report to you whether in our opinion the information given in the Report of the Directors and Trustees is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 company's circumstances, consistently applied and adequately disclosed.

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 misstatement, 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.

**The Higher Education Academy
Financial Statements
For the Year ended 31 July 2007**

Opinion

In our opinion

- 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 company as at 31 July 2007 and of its deficit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and the Statement of Recommended Practice - Accounting for Further and Higher Education, and
- the information given in the Report of the Directors and Trustees is consistent with the financial statements

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors

Leeds, England
~~18~~ November 2007

27

**The Higher Education Academy
Income and Expenditure Account
Year ended 31 July 2007**

| | Notes | 2007 | 2006 |
|--|-------|-----------------|-----------------|
| | | £000 | £000 |
| Income | | | |
| Funding body grants | 2 | 24,435 | 22,089 |
| Other income | 3 | 2,517 | 2,505 |
| Interest receivable | 4 | 166 | 116 |
| Total income | | 27,118 | 24,710 |
| Expenditure | | | |
| Staff costs | 5 | (4,355) | (3,671) |
| Subject Centres | 7 | (12,342) | (12,018) |
| Other operating expenses | 7 | (10,347) | (9,065) |
| Depreciation | 9 | (305) | (282) |
| Interest payable and similar charges | 8 | (4) | (3) |
| Total expenditure | | (27,353) | (25,039) |
| Deficit for the year retained within the Income and Expenditure reserve | 20 | (235) | (329) |

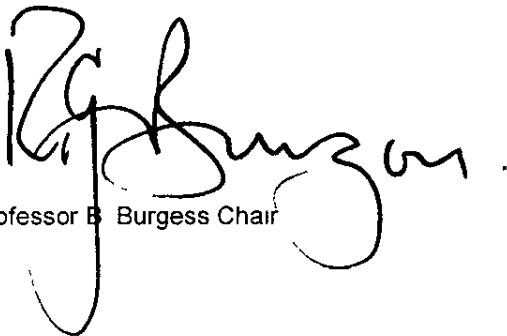
The income and expenditure account is in respect of continuing activities

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 2007**

| | Notes | 2007 £000 | 2006 £000 |
|--|-------|----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 9 | <u>464</u> | <u>680</u> |
| | | 464 | 680 |
| Current assets | | | |
| Debtors | 10 | 2,436 | 1,242 |
| Cash at bank and in hand | 15 | <u>2,169</u> | <u>2,502</u> |
| | | 4,605 | 3,744 |
| Creditors amounts falling due within one year | 11 | <u>(3,541)</u> | <u>(2,661)</u> |
| Net current assets | | 1,064 | 1,083 |
| NET ASSETS | | 1,528 | 1,763 |
| Reserves | | | |
| I & E reserve | 20 | 1,528 | 1,763 |
| TOTAL RESERVES | | 1,528 | 1,763 |

The financial statements on pages 15 to 29 were approved by the Board on 13 November 2007 and were signed on its behalf by -



Professor B. Burgess Chair

**The Higher Education Academy
Cash Flow statement for
the year ended 31 July 2007**

| | Notes | 2007 | 2006 |
|--|-------|--------------|----------------|
| | | £000 | £000 |
| Cash flow from operating activities | 12 | (406) | (2,041) |
| Returns on investment and servicing of finance | 13 | 162 | 113 |
| Capital expenditure and financial investment | 14 | (89) | (206) |
| (Decrease) in cash in the period | 15 | <u>(333)</u> | <u>(2,134)</u> |

Reconciliation of net cash flow to movement in net funds

| | | | |
|--|----|--------------|--------------|
| Decrease in cash in the period | 15 | (333) | (2,134) |
| Change in net debt resulting from cash flows | | <u>-</u> | <u>-</u> |
| Movement in net funds in the period | | (333) | (2,134) |
| Net funds at 1 August | | 2,502 | 4,636 |
| Net funds at 31 July | | <u>2,169</u> | <u>2,502</u> |

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

1 Accounting Policies

Statement of accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

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). This is a defined benefit scheme, which is externally funded and contracted out of the State Earnings-Related Pension Scheme (SERPS). Contributions to the scheme 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 are £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 |

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

Leased assets

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

Taxation

The Academy is an exempt 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 2007

2 Funding body grants

| | 2007 | 2006 |
|--|---------------|---------------|
| | £000 | £000 |
| Higher Education Funding Council for England | 19,332 | 16,815 |
| Scottish Funding Council | 2,012 | 1,959 |
| Higher Education Council for Wales | 837 | 816 |
| Department for Employment and Learning | 362 | 327 |
| Joint Information System Council (JISC) | 1,470 | 1,582 |
| Department for Education and Skills | 134 | 25 |
| Learning and Skills Council | 288 | 273 |
| Other Grant Income | - | 292 |
| | <u>24,435</u> | <u>22,089</u> |

3 Other income

| | 2007 | 2006 |
|-----------------------------|--------------|--------------|
| | £000 | £000 |
| Institutional subscriptions | 2,074 | 1,993 |
| Other income | 443 | 512 |
| | <u>2,517</u> | <u>2,505</u> |

4 Interest receivable

| | 2007 | 2006 |
|---------------------|-------------|-------------|
| | £000 | £000 |
| Interest receivable | 166 | 116 |
| | <u>166</u> | <u>116</u> |

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

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

| | 2007 | 2006 |
|-------------------------|-------------|-------------|
| | No | No. |
| Chief Executive | 5 | 3 |
| Service Support | 41 | 32 |
| Operational | 39 | 34 |
| Research and Evaluation | 13 | 11 |
| TechDis | 8 | 8 |
| | <u>106</u> | <u>88</u> |

| | 2007 | 2006 |
|-----------------------------------|--------------|--------------|
| | £000 | £000 |
| Staff costs for the above persons | | |
| Wages and salaries | 3,689 | 3,046 |
| Social security costs | 261 | 223 |
| Pension costs | 405 | 361 |
| Restructuring costs | - | 41 |
| | <u>4,355</u> | <u>3,671</u> |

| | | |
|-------------------------|--------------|--------------|
| Chief Executive | 413 | 236 |
| Service Support | 1,049 | 952 |
| Operational | 2,022 | 1,735 |
| Research and Evaluation | 534 | 457 |
| TechDis | 337 | 291 |
| | <u>4,355</u> | <u>3,671</u> |

There was no average annual pay award, as all staff, other than senior post holders, received pay awards as a result of performance assessment. Senior post holders also received 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 2007**

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

| | 2007 | 2006 |
|---|-------------|-------------|
| | No. | No |
| The number of Senior Post Holders including the Chief Executive was | 8 | 4 |

| | 2007 | 2006 |
|--|-------------|-------------|
| | £000 | £000 |
| Senior post-holders' emoluments are made up as follows | | |
| Salaries | 474 | 418 |
| Benefits in kind | 1 | 1 |
| Pension contributions | 59 | 54 |
| Compensation for loss of office | - | 24 |
| Total emoluments | 534 | 497 |

The number of senior post-holders who received emoluments, including pension contributions and benefits in kind in the following ranges was,

| | Senior post holders | | Other staff | |
|--------------------|----------------------------|-------------|--------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| | No | No. | No. | No |
| Less than £50,000 | 2 | - | - | - |
| £50,001 to £60,000 | 1 | - | 14 | 5 |
| £60,001 to £70,000 | 1 | - | 2 | 2 |
| £70,001 to £80,000 | 2 | 2 | 1 | - |
| £80,001 to £90,000 | 1 | - | - | - |
| £90,001 plus | 1 | 2 | - | - |
| | 8 | 4 | 17 | 7 |

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 2007**

| | 2007 | 2006 |
|-----------------------|-------------|-------------|
| | £000 | £000 |
| Salary | 124 | 113 |
| Benefits in kind | 1 | 1 |
| Pension Contributions | 17 | 16 |
| Total emoluments | <u>142</u> | <u>130</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

| | 2007 | 2006 |
|---|---------------|---------------|
| | £000 | £000 |
| Subject Centre grants | 12,342 | 12,018 |
| Academy operational costs | 7,732 | 6,250 |
| Indirect staff costs | 496 | 376 |
| Rent and rates | 392 | 358 |
| Travel and subsistence | 456 | 389 |
| Postage, printing, stationery and telephone | 284 | 249 |
| Professional fees | 292 | 611 |
| Office equipment and computer maintenance | 312 | 583 |
| General expenses | 63 | 102 |
| Public relations and fund raising | 133 | 147 |
| Recruitment costs | 189 | 35 |
| Bad debt | (2) | (38) |
| Loss on disposal of fixed assets | - | 3 |
| | <u>22,689</u> | <u>21,083</u> |

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

| | 2007 | 2006 |
|--|------|------|
| | £000 | £000 |
| Other operating expenses include | | |
| Auditors' remuneration | | |
| - fees payable to the Academy's auditor for the audit of the financial statements | 23 | 23 |
| - fees payable to the Academy's auditor and its associates for other services – relating to taxation | 4 | 9 |
| - internal audit | 36 | 28 |
| Hire of buildings – operating leases | 307 | 317 |
| Loss on disposal of fixed assets | - | 3 |

8 Interest payable and similar charges

| | 2007 | 2006 |
|--------------|----------|----------|
| | £000 | £000 |
| Bank charges | 4 | 3 |
| | <u>4</u> | <u>3</u> |

9 Tangible fixed assets

| | Computer Equipment £000 | Equipment £000 | Fixtures & Fittings £000 | Total £000 |
|--------------------------|-------------------------------|-------------------|--------------------------------|---------------|
| Cost or valuation | | | | |
| Opening balance | 466 | 120 | 582 | 1,168 |
| Additions | 59 | 9 | 21 | 89 |
| Disposals | (4) | 0 | 0 | (4) |
| At 31 July 2007 | <u>521</u> | <u>129</u> | <u>603</u> | <u>1,253</u> |
| Depreciation | | | | |
| Opening balance | 251 | 67 | 170 | 488 |
| Provision for the period | 139 | 37 | 129 | 305 |
| Disposals | (4) | 0 | 0 | (4) |
| At 31 July 2007 | <u>386</u> | <u>104</u> | <u>299</u> | <u>789</u> |
| Net book value | | | | |
| At 31 July 2007 | <u>135</u> | <u>25</u> | <u>304</u> | <u>464</u> |
| Net book value | | | | |
| At 31 July 2006 | <u>215</u> | <u>53</u> | <u>412</u> | <u>680</u> |

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

10 Debtors

| | 2007 | 2006 |
|-------------------------------------|--------------|--------------|
| | £000 | £000 |
| Amounts falling due within one year | | |
| Debtors | 93 | 128 |
| Bad debt provision | - | (2) |
| | 93 | 126 |
| Prepayments | 1,758 | 882 |
| Accrued income | 585 | 234 |
| | <u>2,436</u> | <u>1,242</u> |

11 Creditors: amounts falling due within one year

| | 2007 | 2006 |
|------------------------------------|--------------|--------------|
| | £000 | £000 |
| Creditors | 577 | 734 |
| HEFCE grant income deferred | 1,438 | 584 |
| TechDis grant income deferred | 205 | 155 |
| JISC grant income deferred | - | 199 |
| DfES grant income deferred | 68 | - |
| Other accruals and deferred income | 1,253 | 989 |
| | <u>3,541</u> | <u>2,661</u> |

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

| | 2007 | 2006 |
|---|--------------|----------------|
| | £000 | £000 |
| Deficit for the year | (235) | (329) |
| Depreciation (note 9) | 305 | 282 |
| Increase in debtors (note 10) | (1,194) | (372) |
| Increase)/(decrease) in creditors (note 11) | 880 | (1,512) |
| Interest receivable (note 4) | (166) | (116) |
| Interest payable (note 8) | 4 | 3 |
| Loss on disposal of fixed assets (note 9) | - | 3 |
| Net cash outflow from operating activities | <u>(406)</u> | <u>(2,041)</u> |

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

13 Returns on investments and servicing of finance

| | 2007 | 2006 |
|--|------------|------------|
| | £000 | £000 |
| Other interest received | 166 | 116 |
| Interest paid | (4) | (3) |
| Net cash inflow from returns on investments and servicing of finance | <u>162</u> | <u>113</u> |

14 Capital expenditure and financial investment

| | Year ended 31 July 2007 | Year ended 31 July 2006 |
|--|----------------------------|----------------------------|
| | £000 | £000 |
| Purchase of tangible fixed assets | (89) | (206) |
| Net cash outflow from capital expenditure and financial investment | <u>(89)</u> | <u>(206)</u> |

15 Analysis of changes in net funds

| | At 1 August 2006 £000 | Cash Flow £000 | At 31 July 2007 £000 |
|--------------------------|-----------------------------|----------------------|----------------------------|
| Cash at bank and in hand | 2,502 | (333) | 2,169 |
| Total | <u>2,502</u> | <u>(333)</u> | <u>2,169</u> |

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 Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

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 £404,909 (2006: £360,655). The contribution rate payable by the Academy was 14% of pensionable salaries.

17 Capital commitments

There were no capital commitments contracted for at 31 July 2007 (2006: nil).

The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007

18 Financial commitments

At 31 July 2007 the Higher Education Academy had annual commitments under non-cancellable operating leases as follows

| | 2007 | 2006 |
|--|------------|------------|
| | £000 | £000 |
| Land and buildings | | |
| Expiring within one year | 6 | - |
| Expiring within two and five years inclusive | - | - |
| Expiring in over five years | 301 | 301 |
| | <u>307</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 2007 |
|-----------------------|------------------------------------|--------|-----------|-----------|-------------------------------------|
| | | £ | £ | £ | £ |
| Professor L Wagner | Not associated | - | - | - | - |
| Mr G Attle | Not associated | - | - | - | - |
| Mrs C Baume | The Open University | 70,170 | 81,906 | 152,076 | - |
| Professor J Beer | Manchester Metropolitan University | 42,010 | 111,473 | 153,483 | 3,875 |
| Professor R Burgess | University of Leicester | 15,210 | 189,742 | 204,952 | 42,473 |
| Dr L Elvidge | University of Southampton | 26,553 | 1,218,903 | 1,245,456 | - |
| Professor P Goodhew | University of Liverpool | 28,807 | 563,674 | 592,481 | - |
| Professor B King | University of Abertay Dundee | 12,483 | 1,790 | 14,273 | 5,950 |
| Professor J Simons | De Montfort University | 26,412 | 74,765 | 101,177 | - |
| Mr W Streeting | Not associated | - | - | - | - |
| Mr D Thomas | Not associated | - | - | - | - |
| Professor R Trainor | Kings College, London | 29,556 | 645,876 | 675,432 | 106 |
| Professor D Willcocks | York St John, University | 5,371 | 13,607 | 18,978 | - |

During the period there were no material transactions (neither income nor expenditure) with

**The Higher Education Academy
Notes to the financial statements for
the year ended 31 July 2007**

organisations with which any director of the Board or member of the Academy may have an interest

20 Reserves

| | I & E reserve £000 | Total £000 |
|------------------------|-----------------------|---------------|
| As at 31 July 2006 | 1,763 | 1,763 |
| Deficit for the period | (235) | (235) |
| At 31 July 2007 | <u>1,528</u> | <u>1,528</u> |

REPORT OF THE INDEPENDENT AUDITOR TO THE BOARD OF DIRECTORS AND TRUSTEES OF THE HIGHER EDUCATION ACADEMY

We have audited the financial statements of the Higher Education Academy for the year ended 31 July 2007 which comprise the statement of principal accounting policies, the income and expenditure account, the statement of total recognised gains and losses, the statement of historical costs surpluses and deficits, the balance sheet, the cash flow statement and the notes to the financial statements. These financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the Board of Directors and Trustees of The Higher Education Academy. Our audit work has been undertaken so that we might state to the Board of Directors and Trustees 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 Higher Education Academy and the Board of Directors and Trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Board of Directors and Trustees and Auditors

The Board of Directors and Trustees' responsibility for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable United Kingdom law and accounting standards is set out in the Statement of Responsibilities of the Board of Directors and Trustees.

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 in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the Academy, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the Academy's statutes and where appropriate in accordance 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 Board of 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 other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the report of the Board of Directors and Trustees. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. 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 Academy 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.

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 misstatement, 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

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of affairs of the Academy as at 31 July 2007, and of the deficit for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education
- In all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the Academy during the year ended 31 July 2007 have been applied only for the purposes for which they were received
- In all material respects, income during the year ended 31 July 2007 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 dated 1 October 2003

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
Leeds, England

27 November 2007