



Leading education  
and social research  
Institute of Education  
University of London

# Institute of Education University of London

## Financial Statements 2010-2011

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## **1. ABOUT THE INSTITUTE OF EDUCATION**

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### **1.1 Introduction**

The Institute of Education (IOE or the Institute) was founded in 1902 as the London Day Training College under the joint auspices of the University of London and the London County Council. By 1932 it had become the University's largest central activity. From 1949 it sat at the centre of a wider Institute of some 30 associated teacher training colleges and departments of education. In the second half of the twentieth century its reputation for producing outstanding teachers was complemented by its development as an unrivalled centre for educational research.

Today, the Institute has 6,515 students, including 1,603 graduates attending its Postgraduate Certificate in Education courses, and 881 research students – by far the largest student research community in education in the UK. The Institute is active in every continent and welcomes some 800 international students from over 100 countries each year. It has 766 staff, of whom 303 are academic staff, many of whom are leading scholars in their specialist fields.

In the most recent Research Assessment Exercise (2008) two-thirds of the Institute's research activity was judged to be "world leading".

The IOE was recognised by Ofsted in 2010 for its "high quality" initial teacher training programmes that inspire its students "to want to be outstanding teachers".

For more information please visit: [www.ioe.ac.uk](http://www.ioe.ac.uk)

### **1.2 Legal & Charitable Status**

#### **Charitable Status**

The Institute of Education, University of London (IOE or the Institute) is an independent body, registered with Companies House (Company No. RC000711) and an exempt charity under the Charities Act 1993. The Higher Education Funding Council for England (HEFCE) is the principal regulator of the Institute's charitable status under the Charities Act 2006. The IOE's charity tax exemption number is XN78471. The Institute has had due regard to the Charity Commission guidance on public benefit, including the details contained in the Advancement of Education for the Public Benefit.

The IOE's legal status as a company derives from its incorporation by a Royal Charter originally granted on 10 June 1987. Its objects, powers and framework of governance are set out in its charter and supporting statutes, the latest version of which was approved by the Privy Council on 14 December 2006.

#### **Trustees**

The governing body of the IOE is the Council. Members of the Council are also the trustees of the IOE. A full list of members of the Council is noted in paragraph 1.5 below.

## 1. ABOUT THE INSTITUTE OF EDUCATION

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### Objects and Charitable Purposes

The objects of the Institute are to promote for the public benefit learning and research in all branches of knowledge, especially in Education and related fields; to make available to the public the results of such research; to provide instruction and to organise postgraduate courses of study in Education and related fields; and to award degrees, diplomas, certificates and other academic awards in the name of the Institute of Education, University of London.

The Institute of Education's mission is consistent both with these objects and with the definition of Charitable Purposes set out in the Charities Act, most specifically the advancement of education, but also the advancement of health; the advancement of citizenship; the advancement of the arts, culture, heritage and science; the advancement of human rights; and the promotion of equality and diversity.

### The Public benefit

**Teaching and Learning:** The IOE is one of the world's premier schools of education. It offers a wide range of academic awards in the field of education and related areas of social science (including inclusive education, education psychology, child development, gender, health promotion, international development, citizenship, literacy learning and literacy difficulties, and museums and galleries in education). At present, over 1,600 graduates register annually for its Postgraduate Certificate in Education (PGCE) programmes, which are offered in partnership with around 500 schools and colleges in the London area. The IOE's professional development programmes, many of which are run on a part-time basis with evening and weekend tuition in order to enable teachers and other educational professionals to attend, include conventional Masters and Graduate Diploma awards, the BEd and Foundation Degrees, as well as accredited offsite provision and short programmes.

The IOE is increasing the flexibility of its provision by enhancing and extending its use of mixed-mode delivery. This will enable students on some programmes to undertake all or part of their studies through online, flexible and distance learning. The IOE is also concerned that its student support and admissions arrangements support fair access and the widening participation agenda. The IOE is committed to the maintenance of high academic standards in all its awards and to the provision of high-quality research-led teaching and research degree supervision.

The quality of its resources for learning and its support for students is also of a high standard, as evidenced by external review and inspection reports. In order to ensure that these resources continue to meet the needs of all its students, the IOE regularly monitors its policies and procedures and takes seriously the views expressed by its students both during and at the end of their programmes of study. When issues are identified that require action, relevant staff and committees act promptly to address them and to monitor the outcome of actions taken.

**Research, Consultancy and Knowledge Transfer:** The IOE conducts around a quarter of the educational research carried out in UK Universities and uses its considerable expertise to support consultancy and knowledge transfer in education and related areas of social science. The Institute has ranked consistently amongst the largest recipients of social science research funding across the UK higher education sector.

## **1. ABOUT THE INSTITUTE OF EDUCATION**

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According to the 2008 Research Assessment Exercise (RAE) results the Institute tops the league tables in education research in both quality and quantity. Across all subjects, the IOE's research performance places it in the top 10 universities in the UK. Research is carried out by researchers in their own right; through their departments (e.g. the Centre for Longitudinal Studies [CLS], and the Thomas Coram Research Unit [TCRU]); and through the IOE's 35 research centres (e.g. the Centre for Research in Autism and Education [CRAE], the Centre for Understanding Social Pedagogy [CUSP] and, with Birkbeck College, the joint International Centre for Education for Democratic Citizenship).

IOE researchers produce over 400 publications each year which disseminate the results of their research to scholars, policy makers and practitioners who can build on this work and put it into practice. A major piece of ongoing research is the Millennium Cohort Study, which tracks the development of 19,000 children born in 2000 and 2001. This work has generated an extraordinarily rich source of social research data, helping to building understanding of, in particular, the social conditions surrounding birth and early childhood and their long term impact.

IOE researchers also carry out significant amounts of consultancy and knowledge transfer work, including helping the NHS develop its education strategy for Sickle Cell and Thalassaemia screening; with the support of the Pears Foundation, rolling out a national programme to support the development of teaching about the Holocaust; and delivering a national programme of early literacy interventions for young children falling behind with their reading.

The Institute's public benefits are funded from three main sources: public funding for teaching and research; donations from individuals and charitable foundations; and funds generated by the IOESRL which are gift aided to the Institute. The charitable work of the Institute is also supported by its Council members, who give their time freely in support of the objects of the Institute.

### **1.3 Mission**

The Institute's mission is to pursue excellence in education and related areas of social science and professional practice. In undertaking this mission the Institute will adhere to the highest standards of academic rigour in all its work; be guided by a concern for truth and justice; and make a positive contribution to the development of individuals, institutions and societies facing the challenges of change. To this end, it will engage in:

- research and scholarship of national and international significance;
- high quality, research-informed post-graduate and post-experience learning and teaching programmes;
- the promotion of new ideas in policy and professional practice grounded in its research and teaching expertise; and
- consultancy and other services to support and develop the quality of educational systems and related fields of policy and practice.

### **1.4 The Council**

The Council members are the Trustees of the Institute. The Chair is appointed for three years and is eligible for re-appointment for a further two terms of three years. The Council

## 1. ABOUT THE INSTITUTE OF EDUCATION

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appoints from among its members a Vice-Chair to preside at meetings of the Council in the absence of the Chair. Council members are initially appointed for three years and are eligible for re-appointment, but their period of continuous service on the Council cannot exceed nine years in all, except as provided by Statute.

In setting and reviewing the Institute's objectives and activities, Council has had due regard to the Charity Commission's guidance on the reporting of public benefit and particularly to its supplementary public benefit guidance on the advancement of education.

### 1.5 Council Members

The Council members who served at any time during the financial year and until the date on which the financial statements were formally approved were:

<u>Name</u>	<u>Appointed to:</u>
Dr Michael Hand – Chair of Academic Board	August 2013
Professor Chris Husbands - Director (from 1 January 2011)	
Professor Geoff Whitty – Director	December 2010
Professor Dylan Wiliam – Deputy Director	September 2010
<i>Appointed members:</i>	
Nominated by the University:	
Professor Ian Fletcher	August 2013
Professor Susan Hallam	August 2013
Professor Anthony Smith	August 2014
Professor Andrew Tolmie	August 2013
<i>Elected members:</i>	
(i) five employees:	
Ms Josephine Borradaile	August 2013
Dr Karen Edge	August 2011
Dr Rob Higham	August 2013
Mr Charlie Owen	August 2010
Professor Deborah Youdell	August 2012
(ii) two students:	
Mr Prince Johnson II, President, Students' Union	August 2011
Mr Sam Mejias, Vice President for Finance and Services, Students' Union	August 2011

## 1. ABOUT THE INSTITUTE OF EDUCATION

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(iii) fourteen co-opted members:

Sir Michael Barber	August 2011
Mr Andrew Bethell	August 2011
Mr Dick Coldwell	August 2010
Mr Martyn Coles	August 2012
Professor Ron Glatter	December 2012
Ms Deborah Goodwin (from November 2010)	August 2013
Ms Julie Jones	August 2013
Mr Drummond Leslie	August 2012
Ms Maggie Semple	August 2011
Baroness Shephard (Chair)	December 2012
Ms Amanda Spielman (from November 2011)	October 2014
Mr Derek Stevens (Vice-Chair)	August 2013
Dr Tim Stone	May 2011
Mr Nick Stuart	August 2010

### 1.6 Payments

None of the lay trustees receive payment for their services. Staff payments are included in the band figures. Two of the 20 council members received out of pocket travel reimbursements in total amounting to £159 for expenses directly incurred.

None of the Council members or key staff or related parties had undertaken any material transaction with the Institute during the year.

## 2. CORPORATE GOVERNANCE

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### 2.1 Statement of Corporate Governance

The Institute's Council is responsible for the system of internal control and for reviewing its effectiveness. Such a system is designed to manage risk in order to achieve the business objectives included in the Institute's corporate strategy. It provides reasonable, not absolute, assurance against material misstatement or loss.

The Institute has a rolling process for identifying, evaluating and managing its significant risks as set out in section 4 below. This has been in place for the year ended 31 July 2011 and up to the date of approval of the annual report and accounts. The Council regularly reviews the Institute's risk management process to ensure that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

The Charter and Statutes require the Institute to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and govern its activities. These are as follows:

#### a. The Council

The Council, which meets at least four times a year, is the governing body. It has a majority of external members (described as lay members).

The Council has adopted a Statement of Primary Responsibilities (in accordance with the Governance Code of Practice prepared by the Committee of University Chairs [CUC]). It has also approved a Corporate Governance Handbook for the Institute, which describes in detail the Institute's governance arrangements. The Council is required by the Statutes to seek the advice of the Senate before taking any decision which it considers might affect academic policy.

#### b. The Senate

The Senate is the academic authority of the Institute and draws its membership from academic staff, library staff and the students of the Institute. Its role is to direct and regulate the teaching and research work of the Institute with formal academic authority.

The Senate advises the Council on academic matters. It is required by the Statutes to bring before the Council any matters which it considers to have financial implications or in any way affect the general well-being of the Institute or its relationship with external bodies. Before taking specific decisions on matters of policy, the Senate is required to seek the advice of the Academic Board.

#### c. The Academic Board

The Academic Board is a representative body for academic and selected other Institute staff. It is responsible for advising Senate on such issues as academic policy and conferment of awards.

## 2. CORPORATE GOVERNANCE

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### 2.3 The Council Sub-Committees

Much of the Council's detailed work is initially handled by the sub-committees noted in (a) to (e) below. These Committees are formally constituted by the Council with written terms of reference. Decisions from their meetings are formally reported to the Council.

#### a. The Finance and General Purposes Committee (F & GPC)

The F&GPC is chaired by a lay member of Council and is responsible to the Council for the financial administration of all the Institute's activities, including research grants and contracts, trust funds, halls of residence and catering. The Committee meets each term and reports regularly to the Council.

The F&GPC also considers termly reports from the Senior Leadership Team (SLT) on the Institute's financial position. It makes recommendations to the Council on budgets, estimates and capital. It sets the Institute's financial regulations and is responsible, inter alia, for the Institute's investments (through the Investments Committee) and for setting tuition and halls of residence fee levels. The Committee also has staffing responsibilities, including monitoring performance against the Institute's Human Resource strategy and monitoring the effectiveness of staff training and development.

The Director's Report, which is found in Section 5 provides information on some of the major areas considered by the F&GPC in 2010-11.

#### b. The Audit Committee

The Audit Committee, which meets at least three times a year, comprises up to five lay members – of whom one is the Chair – and co-opted members of the Council. The Committee keeps under review the effectiveness of the Institute's arrangements for risk management, internal control systems and corporate governance. It meets with and reviews the work of internal and external auditors, considering detailed reports together with recommendations for improvement and the SLT's responses and implementation plans.

The Committee also considers reports from the Higher Education Funding Council for England (HEFCE) and the Training and Development Agency for Schools (TDA) as they affect the Institute and monitors adherence to regulatory requirements. The Committee is responsible for ensuring satisfactory arrangements are in place to promote value for money. It may meet with both the external and internal auditors on their own for independent discussion.

The Audit Committee met three times and held an away day in 2010-11. The Committee received "risk based coverage" reports from the internal auditors on: student recruitment and retention, academic quality arrangements, treasury management, TRAC and governance and risk management. An "other coverage" internal audit review looked at core financial controls, data quality and compliance with the Universities UK (UUK) code of conduct on student accommodation. The internal auditors also carried out follow-up audits of previous recommendations. In total, the internal auditors made 73 recommendations, all of which were agreed by management, with corrective action put in place. Of the 73 recommendations, six were high priority, 25 medium priority and 38 low priority. There were also four unclassified recommendations.

## 2. CORPORATE GOVERNANCE

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The prime responsibility of internal audit is to provide the Council, the Director and the management of the Institute with assurance on the adequacy and effectiveness of the IOE's risk management, control and governance framework.

The internal auditors found the governance, risk management, value for money management and the overall systems of internal controls to be adequate and effective.

The internal auditors are satisfied that sufficient internal audit work has been undertaken in accordance with the pre-agreed programme of work to allow them to draw a reasonable conclusion on the adequacy and effectiveness of Institute's arrangements. They are also satisfied that their work has been undertaken in accordance with the requirements of the Accountability and Audit Code of Practice (published by HEFCE as Annex B to the Model Financial Memorandum).

### c. The Estates Committee

The Estates Committee oversees the management and development of the IOE's property assets, including its halls of residence. The Committee is chaired by a member of the Council, and comprises two other lay members of the Council and an external member. It met two times in 2010-11.

### d. The Nominations Committee

The Nominations Committee is responsible for making recommendations to the Council for new members of the Council and the extension of the tenure of current members. It is chaired by the Chair of Council and comprises lay members of the Council and the Director. The Committee met once in 2010-11.

### e. The Remuneration Committee

The Remuneration Committee reviews the remuneration of the Director and professorial and senior administrative staff. The Committee is chaired by the Vice-Chair of Council and comprises four lay members of Council and the Director (except for consideration of matters relating to the Director's own remuneration). The Committee met once in 2010-11.

## 2.4 The Director

The Director is the principal academic and administrative officer of the Institute. In accordance with the terms and conditions of the financial memoranda between the Institute and HEFCE and TDA, the Director is the "accountable officer" of the Institute. In that capacity the Director can be summoned to appear before the Public Accounts Committee of the House of Commons. The Director has responsibility to ensure public funds are used for the purpose given and achieve value for money.

As Chief Executive of the Institute, the Director is responsible for the development of strategy, the identification and planning of new developments, and shaping the Institute's ethos. Ultimate responsibility for the Institute's corporate strategy rests with the Council.

The Director is supported by the SLT in exercising his responsibilities for the academic and administrative operations of the Institute.

## 2. CORPORATE GOVERNANCE

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### 2.5 Change Management

Professor Geoff Whitty retired as the Director of the Institute of Education on 31 December 2010, following a decade in the post during which the Institute doubled its income and reinforced its position as one of the world's leading schools of education. Professor Chris Husbands, formerly Dean of the Faculty of Culture and Pedagogy at the IOE, assumed the Directorship on 1 January 2011.

The Deputy Director left the Institute in September 2010 and he has not been replaced. His roles and responsibilities have been distributed amongst members of the SLT.

The Pro-Director (Strategy and Organisation) has tendered his resignation and will be leaving the Institute at the end of October 2011. An interim Pro-Director (Strategy and Organisation) has been appointed to cover the period 1 October 2011 to 30 September 2012.

### 2.6 Code of Conduct

The policy of the Institute of Education is 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), as well as the guidance to universities from the Committee of University Chairs in its Guide for Members of HE Governing Bodies in the UK (2009/14) with particular reference to the Governance Code of Practice and General Principles.

The Institute is committed to exhibiting best practice in all aspects of corporate governance. Its governance arrangements and compliance with the Governance Code of Practice are subject to annual scrutiny by its internal auditors. In 2010-11 the internal auditors concluded that adequate assurance can be gained from the Institute's corporate governance arrangements.

### 2.7 Register of Interests

The Institute of Education maintains a register of interests for Council members and senior management for the year ahead, which may be consulted by arrangement with the Pro-Director (Strategy and Organisation). It includes details of other charity trusteeships held by Council members. In addition, the Institute carries out (i) a retrospective survey of related party transactions of Council members and senior management and (ii) an annual all staff survey on "conflict of interest", which is reviewed by senior staff at the end of each financial year.

### 3. CORPORATE STRATEGY

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#### 3.1 Corporate Strategy

The Institute's corporate strategy for 2007-08 to 2011-12 was approved by Council in June 2007. It sets out five strategic priorities and supporting actions and indicators. The Institute's overall strategic objective for this period has been to help improve the quality of life of individuals and societies through education and social research. The five interlinked strategic priorities are:

- extending global reach;
- advancing learning;
- promoting public engagement;
- exercising leadership; and
- forming partnerships.

The pursuit of these strategic priorities has implications across each of the four core areas of the Institute's business and its management:

- learning and teaching;
- research and consultancy;
- administration and support; and
- corporate management.

These implications are set out in related strategies for each area.

#### 3.2 Financial Objectives / Strategy

The IOE's financial strategy is concerned with the Institute's overall sustainability and the generation of income and management of those financial resources to achieve the objectives set out in the corporate strategy. Specifically, the Institute's financial strategy is designed to:

- facilitate the management of financial risks and evaluation of strategic opportunities;
- direct financial resources in support of the corporate strategy;
- support the planning of future resource needs;
- support the effective management of the IOE's financial resources; and
- sustain the Institute's distinctive mission and positioning in the current financial environment.

The Institute will formulate its corporate strategy for the period 2012-13 to 2016-17 during the course of the 2011-12 financial year. Its central consideration will be the Institute's financial sustainability and means of securing that over the five years.

## 4. PRINCIPAL RISKS AND UNCERTAINTIES

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### 4.1 Risk Management

The IOE has developed a comprehensive risk management policy, which is regularly reviewed by the SLT as the IOE's "Risk Management Committee". The Assistant Secretary provided day-to-day support to SLT and staff on risk management during the course of the year. The risk and control framework operates side-by-side with the IOE's corporate and operational planning process. So, for example, risk identification and assessment is carried out when strategic, operational and project plans are being considered. In this way, risk management is embedded throughout the IOE.

The IOE does not operate a risk-averse culture; it accepts that risks need to be taken in order to deliver its corporate objectives. The Director and the SLT, however, require risk to be properly evaluated and managed appropriately. In doing so the Institute is able to make a balanced response to risks, whereby the cost of control is weighed against the likely impact of a risk becoming a reality.

High-level risks are subject to regular scrutiny. The strategic risk register is reviewed quarterly by the SLT and progress reported to the Council for further scrutiny to ensure the register remains fit for purpose. The IOE risk appetite requires it to seek further mitigation where the assessment of current risk remains high.

### 4.2 Principal Risks and Uncertainties

The principal risks and uncertainties currently faced by the IOE can be grouped under the following four headings:

#### (a) Learning and Teaching:

As discussed in more detail in section 6.1, there are a number of challenges and uncertainties for the IOE and indeed the sector arising from the changes to funding that have recently been proposed.

A key issue for the IOE is the decision, from 2012-13, to remove the teaching grant for provision in HEFCE Price Groups C and D. There is also a lack of clarity beyond 2012-13 regarding targeted allocations and exceptional funding. This is all in the context of what is likely to be a much more competitive market within the higher education sector over the mid to long-term and the risk that consumer (student) uncertainty in the short term could lead to reduced demand.

In response to these and other factors, the IOE is streamlining its offer via a review of its curriculum and development of its open mode programme offer, enhancing its brand and emphasising the quality of its student experience. It has set its fees for 2012-13 responsibly, realistically and on the basis of a thorough assessment of market sensitivities. It continues to engage with key stakeholders with a view to achieving a smooth transition to the new fee regime from 2012-13. The Institute is exploring a range of innovation in teaching and collaborating closely with schools and colleges across London in realising the opportunities created in the new landscape of professional education.

#### (b) Postgraduate Research:

#### 4. PRINCIPAL RISKS AND UNCERTAINTIES

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As a research-intensive institution the IOE has a large PGR community and a highly respected doctoral school. In January 2011 it secured one of just 21 Economic and Social Research Council [ESRC] Doctoral Training Centres, working in partnership across Bloomsbury Colleges. The 2009 QAA audit confirmed the excellence of the IOE's postgraduate research (PGR) provision, identifying a number of areas of good practice as well as expressing confidence in the Institute's management of academic standards and learning opportunities.

Continued growth and development in this area, especially in relation to funded full-time students, is providing improved resourcing and an enhanced flow through of students. The likely continuation of the current Funding Council and Research Council policy of concentrating PGR funding on the basis of quality will further support the Institute's work in this area. However, these improving trends will need to be monitored closely given the worsening economic environment at home and abroad as well the new visa arrangements and their potential to depress applications from would-be international students.

In 2010-11, the Institute carried out a strategic review of its PGR provision, focusing in particular on understanding the cost and the optimal size of that provision. The recommendations from the review will be actively pursued in order to strengthen the IOE's PGR provision and enhance its sustainability over the longer term.

##### **(c) Research, Consultancy and Knowledge Transfer:**

The focus of the Institute's research is largely on education and related areas of social science. Key funders of its research include the ESRC, relevant Government departments and Non-Departmental Public Bodies (NDPBs) and local authorities. Due to the squeeze in public sector spending, the IOE has experienced a significant reduction in funding opportunities from among these stakeholders, as well as increased competition for resources and a stronger emphasis on value for money. Although some areas of funding are now more stable (e.g. the Research Councils), the Institute cannot be certain that further reductions in public spending will not continue to impact on its RCKT portfolio.

The Institute's reputation, expertise and capacity will serve it well in negotiating its engagement with stakeholders through the ongoing shifts in public sector spending. Furthermore, the Institute's research work provides a solid basis for expanding consultancy and knowledge transfer activities. The funding provided through the fifth round of the Higher Education Innovation Fund (HEIF5) will be crucial in supporting the development of the Institute's consultancy and knowledge transfer activity, principally through its Business Development Initiative and related projects.

##### **(d) Cost control and efficiency savings:**

After a period of rapid, sustained and extensive expansion, the IOE is committed to managing controllable core costs downwards (both staffing and other operating expenditure) in order to "right size" its capacity and flexibility for current and future work. The Institute is also exploring partnerships and shared services where they can add value and reduce cost and where they fit with the IOE's mission and values. The Institute's new corporate and financial strategies will be developed with a view to continuing to build its surplus and reserves. While the Institute will seek to grow its income, in the current economic climate strong controls on expenditure will be equally if not more important to that end.

**5. DIRECTOR'S REPORT**

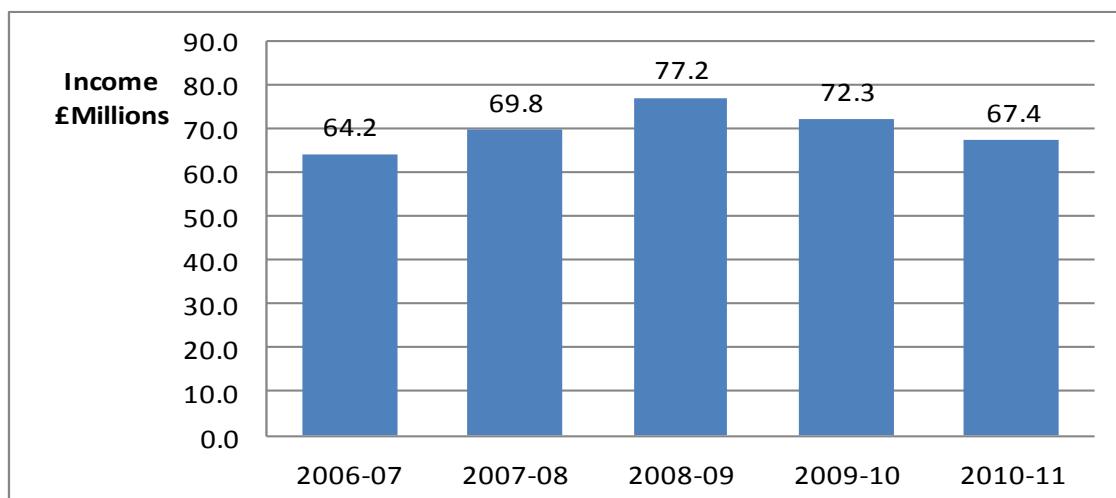
**5.1 Financial Overview**

In the year ended 31 July 2011 the Institute achieved a surplus before transfer from endowments of £583k or 0.9% of income (2009-10: surplus £558k or 0.8% of income). The forecast outturn for the year as at May 2011 was a surplus of £208k (2009-10: £610k).

The summary Income and Expenditure for the years ended 31 July 2011 and 2010, which have been consolidated to include IOESRL, are as follows:

	<b>2010-11</b> <b>£'000</b>	<b>2009-10</b> <b>£'000</b>
Income	67,419	72,338
Expenditure	(66,836)	(71,780)
Surplus retained in general reserves	<b>583</b>	<b>558</b>

The bar chart below shows the income trends for the five years to 2010-11. The income increased by £13m between 2006-07 and 2008-09 but dropped by £9.8m to £67.4m between 2008-09 and 2010-11. The drop in income is largely due to contraction in the Institute's RCKT activities as a result of prevailing economic climate. The average outturn for the five year period was a surplus of around 0.8%.



**5.2 Income**

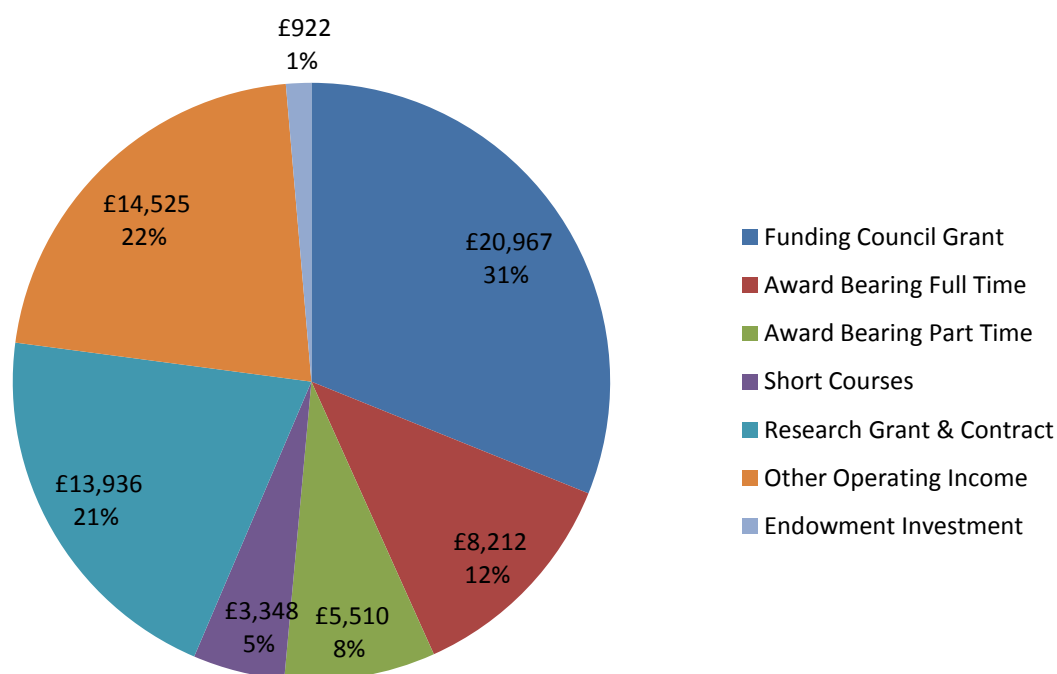
Total income in 2010-11 decreased by £4.9m or 6.8% (2009-10: also a decrease of £4.9m or 6.3%). Tuition fee income increased by £1.1m or 8.9% from £12.6m in the previous year to £13.7m in 2010-11, income from international students increased by 21.9% and from home/EU students by 4.7%. There was also an increase in short courses income of £491k, a 16.6% increase on the previous year. The significant increases in the international and short courses areas are due to increased investment and concerted efforts by staff in those areas to drive up recruitment.

**5. DIRECTOR'S REPORT**

There has, however, been a significant drop in the IOE's Funding Council grants and RCKT income, resulting in the overall business contraction of £5m. HEFCE funding was down by £1.1m due to the withdrawal of QR moderation funding (£666k), targeted allocations (£558k) and recurrent teaching grant (£106k), although this was offset by the increase of £459k in core and teaching and research grants. In addition, HEFCE deferred capital grant released to the I & E was down £249k. TDA grant was down by £723k from the previous year, reflecting agreed over-recruitment in 2009-10 on PGCE Primary numbers.

Income from research grants and contracts was down by £2.4m or 14.4% in 2010-11 compared to the previous year. This is due in part to the cyclical nature of certain research projects and in part to the economic slowdown. Other operating income was also down by £2.1m or 12.7%, of which £586k relates to consultancy and knowledge transfer and the remainder to a reduction in third stream income.

**2010-11 Income (£'000)**



The current economic uncertainty makes any forecasting of income trends problematic. However, it seems likely that the reduced levels of government funding will continue over the next five years. The Institute will use the outcome of its Strategic Review and the development of its new corporate and financial strategies to plan for a more sustainable financial base.

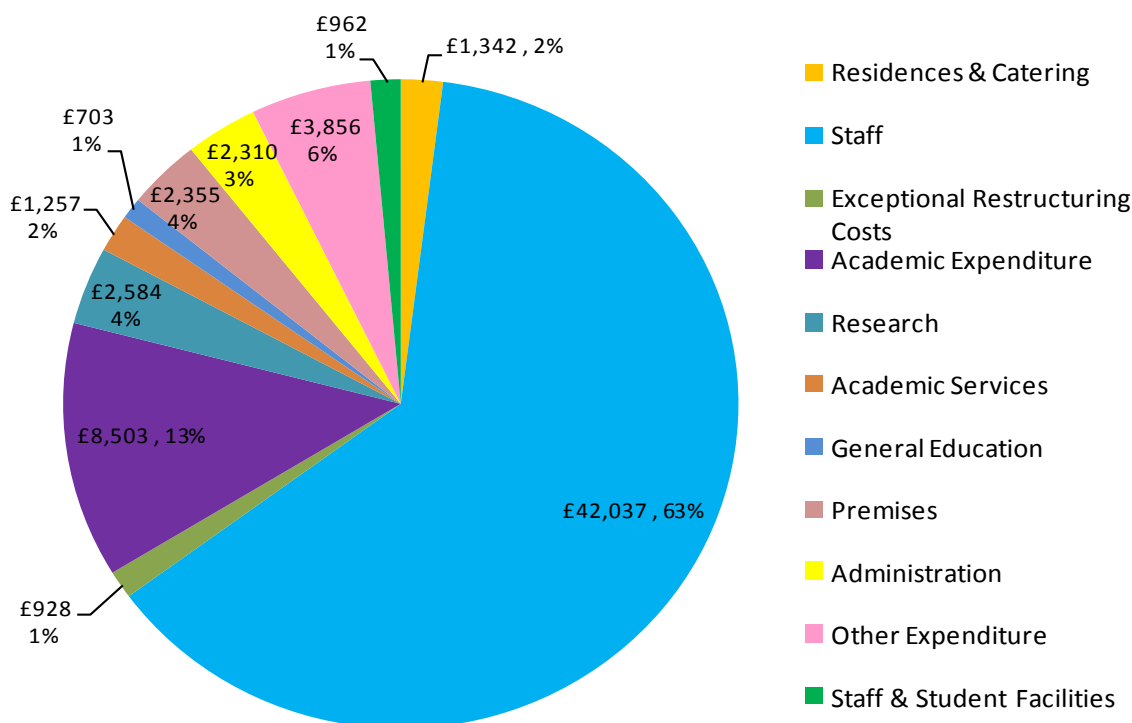
**5.3 Expenditure**

Total expenditure is down £4.9m or 6.9% (2009-10: down £4.9m or 6.4%). Of this, £2.8m relates to salary costs, of which £1.3m is a reduction in RCKT payroll cost and the balance

5. DIRECTOR'S REPORT

of £1.7m is a reduction in core salaries cost; £1.1m relates to academic expenditure and £706k to non-staff cost research and contract expenditure.

2010-11 Expenditure (£'000)



The staff cost is in line with the forecast and reflects the pay award and represent 62.9% (2009-10: 62.5%) of total expenditure.

Non-staff costs constitute £23.9m or 35.8% (2008-09: £26.0m or 36.2%) of the total expenditure. The decrease in non-staff costs reflects the tight financial controls in place throughout the year combined with the significant reduction in research activities.

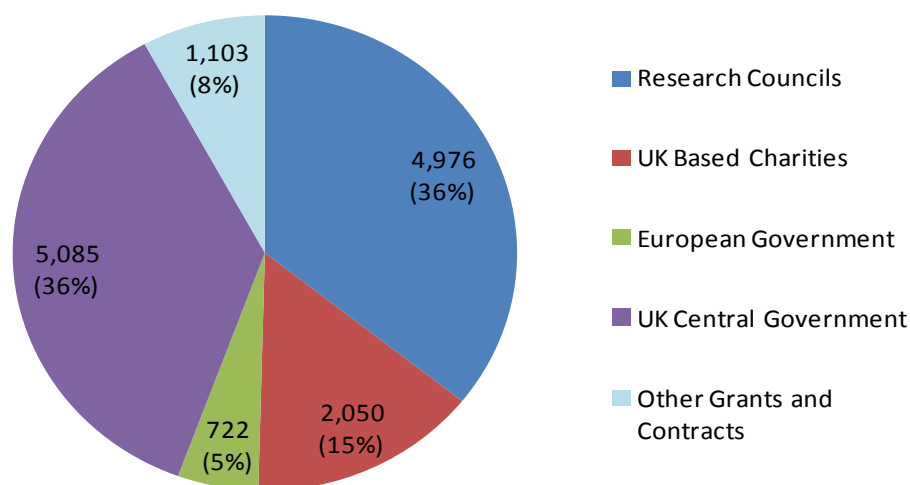
5.4 Research Activity

Total funded research income in 2010-11 was £13.9m (2009-10 £16.3m), a decrease of £2.4m or 14.4%. Income from Research Councils, UK charities and UK government departments decreased by between 11% and 35% during the year. Income from Research Councils declined by 21.2% as compared to a decrease of 23.5% in the previous year, UK Charities income dropped by 19.9% (2010: decreased by 34.7%), UK government departments income dropped by 11% whereas income from European Government showed an increase from 15.7% to 17.7%.

The pie chart below, based on Note 4 to the accounts, shows the total 2010-11 research funding income split by funder type in accordance with Transparent Approach to Costing (TRAC) classification.

5. DIRECTOR'S REPORT

2010-11 Research Grants & Contracts (£'000)



The £2.4 million decrease in research income reflects the difficult funding environment. Nationally, publicly-funded projects which ended during the year or late in the previous financial year have not been replaced, or have been replaced by shorter and lower-value projects.

At faculty level, FPS research income was £6.59m or 47.3% (2009-10: £8.22m or 50.4%) and FCL £7.23m or 51.9% (2009-10: £7.93m or 48.7%), with the balance coming from the support departments.

**5.5 Consultancy Activity**

Consultancy income decreased by £198k or 14.4% from £1.56m to £1.36m in 2010-11 compared to the previous year. Of this, £627k worth of income or 46% (2009-10: £825k or 53%) was generated by FPS, £720k or 53% (2009-10: £667k or 43%) by FCL, with the balance coming from support departments. As with research, these results are indicative of the difficult public funding environment that is constraining the IOE's traditional client base in committing to new expenditure. The consultancy income is included in Note 5 to the accounts – "other services rendered".

**5.6 Knowledge Transfer**

The income from knowledge transfer projects in 2010-11 amounted to £3.97m, a decrease of £388k or 8.9% on the previous year. Of this total, FPS's share amounted to £804k or 20% and FCL's to £3.10m or 78%. This income is included in Note 5 to the accounts – "other services rendered".

**5.7 Research Consultancy and Knowledge Transfer (RCKT) Contribution**

The total RCKT contribution in 2010-11 (i.e. the difference between the total RCKT income of £19.3m and total expenditure £13.8m) was £5.5m, a contribution rate of 28.4% (2009-10 £6.1m or a contribution rate of 27.6%). The contribution accrued by faculty was as follows:

5. DIRECTOR'S REPORT

	2010-11 £'000	2010-11 Contribution (%)	2009-10 £'000	2009-10 Contribution (%)
FPS	2,217	27.6%	2,601	25.1%
FCL	3,229	29.2%	3,449	30.0%
Support departments	22	11.1%	69	19.3%
Total	5,468		6,119	
Average		28.4%		27.6%

The contribution from each activity area was as follows:

	2010-11 £'000	2010-11 Contribution (%)	2009-10 £'000	2009-10 Contribution (%)
Research	3,651	26.2%	4,177	25.6%
Consultancy	580	42.6%	611	39.2%
Knowledge Transfer	1,237	31.1%	1,331	30.5%
Total	5,468		6,119	
Average		28.4%		27.6%

**5.8 Financial Performance Indicators**

The table below shows the Institute's achievement against the key financial indicators set out in its financial strategy:

Performance Indicator	Note	Target	2010-11	2009-10
Ratio of surplus to income	1	3%	0.9%	0.8%
Liquid resources/expenditure cover	2	30 to 90 days	45 days	35 days
Ratio of maximum debt to turnover	3	20%	14%	14%
Ratio of reserves to turnover	4	20%	24.2%	21.3%

Note 1: The ratio of surplus to total income increased by 0.1% compared to the previous year despite the fall in the overall income largely due to in-year efficiency savings.

Note 2: Liquid resources/expenditure cover increased from 35 to 45 days due to a £1.5m Pears Foundation donation in late July, combined with enhanced credit control arrangements in place, reducing the year end debtor considerably compared to the previous year whilst the creditor number remained more or less the same.

## 5. DIRECTOR'S REPORT

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Note 3: The ratio of maximum long-term debt as a percentage of turnover remained at the same level as last year despite a repayment of £330k because of the reduction in turnover. The outstanding long-term debt was £9.7m (2009-10: £10.03m).

Note 4: The ratio of general reserves (i.e. excluding endowment reserves) compared to turnover increased by 3% (2009-10: increase of 2.5%) due to an increase in retained earnings as a result of the £583k surplus and decrease in the Institute's turnover.

In addition to the above targets, the F&GPC uses the Committee of University Chair's Report to monitor the Institute's performance. This covers the aggregate surplus/deficit for the past 3 years, liquidity, current assets to liabilities ratio and credit rating.

### 5.9 Cash Flow

In 2010-11 the Institute generated cashflow from operating activities of £2.0m and increased cash in the year by £4.6m (2009-10 increase £625k). At the 31 July 2011 the Institute had cash balances of £4.7m (2009-10 £1.5m), together with £3.5m held on deposit included within current asset investments (2009-10 £5.5m).

### 5.10 Loan Finance

The Institute drew down two loans in 2008-09 for £7 million and £4 million for the refurbishment of John Adams Hall and the acquisition of Endsleigh Gardens respectively. The total outstanding loan at the balance sheet date was £9.7m as compared to £10.03m in 2009-10.

### 5.11 Financial

The Institute has £112m of assets less current liabilities (2009-10: £109.8m) and long-term debt of £9.7m (2009-10 £10.03m). The Institute's working capital (net current assets) has remained unchanged at £2.8m (2009-10: also £2.8m).

## 6. CURRENT AND FUTURE DEVELOPMENTS

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### 6.1 The policy environment

2010-11 saw the publication of a number of policy proposals that will have far-reaching implications for universities and university providers of initial teacher training. The following five years will be ones of considerable turbulence and uncertainty for the sector.

Policy developments in relation to the higher education sector stem from the Independent Review of Higher Education Funding and Student Finance (the Browne Review), which was launched in November 2009 and reported a year later. The review was tasked with making recommendations to government on the future of fees policy and financial support for full- and part-time undergraduate and postgraduate students. The review's report paved the way for higher graduate contributions: in response, the government put in place a 'basic threshold' for tuition fees of £6,000, with institutions able to charge up to £9,000. Further details on how the higher education sector will operate within the context of the new funding arrangements have been set out in two documents:

- the higher education White Paper, *Students at the heart of the system* (Department for Business, Innovation & Skills, June 2011); and
- HEFCE's consultation on changes to teaching funding and Student Number Controls, to be implemented in 2012/13.

As regards schools and initial teacher training policy, the key publications include:

- the schools White Paper, *The Importance of teaching* (Department for Education, November 2010); and
- the initial teacher training Green Paper, *Training our next generation of outstanding teachers: an improvement strategy for discussion* (Department for Education, July 2011).

**The higher education proposals:** The Government is seeking to establish a more demand-led, diverse and efficient higher education sector. To this end, funding is being routed through the student in the form of higher graduate contributions, and the sector opened up to new, lower cost providers.

The focus of the higher education reforms and related commentary has been on undergraduate provision. However, the effect of the changes to funding and student support at this level will be to radically alter the operating environment for postgraduate programmes. This will be compounded by the decision to reduce or withdraw core funding for taught postgraduate provision from 2012-13. This means that HEIs will need to raise their fees for these programmes in order to maintain their unit of funding and may experience an immediate drop in demand as a result. The taught postgraduate market could become more challenging still from 2015/16 as 'new regime' students graduate carrying substantially higher undergraduate debt than has traditionally been the case. HEIs may also see a drop in particular markets – for example, among public sector workers at a time of public sector austerity. As, at present, a largely postgraduate provider, and one that caters principally to public sector professionals, the IOE will need to pay particular attention to addressing these policy developments and their impact.

There is to be some support for institutions, as necessary, as they make the transition to the new fees and student support arrangements. The majority of targeted allocations and

## 6. CURRENT AND FUTURE DEVELOPMENTS

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specialist funding arrangements will remain in place for 2012-13. HEFCE is to consult in winter 2011 on the future of these allocations and provision for strategically important and vulnerable subjects.

Postgraduate research provision will continue to be supported through central funds. As with research funding more generally, the direction of postgraduate research policy is one of concentrating funding on the basis of quality. This will serve the IOE well, especially in the context of a decline in research spending among government departments and related agencies.

A quarter of all full-time undergraduate places (85,000) will be taken from HEIs' allocations and opened up to competition for 2012-13. HEIs will be able to recruit as many students with A-level passes of AAB+ or equivalent as they wish (from a total of around 65,000 such students). A further 20,000 'low cost' places (full-time fee of £7,500 or less, net of fee waivers) will also be available for HEIs and new entrants to the sector to bid for. The segmentation of the full-time undergraduate market in this way may create opportunities for the Institute to offer undergraduate level programmes. The picture is slightly different for part-time undergraduate provision: for the first time, these students will be eligible for student support, which should bolster demand for part-time programmes; it is also the case that Student Number Controls will not be introduced for part-time undergraduate programmes until 2013-14. The IOE is well-placed to expand its part-time undergraduate provision in order to take advantage of these arrangements. Across all activity, HEIs will need to be mindful of the new requirements as regards the provision of easily accessible and comparable information on programme inputs (e.g. contact hours) and outputs (e.g. graduate destinations).

From 2013-14, HEIs may face stronger competition from new sources. BIS is seeking to encourage new providers to enter the higher education sector, principally by extending access to student support arrangements to those studying at further education and private sector providers. It has also been proposed that the thresholds for gaining (taught) Degree Awarding Powers and the university title are eased.

Should BIS be successful in removing the VAT regulations that currently apply to shared services this would remove a significant barrier to the sharing of administrative costs between HEIs. While barriers would remain – most notably the significant up-front investment that is typically required for shared services – this would open up a further means by which the IOE could negotiate the transition to the new higher education funding and fees regime.

HEFCE is to become the sector's lead regulator. It will have a new role in relation to the granting of Degree Awarding Powers and university title, as well as the granting or removal of a provider's designation for student support.

**Schools and teacher training policy:** The pace of change within the schools system over the past year has been rapid, and this is expected to continue. The emphasis in the schools White Paper is on establishing a 'school-led' system with regard to school improvement and teacher training and development, based on school-to-school support. University providers of initial teacher training may, effectively, be contracting more directly with schools and colleges, as opposed to intermediary bodies, national or local. The IOE has made good

## 6. CURRENT AND FUTURE DEVELOPMENTS

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progress in further strengthening its relationship with local schools and colleges and in partnering with them to shape new ways of working.

There will be a good deal of change over the next five years, specifically as regards initial teacher training provision. The government intends to establish 500 'Teaching Schools' nationally, 100 of which are already in place. Based (loosely) on the model of teaching hospitals, Teaching Schools will lead the training and professional development of teachers and head teachers in their area, working independently or with other schools and/or HEIs. The government has also proposed to expand the number of employment-based training places (via the Graduate Teacher Programme, of which the IOE is a major provider) and, crucially, to remove the requirement that these students are supernumerary. For the short-term at least, it is envisaged that the Postgraduate Certificate in Education (PGCE) will remain the main strand of teacher training provision. These programmes, however, are to be treated as for undergraduate provision – with core funding replaced by income from student fees. The impact, if any, of this change on take up of the PGCE is unknown at this stage.

A specific development in relation to the reform of the schools system and teacher training is the proposed introduction of 'University Training Schools'. Based on the 'lab school' model in the US and the 'normal school' model in Finland, these schools will act as a link between teaching and the latest academic research and innovation. They can also help to reshape the way that schools and HEIs think about partnership working and exercise strong influence on the schools system – locally and nationally.

At the time of writing the arrangements for teacher training for further education teachers remain unclear. HEFCE is considering placing PGCE students in the lifelong learning sector outside of Student Number Controls, which would result in there being no cap on the recruitment of these students. Equally, though, there are concerns within the further education sector as to the affordability of 'HEI-based' further education teacher training courses under the new fees regime.

The breadth and quality of the IOE's experience of delivering initial teacher training and professional development for teachers and tutors and school leaders means that it is well-placed to navigate these changes and build new ways of working with schools and colleges. This is not, though, to underestimate the considerable turbulence and uncertainty that university providers of teacher training and development will experience over the coming years. The University Training School policy in particular offers a unique opportunity for the IOE to make its mark in the new policy context.

### 6.2 Student Numbers

#### (a) Recruitment in 2010-11

Recruitment in 2010-11 remained strong, with comparable numbers on Masters programmes to 2009-10 and PGCE recruitment reaching its target. The Primary PGCE returned to a more steady state following a temporary increase in the allocation in 2009-10.

## 6. CURRENT AND FUTURE DEVELOPMENTS

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### (b) Recruitment in 2011-12

At the time of writing, enrolment for the Primary and Secondary PGCEs is well advanced but not yet complete. Other enrolments have not yet started. Early indications suggest that the IOE will recruit to target overall with regard to its PGCE programmes.

Applications in other areas have pulled slightly ahead of last year, which is a positive outcome given the uncertainty regarding the funding climate during much of this cycle, and the increase in the Institute's tuition fees. There has been a particularly strong performance in terms of international applications. Conversation rates from application to offer and acceptance remain extremely strong at between 50-55%.

### 6.3 Curriculum Developments

Many changes to the IOE's curriculum offer were initiated during the academic year 2010-11. Some of these arose from policy changes and prevailing market conditions (undergraduate developments), some from the Strategic Review Implementation Programme (SRIP) (open mode), and some from other IOE initiatives (curriculum review).

A new part-time undergraduate programme, BA in Education Studies, was approved for commencement in 2011. This consolidates the IOE's undergraduate offering and extends opportunities for pathways through all Institute programmes. The range of modules offered to Foundation Degree graduates to 'top-up' their award to a BA has been extended, and these programmes are to be opened up to applicants beyond those progressing from other IOE programmes.

The Open Mode strand of the SRIP was able to fund eight module conversions from face-to-face to online delivery. This has extended considerably the opportunities for studying IOE programmes at a distance, and these opportunities are now more prominently detailed on the IOE's web pages. Initial plans are also underway for the development of a fully online MA Education course, to be offered through the University of London International Programme.

The curriculum review commenced in summer 2010 and is progressing well. As part of that process two programmes have been withdrawn from the IOE's offer (the MBA in Educational Business Leadership and the MTeach in the Post-compulsory Sector). There has also been a significant rationalisation of the number of modules offered as part of the Institute's Masters offering. In response to emerging demand, two new modules were developed to support the Institute's work with the wider children's workforce. These modules are currently offered as a postgraduate certificate or as part of the MA Early Years Education programme.

Other new programmes approved for 2011 include the MSc/MA Educational Neuroscience, a joint programme offered with Birkbeck College. Changes have been made to the structure of the Masters in Teaching and Learning (MTL) programme to ensure continued interest in the programme now that government funding has been withdrawn.

The IOE was pleased to win the bid to train the Teach First PGCE students for the London region. Teach First will be an exciting addition to the IOE's teacher training offer and provide opportunities to further develop the IOE's teacher education portfolio and network.

## 6. CURRENT AND FUTURE DEVELOPMENTS

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Professional accreditation from the British Dyslexia Association (BDA) was confirmed for completion of a postgraduate diploma (120 credits) with the IOE, undertaken as part of the MA Special and Inclusive Education or as a specialist qualification. Successful completion will now lead to Approved Teacher Status and confer Associate Membership of the BDA, a commendable achievement for the programme team.

### 6.4 Research and Consultancy

In January 2011, the Institute was successful in obtaining funding for two of the six national ESRC Nodes:

- The first is 'Habitual Practices in Everyday Family Lives: Understanding Constructed Meanings by Mixing Methods'. It consists of three research projects: 'Parenting Identities and Practices'; 'Families and Food: Methodological innovations for studying habitual practices'; and 'Family Lives and Climate Change: Cross-national perspectives on habitual practices'. Each will use narrative analysis to produce systematic, in-depth knowledge together with other methods that help to situate people's understanding of their family practices in wider social and cultural contexts. The node will be conducted in collaboration with the universities of East London and Oxford. The ESRC contribution is £1,400k over three years.
- The second is 'Multimodal Methodologies for Researching Digital Data and Environments'. It consists of two research projects which provide a testing ground for new multimodal methodologies and focus on how people use new technologies in different digital environments. One research project is located in an operating theatre, where screen technologies are used to look inside patients' body cavities, and another one in a classroom, where Geographic Information System technologies and touch screen interactive tables are used to facilitate learning. The node will be conducted in collaboration with Imperial College. The ESRC contribution is £1,362k over three years.

The Institute focuses on education research and related areas of social science. The key funders for such activities are largely the ESRC, Government departments, Non-Departmental Public Bodies (NDPBs) and local authorities, all of which are currently facing substantial reductions in the funds available to support research. Reduction of public funding combined with increased competition for resources poses a significant risk to the Institute's research and consultancy activities.

In 2008-09, HEIF4 funding came on-stream, supporting continued investment in the Institute's knowledge transfer infrastructure through activities by Faculty RCKT directors and managers and a centrally-based contracts officer. These include the London Education Research Unit (LERU) and the *London InstEd* publication, which each support the dissemination of Institute research, knowledge and expertise to its key stakeholders. In 2010-11 the Institute set up a new Business Development Initiative (BDI) to improve the income-generating capacity of the IOE. In the initial period from November 2010 to July 2011, the BDI led on the preparation and submission of 27 funding bids, with a success rate of 47% for those proposals with known outcomes. In its second phase, from August 2011, the BDI will continue to build sustainable business support within the IOE, expanding its current activities and undertaking new pro-active activities to create additional income-generating opportunities.

## 6. CURRENT AND FUTURE DEVELOPMENTS

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### 6.5 The Bloomsbury Doctoral Training Centre (DTC)

During the year, the IOE led a consortium of colleges to set up “The Bloomsbury Doctoral Training Centre (DTC)”. The consortium members are the IOE, Birkbeck, the London School of Hygiene and Tropical Medicine (LSHTM) and the School of Oriental and African Studies (SOAS). The object of the Bloomsbury DTC is the provision and further development of collaborative core and advanced training of postgraduate researchers in the social sciences. In January 2011, the ESRC announced that the Bloomsbury DTC would be one of 21 such accredited centres in the UK, receiving studentship funding to support PGR cohorts commencing in each of academic years 2011-12 to 2015-16. The consortium has been awarded 26 studentships per year and this will be reviewed in 2013-14.

The studentships provide sums to cover: a) fees at the fixed Research Council rate (£3,732 pa, including £200 contribution to institutional researcher development costs – ‘Roberts’ funding); b) a student stipend (£15,590 pa including London Weighting); and c) research training support and overseas fieldwork costs (£1,003 pa). There are also elements to cover enhanced stipends and research training support for 10 students in each cohort undertaking work in advanced quantitative methods, a recognised strength of the Bloomsbury DTC (£3,250 pa during the period of students’ doctoral studies).

The total value of the Bloomsbury DTC funding in 2011-12 is £1,962k, and the projected value across the full five years of funding is £9,810k, though the ESRC has indicated that there may be some possibility of indexation in 2013-14.

The Bloomsbury DTC also provides two other potential routes to additional funding. The first is via studentship funding attached to ESRC project grants: the ESRC has indicated that only staff from institutions holding DTC accreditation will be allowed to apply for these studentships. The second is via the opening up of the IOE’s research skills training provision to students from outside the DTC.

Collaborations involving co-funding from public, private or third sector sources can also be used to increase the number of studentships awarded. Any savings accrued from fees-only awards made to EU students who fail to meet ESRC’s residence requirements will have a similar effect.

### 6.6 Development Activity

In 2010-11, over 500 individuals and organisations supported the Institute’s work through philanthropic gifts donating £1.8m (2009-10: £570k), of which £1.5m was donated by the Pears Foundation in support of the IOE’s Holocaust Education Development Programme over the next three years. Secondary school pupils in England have entitlement under the national curriculum to learn about the Holocaust in history in Key Stage 3, and many also study it in other subjects and at other ages. However, teachers across the country face serious challenges and obstacles in teaching this subject effectively.

The Pears Foundation also made a substantial gift in support of the IOE’s Centre for Research in Autism and Education, along with the Kirby Laing Foundation.

**6. CURRENT AND FUTURE DEVELOPMENTS**

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Other major donors during the year were; Sir John Cass Foundation, Polonsky Foundation, Dangoor Foundation, Brendish Family Foundation, Professor Diana Leonard's legacy, Heritage Lottery, National Cataloguing, History of Education Society and the D M F Trust.

The generosity of Institute staff in supporting the Centenary Scholarships remains exceptional. 15% of staff made gifts to support the Institute's work during the year. Alumni giving continues to grow and the number of alumni donors has more than doubled, with over 300 (2.5% of those on record) making gifts.

This activity means that, over the three years of the government's matched funding scheme (which closed in 2011), the IOE raised over £2.7m in philanthropic gifts, generating the maximum permissible match funding of £1.35m from the government.

**7. SUBSIDIARY UNDERTAKING - IOESRL**

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IOESRL is registered in England and Wales as a wholly owned subsidiary of the Institute and incorporated as a company limited by guarantee on 21 September 2007. The Company was formed to take over the management of the John Adams Hall student residence, which re-opened in 2007-08 following a major refurbishment. The directors of the company are three senior employees of the Institute and a student warden based in the Hall.

The IOESRL result for the year was a loss of £158 (2009-10: profit of £534k) and has been included in these consolidated accounts. The Company's business and assets were transferred back to the IOE following the Board of Directors' decision to wind it up in June 2010.

The IOESRL Board of Directors are currently in the process of winding up the Company and this is expected to happen imminently.

## 8. ESTATES AND ENVIRONMENTAL SUSTAINABILITY

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### 8.1 Estates

The IOE has put in place a new estates strategy (2010–15) that takes into account the financial constraints in which the IOE currently operates, local planning considerations, leasing arrangements with the University of London and the age and structure of the IOE's buildings. The strategy provides a sound basis for the prioritisation of key works in times of serious financial constraints.

During 2010-2011 the Institute completed a number of capital projects funded under its CIF2 allocation of £2.4m. Projects completed included:

- Level 3 catering and Level 4 Coffee Shop refurbishment. This project involved the remodelling and the refurbishment of the catering facilities and the coffee shop. Since completion in September 2010, the facilities are operating successfully, producing a combined turnover increase of 30%.
- Core C lift refurbishment. This was also part of the “Thornhaugh Mews enabling works” project. Two of the three lifts in C Core have been refurbished.
- Dixon Room refurbishment to create a children's observation centre. Following consultation with faculties, a collaborative design was drawn up for a suite of rooms to enable live and recorded observation of various research activities (e.g. through the Reading Recovery centre, the Centre for Research in Autism Education and the London Knowledge Lab), as well as for the benefit of Primary/Secondary PGCE colleagues. This has created a modern, flexible space.
- Level 2 Mezzanine archive store. This has provided additional storage space for the library of up to 2,000 linear metres, enabling the library to bring external archived materials back onto site.

### 8.3 Library and IT Services

IT Services completed the build of a new server room and the refurbishment of an existing one. These two server rooms in the main building contain 120 physical server boxes, comprising the majority of the IOE's server estate and responsible for the delivery of all corporate business systems (e.g. student administration, finance, payroll etc.), email and file storage. They provide increased capacity but also increased resilience of services, offering some protection against power supply failure, localised flooding, air conditioning failure and disruption from emergency remedial work. They also provide the IOE with the capability for future mirrored /redundant service provision.

A project commenced in 2010-11 to replace the storage area network (SAN) – the equipment used to store all networked computer files and e-mails. The existing equipment had reached end of life and was almost full. A replacement SAN was selected via a formal EU tender process and delivered in February 2011. The new SAN will provide substantially increased capacity and reduced file access times. IT Services are replacing the data backup and recovery equipment at the same time.

The staff and student email systems were upgraded to Microsoft Exchange 2010, giving users more features and lowering IT Services operating costs.

**8. ESTATES AND ENVIRONMENTAL SUSTAINABILITY**

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The “Thornhaugh Mews enabling works” noted above also involved creating a mirror to the glass-walled computer rooms to provide a corridor from B Core into the C Core of the IOE’s Bedford Way building. This will eventually lead into Thornhaugh Mews. In addition to the creation of a print/photocopy ‘pod’, the project has created three flexible work/study areas. Following completion, the library proceeded to extend its public archive services into one room, whilst the other two remain as breakout rooms.

## 9. STAKEHOLDER RELATIONSHIP

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### 9.1 Reputation

The Institute maintains a good reputation with its key stakeholders, local, national and international. The Institute brand and the quality of its teaching and RCKT outputs is an essential part of its success in attracting students, external partners and research funding, as is the Institute's engagement with the public both directly and through the press and other media.

### 9.2 Equal Opportunities

The Institute is committed to being an equal opportunities employer. It seeks to create an open and supportive environment that is free from discrimination and that encourages all staff and students to participate fully in Institute activities. An Equal Opportunities Committee advises Senate on all matters relating to equal opportunities and the promotion of good practice across the Institute in this area, including staff development.

The Institute's key objective in relation to equal opportunities is to encourage staff and students from all backgrounds to participate fully in Institute activities. The Equalities Act came into force in October 2010 and the Institute has been reviewing all relevant areas of policy and practice, including its Committee structure, to ensure that it continues to be compliant with legislation and best practice. It will continue to do this as guidance becomes available on the implications of the Act, particularly in relation to its public sector duty. The Institute's policies for equal opportunities are available on its website.

### 9.3 Employee Involvement

The Institute places considerable value on the involvement of its employees in all areas of Institute activity and on good communications with them. Staff are encouraged to participate in formal and informal consultation at the Institute, including through the membership of formal committees. During the course of 2010-11 both the Director and the Pro-Director (for Strategy and Organisation) held regular "surgeries" where staff met them individually. The Senior Leadership Team also held all staff meetings to discuss the changes in higher education funding and the plans for ensuring the financial sustainability of the Institute. The Institute has a Staff Development Section within Human Resources that aims to promote a culture of continuous professional learning to improve the quality of work at the Institute. This area falls under the remit of the Staff Development Committee, which reports to F&GPC.

### 9.4 Payment of Creditors

There are formal regulations and procedures relating to contracting with and payment of suppliers. Through these regulations and procedures it is the Institute's policy in all its dealings to both pay suppliers on the due dates and to obtain value for money and safeguard public funds. In agreements made with suppliers, the Institute endeavours to negotiate specified payment terms and subsequently to honour these terms.

### 9.5 Post balance sheet events

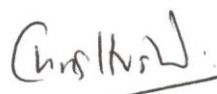
There are no post balance sheet events to report.

## 9. STAKEHOLDER RELATIONSHIP

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### 9.6 Conclusion

The current difficult economic climate and squeeze on public spending, combined with political uncertainty, makes the medium-term outlook for higher education institutions in England uncertain. However, I am confident given the quality of our staff and the outstanding reputation of the Institute in teaching, research and third stream activities, that we shall be able to meet the undoubted challenges that lie ahead.



**Professor Chris Husbands**  
Director  
November 2011

## 10. STATEMENT ON INTERNAL CONTROL (SIC)

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### STATEMENT ON INTERNAL CONTROL

The key elements of the Institute's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, Deans of Faculties and Heads of support departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, capital and cash flow budgets and reports;
- regular reviews of academic faculties, support departments and of financial results involving variance reporting and updates of financial forecasts;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- comprehensive financial regulations, detailing financial controls and procedures, approved by the F & GPC and the Council;
- an ongoing process for identifying, evaluating and managing any significant risks the Institute faces; and
- a professional internal audit team whose annual programme is approved by the Audit Committee and endorsed by the Council and whose head provides the Council with a report on internal audit activity within the Institute and an opinion on the adequacy and effectiveness of the Institute's system of internal control, including internal financial control.

The Audit Committee, on behalf of Council has reviewed the effectiveness of the Institute's system of internal control. Any system of internal financial control may, however, only provide reasonable, not absolute, assurance against material misstatement or loss. Having considered these elements together with the findings of the internal auditors and value for money studies, it is the Audit Committee's opinion that a substantial level of assurance may be placed on the Institute's internal control, risk management and governance systems for the financial period 1 August 2010 to 31 July 2011 and that arrangements for securing economy, efficiency and effectiveness operated satisfactorily during the year.

## 11. RESPONSIBILITIES OF THE COUNCIL OF THE INSTITUTE OF EDUCATION

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In accordance with its Royal Charter, the Council of the Institute of Education is responsible for the administration and management of the affairs of the Institute and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Institute of Education and enable it to ensure that the financial statements are prepared in accordance with the Royal Charter, the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between HEFCE or TDA and the Council of the Institute of Education, the Council, through its accountable officer, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Institute of Education and of the surplus or deficit and cash flows for the year.

In causing the financial statements to be prepared, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on a "going concern" basis unless it is inappropriate to presume that the Institute of Education will continue in operation.

The Council has also taken reasonable steps to:

- ensure that funds from HEFCE and TDA are used only for the purposes for which they have been given and in accordance with the financial memorandum with HEFCE and TDA and any conditions which these funders may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the Institute of Education and to prevent and detect fraud;
- secure the economical, efficient and effective management of the Institute of Education's resources and expenditure; and
- confirm that they have complied with the duty in section 4 of the Charities Act 2006 to have due regard to public benefit guidance published by the Charity Commission for England and Wales.

So far as the Council is aware, there is no relevant audit information of which the Institute's auditors are unaware. Relevant information is defined as "information needed by the Institute's auditors in connection with preparing their report". This statement was approved by the Institute's Council on 22 November 2011.



Baroness Gillian Shephard  
Chair of Council

## 12. INDEPENDENT AUDITOR'S REPORT

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We have audited the Group and Institute's financial statements (the "financial statements") of the Institute of Education for the year ended 31 July 2011 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Institute Balance Sheet, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, in accordance with the Charter and Statutes of the Institute. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's 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 Council for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Council and auditor**

As explained more fully in the Responsibilities of the Council statement set out on page 34 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and Institute's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and Institute as at 31 July 2011 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

### **Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992**

In our opinion, in all material respects:

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12. INDEPENDENT AUDITOR'S REPORT

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- funds from whatever source administered by the Institute for specific purposes have been properly applied to those purposes
- income has been applied in accordance with the Institute's Statutes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control is inconsistent with our knowledge of the Institute and the Group.



**W Southwood**  
**For and on behalf of KPMG LLP, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

25 November 2011

13. CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

		2011	Restated*
	Notes	£'000	2010 £'000
<b>Income</b>			
Funding Council Grants	2	20,967	22,764
Tuition Fees	3	17,069	15,460
Research Grants and Contracts	4	13,936	16,288
Other Operating Income	5	14,525	16,644
Endowment and Investment Income	6	922	1,182
<b>Total Income</b>		<b>67,419</b>	<b>72,338</b>
<b>Expenditure</b>			
Staff Costs	7a	42,037	44,854
Staff Costs – Exceptional Restructuring Costs	7b	928	918
Other Operating Expenses	8	20,187	22,649
Depreciation	10	3,259	2,925
Interest and Finance Costs	9	425	434
<b>Total Expenditure</b>		<b>66,836</b>	<b>71,780</b>
<b>Surplus after Depreciation of Assets at Valuation</b>		<b>583</b>	<b>558</b>
<b>Surplus for the year retained within general reserves</b>		<b>583</b>	<b>558</b>

There is no difference between historical cost surplus and those shown in the Income and Expenditure Account.

\*Some of the prior year figures have been re-categorised in line with best practice guidelines but the totals remain unchanged.

All results are from continuing operations.

The notes on pages 42 to 69 form part of these accounts.

**14. STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES**

	Notes	2011 £'000	2010 £'000
<b>Surplus for the year retained within general reserves</b>		<b>583</b>	<b>558</b>
<b>Endowment Asset Investments</b>			
Realised Gains on Disposals	18	248	186
Unrealised Gains	18	224	368
Endowment withdrawn	18	(199)	(164)
New endowments		1,666	0
<b>General Asset Investments</b>			
Unrealised Gains	19	339	392
<b>Total Recognised Gains for the Year</b>		<b>2,861</b>	<b>1,340</b>

**Reconciliation of Total Recognised Gains to Reserves and Endowments**

	2011 £'000	2010 £'000
Reserves and Endowments at 1 August	20,028	18,688
Total Recognised Gains for the year	2,861	1,340
<b>Reserves and Endowments at 31 July</b>	<b>22,889</b>	<b>20,028</b>

The notes on pages 42 to 69 form part of these accounts.

15. BALANCE SHEETS

	Notes	Consolidated 2011 £'000	Institute 2011 £'000	Consolidated 2010 £'000	Institute 2010 £'000
<b>Fixed Assets</b>					
Tangible Assets	10	96,003	96,003	95,628	95,628
Investments	11	6,869	6,869	6,203	6,203
		<b>102,872</b>	<b>102,872</b>	<b>101,831</b>	<b>101,831</b>
<b>Endowment Assets</b>	12	<b>6,569</b>	<b>6,569</b>	<b>4,630</b>	<b>4,630</b>
<b>Current Assets</b>					
Debtors	13	7,982	7,982	9,373	9,373
Investments	14	3,544	3,544	5,466	5,171
Cash at Bank and in Hand		4,720	4,719	1,485	1,246
<b>Total Current Assets</b>		<b>16,246</b>	<b>16,245</b>	<b>16,324</b>	<b>15,790</b>
Less: Creditors - amounts falling due within one year	15	(13,421)	(13,466)	(12,958)	(13,004)
<b>Net Current Assets</b>		<b>2,825</b>	<b>2,779</b>	<b>3,366</b>	<b>2,786</b>
<b>Total Assets less Current Liabilities</b>		<b>112,266</b>	<b>112,220</b>	<b>109,827</b>	<b>109,247</b>
Less: Creditors - amounts falling due after more than one year	16	(9,715)	(9,715)	(10,027)	(10,027)
<b>Net Assets</b>		<b>102,551</b>	<b>102,505</b>	<b>99,800</b>	<b>99,220</b>

15. BALANCE SHEETS

	Notes	Consolidated 2011 £'000	Institute 2011 £'000	Consolidated 2010 £'000	Institute 2010 £'000
<b>Represented by:</b>					
<b>Deferred Capital Grants</b>		<b>79,662</b>	<b>79,662</b>	<b>79,772</b>	<b>79,772</b>
<b>Endowments</b>					
Expendable	18	2,400	2,400	822	822
Permanent	18	4,169	4,169	3,808	3,808
		<b>6,569</b>	<b>6,569</b>	<b>4,630</b>	<b>4,630</b>
<b>Reserves</b>					
Revaluation Reserve	19	1,357	1,357	1,018	1,018
Income and Expenditure Reserve	20	14,963	14,917	14,380	13,800
<b>Total Reserves</b>		<b>16,320</b>	<b>16,274</b>	<b>15,398</b>	<b>14,818</b>
<b>Reserves and Endowments</b>		<b>22,889</b>	<b>22,843</b>	<b>20,028</b>	<b>19,448</b>
<b>Total Funds</b>		<b>102,551</b>	<b>102,505</b>	<b>99,800</b>	<b>99,220</b>

The notes on pages 42 to 69 form part of these accounts.

**Approval:** The financial statements from pages 37–69 were approved by Council on 22 November and signed on its behalf by:



Baroness Gillian Shephard, Chair of Council



Professor Chris Husbands, Director



Habte Hagos, Director of Finance & Estates

16. CONSOLIDATED CASH FLOW STATEMENT

		Consolidated 2011	Restated Consolidated 2010
	Notes	£'000	£'000
Cash Flow from Operating Activities	21	2,027	636
Returns on Investments and Servicing of Finance	22	298	584
Taxation		0	0
Capital Expenditure and Financial Investment	23	678	2,656
Management of Liquid Resources	24	1,922	(2,945)
Financing		(309)	(306)
<b>Increase in Cash in the Period</b>		<b>4,616</b>	<b>625</b>

**Reconciliation of Net Cash Flow to Movement in Net Funds / (Debt)**

		Consolidated 2011	Restated Consolidated 2010
	Notes	£'000	£'000
Increase in Cash in the Period		4,616	625
Cash Inflow/(Outflow) from Liquid Resources		(1,922)	2,945
Change in Debt		309	306
		3,003	3,876
Net Funds / (Debt) at 1 August		(2,898)	(6,774)
<b>Net Funds / (Debt) at 31 July</b>	24	<b>105</b>	<b>(2,898)</b>

The notes on pages 42 to 69 form part of these accounts.

## 17. NOTES TO THE ACCOUNTS

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### 1. Statement of Principal Accounting Policies

#### (a) Basis of Preparation

In accordance with FRS 18 "Accounting Policies" these accounting policies have been reviewed by the Institute's Council and are considered appropriate to the Institute's activities.

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 and in accordance with applicable accounting standards. They conform to guidance published by the Higher Education Funding Council for England (HEFCE) and the Training and Development Agency for Schools (TDA).

#### (b) Basis of Accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of fixed asset investments. The financial statements have been prepared on a going concern basis.

#### (c) Basis of Consolidation

The consolidated financial statements include the financial statements of the Institute and its subsidiary undertaking, IOE Student Residences Limited (incorporated on 21 September 2007), for the financial year to 31st July 2011 as required by the Companies Act 2006. A separate income and expenditure account for the parent organisation has not been presented because the Institute has taken advantage of the exemption allowed under s408 of the Companies Act 2006.

The consolidated financial statements do not include those of the Student's Union as it is a separate entity in which the Institute has no power to exercise dominant influence.

#### (d) Recognition of Income and Expenditure

The recurrent grants from funding bodies are recognised in the period in which they are receivable and are credited to the Income and Expenditure Account. Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

The Institute acts as an agent in the collection and payment of hardship funds and training bursaries from funding bodies. Related receipts from HEFCE and the TDA and subsequent disbursement to students are excluded from the income and expenditure account and are shown separately in Notes 2.

Income from tuition fees is recognised in the period for which it is receivable i.e. the period in which the students are studying. Fee income is stated gross and credited to the Income and Expenditure Accounts. Where the amount of the tuition fee is reduced, income receivable is shown net of the discount. The costs of any fees waived by the Institute are included as expenditure in Note 8 of the accounts.

Bursaries and scholarships are accounted for gross as expenditure and included within other operating expenses.

## 17. NOTES TO THE ACCOUNTS

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Income from research grants, contracts and other services rendered is included to the extent of the completion of work associated with the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

Income from the sale of goods and services is credited to the Income and Expenditure Account when the goods and services are supplied to the external customers against the order received or the terms of the contract have been satisfied.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet".

### **(e) Accounting for donations**

Endowment funds where charitable donations are restricted to a particular objective specified by the donor" are accounted for as an endowment. There are three main types:

Restricted permanent endowments - the capital fund is maintained (and is therefore restricted) but the income thereon can be applied to the general purposes of the institution and is therefore unrestricted.

Unrestricted permanent endowments - these are expendable at the discretion of the trustees with no requirement that capital be maintained.

Expendable endowments- where trustees have the power of discretion to convert endowed capital into income.

Increases in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve via the statement of total recognised gains and losses. A diminution in value is charged to the Income and Expenditure Account to the extent that it is not covered by a previous revaluation surplus.

Expenditure incurred relates to the receipt of goods and services.

### **(f) Investments**

Where charitable donations are restricted to a particular objective specified by the donor, these are accounted for as an endowment. Endowment asset investments are included in the balance sheet at market value.

Current asset investments are included at the lower of cost and net realisable value.

## 17. NOTES TO THE ACCOUNTS

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### **(g) Foreign Currencies**

Transactions denominated in foreign currencies are recorded at a fixed rate of exchange ruling at the date of the transaction. Foreign currency bank accounts are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

### **(h) Pension Schemes**

The Institute participates in the Universities Superannuation Scheme (USS) and the Superannuation Arrangement of the Universities of London (SAUL). Both schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension. The liabilities of each fund are valued every three years by professionally qualified independent actuaries, in both cases using the projected unit method. For both schemes the rates of contribution payable are determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of both schemes. Both schemes are multi-employer schemes and it is not possible to identify the Institute's share of the underlying assets and liabilities of the schemes. Therefore, as required by FRS 17, contributions are charged directly to the Income and Expenditure account as if the schemes were defined contribution schemes.

### **(i) Land and Buildings**

Land and buildings are stated at cost. Interest incurred on acquisition and construction expenditure to the date of commencement of occupation is capitalised. Improvements to buildings are capitalised where they are seen to increase the value or effective life of the building.

Buildings are depreciated over their expected useful lives of 50 years and building improvements and extensions over a maximum of 20 years. Depreciation is on a straight-line basis. Freehold land is not depreciated. Buildings under construction are accounted for at cost and they are depreciated as cost is incurred.

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful economic life of the related asset, on the basis that is consistent with the depreciation policy. Some of the Institute's land and buildings have been financed by government grants and are therefore under the Exchequer interest, hence can only be disposed of in accordance with the rules set out in the Financial Memorandum with HEFCE.

The Institute's main premises are leased from the University of London on a 999 year lease. The building has been capitalised and depreciated based on its reinstatement cost. A deferred capital grant of an equal amount has been established and is released to income over the expected useful life of the asset.

### **(j) Furniture and Equipment**

Equipment costing less than £10k per individual item is written off in the year of acquisition. Capitalised furniture and equipment is stated at cost and depreciated over 5 years i.e. the expected useful economic life.

## 17. NOTES TO THE ACCOUNTS

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Where furniture and equipment is acquired with the aid of specific grants, it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant received in advance and released to income over the expected useful life of the equipment.

### **(k) Leases**

Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

### **(l) Stocks**

Stocks of consumables held by central stores are considered immaterial in relation to the accounts of the Institute and are therefore written off at the time of purchase.

### **(m) Cash Flows and Liquid Resources**

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without a penalty. No investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, Government securities and loan stock held as part of the Institute's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

The Institute seeks to hold cash and liquid resources to meet its working capital needs.

### **(n) Maintenance of Premises**

The Institute has a five-year rolling maintenance plan, which is reviewed on an annual basis. The cost of maintenance is charged to the income and expenditure account as incurred.

### **(o) Taxation Status**

The Institute is a charity and is therefore exempt from taxation of income and gains falling within section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that they are applied to its charitable objectives. No tax charge has arisen in the year. No tax charge has arisen in the Institute's wholly owned subsidiary Company (IOESRL) as any taxable profits are gifted to the Institute each year.

The Institute receives no similar exemption in respect of VAT, although there are some narrow reliefs that must be considered on a transaction by transaction basis. The Institute receives income from a variety of sources, some of which is liable to VAT. However, the largest part of its income is exempt from VAT or outside the scope of VAT. This makes the Institute a partly exempt organisation and consequently input VAT incurred on its purchases is largely irrecoverable.

The subsidiary company is subject to Corporation Tax in the same way as any commercial organisation. The Company is in the same VAT group as the Institute.

17. NOTES TO THE ACCOUNTS

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**(p) Premature Retirement Costs**

The full costs of premature retirements are charged in full to the first year in which the contractual liability can be recognised.

**(q) Provisions**

Provisions are recognised when the Institute has a 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.

17. NOTES TO THE ACCOUNTS

2. Funding Council Grants		Consolidated 2011	Restated Consolidated 2010
	Notes	£'000	£'000
<b>HEFCE main grants</b>		13,217	14,277
<b>HEFCE matched funding</b>		315	87
HEFCE Deferred Capital Grant released:			
Freehold Land and Buildings	17	1,238	1,487
Furniture and Equipment	17	44	44
<b>Deferred Capital Grant released</b>		1,282	1,531
<b>TDA Grants</b>		6,128	6,851
<b>DfE Deferred Capital Grants</b>		25	18
<b>Total Grants</b>		<b>20,967</b>	<b>22,764</b>
<b>3. Tuition Fees</b>			
<b>Award Bearing Courses</b>			
FT Home and EU Tuition Fees		5,423	5,122
FT Overseas Tuition Fees		2,788	2,278
PT Home and EU Tuition Fees		4,582	4,432
PT Overseas Tuition Fees		928	771
<b>Sub-total Tuition Fees</b>		13,721	12,603
<b>Short Course Fees</b>		3,348	2,857
<b>Total Fees</b>		<b>17,069</b>	<b>15,460</b>
<b>4. Research Grants and Contracts</b>			
Research Councils		4,976	6,314
UK Based Charities		2,050	2,561
European Government		722	613
UK Central Government		5,085	5,715
Other Grants and Contracts		1,103	1,085
<b>Total Research Grants and Contracts</b>		<b>13,936</b>	<b>16,288</b>

17. NOTES TO THE ACCOUNTS

5. Other Operating Income	Consolidated 2011 £'000	Restated Consolidated 2010 £'000
Residences, Catering and Conferences	3,002	2,576
Other Services Rendered	8,392	11,171
Other Income	1,908	1,674
Release of Deferred Capital Grant	1,223	1,223
<b>Total Other Operating Income</b>	<b>14,525</b>	<b>16,644</b>

6. Endowment and Investment Income	Consolidated 2011 £'000	Restated Consolidated 2010 £'000
Notes	£'000	£'000
Income from Endowments	348	349
Income from Long-term Investments	537	807
Income from Short-term Investments	37	26
<b>Total Endowment and Investment Income</b>	<b>922</b>	<b>1,182</b>

17. NOTES TO THE ACCOUNTS

<b>7a. Staff Costs</b>	Consolidated 2011 £'000	Consolidated 2010 £'000
Wages and Salaries	34,348	36,652
Social Security Costs	2,833	3,187
Other Pension Costs	28 4,856	5,015
	<u>42,037</u>	<u>44,854</u>

<b>7b. Restructuring Costs</b>	<u>928</u>	<u>918</u>
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No senior member of staff took voluntary severance scheme in 2011 or 2010.

<b>7c. Emoluments of the Director (Aug-Dec 2010)</b>	<b>Prof G Whitty</b>	
	£'000	£'000
Salary	106	253
Employer's Pension Contributions	17	40
<b>Total Emoluments of the Director</b>	<b>123</b>	<b>293</b>

<b>Emoluments of the Director (from 1 Jan 2011)</b>	<b>Prof C Husbands</b>	
	£'000	£'000
Salary	111	0
Employer's Pension Contributions	18	0
<b>Total Emoluments of the Director</b>	<b>129</b>	<b>0</b>

<b>Total Directors Remuneration</b>	<u><b>252</b></u>	<u><b>293</b></u>
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- Prof Geoff Whitty's annualised salary excluding employer's pension contribution at the time of leaving was £253k.
- Prof Geoff Whitty donated £25,802 to the Institute of Education in 2009-10, which equates to £48,379 when HEFCE matched funding and income tax rebate is added.
- Prof C Husbands' annualised salary excluding employer's pension contribution at 31 July 2011 was £191k.
- Employer's pension contributions to USS in respect of the Directors were paid at the same rates as for other academic staff.

17. NOTES TO THE ACCOUNTS

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<b>7d. Staff FTE by Grade as at 31 July</b>	2011 Numbers	2010 Numbers
1 - 5 Professional	98	97
6 - 10 Academic	235	268
6 - 10 Professional	348	373
Senior Academic	68	77
Senior Professional	17	20
<b>Total Staff</b>	<b>766</b>	<b>835</b>

**Remuneration of other Higher Paid Staff**

	2011 Numbers	2010 Numbers
£100,001-£110,000	7	5
£110,001-£120,000	1	2
£120,001-£130,000	1	1
£130,001-£140,000	1	1
£140,001-£150,000	0	0
£150,001-£160,000	0	1

**Council member expenses:**

Council member received no remuneration (2010: also £nil). Council meeting expenses included out of pocket travel expenses. Two out of 20 Council members received out of pocket travel reimbursements in total amount of £159 for expenses incurred directly.

Remuneration of other Higher Paid Staff excludes employer's pension contributions.

## 17. NOTES TO THE ACCOUNTS

8. Other Operating Expenses	Consolidated 2011 £'000	Consolidated 2010 £'000
<b>Academic Expenditure</b>	8,503	9,642
<b>Research Grants &amp; Contracts</b>	2,584	3,290
<b>Academic Services</b>		
Computing	535	659
Library	722	656
	1,257	1,315
<b>General Educational Expenditure</b>	703	666
<b>Premises</b>		
Repairs and General Maintenance	433	448
Cleaning and Security	989	924
Rent and Rates	168	256
Heat, Light, Water and Power	765	921
Other	0	278
	2,355	2,827
<b>Administration and Central Services</b>		
Other Central Services	2,241	2,272
Auditors Remuneration*	62	82
Auditors Remuneration for audit of grants	6	4
	2,309	2,358
*Auditor's remuneration for 2010-11	56	
<b>Residences, Catering and Conferences</b>	1,342	1,153
<b>Staff Student Facilities</b>		
Prizes, Fellowships and Scholarships	480	513
Grant to Student Union	294	285
Other, Including Alumni	188	290
	962	1,088
<b>Miscellaneous</b>		
Health & Safety	172	310
	172	310
<b>Total Other Operating Expenses</b>	<b>20,187</b>	<b>22,649</b>

17. NOTES TO THE ACCOUNTS

9. Interest and Finance Costs	Consolidated	Consolidated
	2011	2010
	£'000	£'000
Wholly or partly repayable within five years	108	110
Not wholly or partly repayable within five years	317	324
	<b>425</b>	<b>434</b>

10. Tangible Assets

	Freehold Land & Building	Long Leasehold Land & Building	Short Leasehold Land & Building	Furniture & Equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost at 1 Aug 2010	91,001	8,670	4,751	2,886	107,308
Additions at Cost in Year	3,219	313	0	1,506	5,038
Disposals	(1,508)	0	0	0	(1,508)
<b>Cost at 31 Jul 2011</b>	<b>92,712</b>	<b>8,983</b>	<b>4,751</b>	<b>4,392</b>	<b>110,838</b>
Depreciation at 1 Aug 2010	7,510	909	1,146	2,115	11,680
Depreciation Charge in Year	2,136	246	238	639	3,259
Disposals	(104)	0	0	0	(104)
<b>Depreciation at 31 Jul 2011</b>	<b>9,542</b>	<b>1,155</b>	<b>1,384</b>	<b>2,754</b>	<b>14,835</b>
<b>Net Book Value at 31 Jul 2011</b>	<b>83,170</b>	<b>7,828</b>	<b>3,367</b>	<b>1,638</b>	<b>96,003</b>
<b>Financed from:</b>					
Capital Grant	75,621	645	3,101	295	79,662
Institute Resources	7,549	7,183	266	1,343	16,341
<b>Net Book Value at 31 Jul 2011</b>	<b>83,170</b>	<b>7,828</b>	<b>3,367</b>	<b>1,638</b>	<b>96,003</b>
<b>Net Book Value at 1 Aug 2010</b>	<b>83,491</b>	<b>7,761</b>	<b>3,605</b>	<b>771</b>	<b>95,628</b>

Freehold and leasehold land and buildings with a value of £21m has been financed, in whole and in part, by exchequer funds. If the Institute fails one of two 'trigger events' noted in the Financial Memorandum with HEFCE, then the full amount of the exchequer interest would become repayable.

17. NOTES TO THE ACCOUNTS

11. Fixed Asset Investments		Consolidated 2011	Consolidated 2010
	Notes	£'000	£'000
Market Value at 1 August		6,203	7,040
Additions in Year	23	1,831	2,090
Disposals in Year	23	(1,778)	(3,862)
Increase/(Decrease) in Cash Held by Investment Managers	24	(54)	(23)
Realised Gains/(Losses) on Disposals	21	328	566
Unrealised Gains/(Losses)	19	339	392
<b>Market Value at 31 July</b>		<b>6,869</b>	<b>6,203</b>
<b>Represented by:</b>			
Fixed Interest Stocks		812	636
Equities		5,944	5,400
Cash		113	167
<b>Market Value at 31 July</b>		<b>6,869</b>	<b>6,203</b>

**Subsidiary Undertakings**

IOESRL is registered in England and Wales as a wholly owned subsidiary of the Institute and incorporated as a company limited by guarantee on 21 September 2007. The Company was formed to take over the management of the John Adams Hall student residence, which reopened in 2007-08 following a major refurbishment. The directors of the company are three senior employees of the Institute and a student warden based in the Hall.

The IOESRL Board of Directors are currently in the process of winding up the Company and this is expected to happen imminently.

12. Endowment Asset Investments		Consolidated 2011	Consolidated 2010
	Notes	£'000	£'000
Market Value at 1 August		4,630	4,240
Additions in Year	23	1,295	1,374
Disposals in Year	23	(1,263)	(1,350)
Increase/(Decrease) in Cash Held by Investment Managers	24	(65)	(188)
Realised Gains/(Losses) on Disposals	18	248	186
Unrealised Gains/(Losses)	18	224	368
New Endowment		1,500	0
<b>Market Value at 31 July</b>		<b>6,569</b>	<b>4,630</b>

17. NOTES TO THE ACCOUNTS

<b>Represented by:</b>		
Fixed Interest Stocks	599	460
Equities	4,215	3,850
Cash	65	97
	<hr/>	<hr/>
Funds Held by Investment Managers	4,879	4,407
Cash Held by Institute	1,690	223
	<hr/>	<hr/>
<b>Market Value at 31 July</b>	<b>6,569</b>	<b>4,630</b>

13. Debtors	Consolidated	Institute	Consolidated	Institute
	2011	2011	2010	2010
	£'000	£'000	£'000	£'000
Trade Debtors	2,288	2,288	2,890	2,890
Research Debtors	2,683	2,683	3,817	3,817
Student Debtors	792	792	347	347
Prepayments and Accrued Income	1,446	1,446	1,752	1,752
Other Debtors	773	773	567	567
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Debtors</b>	<b>7,982</b>	<b>7,982</b>	<b>9,373</b>	<b>9,373</b>

17. NOTES TO THE ACCOUNTS

14. Current Asset Investments

	Consolidated 2011	Institute 2011	Consolidated 2010	Institute 2010
	£'000	£'000	£'000	£'000
Cash Deposit	1,044	1,044	5,466	5,171
Short term deposit	2,500	2,500	0	0
<b>Short Term Investments at 31 July</b>	<b>3,544</b>	<b>3,544</b>	<b>5,466</b>	<b>5,171</b>

15. Creditors: Amounts Falling Due Within One Year

	Consolidated 2011	Institute 2011	Consolidated 2010	Institute 2010
	£'000	£'000	£'000	£'000
Bank loan	312	312	309	309
Payments received in advance	4,612	4,612	4,715	4,715
Trade Creditors	1,697	1,697	244	244
Social Security & Other Tax Payable	6	6	1,498	1,498
Accruals & Deferred Income	5,996	6,041	5,097	5,143
Other Creditors	798	798	1,095	1,095
<b>Total Creditors: Amounts Falling Due Within One Year</b>	<b>13,421</b>	<b>13,466</b>	<b>12,958</b>	<b>13,004</b>

17. NOTES TO THE ACCOUNTS

16. Creditors: Due After More Than One Year

	Consolidated 2011	Institute 2011	Consolidated 2010	Institute 2010
	£'000	£'000	£'000	£'000
Bank Loans:				
due between 1 and 2 years	317	317	312	312
due between 2 and 5 years	974	974	963	963
due after more than 5 years	8,424	8,424	8,752	8,752
<b>Total Creditors: Due after more than one year</b>	<b>9,715</b>	<b>9,715</b>	<b>10,027</b>	<b>10,027</b>

16a. The Institute has arranged for the following loans:

- I) A £4m 30 year loan facility arranged with Barclays Bank plc, fixed as follows:
- a) A £2m variable facility, fixed every 5 years via an interest swap agreement. The interest is fixed at 5.65% until December 2012, and
  - b) A £2m facility, fixed at 5.31% until December 2037

Interest is payable quarterly in arrears and capital repayment commenced in 2008. The facility matures in December 2037 and is secured against the Endsleigh Gardens property.

- II) A £7m 30 year loan facility, arranged with Barclays Bank plc as follows:
- a) A £3.5m variable facility, fixed every quarter via an interest rate swap agreement. The interest as at 31/07/11 was 1.05%; and
  - b) A £3.5m facility, fixed at 5.91% until November 2036

Interest is payable quarterly in arrears and capital repayment commenced in January 2009. The facility matures in November 2036 and is secured against the John Adams Hall property.

All the above facilities have been fully drawn down.

17. NOTES TO THE ACCOUNTS

17. Deferred Capital Grants

<b>Freehold Land and Buildings</b>	Balance at 1 August 2010	Additional Grants in Year	Released to Income and Expenditure Account	Balance at 31 July 2011
	£'000	£'000	£'000	£'000
Library	640	0	(20)	620
Knowledge Lab	3,032	0	(72)	2,960
Gordon Square	3,332	0	(230)	3,102
CETL WLE	767	0	(70)	697
SRIF 3	5,732	0	(260)	5,472
TCIF RCIF	6,559	2,420	(586)	8,393
<b>HEFCE</b>	<b>20,062</b>	<b>2,420</b>	<b>(1,238)</b>	<b>21,244</b>
15 Woburn Square	660	0	(15)	645
Thornhaugh Mews	1,221	0	(10)	1,211
<b>DfE</b>	<b>1,881</b>	<b>0</b>	<b>(25)</b>	<b>1,856</b>
<b>Endowment and Investment</b>				
20 Bedford Way**	57,490	0	(1,223)	56,267
<b>Bedford Way</b>	<b>57,490</b>	<b>0</b>	<b>(1,223)</b>	<b>56,267</b>
<b>Total Deferred Capital Grant Freehold Land and Buildings</b>	<b>79,433</b>	<b>2,420</b>	<b>(2,486)</b>	<b>79,367</b>

<b>Furniture and Equipment</b>	Balance at 1 August 2010	Additional Grants in Year	Released to Income and Expenditure Account	Balance at 31 July 2011
HEFCE	339	0	(44)	295
<b>Total Deferred Capital Grant Freehold Furniture and Equipment</b>	<b>339</b>	<b>0</b>	<b>(44)</b>	<b>295</b>

\*\*Release of Deferred Capital Grant relates to Bedford Way lease, which was passed to the Institute in March 2008 on a 999 year lease. The treatment of the building as a donation is in accordance with 2007 SORP requirement.

17. NOTES TO THE ACCOUNTS

18. Endowments

		Consolidated 2011	Consolidated 2010
	Notes	£'000	£'000
Balance at 1 August		4,630	4,240
New Endowments		1,666	0
Realised Gains/(Losses) on Disposals	12	248	186
Unrealised Gains/(Losses)	12	224	368
Income	22	149	185
Released to Income and Expenditure Account	6	(348)	(349)
<b>Balance at 31 July</b>		<b>6,569</b>	<b>4,630</b>
<b>Represented by:</b>			
Fellowship and Scholarship Funds		3,005	1,358
Prize Funds		239	253
Chair and Lectureship Funds		2,934	2,663
Other Funds		391	356
<b>Balance at 31 July 2011</b>		<b>6,569</b>	<b>4,630</b>

17. NOTES TO THE ACCOUNTS

	Restricted Permanent	Restricted Expendable	Total
	£'000	£'000	£'000
<b>Endowments</b>			
<b>At 1 August 2010</b>	3,808	822	4,630
New Endowments	0	1,666	1,666
Investment Income	123	26	149
Expenditure	54	(154)	(100)
Increase in market value	184	40	224
<b>At 31 July 2011</b>	<b>4,169</b>	<b>2,400</b>	<b>6,569</b>
<b>Represented by:</b>			
Capital	3,813	3,349	7,162
Accumulated Income	356	(949)	(593)
<b>Total</b>	<b>4,169</b>	<b>2,400</b>	<b>6,569</b>

**Significant Endowment - Scope:**

This permanent endowment was set up in 1964 between the University of London and The Spastic Society to establish a department in the Institute to teach physically handicapped children. In 1988, The University assigned to the Institute all of its right title and interest in and to the Endowment Fund. The fund is used to pay the expenses of the department. The market value of the fund as at 31 July 2011 is £2.9m.

**19. Revaluation Reserve**

		Consolidated 2011	Institute 2011	Consolidated 2010	Institute 2010
		£'000	£'000	£'000	£'000
Balance at 1 August		1,018	1,018	626	626
Revaluation in Year	11	339	339	392	392
<b>Balance at 31 July</b>		<b>1,357</b>	<b>1,357</b>	<b>1,018</b>	<b>1,018</b>

The Revaluation Reserve relates to unrealised gains from Fixed Asset Investments

17. NOTES TO THE ACCOUNTS

20. Income and Expenditure Reserve

	Consolidated 2011	Institute 2011	Consolidated 2010	Institute 2010
	£'000	£'000	£'000	£'000
Balance at 1 August	14,380	13,800	13,822	13,822
Surplus /(Deficit) in Year	583	1,117	558	(22)
<b>Balance at 31 July</b>	<b>14,963</b>	<b>14,917</b>	<b>14,380</b>	<b>13,800</b>

21. Reconciliation of Operating Surplus to Net Cash from Operating Activities

	Notes	Consolidated 2011	Restated Consolidated 2010
		£'000	£'000
Surplus in Year		583	558
Interest paid on loan	9	425	434
Depreciation	10	3,259	2,925
<b>Deferred Capital Grants Released in the year</b>			
Freehold Land and Buildings	17	(2,486)	(2,728)
Furniture and Equipment	17	(44)	(44)
Endowment and Investment Income	6	(922)	(1,182)
(Gains)/Losses on Sale of Fixed Asset			
Investments	11	(328)	(566)
(Gains)/Losses on Sale of Fixed Asset		(311)	0
Decrease in Debtors	13	1,391	3,465
Increase/(Decrease) in Creditors	16	460	(1,576)
(Decrease) in net provisions		0	(650)
<b>Net Cash Inflow from Operating Activities</b>		<b>2,027</b>	<b>636</b>

17. NOTES TO THE ACCOUNTS

22. Returns on Investments and Servicing of Finance

	Notes	Consolidated 2011 £'000	Consolidated 2010 £'000
Income from Endowments Asset Investments	18	149	185
Income from Fixed Asset Investments	6	537	807
Income from Short Term Investments	6	37	26
Interest Paid	9	(425)	(434)
<b>Net Cash Inflow from Investments</b>		<b>298</b>	<b>584</b>

23. Capital Expenditure and Financial Investment

	Notes	Consolidated 2011 £'000	Consolidated 2010 £'000
<b>Payments to Acquire</b>			
Tangible Assets	10	(5,038)	(2,782)
Fixed Asset Investments	11	(1,831)	(2,090)
Endowment Asset Investments	12	(1,295)	(1,374)
		<b>(8,164)</b>	<b>(6,246)</b>
<b>Deferred Capital Grants Received in the Year</b>			
Freehold Land and Buildings	17	2,420	3,690
<b>Receipts from Sales of</b>			
Fixed Asset Investments	11	1,778	3,862
Endowment Asset Investments	12	1,263	1,350
Director's Residence		1,715	0
Additional Endowments in Year	18	1,666	0
<b>Net Cash Inflow From Capital Expenditure and Financial Investment</b>		<b>678</b>	<b>2,656</b>

17. NOTES TO THE ACCOUNTS

24. Analysis of Changes in Net Funds / (Debt)

	Notes	Restated At 1 August 2010 £'000	Cash Flows £'000	At 31 July 2011 £'000
Cash at Bank and in Hand		1,485	3,235	4,720
Fixed Asset Investments: Cash Held	11	167	(54)	113
Endowment Asset Investments: Cash Held	12	320	1,435	1,755
		<b>1,972</b>	<b>4,616</b>	<b>6,588</b>
Short-term Investments	14	5,466	(1,922)	3,544
		<b>7,438</b>	<b>2,694</b>	<b>10,132</b>
Debts Due Within One Year		(309)	(3)	(312)
Debts Due After One Year		(10,027)	312	(9,715)
<b>Net Funds / (Debt)</b>		<b>(2,898)</b>	<b>3,003</b>	<b>105</b>

25. Operating Lease Obligations – Buildings

	Notes	Consolidated 2011 £'000	Consolidated 2010 £'000
<b>Operating leases which expire:</b>			
Within one year		53	170
In the second to fifth year		0	0
After five years		0	0
		<b>53</b>	<b>170</b>

26. Contingent Liabilities

There were no contingent liabilities outstanding as at 31 July 2010 or 31 July 2011.

27. Related Party Transactions

Due to the nature of the Institute's operations and the composition of the Board of Governors (drawn from the community, businesses and private organisations) it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions that take place in which members of the Board may have an interest are conducted at arm's length and in accordance with the Institute's financial regulations and normal procurement procedures.

17. NOTES TO THE ACCOUNTS

28. Pension Arrangements	Consolidated 2011	Consolidated 2010
	£'000	£'000
<b>Analysis of Employer's Superannuation Contributions</b>		
USS	4,354	4,528
SAUL	502	487
	<b>4,856</b>	<b>5,015</b>

**Pension Schemes**

The Institute of Education participates in two separate schemes, USS and SAUL.

**USS**

Staff paid on professional grade 6 and above who are otherwise eligible, can acquire pension rights through the Universities Superannuation Scheme (USS), which is a national scheme administered centrally for UK universities.

USS is a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pension member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its 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 triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

17. NOTES TO THE ACCOUNTS

The triennial valuation was carried out using the projected unit method. 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), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An “inflation risk premium” adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by Government bonds (particularly when compared to the Bank of England’s target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

**Standard mortality tables were used as follows:**

Male members’ mortality	PA92 MC YoB tables – rated down 1 year
Female members’ mortality	PA92 MC YoB tables – No age rating

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme’s technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme’s historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future

17. NOTES TO THE ACCOUNTS

accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included in addition, on account of the variability mentioned above.

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using an AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

USS is 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

## 17. NOTES TO THE ACCOUNTS

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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 trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next 10 years or more.

The last triennial actuarial valuation was carried out in March 2011 and the outcome will be published in the first quarter of 2012. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

At 31 March 2011, USS had over 142,000 active members and the institution had 630 active members participating in the scheme.

The USS cost for the institution was £4.389m (2009-10: £5.015m). There was no amount of outstanding contributions at the balance sheet date (2010: £388k). The contribution rate payable by the institution was 16% of pensionable salaries.

### **SAUL**

The Institute of Education participates in the Superannuation Arrangements of the University of London ("SAUL"), which is a centralised defined benefit scheme and is contracted-out of the Second State Pension. SAUL is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in SAUL, 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. A formal valuation of SAUL is carried out every three years by professionally qualified and independent actuaries using the Projected Unit method. Informal reviews of SAUL's position are carried out between formal valuations.

The Institute of Education participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The Institute of

17. NOTES TO THE ACCOUNTS

Education has now adopted FRS17 for accounting for pension costs. It is not possible to identify the Institute of Education's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8 – 12 of FRS17.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2008 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:

Valuation Method:	Projected Unit	
	Past Service % per annum	Future Service % per annum
Investment return on liabilities:		
- before retirement	6.9	7.0
- after retirement	4.8	5.0
Salary growth*	4.85	4.85
Pension increases	3.35	3.35

\* excluding an allowance for promotional increases

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,266 million representing 100% of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee's long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13% of Salaries and 6% of Salaries respectively following the valuation.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in surplus at the last formal valuation date (31 March 2008).

The last SAUL actuarial valuation was carried out in March 2011 and the outcome is awaited.

The SAUL cost for the institution was £467k (2009-10: £487k). There was no amount of outstanding contribution at the balance sheet date in both years. The contribution rate payable by the institution was 16% of pensionable salaries.

**Pension Budget Change**

On 8 July 2010, the Pensions Minister announced that from April 2011 statutory minimum increase in pensions and deferred pensions would change from the RPI to CPI. This is expected to encompass all occupational pension schemes, including the USS and SAUL. The change from RPI to CPI is likely to have an impact in reducing pension scheme liabilities and the exact accounting treatment is currently under discussion. In line with SORP guidelines, they are accounted for as a defined contribution scheme.

17. NOTES TO THE ACCOUNTS

29. Capital spend and commitments

The Institute does not have any capital commitments as at the balance sheet date.

Funding Council Specific Grants

30. Access Funds

	Notes	Consolidated 2011 £'000	Consolidated 2010 £'000
<b>Income</b>			
Balance brought forward		2	1
Funding Council Grants		34	33
Interest Earned in Year		0	0
<b>Total Income</b>		<b>36</b>	<b>34</b>
<b>Expenditure</b>			
Disbursed in Year		(36)	(32)
Administration Fee		(0)	0
<b>Balance at 31 July</b>		<b>0</b>	<b>2</b>

31. PGCE Student Salaries

<b>Income</b>			
Balance brought forward		101	147
HEFCE Student Salaries		275	397
TDA Student Salaries		5,286	6,595
<b>Total Income</b>		<b>5,662</b>	<b>7,139</b>
<b>Expenditure</b>			
Disbursed in Year		(5,339)	(6,898)
PGCE Salaries Administration Fee - HEFCE	2	0	(8)
PGCE Salaries Administration Fee - TDA	2	(106)	(132)
<b>Balance at 31 July</b>		<b>217</b>	<b>101</b>

17. NOTES TO THE ACCOUNTS

32. Minority Ethnic Recruitment

Notes	Consolidated 2011 £'000	Consolidated 2010 £'000
<b>Income</b>		
Balance brought forward	(4)	14
Funding Council Grants		
IOE Funding	4	46
<b>Expenditure</b>		
Disbursed in Year		(64)
<b>Balance at 31 July</b>	<b>0</b>	<b>(4)</b>

33. Student Associate Scheme

<b>Income</b>		
Balance brought forward	61	5
Funding Council Grants	128	189
<b>Expenditure</b>		
Disbursed in Year	(90)	(133)
Administration and other	(51)	
<b>Balance at 31 July</b>	<b>48</b>	<b>61</b>

**18. GLOSSARY**

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BDI	Business Development Initiative
BIS	Department for Business Innovation & Skills
CETL	Centres for Excellence in Teaching and Learning
CIF	Capital Investment Framework
CPI	Consumer Price Index
CSR	Comprehensive Spending Review
DfE	Department for Education
ESRC	Economic & Social Research Council
FCL	Faculty of Children & Learning
F&GPC	Finance & General Purposes Committee
FPS	Faculty of Policy & Society
FRS	Financial Reporting Standards
FTE	Full-Time Equivalent
GAAP	Generally Accepted Accounting Principles
HEFCE	Higher Education Funding Council
HEI	Higher Education Institution
HEIF	Higher Education Innovation Fund
IOESRL	Institute of Education Student Residences Limited
LERU	London Education Research Unit
MTL	Masters in Teaching & Learning
NQT	Newly Qualified Teacher
Ofsted	Office for Standards in Education, Children's Services and Skills
PGCE	Postgraduate Certificate in Education
RAE	Research Assessment Exercise
RCIF	Research Capital Investment Fund
RCKT	Research, Consultancy & Knowledge Transfer
RPI	Retail Price Index
SLT	Senior Leadership Team
SORP	Statement of Recommended Practice
TCIF	Teaching Capital Investment Fund
TDA	Training and Development Agency for Schools
WLE	Work-Based Learning for Education Professionals