



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

Financial Statements

For the year ending 31 July 2019 ■

London School of Economics
and Political Science
Company Number 00070527



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Report of the Chair of the Court of Governors and Council



It has been a privilege to act as the Interim Chair of Council of the LSE since January 2019 during a year of so many exciting developments.

The launch of LSE 2030 defines the School's focus on the value of the social sciences in an increasingly technological world and the role of the LSE in addressing many of the global challenges we face. Delivery of LSE 2030 is a key focus for Council, and we look forward to following the full implementation in the coming years that will shape the world, and LSE, for the better.

This year, our School has undergone a significant modernisation of its governance arrangements to bring them in line with best practice and regulatory requirements as follows: confirming Council as the sole governing body; recognising Court as a distinguished advisory and ambassadorial body; and updating its constitutional documents.

As you will see in the report, along with improvements in the student experience and the School's estate, the LSE has seen growing activity in philanthropy, technology, financial diversification, and engagement with a range of partners and supporters. We have also intensified efforts to support mental health and well-being for its staff and students, as well as investment in our community more broadly.

LSE's international reputation continues to grow through the remarkable work of its outstanding academic and professional services staff. Although there may be uncertainty ahead, Council remains vigilant but believes that the School remains well positioned to navigate the challenges before us.

On behalf of my colleagues on Council, I would like to thank Dame Shirley Pearce for all she has done for the School during her term as Chair of Court and Council. I would also like to express my gratitude to the staff of the School, to the students, and to the Director, Minouche Shafik, who all contribute to making the LSE such a unique institution.

Dr Susan Liautaud
Chair of Court and Council

Welcome from the Director



It has been another busy year at LSE with many achievements across the School community.

The launch of LSE 2030 was a personal highlight of my year. It was so energising to come together as a community to define our collective goals and look to the future. Work is well underway to embed our strategic priorities into daily activities and decision-making across the School, as well as developing plans for some major cross-cutting initiatives such as Data Sciences, strengthening our PhD cohort, improving our technological infrastructure as well as planning a major fundraising campaign.

It was also positive to see significant improvements in our Staff Survey and National Student Survey (NSS) results. I am encouraged that in our Staff Survey 83 per cent of respondents feel proud to work at LSE. Our NSS results this year went up more than any university in the Russell Group showing that we are making a difference. I am confident that through LSE 2030 we can do even more to deliver Education for Global Impact. Excellent education and student experience remains a top priority, and I continue to be impressed with the energy and enthusiasm of all staff to improve in this area.

Houghton Street reopened and the new Centre Building and square are a magnificent addition to the heart of our campus, that brings our community together. Work continues on the Marshall Building and it won't be long until we can offer new fantastic facilities to the entire LSE community.

We do face a tumultuous external environment, with continued uncertainty around the future of higher education funding and the implications of Brexit. Universities have a special role to play at a times like these when public discourse is polarised.

With LSE 2030 I'm confident that we can rise to meet these challenges. The world needs LSE more than ever before and together we will use our unique strengths to actively contribute to positive change in the world.

Dame Minouche Shafik

Director

Strategic Report and Report of the Directors

School Mission and Strategy

Developing LSE 2030

This has been an exciting year for shaping the future of LSE through the development of the new School strategy, LSE 2030. It has been the largest consultation in LSE's history. Over 1,800 online responses were received from staff, students, alumni and friends of the School, and many staff and students subsequently engaged in face-to-face dialogue with the School Management Committee (SMC), through a comprehensive series of working sessions and consultation forums on the emerging themes.

In January 2019, SMC presented a full draft strategy to the wider School leadership and received unanimous support from heads of department, department managers and professional services leaders. In February 2019, the LSE Council formally approved and adopted LSE 2030. Planning began immediately to embed the strategy into the School's activities, with an internal launch in April and a public launch in September to coincide with the Alumni Leadership Forum.

Mission and ambition

LSE 2030 stays true to the founding purpose of the School, to know the causes of things for the betterment of society. The strategy lays out the guiding principles and strategic priorities that will help us shape the world's future, and achieve our ambition of being the leading social science institution with the greatest global impact.

Guiding principles

Our vision is clear, but there are challenges to overcome: our world faces economic uncertainty, political divisions, social tensions and a tide of anti-intellectual sentiment. In this context, our guiding principles are crucial and will shape our decision-making in the years ahead.

- We will **sustain excellence through an inclusive and diverse community**, drawing together talent from all places and backgrounds, diversifying our faculty and widening access for students. We will ensure LSE is a vibrant and stimulating place to work and study, where different perspectives thrive through robust but respectful debate.

- We will **ensure our work has global impact and reach**, using our convening power to bring world leaders, innovators and change makers together to tackle difficult issues and deliver meaningful benefit to individuals and communities in all parts of the world. We will collaborate with local, national and international partners to forge new connections and challenge old ways of thinking involving our alumni, friends and partners in the debate.
- We will **ensure a sustainable future, for LSE, the social sciences, and the world**. We will lead the way by tackling global issues of sustainability, upholding rigorous standards of enquiry, securing funding for research and scholarships, diversifying our income and making the best possible use of resources.

Strategic priorities

- **Priority 1: educate for impact** – we will work in partnership with our students to find innovative ways of learning, creating and collaborating, supporting them to better understand and shape our rapidly changing world. We commit to fostering fearless intellects, embracing diversity and building community among our student body in London and across the world.
- **Priority 2: research for the world** – we will build on our strengths of being international, interdisciplinary and issue-oriented to take the lead in securing and defining the future of social sciences across the globe. We commit to providing a home for social scientists and demonstrating and advancing the value of social sciences through collaborating and convening influential debates on critical global issues.
- **Priority 3: develop LSE for everyone** – we thrive on diversity of people, ideas and interests and will continue to invest in our community. We commit to supporting our staff, building lifelong relationships with alumni, enhancing our services and our digital and physical infrastructure to attract the best and brightest, and enable every member of our community to excel.



Scope of the Financial Statements

These financial statements comprise the consolidated results of the School and its subsidiaries. The operations of these subsidiaries cover the vacation letting of student accommodation, consultancy services, exploitation of intellectual property, the provision of customised executive education programmes, and overseas fundraising. For commercial, legal and taxation reasons these activities are channelled through limited companies which, where appropriate, transfer their profits to the School through an annual payment of Gift Aid.

In addition, the School is a partner in the TRIUM Executive MBA programme with New York University and HEC in Paris and the School's share of this programme is incorporated in these consolidated accounts on a proportional basis.

The LSE Students' Union is a separately constituted body over which the School does not exert significant influence and so it is not consolidated in these financial statements.

This Financial Review frames the School's 2018-19 financial results in the context of our financial planning and the vision for the LSE set out in LSE 2030.

We are reporting an accounting surplus of £9.1 million for 2018-19 compared with £30.2 million in 2017-18 and net operating cash inflow of £30.2 million (2017-18 £27.1 million). Comprehensive Income for the year – accounting surplus plus gains on investments and the change in the market value of our interest rate swaps – was £15.5 million compared to £44.3 million in 2017-18. This substantial year on year difference illustrates the volatility of these measures of performance which, in this case arises from a large capital grant for the Centre Building redevelopment (£32.2 million) which we completed in 2018-19 and a substantial increase in the provision associated with the USS pension scheme (£59.6 million).

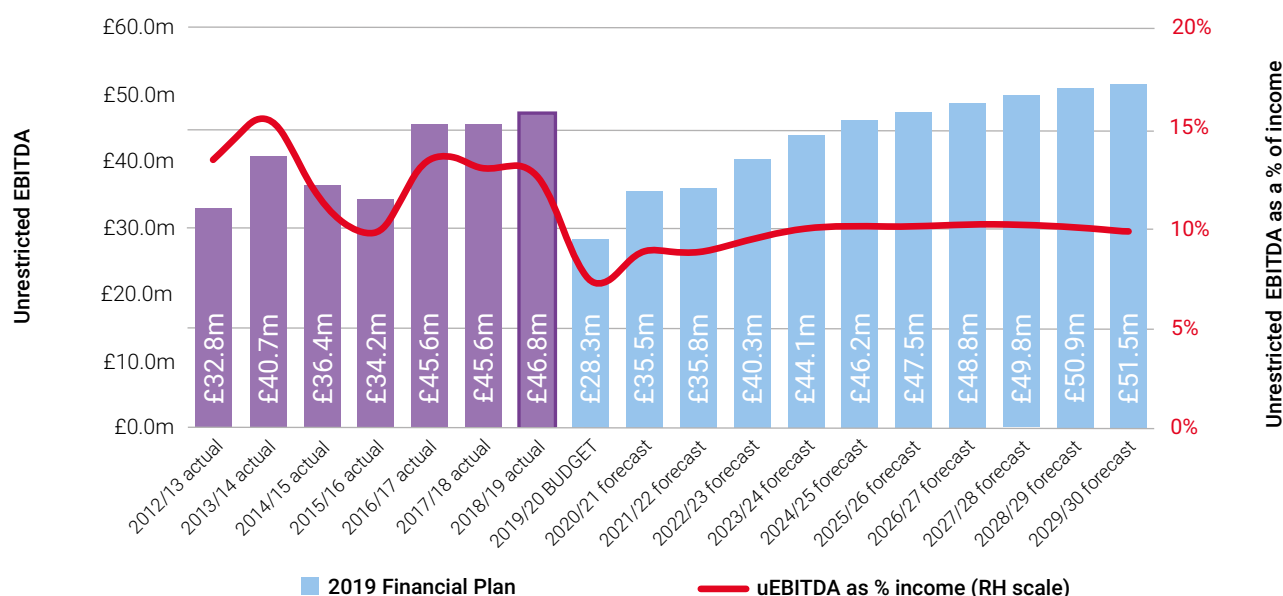


2018-19 Financial Review

	2018-19		2018-19	2017-18	Change	
	Unrestricted funds £m	Restricted or designated funds £m	Total £m	Total £m	£m	%
Operating income	363.5	6.4	369.9	349.9	20.0	5.4%
Capital grant	1.0	32.7	33.7	1.6	32.1	
Donations and endowments	2.2	15.0	17.2	8.9	8.3	93.1%
Total income	366.7	54.1	420.8	360.4	60.4	16.8%
Operating expenses	(319.9)	(9.7)	(329.6)	(311.3)	(18.3)	5.9%
Earnings before interest, tax, depreciation and amortisation (EBITDA)	46.8	44.4	91.2	49.1	42.1	85.7%
Change in USS past service deficit provision			(59.6)	2.8	(62.4)	
Depreciation			(13.5)	(12.9)	(0.6)	4.9%
Interest and other finance costs			(9.0)	(8.8)	(0.2)	2.2%
Surplus			9.1	30.2	(21.1)	(69.9%)
Gains on investments			10.4	10.2	0.2	1.7%
Change in the fair value of hedging financial instruments			(4.0)	3.9	(7.9)	(202.6%)
Comprehensive income for the year			15.5	44.3	(28.8)	(65.1%)
BALANCE SHEET						
Fixed assets			612.3	553.0	59.3	10.7%
Endowment assets and investments			284.3	227.1	57.2	25%
Net current assets (liabilities)			(18.7)	18.6	(37.3)	(200.5%)
Creditors over one year			(216.4)	(212.9)	3.5	(1.6%)
Pension liabilities and provisions			(91.6)	(31.4)	(60.2)	192%
Net assets			569.8	554.4	15.4	2.7%
Ratio of net debt to unrestricted EBITDA			(2.5)	1.1		
LIQUIDITY						
Operating cash generated during the year			30.2	27	3.1	11.5%
Cash and cash equivalents			51.3	107.9	(56.6)	(52.4%)
Investments			284.3	227.1	57.2	25.2%
Loans			(169.2)	(173.9)	4.7	(2.7%)
Net Funds			166.4	161.1	5.3	3.3%
STUDENT NUMBERS						
			Nos.	Nos.		
Undergraduate			5,245	4,952		
Postgraduate – taught			4,775	4,803		
Postgraduate – research			437	441		
Full-time student numbers			10,457	10,196		
Part-time			430	480		
Others (visiting, executive)			1,338	1,284		
Part-time and other student numbers			1,768	1,764		
London Summer Schools and Executive Summer Schools			8,689	7,247		
Beijing and Cape Town Schools			549	344		
University of London International Programme – LSE programmes			14,371	17,731		
On-line			3,916	2,273		
Grand total			39,750	39,555		

Leaving aside these one-off adjustments, our underlying financial performance was once again strong with ongoing revenue growing by 5.7 per cent year on year. Operating expenditure was slightly higher at 5.9 per cent and our overall financial performance measured by uEBITDA, was better than budget. We take a cautious approach to budgeting revenues, especially in new areas, such as online courses, to ensure that the growth in recurrent costs does not

grow at a rate that cannot be sustained by our established revenue streams and use any positive outcomes to ensure we support additional investment in academic and student-facing services. This approach has allowed us to earmark £24.3 million in our 2019 Financial Plan to deliver the first phase of LSE 2030 over the three years to 2021-22.



The School's preferred measure of financial performance is Unrestricted Earnings before Interest, Taxation, Depreciation and Amortisation (uEBITDA) and was £46.8 million for 2018-19, which as the chart shows is similar to the level achieved in the last few years. We prefer this measure for purposes of financial planning because it excludes volatility from non-cash movements such as unrealised gains on investments, donations where there are timing differences between the receipts and expenditure, and provisions such as the significant USS pension deficit provision this year. The School's financial strategy targets an uEBITDA of 10 per cent of revenue across our planning period – this is a minimum level that we consider adequate to ensure sufficient funds to repay borrowings, invest in capital infrastructure and allow us the flexibility to support innovation and investment.

Planned investment to deliver LSE 2030 takes our forecast uEBITDA below the target in the shorter term. The School is confident, however that this will lay the basis for it to return to a level at or above our minimum in the medium term

Financial strategy and securing the financial sustainability of the School

Each year, the SMC and Council approve a 10-year Financial Plan prepared using a set of prudent assumptions and long-term financial targets. Its sensitivity to these assumptions is assessed along with the current risks identified in the School's Strategic Risk Register to ensure we have a reasonable expectation of maintaining a sustainable long-term financial position. In accordance with our Funding Principles, any significant investments and associated returns are evaluated against this Plan and on a standalone basis before a final decision to invest is made. This ensures that financial decisions contribute to the financial sustainability of the School.

Taken together, the Financial Plan and our Funding Principles, provide a framework for borrowing, investment and use of surpluses, offering a transparent and clear framework within which SMC and Council can make rational choices and orderly decisions about commitments, investments, liquidity and our endowment.

As part of our financial planning processes, a range of financial indicators are tracked and reviewed regularly by the SMC and our Finance and Estates Committee.

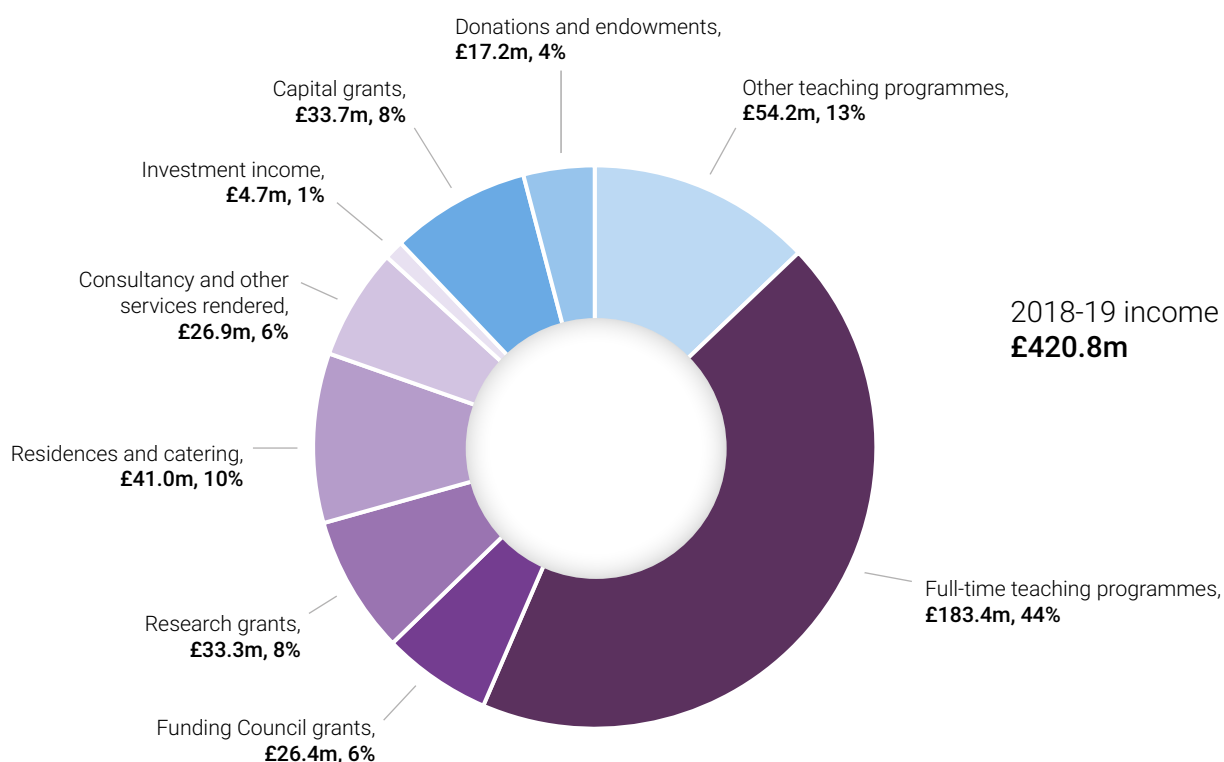
Based on the 2019 Financial Plan and these rigorous financial planning processes, SMC and the School's Council concluded that the School is operating in a financially sustainable manner and will remain a "going concern".

Income

	2018-19 Total £m	2017-18 Total £m	£m	%
Tuition Fees	227.4	211.5	15.9	7.5%
Funding Council grants	26.4	23.7	2.7	11.4%
Research grants	33.3	32.9	0.4	1.2%
Other income	78.1	77.3	0.8	1.0%
Investment income	4.7	4.5	0.2	4.4%
Total income before capital grants, endowments and donations	369.9	349.9	20.0	5.7%
Capital grants	33.7	1.6	32.1	
Donations and endowments	17.2	8.9	8.3	93.3%
Total income	420.8	360.4	60.4	16.8%

In 2018-19 £227.4 million (54.0 per cent) of our revenue came directly from teaching and a further £41.0 million (9.7 per cent) from residences and catering. The trend in recent years has been for the proportion from teaching to grow compared with research and grant funding. In 2018-19 we recognised the large capital grant awarded in 2016 as matched funding associated with the £64.0 million gift from Atlantic Philanthropies. Without that one-off capital grant, teaching income would have accounted for 61.4% per cent of revenue.

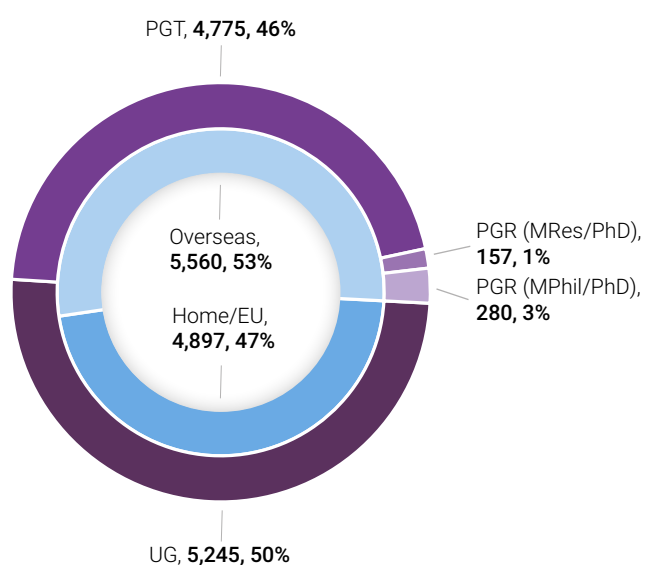
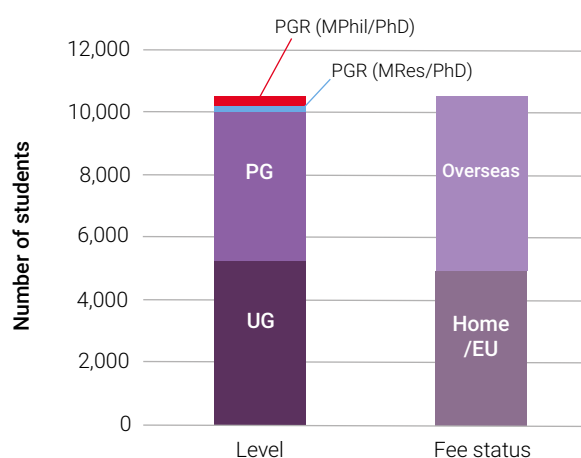
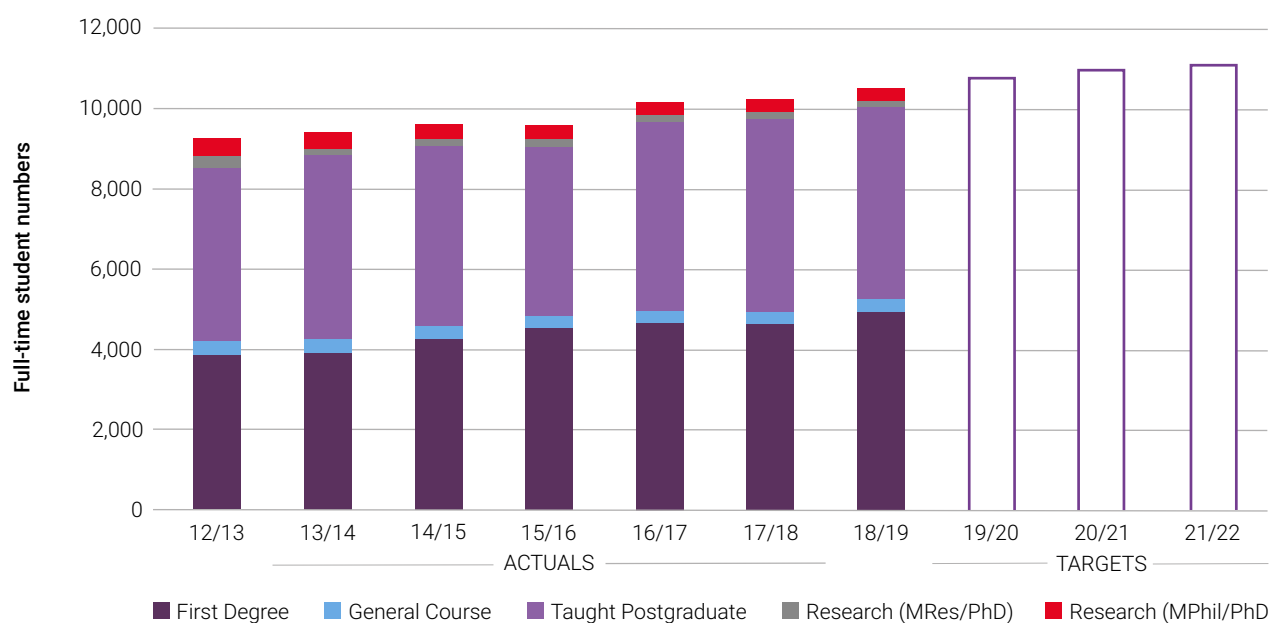
LSE 2030 challenges the School to broaden its educational offer, so alongside our plans to grow modestly our full time students numbers, once the Marshall Building is finished in 2021, we are looking at exciting new ways to broaden our teaching with a more a flexible and diverse offering.

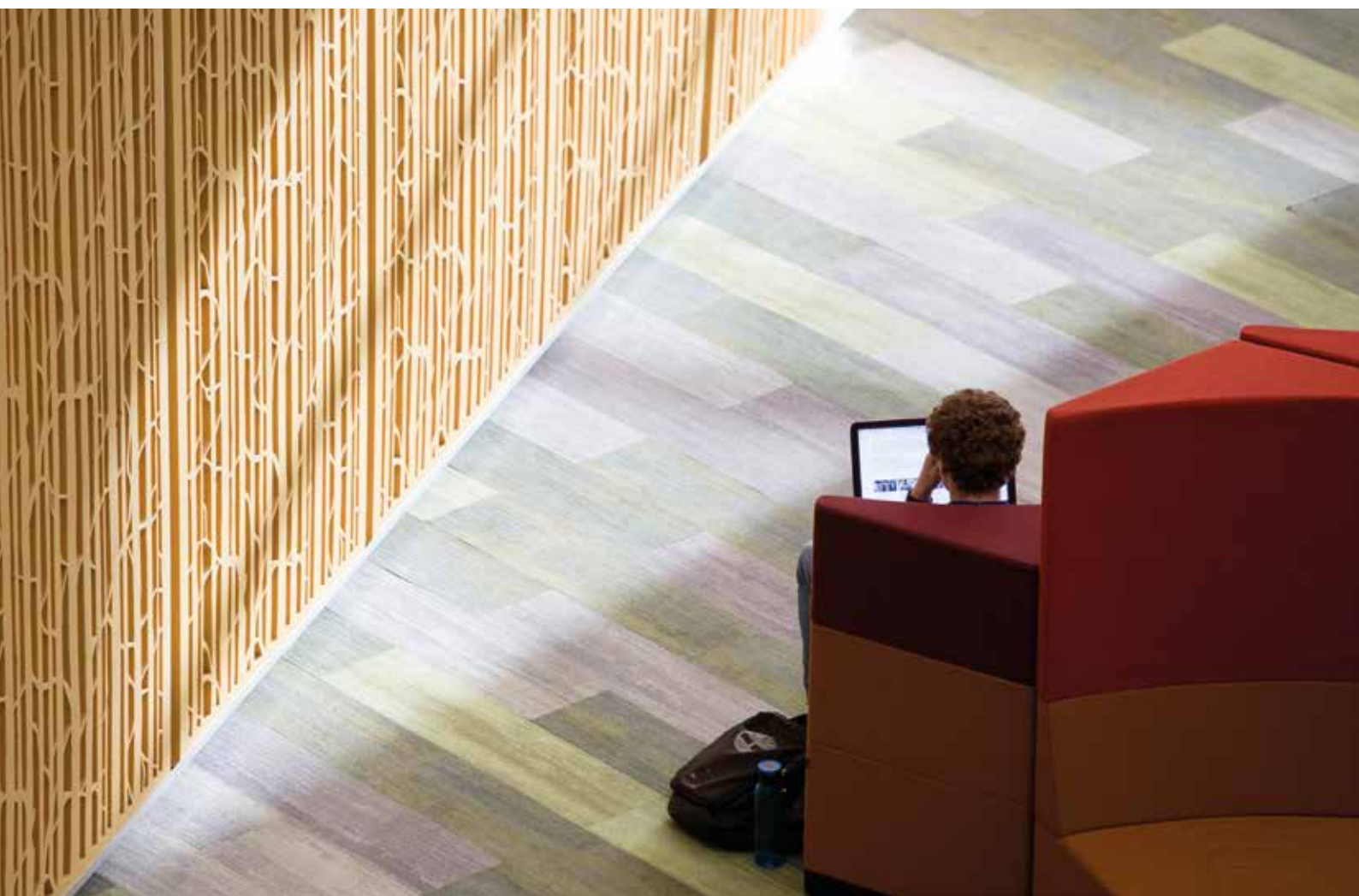
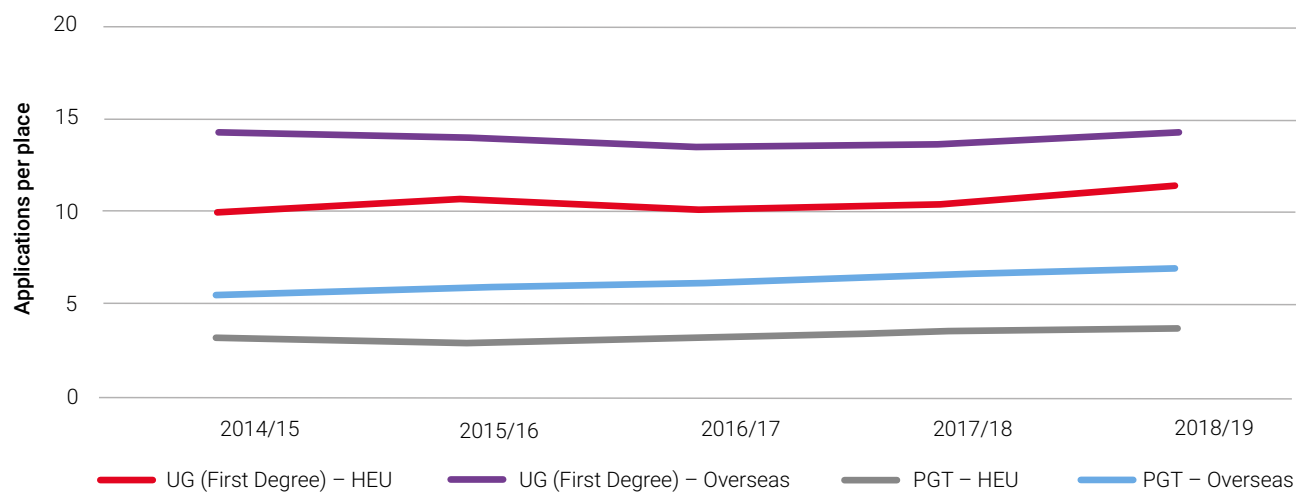


Students, education and tuition fees

Demand measured by applicants per place rose for 2018-19 across all our full-time student categories with 12.4 applicants per place for undergraduate study and 5.8 per place for postgraduate taught programmes. We registered 10,457 full-time students in 2018-19. This is 261 more than the previous year. We will not seek to grow our full-time student population significantly until we have completed the Marshall Building to ensure growth is accompanied by the best educational experience for our students.

Overall tuition fee income grew by 7.5 per cent to £227.4 million and the Summer School to £26.3 million achieving 19.7 per cent growth and offering 8,689 students an LSE experience over the three sessions that run in July and August. 2018-19 was also very successful for the new on-line certificate courses that we offer with seven courses and a total of 6,189 students completing the supportive and interactive learning programmes since we launched in 2017. We have more programmes planned for 2019-20.



Demand for places at LSE

PhD scholarships and bursaries

The School has two flagship funding schemes for doctoral students: our own LSE PhD Studentship scheme which supported 258 (245 2017-18) fully funded students across four years of study and the Economic and Social Research Council Doctoral Training Centre (DTC) and new Doctoral Training Partnership (DTP) schemes supporting a further 141 (147 2017-18). In addition, PhD students are funded by philanthropic support and other Research Councils, and some institutes and departments provide scholarships from their own resources. All these awards provide a stipend to cover living costs and the PhD tuition fee. They are awarded on academic merit and research potential and are highly competitive. Across all these schemes 67 per cent of doctoral students enrolled at the School had full funding. Additionally, the School provides funds to support conference attendance and the writing-up period for all our PhD students.

Undergraduate and postgraduate scholarships and bursaries

In 2018-19 the School spent £19.5 million on bursaries and scholarships for undergraduates and postgraduates to enable them to study at the School. UK and EU undergraduates can qualify for bursaries up to the value of £4k per year for each year of study. In addition to this, we now offer residential bursaries at our halls to help with the cost of accommodation in London.

For UK undergraduates, the School continues to support our Access Agreement (now our Access and Participation Plan) commitment to widen participation to higher education and LSE. To do so, the School is successfully investing in an extensive programme for schools and colleges to ensure young people studying in London's state schools and colleges have the opportunity to find out more about higher education, are supported in their GCSE and A-level attainment, and feel prepared for the transition to higher education. In 2017-18 (the most recent available data), we engaged over 2,500 young people in the London region on our pre-university programme. This comprehensive work prior to application, our approach to contextual admissions, and our generous financial support package have resulted in increasing numbers of students meeting widening participation criteria, obtaining offers and taking up places at LSE. In 2017-18 the total amount reported to the Office of Fair Access for this programme of funding and support was £4.6 million. Our 2017-18 HESA performance indicators highlight that LSE exceeded its location adjusted benchmark for the admission of students from low participation neighbourhoods by 3 percentage points.

How we support learning and how student tuition fees are used

Tuition fees and education contracts (excluding summer schools) represent £227.4 million or 54.0 per cent of our income but they do not fund all the costs necessary to support teaching excellence, research led teaching and a rewarding student experience. To achieve this and to fund our research, residences

and other activities we have developed revenue from a range of other activities such as summer schools, international programmes, executive education and consultancy.

Educate for Global Impact

The School's new strategy, LSE 2030, rearticulates LSE's commitment to delivering consistently excellent education and student experience through our first strategic priority, to educate for global impact. Led by our Pro-Director for Education, Professor Dilly Fung, the whole School is undertaking an ambitious, wide-ranging programme of change and enhancement in education and the student experience, in close partnership with students and the Students' Union. We were pleased to see early evidence of positive impact for our students in our 2019 NSS results, with Overall Satisfaction improving from 71 per cent to 78 per cent and a similar increase in our internal survey for years one and two undergraduate students.

This reflects much hard work over the past two years, since LSE agreed an action plan with the Higher Education Funding Council for England (HEFCE) in 2017. A report on implementation of the action plan was submitted to the Office for Students (OfS), resulting in the School's successful registration in September 2018 with no additional ongoing conditions. However, the School continues to embrace the need for ongoing improvement and, under LSE 2030, we are focusing and coordinating efforts under three headline areas: excellent research-rich education; consistently excellent student experience; and welcome, community and inclusion.

Key initiatives and enhancements during 2018-19 included strengthening student voice and partnership throughout the School, including: improving communication and dialogue with students through the new Student Hub app and discussion fora with the Director and Pro-Director for Education; enhancing student and Students' Union representation on committees and working groups; launching the transformative Change Makers initiative, that funds students to conduct research projects on life at LSE and develop recommendations for change; and allocating funding to deliver change projects co-created with students.

Much work is focused on building a more inclusive, welcoming community for students, including: launching a five-year action plan for Inclusive Education; developing a School-wide framework for Student Mental Health and Wellbeing; and establishing a Welcome Steering Group co-led by the Students' Union and the School, to improve students' experience of transitioning into life at LSE.

We have implemented the Academic Code, developed by the School and Student's Union during the previous year, which is clearly reflected in significantly improved student satisfaction scores for assessment and feedback, and is driving more consistent quality of student experience across the School.

We are also building a stronger culture of empowering and recognising all staff who contribute to the success of our education and student experience. These structural and cultural changes

have been augmented by an overhauled governance structure for education and student experience, and reformed approaches to enhancement, funding, monitoring, and review of our activity.

We have much still to do, and it will take time and sustained effort to deliver the changes we wish to make. The School Management Committee (SMC) acknowledge this challenge and look forward to continuing to work in partnership with our students and wider LSE community to ensure an LSE education provides a consistently positive experience and opens up the potential for global impact.

After LSE

A degree from LSE is internationally recognised and respected and our graduates go on to pursue hugely successful careers in a wide variety of sectors across the world. Employers value an LSE education because of the intellectual rigour of our programmes and the breadth of our students' experiences both within and alongside the curriculum. LSE had an Employer Reputation score of 99.7 per cent in this year's QS World Rankings.

LSE prepares students for success in the labour market by providing an extensive programme of careers support and skills development opportunities. Of those who graduated in 2016-17 (most recent data), 86 per cent progressed on to employment or study within six months with 87 per cent of that work and study defined as being at "professional" level. Our graduates are regularly cited as being amongst the highest earning in the UK. The median salary of our students at six months post-graduation was £30k compared with, for example HESA median data of £22k. After graduation 44.3 per cent of graduates were working in the UK, 16.1 per cent elsewhere in Europe and 39.6 per cent in the rest of the world.

LSE Careers engages thousands of employers across a wide variety of sectors in the UK and globally. A key differentiator in terms of accessing employment is meaningful work experience. Towards the goal of ensuring that all students can access relevant opportunities, including within the charity and development sectors, the School has initiated a number of internship schemes. Our internal LSE Graduate Internship scheme offers graduates significant work experience whilst providing departments an opportunity to utilise the talents of individuals who understand the LSE context and who can provide insight into the student perspective. We ran 15 internships under this scheme during 2018-19 with 12 of those centrally funded. In addition, we are running external internship schemes with our academic departments and as part of LSE2030 we are looking to expand this significantly in the coming years.

LSE Careers is at the forefront of the sector in terms of development and delivery of in-country careers events. We were one of the first to run events in China and our current offer includes the Asia careers fairs (Beijing, Shanghai and Hong Kong), the European Internships fair held in Brussels and the US Early Careers Networking event held in Washington DC.

International Organisations' Day is a highly regarded one-day conference for master's students and provides a range of opportunities for students to hear from and engage with representatives from multilateral organisations. Organisations range from the World Bank to UNDP. It was the first event of its kind in Europe and attracts applications to attend from numerous HEIs, over 1000 LSE students and 400 external to the School.

LSE Careers' delivery and service provision is based around a fluid, non-linear career development cycle. The model helps to lay the foundations of effective ongoing career management, providing opportunities to network and connect with organisations, employers and alumni and empowering students and alumni to learn, grow and succeed.

Executive Programmes, Short Courses and other non-traditional taught courses

In recent years, the School has developed a substantial portfolio of teaching activities beyond the traditional one – or three-year full-time course models.

Executive MSc programmes offer a range of degrees for mid-career to senior level professionals bringing them together with the School's broad academic community and our exceptional links externally with policy practitioners. The current portfolio covers behavioural science, diplomacy, management, finance, health, law and the internationally recognised TRIUM MBA which is operated in partnership with NYU Stern and HEC Paris. In total these programmes attracted over 900 executives in 2018-19 and we can foresee demand for additional places and new courses growing over the next few years. Delivering education in this way is central to the vision underpinning LSE 2030.

Summer Schools

Now in its 31st year, the LSE Summer School is recognised as a global leader, and is one of the top three Summer School programmes in the world measured by international student enrolments. It attracts many thousands of students annually to the LSE campus over an intensive nine weeks. The programme offers 100+ courses which are based on our undergraduate degree programmes, courses are taught by LSE faculty and the programme is aimed at the global undergraduate market.

In 2018-19 the Summer School continued growing taking 8,689 course enrolments with 7,342 students, representing 116 nationalities and was delivered by 155 LSE faculty. This was a 7 per cent increase in student numbers compared with 2017-18. We take great care to monitor student experience and satisfaction to ensure the overall LSE education experience and their stay in London fully meets expectations. This year we are very pleased to report that their "recommendation ratings" which had been at 96 per cent for the past three years rose to 97 per cent this year.

Executive Education and Online Learning

Our executive education and online learning programmes are the primary channel by which LSE makes our research and teaching accessible to a business and practitioner audience. We offer a distinctive and growing portfolio of courses drawn from across the School's range of subject specialisms. During 2018-19 we continued our expansion of open enrolment programmes for Executives, delivering 26 courses on the LSE campus (19 in 2018-19).

Additionally, over 3,900 participants completed an LSE Online Certificate Course. These courses allow working professionals to take the next step in their careers by gaining work-place ready skills and knowledge that are both industry relevant and current.

The courses achieve positive feedback from participants and a strong completion rate in excess of 94 per cent.

Taken together, these non-traditional courses, along with our International programmes run with the University of London, allow LSE to extend teaching far beyond the limited number of degree programme places and financially it provides the School with the means to attract and retain key faculty and support research.

Office for Students (OfS) and UK Research Innovation (UKRI) grants

The School's primary sources of direct public funding were OfS and UKRI recurrent and capital grants.

	2018-19 £m	2017-18 £m	Change	
			£m	%
Grants related to teaching (OfS)	1.8	1.9	-0.1	-5.3%
Recurrent research grant (UKRI)	19.0	18.6	0.4	2.2%
Higher Education Innovations Fund	3.3	1.6	1.7	101.5%
UK Research Partnership Investment Fund	32.2	0.0	32.2	
Other specific grants	3.8	3.2	0.6	18.9%
	60.1	25.3	34.8	137.2%

Our recurrent quality-related research funding (QR) and specific research grant funding now fall under Research England. The elements of teaching funding that remain following the introduction of higher fees in 2012 are largely initiatives to mitigate the impact of higher fees on the diversity of, and access for, students to higher education and the higher costs of delivering teaching in central London and come within the ambit of OfS.

Recurrent research funding (QR) was flat in real terms in 2018-19 at £19.0 million, continuing the real terms fall we have experienced in recent years. This is an issue for concern and does not easily reconcile with our outstanding success in the last Research Excellence Framework (REF), where LSE was placed at or close to the top in the rankings of research quality. The effect of this is to place ever greater pressure on the School's other sources of revenue and while we have sought to grow our ancillary activities such as summer schools we have questions about the sustainability of this position in the longer term. We also note that the incorporation of GCRF (Global Challenge Research Funds) into research grant funding, with no discernible overall increase, has been accompanied by restrictions and bureaucratic requirements that seem to us to be at odds with the purpose of recurrent research grant funding. We remain concerned that this could lead to the erosion of recurrent QR funding and the current "dual support" funding mechanism. To ensure that policy change in this area is properly considered we are keen to engage with UKRI regarding their future strategy.

Research grants won through Research Council peer reviewed competition are also under pressure and we find increasingly that funders ask institutions to contribute to the costs of the research activities they are commissioning. This approach may have undesirable consequences, such as students effectively subsidising research and pushing HEIs to choose between maintaining high quality research and investing in teaching.

Higher Education Innovation Funding (HEIF) and Connecting Capability Funding (CCF)

The new research commercialisation service is supporting the School's core mission of the betterment of society and our Higher Education Innovation Funding Council (HEIF) strategy. Research commercialisation seeks to exploit the full potential of the School's research, extending our impact beyond conventional public policy interventions to engage and harness private enterprise. A Connecting Capabilities Fund (CCF) grant of £5.0 million from Research England in April 2018 has given the School the opportunity, with its institutional and business partners, to establish Aspect (A Social sciences Platform for Entrepreneurship, Commercialisation and Transformation of the contribution social sciences makes to society). This initiative aims to create a global network of excellence in social science research commercialisation. HEIF National Productivity Investment Funding (NPIF) and Aspect funding is allowing the School to

build a research commercialisation service with its institutional partners this is building a global network together to share and develop best practice. We are also partnering with Zinc, in a novel approach to social sciences research commercialisation.

Zinc is an LSE spin-out which builds companies to address social challenges using an accelerator model. The School has invested £0.7 million of HEIF/NPIF funding in Zinc, and around £1.3 million of CCF first-round funding. We see these investments as an opportunity to generate revenues to contribute to the sustainability of our core research, but we recognise the uncertain nature of direct financial returns from this activity so, at least in the short-term, have adopted a prudent approach reducing its carrying value to nil. We will review this treatment on a regular basis and adjust it accordingly.

Within the School, the new research commercialisation service sits alongside the School's highly successful consulting activities and student entrepreneurship programme, LSE Generate, within our renamed LSE Research and Innovation Division.

UK Research Partnership Investment Funding (RPIF)

In November 2016 we were awarded a £32.2 million grant to fund the Centre Buildings redevelopment, through the Research Partnership Investment Fund (RPIF), matching a gift from Atlantic Philanthropies for the International Inequality Institute. We accounted for the RPIF grant as deferred income in 2017-18 but with the opening of the building this year we have reported the grant as income in 2018-19.

Other Income

In addition to our core activities of teaching and research the School generates significant revenues from a range of additional activities:

- Consultancy and custom executive education activities delivered through LSE Enterprise Limited.
- Other services rendered which are predominantly the service provided to DFID by our International Growth Centre.
- The International Programme which operates under a collaboration agreement with the University of London International Programme. Through these programmes, LSE academic material was taught to over 17,000 students world-wide in 2018-19. While recruitment to the programme has been falling in recent years due to increased competition, we have been investing heavily to reinvigorate and revitalise the programme and build the engagement of LSE academics and our network of partner institutions. We now see promising signs that this strategy is beginning to work.
- Our Residences and Catering services operate over 4,000 bed spaces at 12 halls of residence and University of London halls and commercial partners. Unlike commercial providers of student accommodation, we can offer 38-week contracts to undergraduate students, making our residences far more affordable. We do this by generating income from commercial letting during vacation periods.

Research grants and contracts

Research income for 2018-19 was £33.3 million, an increase of 1 per cent on that of 2017-18, and an 8 per cent share of total income. This income only covers a proportion of the true costs of our research. The School continues to subsidise research from ancillary activities to ensure we continue to deliver on our mission. The mix of funding from different sponsor types remains unchanged from last year. UKRI, Research Councils and EU continue to be our main source of research grant funding, with UKRI, Research Councils and EU funding making up 59 per cent of the School's total research income, unchanged from 2017-18. The School continues to seek to diversify its research income streams to mitigate risks attaching to EU funding and pressures on Research Council funding.

The ongoing uncertainty around Brexit continues to be of concern and despite the UK government's commitment to underwrite EU funding there is a risk of administrative and funding turbulence as UKRI adds as many as 4,000+ new projects to its portfolio, issues new grant agreements and takes on funding payments. Third country status for the UK immediately following Brexit would exclude UK based institutions from hosting ERC awards, which will increase the risk of award holders transferring their grants to institutions in the remaining EU member states. ERC and Marie-Curie awards represent around 77 per cent of our EU funding. Whatever the outcome of the Brexit negotiations, we are concerned that a reduction in research funding will fall disproportionately on social sciences.

The Research Excellence Framework (REF) is very important to us and LSE's REF 2021 preparations are in full swing. A new system to support the School's REF planning and submission is now live and departments are reviewing eligible research outputs and the impacts arising from these, and drafting narratives to explain how excellent research is supported.

Investment income, cash and treasury management

Our cash and investments comprise cash, currency, bonds and equities and are actively managed to ensure that we maximise our return within the risk parameters associated with the purpose for which the funds are held.

Investment income comprises investment returns from the School's working capital, bond funds and equity-based investments. Total investment returns including realised and unrealised gains was £15.0 million, £0.3 million higher than last year. The main investment portfolios which hold endowment funds and the School endowment (Strategic Investment Fund) achieved returns ranging from 7.4 per cent to 10.1 per cent, in excess of our threshold of RPI+4 per cent but slightly lower than last year. We are also pleased to report significant progress in delivering on our Socially Responsible Investment Policy and substantially reduced our exposure to companies that derive significant revenues from thermal coal, tar sands, indiscriminate armaments and manufacturers of tobacco products.

The School recognises the importance of effective and responsible investment and investment management, especially as we embark on an ambitious programme to seek philanthropic

support for our LSE 2030 vision – further detail on our approach to the investment and custodianship of endowments funds is set out in the Endowment Investment Performance report on page 38

Summary of investment returns and treasury management	School general and designated funds £m	Endowment funds £m	2018-19 Total £m	2017-18 £m
Investment income	1.6	3.1	4.7	4.5
Gain on investments	2.4	8.0	10.4	10.2
Return	4.0	11.1	15.0	14.7
Long term investments	129.2	155.0	284.3	227.1
Cash and cash equivalents	51.3		51.3	107.9
Other receivables	0.0		0.0	1.4
	180.6	155.0	335.6	336.4
Held as:				
Cash and working capital	51.3		51.3	107.9
Capital Projects Portfolio	78.2		78.2	39.2
Gift Matching Portfolio		17.9	17.9	14.8
Growth Portfolio	30.9	107.0	137.9	129.1
FER Portfolio		27.3	27.3	25.1
Strategic Investment Fund	20.1		20.1	18.8
Accrued income			0.0	1.4
Donations awaiting investment		2.9	2.9	
31 July 2019	180.6	155.0	335.6	336.3
31 July 2018	194.8	141.6	336.4	

Strategic Investment Fund (SIF)

For several years we have invested a portion of our School reserves in the Growth Portfolio investment fund, targeting long term growth. Consistent with the School's Funding Principles we have formalised the SIF, effectively establishing it as the School Endowment, to operate on an enduring basis as part of our financial strategy. The 2019 Financial Plan envisages it being used in a number of ways: investment in delivering LSE 2030; as a "sinking fund" for the repayment of debt and as a means to leverage philanthropic support, enabling it to grow over time to support scholarships and research.

Philanthropic support received in 2018-19

Endowments and donations received and recognised in 2018-19 totalled £17.2 million, almost double the £8.9 million recognised in 2017-18. In addition, we secured new commitments of £24.0 million. Building upon this strong advancement in philanthropic income over the past year, the School is increasing investment in our newly constituted Philanthropy and Global Engagement Division in readiness for launching a major philanthropy campaign for LSE to support our strategic priorities.

Fundraising statement

The School is registered as a levy payer with the Fundraising regulator, demonstrating our commitment to good fundraising practice and to abide by the Code of Fundraising Practice and Fundraising Promise. There were no complaint returns or adjudications and investigations in 2018-19.

Expenditure

Overall operating expenditure, adjusted for movements in our pension provisions, increased by 4.3 per cent, which although a higher rate of increase than the increase in income during the year is consistent with our planning. There were three major changes to pay costs and staff numbers during 2018-19:

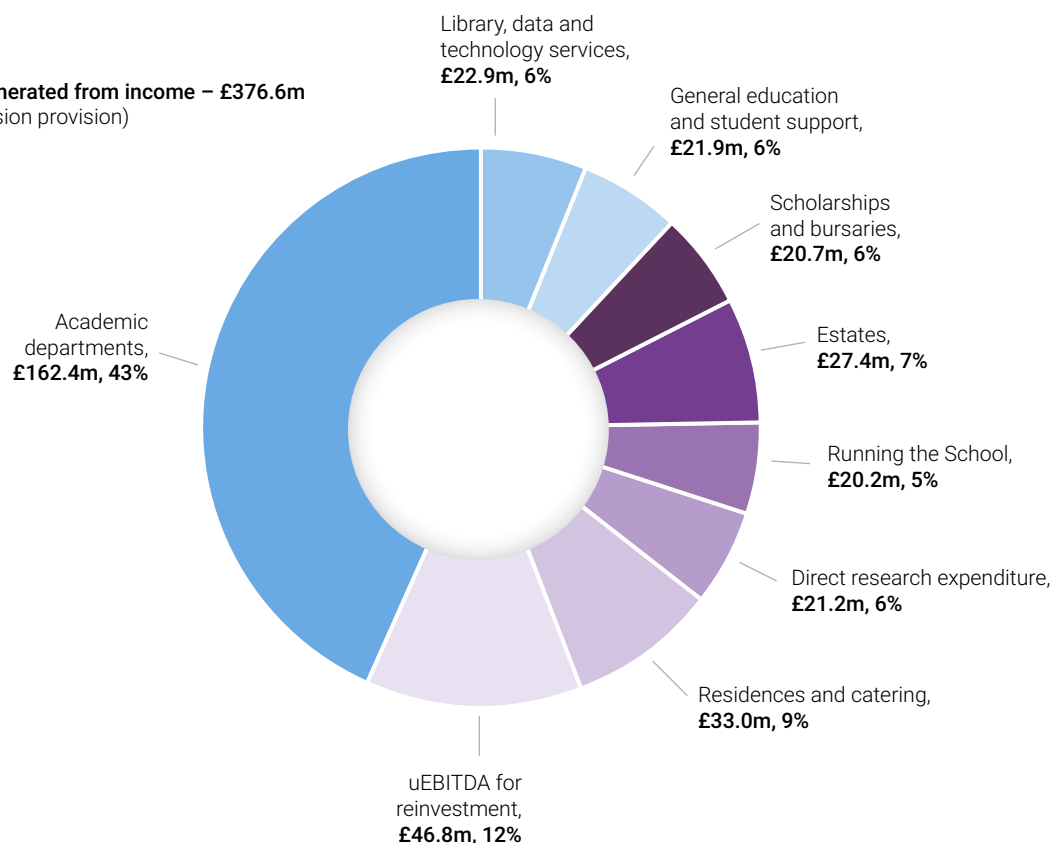
- Staff cost and numbers increased substantially in 2018-19 as we saw the full year impact on payroll costs of our decision to in-source our cleaning staff in-house from Easter 2018.
- The School settled an outstanding pay claim related to lower paid staff with a tapered increase from 5 per cent per annum for the lowest paid staff at a forecast cost of £2.0 million per annum.

- The first increase in employer USS contributions of 1.5 percentage points took effect from April 2019.

We expect 2019-20 to present some challenges with respect to pay costs with further increases in USS contributions already

scheduled and the potential for Brexit to impact inflation. We are also exposed to the impact of falls in the value of sterling as we strive to offer internationally competitive salaries to recruit faculty.

2018-19 Use of funds generated from income – £376.6m (Excluding change in pension provision)



Academic departments

Delivery and support of research-led student learning and teaching and student research projects. Includes academic and departmental support staff salary costs and resources

Library, data and technology services

Includes IT and library resources provided by the School

General education and student support

Includes counselling services, careers advice, Students' Union, Registry, admissions, nursery and health services

Estates

Cost of maintaining and running the campus, teaching spaces, student support spaces, and sports facilities

Running the School

Includes centrally managed services such as admissions, finance, human resources, communications, planning and strategy delivery

Funding for reinvestment (uEBITDA)

Funds to invest in teaching and research, capital and digital infrastructure

Responsible and sustainable procurement

The School continues to look for savings and value for money opportunities to make the most effective use of its resources. Central to our approach to procurement is the use of competitive tendering and consortium framework agreements and carefully developing and reviewing specifications for goods and services. In addition, our process places emphasis on non-financial aspects of procurement, with suppliers evaluated on their approach and policies on: environmental sustainability; equality, diversity and inclusion; the Modern Slavery Act; health and safety; information security; and ensuring compliance with the School's commitment to pay staff at or above a London Living wage.

Our sustainable procurement goal is to procure goods and services that meet the School's requirements in ways that maximise efficiency and effectiveness, while minimising social, environmental and other costs.

The total expenditure in 2018-19 that was influenced by procurement through a competitive process was £126 million, of which 91.1 per cent was either tendered or procured via framework agreements, with contracts awarded on our approved terms and conditions whenever possible. The remaining 8.9 per cent was procured by either a quotation process or, if under £8k, a single source purchase. We estimate our procurement process delivered savings of over £2.3 million (annual savings based on comparison with average tendered or incumbent supplier charge).

The School recognises its responsibility to deal fairly with its suppliers to ensure that they are able to sustain their businesses. To this end we work to pay all approved invoices in accordance with the agreed terms of payment, which are available on the School's website. At the year-end, the amount due to trade creditors was equivalent to 24 days of purchases. Nothing was paid under the Late Payments of Commercial Debts (Interest) Act 1998.

Pension schemes

LSE staff on salary band 5 and above are eligible to join the Universities Superannuation Scheme (USS). The Trust Deed and Rules prevent the School from enrolling eligible staff in any other pension scheme and requires that a significant payment be made to leave the scheme. All other staff can join the Superannuation Arrangements of the University of London (SAUL).

Every three years the USS Trustee must be able to conclude that it has sufficient funds to pay the pensions promised, or a credible plan to recover any shortfall (via a deficit recovery plan which must, by law, aim to eliminate any deficit). At 31 March 2017, triennial valuations for both schemes were made based on the level of risk the schemes plan to take in the long term, in pursuit of investment returns (which part-fund pensions), expected returns and planned contribution rates.

The 2017 triennial valuation of the USS scheme identified a scheme deficit of £7.5bn. A valuation at 31 March 2018 (which attempted to incorporate some of the recommendations of the "Joint Expert Panel") indicated an improved position with a deficit of £3.6bn but was not agreed in time to avoid the scheme Trustee imposing a set of increases based on the 2017 valuation. These increased

contributions from 1 April 2019 from 26 per cent (split employer 18 per cent, employee 8 per cent) to 28.3 per cent (19.5 per cent, 8.8 per cent) at 1 April 2019 and scheduled to increase to 32.9 per cent from October 2019 and finally to 35.6 per cent from April 2020.

Within these contribution increases is a substantial increase in the amounts set aside to meet the projected shortfall in funds to pay for pension promises already made (the so-call past service deficit shortfall). A provision for the discounted value of the future contributions to this past service deficit is included in the balance sheet. Based on the schedule of contributions implemented by the Trustee and applying at 31 July 2019, the provision for LSE is £91.6 million, compared with £31.4 million last year based on the old contribution rates. The increase in provision of £59.6 million is accounted for as a charge against total comprehensive income for the year.

In September 2019 a revised schedule of contributions was agreed which would have the effect of reducing this provision to £51.6 million (based on current assumptions regarding payroll growth and discount rate). As this was agreed after the balance sheet date, it is not reflected in the 2018-19 accounts but is disclosed in note 28.

This provision is not the same as the School's share of the total scheme deficit which, as it is not separately identifiable, does not require recognition nor does it represent the cost of exiting the scheme – a so-called "Section 75" charge. This figure is significantly higher.

In parallel with this and in order to close the 2018 valuation, three options were proposed by the USS Joint Negotiating Committee Trustee. In common with other Russell Group HEIs, LSE was reluctantly supportive of the third option. In essence, this option brings forward the 2021 valuation to 2020 and reduces the next increase, thereby minimising the impact on staff and hence risk of 'industrial action' which we are concerned may adversely affect our students and staff. It will also allow for the work of a second Joint Expert Panel (JEP2) to be considered and taken into account. Our principal concern with this option is its references to introducing elements of "debt monitoring" designed to ensure the Trustee can place continued reliance on the covenant of member institutions. While we are keen that the overall covenant offered by the sector is preserved, clarification of what this might mean in practice and how it would operate are needed as any attempt to restrict the autonomy of institutions could be counter-productive.

Option 3 was agreed with the Trustee in September 2019 and the following schedule of contributions agreed:

Contribution rates (% of salary)	Total	Employer	Employee	Past service deficit contribution
Until April 2019	26.0%	18.0%	8.0%	2.10%
From April 2019	28.3%	19.5%	8.8%	Not specified
From October 2019	30.7%	21.1%	9.6%	2.0%
From October 2021 (subject to the March 2020 valuation)	34.7%	23.7%	11.0%	6.0%

The School remains fully committed to providing all its staff with attractive and affordable pension benefits and we will do all we can to encourage a timely resolution of this matter and thereafter for reform of the USS scheme to ensure it can continue on a sustainable basis.

Balance sheet

We are pleased to report continued growth in the School's balance sheet, with net assets increasing by 2.8 per cent during 2018-19 to £569.8 million.

	2019 £m	2018 £m	Changes	
			+/- £m	%
Tangible and intangible assets	612.3	553.0	59.3	10.7%
Investments	284.3	227.1	57.2	25.2%
Total non-current assets	896.6	780.1	116.5	14.9%
Current assets				
Stock	0.1	0.1	0.0	44.0%
Debtors	38.7	31.2	7.5	24.0%
Cash and cash equivalents	51.3	107.9	(56.6)	-52.4%
Total current assets	90.1	139.2	(49.1)	-33.3%
Creditors: falling due within 1 year	(108.9)	(120.6)	11.7	-9.7%
Net current (liabilities) / assets	(18.8)	18.6	(37.4)	-201.1%
Total assets less current liabilities	877.8	798.7	79.1	9.9%
Creditors: falling due after 1 year	(216.4)	(212.9)	(3.5)	1.7%
Pension provision	(91.6)	(31.4)	(60.2)	191.7%
Net Assets	569.8	554.4	15.4	2.8%
Expandable endowments	59.1	53.5	5.6	10.5%
Permanent endowments	95.9	88.1	7.8	8.8%
Endowment reserves	155.0	141.6	13.4	9.5%
Restricted reserve	7.1	4.7	2.4	51.1%
General reserve	407.7	408.1	(0.4)	-0.1%
Total Reserves	569.8	554.4	15.4	2.8%

A year on year comparison of balance sheets highlights a number of substantial changes: the continued investment in assets (buildings and software); the transfer of cash to our Capital Projects bond portfolio as part of our ongoing treasury management activities, and the increase in the USS pension provision discussed earlier in the Strategic Review

We maintain sufficient working capital in cash and cash equivalents to meet short term needs and hold our medium term cash in a short term liquidity fund which is reported under investments. As a result, we reported a net current liability position at 31 July 2019.

Funding strategy

During 2017-18 Council adopted a Statement of Funding Principles which provides a framework for borrowing, investing and applying surpluses. This embodies the School's strategy to fund capital development on a portfolio basis rather than on a building-by-building basis, using cash flow and cash reserves

to leverage external grants and donations and periodically raise funds through long-term debt.

The School believes that it is appropriate to make use of long-term borrowing to fund the development of its asset base. Funding new facilities or major modernisation work using long-term borrowing ensures that the cost is borne by those who benefit from the investment in the future.

The current ratio of net debt to unrestricted EBITDA is 2.5.

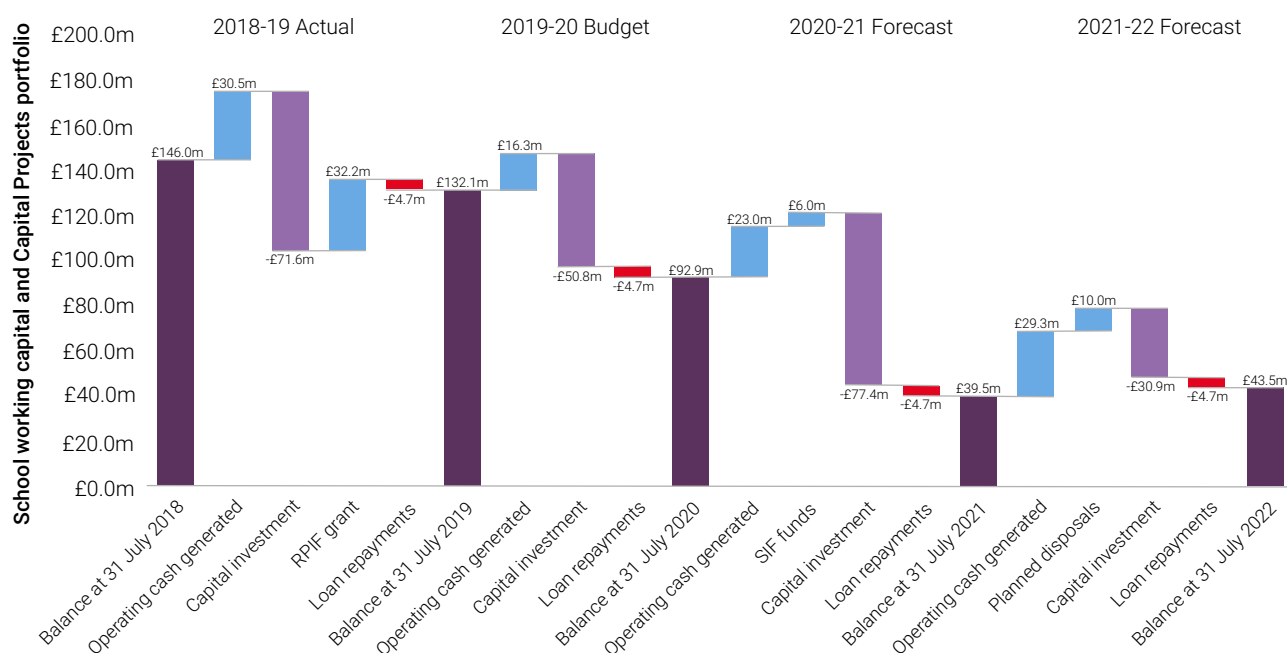
The School accepts a normal level of this ratio up to 3-3.5 but ratios above this figure are acceptable, provided that Council has accepted a business case for the investment and a deleveraging plan is in place that is capable of returning the net debt ratio to a normal level within five to seven years.

Standalone debt, including leases linked to specific fully operational and marketable assets such as residences may be excluded from this ratio subject to consideration of the overall impact on the School's balance sheet and our Financial Plan.

Cash movements

The most important aspect of our financial planning processes is cash flow management. Over the past five years we have generated £177.6 million in operating cash (an annual average of 10.0 per cent of income).

During 2018-19 there was a net cash inflow from operating activities of £30.4 million (compared with £27.1 million in 2017-18). The chart shows the forecast reduction in our unrestricted cash balances through to the completion of the Marshall building in 2021.



Capital expenditure

During 2018-19 the School spent £71.6 million on capital expenditure. This is significantly higher than our average annual spending because of the two major building redevelopments that were underway during 2018-19. The Centre Building redevelopment has now opened and hosted this year's summer schools. It has transformed the heart of the School's campus creating a modern purpose-built academic building and provided the School with a large open space and focal point.

We report fixed assets at cost less accumulated depreciation. After careful consideration we have concluded that while the market value of the School's estate is significantly higher than book value, to show all or some of the properties at market value would not offer the reader of these statements any greater insight into the School's operations. Had we decided to revalue all properties we estimate that the value of the School's freehold and leasehold property would have been approximately £1.1 billion. The option to adopt a revaluation policy remains available and it will be considered periodically in future.

Taxation

The School is an exempt charity within the meaning of the Charities Act 2011 and recognised as a charity by HM Revenue and Customs. Our commercial trading activities are undertaken through subsidiary companies.

Indirect tax (VAT) and payroll taxes collected and paid to HMRC (PAYE, National Insurance contributions, student loan repayments and Apprenticeship Levy charges) amounted to £19.4 million and £59.1 million respectively.

LSE is committed to ensuring that it continues to meet its responsibility for governance, risk management and decisions made in relation to taxation. We aim to comply fully with our legal obligations and engage openly with tax authorities and other stakeholders whilst also effectively managing our tax expense. Each year we review our tax strategy and publish it on our website.

Strategic Risks

Understanding our risks

Effective risk management helps us to achieve our strategic objectives, whilst protecting the School's stakeholders, reputation and sustainability.

Risk management processes

The School Management Committee (SMC) monitors and reviews emerging and changing risks throughout the year. These processes are reviewed by Audit Committee, and a termly report is made to Council.

The Strategic Risk Register acts as the main tool for evaluation of risk and aligns with LSE 2030 through the dashboard targets. The management of each strategic risk is formally assessed by the risk owner at least once each term and reviewed by the SMC, which ensures that the risks are being actively managed, with the appropriate strategies in place.

Each strategic risk is graded with a level of risk tolerance. Once tolerance has been defined, SMC evaluates what action needs to be taken to address the risk. The School's approach is to minimise its exposure to reputational, compliance and financial risk, while accepting and encouraging an increased degree of risk in pursuit of its mission and objectives. It recognises that its tolerance for risk varies according to the activity undertaken.

Strategic risks are now evaluated along with the most pressing or relevant endogenous and exogenous risks mapped across three further central registers:

- The Political Risk Register evaluates the exogenous risk environment to the School, by examining the risks posed by Brexit, the changes in UK government, as well as the impact international politics may have on the LSE's sustainability.
- The Business Model Risk Register evaluates endogenous and exogenous risks to the School's business model, contrasting risks associated to the Financial Plan posed by external factors such as the valuation of the pension scheme and any outcomes from the Augar Review, and the costs involved with internal processes, such as faculty appointment and improvements to existing information architecture.



- The Operational Risk Register evaluates endogenous risks arising from the School's processes and systems, including IT security and travel safety.

Key operational risks in academic departments and service areas are identified and managed at the appropriate level within the organisation. Internal Audit undertakes reviews of key areas throughout the year and these are reported to the School's Audit Committee.

All major projects have individual risk registers and risk assessments are incorporated into planning and decision-making processes. Risk assessment training and awareness is promoted through the management structure by the Risk Manager.

Brexit

The fallout from the vote to leave the European Union ("Brexit") continues to dominate British political life, and the uncertainties involved present both risks and opportunities to the School's strategic aims. With the United Kingdom due to leave the EU, the reality of what Brexit means has begun to take shape, although considerable uncertainty persists.

With its potential to restrict the freedom of movement of EU students and staff, not to mention the impact on access to

funding and legislative structures, there is no doubt that Brexit could change the environment in which the School operates.

The persistence of uncertainty will doubtless bring short- and medium-term challenges, but it is clear that the School will need to take a strategic view of the threats and opportunities in order to generate positive longer-term outcomes. Remaining true to our mission, we expect the School to remain at the forefront in understanding, forecasting, analysing and explaining these changes, as they occur.

The SMC continues to co-ordinate work across the full range of the School's activities. These include considering the implications for the future of developments in student and staff recruitment and retention, current applications being developed, and awards, held for EU funded research projects, capital projects underway and short-term philanthropic giving.

In terms of the impact of Brexit on research, the UK Government has guaranteed to underwrite existing funding from Horizon 2020. Through its affiliation with CIVICA, the European University of Social Sciences, LSE will strengthen its links with leading European higher education institutions in the social sciences, humanities, business management and public policy.



The international profile of its student body means that the School monitors issues such as the UK Visas and Immigration student visa policy, and the way political language around immigration might create an environment foreign staff and students feel is hostile – particularly following Brexit. We have a diversified intake to reduce the School's vulnerability to developments from global competitors, or geo-political events. Other internal factors, such as established structures for programme allocation, may affect the School's income from student fees.

Business model

The School continues to be aware of increasingly strong competition to its ancillary programmes, both in the UK and abroad, and the emergence of private providers remains an issue that will need to be monitored carefully in the coming years. The drive to diversify revenue away from student fees has also led to an increased focus on philanthropic development.

The School continues to face serious competition to recruit and retain its best faculty. 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 REF Strategy Committee allows long term planning and oversight of research issues in a manner consistent with the School's principles of academic freedom, while the School continues with its rigorous approach to research mentoring and appraisal. The continuing work on support and incentives for externally funded research also mitigates these risks.

Pensions

School employees participate in two pension schemes, USS and SAUL. We are faced with significant employer and employee contributions as a result of the last triennial valuation. The School has supported a plan which goes some way to minimising the impact on staff (and hence risk of "industrial action") and brings forward the 2021 valuation to 2020. This option allows for the work of the Joint Expert Panel to be considered in the 2020 valuation.

The School's 2019 Financial Plan is prudent and assumes a phased increase in contribution rates to cover the increases resulting from these changes, however this creates a significant financial burden which may in due course require some adjustment to our plans. Despite the current difficulties, the School remains fully committed to providing all its staff with attractive and affordable pension benefits and we will do all we can to encourage a timely resolution of this matter and thereafter for reform of the USS scheme to place it on a sustainable footing.

Regulatory changes

Recent years have seen a change in the regulatory environment in which LSE operates, which has redefined the exogenous risks facing the School. The School is mindful that its relationship with

its regulator, the Office for Students (OfS), is vital to maintaining our position as a world-leading centre of education.

We are reforming the governance of education to ensure we continue to address issues raised by the OfS. LSE continues to boast an exceptional graduate record, as evidenced by students' high attainment and outstanding performance in highly skilled job markets, which remain outside the TEF metrics. The School will look forward to working with the Government in reviewing and revising the TEF in the future.

The other change to the HE regulatory framework is the transfer of responsibility for core funding of research to Research England, a body that sits within UK Research and Innovation (UKRI). The Research Councils, which are responsible for allocating research project funding have moved and now sit within UKRI. These changes bring together the two strands of government research funding, the 'dual support' system.

While the School welcomes the opportunity to bring increased coordination of funding and objectives, we remain alert to the risk of creating a drift away from the dual support system to a single funding system. Such a change could erode the sector's capacity to undertake innovative work, particularly if funds were increasingly allocated to purely project and initiative-based funding. Similarly, if the change heralded an increase in Research Councils requiring institutional contribution to the costs of research and dissemination, the capacity for innovative research would be eroded.

Equity and Diversity

The School is committed to embedding and mainstreaming equity, diversity, and inclusion. This includes communicating and monitoring policies, procedures and practices, to ensure that all are inclusive and equitable. It also includes ensuring the record of the School is understood and evaluated effectively, that information is published and made available, that good practice is shared, that complaints are taken seriously and action is taken, and that new initiatives are proposed and implemented, to foster equitable treatment for all at LSE.

The launch of LSE 2030 strategy provides an opportunity to thread equality into everything we do, which has now translated into ambitious targets for improvement and advancement of equity, diversity and inclusion. For example, we aim to:

- Reduce the attainment gap between black and white students from the baseline of 8.7 per cent to 4.0 per cent.
- Reduce the attainment gap between Asian and white students from the baseline of 8.4 per cent to 3.0 per cent.
- Increase the proportion of women professors to 30 per cent and associate professors to 45.0 per cent
- Continue to build on our recent improvement in NSS scores to create a truly excellent experience for all of our students

Achievements during 2018-19 included:

- LSE's Recognition in Stonewall's Top 100 Employers list, highlighting it as one of the best employers for lesbian, gay, bi and trans staff.
- Awarded the DWP Disability Confident Level 1 and 2.
- The hosting of several Black History Month events including "Who's included? Black women and the workplace" with the authors of *Slay in your Lane*.
- "A Spotlight On... inspirational BME Women at LSE" showcased BME women who work at LSE.
- Hosting a "Real Models" event showcasing the career trajectories of women at LSE.
- The event "Intersectionality at 30: A Celebration" with Professor Kimberlé Crenshaw.
- The launch of the Parents and Carers Staff Network.
- Development of our Athena SWAN Institutional Bronze Award application.
- Launch of the newly designed Equality Impact Assessment (EIA) process.
- Design and delivery of Making a Choice: Harassment and Consent workshops to 170 staff and students.
- Commissioned Rape Crisis to provide on campus support to students and staff.

LSE has committed to long term, systemic development of our approach to EDI, for example through an equality assessment of our processes and practices to ensure they are not inadvertently discriminating against anyone, and proactively advance equity wherever possible.

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, or sexual orientation, or personal circumstances. Equality and diversity are integral to the School's priorities and objectives. The School supports inter-faith and inter-cultural dialogue and understanding and encourages all students to play 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.

The School has arrangements in place for academic and non-academic members of staff to take time off from their normal role to carry out duties and activities as a trade union representative. Full details of the School's policy can be found on our website at www.lse.ac.uk/staff/divisions/Human-Resources/Working-for-LSE/Union-membership

Public benefit statement

As well as being a higher education institution and company limited by guarantee, LSE is also an exempt charity under the terms of the Charities Act 2011. The members of Council are the trustees of the Charity. The School's object is set out in our Articles of Association which is to advance education, learning and research for the public benefit. This includes providing liberal and quality education, promoting and assisting research and the advancement of learning across the range of social sciences.

Since its foundation, LSE has sought to apply teaching and research to improve society, and that goal remains unchanged today. The following narrative explains how the School has delivered public benefit during the year. In reviewing the School's activities, the Council has had due regard to the guidance on public benefit published by the Charity Commission.

Providing liberal and quality education

We believe that it is our social responsibility to support all students with the ability to benefit from higher education to do so, irrespective of their background. This includes enabling them to explore their options, make decisions about their futures, and access and succeed at university if that is their preferred route. The School has been working for more than two decades, through a systematic programme of work, to address the under-representation of certain groups in higher education as a means of addressing broader issues of equality and social inclusion.

Work with Schools and Colleges

This year, we continued work with schools and colleges in the UK and offered a range of activities aimed at pupils, their teachers, advisors, and adult learners. The schemes that make up our programme of activity are free for schools and colleges, being fully funded by LSE and through the generous support of private donors. The schemes are wide ranging and include providing bespoke sessions at schools and colleges to support the university application process, taster days, student shadowing opportunities, summer schools and open days. Information on all of our widening participation activity can be found online at lse.ac.uk/study-at-lse/Undergraduate/widening-participation

In 2018-19 we embarked on some new initiatives, partnering with external organisations and with internal colleagues to reach new audiences and develop innovative new programmes.

IntoUniversity provides local learning centres where young people are inspired to achieve. Each local centre IntoUniversity supports young students from disadvantaged backgrounds to attain either a university place or achieve another chosen aspiration. From September 2018, the LSE Widening Participation Team partnered with IntoUniversity to sponsor the delivery of the Brent Centre Primary Focus programme. The team hosted 459 students at their IntoUniversity graduation with a small group of parents and carers also attending. The graduation cements the end of the Primary Focus Week and provides the opportunity to visit a university.

Over the course of the last academic year, we have identified two London secondary schools with which to develop a **bespoke partnership**. The main aim of the partnership is to raise attainment amongst pupils, and to provide information, advice and guidance to parents/carers and teachers at both partner schools. In the pilot year, we will create a coordinated series of events across key stages that enable students to aspire and progress towards greater levels of academic attainment. This will also allow parents/carers and teachers to support students more effectively along the way. More specifically, by tracking pupils in various year groups as they progress through our programme, we will be able to evaluate the impact of our activity on progression into higher education.

LSE Sprint returned as part of the **2019 LSE Festival – New World (Dis)Orders**. With input from a range of academic departments, we coordinated teams of students from local schools to tackle challenges on conspiracy theories, immigration policy, and control of social media. Mentored by LSE 100 academics and current LSE students, the teams proposed solutions that were presented to a panel of esteemed judges. Participants said the experience boosted their confidence, encouraged them to think about issues from different perspectives, and taught them to work effectively with others under time pressure.

During the last academic year we ran our first series of **WP Operational Group** meetings. We currently have representation on the group from schools/colleges, colleagues from across LSE, as well as current and former LSE students. The group meets termly to guide our pre-entry work and take on work as directed by the WP Steering Group.

A key benefit of this group is that it has allowed us to create a forum to gain input and feedback to further improve our work. This will also allow us to enhance current projects as well as ensure that new innovations, planned in response to sector and local priorities, have the best possible impact.

Removing financial barriers

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.

We combine a significant allocation of money from our own funds with generous philanthropic support to offer schemes to fund under and post graduate students.

The School's Access and Participation Plan continues to build on past success, committing a substantial portion of fee income above the basic fee cap to be recycled back into student



success, access, progression and financial support measures. In addition, we have introduced an LSE Accommodation Bursary to encourage students from lower-income households to apply for accommodation in halls. The amounts awarded ranged from £750 to £2,500, the larger sums being awarded to applicants with lower annual household incomes.

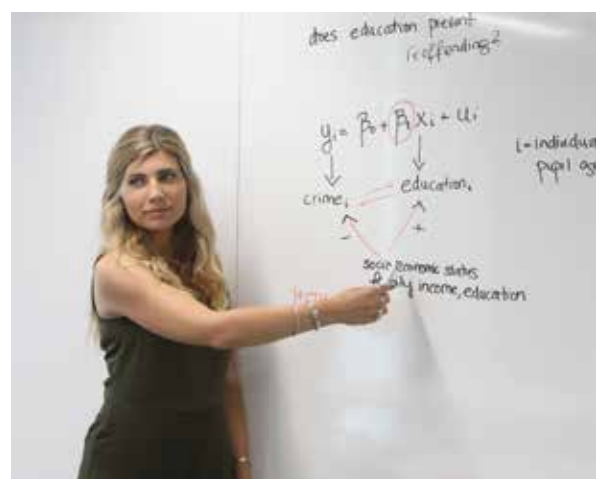
Overseas undergraduates and taught postgraduates from all backgrounds are able to access additional School schemes, which provide awards with a range of values assessed on need. There is a separate and extensive scheme for PhD students. In addition, the School has a range of scholarships funded by external donors and foundations, which again support study at all levels. We are also able to provide support during students' period of study, where unforeseen needs arise, through our Student Support Fund.

Advancement of Learning:

The Library

LSE Library is one of the largest social sciences libraries in Europe, with designated status as the British Library of Political and Economic Science from Arts Council England. It is open to members of the public who need to use its collections. We curate three free public exhibitions each year, drawing on the collections and collaborating with LSE academic staff and students. In 2018-19, the exhibitions, *What does Brexit mean to you? Giving Peace a chance* and *The Sacred Year: Women in the professions 1919-2019* attracted around 28,000 visitors.

The final activities of the Library's major Suffrage 18 Centenary programme took place during the autumn of 2018, drawing on the rich material in The Women's Library collection. We asked politicians, activists and artists to react to the suffrage campaign



and focus on current and future campaigning. As an educational resource for the future, the Library maintains a retrospective website on Suffrage 18 with recordings and images from the year-long commemoration. Following on from the Suffrage 18 activities, the Library has explored the ways in which women pursued the gains made for gender equality in 1918. A year-long series of public activities examining 100 years of women in the professions has been delivered, with the Women and Work exhibition as a centrepiece over the summer.

The Library continues to develop its schools programme welcoming 840 students from primary, secondary and sixth form groups. The Library offers curriculum-based sessions using our unique collections relating to history, politics and citizenship across the twentieth century as well as supporting sixth form students undertaking their Extended Project Qualification (EPQ) in Year 12. In March 2019 for the LSE Festival, the Library created a cross-curricular workshop for primary schools exploring geopolitical issues around walls and borders informed by the themes of the LSE Festival. Over 100 children aged between 8 to 11 from four London primary schools and Great Ormond Street Hospital, created their own response on a "brick" to what they cared about in the world today, which was built into a wall of hopes and protest at the Festival. In doing this, one of the teachers commented that the students learnt "how they can make a difference and use their voice to make a positive change." Schools and interest groups have visited the exhibit from London, and the South East.

Online teaching resources have been developed to align with the national curriculum for key stages 1-3, GCSE, and A-level providing teaching notes and presentations on Beveridge and the Welfare State, the changing role of women and the peace movements of the 1920s and 30s. These are provided free to teachers and enable schools that cannot visit the Library building to use the collections within their teaching. The resources have had 762 downloads to date.

The Library's public events programme has delivered 48 free public events in 2018-19 attended by 1,576 people. The programme has held events relating to each of the exhibitions and the Library was a national hub for the Outing the Past LGBT Festival in February. Speakers have included politicians, Dawn Butler, Rachel Reeves, the Bishop of London, Sarah Mullally, campaigners from the Women's International League of Peace and Freedom, and CND. The Library's events have been varied in format – lectures, discussion panels, concerts, film screenings, performances and art exhibitions.

Public events

In 2018-19 the LSE's Public Events programme hosted over 200 lectures, debates, exhibitions and concerts. Speakers included Speaker of the US House of Representatives Nancy Pelosi, Indian Opposition leader Rahul Gandhi, Prime Minister of Iceland Katrín Jakobsdóttir, Finance Minister of Portugal Mário Centeno, human rights activist Bianca Jagger, former World Bank Managing

Director Ngozi Okonjo-Iweala, Editor-in-chief of Cosmopolitan Farrah Storr, Mayor of Chicago Rahm Emanuel, former Governor of the Reserve Bank of India Raghuram Rajan, Nobel Laureate Amartya Sen, former President of Ireland Mary Robinson, Chief Economist of the World Bank Group Pinelopi Koujianou Goldberg, and former UK Foreign Secretary David Miliband. In order to maximise the opportunity for those outside London and overseas to benefit from the programme many events were also made available online by video or podcast, with debate being sustained through social networking and platforms such as Twitter, Facebook, RSS, Apple Podcasts, Soundcloud, YouTube, etc. In 2018-19, there were more than 33 million views of the School's rich media offerings via video and audio podcast.

The LSE Festival: New World (Dis)orders that took place in February 2019 explored how social science can tackle global issues. The Festival brought together global thought leaders to continue the investigation of the big challenges that society faces today and how the systems binding society together need to evolve and adapt. The programme was designed with a focus on global disorders, ideology and world systems, technological transformations and identity. The Festival also incorporated the LSE research competition and exhibition, which showcased research by LSE staff and students through photographs, written pitches, posters and short films. Alongside the core programme, there were three exhibitions as well as activities to engage children and widening access students. Over 4,800 people attended 37 events over the Festival week. The LSE Festival webpages were viewed over 137,000 times and through social media we reached 2.8 million people. The LSE research competition online gallery was viewed over 27,000 times with over 5,300 votes for the Popular Prize. Furthermore, we had 79 entries to the research competition, with 41 for display in the exhibition and nine prizes awarded, with eight highly commended.

The LSE Thinks mail-out showcases the work of LSE experts on some of the most pressing issues facing us today, promoting new research as well as academic comment in blog posts, podcasts and videos. LSE Thinks is emailed monthly to subscribers around the world as well as to all alumni through Advancement's alumni e-newsletter LSE Impact. Current direct subscriptions number over 680, with thousands more reached through LSE Impact. Our open rates have ranged between 60 per cent to 41 per cent this year, as compared to the industry average open rate of 17.5 per cent.

LSE held successful and busy panel events at Labour and Conservative conferences in 2018 to present cutting edge research to policy-makers. With contributions on the future of work and skills from Professor Tony Travers and Dr Grace Lordan, the debates brought in the Business and Industry Minister, the Deputy Leader of the Labour Party, the former Chair of former Prime Minister Theresa May's Policy Unit, and leaders from

the CBI, the British Chambers of Commerce, and the Joseph Rowntree Foundation.

We also held a well-attended private dinner to cement LSE's place at the heart of discussions about the future of work. Attendees included the current Digital Minister, the former Transport Secretary, the Chief Executive of EEF, the Director of the Centre for Cities, the Head of Economics at Policy Exchange, and representatives from Google, Amazon, Localis, local government and others. These events led to ongoing research impact throughout the year with Number 10, the Department for Education, BEIS and others.

LSE also took part in Evidence Week in Parliament in June, when academics from CASE and CEP presented their research on regional growth and inequalities to MPs and Peers in 3min pitches. MPs and Peers from all the major parties visited and engaged in detail with our researchers, including select committee chairs, government advisors and APPG chairs, as well as advisers from the Cabinet Office, committee specialists, and Commons librarians.

Promoting and Assisting 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, the Centre for Analysis of Social Exclusion, the Centre for Economic Performance, and the Department of International Development.

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

The advancement of citizenship or community development: LSE Cities, the Spatial Economics Research Centre, the Centre for Analysis of Social Exclusion, the Marshall Institute for Philanthropy and Social Entrepreneurship, and the International Inequalities Institute.

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

We have taken the first steps towards a new vision to mobilise social science research for the betterment of society through the medium of entrepreneurs and businesses, as well as through policy makers, thanks to the successful award of a Connecting Capabilities Fund grant of £5.0 million from Research England. It is a collaborative

award to support social science research collaboration, and is led by LSE in partnership with the Universities of Oxford, Manchester, Sheffield and Sussex, and now Cardiff and Glasgow. Additionally the School has strong links with the Zinc Programme, which sponsors 50 entrepreneurs per cohort to create companies which will solve critical social problems. Each cohort works on a defined social mission, which the School helps to shape; the mission of the third cohort is to add five more high-quality years to later life. Our academics will be working with the cohort to provide them with the leading insights from social science research on the issue and potential solutions, and may choose to work more closely with them in the actual development of solutions.

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

- Research by Dr Mireia Borrell-Porta, Dr Joan Costa-Font and PhD student Julia Philipp revealed that fathers are less likely to hold sexist attitudes if they have daughters.
- A co-authored study by Dr Tammy Campbell, Dr Kitty Stewart and Dr Ludovica Gambaro found children with special needs are being discouraged from some primary schools.
- A study by Dr Grace Lordan demonstrated the potential for the gender pay gap to worsen over time.
- Research by Dr Sam Friedman and Dr Daniel Laurison showed how women in elite occupations from working class backgrounds face a double pay penalty.
- Research by Dr Jonathan Mijs found that divided societies were more likely to accept inequality.
- A study by Dr Berkay Ozcan revealed that people's spending habits may be influenced by their grandparents' place of birth.

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 and its mission to inspire and empower the LSE community to volunteer for causes they are passionate about. In 2018-19, the Centre saw a huge amount of interest from students who wanted to get involved in volunteering and our research shows that almost 35 per cent of the student body do so during their time at LSE, rising to over 50 per cent amongst our undergraduates.

LSE students fulfil a range of roles including mentoring, campaigning, fundraising, marketing, research and many more. Students who volunteer say that they have wider groups of friends, feel part of LSE and the community, are more confident in themselves, and have skills that employers will value – 70 per cent say that volunteering improves the LSE experience. The Volunteer Centre works with over 400 organisations promoting almost 1,000 opportunities to students. In the past year over 100 organisations were welcomed onto campus for volunteering fairs, panels and

other events. We are proud to be making a difference, both to the students and to those reached by their volunteering.

Directors

The directors of the Company are listed at page 70.

During the year, a management liability insurance policy was in place, which provides for director and management indemnity provision.

Independent Auditors

The Company's current external independent 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 70, 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 Strategic Report and Report of the Directors was approved by Council on 12 November 2019.

Dame Minouche Shafik

Director





Corporate Governance and Internal Control Statement

The following statement is provided to help readers of the Financial Statements 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 company limited by guarantee, as well as a higher education institution. The Council is the single unitary Governing Body of the School, following constitutional changes, effected during 2018-19, which transferred the responsibilities of company members from Court to Council. Council members are charity trustees and company directors and as such are "fit and proper persons", expected to discharge their duties with prudence and care and to accept ultimate responsibility for the affairs of the School.

The School has complied with the conditions of the Office for Students' Terms and Conditions of Funding for Higher Education Institutions framework throughout 2018-19 in its first full year of operation and with the ongoing conditions of registration.

LSE is committed to upholding best practice in all aspects of corporate governance and endeavours to conduct its business in accordance with the seven Principles of Public Life advocated by the Nolan Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). In addition, the School has an overarching Ethics Code which all members of the LSE community including staff, students and Governors are expected to observe. The values enshrined in the Ethics Code are those of responsibility and accountability, integrity, intellectual freedom, equality of respect and opportunity, collegiality, and sustainability.

The Council

The Council is the single unitary governing body of the School and its formal powers and terms of reference are set out in the revised Articles of Association and in its Statement of Primary Responsibilities. A full list of Council members from 1 August 2018 to 31 July 2019 and up to the date of signing these financial statements can be found on page 70. Council's primary role is to provide strategic leadership and to maintain a focus on areas identified as being of strategic importance. It is responsible for the system of internal control operating within the School and for ensuring it is effective, based on reports and views from its Committees, detailed below.

Audit Committee

The Audit Committee is a committee of the Council. It is chaired by a lay member of Council and meets at least four times a year. It is responsible for advising the Council on the effectiveness of the School's risk management and controls systems. Both the External and Internal Auditors provide the Committee with detailed reports and attend meetings to discuss findings

and recommendations for the improvement of systems of internal control, together with management's response and implementation plans. The reports to the Audit Committee include the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement, which was included in the Committee's report to the Office for Students in December 2018.

The Audit Committee provides an annual opinion on risk management, control and governance.

Ethics Committee

The Ethics Committee remit is to ensure that the School's Ethics Code is communicated and embedded in the life and work of LSE through the plans, policies, procedures, guidelines and other documents which govern and inform the conduct of the business of the School.

Finance and Estates Committee

The main activities of the (newly, for 2018-19) combined Finance and Estates 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; review of financial performance at aggregate level and; oversight of the implementation of strategic priorities relating to the estate, including capital projects.

The Financial Regulations are approved by Council annually, and are available online. These set out policies related to capital expenditure. 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-making autonomy delegated to budget controllers on how to spend budgets, but very limited opportunity to overspend. Regular management accounts are reviewed by the School Management Committee and Finance Committee. 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.

Governance Committee

The Governance Committee was established during 2018-19. It has taken on the responsibilities of the previous Nominations Committee in making recommendations on lay Council membership to Council. It also advises Council on corporate governance matters, arrangements and practices to improve the School's governance and ensure compliance with external governance requirements, including amendments to governing documents.

Honorary Awards Committee

The Honorary Awards Committee was established at the beginning of the 2019-20 academic session to consider nominations for the School's honorary awards.

Remuneration Committee

The Remuneration Committee oversees remuneration arrangements for senior staff and complies fully with the Committee of University Chairs (CUC) Higher Education Senior Staff Remuneration Code.

The Academic Board

The Academic Board is the principal academic body of the School. It reports to Council, is chaired by the Director, and 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 deal with academic and student affairs, research, and academic planning and resources.

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.

Academic, Planning and Resources Committee

A key committee within the academic governance structure and reporting to the Academic Board, it has responsibility for the periodic reviews of academic unit (Departments and Institutes) performance as a basis for resource allocation and for institutional planning, development and effectiveness.

The Court

The Court had previously formed the company membership of LSE but at the end of 2018, these powers were transferred to Council, following a special resolution. As a consequence of this change, reflected in the revised Articles of Association which were confirmed by the Privy Council early in 2019, the Court no longer holds any legal or constitutional powers.

Controls Framework

The Council confirms that it complies with the Committee of University Chairs Higher Education Code of Governance (2018). As the governing body of the School, the Council has responsibility for maintaining a robust 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 School's Articles of Association and the Office for Students Terms and Conditions of Funding for Higher Education Institutions.

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. The School's controls assurance come from a variety of sources, including:

- Review of the strategic and operational risk registers and risk mitigation strategies by the Audit Committee, and subsequent discussion at Council;
 - Annual performance review of individual academic units (Departments and Institutes) by members of the School's senior management team together with in-depth quinquennial reviews by the Academic Planning and Resources Committee involving independent expert assessors. The Research Committee oversees regular performance reviews of research units;
 - Monitoring by the Director and the School Management Committee of various work streams arising from strategic priorities and regular risk analysis, advised by a dedicated risk manager;
 - 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;
 - The School's internal audit service annual programme of reviews is approved by the Council on the advice of the Audit Committee, and its Head provides the Council and the Committee with a report on internal audit activities within the School and an annual 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 Council;
 - Regular reviews of the effectiveness of the Council and its committees;
 - Written reports from the Director to the Council providing transparency and opportunity for constructive challenge.

Internal and external audit services

Throughout 2018-19 the School's internal audit service was provided by KPMG 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 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. The School's Internal Audit service operates to standards defined in the Office for Students Code of Practice.

Declaration of the Council

In accordance with the Companies Act, the Council, as directors, are responsible for the administration and management of the School's affairs, including running an effective system of internal controls, and is required to present audited financial statements for each financial year. The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the School and enable it to ensure that the financial statements are prepared in accordance with the Companies Act, the latest Statement of Recommended Practice on Accounting in Further and Higher Education Institutions, and other relevant accounting standards.

In addition, within the Office for Students' terms and conditions of funding, 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 2019 and 2020.

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 Office for Students are used only for the purposes for which they have been given and in accordance with the Terms and Conditions of Funding for Higher Education Institutions and any other conditions which the Office for Students 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 Council confirms that there were no significant control weaknesses which should be disclosed.





Environmental Sustainability Report

LSE 2030 cemented “ensuring a sustainable future” as one of our guiding principles, recognising its importance among the LSE community. LSE will continue to work tirelessly to address the challenges of the UN’s Sustainable Development Goals through our research, education, public engagement and our own campus operations – in line with our mission “for the betterment of society”. The new year will provide opportunities to formulate our sustainability response to LSE 2030 involving internal and external stakeholders in helping us to set our new path.

Leadership and Governance

LSE rose to 13th in the People and Planet “Green” University League – an independent ranking of UK universities’ environmental and ethical performance. We are one of only six institutions in the country to have appeared in the top tier of the League for the ninth year in a row. Our Environmental and Energy Management System retained certification to the ISO 14001 and 50001 standards, which we have held since 2012 and 2015 respectively. Our annual 2017-18 Sustainability Report has been shortlisted for a Green Gown Award in 2019.

Operations and Estate

Between 2005 and 2018, we cut our carbon emissions by 33 per cent, even as the School has grown in terms of the size of the estate as well as student and staff numbers. The Centre Building – has recently achieved BREEAM “Outstanding”. The groundworks have commenced for the Marshall Building which has achieved BREEAM “Excellent” (design) certification.

The total tonnage of waste we produce has dropped by 22 per cent since 2013/14. We continue to send zero waste to landfill. An LSE Keep Cup scheme has saved thousands of disposable paper cups from being disposed of – a further 3,096 of the Keep Cups are now in circulation and saving waste every day.

Partnerships and engagement

LSEs Sustainable Project Fund (also nominated for a Green Gown Award in 2019) continues to support partnerships, engagement and projects that impact positively on the environment and communities. This year NUS Green Impact teams in HR, EDI and Finance joined forces with environmental charity Hubbub and undertook “plastic fishing” aboard a recycled plastic boat in the heart of London Docklands. This raised knowledge of plastic pollution, built teamwork and directly removed plastic from the water.

The LSE SU Marine Society teamed up with the organisation Sail Britain, with a group of students sailing the coast of Scotland to learn about plastic marine pollution. They reported their findings via a bespoke website with photos and reports.

LSE held numerous public events including lectures hosted by the Grantham Research Institute (GRI) from Katherine Hayhoe on the Climate Change Discourse and Mike Berners-Lee focusing on his new “handbook for the make or break years” entitled *There is no Planet B*.

Students in all eight LSE-managed Halls of Residences took part in the *Reduce the Juice* campaign via “sprints” to collectively reduce energy, waste and water in a fun and engaging way.

The Sustainability Team partnered with colleagues in Wellbeing (HR) and arranged lunchtime walks for staff in the local area taking in scenic low air pollution routes, producing an information guide to instil longer term personal route changes for wellbeing.

Endowment Investment Performance

Funding from philanthropy, along with tuition fees, recurrent 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 contribution to student bursaries, facilities, and to its portfolio of research and teaching. In an ever-changing sector, the challenge facing LSE is to make giving an integral part of its financial health.

During the 2018-19 financial year, the School's endowment grew from £141.6 million to £155.0 million.

The growth in the endowment came in part from private donations which have established centres, chairs, lectureships, and scholarships with the remaining contributions from the investment of the endowments. 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 education and the "betterment of society".

Portfolios and their objectives

The School's endowment is divided into three portfolios, each devoted to a different objective and managed according to the investment return and risk criteria pertinent to that portfolio's objective:

The Growth portfolio: expendable endowments that have a longer-term horizon and permanent endowments that are invested on a total return basis. The objective for this portfolio is to yield a total return over the long term of four per cent per annum plus the Retail Price Index (RPI). The funds are largely invested in a range of investment funds covering quoted equities and property.

The Gift Matching portfolio: expendable endowments that are budgeted to be spent in the short or medium term. The investment objective for this portfolio is to preserve capital. The funds are invested in cash and short-term bonds matched to the required distribution schedule.

The Financial Economic Review (FER) portfolio: a separate investment portfolio for a permanent endowment to support the STICERD research centre. The objective for this portfolio is to generate a long term total investment return of four per cent per annum plus the Retail Price Index to generate real term growth and distribution to fund the annual operating costs of STICERD.

Investment Sub-Committee (ISC)

Established in 1989, the LSE Investment Committee is a sub-committee of the Finance and Estates Committee. It is responsible for initiating investment strategy and determining the asset allocation required to achieve the investment risk and return targets approved by the Finance Committee. The Committee is

also responsible for monitoring the investment of School funds held for working capital, capital projects and investment.

The Committee meets at least three times a year and appoints an external investment adviser whose tactical asset allocation and manager recommendations are monitored and reviewed by the Investment Committee. Overall strategic asset allocation and manager selection is reviewed by the Committee at least once a year.

The Committee is also responsible for implementing the School's Socially Responsible Investment Policy (SRI Policy) through its oversight of the portfolios' exposure to the designated areas.

The SRI policy requires investment decisions to take into account environmental, social and corporate governance (ESG) issues in managing the endowment funds in accordance with the six UN Principles for Responsible investing (PRI) and LSE's ethical standards. These PRI principles focus on engagement by investors with investee companies to encourage improved SRI behaviours especially in relation to ESG performance. The Committee has therefore engaged directly with each of our asset managers to assess the quality and impact of their engagements with the investee companies on ESG matters. This has been the second year of engagement with asset managers and has identified a general improvement in their SRI behaviours which has raised the bar for assessing best in class performance.

We are pleased to see that many of the School's chosen fund managers have engaged meaningfully in this area and we look forward to continuing these conversations during 2020.

The Committee has also agreed with the PRI organisation the basis on which the School could be rated by PRI in respect of its endowment investment activities and the School has therefore become a member with an initial rating expected next year.

Socially Responsible Investment

The Endowments are almost all invested in Funds managed by external Fund Managers so that direct action to exclude investment in specific companies or in the areas which the SRIP seeks to minimise is not possible. The ISC's most important and powerful tool is dialogue with the Fund Managers to urge them to strengthen and focus their engagements with their investee companies and report regularly and transparently on both the ESG themes they are pursuing and the outcomes of their engagements. Since the introduction of the LSE Socially Responsible Investment Policy (SRIP) in 2015-16, the exposure of the endowments' investments in the areas it aims to minimise has reduced by over 80 per cent from 3.4 per cent of total assets to 0.6 per cent in 2018-19 (0.4 per cent tobacco, 0.1 per cent tar sands, 0.1 per cent thermal coal). During this period fund managers seeking Task Force on Climate-related Financial Disclosures (TCFD) or equivalent standards of climate change related disclosure from investee companies increased from 25

per cent to over 60 per cent of the total. Engagement on social issues such as supply chain and workforce diversity has improved a little but remained an area of concern and the use of the UN Sustainable Development Goals to shape engagement themes is at a very early stage although some improvement has recently been observed.

The Committee conducts an annual evaluation of each manager's performance in pursuit of its SRI targets and engages with managers on those areas of responsible investing where they need to improve in order to reach and sustain current industry best practice. The dialogues may be proactive or reactive in character and will continue as long as the assessment shows that the fund manager is moving in a positive direction. The improvements by some asset managers result from the

Committee's engagement with them and most also reflect implementation of internal programmes of improvement. The asset managers are ranked into four groups, from "best in class" to "significant areas of shortfall". The top group 1 includes two mid sized managers as well as three "mega" managers which mainly run passive funds. One of the managers which was best in class last year has now dropped below "best in class" because it failed to improve as much as others. The Committee recognises that passive funds have no choice as to which funds to invest in but expects direct and effective ESG engagement with those companies. Each manager has received our feedback and, where relevant, follow up discussions have taken place with those in groups 3 and 4 to understand their plans for improvement. Those which were in group 4 last year were asked to improve materially and the two managers which failed to do so have been replaced.

Investment Performance

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

Investment return	1 year	3 years	3 years cumulative return	5 years	5 years cumulative return	Long-term objectives
Growth	7.4%	11.8%	39.6%	10.5%	64.8%	–
Gift matching	3.6%	1.9%	5.7%	–	–	–
Gift matching and growth combined	7.0%	10.2%	33.6%	9.3%	56.2%	4% + RPI
FER	10.1%	10.7%	35.7%	10.3%	63.35	4% + RPI

The markets did not perform quite as strongly this year as in 2017-18 but the endowment portfolios continued to deliver a good investment performance. Overall the Endowment portfolios outperformed their benchmarks during the year by about 1.0 per cent p.a. net of fees and also exceeded the long term target of RPI +4 per cent. Over both three and five years all portfolios delivered a net return in excess of RPI +4% by about 3-4 per cent p.a. reflecting, both the long bull market for equities and a modest outperformance of the benchmarks.

Independent auditors' report to the Council of London School of Economics and Political Science (the "School")

Report on the audit of the financial statements

Our opinion

In our opinion, London School of Economics and Political Science's group financial statements and School financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the School's affairs as at 31 July 2019 and of the group's and School's income and expenditure, gains and losses and changes in reserves, and of the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law);
- have been properly prepared in accordance with the requirements of the Statement of Recommended Practice – Accounting for Further and Higher Education, and the requirements of the relevant Office for Students' Accounts Direction*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the LSE Financial Statements (the "Annual Report"), which comprise the Consolidated and School Balance Sheet as at 31 July 2019; the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated and School Statement of Changes in Reserves, and the Consolidated Cash Flow Statement for the year then ended; and the accounting policies; and the notes to the financial statements, which include other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Council's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Council has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group and parent School's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group and parent School's ability to continue as a going concern.

For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group and School's activities, students, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Council is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit the information given in the Strategic Report and Report of the Directors, for the year ended 31 July 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and School and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and Report of the Directors. We have nothing to report in this respect.

Responsibilities for the financial statements and the audit

Responsibilities of the Council for the financial statements

As explained more fully in the Declaration of the Council set out on page 35, the Council (whose members are also the directors of the institution for the purposes of company law) is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Council is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the group and parent institution's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to liquidate the group and School or to cease operations, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Council of 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.

Other required reporting

Opinions on other matters prescribed in the OfS and Research England Audit Code of Practice issued under the Further and Higher Education Act 1992 (as amended). In our opinion, in all material respects:

- funds from whatever source administered by the School 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 School's statutes; and
- funds provided by the Office for Students and Research England have been applied in accordance with the relevant terms and conditions, and any other terms and conditions attached to them.

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
- certain disclosures of directors' remuneration specified by law are not made; 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

Jonathan Sturges

(Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

12 November 2019

* The relevant Office for Students' Accounts Direction consists of the 2018 Accounts Direction issued on 19 June 2018 (OfS 2018.26) (the "2018 Accounts Direction"), except for paragraph 15d of the 2018 Accounts Direction for which the entity has instead early adopted, as permitted, paragraph 12d of the Accounts Direction issued on 25 October 2019 (OfS 2019.41).

Accounting Policies

The School is an exempt charity within the meaning of Part Three 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 receives partial exemption in respect of Value Added Tax (VAT), and is unable to recover the majority of VAT paid to suppliers. VAT recovered from HMRC is recorded under Other Income. The School is incorporated under the Companies Act as a company limited by guarantee. The following accounting policies have been applied consistently across the financial statements set out on pages 45 to 68.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015, the OfS Accounts Direction and in accordance with Financial Reporting Standards (FRS 102). The School is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of investments and derivative financial instruments).

Going concern

The School meets its day-to-day working capital requirements through managing liquidity and through its bank facilities. The School's Financial Plan, taking account of reasonably possible changes in performance, shows that the School should be able to operate within the level of its current facilities. The directors have a reasonable expectation that the School has adequate resources to continue in operational existence for the foreseeable future. The School therefore continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation

The consolidated financial statements include the School and all its subsidiaries for the financial year to 31 July 2019. Intra-group transactions are eliminated on consolidation. The consolidated financial statements do not include the income and expenditure 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. Associated companies and joint ventures are accounted for using the equity method. Jointly controlled operations are accounted for on a proportional basis.

Income recognition

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied. Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated

Statement of Comprehensive Income and Expenditure over the period in which students register. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross of expenditure and not deducted from income. 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 accruals basis. Investment income is credited to the Statement of Comprehensive Income and Expenditure on a receivable basis.

Funds the School receives and disburses as paying agent on behalf of a funding body are excluded from the Statement of Comprehensive Income and Expenditure of the School where the School is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Grant funding

Grant funding including OfS/UKRI grants are recognised as income when the School is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

Donations and endowments

Non-exchange transactions without performance related conditions are donations and are recognised in income when received. Donations with donor imposed restrictions are retained within the restricted reserve until such time that it is utilised in line with such restrictions and the income is released to general reserves through a reserve transfer.

Investment income and appreciation of endowments is recorded in income in the year in which it arises as either restricted or unrestricted income according to the terms or other restrictions applied to the individual endowment fund.

Donations refer to any gift to the School. Endowments are donations that are unlikely to be spent within a period of two years. Endowments can further be classified into expendable and permanent endowments. There are four main types of donations and endowments identified within reserves:

Restricted donations – the donor has specified that the donation must be used for a particular objective.

Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the School.

Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the School has the power to use the capital.

Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Total return on investment for endowments

Total return is the whole of the investment return received by the School on the permanent endowment fund regardless of how it has arisen. The total return, less any part of the return which has previously been applied for the purposes of the School, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the Statement of Comprehensive Income and Expenditure.

Capital grants

Capital grants are recognised in income when the School is entitled to the funds, subject to any performance related conditions being met.

Expense recognition

Expenditure incurred relates to the receipt of goods and services which are recognised when incurred. A provision is made for debts that are not likely to be collected completely. This provision is calculated based on age, value, jurisdiction of the debtor and our experience from previous years' of the collectability of differing types of debt.

Accounting for retirement benefits

The two principal pension schemes for the School's staff are the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL).

USS:

With effect from 1 October 2016, USS changed from a defined benefit only pension scheme to a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The School is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", the School therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income and Expenditure represents the contributions payable to the scheme. Since the School has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, it recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

SAUL:

SAUL is a defined benefit scheme which is independently managed. It is not possible to identify an individual Employer's share of the underlying assets and liabilities of SAUL. The School accounts for its participation as if it were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 28.11 of FRS 102. The School is not expected to be liable to SAUL for any other current participating employer's obligations under the Rules of SAUL, but in the event of an insolvency event of any participating employer within SAUL, an amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer, may be spread across the remaining participating employers and reflected in the next actuarial valuation. Each fund is valued every three years by professionally qualified independent actuaries. A liability for each scheme is recorded within provisions for any contractual commitment to fund past deficits within the schemes.

Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the School. Any unused benefits are accrued and measured as the additional amount the School expects to pay as a result of the unused entitlement.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

Land and buildings

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 on a straight line basis over their expected useful lives as follows:

Buildings – 75 years

Roofs – 25 years

Refurbishments including mechanical and electrical services – 10 to 20 years

Leasehold land and buildings are depreciated over the period of the lease.

Capital projects which are still under construction and buildings held for redevelopment are capitalised but not depreciated.

Equipment

Equipment, including computers, costing less than £30k 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 expected useful life as follows:

Computer equipment – three years

Other equipment – five years

Borrowing costs

Borrowing costs are recognised as expenditure in the period in which they are incurred.

Intangible assets

Intangible assets consist of computer and network software and their associated incremental costs of implementation, and are amortised over five years representing the estimated economic life of the assets.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term. Provision for dilapidation is not included in the cost of operating leases.

Foreign currency

Transactions in foreign currencies are translated to Sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income and Expenditure.

Investments

Non-current asset investments are held on the Balance Sheet at market value, except for corporate bond investments invested with the intention to hold to maturity which are recognised at amortised cost. Investments in subsidiary and participating undertakings are carried at cost less impairment in the School's financial statements.

Stocks

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

Cash and cash equivalents

Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- a. The School has a present obligation (legal or constructive) as a result of a past event;
- b. It is probable that an outflow of economic benefits will be required to settle the obligation; and
- c. A reliable estimate can be made of the amount of the obligation.

A contingent asset arises where an event has taken place that gives the School a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the School. A contingent liability arises from a past event that gives the School a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the School. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in note 25.

Accounting for joint operations, jointly controlled assets and jointly controlled operations

The School accounts for its share of joint ventures using the equity method. The School accounts for its share of transactions from joint operations and jointly controlled assets in the Consolidated Statement of Comprehensive Income and Expenditure.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the School, are held as a permanently restricted fund which the School must hold in perpetuity. Other restricted reserves include balances where the donor has designated a specific purpose and therefore the School is restricted in the use of these funds.

Loans and derivatives

Loans are liabilities with fixed or determinable payments and are held at book cost. Derivatives are held on the Balance Sheet at fair value with movements in fair value recorded in the Statement of Comprehensive Income and Expenditure.

Key accounting estimates and assumptions

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Defined benefit pension schemes

The School participates in the Universities Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). Both are defined benefit schemes and are externally funded.

The School is contractually bound to make deficit recovery payments to USS, these are recognised as a liability on the balance sheet. The provision is currently based on the USS deficit recovery plan agreed after the 2017 actuarial valuation, which defines the deficit payment required as a percentage of future salaries until 2034. These contributions will be reassessed within each triennial valuation of the School.

The calculation of the School's contribution to the deficit depends on a number of factors, including: salary increases, growth of staff numbers and the discount rate on corporate bonds. Management estimates these factors in determining the net pension provision in the balance sheet (see note 18). The assumptions reflect historical experience and current trends.

Heritage assets

The School has manuscripts of historic value stored in the Library archive and various works of art. These assets are not included within tangible fixed assets and no value is ascribed to them as it is not practicable to determine their market value. They are not held with the intention to sell.

Revenue recognition

Judgement is applied in determining the value and timing of certain income items to be recognised in the financial statements. This includes determining when performance related conditions have been met, and determining the revenues associated with partially delivered courses and training where the activities have not been fully completed at the reporting date.

Impairment of fixed and intangible assets

A review for impairment of property, plant and equipment is carried out on an annual basis, to determine whether events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Useful economic lives of fixed and intangible assets

The annual depreciation charge for fixed and intangible assets is sensitive to changes in the estimated useful economic lives of the assets. The remaining useful economic lives of assets are periodically reviewed based on actual experience and expected future utilisation.

Consolidated Statement of Comprehensive Income and Expenditure

Company registration no 70527
Year ended 31 July 2019

	Notes	Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
INCOME					
Tuition fees and education contracts	1	227,406	211,543	227,406	211,543
Funding body grants	2	60,132	25,311	60,132	25,311
Research grants and contracts	3	33,267	32,903	32,109	31,579
Other income	4	78,140	77,309	73,586	72,458
Investment income	5	4,667	4,451	4,665	4,458
Total income before endowments and donations		403,612	351,517	397,898	345,349
Donations and endowments	6	17,190	8,920	17,190	8,920
Total income		420,802	360,437	415,088	354,269
EXPENDITURE					
Staff costs	7	205,254	190,331	203,518	187,400
Movement in USS pension provision	7	59,555	(2,327)	59,555	(2,327)
Other operating expenses	8	124,368	120,553	120,410	117,370
Depreciation	10,11	13,528	12,915	13,511	12,809
Interest and other finance costs	9	9,016	8,767	9,016	8,767
Total expenditure	8	411,721	330,239	406,010	324,019
Surplus before other gains		9,081	30,198	9,078	30,250
Gain on investments	12	10,371	10,224	10,371	10,224
Change in fair value of hedging financial instruments	17	(4,001)	3,921	(4,001)	3,921
Surplus before tax		15,451	44,343	15,448	44,395
Taxation		–	–	–	–
Surplus for the year/Total comprehensive income for the year		15,451	44,343	15,448	44,395
Total comprehensive income for the year		15,451	44,343	15,448	44,395
Represented by:					
Endowment comprehensive income for the year	19	13,399	8,908	13,399	8,908
Restricted comprehensive income for the year	20	2,395	2,052	2,395	2,052
Unrestricted comprehensive income for the year		(343)	33,383	(346)	33,435
		15,451	44,343	15,448	44,395

All items of income and expenditure relate to continuing activities.

Consolidated and School Balance Sheet

At 31 July 2019

	Notes	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
Non-current assets					
Intangible assets	10	2,518	1,338	2,518	1,340
Fixed assets	11	609,793	551,649	609,375	551,175
Investments	12	284,282	227,056	284,432	227,206
		896,593	780,043	896,325	779,721
Current assets					
Stock	14	143	109	143	109
Trade and other receivables	15	38,666	31,193	41,897	32,804
Cash and cash equivalents	21	51,349	107,864	46,142	104,264
		90,158	139,166	88,182	137,177
Less Creditors: amounts falling due within one year	16, 17	(108,896)	(120,581)	(106,616)	(118,231)
Net current (liabilities)/ assets		(18,738)	18,585	(18,434)	18,946
Total assets less current liabilities		877,855	798,628	877,891	798,667
Creditors: amounts falling due after more than one year	16, 17	(216,445)	(212,893)	(216,445)	(212,893)
Pension provisions	18	(91,593)	(31,369)	(91,593)	(31,369)
Total net assets		569,817	554,366	569,853	554,405
Restricted reserves					
Income and expenditure reserve-endowment reserves	19	155,031	141,632	155,031	141,632
Income and expenditure reserve-restricted reserves	20	7,119	4,724	7,119	4,724
Unrestricted reserves					
Income and expenditure reserve-unrestricted		407,667	408,010	407,703	408,049
Total reserves		569,817	554,366	569,853	554,405

The financial statements were approved by Council on 12 November 2019 and were signed on their behalf on that date by:

Dr Susan Liautaud
Chair of Court and Council

Dame Minouche Shafik
Director

Consolidated and School Statement of Changes in Reserves

Group	Income and expenditure account			Total £'000
	Endowment £'000	Restricted £'000	Unrestricted £'000	
Balance at 1 August 2018	141,632	4,724	408,010	554,366
Surplus from the income and expenditure statement	13,399	2,395	3,658	19,452
Other comprehensive income	–	–	(4,001)	(4,001)
Total comprehensive income for the year	13,399	2,395	(343)	15,451
Balance at 31 July 2019	155,031	7,119	407,667	569,817

Balance at 1 August 2017	132,724	2,672	374,627	510,023
Surplus from the income and expenditure statement	8,908	2,052	29,462	40,422
Other comprehensive income	–	–	3,921	3,921
Total comprehensive income for the year	8,908	2,052	33,383	44,343
Balance at 31 July 2018	141,632	4,724	408,010	554,366

School	Income and expenditure account			Total £'000
	Endowment £'000	Restricted £'000	Unrestricted £'000	
Balance at 1 August 2018	141,632	4,724	408,049	554,405
Surplus from the income and expenditure statement	13,399	2,395	3,655	19,449
Other comprehensive income	–	–	(4,001)	(4,001)
Total comprehensive income for the year	13,399	2,395	(346)	15,448
Balance at 31 July 2019	155,031	7,119	407,703	569,853

Balance at 1 August 2017	132,724	2,672	374,614	510,010
Surplus from the income and expenditure statement	8,908	2,052	29,514	40,474
Other comprehensive income	–	–	3,921	3,921
Total comprehensive income for the year	8,908	2,052	33,435	44,395
Balance at 31 July 2018	141,632	4,724	408,049	554,405

Consolidated Cash Flow Statement

Year ended 31 July 2019

	Notes	Group 2019 £'000	Group 2018 £'000
Cash flow from operating activities			
Surplus for the year		15,451	44,343
Adjustment for non-cash items			
Depreciation		13,528	12,915
Amortisation of premium on bonds	12	1,576	1,365
Gain on investments	12	(10,371)	(10,224)
Decrease/(increase) in fair value of hedging financial instrument	17	4,001	(3,921)
(Increase)/decrease in stock	14	(34)	2
Increase in debtors	15	(6,728)	(3,109)
Decrease in creditors	16	(7,041)	(10,353)
Increase/(decrease) in pension provision	18	60,224	(2,339)
Share of operating deficit in joint venture	13	–	1
Release of deferred capital grant		23,195	–
Adjustment for investing or financing activities			
Investment income	5	(4,667)	(4,451)
Interest payable	9	8,344	8,262
Endowment income	6	(9,648)	(3,828)
Loss on the sale of tangible fixed assets		91	–
Capital grant income	2	(33,747)	(1,551)
Net cash inflow from operating activities		54,174	27,112
Cash flows from investing activities			
Capital grants received		9,807	1,551
Capital grants received and deferred		–	23,195
Disposal of non-current asset investment		75,438	166,333
Investment income	5	4,667	4,451
Payments made to acquire fixed assets	11	(71,582)	(103,986)
Payments made to acquire intangible assets	10	(1,797)	(652)
Purchase of non-current asset investments	12	(122,748)	(113,616)
Increase in investment cash	12	(1,121)	(441)
		(107,336)	(23,165)
Cash flows from financing activities			
Interest paid	9	(8,344)	(8,262)
Endowment cash received	6	9,648	3,828
Loan drawn down		–	30,000
Repayments of amounts borrowed		(4,657)	(1,800)
		(3,353)	23,766
(Decrease) / increase in cash and cash equivalents in the year		(56,515)	27,713
Cash and cash equivalents at beginning of the year	21	107,864	80,151
Cash and cash equivalents at end of the year	21	51,349	107,864

Notes to the Financial Statements

Year ended 31 July 2019

	Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
1 TUITION FEES AND EDUCATION CONTRACTS				
Tuition fees:				
Home/EU students	63,507	61,789	63,507	61,789
Overseas students	119,176	112,134	119,176	112,134
Other courses	43,952	37,158	43,952	37,158
Examination and other fees	771	462	771	462
	227,406	211,543	227,406	211,543

	Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
2 FUNDING BODY GRANTS				
Block recurrent	20,789	20,531	20,789	20,531
Capital grant	33,747	1,551	33,747	1,551
Higher Education Innovations Fund	3,271	1,623	3,271	1,623
Other specific grants	2,325	1,606	2,325	1,606
	60,132	25,311	60,132	25,311

Income from capital grants includes £23,195k released from deferred income.

	Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
3 RESEARCH GRANTS AND CONTRACTS				
Research Councils	9,590	9,648	9,590	9,648
Government departments	5,890	6,128	2,067	6,122
Charities	2,074	1,639	5,722	1,608
European Commission and other EU based funders	9,988	9,773	9,380	9,056
Other outside bodies	5,725	5,715	5,350	5,145
	33,267	32,903	32,109	31,579

	Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
4 OTHER INCOME				
Residences and catering	40,967	39,630	35,080	34,060
Academic department income attributable to other activities	2,013	2,282	2,013	2,282
University of London International Programmes (ULIP)	10,246	10,264	10,246	10,264
Consultancy services and executive education (LSE Enterprise Limited)	6,819	7,988	–	–
Other services rendered	13,379	12,725	21,514	21,270
VAT Recovery	1,202	1,273	1,202	1,273
Staff and student facilities	709	889	709	889
Sundry	2,805	2,258	2,822	2,420
	78,140	77,309	73,586	72,458

Notes to the Financial Statements continued...

		Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
5 INVESTMENT INCOME	Notes				
Investment income on endowments	19	3,069	2,873	3,069	2,873
Other investment income		1,598	1,578	1,596	1,585
		4,667	4,451	4,665	4,458

		Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
6 DONATIONS AND ENDOWMENTS					
New endowments	19	9,648	3,828	9,648	3,828
Donations with restrictions	20	3,662	3,205	3,662	3,205
Donations with performance related conditions		2,118	13	2,118	13
Other donations		1,762	1,874	1,762	1,874
		17,190	8,920	17,190	8,920

Notes to the Financial Statements continued...

		Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
7 STAFF COSTS					
Total staff costs for the year were:					
Wages and salaries		165,116	153,647	163,514	150,977
Social Security costs		17,275	16,025	17,146	15,808
Other pension costs		22,863	21,100	22,858	21,055
		205,254	190,772	203,518	187,840
USS pension provision utilised in year	18	(1,421)	(2,010)	(1,421)	(1,761)
SAUL pension provision utilised in year	18	–	(441)	–	(441)
Movement on USS pension provision	18	60,976	(317)	60,976	(565)
		264,809	188,004	263,073	185,073

The School acts as an agent for its subsidiaries. In the current year, the School made management charges of £5,479,000 (2017-18 £7,452,000) to LSE Lets Limited and £1,779,000 (2017-18 £125,000) to LSE Enterprise Limited. This includes staff costs.

	Group 2018-19 Number	Group 2017-18 Number
The average monthly number of persons employed by the group during the year expressed as full-time equivalent was:		
Research and teaching	1,595	1,563
Operational services	1,267	1,155
Subsidiary	–	29
	2,862	2,747

As at 1 August 2018, all staff of LSE Enterprise Limited were transferred to the School.

Notes to the Financial Statements continued...

7 STAFF COSTS CONTINUED...

	Group 2018-19 £'000	Group 2017-18 £'000
DIRECTORS' REMUNERATION		
Emoluments (2018-19 5 Directors; 2017-18 – 6 Directors)	822	811

All directors making pension contributions joined the pension salary sacrifice scheme.

Included in the above are emoluments of the Director of the School:

	Group 2018-19 £'000	Group 2017-18 £'000
Dame Minouche Shafik (2017-18 11 months)		
Basic salary	357	321
Pension contributions	66	58
Other taxable benefits:		
Relocation costs	–	7
Accommodation expenses	14	11
Non taxable benefits:		
Accommodation	54	50
Relocation costs	–	8
	491	455
Professor Julia Black – Director to 31 August 2017		
Basic salary	–	23
Bonus	–	20
Payments in lieu of pension contributions	–	1
Pension contributions	–	2
	–	46

Salaries are stated gross, before deductions of pension contributions made under the School's salary sacrifice scheme.

The Director is regarded as carrying representative status and is required, in accordance with her contract of employment, to live in School provided accommodation for more effective performance of her duties. The property is funded from a historic legacy gifted for this purpose so does not represent a cost to the School's general funds. It is reported at the estimated annual income (net of costs) it could generate if let on the open market.

LSE is one of the foremost universities in the world specialising across the full range of social, political and economic sciences. A member of the Russell Group, LSE has the highest proportion of world-leading research of any UK university, based on the 2014 Research Excellence Framework. The School's LSE 2030 Strategy sets out the ambition to be the leading social science institution with the greatest global impact.

Dame Minouche Shafik LSE Director

Dame Minouche Shafik was previously Deputy Governor of the Bank of England and has held senior leadership roles at the World Bank, the IMF in Washington DC, and in the Department for International Development within the UK Civil Service. The Director's complex set of responsibilities calls for a particular combination of qualities; the profile of the Director and the internationally competitive leadership position that the School plays in the social sciences were factors in determining her remuneration upon appointment.

The Director's pay ratio, based on basic pay as a ratio of the median basic salary of all staff, was 9.9. The total remuneration ratio (including accommodation) was 11.8. Basic salary and total remuneration are based on full-time equivalent pay for staff employed during 2018-19.

The Director's performance objectives for the year are set by the Chair of Council on the advice of the Remuneration Committee at the beginning of the academic year. The Chair of Council undertakes an annual performance review of the Director against the objectives, the results of which are reported to the Remuneration Committee and the Committee uses this information as the basis for assessing progress against agreed outcomes at the end of the year.

7 STAFF COSTS CONTINUED...

The number of staff, excluding the Director, employed by the School during the year whose basic salary is above £100k.	2018-19	2017-18
£100,000 – £104,999	21	27
£105,000 – £109,999	32	35
£110,000 – £114,999	14	26
£115,000 – £119,999	19	21
£120,000 – £124,999	20	14
£125,000 – £129,999	20	13
£130,000 – £134,999	8	7
£135,000 – £139,999	4	7
£140,000 – £144,999	8	9
£145,000 – £149,999	10	4
£150,000 – £154,999	4	2
£155,000 – £159,999	5	4
£160,000 – £164,999	4	2
£165,000 – £169,999	1	1
£170,000 – £174,999	1	2
£175,000 – £179,999	1	2
£180,000 – £184,999	2	1
£185,000 – £189,999	2	2
£190,000 – £194,999	1	1
£195,000 – £199,999	1	3
£200,000 – £204,999	3	–
£210,000 – £214,999	1	1
£215,000 – £219,999	1	–
£255,000 – £259,999	–	2
£260,000 – £264,999	2	–
	185	186

In accordance with the OfS Accounts Direction, this data does not include any staff who joined or left during the year.

Key management personnel

Key management personnel (excluding the Director) are those persons having authority and responsibility for planning, directing and controlling the activities of the School and are members of the School Management Committee (SMC). Staff costs include compensation paid to key management personnel.

Key personnel (2018-19: 7, 2017-18: 6) are:

	Group 2018-19 £'000	Group 2017-18 £'000
Pro-Directors		
Chief Financial Officer		
Chief Operating Officer		
School Secretary		
Key management personnel compensation	1,113	1,078

Payment of compensation for loss of office totalling £1,212k was made to 65 staff in 2018-19 (2017-18: 63 staff, £1,097k).

Notes to the Financial Statements continued...

8 ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY	Group 2018-19 Staff costs £'000	Group 2018-19 Non pay costs £'000	Group 2018-19 Total £'000	Group 2017-18 Total £'000	School 2018-19 Total £'000	School 2017-18 Total £'000
Academic departments and other academic activities	125,522	18,620	144,142	134,339	142,408	132,655
Library and Data Technology Services	10,532	12,339	22,871	22,055	22,872	22,055
Research grants and contracts	15,449	5,703	21,152	21,012	21,153	21,012
Scholarships	–	19,698	19,698	18,844	19,698	18,844
General education expenditure	9,710	3,187	12,897	11,530	12,898	11,529
Estates	9,888	17,478	27,366	27,080	27,366	27,080
Administration and central services	14,070	5,114	19,184	17,972	19,161	17,950
Staff and student facilities	4,854	4,173	9,027	7,503	9,029	7,503
Residences and Catering	8,473	24,517	32,990	31,179	32,907	33,421
Consultancy services and executive education	3,003	11,375	14,378	15,284	10,519	8,687
USS pension provisions utilised in year	(1,421)	–	(1,421)	(2,010)	(1,421)	(2,010)
SAUL pension provisions utilised in year	–	–	–	(441)	–	(441)
	200,080	122,204	322,284	304,347	316,590	298,285
Movement on USS provision	60,976	–	60,976	(317)	60,976	(317)
Miscellaneous	3,753	2,164	5,917	4,527	5,917	4,475
Depreciation						
– Estates and IT	–	12,316	12,316	11,850	12,316	11,850
– Residences and Catering	–	1,207	1,207	971	1,195	959
– Consultancy services and executive education	–	5	5	94	–	–
Interest and other finance costs	–	9,016	9,016	8,767	9,016	8,767
	264,809	146,912	411,721	330,239	406,010	324,019
Other operating expenses include:						
Fees payable to the School's auditors for the audit for the financial statements			68	64	68	64
Fees payable to the School's auditors for other services:						
Audit of the financial statements of the School's subsidiaries			7	10	–	–
Other services relating to taxation			4	–	–	–
All other services			27	5	27	5
			106	79	95	69
Operating lease rentals:						
Land and buildings			10,765	9,844	10,765	9,844
Other			890	741	890	741
			11,655	10,585	11,655	10,585

9 INTEREST AND OTHER FINANCE COSTS	Note	Group 2018-19 £'000	Group 2017-18 £'000	School 2018-19 £'000	School 2017-18 £'000
Loan interest		8,344	8,262	8,344	8,262
Net charge on pension scheme	18	672	505	672	505
		9,016	8,767	9,016	8,767

Notes to the Financial Statements continued...

10 INTANGIBLE ASSETS		Group £'000	School £'000
Software			
As at 1 August 2018		1,338	1,340
Additions in the year		1,797	1,795
Amortisation charge for year		(617)	(617)
As at 31 July 2019		2,518	2,518

	Land and Buildings £'000	Equipment £'000	Assets Under Construction £'000	Total £'000
11 TANGIBLE FIXED ASSETS				
GROUP				
Cost				
As at 1 August 2018	536,363	17,902	104,385	658,650
Additions in year	2,346	1,275	67,525	71,146
Transfer	125,396	–	(125,396)	–
Disposals in year	(58)	(199)	–	(257)
As at 31 July 2019	664,047	18,978	46,514	729,539
Accumulated depreciation				
As at 1 August 2018	91,648	15,353	–	107,001
Charge for year	11,441	1,470	–	12,911
Disposals in year	(5)	(161)	–	(166)
As at 31 July 2019	103,084	16,662	–	119,746
Net book value				
As at 1 August 2018	444,715	2,549	104,385	551,649
As at 31 July 2019	560,963	2,316	46,514	609,793
SCHOOL				
Cost				
As at 1 August 2018	535,693	17,777	104,385	657,855
Additions in year	2,346	1,275	67,525	71,146
Transfer	125,396	–	(125,396)	–
Disposals in year	(53)	(79)	–	(132)
As at 31 July 2019	663,382	18,973	46,514	728,869
Accumulated depreciation				
As at 1 August 2018	91,416	15,264	–	106,680
Charge for year	11,423	1,471	–	12,894
Disposals in year	–	(80)	–	(80)
As at 31 July 2019	102,839	16,655	–	119,494
Net book value				
As at 1 August 2018	444,277	2,513	104,385	551,175
As at 31 July 2019	560,543	2,318	46,514	609,375

Group and School

Fixed assets acquired by the School are funded mainly by retained surplus. Many assets have conditions attached in the case of disposal and the proceeds may therefore not be available to the School. 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 ascribed to them. 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. In 2018-19, the Library's contents and works of art are insured for £122 million and £1.6 million respectively.

Notes to the Financial Statements continued...

12 NON-CURRENT INVESTMENTS	Other fixed assets investments £'000	Subsidiary Undertakings £'000	Participating Undertakings £'000	Total £'000
Group				
As at 1 August 2018	227,056	–	–	227,056
Additions	122,748	–	–	122,748
Disposals	(76,666)	–	–	(76,666)
Increase in market value of investments	11,599	–	–	11,599
Increase in investment cash	1,121	–	–	1,121
Provision for impairment	–	–	–	–
Amortisation of premium on bonds	(1,576)	–	–	(1,576)
As at 31 July 2019	284,282	–	–	284,282
School	£'000	£'000	£'000	£'000
As at 1 August 2018	227,056	150	–	227,206
Additions	122,748	–	–	122,748
Disposals	(76,666)	–	–	(76,666)
Increase in market value of investments	11,599	–	–	11,599
Increase in investment cash	1,121	–	–	1,121
Provision for impairment	–	–	–	–
Amortisation of premium on bonds	(1,576)	–	–	(1,576)
As at 31 July 2019	284,282	150	–	284,432
Other fixed assets / investments consist of:			2019	2018
Group and School			£'000	£'000
Analysis of closing balance				
UK equities			15,002	15,379
Overseas equities			145,661	130,524
UK corporate bonds			76,934	47,693
Properties			21,826	21,731
Money market funds			21,110	9,080
Cash on account			3,715	2,615
Share of freehold property			34	34
			284,282	227,056
Made up of the following portfolios:				
Capital projects			78,199	39,239
Strategic investment fund			20,107	18,835
Growth			140,783	129,095
Gift matching			17,894	14,782
FER			27,265	25,071
Share of freehold property			34	34
			284,282	227,056

Included in investments are £78.1m of corporate bonds at amortised cost. At 31 July 2019, their market value was £78.1m.

Notes to the Financial Statements continued...

Subsidiary Undertakings	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
At cost	–	–	150	150

Name	Nature of Business	Country of registration	Shareholding £1 Ordinary Shares	Number of Shares
LSE Enterprise Limited Houghton Street, London WC2A 2AE	Consultancy	England	100%	150,000
LSE LETS Limited Houghton Street, London WC2A 2AE	Vacation Lettings	England	100%	2

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

Participating undertakings

The School has invested in commercialisation opportunities in order to generate revenues to contribute to the sustainability of its core research, but recognises the uncertain nature of direct financial returns from this type of activity at least in the short term. A prudent approach has been adopted and thus a provision equivalent to the full value of the investment has been made.

13 INVESTMENT IN JOINT VENTURE

The School has a one third share in the TRIUM MBA course with NYU Stern and HEC Paris. This has been consolidated on a proportional basis in accordance with FRS102. The total cash held by the School as an administrator as at 31 July 2019 was \$14.63 million (2018 \$12.37 million).

The joint venture investment is disclosed in the financial statements as follows:

	Group 2019 £'000	Group 2018 £'000
Share of income	3,335	2,580
Share of operating profit	1,711	1,041
Share of gross assets	6,254	5,592
Share of gross liabilities	(6,254)	(5,592)
Share of reserves	–	–

14 STOCK	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
Food, beverages and consumables	143	109	143	109

Notes to the Financial Statements continued...

15 TRADE AND OTHER RECEIVABLES	Notes	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
Amounts falling due within one year:					
Other trade receivables		14,286	12,220	12,108	10,254
Research grants receivable		6,549	4,444	6,549	4,444
Amounts due from group undertakings		–	–	5,642	4,587
Staff loans for housing		24	26	24	26
Other receivables		8,071	8,783	8,042	8,756
Prepayments and accrued income		9,529	5,487	9,325	4,504
		38,459	30,960	41,690	32,571
Amounts falling due after more than one year:					
Staff loans for housing		207	233	207	233
		207	233	207	233
TOTAL		38,666	31,193	41,897	32,804

Amounts receivable are shown net of an allowance for debts considered not to be recoverable at the Balance Sheet date.

16 CREDITORS		Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
Amounts falling due within one year:					
Bank loans	17	4,657	4,657	4,657	4,657
Trade payables		8,217	4,867	8,145	4,867
Research creditors and prepayments		20,559	17,498	20,559	17,498
Amounts due to group undertakings		–	–	1,080	845
Taxation and social security		4,997	4,655	4,972	4,659
Other creditors		10,290	10,418	7,069	7,292
Accruals		24,908	27,351	24,866	27,278
Receipts in advance and deferred income		35,268	51,135	35,268	51,135
		108,896	120,581	106,616	118,231
Amounts falling due after one year:					
Bank loans and loan notes	17	164,586	169,243	164,586	169,243
Derivatives	17	29,470	25,469	29,470	25,469
Other creditors		6,131	5,845	6,131	5,845
Deferred Income		16,030	12,030	16,030	12,030
Deferred VAT payments		228	306	228	306
		216,445	212,893	216,445	212,893

Included in research creditors and prepayments and accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met.

	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
Donations	18,173	12,802	18,173	12,802
Research grants received on account	20,559	17,557	20,559	17,557
Grant income	382	25,162	382	25,162
	39,114	55,521	39,114	55,521

Other creditors – falling due after one year

This includes monies held in trust. The School is entitled to the income, which is used to advance education by supporting an academic programme.

Notes to the Financial Statements continued...

	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
17 BORROWINGS				
Bank loans and loan notes are repayable as follows:				
In one year or less	4,657	4,657	4,657	4,657
Between one and two years	4,657	4,657	4,657	4,657
Between two and five years	13,971	13,971	13,971	13,971
In five years or more	145,957	150,615	145,957	150,615
	169,242	173,900	169,242	173,900

The School has a £75.0 million amortising loan repayable by December 2028 secured over School property. £44.2 million was outstanding at 31 July 2019 (£48.9m 2018). The School has entered into interest rate swap agreements (derivatives) with a nominal value totalling £65.0 million. 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 are shown at market value at the balance sheet date.

Lender	£m	Maturity	Interest Rate	Borrower
Bank loan	44.2	22 December 2028	Libor + 0.25%	School
Private placement	30.0	27 November 2028	3.73% to 4.15%	School
Private placement	25.0	27 November 2043		School
Private placement	30.0	27 November 2043		School
Private placement	40.0	27 November 2053		School
Total	169.2			

Notes	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
Derivatives				
Fair value at 1 August	25,469	29,390	25,469	29,390
Change in fair value	4,001	(3,921)	4,001	(3,921)
Fair value at 31 July	29,470	25,469	29,470	25,469

Notes	Obligation to fund deficit on USS Pension £'000	Pension enhancement on termination £'000	Total Pensions Provisions £'000
18 PENSION PROVISIONS			
Group and School			
As at 1 August 2018	31,357	12	31,369
Utilised in year	(1,421)	–	(1,421)
Net charge on pension scheme	672	–	672
Increases/(Reductions) in year	60,976	(3)	60,973
As at 31 July 2019	91,584	9	91,593

Notes to the Financial Statements continued...

Obligation to fund deficit on USS Pension

The obligation to fund the past deficit on the Universities Superannuation Scheme (USS) arises from the contractual obligation with the USS to deficit payments in accordance with the deficit recovery plan. In calculating this provision, management have estimated future staff levels within the USS scheme for the duration of the contractual obligation and salary inflation. Key assumptions are set out below and further information is provided in note 22.

At 31 July 2018 the School's obligation to fund the deficit on the USS Scheme was 2.1 percentage points per annum of contributions to March 2031. Using prudent estimates of the School's future payroll expenditure and an appropriate discount rate this represented a provision of £31.4m.

At 31 July 2019 the School's obligation to fund the deficit on the USS Scheme was 5.0 percentage points per annum from April 2020 to June 2034. Using prudent estimates of the School's future payroll expenditure and an appropriate discount rate this represented a provision of £91.6m.

Management have used the following estimates of the growth in employee numbers, salary payments and applied a 1.58 per cent discount in establishing a present value of these obligations:

	Group and School
Inflation	3-4 % over the period
Staff numbers	0% – 2.6 % over the period

Pension enhancement on termination

Pension enhancements are payable to staff who have retired under the previous superannuation scheme for academic and related staff, FSSU.

	Expendable £'000	Restricted permanent £'000	2019 Total £'000	2018 Total £'000
19 ENDOWMENT RESERVES				
Group and School				
Capital value	52,201	87,654	139,855	129,353
Accumulated income	1,275	502	1,777	3,371
At 1 August 2018 / 1 August 2017	53,476	88,156	141,632	132,724
New endowments	6,839	2,809	9,648	3,828
Investment income	1,416	1,653	3,069	2,873
Expenditure for the year	(4,929)	(2,397)	(7,326)	(7,455)
Increase in market value of investments	2,337	5,671	8,008	9,662
Total endowment comprehensive income for the year	5,663	7,736	13,399	8,908
At 31 July 2019 / 31 July 2018	59,139	95,892	155,031	141,632
Represented by:				
Capital value	57,251	95,304	152,555	139,855
Accumulated income	1,888	588	2,476	1,777
	59,139	95,892	155,031	141,632
Analysis by type of purpose::				
Named chairs and lectureships	11,173	30,125	41,298	35,626
Scholarships and bursaries	16,153	22,178	38,331	35,130
Research support	6,841	41,989	48,830	44,436
Library	188	1,600	1,788	1,363
Widening Participation	544	–	544	590
Support for academic activities	20,184	–	20,184	20,713
General	4,056	–	4,056	3,774
	59,139	95,892	155,031	141,632
Analysis by asset				
Non current asset investments	58,167	93,884	152,051	139,066
Cash and cash equivalents	972	579	1,551	1,137
Receivables	–	1,429	1,429	1,429
	59,139	95,892	155,031	141,632

Notes to the Financial Statements continued...

	Donations	
	2019 Total £'000	2018 Total £'000
20 RESTRICTED RESERVES		
Group and School		
Reserves with restrictions are as follows:		
At 1 August 2018 / 1 August 2017	4,724	2,672
New donations	3,662	3,205
Gain on investment	334	134
Investment income	64	32
Expenditure for the year	(1,665)	(1,319)
Total restricted comprehensive income for the year	2,395	2,052
At 31 July 2019 / 31 July 2018	7,119	4,724

	2019 Total £'000	2018 Total £'000
Analysis of other restricted funds /donations by type of purpose:		
Research support	1,220	706
Support for academic activities	5,488	3,779
Support for facilities	111	79
Capital development	100	100
Student support	200	60
	7,119	4,724

	At 1 August 2018 £'000	Cash flows £'000	At 31 July 2019 £'000
21 CASH AND CASH EQUIVALENTS			
Group			
Cash and cash equivalents	39,839	(7,043)	32,796
Bank deposits	68,025	(49,472)	18,553
	107,864	(56,515)	51,349

22 PENSION COMMITMENTS

The School participates in the Universities' Superannuation Scheme (USS) and Superannuation Arrangements of the University of London (SAUL). USS is a combination of a defined benefit and defined contribution scheme. SAUL is a defined benefit scheme.

Pension Scheme	USS	SAUL	2019	2018
	2019	2018		
Active members	1,714	1,588	1,124	1,039
Contribution rate made by School		18%	16%	16%
For the period to 31 March 2019	18%			
For the period from 1 April 2019	19.5%			
Contribution made (in £'000)	18,781	17,225	4,233	3,834

Notes to the Financial Statements continued...

(i) USS**General description of the scheme**

The School participates in Universities Superannuation Scheme and is available to staff members on or above Salary Band 6; the scheme requires exclusivity of memberships for these grades. USS is a UK wide scheme with more than 350 Higher Education Institutions as members and is a not-for-profit corporate trustee.

The scheme is a hybrid pension scheme, providing defined benefits for all members, as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Due to the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liability of the scheme on a consistent and reasonable basis. The following disclosures reflect those relevant for the scheme as a whole.

The latest complete actuarial valuation of the Retirement Income Builder at the balance sheet date is at 31 March 2017, which was carried out using the projected unit method. A valuation as at 31 March 2018 has been completed and its impact is included in note 28.

The 2017 valuation was the fourth valuation for the scheme under the scheme-specific funding regime introduced by the Pensions Act 2004, which required schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £60 billion and the value of the scheme's technical provision was £67.5 billion indicating a shortfall of £7.5 billion and a funding ratio of 89%.

The key financial assumptions used in the 2017 valuation are described below. More detail is set out in the Statement of Funding Principles.

Pension increases (CPI)	Term dependent rates in line with the difference between the Fixed Interest and Index Linked yield curves, less 1.3% pa
Discount rate (forward rates)	Years 1-10: CPI – 0.53% reducing linearly to CPI – 1.32% Years 11-20: CPI + 2.56% reducing linearly to CPI + 1.7% by year 21 Years 21 +: CPI + 1.7%

The main demographic assumption used relates to mortality assumptions. These assumptions are based on analysis of the scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

Mortality base table	2017 valuation Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females Post-retirement: 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females
Future improvements in mortality	CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% pa for males and 1.6% for females

The current life expectancies on retirement at age 65 are:	2019	2018
Males currently aged 65 year	24.6	24.5
Females currently aged 65 years	26.1	26.0
Males currently aged 45 years	26.6	26.5
Females currently aged 45 years	27.9	27.6

A new deficit recovery plan was put in place as part of the 2017 valuation, which requires payment of 5 per cent of salaries over the period 1 April 2020 to 30 June 2034. The 2019 pension liability provision reflects this plan. The provision figures have been produced using the following assumptions as at 31 March 2018 and 31 March 2019.

	2019	2018
Discount rate	2.44%	2.64%
Pensionable salary growth	n/a	n/a
Pension increases (CPI)	2.11%	2.02%

Notes to the Financial Statements continued...

(ii) SAUL

General description of the pension scheme

The School participates in the Superannuation Arrangements of the University of London ("SAUL"), which is a centralised defined benefit scheme within the United Kingdom and is contracted-out of the Second State Pension (prior to April 2016). The Scheme is available to staff members on salary bands 1 to 5.

SAUL is an independently-managed pension scheme for the non-academic staff of over 50 colleges and institutions with links to higher education. Pension benefits accrued within SAUL currently build up on a Career Average Revalued Earnings ("CARE") basis.

The School is not expected to be liable to SAUL for any other current participating employer's obligations under the Rules of SAUL, but in the event of an insolvency of any participating employer within SAUL, an amount of any pension shortfall (which cannot otherwise be recovered) in respect of that employer, may be spread across the remaining participating employers and reflected in the next actuarial valuation.

Funding Policy

SAUL's statutory funding objective is to have sufficient and appropriate assets to meet the costs incurred by the Trustee in paying SAUL's benefits as they fall due (the "Technical Provisions"). The Trustee adopts assumptions which, taken as a whole, are intended to be sufficiently prudent for pensions and benefits already in payment to continue to be paid and for the commitments which arise from Members' accrued pension rights to be met.

The Technical Provisions assumptions include appropriate margins to allow for the possibility of events turning out worse than expected. However, the funding method and assumptions do not completely remove the risk that the Technical Provisions could be insufficient to provide benefits in the future.

A formal actuarial valuation of SAUL is carried out every three years by a professionally qualified and independent actuary. The last actuarial valuation was carried out with an effective date of 31 March 2017. Informal reviews of SAUL's position, reflecting changes in market conditions, cash flow information and new accrual of benefits, are carried out between formal valuations.

The funding principles were agreed in June 2018 and are due to be reviewed at SAUL's next formal valuation in 2020.

At the 31 March 2017 valuation SAUL was fully funded on its Technical Provisions basis so no deficit contributions were required. The Trustee and the Employers have agreed that the ongoing Employers' contributions will continue at a rate of 16 per cent of CARE Salaries.

(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 18.

Notes to the Financial Statements continued...

	Group 2019 £'000	Group 2018 £'000	School 2019 £'000	School 2018 £'000
23 CAPITAL AND OTHER COMMITMENTS				
Provision has not been made for the following capital commitments at 31 July:				
Commitments contracted for:				
Capital development projects	86,072	52,153	86,072	52,153
Refurbishments	3,949	1,517	3,949	1,517
	<u>90,021</u>	<u>53,760</u>	<u>90,021</u>	<u>53,670</u>

Capital commitments will be met through a mixture of general School funds and donations.

	Land and buildings £'000	Other leases £'000	Group 2019 £'000	Group 2018 £'000
24 LEASE OBLIGATIONS				
Total rentals payable under operating leases:				
Payable during the year	<u>10,765</u>	<u>890</u>	<u>11,655</u>	<u>10,585</u>
Future minimum lease payments due:				
Within one year	10,399	322	10,721	10,417
Between two and five years	23,524	166	23,690	26,410
Five years or more	28,960	–	28,960	29,893
Total lease payments due	<u>62,883</u>	<u>488</u>	<u>63,371</u>	<u>66,720</u>

Space within some of the School's land and buildings as disclosed in note 11 tangible assets is let to third parties. These non-cancellable leases have remaining terms of between one and 20 years. The majority of leases include a provision for upward rent reviews, according to prevailing market conditions.

	Group 2019 £'000	Group 2018 £'000
Future minimum lease payments receivable:		
Within one year	1,311	1,365
Between two and five years	4,770	4,929
Five years or more	6,691	7,844
Total lease payments receivable	<u>12,772</u>	<u>14,138</u>

25 CONTINGENT ASSETS AND LIABILITIES

The School signed significant gift agreements in previous years, for which there are the following outstanding balances at 31 July 2019:

Year of Agreement	Outstanding Balance at 31 July 2019 £m
2014-15	6.0
2015-16	48.3

An asset is not recognised in the Financial Statements for these possible assets because their existence is dependent upon the fulfilment of payments.

The School has entered into rental guarantees with Sanctuary Students and Urbanest UK Minorities Limited. Between 2018-19 and 2040-41 the School has a financial commitment relating to 1,191 beds with a potential liability estimated at £13.5m per year.

Notes to the Financial Statements continued...

26 RELATED PARTY TRANSACTIONS

The School has maintained a Register of Interests. Written assurances have been obtained from all Council members and senior management in respect of themselves and their close family that for the year ended 31 July 2019, they have not unduly influenced any transaction between the School and a related party.

During the year ended 31 July 2019 LSE had transactions with several organisations which fall within the definition of related parties under FRS 102 Section 33 "Related Party Disclosures". Due to the nature of School's operations and the composition of Council (being drawn from a range of public and private sector organisations), it is inevitable that transactions in the normal course of business will take place with entities in which members of Council (or indeed other key management personnel) may have an interest. All such transactions, including those identified below, are carried out on normal commercial terms and in accordance with the School's Financial Regulations and procurement procedures.

The School has taken advantage of the exemption within FRS 102 Section 33 and not disclosed transactions with wholly-owned subsidiaries.

Included in the financial statements are the following transactions between the School and related parties.

Organisations with relationships with Council members and senior management	Income £	Expenditure/ Payments £	Balance due to/(from) at 31 July 2019 £
Bank of England	20,128	3,317	
British Medical Association		20,429	
Capital City College Group		1,423	
Centre for Cities		265,298	
Gibson Dunn & Crutcher LLP UK	2,580		
Institute for Fiscal Studies		23,943	
Ofsted		220	
LSE Students' Union	1,701,858	3,072,646	21,777
Russell Group of Universities	29,700	80,250	(708)

The School's Council members are the trustees for charitable law purposes. During 2018-19, no Council members were reimbursed for travel expenses in relation to their role as trustee (2017-18: £2,320 to one Council member). No payments were made to any trustee for serving as a trustee.

The activities of the LSE Students' Union have not been consolidated as the School does not have significant influence over its activities. The General Secretary of the Students' Union is a member of Council. During 2018-19, 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 has entered into rental agreements with the Students' Union for specific areas of the School, which it occupies.

The School has conducted a review of linked charities in 2018-19 and found no associated entities falling within the definition set out under Section 28 of Schedule 3 of the Charities Act 2016.

Notes to the Financial Statements continued...

27 FINANCIAL INSTRUMENTS - GROUP	Notes	Available for sale £'000	Held to maturity £'000	Total £'000	Fair Value £'000
Financial assets measured at fair value as at 31 July 2019					
Equity securities	12	182,490	–	182,490	182,490
Corporate debt securities	12	(1,267)	–	(1,267)	(1,267)
Cash and cash equivalents	12	24,825	–	24,825	24,825
		206,048	–	206,048	206,048
Financial assets not measured at fair value as at 31 July 2019					
Corporate debt securities	12	–	78,201	78,201	78,201
Share of freehold property	12	34	–	34	Not available
		34	78,201	78,235	78,201
Financial liabilities measured at fair value as at 31 July 2019					
Interest rate swaps associated with bank loans	17	29,470	–	–	29,470

The fair values of the assets and liabilities measured at fair value at the balance sheet date are determined using quoted prices in active markets.

Trade and other payables and receivables, amounts due to and from subsidiary companies and long term borrowing are held at amortised cost. Details can be found at notes 15, 16 and 17 to these financial statements.

28 EVENTS AFTER THE REPORTING PERIOD

As set out in Note 18 in respect of the USS pension scheme, a new Schedule of Contributions based on the 2018 actuarial valuation was agreed in September 2019. Were the new scheme of contributions to be applied to the assumptions regarding future payroll cash and discounts used at 31 July 2019 it would result in a provision for the obligation to fund the deficit on the USS pension of £51.6m, a reduction of £40.3m. An adjustment will be reflected in the School's Financial Statements for the year ended 31 July 2020.

Notes to the Financial Statements continued...

29 STATEMENT OF COMPREHENSIVE RESTRICTED AND UNRESTRICTED INCOME AND EXPENDITURE	Notes	Group 2018-19			Group 2017-18		
		Unrestricted and designated £'000	Restricted £'000	Total £'000	Unrestricted and designated £'000	Restricted £'000	Total £'000
INCOME							
Tuition fees and education contracts	1	227,406	–	227,406	211,543	–	211,543
Funding body grants	2	60,132	–	60,132	25,311	–	25,311
Research grants and contracts	3	33,267	–	33,267	32,903	–	32,903
Other income	4	78,140	–	78,140	77,309	–	77,309
Investment income	5	1,534	3,133	4,667	1,546	2,905	4,451
Total income before endowments and donations		400,479	3,133	403,612	348,612	2,905	351,517
Donations and endowments	6	3,880	13,310	17,190	1,887	7,033	8,920
Total income		404,359	16,443	420,802	350,499	9,938	360,437
EXPENDITURE							
Staff costs	7	199,678	4,155	203,833	185,019	3,302	188,321
Movement on USS pension provision	7	60,976	–	60,976	(317)	–	(317)
Other operating expenses		119,532	4,836	124,368	115,081	5,472	120,553
Depreciation	10,11	13,528	–	13,528	12,915	–	12,915
Interest and other finance costs	9	9,016	–	9,016	8,767	–	8,767
Total expenditure	8	402,730	8,991	411,721	321,465	8,774	330,239
Surplus before other gains/losses		1,629	7,452	9,081	29,034	1,164	30,198
Gain on investments	12	2,029	8,342	10,371	428	9,796	10,224
Change in fair value of hedging financial instruments	17	(4,001)	–	(4,001)	3,921	–	3,921
(Deficit)/surplus before tax		(343)	15,794	15,451	33,383	10,960	44,343
Taxation		–	–	–	–	–	–
		(343)	15,794	15,451	33,383	10,960	44,343
(Deficit)/Surplus for the year/Total comprehensive (deficit)/income for the year		(343)	15,794	15,451	33,383	10,960	44,343
Represented by:							
Endowment comprehensive income for the year	19	–	13,399	13,399	–	8,908	8,908
Restricted comprehensive income for the year	20	–	2,395	2,395	–	2,052	2,052
Unrestricted comprehensive (deficit)/income for the year		(343)	–	(343)	33,383	–	33,383
		(343)	15,794	15,451	33,383	10,960	44,343

Notes to the Financial Statements continued...

	Group 2018-19 £'000 Total	Group 2017-18 £'000 Total	School 2018-19 Total £'000	School 2017-18 Total £'000
30 EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION				
Surplus before other gains/(losses)	9,081	30,198	9,078	30,250
Adjust for:				
Interest payable	8,344	8,262	8,344	8,262
Pension finance charge	672	505	672	505
Depreciation	13,528	12,915	13,511	12,809
Pension provision adjustments	59,552	(2,844)	59,552	(2,844)
Earnings before interest, tax, depreciation and amortisation	91,177	49,036	91,157	48,982
Adjust for:				
Restricted and designated income items	(54,057)	(13,371)	(54,057)	(13,378)
Restricted and designated expenditure items	9,698	9,872	9,698	9,872
Unrestricted earnings before interest, tax, depreciation and amortisation	46,818	45,537	46,798	45,476

The expected cash contributions towards the deficit on the USS Pension Scheme in the financial year 2019-20 are £1.8m (2018-19 £2.1m).

Five Year Group Financial Summary (unaudited)

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Income					
Tuition fees and education contracts	227,406	211,543	199,346	177,155	166,663
Funding body grants	60,132	25,311	26,276	25,339	22,437
Research grants and contracts	33,267	32,903	32,113	31,503	26,376
Other income	78,140	77,309	80,475	71,853	73,050
Investment income	4,667	4,451	5,372	5,304	4,701
Total income before endowments and donations	403,612	351,517	343,582	311,154	293,227
Donations and endowments	17,190	8,920	9,489	29,482	10,080
Total Income	420,802	360,437	353,071	340,636	303,307
Expenditure					
Staff costs	205,254	190,331	179,185	168,212	157,282
Movement in USS pension provision	59,555	(2,327)	(4,900)	2,675	19,054
Other operating expenses	124,368	120,553	121,631	116,364	107,127
Depreciation	13,528	12,915	12,859	11,186	10,246
Interest and other finance costs	9,016	8,767	8,852	8,729	8,144
Total expenditure	411,721	330,239	317,627	307,166	301,853
Surplus before other gains	9,081	30,198	35,444	33,470	1,454
Gain on Investments	10,371	10,224	18,247	8,450	4,423
Change in fair value of hedging financial instruments	(4,001)	3,921	7,235	(10,768)	(6,624)
Surplus before tax	15,451	44,343	60,926	31,152	(747)
Taxation	–	–	–	–	–
Total comprehensive income for the year	15,451	44,343	60,926	31,152	(747)
At July 31 year end:					
Endowment comprehensive income for the year	13,399	8,908	13,483	30,635	3,944
Restricted comprehensive income for the year	2,395	2,052	1,079	(462)	2,055
Unrestricted comprehensive income for the year	(343)	33,383	46,364	979	(6,746)
Total	15,451	44,343	60,926	31,152	(747)
Income and expenditure reserve					
– restricted endowment reserves	155,031	141,632	132,724	119,241	86,606
Income and expenditure reserve – restricted reserves	7,119	4,724	2,672	1,593	2,055
Income and expenditure reserve – unrestricted	407,667	408,010	374,627	328,263	327,284
Total Reserves	569,817	554,366	510,023	449,097	415,945
Held as					
Fixed assets	612,311	552,987	459,327	438,504	422,068
Investments	284,282	227,056	270,473	253,029	241,611
	896,593	780,043	729,800	691,533	663,679
Net working capital	(18,738)	18,585	1,054	(16,677)	(32,952)
USS pension provision	(91,857)	(31,357)	(33,186)	(37,523)	(34,333)
Long term liabilities	(216,181)	(212,905)	(187,645)	(188,236)	(178,449)
	569,817	554,366	510,023	449,097	417,945

Directors of the School and Members of Council

During the year and up to the date of signing of the Financial Statements were:

Shirley Pearce

Chair, Independent Member, (temporary withdrawal from active office from 7 January 2019)
Chair of Nominations Committee (until 6 January 2019)

Susan Liautaud

Independent Member (until 6 January 2019)
Interim Chair, Independent Member (from 7 January 2019)
Chair of the Ethics Committee (until 6 January 2019)
Chair of the Governance Committee (from 19 February 2019)
Chair of the Remuneration Committee (until 6 January 2019)

Ali Nikpay

Vice Chair, Independent member

Justice Aina

Student member (until 5 December 2018)

Martin Anthony

Ex Officio, Vice Chair of the Academic Board
(from 1 September 2019)

Alastair Da Costa

Independent member
Chair of the Remuneration Committee (from 7 January 2019)

Chukwuzulum (Zulum) Elumogo

Ex Officio, General Secretary of the Students' Union

David Higgins

Independent member (from 1 August 2019)

John Hughes

Independent member
Chair of the Audit Committee

Nigel Hugill

Independent member
Co-Chair of the Finance and Estates Committee

Simona Iammarino

Academic member

Donald Kaberuka*

Independent member

Emily Jackson

Ex Officio, Vice Chair of the Academic Board
(until 31 August 2019)

Akash Mehta

Student member (from 6 December 2018)

Roger Mountford

Independent member
Co-Chair of the Finance and Estates Committee

Claudine Provencher

Professional services staff member (from 1 August 2019)

Terhi Rantanen

Academic member

Nemat (Minouche) Shafik

Ex Officio, Director of the School
Chair of Honorary Awards Committee (from 6 September 2019)

Elisabeth Stheeman

Independent member

Alex Voorhoeve

Academic member

Company Secretary

Ms Louise Nadal

Company Secretary

*Appointment as Company Director in progress

Academic Departments, Research Centres, Institutes and Centres

Academic Departments

Accounting
 Anthropology
 Economics
 Economic History
 European Institute
 Finance
 Gender Studies
 Geography and Environment
 Government
 Health Policy
 International Development
 International History
 International Relations
 Language Centre
 Law
 Management
 Mathematics
 Media and Communications
 Methodology
 Philosophy, Logic and Scientific Method
 Psychological and Behavioural Science
 School of Public Policy
 Social Policy
 Sociology
 Statistics

Research Centres

Centre for Analysis of Social Exclusion (CASE)
 Centre for the Analysis of Time Series (CATS)
 Centre for Climate Change Economics and Policy (CCCEP)
 Centre for Economic Performance (CEP)
 Centre for Philosophy of Natural and Social Sciences (CPNSS)
 Diplomacy and Strategy (IDEAS)
 Financial Markets Research Group (FMG)
 Firoz Lalji Centre for Africa (FLCA)
 Grantham Research Institute on Climate Change and the Environment
 International Growth Centre (IGC)
 LSE Cities
 LSE Health
 Centre for Macroeconomics
 Care Policy and Evaluation Centre
 Middle East Centre
 Suntory and Toyota International Centres for Economics and Related Disciplines (STICERD)
 US Centre (USC)
 What Works Centre for Local Economic Growth

Institutes and Centres

Institute of Global Affairs (IGA)
 • South Asia Centre (SAC)
 • Saw Swee Hock Southeast Asia Centre (SEAC)
 • Women Peace and Security (WPS)
 International Inequalities Institute (III)
 The Marshall Institute for Philanthropy and Social Entrepreneurship (MI)



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