



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

FINANCIAL STATEMENTS

for the year ended 31 July 2014





Generous donations by alumni, charitable trusts and foundations, and corporate benefactors have continued to make a significant impact to the lives of students and staff at the School. This philanthropy has helped to fund new buildings such as the Saw Swee Hock Student Centre, as well as scholarships, chairs, fellowships and other academic initiatives.

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REPORT OF THE CHAIRMAN

The past year has seen major progress at LSE, above all in the culmination of the Strategic Review initiated by the Director, Professor Craig Calhoun, on his arrival at the School.

The LSE Council approved the final report of the Strategic Review in June. The report identified ten key elements of strategy. Students are at its heart, with the School's commitment to raise the quality and distinctiveness of its educational programmes as well as of our faculty and their research. LSE aspires to be the most global of the world's research intensive universities, working to address major public issues. Innovation, in education and research but also in key supporting activities such as fundraising, will figure heavily in the future strategy – not least to allow wider participation of students who might be worried about the cost of pursuing a course of study. More effective communications, an improved estate and better use of data to improve quality will provide essential underpinnings.

Implementing the Strategic Review will require substantial investment. Our aspirations include large-scale capital development as well as continued investment in recruiting and retaining high calibre staff. Financially we remain in a healthy position, with a surplus of £18.1m for 2013-14. By design, this is below the levels of some recent years due to investment in students and the student experience, but is still sufficient to ensure sustainability. For the future, new sources of income such as philanthropic and corporate support will be crucial.

Efforts to promote excellence in scholarship, education and research are well under way. LSE ran one of the biggest academic staff recruitment drives in its history, with over 80 leading social scientists – many from top US universities – joining the School in the year to September 2013. LSE people were also prominent in public life, and I congratulate the 34 current and former staff and alumni who received awards in the New Year and Queen's Birthday Honours 2014.

Innovation in the academic portfolio has continued apace. Of special note perhaps have been the relaunch of the Institute of Public Affairs and the inauguration of the Institute of Global Affairs. The IGA will bring together a number of existing and new research centres with a geographical focus.

In Autumn 2013, years of work culminated in the submission of the School's entries to the Research Excellence Framework. In December we shall find out how we have fared. The inclusion for the first time of Impact as a measure of research quality should help the School play to its strengths, though the competition is increasing all the time. In the longer term LSE's research strength will be bolstered not just by recruitment drives such as the one I have mentioned, but also by the School's new academic career structure, with its rigorous focus on the quality of all aspects of academic performance.

In last year's report, I mentioned my surprise at being invited to view a zombie movie filmed entirely on campus. The last year has seen LSE feature in the movies in a more conventional way: the hero of the action thriller Jack Ryan: Shadow Recruit is shown studying here as the 9/11 attack on the Twin Towers unfolds, setting the scene for Jack's career.

The Old Building where Jack Ryan is seen in the movie is a lot smarter than it actually was back in 2001. Much else has improved in the

estate in the past year. The star turn has been the opening of the Saw Swee Hock Student Centre, a striking achievement in architectural design. The Centre was been shortlisted for the Royal Institute of British Architects' Stirling Prize. The next major development will be the Centre Buildings, subject to planning approval and approval of the budget for the scheme by the LSE Council. Then in 2016, after Cancer Research UK move to their new home, 44 Lincoln's Inn Fields will be converted for LSE to use. We are well on the way to redeveloping the campus to a level commensurate with our globally-competitive aspirations.

The public events programme continues to be the biggest and best of its kind in the country, and a large element of both the student experience and the School's contribution to public life. Speakers in the past year have included LSE alumna Cherie Blair, a leading lawyer and women's rights campaigner; George Soros, Chairman of Soros Fund Management and the founder of Open Society Foundations (and another alumnus); Gail Kelly, Chief Executive Officer of the Westpac Group; Helen Clark, Administrator of the United Nations Development Programme and former Prime Minister of New Zealand; José Manuel Barroso, President of the European Commission; and Boris Johnson, Mayor of London.

Finally, I would like to offer warm thanks to my colleagues on the LSE Council for their support and help throughout the year. I would particularly like to thank those whose terms of office have since come to an end: Professor Kate Jenkins, Vice Chair; Ms Anne Lapping, Vice Chair; Ms Angela Camber, Lay Member; Professor George Gaskell, Pro-Director; Mr Jay Stoll, LSE Students' Union General Secretary; and Mr Jack Kelly, Student Governor.



Peter Sutherland KCMG
Chairman



REPORT OF THE DIRECTOR OF THE SCHOOL

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At the top of LSE's agenda for the coming year – and longer-term – is strengthening the education we provide for our students. This is a matter of improved teaching – itself dependent especially on teachers but also on facilities like good teaching rooms of appropriate size. It is also a matter of assessment structures and feedback, on enhancing course offerings with help out-of-class, of making sure that all our leading faculty are making strong contributions to teaching. This is vital to the LSE's core mission – and also to its finances, because student fees are our major revenue source.

As I write, LSE has just been awarded the University of the Year for Graduate Employment by the latest *Times* and *Sunday Times* Good University Guide. We maintained our position as second in the world for social sciences and management in the 2014/15 QS World University rankings and were ranked fifth in the UK by the main *Times* and *Sunday Times* Good University Guide. This said, rankings are by products not goals. But this is a sign that we are doing much right. At the same time, we saw a drop in LSE's student satisfaction rating in the latest National Student Survey (NSS), released in August 2014. This is obviously disappointing. The School has a duty to students to improve in those areas where we scored poorly, particularly as one of the key priorities identified in the Strategic Review is improving our teaching provision and student satisfaction. We are working now to effect a real step change.

Important for student experience and unambiguous good news is the launch of the Saw Swee Hock Students' Centre. The Centre has won a variety of prizes including RIBA's London Building of the Year 2014. It is a brilliant addition to the campus and it clearly puts student life at the centre of the campus. LSE was named "Client of the Year" in the prestigious Architects' Journal AJ100 awards. The SSHSC architects have received the RIBA Gold Medal, and our building was shortlisted for the Stirling Prize. Most importantly, our students love it.

The School-wide consultation process on changes in the academic year was led by Professor Paul Kelly, Pro-Director for Teaching and Learning. Following this process, Council approved a new structure for the academic year. From 2015-16, Michaelmas and Lent Terms will be extended by one week each to 11 weeks, and will be followed by a seven-week exam period.

In November 2013 we announced the winners of the architectural competition to design the new Centre Buildings. Rogers Stirk Harbour + Partners were chosen because they grasped that this would be a building at once for the university and for the city – an enhancement to public as well as academic space. Next summer we will begin demolition and replacement of the Centre Buildings. The two main future capital developments planned are a redevelopment of the East Building and St

Clement's Building, to commence in 2015 subject to planning consent. This is in addition to work on the recently purchased 44 Lincoln's Inn Fields, to commence in 2016 subject to planning consent and internal approvals. These developments mean that we can look forward to a transforming campus.

Another exciting development for the School is the new Institute for Global Affairs (IGA). This will be an umbrella institute bringing together a number of centres and initiatives – such as LSE IDEAS, the Middle East Centre and the forthcoming South Asia and South East Asia Centres. The IGA will promote LSE research and aim to advance teaching on major issues of global concern, build bridges between LSE and different parts of the world, and enhance the School's role as a global university.

The summer term saw the new LSE media studio get up and running. In addition to helping the academic community make high-quality films, the new studio has connected LSE academics with news outlets in Germany, Spain, the Middle East, France and Canada, using its live TV and radio broadcast facilities.

After a long period of consultation and discussion the Strategic Review is finished and has been approved by Council and Academic Board. The final version was published over the summer. It will now guide us as we work to maintain and enhance the strength of our programmes, our reputation, and our finances. It will help us respond to pressures we face, and also to choose among possible new ways of advancing social science and bringing it to bear on major public issues. Senior working groups have been created and are taking tangible tasks forward.

December 2014 will see the publication of the results of the Research Exercise Framework (REF). Preparing for our submission took countless hours. The School is deeply indebted to the Deputy Director and Provost for his leadership on the REF, and to academic and professional staff across the School (especially in the Research Division) who have worked tirelessly to ensure that LSE's submission is truly reflective of the excellent research undertaken at the School.



Professor Craig Calhoun
Director



REPORT OF THE DIRECTORS

The following report incorporates a strategic report containing a review of the group's business and a description of the principal risks and uncertainties facing the group.

Strategic plan

The London School of Economics and Political Science has long been among the world's leading institutions of research and higher education. It has led innovation in social science, shaped progressive change in British society, and pioneered understanding and action on global issues. To help LSE maintain its excellence, enhance its impact, and improve its effectiveness the Strategic Review has examined all aspects of LSE operations. The Review asked both how LSE could best address changes and volatility in its environment and operating conditions and how it could best pursue its mission of advancing knowledge through research and sharing it through education and public engagement in order to address major social challenges and shape a better world.

Through considering the aspirations that guide LSE and help set its priorities, the resources and strengths we can mobilise to pursue our aspirations and the challenges, ten key elements of strategy have been identified and will now orient and guide the institution's planning and investment.

1. Raise the overall quality, productivity, and creativity of LSE faculty by promoting excellence equally in scholarship, education and research.
2. Raise the quality, distinctiveness, attractiveness, and recognition of LSE educational programmes.
3. Recruit students with the greatest ability, motivation, and potential to benefit from LSE education and subsequently to contribute to society.
4. Enhance LSE's intellectual distinctiveness as a social science university working to address major public issues.
5. Enhance and build on LSE's distinctiveness as the most global of the world's research-intensive universities.
6. Be prepared to innovate.
7. Secure revenue to support LSE aspirations.

8. Enhance LSE's effectiveness in communications.

9. Develop the LSE estate into a campus that is commensurate with its standing and aspirations, facilitates world-class teaching and research, and enables its faculty and students to be maximally productive.

10. Use empirical data and analysis to improve the quality of LSE's work.

The goal of this strategy is clear: to enable LSE to thrive and to show in the future the brilliance it has exhibited in the past, to achieve the highest intellectual quality, and to contribute to society.

Business review and principal activities

The principal activities of the School in the year under review were higher education, research and related activities. Related activities include consultancy, conferences, public lectures, the provision of catering and accommodation services and the publication of academic journals.

Financial overview

For the financial year ending 31 July 2014 the School achieved a surplus of income over expenditure of £18.1m equivalent to 6.5 per cent of turnover. This was lower than the previous year which saw a surplus of £30.6m (11.6 per cent of turnover) as planned and reflects a strategic investment in recruitment of additional faculty.

The School sets a budget based on assumptions concerning income and expenditure that is designed to ensure a sustainable long term surplus of income over expenditure in the range of three to five per cent of turnover. This target recognises that a surplus is essential to fund loan repayments and to support capital and infrastructure investment. The School's ambition is to be and remain a world leader in research and teaching in the social sciences and the generation of sustainable surplus is essential to provide the flexibility necessary to invest in the new academic initiatives that this ambition requires.

A combination of strong student recruitment, a significant and sustained contribution from ancillary activities and strong financial management have delivered substantial surpluses in recent years and



2013-14 continues this pattern. Over the past five years the School achieved an average annual surplus of 7.0 per cent, generating £121.6m.

This robust financial base has supported many academic initiatives during 2013-14 including Research Quality Investment Fund (RQIF) recruitment, the introduction of a new academic career structure and an incentive scheme to increase the proportion of externally funded research. It has also permitted enhancement of facilities through the opening of the Saw See hock Student Centre and the strategic acquisition of 44 Lincoln's Inn Fields.

Summary Financial Statement

	2013-14 £m	2012-13 £m	Change	
			£m	%
Funding Council grants	24.4	26.6	-2.2	-8.2%
Tuition fees	153.3	139.8	+13.5	+9.7%
Research grants	27.0	23.7	+3.3	+13.9%
Other income	68.6	65.4	+3.2	+4.9%
Endowment and investment income	5.8	7.7	-1.9	-24.8%
Total income	279.1	263.2	+15.9	+6.0%
Staff costs	147.2	130.9	+16.3	+12.5%
Other operating expenses	98.5	91.7	+6.8	+7.4%
Operating expenses	245.7	222.6	+23.1	+10.4%
Operating surplus before interest costs and depreciation	33.4	40.6	-7.2	-17.9%
Depreciation	8.7	6.8	+1.9	+27.9%
Interest payable	6.6	3.2	+3.4	+106.2%
Balance of income for reinvestment	18.1	30.6	-12.5	-40.8%
As a percentage of income	6.5%	11.6%	–	-44.0%

Our Council has a strategic aim to create a “world class” estate commensurate with the School's international academic standing and competitive with other world class higher educational institutions. Plans for the redevelopment of the Centre Building site are progressing and decisions over the recently acquired 44 Lincoln's Inn Field site will be made during 2015. These developments will be funded from financial surpluses, fundraising and underpinned by the capital which was raised through the issuance of £125.0m of loan notes in November 2013.

Income

Gross income grew by 6.0 per cent (2012-13, 8.0 per cent). Tuition fee income increased by 9.7 per cent and represented 55 per cent of income compared to 53 per cent in 2012-13. The withdrawal of public funding for home and EU undergraduates between 2012 and 2014 and increased home/EU undergraduate fees will accelerate this trend. From 2014-15 the School will charge its new Home/EU undergraduates the £9,000 fee that has been the norm in the Russell Group of research intensive universities since 2012. This increase, after allowing for the impact of inflation and our plans for increased bursaries will still result in a real terms decline in this element of income.

While this establishes us as a leader in the financial support for students in the UK, it will be a significant multi-year effort to develop philanthropic support to enable us to offer true “needs blind” admission and to close the gap between student loans and grants and living costs for all students.

The School is committed to ensuring the best students are able to study at LSE irrespective of financial circumstances, so it is pleasing to report the total awarded in bursaries and other awards rose by 11 per cent in 2013-14 to £16.8m (2012-13 – £15.2m).

The School is recognised by the Economic and Social Research Council as a Doctoral Training Centre. In 2013 the School launched a new flagship studentship scheme that supports outstanding research students by fully funding their postgraduate research at the School. During 2013-14 the School had 129 fully funded studentships, 65 per cent of the total number enrolled at the School in 2013-14. This scheme provides



maintenance grants and fees paid from School resources or through external sources such as the Research Councils or philanthropic support.

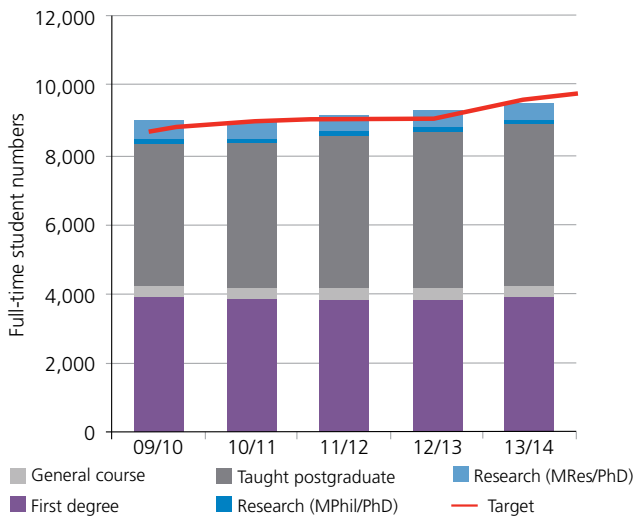
Funding Council grants

The School receives HEFCE (Higher Education Funding Council of England) grants for teaching, research and capital projects. Grant income fell by 8.2 per cent as support for undergraduate teaching was phased out. For many years the HEFCE (Higher Education Funding Council of England) grant funding has represented a lower proportion of income at LSE than most UK higher education institutions. Since the phasing out of support for teaching undergraduate students in 2012 this position has increased and in 2013-14 only 8.7 per cent of the School's income came from HEFCE grants, mainly to support research and to promote work to increase the impact of research, ie, Higher Education Innovation (HEIF) Funding.

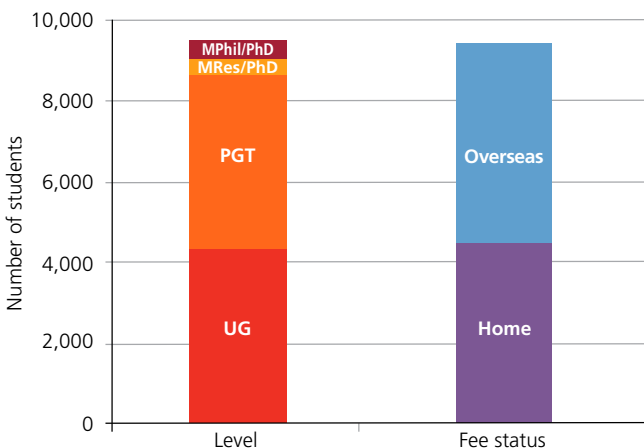
While the School's income for 2013-14 included £24.3m of HEFCE grants, a total of £43.1m including employee NI/PAYE, employer NI and VAT was paid to the government.

Students in 2013-14

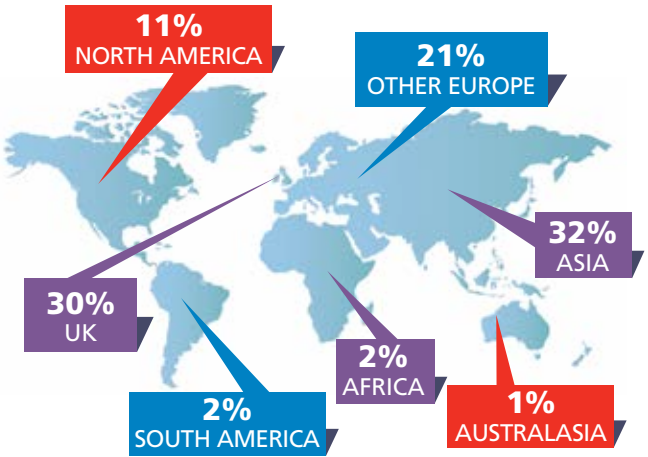
Full-time student numbers



Full-time students in 2013-14



Full time student by continent in 2013-14



The School had 9,392 full-time students in 2013-14 compared with 9,215 in 2012-13. Current plans are for gradual growth in the size of the School over the next few years. The School has some significant decisions to make during 2014-15 about the development of the estate so a careful review of the future size and composition of the student population will be undertaken over the next few months. We are fortunate to be doing this against a background of strong demand for our courses. Most recently, for the 2014 entry we had 11.6 applicants per place at undergraduate level and 4.4 applicants per place at the taught postgraduate level. A further 576 students studied our degree programmes on a part time basis.

In recent years the School has developed a substantial portfolio of teaching activities beyond the traditional one to three year full-time course model. These fall into three main areas: Executive Masters Programmes, Summer Schools and programmes run through the University of London International Programme. In total these courses had enrolled more than 27,000 students on LSE programmes of study in 2013-14.

Executive Masters programmes

LSE offers a range of executive master's programmes for mid-career to senior level professionals. The programmes benefit from the School's exceptional links with the outside world, both within the academic community and externally with policy practitioners. The current portfolio covers behavioural science, strategy and diplomacy, management, finance, health economics, law and politics. These programmes attracted 433 students in 2013-14, a figure which we plan to increase substantially over the next few years.

Amongst these is now the well-established and internationally recognised TRIUM MBA which is operated in partnership with NYU Stern and HEC Paris. Following the appointment of the first Executive Director of the TRIUM programme based at LSE, the School has taken over responsibility from NYU Stern for the management and administration of the programme.

Summer Schools

The Summer School, which had its 25th anniversary last year, again increased numbers for the two, three week sessions that held each year in July and August. With 5,005 attending this year it remains the



Saw Swee Hock Student Centre

The £38m Saw Swee Hock Student Centre (SAW) opened its doors to occupants in January 2014.

At the heart of an ongoing transformation of the LSE campus, the centre is named after prominent LSE alumnus and philanthropist, Professor Saw Swee Hock, following his generous £2.5m donation. This is part of the total of £5m in donations received for the centre from alumni, friends and family and charitable foundations. This spectacular and award-winning building is part of the School's commitment to improving the student experience and creating a campus which matches the School's reputation for world class teaching and research.

The SAW building is home to the LSE Students' Union (LSESU), the LSE Careers Office and Residential Services Accommodation Office. With a gym, exercise studio, bar and cafés, entertainment spaces, student activities centre, faith centre, media centre and an 850 person venue, SAW is already a focal point for students looking to study, socialise, work-out or simply relax.

Designed by Irish architects Sheila O'Donnell and John Tuomey, the SAW is the first new building LSE has commissioned in over 40 years. Its dramatic sculptural form and unusual brick façade has attracted many admirers, both from across the School and also from the architectural community. Described in the architecture press as "imaginative, inviting and memorable" and "architectural origami", SAW has already won a number of awards, including RIBA's London Building of the Year, Concrete Society University Building, Leaf's Public Building of the Year, Royal Institute of the Architects of Ireland (RIAI) International Award, AJ100's Client of the Year.

largest university summer school in the UK and attracts students from 140 countries around the world. The LSE Summer School means that the campus remains intensively used for a six week period during the summer, with strong demand for rooms in our residences and use of catering facilities. In addition to this a separate Executive School has been running for the past five years in London; this year it attracted 280 students. Two overseas schools also operated, in Beijing and Cape Town with another 430 students attending.

International Programme

Under a collaboration agreement, the School participates in the University of London International Programme, which sees our academic material taught under the University of London badge to some 22,000 students around the globe annually. This study leads to the award of a University of London degree via distance learning. The School plays an active role in the direction and quality assurance processes of the programmes in which it is involved.

Research income

Research income grew by 13.9 per cent (2012-13: 4.4 per cent) to £27.0m. The main area of income growth is from UK Research Councils, reversing the downward trend seen over the last two years. Whilst the number of awards from this sector remain at a steady level, the value of awards held has increased. Notable successes during the year include the renewal of funding for the ESRC Centre for Climate Change Economics and Policy, the start of the ESRC funded "What Works Centre", and a £2.5m award to Personal Social Services Research Unit to improve the lives of people with dementia and their carers. Income from other sectors has also increased, in particular income from European funders (which has seen a steady increase over the last few years – up this year to £7.9m, an increase of 12.5 per cent) and UK Government (an increase of 21.3 per cent to £4.1m).

The School launched a new Research Incentive Scheme in 2013-14 to support faculty time and resources for the process of grant winning. During 2013-14 £1.3m was allocated through the scheme.

The School continues to do well in attracting large-scale funding for research centres, but has scope to improve its record further by winning more standard grants. A more strategic approach to grant-winning will be supported by the Research Division in the coming year and beyond, with greater efforts to raise funding from non-traditional sources.

The School's investment in Research Excellence Framework (REF) 2014 culminated at the end of November 2013 with the submission of staff research outputs and narratives. In total the School submitted around 65 impact case studies for the REF. These impact case studies demonstrate how LSE's excellent research has resulted in changes and benefits to the economy, society, culture, public policy, health, the environment and quality of life beyond academia. The results of the REF will be known in December 2014 and will make an important contribution to the School's standing and reputation. It will also inform the allocation of research block grant funding from 2015-16 onward, but given the bias to funding STEM subjects it cannot be expected to be any better than current funding and carries the risk of being worse.

The School's strategy is to compete successfully for high quality peer reviewed research. Where it is possible and appropriate to our academic aims, we also participate in commercial non-peer reviewed research, but undertaking research of low academic benefit purely for income generation is not a strategic aim.

Other income

The School derives significant value from its academic reputation and resources, via a number of additional activities. These activities are now well established and make a valuable contribution to the financial health of the School. They form a key component of our financial plans and are increasingly seen as an extension to our core activities. Together these activities generated a surplus of £8.4m in 2013-14 (£11.1m – 2012-13, including one off adjustments).



LSE Enterprise Limited

The School is keen to apply the social science expertise of LSE academics to researching and resolving issues across a very wide range of policy, social and business areas, and where appropriate to do this on a commercial basis. These activities are conducted through LSE Enterprise Ltd, a wholly owned subsidiary company of the School established over 20 years ago, and its revenues are reported under Other Income. During the year LSE Enterprise Ltd managed more than 160 consulting projects ranging from highly focused research and advisory assignments to complex interdisciplinary research programmes applying academic methodologies to major policy and commercial questions. LSE Enterprise Ltd has also been increasingly successful in bidding for and leading complex projects to advise on the development or outcomes of European Union policies. These activities connect the School's academics to business, government and the third sector, creating opportunities for their research to deliver insight and impact.

The company's operating surpluses has been paid through Gift Aid to support research and teaching at LSE.

The International Growth Centre

Other Income includes £8.3m (2012-13 – £4.8m) from the International Growth Centre (IGC). The School is now in the fifth year of a partnership with the Department for International Development (DfID) that funds and develops the work of the International Growth Centre. This ground-breaking initiative promotes sustainable growth in developing countries by providing demand-led policy advice based on frontier research. Based at LSE, the second phase started in February 2013 and is a combination of commissioned research projects, in-country research and policy work and an operations hub supporting and coordinating the work. This is a £51m investment by DfID over three years to 2016 working through 14 in-country programmes in 13 countries (Bangladesh, Ethiopia, Ghana, India (Bihar state and Central), Liberia, Mozambique, Pakistan, Rwanda,

Sierra Leone, South Sudan, Uganda, Tanzania and Zambia) as well as ten research programmes spanning topics such as trade, agriculture, macroeconomics and human capital.

Residences and catering

With over 4,000 bed spaces in 12 halls of residence and the University of London halls, the School is able to offer a guaranteed place to all first year undergraduate students and, unlike the numerous commercial providers of accommodation in London, we continue to offer 31 week contracts to undergraduate students making our residences more affordable for them. During vacation periods, we operate many of the halls on a commercial basis through a wholly owned trading subsidiary LSE Lets Limited, providing hotel accommodation for a wide range of customers. In 2013-14 this trading activity generated £7.3m of revenue, an increase of £0.2m on the previous year. The surplus from residences' commercial activities is used to support student rents.

There will be a reduction of 135 bed spaces allocated to LSE in University of London halls for 2014-15 during a period of refurbishment. As demand continues to be high the School is keen to increase the number of bedspaces available so it is pleasing to note that a new residence provided in partnership with Urbanest will provide 484 additional beds at Westminster Bridge from September 2015.

The School operates ten catering outlets employing 66 full-time equivalent staff and generating £4.4m income in 2013-14. The new Saw Swee Hock Student Centre has added two new catering outlets and a bar to our offer. Catering Services and the Students' Union have worked in partnership to ensure these new outlets both enhance and complement the campus food offering.

Endowment and investment income

In 2013-14 Endowment and Investment income consisted of three elements, investment income and capital gains generated by



endowments, the School's general reserve investment and interest earned on surplus cash which the School holds for working capital and fixed asset investment purposes.

Endowments and the School's general reserve investment funds are held in term deposits, for those funds required over the next few years, and in equity and other long term investments for those that are not committed within this timeframe.

During the year surplus cash was held in term deposits with a range of banks regulated by the FCA or EEA and which have credit ratings of AA- or better. Deposit terms range from one to twelve months and the maximum deposit at any one bank or bank group is normally £20.0m. Rates of interest receivable on cash deposits have remained at low levels throughout the year, so returns have been modest. In October 2014 monies held to fund capital expenditure were moved into a new bond portfolio managed on behalf of the School by J P Morgan. The aim of this portfolio is to protect capital and ensure the School receives a reasonable return. Low rates and the risk that construction costs will continue to rise at above inflation rates present a risk to the School's capital development plans.

During 2013-14 the School received £8.8m (2012-13, £8.0m) in endowments from a combination of new donors and existing pledges.

The Investment Sub-Committee of our Finance Committee oversees the asset allocation and investment strategy of these pools. The School is fortunate to be able to draw on the advice and expertise of a number of very experienced investment professionals who, along with academics and a Students' Union representative, comprise the committee. The committee is supported and advised by an external investment consultancy.

In 2013-14 the overall investment return after fees was 4.6 per cent (2012-13 – 17.4 per cent) for growth portfolio assets, 3.9 per cent (2012-13 – 8.0 per cent) on the FER pool and 0.4 per cent on endowments held in cash. This produced an overall return of 4.0 per cent (2012-13 – 12.7 per cent).

Expenditure

Total expenditure grew by 12.2 per cent (2012-13 – 6.2 per cent) with staff costs increasing by 12.5 per cent and other operating expenses by 9.1 per cent.

	2013-14 £m	2012-13 £m	Change £m	%
Staff costs	147.2	130.9	16.3	12.5%
Other operating expenses	98.5	91.7	6.8	7.4%
Depreciation	8.7	6.8	1.9	28.1%
Interest payable	6.6	3.2	3.4	106.1%
Total expenditure	261.0	232.6	28.4	12.2%

The impact of four significant initiatives associated with staff recruitment, retention and reward that were implemented during 2013-14 is evident in the 12.5 per cent increase in staff costs.

- The Research Quality Investment Fund (RQIF), a global search to recruit an additional 20 world class academics resulted in more than 20 additional faculty joining the School.
- A new academic career structure, replacing the four tier lecturer, senior lecturer, reader and professor structure with assistant, associate and full professor nomenclature. In addition to changes in academic titles the new structure introduced higher starting salaries for each level and an even more rigorous standard for interim and major review.
- A scheme to increase the proportion of research funded from external sources by ensuring that the principal investigator funding and a proportion of the contribution to indirect costs is made available to the academic who secured the grant. Some of these funds may be taken as supplementary remuneration.
- The processes associated with the recognition and reward for exceptional performance amongst non-academic staff were revised and devolved.

Other operating expenditure

Other Operating Expenditure increased by 7.4 per cent (2011-12, 8.3 per cent) and this reflects the increase in scholarships, bursaries and general educational expenditure (£1.5m), additional estates costs associated with the expansion in the estate (£1.3m), expansion in the International Growth centres activities following the signing of the phase 2 contract (£1.9m), the costs associated with increased business in our halls of residence (£0.8m), additional Students' Union funding following their move to the Saw See Hock Student Centre (£0.7m) and increased investment in IT (£0.7m).

Interest payable costs increased by 106.1 per cent following the issuance of £125m of unsecured loan notes in November 2014. The completion and opening of the Saw Swee Hock student Centre in September and a full year's depreciation on our new academic facility at 32 Lincoln's Inn Fields account for £1.9m of the increase in the annual depreciation charge.

Balance sheet and liquidity

During 2013-14 the School's net assets grew by 5.7 per cent (2012-13 – 10 per cent), an increase of £24.5m, and as part of that increase, the School's endowments grew by £4.6m (2011-12 – £9.4m).

In August 2013 the School exchanged contracts for the purchase of 44 Lincoln's Inn Fields for £80.0m, the purchase was completed in October 2013, funded from School cash. This acquisition and the School's other capital plans exceeded projected liquidity so in November 2013 the School issued £125.0m of unsecured loan notes paying between 3.73 per cent and 4.15 per cent repayable between 2028 and 2053. The £56.1m secured loan facility with Barclays Bank, of which £26.1m is currently drawn, has been retained.

The Finance Committee continues to review the School's liquidity on a regular basis to ensure it is adequate to accommodate the School's medium term plans.

Capital expenditure

	£m
44 Lincoln's Inn Fields purchase	80.1
Saw Swee Hock Student Centre (Total construction costs £35.8m)	5.5
Library and Women's Library	2.1
Redevelopment of Centre Buildings	1.9
Connaught House conversion to academic offices	1.4
Other additions	0.7
Equipment	3.3
Total capital expenditure	95.0

The main investments in capital during the year were the acquisition of 44 Lincoln's Inn Fields and completion of the new Saw Swee Hock Student Centre. Both represent significant milestones for the School, the Saw Swee Hock is the School's first newly built facility since the 1970s and is transformational in terms of provision for our students.

44 Lincoln's Inn Fields offers an opportunity no less important for the academic community: to construct a purpose built teaching and research facility in the heart of the campus. In the meantime, 2013-14 has seen good progress with plans to redevelopment three major buildings in the centre of the Houghton Street campus, namely East Building, Clare Market and St Clements East. Following an architectural competition Rogers Stirk Harbour + Partners LLP have been appointed and, subject to planning, it is anticipated that a three-year build programme costing around £119.9m will commence in 2015 subject to planning permission from Westminster Council.

Cash flow

	2013-14 £m
School cash and bank deposits at 1 August	89.4
I & E surplus before transfer to endowment	18.1
Adjustments for non-cash movements included in surplus	6.6
Adjustments for changes in working capital	3.1
Other	3.1
Increase in prepaid fees	1.4
Capital grant receipts	4.0
Net increase before capital investment and financing	36.3
Additional finance	125.0
Capital expenditure	-95.0
Loan repayments	-1.8
Net School cash movement	64.5
School cash and bank deposits at 31 July	153.9

With strong operating cashflows and the proceeds for the private placement there was a net inflow of £64.6m (2012-13 – £11.8m) in the year leaving the School with a strong cash position of £153.9m at the year end. However, should the School decide to proceed with the redevelopment of the Centre Building and 44 Lincoln's Inn Fields sites, these funds will be consumed, making the need for a significant and successful fundraising operation all the more pressing.

Financial sustainability and going concern

The Council has reviewed the financial situation as at 31 July 2014, the financial forecasts for future years and demand for student places and is satisfied that the School is a going concern.

The Finance Committee has reviewed and reported to Council on the long term five-year forecasts and ten-year projections on a termly basis and the potential financial effects of variations in assumptions used to construct those forecasts. The Finance Committee has reviewed the level of surplus required to fund capital investment and other developments and is satisfied that retrospectively and prospectively the School is operating at the required level. The Audit Committee has reviewed and reported to Council on management's assessment of strategic risks. The Director of the School has reported to each meeting of Council on major developments in higher education and issues facing the School. The Council has received reports on non-financial indicators which are of significance to longer term financial sustainability. On the basis of these assurances, Council is satisfied that the School is operating in a financially sustainable manner.

When the School faces a decision with significant financial implications a detailed and focused review of the options, financial impact and risk is undertaken for and reviewed by Council and the relevant sub-committees of Council. During 2013-14 such exercises were undertaken on two occasions, the first to support and inform Council's decision to acquire 44 Lincoln's Inn Fields as it was clear that the opportunity to acquire the site was likely to attract competing offers from developers seeking planning consent for a residential development. Secondly there is work on-going as these accounts are being finalised to ensure that the decision over the redevelopment of the Centre Building site is financially sustainable and represents an effective use of School resources.

Indicators of financial sustainability

At its away-day in September 2014, Council reviewed a range of financial and non-financial indicators to assure itself about the sustainability of the institution. These "context statistics" included both financial indicators similar to those used by HEFCE in risk evaluation and a wide range of non-financial indicators, including research quality, student demand and student satisfaction data, league table positions, philanthropic donations, staff retention and estates quality measures.

The following table summarises some of the School's actual and forecast financial metrics and other non-financial measures and compares them against the sector.

League table measures

		2014-15 Actual	2013-14 Actual	2012-13 Actual	2011-12 Actual
International comparisons	THE World University Rankings	34	32	39	47
	THE World Reputation Rankings	24	25	29	37
	QS World Rankings	71	68	69	64
National comparisons	National Student Experience Poll	–	72	85	92
	National Student Survey (Question 22)	83%	88%	85%	84%
	<i>The Times/Sunday Times</i> University Guide	5	3	3	3
	<i>Guardian</i> University Guide	7	3	3	4
	Complete University Guide	3	3	2	4

Research and teaching matters

	2013-14 Actual	2012-13 Actual	2011-12 Actual	2010-11 Actual
Year to year growth in research grant income	+13.9%	+4.6%	-5.7%	+0.9%
Research contract and QR income per academic FTE (career track)	£78,299	£76,567	£75,439	£78,137
Average fee income per full-time student	£14,086	£13,359	£11,792	£10,901

Financial measures

		2013-14 Actual	2012-13 Actual	2011-12 Actual	2010-11 Actual
Historical cost surplus as a percentage of total income	LSE	6.5	11.6	10.1	9.1
	Sector mean		5.0	4.8	5.7
	Upper quartile		7.3	7.8	8.7
Staff costs as a percentage of total income	LSE	52.9	49.7	51.6	51.9
	Sector mean		52.4	52.6	53.0
	Upper quartile		55.8	55.9	56.1
Net liquidity/ (total expenditure – depreciation)/days	LSE	222.6	164.0	150.0	63.0
	Sector mean		123.0	117.0	109.0
	Upper quartile		170.0	157.0	155.0
External borrowing (on balance sheet) as a percentage of total income	LSE	54.1	10.6	12.2	13.5
	Sector mean		25.8	23.6	21.4
	Upper quartile		34.7	34.5	34.6
Discretionary reserves (excl. pension asset/(liability) as a percentage of total income	LSE	114.5	113.8	108.2	102.2
	Sector mean		61.7	58.0	51.2
	Upper quartile		79.8	74.5	66.3
Net cash flow as a percentage of total income	LSE	11.4	16.5	20.4	5.4
	Sector mean		8.3	8.1	9.2
	Upper quartile		12.8	11.6	13.7

Estate measures

		2013-14 Actual	2012-13 Actual	2011-12 Actual	2010-11 Actual
Income per square metre (Income excluding Residences. Space: based on gross internal area)		£1,975	£1,861	£1,896	£1,639
Academic estate	Category A	21%	12%	13%	11%
	Category B	43%	52%	47%	51%
	Category C	36%	36%	40%	38%
Long term major maintenance spend as a percentage of insurance rebuild cost	Academic campus	0.6%	0.4%	0.7%	0.5%
	Residences	3.6%	3.2%	2.0%	1.5%

The data clearly indicates that the School is in a strong position on many measures. However the Council is also mindful that the School's principal competition is increasingly from overseas. Although no direct comparators are available, it is clear that – in common with almost all UK higher education institutions – LSE is comparatively disadvantaged on both public funding and philanthropic endowment.

The past successes of the School are undeniably impressive, academically and financially but are no guarantee for the future and there is the risk that either complacency or the chance of failure inhibit innovations to the longer term detriment. To continue and build on past success will require innovation and investment, so a strong financial base and sound financial discipline that supports, while critically challenging and reviewing investment, is a prerequisite. A number of new interdisciplinary initiatives are being developed, some such as the new Institute for Public Affairs are already established, others are following closely behind such as the Institute for Global Affairs and others will be scrutinised over the coming months. All will be seeking philanthropic and research partners to ensure that the School's initial investment creates a sustainable, interdisciplinary body that pushes the School forward in a new and innovative manner.

Principal risks

There are other risks to financial sustainability that the School is addressing as it develops its strategic thinking for the future.

- More than most institutions LSE operates in an international context and so many of our concerns are outward looking. We remain concerned that issues relating to the UK Border Agency and student visas and the reporting of statements made by politicians may deter some students from applying to study in the UK. Likewise we face employment visa issues and these add to the difficulties of recruiting and retaining staff from overseas.
- We are also becoming aware of increasingly strong overseas competition, especially in Australia, and the emergence of private providers as issues which we need to watch carefully in the coming years.
- In the months in the run up to the 2014 REF census date, competition for staff was strong. Although this particular trigger for competition has passed we continue to face serious competition to recruit and retain our best faculty so the challenge remains to ensure that an effective reward policy is developed to attract new talent and retain existing faculty while ensuring long-term affordability.
- The School derives its income from four main sources: student fees, government grants, contracts for research and other work done for clients, and philanthropy. 2014-15 is the first year where we receive no direct government funding for teaching the incoming cohort of undergraduates. The value of government funding for research continues to decline in real terms and the success in the REF that the School has invested in achieving may not guarantee even current levels of support for research. To begin to address this risk the School is reviewing its operating model to ensure a proper alignment of revenues and investments in a financial environment where there is no longer significant recurrent public funding.
- While the School has been successful to some extent in philanthropic development in recent years, it does not enjoy the same level of endowment or income as US comparators, Oxford, Cambridge or some other UK universities. During 2014 the School has been reviewing its investment in development of philanthropic funding and concluded that there was a strategic imperative to make a significant investment in this area. The new director of Advancement, Chris Yates, has

been recruited to lead the development of Advancement in seeking support for scholarships/bursaries, research, internationally competitive reward for academic staff and redevelopment of the estate at levels commensurate with the School's global reputation and influence.

- Finally, while some steps have been taken by their trustees to improve the long-term sustainability of the pension schemes – USS and SAUL – that the School's employees participate in, Council remains concerned about the long term sustainability of defined benefit schemes in an era of sustained low investment returns.

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. During 2013-14 the School's principal financial instruments comprised investments, cash and bank deposits, gilts and bank loans, interest rate swaps to protect against rate changes and trade debtors and trade creditors that arise directly from its operations. The credit risk on bank deposits was limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies. The School has a limit of £20.0m that can normally be placed with any one bank group. During the year the School issued £125.0m of unsecured loan notes that will provide liquidity during the period of planned capital development with borrowing costs fixed at between 3.73 and 4.15 per cent. The School's other borrowings and borrowing facilities at fixed rates are delivered through an interest rate swaps agreement associated with the School's Barclays loan facility (see note 16).

In October 2014 most of the cash held to fund planned developments was transferred into a diversified corporate bond investment fund management which JP Morgan are now managing on the School's behalf. The aim of the fund is to protect the capital sum and minimise the impact of inflation by generating a reasonable rate of interest.

Public benefit

We have reviewed the activities of the School for the year 2013-14 with regard to obligations under section four of the Charities Act 2011 and the Charity Commission's guidance on public benefit.

In this section, we set out some of the many ways in which the School delivers public benefit. The objectives of the School are set out in our Memorandum and Articles of Association. The public benefit objectives include education and research, but the School's ambitions go significantly beyond the intrinsic benefits of those activities. Since its foundation, LSE has sought to apply teaching and research to improve society, and that goal remains unchanged today, except that the School's global reach is greater than ever.

Our beneficiaries

The benefits and beneficiaries of LSE activities include students who benefit from their education at LSE, academia as a whole which benefits from research, and broader society which benefits from both, with well-educated graduates contributing to academia, the professions, public service, commerce and industry, and society in many fields, and our research influencing public policy for the good of society.

Widening participation and raising aspiration

At LSE we believe that all school students should have the opportunity to go on to higher education regardless of their background, and that it is our social responsibility to encourage and support them in

exploring their options and making decisions about their future. We have always sought to recruit the best students, irrespective of socio-economic background, though we recognise that limited endowment funding constrains our ability to offer “needs blind” admission to overseas students.

LSE works with schools and colleges in the UK and offers a range of activities aimed at pupils, their teachers/advisors, and adult learners. These programmes are free for schools and colleges, being fully funded by LSE and through the generous support of private donors. These initiatives include the following:

Visits to schools and colleges – LSE works with schools and colleges in order to provide bespoke sessions to raise awareness of higher education, to raise aspirations and motivate students. Popular topics include: thinking about and choosing your university; the UCAS application process; student finance and budgeting; student life; applying to and studying at LSE; and personal statement workshops.

Moving On – Aims to ease pupils’ transition to secondary school by showing that change happens throughout life and can be a positive experience. It also serves as an opportunity to familiarise young people with higher education. It includes activities to promote independence and resilience, takes in a campus tour and culminates in a “graduation ceremony”.

Student tutoring – LSE students work in schools, under the supervision of teachers, to help pupils with their academic work. Tutoring usually involves LSE students tutoring for approximately an hour per week at a school or college for a nine-week period, working with pupils on a one-to-one or small group basis. The scheme benefits both the school children (in Years 6 to 12) and our undergraduate and postgraduate students who gain important work experience and take part in a valuable community programme.

Other examples of our outreach work with schools and colleges include:

- The LSE Mentoring Scheme which aims inter alia to help mentees to improve their performance in key stage assessments and at GCSE and A Level.
- Introduction to Social Sciences for those considering their GCSE choices.
- Promoting Potential Spring School – the Spring School provides opportunities for African-Caribbean boys from state secondary schools to learn about the range of subjects available to them at university. The programme also allows participants to develop key skills including research, networking and debating.
- The Black Achievement Conference – highlighting some of the positive achievements in the black community and inspiring children to “aim high”.
- Aiming for a College Education (ACE) and ACE High Days – preparing for university life.
- Year 11 Summer School – a social sciences Summer School providing students with the opportunity to experience some of the subjects available at LSE including Economics, History, Sociology, Government and Law.
- Pathways to Law (London), delivered in partnership with University College London, The Legal Education Foundation (formerly The College of Law) and The Sutton Trust.
- Alison Wetherfield Law Programme – a brand new law programme for 2014-15 comprising specialist law master classes and a national conference for students in Years 12 and 13.

- The Politics Conference.
- BSc Management Taster Day.
- LSE Choice – tools for successful application to LSE and other Russell Group universities.
- Student shadowing.
- Open days.
- Public lectures.
- Advising the Advisors Conference (information and guidance for teachers).
- Routes into Languages.
- LSE.FOCUS – a newsletter for schools and colleges; and
- Email an Alum – first-hand advice from graduates on what to expect at LSE and where an LSE education might lead.

Financial support

LSE is committed to ensuring that students from all social and economic backgrounds continue to apply to the School and that no-one is deterred from doing so because of financial considerations. Tuition fees are top-sliced to provide a generous scholarships budget with schemes in place to fund undergraduates and postgraduates.

The School’s new Access Agreement for 2014 builds on past success, committing half of the additional fee income created by the introduction of variable fees (for UK and other EU undergraduates) in 2006, to be used for undergraduate bursaries, outreach and on-course support. The bursaries are available for all students in receipt of a full or partial maintenance grant and do not have to be repaid.

Overseas undergraduates and taught postgraduates from all backgrounds are able to access additional School schemes, which provide awards with a range of values assessed on need. There is a separate extensive scheme for PhD students.

In addition, the School has a range of scholarships funded by external donors and foundations, which again support study at all levels.

On-course financial help is available, in the form of the School’s Student Support Fund. 2013-14 was the final year of the Government’s Access to Learning Fund, but LSE will continue to support students who would previously have been eligible.

Public Events

The School’s location in central London and our close links with Westminster, Whitehall and the City help to maintain our reputation as the place where the world comes to debate. Everyone is welcome to attend LSE’s public events, where some of the most influential figures in the social sciences can be heard. Notable speakers at the School in the past year included LSE alumna Cherie Blair, the leading lawyer and women’s rights campaigner; George Soros, Chairman of Soros Fund Management and the founder of Open Society Foundations (also an alumnus); Gail Kelly, Chief Executive Officer of the Westpac Group; Helen Clark, Administrator of the United Nations Development Programme and former Prime Minister of New Zealand; José Manuel Barroso, President of the European Commission; and Boris Johnson, Mayor of London.

LSE’s Public Events programme includes lectures, debates, discussions and concerts. In order to maximise the opportunity for those outside

of London and overseas to benefit from the programme, many were also made available online by video or podcast, with debate being sustained through social networking and syndication via sites such as Twitter, Facebook, RSS, Atom, iTunesU, Soundcloud, YouTube, etc. In 2013-14, there were over 9.6 million views of the School's rich media offerings via video and audio podcasts.

Arts

The School provides a range of art and entertainment programmes which are free of charge and open to all. These include exhibitions, music concerts, online photographic galleries, and our popular annual "Space for Thought" Literary Festival which this year attracted speakers including award-winning authors AS Byatt, Tracy Chevalier and Melvyn Bragg as well as BBC Today Programme's Evan Davies and the celebrated academic Margaret Macmillan.

LSE has an "open" campus in the heart of London, generously furnished with an interesting range of sculptures and installations for all to enjoy. We want to do what we can to continue to make London a beautiful space for residents and visitors alike and, to that end, continue to do all we can to transform the "public realm".

Volunteering

The School has a strong tradition of social awareness and engaging with the wider community. LSE supports such efforts through its dedicated Volunteer Centre. In 2013-14, the Centre saw a huge amount of interest from students who wanted to get involved in volunteering. LSE students completed a range of roles including mentoring, campaigning, fundraising, marketing and research. The School has been able to fund student-led projects, run a photography competition, invite over 30 charities on to campus for the annual Volunteering Fair and host an event to celebrate the commitment of LSE students to volunteering and fundraising. LSE and our students work with a range of charitable organisations with a broad reach – from action tutoring in inner-city London schools, to helping poor rural families in India, Nepal, Malawi and Zimbabwe. We are proud to be making a difference.

Library

LSE Library is one of the largest social sciences libraries in Europe, with designated status from Arts Council England, and unusually amongst university libraries, it is open to members of the public who need to use its collections. Over the past year, the Library has opened The Women's Library Reading Room, a 40-seat research facility providing access to the Library's extensive Archives and Special Collections, and has loaned items to the Tate Gallery for their exhibitions programme. The full catalogue of the Women's Library, Europe's foremost collection on the history and campaigns of women, is available online. The Library has launched several digital exhibitions, including World War One @ LSE, and The Papers of Lionel Robbins; all of the Library's digital exhibitions are freely accessible from the Library's website. Supporting LSE's Widening Participation programmes and working directly with schools, the Library also hosted visits, tours, and training for hundreds of school-aged students interested in pursuing higher education. A new Training and Outreach Room has been completed which will support this work.

Research

The School prides itself on a policy of engagement and the provision of research which seeks to address the burning issues of the day and

influence public policy. The work of many of our research centres and academic departments has direct relevance to our charitable aims and the delivery of public benefit. A few examples include the following: The prevention and relief of poverty: the International Growth Centre, Asia Research Centre, Centre for the Analysis of Social Exclusion; Centre for Economic Performance; and Department of International Development.

The advancement of health or the saving of lives: LSE Health and Social Care, and the Centre for Human Rights.

The advancement of citizenship or community development: Cities, Spatial Economics Research Centre, Centre for the Analysis of Social Exclusion.

The advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity: Centre for Human Rights, Diplomacy and Strategy (IDEAS), International Relations; Government; Gender Institute, the Crisis States Research Network; and the Middle East Research Centre.

The advancement of environmental protection or improvement: Grantham Research Centre, Centre for Climate Change Economics and Policy, Department of Geography and the Environment.

The relief of those in need, by reason of youth, age, ill health, disability, financial hardship or other disadvantage: Centre for the Analysis of Social Exclusion, LSE Health and Social Care, Department of International Development, International Growth Centre, Centre for Economic Performance, and the Suntory and Toyota International Centre for Economics and Related Disciplines.

Research that has hit the headlines in the past year includes:

- a study led by Professor Martin Knapp, Director of the Personal Social Services Research Unit (PSSRU), found autism to be the most costly medical condition in the UK, at £36 billion per year. A separate study co-authored by Professor Knapp found the cost of dementia to be £26 billion per year to the UK economy.
- an earlier report from the PSSRU found half a million older and disabled people had lost their care since start of the recession;
- a research paper co-authored by Dr Michael Shiner, Associate Professor in LSE's Department of Social Policy, demonstrated that university applicants from black and ethnic minority backgrounds are less likely to receive conditional offers than comparable white British applicants;
- the EU Kids Online report, led by Professor Sonia Livingstone from LSE's Department of Media and Communications, found that more children now face bullying online than in the playground;
- the LSE IDEAS report from the LSE Expert Group on the Economics of Drug policy calling for an end to the war on drugs;
- a study co-authored by LSE's Gabriel Ahfeld found a significant link between house prices and internet speeds, with home buyers in London willing to pay up to 8 per cent above the market price for properties in areas offering very fast internet speeds;
- in his inaugural lecture as the first Regius Professor of Economics, Nobel Laureate Professor Christopher Pissarides called either for the Euro to be dismantled or for leading EU members to do what is necessary to make it growth-friendly.

A unique two-year project, Constitution UK, was launched in October 2013 by the Institute of Public Affairs which is giving the public a direct

LSE100: The LSE Course

As well as seeking to “know the causes of things”, a core part of LSE’s mission is to produce research and teaching which will help to tackle the world’s most pressing problems.

This real-world approach is not just reserved for academic staff and postgraduates, but is also reflected in the School’s undergraduate syllabus, most notably with the introduction of LSE100 in 2010.

LSE100 is an innovative course which introduces all LSE undergraduates to the fundamentals of thinking like a social scientist, and expanding their experience outside their chosen discipline. Students explore some of the great intellectual debates of our time and focus on cross-disciplinary questions such as “How should we manage climate change?”, and, “Do nations matter in a global world?”

Over 20 weeks six big questions are studied, with students exploring a variety of approaches to evidence, explanation and theory that are used in different fields. In this way, LSE100 produces students whose intellectual grounding in their discipline is complemented by an understanding of different ways of thinking.

The course also helps students develop valuable skills for life after LSE. Students strengthen their research and communication skills – the ability to assess and manage information, evaluate evidence, and construct persuasive arguments.

No important topic can be fully understood through a single point of view and LSE100 enables students to engage with pressing real-world issues via a range of perspectives.



say in writing a proposed new UK Constitution. The project seeks input from ordinary English, Scottish, Welsh and Northern Ireland residents on how their country should be governed. The first year saw a mix of web-based and direct participatory activities which resulted in the identification of a series of common values and principles that should underlie a modern British constitution, culminating in a Constitutional Carnival in Summer 2014. The second year will be focused on working out the detail of the constitution via web-based mass participation.

Thank you

We would like to thank the many generous donors and sponsors, without whom LSE’s public benefit activities would not be sustainable at their current scale. The School is indebted to the enthusiasm and engagement of members of the LSE Council, who receive no remuneration for their services as charity trustees.

Employment

The School promotes equality of opportunity for staff from all social, cultural and economic backgrounds and ensures freedom from discrimination on the basis of disability, gender, race, age, religion or belief, and sexual orientation, or personal circumstances. Equality and diversity are integral to the School priorities and objectives. The School will support inter-faith and inter-cultural dialogue and understanding and engage all students in playing a full and active role in wider engagement with society. The School’s policy of employment with regard to disabled persons is to consider positively any 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 49.

Auditors

The School’s current auditors are PricewaterhouseCoopers LLP.

Disclosure of information to auditors

At the date of making this report each of the company’s directors, as set out on page 49, confirms the following:

- so far as each 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 and Strategic Report were approved by Council on 25 November 2014.

Professor Craig Calhoun
Director

The School is an exempt charity within the meaning of Part 3 of the Charities Act 2011 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 2010. 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 is incorporated under the Companies Act as a company limited by guarantee.

The School receives partial exemption in respect of Value Added Tax, and is unable to recover the majority of VAT paid to suppliers.

The following accounting policies have been applied consistently across the financial statements set out on pages 20 to 40.

(a) Basis of accounting

The consolidated financial statements have been prepared on a going concern and historic cost basis in accordance with applicable United Kingdom Accounting Standards. The consolidated financial statements include the School and all its subsidiaries for the financial year to 31 July. Intra-group sales and profits are eliminated fully on consolidation.

(b) Format of the financial statements

The accounts are prepared to conform to the Companies Act 2006 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 10.

The consolidated income and expenditure account includes the School's share of the income and expenditure of associated undertakings and joint ventures, while the consolidated balance sheet includes investment in associated undertakings and joint ventures at the School's share of their net tangible assets.

Associated undertakings are those in which the School has a significant, but not dominant, influence over their commercial and financial policy decisions. Joint ventures represent investments in which the School has joint control.

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 of teaching and research, and also includes restricted income to the extent that expenditure has been incurred.

(e) Income recognition

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

Fee income is stated gross and credited to the income expenditure

Account in the year of registration. 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.

Summer School income and teaching costs are apportioned between financial years on the basis of teaching days. The School's share of surplus from the participation in the University of London International Programme is recognised on an accrual basis.

Recurrent income from grants, contracts and other services rendered is 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 depreciation is charged on the asset for which the grant was awarded.

Income from donations, research grants and contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs.

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.

Investment income is credited to the income and expenditure account on a receivable basis. Endowment income generated from the underlying assets is recognised on an accrual basis. Endowment income related to accumulated income is recognised at the point of entitlement. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred to specific endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Increases or decreases in value arising on the revaluation or disposal of endowment assets are 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 Committee have reviewed the useful lives of the School's buildings and the depreciation policy is based on this.

Freehold land, separately identified since 2005, is not depreciated. Freehold buildings are depreciated over the remainder of their useful economic lives which range between five and 75 years.

Where applicable, freehold buildings are depreciated by components as follows:

Building – 75 years

Roof – 25 years

Mechanical Services – 15 years

Lifts – 10 years

Leasehold buildings are depreciated over the period of the lease. Costs incurred in relation to buildings after their initial acquisition are capitalised only to the extent that they increase expected future benefit. The costs of such enhancements are depreciated over the remaining life of the asset.

Capital projects which are still under construction are capitalised but not depreciated. An annual review for impairment of fixed assets is carried out by the Finance Committee to determine whether events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. No impairment has been charged to the 2013-14 financial statements.

(g) Heritage Assets

Works of art and other valuable artefacts that generate future value through their cultural or scientific significance are capitalised and recognised in the balance sheets at cost of the acquisition.

(h) Equipment

Equipment, including computers and software, costing less than £100,000 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 three and ten years.

(i) Operating leases

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

(j) Stock

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

(k) Investments

Listed investments are stated at their market value on the balance sheet date. Unlisted investments, including investment in subsidiary companies, are stated at the lower of cost or valuation. Investments that are held to maturity are stated at the lower of cost or present value of estimated future cash flows. Investments held on behalf of endowment funds are included in endowment assets in the balance sheets at market value.

(l) 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 Financial Reporting Standard 9. Similarly the institution's share of assets and liabilities in associate entities is recognised in the institution's balance sheet in accordance with Financial Reporting Standard 9.

In accordance with Financial Reporting Standard 9 the gross equity method is used when consolidating joint venture entities and associate entities are consolidated using the equity method entities.

(m) 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.

(n) 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.

(o) Pensions

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 separately 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, 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 during the year.

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.

(p) Charitable donations

Unrestricted donations

Charitable donations are recognised in the financial statements when the charitable donation has been received.

Endowment funds

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

There are two main types:

- 1 Restricted expendable endowments – the capital may be used in addition to the income for the objective specified by the donor.
- 2 Restricted permanent endowments – the capital fund is maintained but the income can be used for the objective specified by the donor.

Donations for tangible fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as deferred capital grants. 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.

(q) Financial instruments

The School uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such 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.

(r) 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.

(s) Agency arrangement

Funds the School receives and disburses as paying agent on behalf of the Funding Council or other body, where the School has no beneficial interest in the funds, are excluded from the income and expenditure account.

Southeast Asia Centre and Institute of Global Affairs

In addition to providing the generous donation which helped to establish the state-of-the-art student centre, Professor Saw Swee Hock further cemented his philanthropic relationship with LSE this year through a significant gift for the establishment of a new Southeast Asia Centre. The creation of the Saw Swee Hock Southeast Asia Centre at LSE was announced by Professor Craig Calhoun at the LSE Asia Forum 2014 in Kuala Lumpur. The centre brings together researchers in interdisciplinary analysis of Southeast Asia while strengthening further LSE's research and engagement with the Association of South East Asian Nations region. Academics affiliated with the centre will have access to specialist resources, networks, and funding opportunities. The creation of the Southeast Asia Centre is just one part of an exciting new development at LSE: the establishment of the new Institute of Global Affairs (IGA). The IGA is an umbrella institute bringing together a number of established centres and initiatives – including LSE IDEAS and the Middle East Centre – with new regionally focused interdisciplinary institutes, such as the South Asia and Southeast Asia Centres. The institute will promote LSE research and advance teaching on major issues of global concern, build bridges between LSE and different parts of the world, and enhance the School's role as a global university.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

Company registration no 70527

	NOTES	Group 2013-14 £'000	Group 2012-13 £'000
INCOME			
Funding body grants	1	24,429	26,605
Tuition fees and education contracts	2	153,292	139,848
Research grants and contracts	3	27,038	23,731
Other income	4	68,566	65,334
Endowment and investment income	5	5,791	7,695
Total income		279,116	263,213
EXPENDITURE			
Staff costs	6	147,175	130,849
Other operating expenses	7	98,539	91,698
Depreciation		8,748	6,829
Interest and finance costs	8	6,584	3,195
Total expenditure		261,046	232,571
Surplus on continuing operations after depreciation of tangible fixed assets at cost and before tax		18,070	30,642
Taxation		–	–
Surplus on continuing operations after depreciation of tangible fixed assets at cost and after tax		18,070	30,642
Surplus for the year retained within general reserve	20	18,070	30,642

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

As permitted by Section 408 of the Companies Act 2006, 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 £18,070,000, a surplus of £18,081,000 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 GAINS AND LOSSES

21

	NOTES	Group 2013-14 £'000	Group 2012-13 £'000
Surplus on continuing operations after depreciation of tangible fixed assets at cost and tax		18,070	30,642
New endowments	19	8,768	8,036
Endowment income retained in the year	19	(6,493)	(6,463)
Appreciation of endowment asset investments	19	2,299	7,874
Total recognised gains and losses relating to the year		22,644	40,089
Reconciliation of movement in reserves and endowments			
Opening reserves and endowments		339,356	299,267
Total recognised gains and losses for the year		22,644	40,089
Closing reserves and endowments		362,000	339,356

Professor Saw Swee Hock

With the opening of the Saw Swee Hock Student Centre and the establishment of the Saw Swee Hock Southeast Asia Centre, the School has benefited greatly in the past year from the generosity of one alumnus in particular.

Professor Saw Swee Hock (pictured) has had a distinguished academic and professional career. As one of the foremost experts on population, he has served as a consultant and advisor to governments, private corporations and international organisations. He has held visiting positions in, among others, Princeton, Stanford, Cambridge, the London School of Hygiene and Tropical Medicine and LSE.

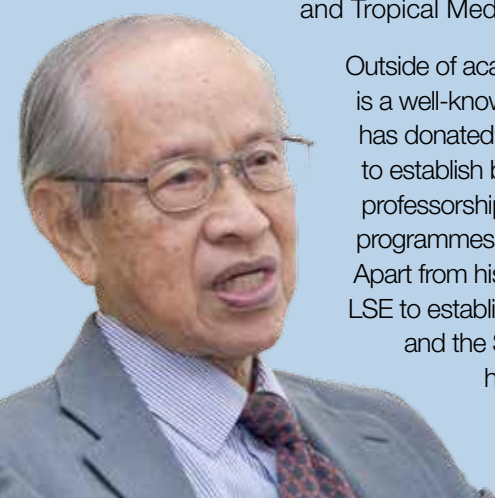
Outside of academia, Professor Saw is a well-known philanthropist who has donated regularly to universities to establish bursaries, scholarships, professorships, research programmes, centres and schools. Apart from his two landmark gifts to LSE to establish the Student Centre and the Southeast Asia Centre, he had earlier provided a

large donation to assist in the establishment of the Saw Swee Hock School of Public Health at the National University of Singapore (NUS), one of LSE's partner institutions.

In addition, Professor Saw has previously given towards the LSE Library, the New Academic Building, scholarships for LSE Singaporean students and the LSE Asia Forums in Singapore and Beijing.

In recognition of his outstanding philanthropic and academic achievements, he has received an Honorary Fellowship from LSE and an Honorary University Fellowship from the University of Hong Kong (HKU). He was conferred the 2013 Singapore President's Award for Philanthropy and the Public Service Medal by the Singapore Government in the 2013 National Day Awards. Most recently, he was named as one of the "48 Heroes of Philanthropy in Asia" by *Forbes Asia* magazine.

We are grateful to Professor Saw for his long-standing championing of education around the world, and his special contributions to the intellectual life and student experience at LSE.



BALANCE SHEETS

	NOTES	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
Fixed assets					
Tangible assets	9	413,182	412,678	328,100	327,598
Group undertakings	10	–	150	–	150
Investments	11	11,711	11,591	129	–
		424,893	424,419	328,229	327,748
Endowment assets	12	97,220	97,220	92,646	92,646
Current assets					
Stock		124	124	97	97
Debtors	13	18,293	20,145	19,035	20,251
Investments	14	–	–	11,895	11,895
Cash at bank and in hand	14	5,734	3,068	9,973	8,217
Bank deposits	14	148,214	148,214	79,410	79,410
		172,365	171,551	120,410	119,870
Less creditors: amounts falling due within one year	15	(86,618)	(85,450)	(80,902)	(80,012)
Net current assets		85,747	86,101	39,508	39,858
Total assets less current liabilities		607,860	607,740	460,383	460,252
Creditors: amounts falling due after more than one year		(150,617)	(150,617)	(27,666)	(27,666)
Pension provision	17	(133)	(133)	(140)	(140)
Net Assets		457,110	456,990	432,577	432,446
Deferred capital grants	18	95,110	95,110	93,221	93,221
Endowment funds					
Expendable	19	54,743	54,743	52,742	52,742
Permanent	19	42,477	42,477	39,904	39,904
		97,220	97,220	92,646	92,646
Reserves					
General reserve	20	264,780	264,660	246,710	246,579
Total funds		457,110	456,990	432,577	432,446

The financial statements on pages 20 to 40 were approved by the Council on 25 November 2014 and were signed on its behalf by:



Mr Alan Elias
Vice Chairman



Professor Craig Calhoun
Director

CONSOLIDATED CASH FLOW STATEMENT

23

	NOTES	2013-14 £'000	2012-13 £'000
Net cash inflow from operating activities	21	31,692	43,535
Returns on investments and servicing of finance			
Income received from endowments		5,422	5,338
Other interest received		369	2,357
Interest paid		(5,402)	(3,195)
		389	4,500
Capital expenditure and financial investment			
Payments to acquire fixed assets		(95,010)	(32,962)
Payments to acquire investment assets		(5,367)	(19)
Payment to acquire endowment assets		(26,762)	(24,263)
Proceeds from sale of investment assets		4,269	–
Proceeds from sale of endowment assets		25,704	20,767
Deferred capital grant received		3,981	2,332
		2,469	(321)
		(90,716)	(34,466)
Financing			
Loan repayments		(1,800)	(1,800)
Issuance of loan notes		125,000	–
(Decrease)/increase in cash in the year		64,565	11,769
Reconciliation of net cash flow to movements in net funds/debt			
(Decrease)/Increase in cash in the year		64,565	11,769
Changes in net debt resulting from cash flows		(123,200)	1,800
Movements in net debt in year		(58,635)	13,569
Net funds at year start		61,483	47,914
Net funds at year end	22	2,848	61,483

NOTES TO THE FINANCIAL STATEMENTS

1 FUNDING BODY GRANTS	NOTES	2013-14 £'000	2012-13 £'000
From HEFCE			
Block recurrent		21,013	22,748
Higher Education Innovations Fund		1,767	1,834
Other specific grants		146	621
Deferred capital grants released in year	18	1,359	1,374
Total HEFCE		24,285	26,577
Joint Information Systems Committee and other grants		144	28
		24,429	26,605
2 TUITION FEES AND EDUCATION CONTRACTS			
Tuition fees:			
Home/EU students		47,179	41,942
Overseas students		86,768	81,918
TRIUM MBA		2,534	4,636
Short courses		16,560	11,114
Examination and other fees		251	238
		153,292	139,848
3 RESEARCH GRANTS AND CONTRACTS			
Research Councils		6,246	4,305
Government departments		4,108	3,384
Charities		1,082	1,288
European Commission and other EU based funders		7,929	7,048
Other outside bodies		4,958	4,693
Specific endowments	5	2,715	3,013
		27,038	23,731

£2.7m (2012-13: £3.0m) research activities were funded by specific endowments and recognised as research income.

4 OTHER INCOME	NOTES	2013-14 £'000	2012-13 £'000
Residences and catering		34,754	33,881
Academic department income attributable to other activities		704	802
Release of deferred capital donations	18	627	596
University of London International Programmes (ULIP)		10,269	13,344
Consultancy services and executive education (LSE Enterprise Limited)		7,380	6,578
Other services rendered		12,734	7,182
VAT recovery		66	965
Staff and student facilities		744	621
Sundry		1,288	1,365
		68,566	65,334

Income from University of London International Programmes in 2012-13 included a one-off adjustment reflecting the formalisation of contractual agreements between the School and University of London International Programmes.

Other services rendered mainly include activities undertaken by the International Growth Centre.

5 ENDOWMENT AND INVESTMENT INCOME

Income from expendable endowments		7,162	7,316
Income from permanent endowments		975	1,035
Income from endowments	19	8,137	8,351
Research grants and contracts funded by endowments (included in note 3)			
Expendable endowments		(2,222)	(2,481)
Permanent endowments		(493)	(532)
	3	(2,715)	(3,013)
Investment of general funds			
Interest and dividends receivable		369	2,357
		5,791	7,695

Out of the overall endowment investment income £2.0m (2012-13: £4.2m) was related to income generated from the underlying investments. The rest of the endowment income was recognised to the extent of expenditure incurred during the year.

6 STAFF COSTS	2013-14 £'000	2012-13 £'000
Total staff costs for the year were:		
Wages and salaries	121,705	108,683
Social security costs	10,584	9,353
Other pension costs	14,886	12,813
	147,175	130,849

The average monthly number of persons employed by the School during the year expressed as full-time equivalents was:	2013-14 Number	2012-13 Number
Research and Teaching	1,087	1,029
Operational Services	1,224	1,228
Subsidiaries	21	21
	2,332	2,278

HIGHER PAID EMPLOYEES AND REMUNERATION	2013-14 £'000	2012-13 £'000
Directors		
Emoluments (2013-14 – 8 Directors; 2012-13 – 10 Directors)	1,020	1,150
Emoluments, as Director, of those who served during the year as Director of the School were:		
Director – Professor Craig Calhoun		
Salary	327	324
One-off benefits in kind associated with an international relocation	–	88
Taxable benefits in kind	18	9
	345	421
Employer's pension contributions	49	45
	394	466
Director – Professor Dame Judith Rees		
Salary	–	14
	–	14

Salaries are stated at gross, before deductions of pension contributions made under the salary sacrifice scheme. All directors making pension contributions joined the pension salary sacrifice scheme.

The estimated market rent of subsidised accommodation occupied by the Director was £120,000 (2012-13: £120,000). While this amount is not taxable, the School is required to disclose the information in accordance with HEFCE's Accounts Direction.

6 STAFF COSTS (CONT)

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:

	2013-14 numbers	2012-13 numbers
£100,001 – £110,000	42	35
£110,001 – £120,000	26	23
£120,001 – £130,000	15	17
£130,001 – £140,000	24	18
£140,001 – £150,000	14	14
£150,001 – £160,000	14	15
£160,001 – £170,000	12	8
£170,001 – £180,000	11	5
£180,001 – £190,000	4	2
£190,001 – £200,000	4	2
£200,001 – £210,000	1	2
£210,001 – £220,000	1	4
£220,001 – £230,000	3	–
£230,001 – £240,000	–	1
£240,001 – £250,000	2	1
£250,001 – £260,000	2	–
£260,001 – £270,000	–	–
£270,001 – £280,000	1	–
	176	147

Total remuneration includes salaries and other additional payments relating to Summer School, TRIUM and consultancy and executive education delivered via LSE Enterprise Ltd. It does not include payments for private consultancy or income earned from activities outside LSE and its subsidiaries. Payments for compensation of loss of office to higher paid staff total £96,000 (2012-13 £nil).

7 OTHER OPERATING EXPENSES	2013-14 £'000	2012-13 £'000
Academic departments	8,652	10,267
Library and IT Services	10,184	9,452
Research grants and contracts	5,956	5,511
Scholarships and general educational expenditure	18,522	16,331
Premises	15,498	14,216
Administration and central services	4,625	4,426
Staff and student facilities	2,804	2,080
Residences and Catering	20,803	19,951
Other services rendered	6,139	4,155
Consultancy services and executive education	3,869	3,446
Alumni development and fundraising	888	822
Miscellaneous	599	1,041
	98,539	91,698
Other operating expenses include:		
Fees payable to the School's auditor for the audit of the financial statements	63	62
Fees payable to the School's auditor and its associates for other services:		
Audit of the financial statements of the School's subsidiaries	8	7
Other services relating to taxation	3	5
All other services	33	30
	107	104

8 INTEREST AND FINANCE COSTS

Loans not wholly repayable within five years	6,584	3,195
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9 TANGIBLE FIXED ASSETS	LAND AND BUILDINGS		EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
	£'000	£'000	£'000	£'000	£'000
	FREEHOLD	LONG LEASEHOLD			
Group					
COST					
As at 1 August 2013	315,610	27,503	14,211	28,526	385,850
Additions in Year	85,347	8	3,280	6,376	95,011
Transfer	26,929	–	–	(26,929)	–
Disposal in Year	(1,537)	–	–	–	(1,537)
As at 31 July 2014	426,349	27,511	17,491	7,973	479,324
ACCUMULATED DEPRECIATION					
As at 1 August 2013	41,942	6,011	9,797	–	57,750
Charge for Year	7,418	580	750	–	8,748
Disposal in Year	(356)	–	–	–	(356)
As at 31 July 2014	49,004	6,591	10,547	–	66,142
NET BOOK VALUE					
As at 1 August 2013	273,668	21,492	4,414	28,526	328,100
As at 31 July 2014	377,345	20,920	6,944	7,973	413,182
School					
COST					
As at 1 August 2013	315,610	26,853	13,949	28,526	384,938
Additions in Year	85,346	8	3,259	6,376	94,989
Transfer	26,929	–	–	(26,929)	–
Disposal in Year	(1,537)	–	–	–	(1,537)
As at 31 July 2014	426,348	26,861	17,208	7,973	478,390
ACCUMULATED DEPRECIATION					
As at 1 August 2013	41,942	5,868	9,530	–	57,340
Charge for Year	7,418	569	741	–	8,728
Disposal in Year	(356)	–	–	–	(356)
As at 31 July 2014	49,004	6,437	10,271	–	65,712
NET BOOK VALUE					
As at 1 August 2013	273,668	20,985	4,419	28,526	327,598
As at 31 July 2014	377,344	20,424	6,937	7,973	412,678

Group and School

Fixed assets acquired by the School are funded mainly by retained surplus. Other sources including HEFCE 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 HEFCE Exchequer Interests are disclosed in Note 18.

The School has manuscripts of historic value stored in the Library archive and works of art. These assets are not included within the tangible fixed assets and no market value is estimated. It is not practical to determine the market value of the heritage assets. The cost associated with the custodianship would materially reduce their market value. The Library's contents and works of art are insured in 2014-15 for £111.1m and £127.0m.

	Group 2014	School 2014	Group 2013	School 2013
	£'000	£'000	£'000	£'000
10 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS				
Subsidiary companies	–	150	–	150

Principal subsidiaries are:

Name	Nature of business	Shareholding £1 ordinary shares	Number of shares
LSE Enterprise Limited	Consultancy	100%	150,000
LSE LETS Limited	Vacation Lettings	100%	2
VELSE Limited	Dormant	100%	2
LSE Asia Limited	Dormant	100%	2

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 on the face of the income and expenditure account.

The School wound up two dormant subsidiary companies – LSE Asia Limited and VELSE Limited – in September 2014.

	Group 2014	School 2014	Group 2013	School 2013
	£'000	£'000	£'000	£'000
11 INVESTMENTS				
Joint ventures	120	–	129	–
Investments	11,591	11,591	–	–
	11,711	11,591	129	–

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. Financial statements have not yet been received for 2013-14 but the 2012-13 financial statements show the School's share of turnover to be £54,000 and an operating deficit of £1,000. The decrease in the carrying amount of the investment has been included in the income and expenditure account.

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.

In 2011-12 the Council agreed to set aside a portion of general reserve as a long-term investment to supplement endowment funds. In both 2011-12 and 2012-13, this investment was classified as current investment.

	2014	2013
	£'000	£'000
12 ENDOWMENT ASSETS		
Analysis of closing balance:		
UK equities	31,984	29,236
Overseas equities	29,219	20,918
UK corporate bonds	11,469	20,248
Properties	6,570	2,710
Commodities	2,812	2,927
Money market funds	2,490	526
Invested in funds	84,544	76,565
Share of freehold property	33	33
Cash on deposit	12,643	16,048
	97,220	92,646

The 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.

	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
13 DEBTORS				
Amounts falling due within one year:				
Trade debtors	7,877	6,027	8,628	6,152
Accrued research income	2,858	2,858	2,529	2,529
Amounts due from group undertakings	–	4,000	–	4,074
Staff loans for housing	41	41	132	132
Other debtors	4,797	4,780	5,838	5,822
Prepayments	2,390	2,109	1,773	1,407
	17,963	19,815	18,900	20,116
Amounts falling due after more than one year:				
Trade debtors	30	30	52	52
Staff loans for housing	300	300	83	83
	330	330	135	135
TOTAL	18,293	20,145	19,035	20,251
14 CASH AT BANK AND CURRENT ASSET INVESTMENTS				
Cash at bank	5,734	3,068	9,973	8,217
Bank deposits	148,214	148,214	79,410	79,410
Investments	–	–	11,895	11,895
	153,948	151,282	101,278	99,522

	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
15 CREDITORS				
Amounts falling due within one year:				
Bank loans	1,800	1,800	1,800	1,800
Trade creditors	9,000	8,914	7,525	7,377
Research creditors and prepayments	16,327	16,327	18,225	18,225
Amounts due to group undertakings	–	1,867	–	1,838
Taxation and social security	3,757	3,720	2,975	2,975
Other creditors	5,992	5,992	5,023	5,023
Accruals and deferred income	49,742	46,830	45,354	42,774
	86,618	85,450	80,902	80,012
Amounts falling due after one year:				
Bank loans	149,300	149,300	26,100	26,100
Deferred VAT payments	1,317	1,317	1,566	1,566
	150,617	150,617	27,666	27,666

	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
16 BORROWINGS				
Bank loans and loan notes are repayable as follows:				
In one year or less	1,800	1,800	1,800	1,800
Between one and two years	1,800	1,800	1,800	1,800
Between two and five years	5,400	5,400	5,400	5,400
In five years or more	142,100	142,100	18,900	18,900
	151,100	151,100	27,900	27,900

The School has arranged a £75.0m amortising loan repayable by December 2028 secured over three properties. £26.1m was outstanding with a residual facility of £30.0m remaining undrawn at the balance sheet date.

The School has entered into interest rate swap agreements with a nominal value totalling £65.0m. The effective fixed rate costs of the loans and swaps taken together is between 5.0 per cent and 5.5 per cent. The swap agreements had a negative mark to market value of £19.2m (31 July 2013 – £19.6m) at the balance sheet date.

In November 2013, the School issued £125.0m of unsecured loan notes paying between 3.73 per cent and 4.15 per cent repayable between 2028 and 2053.

17 PENSION PROVISION	£'000
As at 1 August 2013	140
Transferred to income and expenditure account	(7)
As at 31 July 2014	133

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, in accordance with FRS 12, "Provisions, contingent liabilities and contingent assets".

18 DEFERRED CAPITAL GRANTS	NOTES	Funding Council £'000	Other grants and donations £'000	Total £'000
As at 1 August 2013		55,503	37,718	93,221
Cash received		810	3,171	3,981
Released to income and expenditure account – School		(1,359)	(627)	(1,986)
Released to income and expenditure account – Residences		(18)	(88)	(106)
As at 31 July 2014		54,936	40,174	95,110

Deferred capital grants include indexed exchequer interests of £39.1m at the balance sheet date.

19 ENDOWMENTS	NOTES	Restricted expendable £'000	Restricted permanent £'000	Total £'000
Capital value		48,859	38,418	87,277
Accumulated income		3,883	1,486	5,369
At 1 August 2013		52,742	39,904	92,646
Net additions		6,771	1,997	8,768
Appreciation of endowment asset investments		1,320	979	2,299
Investment income		1,072	572	1,644
Expenditure for the year	5	(7,162)	(975)	(8,137)
At 31 July 2014		54,743	42,477	97,220
Represented by:				
Capital value		51,453	39,966	91,419
Accumulated income		3,290	2,511	5,801
		54,743	42,477	97,220

	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
20 MOVEMENTS ON GENERAL RESERVE				
As at 1 August	246,710	246,579	216,068	216,037
Surplus for the year	18,070	18,081	30,642	30,542
As at 31 July	264,780	264,660	246,710	246,579

	2014 £'000	2013 £'000
21 RECONCILIATION OF OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Surplus of income over expenditure for the year on total activity before tax	18,070	30,642
Depreciation	8,748	6,829
Deferred capital grants released to income	(2,092)	(2,076)
Endowment and investment income	(5,790)	(7,695)
Interest payable	6,584	3,195
(Increase)/decrease in stocks	(27)	15
Decrease/(increase) in debtors	741	(186)
Increase in creditors and deferred income	5,465	10,894
Decrease in provisions	(7)	(5)
Endowment transfer	–	1,922
Net cash inflow from operating activities	31,692	43,535

	At 1 August 2013 £'000	Cash flows £'000	Other changes £'000	At 31 July 2014 £'000
22 ANALYSIS OF CHANGES IN NET DEBT				
Cash at bank and in hand	89,383	64,565	–	153,948
Endowment cash	16,048	(3,405)	–	12,643
Less: Cash at bank within endowment cash	(16,048)	3,405	–	(12,643)
	89,383	64,565	–	153,948
Debt due within one year	(1,800)	1,800	(1,800)	(1,800)
Debt due after one year	(26,100)	(125,000)	1,800	(149,300)
Net funds	61,483	(58,635)	–	2,848

23 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	
	2014	2013	2014	2013
Active members	1,472	1,289	703	503
Contribution rate made by School	16%	16%	13%	13%
Contribution made (in £'000)	12,851	11,237	2,005	1,694

(i) USS

The appointment of directors to the board of the trustee is determined by the trustee 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; and a minimum of three and a maximum of five are independent 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.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2014 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie, the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3 per cent from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2 per cent for CPI which corresponds broadly to 2.75 per cent for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1 per cent per annum, salary increases would be 4.4 per cent per annum (with short-term general pay growth at 3.65 per cent per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for the past service liabilities) and pensions would increase by 3.4 per cent per annum for three years following the valuation then 2.6 per cent per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ["light"] YoB tables – No age rating
Female members' mortality	S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates the CMI 2009 projections with a 1.25 per cent per annum long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5m and the value of the scheme's technical provisions was £35,343.7m indicating a shortfall of £2,910.2 m. The assets therefore were sufficient to cover 92 per cent of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of the past service liabilities of 4.4 per cent per annum (the expected return on gilts) the funding level was approximately 68 per cent. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 93 per cent funded; on a buy-out basis (ie, assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57 per cent of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5 per cent per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82 per cent.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall of 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95 per cent.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation took place as at 31 March 2014, and work is currently underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not published the trustee cannot provide the final figure however, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92 per cent at 31 March 2011 to 85 per cent at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the schemes liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5 per cent per annum based on spot yields, the actuary calculated that the funding level at 31 March 2014 was 75 per cent. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61 per cent.

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

Assumption	Change in assumption	Impact on shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However when calculating the past service liabilities of the scheme, a cautionary reserve was included, in addition, on account of the variability mentioned above.

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As at the 2011 valuation the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16 per cent of Salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of the price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2011 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age The Normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement Flexible retirement options were introduced.

Member contributions increased Contributions were uplifted to 7.5 per cent per annum and 6.5 per cent per annum for FS Section members and CRB Section members respectively.

Cost sharing If the total contribution level exceeds 23.5 per cent of Salaries per annum, the employers will pay 65 per cent of the excess over 23.5 per cent and members would pay the remaining 35 per cent to the fund as additional contributions.

Pension increase cap For service derived after 30 September 2011, USS will match increases in official pensions for the first 5 per cent. If official pensions increase by more than 5 per cent then USS will pay half of the difference up to a maximum increase of 10 per cent.

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's role is to set risk and return parameters which reflect the strength of the sponsoring employers and the nature of the scheme's liabilities. These parameters, taken together with the anticipated returns form the basis of the trustee's funding strategy. These parameters are informed by advice from its internal investment team, its investment consultant and the scheme actuary, as well as an independent assessment of the support available from the sponsoring employers. The trustee remains confident that it can continue to take a long-term view of scheme funding, backed as it is by a robust Higher Education (HE) sector.

The fund is invested in a wide range of asset classes, both publicly traded (including equities and fixed income) and private (including private equity, infrastructure, property and timberland). A diversified portfolio helps to spread investment risk across different asset classes and to boost the level of confidence in maintaining sufficient investment returns from the fund as a whole. This investment approach is innovative and responsible, and targeted at achieving returns required to meet the scheme's liabilities. Recently, the trustee has invested directly in infrastructure assets. These investments are typically illiquid, but can achieve attractive inflation-linked returns in ways often not available in the publicly traded markets and which can match the scheme's liabilities to a high degree.

(ii) SAUL

The School participates in 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 FRS17. The scheme is open to the School's secretarial/ clerical/technical staff. As at 31 July there were 517 staff who were members of the scheme.

SAUL is subject to triennial valuations by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2011 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The main assumptions used to assess the technical provisions were:

31 March 2011	
Discount rate	
– pre-retirement	6.80% p.a.
– post-retirement	4.70% p.a.
General* Salary Increases	3.75% p.a. until 31 March 2014, 4.50% p.a. thereafter
Retail Prices Index inflation ("RPI")	3.50% p.a.
Consumer Price Index Inflation ("CPI")	2.80% p.a.
Pension Increases in payment (excess over GMP)	2.80% p.a.
Mortality – base table	SAPS Normal (year of birth) tables with an age rating of +0.5 years for males and -0.4 years for females.
Mortality – future improvements	Future improvements in line with CMI 2010 projections with a long term trend rate of 1.25% p.a.

* an additional allowance is made for promotional Salary increases.

The actuarial valuation applies to SAUL as a whole and does not identify surpluses or deficits applicable to individual employers. As a whole, the market value of SAUL's assets was £1,506 m representing 95 per cent of the liability for benefits after allowing for expected future increases in salaries.

Based on the strength of the Employer covenant and the Trustee's long-term investment strategy, the Trustee and the Employers agreed to maintain Employer and Member contributions at 13 per cent of Salaries and 6 per cent of Salaries respectively following the valuation. The above rates will be reviewed when the results of the next formal valuation (as at 31 March 2014) are known.

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed SAUL to be in deficit at the last formal valuation date (31 March 2011). As part of this valuation, the Trustee and Employer have agreed that no additional contributions will be required to eliminate the current shortfall.

The more material changes (the introduction of a Career Average Revalued Earnings, or "CARE", benefit structure) to SAUL's benefit structure will apply from 1 July 2012. As a consequence, the cost of benefit accrual is expected to fall as existing final salary members are replaced by new members joining the CARE structure. This will allow an increasing proportion of the expected asset return to be used to eliminate the funding shortfall. Based on conditions as at 31 March 2011, the shortfall is expected to be eliminated by 31 March 2021, which is 10 years from the valuation date.

(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 17.

	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
24 CAPITAL COMMITMENTS				
Library	2,652	2,652	1,830	1,830
Towers	250	250	–	–
Sardinia House	1,422	1,422	–	–
Saw Swee Hock Student Centre (costs to completion)	–	–	9,446	9,446
Connaught House	–	–	1,500	1,500
Old Building	–	–	1,285	1,285
	4,324	4,324	14,061	14,061

The School is in the design stage of Central Buildings Development project (East Building, Clare Market, the Anchorage and St Clement's East). The estimated capital cost for this capital project is £119.9m.

25 OPERATING LEASES

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

	Group 2014 £'000	School 2014 £'000	Group 2013 £'000	School 2013 £'000
Leases which expire within one year	926	926	–	–
Leases which expire between two and five years	1,662	1,662	1,689	1,689
Leases which expire in five years or more	5,875	5,875	6,163	6,163
	8,463	8,463	7,852	7,852

26 RELATED PARTY TRANSACTIONS

The School has maintained a Register of Interests of all Council members. Written assurances have been obtained from all Council members in respect of themselves and their close family that for the year ended 31 July 2014, they have not unduly influenced any transaction between the School and a related party. 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 activities of the LSE Students' Union have not been consolidated on the grounds that the School does not have significant influence over its activities. The General Secretary of the Students' Union is a member of Council. During 2013-14 the Students' Union received financial support from the School. There were also transactions between the Students' Union and the School for services and goods provided by each party. The School entered into a rental agreement related to specific areas of the Saw Swee Hock Student Centre with the Students' Union in 2013-14.

The School received payments for career fairs, billed at commercial rates, from Goldman Sachs International, British Petroleum and Bank of England. The School made payments to Allianz, Bank of England and Royal Anthropological Institute for services. Mr Peter Sutherland, Chairman of the Council, is the Chairman of Goldman Sachs International, a Board of Director of Allianz and a member of BP International Advisory Board. Mr Tim Frost, a Council member and Vice Chair of the Finance Committee, is a director of Bank of England. Professor Matthew Engelke, a Council member, is an Honorary Editor of the Journal of the Royal Anthropological Institute.

The School conducted a review of linked charities in 2013-14 and found no associated entities falling within the definition set out in paragraph 28 of schedule 3 of the Charities Act 2011.

27 CONTINGENT LIABILITIES

The School has entered into rental guarantees with Shaftesbury Housing and Urbanest UK Minorities Ltd. Between 2014-15 and 2020-21, the School will have a financial commitment related to 660 beds with a potential liability estimated at £10.8m per year.

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). Both are defined benefit multi-employer schemes and are externally funded and contracted out of the State Second Pension (S2P) Scheme. Following a change in legislation of Employer Debt Regulations in September 2005 there is a potential debt on the employer that could be levied by the Trustee of both pension schemes. The scheme is multi-employer scheme and should one or more employers in the scheme fail their liabilities would transfer to the remaining employers on a 'last man standing' basis. The amount of the debt therefore depends on many factors including total Scheme liabilities, Scheme investment performance, the liabilities in respect of current and former employees of the employer, financial conditions at the time of the cessation event and the insurance buy-out market. The amounts of debt can therefore be volatile over time. At the date of the last tri-annual valuation as at 31 March 2011, there were overall shortfalls of £2,910.2m and £79.3m in pension funding for USS and SAUL respectively. While the School awaits the 31 March 2014 valuation the deficit is expected to be considerably higher.

At 31 July 2014 the School had an unresolved dispute over its research staff careers structure. When this matter is settled it may include retrospective payments to some staff. Due to the uncertain nature of the final sums involved no provision has been made in the 2013-14 financial statements.

28 SCHOLARSHIPS AND ACCESS FUNDS

	2013-14 £'000	2012-13 £'000
Student support provided by School's general funds and endowments	15,616	13,205

Access Funds

Balance unspent as at 1 August	12	9
Funding Council grants	45	33
Interest earned	1	1
Disbursed to students	(53)	(31)
Balance unspent as at 31 July	5	12

Access funds provided by the Funding Council are available solely for students; the School acts as a paying agent. In addition to HEFCE Access Funds, the School also disburses ESRC grants and US federal loans as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

	At 1 August 2013 £'000	Additions funded by general reserves £'000	Additions funded by deferred capital grants £'000	Depreciation £'000	At 31 July 2014 £'000
29 FUNDING OF TANGIBLE FIXED ASSETS					
Land and buildings	323,686	86,214	3,981	(7,642)	406,239
Equipment	4,414	3,279	–	(750)	6,943
	328,100	89,493	3,981	(8,392)	413,182

Funded by :

Deferred capital grants	93,221	95,110
Bank loans/creditors	29,466	53,292
General reserves	205,413	264,780
	328,100	413,182

30 TRUSTEE EXPENSES

During 2013-14 no employee trustee received any expense reimbursement in relation to their role as trustee. No payments were made to any trustee for serving as a trustee.

31 POST BALANCE SHEET EVENTS

The School wound up two dormant subsidiary companies – LSE Asia Limited and VELSE Limited – in September 2014.

32 FIVE YEAR GROUP FINANCIAL SUMMARY

	2014	2013	2012	2011	2010
	£'000	£'000	£'000	£'000	£'000
Income					
Funding Council Grants	24,429	26,605	27,962	29,652	30,616
Tuition fees and education contracts	153,292	139,848	126,746	114,705	106,613
Research grants and contracts	27,038	23,731	22,696	24,068	23,856
Other income	68,566	65,334	60,288	59,237	53,804
Endowment and investment income	5,791	7,695	6,043	6,041	4,805
VAT claim	–	–	–	–	1,224
Total income	279,116	263,213	243,735	233,703	220,918
Expenditure					
Staff costs	147,175	130,849	125,768	121,338	117,905
Other operating expenses	98,539	91,698	84,682	84,745	75,162
Depreciation	8,748	6,829	5,484	5,600	5,421
Interest payable	6,584	3,195	3,092	3,160	3,201
Total expenditure	261,046	232,571	219,026	214,843	201,689
Exceptional items	–	–	–	2,299	–
Surplus before tax	18,070	30,642	24,709	21,159	19,229
Transfer to endowment	–	–	(500)	(1,216)	(1,034)
Surplus retained within general reserve	18,070	30,642	24,209	19,943	18,195
Deferred Capital Grants	95,110	93,221	92,965	92,009	92,683
Endowments	97,220	92,646	83,199	81,717	72,630
Reserves	264,780	246,710	216,068	191,859	171,916
Total	457,110	432,577	392,232	365,585	337,229
Held as:					
Fixed assets and investments	424,893	328,229	302,077	308,063	247,844
Endowment investments	97,220	92,646	83,199	81,717	72,630
Investments to support endowments	–	11,895	10,000	–	–
	522,113	432,770	395,276	389,780	320,474
Net working capital	85,747	27,613	26,838	7,396	50,330
Long term liabilities	(150,750)	(27,806)	(29,882)	(31,591)	(33,575)
	457,110	432,577	392,232	365,585	337,229

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

41

The following statement is provided to help readers of the annual accounts to gain an understanding of the governance structure of the School and to outline the School's internal control and risk management arrangements.

Status of the School

The School is an exempt charity and a private company limited by guarantee. The Higher Education Funding Council for England (HEFCE) is the Principal Regulator of the School as an exempt charity. Members of Council are our charity trustees and are required to discharge their duties with prudence and care and to accept ultimate responsibility for the affairs of the School. Some of the ways in which the LSE as a charity delivers public benefit are provided elsewhere in these financial statements.

The School is a "public university" insofar as it derives a modest proportion of its income from government subsidies; primarily as rewards for assessed research performance. HEFCE's Model Financial Memorandum sets out the terms and conditions for payment of HEFCE grants to institutions. These conditions have been met in full during 2013-14, as in previous years. As of 1 August 2014, the School has been subject to the conditions set out in HEFCE's successor document, the Memorandum of Assurance and Accountability between HEFCE and Institutions. The School also complies with the Committee of University Chairmen's (CUC) Governance Code of Practice and General Principles (2009) and is well placed to comply with the next iteration of the Code, due to issue in 2014-15, having had the opportunity to review this document in draft.

Ethics

The Memorandum and Articles of Association form LSE's constitutional documents. Governors are expected to uphold the seven Principles of Public Life advocated by the Nolan Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). Further, the School has an over-arching Ethics Policy by which all members of the LSE community including staff, students and Governors are expected to abide. The values enshrined in the Code are those of responsibility and accountability, integrity, intellectual freedom, equality of respect and opportunity, collegiality, and sustainability. The Ethics Code and Ethics Framework are in their infancy and were subject to review in 2013-14 by both the School's Internal Auditors (BDO LLP) and a review group chaired by an independent expert, Dr Susan Liautaud. The Ethics Policy Committee, chaired by The Honourable Dame Linda Dobbs DBE will oversee the implementation of recommendations arising from these reviews.

The principal governance bodies of the School are as follows:

The Court of Governors

The Court may have up to 100 members, approximately 80 per cent of whom are lay members. The remainder are elected academic and student members, and ex-officio members including the Director and Pro-Directors. The lay members of the Court bring to the School a wide range of expertise from a number of sectors (business, the professions, the third sector, etc) and many (approximately 75 per cent) are alumni with a keen interest in upholding the reputation and values of the School and ensuring its long term sustainability.

Members of the Court are "members of the Corporation" and all hold the honorific title of "Governor". Unless a member of the Court also serves on the Council, he or she will not be a company director or charity trustee of the School, but rather a critical friend and advisor to the School's senior management team and the Council.

As constitutional guardian, the permission of the Court is required in order to amend the School's Memorandum and Articles of Association. Consultations are ongoing regarding reform of the Articles of Association with a view to making them "fit for the future". The Court has the following formal powers: the appointment of members of the Court and its sub-committees; the appointment of members of the Council; election of the Chair and Vice Chairs of the Court and Honorary Fellows of the School; and appointment of the School's external auditors (currently PriceWaterhouseCoopers LLP).

When the Directorship of the School is to be considered by the Directorship Selection Committee, the Court advises the Committee about the criteria for the Directorship and about the long term issues that an incoming Director should address. As members of the Corporation, Governors have the power of recall under the Companies Acts and could, in extremis, dismiss the Council. There are specific arrangements in place to ensure the cross-reporting of business between the Court and Council; and all members of the Council are drawn from the membership of the Court. An annual Court Awayday held in the late Autumn allows members of the Council, the Director and leadership team to "take the pulse" of grassroots members on a range of strategic issues at the beginning of the academic year.

The Council

In 2013-14, the Council comprised 20 members, all of whom were charity trustees of the LSE as an exempt charity and 18 of whom were full voting members of the Council and company directors of the School as a private company. The reduction in the size of the membership (whilst retaining a balance in the membership) reflected a view that a Council with fewer, better informed members would raise the quality of debate. Council agreed that within a smaller 'Board' each member would have the opportunity not only to ask questions, but to argue a case and that this would improve Council decision making. It was also felt that members would be more aware of their own accountability. A full list of Council members as at 25 November 2014 can be found on page 49.

The Council is the governing body of the School and its formal powers and terms of reference are set out in the Articles and in its Statement of Primary Responsibilities. Its primary role is to provide strategic leadership and to maintain a focus on areas identified in the Strategic Review. It has specific responsibilities in relation to: the monitoring of institutional performance; educational character and mission; the student experience; finance and financial sustainability; audit arrangements; estate strategy; human resource and employment policy; equality and diversity; and health and safety.

Council is supported in carrying out its role by a number of standing committees which report directly to it. These are Audit, Estate Strategy, Ethics Policy, Finance, Health and Safety, Nursery Governance and

Remuneration. All of the standing committees of the Council are chaired by a lay Governor member of the Council with the exception of the Ethics Policy Committee which is chaired by a lay member of the Court of Governors. Ad hoc committees include: selection committees for senior posts; the Council Effectiveness Review Group which ordinarily reports on a three-yearly basis; and the Chairman's Group of the Council. The latter has power to act during vacations and between meetings of the Council in any urgent matter which would normally come before the Council, within prescribed limits.

Certain powers are reserved to the Council by the School's Memorandum and Articles of Association; these may not be delegated. However, the Council has a formal Scheme of Delegation, setting out those areas where authority has been delegated by the Council to the Director, and from the Director to the School Secretary, Chief Financial Officer, the Academic Registrar and Director of Academic Services and Director of Human Resources. This provides clarity as to accountability and extent of delegated authority; as well as helping to maintain a clear boundary between governance and management.

Governance-Management Boundary

The Director is Head of the Institution, responsible for the executive management of the School. The Director reports to and is accountable to the Council. The Director is also the accountable officer for the purposes of the HEFCE Memorandum of Assurance and Accountability. In this capacity, the Director meets at least annually with the Audit Committee to provide personal assurance on controls in place regarding the production of the School's annual accountability return to HEFCE. In accordance with the CUC Code of Governance, key responsibilities of the Director include: ensuring that Council decisions are implemented through the School's management structure; advising the Council and Court as required; and ensuring compliance with the HEFCE Memorandum, bringing any deviations from it to the attention of the Council.

The Director is supported in his role by a senior management team comprising: a Deputy Director and Provost; three Pro-Directors who provide academic leadership in the areas of research, teaching and learning, and planning and resources; the CFO, the School Secretary; and the Academic Registrar and Director of Academic Services.

The Academic Board

The Academic Board, which reports to the Council, is the principal academic body of the School. It is chaired by the Director of the School and has as its Vice Chair an elected senior academic. 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 which address the following strategic areas: academic and student affairs; academic planning and resources; research; library services; and IT. The Vice Chair of the Academic Board is a member of the Council and reports at each meeting on the formal outcomes of Academic Board meetings. In common with elected academic and student members, the office holder shares responsibility for raising academic concerns with the Council. During 2013-14, the Academic Board met seven times. Key areas for discussion included: the Strategic Review; the structure of the academic year; new institutes; knowledge exchange and impact; and proposals to create a new PhD Academy.

Controls Framework

The Council confirms that it complies with the recommendations of the CUC Governance Code of Practice and General Principles (March 2009) in all material respects. 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 public and other funds and assets for which it is responsible under the terms of the Articles and the HEFCE Model Financial Memorandum/Memorandum of Assurance



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

All members of the Council receive the HEFCE assessment of institutional risk, the most recent version of which stated that the School was "not at higher risk"; this being the highest available level of assurance.

The Audit Committee, which met four times during the year, is responsible inter alia for advising the Council on the effectiveness of the School's risk management and controls systems. The Audit Committee reports three times a year to Council, through its Chair, and provides an annual opinion on risk management, control and governance. Controls come from a variety of sources, including:

- monitoring by the Director and his management team of various work streams arising from the strategic review;
- regular review by the Director and his management team of policy issues and problems, and of strategic risks;
- review of the strategic risk register, risk mitigation strategies and business continuity arrangements by the Audit Committee, and subsequent discussion at Council;
- annual monitoring of institutional health and presentation to the Council of a range of performance indicators at the strategic Awayday in September of each year;
- regular meetings between senior managers and Service Leaders to review progress and issues arising from operational activities, and similar meetings between the Director and Heads of Departments in relation to academic developments;
- oversight by the Academic Planning and Resources Committee of matters relating to resource allocation, forward planning, effectiveness and value for money;
- a professional Internal Audit Service whose annual programme is approved by the Audit Committee and endorsed by the Council, and whose Head provides the Council and the 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. The Head of Internal Audit is independent of the School and has direct access to the lay Chair of the Audit Committee, and to the Director as the School's Accountable Officer;
- Financial Regulations, detailing financial controls and procedures, approved by the Finance Committee on behalf of the Council are reviewed and updated annually;
- clearly defined and formalised requirements for the 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;
- scrutiny of policy and practice by committees of the Council, such as Estates and Finance;
- regular review of the effectiveness of the Council;
- a written scheme, setting out delegation of executive authority from the Council to the Director, and from the Director to his reports;
- constitutional documents (the Memorandum and Articles of Association), which reserve certain powers to the Council and the Court.

Court of Governors;

- forward planning for succession at senior levels;
- written reports from the Director to the Court and Council, and from the Council to the Court, providing transparency and opportunity for constructive challenge; and
- review of change management processes and promotion of best practice in relation to data and reporting in the School by the Data Quality Group

Internal and External Audit Services

The School's internal audit service is provided by BDO LLP. The School's external auditors are PricewaterhouseCoopers LLP. Representatives of the School's internal and external audit firms attend meetings of the Audit Committee and have an opportunity at each meeting to raise any issues of concern with members of the Committee in private session (ie, in the absence of Officers of the School). The performance of both the Internal and External Auditors is subject to annual review by the Audit Committee and both services are regularly re-tendered.

Audit Committee

The Audit Committee is a standing committee of the Council and reports to the Council three times a year. The Committee provides an independent assessment of the School's arrangements for internal control, risk management, financial reporting, data quality, governance and value for money. It is chaired by a lay member of the Council. The Committee considered a total of 28 finalised internal audit reports in 2013-14 covering key areas which included: corporate governance, UK immigration and visa compliance, IT project management, information security and disaster recovery, and use of agency staff. In all cases, the Committee reviewed management responses to ensure that they would be sufficient to address identified shortcomings, and it continually monitors progress in implementation of management action plans. Particular attention has been given to the operational effectiveness of controls in respect of Home Office Tier 2 (sponsored skilled migrant) compliance obligations, given the international composition of the School and the vital need to preserve Trusted Sponsor status. Concerns were also raised following an internal audit report into IT user access, and the School's Director of IMT attended the Committee in September 2014 to provide assurance as to the effectiveness of remedial actions taken in this area. The Annual Report of the Audit Committee presented to the Council in November contains the following overall opinion: "The Audit Committee believes the School is putting a high degree of focus on its risk management and governance systems. We have reasonable assurance that this will lead to material improvement in the School's arrangements for risk management, corporate governance and internal control for 2014-15. The Committee can give reasonable assurance on the School's arrangements for the quality assurance of data submitted to funding bodies. The Audit Committee is also able to give reasonable assurance that the School's arrangements to pursue value for money are adequate and effective."

The Audit Committee takes seriously its responsibility to scrutinise the School's risk management arrangements and to offer independent advice to the Council on the effectiveness of those arrangements. In the 2013-14 academic year, the Committee performed this function primarily in relation to the management of top-level risks associated with the School's extant Strategic Plan, pending the culmination of a wide-ranging Strategic Review. The Review concluded in

June 2014 following which the Risk Register was updated to take account of both risks arising from the strategy and risks to its successful implementation but the Audit Committee recognises the need for greater assurance that management continues to address business critical risks facing the School. The Committee believes that management is putting a high degree of focus on its risk management and control systems and is of the view it has reasonable assurance that this will lead to material improvement in the School's arrangements for risk management and internal control in 2014-15. The Audit Committee and the Council have also approved a new format for the Strategic Risk Register which allows for net risks to be calculated metrically, with greater emphasis given to numerical values rather than the narrative format of the previous version. The new presentation features a "heat map" performance monitor to illustrate the relative effectiveness of the School's risk management processes. Fields in the template also ascribe acceptability of risks, to help inform consideration of risk appetite, and "direction of travel" indicating where risk levels have declined, stayed the same or improved.

Finance Committee

The Finance Committee plays a significant role in relation to risk by advising Council on financial risks to the School's strategic ambitions; this includes considering the financial implications of non-financial risks.

The Finance Committee receives regular reports from the Ancillary Programmes Board (APB) on non-core activities, which continue to be a vital income stream for the School. The governance of the APB has been reviewed with a view to enhancing safeguards to manage potential conflicts of interest. The work of the APB is complemented by that of LSE Enterprise Ltd, a wholly owned subsidiary of the School which provides executive education and consultancy services and whose profits are gift-aided to the School each year. Senior managers of the School are represented on the board of LSE Enterprise Ltd.

The main activities of the Finance Committee relate to the following areas: financial strategy and risk; funding adequacy, cash flow and investment; financial forecasting and budgets; financial policies and regulations; evaluation of major commitments; and review of financial performance at aggregate level. The Finance Committee has both lay and expert membership and is supported in its work by the following sub-groups/committees: Investment; Ancillary Programmes; Endowment Management; and the Annual Fund Advisory Group.

The Financial Regulations are regularly updated and set out policies and procedures related to purchasing. The Purchasing Manager reports annually to the Academic Planning and Resources Committee on value for money related to purchasing activities. The Financial Regulations set out policies and procedures related to capital expenditures. In practice, the School has three main categories of capital expenditure: buildings and estate related; IT related; and catering equipment. Capital expenditure on land, buildings, furniture, equipment and associated costs are only normally considered if they form part of the approved capital programme. Major acquisitions and disposals are subject to Council approval.

There is a strong budgetary control process, with a high degree of decision autonomy delegated to budget controllers on how to spend budgets but very limited opportunity to overspend. There are additional processes for administration and control of research grants, research contracts, donations and endowments where there are specific conditions on how the grant may be spent.

Remuneration Committee

The Remuneration Committee oversees remuneration arrangements, which operate within a national job evaluation and pay negotiation framework. There are controls on hiring of staff and headcount operated by HR and Finance to ensure that staff are only recruited where budgets are approved.

Business Continuity

The principal objective of the School's business continuity arrangements is to mitigate the potential impact on the School's teaching and research activities should any of the identified principal continuity risks crystallise. A dedicated webpage provides staff and students with up to date information about current significant risks to the continuity of their work. It also provides advice to help mitigate those risks through links to external sites that provide additional information.

The School continues to keep the Higher Education Funding Council for England informed of any serious incidents, including those which might give rise to reputational risk or have wider repercussions for the higher education sector as a whole.

Declaration of the Council

In accordance with the Companies Acts, 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 Acts, 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 the Memorandum of Assurance and Accountability 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 directing the preparation of the financial statements, the Council has ensured that:

- suitable accounting policies were selected and applied consistently;
- judgements and estimates made were reasonable and prudent;
- applicable accounting standards were followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements were prepared on the going concern basis. The Council is satisfied that the School has adequate resources to continue in operation through 2014 and 2015. 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 Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- to ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.

The purpose of the London School of Economics and Political Science (LSE) is to increase understanding of a complex and changing world through excellent teaching and research in the social sciences by promoting its work to policy makers and practitioners in the public, private and voluntary sectors. Founded in 1895, LSE adopted the motto *rerum cognoscere causas* – to understand the causes of things.

LSE educates around 9,000 students from 140 countries. It employs 2,100 members of staff, and manages 28 campus buildings and 8 halls of residence across four London boroughs, as well as an 11 acre sports ground in Surrey.

Policy aims

The School seeks to support the leaders and citizens of the future to responsibly shape the world in which we live, by creating an institutional culture which collectively works to continually improve the LSE's environmental and social impacts, and deliver environmental enhancements where possible.

This will be facilitated by a commitment to maintain ISO 14001 registration, and driven to achieve the following aims:

1. Mitigate against climate change by reducing the School's carbon footprint.
2. Reduce the School's use of natural resources, and its ecological footprint.
3. Prevent pollution from emissions and discharges, and the physical degradation of ecosystems.
4. Comply with all applicable environmental legislation, and other requirements to which the School subscribes.
5. Provide leadership in the field of sustainability.
6. Create a vibrant community in which staff, students and visitors have the opportunity to individually and collectively support the School in protecting the environment.

Policy objectives

1. Energy and carbon

- Reduce consumption and increase energy efficiency in buildings and equipment in order to reduce the School's carbon footprint.

2. Waste and resources

- Use the zero-waste 'rethink-reduce-reuse-recycle' hierarchy in waste and resource management.

3. Water

- Minimise water consumption, by promoting positive behaviours and installing water-efficient infrastructure.

4. Construction and refurbishment

- Reduce consumption of new materials, and increase the reuse and recycling of materials.
- Create built environments that meet the highest environmental standards, by incorporating environmental criteria into material and contract specifications to reduce environmental impacts over the whole life cycle of LSE buildings.

5. Procurement

- Require contractors, sub-contractors and suppliers to meet or exceed all relevant environmental legislation and regulations and work to improve the environmental performance of the School.
- Consider the environmental and social sustainability of all products and services procured, including whole-life costing.

6. Emissions and discharges

- Prevent pollution, and reduce emissions and discharges from buildings and equipment.

7. Transport

- Encourage the reduction of emissions arising from commuting, business travel and deliveries.

8. Biodiversity and urban landscapes

- Monitor, maintain and enhance biodiversity and habitats on the School estate.

9. Education for sustainable development

- Research: Shape public policy on environmental and social issues and ensure that the LSE remains at the forefront of academic investigation and public debate in these areas through the work of the Grantham Research Institute on Climate Change and the Environment, the Centre for Environmental Policy and Governance, the Centre for Climate Change Economics and Policy and the Department of Geography and Environment.
- Teaching and Learning: Ensure that LSE graduates have a full understanding of the environmental and social dimensions of leadership.
- Training and Guidance: Ensure that staff, students and visitors can access information to support their development as responsible global citizens.

10. Community Involvement

- Communicate with interested parties on the Environmental Policy including contacts in the immediate neighbourhood, the regional, national and global community. This includes but is not limited to the education, business, media, and alumni communities.

11. Income and investment

- Maintain ethical investment processes and the consideration of social, environmental and governance factors in investment decisions.

ENDOWMENT INVESTMENT PERFORMANCE

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Funding from philanthropy along with tuition fees, HEFCE grants and research grants are the School's main sources of income. Endowment support is the only form of income that can put the School in control of its own long term financial destiny. Throughout the School's history endowed gifts have made a meaningful but limited contribution to the School's portfolio of research and teaching. In an ever changing sector, the challenge facing LSE is to make endowment an integral part of its financial health.

During the 2013-14 financial year, the School's endowments grew from £92.6m to £97.2m. The majority has come from private donations which have established research centres, chairs, lectureships, and scholarships. An increasing number of individual donors and foundations are recognising this form of support as vital to the School's unique public benefit as a charity focused on the "betterment of society".

Endowments are invested in pools depending on time horizon of expenditures and donors' expectations:

Gift matching portfolio – expendable endowments that are budgeted to be spent in a short or medium term are invested in money market. The investment objective for this pool is to preserve capital.

Growth portfolio – expendable endowments that have longer term horizon and permanent endowments are invested on a total return basis. The objective for this pool is to achieve a long term real return of 4.0 per cent.

FER portfolio – a separate investment pool for a permanent endowment to support STICERD research centre. The objective for this pool is to generate at least 3 per cent investment income.

Investment performance

The investment performance for each investment pool over one, three and five year period is:

Investment return	1 year	3 years	5 years	Long-term objectives
Gift matching	0.4%	0.7%	0.6%	4%+ Retail Price Index (RPI)
Growth	4.6%	7.5%	9.8%	
FER	3.9%	6.9%	8.6%	4%+ RPI

Investments Sub-Committee

Established in 1989, the LSE Investments Committee is a subcommittee of the Finance Committee. It is responsible for setting the investment strategies and determining assets allocation within acceptable risk parameters to achieve the target return set by the Finance Committee. Although the strategic asset allocation is reviewed once a year, there is regular communication amongst members about the market situation between meetings to agree any tactical changes. The Investments Committee meets at least three times a year.

Asset allocation

Asset allocation for each pool as at 31 July 2014 was as follows:

	Gift matching		Growth		FER	
	£'000	%	£'000	%	£'000	%
UK equities	–	–	26,669	40%	5,315	29%
Overseas equities	–	–	24,555	37%	4,663	26%
UK corporate bonds	–	–	3,396	5%	8,073	45%
Property funds	–	–	6,570	10%	–	–
Commodities	–	–	2,812	4%	–	–
Share of Freehold Property	–	–	33	–	–	–
Money market	12,695	100%	2,382	4%	57	–
	12,695	100%	66,417	100%	18,108	100%

REPORT OF THE INDEPENDENT AUDITORS TO THE COUNCIL OF THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE ("THE SCHOOL")

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Report on the financial statements

Our opinion

In our opinion, the financial statements, defined below:

- give a true and fair view of the state of the group's and of the school affairs as at 31 July and of the group's income and expenditure, recognised gains and losses, and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and school financial statements (the "financial statements"), which are prepared by the London School of Economics and Political Science, comprise:

- the group and school Balance Sheets as at 31 July 2014;
- the consolidated Income and Expenditure Account for the year then ended;
- the Statement of Total Recognised Gains and Losses for the year then ended;
- the consolidated Cash Flow Statement for the year then ended;
- the accounting policies; and
- notes 1-31 to the financial statements.

The financial reporting framework that has been applied in their preparation is the Statement of Recommended Practice for Further and Higher Education (SORP), incorporating United Kingdom Generally Accepted Accounting Practice.

In applying the financial reporting framework, the Council has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, it has made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and school's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Council; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the [Strategic Report and] Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinions on other matters prescribed in the HEFCE Audit Code of Practices issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent institution, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent institution financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Internal control

Under the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 we are required to report to you if, in our opinion, the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the parent institution and group. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Respective responsibilities of the Council and auditors

As explained more fully in the Statement of Responsibilities of the Council set out on page 41 the Council (who are also the directors of the company for the purposes of company law) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council of the London School of Economics and Political Science, in accordance with the Charters and Statutes of the School and Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



Ian Looker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 November 2014

Diversity of Education at LSE

The quality of LSE's education is held in high esteem all over the world. Our undergraduate courses continue to be hugely oversubscribed, with around 12 applicants per place, while a postgraduate degree from LSE is a stepping stone to a career in academia, finance, international relations and a range of other fields. This is not to mention the greatly enriching personal experience of studying at the School. But education at LSE is not just about BSc's MSc's and PhD's. The School offers a range of academic programmes.

The General Course gives students the opportunity to experience all that LSE and the great city of London have to offer, whilst undertaking a year of fully integrated undergraduate study. Students can study a combination of the 250+ undergraduate courses taught at the School, in disciplines as varied as Anthropology, Geography and Social Policy. Every year the LSE Summer School gives students from around the world the chance to come to one of the world's most exciting cities to experience LSE teaching first-hand. The three-week courses taught during the Summer School are based on regular LSE undergraduate programmes, and taught to the same standards by leading LSE faculty.

The LSE Executive Summer School offers week-long intensive courses for high-level professionals, focusing on areas such as economics, finance, strategy, leadership and specialist areas such as climate change. Courses are taught by experts who lead their fields, and complemented by practitioners drawn from industry and business. The LSE Language Centre offers a broad range of courses. This includes high-level academic study, where a language is taken as a key part of an undergraduate degree, as well as the more relaxed Summer Languages Programme, enabling anyone from inside or outside the School to try their hand (or tongue) at a new language, or brush up on what they learnt at school.

DIRECTORS OF THE SCHOOL AND MEMBERS OF THE COUNCIL

During the year and up to the date of signing of the financial statements were

Mr Peter Sutherland KCMG

Chairman of the Court and Council and Remuneration Committee

Mr Alan Elias

Vice Chairman (from 1 August 2014)

Chairman of Audit Committee (until 31 July 2014)

Ms Kate Jenkins (until 31 July 2014)

Vice Chairman

Ms Anne Lapping (until 31 July 2014)

Vice Chairman

Professor Craig Calhoun

Director of the School

Professor George Gaskell (until 31 August 2014)

Pro-Director of the School

Professor David Webb (from 1 September 2014)

Pro-Director of the School

Professor Stuart Corbridge (until 31 December 2013)

Pro-Director (Research)

Professor Julia Black (from 20 March 2014)

Pro-Director of the School

Professor Jason Alexander

Academic Member

Ms Virginia Beardshaw

Lay Governor

Ms Nona Buckley-Irvine (from 9 July 2014)

General Secretary of the Students' Union

Ms Angela Camber (until 31 July 2014)

Chairman of Health and Safety Committee

Mr Eden Dwek (from 1 November 2012 until 19 November 2013)

Student Member

Professor Matthew Engelke

Academic Member

Ms Tina Fahm (from 1 August 2014)

Chairman of Audit Committee

Mr Tim Frost

Vice Chairman of Finance Committee

Mr William Nigel Hugill

Chairman of Estates Strategy Committee

Professor Janet Hunter

Academic Member

Mr Jack Kelly (from 12 December 2013)

Student Member

Mr Mark Molyneux

Chairman of Finance Committee

Mr Roger Mountford (from 1 August 2014)

Chairman of Health and Safety Committee

Ms Harriet Spicer

Lay Governor

Mr Jay Stoll (until 8 July 2014)

General Secretary of the Students' Union

Members of the Council not directors of the School

Professor Paul Kelly

Pro-Director of the School

Professor Martin Loughlin

Vice-Chairman of the Academic Board

Company Secretary

Ms Susan Scholefield (until 30 September 2014)

Mr Andrew Webb (from 1 October 2014)

Departments and institutes

Accounting
Anthropology
Economics
Economic History
European Institute
Finance
Gender Institute
Geography and Environment
Global Affairs (IGA)
Government
International Development
International History
International Relations
Language Centre
Law
Management
Mathematics
Media and Communications
Methodology
Philosophy, Logic and Scientific Method
Public Affairs (IPA)
Social Policy
Social Psychology
Sociology
Statistics

Research centres

Asia
Cities
Centre for Climate Change Economics and Policy (CCCEP)
Diplomacy and Strategy (IDEAS)
Centre for Economic Performance (CEP)
Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD)
Financial Markets Group (FMG)
The Grantham Research Institute on Climate Change and the Environment (GRI)
Health and Social Care
Human Rights
International Growth Centre (IGC)
Local Economic Growth (What Works)
Centre for Macroeconomics (CFM)
Middle East
Centre for Philosophy of Natural and Social Science (CPNSS)
Social Exclusion (CASE)
Spatial Economics Research Centre (SERC)
Time Series (CATS)

Finance Division

3rd Floor, Aldwych House
Houghton Street
London WC2A 2AE

financecomments@lse.ac.uk



PRINTED ON
RECYCLED PAPER