

Institute of Education Consolidated Financial Statements for the year ended 31st July 2009

Treasurer's Report

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NATURE, OBJECTIVES AND STRATEGIES

1. Nature

1.11 The Institute of Education (IoE) was founded in 1902 as the London Day Training College (LDTTC) and maintained by the London County Council in association with the University of London. Today the IoE is one of the world's premier schools of education. It has 6,440 students (including 800 research students and 1,000 graduates attending our Postgraduate Certificate in Education (PGCE) courses) and 964 staff (of whom some 405 are academic staff) and conducts approximately 30% of education research carried out in the UK higher education sector. It is active in every continent and many of its scholars are leading world figures in their specialist fields. It currently attracts specialist institution funding in recognition of its position as a national centre of excellence in education and has recently been granted its own degree-awarding powers.

2. Legal Status

2.11 The Institute is an independent body, whose legal status derives from its 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.

3. Mission

3.11 The Institute of Education'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.

4. Strategy

4.11 The Institute's Corporate Strategy was approved by Council in June 2007. It sets out five strategic priorities and their supporting actions and indicators which will together enable the Institute to fulfill its mission and its strategic objective for the period 2007/2008 to 2011/2012. The Institute's overall strategic objective for this period is that of helping to improve the quality of life of individuals and societies through our work in education and social research. The five interlinked strategic priorities are:

- Extending global reach
- Advancing learning
- Promoting public engagement
- Exercising leadership
- Forming partnerships

4.12 The pursuit of these strategic priorities has implications across each of the four core areas of our business and its management:

- Learning and Teaching
- Research and Consultancy
- Administration and Support
- Corporate Management

4.13 The Institute is in the final stages of a Strategic Review commissioned as a mid-point review of the Corporate Strategy and the Institute's business in the context of significant changes in funder policy. The outcomes of the Strategic Review will be agreed and taken forward in detail by the Senior Management team, Academic Board, Senate and Council and embedded in the planning and monitoring cycle of the Institute.

5. Financial Objectives/ Strategy

5.11 In 2004-05 the Council approved its Financial Strategy. The Financial Strategy is concerned with the overall sustainability of the Institute, and the generation and management of the financial resources needed to achieve the objectives set out in the Corporate Plan. Specifically, the Institute's Financial Strategy enables it to:

- Evaluate strategic opportunities and manage financial risks;
- Direct financial resources in support of the Corporate Plan;
- Plan future resource needs;
- Manage its financial resources;
- Sustain the Institute's distinctive mission and positioning in the current financial environment.

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5.12 A new Financial Strategy will be considered when the results of the Strategic Review are known.

6. Financial Performance Indicators

6.11 The current Financial Strategy includes the Institute's key financial targets which are to achieve:

- a) A target surplus of three per cent per annum.(This target was also devolved to each faculty);
- b) A target for liquid resources of between 30 and 90 days cover;
- c) When undertaking borrowing, a cost of funds of not more than one per cent over base rate on variable loans as set out in the bank agreement. The Institute has also set a maximum level of total debt outstanding at 20 per cent of turnover;
- d) A target reserve level of no less than 20 per cent of turnover.

6.12 The institute has performed against these targets, as follows in 2008-09:

- a) The Institute as a whole and the faculties individually generated a surplus of £207,830, after transfers to endowments, which represented 0.3% of turnover, as compared to the deficit of £ 582,031 in 2007-08 ;
- b) Liquid resources were 15 days for the year (2007-08: 19 days);
- c) Loan debt outstanding at 31 July 2009 represented 13.4% of turnover (31 July 2008 15.3% of turnover) with interest rates being no more than one per cent over base rate on variable loans (Barclays base rate for July 09 1.45%, total interest rate 1.67%);
- d) Reserves as at 31 July 2009 represented 18.7% of turnover (2007-08 21.3%).

6.13 In addition to the above targets, the Finance and General Purposes Committee at its May 2008 meeting identified additional Key Performance Indicators based on the 2006 Committee for University Chairmen's Report on Monitoring Institutional Performance:

- i. Cash generated – last financial year
- ii. Forecast surplus for next/ current Financial Year
- iii. Current assets to liabilities ratio

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iv. Liquidity ratio. (This includes cash plus short term deposits)

6.14 Against these KPIs the Institute performed as follows:

- i. Cash generated increased by £1,308,801 (2007-08 cash decreased by £2,821,311);
- ii. A surplus of £0.62 million is forecast for 2009-10;
- iii. Current assets to liabilities ratio 1.10 (1.00 in 2007-08);
- iv. Liquidity ratio 0.22 in 2008-09 (0.18 in 2007-08).

FINANCIAL POSITION

7. Introduction

7.11 The consolidated financial statements presented to the Council of the Institute of Education comprise the results for the financial year ending on 31 July 2009.

7.12 The financial statements comprise the consolidated income and expenditure of the Institute of Education and its subsidiary company, IOE Student Residences Limited (IOESRL), adjusted for transactions between the two organisations.

7.13 The results for the year may be summarised as follows:

	2008-09	2007-08
	£000s	£000s
Income	77,213	69,857
Expenditure	76,705	70,439
Surplus/ (Deficit) for the Year	508	(582)
Transfer to Endowment Funds	(300)	0
Surplus/(Deficit) retained in general reserves	208	(582)

8. Changes in Accounting Policy

8.11 There were no changes in accounting policy during the year.

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8.12 These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007.

8.13 The consolidated financial statements include the financial statements of the Institute and its subsidiary undertaking, IOE Student Residences Limited, which was incorporated on 21 September 2007.

8.14 The Institute participates in two superannuation schemes, the Universities Superannuation Scheme (USS) and the Superannuation Arrangement of the Universities of London (SAUL). Both schemes are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employee's services.

9. Financial Results – Income and expenditure

9.1 Income

9.11 The Institute made a surplus, after transfers to endowments, of £207,830 in 2008-09 which represents 0.3% of turnover as compared to a deficit of £582,031 in 2007-08. The transfer to endowments comprised a contribution of £300,000 to the Centenary Scholarships Fund. An analysis of income is as follows:

	2008-09	2007-08	% change
	£000s	£000s	
Funding Council Grant	23,275	21,783	6.8%
Award Bearing Full Time	7,309	6,395	14.3%
Award Bearing Part Time	4,644	3,502	32.6%
Short Courses	4,031	5,526	-27.1%
Research Grant & Contract	21,910	18,342	19.5%
Other Operating Income	14,617	11,680	25.1%
Endowment & Investment	1,427	2,629	-45.7%
Total	77,213	69,857	10.5%

9.13 The reduction in income from short courses of £1,495k reflects both a decrease in activity and also a recategorisation of activities and student numbers within the London Centre for Leadership in Learning. Offset against this was a reduction in associated expenditure, which is included in Academic Expenditure (see below) which reduced by 7.1%.

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9.14 Other major changes year-on-year were:

- Total grant and contract research income for 2008-09 was £3,568k (19.5%) more than in 2007-08. Within this total, Research Councils income increased by £1,784k, an increase of 27.6% and now accounts for 37.7% of the total research income. There was a continuing significant shift in income streams to UK charities, reflecting government's move to use third parties, including charities, to commission research on its behalf. However Central Government sponsors maintained their income in real terms.
- an increase in grant funding of £1,492k nearly all attributable to additional HEFCE deferred grant (£805k) relating to capital projects undertaken during the year and an increase in TDA grant of £802k
- tuition fees increased in total by £561k, with award bearing courses showing significant increases in activity with fees up by £2,056k. Short courses showed a significant decrease of £1,495k due to a cutback in activity in the London Centre for Leadership in Learning (LCLL) from the high base achieved in 2007-08 and also from a recategorisation of this activity into the consultancy area.
- total Other Operating Income showed a significant increase of £2,937k (25.1%) and within this total, Other Services Rendered (including Knowledge Transfer & Consultancy) increased by £1,926k (23.7%).
- a reduction in investment income of £1,202k. All major sources of investment income showed decreases and this was attributable to the global economic situation with lower interest rates and stock market falls. The result has been reduced dividends and both realised and unrealised net losses on disposals of long term investments.

9.15 The current economic uncertainty makes any forecasting of trends in future income problematic. Given also the political uncertainty in the UK all that can be said at this stage is that there is likely to be significant reduction in government funding streams over the next five years. The Institute will use the outcome of its Strategic Review to provide a more sustainable financial base going forward.

9.2 Expenditure

9.21 Expenditure may be analysed as follows:

	2008-09 £000s	2007-08 £000s	% change
Staff	45,571	38,717	17.7%
Academic	9,837	9,184	7.1%
Research	6,473	7,656	-15.5%

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Academic Services	1,817	2,097	-13.3%
General Educational	1,183	1,002	18.0%
Premises	3,339	4,071	-18.0%
Administration	2,012	1,863	8.0%
Residences/ Catering Conferences	2,067	1,474	40.2%
Staff Student Facilities	924	1,157	-20.2%
Miscellaneous	56	36	56.5%
Loan Interest	519	460	12.8%
Depreciation	2,907	2,721	6.8%
Total Expenditure	76,705	70,439	8.9%

9.22 Staff costs have increased by £6,854,000 which more than explains the increase in total costs between the two years. Non-Staff costs have actually fallen by £588,000 equivalent to 1.9%. The increase in staff costs was in line with forecasts and is the result of both pay increases and also a significant increase in activity particularly in the research area plus costs of the voluntary severance scheme. The decrease in non-staff costs reflects the tight financial controls prevalent throughout the year.

9.23 Staff costs now represent 59.4% of total expenditure in 2008-09, compared with 55.0% in the previous year. The Institute will be reviewing this trend as part of the implementation of its Strategic Review.

10. Cash Flow and Liquidity

10.1 In 2008-09, cash (as defined by Financial Reporting Standard 1) increased by £1,308,801 (2007-08 decrease of £2,821,311). The investment in short-term deposits decreased by £1,623,990 and the decrease in net funds was £315,189 (2007-08 decrease of £7,369,935). This decrease in net funds related mainly to the reduction in short term investments in the year which was largely offset by an increase in cash. The Investments Committee reviews cash-flow forecasts each term.

11. Investment Performance

11.11 The Institute's investment performance in 2008-09 resulted in a reduced capital value as at 31 July 2009. The capital value of the General Fund decreased by £1,134,961 to £7,041,218 (decrease of £849,000 in 2007-08). The Endowment Fund decreased by £ 482,366 to £4,239,861 (decrease of £450,000 in 2007-08).

11.12 2008-09 like 2007-08 has been another turbulent period for the Institute's investments, and throughout this time the Investments Committee has continued to monitor closely the performance of both the Institute's General and Endowment Funds. Performance has been monitored against a FTSE Composite Index (previously the WM Charity Unconstrained Universe was used) with respect to both the General and Endowment funds. Performance for the year has been disappointing with both funds performing significantly worse than the new benchmark and this has also resulted in long term performance now being only slightly above the 10 year benchmark of 2.4%.

11.13 The Institute has an Ethical Investment Policy which places responsibilities on its fund managers in relation to "relevant corporate governance, social, ethical and environmental considerations in the selection, retention and realisation of all fund investments".

11.14 As at the 31 October 2009 the valuations were: General Fund had a valuation of £7,618,831 and the Endowment Fund a valuation of £4,464,731 The Institute and its Investments Committee will continue to monitor the situation closely including seeking appropriate reports and action from its investment fund managers.

CURRENT AND FUTURE DEVELOPMENTS AND PERFORMANCE

12. Student Numbers

12.11 Recruitment for 2008-09 was particularly strong, especially in the Professional Development area. Many areas of the Institute's provision saw increases of between 12% and 20% on the previous year. There have been continued improvements to in-year student data reporting, and significant efforts were made to achieve conversion of applications to enrolments.

12.12 Recruitment in 2009-10 has been affected by the present economic downturn, with a 15% fall in applications for Professional Development courses. Research student applications appear to be running at comparable levels to the previous year, while PGCE applications increased very significantly for all phases, as might be expected for these courses in times of economic challenge. Despite the dip in application rates, conversion rates are running at approximately 66%.

13. Curriculum Developments

13.11 During the course of 2008-09 work has continued on embedding and reviewing the impact of the Master's level PGCE. Bids to the TDA for expanded Postgraduate Professional Development (PPD) provision in 2008-09 were successful and we have received additional funding from the employability forum to support a Diploma in Education for refugees. A small number of new programs are due to come on-stream in 2009-10.

13.14 New initiatives include developments and proposals arising from the Working Party on School-Based Master's programs, and the Institute is now a key player in the pilot phase of the Masters in Teaching & Learning (MTL). The Institute is also involved in the pilot of the Accelerated Routes to QTS scheme, aimed at the intensive training of suitable city employees who have been affected by the economic downturn.

13.15 A review of the Institute's offer is being led by the Assistant Director for Learning and Teaching in 2009-10.

14. Research Activity

14.11 Total funded research income for 2008-09 was £21,910,278, a significant (19.5%) increase on 2007-08. Income increased from most sponsors, with Research Councils now accounting for 37.7% of the total (up from 35.3%) and government departments and agencies 35.4% (down from 40.6% in 2007-08 and a peak of 67.0% in 2004-05). This reflected both the Institute's recent high success rate in winning Research Council funding, with many new projects starting in 2008 and early 2009 and the finishing, in March 2008, of the main funding contract from the Department for Innovation, Universities and Skills . This contract related to the National Research and Development Centre for Adult Literacy and Numeracy (NRDC). NRDC now generates income from a wider range of sources to sustain its work.

14.12 The Faculty of Policy and Society accounted for 56.9% of the total research income; the Faculty of Children and Health for 28.9%; the Faculty of Culture and Pedagogy for 13.5%, and central departments (including the Directorate) for the remaining 0.7%.

14.13 Although the Institute showed an outstanding performance in the 2008 Research Assessment Exercise (RAE), and significantly increased the number of staff it entered, the funding awarded following this result has been reduced. This is due to changes in the national funding model, which have the effect of reducing the funding available for the education subject area, and of distributing these reduced funds among a significantly wider group of institutions. As a result HEFCE Research funding to the Institute has been reduced by £952,528 from £8,686,285 in 2008-09 to £7,733,757 in 2009-10.

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15. Consultancy and Knowledge Transfer

15.11 Consultancy income increased by 16% to £2,951,849. This partly reflects a growth in consultancy activity in a number of areas, and partly reflects changes in accounting classification of certain activities previously reported under other income areas, such as short courses and other academic services. The main areas of growth are in LCLL, with the TDA Centre of Educational Leadership accounting for 23% of total consultancy income, and the Effective Practices in CPD project making up a further 8%.

15.12 A new accounting category of Knowledge Transfer was created for 2008-09, to report on those academic activities which involve the application of existing knowledge, but do not directly benefit the client (unlike consultancy). Although these activities are a long-standing, and increasing, element of the Institute's activities, they have not been explicitly identified in the accounts previously. These produced £3,626,483 of income in 2008-09.

15.13 Other categories of knowledge transfer activity which are reported separately include short courses (£4,030,671).

15.14 In 2008-09, HEIF4 funding came on-stream, supporting continued investment in existing knowledge transfer infrastructure through activities by Faculty Research, Consultancy and Knowledge Transfer (RCKT) directors and managers and a centrally-based contracts officer, plus ongoing activities. These include the London Education Research Unit (LERU) and the INSTED publication, which supports the dissemination of IOE research, knowledge and expertise to our key regional user communities. A new knowledge transfer strategic fund for Faculties will be offered in two rounds in 2009-10 and 2010-11 to help pump-prime further knowledge transfer activities.

16. Development Activity

16.11 During the year over 200 individuals and organisations supported the IOE's work through philanthropic gifts. An additional £175,000 has been pledged for the Centre for Autism and Education, from the Pears Foundation and the Kirby Laing Foundation. Over £8,000 was pledged for the David Warren Memorial Scholarship, which will support UK students studying for a Masters in Geography Education for five years.

16.12 The generosity of IOE staff in supporting the Centenary Scholarships was used as a case study in a Universities UK publication during the year. The current rate of 10% of staff giving to the institution is exceptionally high and we plan to increase it this year. A new feature of the campaign this year was a summer fete and promise auction.

16.13 Alumni Association membership continues to grow with around 14,800 now on record. New developments this year include a dedicated magazine, a stand at

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the presentation ceremonies and a summer reception. Alumni have also become more active philanthropic supporters with around 70 donating this year, many in response to a telephone call from current students. Over half of IOE Council Members gave a gift during the year; we hope this figure will continue to grow in future.

16.14 Ongoing projects for fundraising include the library's school histories project, the archive of the National Union of Women Teachers, a centre for language and literacy, and a centre for prisoner and offender education.

17. Subsidiary Undertaking

17.1 IOE Student Residences Limited (IOESRL)

17.11 IOESRL is a wholly owned subsidiary of the Institute and was incorporated as a company limited by guarantee on 21 September 2007. The company was formed so that it could take over the management of the John Adams Hall of student residences 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.

17.12 The surplus for the year, consolidated in the group accounts, for IOESRL was £294,178. This surplus does not include the costs of depreciation and loan interest in relation to the building, both of which are accounted for in the Institute's accounts, and which totalled £566,000 in 2008-09 (£677,000 in 2007-08)

17.13 IOESRL will pay £282,897 of gift aid to the Institute with respect to the period ended 31 July 2009, and this will reduce its accounting profits to £11,281 and taxable profits to zero.

At a meeting of the IOESR Directors on 12th May 2009, the board considered and approved a recommendation to dissolve the company. At the F&GPC meeting on 19th May 2009, the committee agreed to recommend to Council that IOESR is dissolved.

18. Post balance sheet events

18.11 There are no post balance sheet events to report.

RESOURCES

19. Estate (Capital Projects)

19.1 Capital Commitments

19.11 The Institute developed a business case for refurbishing John Adams Hall which was approved by Council in the autumn term 2005-06. In December 2005, Smith, Caradoc-Hodgkins were appointed as architects and in August 2006, Durkan Pudelek appointed as the main contractor to undertake the refurbishment of the hall. The hall closed in July 2006 and reopened progressively from October 2007. The project cost was £7.7 million of which £7 million was raised through a 30 year loan with Barclays Bank. During the project, the scope was extended to encompass the acquisition of an additional property in August 2007 to enable the most efficient use to be made of the properties occupied by the Institute in Endsleigh Street. Following a detailed assessment of a range of options, Council approved the acquisition of an additional property as the optimum way forward for the Institute. This increased the cost of the project by £1.5 million, funded entirely from short-term investments. The hall was reopened in phases during 2007-08 and operated its first full year in 2008-09. Agreement of the final contract price was negotiated during 2009.

19.12 In the spring term 2004-05 the Council approved a business case for the construction of a building in Thornhaugh Mews, to house the London Centre for Leadership in Learning (LCLL). This development will be partly funded from a capital grant of £2 million, awarded to the Institute by the DfES. In 2004-05 the Institute completed phase one of this project with the purchase of 15 Woburn Square (£877,000). In 2005-06 the Institute agreed, pending agreement of planning consent to purchase the Thornhaugh Mews site from the University of London (£400,000). In August 2006 Shephard Epstein Hunter were appointed as architects to design a new building and obtain planning consent. The final budget for this project is to be agreed by Council, but it is likely to be in the region of £10 million. The design proposal went to Camden Planning Committee in December 2008, but was refused. The Institute has decided to appeal against this decision and appeal will be heard in November 2009.

19.13 The Institute was allocated capital grants by the HEFCE under the Learning and Teaching Capital and Science Research Investment Fund schemes. The Institute's total allocation under these schemes was £7.3 million. The Institute determined a range of projects including purchase of a new property, construction of a new Student Support Centre and building refurbishment projects. These projects commenced progressively during 2005-06 and were substantially completed during 2007-08. In 2008 HEFCE announced further Capital Funding for the period 2007-08 to 2010-11 of £10.7 million. The Institute has developed a range of proposals for projects which were discussed by the Estates Committee on 6th May 2009. The committee agreed the projects to be undertaken and timescales.

19.14 A process commenced in 2006 to identify and to implement a new finance system to replace the software which was in operation with the Institute since

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1997. In June 2007, a contract was entered into with Technology One and phase one of implementation was completed in May 2008. Further rollout of additional functionality will be carried out during 2009-10.

19.15 In March 2008 the Institute took vacant possession of a property at 9 - 11 Endsleigh Gardens at a cost of £9.5 million. This was funded partially via a 30 year loan with Barclays Bank, partially from the HEFCE Capital Grant mentioned above with the remainder financed from internal resources. The property will provide both additional student accommodation and office space. The refurbishment was completed in September 2009 and occupation will take place from October 2009.

19.2 Loan Finance

19.21 The Institute drew down two loans in 2008-09 for £7 million and £4 million regarding the refurbishment of the John Adams Hall and the acquisition of Endsleigh Gardens respectively (see capital projects above).

20. Financial

20.11 The IOE has £108,528,752 of assets less current liabilities (2007-08 £108,294,899) and long term debt of £10,336,343 (2007-08 £10,706,855) Working capital has increased from £65,735 in 2007-08 to £1,476,707 in 2008-09.

21. People

21.11 The IOE employs 866 full time equivalent staff of whom 363 are academic staff and 503 are professional staff

22. Reputation

22.11 The IOE considers that it has a good reputation with its key stakeholders (TDA, HEFCE, ESRC, DCSF and other funders and government bodies) locally (Camden and Islington), regionally (London and the South East), nationally and internationally. The IOE brand and the quality of its teaching provision and research and consultancy outputs is an essential part of its success in attracting students, external partners and research funding, as is our engagement with the public both directly and through the press and other media.

PRINCIPAL RISKS AND UNCERTAINTIES

23. Corporate Governance

23.11 The Council is of the view that there is an ongoing process for identifying, evaluating and managing the Institute's significant risks, that it has been in place for the year ended 31 July 2009 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Council and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

23.12 During the course of 2008-09 the Institute's existing corporate governance arrangements were supplemented by the convening of a Financial Scrutiny Panel, comprising the Director, and the Chairs of Finance and Audit Committee in order to provide further support during a period of extensive internal change in our financial management processes and systems and in the light of potential major external changes in the funding environment.

23.13 The panel reported to Council in December 2008 and June 2009 providing further assurance to Council that the Institute's financial forecasting process, upon which management decisions have been taken is sound and that systemic issues are understood and addressed with risks appropriately monitored.

23.14 Given the significant ongoing external changes and the potential strategic implications of the IoE's Strategic Review the panel may be reconvened in the coming year.

24. Review of Exceptional Funding for Higher Education Institutions

24.11 The IoE has previously benefited from a funding premium from the HEFCE based on its status as a specialist institution, the additional costs and limitations that relate to this status and the value to the sector and beyond of the Institute's unique profile, capabilities and student offer.

24.12 HEFCE has moved away from the use of premiums and now utilises targeted allocations instead. In the case of the specialist institutional funding this allocation is now a fixed cash allocation, which has been calculated after adjustments for students with equivalent and lower qualifications and is currently worth £2.9 million per annum.

24.13 HEFCE has also reviewed the specialist institutional funding and now deem it to be 'exceptional funding' with an expectation that Institutions must demonstrate explicitly the maximisation of the additional public value that they offer, the additional costs that this entails and why those costs cannot currently be funded by other means.

24.14 Following several consultations with the Institute's Senior Management Team the Institute developed and submitted its case for exceptional funding to the Review of Exceptional Funding for HEI's Group (REFIG) on the 19th September.

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Funding recommendations were considered by the HEFCE board in December 2008.

24.15 The key risks and uncertainties relate to the continuation of this funding stream and adjustments and phasing arrangements for its reduction over the next three to five years. The current level of funding has been retained for an additional year and an agreement that the allocation will rise with inflation for that year has also been secured. Final outcomes for future of this funding stream at the IOE are still in negotiation with the HEFCE.

25. Government Funding

25.11 The Institute significantly increased the number of staff it had entered into the 2008 Research Assessment Exercise (RAE), and the RAE demonstrated the very high quality and volume of our research. Whilst it might have been reasonable to expect that this volume increase, taken together with our confidence about the quality of research undertaken at the Institute, would lead to higher funding levels, the actual financial outcomes was almost £1 million less per annum (though this loss is moderated by £579,000 for 2009-10)

25.12 The deterioration in the public sector finances over the last year has led to cuts in government funding for the coming year (1.36% or £73,000 of our total teaching grant from HEFCE). Consultation on how to achieve further efficiency savings in 2010-11 is ongoing but the likely implication is a further cut in funding of up to £700,000 that is unlikely to be phased but could be moderated.

26. Withdrawal of funding for students with Equivalent and Lower Qualifications

26.11 After a rapid consultation during the course of 2007-08, DIUS asked HEFCE to proceed with the withdrawal of funding for students with Equivalent and Lower Qualifications. This had the immediate effect of reducing the core funding grant by £400,000 but was for 2008-09 partly mitigated by transitional funding of £360,000. In 2009-10 the transitional funding will be reduced to £150,000.

26.12. The swift enactment of the decision has resulted in planning uncertainty both in terms of adjustments to HEFCE's assumed student numbers and has given little time to introduce further mitigations. It also means that we cannot be sure of the affect of this decision on potential students given the increased fee rates that are now necessary.

26.13 The IoE continues to look for innovative ways to encourage recruitment by engaging with sponsors and individuals and reviewing our portfolio of courses, modes and means of study and support for this group of students. As well as assessing the implications for career change and development for educational professionals in schools, FE, HE and other sectors. We have not yet noticed a negative impact on recruitment; however this may be a positive side effect on Education subjects resulting from the effects of the economic recession.

STAKEHOLDER RELATIONS

27. Stakeholders

27.11 As with all HEI's, the Institute of Education has many stakeholders. These include, but are not limited to, the following:

- Students
- Staff
- The Higher Education Funding Council for England (HEFCE)
- Training and Development Agency for Schools (TDA)
- Research Councils (especially the ESRC) and Research Councils UK
- The Department for Children, Schools and Families (DCSF)
- The Department for Business, Innovation and Skills (BIS)
- Universities UK (UUK)
- Trade Unions
- Professional Bodies (General Teaching Council etc.)
- London Boroughs (especially Camden)
- 500 Schools and colleges in London and the South East
- Bloomsbury Colleges (London School of Hygiene and Tropical Medicine; The School of Pharmacy, School of Oriental and African Studies, Royal Veterinary College, Birkbeck)
- University of London
- Alumni
- Donors

27.12 The Institute of Education recognises the importance of these relationships and engages with its stakeholders on a regular basis and in a variety of roles.

28. Equal Opportunities

28.11 The Institute is committed to being an equal opportunities employer and education provider, providing equality of opportunity for all staff and students, applicants and visitors. The Institute seeks to create an open and supportive environment which is free from discrimination and which 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, including guidance and training needs of staff.

28.12 The Institute's key objective (in relation to equal opportunities) is to continue to promote equality of opportunity and to encourage staff and students from all backgrounds to participate fully in Institute activities. The Race Equality Sub

Treasurer's Report

Committee and the Disability Sub Committee report regularly to the Equal Opportunities Committee, which monitors progress and reports annually to Senate. The Institute has a public sector duty to promote equality across all its activities and to publish annual reports on its plans and progress towards meeting those plans. The Institute's policies for equal opportunities are available on its website, including its Gender Equality and Disability Equality Schemes and Race Equality Policy and Action Plan.

29. Employee Involvement

29.11 The Institute places considerable value on the involvement of its employees and on good communications with them. All staff are encouraged to participate in formal and informal consultation at Institute and academic school levels, sometimes through the membership of formal committees. In addition both the Director and Deputy Director hold regular "surgeries" when staff can meet them individually to discuss any matters they wish. Meetings of all staff are held to discuss matters of institutional importance. The Institute has a Staff Development Section, which 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 the Finance and General Purposes Committee on the development and implementation of staff development.

30. Payment of Creditors

30.11 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 also to obtain value for money and to safeguard public funds. In agreements made with suppliers, the Institute endeavours to negotiate specified payment terms and subsequently to honour these terms.

30.12 Financial Regulations were approved at the February 2008 meeting of the Finance and General Purposes Committee which re-stated the Institute's commitment to good practice in this area.

31. Environmental Sustainability

31.11 The Institute is committed to supporting environmental sustainability and to that end has developed strategy, policy and practice for energy and water use; refurbishment and new build projects; waste management; recycling; a green travel plan; and purchasing and procurement. Sustainability and energy targets have been agreed as part of the strategy and these are monitored by the Estates Committee. Engagement with environmental sustainability is also a key part of the Corporate Strategy and Strategic Planning Statements.

31.12 The Institute also supports the work of the Sustainability Network: a staff run initiative which advises on good practice, raises awareness and hold events and debates.

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31.13 The Institute is formulating a Carbon Reduction Management Plan which will set milestones for reducing carbon emissions over the next twenty years. It is likely that the level of CIF2 funding for 2011 will be related to an assessment of the performance in meeting the measures in our plan.

31.14 The Institute has been reviewed by the Carbon Trust and is beginning to introduce environmental cost benefit analyses for decision making alongside financial and reputational considerations

CONCLUSION

32.11 The Institute has achieved a surplus of £207,830, after transfers to endowments, in 2008-09 equivalent to 0.3% of expenditure, compared with the loss of £582,031 sustained in 2007-08. Whilst it is pleasing to report this significant turn around in financial performance it is worth noting that we require to make surpluses of at least 3% of our expenditure in order to have sufficient funds for further strategic investment and to ensure long term sustainability. The current difficult economic climate combined with political uncertainty will also make the medium term outlook for Higher Education in England both volatile and uncertain.

32.12 However I am confident given the quality of our staff and the resultant 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. To this end the Council of the Institute will be addressing the Institute's Strategic Review at its coming meetings and will be agreeing a way forward and then closely monitoring and reviewing its implementation to seek to ensure that the future of the Institute is soundly based.



R.E.D Coldwell CBE
Treasurer
November 2009

Corporate Governance and Internal Controls

STATEMENT OF 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 Council;
- Comprehensive financial regulations, detailing financial controls and procedures, approved by the Finance and General Purposes Committee and the Council¹;
- An ongoing process for identifying, evaluating and managing the Institute's significant risks; 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. However, any system of internal financial control may only provide reasonable, but not absolute, assurance against material mis-statement 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 2008 to 31 July 2009 and that arrangements for securing economy, efficiency and effectiveness operated satisfactorily during the year.

¹ During 2008-09, the Institute reviewed its budgetary control systems and processes and made recommendations to the Senior Management Team. This was reported to Audit Committee.

CORPORATE GOVERNANCE

1. Introduction

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), and with the guidance to universities from the Committee of University Chairmen 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 also committed to exhibiting best practice in all aspects of corporate governance. The summary below describes the manner in which the Institute has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the financial statements understand how the principles have been applied and to obtain a better understanding of the Institute's governance and legal structure.

The Institute's Governance arrangements and compliance with the Governance Code of Practice have been subject to scrutiny in 2008-09 by both our internal auditors (substantial assurance); and HEFCE via their assurance review, who concluded that they were able to place reliance on the accountability information provided by the Institute (this is the highest level of assurance that they give and no recommendations were made).

2. 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 rather than eliminate the risk of failure to achieve the business objectives included in the Institute's Corporate Strategy 2007-08 to 2011-12 (see *Treasurer's Report*) and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Council is of the view that there is an ongoing process for identifying, evaluating and managing the Institute's significant risks, that it has been in place for the year ended 31 July 2009 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Council and that it accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

3. Summary of the Institute's Structure of Corporate Governance

The Institute is an independent body, whose legal status derives from its Royal Charter originally granted on 10 June 1987. Its objects, powers and framework of

Corporate Governance and Internal Controls

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.

The charter and statutes require the Institute to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

a. Council

The Council, which meets at least four times per annum, is the governing body, responsible for the finance, property, investments and general business of the Institute, and for setting the general strategic direction. It has a majority of members from outside the Institute (described as lay members), from whom its chairman and deputy chairman must be drawn. Members also include representatives of the staff of the Institute and the student body. None of the lay members receive any payment, apart from the reimbursement of expenses, for the work they do for the Institute.

In 2004-05 the Council adopted a Statement of Primary Responsibilities (in accordance with the Governance Code of Practice). During 2005-06 Council approved a Corporate Governance Handbook for the Institute, describing in detail the Institute's governance arrangements; the relationship of its primary responsibilities to the powers of Council as defined in the Charter and statutes and the way in which Council discharges those responsibilities, either by reserving them to Council as a body or delegating certain aspects to sub-committees or to the Director. However, although it is the governing body of the Institute, 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. Senate

The Senate is the academic authority of the Institute and draws its membership entirely 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 and responsibility for:

- Approval and regulation of all teaching, schemes of study, research and examinations leading to awards of the University of London and awards of the Institute;
- Setting, enhancing and reviewing the academic quality and standards of all teaching and research degree programmes;
- All other academic and educational work of the Institute;
- Regulations of admissions;
- Student disciplinary matters.

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Senate advises Council on academic matters, and is required by the Statutes to bring before Council any matters which it considers to have financial implications or in any way to 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. Academic Board

The Academic Board does not have any formal decision-making powers, and is essentially a representative body for academic and selected other Institute staff, but it is responsible for advising Senate on such issues as:

- Matters regarding the academic policy of the Institute;
- The institution granting, conferment or revocation of Institute awards;
- The formation and implementation of regulations.

All members of academic staff and library staff are members of the Academic board. There are also members drawn from support staff and the student body.

4. Committees Reporting to the Council

Although the Council normally meets at least four times each academic year, much of its detailed work is initially handled by committees, in particular the Finance and General Purposes Committee, the Audit Committee, the Nominations Committee and the Remuneration Committee. The decisions of these committees are formally reported to the governing body.

These committees, and in some cases others, are formally constituted as committees of the Council with written terms of reference and specified membership, including a significant proportion of lay members (from whom the chair will be selected).

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

The F&GPC is chaired by a lay member of Council, the Treasurer, 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 met a three times in 2008-09 and reports regularly to Council.

The F&GPC also considers termly reports from the Senior Management Team on the Institute's financial position. It makes recommendations to the Council on budgets, estimates and capital projects in respect of the Institute's plans and on the annual accounts. It formulates the Institute's financial regulations and is responsible, inter alia, for the Institute's buildings and investments (through the Investment Committee) and for setting tuition and residence fee levels. The Committee also has staffing responsibilities including, inter alia, those for

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monitoring performance against the Human Resource Strategy and monitoring the effectiveness of staff training and development.

In 2005-06 it was agreed to establish an Estates Committee as a sub committee of Council to advise on the Institute's expanding capital programme.

The Treasurer's Report which is found on pages 3 to 20 provides information on some of the major areas considered by F&GPC in 2008-09.

b. Audit Committee

The Audit Committee, which meets at least twice per annum, comprises up to five lay members of Council and co-opted members. 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, management's responses and implementation plans.

The committee also considers reports from HEFCE and TDA as they affect the Institute and monitors adherence to regulatory requirements. The Committee is responsible for ensuring that satisfactory arrangements are in place to promote value for money by ensuring that systems are operated in an economic, efficient and effective manner. Whilst senior officers attend meetings of the Audit Committee as necessary, they are not members. The Committee may meet with both the external and internal auditors on their own for independent discussion.

In 2008-09 the Audit Committee received Internal Audit Reports on 6 systems reviews undertaken in 2007-08 of which two received 'full' assurance and four received 'substantial' assurance. It received 7 reports on systems reviewed in 2008-09 by the new internal auditors of which 5 received substantial assurance, 1 received adequate assurance and Risk was defined as 'Managed' (i.e. fourth on a 5 point Risk Maturity scale running from 'Naive to Enabled'. The Committee also reviewed value for money reports; the collaboration arrangements for colleges of the University of London located in the Bloomsbury precinct, and quality processes for statutory data returns.

c. Estates Committee

The Estate's Committee meets three times per annum. It is chaired by a member of Council, and two further members of Council and an external lay member also sit on the Committee. It oversees the management and development of the property assets of the Institute, including its Halls of Residence. In so doing, the Estates Committee operates with delegated powers from Council, makes reports to Council on the discharge of its functions and makes recommendations to Council on matters reserved to Council. The Committee met three times in 2008-09.

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d. Nominations Committee

The lay members of Council are appointed to the Council on the recommendation of a Nominations Committee. The Nominations Committee is chaired by the Chairman of the Institute's Council and comprises lay members of Council and the Director. The committee met once in 2008-09.

e. Remuneration Committee

The Remuneration Committee, which is chaired by the Chairman of the Institute's Council, comprises four lay members of Council. The committee meets once a year to review the salary arrangements for the Director, professorial, and senior administrative staff. The committee met once in 2008-09.

5. The Director

The principal academic and administrative officer of the Institute is the Director, who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the Institute. Under the terms of the formal financial memoranda between the Institute and the HEFCE and the TDA the Director is the accounting officer of the Institute and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

As Chief Executive of the Institute the Director exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and shaping of the Institute's ethos. The Pro-Directors and senior management team all contribute in various ways to these aspects of the work, but the ultimate responsibility for what is done rests with the Council.

Two committees were re-established at the beginning of 2008/09 and these provide advice to the Director, who chairs them. These committees, which were in operation for the whole of 2008/09, are:

a. Senior Management Team (SMT)

The Senior Management Team advises the Director and co-ordinates the activities of its members in support of their respective areas of responsibility and in the development and implementation of the Institute's Corporate and supporting strategies. It is responsible for making recommendations to the Director and to Council with regard to: institutional policies, procedures and schemes; reports on faculty and departmental reviews; the allocation of resources through the Director's Strategic Fund and the annual planning cycle; strategic risk levels and appetite; and, responses to requests from the University and external bodies (such as the Department for Education and Skills, HEFCE and the TDA) on matters of national policy or other general issues. It receives reports from its members and from strategic risk owners as well as considering progress against the Strategic Planning Statement and any agreed Key Performance Indicators.

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b. Management Group

The Management Group advises the Director and the SMT on operational issues relating to strategic options and reports progress on the implementation of agreed strategies. It also considers and advises the Faculty management teams on issues relating to the relationship between the central and local administration and co-ordinates the professional delivery of services across the Institute.

6. Monitoring Performance

The senior management team receive reports setting out key performance and risk indicators and consider possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The senior management team and appropriate committees also receive regular reports from the internal auditors (*see under Audit Committee above*), insurers and the Safety and Security Committee, which include recommendations for improvement.

The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The Council's agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

7. Register of Interests

The Institute of Education maintains a register of interests of members of the Council and the senior management team which may be consulted by arrangement with the Director of Administration.

RESPONSIBILITIES OF THE COUNCIL OF THE INSTITUTE OF EDUCATION

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 the HEFCE, the TDA and the Council of the Institute of Education, the Council, through its designated office holder, 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 the HEFCE and the TDA are used only for the purposes for which they have been given and in accordance with the financial memorandum with the HEFCE and TDA and any conditions which these funding councils 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; and
- Secure the economical, efficient and effective management of the Institute of Education's resources and expenditure.

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 17th November 2009.

Lady Elizabeth Vallance
Chair of Council



Independent auditors' report to the Council of the Institute of Education.

We have audited the group financial statements of the Institute of Education for the year ended 31 July 2009 which comprise the Statement of Principal Accounting Policies, the Consolidated Income and Expenditure Account, the Consolidated and Institute Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the Council and auditors

The Council's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of the institution in accordance with the Charters and Statutes of the institution. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the institution, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the institution's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England (HEFCE) and with the funding agreement with the Training and Development Agency for Schools .

We also report to you whether, in our opinion, the information given in the Treasurer's Report is consistent with those financial statements. In addition we report to you if, in our opinion, the institution has not kept adequate accounting records, if the financial statements are not in agreement with the accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurer's Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. This other information comprises only the Treasurer's Report, the Statement of Governance and Internal Control, and the Statement of the Responsibilities of Council.

We also review the statement of internal control included as part of the Corporate Governance Statement and comment if the statement is inconsistent with our knowledge of the institution. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Accountability and Audit Code of Practice contained in the Financial Memorandum 2008/19. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the institution's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the Institute and group at 31 July 2009, and of the group's income and expenditure, recognised gains and losses, and statement of cash flows for the year then ended;
- ii. the financial statements have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- iii. in all material respects, income from the Higher Education Funding Council for England and the Training and Development Agency for Schools grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received; and
- iv. in all material respects, income has been applied in accordance with the institution's statutes and where appropriate in accordance with the financial memorandum (2008/19) with the Higher Education Funding Council for England and the funding agreement with the Training and Development Agency for Schools.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

24 November 2009

Statement of Principal Accounting Policies

Basis of Preparation

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).

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.

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 2009 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 s230 of the Companies Act 1985.

Recognition of Income

Income from tuition fees is recognised in the period for which it is receivable and includes all fees chargeable to students or their sponsors. The costs of any fees waived by the Institute are included as expenditure in Note 7 of the accounts.

Income from research grants, contracts and other services rendered is included to the extent of the completion of 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.

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.

Recurrent grants from funding councils are recognised in the period in which they are receivable. Non-recurrent grants from funding councils or other bodies 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.

Pension Schemes

The Institute participates in two superannuation schemes:

- 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.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at a fixed rate of exchange based on the prior year-end closing rate and amended through the year. 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.

Investments

Endowment asset investments and fixed 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.

Leases

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

Land and Buildings

Land and buildings are stated at cost. Buildings are depreciated over their expected useful lives of 50 years and building improvements and extensions over a maximum of 20 years.

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 life of the buildings.

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.

Furniture and Equipment

Equipment costing less than £10,000 per individual item is written off in the year of acquisition. Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

- Student Information Software (five years);
- Centre for Knowledge, Engineering and Learning (Knowledge Lab) furniture (five years);
- New telephone system (five years);
- Centre for Excellence in Teaching and Learning (CETL) furniture and equipment (five years).
- CCTV equipment (five years);
- Major IT equipment (five years)

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.

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.

Cash Flows and Liquid Resources

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

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.

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.

Taxation Status

The Institute is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 as amended by the Charities Act 2006 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the Institute is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The Institute receives no similar exemption in respect of Value Added Tax.

Institute of Education Union Society

The financial statements do not include those of the Institute of Education Union Society as it is considered to be a separate entity in which the Institute has no financial interest and no control or significant influence over policy decisions.

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.

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.

Consolidated Income and Expenditure Account	Notes	Year ended 31	Year ended 31
		July 2009	July 2008
		£	£
Income			
Funding Council Grants	1	23,275,407	21,783,424
Tuition Fees	2	15,983,413	15,422,525
Research Grants and Contracts	3	21,910,278	18,341,622
Other Operating Income	4	14,616,805	11,680,163
Endowment and Investment Income	5	1,426,800	2,629,208
Total Income		77,212,703	69,856,942
Expenditure			
Staff Costs	6	45,571,144	38,716,990
Other Operating Expenses	7	27,708,087	28,541,117
Interest and Finance Costs	8	518,673	459,842
Depreciation	9	2,906,969	2,721,024
Total Expenditure		76,704,873	70,438,973
Surplus/(Deficit) after Depreciation of Assets at Valuation		507,830	(582,031)
Transfer to Endowment Funds	18	(300,000)	0
Surplus/(Deficit) for the Year retained within general reserves		207,830	(582,031)

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

All results are from continuing operations.

Statement of Group Total Recognised Gains and Losses	Notes	Year ended 31	Year ended 31
		July 2009	July 2008
		£	£
Surplus/(Deficit) for the Year retained within general reserves		207,830	(582,031)
Specific Endowment Asset Investments			
Additions in Year	18	300,000	20,000
Realised Gains/(Losses) on Disposals	18	(239,170)	11,016
Unrealised Gains/(Losses)	18	(377,991)	(479,579)
Income Retained for Year	18	(165,205)	(234,212)
General Asset Investments			
Unrealised Gains/(Losses)	19	(664,888)	(835,036)
Total Recognised Gains/(Losses) for the Year		(939,424)	(2,099,842)

Reconciliation of Total Recognised Gains to Reserves and Endowments	Year ended 31	Year ended 31
	July 2009	July 2008
	£	£
Reserves and Endowments at 1 August	19,626,761	21,726,603
Total Recognised Gains/(Losses) for the Year	(939,424)	(2,099,842)
Reserves and Endowments at 31 July	18,687,337	19,626,761

Balance Sheet	Notes	Consolidated	Institute	Consolidated	Institute
		2009	2009	2008	2008
		£	£	£	£
Fixed Assets					
Tangible Assets	9	95,770,966	95,770,966	95,330,758	95,330,758
Investments	10	7,041,218	7,041,218	8,176,179	8,176,179
		102,812,184	102,812,184	103,506,937	103,506,937
Specific Endowment Asset Investments					
Investments	11	3,850,174	3,850,174	4,467,006	4,467,006
Cash at Bank and in Hand	11	389,687	389,687	255,221	255,221
		4,239,861	4,239,861	4,722,227	4,722,227
Current Assets					
Debtors	12	12,838,187	12,847,893	15,571,902	15,661,046
Short-term Investments	13	2,520,978	2,520,978	4,144,968	4,144,968
Cash at Bank and in Hand		649,181	367,547	0	0
Total Current Assets		16,008,346	15,736,418	19,716,870	19,806,014
Less: Creditors - amounts falling due within one year	15	(14,531,639)	(14,259,311)	(19,651,135)	(19,728,598)
Net Current Assets		1,476,707	1,477,107	65,735	77,416
Total Assets less Current Liabilities		108,528,752	108,529,152	108,294,899	108,306,580
Less: Creditors - amounts falling due after more than one year	16	(10,336,343)	(10,336,343)	(10,706,855)	(10,706,855)
Less: Provision for liabilities		(650,000)	(650,000)	0	0
Net Assets		97,542,409	97,542,809	97,588,044	97,599,725
Represented by:					
Deferred Capital Grants					
Freehold Land and Buildings	17	78,472,099	78,472,099	77,480,186	77,480,186
Furniture and Equipment	17	382,973	382,973	481,097	481,097
Total Deferred Capital Grants		78,855,072	78,855,072	77,961,283	77,961,283
Specific Endowments					
Expendable	18	899,193	899,193	920,599	920,599
Permanent	18	3,340,668	3,340,668	3,801,628	3,801,628
		4,239,861	4,239,861	4,722,227	4,722,227
Reserves					
Revaluation Reserve	19	626,106	626,106	1,290,994	1,290,994
Income and Expenditure Reserve	20	13,821,370	13,821,770	13,613,540	13,625,221
Total Reserves		14,447,476	14,447,876	14,904,534	14,916,215
Reserves and Endowments		18,687,337	18,687,737	19,626,761	19,638,442
Total Funds		97,542,409	97,542,809	97,588,044	97,599,725

Approval

The financial statements from pages 35 to 58 were approved by Council on 17th November 2009 and signed on its behalf by:



Lady Elizabeth Vallance
Chair of Council



Mr R.E.D. Coldwell CBE
Treasurer



Professor Geoff Whitty
Director



Mr Tony Knapp
Interim Finance Director

Institute of Education, University of London
 Financial Statements for the Year Ended 31 July 2009

Consolidated Cash Flow Statement	Notes	Consolidated 2009	Consolidated 2008
		£	£
Cash Flow from Operating Activities	21	(307,379)	(7,029,356)
Returns on Investments and Servicing of Finance	22	(480,278)	711,954
Taxation		0	0
Capital Expenditure and Financial Investment	23	842,985	(11,759,385)
Management of Liquid Resources	24	1,623,990	4,548,624
Financing		(370,517)	10,706,852
Increase/(Decrease) in Cash in the Period		1,308,801	(2,821,311)
Reconciliation of Net Cash Flow to Movement in Net Funds	Notes	Consolidated 2009	Consolidated 2008
		£	£
Increase/(Decrease) in Cash in the Period	24	1,308,801	(2,821,311)
Cash Inflow/(Outflow) from Liquid Resources	24	(1,623,990)	(4,548,624)
Increase/(Decrease) in Net Funds in the Period		(315,189)	(7,369,935)
Net Funds brought forward		4,183,197	11,553,132
Net Funds at 31 July	24	3,868,008	4,183,197

Consolidated Notes to Accounts	Notes	Consolidated 2009 £	Consolidated 2008 £
1. Funding Council Grants			
HEFCE GRANTS			
Mainstream HEFCE		14,069,111	13,770,244
Teaching Quality Enhancement Fund		64,573	106,147
HEIF3		0	272,265
CETL		350,000	350,000
Research Capital		0	543,900
HEIF 4		451,755	0
HEFCE Admin Fee PGCE Salaries		8,345	7,876
HEFCE Deferred Capital Grant released - Freehold Land and Buildings	17	1,676,315	850,126
HEFCE Deferred Capital Grant released- Furniture and Equipment	17	98,124	119,783
Total HEFCE Grants		16,718,223	16,020,341
TDA Grants			
Mainstream		6,398,500	5,599,364
TDA Admin Fee PGCE Salaries		114,240	114,540
TDA Admin Fee SSSS		0	(3,592)
Total TDA Grants		6,512,740	5,710,312
DfES Grants			
DfES Deferred Capital Grant	17	31,394	24,781
Total DfES Grants		31,394	24,781
Other Grants			
Universities UK Development Grant		13,050	27,990
Total Other Grants		13,050	27,990
Total Grants		23,275,407	21,783,424

Consolidated Notes to Accounts	Notes	Consolidated 2009 £	Consolidated 2008 £
2. Tuition Fees			
Award Bearing Courses			
Full-Time Student Fees			
FT Home Tuition Fees		4,376,158	3,708,648
FT EU Tuition Fees		589,065	467,248
FT Overseas Tuition Fees		2,343,267	2,218,746
Part-Time Student Fees			
PT Home Tuition Fees		3,754,565	2,526,932
PT EU Tuition Fees		289,754	216,323
PT Overseas Tuition Fees		599,933	758,473
Short Course Fees		4,030,671	5,526,155
Total Tuition Fees		15,983,413	15,422,525
3. Research Grants and Contracts			
Research Councils		8,251,777	6,467,779
UK Based Charities		3,920,798	2,968,268
European Government		529,754	546,757
UK Central Government		7,760,071	7,449,909
Other Grants and Contracts		1,447,878	908,909
Total Research Grants and Contracts		21,910,278	18,341,622
4. Other Operating Income			
Residences, Catering and Conferences		2,320,508	2,831,547
Other Services Rendered (including knowledge transfer and consultancy)		10,067,988	8,141,583
Other Income		2,228,309	707,033
Total Other Operating Income		14,616,805	11,680,163
5. Endowment and Investment Income			
Transferred from Specific Endowments	18	351,143	402,151
Income from Long-term Investments			
Realised Profit on Disposals	10	(470,681)	(10,720)
Dividends		236,772	527,274
Income from Short-term Investment - Realised		0	97,110
Income from Short-term Investment - Unrealised		86,366	390,193
Deferred Capital Grant Income - 20 Bedford Way	17	1,223,200	1,223,200
Total Endowment and Investment Income		1,426,800	2,629,208

Bedford Way lease 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.

Consolidated Notes to Accounts	Notes	Consolidated 2009	Consolidated 2008
		£	£
6. Staff Costs			Restated
Wages and Salaries		37,532,306	32,307,565
Social Security Costs		3,244,718	2,792,210
Other Pension Costs	28	4,203,061	3,617,215
		44,980,085	38,716,990
Restructuring Costs		591,059	0
Total Staff Costs		45,571,144	38,716,990

The staff costs for 2007-08 have been restated to more accurately show the split between salary, social security and pension costs, but the overall costs for 2007-08 remain unchanged.

Emoluments of the Director

Salary	245,031	213,898
Employer's Pension Contributions	36,620	29,980

Total Emoluments of the Director	281,651	243,878
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Employer's pension contributions to USS in respect of the Director are paid at the same rates as for other academic staff.

Staff FTE by grade

	2009	Restated 2008
1 - 5 Professional	98	101
6 - 10 Academic	285	260
6 - 10 Professional	380	365
Senior Academic	78	84
Senior Professional	25	24

Total Staff	866	834
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Remuneration of Higher Paid Staff

	2009	2008
£240,001-£250,000	1	0
£210,001-£220,000	0	1
£140,001-£150,000	2	0
£130,001-£140,000	1	1
£120,001-£130,000	1	1
£110,001-£120,000	2	1
£100,001-£110,000	3	2
£90,001-£100,000	12	8
£80,001-£90,000	21	12
£70,001-£80,000	21	23

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

Consolidated Notes to Accounts	Notes	Consolidated 2009 £	Consolidated 2008 £
7. Other Operating Expenses			
Academic Expenditure		9,837,409	9,184,241
Research Grants & Contracts		6,472,684	7,656,256
Academic Services			
Computing		1,035,670	1,213,738
Library		605,506	580,591
Other		176,198	302,380
		1,817,374	2,096,709
General Educational Expenditure		1,182,714	1,002,303
Premises			
Repairs and General Maintenance		813,035	984,761
Cleaning and Security		861,657	1,032,890
Rent and Rates		650,818	1,093,912
Heat, Light, Water and Power		757,969	754,925
Other		255,107	204,486
		3,338,586	4,070,974
Administration and Central Services			
Other Central Services		1,964,658	1,812,990
Auditors Remuneration		43,310	34,663
Auditors Remuneration for audit of grants		4,275	15,845
		2,012,243	1,863,498
Residences, Catering and Conferences		2,066,814	1,473,719
Staff Student Facilities			
Prizes, Fellowships and Scholarships		355,263	413,813
Grant to Student Union		319,934	314,476
Other, Including Alumni		248,690	429,111
		923,887	1,157,400
Miscellaneous		56,376	36,017
Total Other Operating Expenses		27,708,087	28,541,117
8. Interest and Finance Costs			
Interest and Finance Costs		518,673	459,842

Consolidated and Institute

Consolidated Notes to Accounts

	Freehold Land and Building £	Long Leasehold Land and Building £	Short Leasehold Land and Building £	Furniture & Equipment £	Total £
9. Tangible Assets					
Cost at 1 August 2008	85,758,149	8,669,846	4,499,178	2,251,959	101,179,132
Additions at Cost in Year*	2,851,644	(85,701)	50,708	530,526	3,347,177
Disposals	0	0	0	0	0
Cost at 31 July 2009	88,609,793	8,584,145	4,549,886	2,782,485	104,526,309
Depreciation at 1 August 2008	3,501,270	431,293	681,191	1,234,620	5,848,374
Depreciation Charge in Year	1,963,789	244,396	227,494	471,290	2,906,969
Disposals	0	0	0	0	0
Depreciation at 31 July 2009	5,465,059	675,689	908,685	1,705,910	8,755,343
Net Book Value at 31 July 2009	83,144,734	7,908,456	3,641,201	1,076,575	95,770,966
Financed from:					
Capital Grant	74,235,315	675,000	3,561,784	382,973	78,855,072
Institute Resources	8,909,419	7,233,456	79,417	693,602	16,915,894
Net Book Value at 31 July 2009	83,144,734	7,908,456	3,641,201	1,076,575	95,770,966
Net Book Value at 1 August 2008	82,256,879	8,238,553	3,817,987	1,017,339	95,330,758

The Institute's main premises are the subject of a long term lease from the University of London and were included in the Institute's accounts for the first time in 2007/08. The valuation of the main building was undertaken by BPP Construction Consultants LLP as at 31 July 2008 and the value adopted by the Institute is the base building costs using a Reinstatement Cost Assessment.

* Additions at cost in the year include major refurbishment works to 11 Endsleigh Gardens (£1,257,373) which was purchased in 2007/08 for £9,500,000; on-going refurbishment works to the main building (£979,950); further initial costs relating to the development of the Thornhaugh Mews site (£330,642), and implementation of access control system across the Institute (£317,799).

Consolidated Notes to Accounts	Notes	Consolidated 2009 £	Institute 2009 £	Consolidated 2008 £	Institute 2008 £
10. Fixed Asset Investments					
Market Value at 1 August		8,176,179	8,176,179	9,024,240	9,024,240
Additions in Year	23	1,870,511	1,870,511	1,968,018	1,968,018
Disposals in Year	23	(1,834,454)	(1,834,454)	(1,744,975)	(1,744,975)
Increase/(Decrease) in Cash Held by Investment Managers		(35,449)	(35,449)	(225,348)	(225,348)
Realised Gains/(Losses) on Disposals	21	(470,681)	(470,681)	(10,720)	(10,720)
Unrealised Gains/(Losses)	19	(664,888)	(664,888)	(835,036)	(835,036)
Market Value at 31 July		7,041,218	7,041,218	8,176,179	8,176,179
Represented by:					
Fixed Interest Stocks		1,063,017	1,063,017	858,920	858,920
Equities		5,787,860	5,787,860	7,091,464	7,091,464
Cash		190,341	190,341	225,795	225,795
Market Value at 31 July		7,041,218	7,041,218	8,176,179	8,176,179
11. Specific Endowment Asset Investments					
Market Value at 1 August		4,722,227	4,722,227	5,405,002	5,405,002
Additions in Year	23	999,392	999,392	1,088,343	1,088,343
Disposals in Year	23	(1,002,789)	(1,002,789)	(917,645)	(917,645)
Increase/(Decrease) in Cash Held by Investment Managers		3,726	3,726	(151,879)	(151,879)
Increase/(Decrease) in Cash Held by Institute	18	(165,534)	(165,534)	(233,031)	(233,031)
Realised Gains/(Losses) on Disposals	18	(239,170)	(239,170)	11,016	11,016
Unrealised Gains/(Losses)	18	(377,991)	(377,991)	(479,579)	(479,579)
Transfer to Endowments	23	300,000	300,000	0	0
Market Value at 31 July		4,239,861	4,239,861	4,722,227	4,722,227
Represented by:					
Fixed Interest Stocks		577,479	577,479	466,134	466,134
Equities		3,154,874	3,154,874	3,886,777	3,886,777
Cash		117,821	117,821	114,095	114,095
Funds Held by Investment Managers		3,850,174	3,850,174	4,467,006	4,467,006
Cash Held by Institute		389,687	389,687	255,221	255,221
Market Value at 31 July		4,239,861	4,239,861	4,722,227	4,722,227

Consolidated Notes to Accounts	Notes	Consolidated	Institute	Consolidated	Institute
		2009	2009	2008	2008
		£	£	£	£
12. Debtors					
Prepayments and Accrued Income		7,244,827	7,244,319	8,779,667	8,779,667
Other Debtors		5,593,360	5,603,574	6,792,235	6,881,379
Total Debtors		12,838,187	12,847,893	15,571,902	15,661,046
13. Short Term Investments					
Market Value at 1 August		4,144,968	4,144,968	8,693,592	8,693,592
Additions in Year		3,427,551	3,427,551	9,051,923	9,051,923
Disposals in Year		(5,312,653)	(5,312,653)	(14,000,000)	(14,000,000)
Unrealised Profit		261,112	261,112	399,453	399,453
Short Term Investments at 31 July		2,520,978	2,520,978	4,144,968	4,144,968
14 Cash at Bank and in Hand					
Cash held by Fund Manager		389,687	389,687	0	0
Cash held by Institute / Group		649,181	367,547	0	0
Total Cash at Bank and in Hand		1,038,868	757,234	0	0
15. Creditors: Amounts Falling Due Within One Year					
Payments received in advance		5,345,891	5,345,891	11,709,656	11,704,968
Accruals & Deferred Income		5,452,776	5,014,541	2,537,803	2,516,197
Social Security & Other Tax Payable		1,155,593	1,155,593	1,135,949	1,135,949
Pensions		12,141	12,141	11,334	11,334
Other Creditors		2,258,955	2,424,862	3,523,648	3,523,648
Bank overdraft		0	0	556,882	660,639
Bank loan		306,283	306,283	175,863	175,863
Total Creditors: Amounts Falling Due Within One Year		14,531,639	14,259,311	19,651,135	19,728,598
16a. Creditors: Due after more than one year					
Bank Loans - due between 2 and 5 years		1,259,310	1,259,310	735,755	735,755
Bank Loans - due after more than 5 years		9,077,033	9,077,033	9,971,100	9,971,100
Total Creditors: Due after more than one year		10,336,343	10,336,343	10,706,855	10,706,855
The Institute has arranged for the following loans:					
Endsleigh Gardens: A £4m loan facility arranged with Barclays Bank plc, fixed as follows:					
a) £2m facility, fixed for 5 years at 5.44% on December 10, 2007 to 2012					
b) £2m facility, fixed for 30 years at 5.10% on December 10, 2007 to 2037					
Both excluding lending margin and mandatory costs.					
Interest is payable quarterly in arrears and capital repayment commenced in 2008.					
IOESRL: A £7m loan facility dated 16 October 2006, arranged with Barclays Bank plc:					
a) £3.5m facility, with capital repayment, fixed for 30 years at 5.69% to 30/11/2036, interest payable quarterly in arrears (excluding lending margin and mandatory costs)					
b) £3.5m facility, capital repayment commenced in January 2009, variable rate of interest payable quarterly in arrears. The loan is rolled over on a quarterly basis.					
16b. Provision for liabilities					
Consolidated and Institute		Property provision			
As at 1 August 2008		0			
Provided in the year		650,000			
At 31 July 2009		<u>650,000</u>			

The property provision relates to dilapidation across the Institute's property portfolio.

17. Deferred Capital Grants

Consolidated and Institute

Freehold Land and Buildings

	HEFCE	HEFCE	HEFCE	HEFCE	HEFCE
	Library	Knowledge Lab	Gordon Square	CETL WLE	SRIF 3
	£	£	£	£	£
Balance at 1 August 2008	680,000	3,175,958	3,792,049	870,157	6,251,644
Additional Grants in Year	0	0	0	0	0
Released to Income and Expenditure Account	(20,000)	(71,858)	(230,265)	(32,727)	(259,737)
Balance at 31 July 2009	660,000	3,104,100	3,561,784	837,430	5,991,907

	HEFCE	DfES	DfES		2009
	TCIF RCIF	15 Woburn Square	Thornhaugh Mews	20 Bedford Way	Total
	£	£	£	£	£
Balance at 1 August 2008	843,359	690,000	1,240,219	59,936,800	77,480,186
Additional Grants in Year	3,922,822	0	0	0	3,922,822
Released to Income and Expenditure Account	(1,061,728)	(15,000)	(16,394)	(1,223,200)	(2,930,909)
Balance at 31 July 2009	3,704,453	675,000	1,223,825	58,713,600	78,472,099

Furniture and Equipment

	HEFCE	HEFCE	2009
	Telephone System	CETL	Total
	£	£	£
Balance at 1 August 2008	54,031	427,066	481,097
Additional Grants in Year	0	0	0
Released to Income and Expenditure Account	(54,031)	(44,093)	(98,124)
Balance at 31 July 2009	0	382,973	382,973

*CKEL stands for the Centre for Knowledge Engineering and Learning

*CETL stands for the Centres for Excellence in Teaching and Learning

*WLE stands for Work-based Learning for Education professionals

*SRIF stands for Science Research Investment Fund

*TCIF stands for Teaching Capital Investment Fund

*RCIF stands for Research Capital Investment Fund

Consolidated Notes to Accounts	Notes	Consolidated	Institute	Consolidated	Institute
		2009	2009	2008	2008
		£	£	£	£
18. Endowments					
Balance at 1 August		4,722,227	4,722,227	5,405,002	5,405,002
Additions in Year		300,000	300,000	20,000	20,000
Realised Gains/(Losses) on Disposals	11	(239,170)	(239,170)	11,016	11,016
Unrealised Gains/(Losses)	11	(377,991)	(377,991)	(479,579)	(479,579)
Income	22	185,938	185,938	167,939	167,939
Released to Income and Expenditure Account	5	(351,143)	(351,143)	(402,151)	(402,151)
Balance at 31 July		4,239,861	4,239,861	4,722,227	4,722,227
Represented by:					
Fellowship and Scholarship Funds		1,059,798	1,059,798	1,431,509	1,431,509
Prize Funds		218,060	218,060	241,877	241,877
Chair and Lectureship Funds		2,354,861	2,354,861	2,708,894	2,708,894
Other Funds		307,142	307,142	339,947	339,947
Transfer to Endowments		300,000	300,000	0	0
Balance at 31 July		4,239,861	4,239,861	4,722,227	4,722,227

Additions in year include a transfer of £300k from the income and expenditure account in respect of the Centenary Scholarship Fund.
Endowments have been classified as expendable and permanent.

Endowments	Restricted	Restricted	Total	
	Permanent	Expendable		
		£	£	£
At 1 August	3,801,628	920,599	4,722,227	
New Endowments	0	300,000	300,000	
Investment Income	134,223	51,715	185,938	
Expenditure	(290,881)	(299,432)	(590,313)	
Decrease in market value	(304,302)	(73,689)	(377,991)	
At 31 July	3,340,668	899,193	4,239,861	

	Consolidated	Institute	Consolidated	Institute	
	2009	2009	2008	2008	
		£	£	£	£
19. Revaluation Reserve					
Balance at 1 August		1,290,994	1,290,994	2,126,030	
Revaluation in Year	10	(664,888)	(664,888)	(835,036)	
Balance at 31 July		626,106	626,106	1,290,994	
20. Income and Expenditure Reserve					
Balance at 1 August		13,613,540	13,625,221	14,195,571	
(Deficit)/Surplus in Year		207,830	196,549	(582,031)	
Balance at 31 July		13,821,370	13,821,770	13,613,540	

Consolidated Notes to Accounts	Notes	Consolidated 2009 £	Consolidated 2008 £
21. Reconciliation of Operating Surplus to Net Cash from Operating Activities			
Surplus / (Deficit) in Year		207,830	(582,031)
Interest paid on loan	8	518,673	459,842
Depreciation	9	2,906,969	2,721,024
Deferred Capital Grants Released in the year			
Freehold Land and Buildings	17	(2,930,909)	(2,098,105)
Furniture and Equipment	17	(98,124)	(119,783)
Endowment and Investment Income	5	(203,600)	(1,406,008)
(Gains)/Losses on Sale of Fixed Asset Investments	10	470,681	10,720
(Increase) / Decrease in Debtors	12	2,733,715	(4,677,952)
Increase / (Decrease) in Creditors	15	(4,562,614)	(1,337,063)
Increase / (Decrease) in Provisions	16b.	650,000	0
Net Cash Inflow / (Outflow) from Operating Activities		(307,379)	(7,029,356)
22. Returns on Investments and servicing of finance			
Income from Endowments Asset Investments	18	185,938	167,939
Income From Fixed Asset Investments	5	(233,909)	516,554
Income from Short Term Investments	5	86,366	487,303
Interest Paid		(518,673)	(459,842)
Net Cash Inflow / (Outflow) from Investments		(480,278)	711,954
23. Capital Expenditure and Financial Investment			
Payments to Acquire			
Tangible Assets	9	(3,347,177)	(18,617,240)
Fixed Asset Investments	10	(1,870,511)	(1,968,018)
Endowment Asset Investments	11	(999,392)	(1,088,343)
		(6,217,080)	(21,673,601)
Deferred Capital Grants Received in the Year			
Freehold Land and Buildings	17	3,922,822	7,231,596
Furniture and Equipment	17	0	0
Receipts from Sales of			
Fixed Asset Investments	10	1,834,454	1,744,975
Endowment Asset Investments	11	1,002,789	917,645
Additional Endowments in Year	11	300,000	20,000
Net Cash Inflow / (Outflow) From Capital Expenditure and Financial Investment		842,985	(11,759,385)
Institute and Consolidated			
		At 1 August 2008 £	Cash Flows £
24. Analysis of Changes in Net Funds			
Cash at Bank and in Hand		(556,882)	1,206,063
Fixed Asset Investments: Cash Held		225,795	(35,454)
Endowment Asset Investments: Cash Held		369,316	138,192
Total Net Cash		38,229	1,308,801
Short-term Investments		4,144,968	(1,623,990)
Total Net Funds		4,183,197	3,868,008

Consolidated Notes to Accounts	Notes	Consolidated 2009	Consolidated 2008
		£	£

25. Operating Lease Obligations - Buildings

Operating leases which expire:

Within one year	140,833	120,000
In the second to fifth year	191,667	513,406
After five years	0	0
	332,500	633,406

26. Contingent Liabilities

There are no contingent liabilities outstanding as at 31st July 2008 or 31st July 2009

27. Related Party Transactions

There are no reportable Related Party Transactions as at 31st July 2009

The Institute receives income from the Funding Councils which is disclosed under Note 1.

28. Pension Arrangements

Notes	Consolidated 2009	Consolidated 2008
	£	£
Analysis of Employer's Superannuation Contributions		
USS	3,632,931	3,102,905
SAUL	570,130	514,310
	4,203,061	3,617,215

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 pensioner 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 Institute of Education 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 scheme actuary carries out a valuation every three years and the latest valuation was at 31 March 2008. He compares the value of the scheme's assets to its liabilities, e.g. members' pensions, using several approaches, as required by regulations. The latest valuation was the first completed on a new basis introduced by the Government in the Pensions Act 2004. The Act requires schemes to 'have sufficient and appropriate assets to cover its technical provisions'. The term 'technical provisions' is another name for the scheme's liabilities (i.e. the promised benefits that have been earned by members in the scheme), calculated on a 'scheme-specific' basis. It is for the trustee board, in consultation with the participating employers, to decide how to calculate the technical provisions of USS.

Assets	£28.8 billion
Amount needed to pay benefits	£28.1 billion
Excess	£0.7 billion
Funding level	103%

The scheme actuary also has to calculate the scheme's funding position as if the scheme had to be wound-up, with all the liabilities secured by purchasing pensions from an insurance company. The funding level on this basis was 80%. There are various ways to approach the calculation of scheme liabilities, and historically the trustee board has applied a further (somewhat tougher) standard for measuring the financial position of USS compared to the standard required under the technical provisions. In calculating the value of the scheme's liabilities, the scheme actuary must make a number of assumptions about the financial and demographic factors that have an effect on USS. These assumptions, which are explained in greater detail in the valuation report, are critical to the valuation process.

One of the most important factors is the estimate of future investment returns for the fund. In calculating the scheme's technical provisions, the scheme actuary has assumed that the long-term investment returns, for the fund overall, will be 2% above the return that could be achieved on Government fixed income loans (commonly known as gilts). If, instead of assuming a 2% return above gilts, we apply the tougher standard that we have used in the past and assume that we will achieve investment returns equivalent to the whole of the fund being invested in gilts, the funding level of USS was 71%. The corresponding figure for the last valuation as at 31 March 2005 was 77%.

For the sake of completeness, the scheme actuary also calculated USS's funding position at 31 March 2008 using the accounting standard FRS17. This measure is typically used by companies to express their pension liabilities on the accounting balance sheet and the funding level used by the Pension Protection Fund (PPF) in calculating the scheme's liabilities on its prescribed basis. The figures were 104% (FRS17) and 107% (PPF).

Based on the valuation results, the trustee board is confident that its long-term funding plan remains appropriate and does not intend to ask the participating employers for any extra contributions to meet the past service liabilities of the scheme. USS has a diversified portfolio of investments and a positive cash flow (because the fund receives more in contributions in a year than it pays out in benefits). This leaves the scheme in a much stronger position relative to many other schemes in the UK.

However, the cost of providing pensions is rising, partly because members are living longer. Consequently the trustee board has advised the employers that it requires an increase of 2% in the contribution rate from the Autumn 2009 to provide for the increased cost of providing future benefits.

Following discussions between employers and representatives of the University and College Union, the Institute of Education contribution rate was agreed at 16% (previously 14%) commencing 1 October 2009.

Due to the global economic conditions i.e. the credit crisis and the decline in the world stock markets, the value of the scheme's assets at balance sheet date is lower than at the time of the valuation. However, the trustee board continues to have confidence in its current funding plan, although it is carrying out a review of its investment strategy following completion of the actuarial valuation (as it does after each valuation).

The Government has set up the Pension Protection Fund (PPF) to pay benefits to members in the event that employers are unable to meet their pension commitments and they become insolvent.

SAUL

The Institute 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.

Staff, other than those paid on professional grade 6 and above, who are otherwise eligible, can acquire pension rights through the Superannuation Arrangements of the University of London (SAUL) which is a centrally administered scheme primarily for the University of London.

The Institute of Education has now adopted FRS17 for accounting for pension costs. It is not possible to identify the Institute'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 amount payable 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	Future Service
Investment return on liabilities:		
- before retirement	6.9% p.a.	7.0% p.a.
- after retirement	4.8% p.a.	5.0% p.a.
Salary growth*	4.85% p.a.	4.85% p.a.
Pension increases	3.35% p.a.	3.35% p.a.

*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 next formal actuarial valuation is due at 31 March 2011 when the above rates will be reviewed.

29. Capital Commitments

The Institute developed a business case for refurbishing John Adams Hall which was approved by Council in the autumn term 2005-06. In December 2005, Smith, Caradoc-Hodgkins were appointed as architects and in August 2006, Durkan Pudelek appointed as the main contractor to undertake the refurbishment of the hall. The hall closed in July 2006 and reopened progressively from October 2007. The project cost was £7.7 million of which £7 million was raised through a 30 year loan with Barclays Bank. During the project, the scope was extended to encompass the acquisition of an additional property in August 2007 to enable the most efficient use to be made of the properties occupied by the Institute in Endsleigh Street. Following a detailed assessment of a range of options, Council approved the acquisition of an additional property as the optimum way forward for the Institute. This increased the cost of the project by £1.5 million, funded entirely from short-term investments. The hall was reopened in phases during 2007-2008 and operated its first full year in 2008-2009. Agreement of the final contract price was negotiated during 2009.

In the spring term 2004-05 the Council approved a business case for the construction of a building in Thornhaugh Mews, to house the London Centre for Leadership in Learning (LCLL). This development will be partly funded from a capital grant of £2 million, awarded to the Institute by the DfES. In 2004-05 the Institute completed phase one of this project with the purchase of 15 Woburn Square (£877,000). In 2005-06 the Institute agreed, pending agreement of planning consent to purchase the Thornhaugh Mews site from the University of London (£400,000). In August 2006 Shephard Epstein Hunter were appointed as architects to design a new building and obtain planning consent. The final budget for this project is to be agreed by Council, but it is likely to be in the region of £10 million. The design proposal went to Camden Planning Committee in December 2008, but was refused. The Institute has decided to appeal against this decision. The appeal will be heard in November 2009. Further costs of £150k has been made.

The Institute was allocated capital grants by the HEFCE under the Learning and Teaching Capital and Science Research Investment Fund schemes. The Institute's total allocation under these schemes was £7.3 million. The Institute determined a range of projects including purchase of a new property, construction of a new Student Support Centre and building refurbishment projects. These projects were begun progressively during 2005-06 and were substantially completed during 2007/8. In 2008 HEFCE announced further Capital Funding for the period 2007/8 to 2010/11 of £10.7 million. The Institute has developed a range of proposals for projects which were discussed by the Estates Committee on 6th May 2009. The committee agreed the projects to be undertaken and timescales. There is future capital commitment of £80k at 31 July 09.

A process commenced in 2006 to identify and to implement a new finance system to replace the software which was in operation with the Institute since 1997. In June 2007, a contract was entered into with Technology One and phase one of implementation was completed in May 2008. Further rollout of additional functionality will be carried out during 2009-10. There is no future capital commitment.

In March 2008 the Institute took vacant possession of a property at 9 - 11 Endsleigh Gardens at a cost of £9.5 million. This was funded partially via a 30 year loan with Barclays Bank, partially from the HEFCE Capital Grant mentioned above with the remainder from a drawdown of short-term investments. The property will provide both additional student accommodation and office space. The refurbishment was completed in September 2009 and occupation took place from October 2009. Total cost for the refurbishment is £2.3m and £1.5m was spent as at 31 July 09. We have further commitment of £0.8m in the coming year.

Funding Council Specific Grants	Notes	Consolidated 2009 £	Consolidated 2008 £
30. Access Funds			
Income			
Funding Council Grants		51,375	68,375
Interest Earned in Year		1,176	1,249
Total Income		52,551	69,624
Expenditure			
Disbursed in Year		(51,654)	(66,964)
Admin Fee		0	(37)
Balance at 31 July		897	2,623
31. PGCE Student Salaries			
Income			
HEFCE Student Salaries		425,611	306,582
TDA Student Salaries		6,266,007	7,140,007
Total Income		6,691,618	7,446,589
Expenditure			
Disbursed in Year		(6,421,830)	(6,941,364)
PGCE Salaries Admin. Fee - HEFCE	1	(8,345)	(7,876)
PGCE Salaries Admin. Fee - TDA	1	(114,240)	(114,540)
Balance at 31 July		147,203	382,809
32. Secondary Shortage Subject Scheme			
Income			
Funding Council Grants		0	(3,592)
Expenditure			
Disbursed in Year		0	(586)
Administrative Fee	1	0	0
Balance at 31 July		0	(4,178)
Access Funds, PGCE Student Salaries and Secondary Shortage Subject Scheme funds are available solely for students: the Institute acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Accounts apart from the administrative costs.			
33. Minority Ethnic Recruitment			
Income			
Funding Council Grants		32,511	46,627
Expenditure			
Disbursed in Year		(19,106)	(71,193)
Balance at 31 July		13,405	(24,566)
34. Student Associate Scheme			
Income			
Funding Council Grants		198,502	198,843
Expenditure			
Disbursed in Year		(128,418)	(187,743)
Balance at 31 July		70,084	11,100
35. Reading Recovery			
Income			
Funding Council Grants		0	520,000
Expenditure			
Disbursed in Year		0	(520,000)
Balance at 31 July		0	0