



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# Annual Accounts

for the year ended 31 July 2008

## Contents

	PAGE
Report of the Chairman of the Council and Court of Governors	3
Report of the Director of the School	4-10
Report of the Directors	11
Accounting policies	12
New Academic Building	15
Consolidated income and expenditure account	16
Statement of total recognised gains and losses	17
Balance sheets	18
Consolidated cash flow statement	19
Notes to the Accounts	20-36
Corporate governance and internal control statement	37
Report on environmental progress	39
Endowment investment performance	40
Statement of Council's responsibilities	41
Report of the auditors	42
Officers responsible for the School's finances	43
Directors of the School and members of the Council during the year 2007-08	44



## About LSE

The London School of Economics and Political Science – LSE – studies the social sciences in their broadest sense, from economics, politics and law to sociology, anthropology, information systems, accounting and finance.

LSE was founded in 1895 by Beatrice and Sidney Webb, Graham Wallas and George Bernard Shaw. From that date LSE has aimed to be a laboratory of the social sciences, a place where ideas are developed, analysed, evaluated and disseminated around the globe. It is a world-class centre of research. But its mission to connect with the 'real world' of government, business and public life in general makes it a special kind of university. LSE academics are frequently in the news, commenting on the top issues of public life. The compact campus in the heart of London buzzes with intellectual exchange throughout the year. Speakers of world standing from the realms of politics, finance, business and current affairs as well as academic life choose LSE to deliver lectures and seminars on subjects of wide current interest. Most occasions in the resulting rich programme of events are open to the public as well as to LSE students and staff, and thousands of visitors attend from outside LSE each year.

LSE is one of the most international universities in the world. Most students, including the majority of postgraduates, come from outside the UK. So do many of the faculty. Partnerships with a select number of the finest social science universities in the world help to extend LSE's reach globally, particularly in Asia and North America.

LSE has an outstanding reputation for academic excellence. This is recognised by its high standing in the many university league tables and in other measures of quality, for both teaching and research.

### The LSE community

LSE has a cosmopolitan staff and student body, located within an urban, city centre campus. It draws students from everywhere and from all social, educational and ethnic backgrounds. There are currently around 8,500 full-time students, which is expected to rise to 9,000 by 2012. They come from about 140 countries. The School is also in contact with 90,000 alumni in more than 180 countries.

The School has over 1,460 full-time and over 1,320 part-time members of staff. About 45 per cent are from countries outside the UK. LSE staff advise governments, public bodies and government inquiries, and are seconded to national and international organisations.

The School's governing body is the Council, responsible for determining strategy and its members are company directors of the School. The Court of Governors deals with some constitutional matters and has influence in the School through pre-decision discussions on key policy issues and the involvement of individual governors in the School's activities.

### Teaching

LSE offers a very wide range of undergraduate and postgraduate courses in the social sciences. Teaching is carried out through 22 academic departments and 32 interdisciplinary institutes, and in partnership with internationally known higher education institutions.

Economics is the largest department with over 1,000 students. Other large departments include Law, Accounting, Finance, Government, International Relations and others. Between them LSE departments span the full range of social science disciplines including Anthropology, Management, Philosophy, Mathematics, Statistics, Sociology and more.

Following a review by a Teaching Task Force, LSE is set to spend an extra £2m per year to ensure that its teaching is of the highest quality.

### Scholarships and awards

LSE awards more than £10 million a year in student support, enabling talented students from all backgrounds to undertake programmes at all levels. A generous part of this funding comes from alumni, corporations, foundations and friends all over the world. In addition, many students secure external funding and many support themselves financially through part time work.

### Research

The School is a world centre for advanced research. For example, LSE's Research Lab is the base for more than 260 staff – one of the largest concentrations of applied economic, financial and social researchers anywhere in the world. It comprises four centres: the Centre for Analysis of Social Exclusion, the Centre for Economic Performance, the Financial Markets Group and the Suntory and Toyota International Centres for Economics and Related Disciplines. With 28 other such centres, the full range of social science expertise is covered.

In the most recent national research assessment in the UK (2001), LSE came second after Cambridge for the quality of its research – and top if only the social sciences are taken into account. LSE submitted 97 per cent of its staff for assessment, more than any other university. A further review in 2003 retrospectively introduced a higher grading of 5\*\* for subject areas which had achieved 5\* in the two previous rounds of research assessment. Economics and Social Policy at LSE received a 5\*\*. In all, LSE received grades of 5\*\*, 5\* or 5 for 12 of its 13 units of assessment.

In November 2007, the School submitted 14 units of assessment under the RAE 2008 exercise. The main body of the assessment will take place in 2007-08, and it is anticipated that outcomes will be published by the funding bodies in December 2008. The School is now concentrating on the replacement to the RAE – the Research Excellence Framework.

### Knowledge dissemination and policy engagement

From its foundation, the School has sought to disseminate its research to fellow academics, the media, policy makers, opinion formers and, indeed, the general public. Over the years there has been a steady and distinguished flow of papers, books and journals, some issued directly from the School and some issued in association with leading academic publishers such as Wiley-Blackwell and Cambridge University Press. The School has five peer reviewed journals edited by senior academics, with a sixth on global policy due to be launched shortly.

LSE is a high-profile university which generates significant media coverage, including regular comments by LSE academics on the top issues of public life. LSE has a reputation as one of the best connected universities in the UK, with a number of high-profile academics with direct lines to senior politicians and think-tanks. The School has made significant improvements to better communicate a vision of LSE through new media such as its external facing corporate website ([www.lse.ac.uk](http://www.lse.ac.uk)), which includes new portals on LSE research and experts, the development of blogs by notable academics, and the introduction of media podcasts.

### International partnerships

LSE forms part of a small global network of institutional partnerships with other universities of similar standing, offering joint teaching programmes that add to the School's current portfolio, help academics sustain international research links, improve the dissemination of research internationally and attract different sources of research funding.

There are institutional partnerships with Columbia University (New York), Sciences Po (Paris), Peking University (Beijing) and the National University of Singapore plus a number of ventures including double degrees and faculty and student exchanges.



The School also increasingly operates as part of a network, enabling it to develop projects which it could not develop as a single institution. One example is the delivery of the Executive Public Policy Training programme in Beijing to government personnel in China. With Columbia and Sciences Po, LSE is a founding member of the Global Public Policy Network.

#### Other forms of study

LSE's study abroad programme, the General Course, offers students at institutions overseas the opportunity to spend a year of fully integrated undergraduate study at the School. The School also contributes to the University of London External Programme, which offers diploma and degree programmes by distance learning in fields such as economics, management finance and the social sciences to students worldwide. The School also has Summer Schools in London and in China (with Peking University), which provide an opportunity for students from around the world to take courses delivered by internationally renowned specialists in their fields.

#### Connecting with business

Enterprise LSE (ELSE) Limited offers a gateway to a range of LSE expertise through a professional consultancy service that matches the skills and talents of LSE's academic consultants with the specific needs of clients. The School also offers a range of specialist teaching programmes for businesses and professionals, including customised executive education in collaboration with Duke Corporate Education Limited. LSE also offers the TRIUM Global Executive MBA Programme jointly with NYU Stern School of Business and HEC School of Management (Paris) for senior executives from more than 30 countries.

#### Careers

The School is heavily targeted by employers and graduates from LSE are in great demand, resulting in a low unemployment rate amongst our graduates. Almost a third of LSE graduates enter the financial service industry. Law, government service and education account for a further 10 per cent each, with the remainder entering the consulting, media or other professions or going on to further academic study or research. The top five employers of LSE graduates are the UK government, Ernst & Young, PricewaterhouseCoopers, KPMG and Deloitte.

LSE students' average earnings are significantly above the UK average, six months after graduation. According to Timesonline, LSE full-time undergraduate qualifiers achieved the highest average starting salaries among UK universities in 2005-06.

#### Alumni

The School is in contact with 90,000 alumni in over 180 countries around the world. The network covers 75 local alumni groups and contact networks in Africa, the Americas, Asia, Europe and the Middle East, as well as special interest groups in areas such as the environment, law, media and real estate. LSE alumni include Nobel Prize Winners, past and present heads of state, and leaders and opinion formers in fields such as academia, business, civil society, law, the media and Parliament.

#### Library

The Library is the largest in the world devoted exclusively to the social sciences. Founded in 1896, it is also known as the British Library of Political and Economic Science and is recognised internationally. It offers a superb environment and an excellent resource for students.

#### Events

LSE attracts some of the most influential figures in the world to give public lectures and speak at events. In recent years the School has welcomed Kofi Annan, Tony Blair, Bill Clinton, Nelson Mandela, Mary Robinson, Javier Solana, George Soros and many others. Seats are always available free of charge for LSE students. Alumni describe the public lectures programme as one of the key benefits of an LSE education.

Since 2004, LSE has also run an Asia Forum as a major overseas conference. It is an important and very public part of the School's strategy to enhance its long standing relationship with the rapidly developing Asian region. The fourth of these took place in Singapore in April 2008, with the fifth due to take place in Beijing in September 2009.

With its Global Public Policy Network (GPPN) partners, the third GPPN Conference was held in Beijing in October 2008. As with previous events in Paris (2006) and Singapore (2007), the 2008 conference brought prominent policy academics and practitioners from around the world together to engage in a dialogue on the theme of 'Harmonising Globalisation: Seeking Solutions to Common Problems'.

#### Miscellany

- LSE staff or alumni have produced 14 Nobel Prize winners, in economics, peace and literature
- 31 past or present heads of state have studied or taught at LSE
- LSE students borrow approximately five times the national average of books from their university library.

# Report of the Chairman of the Council and Court of Governors



The past year has seen the School continue to invest heavily, from a strong financial base, in teaching, estates and services to ensure competitive quality for the long-term future.

My first year as Chairman has seen a continuation of the excellent work overseen by my predecessor, Lord Grabiner, in, for example, the ongoing implementation of major governance reforms and internal control procedures, continued development of the School's international strategy, improved alumni relations and major estates developments.

It was particularly pleasing for me to present our students with the first ever LSE degrees at the Graduation Ceremonies in July 2008, following two years' of negotiations with the University of London to allow the School its own degree-awarding powers. I wish all our graduates every success in their chosen careers and look forward to their continued association with the School, facilitated through the work of the Alumni Association.

Major new developments have included initiatives to improve teaching quality, student facilities and service delivery, supported by major new investment funding over the next five years. Investment in continued estates developments such as the New Academic Building will play a major part in the life of the School not only for the next year but for a number of years to come, as we work to increase both the quality and range of teaching, office and recreational space across the campus. Funding of a major new initiative to enhance the quality of teaching is addressed by the Director in his statement later in this report. Also, a comprehensive review of the services required to deliver the School's strategic objectives has resulted not only in a major investment of funds over the next five years but, perhaps more importantly, the evolution of a process that allows the School to approach service delivery in a co-ordinated and holistic way.

As part of one of the largest private donations made to climate change research, the School has received £12m from the Grantham Foundation for the Protection of the Environment to establish the Grantham Research Institute; the Institute will work closely with the Grantham Institute for Climate Change at Imperial College, also established with a donation from the Grantham Foundation. Chaired by Lord Stern of Brentford and initially managed by Professor Judith Rees, the Grantham Research Institute will act as an umbrella body for LSE's contribution to the study of climate change and the environment and will complement the work of the new Centre for Climate Change Economics and Policy, a partnership between LSE and Leeds University, supported by a £5m ESRC grant.

The School has maintained its position as one of the top universities in the UK and continues to feature in the top four places of the most recent versions of the national university rankings published by *The Guardian*, *The Times* and *The Sunday Times*. However, there are challenges to be faced in the coming year to improve our international standing.

Further, although my colleagues are confident of the outcome for the School, the results of the Research Assessment Exercise (RAE) 2008, due in December 2008, will have an impact on the funding we receive from The Higher Education Funding Council for England and will undoubtedly raise issues that will need to be addressed as we go forward.

The governance of the School has been strengthened by a number of appointments and I welcome them all. Anne Lapping joins Sir Anthony Battisill as new joint Vice-Chairman; new Council members: Angela

Camber, Shami Chakrabarti, Alan Elias and Kate Jenkins; and ten new and outstanding lay governors, each commencing their five-year term of office during 2008: Catherine Bell, Mervyn Davies, Eshun Ekow, Neil Gaskell, Nigel Hugill, Gavri Vijay Kasbekar, Martin Lewis, Will Macfarlane, Harriet Spicer and the Rt Hon The Lady Young of Hornsey. Conversely, this past year has seen the retirement of three eminent Council members: Richard Goeltz, Loyd Grossman and Avinash Persaud, and my thanks go to them all. I am particularly pleased, however, that Richard has agreed to continue as the North American Advisory Board representative for Council, thus continuing his long association with and staunch support for the School.

Finally, my thanks go to my predecessor, Lord Grabiner of Aldwych QC, for his unstinting work over the past nine years as Chairman of Court and Council, during which time he has driven forward considerable progress and change in the governance of the School, as a result of which I have taken over an effective and financially sound university.

**Peter Sutherland**  
Chairman of Court and Council

## Mikesh Vora BSc Economics

Mikesh Vora, who is studying for a BSc in Economics, is one of ten Stelios scholars at LSE. Mikesh, who began his studies in 2006/07, is the first of his family to go to university so his scholarship has meant that other members of his family are now being encouraged to think about higher education.



Not only has Mikesh developed a real passion for his chosen subject, the scholarship has inspired him to raise money for under-educated children in the UK. From modest beginnings, starting with an LSE charity cultural show, the idea gathered momentum. Mikesh worked for six months rounding up and directing a cast of choreographers, singers and dancers to produce and organise the largest student organised event of the year. Held in the west end's Her Majesty's Theatre, the LSESU cultural show Timeless raised over £10,000 for charity and is set to become an annual LSE charity event.

Mikesh said: 'This scholarship has given me the pedestal and the belief to aim high. Since the start of my university career I have experienced some of the best moments of my life and I have made more than worthy friends to share those moments with.' He said the scholarship had given him the chance to live life to the fullest and one day hopes to help someone else achieve the same dream.

Stelios Scholarships, started in 2005/06, are for undergraduates and carry an award of £5,444 per year for three years. They are named after LSE alumnus Stelios Haji-Ionnau.



# Report of the Director of the School



## Review of the year 2007/08

For the last three years we have been working towards a total number of students in the School of around 9,000 by 2012. That remains the objective.

As new facilities become available, and some old space is taken out of use for refurbishment, the School's capacity will fluctuate a little in the next few years around that number. We expect most of the growth to come on the graduate side of the School, although we have bid for some additional undergraduate numbers from the funding council. Our aim is to keep the undergraduate programme at around 50 per cent domestic students, so if we were allocated additional domestic students we would be likely to recruit a small number of additional overseas students at the same time. Undergraduate demand on both the domestic and the overseas side is very strong, at 12 to 15 applications per place.

Nonetheless, in spite of this high demand we have some concerns about the School's teaching. Our rankings in the National Student Survey, which measures satisfaction with courses and teachers, are not as high as we would like. In order to understand better the reasons for these low rankings we established, in 2007/8, a teaching task force under Pro Director Professor Janet Hartley, which carried out a major

review of teaching in the School. The conclusions of that review were presented to the Academic Board in the summer term and agreed by them. There are many detailed recommendations, but perhaps the most important is that we will invest to reduce class sizes, especially in Masters programmes. We will also take a number of steps to increase the status of teaching in the School and will take teaching performance in to account more comprehensively in promotion decisions. We will be monitoring the results of this exercise closely and hope to see some reflection in the form of improved student satisfaction figures in the next three to five years.

On the research side of the School we have been pleased to attract important new sources of funding, both public and private. During the year we were successful with two bids to the Economic and Social Research Council (ESRC) for new research centres. The first, on spatial economics, will be led by staff from the Department of Geography and Environment and will bring together leading researchers from the Universities of Oxford, Glasgow, Newcastle, Strathclyde and Swansea. The second, in a partnership venture with Leeds University, is for a centre focusing on the economics of climate change, chaired by Professor Lord Stern, an important new direction for the School. The ESRC investment of around £5m over the next five years is significant in itself. But we were also delighted to receive a commitment of over twice that amount from Mr Jeremy Grantham to set up a Grantham Research Institute in the School. Mr Grantham has generously donated a similar sum to Imperial College, which will work on the science of climate change, and we look forward to a productive collaboration between the two universities in the future. Our ambition is to become the most important centre for climate change research in Europe.

It would be beyond the scope of this report to describe all the new academic initiatives in teaching or research under way in the School. But we have drawn attention before to a major initiative to expand our management teaching by creating a new department of management, merging four smaller departments into one. That initiative has made considerable progress during the year with new degrees coming on stream, including a two year MSc in Management. These new degrees have attracted a large number of high quality applicants and have not reduced the attractiveness of the continuing programmes.

The Grantham donation was one of a number of significant new commitments to the School of a philanthropic kind. It was another very successful year for fund raising, with some £24m pledged during the year from a variety of sources. This almost maintained the record inflow in the previous year. The sums we are raising are now some three to four times what they were five years ago, though it is fair to say that it may be difficult to maintain this performance in more challenging economic circumstances which we seem likely to face in the next couple of years.

Among the other significant donations we have received was a large commitment from the Kuwait Foundation for the Advancement of Science to fund a research programme focusing on economic, political and social development in the Gulf. We also received a large donation from the Emirates Foundation in Abu Dhabi, to name the principal lecture theatre in our New Academic Building after the former ruler of the United Arab Emirates, Sheikh Zayed. We are most grateful to all these donors.

The New Academic Building on Lincoln's Inn Fields is the most important development in the School's estate since the opening

## Emma Cardwell BSc Environmental Policy

Many students at LSE are supported with grants, bursaries and scholarships. For some, like third year BSc Environmental Policy student Emma Cardwell, it means the difference between coming to university or not.



Emma is one of five recipients of the Bence Scholarship, a partial scholarship from The Estate of Peter Bence (BSc Economics, 1965) to support UK undergraduate students over the age of 25, for each year of their course.

For Emma, coming to LSE has allowed her finally to celebrate her thirst for knowledge without fear of getting beaten up on the school bus or shouted at home. She said: 'Without hyperbole I can say it is probably the best thing that ever happened to me. I don't know if I'd be here without it. The ability to focus solely on my studies instead of rushing off to jobs trying to make ends meet is the greatest of blessings.'

Having received the scholarship Emma feels she owes it to her benefactor to get a first class degree and is confident that her 'life-changing' time at LSE will have a far reaching impact. 'This scholarship has not only changed my life, but will change the life of my children and my children's children. I hope to look back in 20 years time and have achieved something to make the world a better place to live in.'



*Previous page  
(from the left): Old  
Building from Clare  
Market; LSE China  
Summer School lecture  
theatre, in Beijing*

*This page (from the left):  
Student Services Centre;  
John Watkins Plaza*

of the new library in 2000. The total cost of the project, which delivers 125,000 sq ft of high quality space, is around £70m. The final completion occurred after the end of the year under review, and was on budget and in time for the new academic year. The teaching facilities in the new building will set a new standard for the School. The building also provides excellent new space for both the Management and the Law departments, including a purpose built moot court. It is too early to judge the success of the new building in operation, but we are confident it will work well.

It is not, however, by any means the end of our campus redevelopment. We see the need for at least two more major phases of development, as well as work to upgrade those existing facilities which will remain structurally unchanged. Our estate strategy needs to be flexible to take account of opportunities for development in the immediate environment of the School which may emerge. But the likelihood is that the next phase will be the redevelopment of the St Philip's hospital blocks to accommodate a large new building which would contain all the student-facing services in the School. The Students' Union would be re-housed in that building, together with the Careers Service, and the other School services which students use, such as the Language Centre. That should bring about a significant improvement in the student experience here.

Beyond that, there will be a need to redevelop the two 1960s towers at the centre of the campus, whose useful life is drawing to a close. But we do not think we can sensibly redevelop them, a project which would create significant disruption at the centre of the campus, until we have provided new accommodation for student services and related activities. We are broadly confident that these two projects, which would both be large, can be financed. But to do so will require us to maintain a healthy operating surplus, albeit not necessarily as large as those we have reported in the last two years. We will also require continued success in fund raising and some Government capital support. We have the capacity to raise additional debt, if we need to do so, secured on our existing estate, but we will be cautious in managing our debt profile. A few years ago, LSE was amongst the most highly indebted universities in the country. Our debt levels have come down significantly in recent years. However, in an environment in which we depend heavily on recruitment of international students we do not think it prudent to run a highly geared operation.

In addition to being a high quality building in terms of the standard of its fixtures and fittings, the New Academic Building is also, by a distance, the most environmentally effective building in our estate. We have planned to reach the highest 'excellent' ranking in the BREAAAM scale and succeeded in doing so. During the year we also established a new environment group to focus on ways of reducing the School's carbon emissions, and otherwise to minimise our impact on the environment and promote sustainability. That group is chaired by the Director and includes student representatives. Many constructive ideas for improvement have emerged from within the student body and we aim to capitalise further on their imagination and enthusiasm. We also hope there will be some read across from our climate change programme into the School itself. It would clearly be appropriate for us to be early adopters of ideas which emerge in the research context.

We have reported before on the School's international strategy. The partnerships we have developed with key schools elsewhere have continued to move ahead well, and all the new partnership degree

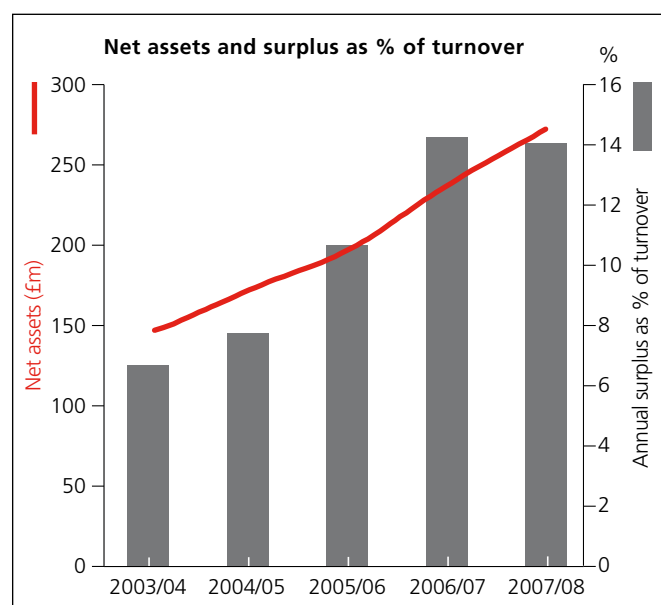
programmes we have established are successful. During the year we continued with our programme of Asia forums, with a high profile event in Singapore, opened by the Singaporean Prime Minister Lee Hsien Loong.

During the year we have also begun to focus attention on the School's engagement in Africa. We have long had links with African countries, and many African leaders were educated at LSE, but the connections need to be refreshed. The number of African students at the School has not fallen, though the percentage coming from Africa has dropped as the School has grown. We believe we could do more to strengthen existing links and develop new ones. One new initiative during the year was a conference on climate change which we ran in Kagali in collaboration with the Rwandan government, which brought in people from around East Africa to discuss ways in which the region will need to adapt their patterns of development to take account of the impact of climate change, and particularly of altered distribution of rainfall, on their populations. We hope to take that initiative further in the future.

Overall, the School seems to be well placed to continue its mission of providing high quality research and teaching of a broad range of social science in a global setting. We are financially sound and the strength of demand for our courses suggests we are offering programmes which are attractive to young people all around the world. The profile for our research is high, and our faculty's engagement with policy in the public, private and third sectors is strong. The mission of the School's management is to provide a sound platform on which our teaching and research can continue to develop and prosper.

### Financial overview

For the financial year ending 31 July 2008 the School achieved a surplus before exceptional items of £26.5m which is equivalent to 13.9 per cent of gross income and compares to a surplus of £21.1m for 2006/07 (12.5 per cent of gross income).



*This page (from the left): a lecture in the New Academic Building; the Library main entrance and John Watkins Plaza*

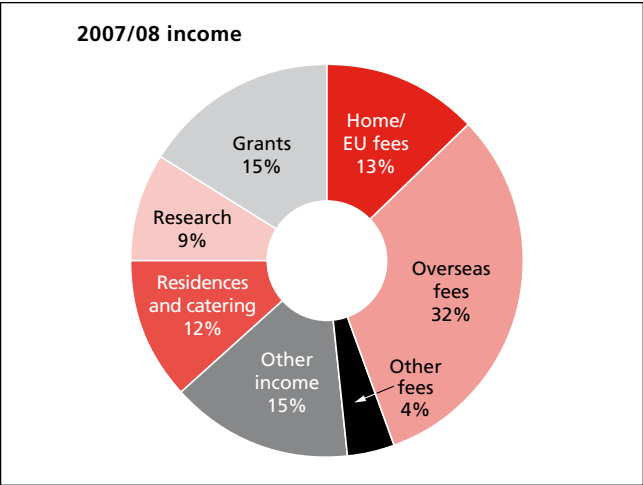


The School's Finance and General Purposes Committee adopted a target surplus range of three per cent to four per cent of income in 2003, recognising that a sustainable surplus is required to fund loan repayments, to support capital and infrastructure investment and to provide the School with the flexibility to invest in new academic initiatives.

The School has achieved surpluses in excess of this level in recent years through a combination of excellent achievement in student recruitment, substantial contributions generated from activities that have been developed to achieve full utilisation of the School's physical and intellectual assets, and sound budgeting and financial management processes. These surpluses will fund substantial investment in infrastructure over the next few years and allow the School to continue to attract the best faculty and students even in the current difficult economic circumstances.

**Income – total**

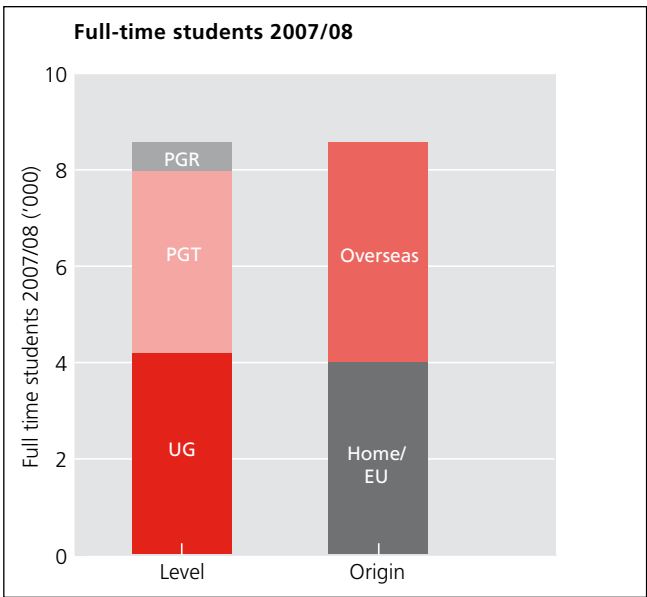
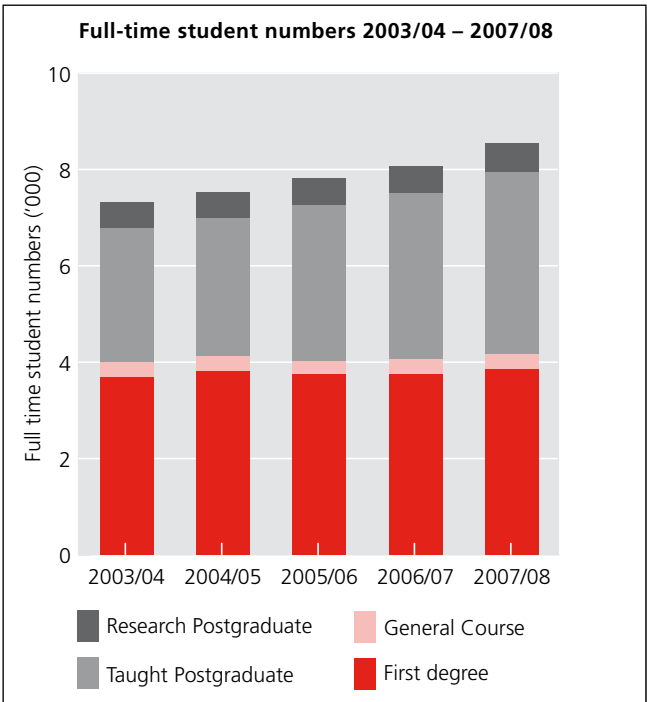
Income grew by 12.6% in total. Tuition fees increased by 13.6% and now represent 48.1% of income compared to 47.7% in 2006/07. Success in fundraising saw endowment and investment income grow by £2.6m (45.6%) and the School's permanent endowment reached £56.9m at year end. Funding Council grants grew only 5.1% and represented 15.6% of total income.



**Students**

The total number of full-time students at the School in 2007/08 was 8,535, an increase of 5.7 per cent, slightly ahead of the School's planned expansion to 9,000 by 2012.

Overseas students (those from outside the United Kingdom or other European Union countries) account for roughly half the School's student population and for over two-thirds of tuition fee income, reflecting both the international flavour of the School's student body and our world-wide reputation.



**Income – Funding Council grants**

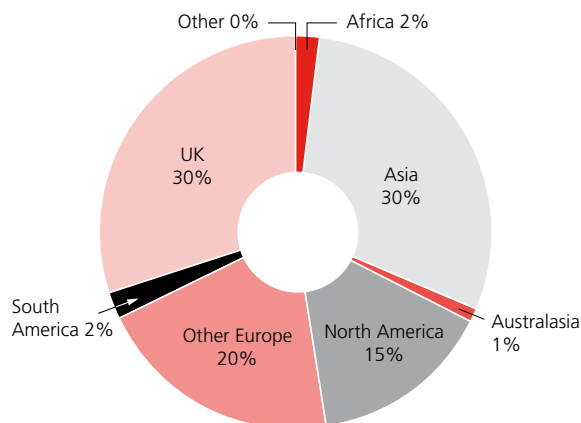
Although the School has a relatively low proportion of HEFCE (Higher Education Funding Council for England) grant funding compared with most UK higher education institutions, the £29m received from HEFCE together with the £0.7m from JISC (the Joint Information and Infrastructure Systems Committee) is an essential contribution to the financial viability of the School, as is the SRIF (Science Research Investment Fund) research capital funding.





*This page (from the left): David Cameron and the Prime Minister of Sweden, Fredrik Reinfeldt, who both spoke at the LSE European Institute The Future of Europe lecture series entitled The New Swedish Model: A Reform Agenda for Growth and the Environment; The Sheikh Zayed Theatre in the New Academic Building*

**Full-time students in 2007/08 by continent**



The continuing disparity between the amount we are paid to teach home and EU undergraduates (the Government set tuition fee plus the HEFCE teaching grant) and the cost of delivering teaching remains a concern for the School. Nevertheless, although there is speculation from time to time that some universities might 'go private' to have freedom in setting undergraduate fees, there are no such plans at LSE.

The School also benefitted from £2m capital grants to support improvement in research infrastructure.

#### Residences

The School operates approximately 3,500 bed spaces in 11 halls of residence and guarantees all first year taught masters and undergraduates a place. During vacation periods the halls operate on a commercial basis providing hotel accommodation for a wide range of customers, ranging from our own summer school students to casual visitors to London. The £6m per annum revenue generated from this activity is entirely used to subsidise student rents and enables us to continue to offer many rooms on a 31 week basis, in contrast to the commercial providers who have a growing presence in London and require students to contract for 40 weeks or longer.

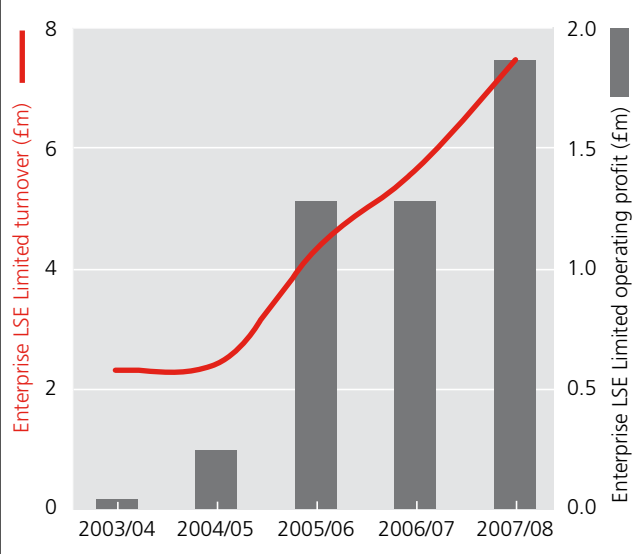
Residences operates on a 'self financing' budgetary basis, with room rents set at a level which, after the subsidy from vacation business, is sufficient to cover operating costs, rents and capital charges.

#### Enterprise LSE Limited and Duke CE Limited

Enterprise LSE Ltd (ELSE) is the wholly owned subsidiary of the School that exists to develop the potential for consultancy, executive education and related activities that the School's world-class faculty offers. 2007/08 has been a very successful year for the company with turnover up by 32 per cent and the operating surplus, which is remitted to the School through Gift Aid, up by 45 per cent to £1.9m. The Gift Aid paid to the School supports teaching and research activities. The company also provides an important opportunity for faculty to supplement their personal income, a useful mechanism for attracting and retaining key staff, valued at £1.4m in 2007/08.

Following the acquisition of a 30 per cent equity share in Duke CE Limited in July 2007 ELSE has continued to work very successfully with

**Enterprise LSE turnover and operating profit**

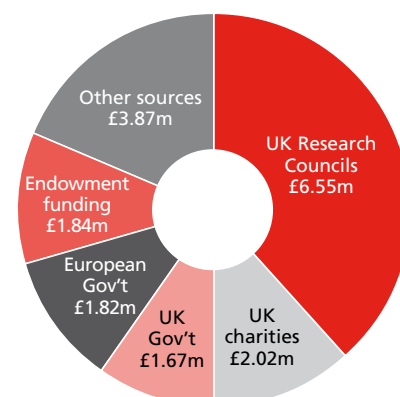


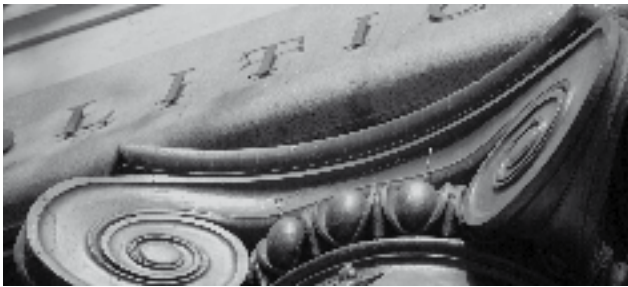
Duke in developing and delivering customised corporate education to a wide variety of multinational clients. Duke CE is ranked number one in customised corporate education in FT Customised Executive Education league table.

#### Research income

Income generated from research grants and endowments continues to grow, increasing by 10.5 per cent to £17.7m in 2007/08 as the School continues to benefit from the effects of full economic costing (fEC) from some of its key sponsors of research. Despite previous concerns that the implementation of fEC would result in a decrease in the overall volume of research grants funded, this has so far proved not to be the case. Indeed, income from contracts starting in 2007-08 was 16 per cent of total research income for the year. The overall number of research grants funded over the period rose by six per cent from

**2007/08 research funding source**



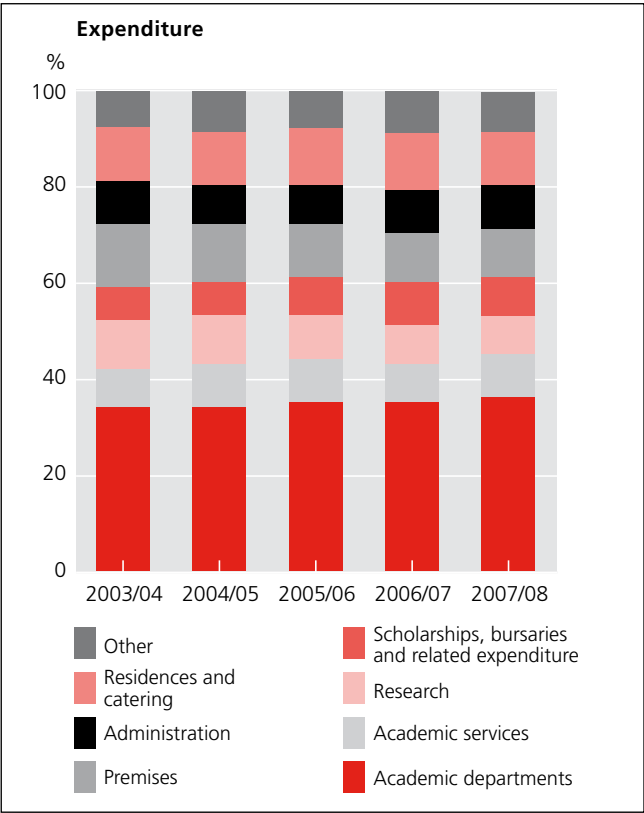


523 in 2006/07 to 555 in 2007/08. The Research Councils, primarily the ESRC, remain the largest funder of research, accounting for 37 per cent of the School's overall research income.

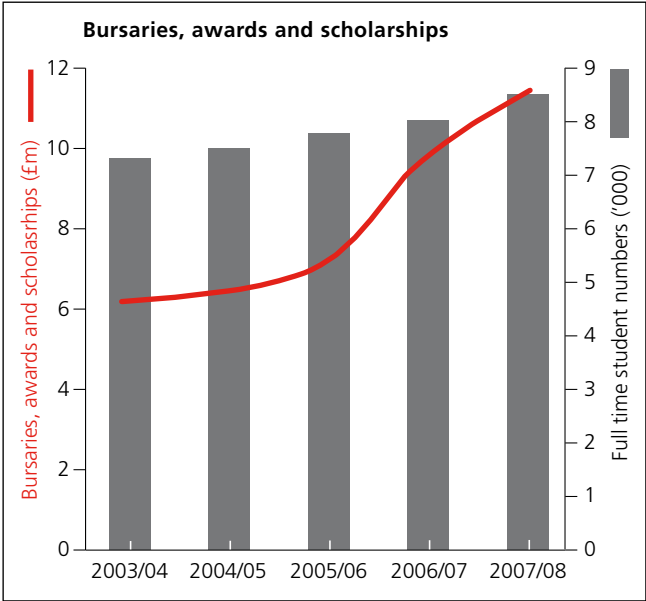
The School remains competitive in obtaining external funding for high quality peer reviewed research, where growth is a strategic goal. Where it is possible and appropriate to our academic aims, we also participate in commercial non peer reviewed research, though growth of research purely for income generation is not a strategic aim.

**Expenditure**

Total expenditure grew by 10.7%, with pay costs increasing by 10.9%, of which 3.8% was attributable to the pay awards in August 2007 and May 2008, 3.3% resulted from promotion and increments, and 3.8% from a net increase of 66 staff. Other operating expenditure grew in total by 12.8%, reflecting the growth in research activity, the investment in an offsite IT facility, expanded trading activities and estates refurbishment projects.



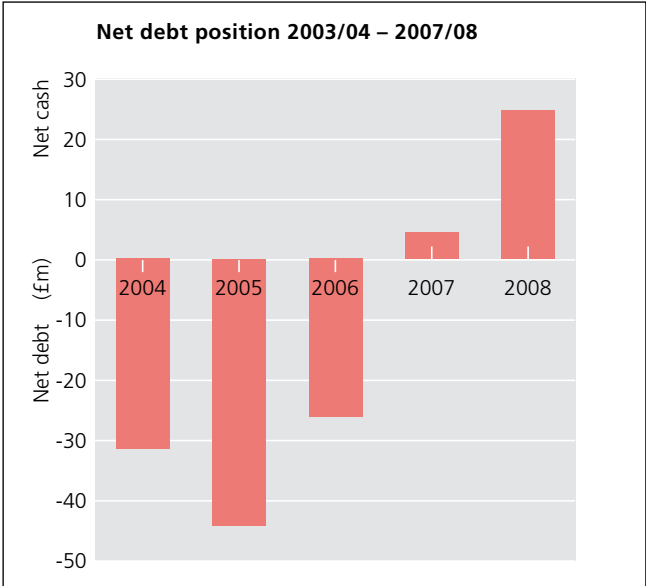
Partly through reinvestment of income and partly through successful fundraising, the School was able to increase the value of awards, bursaries and scholarships substantially. This year it rose by 14 per cent to £11.5m and it is now at a level which is amongst the highest in the UK.



**Balance sheet and liquidity**

During 2007/08 the School's net assets grew by 14.5 per cent. It is worth reflecting that they have more than doubled over the last five years, that net debt has fallen from £52m in 2004 to a position where cash deposits exceed debt, and £94m has been invested in fixed assets.

The School put in place a 25-year £75m amortising debt facility in December 2003, with £65m swapped into fixed rates. During the year, the Finance and General Purposes Committee has reviewed the adequacy of borrowing facilities, and concluded that while they are sufficient to meet capital commitments beyond the completion of

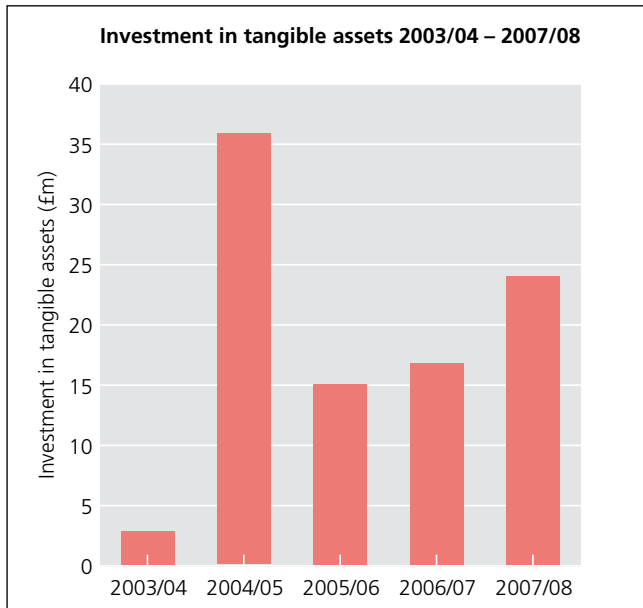






*Previous page (far left): a music event in the Shaw Library, Old Building*

*This page (far left): an economics lecture*



the New Academic Building, it is appropriate to explore longer term options in anticipation of future estates developments, and that work has commenced.

#### Endowments and fundraising

The Campaign for LSE reached a successful conclusion in December 2007 having raised over £105m in gifts and pledges.

Endowments have been restated to exclude a physical property in accordance with the new Higher Education Statement of Recommended Practice and stood at £56.9m at the end of the financial year, an increase of 6.2 per cent on the year and a 46 per cent increase over the past five years.

#### Capital expenditure

During the year £0.7m was spent refurbishing academic space, and £1.4m on projects to improve access and facilities in the Library. In September 2008 the £70m development of the New Academic Building at 54 Lincoln's Inn Fields and a £2m project to refurbish the main refectory were completed. Once again, strong financial performance has allowed us to fund this work without recourse to additional drawdown of our borrowing facility.

#### Principal risks and uncertainties

The School's Strategic Plan addresses the key risks threatening the achievement of the School's strategic objectives over the next five years.

With a high proportion of income from student fees, the global economic situation and issues relating to student visas and immigration represent risks faced by the School. They are mitigated by the geographic diversity of the School's student intake, the current high number of applications per place, provision for potential under recruitment in our financial planning, and a low debt gearing.

As discussed above, actions are being put in place to address the risk that arises from student satisfaction with teaching not being at

the desired level. A process of five year planning and detailed annual monitoring operates to ensure the teaching programmes are relevant and world class in academic content. This also ensures that courses with lower student demand are reviewed and updated or replaced.

The School has developed and participates in a range of programmes to attract students from underrepresented groups. The high value of bursaries and scholarships is designed to encourage very able students to study at the School who do not otherwise have financial means to do so.

The quality of teaching is primarily determined by the quality of the faculty and the School continues to seek out and attract world class academics with competitive salaries, promotion prospects and sabbatical leave entitlement.

The School undertakes its financial planning is undertaken over a five and ten years' time horizon to reflect the long term nature of both staff development and capital investment planning. The School's Finance and General Purposes Committee reviews these plans and

### Yvonne Maingey LLB Law

Yvonne Maingey, studying for an LLB Law, is an ICAP Scholar who has been studying at the School for two years.

Yvonne's parents have always believed in the power of a solid education, but going to university was beyond the family's means. The ICAP scholarship has enabled Yvonne to change all this.

Recently, Yvonne has been heavily involved with Pulse Radio – the official LSE Students Union radio station – and as a result of her 'vibrant, informative and diverse' Breakfast with Yvonne show during the course of the year, she was voted best female radio presenter and best newcomer during the School's media awards held in June.

In addition, she took a very active role in the African and Caribbean Society, participating in events that ranged from career days, to Black History Month and the annual cultural show. As a result of her active participation, enthusiasm and drive for success, she was elected president of the society.

Yvonne said: 'This scholarship has afforded me the great opportunity of focusing on being the best I can be, without having to worry about finances. I have become a person who is constantly pushing herself, striving for more. I want to make sure that I can spread the good that has so selflessly been shown to me.'

'I hear people refer to Africa as the dark continent and hopeless. Before, such comments would depress me, even silence me because I never knew what to say to retaliate! But since I received the scholarship, my confidence has soared, not just my self-confidence but my confidence in my country and my continent.'





risks at least three times a year so that appropriate actions can be taken to address deviations from financial objectives.

The staff survey carried out in 2006 indicated high levels of satisfaction with the School as a place to work. Since then the central administration, the Library and IT Services have all retained Investors In People accreditation, and a Staff Consultative Council has been established to build on the existing sound base of good staff relations and improve employee engagement. It is planned to repeat the staff survey in 2009 as part of a process of monitoring risk in this area.

The risk that the School's infrastructure could fail to meet the increasing demands and expectations of staff and students is being addressed through an emerging Estates strategy for the redevelopment of the campus and a financial strategy to achieve financial surpluses sufficient to fund these investments.

The risk that the School's emergency planning and business continuity arrangements may be inadequate to respond to unforeseen events is being addressed by the recently appointed Director of Business Continuity. He is working, under the guidance of the School's senior officers, to develop and embed comprehensive plans to respond to a variety of major events. In addition, the School has recently entered in to a significant long term contract to provide state of the art off-site data storage, backup and recovery facilities, one of the first such arrangements in higher education.

Protecting and developing the School's reputation is key to its future. The maintenance of the highest standards for recruitment of both staff and students remains central to the School.

**Health and safety**

The School continues to have a good track record in health and safety management. The School's arrangements for managing significant risks such as asbestos and legionella have been examined and endorsed by the Health and Safety Executive, following a recent inspection of the School. The School continues to review and update

its health and safety policy to ensure that we are equipped to manage emerging risks such as workplace health and work related stress. The School's health and safety committee monitors the operation of the School health and safety arrangements on behalf of Council.

**The future**

There have been significant declines in stock markets since the academic year end, some major financial institutions have failed, others have been taken over or restructured and governments worldwide have acted to restore liquidity and confidence. We face global credit market problems, and the prospect of recession or slower growth for some years to come.

The School, and students at the School, will not be protected from these developments. It will affect graduate career choices and it will increase the demands on student financial support for those individuals who are most affected. Taken together with demographic trends in the UK and increasing competition from overseas Universities, the Higher Education sector as a whole cannot assume continuation of growth in demand and funding experienced in the past five years.

In this environment, it is right to focus less on growth over the next five years, to maintain quality where it is already excellent, in areas such as research, academic teaching standards, library services and careers and to improve quality in other areas, such as students' experience and the estate. And understanding the causes of these unprecedented economic challenges and contributing policy advice to their resolution remains the heart of what we do at the School.

**Howard Davies**  
Director





# Report of the Directors



*Previous page (far left): the LSE Library*

*This page: High Holborn hall of residence*

## Business review and principal activities

The principal activities of the School in the year under review were those of higher education and research, together with such additional activities as are relevant to facilitate them. Additional activities include consultancy, conference and events, the provision of catering and accommodation services and the publication of academic journals.

A review of the events of the year, together with a summary of expected future developments, is given in the Report of the Director on pages 4-10 of these accounts.

## Subsidiary companies

The financial statements include the results of the subsidiary companies, Enterprise LSE Limited, LSE LETS Limited and LSE Foundation Inc.

## Key Performance Indicators

	Notes	2008	2007
% Ratio of surplus to total income	1	14.1%	14.5%
% Ratio of HEFCE grants to total income	2	15.6%	16.7%
Days ratio of general funds to total expenditure	3	304 days	270 days
% Ratio of long-term liabilities to total general funds	4	31.9%	41.7%

1. % Ratio of surplus to total income = surplus as a percentage of total income. The School has established a target range of three per cent to four per cent, necessary to fund infrastructure investment.

2. % Ratio of HEFCE grants to total income = HEFCE grant income as a percentage of total income. The School aims to develop its income from non HEFCE sources in order to keep this ratio to a minimum and reduce its dependency upon government funding.

3. Days ratio of general fund to total expenditure =  $365 \text{ days} \times (\text{general reserve plus general endowments}) / \text{total expenditure}$ . The aim is to gradually increase this ratio over a number of years.

4. % Ratio of long-term liabilities to total general funds =  $\text{long-term liabilities} / (\text{general reserve plus general endowments})$ . The aim is to gradually reduce this ratio over a number of years.

## Principal risks and uncertainties facing the School

Please see page 9.

## Financial instruments

The School's operations expose it to a variety of financial risks including the effects of changes in interest rates on debt, foreign currency exchange rates, credit risk and liquidity risk.

The School's principal financial instruments comprise investments, cash and bank deposits, bank loans together with trade debtors and trade creditors that arise directly from its operations.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The School has a limit of £20m that can be placed with any one bank.

The School's current practice is to maintain the majority of borrowings at fixed rates to fix the amount of future interest payments.

## Environment

The School's report on Environmental Progress is outlined on page 39.

## Employment

The School aims to be an Equal Opportunities Employer.

The School's policy of employment with regard to disabled persons is to consider sympathetically the engagement of any suitable registered disabled person who may apply for a post and provide similar opportunities for training, career development and promotion as for other members of staff.

## Directors

The Directors of the School are shown at page 44.

## Auditors

A resolution to reappoint Grant Thornton UK LLP as auditors of the company will be proposed at the forthcoming Court of Governors Meeting.

## Disclosure of information to auditors

At the date of making this report each of the company's directors, as set out on page 44, confirm the following:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware and
- he or she has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

The Report of the Directors was approved by Council on 25 November 2008.

**Howard Davies**  
Director

# Accounting policies



The School is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the School 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 School receives partial exemption in respect of Value Added Tax, and is unable to recover the majority of VAT paid to suppliers.

The School is incorporated under the Companies Act as a company limited by guarantee.

The accounts set out on pages 16 to 36 have been prepared in accordance with the following accounting policies:

## (a) Basis of accounting

The consolidated financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of investments and in accordance with applicable United Kingdom Accounting Standards.

## (b) Format of the accounts

The accounts are prepared to conform to the Companies Act 1985 and also with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education dated July 2007.

## (c) Basis of consolidation

The consolidated financial statements consolidate the financial statements of the School and all its subsidiary undertakings for the financial year as set out in Note 12.

Where the School enters into a Joint Venture arrangement it consolidates its share of assets, liabilities, income and expenditure, in accordance with the requirements of FRS 9.

The consolidated financial statements do not include those of the Students' Union as it is a separate entity in which the School has, under existing arrangements, no financial interest and no control or significant influence over policy decisions.

## (d) Income and expenditure account

The Income and Expenditure Account reflects all expenditure and general unrestricted income associated with the performance of the principal objects of the School, that is teaching and research, and also includes restricted income to the extent that expenditure has been incurred.

## (e) Income Recognition

Funding council block grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the income and expenditure account over the period in which the students are studying. Where the amount of the tuition fee is reduced, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and included within other operating expenses.

Recurrent Income from grants, contracts and other services rendered are accounted for on an accruals basis and included to the extent of

the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. The grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset at the same rate as the depreciation charge on the asset for which the grant was awarded.

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

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

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

Increases or decreases in value arising on the revaluation or disposal of endowment assets, ie, the appreciation/depreciation of endowment assets is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund and reported in the statement of total recognised gains and losses.

## (f) Land and buildings

Land and buildings are capitalised in the School's Balance Sheet at historical cost.

The Finance and General Purposes Committee have reviewed the usable lives of the School's buildings in line with FRS15 and the depreciation policy is based on this assessment.

Freehold buildings are depreciated over the remainder of their useful economic lives which range between ten and 76 years. Leasehold buildings are amortised over the remaining period of the lease.

Fire Certification Works at the School's Student Residences are depreciated over a period of 15 years.

An annual review for impairment of fixed assets is carried out to determine whether events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable and for assets deemed to have an economic life in excess of 50 years. No impairment has been charged to the 2007/08 accounts.

The School's buildings were valued in early 2001. This showed that the value of the Houghton Street site was at least £250m and the value of the Student Residences at least £75m.

Where buildings are donated or acquired with the aid of specific grants or donations they are capitalised and depreciated as above. The related grants and donations are treated as deferred capital grants and are released to income in accordance with the depreciation policy.





Previous page: Shaw Library, Old Building

This page (from the left): LSE Global Week on Houghton Street; the atrium in the Old Building

#### (g) Furniture and equipment

Equipment, including computers and software, costing less than £30,000 per individual item or group of related items is expensed in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its useful life which varies between five and ten years.

#### (h) Operating leases

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

#### (i) Stock

Stocks, which are primarily catering supplies, are valued at the lower of cost and net realisable value.

#### (j) Investments

Investments within Fixed Assets that are listed on a recognised stock exchange are carried at market value.

Investments that form part of Endowment Assets are included in the Balance Sheet at market value.

Investment income is accounted for on a receipts basis, no credit being taken for income where the due date falls after the current accounting period. Interest on deposit accounts is accounted for on the accruals basis.

Appreciation/depreciation in the market value of investments within Fixed Assets is added to or subtracted from the Revaluation Reserve and any profit or loss on realisation is brought into the Income and Expenditure Account. A diminution in market value is charged to the Income and Expenditure Account to the extent that it is not covered by a previous revaluation surplus.

Appreciation/depreciation in the market value of Endowment Asset investments and any profit or loss on realisation is added to or subtracted from the funds concerned.

#### (k) Joint venture entities and associates

The School's share of income and expenditure in joint venture entities is recognised in the institution's income and expenditure account in accordance with FRS 9. Similarly the institution's share of assets and liabilities in associate entities is recognised in the institution's balance sheet in accordance with FRS 9.

The gross equity method is used when consolidating joint venture entities and associate entities are consolidated using the equity method entities in accordance with FRS 9.

#### (l) Provisions

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

#### (m) Foreign currency

Transactions denominated in Euros and other foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are recognised as part of income and expenditure.

#### (n) Pensions

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements or the University of London (SAUL). Both are defined benefits schemes and are externally funded and contracted out of the State Second Pension (S2P) Scheme. The assets of the schemes are held in separate trustee-administered funds. The School is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reliable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the schemes in respect of the accounting period.

A provision has been made in respect of pension enhancements payable to staff who have retired under the previous superannuation scheme for academic and related staff, FSSU, in accordance with FRS 17 'Retirement benefits'.

### Mazida Khatun BSc Government

She is one of the many students to benefit from Widening Participation activities at LSE.

Entering her second year of a BSc in Government, Mazida is a London girl who, at aged 15 thought university was a pipe-dream.

But it was at her sixth form that Mazida's intelligence was spotted, and she joined LSE CHOICE. The programme pulls talented youngsters from London state schools and brings them to campus over 16 Saturday mornings and a week long summer school. Here the students have lectures and lessons from LSE academics and sixth form teachers, designed to enhance their knowledge of their A Level courses, and support their university application process.

The course propelled Mazida from being just any A Level student, to someone who could confidently engage with her peers, build and vocalise a coherent argument, and expand on the limited scope given in her A Level classes at sixth form.

Mazida said: 'The skills I learnt at CHOICES were invaluable and if I hadn't done the course I would have found the transition between school and university harder.'

She firmly believes that state school students can excel at university, and that the support at LSE, both financial and motivational, is unparalleled: 'You won't be hindered as a state school student unless you believe you are different and don't deserve to be here. If anything, we have worked harder for it, and if you believe in yourself, this will carry you through and you can come a long way in a short time.'

When asked what she hopes to gain from LSE, Mazida says without hesitation: 'A damn good degree.'





### (o) Charitable donations

#### Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

#### Endowment funds

Where charitable donations are restricted to a particular objective specified by the donor, these are accounted for as an endowment. There are three main types:

1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the School.
2. Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income.
3. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

#### Total return on investment for permanent endowments

The entire investment return initially accrues to an unapplied total return fund. Any income earned on the endowment investments and any capital gains or losses will be shown as endowment and investment income in the income and expenditure account.

The total return, less any part of the return which has previously been applied for the purposes of the institution, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

#### Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

#### Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in 'endowment and investment income' or 'deferred capital grants' in the income and expenditure account either using a reasonable estimate of their gross value or the amount actually realised.

### (p) Financial instruments

The School uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods or the contracts. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, then it is marked to market and any resulting profit or loss recognised at that time.

### (q) Cash flows and liquid resources

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

Liquid resources comprise assets held as a readily disposable store of value including term deposits.





# New Academic Building



Previous page (right):  
LSE Library sky light

This page: New  
Academic Building

Her Majesty The Queen opened the School's dramatic New Academic Building in November 2008 which provides superb teaching space for students by day and the city's most contemporary venue for public lectures in the evening.

The £70m New Academic Building, with entrances on Kingsway and Lincoln's Inn Fields in central London has eight floors of teaching rooms, theatres, a debating chamber and offices. It is built around a soaring central atrium flooded with natural light.

The building, designed by the architects Grimshaw and built by Osborne, houses the School's Departments of Management and Law, and its new The Grantham Research Institute on Climate Change and the Environment.

It includes four lecture theatres – the biggest seating up to 400 – which are used for LSE's packed programme of public talks and events, all of which feature world-leading thinkers.

At the building's centre is a specially-commissioned artwork by Joy Gerrard which uses a series of hanging globes to represent constellations of ideas and the way that major political or economic thoughts echo through public life.

LSE Director Howard Davies said: 'It's a wonderful space which at last gives us the academic environment to match our academic reputation. The building will help reinvigorate teaching and learning at an expanding LSE. I'm sure it will also be a popular destination for the thousands of visitors who come to our public talks and other events.'

The new building is helping the School to expand its student numbers to about 9,000. LSE alumni and other supporters have helped to pay for the project, with donations and gifts from more than 20 countries across the world – including four gifts of £1m or more.

The building has also been designed to minimise its environmental impact. A borehole deep in the London soil provides ground water cooling for lecture theatres while solar heating helps provide warm water. The building also includes a natural ventilation system and a cycle park – helping it achieve an Excellent rating under the BREEAM assessment scheme.

A café and a student union shop are also on the building's ground floor, which has a public plaza overlooking Lincoln's Inn Fields.

The Edwardian building has been gutted, redesigned and refurbished over the course of two years. It had been formerly owned by the Government and housed the Public Trustees Office.

The internal structures were removed and replaced with new floors – all suspended from a steel truss on the eighth floor to allow a column-free central atrium, which has a timber floor that also swoops up one wall to the third storey and the atrium's glazed roof.

On the eighth floor sits a glass roof pavilion and balconies with dramatic views over central London.

An inaugural lecture series featured world-famous academics including Niall Ferguson and Anne-Marie Slaughter. The New Academic Building will also host LSE's first ever literary festival (Space for Thought) which takes place from 27 February to 1 March 2009.

A second art work, by sculptor Richard Wilson, will be unveiled outside the building in the new year.

To meet the LSE Environmental Policy, the New Academic Building has been designed to achieve a BREEAM (Building Research Establishment Environmental Assessment Methodology) excellent rating. The environmental features designed into the building are supplemented by operational procedures and together they signal a new level of environmental responsibility for LSE. These include:

- Sustainable timber and reclaimed and recycled flooring throughout the building
- Solar thermal water collectors to heat water for the eighth floor
- Water saving devices throughout the building and Dyson air blade driers in high use toilet areas
- Bicycle parking, showers and lockers to encourage sustainable travel in the form of cycling and walking
- Seasonal planting on the eighth floor terrace to provide food for birds and insects, also incorporating bird and bat boxes to encourage local species
- Some furniture made from recycled materials and capable of being recycled
- Lighting operated by motion sensor detecting system
- User control over comfort cooling and openable windows in all offices and classrooms
- Filtered water fountains across the building and in staff tea point areas to avoid the environmental impact of bottled and chilled water
- A comprehensive waste management system including zero waste to landfill, food composting and a new bin the bin pilot. The intention is to reduce the number of plastic waste bags, increase recycling rates, improve our carbon footprint and encourage greater sustainability practices amongst staff and students.



# Consolidated income and expenditure account



	NOTES	2008 £'000	2007 £'000
<b>INCOME</b>			
Funding Council grants	1	29,701	28,250
Tuition fees and education contracts	2	91,371	80,462
Research grants and contracts	3	17,772	16,085
Other income	4	42,744	38,204
Endowment and investment income	5	8,324	5,716
<b>Total income</b>		<b>189,912</b>	<b>168,717</b>
<b>EXPENDITURE</b>			
Staff costs	6	95,159	85,813
Other operating expenses	7	62,101	55,791
Depreciation		3,687	3,422
Interest payable	8	2,519	2,583
<b>Total expenditure</b>		<b>163,466</b>	<b>147,609</b>
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before exceptional items and tax		26,446	21,108
Exceptional items	9	302	3,339
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		26,748	24,447
Taxation	10	56	(64)
<b>Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax</b>		<b>26,804</b>	<b>24,383</b>
<b>Surplus for the year retained within general reserve</b>	22	<b>26,804</b>	<b>24,383</b>

The income and expenditure account is in respect of continuing activities.

As permitted by Section 230 of the Companies Act 1985, the income and expenditure account of the Company is not presented as part of these financial statements. Of the total surplus for the year of £26,804,000, a surplus of £26,946,000 was made by the Company.

There is no note of historical cost surpluses and deficits as the reported surplus has been calculated on the historical cost basis.

# Statement of total recognised gain and losses



Previous page:  
IT Services

This page (top to bottom): the LSE Library; LSE's first live webcast in May 2008 featuring George Soros and LSE Director Howard Davis

	NOTES	2008 £'000	2007 £'000
Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax		26,804	24,383
New endowments		10,816	6,222
Endowment withdrawn	21	(4,584)	(5,693)
(Depreciation)/appreciation of endowment asset investments	21	(2,929)	1,635
<b>Total recognised gains and losses relating to the year</b>		<b>30,107</b>	<b>26,547</b>
<b>Reconciliation of movement in reserves and endowments</b>			
Opening reserves and endowments		162,914	136,367
Total recognised gains and losses for the year		30,107	26,547
Closing reserves and endowments		193,021	162,914

## The New Paradigm for Financial Markets: The Credit Crisis of 2008 and What It Means

George Soros  
Chairman, Soros Fund Management LLC

Howard Davies  
Director, LSE





# Consolidated and School balance sheet



				Restated	
		Group 2008 £'000	School 2008 £'000	Group 2007 £'000	School 2007 £'000
	NOTES				
Fixed Assets					
Tangible assets	11	230,104	229,525	209,875	209,291
Investments in subsidiary undertakings	12	–	150	–	150
Investments in joint ventures	13	417	–	416	–
		230,521	229,675	210,291	209,441
Endowment Assets					
	14	56,853	56,853	53,550	53,550
Current Assets					
Stock		77	77	83	83
Debtors	15	15,413	18,201	14,056	16,271
Cash at bank and in hand	16	5,086	1,867	5,243	2,280
Bank deposits	16	48,000	48,000	37,000	37,000
		68,576	68,145	56,382	55,634
Creditors: amounts falling due within one year	17	(41,544)	(40,776)	(37,923)	(36,977)
Net current assets		27,032	27,369	18,459	18,657
Total assets less current liabilities		314,406	313,897	282,300	281,648
Creditors: amounts falling due after more than one year	17	(43,434)	(43,434)	(45,642)	(45,642)
Pension provision	19	(207)	(207)	(268)	(268)
NET ASSETS		270,765	270,256	236,390	235,738
Deferred capital grants	20	77,744	77,744	73,476	73,476
Endowments					
Expendable	21	32,942	32,942	28,570	28,570
Permanent	21	23,911	23,911	24,980	24,980
		56,853	56,853	53,550	53,550
Reserves					
General reserve	22	136,168	135,659	109,364	108,712
		136,168	135,659	109,364	108,712
TOTAL		270,765	270,256	236,390	235,738

The financial statements on pages 16 to 36 were approved by the Council on 25 November 2008 and were signed on its behalf by

Peter Sutherland

Howard Davies

# Consolidated cash flow statement



*Previous page (from the left): the newly renovated 4th Floor Restaurant, Old Building; student leafleting on Houghton Street*

	NOTES	2008 £'000	2007 £'000
Cash flow from operating activities	23	34,578	31,958
Returns on investments and servicing of finance	24	3,349	1,374
Capital expenditure and financial investment	25	(17,747)	(2,649)
Management of liquid resources	26	(18,000)	(33,000)
Financing	27	(2,225)	(2,225)
Decrease in cash in the period	28	(45)	(4,542)
Reconciliation of net cash flow to movements in net funds/(debt)			
Decrease in cash in the period		(45)	(4,542)
Cash outflow from liquid resources	26	18,000	33,000
Changes in net debt resulting from cash flows	27	2,225	2,225
Movements in net funds/(debt) in period		20,180	30,683
Net funds/(debt) at 1 August		4,421	(26,262)
Net funds at 31 July	28	24,601	4,421

# Notes to the Accounts



<b>1 FUNDING COUNCIL GRANTS</b>	<b>NOTES</b>	<b>2008</b> £'000	<b>2007</b> £'000
<b>From the HEFCE</b>			
Block Recurrent		27,293	26,390
Library Grants		234	234
Higher Education Innovations Fund		–	81
Project Capital Round 2/3		605	295
Other Specific Grants		275	154
Deferred Capital Grants Released in Year	20	549	594
		28,956	27,748
<b>Joint Information Systems Committee and Other Grants</b>			
		745	502
		29,701	28,250
<b>2 TUITION FEES AND EDUCATION CONTRACTS</b>			
Tuition Fees:			
Home/EU Students		23,968	19,930
Overseas Students		60,190	54,424
TRIUM MBA		1,235	973
Short Courses		5,701	4,932
Examination and Other Fees		277	203
		91,371	80,462
<b>3 RESEARCH GRANTS AND CONTRACTS</b>			
Research Councils		6,549	6,749
Government Departments		1,669	1,619
Charities		2,024	1,812
European Community		1,819	1,905
Other Outside Bodies		3,870	2,405
Specific Endowments	5	1,841	1,595
		17,772	16,085



# Notes to the Accounts



*Previous page:  
students studying  
in the LSE Library*

*This page:  
LSE Main Entrance*

<b>4 OTHER INCOME</b>	<b>NOTES</b>	<b>2008</b> £'000	<b>2007</b> £'000
Residences and Catering		23,005	20,233
Rental Income		1,176	1,818
Overheads – Reimbursed		600	459
Publications		982	954
Library		1,040	965
External Study Programme		3,870	3,228
Consultancy Services and Executive Education		7,404	5,610
VAT Partial Exemption Scheme and Voluntary Disclosure		79	760
Application Fees		521	409
Staff and Student Facilities		1,528	1,341
Departmental Outside Funds		1,975	1,825
Release of Deferred Capital Donations	20	472	376
Sundry		92	226
		<b>42,744</b>	<b>38,204</b>
<b>5 ENDOWMENT AND INVESTMENT INCOME</b>			
Expendable Endowments		1,600	1,280
Permanent Endowments		1,086	1,118
Income from Endowments	21	2,686	2,398
Expendable Endowments		(1,454)	(1,229)
Permanent Endowments		(387)	(366)
Research Grants and Contracts funded by Endowments	3	(1,841)	(1,595)
Released from Expendable Endowments		4,297	3,045
Investment of General Funds			
Interest and Dividends Receivable		3,182	1,559
Realised Capital Profit		–	309
		<b>8,324</b>	<b>5,716</b>
<b>6 STAFF COSTS</b>			
Total staff costs for the year were:			
Wages and Salaries		79,923	71,916
Social Security Costs		6,896	6,245
Other Pension Costs		8,340	7,652
		<b>95,159</b>	<b>85,813</b>

# Notes to the Accounts



## 6 STAFF COSTS (continued)

	2008	2007
The average weekly number of persons employed by the School during the year expressed as full-time equivalents was:	Number	Number
Research and Teaching	806	802
Operational Services	1,063	1,000
Medical Services	2	4
Subsidiaries	13	12
	1,884	1,818

## DIRECTORS' REMUNERATION

	£'000	£'000
--	-------	-------

### Directors

Emoluments (2007/08 – nine Directors; 2006/07 – ten Directors)	1,158	929
--	-------	-----

Retirement benefits are accruing to nine directors under a defined benefit scheme, USS.

### Highest paid director

Emoluments	247	238
Defined benefit pension scheme:		
Accrued pension at end of year	10	7
Accrued lump sum at end of year	30	21

### Emoluments of the Director

Salary	229	220
Benefits in kind	18	18
	247	238
Pension contributions	32	31
	279	269

The Director was the School's 'highest paid director' as disclosed above.

The number of other Higher Paid Staff (excluding the Director) but including directors who received emoluments including benefits in kind but excluding employer's pension contributions in the following ranges was:

	Higher Paid Employees	
	2008 Number	2007 Number
£100,001 – £110,000	15	8
£110,001 – £120,000	10	13
£120,001 – £130,000	7	7
£130,001 – £140,000	1	6
£140,001 – £150,000	2	1
£150,001 – £160,000	1	2
£160,001 – £170,000	1	1
£170,001 – £180,000	1	–
	38	38

Total remuneration includes salaries and other additional payments relating to Summer School, TRIUM and consultancy and executive education delivered via Enterprise LSE Limited. It does not include payments for private consultancy or income earned from activities outside LSE and its subsidiaries.

# Notes to the Accounts



*Previous page (from the left): the Prime Minister of Singapore, Lee Hsien Loong, at the LSE Asia Forum; LSE Beaver Crest*

*This page (from the left): St Clements Building, Claire Market; Professor Sevket Pamuk Chair in Contemporary Turkish Studies, European Institute, LSE*

<b>7 OTHER OPERATING EXPENSES</b>	<b>2008</b> £'000	<b>2007</b> £'000
Academic Departments	7,047	6,283
Library and IT Services	6,041	4,755
Research Grants and Contracts	3,698	3,772
Scholarships and General Educational Expenditure	13,264	11,711
Premises	10,383	8,083
Administration and Central Services	2,330	3,634
Staff and Student Facilities	984	1,112
Residences and Catering	13,421	12,599
Miscellaneous	4,933	3,842
	<b>62,101</b>	<b>55,791</b>
Other operating expenses include:		
Fees payable to the School's auditor for the audit of the annual accounts	49	47
Fees payable to the School's auditor and its associates for other services:		
Audit of the annual accounts of the School's subsidiaries	6	6
Other services relating to taxation	8	8
All other services	8	9
	<b>71</b>	<b>70</b>

<b>8 INTEREST PAYABLE</b>		
Loans not wholly repayable within five years	2,519	2,583
	<b>2,519</b>	<b>2,583</b>

<b>9 EXCEPTIONAL ITEMS</b>		
Sale of Silver Walk property	302	3,339

The School sold the Silverwalk property in 2006/07. The proceeds received in 2007/08 relate to the completion of the Silverwalk garages sale.

<b>10 TAXATION</b>		
LSE LETS tax credit/(accrual)	56	(64)

LSE Lets Limited accrued £64,000 tax in 2006/07 and paid £8,000 in 2007/08, resulting a £56,000 tax credit.



# Notes to the Accounts



<b>11 TANGIBLE FIXED ASSETS</b>				
	<b>LAND AND BUILDINGS</b>		<b>EQUIPMENT</b>	<b>TOTAL</b>
	FREEHOLD	LONG LEASEHOLD		
<b>Group</b>	£'000	£'000	£'000	£'000
<b>COST</b>				
As at 1 August 2007 (as Previously Reported)	201,489	24,319	7,280	233,088
Prior Year Adjustment	2,357	–	–	2,357
As at 1 August 2007 (Restated)	203,846	24,319	7,280	235,445
Additions in Year	24,876	–	285	25,161
Additions in Year	–	(1,245)	–	(1,245)
As at 31 July 2008	228,722	23,074	7,565	259,361
<b>DEPRECIATION</b>				
As at 1 August 2007 (as Previously Reported)	17,126	2,750	5,390	25,266
Prior Year Adjustment	304	–	–	304
As at 1 August 2007 (Restated)	17,430	2,750	5,390	25,570
Charge for Year	2,561	513	613	3,687
As at 31 July 2008	19,991	3,263	6,003	29,257
<b>NET BOOK VALUE</b>				
As at 1 August 2007 (Restated)	186,416	21,569	1,890	209,875
As at 31 July 2008	208,731	19,811	1,562	230,104

	<b>LAND AND BUILDINGS</b>		<b>EQUIPMENT</b>	<b>TOTAL</b>
	FREEHOLD	LONG LEASEHOLD		
<b>School</b>	£'000	£'000	£'000	£'000
<b>COST</b>				
As at 1 August 2007 (as Previously Reported)	201,489	23,669	7,054	232,212
Prior Year Adjustment	2,357	–	–	2,357
As at 1 August 2007 (Restated)	203,846	23,669	7,054	234,569
Additions in Year	24,876	–	268	25,144
Additions in Year	–	(1,245)	–	(1,245)
As at 31 July 2008	228,722	22,424	7,322	258,468
<b>DEPRECIATION</b>				
As at 1 August 2007 (as Previously Reported)	17,126	2,669	5,179	24,974
Prior Year Adjustment	304	–	–	304
As at 1 August 2007 (Restated)	17,430	2,669	5,179	25,278
Charge for Year	2,561	513	592	3,666
As at 31 July 2008	19,991	3,182	5,771	28,944
<b>NET BOOK VALUE</b>				
As at 1 August 2007 (Restated)	186,416	21,000	1,875	209,291
As at 31 July 2008	208,731	19,242	1,551	229,524

The opening balances have been restated to include three freehold buildings donated to the School, previously included in Endowment Assets, to comply with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education 2007.

# Notes to the Accounts



*Previous page (from the left): LSE Library; the Royal Courts of Justice*

*This page: the opening of The Grantham Research Institute on Climate Change and the Environment*

## 11 TANGIBLE FIXED ASSETS (continued)

### Group and School

Fixed assets acquired by the School are funded from various sources including grants and donations. Many assets have conditions attached in the case of disposal and the proceeds may therefore not be available to the School.

The School's collections of books, manuscripts and objects d'art have been built up over many years, and include significant donations. Their value is not recorded in the accounts.

	Group 2008 £'000	School 2008 £'000	Group 2007 £'000	School 2007 £'000
<b>12 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS</b>				
Subsidiary Companies	–	150	–	150

Principal subsidiaries are:

Name	Nature of Business	Shareholding £1 Ordinary Shares	Number of Shares
Enterprise LSE Limited	Consultancy	100%	150,000
LSE LETS Limited	Vacation Lettings	100%	2
VELSE Limited	Dormant	100%	0
LSE Asia Limited	Dormant	100%	0

All of the above are registered in England.

LSE Foundation Inc (registered in the United States) has no share capital but is owned by the School and carries out fundraising activities in the United States. The results of the LSE Foundation Inc have been included in the Income and Expenditure Account.

On 1 July 2007 Enterprise LSE Limited exercised its share option to take up a 30 per cent shareholding in Duke Corporate Education Limited, a company incorporated in England. The results have not been disclosed on the face of the Income and Expenditure Account due to immateriality.

Enterprise LSE Cities Limited was dissolved during 2007/08.

	Group 2008 £'000	School 2008 £'000	Group 2007 £'000	School 2007 £'000
<b>13 INVESTMENTS IN JOINT VENTURES</b>				
Joint Ventures	417	–	416	–

The School has a 50 per cent share in the Journal of Transport Economics and Policy being a Joint Venture with the University of Bath.

Accounts have not yet been received for 2007/08 but the 2006/07 Accounts show the School's share of Turnover to be £48,000 and Operating Profit to be £377.

The School has a one third share in the TRIUM MBA course, being a 'Joint Arrangement that is not an entity' with NYU Stern and HEC Paris. This has been consolidated on a proportional basis in accordance with FRS9.

# Notes to the Accounts



<b>14 ENDOWMENT ASSETS – Group and School</b>	<b>2008</b> £'000	<b>2007</b> £'000
Movement in the year		
Balance at 1 August (as Previously Reported)		46,790
Prior Year Adjustment		(2,053)
Balance at 1 August	53,550	44,737
Additions	4,995	25,581
Disposals	(3,875)	(22,950)
(Depreciation)/appreciation of assets including reinvested profits on sales	(2,929)	4,925
Increase in Cash Balance	5,112	1,257
Balance at 31 July	56,853	53,550
Analysis of closing balance		
UK Equities	15,187	16,555
Overseas Equities	5,116	5,307
Gilts	7,142	6,640
UK Corporate Bonds	9,199	9,470
Other	2,152	1,960
Money Market Funds	885	1,558
Invested	39,681	41,489
Share of Freehold Property	33	33
Cash on Deposit	17,139	12,027
	56,853	53,550

The 2007 balances have been restated to exclude three freehold buildings donated to the School to comply with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education 2007.

Included within Freehold Property is an Investment of £33,000 in CVCP Properties PLC representing the School's allotment of shares that enabled the University sector to purchase the freehold of the Universities UK's Headquarters in Tavistock Square.





# Notes to the Accounts



*Previous page (clockwise from the left): Passfield hall of residence; a student at the Garrick restaurant; ten years of the LSE Internships Scheme, Paul Keetch MP, Liberal Democrat member for Hereford and Faith Armitage (intern 2003-04) outside Westminster*

*This page: artist Joy Gerrard by her sculptural work, Elenchus-Aporia, in the New Academic Building*

	Group 2008 £'000	School 2008 £'000	Group 2007 £'000	School 2007 £'000
<b>15 DEBTORS</b>				
Amounts falling due within one year:				
Trade Debtors	5,331	3,881	4,784	3,812
Research Balances	4,812	4,812	3,050	3,050
Amounts due from Subsidiary Undertakings	–	4,342	–	3,402
Staff Loans for Housing	29	29	31	31
Other Debtors	3,411	3,400	4,104	3,954
Prepayments and Accrued Income	1,406	1,313	1,760	1,695
	14,989	17,777	13,729	15,944
Amounts falling due after more than one year:				
Trade Debtors	229	229	253	253
Staff Loans for Housing	195	195	74	74
	424	424	327	327
<b>TOTAL</b>	<b>15,413</b>	<b>18,201</b>	<b>14,056</b>	<b>16,271</b>
<b>16 CASH AT BANK AND IN HAND</b>				
Cash at Bank	5,086	1,867	5,243	2,280
Fixed Term Deposits	48,000	48,000	37,000	37,000
	53,086	49,867	42,243	39,280
<b>17 CREDITORS</b>				
Amounts falling due within one year:				
Bank Loans	2,190	2,190	2,207	2,207
Trade Creditors	5,038	4,952	5,527	5,328
Research Creditors and Prepayment	4,956	4,956	5,066	5,066
Short Courses	29	29	14	14
Amounts due to Subsidiary Undertakings	–	1,331	–	607
Taxation and Social Security	2,630	2,629	2,235	2,219
Other Creditors	1,456	1,456	1,558	1,558
Accrual for Building Works	1,094	1,094	708	708
Accruals and Deferred Income	24,151	22,139	20,608	19,270
	41,544	40,776	37,923	36,977
Amounts falling due after one year:				
Bank Loans	43,434	43,434	45,642	45,642

# Notes to the Accounts



	Group 2008 £'000	School 2008 £'000	Group 2007 £'000	School 2007 £'000
<b>18 BORROWINGS</b>				
Bank loans are repayable as follows:				
In one year or less	2,189	2,189	2,207	2,207
Between one and two years	2,189	2,189	2,207	2,207
Between two and five years	6,568	6,568	6,623	6,623
In five years or more	34,677	34,677	36,812	36,812
	<u>45,623</u>	<u>45,623</u>	<u>47,849</u>	<u>47,849</u>

The School has arranged a £75,000,000 loan facility repayable by December 2028 secured over three properties. To date the School has drawn £55,000,000 to repay historic debts and finance leases.

The School has entered into interest rate swap agreements with a nominal value totalling £65,000,000. The effective fixed rate costs of the loans and swaps taken together is between five per cent and 5.5 per cent. The School would have to pay £7,200,000 to obtain the swap as at 27 October 2008.

	<b>Pensions Supplementation £'000</b>
<b>19 PENSION PROVISION</b>	
<b>Group and School</b>	
As at 1 August 2007	268
Transferred to Income and Expenditure Account	(61)
As at 31 July 2008	<u>207</u>

The pensions supplementation provision is in respect of pension enhancements payable to staff who have retired under the previous superannuation scheme for academic and related staff, FSSU.

		<b>Funding Council £'000</b>	<b>Other Grants and Donations £'000</b>	<b>TOTAL £'000</b>
<b>20 DEFERRED CAPITAL GRANTS</b>	<b>NOTES</b>			
<b>Group and School</b>				
As at 1 August 2007 (as Previously Reported)		42,772	28,651	71,423
Prior Year Adjustment		–	2,053	2,053
As at 1 August 2007 (Restated)		<u>42,772</u>	<u>30,704</u>	<u>73,476</u>
Cash Received		1,494	3,903	5,397
Released to Income and Expenditure Account – School	1 and 4	(549)	(472)	(1,021)
Released to Income and Expenditure Account – Residence		(19)	(89)	(108)
As at 31 July 2008		<u>43,698</u>	<u>34,046</u>	<u>77,744</u>

The opening balance has been restated to include donations of three freehold buildings, previously included in the Endowments, to comply with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education 2007.

Other Grants and Donations represent sums received to assist the School to acquire and develop specific academic and student residential buildings.

# Notes to the Accounts



Previous page (far left):  
Science Po, Paris. LSE  
partner university

This page:  
LSE China Summer  
School in Beijing

21 ENDOWMENTS	NOTES	Unrestricted Permanent £'000	Restricted Expendable £'000	Restricted Permanent £'000	Restricted Total £'000	Total £'000
<b>Group and School</b>						
As at 1 August 2007 (as Previously Reported)		–	30,623	24,980	55,603	55,603
Prior Year Adjustment		–	(2,053)	–	(2,053)	(2,053)
As at 1 August 2007 (Restated)		–	28,570	24,980	53,550	53,550
Capital Value		–	26,075	23,299	49,374	49,374
Accumulated Income		–	2,495	1,681	4,176	4,176
At 1 August 2007		–	28,570	24,980	53,550	53,550
Net Additions/(Disposal)		–	10,576	240	10,816	10,816
Appreciation of Endowment Asset Investments		–	(1,120)	(1,809)	(2,929)	(2,929)
Investment Income	5	–	1,600	1,086	2,686	2,686
Expenditure for the year		–	(6,684)	(586)	(7,270)	(7,270)
At 31st July 2008		–	32,942	23,911	56,853	56,853
Represented by:						
Capital Value		–	30,225	21,730	51,955	51,955
Accumulated income		–	2,717	2,181	4,898	4,898
		–	32,942	23,911	56,853	56,853

To comply with the Statement of Recommended Accounting Practice (SORP): Accounting for Further and Higher Education 2007, the endowments have been restated and reclassified. The opening balances exclude three freehold buildings which are now included in the deferred capital grants.

22 MOVEMENTS ON GENERAL RESERVE	Group 2008 £'000	School 2008 £'000	Group 2007 £'000	School 2007 £'000
As at 1 August	109,364	108,712	84,981	84,601
Surplus for the Year	26,804	26,947	24,383	24,111
As at 31 July	136,168	135,659	109,364	108,712



# Notes to the Accounts



	2008		2007	
<b>23 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	£'000	£'000	£'000	£'000
Surplus of Income over Expenditure for the Year on Total Activity Before Tax		26,804		24,448
<b>Adjustment for Depreciation and Deferred Capital Grants</b>				
Depreciation	3,688		3,422	
Profit on Sale of Tangible Fixed Assets	–		(3,352)	
Deferred Capital Grants Released	(1,129)		(1,074)	
		2,559		(1,004)
<b>Adjustment for Investment and Financing Cash Flows</b>				
Investment Income Receivable	(3,053)		(3,172)	
Profit on Disposal/Revaluation of Investments	–		(309)	
Interest Payable	2,519		2,583	
		(534)		(898)
<b>Adjustment for Restricted Fund Cash Flows</b>				
Transfer to Income and Expenditure Account	(7,270)		(5,329)	
Additions to Funds	10,811		5,899	
		3,541		570
Adjustment for Joint Venture Profit		(1)		(335)
<b>Adjustments to Working Capital</b>				
(Increase)/Decrease in Stocks	6		(15)	
Increase in Debtors	(1,357)		(281)	
Increase in Creditors	3,639		9,672	
Less Relating to:				
– Bank Loans/Finance Leases	(18)		(19)	
		2,270		9,357
<b>Adjustment for Pension Provision</b>		(61)		(180)
<b>Net cash Inflow from Operating Activities</b>		<b>34,578</b>		<b>31,958</b>

# Notes to the Accounts



*Previous page (far left):  
President of Chile, Michelle  
Bachelet, speaking at the  
LSE lecture entitled Free  
and Fair: An Agenda for  
Democratic Transformation  
in Latin America*

*This page: Butlers Wharf  
hall of residence*

	2008 £'000	2007 £'000
<b>24 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Income from Endowments	2,686	2,398
Other Investment Income	3,182	1,559
Interest Payable	(2,519)	(2,583)
	<u>3,349</u>	<u>1,374</u>

<b>25 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Payments to Acquire Tangible Fixed Assets	(23,917)	(18,614)
Proceeds from Sale on Tangible Fixed Assets	–	5,082
Payments to Acquire Investments	(4,990)	(26,383)
Receipts from Sales of Investments	3,875	22,950
Deferred Capital Grants/Donations Received	5,397	12,668
Permanent Endowments Received	1,888	1,648
	<u>(17,747)</u>	<u>(2,649)</u>

<b>26 MANAGEMENT OF LIQUID RESOURCES</b>		
Cash Added from Fixed Term Deposits	(18,000)	(33,000)

<b>27 FINANCING</b>		
Bank Loan Repayments	(2,225)	(2,225)

	At 1 August 2007 £'000	Cash Flows £'000	Other Changes £'000	At 31 July 2008 £'000
<b>28 ANALYSIS OF CHANGES IN NET DEBT</b>				
Cash at Bank and in Hand	5,243	(157)	–	5,086
Endowment Cash	12,027	5,112	–	17,139
Less: Fixed Term Deposits within Endowment Cash	(12,000)	(5,000)	–	(17,000)
	<u>5,270</u>	<u>(45)</u>	<u>–</u>	<u>5,225</u>
Fixed Term Deposits	47,000	18,000	–	65,000
Debt due within One Year	(2,207)	2,225	(2,208)	(2,190)
Debt due after One Year	(45,642)	–	2,208	(43,434)
	<u>4,421</u>	<u>20,180</u>	<u>–</u>	<u>24,601</u>

# Notes to the Accounts



## 29 PENSION COMMITMENTS

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). Both are defined benefits schemes and are externally funded and contracted out of the State Second Pension (S2P) Scheme.

Pension Scheme	USS		SAUL	
	2008	2007	2008	2007
Active members	1,038	1,005	479	456
Contribution rate made by the School	14%	14%	13%	13%
Contribution made (in £'000)	7,037	6,462	1,339	1,214

### (i) USS

The School participates in the Universities Superannuation Scheme (USS), 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 institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie, the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, salary increases would be 3.9% per annum (plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down three years
Post-retirement mortality	PA92 (c = 2020) for all retired and non-retired members

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

Males	19.8 years
Females	22.8 years

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

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995 the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (ie, assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.



# Notes to the Accounts



*Previous page (far left): Northumberland House hall of residence*

*This page:  
a lecture in the Shaw Library, Old Building*

## 29 PENSION COMMITMENTS (continued)

Since 31 March 2005, the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie, the valuation rate of interest). On the FRS17 basis, using an AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

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

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Increase/decrease by £2.2billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5billion
Rate of mortality	More prudent assumption (mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8billion

USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to the other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows.

However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation was due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation. As at the date of the annual accounts being published, USS has not released the actuarial valuation.

### (ii) SAUL

The School participates in the Superannuation Arrangements of the University of London (SAUL), a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The School has adopted FRS17 for accounting for pension costs. It is not possible to identify the School's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (ie, cash amounts) in accordance with paragraphs 8-12 of FRS 17.

# Notes to the Accounts



## 29 PENSION COMMITMENTS (continued)

The scheme is subject to triennial valuation by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2005 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	5.5% pa	6.5% pa
after retirement	4.5% pa	4.5% pa
Salary growth (excluding an allowance for promotional increases)	4.15% pa	4.15% pa
Pension increases	2.65% pa	2.65% pa

The actuarial valuation applies to the scheme as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of the scheme's assets was £982 million representing 93% of the liability for benefits after allowing for expected future increases in salaries.

Following the two informal funding reviews as at 31 March 2004 and 31 March 2003, the Trustees of SAUL have undertaken a significant consultation exercise with Employers and representatives of Members regarding the level of contributions payable to SAUL.

Following this consultation, the Employers have agreed to contribute 13% of salaries from August 2006 (previously 10.5% of salaries), an increase of 2.5% of salaries. Member contributions are also to increase, by 1% of salaries to 6% of salaries with effect from the same date. Employers who have recently joined SAUL ('New Employers') and certain employee groups (as agreed by the Trustees of SAUL), will pay 19.2% of salaries per annum from August 2006 until the second actuarial valuation after entry (or some other period as agreed with the Trustees).

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed the Scheme to be broadly balanced at the last formal valuation date (31 March 2005).

The next formal actuarial valuation was due as at 31 March 2008 when the above rates will be reviewed. As at the date the School annual accounts being published, the SAUL actuarial valuation is not available.

(iii) FSSU

The pensions of ex-members of staff who retired under the previous superannuation scheme for academic and related staff (FSSU) are supplemented as of right under the National Scheme for Supplementation of Superannuation Benefits. This supplementation is payable during the lifetime of the ex-member of staff and is increased each year by comparison with increases in public service pensions authorised under the Pensions (Increase) Act 1971. At the year end a provision has been established to meet the future obligations, see note 19.

	Group 2008	School 2008	Group 2007	School 2007
30 CAPITAL COMMITMENTS	£'000	£'000	£'000	£'000
54 Lincoln's Inn Fields (New Academic Building)	6,643	6,643	25,054	25,054
	6,643	6,643	25,054	25,054

	Group 2008	School 2008	Group 2007	School 2007
31 OPERATING LEASES	£'000	£'000	£'000	£'000

At 31 July the School had annual commitments under non-cancellable operating leases as follows:

<b>Land and buildings</b>					
Expiring in over five years		9,943	9,943	4,375	4,375

# Notes to the Accounts



*Previous page (right):  
Jeremy Waldron speaking  
at a Space for Thought  
lecture at the New  
Academic Building*

*This page:  
view of Kingsway from  
the top of the New  
Academic Building*

## 32 RELATED PARTY TRANSACTIONS

Due to the nature of the School's operations and the composition of the Court of Governors it is inevitable that transactions will take place with organisations in which a member of the Court of Governors may have an interest. All transactions involving organisations in which a member of the Court of Governors may have an interest are conducted at arm's length and in accordance with the School's financial regulations and normal procurement procedures.

The School rents office space on commercial terms to British Venture Capital Association (BVCA). Mr Wol Kolade, a director of the School, a member of Council and Chairman of the Audit Committee is a Director of BVCA.

The School hired a Tate Modern facility for an event during 2007/08 at a commercial rate. Howard Davies, Director of the School, is a Senior Trustee of the Tate.

## 33 CONTINGENT LIABILITIES

The School is a member of UM Association (Special Risk) Ltd, a university mutual company limited by guarantee, formed to provide cover for losses arising from acts of terrorism. Under the terms of its membership, each member acts as insurer and insured. If the association as a whole suffers a shortfall in any one year, the members are liable for their pro rata share, by way of a supplementary contribution.

All Supplementary Contributions levied are to be calculated pro rata to the Advance Contributions (less any return of them) made in the relevant indemnity year. The School's Advance Contributions currently constitute approximately seven per cent of the total contributions received by the Association.

## 34 SCHOLARSHIPS AND ACCESS FUNDS

The School has spent £11,450,000 during the year (£9,745,000 in 06/07) on Student Support using general funds and trust funds to provide hardship grants and merit awards.

<b>Access Funds Consolidated and School</b>	<b>2008 £'000</b>	<b>2007 £'000</b>
Balance Unspent as at 1 August	26	24
Funding Council Grants	80	90
Interest Earned	3	2
Disbursed to Students	(86)	(90)
Balance Unspent as at 31 July	23	26

Access Funds are available solely for students; the School acts as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

	<b>At 1 August 2007 £'000</b>	<b>Additions funded by Loans and General Reserves £'000</b>	<b>Additions funded by Deferred Capital Grants £'000</b>	<b>Depreciation £'000</b>	<b>At 31 July 2008 £'000</b>
<b>35 FUNDING OF TANGIBLE FIXED ASSETS</b>					
Land and Buildings	207,985	18,234	5,397	(3,074)	228,542
Equipment	1,890	285	–	(613)	1,562
	209,875	18,519	5,397	(3,687)	230,104
<b>Funded by:</b>					
Deferred Capital Grants	73,476				77,744
Bank Loans	47,849				45,624
General Reserves	88,550				106,736
	209,875				230,104

# Notes to the Accounts



<b>36 FIVE YEAR GROUP FINANCIAL SUMMARY</b>	<b>2008</b> £'000	<b>2007</b> £'000	<b>2006</b> £'000	<b>2005</b> £'000	<b>2004</b> £'000
<b>Income</b>					
Funding Council Grants	29,701	28,250	26,870	24,677	24,048
Tuition fees and education contracts	91,371	80,462	72,316	63,350	59,392
Research grants and contracts	17,772	16,085	15,361	15,032	14,192
Other income	42,744	38,204	31,217	28,696	27,574
Endowment and investment income	8,324	5,716	3,680	3,492	3,918
<b>Total Income</b>	<b>189,912</b>	<b>168,717</b>	<b>149,444</b>	<b>135,247</b>	<b>129,124</b>
<b>Expenditure</b>					
Staff costs	95,159	85,813	78,160	72,745	68,080
Other operating expenses	62,100	55,791	51,308	46,257	45,683
Depreciation	3,688	3,422	3,409	3,247	3,261
Interest payable	2,519	2,583	2,830	2,850	3,327
<b>Total Expenditure</b>	<b>163,466</b>	<b>147,609</b>	<b>135,707</b>	<b>125,099</b>	<b>120,351</b>
<b>Exceptional items</b>	302	3,339	2,172	–	–
<b>Surplus for the year</b>	26,748	24,447	15,909	10,148	8,773
<b>Net Assets</b>	270,765	236,390	196,146	172,338	145,661
Deferred Capital Grants	77,744	73,476	59,779	58,669	48,510
Endowments	56,853	53,550	51,386	44,492	39,040
Reserves	136,168	109,364	84,981	69,177	58,111
<b>Total</b>	<b>270,765</b>	<b>236,390</b>	<b>196,146</b>	<b>172,338</b>	<b>145,661</b>



# Corporate governance and internal control statement



*Previous page (from the left): Houghton Street; multi-million pound donation for climate change at LSE, Jeremy and Hannelore Grantham sign £12m contract*

The following statement is given to assist readers of the financial statements to gain an understanding of the governance structure of the School and to indicate the School's arrangements for implementation of best practice for internal control and risk management.

The School is a charity and company limited by guarantee, which it has been since 1901, and as such its primary documents of governance are a Memorandum and Articles of Association. In the higher education sector LSE is one of a small number of institutions which has this basis for its governance structure. Although the School is not required to comply with the regulations of the London Stock Exchange, it complies with the Combined Code on corporate governance to the extent that its principles apply to universities.

The principal statutory bodies of the School are as follows.

## **The Court of Governors (which constitutes the members of the company)**

As constitutional guardian, the Court has the following formal powers: the appointment of members of Court, its sub-committees and of the Council; amendment of the Memorandum and Articles of Association; appointment of the external auditors. As members of the company, governors have the power of recall under the Companies Acts. If governors are dissatisfied with a decision made by the Council, they (ie, ten members according to the Companies Acts) can requisition a special meeting of the Court. Such a meeting would be for discussion only, or, if due notice was given, could in extreme circumstances involve the removal of Council.

## **The Council (The full voting members of the Council are the directors of the company)**

The Council is the governing body of the School and its formal powers and terms of reference are set out in the Articles. Its primary role is to agree strategic direction and to maintain a focus on areas identified in the strategic plan (ie, governance and management, risk management, financial strategy, estates strategy, human resource strategy, information strategy, academic strategy and external relations) and it concentrates its work on making key decisions in these areas. It is also the corporate trustee of the School under the Charities Acts.

Council is supported in carrying out its role by a Finance and General Purposes Committee, a Remuneration Committee, an Estates Strategy Committee, a Risk Committee, an External Relations Committee, an Equality and Diversity Committee, a Library and Information Services Committee, a Health and Safety Committee, a Campaign Committee, an Audit Committee and a Chairman's Group.

There are specific arrangements in place to ensure the cross-reporting of business between Court and Council.

The Academic Board, which also reports to the Council, is the principal academic body of the School. It considers all major issues of general policy affecting the academic life of the School and its development. It is

supported by its own structure of committees and there are mechanisms for ensuring the exchange of business between it and Council.

## **Internal control**

1. As the governing body of the School, the Council has responsibility for maintaining a sound system of internal control that supports the achievement of strategic and operational objectives, while safeguarding the public and other funds and assets for which it is responsible under the terms of the Articles and the Financial Memorandum with the HEFCE.

2. The system of internal control is designed to manage rather than to eliminate the risk of failure to achieve objectives, including missing appropriate opportunities; it can therefore only provide reasonable and not absolute assurance of effectiveness.

3. The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of aims and objectives; to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2008 and up to the date of approval of the financial statements and is in accordance with HEFCE guidance.

4. As the governing body, the Council has the responsibility for reviewing the effectiveness of the system of internal control, and the following processes have been established in order to carry through that responsibility.

4.1 Council meets up to eight times per year. Part of its remit is to review key elements of the strategic direction of the School. These reviews include consideration of risk and control factors in relation to the School's strategic objectives, continuing operations and proposed new developments. The strategic plan incorporates specific measures of achievement and supporting performance indicators for each of the key strategic objectives, and regular reports are made to Council on progress towards achieving these measures and indicators.

4.2 The governance arrangements proposed in the guide issued by the Committee of University Chairmen (CUC) in 2004 have been reviewed in detail and Council confirms that it complies with the recommendations of the guide in all material respects.

4.3 The identification of new and emerging strategic and operational risks arises primarily from continued dialogue between senior School officers, the Pro Directors and heads of academic and administrative departments/divisions, along with more routine horizon scanning activities. Where it is thought that a new and emerging risk requires urgent attention, this is first assessed by the Director's Management Team (DMT), which decides on i) the most appropriate course of action (if any) to be taken and ii) where to appropriate senior management responsibility for that action. Where the DMT risk assessment identifies that urgent Council consideration is required, risks may be addressed directly to Council, for example, in relation to proposed major capital projects or third party collaborations.

4.4 Council also takes a close role in the monitoring and management of risk through its Risk Committee, which reports directly to Council. The Committee is primarily concerned with strategic risk management issues and issues of risk and governance. However, the Committee also considers arrangements for the management of operational risks and the further embedding of a risk-aware culture in the School.



**4.5** The Risk Committee's deliberations in respect of the School's strategic risks are informed by the strategic risk register. This is presented at each Committee meeting. The strategic risk register was subjected to a detailed senior management review in 2007-08 and refined to more closely reflect the current strategic risks being faced by the School.

**4.6** The primary focus of the Risk Committee's deliberations during 2007-08 has been on reviewing the main strategic risks faced by the School and the adequacy of the measures in place for controlling them. The Committee's principal activity during the year has been to consider the development of enhanced processes for the monitoring and assessment of the School's corporate risks. This was discussed in detail at the joint Risk and Audit Committee meeting in May 2008.

**4.7** The Finance and General Purposes Committee also plays a significant role in relation to risk by advising Council on financial risks to the Strategic Plan. This includes considering the financial implications of non-financial risks.

**4.8** During the coming year, there will be a major review of the School's Strategic Plan which was originally introduced in its current form in 2005; as before, this will involve widespread consultation across the School including Court, Council and major strategic committees as well as with staff and student representative bodies.

**4.9** In parallel with the work being undertaken to ensure that internally set targets for the supporting performance indicators in the Strategic Plan are met, the School pays careful attention to a number of top level key performance indicators advised by the CUC. As much data as possible is benchmarked against that of our peer institutions and the outcomes are reported annually to the Council Awayday by the Director as well as periodically/as required throughout the year.

**4.10** The School has continued to develop its business continuity arrangements through the year. The principal objective of these arrangements is to mitigate the potential impact on the School's teaching and research activities should any of the identified principal continuity risks crystallise. The activities undertaken during 2007-08 range from developing the School's central emergency management infrastructure to the development of more localised, departmental business continuity arrangements.

**4.11** The Audit Committee, which meets three times per year, receives regular reports on the work of the Risk Committee. The Head of Internal Audit also reports regularly to the Audit Committee on the adequacy and effectiveness of the constituent elements of the School's system of internal control, together with recommendations for improvements. Internal audit's work includes continuing review of the strategic and operational risks associated with key School systems and units.

**5.** Council's view of the effectiveness of the system of internal control is informed by reports from the Audit Committee, which receives and analyses regular reports from internal audit on all major systems and departments. The internal audit unit, which operates to standards defined in the HEFCE Code of Practice on Accountability and Audit was last reviewed for effectiveness by the HEFCE Audit Service in June 2005. The Head of Internal Audit provides an annual independent opinion on the adequacy and effectiveness of the overall system of internal control.

**6.** Council's view is also informed by comments made by the external auditors in their management letters and other reports and by the work of operational managers within the School who have responsibility for the development and maintenance of the internal control framework.



# Report on environmental progress



*Previous page (right and bottom): Africa Climate Change Forum conference in Rwanda, September 2008. The delegates and a field trip*

*This page: students with new LSE recycle bags*

## The LSE Environment Policy adopted in April 2005 sets out the School's commitments to improving its environmental impact.

For the next academic session LSE will have a dynamic Sustainability Team led by the Environment and Sustainability Manager consisting of a Carbon Reduction Manager, an Environmental Compliance and Sustainable Waste Management Officer, a Sustainability Projects Officer and a part-time Halls of Residence Sustainability Coordinator – in recognition of the significant environmental impact of LSE's 3,500 places in halls. In addition, all departments and halls of residence have both staff and student sustainability champions.

The LSE Strategic Plan acknowledges the importance of sustainability, adopting respect for the environment as one of its seven institutional values, highlighting sustainable development as one of seven external pressures on the School and setting the implementation of the School's Environmental Policy as one of the measures of achievement (under Priority Four). Individual Service Delivery Plans require all Heads of Division to take into account sustainability and environmental issues and provide evidence of this to demonstrate assurance of the quality of their services.

Howard Davies chairs the Sustainable LSE Partnership with expert input from Professor Lord Nick Stern and Professor Judith Rees. The Sustainable LSE Working Groups are chaired by Jean Sykes (Library/ITS), Ian Spencer (Residences/Catering), Will Barber (SU), Alison Johns (HR) and Margaret Newson (Purchasing) and will set out action plans for achieving targets over the next year.

The School is a pioneer in zero waste activities in halls of residence and on campus and was funded by HEFCE to provide leadership on this with HEIs across England, facilitating the diversion of 85 tonnes of waste in an academic year:

- LSE now recycles 55 per cent of office waste
- is a member of the Carbon Trust's Higher Education Carbon Management Programme and the GLA Green 500 (London's top organisations aiming to reduce carbon emissions in the capital by 60 per cent by 2025)
- LSE has attained a BREEAM 'excellent' rating for the refurbishment of the New Academic Building
- has approved the drafting of a Socially Responsible Investment (SRI) policy
- Chairs the London Universities Environment Group; and is establishing an Environmental Management System to coordinate these activities to ISO14001 standards through the EcoCampus project.

LSE was named as the top university in London in the People and Planet's Green League 2008, being placed 23 out of 114 overall and is committed to achieving a higher ranking next year.

### Moving towards Zero Waste: implementing reuse schemes for halls of residence

In university halls of residence, a waste peak occurs at the end-of-term, when departing students dispose of anything they do not want to take home. The normal disposal route is to landfill and the project challenges this common assumption whilst acknowledging the institutional and individual barriers to change in moving up the waste hierarchy. The project provided support for zero waste in

practice by establishing eight regional reuse networks with university, Local Authority and reuse charity partners and hosting a national conference. Feedback from the conference highlighted excellence in service and participant satisfaction.

This innovative project is solution-based, building long-term capacity for zero waste activities. It perfectly embodies sustainability ideals:

- Environmentally, it has: enabled greater resource efficiency and longer life-span of products; decreased resources needed to produce new items; decreased amount of materials sent to landfill (85 tonnes); decreased CO<sub>2</sub> emissions (by approximately 650 tonnes) and prevented atmospheric and aquatic pollutants from being generated
- Socially, it has: created eight well-established and motivated local reuse networks; provided good quality items at low cost via charity partners; raised awareness and expanded skills among students and staff; provided sustainable waste management and Waste Electrical and Electronic Equipment training; enabled Universities to become a source of donations, raise income and secure employment for the charity sector; demonstrated the potential of social enterprise for reuse activities; provided educational materials; and inspired and acknowledged project participants, sharing their best practice in a national conference and through the case study and step-by-step guide. The conference ethos meant that all materials were distributed electronically, public transport use was encouraged and luncheon was sourced from local suppliers of organic, animal friendly and fair-trade products
- Financially, it has decreased university waste disposal and transportation costs (£10,000); and decreased student purchasing costs by providing links to charities for low-cost, good quality items.

The project also provided leadership and empowered seven partner universities and their collaborative partners to adopt reuse activities, delivering practical training, establishing reuse networks and allowing replicability in future years and across other institutions.

All project partners exceeded predicted targets and filled an often ignored gap in the market for reuse activities through original thinking, new networks and collaborations and a high level of service delivery and project management. The eight universities established thriving reuse networks which will continue in the future having experienced the mutual benefits of collaboration. Student and staff awareness was increased and a new focus for ongoing volunteering was created. The national conference was oversubscribed with over 150 participants. Case studies outlining best practice and future improvements and a comprehensive guide with step-by-step instructions, useful tools and policies are available for use by any organisation wishing to successfully establish reuse activities.

The project has been recognised as 'Best Waste Minimisation Project' in the 2008 National Recycling Awards.

Further details of the project are available at:

[www.lse.ac.uk/collections/environment/reuse\\_hefce\\_project.htm](http://www.lse.ac.uk/collections/environment/reuse_hefce_project.htm)



# Endowment investment performance



The School's endowment funds that have been invested are split into three separate pools approved by the Charity Commission.

**Pool A** – includes all the endowments, trust and other funds where the School is permitted to spend capital as well as income.

**Pool B** – includes all the endowments, trust and other funds where expenditure out of capital is not permitted.

**FER** – separate investments are maintained for the Foundation for Economic Research that supports a research centre.

Pool A and Pool B are run along the lines of a unit trust with individual endowments holding a number of units in either Pool A or Pool B, sharing in the dividend income and capital growth in proportion to the number of units held.

The capital value of a unit in Pool A decreased from £20.69 to £19.46 during the year, a loss of 5.9%. A distribution of 40.45 pence per unit was made in the year, equivalent to a yield of 2.0% on the opening market value giving a total return of -3.9% for the year. The unit value of Pool B decreased by 8.3% from £21.59 to £19.79 and a distribution of 88.97 pence was made equivalent to a yield of 3.8% giving a total return of -4.5% for the year. The market value of the FER investments decreased by 7.3% and a distribution equivalent to 4.3% of the opening market value was made producing a total return of -3.0% for the year. The underlying investments tracked their indices within acceptable margins.

These investments are monitored by the School's Investments Committee and external advisors are used to advise on investment strategy. The Committee reviews the asset allocations on a regular basis. The equity components of the portfolio are invested in index tracking funds. Pool A has also placed 10 per cent into an Absolute Return Fund. Asset allocation targets and tolerance bands for each pool have been set by Investments Committee as follows;

ENDOWMENT INVESTMENT PERFORMANCE	Market Value 31 July 2008 £	Asset Allocation Target %	Tolerance Band %	31 July Value Actual %
<b>POOL A</b>				
UK Equities	6,713,783	40	35-45	37.0
Overseas Equities	4,361,646	25	20-30	24.0
Bonds	2,744,139	15	12-18	15.2
Inflation Linked Gilts	1,973,335	10	8-12	10.9
Absolute Return	2,150,951	10	0-15	12.0
Cash	163,882	–	0-2	0.9
	18,107,736	100		100
<b>POOL B</b>				
UK Equities	3,266,458	45	40-50	42.5
Overseas Equities	753,722	10	7-13	9.8
Bonds	1,175,852	20		
			35-50	42.8
Gilts	2,117,198	20		
Cash	379,327	5	0-5	4.9
	7,692,557	100		100
<b>FER</b>				
UK Equities	5,206,247	40	35-45	37.9
Bonds	5,278,618	39		
			50-65	59.6
Gilts	2,911,288	20		
Cash	342,385	2	0-3	2.5
	13,738,538	100		100
Other Gilts	141,079			
Freehold Property	33,501			
Cash on Deposits	17,139,223			
<b>TOTAL PORTFOLIO</b>	<b>56,852,634</b>			

Further information on the School's Endowment Assets and Endowment Funds is in Notes 14 and 21.



# Statement of Council's responsibilities



*Previous page (from the left): Trafalgar Square; the opening of the New Academic Building*

*This page: Graduation, summer 2008*

In accordance with the Companies Act 1985 the Council, as directors, are responsible for the administration and management of the School's affairs, including running an effective system of internal controls, 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 School and enable it to ensure that the financial statements are prepared in accordance with the Companies Act 1985, the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum between the Higher Education Funding Council for England and the Council of the School, 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 School and of the surplus or deficit and cash flows for that year. The designated office holder for this purpose is the Director.

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
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the School will continue in operation. The Council is satisfied that the School has adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council 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 School and to prevent and detect fraud
- secure the economical, efficient and effective management of the School's resources and expenditure.

The key elements of the School'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, heads of academic and administrative departments
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of key performance indicators and business risks and reviews of financial results involving variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance and General Purposes Committee on behalf of the Council
- 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 (through the Audit Committee) with a report on internal audit activities within the School and an opinion on the adequacy and effectiveness of the School's system of internal controls, including internal financial controls.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss. The maintenance and integrity of LSE's website is the responsibility of the management. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Report of the auditors



## Report of the independent auditors to the Court of Governors of the London School of Economics and Political Science.

We have audited the financial statements of the London School of Economics and Political Science for the year ended 31 July 2008 which comprises the consolidated income and expenditure account, the statement of total recognised gains and losses, the consolidated and School balance sheets, the consolidated cash flow statement and the related notes on pages 20 to 36. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the School's Court of Governors in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Court of Governors those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the School and the Court of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Council and auditors

As described in the statement of responsibilities of the Council, the Council's responsibilities for preparing the group financial statements in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Council's Responsibilities on page 41.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the School have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respects, income has been applied in accordance with the statutes and, where appropriate, the financial memorandum with the Higher Education Funding Council for England.

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

We read the Report of the Directors and the Corporate Governance and Internal Controls Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements. We are not required to consider whether the statement of internal control (included as part of the Corporate Governance and Internal

Controls Statement) 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.

### Basis of audit opinion

We have conducted our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in preparing the financial statements and whether the accounting policies are appropriate to the School's circumstances, consistently applied and adequately disclosed.

We planned and have performed our audit so as to obtain all the information and explanations we considered necessary 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the London School of Economics and Political Science and the group as at 31 July 2008 and of the group's surplus of income over expenditure for the year then ended
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education
- the information given in the Report of the Directors is consistent with the financial statements
- in all material respects, income from the funding council, grants and income for specific purposes and from other restricted funds administered by the School during the year ended 31 July 2008 have been applied for the purposes for which they were received
- in all material respects, income during the year ended 31 July 2008 has been applied in accordance with the School's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England.

*Grant Thornton UK LLP*

**Grant Thornton UK LLP**  
Registered Auditors  
Chartered Accountants  
Hemel Hempstead, England  
25 November 2008

# Officers responsible for the School's finances



## **Peter Sutherland KCMG**

Chairman  
Court of Governors



## **Professor George Gaskell**

Pro Director



## **Sir Anthony Battishil**

Vice-Chairman  
Court of Governors



## **Professor Sarah Worthington**

Pro Director



## **Ms Anne Lapping**

Vice-Chairman  
Court of Governors



## **Mr Adrian Hall**

Secretary and Director  
of Administration



## **Mr Brian Smith**

Chairman  
Finance and General Purposes Committee



## **Mr Andrew Farrell**

Director of Finance and Facilities



## **Mr Richard Goeltz**

Vice-Chairman  
Finance and General Purposes Committee



## **Mr Mike Ferguson**

Director of the Finance Division



## **Howard Davies**

Director



## **Ms Ashley Wang**

Financial Controller



## **Professor Janet Hartley**

Pro Director



# Directors of the School and members of the Council during the year 2007-08

**Lord Grabiner of Aldwych QC**  
Chairman (until 31 December 2007)

**Peter Sutherland KCMG**  
Chairman (from 1 January 2008)

**Sir Anthony Battishill**  
Vice-Chairman

**Ms Anne Lapping**  
Vice-Chairman

**Dr Ros Altmann**

**Mr Stephen Barclay**

**Mr Fadhil Bakeer-Markar**  
(resigned 31 July 2008)

**Howard Davies**

**Mr Aled Dilwyn Fisher**  
(appointed 14 July 2008)

**Mr Mario Francescotti**

**Professor George Gaskell**

**Mr Richard Goeltz**  
(resigned 31 July 2008)

**Mr James Goudie QC**

**Mr Loyd Grossman**  
(resigned 31 July 2008)

**Mr Wol Kolade**

**Dr David Lane**

**Professor Dominic Lieven**  
(resigned 31 July 2008)

**Professor Robin Mansell**

**Professor Peter Miller**  
(resigned 31 July 2008)

**Mr Ashley Mitchell**

**Dr Eileen Munro**

**Mr Avinash Persaud**  
(resigned 31 July 2008)

**Ms Louise Robinson**

**Professor Richard Sennett**

**Mr Brian Smith**

**Professor Sarah Worthington**

**Members of Council not Directors  
of the School**

**Professor Janet Hartley**

**Professor Chris Brown**

**Professor George Philip**

**Company Secretary**

Mr Adrian Hall





### **LSE academic departments**

Accounting  
Anthropology  
Development Studies Institute  
Economic History  
Economics  
European Institute  
Finance  
Geography and Environment  
Government  
International History  
International Relations  
Law  
Management  
    Employee Relations and  
    Organisational Behaviour  
    Information Systems  
    Managerial Economics and Strategy  
    Operational Research  
Mathematics  
Media and Communications  
Methodology Institute  
Philosophy, Logic and Scientific Method  
Social Policy  
Sociology  
    LSE Gender Institute  
    Institute of Social Psychology  
Statistics

### **LSE research centres**

Asia Research Centre  
BIOS (Centre for the Study of Bioscience,  
Biomedicine, Biotechnology and Society)  
ESRC Centre for Analysis of Risk and  
Regulation  
Centre for Analysis of Social Exclusion  
Centre for the Analysis of Time Series  
Centre for Civil Society  
Centre for Discrete and Applicable  
Mathematics  
Centre for Economic Performance  
Centre for the Economics of Education  
Centre for Philosophy of Natural and Social  
Science  
Centre for the Study of Global Governance  
Centre for the Study of Human Rights  
Centre for Urban Research  
Financial Markets Group (including the  
Paul Woolley Centre for the Study of Capital  
Markets Dysfunctionality)  
Greater London Group  
Grantham Research Institute on Climate  
Change and the Environment, including the  
ESRC Centre for Climate Change Economics  
and Policy and LSE Environment: the Centre  
for Environmental Policy and Governance  
IDEAS (Centre for the Study of International  
Affairs, Diplomacy and Grand Strategy)  
LSE Health and Social Care  
LSE London  
Suntory and Toyota International Centres for  
Economics and Related Disciplines

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The School seeks to ensure that people are treated equitably, regardless of age, disability, race, nationality, ethnic or national origin, gender, religion, sexual orientation or personal circumstances. The information in this booklet can be made available in alternative formats, on request. Please contact: Ashley Wang, Email: [a.wang@lse.ac.uk](mailto:a.wang@lse.ac.uk)

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